



**Lao People's Democratic Republic  
Peace Independence Democracy Unity Prosperity**

**MICRO, SMALL, AND MEDIUM ENTERPRISE ACCESS TO FINANCE  
EMERGENCY SUPPORT AND RECOVERY PROJECT**

**PROJECT OPERATION MANUAL (POM)**

**FOR**

**DEPARTMENT OF SMALL AND MEDIUM ENTERPRISE PROMOTION  
(DOSMEP),**

**AND**

**PARTICIPATING FINANCIAL INSTITUTIONS (PFIs)**

**January 18<sup>th</sup>, 2021**

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## ABBREVIATIONS AND ACRONYMS

BDS	Business Development Service
BOL	Bank of Lao PDR
CAR	Capital Adequacy Ratio
CERC	Contingent Emergency Response Component
CGS	Credit Guarantee Scheme
COVID-1	Coronavirus Disease 2019
CPF	Country Partnership Framework
DA	Designated Account
DTMFI	Deposit-taking Microfinance Institution
DOSMEP	Department of Small and Medium Enterprise Promotion
DPO	Deposit Protection Office
ERM	Emergency Response Manual
ERR	Economic Rate of Return
E&S	Environmental and Social
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
ESMF	Environmental and Social Management Framework
ESMS	Environmental and Social Management System
ESRS	Environmental and Social Review Summary
ESS	Environmental and Social Standard
EU	European Union
FI	Financial Intermediary
FIF	Financial Intermediary Financing
FM	Financial Management
FMM	Financial Management Manual
FSNP	Financial Safety Net Project
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoL	Government of Lao PDR
GPE	Global Partnership for Education
GRS	Grievance Redress Service
IADI	International Association of Deposit Insurers
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IPF	Investment Project Financing
IMF	International Monetary Fund
IUFR	Interim Unaudited Financial Report
LMP	Labor Management Procedure
LoC	Line of Credit
LNCCI	Lao National Chamber of Commerce and Industry
LCT	Lao PDR Competitiveness and Trade
MFD	Maximizing Finance for Development
MOF	Ministry of Finance
MOIC	Ministry of Industry and Commerce
MoNRE	Ministry of Natural Resources and Environment
MSMEs	Micro, Small and Medium Enterprises
MTR	Mid-Term Review

M&E	Monitoring and Evaluation
NDTMFI	Non-Deposit-Taking Microfinance Institution
NPL	Non-Performing Loan
NPV	Net Present Value
NSEDP	National Socio-Economic Development Plan
OHS	Occupational Health and Safety
PAD	Project Appraisal Document
PBC	Performance-Based Condition
PCGS	Public Credit Guarantee Scheme
PCG	Partial Credit Guarantee
PDO	Project Development Objective
PEC	Project Executive Committee
PEF	Pandemic Emergency Financing Facility
PMU	Project Management Unit
POM	Project Operations Manual
PPA	Performance and Policy Actions
PPSD	Project Procurement Strategy for Development
PLR	Performance and Learning Review
PF	Promotion Fund
PFI	Participating Financial Institution
PRC	Project Review Committee
ROA	Return on Assets
RSA	Risk Sharing Agreement
SOB	State-Owned Bank
SCD	Systematic Country Diagnostic
SCU	Savings and Credit Union
SEP	Stakeholder Engagement Plan
SFA	Subsidiary Financing Agreement
SMEs	Small and Medium Enterprises
SOE	Statement of Expenditure
STEP	Systematic Tracking of Exchanges in Procurement

## 1. Introduction

1. The Government of Lao PDR (GOL) has received support from the World Bank Group, specifically the International Development Association (IDA) to address access to finance constraints by small and medium enterprises (SMEs) through the Micro, Small, and Medium Enterprise Access to Finance Emergency Support and Recovery Project. (SAFESRP, the Project). The IDA has provided US\$40 million equivalent to the Ministry of Finance (MOF) of the Lao PDR. The Project is being implemented by the Department of SME Promotion (DOSMEP) at the Ministry of Industry and Commerce (MOIC). Other agencies involved in project implementation include the Participating Financial Institutions (PFIs).

2. The project aims to enhance access to finance for MSMEs in the context of the COVID-19 emergency and recovery. It will achieve this through a combination of LoCs to MSMEs (for emergency and recovery phases of the crisis), intermediated through select eligible financial institutions, and technical assistance to support the establishment of a PCG facility to backstop bank lending to MSMEs. The project will also invest in strengthening the capacity of financial institutions to implement crisis management strategies and develop MSMEs finance business strategies, TA to support MSMEs obtain access to finance, and capacity building to DOSMEP to strengthen its ability to formulate and implement policies to promote MSMEs' development. While the project is focusing on emergency response to the crisis, it will also have a longer-term impact on economic recovery by providing a flexible approach to addressing the financial needs of the MSMEs during the crisis and in the recovery phase.

3. *PDO Level Results Indicators.* Key results of the Project will be measured by:

- (i) Volume of sub-loans disbursed to MSMEs under the project (of which women-led enterprises) (Amount US\$);
- (ii) Share of MSMEs benefitting from LoC that survive COVID-19 crisis (Percentage); and
- (iii) Number of MSMEs benefitting from TA that obtain credit for first time (Number).

### Project Description

4. The Project has four Components. **Component 1; Emergency and Recovery Line of Credit to MSMEs (US\$34 million).** This component will provide LoCs to eligible PFIs, which will on lend funds to MSMEs and bear the credit risk. DOSMEP will serve as the apex entity as it has done under the original SME A2F Project. The project will offer two windows: (a) emergency and (b) recovery, with separate pricing arrangements for each. The emergency window aims to address MSMEs' liquidity challenges and will strive to offer below-market interest rates to final borrowers during the emergency phase. The project will achieve this by extending financing to DOSMEP for on lending to PFIs at the cost of IDA financing or lower, with the expectation that lower cost of funds will be passed on to MSMEs in the form of below-market interest rates. To enforce this (without establishing an interest rate cap), DOSMEP will review the proposed loan terms by PFIs and compare against each PFI's overall average interest rate on market sourced funds.<sup>1</sup> PFIs which meet eligibility criteria will submit proposals to DOSMEP/World Bank that include target interest rates to MSMEs, cost of funds, and average interest rates/terms offered under market conditions. DOSMEP will evaluate the proposals against selection criteria to ensure that the proposed pricing approach complies with the requirement that the low cost of funds is passed on to the borrower. Funds will be disbursed on a back-to-back<sup>2</sup> and Fixed-Term basis with advances available on an exceptional basis (see Annex 1 for further details), with subsequent funding dependent on performance in the previous round in terms of compliance to criteria. Final details will be included in the POM. The Project Steering Committee, which includes the MOIC, Ministry of Finance (MOF), and BOL, will assess through its semi-annual meetings when to close the emergency

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<sup>1</sup> Market sourced funds generally mean customer deposits and exclude government-directed credit initiatives which are sourced by the government and impose interest rate caps.

<sup>2</sup> Financing or refinancing of an eligible sub-loan portfolio which has been initially approved by the PFI's credit committee.

window based on agreed upon criteria related to economic and financial sector performance. The second window for the recovery phase will function similar to the current project with funds on lent to PFIs at market or near market rates based on analysis of market conditions, and PFIs will determine interest rates to final borrowers according to market principles. In this manner, the project builds a path back to market rates, consistent with best practice for World Bank financial intermediary financing (FIF).

5. PFIs, MSMEs, and sub-loans will comply with eligibility criteria, which will be detailed in the POM. These criteria will ensure that the loan proceeds are used for the intended purposes following the obligations described in the Loan Agreement, including fiduciary procedures, environmental and social standards (ESSs), and anticorruption guidelines. The eligibility criteria will ensure that the PFIs are commercially oriented, financially sound, and well-managed. The project will explore whether to include better-performing microfinance institutions based on careful assessment of their financial health. The project will establish two financing windows for the emergency and recovery phases of the COVID-19 crisis, which will have separate pricing mechanisms and loan agreements with PFIs. Based on initial consultations with 14 banks, it is expected that the number of PFIs will increase from the four under the SME A2F Project. The PFIs will on lend these funds for working capital and long-term loans to (more than 50 percent) privately owned SMEs, enabling them to secure working capital to sustain their business operations during the crisis and initial recovery period and/or investment loans to enhance their productivity, such as acquisition of machines and equipment, construction or expansion of facilities and warehouses, modernization of transportation and communications equipment, upgrading quality labs and systems, and so forth. The project may allow PFIs to use the LoC for refinanced loans based on market analysis and strict eligibility criteria, to be included in the POM, to ensure that only viable loans are refinanced. While this practice is generally avoided under normal economic conditions, due to limited additionality, the COVID-19 emergency could warrant a temporary departure from established norms. The LoC is not sector specific and PFIs will make credit decisions.

6. **Component 2: Strengthening Bank of Lao Capacity to Supervise a PCG Fund (US\$1.0 million)** . The project will provide support to the BOL to strengthen its supervisory and monitoring capacity for the PCG Fund. The TA will draw on ‘Principles for Public Credit Guarantee Schemes for SMEs’, tailored to the Lao context. The report outlines 16 key principles in the areas of legal and regulatory environment, corporate governance and risk management, operational framework, and monitoring and evaluation (M&E). The institutional setup of the new facility, whether public or public-private partnership, will be determined by the Government during project implementation and will be informed by recommendations of the feasibility study which is being financed under the current SME A2F Project. The project will provide support to BOL to strengthen its capacity to supervise and monitor the PCG facility (PCG Fund), in line with the Principles for Public Credit Guarantee Schemes for SMEs.

7. **Component 3: Technical Assistance and Project Management (US\$5 million)**. This component will provide TA to strengthen the capacity of commercial banks, MSMEs, DOSMEP, other institutions supporting MSMEs including business associations, BDS providers, as well as project implementation and M&E, including of the MOIC. Given the emergency nature of the project, the TA component will have a narrow focus on supporting the implementation of Components 1 and 2, building off of previous TA and allowing for a minimal amount of new TA to support DOSMEP policies and programs. The main areas of TA include the following:

- **TA to PFIs** - The TA to commercial banks program, launched under the SME A2F Project, will be continued and expanded to additional banks and aim to promote changes in banks’ business models and capacity to better serve MSMEs. The TA will incorporate lessons learned from existing TA, including the need to obtain senior management commitment and to provide longer-term support to PFIs to ensure transfer of knowledge. The TA will be offered to additional banks (the current project only supports four banks). The TA will go beyond strategy development and focus on actions (that is, implementation), including the following:
  - Portfolio management and restructuring (recovery phase)
  - Establishing overall risk management policy and procedure and accountability at all levels (for example, governance and independent internal audit)

- Developing Business Continuity Plans—a critical missing piece in all PFIs—to meet future shocks such as COVID-19
- **TA to MSMEs** - Building on the successful activity carried out under the SME A2F Project, the new project will leverage BDS providers trained under the initial project (11 in total) and contract several to provide tailored TA to MSMEs designed to facilitate access to finance. The assistance will not overlap or crowd out other support that is already being provided by other donor institutions to MSMEs.
- **TA to DOSMEP** - The TA will support the strengthening of DOSMEP capabilities to formulate and implement an updated SME development strategy and to implement and monitor the project, including ensuring compliance with the World Bank’s social and environmental operational policies. The design and scope of this component will be kept flexible so as to cover the needs as they arise.
- **Monitoring and Evaluation** - The project will enhance the existing M&E framework by conducting World Bank COVID-19 Business Pulse Surveys, which is a rapid survey to collect high-frequency data from enterprises to better understand the impact of the COVID-19 pandemic on businesses across countries, with a particular focus on MSMEs. The results of the survey will be used to inform government responses aiming to support businesses during the crisis, as well as tracking the recovery process.

8. **Component 4: Contingent Emergency Response (CERC)**<sup>3</sup>. In the event of an Eligible Crisis or Emergency, the project will contribute to providing immediate and effective response to said crisis or emergency. The allocation to this component is to minimize time spent on a reallocation of funds from programmed activities. The unused amount can be reallocated to other components if the CERC is not triggered a year before project closing.

9. There will be three types of beneficiaries in the project:

- Commercial banks with sound financial condition and in compliance with fiduciary and regulatory standards, willing to participate in the project and provide long-term credit to MSMEs;
- Privately owned and registered MSMEs willing to borrow from commercial banks to expand their business activities, carry out new investments, or enhance their productivity; for the emergency window of Component 1, MSME beneficiaries will include those affected by the COVID-19 crisis as defined in the eligibility criteria in the POM; and
- The design of the credit guarantee facility will benefit from TA, drawing on international good practices.

10. *Implementation Arrangements.* The **Program Executive Committee (PEC)** will serve as the Steering Committee for the project, as part of the efforts to integrate trade and PSD related technical assistance into a program-based approach<sup>4</sup>. The Minister of MoIC (or designee) will chair the PEC. Membership will consist of representatives of government, including from MoIC and other relevant line ministries, representatives of the private sector. The World Bank will participate as an observer. The PEC meets at least once a year to review the implementation progress and endorse annual work plans of various projects.

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<sup>3</sup> Contingent Emergency Response Component (CERC) is a contingent financing tool that allows for quick disbursement of uncommitted balances from existing IPFs in the event of a crisis or emergency. The CERC is prepared as a project component during the original project’s preparation (pre-planning) and activated without needing to restructure the original project. Many Bank-financed projects already have a CERC, although these can be added to existing projects for an imminent or actual emergency (such as COVID-19). Most CERCs are set up as zero component, that is, no funding is earmarked to this component in the project. CERCs allow funds to be redirected from other parts of the project to cover emergency response needs as long as those expenditures are eligible under the project.

<sup>4</sup> Note that the PEC is a program level steering committee and supervises the implementation of a number of donor financed projects beyond the SME Access to Finance Project. Membership varies depending on the purpose for which a particular PEC meeting is convened.



11. Under the PEC, a Project Review Committee (PRC) chaired by DG of DOSMEP will be established and will act as the technical working body to discuss and finalize the six-monthly project implementation reports and detailed work plans for submission to the PEC for review and endorsement. The PRC will meet at least twice a year prior to the PEC meetings. The PMU will be the secretariat of PEC.

12. **DOSMEP is the Implementing Agency (IA)** that is directly responsible for the implementation of project components, and for day-to-day execution of activities as stated in work plans approved by the PEC. DOSMEP will be responsible for the preparation of component work plans, ensuring the delivery of specific project outputs and progress reporting to the PEC. For component 1 Line of Credit, DOSMEP on behalf of MOIC, will conduct the due diligence of PFIs and sign SFA with the PFIs.

13. *Results Monitoring and Evaluation.* A systematic monitoring and evaluation (M&E) plan are a core part of project implementation (Chapter 4). DOSMEP will take responsibility for compiling, analyzing, and reporting this information to the World Bank, and other relevant stakeholders, and carry out impact evaluations.

14. *Financial Management.* The Financial Management and Disbursement arrangements are summarized in Chapter 5 and detailed in a separate Financial Management (FM) Manual. The PFIs will send to the DOSMEP a quarterly Loan utilization progress report. The report, in both hard copy and electronic form, should be submitted to the DOSMEP within 15 days following the end of the quarter. Which, subsequently will be submitted to the World Bank for review

15. *Procurement.* Procurement for the project other than under the LOC will be conducted in accordance with the 'World Bank Procurement Regulations for IPF Borrowers, dated July 2016, revised November 2017 and August 2018' (Procurement Regulations). The requirements set forth or referred to in the Financing Agreement Approaches to national markets (request for bids and request for quotations) will be carried out in accordance with the national regulations, including the Lao PDR Law on Public Procurement, No. 30/NA November 2, 2017, Instruction on Implementation of Law on Public Procurement, No. 0477/NA February 13, 2019, and harmonized bidding documents and request for quotations for procurement of works, goods, and non-consulting services agreed with the Bank. For procurement approaching international market, World Bank standard procurement documents will be used. In addition, the World Bank's planning and tracking system (Systematic Tracking of Exchanges in Procurement, STEP). All ToRs will be subject to prior review by the World Bank. The details about sub-loan procurement process are provided in Chapter 7. Beneficiary SME Sub-Borrowers will follow the procedures in Chapter 7 of POM.

16. *Environmental and Social Safeguards.* An Environmental and Social Management System (ESMS) has been prepared by DOSMEP (See Annex 1) describing the environmental and social safeguards assessment and due-diligence procedures to be used in sub-project evaluation, design, implementation and compliance monitoring. The PFIs will be responsible for environmental assessment for sub-borrowers/sub-projects, and for ensuring that each sub-loan proposal includes process of screening environmental and social safeguards impact, develop mitigation measures to avoid and mitigate those impacts and documentation to be approved by concerned authorities (MONRE/PONRE) if any, as well as monitor to ensure effective implementation of the ESMF. The details of these procedures are provided in Chapter 8.

17. *The "Project Operation Manual (POM)"* presented here is designed specifically for the use of DOSMEP and PFIs. The purpose of this Manual is to introduce the Project Agencies to the procedures and terms and conditions and the decision-making process during the implementation of the Project. In addition to this process, the PFIs have specific duties and responsibilities to ensure the successful implementation of the Project. These responsibilities relate to the sub-project and sub-loan evaluation, environmental review, procurement and disbursement procedures, as well as progress reporting and monitoring requirements.

## 2. Detailed Project Description

18. The Project will have Four components:

- 1) Emergency and Recovery Line of Credit to MSMEs (US\$34 million).
- 2) Strengthening Bank of Lao Capacity to Supervise a PCG Fund (US\$1.0 million).
- 3) Technical Assistance for DOSMEP, SMEs and PFIs (US\$5 million).
- 4) CERC Component. (US\$0 million).

### **Component 1. Line of Credit (IDA US\$34 million)**

19. IDA will provide US\$34 million to the MOF which will pass on these funds to DOSMEP (at terms and conditions to be agreed between the MOF and DOSMEP). DOSMEP will provide long-term resources to PFIs for on lending long-term credit in local currency to MSMEs. The project will support micro (1–5 employees), small (6–50 employees), and medium enterprises (51–99 employees) that are privately owned, registered, have been in business for at least two years, and wish to expand their business activities. MSMEs will present a viable business proposal to the commercial banks, have a good credit history, and have all legal documents required by banks willing to finance them, including collateral.

20. A Mid-Term Review (MTR) of the project will be conducted by DOSMEP about two years after the project effectiveness (around October 30, 2022), to assess implementation progress and make any adjustments considered appropriate.

21. Because DOSMEP is not a financial institution, the funds to be provided by DOSMEP to PFIs will take the form of a long-term bank deposit. To ensure that DOSMEP recovers its money, DOSMEP and the PFIs will sign an SFA that will give DOSMEP the right to be compensated directly by the BOL, using the PFI's deposits at the BOL, in the event of delay or default by the PFI. Eligible PFIs will have to be financially sound and well administered. Several banks have expressed a keen interest in participating in this operation.

### **Component 2. Strengthening Bank of Lao PDR Capacity to Manage the PCG Fund (IDA, US\$1 million)**

22. The project will provide TA to the BOL to strengthen its capacity to supervise and monitor the PCG. The TA will draw on Principles for Public Credit Guarantee Schemes for SMEs, tailored to the Lao context. The report outlines 16 key principles in the areas of legal and regulatory environment, corporate governance and risk management, operational framework, and M&E. The institutional setup of the new facility, whether public or public-private partnership, will be determined by the Government during project implementation, and will be informed by recommendations of the feasibility study, which will be financed under the current SME A2F Project. This component will provide support to BOL to strengthen supervisory and monitoring capacity of the PCG facility (PCG Fund) in line with the Principles for Public Credit Guarantee Schemes for SMEs.

### **Component 3: Technical Assistance and Project Management (IDA, US\$5 million)**

23. This component will support capacity building of DOSMEP, PFIs, MSMEs, as well as project implementation, safeguards, and monitoring related activities. The design, scope, and funding for tasks will be kept flexible so as to identify and support the needs as they arise.

#### *Subcomponent 3.1: Technical Assistance to DOSMEP*

24. This component will support the strengthening of DOSMEP capabilities to formulate and implement an updated SME development strategy and to implement and monitor the project, including ensuring compliance with World Bank's social and environmental operational policies and PCG's operating cost and performance standards. The design and scope of this component will be kept flexible

so as to cover the needs as they arise. Activities will build on prior World Bank-financed activities including the SME A2F Project.

### *Subcomponent 3.2: Participating Financial Institutions (PFIs)*

25. One of the factors contributing to limited SME access to financial services in Lao PDR is a lack of up-to-date knowledge and expertise within financial institutions, in particular local financial institutions, relating to international good practice in SME banking. Internationally, over the past 10 years, significant advances have been made in areas such as product development and marketing, market segmentation, credit scoring, risk management, organizational structures, and management information systems. The project will support TA and training to PFIs and other relevant financial institutions in improving their SME lending business capacity such as:

- the development of SME banking strategy, SME banking products, and marketing approaches.
- compliance with the World Bank's social and environmental operational policies.

26. The TA will go beyond strategy development and focus on actions (that is, implementation), including the following:

- Portfolio management and restructuring (recovery phase)
- Establishing overall Risk Management of each PFI—establishing Risk Environment in line with international best practice, and introducing risk management policy and procedure and accountability at all levels (for example, governance, independent internal audit, and so on)
- Developing Business Continuity Plans—a critical missing piece in all PFIs—to meet future shocks such as COVID-19
- Conduct national workshop on lessons learned and disseminate knowledge

### *Subcomponent 3.3: MSMEs*

27. MSMEs in Lao PDR face significant constraints in terms of business and FM capacities and this component will aim to develop capacity for participating MSMEs by providing training in business administration and FM, focusing on SME mentoring and coaching. Under the ongoing SME A2F Project (mentioned above), TA was provided to over 800 MSMEs in the following areas: (a) basic bookkeeping and management information systems; (b) financial products and how to develop business plans and apply for bank financing; and (c) sales and marketing. The project will support MSMEs who receive loans under the LoC or PCG facilities or are referred by DOSMEP. The SME A2F Project also provided TA to BDSs providers and utilized the trained BDSs in turn to train MSMEs. These BDS providers will be utilized by DOSMEP to provide TA to MSMEs for them to apply and obtain loans from the PFIs and some follow-up services post subproject approval by the PFIs. The assistance will not overlap or crowd out other support that is already being provided by other donor institutions to MSMEs.

28. **Component 4: Contingent Emergency Response Component (CERC) (US\$0 million).** In the event of an eligible crisis or emergency, the project will contribute to providing immediate and effective response to said crisis or emergency. The allocation to this component is to minimize time spent on a reallocation of funds from programmed activities. The unused amount can be reallocated to other components if the CERC component is not triggered a year before project closing.

### **3. Implementation Arrangements**

29. The DOSMEP at the MOIC will be the implementing agency for the project. DOSMEP was established in 2005 under Prime Minister Decree No. 42/2004, dated April 20, 2004, with the mandate to develop a national strategy and policies to promote SME development and to coordinate and supervise their implementation. A Project Steering Committee (PSC), with staff in adequate numbers and with qualifications, experience and terms of reference satisfactory to the Association, will be established prior to the effectiveness date. Details on Steering Committee composition and terms of reference will be included in the POM.

30. To manage and implement the project effectively, DOSMEP will maintain the same project implementation arrangements used for the ongoing SME A2F Project. In that context, the administration and implementation mechanisms of the MSME Access to Finance Emergency Support and Recovery Project will include the 'PEC' and the 'PSC'. The composition and responsibilities of the PEC and PSC are specified below:

(a) The PEC will be chaired by the Minister of the MOIC or his/her nominee and will serve as the National Steering Committee for the new project. The PEC will be responsible for policy and management-level decisions for the project and will review work plans, yearly progress reports, any significant changes to the project design, and so on. The PEC will not be involved in the day-to-day operation of the project, which will be handled by the DOSMEP management with the assistance of the PMU. Membership will consist of representatives of government, including from the MOIC and other relevant line ministries and representatives of the private sector. The World Bank will participate as an observer. The PEC meets at least once a year to review the implementation progress and endorse annual work plans of various projects.

(b) The main function of the PSC is to discuss project progress and advise DOSMEP/PMU on technical issues relevant to the implementation and management of the project. The PSC meetings will be chaired by a Deputy Minister of MOIC and will consist of staff from relevant departments of DOSMEP and other line ministries and representatives of the private sector. The PSC will be the technical body to discuss and finalize the six-monthly project implementation report and detailed work plans for submission to the PEC for review and endorsement. The PSC will meet at least twice a year before the PEC meetings. Although PFIs and the representatives of BDSs will not be members of the PSC, the PSC may periodically seek their feedback through individual PFIs and BDSs (as and when required). The PMU established under DOSMEP will be the Secretariat for the PSC, which will be comprised of the following members:

- (i) Director General, Department of SME Promotion (DOSMEP) (Deputy Chair);
- (ii) A representative from the MOF (member);
- (iii) A representative from the Ministry of Public Investment (member);
- (iv) A representative from the BOL (member);
- (v) A representative from the LNCCI (member);

#### ***Dealing with conflicts of interests in the project***

31. Any actual, potential, or perceived conflicts of interest will be managed in accordance with the World Bank Group's guidelines for the management of interinstitutional conflicts of interest. In particular, the following arrangements have been put in place and agreed to with the GoL to ensure that any such conflicts of interest are properly managed. First, to ensure that no preferential treatment is given to any PFI or SME, their selection will be based on objective, clear, and transparent eligibility criteria which have been agreed to by the Government and IDA. Selection of each PFI will involve the Government and IDA, and each PFI will select the beneficiary MSMEs in accordance with the pre-agreed criteria

32. DOSMEO will implement the Project in coordination with all other key stakeholders and with oversight of the Director General. The responsibilities of the DOSMEP management team are shown as Attachment 1. The general responsibilities of the IAs will include:

**33. The main functions of the PMU are:**

- Implementing activities directly related to the project, including overseeing activities undertaken by all implementing units;
  - Managing the project account;
  - Reviewing the annual activity plans and Procurement Plans, and coordinating with the focal persons/ units of DOSMEP and facilitating the implementation of respective areas of work;
  - Consolidating and preparing reports necessary to document the use of IDA funds and implementation progress and results;
  - Coordinating external audit arrangements to meet the audit covenants of the project;
  - Monitoring and advising the procurement staff in DOSMEP as well as participating agencies;
  - Coordinating M&E activities, updating the results framework, and maintaining the required fiduciary and monitoring information;
  - Ensuring and maintaining the quality of all documents, manuals, and reports prepared under the project;
  - Communicating to key stakeholders the nature, progress, and outcomes of the project;
  - Organizing the project PSC meetings in coordination with DOSMEP as per the schedule suggested in the Project Appraisal Document (PAD).
  - Attending the PEC meeting and reporting to the PEC at the meeting in December each year; and
  - Facilitating project supervision missions.
- **Coordination and Information Management**
    - Managing TA requirements and implementation under Component 2 TA
    - assessment and selection and monitoring of PFIs
    - administration of Subsidiary Financing Agreements between DOSMEP and PFIs;
    - submission to PSC then to the World Bank of sub-loan proposals requiring its prior review;
    - assisting PFIs in promotion and marketing of the Project to PFIs and SMEs.
  - **Advising PFIs and Beneficiary Enterprises**
    - providing assistance and proactive advice to PFIs and sub-borrowers on all aspects of Project, including terms and conditions, procurement, disbursement, environment and social safeguards procedures, and monitoring and evaluation.
  - **Monitoring and Reporting**
    - Ensuring compliance (including by all PFIs) with all the procedures prescribed in the Project Implementation Manual and Project Financing Agreement;
    - ensuring the maintenance of sub-loan files, in headquarter of PFI, ready for audit/review of DOSMEP and/or the World Bank;
    - monitoring the eligibility of the SMEs based on the sub-loan agreements;
    - reporting to the PSC/World Bank on progress in meeting the project's development objectives. A summary of the information required is included in this Manual.
    - reporting to the World Bank on the sub-loan portfolios with information on:
      - sub-loan commitments, disbursements, delays and problem loans;
      - sub-loan portfolio performance aggregated and for the period;
      - a report on sample sub-loans reviewed indicating compliance with sub-loan eligibility criteria; and
      - analysis of the sub-loan portfolio, with information on geographical distribution, sectors, size of SMEs, use of funds (investment/working capital), size and maturity of sub-loans/sub-leases, performance of sub-projects, etc.
    - summary of the information required is included in the Financial Management Reports and project progress reports.

- **Accounting and Auditing (Also see Chapter 6 for more details)**
  - Responsible for maintaining the Project accounting system and providing confirmation of the proper receipt and use of Project funds in accordance with the Project Financing Agreement between MOF and the World Bank. This system should ensure timely and accurate accounting of all transactions under the Project and clear presentation of financial information;
  - Ensuring that annual audit reports of the Project financial statements prepared under modified cash basis are submitted to the World Bank by June 30 each year. The auditor's report should be accompanied by auditor's management letter, as well as a certification letter from the external auditor that Project and PFIs are in compliance with all the covenants specified in the Project Financing Agreement and Subsidiary Financing Agreement;
  - Ensuring that quarterly, semi-annual and annual project progress reports and IFRs reports are submitted to the World Bank on time;
  - Submitting quarterly financial statements (un-audited) of PFIs. Such reports should be accompanied by a certification letter from the PFI management that PFI is in compliance with: (i) the terms and conditions of the Project Financing Agreement and Subsidiary Financing Agreement; and (ii) the prudential regulations prescribed by the Bank of Lao (BOL). Any non-compliance must be clearly identified and notified to the World Bank promptly.
  - Submitting semi-annual financial statements (un-audited) of all PFIs. Such reports should be accompanied by certification letter (s) from the management of respective PFIs (and DOSMEP), that each PFI is in compliance with: (i) the terms and conditions and requirements of Subsidiary Financing Agreements between PFIs and DOSMEP; and (ii) the prudential regulations prescribed by BOL. Any non-compliance must be clearly identified and notified to the World Bank promptly;
  - Submitting annual audit reports for each PFI to the World Bank no later than six months after the close of each year. The PFI audit reports should be accompanied by certification letters from the PFIs' external auditors that PFIs are in compliance with the eligibility criteria and other terms and conditions specified in the Subsidiary Financing Agreements between DOSMEP and PFIs.
  - Financial reporting formats mentioned above will be developed as part of the Financial Management Manual.

### **Procurement**

- Prepare procurement plans for all purchasing and procurement activities needed by the Project and update regularly for DOSMEP approval and for submission to the World Bank for review;
- Liaise with the World Bank procurement staff;
- Collaborate closely with other concerned agencies on procurement matters, especially on technical matters, such as preparation of technical specifications, etc.;
- In conjunction with project teams, prepare advertisements, bidding documents, letters of invitation, draft contracts, evaluation reports, etc.;
- Submit advertisements, bidding documents, letters of invitation, evaluation reports, contracts to the Bank for those items subject to prior review;
- Obtain timely World Bank no-objections for procurement documents which are subject to prior review;
- In conjunction with the project teams, organize and help manage bidder conferences. In due time for bid evaluations, organize and support evaluation committees (as appropriate, economize evaluation efforts by identifying standing members to serve on various evaluation committees under the project). Ensure proper documentation of committees' deliberations and findings. Ensure timely ministerial approval of

evaluation committees' recommendations (including, as appropriate, Steering Committee review) and of prospective contracts.

- Initiate and complete internal approvals and contract signatures;
- Submit signed contract, completion/delivery certificates, etc., to the financial official for payments;
- Conduct contract management by performing tasks such as monitoring progress of contracts implementation to ensure that it abides by the stipulated standards, procedures and planned procurement timetable;
- Track progress of procurement activities against the plans set forth in the PP. Highlight variations in progress, record reasons and identify remedial actions.
- Collect data on procurement from other agencies concerned and contribute to periodic progress reports to be submitted to the PEC and the Bank;
- Maintain up-to-date and accurate project procurement records; and
- Prepare and submit for Bank review periodic procurement progress reports
- Maintain an effective monitoring and recording system on procurement process, information and recording for document keeping; and use the systematic tracking of exchanges in procurement (STEP);
- Develop an action plan to strengthen transparency and accountability in the procurement process (including complaint-handling mechanism, integrity pacts and sanctions procedures as per procurement rules of the Lao PDR Prime Minister's Procurement Decree and the World Bank's Procurement Regulations) and also work with relevant divisions to enhance and systematic disclosure of procurement related documents in the MoIC website
- Build up capacity of the DOSMEP / MoIC assigned staff on procurement, including via hands-on training and formal training as requested;

**34. DOSMEP responsibilities as the apex institution under the SME A2F Project will included the following:**

**Coordination and Information Management**

- Assessment and selection and monitoring of PFIs
- Administration of SFAs between DOSMEP and PFIs
- Submission to the World Bank of sub-loan proposals requiring its prior review

**Advising PFIs and Beneficiary Enterprises**

- Providing assistance and proactive advice to PFIs and sub-borrowers on all aspects of the project, including terms and conditions, procurement, disbursement, E&S safeguards procedures, and M&E

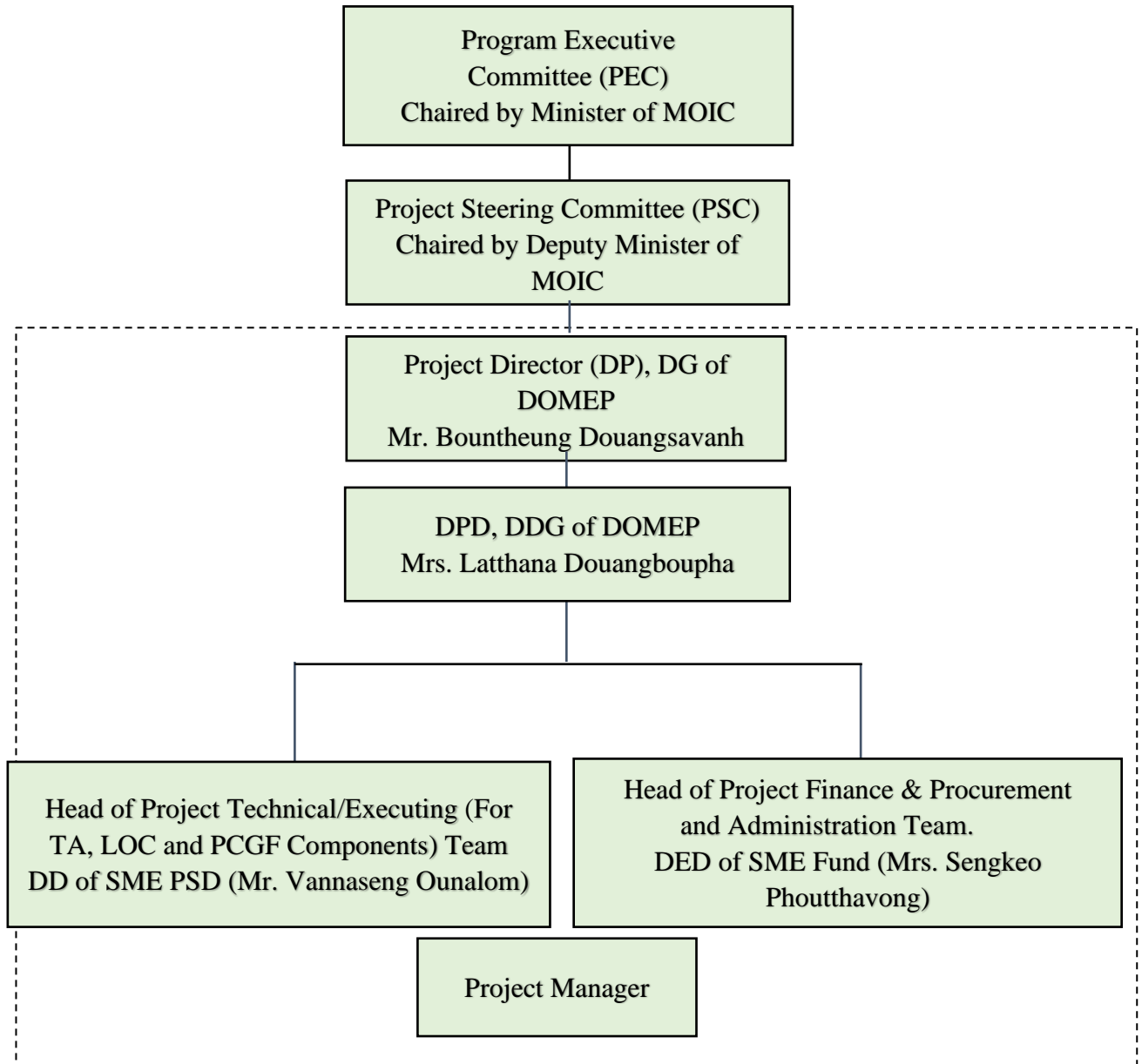
**Monitoring and Reporting**

- Ensuring compliance (including by all PFIs) with all the procedures prescribed in the POM and Project Financing Agreement
- Ensuring the maintenance of sub-loan files, in the headquarters of the PFI, ready for audit/review of DOSMEP and/or the World Bank
- Monitoring the eligibility of the SMEs based on the sub-loan agreements
- Reporting to the World Bank on progress in meeting the project's development objectives; a summary of the information required is included in this manual
- Reporting to the World Bank on the sub-loan portfolios with information on:
  - Sub-loan commitments, disbursements, delays, and problem loans;
  - Sub-loan portfolio performance aggregated and for the period;
  - A report on sample sub-loans reviewed indicating compliance with sub-loan eligibility criteria; and
  - Analysis of the sub-loan portfolio, with information on geographical distribution, sectors, size of SMEs, use of funds (investment/working capital), size and maturity of sub-loans/sub-leases, performance of subprojects, and so on.
- Summary of the information required is included in the FM reports and project progress reports

35. Based on World Bank project supervision reports, DOSMEP has satisfactorily carried out its responsibilities as the apex entity in the administering of the LoC. The apex entity for the LoC is deemed to be in compliance with OP 10.00.

### Project Management Unit

#### MSME Access to Finance-Emergency and Recover Support Project (MSME A2F-ERS Project), DOSMEP, MOIC





#### **4. Details on the Lending Arrangements for the Line of Credit (LOC).**

##### **Terms and Conditions Between DOSMEP and IDA:**

36. The details for the implementation of the LOC component are shown below.

##### **The following conditions will be applicable for the utilization of funds under the LOC:**

- DOSMEP will provide project funds as deposits in local currency to PFIs (5–7 years maturity), subject to a maximum amount to be stipulated in the POM, equivalent per PFI using SFAs that will define the terms and conditions. Selection of PFIs and SFAs will be subject to prior review and acceptance by IDA.
- PFIs are expected to recycle/on lend to MSMEs under similar terms and conditions, funds coming out of repayments from MSMEs until funds are repaid to DOSMEP.
- DOSMEP will maintain, during project implementation, a PMU with procedures and responsibilities and will be staffed with qualified personnel capable of satisfactorily implementing all aspects of the project.
- DOSMEP must be in compliance with the requirements (including the fiduciary and safeguard requirements) listed in the POM.
- For the duration of the project implementation period, beginning with the year 2021, DOSMEP will annually submit an audit report on the project prepared in accordance with International Auditing Standards.
- DOSMEP will submit relevant reports including the semi-annual IUFRRs, and project progress reports to IDA.
- DOSMEP will be subject to monitoring of the PDO and Intermediate Results Indicators in Annex 1 Results Framework and Monitoring and the Additional Indicators in the POM and on a quarterly, semi-annual, and yearly basis.

##### **Subsidiary Financing Agreement: Terms and Conditions Between DOSMEP and PFIs**

37. Before final selection of the PFIs, DOSMEP will submit to the World Bank, the evaluation report including financials of the proposed PFIs together with a request to include the PFIs in the project. The World Bank will review and provide the technical clearance to DOSMEP's assessment by for each PFI's participation for the requested amount. DOSMEP will send the financials of the PFIs (including Audit Reports) to the World Bank every year to ensure that the selected PFIs continue to meet the required criteria throughout the life of the project. The technical review will not be required for the continued participation of the PFIs. The following terms and conditions will apply to the Subsidiary Financing Agreements (SFAs) to be entered into between DOSMEP and PFIs, subject to technical review by the World Bank. PFIs will be selected based on their expression of interest to participate in the project and on acceptance by DOSMEP of their credit risk, as well as the following minimum eligibility criteria:

- Total assets during the last two years to exceed a minimum of US\$50 million equivalent
- Profitable for the past two years
- NPL ratio below 5 percent during the past two years
- Audited International Financial Reporting Standards (IFRS) financial statements as per BOL requirements for the past two years
- Compliance with all BOL prudential norms; general compliance with legal and regulatory requirements applicable to the banking industry, including but not limited to such prudential regulations as minimum CAR, maximum foreign currency exposure limits, maximum large exposure to single and connected clients, maximum insider lending limits, and so on, duly certified by the banks' auditors every year and confirmed by the management as of June 30 every year

*(ii) Terms and conditions of subsidiary financing between DOSMEP and PFIs*

- PFIs must start and remain in compliance with the above eligibility criteria for PFIs.
- The funds available to PFIs will depend upon the availability of funds to DOSMEP from the MOF/IDA.
- The cost of subsidiary loans to PFIs will include, at a minimum, the cost of the IDA funds to the MOF plus an on-lending margin reflecting: (a) DOSMEP's administrative costs and (b) a credit risk margin.
- PFIs will be responsible for ensuring that SME sub-borrowers comply with the well-established Private Sector Procurement Methods or Commercial Practices elaborated in chapter 7 of POM under the sub-loans section, and applicable Lao E&S legislation and regulations, and the E&S safeguard requirements of the Financing Agreement and applicable safeguard instruments.
- PFIs will provide DOSMEP with a set of documentation for all sub-loans to enable it to maintain all project records and make them available for audit by the World Bank or by external auditors as necessary.
- PFIs and MSMEs will be required to provide reasonable information for the purpose of monitoring and an impact assessment during the life of the project (and for a certain period after the project), as may be requested by the World Bank and/or DOSMEP.

**(c) Sub-loan terms and conditions for PFIs' subproject lending to MSMEs**

- For the purpose of this project, MSMEs are defined as given below based on the Government Decree on SME Classification, No. 25/Gov, of January 16, 2017, or as may be modified by the GoL in future. Only employment criteria of the decree will apply for this purpose:

**Micro enterprises are categorized as follows:**

<b>Business Type</b>	<b>Average Number of Staff</b>	<b>Value of Total Assets (LAK, millions)</b>	<b>Annual Turnover (LAK, millions)</b>
<b>Production</b>	1–5	less than 100 million	less than 400 million
<b>Trade</b>	1–5	less than 150 million	less than 400 million
<b>Services</b>	1–5	less than 200 million	less than 400 million

**Small enterprises are categorized as follows:**

<b>Business Type</b>	<b>Average Number of Staff</b>	<b>Value of Total Assets (LAK, millions)</b>	<b>Annual Turnover (LAK, millions)</b>
<b>Production</b>	6–50	less than 1,000 million	less than 2,000 million
<b>Trade</b>	6–50	less than 1,000 million	less than 3,000 million
<b>Services</b>	6–50	less than 1,500 million	less than 1,500 million

**Medium enterprises are categorized as follows:**

<b>Business Type</b>	<b>Average Number of Staff</b>	<b>Value of Total Assets (LAK, millions)</b>	<b>Annual Turnover (LAK, millions)</b>
<b>Production</b>	51–99	less than 4,000 million	less than 4,000 million
<b>Trade</b>	51–99	less than 4,000 million	less than 6,000 million
<b>Services</b>	51–99	less than 6,000 million	less than 4,000 million

- All private MSMEs (private ownership more than 50 percent) which are properly registered, irrespective in any economic sector, will be eligible. Sub-loans will be evaluated in accordance with the PFI's normal project and credit evaluation guidelines. DOSMEP will ascertain the eligibility of the sub-loans provided by PFIs to ensure that they meet the project requirements, but will not conduct its own evaluation of sub-loans or subprojects. The cost of sub-loans by PFIs to MSMEs will include, at a minimum, the cost of the project funds to PFIs and an on-lending margin reflecting PFIs' administrative costs plus a credit risk margin.
- Sub-loans will be made in local currency for working capital and/or investment purposes.
- The amount of an individual sub-loan to a SME will not exceed {200,000} equivalent.
- PFIs may provide more than one sub-loan to an SME. But the aggregate amount of all outstanding sub-loans to any one SME from all PFIs under this project shall not exceed {300,000} equivalent.
- Procurement of all goods, works, and services for all subprojects financed by the sub-loans must be completed before the project closing date, but MSMEs will be able to repay their loans to PFIs after the closing date, if required.
- The first two sub-loans from each PFI, irrespective of size, will be subject to technical review by the World Bank. In addition, the World Bank will carry out a technical review of sub-loans exceeding US\$200,000 equivalent, to be approved on an exceptional basis.
- All sub-loans may be subject to ex post review by DOSMEP and/or by the World Bank to verify compliance with the subsidiary and sub-loan agreement terms.
- PFIs (or the relevant authorities) will certify that the MSMEs (sub-borrowers) and subprojects meet E&S laws and standards in force in Lao PDR. The requirements of the World Bank E&S safeguard policies as reflected in the Financing Agreement and ESMF and applicable safeguard instruments will also be complied with.
- Subprojects classified as World Bank's Environmental Category A or involving dams and international waterways will not be financed.
- Purchase of land, goods, works, non-consulting services, and consultant services on the ESMF's negative list will not be eligible for financing.
- Contracts with firms and individuals that are on the World Bank lists of debarred or suspended firms and individuals will not be eligible for financing.
- Sub-borrowers will be required to obtain adequate insurance for the goods and works financed from the project funds, if available in the market and at reasonable cost, in line with sound business practices.
- MSMEs will be required to keep copies of invoices for all expenses financed with working capital and investment loans received under the project. MSMEs will be required to send to their respective PFIs copies of invoices for expenses financed with investment loans. The invoices for working capital loans will be kept by the MSMEs and made available to the PFIs, DOSMEP, the World Bank, and the auditors on request.
- Sub-borrowers will be required to provide reasonable information for the purpose of monitoring and an impact assessment during the life of the project (and for certain period after the project), as may be requested by the World Bank and/or DOSMEP.

- Sub-borrowers will follow Private Sector Procurement Methods or the well-established of Commercial Practices elaborated in chapter 7 of POM under sub-loans section.

At the end of the Project, the proceeds of the LoC will be used exclusively to finance additional development projects to further the development of the SME sector unless the GoL and IDA agree otherwise.

### **Procedures for Fixed Term Financing from MOF – DOSMEP – PFIs**

38. **Definition:** Fixed term financing—financing or refinancing of an eligible sub-loan portfolio which has been initially approved by the PFI’s credit committee and the disbursement of funding is made against eligible sub-loans on pre-established loan terms and conditions.

39. **Transfer of From MOF to DOSMEP:**

- A MOU will be signed between the Ministry of Finance, represented by the Department of State-Owned Enterprises Finance Management, as lender, hereafter “DSOE” And Ministry of Industry and Commerce, represented by the Department of Small and Medium Enterprise Promotion and Development, as borrower, hereafter “DOSMEP”.
- “DSOE” agreed to lend to “DOSMEP” in the total amount of LAK xxx, equivalent to USD 34 Million, with interest rate of XX% per year (payment once per year), the total repayment period will be 20 years (including a 5-year grace period) and this amount will be referred to as “on-lending funds”.
- The main objective of this is to promote SME to have medium-long term access to funding in order to expand their production, trade and services to be able to accommodate domestic consumption and export.

40. **Interest Rate Calculation:**

- The interest rates will be calculated based on the actual amount of the withdrawn from the state bank account at “BOL”, assuming 360 days over a period of one year for the purpose of calculating interest.

41. **Principal and Interest Payments:**

- “DOSMEP” shall pay the principal back to “DSOE” on a yearly basis, after the 5-year grace period.
- “DOSMEP” shall pay interest to “DSOE” on a yearly basis, which shall commence from the date that funds are withdrawn from the state bank account at “BOL”;
- “DOSMEP” shall pay loan and interest to “DSOE” in LAK.

42. **Loan Withdrawal:**

- The total loan amount of US\$34 Million will be withdrawn by DSOE from the BOL account and transferred to DOSMEP, based on the demand from the PFIs.

43. **Responsibility of “DSOE”:**

- “DSOE” shall facilitate the accessibility of fund, and other logistics for “DOSMEP” in a prompt manner and in conformity with the agreed conditions with “BOL”;
- “DSOE” shall coordinate with “DOSMEP” to monitor the release of loan to the PFIs to ensure the use of the loan is in line with the government’s goals and targets;
- “DSOE” shall issue an invoice to collect the principal and interest with “DOSMEP” within one month before the due date of payment; and
- “DSOE” shall summarize/reconcile the receipt of principal and interest together with “DOSMEP”.

44. **Responsibility of “DOSMEP”**

- “DOSMEP” shall summarize the results of the loan disbursements to the PFIs, in each tranche approved by the “DOSMEP” board and submit to the Ministry of Finance;
- “DOSMEP” shall ensure that the utilization and loan management is in accordance with this MOU;
- “DOSMEP” shall return the principal and interest in a timely manner as indicated in this MOU;
- “DOSMEP” shall pay the service charge of 0.75% for Ministry of Finance as stated in the Financing Agreement, dated 11/11/2020 on the MSME Access to Finance Emergency Support and Recovery Project between Ministry of Finance and “DOSMEP”.

**Transfer of Funds from DOSMEP to the Participating Financial Institutions<sup>5</sup> (Refinancing).**

45. **Definition of Refinancing:** The PFI will be eligible to refinance any sub-loan given to MSMEs, that were approved by the PFI’s Board between January 1, 2020 and December 31, 2020, that meet the eligibility criteria stipulated in the Project Operations Manual, up to an amount of US\$ 1.0 Million equivalent in LAK.

46. **Procedures to be followed by the PFI to apply for Refinancing as defined above After the Project is made Effective:**

- The PFI will submit a list of disbursed loans (those that have met the eligibility criteria specified in the OM), with supporting documents, including the original loan application.
- The list should include the name of the borrower, loan amount, duration of the loan, grace period, interest charged, purpose of the loan (working capital or investment), any repayments to date and economic sector of the associated business. The list should indicate the total amount of refinancing requested less any repayments made by the Borrowers as at December 31, 2020.
- The sub-loan amounts included in the list should be at or below the sub-loan amount of US\$200,000 equivalent as indicated in the Project OM.
- The sub-loans included in the list should be in compliance with the Environmental and Safeguards requirements for sub-loans as specified in the Project OM.
- Once DOSMEP has reviewed the list of sub-loans and attached documentation, DOSMEP will submit a request to the WB for no objection to release the funds to the PFI.
- Once the request is reviewed by the WB and the No Objection is issued, DOSMEP will request withdrawal of the approved amount from the MOF to be paid directly to the account of the PFI.

**Fixed Term Financing from DOSMEP to the PFIs For Sub-Loans Approved After the Project is Effective.**

47. **Procedures to be followed by the PFI to apply for Financing on Fixed term:**

- PFIs will be eligible to submit request for financing sub-loans twice a year to minimize processing time and costs. Once between January 1 – June 30, and between July 1, December 31, every year commencing from 2021 through 2025.
- The PFI will submit a list of loans, with supporting documents, including the original loan application to DOSMEP. **Please note that due to the frequency of submission (twice a year and timing issue), the list may include sub-loans that have already being approved by the PFI’s Board and funds disbursed and those that have been approved but not disbursed yet.**
- The list should include the name of the borrower, loan amount, duration of the loan, grace period, interest charged, purpose of the loan (working capital or investment), any repayments to date and

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<sup>5</sup> This is assuming that the PFIs have been reviewed and found eligible to participate under the Project and the PFIs have signed a Subsidiary Financing Agreement with DOSMEP.

economic sector of the associated business. The list should indicate the total amount of financing requested less any repayments made by the Borrowers as at the date of the request submitted to DOSMEP.

- The sub-loan amounts included in the list should be at or below the sub-loan amount of US\$200,000 equivalent<sup>6</sup> as indicated in the Project OM.
- The sub-loans included in the list should be in compliance with all sub-loan requirements specified in the Project OM, including the Environmental and Safeguards requirements for sub-loans.
- Once DOSMEP has reviewed the list of sub-loans and attached documentation, DOSMEP will submit a request to the WB for technical clearance to release the funds to the PFI.
- Once the request is reviewed by the WB and the technical clearance is issued, DOSMEP will request withdrawal of the approved amount from the MOF to be paid directly to the account of the PFIs.

### **Proposed Procedures for Providing an Advance from MOF – DOSMEP – PFIs**

48. **On an exceptional basis**, funds will be advanced to the PFIs based on a “demand for funds by the MSME based on a schedule of sub-loans” up to an amount of US\$1.0 Million equivalent.

49. The PFIs should apply for funds to be transferred to their Deposit Fund using the Disbursement Request Form stipulated in the POM to be signed by two authorized persons of the PFIs, and should include the potential numbers of Sub-Loans, names of the SMEs and the Sub-Loan amounts approved and requested. Once the request for the transfer of funds has been received and reviewed by DOSMEP and based on the documentation provided, DOSMEP will advance the LAK equivalent requested by the PFIs at a specified date, and further funds shall be provided to the PFIs on a reimbursable basis after the advance has been utilized by the PFI for making eligible Sub-Loans. Upon request from DOSMEP, IDA may at its discretion make Direct Payment to the PFIs but not to the MSME Sub-Borrowers.

50. For the Sub-loans not exceeding the free-limit (except for sub-loans requiring preapproval of IDA and included in the POM and Procurement Procedures of the Financing Agreement, DOSMEP will transfer funds to their Deposit Fund without any technical review of the Sub-loans. However, technical approval of IDA is required for the first two Sub-Projects for each PFI and all other Sub-Projects exceeding free limit value of US\$ 200,000 equivalent or as may be determined by IDA. Details of interest and principal payments and any other related costs will be specified in the Subsidiary Financing Agreement to be signed between DOSMEP and the PFIs.

### **For Both Proposals – Terms and Conditions from DOSMEP to the PFIs**

#### **51. Interest Rate Calculation:**

- The interest rates will be calculated based on the actual amount disbursed from DOSMEP to the PFI, assuming 360 days over a period of one year for the purpose of calculating interest. The interest on the loan will be calculated as follows: (i) When the interest is to be calculated for a period of less than one year the following formula will be used:  $\text{Loan Balance (A), Actual number of days (N), Interest Rate per Year, the formula is "A x (N/360) x t = total interest to be paid"};$  and (ii) When the full year is taken for the calculation: the formula is  $"A x t" = \text{total interest to be paid}.$  All sub-loans will have a maturity of not less than 2 years and not more than seven (07) years, with a one-year grace period.

#### **52. Principal and Interest Payments:**

- “the PFI” shall pay the principal back to “DOSMEP” on a yearly basis, after the grace period<sup>7</sup>;
- “The PFIs” shall pay interest to “DOSMEP” on a yearly basis, which shall commence from the date that funds are withdrawn from DOSMEP;

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<sup>6</sup> On an exceptional basis, sub-loans more than \$200,000 could be approved by DOSMEP with the agreement of the World Bank

<sup>7</sup> The Grace period will be discussed and agreed between DOSMEP and the PFI

- “The PFIs” shall pay loan and interest each time to “DOSMEP” in LAK.

### **Sub-Loan Documentation**

53. For all sub-loans, including free limit sub-loans, the PFI shall furnish to DOSMEP a complete sub-loan package comprising of:

- a) Disbursement Request (See Sample – Attachment 1). **To be completed by the PFIs;**
- b) Sub-Loan Application Form (See Attachment 2). **To be completed by the PFIs;**
- c) Sub-Loan Application: Summary of Prior Review of Sub-loans by World Bank (See Attachment 3). In addition to the above, for sub-loans requiring prior review by the World Bank, full appraisal reports (in English). **To be completed by the PFIs;**
- d) Environmental and Social Safeguard Check List. To be completed by the PFIs for all sub-loans, (See Annex 8 of the E&S Section);
- e) Sub-Loan profile by Sector (See Attachment 4). **To be completed by the PFIs on a semi-annual basis;** and
- f) Such other information as DOSMEP and/or the World Bank shall reasonably request

### **Sub-Loan Review**

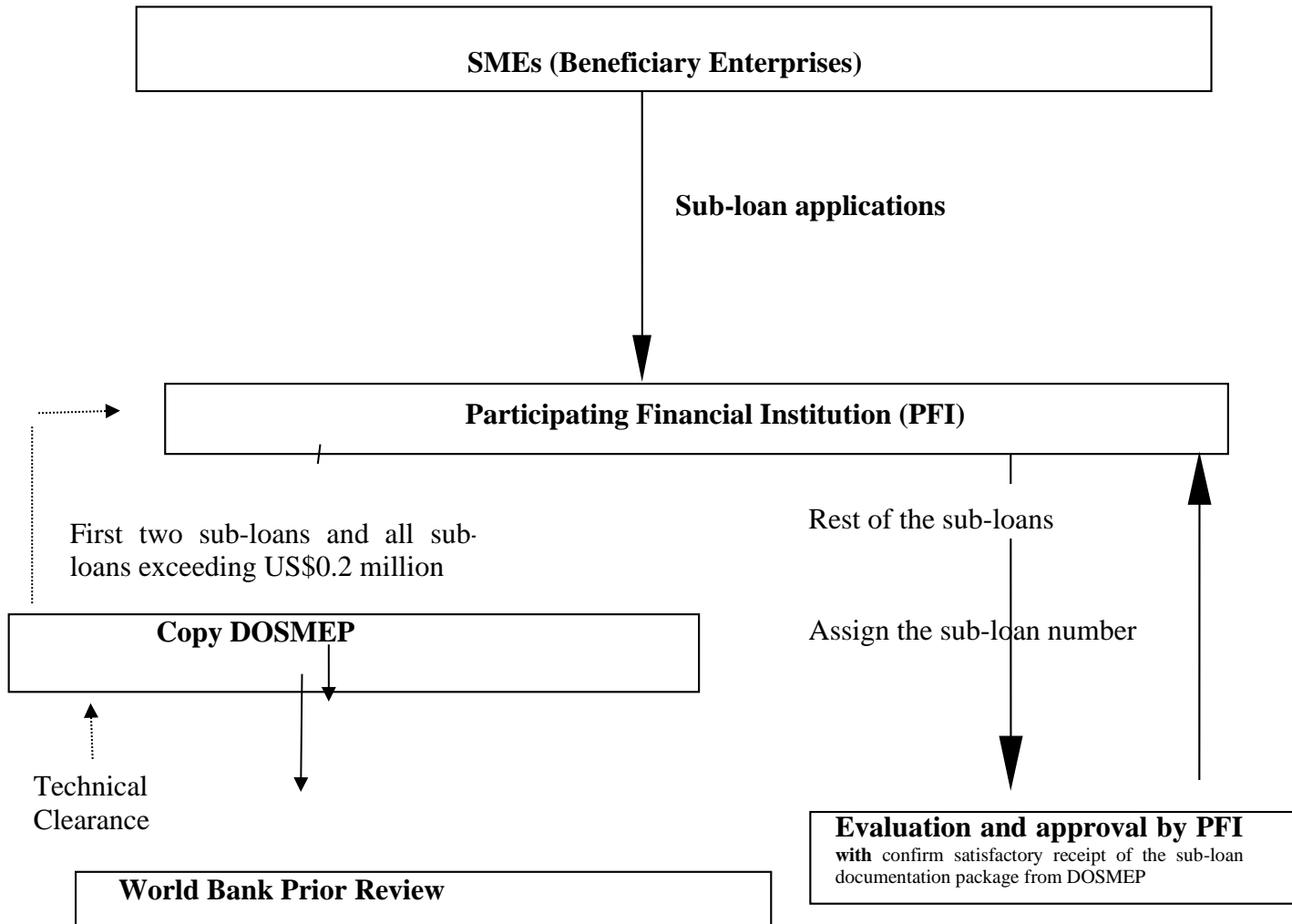
54. For the first two sub-loan (irrespective of size) made by each PFI, and all sub-loans exceeding US\$200,000 equivalent, the World Bank will carry out a prior review of each sub-loan package to determine its compliance with all applicable sub-loan, sub-borrower and sub-project requirements, and inform the PFI, through DOSMEP, in writing of its acceptance of the package or of any remedial action required, as the case may be.

55. For all sub-loans not requiring prior review, DOSMEP will confirm satisfactory receipt of the sub-loan documentation package list referred to above, and inform the PFI accordingly. Such sub-loans may, however, be subject to ex-post review of all sub-loan documentation by DOSMEP and/or the World Bank for verification of compliance with all sub-borrower, sub-project and sub-loan terms and conditions. All underlying documentation pertaining to sub-loans should be maintained by the PFI for the purpose of monitoring and impact assessment during the life of the project (and for certain period after the project), as may be requested by IDA and/or DOSMEP.

56. Each sub-loan shall be approved by the PFI based on a positive evaluation of the sub-project and the sub-borrower by the PFI.

57. The PFI has the full responsibility vis-à-vis DOSMEP and the World Bank to ensure that the terms of the sub-project and all expenditures financed with the proceeds of the sub-loan are in compliance with the requirements defined in this Project Implementation Manual.

## Sub-Loan Process Flow





**SAMPLE DISBURSEMENT REQUEST  
(To be completed by the PFIs)**

To: DOSMEP  
Address:

From: ----- (PFI)  
Address:

Subsidiary Financing Agreement (SFA) No:  
Disbursement Request No:

**REQUEST FOR ALLOCATION OF FUNDS  
FROM THE LAO MICRO, SMALL, AND MEDIUM ENTERPRISE ACCESS TO FINANCE  
EMERGENCY SUPPORT AND RECOVERY PROJECT  
CREDIT LINE**

Pursuant to paragraph {xx} of the Subsidiary Financing Agreement, we request an allocation of US\$----- equivalent from the Project to finance qualifying sub-loans under the Line of Credit during the period from ----- (month) to ----- (month) 2021. We confirm the eligibility and the expenditures to be financed with the above requested payment. Please find the required documentation attached. **(Supporting documents not required for the initial deposit if it's a request for an advance).**

The payment herewith requested, once made, shall constitute a disbursement under the above mentioned SFA and shall create a valid and binding obligation upon the xxx bank to make repayment of principal amount together with the interest and all other applicable charges specified in the SFA.

Yours Sincerely,

Authorized Representative -----  
Date -----

- A. Funds Transferred to the Deposit Account: xxx
- B. Funds Disbursed to SMEs from M/D/Year – M/D/Year: xxx
- C. Balance in the Deposit Account (A-B): xxx
- D. Funds Required This Period: xxx
- F. Funds to be transferred (C-D): xxx

PFI's Bank Account detail

**MICRO, SMALL, AND MEDIUM ENTERPRISE ACCESS TO FINANCE EMERGENCY  
SUPPORT AND RECOVERY PROJECT  
(To be completed by PFIs for each sub-loan)  
SUB LOAN APPLICATION FORM**

Name of PFI \_\_\_\_\_

1. Branch Code \_\_\_\_\_ and Location \_\_\_\_\_
2. Sub-borrower ID Number \_\_\_\_\_
3. Sub-borrower Name and Address \_\_\_\_\_
4. Legal Status of Sub-borrower \_\_\_\_\_
5. Brief Description of Sub-Project \_\_\_\_\_
6. Estimated Sub-project Cost \_\_\_\_\_
7. Borrowers Contribution: Type and Amount \_\_\_\_\_
8. Amount of Sub-loan in KIP (and in US\$ Equivalent) \_\_\_\_\_
9. Utilization of Sub-loan (by items) \_\_\_\_\_
10. Date of Approval of Sub-loan (by PFI). Details to be given in Page 3 Format.
11. Number and Date of Sub-loan Agreement \_\_\_\_\_
12. Interest Rate \_\_\_\_\_
13. Other Charges and Fees \_\_\_\_\_
14. Repayment terms of Sub-loan \_\_\_\_\_

Signature: \_\_\_\_\_ PFI Authorized Representative(s)

Date: \_\_\_\_\_

**Explanatory Notes:**

- (2). Refers to Sub-borrower's loan account number in PFI;
- (4). Refers to legal status, i.e., individual, joint stock company, cooperative, partnership;
- (12). Indicates interest rate at time of signing Sub-loan Agreement;
- (14). Indicate grace period, number of installments, payment date, and final maturity date.

**1.1 Format for Procurement Plan (Goods, Works, Services and Working Capital)**

<b>Items to be procured</b>	<b>Procurement Method</b>	<b>Quantity</b>	<b>Estimate</b>	<b>Start Date</b>	<b>End Date</b>
<b>Fixed Capital/Services</b>					
Equipment/Goods 1. 2.					
Works (Civil Works) 1. 2.					
Consultancies/Services 1. 2.					
<b>Working Capital</b>					
Materials 1. 2.					

COVER LETTER (To be completed by PFIs)

(Full sub loan proposal in English should be included with this letter)

**MICRO, SMALL, AND MEDIUM ENTERPRISE ACCESS TO FINANCE EMERGENCY SUPPORT  
AND RECOVERY PROJECT**

**SUMMARY SUB LOAN APPLICATION  
PRIOR REVIEW OF SUBLOANS BY WORLD BANK**

Date:

TO: DOSMEP

FROM: (PFI)

**Re: (Name of Sub-borrower)**

Credit Line, Loan Amount: \_\_\_\_\_ Lao Kip (and US\$----- Equivalent)

Please find enclosed a Project Summary Sheet for a \_\_\_\_\_  
\_\_\_\_\_ (insert a brief description of the Sub-project) \_\_\_\_\_ which is being submitted for  
World Bank’s prior review as required under the Subsidiary Financing Agreement and the POM.

The xx Bank hereby certifies that it has conducted appropriate due diligence and analysis, and **has approved** this sub-loan  
in accordance with its policies and procedures, and having done so, assumes all credit risk.

Bank hereby certifies that the information is accurate and complete, that no material information is withheld, and that the  
terms and loan structure will be reflected in the final loan documents.

**(signature, designated PFI representative)**

<ol style="list-style-type: none"> <li>1. PFI’s Project/sub-Loan No.:</li> <li>2. Branch code/location:</li> <li>3. Date of Receipt of Loan Application:</li> <li>4. Date of Approval by PFI:</li> <li>5. Name of Responsible Loan Officer:</li> </ol>	
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## 1. INFORMATION ON THE CLIENT

1.1 **Legal Name** and address (tel , if available, contact person)

1.2 **Legal Registration:** \_\_\_\_\_ **Year Registered:** \_\_\_\_\_

1.3 **Ownership Structure of Borrower:**

Legal Type	Owners' Name	% ownership
e.g. Individual or JSC		
		100%

1.4 **Current activities** of the enterprise; years in operation: \_\_\_\_\_

Product or Activity	Current Revenue	Proposed Revenue after Investment
Net Sales		
Cost of Goods Sold		
Gross Profit (Loss)		
Expenses		
<b>Total Operating Expenses</b>		
<b>Operating Income (Loss)</b>		
<b>Net Income</b>		

## 2. INFORMATION RELATED TO THE PROJECT & SUB-LOAN

2.1 **Description of the Project & Purpose of the Sub-loan:**

2.2 **Description how the project relates to prior business activity** (e.g. expansion, rehabilitation; new product or service. If company is new, describe relevant experience of owners.)

2.3 **Marketing Strategy:** (target customers; signed contracts, assessment of competitors; overall market size and growth prospects)

2.4 **Project Costs & Sources of Funds:**

<b>Project Costs</b>	<b>Owners'</b>	<b>Credit</b>	<b>Other</b>	<b>Total Cost</b>
In cash				
In kinds				
Total:				
percent of total:	%	%	%	100%

Add rows as necessary to provide adequate detail.

2.4.a Indicate whether in Owners' Contributions are in cash, in-kind (e.g., building materials), personal labor, etc.);

2.4.b. Explain any sources of funds listed under "Other" (e.g. bank loan using bank funds; suppliers)

2.5 The Sub loan shall include procurement plan indicating the particular contracts for works and goods required and the procurement process for sub loan shall be carried out follow the PFI's Commercial practice of the PFI after the sub loan was approved

2.6 **Compliance with Environmental and Social Safeguards Guidelines:** Does project affect environment and assets or livelihood of local people? What permits or licenses are required and are they obtained?

**3. STRUCTURE OF SUBLOAN**

3.1 **Term** of the sub-loan (total repayment period of including grace period of xx.

3.2 **Repayment schedule** (First principal payment starts on (date) and the last payment on (date); schedule of interest payments if different from principal:)

3.3 **Interest rate** (if funded from SMEAF): % per annum  
= \_\_\_% bank's margin added to current cost of SMEAF funds \_\_\_% .

3.4 **Fees:**

3.5 **Collateral:**

- (type), (date of purchase)
- Owner of collateral (identify "third party" owner)
- Value from the balance sheet less depreciation
- PFI valuation (indicate basis of the valuation, internal, external)

Total PFI value all collateral: \_\_\_\_\_

Loan / Value: \_\_\_ % -or- Value / Loan: \_\_\_%

3.6 **Personal Guarantees** (when the Borrower is registered as a JSC or Ltd, the major owners should guarantee.

3.6.a. If the Owner is, itself, a "legal entity" (JSC or Ltd company), then the personal owners of the legal-entity-owner should guarantee

**4.1 Conclusions & Ratings by PFI**

(Instruction: Use rating 1 to 5, with 1 being the lowest and 5 being highest rating)

1. The enterprise is financially sound \_\_\_\_\_
2. Has capable management \_\_\_\_\_
3. Has necessary technical staff and know-how \_\_\_\_\_
4. Sales projections (including export if any) are realistic and       achievable \_\_\_\_\_
5. Adequate supplies of raw material, energy, water, utilities and (indicate)  
are available \_\_\_\_\_
6. Appropriate attention has been paid to environmental and social safeguards considerations and the sub-  
project will not create any environmental hazards and social impacts on the local people.  
\_\_\_\_\_
7. The sub-project conforms with all Governmental regulations and has received all necessary licenses
8. The sub-project has been approved for financing:

**Report prepared by:**

**(name)** \_\_\_\_\_

**(title)** \_\_\_\_\_

## 5. Results Framework and Monitoring Indicators

58. A systematic monitoring and evaluation (M&E) plan is a core part of project implementation. The objective of monitoring and evaluation is to: (i) monitor the progress of project implementation and provide timely feedback to stakeholders (DOSMEP, IDA, and PFIs); (ii) assess and summarize the achievements; and (iii) draw lessons in project design and implementation that can guide future replication efforts. PFIs will have prime responsibility for generating and providing core data. DOSMEP will take the responsibility for compiling, analyzing, and reporting this information to the World Bank (an M&E officer and an International M&E consultant), and other relevant stakeholders, and carry out impact evaluations. DOSMEP will engage appropriate expertise to carry out M&E, establish a robust M&E system, including impact assessment of the project outcomes and outputs. DOSMEP will submit semi-annual interim financial report (IFR), and quarterly progress reports including annual output and outcome indicators. The data will be generated from the DOSMEP M&E and FM systems and reports provided by the PFIs.

59. The Results Framework and measurement proposals show where the required data will be sourced and by whom (Annex 1). DOSMEP will ensure that M&E consultant(s) are hired during and at the end of the project to measure the impact on SMEs that received financial products from the partner banks, through polling samples of SMEs that compare clients vs. non-clients.

60. *Project Development Objective.* The objective of the Project is to provide long-term funding sources for banks to provide long-term credit to small and medium enterprises. 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.

61. Key results will be measured by:

- Volume of sub-loans disbursed to MSMEs under the project (of which women-led enterprises) (Amount US\$);
- Share of MSMEs benefitting from LoC that survive COVID-19 crisis (Percentage); and
- Number of MSMEs benefitting from TA that obtain credit for first time (Number).

62. Table 1 below includes Core Project Indicators. DOSMEP will be responsible for monitoring the project's progress against the proposed indicators, in the Table below:





**Results Framework**

**COUNTRY: Lao People's Democratic Republic**

**Micro, Small, and Medium Enterprise Access to Finance Emergency Support and Recovery Project**

**Project Development Objectives(s)**

The project aims to enhance access to finance for MSMEs in the context of the COVID-19 emergency and recovery

**Project Development Objective Indicators**

<b>Indicator Name</b>	<b>PBC</b>	<b>Baseline</b>	<b>End Target</b>
<b>Enhance access to finance for MSMEs through financial intermediaries</b>			
Volume of sub-loans disbursed to MSMEs under the project (Amount(USD))		0.00	34,000,000.00
of which women-led enterprises (Amount(USD))		0.00	17,000,000.00
Share of MSMEs benefitting from line of credit that survive COVID-19 crisis (Percentage)		0.00	80.00
<b>Support MSMEs in gaining access to credit</b>			
Number of MSMEs benefitting from TA that obtain credit for first time (Number)		0.00	30.00



Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
<b>Strengthening Bank of Lao Capacity to Supervise PCG Fund</b>			
TA to strengthen BOL capacity to supervise and monitor PCG delivered (Yes/No)		No	Yes
<b>Emergency and Recovery line of credit to MSMEs</b>			
Number of MSMEs received financing under the project (Number)		0.00	400.00
<b>Technical Assistance and Project Management</b>			
Number of businesses supported with technical assistance (Number)		0.00	600.00
of which women-led enterprises (Number)		0.00	300.00
Number of SME Banking Strategies and new SME banking products developed and adopted by PFIs (Number)		0.00	3.00
Percentage of beneficiaries that feel project activities reflected their needs (Citizen Engagement indicator) (Percentage)		0.00	75.00
Percentage of complaints handled from Grievance Redress mechanism in place (disaggregated by number/percent of women) (Percentage)		0.00	75.00



Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for D Collection	Responsibility for D Collection
Volume of sub-loans disbursed to MSMEs under the project	This indicator measures the total amount of subloans provided to MSMEs by participating financial institutions with project funds. The indicator includes sub-loans provided under both the "emergency" and "recovery" windows.	Annual	Project progress report	Report from PFIs	DOSMEP
of which women-led enterprises	Women-led enterprises are those in which women are in leadership positions and in control of that business, regardless of whether they own 51 percent of the company	Annual	Project progress report	Report from PFIs	DOSMEP
Share of MSMEs benefitting from line of credit that survive COVID-19 crisis	This indicators measures the percentage of MSMEs who benefited from line of credit from the project confirming that they have survived the COVID-19 crisis	Annual	Project progress report	Report from PFIs	DOSMEP
Number of MSMEs benefitting from TA that obtain credit for first time	This indicator measures number of MSMEs benefitting from TA from the project confirming that they obtain credit for first time	Annual	Project progress report	Report from PFIs	DOSMEP



Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Collection	Responsibility for Collection
TA to strengthen BOL capacity to supervise and monitor PCG delivered	This indicator will measure the delivery of technical assistance to BOL to strengthen its capacity to supervise and monitor the PCG Fund.	Annual	PMU progress reports	PMU progress reports	DOSMEP
Number of MSMEs received financing under the project	This indicator measures number of SMEs who received line of credit from participating financing institutions under the project. It is assumed that average loan size is about \$80,000.	Annual	Project progress report	Reports from PFIs	DOSMEP
Number of businesses supported with technical assistance	This indicator measures the number of MSMEs that receive a technical assistance from the project.	Annual	Project progress report	Report from Business Development Consulting Service (BDS)	DOSMEP
of which women-led enterprises	Women-led enterprises are those in which women are in leadership positions and in control of that business, regardless of whether they own 51 percent of the company.	Annual	Project progress report	Report from BDS	DOSMEP



Number of SME Banking Strategies and new SME banking products developed and adopted by PFIs	This indicator will measure impact of TA to PFIs, which will focus on assisting participating PFIs to develop and adopt a SME business strategy	Annual	Project progress report	Report from consulting firm delivering TA	DOSMEP
Percentage of beneficiaries that feel project activities reflected their needs (Citizen Engagement indicator)	This indicator measures the satisfaction of beneficiary MSMEs and PFIs. This indicator will measure the results of surveys conducted as part of the monitoring and evaluation strategy implemented during Project implementation to beneficiary MSMEs and PFIs about their satisfaction with the financial products offered under the Project. The survey results and the report will be shared by the PMU and will contain proposed recommendations for project adjustments. The PMU will, in turn, make the necessary adjustment to activities, as informed by citizen feedback.	Annual	Surveys of MSMEs and PFIs	Surveys conducted to beneficiary MSMEs and PFIs	DOSMEP
Percentage of complaints handled from Grievance Redress mechanism in place (disaggregated by number/percent of women)	The project will establish a grievance mechanism, including via website and other facilities for grievance	Annual	Report from DOSMEP	monitoring via website and other facilities for grievance	DOSMEP



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	<p>monitoring via website and other facilities for grievance and complaints by project beneficiaries (MSMEs, PFIs). Indicator will track percentage of registered grievances that are addressed according to agreed procedures. This is the total number of grievance messages received by [website and other facilities], which have been satisfactorily addressed and recorded.</p>			<p>and complaints by beneficiaries</p>	
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## 6. Financial Management and Disbursements Arrangements<sup>8</sup>

### FM Organization and Staffing

63. Under the project, these functions will be performed by an FM team of the PMU to be established under DOSMEP. Currently the SME Fund Management Division, the division monitoring accounting and reporting of DOSMEP performs FM functions. The accountant and cashier are responsible for both accounting and technical work. The following arrangements for FM will be in place:

- SME Fund Management Division will have overall responsibility for FM functions. Training will be provided on reporting requirements.
- Hiring of qualified FM consultants: A full-time senior FM consultant with previous experience on SME projects and an accountant will need to be on board immediately after effectiveness, and advance procurement for FM consultant is highly recommended. Their duties and responsibilities will be detailed in the Terms of Reference to be reviewed and given a no objection by the World Bank.

### Budgeting

64. A budget shall be prepared for each component annually and will cover the period of the GoL fiscal year (January to December) and will be in accordance with the approved project work plan. The Financial Management Manual (FMM) will elaborate the process and timing for the preparation and approval of the annual budget. This will facilitate the use of variable ceiling of the designated account (DA) based on six-month cash forecast. Project annual budget should be approved and finalized for no objection by the World Bank by November each year.

### Accounting

65. Accounting policies and procedures described in the FMM developed under the SME A2F Project will be adopted for the project. The FMM includes all key accounting policies and procedures, budgeting, recording, financial reporting, auditing, and disbursement arrangements. A modification to some sections on funds flow, financial reporting, and disbursement arrangements will be needed for the project. The project will be accounted for on a cash basis. All accounting and supporting documentation will be retained by DOSMEP in a system that allows authorized users easy access.

66. QuickBooks accounting software has been used under the current project and will be used for this project. The accounting software will be capable of tracking all transactions and will adequately reflect the project's operations, resources, and expenditures. The software will produce the financial reports for the project.

### Internal Controls

67. Job descriptions and responsibilities for financial staff are clearly defined. The segregation of duties will be enforced at all times to ensure that no single person can initiate, verify, and authorize individual payment transactions.

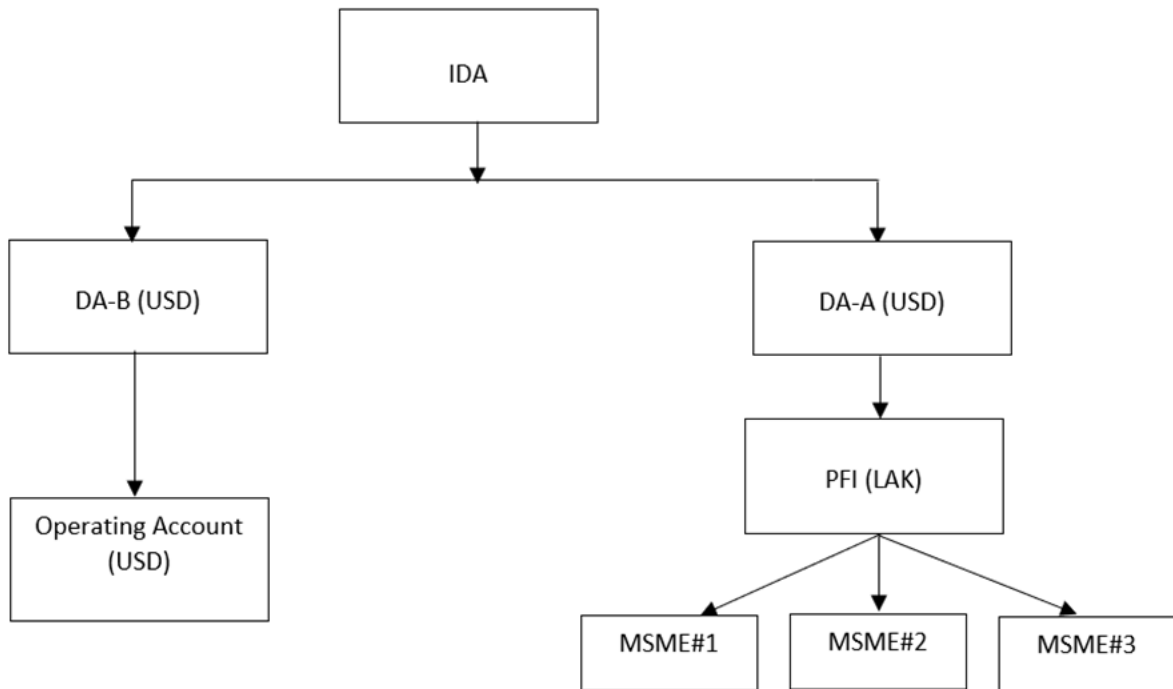
68. Payments in cash will be minimized. A petty cash float of US\$1,000 will be set up to facilitate the payment of small transactions. Any payment exceeding US\$300 or equivalent of will be made by check. Payment to consultants and suppliers will be done through bank transfer. All consultants will be requested to open a bank account at a commercial bank and payments will be made directly to their bank accounts. Two signatures will be required for each check or bank transfer. The payment procedures and controls of payments are described in detail in the FMM.

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<sup>8</sup> Details including those for PFI reporting purposes will be found in the Financial Management Manual developed by the PMU and shared with the PFIs.



## Funds Flow and Disbursement Arrangements



69. **Component 1:** The guideline for FIs lays down three types of disbursement arrangements that could be considered for FIF. These include: (a) back-to-back financing—financing or refinancing of an eligible sub-loan portfolio which has been initially approved by the PFI’s credit committee and the disbursement of funding is made against eligible sub-loans on a back-to-back basis; (b) fixed term financing—financing or refinancing of an eligible sub-loan portfolio which has been initially approved by the PFI’s credit committee and the disbursement of funding is made against eligible sub-loans on pre-established loan terms and conditions; and (c) if a strong business case is made, an advance can be disbursed to the PFIs in line with the project’s eligibility criteria.

70. This project will follow the options outlined in points (a) and (b) above. Option (c) will also be made available during project implementation, subject to the World Bank’s no objection.

71. Disbursement of LoC to PFIs will be through the DA (DA-A, denominated in USD) into the PFI’s nominated account in Lao kip, based on a request from DOSMEP and the MOF. The Association accounts eligible expenditure of the credit line at the time of transfer to PFIs. The required supporting documents shall include (a) Subsidiary Financing Agreements (SFAs) signed between DOSMEP and PFIs on terms and conditions acceptable to IDA and (b) list of eligible sub-loans to be financed or refinanced which has been initially approved by the PFI’s credit committee and certified by DOSMEP. PFIs will then disburse/on lend to MSMEs. On a monthly basis no later than the 15th of the next month, PFIs will be required to submit a loan utilization/disbursement report to DOSMEP and DOSMEP will later submit to the World Bank. As part of the project’s annual audit, additional review (agreed upon procedures) will be conducted on PFIs to verify the existence of the loan and review, on a sample basis, the financial records of the MSMEs to ensure loans obtained were used for intended purposes.

72. **Components 2 and 3:** A DA-B denominated in U.S. dollars will be opened at the BOL. The DA will have a variable ceiling. Funds will be advanced from IDA to the DA based on a 6-months cash forecast approved by the World Bank. Reporting of expenditure paid from the DA will be quarterly. DOSMEP will open an Operating Account in a commercial bank to facilitate payments of day-to-day project expenditure.

73. **Component 4:** Disbursement will be based on the triggering of conditions set forth in the financing agreement. Disbursement arrangement will follow the details as specified in the Emergency Response Manual (ERM).

74. Applicable disbursement methods will include (a) advance, (b) reimbursement, (c) direct payment and (d) special commitment. Minimum application value for direct payment, reimbursement and special commitment will be US\$200,000. Disbursements will be made against the expenditure categories in the table of allocation below. Reporting of expenditure paid from the DA will be based on submission of Statement of Expenditure (SOE). Frequency of reporting of expenditure will be a period not greater than three months. All replenishment applications will be accompanied by a DA bank reconciliation.

75. Projects in situations of urgent need of assistance or capacity constraints: Disbursements under contracts for goods, works, non-consulting services and consulting services procured or selected through international open or limited competition or Direct Selection, as set out in the procurement plan, must be made only through Direct Payment and/or Special Commitment disbursement methods.

76. **Retroactive Financing.** Retroactive financing is available for Eligible Expenditures under Category (2), in an amount not to exceed 40% of the Loan amount, for expenditures incurred on or after January 1, 2020.

77. IDA fund will be disbursed under the following categories:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of taxes)
(1) Goods, non-consulting services, consulting services and Incremental Operating Costs for the Project	4,200,000	100%
(2) Sub-loans under Part A of the Project	24,000,000	100% of amounts disbursed
(3) Emergency Expenditures under Part D of the Project	0	
<b>TOTAL AMOUNT</b>	28,200,000	

### Reporting and Monitoring

78. The six-monthly interim unaudited financial report (IUF) will be prepared by DOSMEP on a cash basis in the form and substance acceptable to the Bank. The IUF will also summarize project progress and provide variances analysis. Such reports will be prepared on a timely basis and be submitted to the Bank within 45 days after the end of each six-month period starting from the end of the first period after disbursements begin. The format of the IUF will be discussed and included in the POM.

### External Audit

79. The project's annual financial statements will be audited in accordance with International Standards on Auditing by independent qualified auditors based on acceptable terms of references to the Bank. As part of the project's annual audit, additional review (agreed upon procedures) will be conducted on PFIs to verify the existence of the loan and review on a sample basis, the financial records of the MSMEs to ensure loans obtained were used for intended purposes. The audit report, management letter, and report on factual findings will be submitted to the Bank within six months after the end of each fiscal year, and the closing date of the project. DOSMEP will be responsible for engaging and managing the audit contract. The auditors will be appointed

within three months after project becoming effective. The cost of the audit will be financed from IDA credit.

## 7. Procurement Procedures

80. Procurement for the project other than under the LOC will be carried out in accordance with the ‘The World Bank Procurement Regulations’ for IPF Borrowers (*Procurement in Investment Project Financing - Goods, Works, Non-Consulting and Consulting Services, July 2016, Revised November 2017 and August 2018*) introduced by the Bank under the Procurement Framework and ‘*Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants*’, revised as of July 1, 2016; and the provisions stipulated in the respective Legal Agreements of each project. Approaches to national markets (request for bids and request for quotations) will be carried out in accordance with the national regulations, including the Lao PDR Law on Public Procurement, No. 30/NA November 2, 2017, Instruction on Implementation of Law on Public Procurement, No.0477/NA February 13, 2019, and harmonized bidding documents and request for quotations for procurement of works, goods, and non-consulting services agreed with the Bank. For procurement approaching international market, World Bank standard procurement documents will be used. Under the project, the World Bank’s planning and tracking system called ‘Systematic Tracking of Exchanges in Procurement (STEP)’, will be used to prepare, clear, and update Procurement Plans (excluding the sub-loan) and conduct all procurement transactions for the project. All ToRs will be subject to prior review by the World Bank. MSMEs borrowing under the LoC will follow the procedures specified in section 7.1 below, for the procurement of goods, works, non-consulting services, and consulting services which is specified below for sub-loans.

81. **Procurement strategy and procurement approach.** DOSMEP has prepared a PPSD<sup>9</sup> for the project with support from the World Bank team, and the document is available in separate project files. The PPSD presents how procurement activities will support the development objective of the project and deliver the best value for money under a risk-based approach. In addition, the PPSD includes the rationale for procurement decisions, including selection of the approach to market and procurement methods. The PPSD and the Procurement Plan of the project shall be regularly updated as appropriate during project implementation.

82. **Procurement Plan.** Based on the PPSD, an initial Procurement Plan covering the first 18 months of project implementation has been developed. The initial Procurement Plan is available as a separate project document that will be updated at least annually, or as needed, to reflect the current status of implementation of each procurement activity/contract or to modify/delete or add activities/contracts. Updates of the Procurement Plan will be submitted to the World Bank for its review and approval before implementation. Contracts below the prior review thresholds as captured in the approved Procurement Plan shall be subject to post review by the World Bank team on an annual basis, in accordance with the procedures set forth in the Procurement Regulations. The sampling rate of post review is at least 10 percent of the total World Bank-financed contracts awarded across the World Bank portfolio that have not been subject to prior review by the World Bank.

### 7.1 Procurement Section for Sub-loans:

83. **Procurement Planning for Sub-loans:** It is expected that each sub-loan will have a procurement plan indicating the particular contracts for the procurement of goods, works, non-consulting services, and consulting services in the sub-loan application. A sample plan format is provided in attachment 2 (table 1.1). The PFIs will keep the records of all completed procurements in their files. The DOSMEP will consolidate the updated information obtained from all PFIs and provide it to the World Bank whenever requested.

84. **Procurement under Commercial Practices:** For the procurement of goods, works, non-consulting services, and consulting services follow the Private Sector Methods or Commercial Practices which is well-established by the PFIs. The acceptable commercial practices will be considered in following principles:

- Organizational arrangements of the sub-borrower to conduct procurement shall take into consideration the need for economy and efficiency of the various procurement activities;

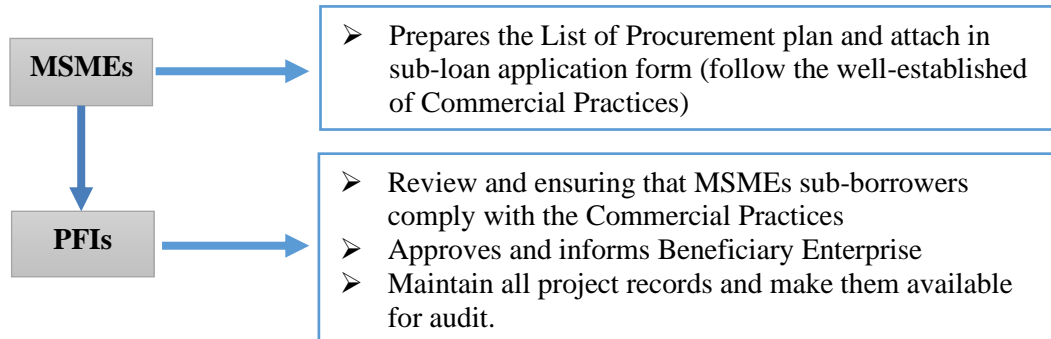
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<sup>9</sup> A copy of the PPSD is in the PMU Project files.

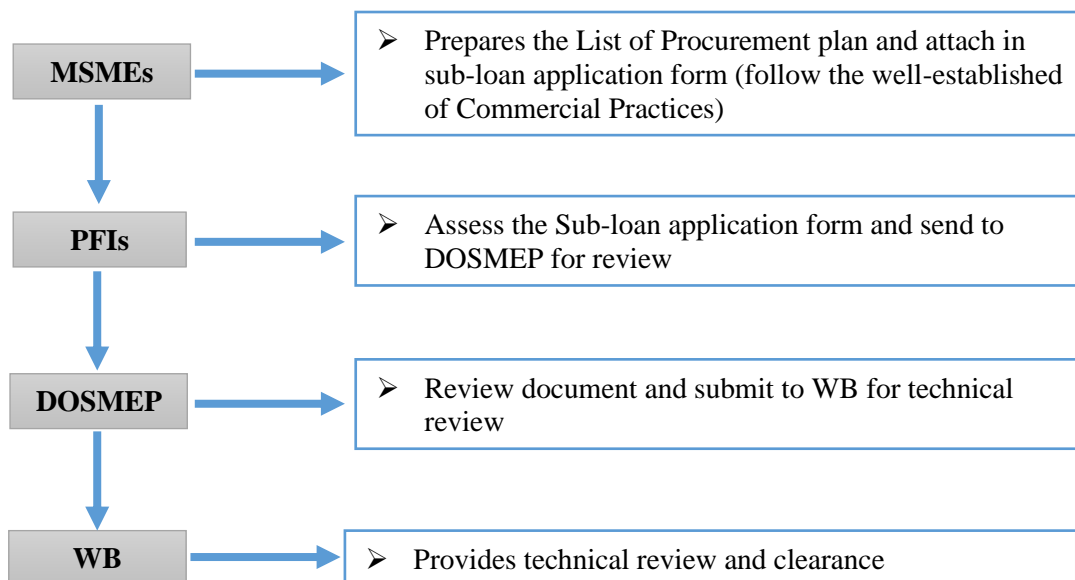
- As far as practical, the sub-borrower will observe competitive bidding procedures seek bids/quotations from a list of potential suppliers and contractors broad enough to ensure competitive prices. To this end, sub-borrower may select, develop and maintain reliable list of suppliers and contractors by prescreening procedures; approve vendor' lists; and use preferred item lists, prequalified products, etc., and such lists should be updated from time to time;
- Although not mandatory, advertising bidding opportunities in the local press is the best practice especially for large value procurement;
- In principle, evaluation and selection of suppliers and contractors will be based on consideration of price, quality, reliability and performance and as appropriate the contract award shall be made to the lowest responsive and qualified bidder;
- The procurement form including a request for quotation, evaluation, contracts and etc. are based on the practical and acceptable by the PFIs.
- Goods and Works contracts between sub-borrowers and their subsidiary or affiliated companies will not be eligible for financing out of the Project;
- Contracts may be placed by the sub-borrower based on single source in cases where benefit of competition has been considered and rejected for sound reasons. Some examples where single source selection may be considered with proper justification are: (i) repeat purchases and purchasing additional quantities or additional works; (ii) when equipment and machinery is needed for expansion of existing facilities; (iii) for the sake of the standardization and minimization of the operation and maintenance cost; (iv) when there is no interest from other suppliers or contractors; (v) a previous successful contract performance; (vi) other commercial reasons decided by all shareholders in writing;
- Very small amount procurements (less than US\$10,000 equivalent) may be ordered through the telephone or verbally, but in all cases supported by and invoice, quotation, purchase order or other official document acknowledging the purchase. In such cases responses from the bidders should be kept and become part of contract file, as appropriate;
- The procurement of land or second-hand goods shall not be eligible for financing out of the Loan;
- No contract will be financed with a firm which is not eligible under World Bank financing under paragraph 3.23 of the Bank Procurement Regulation;
- All complaints received by the sub-borrowers will be recorded at the PFIs and DOSMEP. DOSMEP will report all complaint cases and the responses in the progress report.

## Commercial Practice Process Flow

If the contract is subject to Post review proceed as below



If the contract is subject to IDA’s technical review, proceed as below



### 7.2 Review Procedures:

85. DOSMEP are responsible for all procurement oversight for the management of the Project. PFIs staff will review the proposed sub-project, procurement plan and contracts at appraisal and implementation stage of the sub-projects to confirm their consistency with the Project Financing Agreement and the Project Operation Manual.

86. The sub-borrowers will check the eligibility of a supplier or bidder before awarding or signing any contract. The sub-loan agreements of PFIs on the eligibility of a supplier or bidder will refer to paragraph 3.23 of the Bank Procurement Regulation. No contract signed with a firm declared ineligible by the World Bank will be financed through the Loan.

### 7.3 Fraud and Corruption:

87. It is the Bank’s policy to require that Borrowers (including beneficiaries of Bank loans and grants), bidders, suppliers, contractors and their agents (whether declared or not), sub-contractors, sub-consultants, service providers or suppliers, and any personnel thereof, observe the highest standard of ethics during the procurement and execution of Bank-financed contracts.<sup>10</sup> In pursuance of this policy, the Bank: Defines, for the purposes of this provision, the terms set forth below as follows:

- (i) “Corrupt practice” is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party;<sup>11</sup>;
  - (ii) “Fraudulent practice” is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation;<sup>12</sup>
  - (iii) “Collusive practice” is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;<sup>13</sup>
  - (iv) “Coercive practice” is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party;<sup>14</sup>
  - (v) "Obstructive practice" is:
    - (aa) deliberately destroying, falsifying, altering, or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive or collusive practice; and/or threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or
    - (bb) acts intended to materially impede the exercise of the Bank’s inspection and audit rights provided for under paragraph 1.16(e) below.
- (b) will reject a proposal for award if it determines that the bidder recommended for award, or any of its personnel, or its agents, or its sub-consultants, sub-contractors, service providers, suppliers and/or their employees, has, directly or indirectly, engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices in competing for the contract in question;
- (c) will declare mis-procurement and cancel the portion of the loan allocated to a contract if it determines at any time that representatives of the Borrower or of a recipient of any part of the proceeds of the loan engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices during the procurement or the implementation of the contract in question, without the Borrower having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur, including by failing to inform the Bank in a timely manner at the time they knew of the practices;

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<sup>10</sup> In this context, any action to influence the procurement process or contract execution for undue advantage is improper.

<sup>11</sup> For the purpose of this sub-paragraph, “*another party*” refers to a public official acting in relation to the procurement process or contract execution. In this context, “*public official*” includes World Bank staff and employees of other organizations taking or reviewing procurement decisions.

<sup>12</sup> For the purpose of this sub-paragraph, “*party*” refers to a public official; the terms “*benefit*” and “*obligation*” relate to the procurement process or contract execution; and the “*act or omission*” is intended to influence the procurement process or contract execution.

<sup>13</sup> For the purpose of this sub-paragraph, “*parties*” refers to participants in the procurement process (including public officials) attempting either themselves, or through another person or entity not participating in the procurement or selection process, to simulate competition or to establish bid prices at artificial, non-competitive levels, or are privy to each other’s bid prices or other conditions.

<sup>14</sup> For the purpose of this sub-paragraph, “*party*” refers to a participant in the procurement process or contract execution.

- (d) will sanction a firm or individual, at any time, in accordance with the prevailing Bank's sanctions procedures,<sup>15</sup> including by publicly declaring such firm or individual ineligible, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; and (ii) to be a nominated<sup>16</sup>;
- (e) will require that a clause be included in bidding documents and in contracts financed by a Bank loan, requiring bidders, suppliers and contractors, and their sub-contractors, agents, personnel, consultants, service providers, or suppliers, to permit the Bank to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Bank.”

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<sup>15</sup> A firm or individual may be declared ineligible to be awarded a Bank financed contract upon: (i) completion of the Bank's sanctions proceedings as per its sanctions procedures, including, inter alia, cross-debarment as agreed with other International Financial Institutions, including Multilateral Development Banks, and through the application of the World Bank Group corporate administrative procurement sanctions procedures for fraud and corruption; and (ii) as a result of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding. See footnote 14 and paragraph 8 of Appendix 1 of these Guidelines.

<sup>16</sup> A nominated sub-contractor, consultant, manufacturer or supplier, or service provider (different names are used depending on the particular bidding document) is one which has either been: (i) included by the bidder in its pre-qualification application or bid because it brings specific and critical experience and know-how that allow the bidder to meet the qualification requirements for the particular bid; or (ii) appointed by the Borrower



## 8.Environmental and Social Due Diligence Process

88. The World Bank support for this Project requires that the Participating Financial Institutions integrate into their lending operations (funded under the Project) the requirements of environmentally and socially sound and sustainable development as identified in laws and regulations of Lao and the applicable World Bank Operational Policies. To ensure that the potential E&S risks are adequately screened and mitigated, an Environmental and Social Management System (ESMS) has been prepared by the PMU (see ANNEX 1) to be consulted and disclosed within 45 days after the project effectiveness date and before the approval of any subproject under Component 1. The ESMS of each PFI, consistent with the project's ESMS, needs to be prepared and disclosed before the beginning of operations. The ESMS will include at a minimum the following components: (a) the PFI E&S policy; (b) clearly defined E&S procedures and capacity to screen subprojects (application of exclusion list, review of industry sector and technical aspects of each subproject) and conduct due diligence to evaluate E&S risk and assign risk categories (low, moderate, substantial and high); the ESMS will be prepared including subproject screening and assessment of potential risks and impacts related to ESS 1, 2, 3, 4, 7, and 10; the project's ESMS will include an exclusion list which will explicitly exclude subprojects involving substantial- and high-risk activities; (c) systems/processes for due diligence within the PFI to evaluate, monitor, review, and manage E&S risks and impacts of the subprojects will evaluate the E&S performance of ongoing subprojects and the portfolio on a periodic basis; (d) organizational capacity and competence, including a budget and a senior management position designated for reporting on the ESMS as well as providing training and capacity building on ESMS procedures and performance; (e) procedures to update the ESMS; (f) the project's Labor Management Procedure (LMP) aligned with ESS 2, including provision on OHS and measures related to emergency preparedness; and (f) external communications mechanism, including a Stakeholder Engagement Plan and a Grievance Mechanism.

89. In addition, the ESMS will specifically include the project's exclusion list which will explicitly include projects involving substantial- and high-risk activities/sectors, such as involuntary resettlement; infringement of natural and critical natural habitats; production or commercialization of any product or activity considered illegal according to the laws or regulations of Lao PDR; negative impacts caused to cultural heritage assets; production or trade of alcoholic beverages (except beer and wine); production, trade, storage, or transport of large volumes of hazardous chemicals; and any dams that would be considered a high or substantial risk to support.

90. During the implementation stage of this project, all candidate subprojects will be screened by PFIs against the project's exclusion list of the ESMS, categorized and assessed for their E&S risks and impacts before financing under the project. Since a relevant amount of the FI subprojects are likely to cause minimal or no adverse environmental or social risks or impacts, it is expected that in all subprojects, the FI will apply the national environmental, labor, and social laws and regulations (following paragraph 9 of the –ESS 9). In some subprojects that ESS 1, 2, 3, 4, 7, and 10 are relevant, PFIs will need to ensure that those MSMEs will apply relevant standards and its guidance in ESMS.

91. The PMU and each PFI will assign both a senior management representative to have overall accountability for E&S performance and a staff member or consultant as E&S Focal Point to manage the day-to-day implementation of ESMS. The Terms of Reference of the E&S Focal Point, including the required technical skills and experience, will be included in the ESMS and POM. The PFIs and DOSMEP/PMU will disclose relevant project information during project preparation and implementation to promote transparency and accountability in the use of the project's funds.

92. In case the CERC is activated, activities envisaged under the CERC will be similar in nature and design to those activities under the project and will follow similar eligibility criteria and exclusion lists to be implemented by PFIs in line with the same ESMS and implementation arrangement under this project. A CERC Operations Manual and CERC provisions in the ESMS will be prepared and approved through a Risk Sharing Agreement (RSA) before CERC activation to govern the operation of the CERC. This manual

will be aligned with the ESMS and include provisions to ensure E&S due diligence in line with the requirements of the ESF.

93. The draft Stakeholder Engagement Plan (SEP) and Environmental and Social Commitment Plan (ESCP), including a summary in Lao language, was disclosed on DOSMEP's web page on August 22, 2020 (<http://dosmep.org/download-info-2/>). An introductory consultation meeting was held in Vientiane on the June 19, 2020. The main objective of that meeting was the presentation of the initial E&S aspects of this new project. The meeting was chaired by DOSMEP, and different public and private stakeholders joined and participated. The second round of consultations was carried out on August 24, 2020, to present and discuss the project's draft SEP and ESCP. The feedback provided by the consulted stakeholders has been addressed in updated versions of both documents and disclosed on the GoL (September 10, 2020) and World Bank (September 14, 2020) websites.<sup>17</sup>

## 1.2 E. Citizen Engagement, Gender, and Climate

94. The project will incorporate a citizen engagement feedback loop by surveying a sample of MSME beneficiaries of the LoC, BDS and safeguards consultancies, and PFI beneficiaries of TA. A citizen engagement questionnaire will be provided to a subset of beneficiaries and designed to assess overall satisfaction of services including ease of access, quality, process, disclosure, and so on. This activity will be led by an independent consultant recruited by the project. The survey results and the report will be shared by the PIU and will contain proposed recommendations for project adjustments informed by citizen feedback. The citizen engagement survey will be complemented by a separate impact assessment as was done under the current SME A2F Project. The Results Framework in Section VII contains two intermediate indicators to monitor citizen engagement (“Percentage of beneficiaries that feel project activities reflected their needs”) and grievance redress mechanism (“Percentage of complaints handled from Grievance Redress mechanism in place (disaggregated by number/percent of women”).

95. The completed tracer studies (impact assessments) of the TA to SMEs and PFIs under the current SME A2F Project yielded useful knowledge to inform preparation of this project. For the TA to SMEs, the project learned that the accounting training was particularly helpful. Many SMEs reported upgrading accounting systems following the training. The training to PFIs revealed that senior management commitment is essential to encourage banks to adopt SME lending strategies. As a result, banks have been required to sign a memorandum of understanding to participate in the second round of training. Finally, the studies revealed that one-third of sub-loan beneficiaries are ‘micro’ businesses (1–5 employees), and thus this project has included ‘micro’ businesses in the project scope. An assessment of E&S capacity building also produced informative results, including the fact that compliance by SMEs is costly and requires capacity. This project will address this by offering consultancy services to SMEs to facilitate compliance with E&S.

96. **Gender.** Temporary business closure due to COVID-19 has created a liquidity crisis for a vast majority of businesses, and most of them do not have the resources to remain operational for long. In Lao PDR, women own or run about a third of the country’s SMEs (IFC). Global Findex Database 2017 shows that while women have more access to a financial transaction account (32 percent) versus men (26 percent), only 8 percent of women borrow from a financial institution compared to 10 percent of men, which could be due to the larger share of women working in the informal sector. The LNCCI survey on the impact of COVID-19 found that women respondents are slightly more likely to perceive a high risk of ceasing business operations (52 percent vs 48 percent for men). A World Bank survey from July 2020 suggests 8.4 percent of household businesses (and 15.4 percent of small household businesses) are temporarily or permanently closed and many are experiencing a fall in revenue. From all sectors, the hospitality sector (dominated by women) and transport sector were hardest hit (combined 12.6 percent). Also, in the hospitality sector 52 percent of respondents lost their job. In Lao PDR, women often run small businesses to top up low salaries.

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<sup>17</sup> See <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/991411600116950640/appraisal-environmental-and-social-review-summary-esrs-micro-small-and-medium-enterprise-access-to-finance-emergency-support-and-recovery-project-p174169>; <http://dosmep.org/download-info-2/>.

The World Bank survey found that less women are with the same job as compared to men, with more women changing their jobs (4.5 percent versus 3.2 percent for men) or currently not working (12.6 percent versus 9.7 percent for men). Of those who have stayed employed (non-farm employee and own account worker), more women had a lower income (35.7 percent versus 26.3 percent for men). These new economic inequalities go along with increased food prices, which reportedly affected 70 percent of households; 36 percent of these households indicated reduced food consumption, which is likely to disproportionately affect women and children. Job loss was mainly compensated by engaging in additional income-generating activities (34.9 percent), less so from savings (10 percent). According to IFC, many banks in Lao PDR—like those in other emerging market countries—either feel there is no need for a different approach to women entrepreneurs or view their businesses as less profitable and higher risk. There is a risk that without a focus on women-owned/led MSMEs, access to credit programs may underserve women-owned/led MSMEs who are at a high risk of closure due to COVID-19.

97. As noted, under the original SME A2F Project, women-owned businesses accounted for 59 percent of sub-loan beneficiaries, and the new project will continue to ensure that focus by setting targets for project beneficiaries to be at least 50 percent women. The project will also closely coordinate with the Lao PDR Competitiveness and Trade (LCT) Project, also implemented by the MOIC which recently endorsed a Gender Action Plan. The plan is designed to gain a better understanding of gender-specific challenges for women-led enterprises, provide support through capacity building of key staff and partner institutions, and directly support business owners and traders. This coordination will inform the project on how it could address gender disparities in access to finance.

98. **Climate change** - The project was assessed for climate co-benefits and based on the envisaged project activities it could not be assigned climate co-benefits.

## I. GRIEVANCE REDRESS SERVICES

99. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

100. The role and responsibility of key stakeholders under this project are as follows:

101. DOSMEP under the MOIC is responsible for the management of MSME services and will be responsible for the implementation of the project. TA will be provided as part of Component 3 to build knowledge and develop the capacity of DOSMEP, PFIs, and MSMEs to ensure effective implementation of the ESCP.

101. DOSMEP will have overall responsibility for project execution, including implementation of the ESCP. Although the day-to-day implementation of the ESCP is delegated to PFIs (LoC) and DOSMEP's role will primarily be on compliance monitoring and reporting to the World Bank Group, DOSMEP assumes an overall responsibility under the project to ensure that PFIs and MSMEs implement the ESMS and ESCP.

102. PFIs will be responsible for preparing the ESMS, updating it as necessary, and implementing the ESMS. PFIs will conduct screening of individual transactions for eligibility against the exclusion list, including the list

of ineligible activities, and screening of transactions to determine E&S issues and impacts, categories, relevant ESS, and the transaction-specific instruments and measures that need to be put in place by the MSMEs to manage these impacts. PFIs will also monitor the implementation of the measures committed by the MSMEs and regularly report compliance to DOSMEP and the World Bank. MSMEs will be responsible for ensuring that their transactions meet the eligibility criteria and managing E&S impacts through the preparation and implementation of measures, including consultations and disclosure of specific safeguard instruments.

#### *Monitoring and Evaluation (M&E)*

103 The project includes assistance to DOSMEP to carry out an appropriate impact assessment of the project. The World Bank will evaluate progress on the project indicators through regular reporting by DOSMEP, and PFIs and through supervision missions. DOSMEP will submit semi-annual IUFR and quarterly progress reports, including annual output and outcome indicators. The data will come from internal DOSMEP and reports provided by the PFIs and DOSMEP. DOSMEP will get assistance to have sufficient capacity to ensure provision of the monitoring data.

104 **Other safeguards.** The project is deemed to comply with the Bank's Safeguards Policy on OP 10.00 FIL, which is required in accordance with the World Bank's internal procedures for all credit lines proposed under World bank-financed operations.

**Environmental & Social Management System**

**MSME Access to Finance - Emergency and Recovery Support Project  
(MSME A2F - ERS Project) (P174169)  
Working Draft Version  
*January 4<sup>th</sup>, 2020***

## **E&S Policy**

Micro, Small and Medium Enterprises (MSMEs) play an important role in the Lao PDR economy, accounting for around 99 percent of registered firms, and the bulk of the informal economy, estimated to account for 30 percent of the economy.

Department of Small and Medium Enterprise Promotion (DOSMEP) and the Participating Financial Institutions (PFIs) believe that environmental protection and social development are among the most pressing issues facing the world today. Therefore, we regard sustainable and social development as fundamental aspects of sound business management.

Consequently, we are committed to continuing the integration of environmental and social aspects into our business activities and those with whom we have a relationship with. To implement, we have developed an Environmental and Social Management System (ESMS). Under this DOSMEP and the PFIs will work to support the following policy objectives:

- There will be no financing of excluded activities, as defined in this ESMS;
- Committing that the operations of borrowers are adequately assessed against the environmental & social requirements as defined by the applicable environmental & social national and local laws and regulations in Lao PDR and require compliance;
- Environmental and social risk management is adequately integrated into the credit review cycle to ensure they are all screened for environmental & social risks and impacts;
- Ensuring that there a designated people with role sand responsibilities to support the implementation of the ESMS;
- Ensure that updates to the ESMS are made as required; and
- We report as required to our stakeholders on ESMS implementation.

***[Add sign off e.g. Director General DOSMEP]***

***[Date]***

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## Introduction

COVID-19 is one of several emerging infectious diseases (EID) outbreaks in recent decades that have emerged from animals being in contact with humans, resulting in major outbreaks with substantial public health and economic impacts. The last moderately severe influenza pandemics were in 1957 and 1968; each killed more than a million people around the world. MSMEs have been greatly impacted by economic disruptions resulting from the ongoing COVID-19 crisis.

This Environmental & Social Management system (ESMS) is for the Lao PDR Micro, Small, and Medium Enterprise (MSME) Access to Finance Emergency and Recovery Project (P174169) (the Project) and is planned to be a continuation of the existing World Bank funded project Lao PDR – Small and Medium Enterprise Access to Finance Project (P131201), which is being successfully implemented by the Ministry of Industry and Commerce (MOIC) and commercial banks in Lao PDR.

This Project is implemented under the World Bank’s new Environmental and Social Framework (ESF), which was officially endorsed and launched in October 2018. One of the objectives of the ESF is going beyond the traditional “*do no harm*” approach to avoiding, minimising and managing environmental and social (E&S) risks, and maximising developmental gains.

The Project aims to increase and enhance access to finance for MSMEs in the context of the COVID-19 emergency and recovery. It will achieve this through a combination of lines of credit to MSMEs (for emergency and recovery phases of the crisis), intermediated through select financial institutions, to MSMEs. The Project will also invest in strengthening the capacity of financial institutions to implement crisis management strategies and develop MSME finance business strategies, technical assistance to support MSMEs obtain access to finance, and capacity building to DOSMEP to strengthen its ability to formulate and implement policies to promote MSME development. Whilst the Project is focusing on emergency response to the crisis, it will also have a longer-term impact on the economic recovery by providing a flexible approach to addressing financial needs of the MSMEs during the crisis and in the recovery phase.

The Project is planned to be a continuation of the existing World Bank’s funded project Lao PDR – Small and Medium Enterprise Access to Finance Project (SME A2F) (P131201), which is being successfully implemented by the Ministry of Industry and Commerce (MOIC) and four commercial banks. Most SMEs under existing project are located in Vientiane and Vientiane Capital, this project will also provide support to rural area of Lao PDR. The exact location of the MSMEs to be financed will not be known until implementation.

The target beneficiary MSMEs under the Project are registered micro (1-5 employees, small (6-50 employees) and medium private enterprises (51 to 99 employees) operating in Lao PDR that have been in business for at least two years and wish to sustain their business activities. Based on the SME A2F experience, it is anticipated that the majority of beneficiary MSMEs are in the trade, manufacturing, and service sectors (for SME A2F out of total approved sub-loans to 169 MSMEs, 53% were for trade sector, 33% for service sector, 8% for industry sector, 3% for agriculture sector and 3% were for handicraft sector. 72 sub-loans were to microenterprises, 93 to small enterprises and 4 to medium sized enterprises. Targeted of service sectors under this Project include: (i) Farming and livestock; (ii) Agriculture processing (iii) Handicrafts; and (iv) Tourism. Specifically, beneficiary MSMEs are expected to comprise of the following private business types: pre-existing restaurants, coffee shops, small scale resorts, grocery shops, fish farms, pig farms, mobile shops, silk weaving shops, travel agencies, private tour operators, production and distribution of construction materials stores, steel form work rental service, clothing store, shoes shops, gold/jewellery shops, car service shop, furniture shops, mini marts, pottery manufacture, aluminium frame and glass partition shops, etc.

In addition, as some additional context on the sectors that Lao PDR promotes, in accordance with the Decree on SME promotion fund No.299/Gov dated 4<sup>th</sup> September 2019, are:



- Industrial processing of agricultural products;
- Handicrafts;
- Agriculture, plantations and animal husbandry; and
- Tourism.

Types of activities to be financed under the Project are anticipated to be:

- Working capital needs (loans for payment of salaries, marketing costs, audit and accounting costs);
- Acquisition of new transportation equipment (automobiles, trucks, other specialised equipment, and replacement parts);
- Acquisition of communications equipment (phone and fax equipment, computers, printers, servers, software, other hardware, etc.);
- Purchase of construction materials for shops selling construction material, building of warehouses or renovation of existing physical premises on the land fully owned by the MSMEs;
- Purchase of feed stock, and feed mixer machine; and
- Acquisition of fixed assets (industrial machines, refrigerators, industrial equipment, replacement parts, tools and equipment, quality labs, etc.).

Under this Project, the MOIC, through its Department of Small and Medium Enterprise Promotion (DOSMEP) is the single project's Project Management Unit (PMU), so it is taking the responsibility to facilitate the implementation of the ESMS by the participating commercial banks (Participating Financial Institutions (PFIs)).

Under the Environmental and Social Commitment Plan (ESCP) the Project is required to ensure a number of aspects are fulfilled including:

- DOSMEP establishes and maintains a unit (within DOSMEP) to take on overall responsibility for Project implementation, including implementation of the ESCP with qualified staff and resources to support management of E&S risks and impacts of the Project including ensuring there is a nominated E&S Focal Point who is responsible for the monitoring of the implementation of the ESMS, and a senior management representative;
- The PFIs will prepare and implement an ESMS consistent with this ESMS (this may be through adopting this ESMS) and assign both a senior management representative to have overall accountability for environmental and social performance and a staff member as an E&S focal person to coordinate E&S requirements and implementation of the Project ESCP and ESMS; and
- The ESMS of the PFIs will meet the requirements of Environmental and Social Standard (ESS 9)<sup>18</sup> including ensuring there is the capacity to maintain it.

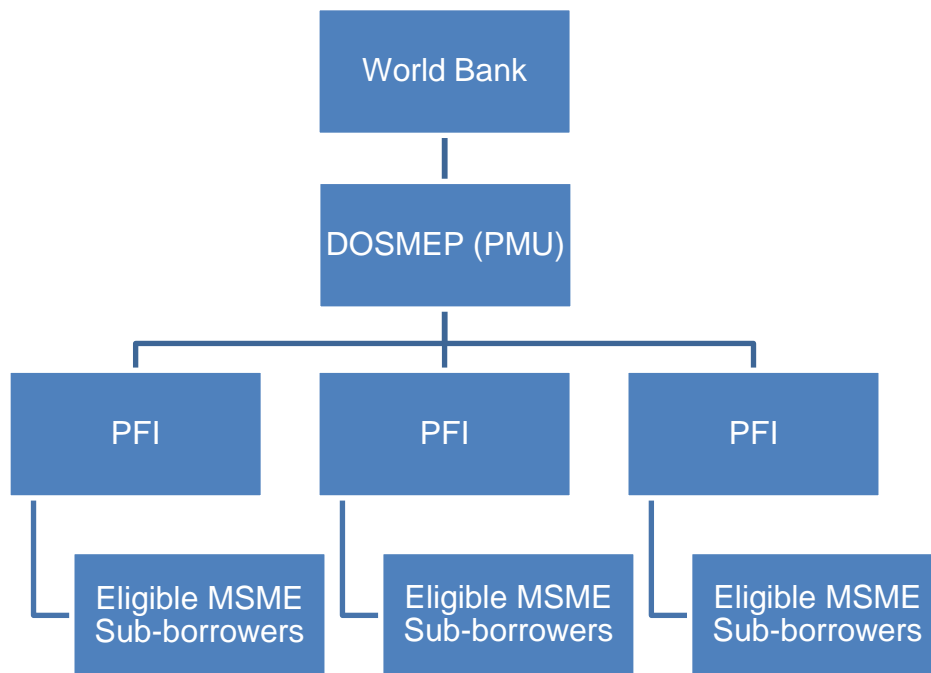
Reference in this ESMS are also made to other requirements including to:

- Stakeholder Engagement Plan (including a Grievance Mechanism); and
- Labour Management Procedures (see *Annex H*).

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<sup>18</sup> <http://documents1.worldbank.org/curated/en/484961530217326585/ESF-Guidance-Note-9-Financial-Intermediaries-English.pdf>

**Figure 1 Overview of the Project Structure for “flow through” of E&S Requirements**



**Overview of the Project Structure**

**Role of DOSMEP and ESF Capacity:**

DOSMEP was established in 2005 under Prime Minister Decree No. 42/2004, dated April 20, 2004, with the mandate to develop a national strategy and policies to promote SME development and to coordinate and supervise their implementation. DOSMEP is the Implementing Agency (IA) and will be directly responsible for the implementation of project components, and for day-to-day execution of activities of the Project. For component 1 Line of Credit, DOSMEP on behalf of MOIC, will conduct the due diligence of PFIs and sign Subsidiary Financing Agreements with the PFIs. DOSMEP has established a PMU headed by the Director General of DOSMEP, as the Project Director. For its day-to-day operations, the PMU has hired a Project Manager and will hire adequate staff, external consultants, and other resources necessary for the successful implementation of the Project.

It should be noted that DOSMEP was the implementing agency for the recently concluded Access to Finance Project, which also included a line of credit operation through participating financial institutions (PFIs). The safeguard implementation performance of all PFIs under supervision of DOSMEP are satisfactory. No non-compliance of the safeguard policies was found throughout the project. Three of the Lao PDR SME Access to Finance’s PFIs will be involved in under this Project. And the Director General of DOSMEP and the Project Manager as well as potential PFIs who had an experience working on the Lao PDR SME Access to Finance Project and keen on the Bank safeguard policies/procedures have received ESF training from the Bank Safeguard specialist during project preparation in 2020.

A summary of the responsibilities of DOSMEP, its PMU and the PFIs in relation to the ESMS is provided below:

DOSMEP responsibilities as apex institution under the Project included the following:

**Coordination and Information Management**

- Assessment and selection and monitoring of PFIs
- Administration of Subsidiary Financing Agreements (SFAs) between DOSMEP and PFIs
- Submission to the World Bank of sub-loan proposals requiring its prior review

**Advising PFIs and Beneficiary Enterprises**

- Providing assistance and proactive advice to PFIs and sub-borrowers on all aspects of the project, including terms and conditions, procurement, disbursement, **E&S safeguards procedures**, and M&E

### **Monitoring and Reporting**

- Ensuring compliance (including by all PFIs) with all the procedures prescribed in the POM and Project Financing Agreement
- Ensuring the maintenance of sub-loan files, in the headquarters of the PFI, ready for audit/review of DOSMEP and/or the World Bank
- Monitoring the eligibility of the SMEs based on the sub-loan agreements
- Reporting to the World Bank on the sub-loan portfolios with information on:
  - Sub-loan commitments, disbursements, delays, and problem loans;
  - Sub-loan portfolio performance aggregated and for the period;
  - A report on sample sub-loans reviewed indicating compliance with sub-loan eligibility criteria; and
  - Analysis of the sub-loan portfolio, with information on geographical distribution, sectors, size of SMEs, use of funds (investment/working capital), size and maturity of sub-loans/sub-leases, performance of subprojects, and so on.

### **PMU**

- Establish and maintain a unit within DOSMEP to take on overall responsibility for Project implementation, including facilitating implementation of this ESMS, SEP and GRM with qualified staff and resources to support management of ESMS at the PFIs, including ensuring there is a nominated E&S Focal Point<sup>19</sup> who is responsible for the monitoring of the implementation of the ESMS; Ensure that the ESMS that is implemented at each PFI will identify, screen, manage, and monitor the E&S risks and impacts of MSME sub-loans on an ongoing basis, commensurate with the nature and scale of their risks and impacts. Conduct spot-checking, support revising reports by PFIs. The first two sub-loans by any of the participating PFIs will be submitted to the Bank for prior reviewed by the Bank, thus giving an opportunity to check that the ESMS is working adequately;
- Support Participating Financial Intermediaries (PFIs) in meeting the ESMS requirements;
- Report material E&S events to World Bank that are received by the PFIs and submit an annual E&S report to World Bank that reports on the implementation of the ESMS at each PFI and the portfolio of sub-loans for each PFI; and
- Promptly report to the World Bank any significant accident/fatal incident. As soon as the PMU becomes aware of an alleged or actual incident, the PMU should promptly inform the World Bank of the incident and promptly provide information about the incident to the World Bank as well as further details as they become available. For any severe incident such as a fatality, incidents that caused or may cause great harm to the environment, workers, communities, or natural or cultural resources, incidents that may result in high levels of lasting damage or injury, incidents that requires an urgent and immediate response, etc., the PMU shall notify the World Bank within 24 hours after it becomes aware of the incident.

### **Role of the Participating Financial Institutions (PFIs) and their ESF capacity**

As mentioned above, three of the PFIs that participated under a former World Bank funded project will be participating under the current Project and are well versed in World Bank E&S procedures and will appoint focal point persons to handle E&S issues under the Project. In addition, DOSMEP and its PMU will provide training in E&S issues to the PFIs. The PFIs will be responsible for environmental assessment for sub-borrowers/sub-projects, and for ensuring that each sub-loan proposal includes process of screening environmental and social safeguards impact, develop mitigation measures to avoid and mitigate those impacts and documentation, as well as monitor to ensure effective implementation of the ESMF.

### ***Terms and conditions of subsidiary financing between DOSMEP and PFIs***

<sup>19</sup> DOSMEP nominated two staff (Mr. Vilayout Inmyxai as the focal point and Mr. Vannaseng Ounalom as the assistant)

- PFIs must start and remain in compliance with the eligibility criteria for PFIs as specified in the SFA to be signed between DOSMEP and the PFIs.
- PFIs will be responsible for ensuring that SME sub-borrowers comply with the well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the Association for the procurement of goods, works, non-consulting services, and consultant services under sub-loans, and applicable **Lao Law, Regulations and Legislations and World Bank E&S policies** and regulations, and the E&S safeguard requirements of the Financing Agreement and applicable safeguard instruments.
- PFIs will provide DOSMEP with a set of documentation for all sub-loans to enable it to maintain all project records and make them available for ex post review by the World Bank or by external auditors as necessary.
- PFIs and MSMEs will be required to provide reasonable information for the purpose of monitoring and an impact assessment during the life of the project (and for a certain period after the project), as may be requested by the World Bank and/or DOSMEP

### ***Roles and Responsibilities of PFIs related to ESMS***

- Establish and maintain a unit with a senior management representative to have overall accountability for environmental and social performance in addition to a staff member as an E&S focal person to coordinate E&S requirements and implementation of the ESMS;
- Develop an ESMS internal to allow the sub-loans to meet the E&S requirements of the Project;
- Ensure that sub-loans are screened and meet the requirements of the Exclusion List under the Project;
- Ensure that sub-loans are screened against the applicable local, provincial and national laws and regulations in Lao PDR and take measures to ensure (including site visits if necessary) to validate and document that the MSME loan applicant has appropriately identified in its loan application the activities and compliance with laws. If an applicant states that the necessary permits or licenses have not yet been issued, PFIs will advise the applicant to obtain the licenses and permits before loans can be approved;
- Monitor compliance of MSME beneficiaries in line with this Project requirements; and
- Submit to the PMU periodic reports on the development and implementation of the ESMS.

### **Objectives**

The ESMS is set out to identify, assess, manage, and monitor the environmental and social risks and impacts of sub-loans on an ongoing basis under the Project, taking into account the national and local laws and regulations in Lao PDR and the requirements of the World Bank. As such the key objectives are:

- To integrate E&S considerations into the lifecycle of sub-loans to eligible MSMEs (sub-borrowers) to ensure that E&S risks and impacts are consistently identified, screened, and managed;
- To set out the responsibilities for E&S risk and impact identification, assessment, decision-making, as well as monitoring and escalation; and
- To work with our the PFIs and the sub-borrowers to manage E&S risks and impacts and support ongoing capacity building in the implementation of the Project.

### **Applicable Standards and Guidelines**

The project is Financial Intermediary (FI) project. Beneficiary PFIs of Partial Credit Guarantee under component 1, and beneficiary MSMEs of Emergency Line of Credit (Component 2) in particular for the COVID recovery phase are expected to engage in diverse types of activities similar to existing project (farming and livestock, agriculture processing, handicrafts and tourism) which are likely to cause minimal

or no adverse environmental and social risk of impact due to small size of MSMEs and credit to be provided to MSMEs (not exceed 200,000 USD-the average size of credit of current project is 83,000 USD).

The potential negative project's environmental impacts (dust from rice mill, odor from pig farm, wastewater from restaurant, pig farm, fishpond, vegetable processing, etc.) are likely to be minor, localized and reversible due to its small scale of business and can be mitigated with simple measures and environmental and social good practices. No large scale, significant and/or irreversible impacts are financed under the proposed project. Similar to the current project that taking into an account clean technology (reducing water consumption in dyeing process, reducing flour for noodle factory, install biogas, bag house to reduce dust, etc.) the project will bring positive environmental and social benefits in terms of reducing pollutions from agriculture productions, reducing the GHG emissions, and reducing health risk for consumers by improving the food safety and quality, reducing health risk due to COVID-19 as well as utilization of water resources and energy effectively. With this environmental and social moderate risk rating, ESS9 as well as ESS 1, 2, and 10 are applied. To ensure that the potential E&S risks are adequately screened and mitigated, an ESMS will be prepared by each PFIs (or adopted this ESMS) and to be consulted and disclosed within 45 days after the project effectiveness date.

During the project implementation, all candidate sub-projects will be screened by PFIs against the project's exclusion list of this ESMS, categorized and assessed for their E&S risks and impacts prior to financing under the project. Since a relevant amount of the FI subprojects are likely to cause minimal or no adverse environmental or social risks or impacts, it is expected that in all subprojects, this PFI will apply the national environmental, labor and social laws and regulations. Each PFIs will assign both a senior management representative to have overall accountability for environmental and social performance plus a staff member or consultant as E&S Focal Point to manage the day-today implementation of ESMS. The PFIs and DOSMEP/PMU will disclose relevant project information during project preparation and implementation to promote transparency and accountability on the use of the project's funds.

The following are the standards at a minimum that the ESMS will apply to all transactions:

- Exclusion List (see Annex A Exclusion List);
- Applicable local, provincial and national laws and regulations (see Moderate Risk Activities
- 
- The potential adverse risks and impacts on human populations and/or the environment are not likely to be significant. This is because the Project is not complex and/or large, does not involve activities that have a high potential for harming people or the environment, and is located away from environmentally or socially sensitive areas. The project's risk and impacts can be easily mitigated in a predictable manner.

- Characteristics may include:
- Predictable and expected to be temporary and/or reversible;
- Low in magnitude;
- Site-specific, without likelihood of impacts beyond the actual footprint of the Project; and
- Low probability of serious adverse effects to human health and/or the environment (e.g. do not involve use or disposal of toxic materials/substances, routine safety precautions are expected to be sufficient to prevent accidents, etc.).

### 1.3

- [Relevant Laws in Lao PDR](#));
- Screening out of any substantial and high-risk activities (see Annex B Environmental and Social Risk Categorisation Guidance and Annex C);
- Monitor the sub-loans (see Annex E and G);
- Implement Labour Management Procedures (Annex H) and SEP as well as GRM.

As High or Substantial Risk sub-loans will not be financed under this project, Substantial and High-Risk activities are also described below. Note that given the nature of MSME financing these are not anticipated to be encountered, nonetheless should be confirmed with the application of the ESMS. Also see Annex B Environmental and Social Risk Categorisation Guidance. This also includes descriptions of the types of activities that would be eligible under the ESMS (Low and Moderate Risk activities). For clarity characteristics of Substantial and High-Risk activities are provided below.

### **Substantial and High-Risk Activities**

Characteristics may include:

- A range of significant adverse risks and impacts
- Mostly temporary, predictable and/or reversible, and the nature of the Project does not preclude the possibility of avoiding or reversing them (although substantial investment and time may be required) to long term, permanent and/or irreversible, impossible to avoid entirely;
- Possibility of avoiding or reversing but with substantial investment and time to some that cannot be mitigated or require complex, unproven mitigation, sophisticated social analysis
- Medium in magnitude and/or in spatial extent (the geographical area and size of the population likely to be affected are medium to large) to high in magnitude and/or in spatial extent (large to very large area or population);
- The potential for cumulative and/or transboundary impacts may exist;
- Medium to low probability of serious adverse effects to human health and/or the environment (e.g. due to accidents, toxic waste disposal, etc.) with known and reliable mechanisms to prevent or

minimize such incidents to a high probability of serious adverse effects to human health and/or the environment

- Effects of the project on areas of high value or sensitivity to impacts on higher value and sensitivity (e.g. protected and internationally recognized areas)
- High value, sensitive lands or rights of ethnic minorities<sup>20</sup> and other vulnerable minorities
- Involuntary resettlement or land acquisition
- Impacts on cultural heritage or densely populated urban areas
- the adverse social impacts of the project, and the associated mitigation measures, may give rise to a limited degree of social conflict, harm or human security risks
- A history of unrest in area or sector, concerns about use of security forces

#### 1.4 Moderate Risk Activities

The potential adverse risks and impacts on human populations and/or the environment are not likely to be significant. This is because the Project is not complex and/or large, does not involve activities that have a high potential for harming people or the environment, and is located away from environmentally or socially sensitive areas. The project's risk and impacts can be easily mitigated in a predictable manner.

- Characteristics may include:
- Predictable and expected to be temporary and/or reversible;
- Low in magnitude;
- Site-specific, without likelihood of impacts beyond the actual footprint of the Project; and
- Low probability of serious adverse effects to human health and/or the environment (e.g. do not involve use or disposal of toxic materials/substances, routine safety precautions are expected to be sufficient to prevent accidents, etc.).

1.5

#### 1.6 Relevant Laws in Lao PDR

All sub-loans provided need to be compliant with the provisions of legal framework of Lao PDR, (e.g. environment, social, health, safety & labour laws, construction and operation permits etc.) as such there is a need to screen to ensure that material aspects are met in addition to sub-borrowers confirming compliance with the relevant laws as part of the loan agreement.

Key relevant legislation includes:

- *The Environmental Protection Law (EPL) was issued in 2000 and revised in 2012.* The EPL (2012) covers the general requirements for effective 1) protection of natural and social environment including environmental quality; 2) management of control of pollutions, waste, and toxic substance

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<sup>20</sup> Ethnic minorities is a common local term in Lao PDR referring to what is described under ESS7 of the World Bank ESF Indigenous Peoples which is used in a generic sense to refer exclusively to a distinct social and cultural group possessing the following characteristics in varying degrees: (a) Self-identification as members of a distinct indigenous social and cultural group and recognition of this identity by others; and (b) Collective attachment to geographically distinct habitats, ancestral territories, or areas of seasonal use or occupation, as well as to the natural resources in these areas; and (c) Customary cultural, economic, social, or political institutions that are distinct or separate from those of the mainstream society or culture; and (d) A distinct language or dialect, often different from the official language or languages of the country or region in which they reside

from various sources; 3) environmental impacts caused by human or natural disasters; 4) environmental certification and permission, and 5) public participation.

- *National Environmental Standards Decree, 2017*, defines quality of air, soil, water, noise and vibration, pollutions, and measures for management and control.
- *Pollution Control Guidelines, 2015*, defines types of pollution, management and control, certification, monitoring, inspection and reporting of pollutions and management.
- *Polluted and Hazardous Waste Management Guidelines, 2015*, defined principles and management methods, monitoring and inspection, obligations, and responsibility for management of polluted and hazardous waste.
- *Law on Chemicals Management, 2015*, defined type of chemicals including hazardous chemicals, safety measures and prevention and solutions for accidents, businesses and management including licencing, monitoring, inspection, and responsibilities for chemicals management.
- *Law on Hygiene, Disaster Prevention and Health Promotion, issued in 2011 and updated 2019*, defines the principles, rules, measures and requirements for hygiene, disease prevention and health promotion. Particularly, it provides a regulation and guideline for hygiene practices for all group of people including labour and occupation, places and facilities, production, consumption and environmental health. Disease prevention includes immunization and prevention of communicable and infectious disease. Health promotion includes rules, measures and requirements for promoting health and quality of life of all group of people, nutrition, healthy environment and recreation.
- *Labour Law, adopted in 2006 and updated in 2013*, defines the principles, regulations and measures on administration, monitoring, labour skills development, recruitment, and labour protection. This labour law applies to all employers, registered and unregistered employees, Lao employees working for foreign organizations, and foreign employees working within the Lao PDR. Importantly, it defines a mandatory obligation for employers and other relevant parties on Labour Occupational Health and Safety (OHS) to protect labour health and safety, and labour accident and occupational diseases.
- *Law on Preventing and Combating Violence Against Women and Children (2014) Law on gender (2019) and Women Development and Protection (2004)*. These legislations provide regulations and measures to manage, prevent and address potential misconduct among civil servants including health workers and outsourced volunteers, community health and safety issues and risks associated with Sexual Exploitation and Abuse (SEA), Gender-based Violence (GBV) and Violence Against Children (VAC).
- *Law on Handling Petitions (2015)* provides provisions of objectives, principles and process of applying and handling different types of grievance, petition and complaints that may be raised by citizens.

### **Scope**

The provisions of the ESMS are applicable to the DOSMEP- PMU and all PFIs using funds provided by the Project.

- The DOSMEP PMU is the entity responsible to assist PFIs in preparing this ESMS, provide ESF training, supervising, monitoring and reporting of ESMS implementation by PFIs. PMU will also regularly update environmental and social information and PFIs portfolio Risk.
- The PFI is the entity responsible for adoption, localisation and implementation of the ESMS for eligible sub-loans and ongoing monitoring. The ESMS of each PFI, consistent with this ESMS, will need to be prepared and disclosed before the beginning of the operations of each PFI. The



ESMS of each PFI will apply to each of the sub-loans processed under the Project. There are no waivers or dispensations for its application.

### **ESMS Communication & Disclosure**

Ensuring awareness of relevant stakeholders (see the Stakeholder Engagement Plan) of the existence of the ESMS which supports its implementation, including to all relevant personnel at the PMU and PFIs.

The ESMS is available here:

- *[Add link]*

Each PFI will ensure that the PFI's ESMS is disclosed and available to relevant staff.

### **Training**

The MPU and PFIs are required to develop and maintain organisational capacity and competency for implementing the ESMS, with clearly defined roles and responsibilities. The PMU and PFIs will designate a representative of their senior management to have overall accountability for environmental and social performance of the sub-loans, including the implementation of this ESMS and Labour Procedures and resources necessary to support such implementation. The representative will: (a) designate a staff member to be responsible for day-to-day implementation of the ESMS, including the environmental and social procedures; (b) ensure that adequate resources are available for management of and training in environmental and social issues; and (c) ensure that adequate technical expertise, either in-house or external expert support, is available to carry out due diligence and manage the environmental and social risks of the PFI sub-loans, including providing implementation support as required.

DOSMEP and PFIs and other relevant implementing support staff responsible for the Project, including the E&S Focal Point, to receive training (mainly from consultants but, sometime, from the staff of the World Bank) on the Project's ESMS and SEP, GRM Labor Management Procedures, provisions to prevent sexual abuse (SEA), Gender Based Violence (GBV) and/or violence against children (VAC), and the roles and responsibilities of different key agencies in the ESF implementation.

Relevant online training courses (in English) are provided below:

#### **IFC Sustainability Training and E-Learning Program (STEP)**

This program has been designed for managers and staff of financial institutions (FIs) including banks, private equity funds, and others. This free e-training aims to help FIs better understand sustainable finance, social and environmental risk management and explore sustainability-related business opportunities.

It will take you approximately 3 hours to complete the free training. The bookmarking capability of this training will enable you to proceed at your own pace. You will be able to stop at any time and then begin where you left off at a later time. If you are experiencing technical difficulties, please email [olcsupport@worldbank.org](mailto:olcsupport@worldbank.org). In your email, please include the course name, a clear description of the problem and a screenshot if possible.

How to access the online course:

1. Please make sure to disable your web browser's pop-up window blocker (course is best viewed using Internet Explorer).
2. Go to <https://olc.worldbank.org>. If you have an OLC account, log in using your credentials. To create an account, follow the instructions in this [PDF tutorial](#).

3. Once you are logged in/your account has been set up, log in to the system with the following link: [https://wbg.sabacloud.com/Saba/Web\\_spf/NA1PRD0002/common/leclassview/dowbt000000000004082](https://wbg.sabacloud.com/Saba/Web_spf/NA1PRD0002/common/leclassview/dowbt000000000004082)

### **IFC Environmental and Social Management Systems and Tools for Financial Institutions Financing SMEs**

This one hour webinar offered an overview of the business case for sound environmental and social risk management. It focused on Environmental and Social Management Systems (ESMS) and E&S due diligence tools for financial institutions providing financing to SMEs, and discussed practical solutions to implementation challenges commonly faced by financial institutions in this area.

- [Recorded Webinar: Environmental and Social Management Systems and Tools for Financial Institutions Financing SMEs by Sandra Abiola](#)
- [Presentation: Environmental and Social Management Systems and Tools for Financial Institutions Financing SMEs by Sandra Abiola](#) [PDF]

### **IFC E-Learning Course on Managing Environmental and Social Performance**

Take this course and learn how you can **help your clients manage their environmental and social risks**, thereby having a positive impact on their bottom line, reputation and development impact.

The free course consists of four 15-minute modules within a single container module. At the end of each module, you will need to answer at least 4 out of 6 questions correctly to receive your certificate of completion.

If you experience any technical difficulties, please email [olcsupport@worldbank.org](mailto:olcsupport@worldbank.org).

How to access the online course:

1. Please make sure to disable your web browser's pop-up window blocker (course is best viewed using Internet Explorer).
2. Go to <https://olc.worldbank.org>. If you have an OLC account, log in using your credentials. To create an account, follow the instructions in this [PDF tutorial](#).
3. Once you are logged in/your account has been set up, log in to the system with the following link: [https://wbg.sabacloud.com/Saba/Web\\_spf/NA1PRD0002/common/leclassview/dowbt000000000004081](https://wbg.sabacloud.com/Saba/Web_spf/NA1PRD0002/common/leclassview/dowbt000000000004081)

### **[World Bank ESF Fundamentals](#)**

The “ESF Fundamentals” course delves into each of the ESF Environmental and Social Standards (ESS). It includes videos and two case studies with stakeholders demonstrating and sharing helpful approaches, mindsets and behaviours that are key to successful implementations of the ESF. It comprises 8 modules and takes about 8 hours to complete.

<https://www.worldbank.org/en/projects-operations/environmental-and-social-framework/brief/esf-training>

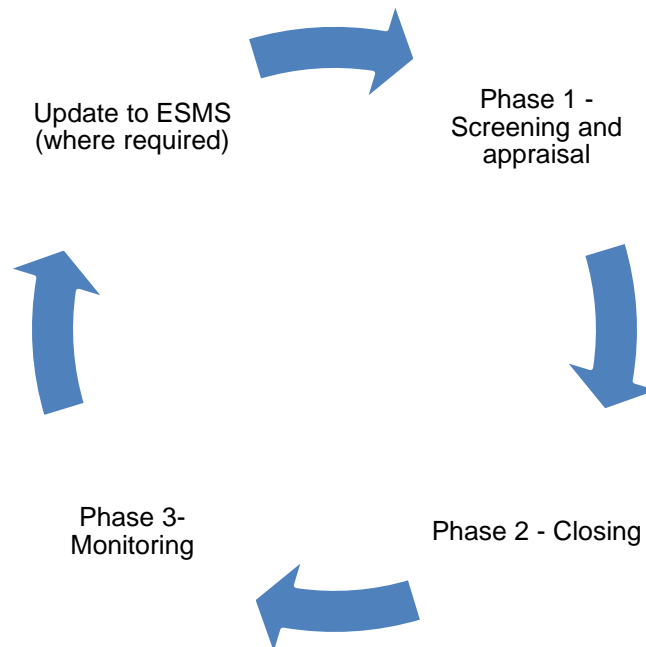
[\(Note that this includes requirements of the ESF that are not triggered by this Project.\)](#)

## Environmental & Social Procedure

The overall summary of the process of E&S review under the ESMS is set out below:

- **Phase 1 – Screening and Appraisal**
  - Screen against exclusion list activities
  - Categorise
  - Conduct an E&S appraisal of the sub-borrower
- **Phase 2 – Closing**
  - Confirm commitments in the loan agreement (and any actions required)
- **Phase 3 – Monitoring**
  - As part of regular monitoring follow-up on E&S aspects and also any E&S issues reported by the sub-borrower

**Figure 2 E&S Review Process**



The requirement is that this process is replicated internally by the PFIs so that this undertaken by them.

Details are further set out in the sections below.

### 1.7 Phase 1: Screening and Appraisal (for the PFI to conduct)

Entity	Responsibilities	Documents
Loan Officer	<ul style="list-style-type: none"> <li>▪ Screen a sub-borrower’s activities against the Exclusion List (in Appendix A).</li> <li>▪ If any excluded activities are identified, then the loan should proceed no further.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Completed screening assessment refer to Annex C Screening and</li> </ul>

Entity	Responsibilities	Documents
	<ul style="list-style-type: none"> <li>▪ If no exclusion list activities are identified, then the application can proceed to the next Phase.</li> <li>▪ Categorisation should be undertaken (see Annex B Environmental and Social Risk Categorisation Guidance) of the sub-borrower also see Table 1 below. <ul style="list-style-type: none"> <li>– Where “high” or “substantial” risk activities are identified, the sub-loan processing should not proceed. This includes an activity that requires an IEE or ESIA in Lao PDR.</li> </ul> </li> <li>▪ The sub-borrower must be able to demonstrate compliance with applicable local, provincial and national laws and regulations in Lao PDR, including permits and approvals). <ul style="list-style-type: none"> <li>▪ Where compliance cannot be demonstrated, an E&amp;S Action Plan must be agreed with the sub-borrower in order for the sub-loan to proceed. The plan must specify all of the necessary actions to bring the sub-borrower into compliance. A target completion date for each specified action must also be agreed. A template is included in Annex D Template Environmental and Social Action Plan.</li> </ul> </li> </ul>	Appraisal Format
<b>PFI E&amp;S Focal Point</b>	<ul style="list-style-type: none"> <li>▪ Provide input and support where required in screening of the sub-loan, including categorisation and identifying any gaps to be addressed.</li> </ul>	-
<b>Credit</b>	<ul style="list-style-type: none"> <li>▪ This is the last part of evaluation, and is required to confirm: <ul style="list-style-type: none"> <li>▪ No exclusion list activities (including high/substantial risk activities)</li> <li>▪ The E&amp;S risks have been appropriately understood, including the category, and where necessary a corrective action plan developed</li> <li>▪ Reject to provide loan (business or loan purpose exists in Exclusion List)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Reviewed screening assessment refer to Annex C Screening and Appraisal Format</li> </ul>

**Table 1 E&S Categorisation**

Category	Definition	Notes
<b>High Risk</b>	High Risk means any business activity which is likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented, and which includes, for the avoidance of doubt, activities involving (a) involuntary resettlement, (b) risk of adverse impacts on ethnic minorities, (c) significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage,	Not allowed to proceed under the ESMS.

Category	Definition	Notes
	or (d) significant occupational health and safety risks (risk of serious injury or fatality to workers).	
<b>Substantial Risk</b>	Substantial Risk means any business activity that is not as complex as High-Risk activities, however, has some significant risks and impacts with the possibility of avoiding or reversing but with substantial investment and time and may give rise to limited degree of social conflict, harm, human security risk.	Not allowed to proceed ESMS.
<b>Moderate Risk</b>	Moderate Risk means any business activity that has potentially limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. Impacts are often site-specific without likelihood of impacts beyond the activity's footprint and routine safety precautions are expected to be sufficient to prevent accidents.	Allowed, but requires review (see Annex C).
<b>Low Risk</b>	Low Risk means any business activity minimal or negligible risks to and impacts on human populations and/or the environment with few or no adverse risks and impacts and issues.	Allowed but should be straightforward to review (see Annex C).

*Note – also see Annex B for further detail.*

## 1.8 Phase 2: Closing

Entity	Responsibilities	Documents
<b>Loan Officer</b>	<ul style="list-style-type: none"> <li>▪ Review legal documentation in relation to E&amp;S related definitions, representations and undertakings, including the incorporation of any actions required to address gaps. Annex D Template Environmental and Social Action Plan.</li> <li>▪ Key inclusions of the legal agreement with the sub-borrowers are: <ul style="list-style-type: none"> <li>– Not to engage in any activities on the Exclusion List</li> <li>– To comply with all legal requirements.</li> <li>– To report to the PFI if there is a substantial change in the nature of the operations.</li> <li>– To report to the PFI if there are any material E&amp;S incidents.</li> <li>– (If required) to address any gaps identified.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Legal Agreement with E&amp;S inclusions for the sub-borrower</li> </ul>
<b>Credit</b>	<ul style="list-style-type: none"> <li>▪ Ensure that the legal agreement with the borrower meets ESMS requirements on E&amp;S aspects.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Legal Agreement with E&amp;S inclusions for the sub-borrower</li> </ul>

## 1.9 Phase 3: Monitoring

Entity	Responsibilities	Documents
<b>Loan Officer</b>	<ul style="list-style-type: none"> <li>▪ Ensure there is reporting of material adverse E&amp;S events. A template is included in Annex F Material E&amp;S Incident Report Template for the PFI to formally record these events. Examples of material E&amp;S incidents may include:               <ul style="list-style-type: none"> <li>– Major injuries or fatalities (employees, the general public or contractors);</li> <li>– Strikes or significant employee disputes;</li> <li>– Regulator action in relation to E&amp;S matters;</li> <li>– Spills, pollution incidents, fires, explosions; and</li> <li>– Etc.</li> </ul> </li> <li>▪ The category will determine the extent of monitoring and oversight required of the sub-loan during the post-financial close monitoring phase. Monitoring will               <ul style="list-style-type: none"> <li>– Low risk sub-loans do not require monitoring.</li> <li>– Medium risk sub-loans require straightforward follow-up to find out if there have been any significant changes in business activities, confirm ongoing compliance with the exclusion list and local requirements and any actions required to be addressed have been closed out. Monitoring will be undertaken annually. (If the sub-loan tenor is less than 12 months monitoring is not required.) Annual site visits to these transactions are also recommended.</li> </ul> </li> <li>▪ In the event of non-compliance in relation to E&amp;S matters (including material issues reported or a grievance raised) the PFI will seek to resolve the issue with the sub-borrower in order to address the issue. Actions will be documented, and the PFI will work with the sub-borrower to ensure that corrective actions are implemented. If the issue cannot be addressed through engagement, the PFI may seek to remedy the situation through available clauses in the loan documentation. Material developments will be reported to the PMU for onward reporting to World Bank.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annex F Material E&amp;S Incident Report Template</li> <li>▪ An example (that can be tailored) is included as Annex E Biannual Environmental and Social Monitoring Report Template for annual monitoring.</li> </ul>

### DOSMEP Oversight

DOSMEP is required to provide oversight and support in the implementation of the PFI's ESMS. This includes:

- Sample review of complete loan applications and loan documents;
- Ensuring reporting is provided to DOSMPE from the PFIs; and
- Providing support where required on screening of loans (e.g. where there is uncertainty on the E&S risk profile of a Sub-borrower).

### Reporting

### **1.10 Material Adverse Events**

Sub-borrowers will be required to promptly report to the PFI (which will report to the PMU) any actual or potential material adverse E&S event immediately after becoming aware of it. As noted above, these include:

- Major injuries or fatalities (of employees, the general public or contractors);
- Strikes or significant employee disputes;
- Regulator action in relation to E&S matters;
- Spills, pollution incidents, fires, explosions; and
- Etc.

### **1.11 Routine Reporting**

The PFIs are required to report semi-annually to the PMU. In turn the PMU will report annually to World Bank.

A format is included in Annex E Biannual Environmental and Social Monitoring Report [Template For PFIs](#).

## **Stakeholder Engagement Plan**

As part of the Project, as required under the ESCP, the PMU has prepared, disclosed, adopted, and implemented a Stakeholder Engagement Plan (SEP) consistent with ESS10. As part of the SEP, a Grievance Mechanism is described.

The overall objective of the SEP is to define a program for stakeholder engagement, including public information disclosure and consultation, throughout the entire Project cycle. The SEP outlines the ways in which the project team will communicate with stakeholders and includes a mechanism by which people can raise concerns, provide feedback, or make complaints about the Project and any activities related to the Project. The PMU is responsible for maintaining the SEP.

The SEP has been publicly disclosed here:

- DOSMEP web page: <http://dosmep.org/download-info-2/>
- World Bank web page: <https://projects.worldbank.org/en/projects-operations/document-detail/P174169>

## **Review and Update of the ESMS**

The ESMS will be updated and reviewed:

- In the first year after initial deployment by the PMU, and thereafter annually.
- If there are modifications in the Applicable Standards under the ESMS (for example significant changes to local legalisation).
- Incorporation of feedback from the SEP/Grievance Mechanism.
- Documentation of lessons learnt and/or good practice based on implementation.

Note that revisions will need to be communicated to all relevant partners such as PFIs and the World Bank (through the PMU).

## **Document Control**

DOSMEP has established a robust M&E system to record and monitor all aspects of the Line of Credit (LOC) component. Funds under the LOC will be disbursed to PFIs based on documentation on sub-loans provided by the PFIs, which will include a check list in accordance with this ESMF and confirmation that all submitted sub-loans will be in compliance with the requirements of the ESMS. These documents will be entered into the M&E system and stored in the PMU filing system for Project documents, for prior or post review by the World Bank or for audit purposes.

The PFIs will also maintain sub-loan documents submitted to DOSMEP under their own filing systems. In addition, the PFIs will:

- PFIs will provide DOSMEP with a set of documentation for all sub-loans to enable it to maintain all project records and make them available for ex post review by the World Bank or by external auditors as necessary; and
- PFIs and MSMEs will be required to provide reasonable information for the purpose of monitoring and an impact assessment during the life of the project (and for a certain period after the project), as may be requested by the World Bank and/or DOSMEP.



## Annex A Exclusion List

These are a list of activities that form part of the ESMS where any involvement would trigger a “no go” on providing a loan to a Sub-borrower. For the avoidance of doubt, any activities that require an Initial Environmental Examination (IEE) or an Environmental & Social impact Assessment (ESIA) under regulations in Lao PDR are excluded.

All participating financial intermediaries (PFIs) must apply the following exclusions to ALL sub-loans processed under the Project:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCBs, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions<sup>21</sup>.
- Production or trade in alcoholic beverages (excluding beer and wine)<sup>2</sup>.
- Production or trade in tobacco<sup>2</sup>.
- Gambling, casinos and equivalent enterprises<sup>2</sup>.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment which is considered to be the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers or use of asbestos-containing materials. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the waterway using nets in excess of 2.5 km in length.
- Production or activities involving harmful or exploitative forms of forced labor<sup>22</sup>/harmful child labor<sup>23</sup>.
- Sub-loans involving logging/harvesting of timber or wood products.
- Production and distribution of construction materials is one of the eligible activities provided that wood/lumber production are sourced legally and further due diligence of the sources will be pursued as part of processing and approval of the transaction.
- Commercial logging operations for use in primary tropical moist forest production or trade in wood or other forestry products other than from sustainably managed forests.
- Sub-loans involving any transaction that will require acquisition of private land, physical relocation of households or displacement of livelihoods.
- Activities involving major construction and civil works that would cause significant adverse impact and require an impact assessment (IEE or ESIA) according to the national regulations and in line with WB ESF policies (e.g. higher risk activities), which would be beyond the capacity of the MSMEs to manage.
- Activities based on or directly linked to land/natural resource based productions such as food production and processing, and other transactions of which the scale of impact exceeds the cost

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<sup>21</sup>This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

<sup>22</sup>Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>23</sup>Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

and time to address them given the scale of the project benefits and the capacity of project stakeholders.

- Industrial-scale or EIA required activities involving significant conversion or degradation of natural and/or critical habitats and/or any activities in legally protected or internationally recognized areas.
- Industrial-scale or EIA required activities involving production, harvesting, or trade in wood or other forestry products from plantation and natural forests other than from legal and sustainable origin.
- Industrial-scale or EIA required activities involving harvesting of wild fish populations or other aquatic species other than from legal and sustainable origin.
- Activities, including relocation, that have adverse impacts on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by the Indigenous Peoples (ethnic minorities).
- Activities involving significant alteration, damage, or removal of any critical cultural heritage.
- High and Substantial risk sub-loans (following the definitions of World Bank's Environmental and Social Framework (also see Annex B). In this case it means any activities that would require an impact assessment under Lao PDR requirements.

## Annex B Environmental and Social Risk Categorisation Guidance

### Categorisation

*This document is intended to provide guidance on the categorization of sub-borrowers. Whilst this guide provides an overview to the characteristics and some examples of each category, categorisation should be considered on a case by case basis factors such as location, environmental & social context, scale, and magnitude of impacts need to be considered.*

Table B1 - Categories

Category	Definition	Example Activities
<b>High and Substantial Risk</b>	<p>High Risk means any business activity which is likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented, and which includes, for the avoidance of doubt, activities involving (a) involuntary resettlement, (b) risk of adverse impacts on indigenous peoples, (c) significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage, or (d) significant occupational health and safety risks (risk of serious injury or fatality to workers).</p> <p>Substantial Risk means any business activity that is not as complex as High Risk activities, however, has some significant risks and impacts with the possibility of avoiding or reversing but with substantial investment and time and may give rise to limited degree of social conflict, harm, human security risk.</p>	<ul style="list-style-type: none"> <li>▪ Activities that require an IEE or ESIA in Lao PDR (See Table B2 below).</li> </ul>
<b>Moderate Risk</b>	<p>Moderate Risk means any business activity that has potentially limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. Impacts are often site-specific without likelihood of impacts beyond the activity's footprint and routine safety precautions are expected to be sufficient to prevent accidents.</p>	<ul style="list-style-type: none"> <li>▪ Acquisition of new transportation equipment (automobiles, trucks, other specialised equipment, and replacement parts);</li> <li>▪ Small-scale processing of agricultural produce e.g. rice.</li> <li>▪ Building of small warehouses or renovation of existing physical premises on the land fully-owned by the MSMEs;</li> <li>▪ Acquisition of assets such as industrial machines, medium sized tools and equipment.</li> </ul>

Category	Definition	Example Activities
<b>Low Risk</b>	Low Risk means any business activity minimal or negligible risks to and impacts on human populations and/or the environment with few or no adverse risks and impacts and issues.	<ul style="list-style-type: none"> <li>▪ Office based activities such as marketing, consultancy, etc.</li> <li>▪ Working capital needs (loans for payment of salaries, marketing costs, audit and accounting costs);</li> <li>▪ Acquisition of communications equipment (phone and fax equipment, computers, printers, servers, software, other hardware, etc.);</li> <li>▪ Purchase of construction materials for shops selling construction material,</li> <li>▪ Purchase of feed stock, and feed mixer machine;</li> <li>▪ Acquisition of fixed small assets (refrigerators, replacement parts, etc.), small tools and equipment etc.).</li> <li>▪ All types of retail outlets (except those dealing in hazardous or toxic chemicals, flammable materials); and</li> <li>▪ Restaurants and other food premises.</li> </ul>

Under Ministerial Agreement No. 8056/MONRE, a list of activities is provided and are divided into two categories. Activities in category 1 are required to conduct an Initial Environmental Examination (IEE) and those in Category 2 are required to complete an Environmental and Social Impact Assessment (ESIA). The investment projects and activities have been divided into 5 sectors as follows: (1) energy; (2) agriculture and forestry; (3) industry processing; (4) infrastructure and service and (5) mining

Type and size details of investment projects and activities classified into category 1 and 2 are in the table below:

*Table B3 – Activities Requiring IEE and ESIA in Lao PDR*

TYPES OF INVESTMENT PROJECTS AND ACTIVITIES		CATEGORY 1 - REQUIRED TO CONDUCT IEE	CATEGORY 2 - REQUIRED TO CONDUCT EIA
I. Investment projects and activities in energy sector			
Electric power development			
1.1	Electricity generation by Hydropower (Hydropower plants construction)	(a) 1-15 megawatt or (b) catchment basin < 200 million m <sup>3</sup> or (c) catchment area <1,500 hectares	(a) ≥ 15 megawatt or (b) catchment basin ≥ 200 million m <sup>3</sup> or (c) catchment area ≥ 1,500 hectares

TYPES OF INVESTMENT PROJECTS AND ACTIVITIES		CATEGORY 1 - REQUIRED TO CONDUCT IEE	CATEGORY 2 - REQUIRED TO CONDUCT EIA
1.2	Nuclear power, control and disposal of nuclear waste		All size
1.3	Natural gas or biogas power	5-50 megawatts	> 50 megawatts
1.4	Wind power by using turbines	2-10 turbines	> 10 turbines
1.5	Coal, oil or biomass power plant project	≤ 10 megawatts	> 10 megawatts
Gas and petroleum			
1.6	Petroleum and pipelines		All sizes
1.7	Extraction of oil or natural gas		All sizes
1.8	Oil refinery		All sizes
1.9	Petroleum storage facilities	5,000-50,000 m <sup>3</sup>	> 50,000 m <sup>3</sup>
High voltage transmission development			
1.10	High voltage transmission construction:		
1.10.1	High voltage ≥ 230 Kilo-volt	≤ 15 Kilometers	> 15 Kilometers
1.10.2	High voltage < 230 Kilo-volt	All sizes	
1.11	High voltage power distribution station	< 10 hectares	≥ 10 hectares
II. Investment projects and activities in agriculture and forestry			
Tree plantation and crops			
2.1	Planting and cutting industrial tree plantation	20-200 hectares	> 200 hectares
2.2	Plantation of industrial crops	20-400 hectares	> 400 hectares
Animal raising and fisheries			
2.3	Large animal rearing (cattle, buffaloes, horses, etc.)	≥ 500 head	
2.4	Poultry raising	≥ 5,000 head	
2.5	Pig raising	≥ 500 head	
2.6	Fish pond and aquatic culture in industrial ponds	≥ 10 hectares	
2.7	Fish cage and aquatic culture in cages along rivers	≥ 300 m <sup>2</sup>	

TYPES OF INVESTMENT PROJECTS AND ACTIVITIES		CATEGORY 1 - REQUIRED TO CONDUCT IEE	CATEGORY 2 - REQUIRED TO CONDUCT EIA
2.8	Crocodile raising	≥ 100 heads	
III. Investment projects and activities in processing industrials			
Food processing industry			
3.1	Production, processing and storage of foods (meat, fish, fruit, cooking oil, animals and animal feed)	≤ 1 ton/day	> 1 ton/day
3.2	Milk processing factory	≤ 40 ton/day	> 40 ton/day
3.3	Tapioca and tapioca products processing	40-80 ton/day	> 80 ton/day
3.4	Sugar factory	≤ 30 ton/day	> 30 ton/day
3.5	Liquor manufacture	≤ 500,000 liters/year	> 500,000 liters/year
3.6	Drinking water processing	All sizes	
3.7	Tobacco factory	All sizes	
Textile, pulp, paper and wood products			
3.8	Textile, cotton, garment manufacture and dye factories	All sizes	
3.9	Leather tanning factory	All sizes	
3.10	Leather processing factory	≤ 1 million pieces/year	> 1 million pieces/year
3.11	Wicker, bamboo and rattan production factory	All sizes	
3.12	Plywood factory	≤ 100,000 m <sup>2</sup> /year	> 100,000 m <sup>2</sup> /year
3.13	Paper factory	≤ 30 tons/year	> 30 tons/year
3.14	Printing house	All sizes	
Chemical products and clinical equipment			
3.15	Petroleum and hydrocarbon factory		All sizes
3.16	Chemical production factory		All sizes

TYPES OF INVESTMENT PROJECTS AND ACTIVITIES		CATEGORY 1 - REQUIRED TO CONDUCT IEE	CATEGORY 2 - REQUIRED TO CONDUCT EIA
3.17	Medical equipment and pharmaceutical factory using chemical reactions and biochemicals		All sizes
3.18	Cleaning products	≤ 10 tons/day	> 10 tons/day
3.19	Rubber manufacture	50-200 tons/year	> 200 tons/year
3.20	Plastic manufacture	≤ 400 tons/year	> 400 tons/year
Non-metallic product manufacture			
3.21	Glass product factory	All sizes	
3.22	Mineral product production and no other metals processing	All sizes	
3.23	Cement, lime and plaster factory	≤ 20 tons/hour	> 20 tons/hour
Mining extraction industry			
3.24	Steel and iron smelting factory	≤ 5,000 tons/year	> 5,000 tons/year
3.25	Precious metal processing factory		All sizes
3.26	Steel processing factory	≤ 50 tons/day	> 50 tons/day
3.27	Non-ferrous metal processing factory	All sizes	
3.28	Metal fabrication (tanks, sinks, etc.)	All sizes	
3.29	Battery production factory	All sizes	
Other industries			
3.30	Home appliances, office equipment, and electrical tools production	All sizes	
3.31	Automotive and alkaline battery production factory	≤ 70 tons/year	> 70 tons/year
3.32	Spare parts factory for automobiles and related machines	≤ 1,000 tons/year	> 1,000 tons/year
3.33	Bicycles and wheelchairs for disabled people	≤ 10,000 sets/year	> 10,000 sets/year
3.34	Home appliances factory	≤ 10,000 pieces/year	> 10,000 pieces/year
3.35	Water supply and treatment	All sizes	

TYPES OF INVESTMENT PROJECTS AND ACTIVITIES		CATEGORY 1 - REQUIRED TO CONDUCT IEE	CATEGORY 2 - REQUIRED TO CONDUCT EIA
Waste treatment			
3.36	Disposal of non-hazardous waste	≤ 5,000 tons/year	> 5,000 tons/year
3.37	Hazardous waste disposal		All sizes
3.38	Hazardous waste treatment		All sizes
3.39	Other waste management and treatment		All sizes
3.40	Construction of a factory for recycling		All sizes
3.41	Construction of a waste incinerator		All sizes
3.42	City waste water treatment	≤ 50,000 persons	>50,000 persons
3.43	Industrial waste water treatment		All sizes
3.44	Waste drainage construction	All sizes	
IV. Investment projects and activities in infrastructure and services			
4.1	Backfill for marsh, river, canals damaging public benefits		All sizes
4.2	Dormitory and condominium construction	>50 rooms	
4.3	Golf course construction		All sizes
4.4	Sport complex construction		All sizes
4.5	Hotel or resort construction	≤ 80 rooms	> 80 rooms
4.6	Hotel complex construction	≤ 50 hectares	> 50 hectares
4.7	Tourism and recreation in areas of environment and social significance		All sizes
4.8	Special economic zone development		All sizes
4.9	Hospital construction	≤ 80 beds	> 80 beds
4.10	Railway construction		All sizes



TYPES OF INVESTMENT PROJECTS AND ACTIVITIES		CATEGORY 1 - REQUIRED TO CONDUCT IEE	CATEGORY 2 - REQUIRED TO CONDUCT EIA
4.11	Road construction (national, province, district, special zone levels)		All sizes
4.12	Road rehabilitation (national, province, district and special zone levels)	All sizes	
4.13	Airport construction		All sizes
4.14	Telecom network construction	All sizes	
4.15	Navigation (improvement of channels along rivers)	≤ 200 tons	> 200 tons
4.16	Port construction		
4.16.1	Port for public transport	≤ 500 tons (excluding ship weight)	> 500 tons (excluding ship weight)
4.16.2	General goods port	≤ 500 tons (excluding ship weight)	> 500 tons (excluding ship weight)
4.16.3	Dangerous goods port		All sizes
4.17	Erosion protection and embankment construction	≤ 1 Kilometre	>1 Kilometre
V. Investment projects and activities in mining sectors			
Mining processing and exploitation			
5.1	Gravel and sand extraction	1,000-50,000 m <sup>3</sup> /day	> 50,000 m <sup>3</sup> /day
5.2	Rock drilling and transport	≤ 50 tons/day	> 50 tons/day
5.3	Extraction of construction materials (earth, gravel, sand, etc.)	≤ 100,000 m <sup>3</sup> /year or areas ≤ 20 hectares	> 100,000 m <sup>3</sup> /year or areas > 20 hectares
5.4	Extraction of solid minerals (without using chemicals)		All sizes
5.5	Extraction of solid minerals (using hazardous chemicals)		All sizes
5.6	Solid minerals processing	≤ 50,000 tons/year	> 50,000 tons/year

TYPES OF INVESTMENT PROJECTS AND ACTIVITIES		CATEGORY 1 - REQUIRED TO CONDUCT IEE	CATEGORY 2 - REQUIRED TO CONDUCT EIA
Water control and management			
5.7	Abstraction and use of groundwater for use in industry, agriculture and urban consumption	500- 5,000 m <sup>3</sup> /day	> 5,000 m <sup>3</sup> /day
5.8	Construction of reservoir and dams	1-200 millions m <sup>3</sup> or height of dam ≤ 10 m <sup>3</sup>	> 200 millions m <sup>3</sup> or height of dam > 10 m <sup>3</sup>

Areas that are important for environmental and social aspects cover the following zones:

- All areas or most areas of proposed zone have been announced as protection area, conservation areas in accordance with the law on forest No. 06/NA dated 24/12/2007 or other legal replaced;
- All areas or most areas of proposed zone have been announced as wildlife and aquatic animal conservation area in accordance with law on wildlife and aquatic animals, No. 07/NA dated 24/12/2008 or other legal replaced;
- All areas or most areas of proposed zone have been announced as national cultural heritage and history areas in accordance with law on national heritage No. 08/NA dated 9/11/2005 or other legal replaced;
- All areas or most areas of proposed zone have been announced as water resource conservation areas in accordance with law on water and water resource, No. 02/NA dated 11/1/1996 or other legal replaced; and
- Other areas have been announced as environmental and social important areas in different periods.

## Annex C Screening and Appraisal Format

### Annex C      Screening and Appraisal Form

Environmental and Social Aspects Screening Checklist	
<b>Borrower Name:</b>	<b>Location:</b>
<b>Loan Amount (US\$) and Purpose:</b>	
<b>Industry Sector:</b>	<b>Brief Borrower Description:</b>
<b>Completed by:</b>	<b>Reviewed by:</b>
<b>Date:</b>	<b>Date:</b>
<b>Category</b>  <input type="checkbox"/> Low Risk <input type="checkbox"/> Medium Risk <input type="checkbox"/> High/Substantial Risk ( <i>do not proceed</i> )	
<b>Rationale (please summarise the reasons for the category selected):</b>	
<b>Compliance with the Applicable Requirements — Check all that apply:</b>	
Exclusion List Activities Yes <input type="checkbox"/> No <input type="checkbox"/> ( <i>if there are exclusion list activities identified do not proceed</i> ) National regulatory requirements Yes <input type="checkbox"/> No <input type="checkbox"/> <input type="checkbox"/> Environmental, health and safety permits granted: ( _____ ) <input type="checkbox"/> Injuries and fatalities have occurred: (how and when: _____ ) <input type="checkbox"/> Labour-related fines: (when and why: _____ ) <input type="checkbox"/> Environmental incidents and fines: (when and why: _____ )	

**Site(s)—Check all that apply:**

- Non-urban/undeveloped land
- Proximity to river/stream/pond/lake
- Proximity to protected area (e.g. forest/endangered species)/ecologically sensitive area (e.g., river/protected areas)
- Proximity to culturally sensitive/indigenous area

**Environmental Issues – Check all that apply:**

<p><i>Air emissions</i></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Boilers</li> <li><input type="checkbox"/> Generators</li> <li><input type="checkbox"/> Vehicles and equipment</li> <li><input type="checkbox"/> Furnaces and incinerators</li> <li><input type="checkbox"/> Welding and soldering</li> <li><input type="checkbox"/> On-site burning</li> <li><input type="checkbox"/> Use of solvents</li> <li><input type="checkbox"/> Use of fumigation</li> <li><input type="checkbox"/> Use of exhaust ventilation</li> </ul>	<p><i>Waste water</i></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Waste water discharged to: _____</li> <li><input type="checkbox"/> Oil separators</li> <li><input type="checkbox"/> Cleaning operations</li> <li><input type="checkbox"/> Cleaning operations</li> <li><input type="checkbox"/> Spraying operations</li> <li><input type="checkbox"/> Separation tanks or filters</li> <li><input type="checkbox"/> Foul sewers and septic tanks</li> <li><input type="checkbox"/> De-watering/water pump out</li> <li><input type="checkbox"/> Water treatment units</li> </ul>
<p><i>Solid waste</i></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Waste generated</li> <li><input type="checkbox"/> Types of waste: _____ _____</li> <li><input type="checkbox"/> Hazardous waste (e.g., waste oils, pesticide washings, solvents, clinical waste, asbestos)</li> <li>Waste disposed to _____</li> </ul>	<p><i>Hazardous chemicals, fuels, and pesticides</i></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> On-site chemicals or fuels storage</li> <li><input type="checkbox"/> Protective measures against leaks/spills</li> <li><input type="checkbox"/> Signs of leaks/spills</li> <li><input type="checkbox"/> Protective measures against rain</li> <li><input type="checkbox"/> Signs of corrosion on tanks/containers</li> <li><input type="checkbox"/> Secured storage areas against theft</li> <li><input type="checkbox"/> On-site spill clean- up equipment</li> <li><input type="checkbox"/> Training on proper handling of chemicals and fuels</li> <li><input type="checkbox"/> Pesticide use and management</li> </ul>

<p><i>Resource use</i></p> <p><input type="checkbox"/> Main Materials used: _____</p> <p><input type="checkbox"/> Use of renewable natural resources</p> <p><input type="checkbox"/> Use of tools and equipment</p> <p><input type="checkbox"/> Water source: _____</p> <p><input type="checkbox"/> Energy source: _____</p>	<p><i>Nuisance</i></p> <p><input type="checkbox"/> Dust</p> <p><input type="checkbox"/> Noise</p> <p><input type="checkbox"/> Odours</p> <p><input type="checkbox"/> Fumes</p> <p><input type="checkbox"/> Vibration</p> <p><input type="checkbox"/> Traffic congestion</p>
<p>Based on the above are there any issues (e.g. poor practices, hazardous conditions, non-compliance with local requirements etc.)? If so, please describe:</p>	

**Community Interactions — Check all that apply:**

No designated person in charge of responding to questions from the community

No procedures for managing community complaints

Use of security personnel

Based on the above are there any issues (e.g. community complaints, problems with the community and security personnel, etc.)? If so, please describe:

**Social issues – Check all that apply:**

Land acquisition required (do not proceed)

Displacement/resettlement of local settlements (do not proceed)

Impact on local settlements/livelihood (do not proceed)

Impact on indigenous peoples (do not proceed)

Complaints from neighbours/communities

On or adjacent to site of cultural/archaeological importance (do not proceed)

Based on the above please describe briefly any issues:

**Labour issues —Check all that apply:**

- No Personal Protective Equipment provided (e.g., safety goggles/hard hat/protective glove)
- Inadequate employee health and safety measures (e.g. fall prevention/ventilation)
- Inadequate working conditions (e.g., air quality/lighting/confined spaces/on-site hygiene)
- Inadequate terms of employment (e.g., working hours/rest breaks/time off/overtime pay)
- Unequal employment opportunities (e.g., discrimination against gender/ethnic group/age)
- Payment below minimum wage
- Employees below minimum age
- Child or forced labour (do not proceed)
- No process for employees to voice complaints
- No recognition of employee organizations/labour unions

Comments (any issues identified):

**Additional comments**

Please provide further details (e.g. number of persons affected due to E&S gaps identified, types of emissions, hazardous substances found, etc.) for better clarity of the E&S condition at the investee company and attach any supporting documents where applicable.

Comments:

**Actions to be taken (include in the loan agreement)**

The following actions are to be taken to address gaps against Lao PDR requirement (in case of exclusion list issues the loan should not proceed). Note gaps to be addressed should be put into the E&S Action Plan (see Annex D of the ESMS):

Ref. No.	Action Description AND Related Standards/Requirement	Completion Indicator	Due Date (DD/MM/YYYY or defined number of days linked to an event e.g. after loan disbursement)


### Annex D Template Environmental and Social Action Plan

An Environmental and Social Action Plan (ESAP) should be tabular in format and designed to address the gaps identified in the sub-loan assessment (Annex C) and should be incorporated into the loan documentation. The aim is for the ESAP to be as succinct as possible, but clear, and set realistic timelines with clarity on what is required.

Reference No.	Action Description AND Related Standards/Requirement	Completion Indicator	Due Date (DD/MM/YYYY or defined number of days linked to an event)
<i>1</i>	<i>e.g. Obtain a water abstraction license for the groundwater abstraction well that is planned as part of the new development to meet e.g. Water Use Regulations.</i>	<i>Water abstraction license obtained</i>	<i>30 days prior to drilling of the well</i>
<i>2</i>	<i>e.g. Ensure that all workers have written contracts that explain their rights and obligations and have had these contracts explained to them this should be in line with Labour Code.</i>	<i>Contracts signed by all workers</i>	<i>Within 90 days after the loan receipt.</i>
<i>etc.</i>	<i>etc.</i>	<i>etc.</i>	<i>etc.</i>



**Annex E Biannual Environmental and Social Monitoring Report Template  
For PFIs to report to DOSMEP**

Name of Organization			
Completed by (name):			
Position in organisation:		Date:	

**Portfolio Information (Financed by MSME A2F Project)**

Report Covering Period:	
From:	To:

For the reporting period, please provide the following information about your portfolio:

Product line	Description	Total exposure outstanding for most recent FY year end (in US\$)	Average loan or transaction size (in US\$)
<b>Micofinance</b>	<b>[Definition]</b>		
SME Loans	SMEs are defined as small firms with less than 20 employees and medium firms with 20-99 employees as per Lao PDR Decree No. 42/PM, dated 20 April 2004, or as may be modified by the Government of Lap PDR in future. Only employment size regulation of this Decree shall be applied for SME eligibility to borrow under this Project.		

***Exposure by Industry Sectors***

Please provide an indicative % of portfolio that these sectors represent of the total portfolio.

Industrial Sector	Outstanding exposure (in US\$)	% of portfolio
Animal Production		
Apparel		
Chemicals		
Collective Investment Vehicles		
Common Carriers		
Construction and Real Estate		
Consumer Goods		
Crop Production		
Electrical Equipment, Appliances and Components		
Fabric Mills		
Fabricated Metal Product Manufacturing		
Finance & Insurance		

Finishing (Dyeing, Printing, Finishing, etc.)		
Fishing		
Food & Beverages		
Forestry		
Furniture and Related Products		
Integrated Textile Operation (Spinning, Weaving/Knitting, but no Garment )		
Internet Projects		
Leather and Allied Products		
Machinery and Other Industrial		
Non-metallic Mineral Product Manufacturing		
Oil, Gas and Mining		
Plastics & Rubber		
Primary Metals		
Printing & Publishing		
Pulp & Paper		
Spinning (Yarn, Including Integrated with Fiber Production)		
Telecommunications		
Textiles - Others		
Transport Service		
Transportation Equipment		
Utilities		
Warehousing & Storage		
Wholesale and Retail Trade covering any of the following. Gasoline stations, dry cleaners, printing, large auto and truck fleets, photographic film processing and any operations involving the use of any chemical or biological wastes or materials		
Wood Products		
<b>Total</b>		

<b>Exclusion List Exposures (Type of Activity)</b>	<b>Outstanding Exposure in US\$</b>	<b>Name of Company*</b>	<b>Loan Due Date</b>

<b>ESMS Processes</b>	<i>Yes/No</i>	
Have there been any updates to the ESMS or procedure?		If yes, please provide a copy of the updated procedure and reasons for the same.
Has Senior management signed off on the changes?		If yes, please provide a copy of the same.
Were any transactions rejected on an account of the exclusion list?		If yes, please provide details.
Were there any difficulties and/or constraints related to the implementation of the E&S procedures?		If yes, please provide details.
Were there any material environmental and social issues associated with borrowers during the reporting period in particular?		If yes, please provide details.
<b>Supervision and monitoring</b>	<i>Yes/No</i>	

Have you supervised the performance of your loans?		If yes, please describe how you do this and the extent of coverage of your portfolio.
Did you conduct client site visits?		If yes, please describe the process including any environmental and social issues considered.

<b>Safety, Social and Community Issues</b>	<i>Yes/No</i>	
Have there been any worker accidents, injuries on the job?		If yes, please provide details.
Have there been any grievances against any borrower?		
Has there been any media coverage on a borrower?		

## Annex F Material E&S Incident Report Template

Report on E&S Issues/Incident at a Sub-borrower	
<b>Date of report</b>	DD/MM/YYYY
<b>Name of Sub-borrower</b>	•
<b>Date of transaction and type of financing</b>	•
<b>Amount outstanding/tenor</b>	•
<b>Description of issue</b>	<ul style="list-style-type: none"> <li>Date and time of incident.</li> <li>Type of incident: environmental issue, fatality, spill, etc.</li> <li>Name of person/s involved/injured/deceased, if applicable • Narrative and contextual information.</li> <li>Causes of incident.</li> <li>Status of investigation.</li> <li>Listing of parties involved in investigation (witnesses and staff, unions, police, other authorities, and other parties).</li> </ul>
<b>Actions taken by the sub-borrower</b>	<ul style="list-style-type: none"> <li>Reporting if required to any regulator, police, etc.</li> <li>Any internal investigations commenced (indicate contact name of person responsible for investigation).</li> <li>Any external investigations anticipated or commenced (list all entities that have jurisdiction or could reasonably be expected to investigate the incident).</li> <li>Any press releases or other media communications</li> </ul>
<b>Follow-up by PFI</b>	<ul style="list-style-type: none"> <li>Views on the significance of the incident – degree of severity, possible uncertainties, or disputed facts to be investigated.</li> <li>Status of investigation.</li> <li>Reports received (and outstanding, if any).</li> <li>Immediate actions taken by the PFI (including if communications/crisis response to be triggered).</li> <li>Actions to prevent re-occurrence of incident.</li> <li>Monitoring/reporting arrangements to follow up on efficacy of actions taken.</li> <li>Results to date of actions taken.</li> </ul>
<b>Conclusion</b>	<ul style="list-style-type: none"> <li>Broader conclusions for the PFI/PMU</li> </ul>

## Annex G E&S Monitoring Report for PFIs

<b>Reviewer</b> (Name, Title and Position):	<b>Sub-Loan Name and #:</b>	<b>Date loan issued:</b>
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### Situation and Observations:

1. Are the sub-borrower's activities the same as at origination?
  
2. Are there any excluded activities?
  
3. Are all permits in order and is the sub-borrower following all required regulations? Y / N
  
4. Did the SME encounter any unexpected environmental and/or social issues and how were they addressed? Any media coverage, grievance issues or outstanding liability?
  
5. Other Comments

**Approved by** (Name, Title and Position):

### Annex H Labour Management Procedures

#### 1. OVERVIEW OF LABOR USE ON THE PROJECT

The Labour Management Procedures (LMP) is a living document to be reviewed and updated throughout development and implementation of the Lao PDR Micro, Small, and Medium Enterprise (MSME) Access to Finance Emergency and Recovery Project (P174169). The LMP applies to all Project workers, irrespective of contracts being full-time, part-time, temporary or casual. However, given the nature of the Project only direct employees at the DOSMEP (PMU) and PFI level are anticipated and are included in the LMP. If other types of workers become relevant, the LMP should be extended to cover them in line with World Bank Environmental and Social Framework (ESF) Environmental & Social Standard 2 on Labour and Working Conditions (ESS2).

The Project is expected to engage a variety of staff in the PMU and the PFI as identified below.

**Table 1 Staff Type**

Project Component	Estimated Number of Project Workers	Characteristics of Project Workers	Timing of Labour Requirements	Contracted Workers
PMU	Unknown at this stage	Project Coordinators	Throughout project cycle	Direct workers
		E&S Focal Point		Direct workers
		Finance, administrative and support staff of DOSMEP		Direct workers
PFIs	Unknown at this stage	Loan Officer	Throughout project cycle	Direct worker
		Credit Officer		Direct worker
		E&S Focal Point		Direct worker
		Others: Other core PFI staff as required		Direct worker

## 2. ASSESSMENT OF KEY POTENTIAL LABOR RISKS

This section describes the following, based on available information:

### *Key Project Activities:*

- Mainly office based (in common with MSME financing activities); and
- Potential visits to MSME borrowers for review/monitoring.

**Key Labour Risks:** The key labour risks which may be associated with the Project day-to-day operations are generally considered to be low (aside from COVID-19 related risks that will require special attention). Key potential labour-related risks include:

- Office-related health and safety risks, including ergonomic related risks; and
- Possible risks associated with COVID-19.

People engaged to work on the Project may come into contact with people with COVID-19. It is therefore extremely important that all Project workers follow strict protocols as recommended by the World Health Organization (WHO) and Lao PDR requirements.

**Table 2 Key Labour Risks**

Project Activity	Key Labour Risks
General Project and administration	A non-exhaustive list of risks that may be relevant to the Project's implementation is provided below:

Project Activity	Key Labour Risks
implementation (loan review and processing)	<ul style="list-style-type: none"> <li>• Exposure to people who could have COVID-19 if without the proper Personal Protective Equipment (PPE) and/or training;</li> <li>• Ergonomics;</li> <li>• Trip and fall hazards;</li> <li>• Harassment;</li> <li>• Fire; and</li> <li>• Mental stress and fatigue.</li> </ul>
Visits to MSME Borrowers	<p>A non-exhaustive list of additional risks that may be relevant to the Project's implementation are provided below:</p> <ul style="list-style-type: none"> <li>• Context hazards in MSME operations e.g. physical hazards such as moving equipment;</li> <li>• Traffic hazards;</li> <li>• Lone working in remote areas; and</li> <li>• Exposure to people who could have COVID-19 if without the proper PPE and/or training.</li> </ul>

### 3. BRIEF OVERVIEW OF LABOR LEGISLATION: TERMS AND CONDITIONS

This section sets out the *key aspects* of national labour legislation with regards to term and conditions of work, and how national legislation applies to different categories of workers identified in Section 1. The overview focuses on legislation which relates to the items set out in ESS2, paragraph 11 (i.e. wages, deductions and benefits).

Lao PDR has national legislation that outlines worker's rights. The Labour Law (2013) is the key document governing the regulatory framework for labour in Lao PDR. The Lao PDR government has also ratified five of the eight core ILO conventions, including those on forced labour, child labour, discrimination, minimum age and equal remuneration. The ratified conventions are summarised in the table below.

**Table 3 Core ILO Conventions Ratified in Lao PDR**

Convention	Date	Status
<b>C029</b> - Forced Labour Convention, 1930 (No. 29)	23 Jan 1964	In Force
<b>C100</b> - Equal Remuneration Convention, 1951 (No. 100)	13 Jun 2008	In Force
<b>C111</b> - Discrimination (Employment and Occupation) Convention, 1958 (No. 111)	13 Jun 2008	In Force
<b>C138</b> - Minimum Age Convention, 1973 (No. 138)	13 Jun 2005	In Force
<b>C182</b> - Worst Forms of Child Labour Convention, 1999 (No. 182)	13 Jun 2005	In Force

The National Assembly adopted an amended Labour Law (No. 43/NA, 24 December 2013) (“Labour Law”) which was published in the Lao Gazette on 14 October 2014 and became effective on 29 October 2014. The Labour Law defines non-discrimination in employment and in wages. It establishes the need to abide by at least the government minimum wage. Working hours are limited to 8 hours per day, 6 days a week. The Labour Law is extensive and covers discrimination in the workplace, equal opportunity, gender aspects, labour disputes and collective bargaining, amongst others. A chapter in the Labour Law is dedicated to health and safety in the workplace. The Labour Law covers formal and informal workers, however, does not apply to government officials, soldiers, police, Lao Front for National Development, and mass organisations.

In addition, the Law on Civil Servants, 2016 and associated Decree on Code of Conduct for Civil Servants, 2019 (No. 184 issued 29 June 2019) also largely consistent with ESS2 and applicable for the Project. The Civil Servant Law and Decree on Code of Conduct provide provisions and measures to manage, prevent and address misbehaviours and misconduct. Compliance with these requirements is monitored by the relevant Ministries, and Ministry of Home Affairs (MOHA).

Child labour remains a noticeable gap in the legal framework despite many years of participation in related international programs. The Labour Law defines 12 years old as the minimum working age for children, however, workers between the ages 12 to 14-years old are meant to only engage in certain light jobs. Although this is not always closely monitored. Article 102 states that youth employees are prohibited from engaging in work that is unsafe, forced labour, work to pay off debts, human trafficking, and hazardous work. In any case, no persons under the age of 18 will be allowed work on any aspect relating to implementing the Project in the PMU and PFIs and forced or indentured labour of any kind will be prohibited.

#### **4. BRIEF OVERVIEW OF LABOR LEGISLATION: OCCUPATIONAL HEALTH AND SAFETY**

This section sets out the *key aspects* of the national labour legislation with regards to occupational health and safety, and how national legislation applies to the different categories of workers identified in Section 1. The overview focuses on legislation which relates to the items set out in ESS2, paragraphs 24 to 30.

The Labour Law includes provisions on Occupational Health and Safety (OHS) mostly consistent with ESS2 of the World Bank’s Environmental and Social Framework (ESF). Additional measures must also be taken compliant with WHO guidelines on COVID-19.

At the beginning of this Project, the PMU and PFIs will ensure that:

- Workplace health and safety standards are in full compliance with Lao PDR law. This refers particularly to: (1) basic safety awareness training to be provided to all persons (as well as on COVID-19 prevention and related measures); and (2) Adequate provision of hygiene facilities (toilets, hand-washing basins) separated by gender as needed and with distancing guidelines in place;
- All workplace health and safety incidents will be properly recorded in a register detailing the type of incident, injury, people affected, time/place and actions taken, including COVID-19 cases in the workforce, which should be reported to DOSMEP and the World Bank immediately;
- All workers (irrespective, where relevant, of contracts being full-time, part-time, temporary or casual) to be covered by insurance against occupational hazards and COVID-19, including ability to access medical care and take paid leave if they need to self-isolate as a result of contracting COVID-19;
- Fair and non-discriminatory employment practices are in place;
- Provide PPE as suitable to the task and hazards of each worker, without cost to the worker;



- Under no circumstances will contractors (if required), suppliers or sub-contractors engage forced labour or children under the age of 18;
- All employees are aware of their rights under the Labour Law, including the right to organise; and
- All employees are to be informed of their rights to submit a grievance through the established Grievance Mechanism.

In relation to COVID-19 basic infection prevention measures, drawn from the World Health Organization (WHO) are included in section 6 below.

## 5. RESPONSIBLE STAFF

This section identifies the functions within the Project responsible for Labour Management:

- **DOSMEP:** Human resources staff will be responsible for the engagement of direct workers and PFIs with compliance with labour and work conditions. DOSMEP will address all LMP aspects as part of its human resources management and engagement with PFIs. The PMU established within DOSMEP will be responsible for overseeing all aspects of implementation of the Project, including the management and monitoring of the PFIs.
- **PFIs:** PFIs will in turn appoint personnel who will be responsible for supporting the implementation of the LMP and reporting to the PMU.

## 6. POLICIES AND PROCEDURES

1.12 **This section sets out information on OHS, reporting and monitoring and other general project policies. Where relevant, it identifies applicable national legislation.**

Where the Borrower has stand-alone policies or procedures, these can be referenced or annexed to the LMP, together with any other supporting documentation.

### 1.13 COVID-19 Considerations

The following is from WHO:

- Make sure your workplaces are clean and hygienic
  - Surfaces (e.g. desks and tables) and objects (e.g. telephones, keyboards) need to be wiped with disinfectant regularly
  - Why? Because contamination on surfaces touched by employees and customers is one of the main ways that COVID-19 spreads
- Promote regular and thorough hand-washing by employees, contractors and customers
  - Put sanitizing hand rub dispensers in prominent places around the workplace. Make sure these dispensers are regularly refilled
  - Display posters promoting hand-washing – ask your local public health authority for these or look on [www.WHO.int](http://www.WHO.int).
  - Combine this with other communication measures such as offering guidance from occupational health and safety officers, briefings at meetings and information on the intranet to promote hand-washing
  - Make sure that staff, contractors and customers have access to places where they can wash their hands with soap and water

- Why? Because washing kills the virus on your hands and prevents the spread of COVID19
- Promote good respiratory hygiene in the workplace
  - Display posters promoting respiratory hygiene. Combine this with other communication measures such as offering guidance from occupational health and safety officers, briefing at meetings and information on the intranet etc.
  - Ensure that face masks<sup>24</sup> and / or paper tissues are available at your workplaces, for those who develop a runny nose or cough at work, along with closed bins for hygienically disposing of them
  - Why? Because good respiratory hygiene prevents the spread of COVID-19
- Advise employees and contractors to consult national travel advice before going on business trips.
- Brief your employees, contractors and customers that if COVID-19 starts spreading in your community anyone with even a mild cough or low-grade fever (37.3 C or more) needs to stay at home. They should also stay home (or work from home) if they have had to take simple medications, such as paracetamol/acetaminophen, ibuprofen or aspirin, which may mask symptoms of infection
  - Keep communicating and promoting the message that people need to stay at home even if they have just mild symptoms of COVID-19.
  - Display posters with this message in your workplaces. Combine this with other communication channels commonly used in your organization or business.
  - Your occupational health services, local public health authority or other partners may have developed campaign materials to promote this message
  - Make clear to employees that they will be able to count this time off as sick leave.

There are a substantial number of documents available providing further detailed guidance.

For PFI staff that will be sub-borrower-facing, additional considerations apply and plans or procedures should be in place to address the following issues:

- Obtaining adequate supplies of Personal Protective Equipment (PPE), including medical masks and respirators (N95 or FFP2), eye protection (goggles or face screens), hand washing soap and sanitizer, including for when travelling to meet sub-borrowers. Where relevant PPE cannot be obtained, the plan should consider viable alternatives, such as cloth masks, alcohol-based cleansers, hot water for cleaning and extra handwashing facilities, until such time as the supplies are available;
- Training staff on the latest WHO advice and recommendations on the specifics of COVID-19;
- Conducting enhanced cleaning arrangements, including thorough cleaning (using adequate disinfectant) of “touch points” including common areas, door handles, floors and all surfaces that are touched regularly;
- Training and providing cleaning staff with adequate PPE when conducting cleaning;
- Implementing a communication strategy/plan to support regular communication, accessible updates and clear messaging to, regarding the spread of COVID-19 in nearby locations, the latest facts and statistics, and applicable procedures.

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<sup>24</sup> Ordinary surgical face masks rather than N95 face masks

## **7. AGE OF EMPLOYMENT**

Persons below the age of 18 years old should not be employed to carry out any undertakings of the Project.

## **8. TERMS AND CONDITIONS**

All terms and conditions as outlined in the ESS2, paragraphs 9 to 30 apply to direct workers. In addition:

- In line with national law, the maximum working hours are limited to 8 hours per day, 6 days a week unless there is payment of overtime.
- The compensation packages will be defined in employee contracts. No salaries paid by DOSMEP or the PFIs are lower than the Lao PDR minimum wage.
- Employment opportunities will be available to all. This includes equal pay for equal work, regardless whether the person performing the work is male or female.
- All workers of DOSMEP and the PFIs are entitled to insurance against occupational hazards, including ability to access medical care and take paid leave if they need to self-isolate as a result of contracting COVID-19.

## **9. GRIEVANCE MECHANISM**

This section sets out details of the grievance mechanism that will be provided for direct and contracted workers, and describes the way in which these workers will be made aware of the mechanism.

There will be a specific Grievance Redress Mechanism (GRM) for project workers as per the process outlined below. This considers culturally appropriate ways of handling the concerns of direct workers. Processes for documenting complaints and concerns have been specified, including time commitments to resolve issues. All Project workers will be informed of the Grievance Mechanism, if one is not already available internally that meets the requirements of ESS2.

The process for the Worker GRM is as follows:

- The first step is that the complainant may report their grievance in person, by phone, text message, mail or email (including anonymously if required) to their direct Supervisor as the initial focal point for information and raising grievances. For complaints that were satisfactorily resolved by the complainant, the incident and resultant resolution will be logged and reported to the E&S Focal Point of the relevant organisation.
- As a second step, where the complainant is not satisfied, the Supervisor (or the complainant directly) will refer the aggrieved party to the Human Resources department. The Human Resources department endeavours to address and resolve the complaint and inform the complainant as promptly as possible, in particular if the complaint is related to something urgent that may cause harm or exposure to the person. For complaints that were satisfactorily resolved by Human Resources department, the incident and resultant resolution will be logged by the E&S Focal Point. Where the complaint has not been resolved, the E&S Focal Point will refer to the Management of the relevant organisation for further action or resolution.
- If the complaint remains unresolved or the complainant is dissatisfied with the outcome proposed by Management of DOSMEP and PFIs respectively, the complainant may refer the matter to the appropriate court, at the complainant's own expense. A decision of the Court will be final.

Each grievance record should be allocated a unique number. Complaint records (letter, email, record of conversation) should be stored together, electronically or in hard copy. The E&S Focal Point in each PFI and the PMU will be responsible for undertaking a regular (at least monthly) review of all grievances to

analyse and respond to any common issues arising. The E&S Focal Point in the PMU and the PFI is also responsible for oversight of the GRM.

For recording and documentation purposes, the following Grievance Form and Grievance Tracker should be used (if there is not an existing process).

**Table 4 Grievance Form**

Internal Grievance Form		
<b>Date/Time</b>	Date (dd/mm/yyyy):	Time (24 hr format):
<b>Name and Contact Details of Complainant:</b>		<input type="checkbox"/> This is an anonymous grievance.
<b>Information about Representative(s) of the Complainant:</b>		
<b>Name of the relevant employer (DOSMPE/PFI)</b>		
<b>Supporting Documents Provided:</b>	<input type="checkbox"/> Photograph(s): <input type="checkbox"/> Voice Recording: <input type="checkbox"/> Documents: <input type="checkbox"/> Others:	
<b>Brief Description:</b> (What happened? Who was involved? Who did it happen to?)		

**Table 5 Grievance Tracker Log**

SN	Current Status	Details of Complainant					Resolution	
		Name	Date	Description of the Issue	Method to Contact	Contact Details	Action Proposed	Action Taken
001								
002								
003								
004								
005								
006								
007								
008								
009								
010								
011								
012								
013								
014								
015								
016								
017								
018								
019								
020								
021								
022								
023								
024								
025								

**Annex G**

**Labour Management Procedures**

**MSME Access to Finance - Emergency and Recovery Support Project  
(MSME A2F - ERS Project) (P174169)**

**Draft Version**

*January 14<sup>th</sup>, 2020*

## LABOUR MANAGEMENT PROCEDURES

### 10. OVERVIEW OF LABOR USE ON THE PROJECT

The Labour Management Procedures (LMP) is a living document to be reviewed and updated throughout development and implementation of the Lao PDR Micro, Small, and Medium Enterprise (MSME) Access to Finance Emergency and Recovery Project (P174169). The LMP applies to all Project workers, irrespective of contracts being full-time, part-time, temporary or casual. However, given the nature of the Project only direct employees at the DOSMEP (PMU) and PFI level are anticipated and are included in the LMP. If other types of workers become relevant, the LMP should be extended to cover them in line with World Bank Environmental and Social Framework (ESF) Environmental & Social Standard 2 on Labour and Working Conditions (ESS2).

The Project is expected to engage a variety of staff in the PMU and the PFI as identified below.

**Table 6 Staff Type**

Project Component	Estimated Number of Project Workers	Characteristics of Project Workers	Timing of Labour Requirements	Contracted Workers
PMU	Unknown at this stage	Project Coordinators	Throughout project cycle	Direct workers
		E&S Focal Point		Direct workers
		Finance, administrative and support staff of DOSMEP		Direct workers
PFIs	Unknown at this stage	Loan Officer	Throughout project cycle	Direct worker
		Credit Officer		Direct worker
		E&S Focal Point		Direct worker
		Others: Other core PFI staff as required		Direct worker

### 11. ASSESSMENT OF KEY POTENTIAL LABOR RISKS

This section describes the following, based on available information:

**Key Project Activities:**

- Mainly office based (in common with MSME financing activities); and
- Potential visits to MSME borrowers for review/monitoring.

**Key Labour Risks:** The key labour risks which may be associated with the Project day-to-day operations are generally considered to be low (aside from COVID-19 related risks that will require special attention). Key potential labour-related risks include:

- Office-related health and safety risks, including ergonomic related risks; and
- Possible risks associated with COVID-19.

People engaged to work on the Project may come into contact with people with COVID-19. It is therefore extremely important that all Project workers follow strict protocols as recommended by the World Health Organization (WHO) and Lao PDR requirements.

**Table 7 Key Labour Risks**

Project Activity	Key Labour Risks
General Project administration and implementation (loan review and processing)	<p>A non-exhaustive list of risks that may be relevant to the Project’s implementation is provided below:</p> <ul style="list-style-type: none"> <li>• Exposure to people who could have COVID-19 if without the proper Personal Protective Equipment (PPE) and/or training;</li> <li>• Ergonomics;</li> <li>• Trip and fall hazards;</li> <li>• Workplace grievances (including harassment);</li> <li>• Fire; and</li> <li>• Mental stress and fatigue.</li> </ul>
Visits to MSME Borrowers	<p>A non-exhaustive list of additional risks that may be relevant to the Project’s implementation are provided below:</p> <ul style="list-style-type: none"> <li>• Context hazards in MSME operations e.g. physical hazards such as moving equipment;</li> <li>• Traffic hazards;</li> <li>• Lone working in remote areas; and</li> <li>• Exposure to people who could have COVID-19 if without the proper PPE and/or training.</li> </ul>

## 12. BRIEF OVERVIEW OF LABOR LEGISLATION: TERMS AND CONDITIONS

This section sets out the *key aspects* of national labour legislation with regards to term and conditions of work, and how national legislation applies to different categories of workers identified in Section 1. The overview focuses on legislation which relates to the items set out in ESS2, paragraph 11 (i.e. wages, deductions and benefits).

Lao PDR has national legislation that outlines worker’s rights. The Labour Law (2013) is the key document governing the regulatory framework for labour in Lao PDR. The Lao PDR government has also ratified five of the eight core ILO conventions, including those on forced labour, child labour, discrimination, minimum age and equal remuneration. The ratified conventions are summarised in the table below.

**Table 8 Core ILO Conventions Ratified in Lao PDR**

Convention	Date	Status
C029 - Forced Labour Convention, 1930 (No. 29)	23 Jan 1964	In Force



<b>C100</b> - Equal Remuneration Convention, 1951 (No. 100)	13 Jun 2008	In Force
<b>C111</b> - Discrimination (Employment and Occupation) Convention, 1958 (No. 111)	13 Jun 2008	In Force
<b>C138</b> - Minimum Age Convention, 1973 (No. 138)	13 Jun 2005	In Force
<b>C182</b> - Worst Forms of Child Labour Convention, 1999 (No. 182)	13 Jun 2005	In Force

The National Assembly adopted an amended Labour Law (No. 43/NA, 24 December 2013) (“Labour Law”) which was published in the Lao Gazette on 14 October 2014 and became effective on 29 October 2014. The Labour Law defines non-discrimination in employment and in wages. It establishes the need to abide by at least the government minimum wage. Working hours are limited to 8 hours per day, 6 days a week. The Labour Law is extensive and covers discrimination in the workplace, equal opportunity, gender aspects, labour disputes and collective bargaining, amongst others. A chapter in the Labour Law is dedicated to health and safety in the workplace. The Labour Law covers formal and informal workers, however, does not apply to government officials, soldiers, police, Lao Front for National Development, and mass organisations.

In addition, the Law on Civil Servants, 2016 and associated Decree on Code of Conduct for Civil Servants, 2019 (No. 184 issued 29 June 2019) also largely consistent with ESS2 and applicable for the Project. The Civil Servant Law and Decree on Code of Conduct provide provisions and measures to manage, prevent and address misbehaviours and misconduct. Compliance with these requirements is monitored by the relevant Ministries, and Ministry of Home Affairs (MOHA).

Child labour remains a noticeable gap in the legal framework despite many years of participation in related international programs. The Labour Law defines 12 years old as the minimum working age for children, however, workers between the ages 12 to 14-years old are meant to only engage in certain light jobs. Although this is not always closely monitored. Article 102 states that youth employees are prohibited from engaging in work that is unsafe, forced labour, work to pay off debts, human trafficking, and hazardous work. In any case, no persons under the age of 18 will be allowed work on any aspect relating to implementing the Project in the PMU and PFIs and forced or indentured labour of any kind will be prohibited.

**13. BRIEF OVERVIEW OF LABOR LEGISLATION: OCCUPATIONAL HEALTH AND SAFETY**

This section sets out the *key aspects* of the national labour legislation with regards to occupational health and safety, and how national legislation applies to the different categories of workers identified in Section 1. The overview focuses on legislation which relates to the items set out in ESS2, paragraphs 24 to 30.

The Labour Law includes provisions on Occupational Health and Safety (OHS) mostly consistent with ESS2 of the World Bank’s Environmental and Social Framework (ESF). Additional measures must also be taken compliant with WHO guidelines on COVID-19.

At the beginning of this Project, the PMU and PFIs will ensure that:

- Workplace health and safety standards are in full compliance with Lao PDR law. This refers particularly to: (1) basic safety awareness training to be provided to all persons (as well as on COVID-19 prevention

and related measures); and (2) Adequate provision of hygiene facilities (toilets, hand-washing basins) separated by gender as needed and with distancing guidelines in place;

- All workplace health and safety incidents will be properly recorded in a register detailing the type of incident, injury, people affected, time/place and actions taken, including COVID-19 cases in the workforce, which should be reported to DOSMEP and the World Bank immediately;
- All workers (irrespective, where relevant, of contracts being full-time, part-time, temporary or casual) to be covered by insurance against occupational hazards and COVID-19, including ability to access medical care and take paid leave if they need to self-isolate as a result of contracting COVID-19;
- Fair and non-discriminatory employment practices are in place;
- Provide PPE as suitable to the task and hazards of each worker, without cost to the worker;
- Under no circumstances will contractors (if required), suppliers or sub-contractors engage forced labour or children under the age of 18;
- All employees are aware of their rights under the Labour Law, including the right to organise; and
- All employees are to be informed of their rights to submit a grievance through the established Grievance Mechanism.

In relation to COVID-19 basic infection prevention measures, drawn from the World Health Organization (WHO) are included in section 6 below.

#### **14. RESPONSIBLE STAFF**

This section identifies the functions within the Project responsible for Labour Management:

- **DOSMEP:** Human resources staff will be responsible for the engagement of direct workers and PFIs with compliance with labour and work conditions. DOSMEP will address all LMP aspects as part of its human resources management and engagement with PFIs. The PMU established within DOSMEP will be responsible for overseeing all aspects of implementation of the Project, including the management and monitoring of the PFIs.
- **PFIs:** PFIs will in turn appoint personnel who will be responsible for supporting the implementation of the LMP and reporting to the PMU.

#### **15. POLICIES AND PROCEDURES**

1.14 This section sets out information on OHS, reporting and monitoring and other general project policies. Where relevant, it identifies applicable national legislation.

Where the Borrower has stand-alone policies or procedures, these can be referenced or annexed to the LMP, together with any other supporting documentation.

##### **1.15 COVID-19 Considerations**

The following is from WHO:

- Make sure your workplaces are clean and hygienic
  - Surfaces (e.g. desks and tables) and objects (e.g. telephones, keyboards) need to be wiped with disinfectant regularly
  - Why? Because contamination on surfaces touched by employees and customers is one of the main ways that COVID-19 spreads

- Promote regular and thorough hand-washing by employees, contractors and customers
  - Put sanitizing hand rub dispensers in prominent places around the workplace. Make sure these dispensers are regularly refilled
  - Display posters promoting hand-washing – ask your local public health authority for these or look on [www.WHO.int](http://www.WHO.int).
  - Combine this with other communication measures such as offering guidance from occupational health and safety officers, briefings at meetings and information on the intranet to promote hand-washing
  - Make sure that staff, contractors and customers have access to places where they can wash their hands with soap and water
  - Why? Because washing kills the virus on your hands and prevents the spread of COVID19
- Promote good respiratory hygiene in the workplace
  - Display posters promoting respiratory hygiene. Combine this with other communication measures such as offering guidance from occupational health and safety officers, briefing at meetings and information on the intranet etc.
  - Ensure that face masks<sup>25</sup> and / or paper tissues are available at your workplaces, for those who develop a runny nose or cough at work, along with closed bins for hygienically disposing of them
  - Why? Because good respiratory hygiene prevents the spread of COVID-19
- Advise employees and contractors to consult national travel advice before going on business trips.
- Brief your employees, contractors and customers that if COVID-19 starts spreading in your community anyone with even a mild cough or low-grade fever (37.3 C or more) needs to stay at home. They should also stay home (or work from home) if they have had to take simple medications, such as paracetamol/acetaminophen, ibuprofen or aspirin, which may mask symptoms of infection
  - Keep communicating and promoting the message that people need to stay at home even if they have just mild symptoms of COVID-19.
  - Display posters with this message in your workplaces. Combine this with other communication channels commonly used in your organization or business.
  - Your occupational health services, local public health authority or other partners may have developed campaign materials to promote this message
  - Make clear to employees that they will be able to count this time off as sick leave.

There are a substantial number of documents available providing further detailed guidance.

For PFI staff that will be sub-borrower-facing, additional considerations apply and plans or procedures should be in place to address the following issues:

- Obtaining adequate supplies of Personal Protective Equipment (PPE), including medical masks and respirators (N95 or FFP2), eye protection (goggles or face screens), hand washing soap and sanitizer, including for when travelling to meet sub-borrowers. Where relevant PPE cannot be obtained, the plan should consider viable alternatives, such as cloth masks, alcohol-based

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<sup>25</sup> Ordinary surgical face masks rather than N95 face masks

cleansers, hot water for cleaning and extra handwashing facilities, until such time as the supplies are available;

- Training staff on the latest WHO advice and recommendations on the specifics of COVID-19;
- Conducting enhanced cleaning arrangements, including thorough cleaning (using adequate disinfectant) of “touch points” including common areas, door handles, floors and all surfaces that are touched regularly;
- Training and providing cleaning staff with adequate PPE when conducting cleaning;
- Implementing a communication strategy/plan to support regular communication, accessible updates and clear messaging to, regarding the spread of COVID-19 in nearby locations, the latest facts and statistics, and applicable procedures.

## **16. AGE OF EMPLOYMENT**

Persons below the age of 18 years old should not be employed to carry out any undertakings of the Project.

## **17. TERMS AND CONDITIONS**

All terms and conditions as outlined in the ESS2, paragraphs 9 to 30 apply to direct workers. In addition:

- In line with national law, the maximum working hours are limited to 8 hours per day, 6 days a week unless there is payment of overtime.
- The compensation packages will be defined in employee contracts. No salaries paid by DOSMEP or the PFIs are lower than the Lao PDR minimum wage.
- Employment opportunities will be available to all. This includes equal pay for equal work, regardless whether the person performing the work is male or female.
- All workers of DOSMEP and the PFIs are entitled to insurance against occupational hazards, including ability to access medical care and take paid leave if they need to self-isolate as a result of contracting COVID-19.

## **18. GRIEVANCE MECHANISM**

This section sets out details of the grievance mechanism that will be provided for direct and contracted workers, and describes the way in which these workers will be made aware of the mechanism.

There will be a specific Grievance Redress Mechanism (GRM) for project workers as per the process outlined below. This considers culturally appropriate ways of handling the concerns of direct workers. Processes for documenting complaints and concerns have been specified, including time commitments to resolve issues. All Project workers will be informed of the Grievance Mechanism, if one is not already available internally that meets the requirements of ESS2.

The process for the Worker GRM is as follows:

- The first step is that the complainant may report their grievance in person, by phone, text message, mail or email (including anonymously if required) to their direct Supervisor as the initial focal point for information and raising grievances. For complaints that were satisfactorily resolved by the complainant, the incident and resultant resolution will be logged and reported to the E&S Focal Point of the relevant organisation.
- As a second step, where the complainant is not satisfied, the Supervisor (or the complainant directly) will refer the aggrieved party to the Human Resources department. The Human Resources

department endeavours to address and resolve the complaint and inform the complainant as promptly as possible, in particular if the complaint is related to something urgent that may cause harm or exposure to the person. For complaints that were satisfactorily resolved by Human Resources department, the incident and resultant resolution will be logged by the E&S Focal Point. Where the complaint has not been resolved, the E&S Focal Point will refer to the Management of the relevant organisation for further action or resolution.

- If the complaint remains unresolved or the complainant is dissatisfied with the outcome proposed by Management of DOSMPE or the PFI, respectively, the complainant may refer the matter to the appropriate court, at the complainant’s own expense. A decision of the Court will be final.

Each grievance record should be allocated a unique number. Complaint records (letter, email, record of conversation) should be stored together, electronically or in hard copy. The E&S Focal Point in each PFI and the PMU will be responsible for undertaking a regular (at least monthly) review of all grievances to analyze and respond to any common issues arising. The E&S Focal Point in the PMU and the PFI is also responsible for oversight of the GRM.

For recording and documentation purposes, the following Grievance Form and Grievance Tracker should be used (if there is not an existing process).

**Table 9 Grievance Form**

Internal Grievance Form		
<b>Date/Time</b>	Date (dd/mm/yyyy):	Time (24 hr format):
<b>Name and Contact Details of Complainant:</b>		<input type="checkbox"/> This is an anonymous grievance.
<b>Information about Representative(s) of the Complainant:</b>		
<b>Name of the relevant employer (DOSMPE/PFI)</b>		
<b>Supporting Documents Provided:</b>	<input type="checkbox"/> Photograph(s): <input type="checkbox"/> Voice Recording: <input type="checkbox"/> Documents: <input type="checkbox"/> Others:	
<b>Brief Description:</b> (What happened? Who was involved? Who did it happen to?)		

**Table 10 Grievance Tracker Log**

SN	Current Status	Details of Complainant					Resolution	
		Name	Date	Description of the Issue	Method to Contact	Contact Details	Action Proposed	Action Taken
001								
002								
003								
004								
005								
006								
007								
008								
009								
010								
011								
012								
013								
014								
015								
016								
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027								
028								
029								

**ANNEX 2: PFIS MONITORING AND FINANCIAL OBLIGATIONS REPORT FORMATS**

**Page 1**

**Project name: Micro, Small and Medium Enterprise Access to Finance Emergency Support and Recovery Project**

**Interim (Unaudited) Financial Reports**

**Component 1: Line of credit**

<b>Loan Utilization Report</b>											
for the period from											
	Approved Portfolio			Disbursed Portfolio			Outstanding Portfolio (net of Repayments)			Non-Performing Loans	
	LAK	USD	Total US\$ Equivalent	LAK	USD	Total US\$ Equivalent	LAK	USD	Total US\$ Equivalent	US\$	% of NPL
<b>Name of Bank</b>											
<u>Working Capital Loans</u>											
<b>Total WC Loans</b>											
<u>Investment Loans</u>											

**Annex 2 – Page 2**

**Interest Calculation for PFIs**

**Formula:  $A \times N \times t / 360 \times 100$**

A: Balance

N: No. of

Days

t: Interest rate

Amount of SFA:	\$ -	Period of SFA:	8 Y ( 15 July 2016 - 15 July 2024 )
1st Withdrawal (LAK):		Date:	
2nd Withdrawal (LAK):		Date:	
Interest Rate per year:	3.34 %		

No.	Payment Date	Period of calculation	No. of Days	Balance	Principle	Interest	Total	Note
01				-		#VALUE!	#VALUE!	
02			#VALUE!	-		#VALUE!	#VALUE!	
03			#NAME?			#NAME?	#NAME?	
04			#VALUE!			#VALUE!	#VALUE!	
05			#VALUE!		-	#VALUE!	#VALUE!	
06			#VALUE!		-	#VALUE!	#VALUE!	
07			#VALUE!		-	#VALUE!	#VALUE!	
08			#VALUE!		-	#VALUE!	#VALUE!	
09					-	-	-	
					-	#VALUE!	#VALUE!	

**ໝາຍເຫດ:** ສູ່າລັບການຊໍາລະຄືນຕົ້ນທຶນໃນປີທີ IV ແມ່ນເປັນເບື້ອງການຫານສະເລ່ຍຈໍານວນເງິນທີ່ທະນາຄານໄດ້ຮັບຕົວຈິງເທົ່ານັ້ນ, ການຊໍາລະຕົວຈິງອາດມີການປ່ຽນແປງເພາະຂຶ້ນກັບຄວາມຕ້ອງການຊໍາລະຄືນຂອງທະນາຄານ ຕາມທີ່ລະບຸໄວ້ໃນສັນຍາ ມາດຕາ 7 ຂໍ້ 7.11.

**ຜູ້ຄິດໄລ່**

ແສງແກ້ວ ມຸດທະ  
ວົງ



Annex 12 – Page 3

CALCULATION OF COMMITMENT FEES FOR PFIS

Exchange Rate		Transf. Date	Amount in LAK	Amount in USD
US\$	1=LAK	8146		

COMMITMENT FEE PAYMENT PERIOD BY OCTOBER 1, 2017												
SACOM B	October	November	December	January	February	March	April	May	June	July	August	September
Deposit	-									0	0	0
Balance	-	-	-	-	-							
Com Fee	-	-	-	-	-				-	-	-	-
US\$	-	-	-	-	-				-	-	-	-
Total Fees payable on 01-10-2017												-
# of days												