

**Ministry of Industry and Commerce
Micro, Small and Medium Enterprise Access to
Finance Emergency Support and Recovery Project
(MSMEA2F-ESR)**

**Financial Statements
and
Independent Auditors' Report
For the period from 21 January 2021 to 31 December 2021**

Ministry of Industry and Commerce
Micro, Small and Medium Enterprise Access to
Finance Emergency Support and Recovery Project

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

Project information

| | |
|----------------------------|--|
| Project | Micro, Small and Medium Enterprise Access to Finance Emergency Support and Recovery Project (MSMEA2F-ESR) IDA 6790-LA |
| Funding agencies | International Development Association (IDA), the World Bank Group |
| Duration | 11 November 2020 – 28 November 2025 |
| Implementing agency | Department of Small and Medium Enterprise Promotion, Ministry of Industry and Commerce (MOIC) |
| Project management | Dr. Bounpheng Sibounheung, Project Director |
| Registered office | Ministry of Industry and Commerce (MOIC) Nong Bone Road, Ban Fai Area, P.O.Box 474 Vientiane Capital, Lao PDR |
| Auditors | KPMG Lao Co., Ltd. 10th Floor, Royal Square Office Building, Samsenthai Road, Nongduong Nua Village, Sikhotabong District, P.O. Box 6978, Vientiane, Lao PDR Tel +856 (21) 454240-7 |



Statement of Management's Responsibilities

It is the responsibility of management to prepare financial statements of the Micro, Small, and Medium Enterprise Access to Finance Emergency Support and Recovery Project ("the Project") for the period from 21 January 2021 to 31 December 2021, which are prepared in all material respect in accordance with the accounting policies as described in Note 2 to the financial statements. In preparing these financial statements, management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent; and
- Maintain financial records and prepare the financial statements based on the accounting policies described in Note 2.

Project Management of Micro, Small and Medium Enterprise Access to Finance Emergency Support and Recovery Project is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Project. Members of project management have general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Project and to prevent and detect fraud and other irregularities.

Project Management confirms that the Project has complied with the above requirements in preparing the financial statements.

On behalf of the management

Dr. Bounpheng Sibounheung
Project Director
Department of SME Promotion
Ministry of Industry and Commerce
Date: 3 May 2022



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Independent Auditors' Report

To: The Project management of the Micro, Small, and Medium Enterprise Access to Finance Emergency Support and Recovery Project

Opinion

We have audited the financial statements of the Micro, Small, and Medium Enterprise Access to Finance Emergency Support and Recovery Project ("MSMEA2F-ESR" or "the Project"), which comprise the statement of designated account fund balance as of 31 December 2021, and statement of cash receipts and payments by category and statement of cash receipts and payments by component for the period from 21 January 2021 to 31 December 2021, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the project, the statement of designated account fund balance as of 31 December 2021, and results of the Project for the period from 21 January 2021 to 31 December 2021 are prepared, in all material respects in accordance with the accounting policies as described in Note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standard) (IESBA Code) that is relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basic of Accounting and Restriction on Distribution and Use

We draw attention to Note 2(a) to the financial statements, which describe the basis of accounting. The financial statements are prepared to assist the Project management to report to the donor. As a result, the financial statements may not be suitable for other purposes. Our report is intended solely for the Project and donor, and should not be used by or distributed to other parties. Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the basis of accounting and policies described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern, and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Project to cease to continue as a going concern.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Date: 3 May 2022

**Ministry of Industry and Commerce
 Micro, Small and Medium Enterprise Access to
 Finance Emergency Support and Recovery Project
 Statement of designated account fund balance
 For the period from 21 January to 31 December 2021**

| <i>In USD</i> | Note | 31 December 2021 |
|--|-------------|-----------------------------|
| Fund balance at the beginning of the period | | - |
| Excess of receipts over payments | | <u>242,373</u> |
| Fund Balance at the end of the period | | <u>242,373</u> |
| Represented by: | | |
| Cash and cash equivalents | 5 | <u>242,373</u> |

The accompanying notes are an integral part of these financial statements.



[Handwritten signature in blue ink]

Dr. Bounpheng Sibounheung
 Project Director
 Date: 3 May 2022

**Ministry of Industry and Commerce
 Micro, Small and Medium Enterprise Access to
 Finance Emergency Support and Recovery Project
 Statement of cash receipts and payments by category
 For the period from 21 January to 31 December 2021**

| <i>In USD</i> | Note | For the period from 21 January to 31 December 2021 |
|--|-------------|---|
| Receipts | 3 | 588,667 |
| Payments | | |
| Goods | | (47,541) |
| Consultant Service | | (217,976) |
| Training and workshop | | (21,860) |
| Incremental Operating Cost | | (58,917) |
| Total payments | 4 | <u>(346,294)</u> |
| Excess of receipt over payments | | <u>242,373</u> |

The accompanying notes are an integral part of these financial statements.



[Handwritten signature in blue ink]

Dr. Bounpheng Sibounheung
 Project Director
 Date: 3 May 2022

Ministry of Industry and Commerce
Micro, Small and Medium Enterprise Access to
Finance Emergency Support and Recovery Project
Statement of cash receipts and payments by component
For the period from 21 January to 31 December 2021

| <i>In USD</i> | Note | For the period from 21 January to 31 December 2021 |
|---|-------------|---|
| Receipts | 3 | 588,667 |
| Payments | | |
| Component 1: Emergency and Recovery Line of Credit to MSMEs. | | - |
| Component 2: Strengthening Bank of Lao PDR (BOL) Capacity to Monitoring and Supervise PCG Facility. | | - |
| Component 3: Technical Assistance and Project Management. | | (346,294) |
| Total payments | 4 | (346,294) |
| Excess of receipt over payments | | <u>242,373</u> |

The accompanying notes are an integral part of these financial statements



Dr. Bounpheng Sibounheung
 Project Director
 Date: 3 May 2022

Ministry of Industry and Commerce
Micro, Small and Medium Enterprise Access to
Finance Emergency Support and Recovery Project
Notes to the financial statements
For the period from 21 January to 31 December 2021

1. Principal activities

The Micro, Small, and Medium Enterprise Access to Finance Emergency Support and Recovery (MSMEA2F-ESR) project is funded by the International Development Association or IDA, the World Bank Group to be implemented between 11 November 2020 to 28 November 2025. The MSMEA2F-ESR project aims to enhance access to finance for MSMEs in the context of the COVID-19 emergency and recovery.

The objective of the project is to increase the supply of long-term finance provided by commercial banks and to strengthen the capability of DOSMEP to formulate and implement public policies that promote access to finance for SMEs.

The Project consists of the following components:

Component 1: Emergency and Recovery Line of Credit to MSMEs.

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 where it developed the requisite experience to manage and monitor loan funds prudently and allocate them in line with agreed selection criteria. The BOL, which is represented on the PSC, will provide support as needed, particularly related to the monitoring of PFIs' financial performance. The project will offer two windows: i) emergency; and ii) 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.

Component 2: Strengthening Bank of Lao PDR (BOL) Capacity to Monitoring and Supervise PCG Facility.

The project will provide TA to the BOL to support its efforts in establishing a PCG to support continued access to finance for MSMEs by reducing credit risk for PFIs, thereby addressing current issues of risk aversion. 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 will be 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.

Component 3: Technical Assistance ("TA") and Project Management.

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 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

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For the period from 21 January to 31 December 2021

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 and other Finance Institutions- The TA to commercial banks program, launched under the MSME A2F ESR 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 the transfer of knowledge. The TA will be offered to additional banks and Micro Finance Institutions (the current project only supports four banks).
- 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.

2. Summary of significant accounting policies

The following significant accounting policies have been adopted by the Project in the preparation of these financial statements:

a) Basis of financial statements preparation

The financial statements are prepared in accordance with the accounting policies of the Project consist of the statement of designated account fund balance, statement of cash receipts and payments by category and statement of cash receipts and payments by component, which is expressed in United States Dollars ("USD"). The financial statements have, therefore, not been designed for those who are not familiar with the accounting policies of the Project.

The financial statements have been prepared in accordance with modified cash basis of accounting where except for cash advances, which are recognized as receivables and are recorded as expense only after the liquidation and presentation of documents. Under this

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For the period from 21 January to 31 December 2021

basis of accounting, receipts are recognised when funds are received in cash rather than when earned and payments are recognised when made rather than when incurred. This is a comprehensive basis of accounting that is designed to meet the requirements of the Project and its donors; it is not designed to produce financial statements that are compatible with International Financial Reporting Standards or other prominent generally accepted accounting principles.

b) Fixed assets

All purchases of fixed assets are recorded as payments in the statement of cash receipts and payments upon acquisition. The Project maintains a Fixed Assets Register for control purposes.

c) Cash and cash equivalents

Cash comprises cash on hand and balances with banks.

d) Foreign exchange

The Project maintains its accounting records in USD in accordance with the Credit agreement. All cash is held in USD. Transactions in currencies other than USD during the period have been translated into USD at rates approximating those ruling at the transaction dates. All exchange differences are recorded in the statement of cash receipts and payments.

e) Accounting reporting period

The general financial accounting starts on 1 January and ends on 31 December.

The period from 21 January 2021 to 31 December 2021 is the first financial year since the project started (effective date).

f) Comparison of budget and actual payments

The approved budget is developed on the same accounting basis, same classification basis and for the same period as for the financial statements.

g) Receipt recognition

Fund receipt from IDA is recognized as receipt when cash is credited to the project's designated account. The IDA may make direct payments, at the Project's request, directly to a third party for eligible expenditures.

h) Payment recognition

Payments incurred in the framework of the Credit Agreement are recognised on the cash basis of accounting, i.e. when the payments are made.

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Notes to the financial statements
For the period from 21 January to 31 December 2021

Categories of payments

I. Consultants' Services, Non-Consultant services; Training and workshop, Incremental Operating Costs and Goods

The reasonable costs of goods and non-consulting services required or the day to day coordination, administration and supervision of project, including leasing and/or routine repair and maintenance of vehicles, equipment, facilities and office premises, fuel, office supplies, utilities, consumables, communication expenses (including postage, telephone and internet costs), translation, printing and photocopying expenses, bank charges, publications and advertising expense, insurance, Project-related meeting expense, Project – related travel, subsistence and lodging expenses , and other administrative costs directly related to the project, but excluding salaries, bonuses, fee and honoraria or equivalent payments of members of the recipient's civil service.

II. Direct payments

The IDA may make direct payments, at the Project's request, directly to a third party for eligible expenditures.

III. Line of credit to Participating Financial Institutions ("PFIs")

Line of credit facility is provided under the financing agreement for the Micro, Small and Medium Enterprise ("MSME") to provide loans to small and medium-scale borrowers for expanding their production activities and employment.

i) Advances

Advances, for activities such as workshops, conferences, monitoring trips, are reimbursable to the Project until expensed by the Implementing Agencies (IA). Advances are recognized as expenditure after the advance has been liquidated and the expenses reports are approved. Advances are requested by IA from the Project through formal advance request forms.

3. Receipts

In USD

**For the period from
21 January 2021 to
31 December 2021**

Reference No:

WA001-MSMEA2F-DA1

Date

18th March 2021

588,667

Total

588,667

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Notes to the financial statements
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4. Technical Assistance and Project Management

In USD

For the period from
21 January 2021 to
31 December 2021

Goods

| | |
|-----------------------------------|---------------|
| IT equipment | 25,331 |
| Office equipment | 11,393 |
| Office furniture | 7,945 |
| Accounting and statistic software | 2,872 |
| | 47,541 |

Consultant Service

| | |
|---------------------------|----------------|
| National consultant | 188,258 |
| International consultants | 29,718 |
| | 217,976 |

Training and workshop

| | |
|-----------------------|---------------|
| Training and workshop | 21,860 |
| | 21,860 |

Incremental Operating Cost

| | |
|-----------------------------------|----------------|
| Public Relation tools (printing) | 17,853 |
| Document Translation | 7,317 |
| Communication & advertising | 5,874 |
| Office supplies and drinking | 5,521 |
| Project driver | 4,950 |
| Office stationery | 3,831 |
| Vehicle maintenance and insurance | 2,840 |
| Contract registration and other | 1,845 |
| Fuel for office car | 1,203 |
| Others | 7,683 |
| | 58,917 |
| | 346,294 |

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For the period from 21 January to 31 December 2021**

5. Cash on hand and cash at bank

| <i>In USD</i> | As at 31 December 2021 |
|--------------------------------------|-----------------------------------|
| Designated bank account: Bank of Lao | 141,540 |
| Operating bank account | 100,830 |
| Cash on hand | <u>3</u> |
| Total | <u>242,373</u> |

6. Commitments

| <i>In USD</i> | As at 31 December 2021 |
|--------------------|-----------------------------------|
| Consultant Service | <u>1,009,284</u> |
| Total | <u>1,009,284</u> |

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Comparison of budget and actual payment
For the period from 21 January to 31 December 2021**

(Appendix 1)

This table represents the use of funds by category, as set out in the Project Appraisal Document ("PAD"), compared with the current budget.
*(Financing Agreement IDA 6790-LA dated 11 November 2020)

| In USD | Actual | | Budget | | Variance | | | Project document * | |
|---|-------------------------------------|--------------------|-------------------------------------|--------------------|-------------------------------------|--------------------|------------------------|--------------------|---|
| | 21 January 2021 to 31 December 2021 | Cumulative to date | 21 January 2021 to 31 December 2021 | Cumulative to date | 21 January 2021 to 31 December 2021 | Cumulative to date | Cumulative to date (%) | Total budget | Remaining budget as at 31 December 2021 |
| Line of credit | - | - | 16,000,000 | 16,000,000 | 16,000,000 | 16,000,000 | 0% | 34,000,000 | 34,000,000 |
| Strengthening BOL Capacity to Supervise PCG Facility | - | - | 71,200 | 71,200 | 71,200 | 71,200 | 0% | 1,000,000 | 1,000,000 |
| Technical Assistance | 346,294 | 346,294 | 930,545 | 930,545 | 584,251 | 584,251 | 37% | 5,000,000 | 4,653,706 |
| Goods* | 47,541 | 47,541 | 58,262 | 58,262 | 10,721 | 10,721 | 82% | | |
| Consultant Services* | 217,976 | 217,976 | 459,714 | 459,714 | 241,738 | 241,738 | 47% | | |
| Training and workshop* | 21,860 | 21,860 | 329,343 | 329,343 | 307,483 | 307,483 | 7% | 5,000,000 | 4,653,706 |
| Incremental Operating Cost* | 58,917 | 58,917 | 83,226 | 83,226 | 24,309 | 24,309 | 71% | | |
| Total expenses | 346,294 | 346,294 | 17,001,745 | 17,001,745 | 16,655,451 | 16,655,451 | 2% | 40,000,000 | 39,653,706 |

*These categories are under Technical Assistance which do not have specific budget for each sub-categories, it depends on management to manage the expenditure for each sub-categories to not exceed or equal to total budget of Technical Assistance.

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Comparison of budget and actual payment
For the period from 21 January 2021 to 31 December 2021**

(Appendix 1)

Analysis of variances between budget and actual payments

Due to ongoing outbreak of COVID-19 and restriction of activities implementation. The actual expenditure for the whole project for the reporting period accounts for 2% of total Workplan's budget approved, for more detail refer to the below category analysis. The analysis below are analyzed base on comparing balance between actual payment and current budget for the year ended 2021.

Line of Credit:

For this reporting period, no expenditure to be recorded for this category. Resulting in utilization of 0% of budget for the reporting period. The Subsidiary Financing Agreement with five Participate Financial Institutions (PFIs) already signed. But due to one of the withdrawal condition of sub-loan not yet finalize and approve by the world bank "Such PFI has adopted any necessary safe guards instruments and put in place an environmental and social management system for the Project, in form and substance satisfactory to the Association". Therefore, the allocated fund under this category is expected to disburse to PFIs in beginning of first semester of this financial year.

Goods:

During the reporting period, actual expenditure of USD 47,541 has been recorded for this category. Resulting in utilization rate of only 82% of the budget (total utilization for the whole year 2021 was 82% of the budget). Almost of the procurement plan for goods was completely implemented and the goods were already delivered to the project promise. There is one outstanding under procurement budget for statistic software which is not require for right now.

Consulting Services:

During the reporting period, actual expenditure of USD 217,976 has been recorded under this category. Resulting in utilization rate of only 47% of the budget. The main cause for this large variance is the lengthy procedures for recruitment of full time and part time international and national consultants, such as:

- Two international consultants to support Strengthening BOL Capacity to Monitoring and Supervise PCG Facility just completed award the contracts in early February 2022;
- International consult firm (AFC) to support PFIs had been sign since October 2021, but no work done and not yet claim from the project;
- TA to SME not yet complete the procurement process and;
- Some TA to DOSMEP not yet complete the procurement process.

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Comparison of budget and actual payment
For the period from 21 January 2021 to 31 December 2021**

(Appendix 1)

Training and Workshop:

For this reporting period, expenditure of USD 21,860 has been recorded for this category. Resulting in utilization of 7% of budget for the reporting period. The main reason is:

- Due to the impact from the pandemic of COVID-19;
- Delayed recruitment of international and national consultants to provide the training;
- Some activities completed and not yet claim, such as Start Up Fest 2021.

Incremental Operating Cost:

During the reporting period, actual expenditure of USD 58,917 has been recorded under this category. Resulting in utilization rate of only 71% of budget. Due to the impact of COVID-19 has related to the delay in commencement of Key planned activities in the first half of current year. Another reason is due to the project had printing promote material to support; printing Value Link book and business plan (four sets) to support MSME business.