

ASIAN DEVELOPMENT BANK

TAR: LAO 35301

TECHNICAL ASSISTANCE
(Cofinanced by the Governance Cooperation Fund)

TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR

ADVISORY ASSISTANCE ON SMALL AND MEDIUM-SIZED

ENTERPRISE AND PRIVATE SECTOR DEVELOPMENT

December 2003

CURRENCY EQUIVALENTS

(as of 19 November 2003)

Currency Unit	–	kip (KN)
KN1.00	=	\$0.00010
\$1.00	=	KN10,490

ABBREVIATIONS

ADB	–	Asian Development Bank
CSP	–	country strategy and program
DDFI	–	Department for Domestic and Foreign Investment
FDI	–	foreign direct investment
GDP	–	gross domestic product
LNCCI	–	Lao National Chamber of Commerce and Industry
MOC	–	Ministry of Commerce
MOF	–	Ministry of Finance
MOJ	–	Ministry of Justice
PSD	–	private sector development
SDPL	–	sector development program loan
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
UNIDO	–	United Nations Industrial Development Organization

NOTE

In this report, "\$" refers to US dollars.

This report was prepared by M. Varkay, Private Sector Development Specialist, MKGF .

I. INTRODUCTION

1. The Government of the Lao People's Democratic Republic (Lao PDR) has emphasized the importance of private sector development (PSD) in the economy to facilitate small- and medium-sized enterprise (SME) development as well as attract foreign direct investment (FDI) to promote sustainable development of the natural resource base. The Government recognizes SMEs' high potential to create jobs and reduce poverty, and FDI's high potential to mobilize investment, improve human resource skills development, and access technology and export markets. Therefore, the Government has requested the Asian Development Bank (ADB) to help develop SMEs¹ and build capacity to mobilize FDI. As outlined in the technical assistance (TA) framework in Appendix 1, this advisory TA will start to address some legal and institutional constraints on SME development, identified under earlier TAs by ADB and other funding agencies, through intensive capacity building. This TA will be followed by a project preparatory TA, which will design detailed policy and capacity-building programs to support reform in the SME and PSD sector,² and prepare a program loan as identified in the 2003 country strategy and program (CSP) for the Lao PDR.³ The Fact-Finding Mission fielded in October 2003 reached an understanding with the Government on the TA purpose, approach, and implementation arrangements.⁴

II. ISSUES

2. Average growth rate of about 6% for 2002 and 2003 was slightly higher than recent ones but falls short of the Government's target of 7%. The Lao PDR remains dominated by agriculture, which employs over 70% of the population, while manufacturing employs only about 11%. Agriculture's share of gross domestic product (GDP) is slightly above 50%, and industry's, 23%. A few large firms dominate the natural resources sector (mining and quarrying as well as electricity) to produce 44% of industrial output. The mostly small business-dominated manufacturing sector produces 56% of industrial output. However, while approximately 22,000⁵ small businesses account for 98% of manufacturing activities and over 50% of commercial activities, these firms employ on average less than five people. The firms' size and inability to invest constrains labor absorption. By comparison, the joint venture-operated textile manufacturers that benefit from investment incentive programs, create over 50% of manufacturing jobs.

3. ADB's CSP emphasizes PSD and SME development to reduce poverty. The Government's National Poverty Eradication Program also states that economic growth should be hastened through strong PSD/SME sector development, combined with poverty-reducing interventions, particularly in improving corporate governance, access to finance, and human resource skills development. Several recent ADB operations have supported this approach, including (i) the Banking Sector Reform Program, to lay the foundation for financial and legal

¹ The TA first appeared in *ADB Business Opportunities* (Internet edition) on 1 August 2003.

² The reform framework envisages three phases: (i) advisory TA—December 2003–December 2004, to integrate capacity building in five ministries and the commercial banking sector to initiate and support the development of a pro-business regulatory environment; (ii) project preparatory TA—December 2004–December 2005, to continue upgrading the legal and regulatory framework to support SMEs and PSD to prepare for the Sector Development Program Loan (SDPL); and (iii) SDPL, January 2006–2009.

³ A \$10-million SDPL is in the pipeline for early 2006.

⁴ The Mission comprised M. Varkay (private sector development specialist), Governance, Finance, and Trade Division, Mekong Department.

⁵ Ministry of Industry and Handicraft and United Nations Industrial Development Organization. 2001. *Survey of Small Manufacturing Establishments 1999*. Vientiane. Based on firms with less than 10 employees. Most SMEs in this category are engaged in rice milling, textile manufacturing, and furniture making.

infrastructure;⁶ and (ii) a programmed Rural Finance Development Project, to provide microfinance for rural (and household) SMEs.⁷

4. The Government recognizes PSD and SME development as the cornerstone of overall economic development and poverty reduction, and has drafted the SME decree⁸ to remove policy and legal obstacles to SME growth. The decree aims to (i) improve the business regulatory environment, (ii) enhance SME competitiveness, (iii) expand domestic and international market access, (iv) improve access to finance, (v) develop business organizations, and (vi) promote entrepreneurial activity. The major aid agencies active in PSD/SME development in the Lao PDR include Japan International Cooperation Agency (JICA) and United Nations Industrial Development Organization (UNIDO). The Mekong Project Development Facility⁹ has a presence as do some bilateral agencies. However, no comprehensive assistance package combines the sector development strategy (including policy and legal reform), financial assistance/loan, and TA.

5. Although the Lao PDR has started to upgrade the legal and regulatory framework to build a fair and competitive business environment, the Government should remove a number of obstacles to PSD and SME development by doing the following:

- (i) Continue training judges in commercial adjudication and dispute resolution procedures; review the major commercial laws (business, bankruptcy, trademark, foreign investment); and implement the Secured Transactions Law.¹⁰
- (ii) Initiate the review of foreign investment incentives, build capacity in national and provincial governments in cost-benefit assessment of investment concessions, as well as the principles of project finance, and develop an investment review tracking system. Small investors are especially vulnerable to delay in the processing of their applications.
- (iii) Raise the level of market intelligence and market information available to the private sector from the Government and Lao National Chamber of Commerce and Industry (LNCCI) to facilitate SME trade transactions.
- (iv) Expand access to finance and provide information and training for SMEs in business development services.
- (v) Harmonize registration processes of enterprises across the Government—Department of Domestic and Foreign Investment (DDFI), Ministry of Commerce (MOC), Ministry of Finance (MOF)—to enable cross-referencing of information on enterprises. Clarify the criteria for license issuance and for inspection to speed up enterprise registration.
- (vi) Register with MOF the large number of unregistered small businesses liable for presumptive tax¹¹ to make the tax collection rate and fees collected from

⁶ ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Loan to Lao PDR for the Banking Sector Reform Program*. Manila.

⁷ Listed in the CSP for 2004.

⁸ The SME decree was undertaken under a TA provided by UNIDO. The Government held wide consultations with the donor community and private sector in the June 2002 workshop on SME development, supported by UNIDO.

⁹ A review of the Mekong Project Development Facility's existing programs in the Lao PDR indicate that ADB will be taking the lead in SME and PSD capacity building. The TA will be continue to coordinate closely with the facility as well as other donors to avoid overlap.

¹⁰ The proposed TA will support capacity-building activity initiated under TA 4002-LAO (ADB. 2002. *Strengthening Corporate Governance and Management of State-Owned Commercial Banks II*. Manila.) that is developing a commercial division of the court and training 18 nominated judges and related court registry staff and enforcement officers to undertake commercial dispute adjudication resolution for nonperforming bank loans. The proposed TA will extend the training of the judges in commercial law and related dispute settlement processes.

enterprises predictable. Introduce transparent and standardized criteria for tax payment based on factors such as size of establishment and commercial location.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

6. The TA purpose is to help the Government develop an integrated institutional and regulatory capacity-building framework to establish the foundation for PSD and SME development. The framework will be consistent with and supplementary to government development strategies and have the following components:

7. **Support Implementation of the Small Medium Enterprise Decree.** The TA will help facilitate the implementation of the comprehensive draft SME decree. Its implementation is being discussed between the Implementing Agency (Ministry of Industry and Handicrafts) and other government agencies. As no adjustments are required to the decree, the TA will support its implementation and provide integrated capacity building to support major reforms in financial and business laws, and institutional and human resource development to foster the development of a pro-business environment. The focus of TA capacity building is guided by the results of in-depth analyses on the constraints to SME and PSD development undertaken under previous studies.¹² The TA will gauge the areas where institutional, policy, and regulatory reforms need to be strengthened and thereby agree with the Government on the scope and depth of reforms under the medium-term SME and PSD program, which will define a number of time-bound policy actions based on international practice tailored to the Lao PDR.

8. **Improve the Business Regulatory Environment through Legal and Governance Reform for Small Medium Enterprise and Private Sector Development.** The TA will support the improvement of the commercial and financial framework through (i) implementation of an enhanced Secured Transactions Law;¹³ (ii) review of the proposed amendments to the enterprise, bankruptcy, foreign investment, and trademark laws; and regulations on the implementation of the Standards Council,¹⁴ as proposed under previous TAs, to facilitate SME development and competitiveness; (iii) training of “commercial” judges, supported by study modules and review sessions in the application of the Secured Transactions Law and major business laws, including dispute settlement and enforcement procedures; (iv) assess areas where nonjudicial forms of dispute resolution involving arbitration may be introduced; (v) provide information workshops on the role and use of the business laws to public sector officials and the private sector; and (vi) develop a blueprint for the secured transactions registry.

¹¹ Refer to MOF Decision on the Administration of Tax Collection (Ref. 2262, 30/10/02), para. 2.2, on tax collected from small taxpayers or independent jobbers with annual turnover of less than KN100 million and presumptive tax collection at the district level. “The tax base for calculation of presumptive tax is based on the estimation of monthly and annual turnover as a result of agreement reached between tax officials and taxpayers by drafting a contract of presumptive tax payment for a period of one year.” This constraint is also reviewed in the draft National Poverty Eradication Programme, chapter 3.2.

¹² TA-3737 LAO (ADB. 2001. *Technical Assistance to the Lao PDR for Preparing the Financial Sector Development Program*. Manila.) and UNIDO SME Decree Development Technical Assistance.

¹³ The revised law will strengthen the powers of the judiciary and the commercial banking sector—part of the conditionality of the Banking Sector Reform Program Loan second-tranche release in 2004. The law will (i) significantly improve the ability of commercial banks to diversify portfolio risk, (ii) give SMEs access to finance on the basis of legally defined assets, (iii) improve the climate for consumer protection, and (iv) encourage participation of foreign banks and the development of domestic nonfinancial institutions.

¹⁴ The Standards Council and supporting institutional framework will be developed under the second phase of TA-4108: *Integrating the Poor in Regional Trade through Standard-Setting for Private Sector Development*. The TA will provide regulatory support.

9. **Improve Enterprise Licensing and Registration.** The TA will analyze the licensing system and delineate ways to relate the criteria of the licensing/inspection system developed under the Standards Council to the jurisdiction of government agencies, and to firms' rights and responsibilities. The TA will also initiate streamlining of registries and define common data requirements across ministries.

10. **Establish a Small-Business Tax Pilot System in Vientiane.** On a pilot basis, the TA will study the criteria for small-business tax payment and review implementation procedures in Vientiane in consultation with the Government and private sector. The TA will analyze the impact of the tax regime on small businesses. Proposed changes to small-business tax rates will control undesirable threshold effects.

11. **Strengthen Domestic and Foreign Investment Review Procedures.** The TA will (i) identify the skills gaps in investment project review and train national and provincial DDFI staff in cost-benefit analysis of investment projects (mining, pulp and paper, agro-industry, textile manufacturing); (ii) review the procedures of investment approval and identify required actions to streamline the approval process; and (iii) review the required upgrading of the Foreign Investment Law as well as the registration of investment projects.

12. **Develop Market Information and Market-Access Knowledge Networks.** The TA will build the capacity of MOC and LNCCI in trade transaction procedures and development of market intelligence networks for the private sector. In the process the TA, with the Government, will also identify the constraints on market access and competitiveness of enterprises and identify policy reforms for review. The TA will provide capacity building to LNCCI and industry associations to develop market-based services to facilitate SME access to foreign/domestic markets and technologies.

13. **Identify Measures to Improve Small Medium Enterprise Access to Finance.** Finally, the TA will work with the international bank advisors under the Banking Sector Reform Program Loan to determine whether bank credit analysts are ready to undertake SME lending, and review areas needing additional capacity building. The TA will develop a business development service training program for SMEs to facilitate access to short- and medium-term credit as well as pre shipment finance¹⁵. Besides finding ways to enhance SMEs' access to bank credit, the TA will also analyze existing credit lines and other investment projects as well as credit training programs for their effectiveness and complementarities.

B. Methodology and Key Activities

14. The TA will proceed in two phases. During the first phase, a skills-training and capacity building roadmap will be drawn up, to be reviewed with the Government and the private sector during the inception workshops, and implemented over the second phase. To facilitate consultation and review, each TA stage will present a quarterly summary training and policy review document to be reviewed in workshops with the Government and private sector.

C. Cost and Financing

15. The total cost of the TA is estimated to be \$791,000 consisting of \$557,000 in foreign exchange costs and \$234,000 equivalent in local currency costs. The Governance Cooperation

¹⁵ The TA will also coordinate with the Private Sector Operations Department on trade finance matters.

Fund will provide joint cofinancing on a grant basis for \$170,000. ADB will finance \$500,000 equivalent on a grant basis from ADB's TA funding program. The Government will finance the remaining \$121,000 equivalent of the local currency costs in kind by providing office accommodation, support facilities, communications, counterpart staff, and workshop support. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

16. MOC will be the Executing Agency. ADB has also requested that a high-level consultation group be established, headed by MOC, which will meet quarterly. The implementing agencies include the ministries of commerce, finance, industry, and justice; other relevant government agencies; and LNCCI. Inputs from private sector representatives, including business associations, as well as other stakeholders, will be sought throughout TA implementation.

17. The TA will be implemented over 12 months, from January 2004 to end-December 2004, and will require eight international (41 person-months total) and five domestic (25 person-months total) consultants. The international consultants will consist of a secured transactions specialist, a judicial and legal reform expert, an investment project specialist, an SME finance and business development services expert, an enterprise licensing and registration expert, a tax expert, an applied trade economist, and an industry association expert. The domestic consultants will include an Information Technology specialist, a Small Medium Enterprise specialist, a legal expert, an applied market research/trade economist, and a training coordinator. The consultant team will produce an inception report, two interim reports, and a draft final report, and each will be discussed during tripartite meetings. The consultant team, either a firm or individuals, will be selected according to ADB's *Guidelines on the Use of Consultants*. All procurement undertaken by the consultants will be in accordance with ADB's *Guidelines for Procurement*. The contract with the consultants will be based on quality- and cost-based selection. The simplified technical proposal will be used. Consultants terms of reference are in Appendix 3.

IV. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of \$170,000 to be financed on a grant basis by the Governance Cooperation Fund, and (ii) ADB providing the balance not exceeding the equivalent of \$500,000 on a grant basis, to the Government of the Lao People's Democratic Republic for Advisory Assistance on Small and Medium-Sized Enterprise and Private Sector Development, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal Promote development, trade, and investment, and increase employment by fostering a vibrant private sector and small and medium-sized enterprise (SME) sector</p>	<ul style="list-style-type: none"> ▪ Bigger SMEs ▪ More SME investment and exports ▪ More SME employment ▪ Bigger SME contribution to gross domestic product (GDP) ▪ More SMEs registered in the formal sector ▪ More foreign investment 	<p>Government statistical reports</p>	<p>Assumption</p> <ul style="list-style-type: none"> ▪ The Government is committed to SME development. ▪ The political and macroeconomic environment will remain stable.
<p>Purpose Enhance the legal, institutional, and policy framework to facilitate private sector and SME development</p> <p>Increase responsiveness of financial and regulatory frameworks to SME and private sector development (PSD) growth</p>	<ul style="list-style-type: none"> ▪ Government endorsement of the capacity-building road map presented in the inception workshop and report ▪ Quarterly policy review and summary training document prepared by consultants in consultation with the Government ▪ Government support for market orientation of SME and PSD laws and regulations as well as private sector service provision 	<ul style="list-style-type: none"> ▪ Asian Development Bank (ADB) review missions ▪ Cabinet approves the SME decree ▪ Consultants' studies and assessments ▪ Development of supporting decrees and regulations for SME/PSD development ▪ Number of trained specialists in government and the Lao National Chamber of Commerce and Industry (LNCCI) 	<p>Risks</p> <ul style="list-style-type: none"> ▪ Regulatory reform is delayed, and coordination is lacking among ministries to support holistic pro-business reform initiatives. ▪ Counterpart staff has inadequate interest in learning. <p>Assumptions The road map on sequencing and targeting of capacity building, policy workshops, training modules, and training abroad convinces the Government of the importance of regulatory and institutional reforms.</p>
<p>Outputs Policymakers' understanding of pro-business regulatory and institutional issues Improved skills in government agencies</p> <p>Review of major commercial laws and required amendments for pro-business regulatory environment</p> <p>Streamlining of business registries finalized</p> <p>SME lending instruments and business development services developed</p>	<ul style="list-style-type: none"> ▪ An SME/PSD working group is established by February 2004. ▪ Two policy workshops are held before July 2004. ▪ The Secured Transactions Law is implemented by June 2004. ▪ Recommendations for amendment and upgrading of major commercial laws are submitted by September 2004. ▪ A training program for judges is initiated by June 2004. ▪ Commercial courts begin adjudication on commercial laws by September 2004. ▪ A training program in investment review begins by June 2004. ▪ A training program in market access and market intelligence begins by May 2004. ▪ A training program on the use of 	<ul style="list-style-type: none"> ▪ Minutes of the task force ▪ TA training modules and consultants' reports ▪ ADB review missions and consultations with the Government and other stakeholders 	<p>Assumptions</p> <ul style="list-style-type: none"> ▪ Government agencies are supportive. ▪ Counterpart staff are available. ▪ ADB will be able to closely communicate with relevant actors. ▪ Reforms are owned by Government, private sector, and judiciary.

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>and introduced in the financial sector</p> <p>Criteria for licensing and inspection drawn up by principal line ministries</p>	<p>harmonized business registries begins by September 2004. The Government commits to supporting regulation on business registry procedures across relevant agencies.</p> <ul style="list-style-type: none"> ▪ A training program in small-business taxation is provided to pilot area by September 2004. ▪ Major commercial banks introduce SME lending instruments by July 2004. 		
<p>Activities</p> <p>Workshops and consultations with the Government and other stakeholders for consensus building</p>	<ul style="list-style-type: none"> ▪ Four workshops with stakeholders to build consensus on the capacity-building road map and related policy reforms 	<ul style="list-style-type: none"> ▪ TA progress reports ▪ ADB review missions 	<p>Government agencies are supportive.</p>
<p>Inputs</p> <p>Consultants, equipment, workshops</p>	<ul style="list-style-type: none"> ▪ Frameworks for the capacity building and policy reform schedule ▪ Fine-tuning of the roadmap 	<ul style="list-style-type: none"> ▪ TA progress reports ▪ ADB review missions and consultations with the Government and other stakeholders 	<ul style="list-style-type: none"> ▪ Resources are used efficiently.

COST ESTIMATES AND FINANCING PLAN

(\$)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing^a			
1. International Consultants			
a. Remuneration and Per Diem	451,000	0	451,000
b. International Travel	35,000	0	35,000
c. Local Travel and Transportation	0	6,000	6,000
d. Communications/Translation	5,000	0	5,000
e. Report Production and Mailing	3,000	0	3,000
2. Domestic Consultants			
a. Remuneration and Per Diem	0	50,000	50,000
b. Local Travel and Transportation	0	3,000	3,000
3. Field Survey ^b	0	15,000	15,000
4. Equipment ^c	8,000	0	8,000
5. Research and Data Processing Assistance	0	7,000	7,000
6. Training, Seminars, and Conferences	55,000	30,000	85,000
7. Office Supplies	0	2,000	2,000
Subtotal (A)^d	557,000	113,000	670,000
B. Government Financing			
1. Counterpart Services	0	55,000	55,000
2. Office Expenses and Logistics	0	40,000	40,000
3. Local Transport	0	20,000	20,000
4. Others	0	6,000	6,000
Subtotal (B)	0	121,000	121,000
Total	557,000	234,000	791,000

^a Cofinanced on a grant basis by ADB's TA funding program (\$500,000) and the Governance Cooperation Fund (\$170,000).

^b Field survey includes per diem remuneration for project implementation unit staff based on the United Nations Development Programme rate.

^c Equipment includes desktop computers and photocopy machine. Equipment to be owned by the Ministry of Commerce and as required, the Ministry of Justice, upon completion of the technical assistance.

^d Costs of international and domestic consultants are based on current remuneration of similarly qualified experts in the Lao People's Democratic Republic. Budget for training, seminars, and conferences is derived from previous capacity-building TA programs in the Lao PDR.

OUTLINE TERMS OF REFERENCE

A. International Consultants

The following international consultants will be recruited.

1. International Commercial Law/Legal Specialist and Team Leader (8 months)

1. The expert will be a commercial law and legal specialist with the following responsibilities:

- (i) Review with the subproject team leaders the scope of required amendments to the commercial laws to support the advisory technical assistance (TA) and the Small and Medium Enterprise (SME) decree.
- (ii) Develop a road map of capacity building and training with team members and present it to the Ministry of Justice (MOJ). The road map will include a review of the gaps in the legal framework on commercial laws and laws relating to the Standards Council framework, identify areas of commercial dispute adjudication and settlement, develop appropriate incentive and penalty mechanisms, and ensure transparent enforcement. The road map will include ongoing training of commercial judges in dispute settlement involving major commercial laws, including those relating to the Standards Council.
- (iii) Review the gaps in, and draft required amendments to, enterprise, bankruptcy, foreign investment, and trademark laws to facilitate SME development.
- (iv) With the secured transactions expert, continue training commercial judges, and through workshops educate public sector officials and the private sector on the amended commercial laws.
- (v) Oversee the preparation of the glossary of technical commercial law terms in the Lao language.

2. International Secured Transactions Expert (3.5 person-months)

2. The expert will have extensive experience in secured transactions systems, and a legal background and practical experience in secured transactions law and related commercial laws and regulations. The major tasks include the following:

- (i) Coordinate implementation of the secured transactions law and registry blueprint, including draft time frames, budget, and funding proposals.
- (ii) Advise on the implementation of the Secured Transactions Law, and harmonization of implementation regulations as well as relevant explanatory notes.
- (iii) Advise on a secured transactions registry system for the Lao People's Democratic Republic (Lao PDR), including the administration of the registry, and how to safeguard the registry's integrity.
- (iv) Help the Ministry of Finance (MOF) and MOJ organize an evaluation workshop.

For the TA to lead to the secured transactions registry, the Asian Development Bank (ADB) will determine, in consultation with MOJ and MOF, whether the proposed blueprint, revised laws, and funding proposals are sufficient to support a computerized register for secured transactions. The enterprise registration specialist may be required to undertake consultations on the secured transactions registry's technical features.

3. Investment Project Expert (6.5 person-months)

3. The expert will undertake the following:

- (i) Review foreign investment regulations and incentives, and determine where streamlining and upgrading is required. Coordinate with the international legal expert to update the law and supporting regulations.
- (ii) Review methods to analyze investment concessions, industrial zones, and projects, and relate these methods to the investment review process in the Department of Domestic and Foreign Investment (DDFI) and Government.
- (iii) Prepare training for DDFI staff based on major phases of investment policy and project review—taxation agreements, repatriation of profits, risk considerations by sector and potential for off-setting risk, length and scale of investment, financial rates of return and valuation techniques, cost-benefit analysis of knowledge and technology transfer, infrastructure development, market linkages, environmental impact assessment, and governance.
- (iv) Develop project simulation models to improve staff skills. Identify an international training center.
- (v) Review the tracking system of investment approval and propose its upgrading.
- (vi) Review investor registration with the enterprise registration expert to facilitate streamlining and development of a uniform enterprise registration number.
- (vi) Relate proposed reforms to international best practice in other transition economies, within the region and internationally.

4. Small and Medium Enterprise Finance Development Specialist (7 person-months)

4. The expert will undertake the following:

- (i) Review SME financing requirements, by sector and size of enterprise.
- (ii) Develop a credit risk scoring mechanism for Lao financial institutions and complement activities of the international bank advisors.
- (iii) Assess due-diligence procedures by Lao financial institutions and credit risk review mechanisms, including site visits to clients. Assess demand for trade finance and relate it to available financial instruments. Develop responsive financial instruments as per SME requirements and financial institution risk management in consultation with international bank advisors and their Terms of Reference (TOR).
- (iv) Work with the business development service provider to train SMEs in basic principles of financial statement presentation, accounting, and assessment of working capital requirements based on size of pre-shipment order.
- (v) Provide input to the secured transactions expert on the nature of SME collateral.

5. Enterprise Registration Specialist (4 person-months)

5. The expert will undertake the following:

- (i) Review enterprise registration and licensing process with DDFI, MOC, MOF, and other government agencies

- (ii) Undertake consultation on the required Information Technology (IT) modern computerized registration system, including identifying equipment, software, staffing, training, estimated costs, and appropriate fee structure, and on proposed links to existing and planned registries (land-titling registry and motor vehicle registry).
- (iii) Coordinate with standards specialists under ADTA¹⁶ on the pace of implementation of the Standards Council framework. Coordinate with standards experts on streamlining licensing and registration.
- (iv) Identify duplication and areas of incomplete information in enterprise registries across the Government. Work with the private sector and ministries to identify the scope of required information and develop a uniform enterprise registration numbering system across the Government as well as consistent data fields.
- (v) Design an IT system that will accommodate streamlining of information between ministries.

6. Small-Business Tax Specialist (3 person-months)

6. The expert will undertake the following:

- (i) Review the tax regime, including its complexity, stability, and enforcement, and how these affect small businesses. Assess the constraints of the small-business presumptive tax to help calibrate of small-business tax thresholds.
- (ii) Develop small-business tax rates based on transparent coefficients to facilitate streamlining of tax collection procedures.
- (iii) Build capacity of tax collectors and private businesses through training workshops, including public dissemination programs.
- (iv) Coordinate with the enterprise registration expert on assigning and implementing the tax information number for small businesses.

7. International Market Access Expert (5 person-months)

7. The expert will undertake the following:

- (i) With the Government and private sector, assess and review market access and market information constraints, including internal transport costs in the Lao PDR, landed price of products in Vientiane, costs of transshipment to regional ports, export regulations, and access to inputs for re-export.
- (ii) Identify the nature and costs of constraints and develop specific areas for regulatory streamlining. Draft a road map of actions, identify and target appropriate government and private sector participants, and undertake capacity-building workshops.
- (iii) Identify the status of market information networks and road map of actions for capacity-building workshops on (a) access to market information on consumer behavior, nature of competition, landed price of competing products, costs of shipment, etc.; (b) develop and train MOC staff in data-mining techniques; and (c) develop market information packages in response to industry and government demand.

¹⁶ TA 4108 Lao (ADB.2003. *Integrating the Poor in Regional Trade through Standard-Setting for Private Sector Development-Phase I*. Manila.)

- (iv) Coordinate with Lao National Chamber of Commerce and Industry (LNCCI) and the Standards Council lead advisor.

8. International Business Association Development Expert (4 person-months)

8. The expert will undertake the following:

- (i) Work with MOC and LNCCI as well as industry associations to determine capacity-building needs of private sector associations in the area of membership development, cost recovery service development, incentives for private sector to participate in and contribute to industry associations, benefit streams to members (e.g., "bronze-, silver-, gold-key services"), and development of strategies for growth and sustainability with LNCCI and industry associations.
- (ii) Review legislation guiding the legal and policy status of LNCCI and identify areas of reform to facilitate the transition of LNCCI and the 13 industry associations into fully private legal entities and service providers.

B. Domestic Consultants

The domestic consultants will support the international consultants in their specific areas of expertise and will be in measure to develop supporting IT systems; legal assessments; international market research and trade; and training, documenting, and translation work as required.

1. Information Technology Specialist (5 person-months)

9. The specialist will (i) work with the enterprise registration, foreign investment, tax, legal, and international market access experts to develop streamlined enterprise registries and data fields; and (ii) develop web-based search engines and online information service provision to the Government and the private sector.

2. Small Medium Enterprise Specialist (5 person-months)

10. The specialist will (i) develop networks with all relevant government agencies to assess the enabling environment to implement the SME decree, organize quarterly workshops, and develop the working group agenda in consultation with the experts; (ii) have expertise in finance, accounting, marketing, and business development, and will have trained SMEs under previous international projects; and (iii) plan and organize the training workshops in Business Development Service with the SME finance development specialist.

3. Legal Expert (5 person-months)

11. The specialist will (i) support the experts in SME finance development, legal reform, secured transactions, international market access and information, foreign investment, and others under the project as required, to provide detailed input on the laws and regulations on SMEs and Foreign Direct Investment; (ii) assess the scope of capacity building on legal reform undertaken by other international donors; and (iii) provide detailed input into the quarterly agenda as well as prepare for consultation meetings between government agencies, consultants, and the private sector.

4. Applied Market Research/Trade Economist (5 person-months)

12. The specialist will (i) work with the experts on international market access and information and international business association development to review the constraints on market access as well as market information networks; (ii) identify required reforms and training; and (iii) develop agenda items to be reviewed with the Government at quarterly meetings.

5. Training Coordinator (5 person-months)

13. The coordinator will (i) work closely with the international experts and domestic specialists to review the scope and specificity of required training workshops, and develop quarterly training implementation schedules; and (ii) initiate and launch a training-of-trainers program in Business Development Service, taxation, market access and information, and enterprise registration.

C. Implementation Schedule

14. This TA is scheduled to start in January 2004. All consultants will begin their work by end-February 2004. The work will produce three sets of each report, all conforming to ADB format and including electronic versions:

- (i) The first report is due by end-March 2004. This version (entailing a comprehensive TA outline) will be based on the terms of reference and initial discussions with the Government and ADB, and will provide the scope of the road map of training in each of the eight consulting specialists' areas. The report will also identify the sequencing and focus of the training workshops. ADB and the Government will comment on and review the report, which will be discussed in a follow-on TA review mission.
- (ii) The second report is due by end-June 2004 and will provide feedback and observations on issues related to capacity building, and areas of policy reform to be initiated with the Government in each of the eight consulting specialists' areas. The Government, private sector, and ADB will review the report's findings during a follow-on review mission and agree on the implementation of new decrees and regulations.
- (iii) The third report is due by end-September 2004 and will reflect the feedback from Government, private sector, and ADB on reform implementation.
- (iv) The submission of the final report is due by end-December 2004. The report may be revised based on comments by ADB and the Government.

15. Extensive training workshops with stakeholders, including local and central government officials, will be undertaken under the TA. The consultants are to hold a number of consultation workshops (including one at TA inception to clarify the consultants' work plan and build consensus) before delivery of the final report.