

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEGF

TA No. and Name TA 4279-LAO: Advisory Assistance on Small and Medium-Sized Enterprise and Private Sector Development			Amount Approved: \$670,000																															
			Revised Amount: N/A																															
Executing Agency: Ministry of Commerce		Source of Funding: TASF: \$500,000 GCF: \$170,000	TA Amount Undisbursed \$302,293.45	TA Amount Utilized \$367,706.55																														
<table> <tr> <th colspan="3">Date</th><th colspan="2">Completion Date</th></tr> <tr> <th>Approval</th><th>Signing</th><th>Fielding of Consultants</th><th>Original</th><th>Actual</th></tr> <tr> <td>18 December 2003</td><td>27 April 2004</td><td>Component 1: Jul.04-Apr.05 Component 2: Oct.04-Apr.05 Component 3: Oct.04-Apr.05</td><td>31 December 2004</td><td>30 November 2005</td></tr> <tr> <th colspan="3"></th><th colspan="2">Closing Date</th></tr> <tr> <th colspan="3"></th><th>Original</th><th>Actual</th></tr> <tr> <td colspan="3"></td><td>31 December 2004</td><td>15 June 2006</td></tr> </table>			Date			Completion Date		Approval	Signing	Fielding of Consultants	Original	Actual	18 December 2003	27 April 2004	Component 1: Jul.04-Apr.05 Component 2: Oct.04-Apr.05 Component 3: Oct.04-Apr.05	31 December 2004	30 November 2005				Closing Date					Original	Actual				31 December 2004	15 June 2006		
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<p>Description</p> <p>The Government of the Lao People's Democratic Republic (Lao PDR) has emphasized the importance of private sector development (PSD) in the domestic economy—both in terms of facilitating small- and medium-sized enterprise (SME) development, as well as attracting foreign direct investment (FDI) to assist in the sustainable development of the natural resource base. The Government recognizes the SME sector's high potential to generate employment and reduce poverty, and the FDI sector's high potential to mobilize investment, improve human resource skills development, as well as improve access to technology and the export markets.</p> <p>Expected Impact, Outcome and Outputs</p> <p>The objective of the TA is to develop an integrated institutional, legal and regulatory framework to facilitate the development of a fair and competitive business environment. This objective is addressed through seven components, as follows: (i) Support the implementation of the SME Decree; (ii) Improve the business regulatory environment through legal and governance reform for small medium enterprise and private sector development; (iii) Improve enterprise licensing and registration; (iv) Establish a small business tax pilot system in Vientiane; (v) Strengthen domestic and foreign investment review procedures; (vi) Develop market information and market access knowledge networks; (vii) Identify measures to improve small medium enterprise access to finance.</p> <p>Delivery of Inputs and Conduct of Activities</p> <p>A large proportion of the TA inputs and outputs were completed as indicated in the TA TOR. However, due to the unexpected long delay in TA extension, ADB submitted the request for extension to Government in April 2005 and received approval seven months later in November 2005, the TA was closed by ADB Management. The long timelines and uncertainty in TA extension approval caused an interruption in some of the TA components. As a result, some of the TA consultants were not fielded and a proportion of the TA was left undisbursed.</p> <p><i>Component 1:</i> This component is the joint delivery of components (i) and (ii) under TA objectives.</p> <p>(i) <u>Implementation of SME Decree.</u> No adjustments were required to the comprehensive SME decree. The TA facilitated the integrated capacity building to support major reforms and review of the financial and commercial laws as well as the institutional and human resource development to foster the development of a pro-business environment under the other components of the TA.</p> <p>(ii) <u>Legal and Governance Reform.</u> The original TOR called for the (a) development of an enhanced Secured Transactions Law; (b) review of the proposed amendments to the enterprise, bankruptcy, foreign investment and trademark laws, as well as regulations on the implementation of the Standards Council; (c) training of commercial judges on dispute settlement involving the major financial and business laws; (d) training to public sector officials and the private sector on the role and use of financial and business laws as well as (e) development of a blueprint for the secured transactions registry. The outline called for one consultant (Legal specialist and team leader) for 8 months. The consultant TOR was complete. The consultant was fielded over a period of 8 months and undertook the upgrading of the Secured Transactions Law that was submitted to the National Assembly ahead of schedule and approved in May 2005. All other legal reviews, public-private training programs were most satisfactorily concluded. Unfortunately, the blueprint for the secured transactions registry could not be completed as the TA extension request was received seven months after submission by ADB. By this time the consultant, also team leader, was no longer available and the TA was subsequently closed by ADB Management. The consultant's performance was excellent. The component was completed in April 2005.</p> <p>(iii) <u>Improve Enterprise Licensing and Registration.</u> (iv) <u>Establish a Small Business Tax Pilot in Vientiane.</u> The seven-month delay in TA 4279 extension caused an interruption of components (iii) and (iv) under the TA. The Government was in the process of developing a new Enterprise Law that was also to refer to the process of streamlined enterprise licensing and registration. While the TA legal consultant was actively undertaking the legal work in this area, the subsequent long delay in TA extension precluded the hiring of the enterprise registration specialist.</p> <p>With respect to the establishment of a small business tax pilot in Vientiane, timely discussions with the Swedish International Development Agency (SIDA) ensured the proposed changes to small business tax rates activity was undertaken under the SIDA "Strengthening the Fiscal Management of the Lao PDR" project.</p> <p><i>Component 2:</i> The strengthening of the (v) <u>Domestic and Foreign Investment Review Procedures</u> as well as (vi) <u>Streamlining of and Market Access Knowledge Networks</u> were implemented by the same consultant over a period of 5 months to ensure timely implementation. The original TOR outlined the requirement to identify skill gaps in</p>																																		

investment project review, undertake the review of investment approval procedures and identify required actions to streamline the approval and registration process. The TOR on market access specified the requirement to build capacity in the chamber of commerce and industry as well as the Ministry of Commerce on streamlining trade transaction procedures. These tasks were completed. A roadmap on streamlined inter-ministerial investment approval process was developed and presented to Government, together with supporting corporate governance framework. Workshops were conducted on investment review procedures, and additional workshops on the use and implementation of input:output coefficients to assist with streamlined export and import processes by the Ministry of Commerce. The consultant's performance was highly satisfactory. The component was completed in April 2005.

Component 3: The original TOR outlined the development of (vii) SME Training on Short and Medium-Term Financing as well as joint credit training for commercial bank staff. The TORs were adequate. The consultant implemented the workshops and training programs in three major urban areas of Lao PDR. The consultant also involved the commercial court judges in the training program thus ensuring the private sector client, the credit supplier and the adjudicator were all involved in the same coursework. The workshops led to an improved understanding of SME finance and business requirements. The consultant's performance was highly satisfactory. The component was completed in April 2005.

Evaluation of Outputs and Achievement of Outcome

Under Component 1, the consultant developed the new Secured Transactions Law submitted to and approved by the National Assembly on May 2005. The Secured Transactions Law was part of the second tranche release conditionality of the Banking Sector Reform Program Loan as well as conditional to the signing of the Nam Theun II agreement by the private sector investors. In addition, the consultant undertook the: (i) review of 19 financial and commercial laws, (ii) the proposed upgrading of seven laws and decrees in accordance with the requirements of the Lao economy, including the Anti-Money Laundering Law, Bankruptcy Law, Enterprise Law, Contract Law, Mining Law, Banking Law and the Trade and Competition Decree; (iii) held monthly training workshops and developed case studies over the period July 2004–April 2005 for stakeholders in government, private sector, the commercial court, the Supreme Court and the State Owned Commercial Banks on the use and application of the laws in commercial and financial transactions. All legal documents were translated into Lao. A legal lexicon was also prepared and translated into Lao. Training was also held for the Lao Bar Association and the Lao Accounting Association. Further activity on the development of the Secured Transactions Decree was interrupted due to lengthy delay in TA extension.

Under Component 2, the consultant developed the (i) proposed institutional and corporate governance framework to assist with streamlined investment review process between the major line ministries; (ii) developed workshops and case studies on the utilization of input:output coefficients in the trade regime to streamline import and export procedures using other small and transition economies as reference points. Further activity on a study tour to Thailand to review the implementation of streamlined investment and trade processes was interrupted due to the delay in TA extension.

Under Component 3, the consultant undertook six training workshops in Vientiane, Luang Prabang and Pakse on SME short and medium-term credit, collateral, cashflow analysis, SME order deliveries and turn-around times. The workshops were undertaken jointly with SMEs, commercial bank staff and commercial court judges to provide an appreciation of the incentives and constraints of each major intermediary in the financing chain. SME access to finance training material was translated into Lao and copies were provided to the Lao National Chamber of Commerce and Industry.

Overall Assessment and Rating

The Ministries of the Government of Lao PDR (Bank of Lao PDR, Ministry of Justice, the State Owned Commercial Banks, Ministry of Finance, Ministry of Commerce, the Supreme Court) indicated their satisfaction and buy-in to the new Secured Transactions Law—as well as their appreciation for the proposed upgrading of seven major commercial and financial laws—developed in accordance with the requirements of the Lao economy. The focus of the training workshops, and the involvement of the private sector, judges and the public sector in the legal workshops as well as the SME finance training workshops were highlighted as being especially useful for their holistic and integrated approach. The Executing Agency, the Ministry of Commerce, also indicated their satisfaction with the workshops on the Enterprise Law and the workshops on streamlining the export and import trade procedures—the latter being especially useful during the ongoing negotiations to WTO accession and requirements on streamlining the external trade regime. Weekly Task Force meetings were held between the Government and the Executing Agency (Ministry of Commerce) and the Implementing Agencies (Bank of Lao PDR, Ministry of Industry and Handicraft, Ministry of Justice, Department for Domestic and Foreign Investment, Supreme Court, Lao National Chamber of Commerce and Industry) to review outputs achieved during the week and agree on focus of activities for implementation. Minutes were prepared after each Task Force meeting and submitted to the Executing Agency.

In spite of the interruption of some planned activities due to the seven month delay in TA extension, the overall rating of the project is successful.

Major Lessons Learned

Projects that involve more than one ministry need to consider longer implementation periods in the Lao PDR.

Recommendations and Follow-Up Actions

Based on the outputs of TA, the follow-on PPTA has had the opportunity to build on reforms on streamlining foreign investment review and streamlining of the trade regime. Both areas are of support to the Lao PDR's ongoing negotiations to accede to the WTO.