



# Appraisal Environmental and Social Review Summary

## Appraisal Stage

### **(ESRS Appraisal Stage)**

Date Prepared/Updated: 09/14/2020 | Report No: ESRSA01045



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Region	Project ID	Parent Project ID (if any)
Lao People's Democratic Republic	EAST ASIA AND PACIFIC	P174169	
Project Name	Micro, Small, and Medium Enterprise Access to Finance Emergency Support and Recovery Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	9/14/2020	9/30/2020
Borrower(s)	Implementing Agency(ies)		
Ministry of Finance	Ministry of Industry and Commerce		

Proposed Development Objective

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

Financing (in USD Million)	Amount
<b>Total Project Cost</b>	<b>40.00</b>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

Yes

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

Micro, Small and Medium Enterprises (MSMEs) play an important role in the Lao 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. The contribution of MSMEs to GDP, estimated at under 20 percent, however, lagging that of SMEs in Thailand (40 percent), or Malaysia (32 percent). Most MSMEs are micro enterprises with fewer than 5 employees. Reinforcing the importance of MSMEs in the country, the 2013 Economic Census conducted by the Lao Statistics Bureau found that MSMEs accounted for 82 percent of total employment. MSMEs are therefore critically important



for the livelihoods of the Lao people and improving the performance and prospects of the sector will be critical to minimizing socio-economic disruptions.

MSMEs have been greatly impacted by economic disruptions resulting from the ongoing COVID-19 crisis. MSMEs face a sharp reduction in demand and income, as well as disruptions in supply chains, while future investments to ensure social distancing at the workplace will put additional strain on company finances. Tourism has basically come to a standstill in the second quarter of 2020, while a lockdown in April and May limited demand for other services and brought production in many firms to a standstill. According to a survey by the Lao National Chamber of Commerce and Industry (LNCCI) in May 2020 a significant percentage of firms expect to suffer large decreases in revenue, with 50 percent of firms seeing a more than 80 percent chance to permanently cease operations. Across the board, firms expect to lay off a large percentage of their workforce-see Figure 1. Among the hardest hit sectors are ‘accommodation and food service’, entertainment and recreation, and the education sector. In contrast, less than half of respondents from ‘Financial and Insurance Services’ industry’ expect a business failure.

The WB financed SME Access to Finance Project has incorporated market principles to lines of credit to successfully demonstrate demand for credit at market rates. The project aimed to provide long term funding sources for commercial banks provided a long-term funding source to commercial banks to stimulate lending to SMEs at longer tenors. Four participating commercial banks on lent the funds to MSMEs at market-determined rates. The line of credit is fully disbursed, portfolio at risk has been low (but increasing due to the COVID-19 crisis), and banks have successfully applied World Bank safeguard instruments. The project also invested in building capacity in commercial banks to develop MSME lending strategies and provided technical assistance to SMEs to strengthen management skills, improve financial management systems and develop proper business plans and accounting systems.

Government is keen to pursue additional programs to support the ability of SMEs to survive and recover from COVID-Interventions need to address banks’ risk-averseness to lend to MSMEs given that economic disruptions have reduced cash flows, account for economic uncertainty and its impact on MSME performance and avoid increasing financial sector vulnerabilities that could contribute to a crisis. A well-designed line of credit and risk sharing facility could achieve government’s objectives to preserve MSMEs while upholding commitment to financial stability. Leveraging the existing SME A2F project offers an opportunity to build on a well-performing project to deliver relevant support to SMEs while ensuring that banks are able to charge a sustainable interest rate and have access to a risk sharing facility.

The project aims to increase 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 and technical assistance to support government establish a Partial Credit Guarantee (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 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 SME development. While 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.

#### **D. Environmental and Social Overview**



D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

Lao PDR (with a population of 7.1 million) has made great strides in the recent past, averaging 7.8 percent of annual Gross National Income (GNI) growth over the past decade. Lao PDR today is a lower-middle income country; however, growth has been driven mainly by exploitation of natural resources and development of hydropower over the last decade, with both sectors largely led by foreign investors. Many of its social indicators, including poverty levels, are still far behind in comparison to its regional neighbors. Economic growth has been heavily concentrated in urban areas, while in rural areas, high levels of poverty and inequality prevail. Poverty and human development indicators are also worse for ethnic minorities, many of whom live in remote areas.

Though still no of case confirmed infection, Lao PDR shares a long border with countries affected with COVID-19 outbreaks, especially China, Thailand and Vietnam. This project is a Financial Intermediary (FI) prepared under urgent need in order to strengthen the capacity of financial institutions and local micro, small and medium enterprises (MSMEs) to sustain operations and recover from the social and economic impacts of the COVID-19 emergency.

This 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 (Lao-China Bank, SACOM Bank, Lao-Viet Bank and ST Bank).

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. However, clusters among MSMEs operating in the same sectors is not evident in Lao PDR.

At the appraisal stage, five commercial banks, including some of the participants in SME A2F Project, submitted their EOIs to participate in this project. The target beneficiary MSMEs 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-loan were to microenterprises, 93 to small- and 4 to medium sized enterprises. The ratio of female beneficiaries under the LoC is 59%). 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/jewelry shops, car service shop, furniture shops, mini marts, pottery manufacture, aluminum frame and glass partition shops, etc.

Types of activities to be financed are: Working capital needs (loans for payment of salaries, marketing costs, audit and accounting costs, acquisition of new transportation equipment (automobiles, trucks, other specialized equipment, and replacement parts), acquisition of communications equipment (phone and fax equipment, computers, printers, servers, software, other hardware, etc.), purchase of construction materials for shop selling construction material, building of warehouses or renovation of existing physical premises in the land fully-owned by the MSMEs, purchase of



feed stock, and feed mixer machine, acquisition of fixed assets (industrial machines, refrigerators, industrial equipment, replacement parts, tools and equipment, quality labs etc.),etc.).

Component 1: Emergency and recovery line of credit to SMEs - This component aims to alleviate the lack of long-term sources of funding that prevents commercial banks from providing credit (short term working capital to help MSMEs manage impact of the crisis and longer-term credit more than 2 years) to MSMEs. The apex entity will be the Department of Small and Medium Enterprises Promotion (DOSMEP) who will provide long-term funding in local currency to participating financial institutions (PFIs) - financially-sound and well administered commercial banks. As MOIC/DOSMEP has served as the executing agency under the original SME Access to Finance project, and thus has developed the requisite experience to manage and monitor loan funds prudently and to allocate them in line with agreed selection criteria. DOSMEP will use the WB funds to enable the commercial banks/PFIs to channel investments to MSMEs. The PFIs will on-lend these funds for working capital and long term loans (up to US\$200,000 equivalent in local currency) to (more than 50%) 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 renovation of facilities and warehouses, modernization of transportation and communications equipment, upgrading quality labs and systems, and so forth. The project will conduct due diligence to existing investment/facilities and ensure only low and/or moderate E&S risk activities will be financed by this project as well as the E&S performance is satisfactory.

Component 2: Provide Technical Assistance (TA) to Bank of Lao to support its efforts to establishment of a Partial Credit Guarantee (PCG) facility to improve access to finance for SMEs. The PCG fund will likely be established as a state-owned entity with financial autonomy and supervised by the Central Bank. It will be administered by a local independent firm (Fund Manager) a performance-based contract that will balance outreach and sustainability. The Fund Manager will be responsible for developing the business plan, financial model, operational policies, and procedures including the selection criteria for PFIs.

The institutional set-up 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 current SME A2F project. An Implementation Body, comprised of competent professionals, will be established to operationalize the PCG, with continued support from the consulting firm. The Implementation Body will have operational and fiduciary responsibilities over guarantees financed by the PCG. This will entail administrative oversight of the PCG, regulatory and supervisory compliance, management of contractual obligations including with PFIs, maintenance of monitoring and information systems and fund management – including in line with World Bank fiduciary and environmental and social standards.

Since a relevant amount of the FI subprojects are likely to cause minimal or no adverse environmental or social risks or impacts due to its small scale sub-projects managed by micro-and small enterprises to support response to COVID emergency response and recovery activities (unlikely to invest on expansion of large scale facilities), it is expected that in all subprojects, this FI will apply the national environmental, labor and social laws and regulations (following para 9 of the Environmental and Social Standard 9 – ESS9).

#### D. 2. Borrower’s Institutional Capacity



The Ministry of Industry and Commerce (MOIC) through the DOSMEP and five commercial banks, also called Participating Financial Institutions (PFIs), of which three participated in the current WB-funded project have to develop the E&S capacity to implement low to medium risk small loans.

For the existing project, Small and Medium Enterprise Access to Finance Project (P131201), the PMU prepared and are implementing the project's Environmental and Social Management Framework (ESMF) in accordance with the International Finance Corporation (IFC) Policy on E&S Sustainability (SP) and the World Bank Safeguard Policies. There is a single project's ESMF. During its implementation, the MOIC and four participating commercial banks have been responsible for screening individual transaction for eligibility under the project against the E&S eligibility criteria, including the list of ineligible activities; screening of transactions to determine the environment and social issues and impacts, categories, policies triggered and the transaction-specific instruments and measures that need to be put in place by the SMEs to manage these impacts. The MOIC and the commercial banks have also monitored the implementation of the measures committed by the SMEs, and they have regularly reported compliance with DOSMEP and the World Bank. The safeguard implementation performance of all PFIs are satisfactory. No non-compliance with the the safeguard policies was found throughout the project.

With respect to the Technical Assistance to MSMEs, more than 600 MSMEs were trained by 8 Business Development Services (BDSs) under the supervision of the ILO in 9 provinces (Attapeu, Champasack, Luangnamtha, Luangprabang, Oudomxay, Salavan, Vientiane Capital, Xiengkhouang, and Savannakhet). The technical assistance component of the project also includes support for capacity building of PFIs staff and DOSMEP staff including the formulation of a cross-ministerial and outcome-oriented SME Development Action Plan (2021-2025).

Under the existing 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 coordinate the implementation of the ESMF among the participating commercial banks. The DOSMEP is also working closely with the relevant agencies under the Ministry of Natural Resources and Environment (MoNRE) in particular on the sub-projects that required an Initial Environmental Examination (IEE) to ensure compliance with E&S national laws and the WB's Safeguards Policies. With a full support from PONRE, the IEE approval process by PONRE was accelerated. The DOSMEP has also hired a senior national environment and social consultant with relevant experience on these matters to assist in the safeguards work (training, monitoring, screening, and reporting). This really built up PFIs/MSMEs capacity to implement ESMF and increasing sub-projects activities under servicing sector at the mid-term of project implementation.

In order to manage and implement this new project effectively, DOSMEP will maintain the same Project Implementation Arrangements used for the on-going project. The PMU and the commercial banks joining this project will assign both a senior management representative to have overall accountability for environmental and social performance and a staff member or consultant as E&S Focal Point to manage the day-to-day implementation of the environmental and social aspects. However, since this will be one of the first projects in Lao PDR applying the new Environmental and Social Framework (ESF), the E&S staff at DOSMEP and each PFIs will need to receive training to ensure adequate capacity to implement and monitor all applicable Environmental and Social Standards (ESSs). Specific institutional capacity strengthening/ building measures such as the provision of additional resources, training needs have been identified and listed in the Environmental and Social Commitment Plan (ESCP) to ensure ownership and sustainability of the resources. During the project preparation prior to appraisal mission, the Bank environmental and



social risk management specialists provided ESF training to DOSMEP and participating commercial banks or project financial intermediaries (PFIs).

The DOSMEP has reported that they have a team of four environmental and social staff, including one intermittent E&S consultant and three officials of DOSMEP. On the Participating Financial Institutions (PFIs) which have submitted, so far, their Expression of Interest (EOI) to participate in this project, SACOM reports that they have 2-3 staff working on E&S aspects and Lao Viet Bank has among 2-3 environmental and social specialists as well. All the assigned E&S staff have already worked and have been trained at the previous project.

That first two sub-loans by any of the participating FIs will be prior reviewed by the Bank, thus giving an opportunity to check that the ESMS is working adequately.

## II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

### A. Environmental and Social Risk Classification (ESRC)

Substantial

#### Environmental Risk Rating

Substantial

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). Only low and/or moderate E&S risk activities will be financed by this project. It is anticipated that no adverse significant environmental and social impact from sub-project activities 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 project negative environmental impacts (dust from rice mill, odor from pig farm, wastewater discharge 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 will be 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/raw material loss from the process for noodle factory, install biogas, bag house to reduce dust, provide mask to workers, 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.

Due to being the first FI project under ESF in Lao PDR, with the Recipient capacity for applying ESF in this context yet to be proven, the overall project environmental and social risk is rated substantial with a view to revisit once the project ESMS document is available . ESS9 as well as ESS 1, 2, 3, 4, 7 and 10 are relevant. To ensure that the potential E&S risks are adequately screened and mitigated, an ESMS document will be prepared by DOSMEP to be consulted and disclosed within 45 days after the project effectiveness to guide each PFIs putting in place an ESMS before the



approval of any subproject under components 1 and 2 (PCGs and Line of Credit). No activities requiring ESMS coverage would be supported until the ESMS has been cleared by the World Bank.

During the project implementation, each PFI plus all candidate sub-projects will be screened by PFIs against the project’s exclusion list of the ESMS, categorized and assessed for their E&S risks and impacts prior to financing under the project. Each PFI will be assessed to ensure that they have adequate Environmental and Social Management Systems (ESMSs) in place. For the candidate sub-project’s, only low and/or moderate E&S risk sub-project activities will be financed by this 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 most of subprojects, PFIs will apply the national environmental, labor and social laws and regulations. However, ESMS will be prepared considering sub-project screening and assessment for ESS1, 2, 3, 4, 7, and 10. Each PFI 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-to-day 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.

**Social Risk Rating**

Moderate

The social risk has been rated as “Moderate” since the potential adverse risks and impacts of this project on human populations is not likely to be significant. This project is not complex or large and it does not involve activities that have a high potential for harming people or the environment. The final beneficiaries of the sub loans are likely to be pre-existing micro, small and medium local companies, with an expected maximum loan amount of 200,000 USD. The average loan size under the existing project is USD 83,000. It is expected that close to half the loans will be for micro enterprises (1-5 employees), close to half for small (6-19 employees) and less than 10 percent for medium enterprises (51-99 employees). The implementing agency have demonstrated good performance in a similar current WB-funded project, where they have shown E&S capacity to implement low to medium risk small loans.

Only low and/or moderate social risk activities will be financed by this project. To ensure it, the project’s Environmental and Social Management System (ESMS) will include an exclusion list which will explicitly exclude projects involving substantial and high-risk activities and sectors.

It is expected that this project will require special attention to monitor and enforce compliance in the application of ESS9 (Financial Intermediaries -FI) since this will be the first FI project supported in the country under the new ESF. Other relevant standards applying to this project from a social risk management perspective are ESS1 (Assessment and Management of Environmental and Social Risks and Impacts), ESS2 (Labor and Working Conditions), ESS4 (Community Health and Safety), ESS7 (Indigenous Peoples) and ESS10 (Stakeholder Engagement and Information Disclosure). Land acquisition and resettlement will not be supported, and loans that would result in either will be comprised as part of the exclusion list included at the project’s Environmental and Social Management System (ESMS).

**B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered**

**B.1. General Assessment**

Public Disclosure



**ESS1 Assessment and Management of Environmental and Social Risks and Impacts**

**Overview of the relevance of the Standard for the Project:**

The Project Management Unit (PMU) will prepare, consult and disclose the project’s Environmental and Social Management System (ESMS) document. In addition, the Participating Financial Intermediaries (PFI) will also implement and maintain their ESMS, making sure that it is consistent with the project’s ESMS cleared by the World Bank. There should be an ESMS in place both at the FI and PFI levels. As stated in the Environmental and Social Commitment Plan (ESCP), the document describing this ESMS prepared by the PMU will need to be prepared, consulted, and disclosed 45 days after the Effectiveness date and before the approval of any subproject under components 1 and 2 (PCGs and Line of Credit). The ESMSs of each of the PFI, consistent with the project’s ESMS, need to be prepared and disclosed before the beginning of the operations of each of them. This will be an eligibility criterion for participation as a PFI. No activities requiring ESMS coverage would be supported until the ESMS has been cleared by the World Bank.

The ESMS will include at a minimum the following components: (i) the PFIs’ environmental and social policy; (ii) 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 risk); (iii) systems/processes for due diligence within the PFIs to evaluate, monitor, review and manage E&S risks and impacts of the subprojects: evaluate the E&S performance of on-going subprojects and the portfolio on a periodic basis; (iv) 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; (v) procedures of update the ESMS; (vi) the project’s Labor Management Procedure (LMP) aligned with ESS2, including provision on Occupational Health and Safety (OHS) and measures related to emergency preparedness; and (vi) external communications mechanism, including a Stakeholder Engagement Plan and a Grievance Mechanism.

In addition, the ESMS will specifically include the project’s exclusion list which will explicitly include projects involving substantial and high-risk sectors (e.g. mining, forest plantations, etc.) and activities, such as involuntary resettlement (all new land acquisition will be excluded from project financing); involving harmful child labor or forced labor; 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; 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. Since the enterprises are small scale and will do their business within their own land, impacts on tangible and intangible heritage are likely to be minor and incidental.

During the implementation stage of this project, all candidate sub-projects will be screened against the project’s exclusion list of the 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 (most likely working capital will be dominant and under Component 2 that has two phases of Line of credit- emergency phase and recovery phase. And it is likely that the emergency phase that support administrative cost, etc. are longer period of time while the recovery phase (that will include sub-project activities similar to the existing project that on-lend to SMEs for servicing activities) are shorter. The sub-project activities are therefore likely to cause minimal or moderate environmental or social risks or impacts due to its small scale activities, it is expected that in most of subprojects, PFIs will apply the national environmental, labor and social laws and regulations (following para 9 of the Environmental and Social Standard 9 – ESS9). In some



sub-projects that ESS1, 2, 3, 4, 7, and 10 are relevant, PFIs will need to ensure those MSMEs will apply relevant standards and its guidance in ESMS.

The PMU (as implementing agency) and each of the Participating Financial Institutions (PFIs) joining this project 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-to-day implementation of ESMS. The Terms of Reference of the E&S Focal Points, including required technical skills and experience, will be included in the ESMS and Project Operations Manual (POM).

In case the Contingency Emergency Response Component (CERC) is activated, activities envisaged under CERC will be similar in nature and design as activities under the project and following the similar eligibility criteria and exclusion lists to be implemented by PFIs and PCG fund manager 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 by RSA before CERC activation to govern the operation of the CERC component.

### **ESS10 Stakeholder Engagement and Information Disclosure**

Based on the experience of the existing World Bank’s funded project Lao PDR – Small and Medium Enterprise Access to Finance Project (P131201), the PFI environmental and social management procedures have been assessed by the Bank environmental and social risk management specialists, and its performance is satisfactory. However, the existing ESF instruments cannot fully being implemented in the new project for two reasons: (i) the previous project was prepared under the safeguards policies, and not under the ESF, and (ii) the previous project has an ESMF and not an ESMS.

Based on this previous experience, the Project Management Unit (PMU) will prepare, consult and disclose the project’s Environmental and Social Management System (ESMS). The Participating Financial Intermediaries (PFI) will implement and maintain their ESMS, making sure that it is consistent with the project’s ESMS cleared by the World Bank. The project’s ESMS need to be consistent with the requirements set out in ESS9 and proportionate to the subproject risks.

As stated in the Environmental and Social Commitment Plan (ESCP), this ESMS prepared by the PMU will need to be prepared, consulted, and disclosed 45 days after the Effectiveness date and before the approval of any subproject under components 1 and 2 (PCGs and Line of Credit). The ESMSs of each of the PFI, consistent with the project’s ESMS, need to be prepared and disclosed before the beginning of the operations of each of them. This will be an eligibility criterion for participation as a PFI. No activities requiring ESMS coverage would be support until the ESMS has been cleared by the World Bank.

The ESMS will include at a minimum the following components: (i) the PFI’s environmental and social policy; (ii) 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 risk); (iii) systems/processes for due diligence within the PFI to evaluate, monitor, review and manage E&S risks and impacts of the subprojects: evaluate the E&S performance of



on-going subprojects and the portfolio on a periodic basis; (iv) 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; (v) procedures of update the ESMS; (vi) the project's Labor Management Procedure (LMP) aligned with ESS2, including provision on Occupational Health and Safety (OHS) and measures related to emergency preparedness; and (vi) external communications mechanism, including a Stakeholder Engagement Plan and a Grievance Mechanism.

To manage and implement this new project effectively, DOSMEP will maintain the same Project Implementation Arrangements used for the on-going project. This also applies to environmental and social arrangements. Both, the PMU and each of the Participating Financial Institutions (PFIs) joining the project 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-to-day implementation of ESMS. The Terms of Reference of the E&S Focal Point, including required technical skills and experience, will be included in the ESMS and Project Operations Manual (POM). The DOSMEP has reported that they have a team of four environmental and social environmental and social specialists, including one intermittent E&S consultant and three officials of DOSMEP. The Participating Financial Institutions (PFIs) which have submitted, so far, their Expression of Interest (EOI) to participate in this project have reported that they have assigned environmental and social specialists as well. The assigned E&S staff from three out of five PFIs that submitted Eois have already worked and have been trained at the previous project.

In addition, the ESMS will specifically include the project's exclusion list which will explicitly include projects involving substantial and high-risk sectors (e.g. mining, forest plantations, etc.) and activities, such as involuntary resettlement (all-new land acquisition will be excluded from project financing); involving harmful child labor or forced labor; 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.

During the implementation stage of this project, all candidate sub-projects will be screened against the project's exclusion list of the 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 several subprojects, this FI will apply the national environmental, labor and social laws and regulations (following para 9 of the Environmental and Social Standard 9 – ESS9). On the other hand, the rest of the subprojects classified as high or substantial risk will not be financed under this project.

In case the Contingency Emergency Response Component (CERC) is activated, activities envisaged under CERC will be similar in nature and design as activities under the project and following the similar eligibility criteria and exclusion lists to be implemented by PFIs and PCG fund manager 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 by RSA before CERC activation to govern the operation of the CERC component.

## **B.2. Specific Risks and Impacts**



**A brief description of the potential environmental and social risks and impacts relevant to the Project.**

**ESS2 Labor and Working Conditions**

The PMU and each of the Participating Financial Institutions (PFIs) joining this project are required to develop and implement the Labor-Management Procedure (LMP) applicable to the activities funded by this project, which will be included in the ESMS. The LMP will apply to all different categories of workers: the SMEs direct workers and contracted workers in the event some of the subprojects require civil works to be carried out. The number and type of workers of the PFI, FI and the FI subprojects are unknown at this stage but large-scale civil works are unlikely due to the small scale of the subproject financing. Since community labor is prevalent in agriculture, the project’s LMP will include specific provisions to project that type of workers. No community workers or no primary suppliers are foreseen in the context of the subprojects that would be financed by this project.

The LMP will set out how project workers (PFI, FI and the FI subprojects) will be managed and treated in line with the Lao PDR national Labor Law and the ESSs including, among others, provisions for protecting the work force from discrimination and harassment, preventing child labor and implementing measures on Occupational Health and Safety (OHS), fire, life safety and labor/working conditions, in line with the industry-specific World Bank Group’s Environmental, Health and Safety Guidelines (EHSGs) and other Good Industry Practices (GGIP). Additional provisions will need to be implemented (including additional training and the use of the necessary personal protective equipment (PPE) to protect workers from the impact of COVID-19. All those provisions will apply to the PFIs, FI and the FI subprojects.

The PMU/PFIs needs to ensure that the financed low and moderate risk subprojects have and enforce OHS procedures consistent with the national Labor Law and the ESS2 including specific instruments to protect the health and safety of workers, plus to provide adequate information with documented evidence of the application of such procedures during project implementation.

The LMP will also develop a dedicated labor grievance mechanism. This grievance mechanism is separated from that described under the ESS10, and it will focus on works and activities carried out by sub-borrowers or contractors on sub-projects.

**ESS3 Resource Efficiency and Pollution Prevention and Management**

This standard is relevant even though the nature of the sub-projects is likely to be addressed through screening and compliance with local/national laws per paras. 14 and 16 of ESS 9. PFIs ESMS will include provisions to consider ESS3 requirements in the screening of all Subprojects to exclude any subprojects with significant adverse impacts related to this standard. Clean technology, utilization of water/energy/raw material efficiency and pollution prevention (such as wastewater treatment system, air pollution control equipment for example bag house for rice mill) will be part of the sub-project design. Even though the exact investments to be financed by PFIs will not be known until implementation, it is anticipated that the investment will support the maintaining of MSMEs business (es) at the COVID emergency and recovery phase not promoting the expansion of existing facilities. Therefore, activities of the clean technology based sub-loan will not increase water and energy consumption as well as air pollution due to the manufacturing of products. Due to small scale of sub-project activities and screening to exclude sub-projects with



significant adverse impact related to this standard, no significant pollution and resources efficiency issues are expected from the sub-loan activities.

As described under the E&S Overview section, clearly defined eligibility criteria will be followed during the implementation of the Project. Eligibility criteria for productive investments (e.g., new equipment and machinery, vehicles, etc.) to be financed by PFIs will include the use of best available technology (BAT), water resources effectively utilization, energy efficiency, and low-carbon considerations, as defined in the ESMS and Operations Manual. Given the nature of the sub-projects and the focus on providing a line of credit for working capital and clean technology-based activities, there will be only a negligible difference in GHG emissions, thus no GHG accounting will be done for the Project.

#### **ESS4 Community Health and Safety**

This standard is relevant. Initial screening for Sexual Exploitation and Abuse (SEA), Sexual Harassment (SH), and Violence Against Children (VAC) for the project indicates a low risk as the activities are not large scale, do not involve a significant influx of labor, will exclude an enterprise involved in illicit activities. However, given the prevalence of human trafficking and exploitation of women and children in the country and region, the project's ESMS will include screening and management of potential risks and impacts related to ESS4. In addition, the LMP will include provisions including a GRM with avenues for third party referral.

The E&S Focal Point (with the technical support and advice from the World Bank staff) will carry out training to prevent SEA, SH, and VAC among the MSMEs funded by this project.

For the sub-loans, ESMS will assess sub-loan activities that may pose community health and safety risks. Given that the Project will finance loans to MSMEs for productive purposes, meaning working capital or investments that will help MSMEs to run their businesses, improve their production process, improve business management, create or improve their products, the most important community health and safety potential risks could be related to temporary construction such as dust, noise, disposal of hazardous and non-hazardous wastes, safe operation of vehicles, etc. During the operation phase, it is likely that traffic volume may be increased from sub-loan activities. It is important that mitigation measures as per National law & regulation to reduce the negative impact of traffic congestions and accidents will be implemented. Labor influx and related risks are not expected. The ESMS will include provisions to consider ESS4 requirements in the screening of all Participating Financial Intermediaries-PFI-Sub-loans to exclude activities that could involve significant risks associated with community health and safety.

#### **ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

Given the nature of the project, there will be little/no risks or impacts relating to land acquisition, restrictions on land use, and involuntary resettlement, as such, this standard has been screened out. The exclusion list included at the project's Environmental and Social Management System (ESMS) states that any activity involving new land acquisition or involuntary resettlement will not be eligible and shall be excluded from funding by the sub-project activities.



### **ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

This ESS is not expected to be relevant to the project. Participating MSMEs will not receive loans for land acquisition located in biodiversity conservation area, natural and/or critical natural habitats. The sub-loan will be ineligible if the activities involve with illegal logging or deforestation/forest degradation, wildlife trafficking, etc. No loans that would lead to significant adverse impacts on biodiversity and habitats would be supported. ESMS will incorporate a list of excluded activities that could result in substantial or high risk Environmental and Social impacts, including interventions that interfere with natural and/or critical natural habitats, specifically those that involve significant conversion or significant degradation of these habitats.

In circumstances where the potential subprojects of the SMEs involve new or renewed forestry or agricultural plantations, the ESMS will include specific requirements to make sure that these do not convert or degrade any critical habitat and that are only of low or moderate risk nature.

### **ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

ESS7 is relevant for this project standard applies for this project since ethnic groups possessing the four characteristics listed in para 8 of ESS7 are very likely to be present in the project areas (project locations to be confirmed during project implementation). Lao PDR has 50 officially recognized ethnic groups and many have transitioned from subsistence to commercial agriculture and small enterprise over the past decade with varying degrees of integration into the national economy. Remote and rural communities remain dependent on natural resources for their livelihoods and vulnerable to the impacts of unregulated commercial development.

Since the enterprises being financed are small in scale and significant impacts on land and indigenous peoples are excluded from financing the project will not require an indigenous peoples' plan. The strategy for engagement with indigenous peoples will be included in the SEP. Project activities in areas where IPs are present must ensure that IPs who are owners of SMEs are fully consulted in a culturally-appropriated manner about and have opportunities to benefit from the sub-project activities.

### **ESS8 Cultural Heritage**

This ESS is not expected to be relevant to the project. Since the enterprises are small scale and will do their business within their own land, impacts on tangible and intangible heritage are likely to be minor and incidental. The exclusion list will incorporate restriction for financing sub-loans located i) within a legally protected area or a legally defined buffer zone; ii) located in, or in the vicinity of, a recognized cultural heritage site; or, iii) specifically designed to support the conservation, management and use of cultural heritage. ESMS will include provisions to consider ESS8 requirements in the screening of all FI-Subprojects to exclude activities that could involve significant impacts on cultural heritage. Lao PDR has a well-developed legislative framework for the protection of its cultural, historical and archeological heritage. However, it has a poor track record of implementation, particularly with regard to localized forms of ethnic cultural heritage. Therefore, for any sub-loans, including earth movement, the ESMS will include the preparation of a chance find procedure in accordance with national laws and regulations to avoid adverse impact to cultural heritage from the sub-project activities.



### ESS9 Financial Intermediaries

Based on the experience of the existing World Bank’s funded project Lao PDR – Small and Medium Enterprise Access to Finance Project (P131201), the PFI environmental and social management procedures have been assessed by the Bank environmental and social risk management specialists, and its performance is satisfactory. However, the existing ESF instruments cannot fully being implemented in the new project for two reasons: (i) the previous project was prepared under the safeguards policies, and not under the ESF, and (ii) the previous project has an ESMF and not an ESMS.

Based on this previous experience, the Project Management Unit (PMU) will prepare, consult and disclose the project’s Environmental and Social Management System (ESMS). The Participating Financial Intermediaries (PFI) will implement and maintain their ESMS, making sure that it is consistent with the project’s ESMS cleared by the World Bank. The project’s ESMS need to be consistent with the requirements set out in ESS9 and proportionate to the subproject risks.

As stated in the Environmental and Social Commitment Plan (ESCP), this ESMS prepared by the PMU will need to be prepared, consulted, and disclosed 45 days after the Effectiveness date and before the approval of any subproject under components 1 and 2 (PCGs and Line of Credit). The ESMSs of each of the PFI, consistent with the project’s ESMS, need to be prepared and disclosed before the beginning of the operations of each of them. This will be an eligibility criterion for participation as a PFI. No activities requiring ESMS coverage would be support until the ESMS has been cleared by the World Bank.

The ESMS will include at a minimum the following components: (i) the PFI’s environmental and social policy; (ii) 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 risk); (iii) systems/processes for due diligence within the PFI to evaluate, monitor, review and manage E&S risks and impacts of the subprojects: evaluate the E&S performance of on-going subprojects and the portfolio on a periodic basis; (iv) 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; (v) procedures of update the ESMS; (vi) the project’s Labor Management Procedure (LMP) aligned with ESS2, including provision on Occupational Health and Safety (OHS) and measures related to emergency preparedness; and (vi) external communications mechanism, including a Stakeholder Engagement Plan and a Grievance Mechanism.

To manage and implement this new project effectively, DOSMEP will maintain the same Project Implementation Arrangements used for the on-going project. This also applies to environmental and social arrangements. Both, the PMU and each of the Participating Financial Institutions (PFIs) joining the project 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-to-day implementation of ESMS. The Terms of Reference of the E&S Focal Point, including required technical skills and experience, will be included in the ESMS and Project Operations Manual (POM). The DOSMEP has reported that they have a team of four environmental and social environmental and social specialists, including one intermittent E&S consultant and three officials of DOSMEP. The



Participating Financial Institutions (PFIs) which have submitted, so far, their Expression of Interest (EOI) to participate in this project have reported that they have assigned environmental and social specialists as well. The assigned E&S staff from three out of five PFIs that submitted EoIs have already worked and have been trained at the previous project.

In addition, the ESMS will specifically include the project’s exclusion list which will explicitly include projects involving substantial and high-risk sectors (e.g. mining, forest plantations, etc.) and activities, such as involuntary resettlement (all-new land acquisition will be excluded from project financing); involving harmful child labor or forced labor; 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.

During the implementation stage of this project, all candidate sub-projects will be screened against the project’s exclusion list of the 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 several subprojects, this FI will apply the national environmental, labor and social laws and regulations (following para 9 of the Environmental and Social Standard 9 – ESS9). On the other hand, the rest of the subprojects classified as high or substantial risk will not be financed under this project.

In case the Contingency Emergency Response Component (CERC) is activated, activities envisaged under CERC will be similar in nature and design as activities under the project and following the similar eligibility criteria and exclusion lists to be implemented by PFIs and PCG fund manager 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 by RSA before CERC activation to govern the operation of the CERC component.

Public Disclosure

**B.3 Other Relevant Project Risks**

None

**C. Legal Operational Policies that Apply**

**OP 7.50 Projects on International Waterways**

No

This policy is not applied, and the exclusion list will preclude activities that may impact to international waterways

**OP 7.60 Projects in Disputed Areas**

No

This policy is not applied. It is anticipated that no disputed area in project area.

**III. BORROWER’S ENVIRONMENTAL AND SOCIAL COMMITMENT PLAN (ESCP)**

DELIVERABLES against MEASURES AND ACTIONs IDENTIFIED	TIMELINE
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Public Disclosure

<b>ESS 1 Assessment and Management of Environmental and Social Risks and Impacts</b>	
The PMU, plus each of the Participating Financial Institutions (PFIs) joining the project, will assign an E&S senior representative and an E&S Focal Point to manage the ESMS.	10/2020
The PMU will prepare, consult and disclose the project’s ESMS 45 days after the Effectiveness date and before the approval of any subproject under components 1 and 2 (PCGs and Line of Credit). No activities requiring ESMS coverage would be supported until the ESMS has been cleared by the World Bank.	12/2020
The ESMSs of each of the PFI, consistent with the project’s ESMS, will be prepared and disclosed before the beginning of the operations. This will be an eligibility criterion for participation as a PFI.	10/2020
<b>ESS 10 Stakeholder Engagement and Information Disclosure</b>	
A draft Stakeholder Engagement Plan (SEP) including a Grievance Mechanism has been prepared, consulted and disclosed during the Appraisal.	09/2020
The SEP shall be implemented throughout the Project.	12/2020
A project Grievance Mechanism is described in the SEP and shall be maintained throughout Project implementation.	09/2020
<b>ESS 2 Labor and Working Conditions</b>	
The project’s ESMS will include a Labor Management Procedure (LMP) aligned with national laws and regulations, including provisions on Occupational Health and Safety (OHS) and measures related to emergency preparedness.	10/2020
<b>ESS 3 Resource Efficiency and Pollution Prevention and Management</b>	
The project’s ESMS will include measures, including inter alia, measures to manage health care wastes and other types of hazardous and non-hazardous wastes as well as promote resources (water, energy, raw material) efficiency	10/2020
<b>ESS 4 Community Health and Safety</b>	
The project’s ESMS will include measures, including inter alia, measures measures to prevent and respond to sexual exploitation and abuse, child labor and sexual harassment.	10/2020
<b>ESS 5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement</b>	
<b>ESS 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources</b>	
<b>ESS 7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities</b>	



Adapting the project’s ESMS and SEP in a manner acceptable for the Association to make sure that IPs are fully consulted in a culturally-appropriate manner about and have opportunities to benefit from the project activities.	10/2020
<b>ESS 8 Cultural Heritage</b>	
<b>ESS 9 Financial Intermediaries</b>	
The PMU, plus each of the Participating Financial Institutions (PFIs) joining the project, will assign an E&S senior representative and an E&S Focal Point to manage the ESMS.	10/2020
The PMU will prepare, consult and disclose the project’s ESMS 45 days after the Effectiveness date and before the approval of any subproject under components 1 and 2 (PCGs and Line of Credit).	10/2020
The PMU will prepare, consult and disclose the project’s ESMS 45 days after the Effectiveness date and before the approval of any subproject under components 1 and 2 (PCGs and Line of Credit)	10/2020
The ESMSs of each of the PFI, consistent with the project’s ESMS, will be prepared and disclosed before the beginning of the operations of each of them. This will be an eligibility criterion for participation as a PFI	12/2020
Capacity building and training for the implementing agencies to apply the ESMS requirements	10/2020

Public Disclosure

**B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts**

**Is this project being prepared for use of Borrower Framework?** No

**Areas where “Use of Borrower Framework” is being considered:**

None

**IV. CONTACT POINTS**

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**Borrower/Client/Recipient**

Borrower: Ministry of Finance

**Implementing Agency(ies)**

Implementing Agency: Ministry of Industry and Commerce

**V. FOR MORE INFORMATION CONTACT**

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**VI. APPROVAL**

Task Team Leader(s):	Michael Corlett, Mombert Hoppe, Radu Tatucu
Practice Manager (ENR/Social)	Mona Sur Cleared on 11-Sep-2020 at 23:38:3 EDT
Safeguards Advisor ESSA	Nina Chee (SAESSA) Concurred on 14-Sep-2020 at 16:51:54 EDT