



Amendment of the Prime Minister's Decree No. 123/PM, dated 3 March 2010 on the SME Promotion and Development Fund

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I. Background and Achievements of the SME Promotion and Development Fund

- ❑ Prime Minister's Decree No. 42/PM, dated 20 April 2004 on the Promotion and Development of Small and Medium Enterprises (Articles 11, 12, 13 and 14).
- ❑ Prime Minister's Decree No. 123/PM, dated 3 March 2010 on SME Promotion and Development Fund.
- ❑ Decision No. 51/PMO, dated 9 June 2010 on the Board of Directors of the Fund (replaced by the Decision No. 06/PM, dated 19 January 2018) – with 7 members representing Ministry of Industry and Commerce, Ministry of Finance, Ministry of Planning and Investment, Bank of Lao PDR, Prime Minister's Office, Lao National Chamber of Commerce and Industry, and the Department of SME Promotion (DOSMEP).



I. Background and Achievements of the SME Promotion and Development Fund (con-ed)

- ❑ Decision by the Government on the allocation of US\$4 million (32 billion Kip) from the ADB Private Sector and SME Development Program (PMSE) as seed money for the Fund in 2012.
- ❑ Two Financing Agreements with total amount of 30 billion Kip were signed with the Lao Development Bank (LDB) for on-lending to SMEs.
- ❑ Some achievements of the SME Fund as of March 2018:
 - Lending to SMEs by LDB: 194 contracts with 131 SMEs .
 - Provision of funding for 38 technical assistance projects with total amount of 1,9 billion Kip.



I. Background and Achievements of the SME Promotion and Development Fund (con-ed)

- ❑ Mobilization of further funding, including the US\$20 million World Bank SME Access to Finance Project:
 - US\$15 million line of credit through 4 Participating Financial Institutions (PFIs): ST Bank, Lao China Bank, Sacom Bank and Lao Viet Bank - for on-lending to SMEs;
 - US\$5 million for technical assistance to enhance capacity:
 - DOSMEP and relevant agencies;
 - PFIs and relevant financial institutions (contract signed with AFC) – implementation is under way;
 - SMEs (contract signed with ILO to enhance capacity of 600 SMEs) – implementation is under way.



I. Background and Achievements of the SME Promotion and Development Fund (con-ed)

- ❑ As the results:
 - Commercial banks receive funding with reasonably lower costs with longer maturity, which encourage commercial banks to work with SMEs.
 - SMEs could access to loans with interest rates reasonably lower than commercial rates.
 - Income generated by the Fund has been used to enhance capacity of SMEs, Government agencies, business membership organizations, including the Lao National Chamber of Commerce and Industry, Lao Handicrafts Association, Association of Lao Business Women etc. to support SME development.



II. Shortcomings and Challenges Faced by the SME Fund

- ❑ Evaluation of the SME Fund conducted under the ADB TA-8848: “Strengthening Access to Finance for Micro, Small and Medium-sized Enterprises” in May 2017 reveals that the SME Fund fulfils its intended objectives, while rooms for improvement exist for higher efficiency.
- ❑ However, despite successes and sustainability achieved in the past 6-7 years, the SME Fund has been facing a number of challenges in its day-to-day operation:
 - Relevant laws and regulations, including the Law on National Budget, the Law on Audit etc. are unfavorable for operation of the SME Fund which is revolving in nature compared to other Funds.



II. Shortcomings and Challenges Faced by the SME Fund (con-ed)

- Inability of the Fund to transfer remaining fund from current fiscal year to the next fiscal year (although the Article 11 of the Decree 123/PM allows the SME Fund to do so), as well as the use of income generated by the Fund to top-up funding provided to commercial banks for on-lending to SMEs. This hinders expansion and sustainability of the Fund.
- Unclear status of the Fund, whether it is a Government finance organization or financial institution.
- Inconsistency of the Decree No. 123/PM on the SME Fund which was approved in 2010 and the Law on SME Promotion No. 11/NA which was promulgated in 2011.



III. New Party's Resolution on SME Promotion and SME Development Plan 2016-2020

- ❑ Resolution of the 4th Session of the X Party Congress on SME Promotion.
- ❑ SME Promotion became “National Agenda”.
- ❑ Adoption of the SME Development Plan 2016-2020 by the Prime Minister's Decree No. 253/PM, dated 18 August 2017.
The Plan consists of:
 - 7 Policy Areas.
 - 43 Measures/Programs/Projects.
 - 6 implementation measures and 2 coordination mechanisms.
- ❑ Based on the National SME Development Plan, provinces have developed SME Development Plans of their own to support SMEs at the local level.



III. New Party's Resolution on SME Promotion and SME Development Plan 2016-2020 (con-ed)

7 Policy Areas of the SME Development Plan 2016-2020:

1. Policy to Promote Productivity, Technology and Innovation.
2. Policy on Access to Finance.
3. Policy to Promote Access to Business Development Services (BDS).
4. Policy on Market Access and Expansion.
5. Policy on Entrepreneurial Development.
6. Policy to Create Favorable Environment for Businesses.
7. Policy on Customs and Tax Incentives and Financial Assistance.



III. New Party's Resolution on SME Promotion and SME Development Plan 2016-2020 (con-ed)

6 Measures under the Policy Area on Access to Finance:

1. Developing diversified financial products and services for SMEs.
2. Capacity building for commercial banks and financial institutions, including microfinance institutions.
3. Capacity building for SMEs to access to finance.
4. Enhancing capacity of the SME Fund.
5. Research and feasibility study on the establishment of a Specialized Financial Institution for SMEs.
6. Capacity building for related organizations to support access to finance for SMEs.



IV. Directions on Enhancing the SME Fund and Progress on Amendment of the Prime Minister's Decree No. 123/PM

- ❑ The Law on SME Promotion No. 11/NA, dated 21 December 2011 (Chapter V, Articles 31 to 34).
- ❑ Notification of the Prime Minister's Office No. 1344/PMO, dated 17 August 2018 on directions to enhance the SME Fund:
 - Separation of the SME Fund from administrative apparatus - to be self-sustaining with certain flexibility, while ensuring more transparency and accountability.
 - Commitment by the Government to provide funding of 200 billion Kip to the SME Fund to expand outreach to SMEs in terms of line of credit and technical assistance.



IV. Directions on Enhancing the SME Fund and Progress on Amendment of the Prime Minister's Decree No. 123/PM (con-ed)

- ❑ Administrative Order No. 12/PM, dated 23 August 2018 on 8 measures to boost economic development.
 - Acceleration on the amendment of the Decree No. 123/PM and enhancing capacity of the SME Fund.
- ❑ A Committee on the amendment of the Prime Minister's Decree No. 123/PM was established by Minister's Decision No. 1164/MOIC.DOP, dated 24 August 2018:
 - The Committee is headed by Deputy Minister of Industry and Commerce.
 - The Committee consists of representatives from relevant ministries and agencies at management and technical levels.



IV. Directions on Enhancing the SME Fund and Progress on Amendment of the Prime Minister's Decree No. 123/PM (con-ed)

- ❑ Experiences of other countries in the region have been taken into account, including a study visit to Viet Nam to learn from experiences on the establishment and operation of the SME Development Fund in Viet Nam.
- ❑ A number of consultation meetings were held to discuss the amended Decree on the SME Promotion Fund.
- ❑ An open consultation meeting was organized on 27 September 2018 – all donor organizations were invited to the meeting.
- ❑ The draft amended Decree is expected to be submitted for consideration at the meeting of the Government in October 2018.



IV. Directions on Enhancing the SME Fund and Progress on Amendment of the Prime Minister's Decree No. 123/PM (con-ed)

- The priority focus of the Fund:
 - Line of credit to commercial banks for on-lending to SMEs, with longer maturity and reasonably lower costs to encourage commercial banks to work with SMEs.
 - Technical assistance to SMEs to enhance their capacity to access to bank lending and to ensure efficient use of loans to sustain and expand businesses, and thereby be able to return interest and principal to commercial banks, reducing likelihood of non-performing loans (NPL).
 - Research and feasibility study on diversified financial products and services, including credit guarantee, venture capital etc.

