

**Ministry of Industry and Commerce
Small and Medium Enterprise Access to Finance Project
(SMEA2F)**

**Financial Statements
and
Independent Auditors' Report
For the year ended 31 December 2019**

Ministry of Industry and Commerce
Small and Medium Enterprise Access to Finance Project

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Ministry of Industry and Commerce
Small and Medium Enterprise Access to Finance Project

Project information

Project Small and Medium Enterprise Access to Finance
(SMEA2F) IDA H958-LA and IDA 5471-LA

Funding agencies International Development Association (IDA)

Duration 15 September 2014 to 30 June 2020

Implementing agency National Implementation Unit (NIU)
Department of Planning and Cooperation (DPC)
Ministry of Industry and Commerce (MOIC)

Project management Phouvieng PHONGSA Director General
Lattanaphone Vongsouthi Director of NIU Division

Registered Office Ministry of Industry and Commerce
Phonexay Road, P.O. Box 4107
Vientiane Capital, Lao PDR

Auditors KPMG Lao Co., Ltd.

Statement of Management's Responsibilities

It is the responsibility of management to prepare financial statements of the Small and Medium Enterprise Access to Finance Project ("the Project") for the year ended 31 December 2019, which are prepared in all material respect in accordance with the accounting policies as described in Note 2 to the financial statements. In preparing these financial statements, management is required to:

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

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

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

On behalf of the management



Phouvieng PHONGSA
Director General
NIU Programme Director
Department of Planning and Cooperation
Ministry of Industry and Commerce
Date: 31 MAR 2020



Lattanaphone Vongsouthi
Director of NIU Division
Department of Planning and Cooperation
Ministry of Industry and Commerce

Date: 31 MAR 2020



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Independent Auditors' Report

To the Project Management of the Small and Medium Enterprise Access to Finance Project

We have audited the financial statements of Small and Medium Enterprise Access to Finance Project ("SMEA2F" or "the Project"), which comprise the statement of cash receipts and payments and the statement of designated bank account for the year ended 31 December 2019, and notes, comprising summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Project for the year ended 31 December 2019 are prepared, in all material respects, in accordance with the accounting policies as described in Note 2.

Basis for Opinion

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

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

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

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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



KPMG Lao Co., Ltd.

Vientiane Capital, Lao PDR

Date: **31 MAR 2020**

Ministry of Industry and Commerce
Small and Medium Enterprise Access to Finance Project

Statement of cash receipts and payments
For the year ended 31 December

<i>In USD</i>	Note	2019	2018
Receipts	3	1,188,041	2,672,901
Payments			
Technical assistance	4	1,660,567	658,526
Line of credit to Participating Financial Institutions (“PFIs”)	5	-	1,600,000
Total Payments		1,660,567	2,258,526
(Deficit) excess of receipts over payments		(472,526)	414,375
Fund balance at the beginning of the year		1,356,425	942,050
Fund balance at the end of the year		883,899	1,356,425

Represented by:

Cash on hand and cash at bank	6	647,662	819,976
Advance	7	236,237	536,449
		883,899	1,356,425

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



Phouvieng PHONGSA
 Director General
 NIU Programme Director
 Department of Planning and Cooperation
 Ministry of Industry and Commerce

Date: **31 MAR 2020**



Lattanaphone Vongsouthi
 Director of NIU Division
 Department of Planning and Cooperation
 Ministry of Industry and Commerce

Date: **31 MAR 2020**

Ministry of Industry and Commerce
Small and Medium Enterprise Access to Finance Project

Statement of designated bank account
For the year ended 31 December

<i>In USD</i>	Note	2019	2018
Receipts	3	1,188,041	2,672,901
Payments			
Line of credit to PFIs	5	-	(1,600,000)
Payments made out of project's accounts	4	(1,660,567)	(658,526)
(Increase) Decrease of cash at project's operating accounts		(10,681)	46,775
Decrease (Increase) in advance		300,212	(536,449)
Decrease of cash on hand		90	308
		<u>(1,370,946)</u>	<u>(2,747,892)</u>
Deficit of receipts over payments		(182,905)	(74,991)
Fund balance at the beginning of year		<u>810,394</u>	<u>885,385</u>
Fund balance at the end of the year		<u>627,489</u>	<u>810,394</u>
Represented by:			
Cash at designated bank account: Bank of Lao	6	<u>627,489</u>	<u>810,394</u>

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



Phouvieng PHONGSA
 Director General
 NIU Programme Director
 Department of Planning and Cooperation
 Ministry of Industry and Commerce
 Date: **31 MAR 2020**



Lattanaphone Vongsouthi
 Director of NIU Division
 Department of Planning and Cooperation
 Ministry of Industry and Commerce
 Date: **31 MAR 2020**

Ministry of Industry and Commerce
Small and Medium Enterprise Access to Finance Project

Notes to the financial statements

For the year ended 31 December 2019

1. Principal activities

The Small and Medium Enterprise Access to Finance Project (“the Project”) is supported by the International Development Association (“IDA”) of the World Bank under Contract Credit No.5471-LA and Grant No. H958-LA; (dated 14 August 2014 and amendments to the financial agreement dated 24 November 2016), which is implemented by the Ministry of Industry and Commerce (“MoIC”) Lao PDR.

The objective of the Project is to provide long-term funding sources for banks to provide long-term credit to Small and Medium Enterprises (“SMEs”).

The project consists of the following parts:

Part 1: Line of Credit Facility

Provision of a line of credit facility to Participating Financial Institution (“PFI”) for extending long-term local currency loans to SMEs for the implementation of Specific investment sub-projects.

Part 2: Technical Assistance

2.1 Provision of technical assistance to Department of Small and Medium Enterprise Promotion (“DOSMEP”) and other relevant agencies to strengthen their capacity to formulate and implement strategies, policies, investments and other activities related to the promotion of SMEs, and to implement, monitor and evaluate the project.

2.2 Provision of technical assistance to Participating Financial Institutions and other relevant financial institutions to improve their SME banking strategies, products and practices, including their compliance with environmental social due diligence and safeguard requirements.

2.3 Provision of technical assistance to SMEs to build their capacity in business development and administration and financial management.

The main activities of the Project in the period are set out in the comparison of budget and actual expenditure.

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Small and Medium Enterprise Access to Finance Project

Notes to the financial statements
For the year ended 31 December 2019

2. Summary of significant accounting policies

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

a) Basis of financial statements preparation

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

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

b) Fixed assets

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

c) Cash

Cash comprises cash on hand and balances with banks.

d) Foreign exchange

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

e) Accounting reporting period

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

f) Comparison of budget and actual payments

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

g) Receipt recognition

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

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Small and Medium Enterprise Access to Finance Project

Notes to the financial statements
For the year ended 31 December 2019

2. Summary of significant accounting policies (Continued)

h) Payment recognition

Payments incurred in the frame work of the Grant Agreement are recognised on the cash basis of accounting, i.e. when the payments are made.

Categories of payments

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

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

II. Direct payments

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

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

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

i) Advances

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

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Notes to the financial statements
For the year ended 31 December 2019

3. Receipts

<i>In USD</i>		2019	2018
Reference No:	Description		
17/A2F-GRA	Fund Received from WB	-	57,950
18/A2F-GRA	Fund Received from WB	-	58,922
19/A2F-GRA	Fund Received from WB	-	518,885
20/A2F-GRA	Fund Received from WB	-	73,998
21/A2F-GRA	Fund Received from WB	-	186,795
22/A2F-GRA	Fund Received from WB	-	111,072
23/A2F-GRA	Fund Received from WB	-	79,608
09/A2F-CRE	Fund Received from WB	-	1,585,671
24/A2F-GRA	Fund Received from WB	86,203	-
25/A2F-GRA	Fund Received from WB	76,257	-
26/A2F-GRA	Fund Received from WB	346,835	-
27/A2F-GRA	Fund Received from WB	129,260	-
29/A2F-GRA	Fund Received from WB	98,789	-
30/A2F-GRA	Fund Received from WB	450,697	-
		1,188,041	2,672,901

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Notes to the financial statements
For the year ended 31 December 2019

4. Technical Assistance

<i>In USD</i>	2019	2018
Consultant services for SMEs		
International consultants	867,704	-
National consultants	7,694	14,000
	875,398	14,000
Consultant services for PFIs		
International consultants	383,261	76,525
National consultants	4,320	-
	387,581	76,525
Consultant services for DOSMEP		
National consultants	147,826	182,746
International consultants	82,879	106,111
Consulting firm	14,520	13,420
	245,225	302,277
Training and workshop for DOSMEP		
Conference, Convention, Meeting	19,249	23,244
DSA	11,691	12,795
Transportation cost	11,118	10,427
Other related costs	52,870	38,480
	94,928	84,946
Incremental operating cost for DOSMEP		
Other expenses	16,564	13,065
Driver SMEA2F	11,559	8,916
Printing and copying	9,152	5,695
Supplies	5,130	4,616
Advertisement	5,008	4,973
Fuel for office work	2,241	2,231
Communication	2,145	3,937
Books, Subscriptions, Reference	58	3,759
Bank charges	1,157	317
	53,014	47,509

**Ministry of Industry and Commerce
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Notes to the financial statements
For the year ended 31 December 2019

4. Technical Assistance (continued)

<i>In USD</i>	2019	2018
Goods		
Office equipment	2,677	19,383
Office furniture	-	7,450
	<u>2,677</u>	<u>26,833</u>
Incremental operating cost for SMEs		
Printing and copying	1,744	-
	<u>1,744</u>	<u>-</u>
Training and workshop for PFIs		
Conference, Convention, Meeting	-	32,002
DSA	-	3,740
Transportation costs	-	3,640
Other related costs	-	1,239
	<u>-</u>	<u>40,621</u>
Training and workshop for SMEs		
Conference, Convention, Meeting	-	41,364
Transportation costs	-	50
Other related costs	-	24,401
	<u>-</u>	<u>65,815</u>
	<u><u>1,660,567</u></u>	<u><u>658,526</u></u>

5. Line of credit to Participating Financial Institutions

<i>In USD</i>	2019	2018
Line of credit to PFIs (Lao Viet Joint Venture Bank)	-	1,600,000
	<u>-</u>	<u>1,600,000</u>

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Notes to the financial statements
For the year ended 31 December 2019

6. Cash on hand and cash at bank

<i>In USD</i>	2019	2018
Designated bank account: Bank of Lao	627,489	810,394
Operating bank account: Lao Viet Bank	20,167	9,486
Petty cash	6	96
	<u>647,662</u>	<u>819,976</u>

7. Advance

<i>In USD</i>	2019	2018
ILO	231,550	518,885
DOSMEP	4,687	15,674
NIU	-	1,890
	<u>236,237</u>	<u>536,449</u>

Ministry of Industry and Commerce
Small and Medium Enterprise Access to Finance Project

Budget and actual payments
For the year ended 31 December 2019

(Appendix 1)

This table represents the use of funds by component and detailed activities, as set out in the Project Appraisal Document (“PAD”), compared with the current budget. (*Financing Agreement dated 14 August 2014 and Amendment to the Financing Agreement dated 24 November 2016)									
<i>In USD</i>	Actual		Budget		Variance			Project Appraisal Document (“PAD”)*	
Category	31 December 2019	Cumulative to date	31 December 2019	Cumulative to date	31 December 2019	Cumulative to date	Cumulative to date (%)	Total budget	Remaining budget as at 31 December 2019
Part 1: Line of Credit Facility									
Line of Credit	-	13,600,000	-	13,600,000	-	-	0%	15,000,000	1,400,000
Total Part 1	-	13,600,000	-	13,600,000	-	-	0%	15,000,000	1,400,000
2.1 Technical Assistance to Department of Small and Medium Enterprise Promotion (“DOSMEP”)	395,844	1,823,364	672,422	2,099,942	276,578	276,578	13%	3,500,000	1,676,636
2.2 Technical Assistance to Participating Financial Institution (“PFIs”)	387,581	554,092	454,946	621,457	67,365	67,365	11%	1,000,000	445,908
2.3 Technical Assistance to Small and Medium Enterprise (SMEs)	877,142	1,034,556	1,116,761	1,274,175	239,619	239,619	19%	500,000	(534,556)
Total Part 3 (note 4)	1,660,567	3,412,012	2,244,129	3,995,574	583,562	583,562	15%	5,000,000	1,587,988
Total expenses	1,660,567	17,012,012	2,244,129	17,595,574	583,562	583,562	3%	20,000,000	2,987,988

Ministry of Industry and Commerce
Small and Medium Enterprise Access to Finance Project

Budget and actual payments
For the year ended 31 December 2019

(Appendix 1)

Analysis of variances between budget and actual payments

The project budget for the remaining project life was revised on June 2019 during the Project Review Committee Meeting and approved by the World Bank. The basic of the project's budget revision is based on the total of the project fund available obtained from the Client connection less actual expenditure as of 30 June 2019. The remaining budget available as at 30 June 2019 will be allocated to the budget for the extension period from July 2019 to 30 June 2020.

Line of Credit: As of the reporting date, total funds transferred to 4 PFIs is USD 13.6 million. This amount consists of Credit and Grant, amounting to USD 9.084 million and USD 4.516 million, respectively. Based on loan utilization reports from PFIs as of reporting date, the loan disbursed to SMEs cover 99.43% of the total funds. In case of ST Bank, some SMEs have completely repaid the loans. Such funds of ST Bank are further disbursed as new loans to other SMEs. In addition, on 23 September 2019, DOSMEP had second amendment of the Subsidiary Financing Agreement with 3 PFIs (ST Bank, Sacom Bank and Lao Viet Joint Venture Bank) to extend the principal repayment period starting from Oct 2024 to 2034.

Good: The actual expenditure lowers the budget due to the procurement of IT equipment for MSME statistic and M & E implementation facilities still not completed. The bid was opened in December 2019 with total cost equivalent to USD 27,500 and will be paid in year 2020 after payment condition as is due.

Consultant services: The overall consultant cost for the reporting period over the budget was approved by 20% due to some positions still in the process of recruitment; ILO cleared outstanding advance of USD556,686 from the project phase 1 and some consultants not yet raised invoice for their work due to work in process and not yet fulfil condition as per the contract.

Training and Workshop: Some training and workshop related to the consultant works as described in "Consultant Services" above and some activities the implementing agency did not implement as planed.

Incremental Operating Cost: The operating cost is a cost for the administration, printing car insurance, vacancy announcement and others. The difference is due to some outstanding work for VDO production and some printing degree.