

Lao People's Democratic Republic
Peace Independence Democracy Unit and Prosperity

Bank of the Lao PDR
Banking Operations Department
Lao Access to Finance Fund (LAFF)
LAFF Management Unit

Vientiane Capital, 18 Jan 2023

Call for Expressions of Interest

A. Content

1. Background

In March 2014, the Government of the Lao PDR and the German Development Bank (KfW) agreed to set up a fund called “Lao Access to Finance Fund – LAFF” to enhance access to demand-based credit services for micro, small and medium enterprises (MSMEs).

2. Objective and approach

LAFF supports development of MSME-credit markets with largest unmet demand, and ultimately the strongest impact on income generation and employment for lower-income households. Wholesale-debt funding is offered in maturities of six years and on market-based conditions. LAFF-funding is priced in line with actual prices found in the respective markets for LAK-denominated liabilities of both banks and DTMFIs. The market-based approach allows LAFF's borrowers, or partner-financial institutions (PFIs), full discretion in applying their strategic market-approach, credit policies and MSME-loan conditions, including pricing. LAFF-funding is offered on the condition that it shall be used to finance productive-economic activities employed by MSME, by providing sub-loans in sizes of up to LAK 500 million and in tenures of at least 18 months, outside the four urban districts of Vientiane Capital.

3. Management

In the meantime, the Governor of the Bank of Lao PDR (BoL) has installed a LAFF Management Unit (LMU) for LAFF within its Bank Operations Department (BOD).¹ The LMU is responsible for effective management of LAFF's operations, in line with modalities and criteria agreed by BoL and KfW. The LMU is headed by a Director and overseen by a Steering Committee (LSC) chaired by a Deputy Governor, currently Mrs. Vatthanna Dalalay. Following LSC consent, LAFF Director Mr Khamkeo Visisombath, Director General of the Banking Operations Department (BOD), makes the following call for Eols:

4. The call

I call upon all professionally-managed commercial banks and Deposit-Taking Microfinance Institutions (DTMFIs) in the Lao PDR that have a strategic interest in credit provision to MSMEs, including informal enterprises and economically-active households, to apply for LAFF-wholesale loan and, if relevant, accompanying technical assistance. The interest rate at 5.9% nominally per annum for banks and 7.5% nominally per annum for DTMFIs.

Eols and applicants will be carefully assessed, based on documentation and interviews, by applying eligibility criteria, supported by a structured weighted-scoring tool and combined with qualitative assessments. Those applicants that meet all minimum eligibility criteria and score highest in terms of

¹ No. 108/BoL, 11/02/2020.

achievement of market-development targets and outcome of the weighted-scoring tool will be selected. A detailed and comprehensive overview of eligibility criteria and documentation requirements can be found below, in Section B.

5. Market-development targets

Through this EOI LAFF intends to encourage commercial banks and DTMFIs to reach out to MSMEs, particularly the smaller units operating in rural areas of Lao PDR and that have not yet the opportunity to access business loans or loans for income-generation purposes.

The target MSMEs comprise both formal enterprises, registered with the Ministry of Industry & Commerce, and also informal enterprises that have not yet initiated or completed a formal registration process with competent authorities.

LAFF intends to develop sustainable lending from licensed credit providers towards MSMEs, broadening the scope of eligible borrowers. LAFF seeks at the same time to encourage investment in productive assets which is key to the competitiveness of the Lao MSMEs in the ASEAN Economic Community: LAFF encourages offering longer loan tenures for business loans to match with the longer return on investments of machinery upgrade.

LAFF is also very attentive to fair pricing and client protection standards: beyond the mandatory eligibility criteria, LAFF will prioritize candidate banks and DTMFIs demonstrating that they pass on to their clients the advantageous refinancing rates from LAFF.

6. LAFF-funding conditions

LAFF funding comes in the form of uncollateralized-wholesale loan with conditions as mentioned in this chapter, detailed agreement on which will be reached in loan negotiations with selected applicants, following credit-assessment and due-diligence processes. LAFF funding is offered on a revolving basis, requiring re-issuance of repaid principal to MSMEs in line with criteria for MSMEs and sub-loans.

Summary of core LAFF-funding conditions:

- Denomination in LAK.
- Duration six years (DTMFIs between 4-6 years).
- a grace period of 1/3rd of loan duration.
- Four equal installments of principal due at the end of loan-year three to six.²
- Interest rate **5.9%** nominally per annum for bank and **7.5%** for DTMFIs.
- interest payments due annually at loan-year end.
- Interest calculated over the outstanding loan amount.
- No fees are due, in any form or shape or under any name, but for a 2% raise of interest rate on overdue principal installments for the period the payment is overdue.
- No penalty on prepayment before maturity.
- No collateral requirements, nor privileged or preferential ranking of LAFF funding.
- Repaid LAFF-funding principal should be re-issued to MSMEs within the set criteria for sub-loans and MSMEs.

7. Criteria for sub-loans to MSMEs

The MSMEs that are the target sub-borrowers of LAFF, include informal -i.e. unregistered- enterprises and economically-active households. LAFF-funding should exclusively be used to finance productive economic-activities undertaken by MSMEs, with a substantial part of financing for “fixed assets” or business

² Two equal installments at the end of loan years three and four in case of a four-year loan to an DTMFI, and similarly three equal installments at the end of loan years three to five in case of a five-year loan to an DTMFI.

expansion.³ ⁴ As a principle, *LAFF*-funding can be used to finance economic activities in any sector. However, PFIs are required to issue at least 30% of the number of sub-loans to primary-agricultural production⁵ and refrain for funding activities mentioned in the *LAFF-Exclusion List*; the latter which excludes only highly hazardous-economic activities.⁶ In terms of geography, *LAFF*-funded sub-loans can be issued over the complete geographical area of Lao PDR, except for the three urban districts of Vientiane Capital.⁷ Last but importantly, sub-loans should comply with Client Protection Principles⁸ and the Government Office Decree on Financial Consumer Protection.⁹ The following is a summary of remaining core sub-loan conditions:

Summary of core sub-loan conditions:

- Size: between LAK 2 million and LAK 500 million.
- Interest: market-based, according to a PFI's existing credit policies.
- Average Duration: at least 18-months, on average.
- Grace period: one-third of a sub-loan's tenure.

Apart from requirements mentioned, MSME-credit product and distribution design, including installment schedule for interest payments and principal, is within the discretion of the PFI, in line with its existing credit policies.

8. Offer of technical assistance

LAFF has the option to offer technical assistance (TA) to accompany *LAFF*-funding, in case applicant requires support to realize strategic targets or eligibility criteria set by *LAFF*. Applicants, both banks and DTMFIs, are encouraged to make such requests, in cases they consider full eligibility for *LAFF*-funding is within reach if adequate TA would be supplied. Details, on how to make related requests are given below.

³ Economic activities are considered those activities that are undertaken to generate a household-income beyond subsistence level.

⁴ Fixed-assets refer to those assets of any kind that continuously provide productive value to the production process beyond a single-production cycle; in the case of MSMEs, "*fixed assets*" often have short-economic lives and low-monetary value; as a result, funding of such "*fixed assets*" is understood to be hard to distinguish from "*working-capital funding*" at credit application and approval.

⁵ Agricultural production as defined for *LAFF* includes primary production or crops, livestock of any kind, fish, sea or river food, and generally including aqua and horticultural products, as well as catching or gathering and selling of fish, wildlife, insects and NTFPs.

⁶ The Exclusion List excludes merely highly-hazardous economic activities. For the complete Exclusion List, see annex 2.

⁷ Chanthabouly District (district code 0101); Xaysetha District (district code 0103); and Sisattanak District (district code 0104).

⁸ Client Protection Principles of the SMART-campaign: <https://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles>. Applicants are encouraged to make an EoI even when they don't consider themselves fully compliant with the Consumer Protection Principles.

⁹ GoL/225, 06/04/2020.

B. Process

1. Background EoI

The structure to be followed for the EoI is provided in an EoI-application form that has been added to this Call as annex 1. The EoI should contain a brief description (size indication: one A4) of the amount of solicited funding and its planned usage, including notions on the strategic and organizational plan that is at its basis, the targeted number and average-size of MSME loans to be issued, targeted sectors and geographic area, and some core characteristics on planned MSME loan product(s), including interest rate and fees, duration, and periodicity of installment payments. Details on requested TA should also be briefly described (size indication: one A4) and should include the gap in knowledge or expertise to be dealt with and expected outcomes, its relevance to realization of its strategic MSME-market approach, the position and number of employees within the applicant financial institution that should be technically assisted, and the type and duration of the requested TA. Where possible, both descriptions should link to a broader overall strategic and operational plan of the organization.

2. Required Documentation

The EoI-application form should be accompanied by documentation that allows for assessment of operational and financial strength, strategic orientation, social and environmental standards, and ultimately eligibility. Failure to furnish requested information or documentation may result in rejection of the EoI. The following, is the list of requested documentation:

Business information/employment information

- Organizational chart

Legal documentation

- Most recent set of reports submitted to the BoL
- Company license
- Articles of Association of shareholders

Business Plan

- Business plan or list of intended business activities
- Financial projections for 3-5 years.

Financial information

- Audited annual reports of the last three years 2020-2021-2022
Financial statements for financial year 2022 used for reporting to BoL will be accepted in lieu of audited financial statements 2022.
- Loan portfolio (outstanding amount, number of clients, PAR) divided into branch and product as of December 2022
- Evolution of loan portfolio (amount disbursed, outstanding amount, number of loans, PAR) for each month of 2022 for the whole institution
- List of other financial institutions being financed (e.g. village banks)
- Detailed report on restructured and refinanced loans
- Detailed portfolio breakdown of clients in arrears

Refinance sources incl. Deposits

- Deposit base development by product, currency, maturity; interest rates for deposits for different maturities.
- List of top 15 largest depositors with deposit outstanding (remove names).
- Information on other debt lenders (name, start date, tenor, interest rate, currency, repayment schedule, security, fees).

Policies

- Information on main products, terms and conditions
- Credit policies and procedures; including details on delinquency management and manuals for staff

Other documents will be required during the due diligence visit process: the LMU will inform the concerned candidates ahead of that visit.

3. Eligibility criteria PFIs

Criterion	Indicators
A. Strong interest in delivery of the MSME credit services (< LAK 500 m.)	1. Explicit strategy and business plan that includes focus on MSME-credit services targeted by LAFF (i.e. loans up to LAK 500 million)
	2. Acceptance of technical assistance, if needed to improve MSME-term lending.
	3. Acceptance of on-site inspections, by or on behalf of KfW, that include all information on MSME-loans funded by LAFF and the PFIs financial situation.
	4. Regular off-site provision of information to LAFF-financed MSME loans and the PFI's financial situation.
B. Experience and scale	1. At least one-year MSME-lending experience in Laos.
	2. Capacity to successfully lend out LAK 15 billion (5 billion for DTMFIs) in the form of sub-loans to MSMEs of less than LAK 500 million in three years.
3. Compliance	1. Have an unconditional license as commercial bank or DTMFI.
	2. Accept regular monitoring by BoL.
	3. Be compliant with prudential regulations issued by BoL.
	4. Be compliant with external auditing requirements.
	5. Be compliant with reporting requirements.
	6. Have accounting standards and internal control procedures in place that allow for monitoring of the LAFF-funding and its usage.
4. Prudent and sound operations and credit policies	1. Effective credit technologies in place.
	2. Adequate risk procedures are applied.
	3. No reliance on subsidies and use of market-based interest rates.
	4. The rate of non-performing loans shall be under 5%. ¹⁰
	5. A capital-adequacy ratio of at least 10.5% (banks) or 12% (DTMFIs). ¹¹
	6. Overall performance above-sector average.
5. Responsible Finance	Institutionalization of the Client Protection Principles and adherence to Laws and Regulations on Financial Consumer Protection.

4. EoI Closing Date and Submission

The closing date and time for the EoI is on **10 Jan 2023 4:30pm local (Lao) time**. EoIs received after the above-mentioned deadline will not be considered. The EoI and related documentation must be sent in a sealed envelope with the written heading in bold "**Expression of Interest LAFF funding 2023**", to the following address:

¹⁰ Definition according to applicable regulations of the Bank of Lao PDR, for banks and DTMFIs, respectively.

¹¹ Ibid.

Banking Operations Department, Bank of the Lao PDR
Lao Access to Finance Fund (LAFF)
Att. Mrs. Soysouvanh Siborliboun and Mrs Souklaty Bouakhasith
P.O. Box 19, Yonnet Road
Vientiane Capital, Lao PDR

EOIs can alternatively be submitted by e-mail to the following email address: laff.laos@gmail.com
(send the application and supporting documents in separate e-mails if exceeding the maximum message size).

5. Legalities

This Call for Expression of Interest does not constitute commitment on the part of the Bank of Lao PDR, the Government of the Lao PDR or KfW, either financially or otherwise, nor shall any part or the whole of this call for EoIs be considered a binding legal contract. Parties mentioned reserve full rights to reject any of the submitted EoIs without being obliged to give account to applicants for grounds for such rejection. Nevertheless, LAFF Management will strive to inform rejected applicants to the extent it considers this appropriate and to the extent such information could strengthen a renewed bid for LAFF-funding by applicant towards to the future. The Bank of Lao PDR and related parties involved in (TA to) LAFF Management will treat all applications with utmost confidentiality and will use information received exclusively for the purpose of determining eligibility and priority of applicant in receiving LAFF-debt financing and possibly TA.

Annex 1 – EOI application form

Annex 1 to the Call for Eols of 2023 by the Lao Access to Finance Fund (LAFF)

Expression of Interest (Eol) application form

Please ensure all requested information is inserted and documentation provided when submitting the expression of interest.

SECTION 1: Organization and contact details

1.1 Full legal name		
1.2. Address of incorporation		
1.3 Registration and license details	Type	Number, date, government agency
	1.3.1 Company registration	
	1.3.2 Bank of Lao PDR License	
	1.3.3 Tax registration	
Statutory company representative		
1.4 Contact details of statutory company representative (i.e. someone duly registered in the company registry and mandated to represent or sign for the company)	1.4.1 Full name and position	
	1.4.2 Office phone number	
	1.4.3 Mobile phone number	
	1.4.4 Office email address	
	1.4.5 Office address	
	1.4.6 PO Box	
Contact person responsible for Eol		
1.5. Contact details of company representative or staff managed the Eol.	1.5.1 Full name and position	
	1.5.2 Mobile phone number	
	1.5.3 Email address	
Geographic area of operations		
1.6. Provinces and districts with outlets that can issue MSMEs-loans.	16.1 Provinces	
	16.2 Districts	

SECTION 2: Request for LAFF debt finance		
2.1 Request for LAFF debt finance this call for Eols	Total amount of requested debt finance (in millions LAK).	
2.2 Interest in possible LAFF debt finance for subsequent Eols	Tentative interest for additional debt finance for the possible subsequent Eol, expected late 2021 (in millions of LAK).	
2.3 Background to the Eol in LAFF debt finance	We have provided a background of the request for LAFF-debt finance as part of this Eol in around one-A4, including plans for usage of funds and interest rate to be charged to end-borrowers (see: Section B Paragraph 1 of the call for Eols). Should answer with yes or no; in case the answer would be a “no” this would lead to ineligibility.	

SECTION 3: Request for Eol-supporting technical assistance		
3. Request for Eol-supporting technical assistance	3.1. We make a request for Eol-supporting TA (answer yes/no)	
	3.2. We have provided background to the request for Eol-supporting TA (see: Section B Paragraph 1 of the call for Eols). Answer yes/no.	
	3.3. We request additional TA-needs assessment to tailor make the Eol-supporting TA package (answer yes/no).	

SECTION 4: ELIGIBILITY CRITERIA		
Please indicate yes or no, or the value applicable to your financial institution, if relevant supported by a narrative in a separate document.		
Criterion	Indicators	Yes/No or value
A. Strong interest in delivery of MSME credit services (< LAK 500 m.)	5. Explicit strategy and business plan that include focus on MSME-credit services targeted by LAFF (i.e. loans up to LAK 500 million).	
	6. Acceptance of technical assistance, if needed to improve MSME-term lending.	
	7. Acceptance of on-site inspections, by or on behalf of KfW, that include all information on MSME-loans funded by LAFF and the PFIs financial situation.	
	8. Regular off-site provision of information to LAFF-financed MSME loans and the PFI's financial situation.	
B. Experience and scale	At least one-year MSME lending experience in Laos.	
	Capacity to successfully lend out LAK 15 billion (5 billion for DTMFIs) in the form of sub-loans to MSMEs of less than LAK 500 million in three years.	
C. Compliance	7. Unconditional BoL license as commercial bank or DTMFI.	
	8. Accept regular monitoring by BoL.	
	9. Compliance with BoL prudential regulations.	
	10. Compliance with external auditing requirements.	
	11. Compliance with reporting requirements.	
	12. Have accounting standards and internal control procedures in place that allow for monitoring of the LAFF-funding and its usage.	
D. Prudent and sound operations and credit policies	7. Effective credit technologies are in place.	
	8. Adequate risk procedures are applied.	

SECTION 4: ELIGIBILITY CRITERIA

Please indicate yes or no, or the value applicable to your financial institution, if relevant supported by a narrative in a separate document.

Criterion	Indicators	Yes/No or value
	9. No reliance on subsidies but use of market-based interest rates.	
	10. The non-performing loan portfolio is under 5%.	
	11. The capital adequacy ratio at 10.5% (banks) or 12% (DTMFIs) or higher.	
	12. Overall performance above-sector average.	
E. Responsible Finance	Institutionalization of the Client Protection Principles and adherence to Laws and Regulations on Financial Consumer Protection.	

SECTION 5: Overview of existing technical and/or financial support from international development and/or donor agencies, government or other external sources, including international financial institutions. Please provide a full overview of such existing support, if applicable:

Organization	Type of support and related human and financial resources	Start and end-date of support

SECTION 6: Overview of submitted documentation and information.

Subject	Provided in form of – reference	yes / no
Background LAFF finance request (see: Section 2 of this form)	Write up (one A4)	
Background LAFF TA request (see: Section 3 of this form)	Write up (one A4)	
Eligibility Criteria	Check: Yes, no value, when relevant backed up by narrative in separate document	
Required Documentation (see: Call for EoIs)		

SECTION 7: CERTIFICATION

I, undersigned, warrant that the information provided in this form is complete and correct. I understand that failure to provide full and correct information will result in ineligibility for current and future LAFF-finance and/or TA.

Signature

Signatory Name, surname		COMPANY SEAL
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Position in financial institution		
Date		
<p>The closing date and time for the Eol is on 10 Feb 2023, 4:30 pm local (Lao) time. Eols received after the above-mentioned deadline will not be considered. The Eol and related documentation must be sent in a sealed envelope with the written heading in bold "<i>Expression of Interest LAFF funding 2023</i>", to the following address:</p> <p style="padding-left: 40px;">Bank of the Lao PDR Banking Operations Department Lao Access to Finance Fund Att. Mrs. Soysounvah Siborliboun and Mrs Souklaty Bouakhasith P.O. Box 19, Yonnet Road Vientiane Capital, Lao PDR</p>		

Annex 2 – LAFF Exclusion list

In the following areas KfW Group does not offer financing for new projects or purposes:

1. Production or trade in any product or activity subject to national or international phase-out or prohibition regulations or to an international ban, for example
 - i) certain pharmaceuticals, pesticides, herbicides and other toxic substances (under the Rotterdam Convention, Stockholm Convention and WHO "Pharmaceuticals: Restrictions in Use and Availability");
 - ii) ozone depleting substances (under the Montreal Protocol),
 - iii) protected wildlife or wildlife products (under CITES / Washington Convention);
 - iv) prohibited transboundary trade in waste (under the Basel Convention).
2. Investments which could be associated with the destruction or significant impairment of areas particularly worthy of protection (without adequate compensation in accordance with international standards).
3. Production or trade in controversial weapons or critical components thereof (nuclear weapons and radioactive ammunition, biological and chemical weapons of mass destruction, cluster bombs, antipersonnel mines, enriched uranium).
4. Production or trade in radioactive material. This does not apply to the procurement of medical equipment, quality control equipment or other application for which the radioactive source is insignificant and/or adequately shielded.
5. Production or trade in unbound asbestos. This does not apply to the purchase or use of cement linings with bound asbestos and an asbestos content of less than 20%.
6. Destructive fishing methods or drift net fishing in the marine environment using nets in excess of 2.5 km.
7. Nuclear power plants (apart from measures that reduce environmental hazards of existing assets) and mines with uranium as an essential source of extraction.
8. Prospection, exploration and mining of coal; land-based means of transport and related infrastructure essentially used for coal; power plants, heating stations and cogeneration facilities essentially fired with coal, as well as associated stub lines.
9. Non-conventional prospection, exploration and extraction of oil from bituminous shale, tar sands or oil sands.