



Interim Unaudited Financial Report (IFR)  
2<sup>nd</sup> Semester 2019 (covering 01 Jul - 31 Dec 2019)  
Lao PDR Competiveness and Trade Project



Prepared by:  
NIU/DPC, MOIC  
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## Abbreviations

A2F	Access to Finance
ARISE	Asean Regional Integration Support by EU
BAF	Business Assistance Facility
BOL	Business Operating License
CF	Challenge Facility
DB	Doing Business
DERM	Department of Enterprise Registration and Management
DFAT	Department of Foreign Affairs and Trade
DIMEX	Department of Import and Export of the Ministry of Industry and Commerce
DPC	Department of Planning and Cooperation
FM	Financial Management
IA	Implementing agency
IDA	International Development Association
IFR	Interim Financial Report
IPD	Investment Promotion Department
LBF	Lao Business Forum
LCTP	Lao Competitiveness and Trade Project
LNCCI	Lao National Chamber of Commerce and Industry
LSP	Lao Services Portal
LTP	Lao Trade Portal
MIS	Management Information System
MoIC	Ministry of Industry and Commerce
MPI	Ministry of Planning and Investment
NIU	National Implementation Unit
NTFC	National Trade Facilitation Committee
NTM	Non-Tariff Measure
PEC	Program Executive Committee
PMO	Prime Minister's Office
PPCM	Public Private Consultation Meeting under LBF
PRC	Project Review Committee
PSD	Private sector development
RELATED	Regional Economic Integration of Laos into ASEAN, Trade and Entrepreneurship Development Project
SME	Small and Medium-Sized Enterprise
TDF II	Second Trade Development Facility
TF	Trade Facilitation
TFA	Trade Facilitation Agreement
TFS	Trade Facilitation Secretariat
TIN	Tax Identification Number
TPSWG	Trade and Private Sector Working Group
TPR	Trade Policy Review

TRS	Time Release Study
VAT	Value Added Tax
WBG	World Bank Group
WTO	World Trade Organization

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## **INTRODUCTION**

This second IFR for LCT Project presents financial position of the project covering period from July 01, 2019 to December 31, 2019.

The report also summarizes key outputs of the project delivered during second half of 2019. It also highlights major implementation challenges and key priorities for the first half of fiscal year 2020.

Overall project implementation is progressing well. All major technical assistance packages have been completed, including three major firm contracts under QCBS method as well as key individual consultants for all components except A.3. Four Challenge Facility proposals under TFA CF and one proposal under DB CF were approved, the Business Assistance Facility is up-and-running with 25 matching grants have been approved, gender and M&E strategy are being finalized. Main priority for FY 2020 will be shifted to supervision of technical assistance and implementation of recommendations and public private dialogue process has gradually generated more interest from general public and started to deliver tangible results.

There is real opportunity to make significant improvement in performance of “Starting a Business” indicator of WBG’s Doing Business Report in 2021 edition to be released in October 2020. However, utilization of fund allocated to support implementing PM Order No. 02 through DB Challenge Facility remains very low and concerted efforts will be required from all concerned parties to accelerate implementation of activities under component A.3– Support to Broader Business Environment Reform.

## I. PROJECT OVERVIEW

High regulatory burden, excessive trade costs, and firms' limited capacity remain the key challenges to private sector-led growth in Laos. Despite some progress, to unlock its full economic potential by attracting higher quality private sector investment in a wider range of diversified sectors, Lao PDR will have to significantly improve the business environment and to compensate for the natural disadvantages the country faces as a landlocked economy.

In order to assist The Government of Laos to further deepen reforms to improve the business environment, improve connectivity with neighboring economies, and raise firm-level productivity, the Lao Competitiveness and Trade Project was launched with funding from the World Bank and a multi-donor trust fund. The project aims to eliminate barriers to private sector-led growth by improving the regulatory environment, lowering trade costs, and raising firm-level competitiveness.

As described in the Project Appraisal Document,<sup>1</sup> the project has four pillars:

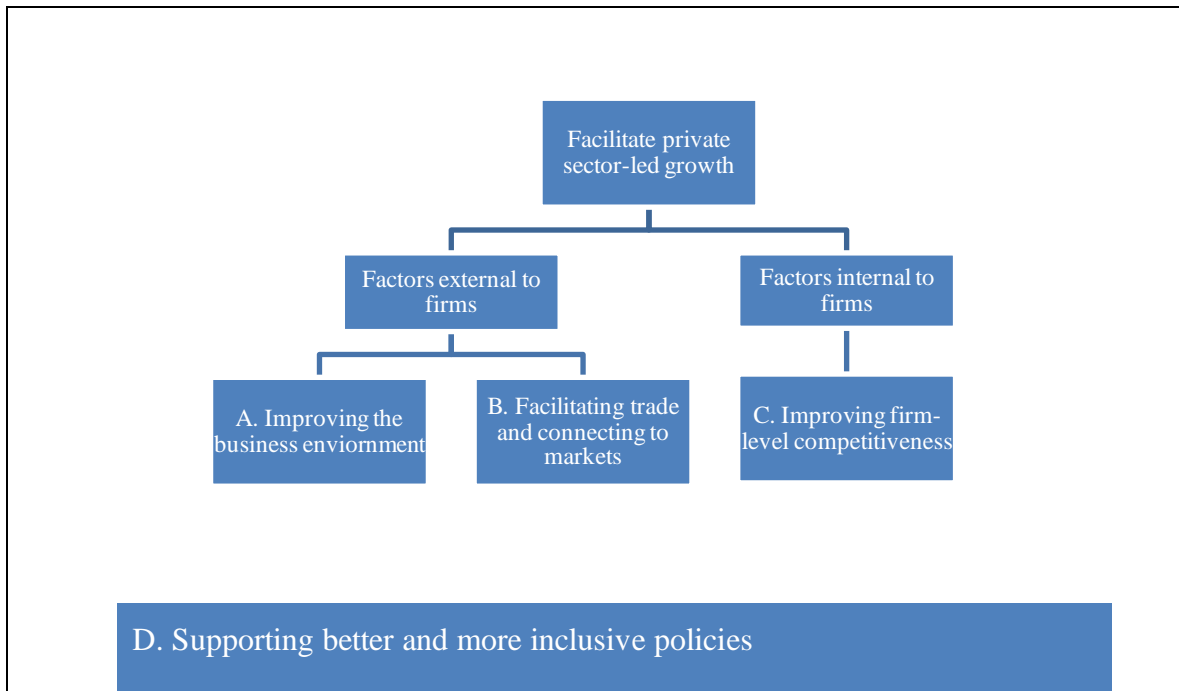
1. **(A) Improving Business Environment:** This pillar builds on recent support under the Second Trade Development Facility (TDF-2) that started to improve company registration processes, the transparency in administering operating licenses, and overall support to the PM Order. There are following components: A1 (Making it Easier to Start a Business), A2 (Streamlining and Publishing Operating Licenses), and A3 (Support to Broader Business Reforms).
2. **(B) Facilitating Trade and Connecting to Markets:** This pillar is designed to support the government of Lao PDR in implementing the provisions of the WTO Trade Facilitation Agreement (TFA)<sup>2</sup> through i) supporting operations of the Trade Facilitation Secretariat and ii) establishing a TFA Challenge Fund, which will provide necessary resources to key agencies responsible for TFA implementation.
3. **(C) Improving Firm-Level Competitiveness:** This pillar will support individual private enterprises in accessing business development services through a matching grant facility. The intervention aims to reduce costs internal to firms by improving company management and innovation in terms of products, markets, and distribution channels such as e-commerce.
4. **(D) Supporting Better and More Inclusive Policies:** This pillar will support effective project implementation, monitoring, evaluation as well as improved economic analysis and policy making under MOIC's leadership, and public private dialogue under the Lao Business Forum (LBF). It will also support the transparency agenda for trade and private sector-related regulations.

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<sup>1</sup> The Project Appraisal Document is available here: <http://projects.worldbank.org/P164813?lang=en>

<sup>2</sup> Lao PDR was the 18th WTO member to formally accept the WTO TFA (in September 2016).

## Basic Structure of LCTP



Source: LCTP PAD

## II. ACHIEVEMENTS OF THE CURRENT PERIOD AND PRIORITIES FOR FIRST HALF OF FY 2020

The overall budget performance of LCT Project achieved 66% during the second semester of the project implementation. This semester period covers from Jul 01, 2019 to December 31, 2019.

<b>Expense by Component 01 Jul 2019 - 31 Dec 2019</b>				
<b>Components</b>	<b>Actual</b>	<b>Budget</b>	<b>Variances</b>	<b>%</b>
A. Improving the Business Environment	\$272,651	\$622,050	\$349,399	44%
B. Facilitating Trade and Connecting to Markets	\$216,758	\$745,500	\$528,742	29%
C.Improving Firm-Level Competitiveness	\$430,574	\$103,500	(\$327,074)	416%
D.Supporting Better and More Inclusive Policies	\$454,589	\$616,500	\$161,911	74%
<b>Grand Total:</b>	<b>\$1,374,572</b>	<b>\$2,087,550</b>	<b>\$712,978</b>	<b>66%</b>

The budget performance of LCT project for this semester had been considerably slow compared to the forecasted budget. This was mainly due to the reason that the project has just kicked of its implementation for the first year with some consultants and firms were not recruited on time and delay in implementation of some planned activities. The overall project performance were only 66% of the overall semester budget. For more detail – see explanation in each component below.

### 1. Pillar A: Improving the Business Environment

For this reporting period, expenditure of US\$ 272,651 has been recorded for Pillar A. It was significantly increased compared to previous reporting period due to some planned activities have been implemented and some payments to consultants/firms have been made. There is unspent variance of US\$349,399, resulting in utilization rate of only 44% of the budget. Two firm contracts were already signed in this reporting period and 10% payment upon signing of each contract were made. Since its approval in August 2019, only less than 1% of the CF Proposal budget under component A3 was spent. Moreover, no spending was made on an international consultant to support IPD-MPI as the recruitment process was still ongoing during the reporting period.

A1. Total budget estimate for firm consultant is US\$ 210,000 where only 10 % payment of the total contract were made in September 2019 upon signing of contract with the remaining budget balance of US\$ 148,877.

A2. Total budget estimate for firm consultant is US\$ 245,000 with only 10% payment of total contract made resulting in remaining budget of US\$ 170,038.

A3. A total of US\$ 225,000 was estimated the Challenge Facility (CF) in 2019 where only US\$ 439 were spent by MOJ under the approved CF proposal on reforming the insolvency regime. Also, a US\$ 72,000 budget for hiring of an international consultant to support IPD-MPI planned under A3 has not been utilized as the recruitment process is still underway.



Pillar A builds on recent support under TDF-2 to improve enterprise registration processes, the transparency in administering operating licenses, and overall support to the PM Order No. 2. The pillar aims to improve the transparency and reduce regulatory compliance cost for businesses', especially SMEs and women-led enterprises.

**Component A.1: Making it easier to start a business** will support efforts of the Government to: 1) streamline and simplify process for starting a business within and outside Industry and Commerce sector; and 2) automate enterprise registration through developing a new online business registration system.

DERM is primary technical implementing agency for component A.1.

**Key outputs/outcomes:**

Key outputs during the reporting period include:

- Introduction of ex-post registration process through adoption of Ministerial Decision No. 0023 (January 09, 2019) significantly simplified procedures' for registering a business in the country. The new business registration process only entails 04 steps instead of 10 steps in the past and the whole process can be completed within 40 working days instead of average 174 days in the past;
- The new registration process is the result of the following key changes:
  1. Simplification of enterprise registrars' documentation requirements through abolishment of verification of location by village chief, articles of association, and approval for seal carving. Under new system only application form and list of intended business activities are required for sole trader, and one more document is required for partnership and company, which is shareholder agreement;
  2. Issuance of tax identification number in enterprise registration certificate through real time connection with tax registration database;
  3. Simplification of procedures in other government agencies, namely abolishment of requirement for approving content of company signage by MOICT; separate tax registration and TIN certificate; and mandatory tax orientation seminar. Production and registrations of company seal in provinces and simplified procedures for registering worker for social security have significantly reduced time required to complete these two procedures (about 5 working days for company seal and 2 days for registering for social security);
  4. Staff from 108 districts out of 148 total districts in the country have received training on new procedures to register a business. The remaining 48 districts from 08 provinces will receive hands on training from DERM's core team in the coming months;

- A full-time national project coordinator for DERM to support components A1 and A2 was onboard in late April;
- The consulting firm was onboard since June 2019 to support DERM and other relevant agencies in further streamlining procedures for starting a business, including design of online business registration. Inception report was submitted to DERM, NIU, and World Bank Task Team at the end of November. Key deliverable in the inception report is detailed action plan until March 2020, which proposes a series of activities to be undertaken before March 2020 with specific objective to improve the Starting a Business indicator of the EDB Report through a drastic reduction of days and steps. Key proposed measures include:
  1. Elimination or ex-post verification of the Checking profile of a foreign national director;
  2. Elimination of the requirement to present a Carving Seal at registration;
  3. Merge of ERC and Social security registration in one procedure;
  4. Reform of the Enterprise Law;
  5. Promotion of Stakeholders' engagement;
  6. Monitoring compliance by national and Vientiane Capital "Application Windows" of new rules and standards for Start Up;
  7. Trainings Central and Vientiane Capital officials on DB evaluation and on informing applicants and stakeholders;
  8. Preparing User-friendly material for starting a business procedure;
  9. Preparing a Digital Marketing Strategy for "Doing Business in Lao PDR.
- During the reporting period more than 400 participants from both public and private sector attended various training and dissemination workshops.

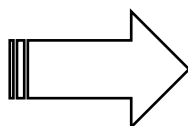
The Consultant Team used the 2020 World Bank *DB Ease of Doing Business Score Calculator* to estimate targets and monitor progress for the ***Starting a Business Indicator***. The simulation considers two different AS IS scenarios: the first is the one reported by the Government and has a target of 17 days and 3 procedures. The second, based on further reforms proposed by the Consultant Team in this Action Plan reports 4 days and 1 procedure for the DB Start Up Indicator.

**DB 2020**

**DB 2020 with 2019 reforms**

**First Scenario**

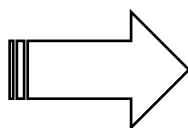
<b>AS IS 2020</b>	<b>173 days</b>
<b>Country (Laos)</b>	Starting business ranking
<b>Based on 9 procedure</b>	181



<b>AS IS 2020</b>	<b>17 days</b>
<b>Country (Laos)</b>	Starting business ranking
<b>Based on 3 procedure</b>	47

### Second Scenario

<b>AS IS 2020</b>	<b>173 days</b>
<b>Country (Laos)</b>	Starting business ranking
<b>Based on 9 procedure</b>	181



### With new reform

<b>AS IS 2020</b>	<b>4 days</b>
<b>Country (Laos)</b>	Starting business ranking
<b>Based on 1 procedure</b>	3

### Implementation challenges

- Lack of strong inter-ministerial coordination to support specific reform measures and monitor their implementation, especially at Vientiane Capital, where DB report data is collected; and
- Communication and collaboration between DERM and TA team is required to further strengthened.

### Priorities for first half of FY2020

- Below detailed action plan is broadly agreed by key stakeholders. Activity plan beyond March 2020 will be further developed based on major reform measures presented above.

<b>Activity</b>	<b>Deliverable</b>	<b>Deadlines</b>
<b>I</b>	<b>New Reforms for Starting a Business</b>	
<b>A</b>	Elimination or ex-post verification of the Checking profile of a foreign national director:	
1	Note on international Practice	Dec. 13
2	Assist DERM in monthly meetings	Dec.19-Feb. 20
3	Draft of the legal document of the reform	Dec. 27
<b>B.</b>	Elimination of the requirement to present a Carving Seal at registration	
4	Note on international Practice	Dec. 13
5	Draft of the legal document of the reform	Dec. 27

6	Guidelines for reform implementation	Dec. 13
7	Sector Survey on DERM interpretation	February
C.	Merge of ERC and Social security registration in one procedure	
8	Note on international Practice	Dec. 20
9	Report on Functional Aspects of SSO system	Jan. 31
D.	Reform of the Enterprise Law	
10	Desk appraisal	Dec.
11	Discussion Meetings with DERM	Dec.
12	Government stakeholders' meetings to discuss on work plan and law structure	Jan.
13	Provide recommendations and consolidations on development and improvement to the law.	Feb. 28
II	<u>Monitoring Implementation of Agreed Reforms</u>	
E	Promotion of Stakeholder's engagement	
14	Ad hoc Stakeholders meetings	Jan. -Feb.
15	Digital Stakeholders Consultation	Jan.-Feb.
F	Monitoring compliance by national and Vientiane Capital "Application Windows"	
16	New forms and templates	Jan. 17
17	DERM trainers Workshop and Guideline of Check Lists of Standards and Indicators	Jan.
18	Test Program	Dec.19-Feb.20
G	Trainings Central and Vientiane Capital officials	
19	Training and workshops Vientiane Capital	Feb.
III	<u>Communication Strategy.</u>	
H	Preparing User-friendly material for starting a business procedure	
20	AS IS Map with infographics.	Jan. 24
21	Didactic brochure of Starting a Business Procedures	Jan. 24
22	Prepare a special Brochure targeting women led enterprises	Jan. 24
I	Preparing a Digital Marketing Strategy for "Doing Business in Laos"	
23	Guideline for the Doing Business in Lao PDR new website.	Jan. 31
24	Tools (video and social media)	Jan. 31
25	Promotion and partnership with dissemination channels	Jan. 31
	Report on Supporting implementation	Mar. 06

- Continue dissemination workshops and capacity building activities for provincial business registrars' offices, especially Vientiane Capital.

**Component A.2: Streamlining and publishing operating licenses** will provide implementation support to: 1) streamline business operating license administration, and 2) set up an online portal of business licenses.

During the second support mission it was agreed and confirmed by both DERM and IPD management that full responsibility over streamlining operating licenses has been moved to DERM.

**Key outputs/outcomes:**

Key outputs during the reporting period include:

- Finalization of firm contract and commencement of technical assistance by selected consulting firm from July 2019;
- Agreement on a number of key implementation issues and reform approach, including:
  1. Agreement to develop the first national licensing guideline through adoption of high-level government administrative order for all licensing authorities to comply;
  2. Decision to focus current TA on business operating licenses, which will be grouped within four selected Ministries (Agriculture and Forestry, Public Health, Transport and Public Works and Information, Culture and Tourism);
  3. Start comprehensive licensing reform through developing a result-oriented model within MOIC by focusing on streamlining operating licenses under three licensing authorities within MOIC, namely DIMEX, DOIH, DODT prior to expanding the program to other line Ministries;
- Submission of Inception Report in July 2019 and revised Inception Report in December 2019 following agreement made during the project first implementation support mission in May 2019 on new implementation approach that DERM will lead implementation of Component A2 instead of IPD-MPI;
- Prepared draft Business License Guideline;
- Completion of complexity assessment of the 36 High Priority Business Licenses (HPBL) based on original ToRs. This assessment was undertaken during the first weeks of the project, prior to DERM's decision of working only with the Business Operating Licenses.
- Assessment of the "As Is" situation of 3 Business Operating Licenses in accordance to DERM's request to change the scope for component 2.
- Completion of list of MOIC BOLs;
- Carried out a series of meetings and discussions with the relevant stakeholders on the ITCs policy within the Lao PDR Government to assess the context for the creation of the Business License Electronic Portal;

- Prepared and submitted a revised version of the Business License Electronic Portal.

Through intensive discussions with key stakeholders, it was agreed that TA to licensing reform will adopt the following approach.

1. **The Licensing Guideline** will focus on establishing a modern business licensing system that reduces burdens on businesses while ensuring compliance with regulatory requirements. In this regard the following four different guidelines will be developed:

- How to reform current licenses to reduce costs (administrative simplification);
- Create new licenses, what regulators should think before the creation of a new license (RIA alike)
- Guideline to streamline the applications forms;
- Guideline for risk-based approach.

2. **Business license reform** will now move away from streamlining 36 high priority licenses to focus on the following activities:

1. Create a list of the current BOL of the selected ministries to work with, starting with MOIC. Selected ministries to work with are the following:
  - a. Agriculture and forestry
  - b. Public works and transportation
  - c. Public Health
  - d. Information-culture and tourism

DERM and the consultant team have jointly selected these ministries based on the following criteria:

- Meaningful economic impact
  - Cover sectors of relevance to women-led enterprises
  - Follow the national sectoral promotion policy, and
  - Have strong traction of host ministries
2. Analyse, together with the Ministry responsible, the feasibility to streamlining one the inventoried BOLs per Ministry based on JC&A license methodology.
  3. Select 4 BOLs to be streamlined, one from each Ministry (see below).
  4. Identify all BOLs of all 4 Ministries and create or update their factsheet or “as is” situation<sup>3</sup>.
  5. Undertake the methodology and approach established by the consultant team for licensing reform for the 4 BOLs to be streamlined, including the following:
    - a. “As Is” Factsheet and process map
    - b. “To Be” factsheet and process map

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<sup>3</sup> The BOLs factsheet will be uploaded in the IBF.

- c. Regulatory Reform Calculator to measure administrative burdens
- 6. Prepare specific reforms to the licenses.
- 7. Measure progress on the reforms.

The consultant team proposed to streamline a total of 4 BOLs based on the evaluation of the level of effort required to adapt the methods from HPBF to BOL context, as well as the identification all the BOLs of the ministries selected. The level of analysis required for the BOL is higher than the analysis for the HPBF. The consultant team indicated in the technical proposal the estimation of the resources needed for the analysis of the HPBF based on the previous information obtained from the 2017/2018 project under TDF2. The change of scope to BOL requires the consultant team to begin again and go back to the drawing board on the strategy to collect the baseline information. A second layer of complexity is the local application of the BOLs, which will require the consultant team to work not only with central authorities but also with provincial authorities. The consultant team will work with Vientiane Capital provincial level based on the political context, the relevance of the region, the traction and the possible impact on the Doing Business assessment by the World Bank.

**The Business License Portal** will design and implement a web portal to publish the entire inventory of 208 licenses with information on key data points collected under TDF-2. The consultant team will request to the line ministries, through DERM, to update the information in the IBF before its publication in the IBF portal. The Business License Portal will be launched with the information updated from the line ministries. The License Portal can be updated as the consultant team receives updated information later. In this regard, the consultant team modified the date for deliverables 13 and 14 to adapt to DERM’s request and include the BOLs. Also, in a relevant remark, the consultant team needs clarification from the counterpart on the final design of the IBF.

The consultant team will train the designated public officer from DERM to update the IBF once the project reaches its term in early 2021.

**Implementation challenges**

- Adoption of new reform policy with regard to licensing reform during recruitment of consulting firm requires further adjustment of work plan submitted as part of proposal by consultant; and
- Decision to change coordination between DERM and IPD as well as approach and focus of the TA caused some delay in implementation. However, adoption of revised work plan, including approach is expected to facilitate acceleration of the activities in 2020.

**Priorities for FY 2020**

Resulting from the October agreements, the following detailed work plan was agreed by key stakeholders:

Number	Deadline
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	Activity		
	Inception Report		
1	Submission of Inception report	3 weeks	19-Jul-19
	Component 1		
2	Draft Business Licensing Reform Guideline report	9 weeks	30-Aug-19
3	Revised Business Licensing Reform Guideline report	14 weeks	4-Oct-19
	<b>Guidelines on licensing reform (4 guidelines)</b>	<b>27 weeks</b>	<b>31-Dec-19</b>
	Component 2		
	First Batch		
4.1	Draft AS IS Process Mapping report for 1st batch of 18 HBPF and 3 MOIC BOL	24 weeks	13-Dec-19
5.1	Revised AS IS Process Mapping report for 1st batch of 18 HPBF and 3 BOL	27 weeks	3-Jan-20
6.1	Draft TO BE Business Process Re-engineering for 3 MOIC BOLs	41 weeks	10-Apr-20
7.1	Revised TO BE Business Process Re-engineering for 3 MOIC BOLs.	43 weeks	24-Apr-20
8.1	Draft Reform Validation report and implementation status for 3 MOIC BOLs	68 weeks	16-Oct-20
9.1	Revised Reform Validation report and implementation status for 3 MOIC BOLs	70 weeks	30-Oct-20
	Second Batch		
4.2	Draft AS IS Process Mapping report for 6 BOL within 2 Ministries	47 weeks	22-May-20
5.2	Revised AS IS Process Mapping report for 6 BOL within 2 Ministries	50 weeks	12-Jun-20
6.2	Draft TO BE Business Process Re-engineering for 6 BOL within 2 Ministries	64 weeks	18-Sep-20
7.2	Revised TO BE Business Process Re-engineering for 6 BOL within 2 Ministries	66 weeks	2-Oct-20
8.2	Draft Reform Validation report and implementation status for 6 BOL within 2 Ministries	74 weeks	27-Nov-20
9.2	Revised Reform Validation report and implementation status for 6 BOL within 2 Ministries	76 weeks	11-Dec-20
10	Draft Communications Strategy Report	74 weeks	27-Nov-20
	Component 3		
11	Draft Design report on Business License Electronic Portal	9 weeks	30-Aug-19



12	Final design of the Business License Portal	15 weeks	11-Oct-19
13	Business License Portal fully developed, tested and hosted	40 weeks	8-Apr-20
14	Business License Portal goes live*	44 weeks	1-May-20
	Final Report		
15	Incorporate comments from MOIC, MPI and licensing agencies on all deliverables	78 weeks	25-Dec-20
16	Final Report	82 weeks	22-Jan-21

**Component A.3: Support to broader business reforms** will support MPI in coordinating and monitoring complex reform under PM Order No. 02 and providing technical support to relevant line ministries and agencies in the development and implementation of specific reform action plans.

IPD is expected to play leading role in coordinating/supporting implementation of specific regulatory reforms based on PM Order No. 02 and technical review reports such as DB reform memo and indicator specific action plans.

#### **Key outputs/outcomes:**

Key outputs during the reporting period include:

- Strengthened inter-ministerial coordination to support implementation of PM Order No. 02 through appointing one Deputy Minister of relevant ministries to support DPM;
- Progress of DB reform implementation is discussed at government monthly meetings and DPM-PM meeting. The ongoing reform also draws closed attention from the Party and National Assembly;
- National project team has been on board since April. Replacement of technical national consultant was completed with significant delay in October 2019. International consultant is expected to be on board in February 2020 (given the fact that the first ranked candidate declined to take the job which needed to move to negotiating with the second ranked candidate);
- Three draft CF proposals, namely enforcing contract, resolving insolvency, and registering property were prepared and one CF proposal – resolving insolvency was approved in August 2019;

#### **Implementation challenges**

- Delay in recruiting experienced national consultant team based at IPD and information gap on project implementation arrangement as well as various

implementation guidelines cause significant delay in implementing activities under this component;

- Lack of effective coordination between IPD and line Ministries/Departments in charge of specific DB indicators; and
- Lack of well-defined action plans and monitoring system.

### **Priorities for first half of FY 2020**

- Finalization of recruitment of part time international consultant;
- Finalization of three CF proposals for PEC's approval;
- Closely monitor implementation of approved CF proposals;
- Improve regular monitoring and reporting of DB reform activities to Government and general public.

## **2. Pillar B: Facilitating Trade and Connecting to Markets**

During reporting period, actual expenditure of \$216,758 has been recorded for Pillar B. There is unspent variance of \$528,742, resulting in utilization rate of only 29% of the budget. Main causes for this large variance is delay in concluding "Trade facilitation agreement challenge facility" that is not yet been implemented and recruiting one consulting firm to conduct the first time release study.

**Pillar B** is designed to support implementation of the provisions of the WTO TFA.<sup>4</sup> Full and effective implementation of the TFA commitments is expected to reduce the high trade costs and streamline procedures for imports and exports.

**Component B.1** will support the Trade Facilitation Secretariat (TFS) to strengthen its capacity as well as that of other relevant line ministries and agencies to implement the trade facilitation agenda, including carrying out stakeholder consultations; identifying, prioritizing, and coordinating trade facilitation initiatives; and monitoring and advancing the implementation of related reforms.

**Component B.2** will establish a Trade Facilitation Challenge Facility - "TFA Challenge Facility" to carry out additional proposed activities related to the implementation of the TFA. Funding under the TFACF will be allocated in line with clear criteria outlined in the Challenge Facility Guideline.

DIMEX is main implementing agency for both B.1 and B.2.

### **Key outputs/outcomes:**

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<sup>4</sup> Lao PDR was the 18th WTO member to formally accept the WTO TFA (in September 2016).

Key outputs during the reporting period include:

- Finalization of inter-agency coordination structure under DPM chairmanship is strong indication of attention given to the trade facilitation agenda;
- Several technical working group meetings under NTFC structure were organized to discuss and address issues readiness of border agencies to facilitate trade along the Lao-China railway, draft PM Order on trade facilitation, methodology and Laos performance in trading across border indicator of DB report, findings of NTM review, procedures for approving master list for importation of goods under duty exemption, risk based inspection at border management and other trade facilitation issues;
- One field visit to key border checkpoints by international TF and NTM specialists;
- Three provincial level trade facilitation committee meetings were also held in Bokeo, Luangnamtha and Xayaboury;
- Planned first time release study (TRS) is deferred to [mid 2020] because Customs already conducted a TRS in January 2019 without project support. During the project implementation support mission, it was agreed that the next TRS should expand to include time taken for issuing permits, certificates and registration for imports and exports. However, the TRS methodology may have to be adapted to the regulatory agencies' context and processes;
- The second NTFC secretariat meeting was conducted on 15<sup>th</sup> of August 2019 and there were several issues reported for review and resolution. Good progress was made to resolve (i) issues of unnecessary quality inspection for electrical products at border checkpoints, (ii) roadside check in Savannakhet provinces, and (iii) procedural challenge of plantation timber exports;
- A new Prime Minister's Order No. 12/PM to facilitate imports and exports, international transit and domestic movement of goods was approved on October 16, 2019;
- Approval of 04 CF proposals are considered major achievement for Pillar B. These include:
  - 1). Improving Customs Clearance through WTO-TFA implementation.* Primary objective is to expedite customs clearance and control by Category C implementing measures of the Trade Facilitation Agreement (TFA). The proposal aims to meet a total of 10 TFA measures, which Lao PDR committed to implement and has designated under 'Category C', including 1) advance rulings; 2) opportunity for second test; 3) use of international standards; 4) review of formalities and documentation requirements; 5) expedited shipments; 6) trade facilitation measures for authorized operators; 7) freedom of transit; 8) risk management; 9) border agency cooperation; and 10) post-clearance audit.

2). Developing risk-based inspection capacity for border clearance and establishing Post-Clearance Audit for strengthening regulatory compliance in food safety.

Primary objective is to reduce border clearance time for Bureau of Food and Drug Inspection (BFDI) by developing and using an integrated risk management framework in collaboration with Customs and Quarantine and by establishing a post-clearance audit framework to improve regulatory control on food safety.

3). Technical support in reducing trade regulatory control and enhanced monitoring of Trade Facilitation Agreement Measures.

Primary objective is to reduce trade regulatory controls in the Ministry of Industry and Commerce by removing and/or streamlining existing Non-Tariff Measures (NTMs), improving collection of international trade statistics, and monitoring implementation of TFA measures at the provincial level.

4). Promoting border risk management for animal and plant quarantine inspection services by Department of Agriculture (DOA) and Department of Livestock and Fisheries (DOLF).

Primary objective is to introduce border risk management for animal and plant quarantine inspection and strengthening post-marketing audit.

### **Implementation challenges**

- Getting buy-in from key border agencies to implement TF Roadmap and TFA commitments remains challenging;
- Delay in approving action plans by key concerned agencies;
- Inability to address specific issues raised by private sector;
- Inconsistent implementation of regulations and guidelines among key border checkpoints; and
- Delay in recruiting National Consultants caused by the involvement of new selection committee from MOF and MPI and the inavailability of qualified and experienced national candidates in the related required areas.

### **Priorities for the first half of FY 2020**

- Fully commit remaining budget for CF through developing one more CF proposal;
- Recruit National Trade Facilitation Coordinator as replacement for resigned PSD Coordinator and NTM Coordinator;
- Support and monitor implementation of approved CF proposals;
- Address pending trade facilitation related issues such as procedures for approving master list, barriers for domestic movement of goods and others;

- Implement targeted actions to simplify procedures related to trading across border indicator of DB report;
- Organize three trade facilitation committee secretariat meetings to review implementation progress of action plan for Category C measures;
- Support participation at trade facilitation related international knowledge sharing events.

### **3. Pillar C: Improving Firm-Level Competitiveness - Business Assistance Facility**

During the reporting period, actual expenditure of US\$430,574 has been recorded for Pillar C, which includes BAF2 Matching Grants of US\$14,470. Given that the budget was underestimated, there is overspent by US\$327,074, resulting in utilization rate of 416% of the budget. The main difference is due to the payment made to consulting firm (ECORY) based on the outputs and performance.

To complement improvements in the overall business and trade environment, this pillar will support individual private enterprises, especially SMEs in accessing business development services through a matching grant facility.

The Business Assistance Facility (BAF) will be implemented by an independent contractor and will consist of two activities. First, the facility will provide direct, free-of-charge, advisory services to potential and actual BAF clients. Second, it will scale up the total amount of matching grants available to crowd in investments into business development services by private firms.

Through competitive selection process, ECORYS has been selected to implement BAF under direct supervision

#### **Key outputs/outcomes:**

Key outputs during the reporting period include:

- Outreach:
  - In less than one-year BAF team has established initial contacts with over 100 business associations, chambers of commerce and individual businesses, including women owned and managed - potential clients;
  - More contacts with potential clients outside Vientiane Capital were also established after completing four trips to commercial centers in the north and south of the country;
  - Nineteen (19) outreach activities were conducted in fourth quarter of 2019 (4Q2019), taking the total number of activities since the project commenced to 58 of which 42 were in Vientiane capital and 16 in other locations: Savannakhet (5), Champasack (2), Luangprabang (2), Luangnamtha (3),

Oudomxay (3) and Bokeo. We estimate that 479 participants attended the outreach activities in 4Q2019, taking the total number of participants to 2,636 (including listeners to a “call in” radio talk show).

- BAF website and the BAF portal is operational during the first three months of commencement of the assignment. Considerable effort was made to refine the website, through which all company submissions are made, and the ‘dashboard’ and electronic database that sits behind the website. The dashboard allows the BAF II team to track every company application throughout its interaction with the project, as well as to have a ‘top-down’ view of the whole portfolio of work.
  - The dashboard also allows BAF II stakeholders to generate dynamic reports of the BAF II grant portfolio in real time, using a devoted password. This dynamic report provides disaggregated data on the BAF II portfolio by: i) gender; ii) location; iii) type, size and sector of company / grantee; and iv) the type of activity being supported. The data is also given in terms of both the grant amounts committed, and the grant amounts actually disbursed at the time of accessing the data.
- BAF Launch:
    - Official launch of BAF II took place in July under chairmanship of H.E. Minister Khemmani Pholsena;
    - Precisely 100 companies received business advisory from the BAF II team in 4Q2019, taking the total since the BAF II launch to 243. Of these, 68% (of the 100) and 45% (of the 243), respectively, were women-led companies. Also of these, 37% (of the 100) and 28% (of the 243), respectively, were companies located outside of Vientiane Capital, spanning 12 provinces.
    - Twenty-five (25) complete matching grant applications were received, of which 18 (72%) were women-led firms, and 4 (16%) were outside of Vientiane Capital.
    - A further 77 draft grant applications have commenced using the interactive website, and 342 company registrations have been logged in the website.
    - As at 27<sup>th</sup> december, 25 grant applications had been approved by NIU, with an aggregate commitment – “contingent liabilities” of US\$201,503.50 and an average grant size of US\$8,060.14 (The estimated tax liability for these grants is US\$ 49,972.87).
    - Fifteen (15) complete grant applications were rejected, of which three (20%) were women-led firms, and six (40%) were outside of Vientiane Capital.

- The first two disbursement recommendations were submitted to the NIU for approval, in late December, amounting to US\$ 12,920.50. Both payments were made by NIU on 30<sup>th</sup> December 2019.
  - The BAF II team has been set a goal of signing 25 grants by end-December 2019, in order to stay on target to enact 50 matching grants by May 2020.
- Below is BAF II portfolio breakdown as of end of December 2019.

<b>Breakdown metrics</b>	<b>Portfolio data, as at 31<sup>th</sup> Dec. 2019</b>
Total registered applicants, to date	342
Total number of draft submissions (i.e. incomplete grant applications)	77
Total grant submissions rejected, to date	15
Total number of grant recommendations submitted to NIU, to date	25
Total number of grant submissions rejected by NIU, to date	0
Total number of grants approved by NIU, to date ('green grants')	25
Total number of grants in danger of cancellation to date ('amber grants')	0
Total grants suspended / cancelled to date ('red grants')	0
Total BAF II matching grant support available (US\$), including tax	\$2,300,000
Total US\$ amount of grants approved to date - BAF II's contingent liabilities	\$201,503.50
Total tax obligation of 12.4% (US\$), to date	\$49,972.87
Total number of grants fully disbursed, to date	2
Total number of grants partially disbursed, to date	0
Remaining US\$ cash to be allocated to new grants	\$2,048,523.63

### **Implementation challenges**

- The offer of 'competing' BDS and TA support that is deemed by eligible firms to be more attractive than the matching grants of BAF II. The practice and 'culture' of pro bono BDS provision poses a challenge. Also, there is a degree of 'grant fund fatigue' by some Lao companies that have sought to work with other grant funds in the past, only to have found the reporting and 'conditionality' requirements of such grants to be excessive and onerous, in their view;
- One area that the BAF II team will be focusing on in particular in the coming months is developing the team's knowledge of the 'supply side' of BDS and TA provision to firms in Laos. Notwithstanding limited information available on the quantity and quality of such provision – whether in terms of inventories or diagnostics – to the private sector in Laos, BAF II will need to increase its knowledge base.

## **Priorities for the first half of FY 2020**

- Finalize dashboard of BAF II website
- Process about 100 applications for BAF grant;
- Monitor implementation of approved grants.

### **4. Pillar D: Support Better and More Inclusive Policies.**

This pillar will support effective project implementation, monitoring, evaluation, and improved economic analysis and policy making under the MOIC's leadership. It will also support the transparency agenda for trade and private sector-related regulations.

#### **Component D.1: Project Management and Coordination**

This component will support the DPC and especially the NIU in overseeing implementation of the project and monitoring of implementation progress and achieving outcomes.

#### **Component D.2: Improving Policy Making and Transparency**

This component will support improved economic analysis and policy making across the Government under the MOIC's leadership and support the transparent information dissemination agenda.

NIU under DPC is responsible for day to day activities under D.1. DIMEX, DFTP and other agencies play key role in implementing D.2 activities in closed coordination with NIU.

#### **Key outputs/outcomes:**

Key outputs during the reporting period under D.1 and D.2 include:

- Organized the second PEC on December 12, 2019 where key project activities and budget for all pillars and components for FY 2020 were discussed and approved;
- NIU continued to serve as technical secretariat for policy dialogue between government and development partners under Trade Private Sector Working Group (TPSWG). The first semi-annual SWG meeting for 2019 took place on June 06 and the second meeting took place on October 29, 2019;
- The second TPSWG meeting held in October 2019 discussed potential impact of ongoing and planned mega infrastructure projects, especially the Lao-China Railway project on private sector development in Laos. The meeting also reviewed progress on ongoing business environment reform initiatives, including implementation of PM Order No. 02, public private dialogue under the Lao Business Forum, and the first Trade Policy Review (TPR) exercise;



- Gender mainstreaming. With technical guidance from World Bank and DFAT, NIU gender advisor has completed draft gender strategy for LCT project. During the strategy drafting process, a large number of meetings with key implementing partners and other stakeholders were organized and several brainstorming sessions to discuss and agree scope of the gender action plan, possible immediate interventions as well as capacity building activities were organized. While the full gender action plan is scheduled for validation in early 2020, some practical actions have been agreed during the second project implementation support mission;
- The availability of trade & gender reliable data and information in Lao PDR continues to remain a challenge. Stakeholder consultations during initial project implementation confirmed that general constraints affecting Lao women traders may be broadly understood, but that root causes and the evidence underpinning them are often lacking. Since the objectives of the project also encompass the generation of new relevant knowledge (including on gender), it was agreed that component D2 would fund a study on gender-specific trade- and business environment constraints in Lao PDR with the NIU to propose potential topics with support from the gender advisor;
- Because data constraints will likely affect measurement of indicators and hence progress, the mission discussed measurement issues in more detail. Currently, various pillars of the project use varying definitions for gender-related indicators and the mission learned that some data sources for measuring progress against the relevant indicators may not be readily available. It was agreed that the gender and M&E experts would propose how to best measure “sectors of particular interest to women” (Pillar B) and of “issues raised by women-led enterprises” (Pillar D). Proposed definitions would then need to be validated by the NIU and IAs;
- Technical assistance to Government’s Trade Policy Review process is nearly complete – Government TPR report was submitted on time and necessary technical advices were provided during TPR meeting held in November in Geneva.
- Monitoring and evaluation. NIU has started developing action plan to leverage project result framework as effective tool for project progress monitoring. M&E specialist has developed guideline for monitoring evaluation, which among others will include standard templates for periodical project progress reporting, propose indicator specific monitoring plan, M&E information management system and others. With support from project task team, in December 2019, the NIU M&E specialist finalized draft M&E strategy and key sub-indicators to more effectively monitor project implementation and its impact.
- Procurement. The project became effective since December 2018, and the team has been fully on board. 80% of procurement activities especially the huge packages of QCBS under Procurement Plan approved when the project started, has been completed. This includes completion of the 03 major QCBS contracts. As of end of December 2019, 28 procurement activities have committed amount of approximately US\$ 5,173,835.

- The good process of Audit of the financial statement's recruitment under LCT project has gone through the technical proposal evaluation, and it is expected to sign contract in February 2020 after standstill period ended.

### **Implementation challenges**

- Lack of good understanding about the nature of technical assistance to support complicated regulatory reform among key implementing partners;
- Inadequate understanding of executing agency's fiduciary responsibilities and overall project oversight;
- Limited technical and practical experience in mainstreaming gender in trade and private sector development; and
- Familiarization with new procurement regulations and new template as well as new MIS system – STEP will take some time.

### **Priorities for the first half of FY 2020**

- Continue supporting the implementation of all approved project workplans for all components of LCT;
- Promote complementarity between LCTP and other projects, namely ECL, SME-A2F, RELATED, ARISE Plus and others;
- Organize regular NIU-IA, second PRC, annual PEC meetings;
- Organize Trade Private Sector Working Group meeting and provide inputs to the Annual Roundtable Meeting;
- Upgrade the t4dlaos.org website and Internal Document Management System (DMS);
- Organize training on project cycle management, financial and procurement management as well as gender mainstreaming topics and M&E system;
- Propose options for a gender diagnostic, study or similar analytical effort, aimed at expanding the current base of knowledge and evidence available on gender-specific trade, competitiveness and business environment constraints affecting women-led enterprises in Lao PDR;
- Support DTIS Update process with conducting topic/sector specific studies based on recommendations from Lead Author to be recruited under EIF funding;
- Coordinate with DIMEX and DFTP in finalizing sustainability strategy for LTP and LSP; and

- Validate gender mainstreaming strategy and M&E strategy.

### **Component D.3: Supporting Public-Private Dialogue**

- This component will continue to support the existing PPD under the LBF to effectively address the challenges faced by the private sector in Lao PDR, including those faced particularly by small, regional, start-up, and women-led enterprises.
- Public private dialogue process is primarily led by LNCCI based LBF Secretariat and government focal point under DPC, MOIC.

#### **Key outputs/outcomes:**

Key outputs during the reporting period include:

- Public-private Consultation Meetings (PPCMs) were held between July and October 2019 to discuss and propose solutions to all prioritized issues. The chairs chairmanships of PPCMs have been elevated to Deputy Ministers of the line ministries (previously, PPCMs were co-chaired by the DDG of DPC and Vice President of LNCCI);
- The progress made on issues raised prior to LBF 11 can be summarized as follows:
- Seven issues have been completely resolved:
  1. Value-added tax on non-interest income of commercial banks. The commercial banks proposed that non-interest income of commercial banks should be exempt from VAT because there is no clear regulation on how VAT on banking services can be calculated and collected. The Ministry of Finance accepted the proposal as it is now stipulated in VAT Law no 48/NA, dated 20 June 2018, Article 12, that lending and borrowing interest, income from transfer services, profit from foreign exchange rates, and other financial transactions of commercial banks or other financial institutions authorized by the Bank of the Lao PDR shall be exempt from VAT. Actual implementation has confirmed that there is no VAT collection from these finance-related services. Therefore, this issue is considered fully resolved;
  2. Value-added tax on transit transport services. The transport operators proposed that VAT charges on transit transport service should be exempt because they reduce the competitiveness of local transport companies, and because the implementation of VAT collection from transit transport is not consistent across the country. The Ministry of Finance accepted the recommendation of the private sector and has already included the exemption of VAT on international transit transport services in Article 12 of the Law on VAT (Amended) 2018. Most recently, the Tax Department issued Official Notification No. 2798/MoF.TD, dated 8 July 2019, to provincial tax authorities to fully comply with the Amended VAT Law no 48/NA. It has now

been confirmed by the transport operators that VAT on transit transport is no longer being collected by local tax authorities;

3. Internet excise tax. The private sector proposed the removal of the 10% excise tax on the Internet in LBF 10 and 11. This is because the Internet is necessary for everyday life including work, education, research and development. Therefore, it is inappropriate to consider Internet as a luxury good. The Ministry of Finance accepted the recommendation for consideration in the drafting process of the new Excise Tax Law. The Draft Law was passed by the National Assembly in June 2019, which indicates that excise tax on the Internet is set at 3% (reduced from 10% in the existing law);
4. Export regulation for wood products (planted wood). The private sector proposed that MOIC consider creating two separate lists of wood products that are allowed for export: natural wood and planted wood. Planted teak wood should be included in the list of allowed export products, and the size of each product should be modified to reflect the reality of market needs. MOIC accepted the proposal and revised the Agreement on List of Wood Product for Export No. 0939/MOIC, dated 1 August 2019. The responses from the private sector on this revision were very positive as they are now able to export a bigger variety of wood products;
5. Procedures for starting a business (previously business registration procedure). Business registration and licensing procedures for general business activities are cumbersome and costly, and require several unnecessary, unreasonable conditions. In addition, there are huge discrepancies between central and local authorities in terms of complete procedures for starting a business. To resolve this issue, MOIC issued Agreement No. 0023/MoIC.DERM, dated 9 January 2019 on Enterprise Registration, which stipulates that if a business is not on the controlled list an enterprise registration certificate can be issued straight away (no more than 10 working days) without getting approval from related agencies. Businesses included on the controlled list and concession activities shall comply with the law on foreign investment promotion. As a result, the number of steps required has been reduced from 10 to 4, and the total number of working days has been reduced from maximum 228 days or average 174 days to less than 40 days. However, although the registration process has been improved, the challenge remains for obtaining other required approvals/permits, especially business operating licenses; therefore, more work needs to be done to really improve the whole process of starting and operating businesses in Lao PDR. MOIC is currently leading business licensing reform initiative based on international good practice;
6. Regulation of the determination of interest rates for lending and borrowing of commercial banks (interest rate caps). The determination of the difference between the lending and deposit rates of commercial banks (interest rate caps)

created barriers for banks to make lending decisions, especially for SMEs, which directly impacted on the ability to access bank credit. Therefore, the private sector proposed that this regulation should be repealed. The Bank of the Lao PDR issued Agreement No. 140/BoL, dated 12 February 2019, on the Determination of Interest Rates of Commercial Banks, which officially repealed interest rate caps in Lao PDR.

7. Collection of fees for product quality and standards inspection. Importation of electronic and electrical devices requires quality and standards checks at Friendship Bridge 1, creating barriers for importers in the form of the extremely high and unreasonable fees applied. Therefore, the private sector urgently requested the Trade Facilitation Committee to coordinate in helping to resolve this issue. To that end, the Prime Minister's Office issued Notification No. 1358/PMO, dated 12 August 2019, on the suspension of product quality and standards checks on electronic and electrical devices. The Notification also specifies that no fees shall be charged. Therefore, this issue is considered solved.
- Sixteen issues showing good progress, with further action required:
    1. Procedure for obtaining an operating license from line ministries. This issue is a big obstacle to attracting more companies to set up in Lao PDR. There is no clear supporting legislation, and the whole process takes long time. Duplication of document requirement exists among different line agencies, and some local authorities have different requirements for business licensing.
    2. Requirements of the Tourism Police for bringing group tourists. The process of obtaining an approval letter from the Tourism Police is unnecessarily difficult. In order to bring each group of tourists to visit the country, tour companies must prepare a list of tourist names, indicating the purpose of their visit and location. They then visit the Tourist Police office to obtain an original seal from the Director General of the Tourism Police Department. This process really creates unnecessary extra work for both the private sector and the tour companies. The consultative meeting between tour agencies and Tourism Police held on 23 October 2019 resulted in an agreement that tour companies shall continue to submit the list of tourists for approval from the Tourism Police, but the process can be simplified, and the proposal letter can be submitted by scanned email.
    3. Procedure for the approval of the annual import plan or "Master List" of the goods and materials exempt from import duties and taxes under the Investment Promotion Law. The process of getting Master List approval usually takes a lot of time. There has been some improvement recently by the Ministry of Planning and Investment in the form of issuing Instruction No. 01/IPMC, dated 2 January 2019, on the Policy for Tax Incentives for Annual Import Plan. This Instruction clearly specifies the steps and timeframe for Master List approval. The Instruction also eliminated unnecessary requirements such as written approval from line ministries. However, actual implementation still involves obstacles, as obtaining

approval of annual imports usually takes much longer than the time specified by the Instruction.

4. Refund of VAT for export companies. This issue still needs further discussion with the tax authority, as it is not clear to the private sector how a proper VAT refund can be obtained. The meeting between the private sector and the tax department on 22 October 2019 could not reach any concrete solution. The tax department suggested that companies can file documents directly to the tax office for follow-up on pending refunds.
5. Competition from the informal sector. This issue includes businesses operated by foreigners not approved by the law, and illegal imported goods sold openly in the market. This problem severely affects formal businesses in Lao PDR, especially local small- and medium-sized enterprises (SMEs). It also affects government revenue collection, as businesses operated outside the legal system are not subject to any form of taxation.
6. Procedural requirement for transporting transit goods. The transport operators assert that the existing procedure for transporting transit goods is burdensome and restricts the competitiveness of Lao companies.
7. Loan collateral registration fee using a land title certificate. Article 79 of Presidential Decree No. 003, dated 26 December 2012, stated that the fee to register a loan pledge agreement for use of land title rights is equal to 0.2% of the total borrowed amount. This is considered a high rate and has a direct impact on borrowing costs. The revised fees were proposed by the private sector, but are still pending for final approval from the Government.
8. Improvement of the National Credit Information Center (CIC). Credit information sharing has a positive impact on easing financing constraints. Public and private credit registries exist to improve the information available on borrowing firms and individuals. Although the CIC in Lao PDR has been improved considerably, the system still cannot provide sufficiently good information for its members. Based on information from commercial banks and financial institutions, the CIC has a lot of limitations and user fees are relatively high.
9. Government support policy for startups. Startups in Lao PDR face many challenges. In particular, there is no law or regulation to support the registration and operation of a startup. No existing government support policy has been adopted.
10. Improvement of the Tourism Strategy Plan. The private sector believes that its active participation in developing the Tourism Strategy Plan to promote tourism in Lao PDR is crucial to the sustainable growth of the tourism sector. The private sector also believes that a National Tourism Board needs to be established to enable the public and private sectors to work together more effectively, allowing a professional team to take the lead in management and planning for Lao tourism development.
11. The issuance of investment licenses. Setting up a business under the controlled list involves complicated and time-consuming processes. Some procedures are duplicates of business registration procedure. Consultation at department level with some ministries identified a lot of inconsistencies on internal regulations

among different ministries, that contradict those of the Ministry of Planning and Investment.

12. Developing Nature-based Tourism (NBT). NBT has the potential to develop tourism in Lao PDR due to its geographical location and its many natural tourist attractions. NBT can generate foreign exchange revenue, create employment for local people, and reduce poverty. NBT is particularly aligned with the Government's Sustainable and Green Development Agenda 2030. However, the development of NBT in Lao PDR has received little attention from the Government and there is no supporting regulation to promote NBT. For instance, official fees related to the development of NBT and environmental impact assessments in protected areas are very high, and set at the same rate as those of the mining and hydropower sector. Therefore, it is impossible for SMEs in Lao PDR to get involved developing this business.
13. Loan Agreement and Security Interest Registration Procedures. Secured lending is very common and formal registration requirements are imposed by law and the Bank of the Lao PDR. High processing fees and complicated procedures are barriers to SMEs gaining access to formal credit. Land titles are the most readily available collateral. Official land titles ("golden border") are registered at the Land Management Division of the Ministry of Natural Resources and Environment. In addition, loan agreement and supporting documents are required to be certified by village chiefs, as well as the Notary and State Asset Management offices. This is a complicated process, especially for SMEs, which creates high transaction costs and eventually prevents them from applying for bank loans. Instead, they choose to borrow from other, informal, funding sources, even when they have to bear higher interest rates.
14. Regulations on organizing tourism-related activities. Organizing tourism-related activities is a lengthy procedure, which is a deterrent for promoting tourism sector in Lao PDR.
15. Unfavorable electricity tariff rates for the service sector. Unlike the industrial sector, the service sector (especially hotels, restaurants and resorts) around the country has not received any incentives on electricity rates, making monthly electricity costs very expensive. The service sector has in recent years played an increasingly important role in the Lao economy, accounting for 41.53% of Gross Domestic Product in 2018, while the industrial sector contributes 30.9% of Gross Domestic Product. Therefore, the private sector, especially the hotel and restaurant association, is of the opinion that the Government should treat the service sector in the same way as the industrial sector.
16. Support policy for financial technology services. Financial technology (FinTech) has the potential to promote financial inclusion in Lao PDR, especially for those with no access to formal financial services and those in remote areas. FinTech can benefit underserved individuals and communities through features including "mobile money" and "e-wallets". Promoting and supporting FinTech in Lao PDR, can: support Lao SMEs in making payments and collections to enhance productivity and profitability; offer innovative financial services to Lao businesses for expansion in collaboration with banks, micro-finance and other

financial institutions; and provide a digital solution for general Lao consumers to minimize cash usage and connect to e-commerce. Today, there is no regulation governing FinTech operation in Lao PDR.

17. The twelve LBF was organized on November 12, 2019 under chairmanship of Deputy Prime Minister (for the first session) and Prime Minister (for the second session). Official PMO Notification to all concerned Ministries to solve 18 outstanding issues raised under the LBF is being prepared by PMO in closed coordination with MOIC, LNCCI and other relevant Ministries.

### **Implementation challenges**

- Inter-ministerial coordination remains major challenge;
- Role of PMO in the dialogue process has not been finalized; and
- Some confusions regarding role of LBF vis a vis other coordination structure and forums.

### **Priorities for the first half of FY 2020**

- Follow up with issuance of PMO Notification;
- Start new cycle of dialogue process in early 2020;
- Review effectiveness of LBF and define its role in supporting other coordination mechanisms;
- Recruit short term international consultant to recommend practical steps to improve effectiveness and agree on sustainability strategy; and
- Endorse adjustments to existing structure and sustainability strategy.



## Summary of Sources and Uses of Funds

Ministry of Industry and Commerce  
National Implementation Unit  
Lao PDR Competitiveness and Trade Project - LA Multi Donor Trust Fund  
**Sources and Uses of Funds**  
For the 2nd Semester (01 Jul 2019-Dec 2019)  
Expressed in US Dollar

	Note	2nd Semester			Cumulative		
		IDA	TF	Total	TF	IDA	Total
<b>Cash Receipts</b>							
World Bank Grant Account LCTP		1,297,781	432,594	1,730,375	432,594	2,244,385	2,676,979
Other income*							
<b>Total Cash Receipts</b>		<u>1,297,781</u>	<u>432,594</u>	<u>1,730,375</u>	<u>432,594</u>	<u>2,244,385</u>	<u>2,676,979</u>
<b>Less Expenditure by Component</b>							
A. Improving the Business Environment		210,724	61,927	272,651	61,927	256,473	318,400
B. Facilitating Trade and Connecting to Markets		177,154	39,604	216,758	39,604	295,307	334,911
C. Improving Firm-Level Competitiveness		330,417	100,157	430,574	100,157	330,417	430,574
D. Supporting Better and More Inclusive Policies		363,261	91,328	454,589	91,328	681,398	772,727
<b>Total Expenditures</b>		<u>1,081,556</u>	<u>293,016</u>	<u>1,374,572</u>	<u>293,016</u>	<u>1,563,595</u>	<u>1,856,611</u>
<b>Receipts Less Expenditures</b>				355,803			820,368
<b>Net Change in Cash</b>				<u>355,803</u>			<u>820,368</u>
<b>Opening Cash Balance</b>							
Designated Account @ Bank of Lao P D R - LCTP		123,044					
Project Operating account @ BCEL - LCTP		134,736					
Project Operating account @ BCEL - BAF - LCTP		199,998					
Undeposit Cash/Cash in Transit - LCTP		-					
NIU Petty Cash - LCTP		815					
Advances - LCTP IAs		5,972					
Un-Cleared Cheque							
Cash Advance		-					
<b>Total Opening Cash</b>		<u>464,565</u>	<u>-</u>	<u>464,565</u>			
Add Net Change in cash				355,803			820,368
<b>Net Cash Available</b>				<u>820,368</u>			<u>820,368</u>
<b>Closing Cash Balance</b>							
Designated Account @ Bank of Lao P D R - LCTP		378,885			378,885		
Project Operating account @ BCEL Bank - LCTP		250,747			250,747		
Project Operating account @ BCEL - BAF - LCTP		185,570			185,570		
Undeposit Cash/Cash in Transit - LCTP		-			-		
NIU Petty Cash - LCTP		17			17		
Advances - LCTP IAs	a	5,149			5,149		
Un-Cleared Cheque							
Cash Advance		-			-		
<b>Total Closing Cash Balance</b>				<u>820,368</u>			<u>820,368</u>

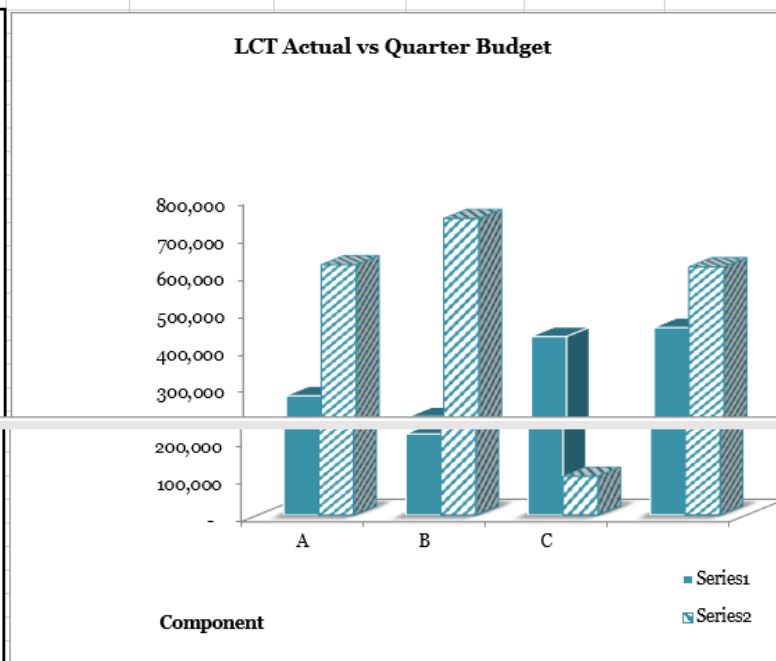
The table 2 above displays the funds used by the LCTP project during the semester and accumulated figure to the end of December 2019. It reflects the expenditures of each project component during the reporting period. The table also demonstrates current balance of all project accounts.

The currency of this report is presented in USD as per Grant Agreement.

**Sources and Uses of Funds (LCTP)**  
**Period ended 31 Dec 2019**

	Actual			Planned			Variance		
	Current Semester	Year to date	Cumulative to date	Current Semester	Year to date	Cumulative to date	Current Semester	Year to date	Cumulative to date
<b>Sources of Funds</b>									
World Bank Grant Account LCTP	1,730,375	2,676,979	2,676,979	2,087,550	3,120,700	3,120,700	357,175	443,721	443,721
Other income*		-	-	-	-	-	-	-	-
<b>Total Financing</b>	<b>1,730,375</b>	<b>2,676,979</b>	<b>2,676,979</b>	<b>2,087,550</b>	<b>3,120,700</b>	<b>3,120,700</b>	<b>357,175</b>	<b>443,721</b>	<b>443,721</b>
<b>Less: Expenditures by Component</b>									
A. Improving the Business Environment	272,651	318,400	318,400	622,050	983,300	983,300	349,399	664,900	664,900
B. Facilitating Trade and Connecting to Markets	216,758	334,911	334,911	745,500	910,500	910,500	528,742	575,589	575,589
C.Improving Firm-Level Competitiveness	430,574	430,574	430,574	103,500	254,600	254,600	(327,074)	(175,974)	(175,974)
D.Supporting Better and More Inclusive Policies	454,589	772,727	772,727	616,500	972,300	972,300	161,911	199,574	199,574
<b>LCTP Total Expenditures</b>	<b>1,374,572</b>	<b>1,856,611</b>	<b>1,856,611</b>	<b>2,087,550</b>	<b>3,120,700</b>	<b>3,120,700</b>	<b>712,978</b>	<b>1,264,089</b>	<b>1,264,089</b>

<b>Net Change in Cash (Receipts - Expenditures)</b>	<b>\$355,803</b>	<b>\$820,368</b>
<b>Opening Cash Balances</b>		
Designated Account @ Bank of Lao PDR - LCTP	\$123,044	
Project Operating account @ BCEL - LCTP	\$134,736	
Project Operating account @ BCEL - BAF - LCTP	\$199,998	
Undeposit Cash/Cash in Transit - LCTP	\$0	
NIU Petty Cash - LCTP	\$815	
Advances - LCTP IAs	\$5,972	
Un-Cleared Cheque	\$0	
Cash Advance	\$0	
<b>Total Opening Cash</b>	<b>\$464,565</b>	
<b>Net Change in cash</b>	<b>\$355,803</b>	
<b>Net Cash Available</b>	<b>\$820,368</b>	
<b>Closing Cash Balance</b>		
Designated Account @ Bank of Lao PDR - LCTP	\$378,885	
Project Operating account @ BCEL - LCTP	\$250,747	
Project Operating account @ BCEL - BAF - LCTP	\$185,570	
Undeposit Cash/Cash in Transit - LCTP	\$0	
NIU Petty Cash - LCTP	\$17	
Advances - LCTP IAs	\$5,149	
Un-Cleared Cheque	\$0	
Cash Advance		
<b>Total Closing Cash Balance</b>	<b>\$820,368</b>	



The above table exhibits the comparison of the actual expenditure against planned budget and variances by each component.

## Statement of Uses of Funds by pillar

LCTP sources of fund(in US\$)									
Period ended 31 Dec 2019									
Components	Actual			Budget			Variance		
	Current Semester	Year to date	Cumulative to date	Workplan Current Semester	Year to date	Cumulative to date	Current Semester	Year to date	Cumulative to date
<b>Component A - Improving the Business EnvironmentRegulations</b>									
A1: Making it Easier to Start a Business	159,459	193,080	193,080	117,800	304,800	304,800	(41,659)	111,720	111,720
A2: Streamlining and Publishing Operating Licenses	75,705	76,359	76,359	183,000	275,000	275,000	107,295	198,641	198,641
A3: Implementing Emerging Priority Reforms	37,487	48,961	48,961	321,250	403,500	403,500	283,763	354,539	354,539
<b>Total component A mproving the Business EnvironmentRegulations</b>	<b>272,651</b>	<b>318,400</b>	<b>318,400</b>	<b>622,050</b>	<b>983,300</b>	<b>983,300</b>	<b>349,399</b>	<b>664,900</b>	<b>664,900</b>
<b>Component B - Facilitating Trade and Connecting to Markets</b>									
B1: Supporting the Trade Facilitation Secretariat	216,758	334,911	334,911	745,500	910,500	910,500	528,742	575,589	575,589
B2: TFA Challenge Facility	-	-	-	-	-	-	-	-	-
<b>Total component B Facilitating Trade and Connecting to Markets</b>	<b>216,758</b>	<b>334,911</b>	<b>334,911</b>	<b>745,500</b>	<b>910,500</b>	<b>910,500</b>	<b>528,742</b>	<b>575,589</b>	<b>575,589</b>
<b>Component C - Improving Firm-Level Competitiveness</b>									
C1: Business Assistance Facility	430,574	430,574	430,574	103,500	254,600	254,600	(327,074)	(175,974)	(175,974)
<b>Total component C - Improving Firm-Level Competitiveness</b>	<b>430,574</b>	<b>430,574</b>	<b>430,574</b>	<b>103,500</b>	<b>254,600</b>	<b>254,600</b>	<b>(327,074)</b>	<b>(175,974)</b>	<b>(175,974)</b>
<b>Component D: Supporting Better and More Inclusive Policies</b>									
D1: Supporting Better and More Inclusive Policies	298,137	561,388	561,388	367,450	619,300	619,300	69,313	57,912	57,912
D2: Improving Policy Making	95,155	108,677	108,677	143,500	181,000	181,000	48,345	72,323	72,323
D3: Supporting Public-Private Dialogue	61,297	102,662	102,662	105,550	172,000	172,000	44,253	69,338	69,338
<b>Total Component D: Supporting Better and More Inclusive Policies</b>	<b>454,589</b>	<b>772,727</b>	<b>772,727</b>	<b>616,500</b>	<b>972,300</b>	<b>972,300</b>	<b>161,911</b>	<b>199,574</b>	<b>199,574</b>
<b>TDF TOTAL</b>	<b>1,374,572</b>	<b>1,856,611</b>	<b>1,856,611</b>	<b>2,087,550</b>	<b>3,120,700</b>	<b>3,120,700</b>	<b>712,978</b>	<b>1,264,089</b>	<b>1,264,089</b>

**LCIP Used of Funds by Components**  
**Consolidated for all sources of funding (in US\$)**  
**Period ended 31 Dec 2019**

Project Components / Category	Consultants' Services			Goods			Incremental Operating Costs			Training and Workshop			Matching Grants			TOTAL EXPENDITURES		
	Current Semester	Year to date	Cumulative to date	Current Semester	Year to date	Cumulative to date	Current Semester	Year to date	Cumulative to date	Current Semester	Year to date	Cumulative to date	Current Semester	Year to date	Cumulative to date	Current Semester	Year to date	Cumulative to date
B1: Supporting the Trade Facilitation Secretariat	123,106	211,278	211,278	48,179	48,179	48,179	19,485	29,628	29,628	25,988	45,826	45,826				216,758	334,911	334,911
B2: TFA Challenge Facility	-											-					-	-
<b>Total component Component B: Facilitating Trade and Connecting to Markets</b>	<b>123,106</b>	<b>211,278</b>	<b>211,278</b>	<b>48,179</b>	<b>48,179</b>	<b>48,179</b>	<b>19,485</b>	<b>29,628</b>	<b>29,628</b>	<b>25,988</b>	<b>45,826</b>	<b>45,826</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>216,758</b>	<b>334,911</b>	<b>334,911</b>
<b>Component C: Improving Firm-Level Competitiveness</b>																		
C1: Business Assistance Facility	416,103	416,103	416,103			-		-		-		-	14,471	14,471	14,471	430,574	430,574	430,574
<b>Total component Component C: Improving Firm-Level Competitiveness</b>	<b>416,103</b>	<b>416,103</b>	<b>416,103</b>			<b>-</b>				<b>-</b>		<b>-</b>	<b>14,471</b>	<b>14,471</b>	<b>14,471</b>	<b>430,574</b>	<b>430,574</b>	<b>430,574</b>
<b>Component D: Supporting Better and More Inclusive Policies</b>																		
D1: Supporting Better and More Inclusive Policies	189,736	406,902	406,902	58,628	58,628	58,628	27,555	62,237	62,237	22,219	33,621	33,621				298,137	561,388	561,388
D2: Improving Policy Making	93,884	103,764	103,764			-	1,271	4,913	4,913	-		-				95,155	108,677	108,677
D3: Supporting Public-Private Dialogue	28,007	62,207	62,207			-	6,239	11,639	11,639	27,051	28,816	28,816				61,297	102,662	102,662
<b>Total Component D: Supporting Better and More Inclusive Policies</b>	<b>311,627</b>	<b>572,873</b>	<b>572,873</b>	<b>58,628</b>	<b>58,628</b>	<b>58,628</b>	<b>35,065</b>	<b>78,789</b>	<b>78,789</b>	<b>49,270</b>	<b>62,437</b>	<b>62,437</b>				<b>454,589</b>	<b>772,727</b>	<b>772,727</b>
<b>Total</b>	<b>1,017,541</b>	<b>1,379,490</b>	<b>1,379,490</b>	<b>164,703</b>	<b>164,703</b>	<b>164,703</b>	<b>72,594</b>	<b>132,578</b>	<b>132,578</b>	<b>105,263</b>	<b>165,369</b>	<b>165,369</b>	<b>14,471</b>	<b>14,471</b>	<b>14,471</b>	<b>1,374,572</b>	<b>1,856,611</b>	<b>1,856,611</b>

<b>Year</b>	<b>Fund Received</b>	
1st Year	\$ 2,676,979	Current Year
<b>Total</b>	<b>\$ 2,676,979</b>	

Total funding to date came from IDA Credit and from August 2019, 25% of total funding will come from MDTF as per below (in USD):

Source of fund	IDA Credit
IDA Credit	\$2,244,385
MDTF	\$ 432,594
<b>Total:</b>	<b>\$ 2,676,979</b>

<b>Outstanding Cash Advances</b>		<b>USD</b>
<b>As of 31 Dec 2019</b>		<b>Indicative</b>
<b>Component</b>	<b>Outstanding amount</b>	<b>Average Aging</b>
<b>LCTP</b>		
A1: Making it Easier to Start a Business		
A2: Streamlining and Publishing Operating Licenses		
A3: Implementing Emerging Priority Reforms		0
B1: Supporting the Trade Facilitation Secretariat	5,149.02	0
B2: TFA Challenge Facility		
C1: Business Assistance Facility		
D1: Supporting Better and More Inclusive Policies	-	0
D2: Improving Policy Making		
D3: Supporting Public-Private Dialogue		
		*
		*
<b>Total LCTP</b>	<b>5,149.02</b>	