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Report No: 71835-LA

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 2.6 MILLION
(US\$4 MILLION EQUIVALENT)

AND A

PROPOSED MULTI DONOR TRUST FUND GRANT

IN THE AMOUNT OF US\$10 MILLION

TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR A

SECOND TRADE DEVELOPMENT FACILITY PROJECT

November 1, 2012

Poverty Reduction and Economic Management Sector Department
Southeast Asia Country Department
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of September 30, 2012)

Currency Unit	=	LAK
LAK 8,042	=	US\$ 1
US\$ 1.542	=	SDR 1

FISCAL YEAR

October 1 – September 30

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	JSDF	Japan Social Development Fund
AFAS	ASEAN Framework Agreement on Services	LAK	Lao Kip
ALGI	Association of Lao Garments Industries	LCS	Least Cost Selection
ASEAN	Association of Southeast Asian Nations	LDC	Least Developed Country
ASYCUDA	Automated System for Customs Data	LFTU	Lao Federation of Trade Unions
ATIGA	ASEAN Trade in Goods Agreement	LNCCI	Lao National Chamber of Commerce and Industry
AusAID	Australian Agency for International Development	LUNA	Laos-US International and ASEAN Integration Project
BAF	Business Assistance Facility	MDGs	Millennium Development Goals
BDS	Business Development Services	MDTF	Multi Donor Trust Fund
BW	Better Work	MoF	Ministry of Finance
CPS	Country Partnership Strategy	MoIC	Ministry of Industry and Commerce
CQS	Selection Based on Consultants' Qualifications	MoLSW	Ministry of Labor and Social Welfare
CTFP	Customs and Trade Facilitation Project	MRA	Mutual Recognition Agreement
DA	Designated Account	NCB	National Competitive Bidding
DIMEX	Department of Imports and Exports	NIU	National Implementation Unit
DTIS	Diagnostic Trade Integration Study	NSEDP	National Socio-Economic Development Plan
EIF/IF	Enhanced/Integrated Framework	NTMs	Non Tariff Measures
ERIT	Economic Research Institute for Trade	OECD	Organization for Economic Cooperation and Development
EU	European Union	OP/BP	Operational Policy/Bank Procedure
FDI	Foreign Direct Investment	ORAF	Operational Risk Assessment Framework
FM	Financial Management	PAD	Project Appraisal Document
FMM	FM Manual	PDO	Project Development Objective
FTPD	Foreign Trade Policy Department	PRSOs	Poverty Reduction Support Operations
GATS	General Agreement on Trade in Services	QBS	Quality Based Selection
GATT	General Agreement on Tariffs and Trade	QCBS	Quality and Cost Based Selection
GDP	Gross Domestic Product	SDR	Special Drawing Rights
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit	SECO	Swiss State Secretariat for Economic Affairs
GMS	Greater Mekong Subregion	SME	Small and Medium Sized Enterprises
GSC	Garments Skills Development Centre	SPS	Sanitary and Phytosanitary Measures
ICA	Investment Climate Assessment	TAL	Technical Assistance Loan
ICB	International Competitive Bidding	TBT	Technical Barriers to Trade
ICT	Information Communications Technology	TDF	Trade Development Facility
IDA	International Development Association	TPEC	Trade Program Executive Committee
IFC	International Finance Corporation	TPSWG	Trade and Private Sector Working Group
IFR	Interim unaudited Financial Report	TRTA	Trade Related Technical Assistance
IOC	Incremental Operating Costs	UN	United Nations
ILO	International Labor Organization	UNCTAD	UN Conference on Trade and Development
ITC	International Trade Centre	WTO	World Trade Organization

Regional Vice President	:	Pamela Cox
Country Director	:	Annette Dixon
Sector Director	:	Sudhir Shetty
Country Manager	:	Keiko Miwa
Sector Manager	:	Mathew Verghis
Task Team Leader	:	Richard Record

LAO PEOPLE'S DEMOCRATIC REPUBLIC
SECOND TRADE DEVELOPMENT FACILITY PROJECT

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Map

PAD DATA SHEET
Lao People's Democratic Republic
Second Trade Development Facility Project (P130512)
PROJECT APPRAISAL DOCUMENT
East Asia and Pacific Region
EASPT

Basic Information					
Date:	November 1, 2012	Sectors:	General industry and trade sector (50%), Other domestic and international trade (25%), Public administration - industry and trade (25%)		
Country Director:	Annette Dixon	Themes:	Trade facilitation and market access (30%), Regional integration (25%), Export development and competitiveness (25%), Legal institutions for a market economy (10%), Other Private Sector Development (10%)		
Sector Manager/Director:	Mathew Verghis / Sudhir Shetty	EA Category:	C - Not Required		
Project ID:	P130512				
Lending Instrument:	Technical Assistance Loan				
Team Leader(s):	Richard Record				
Joint IFC: No					
Borrower: Lao People's Democratic Republic					
Responsible Agency: Ministry of Industry and Commerce					
Contact:	Phouvieng Phongsa	Title:	Director – National Implementation Unit		
Telephone No.:	856-21-415-930/412-007	Email:	info@laosoft.org		
Project Implementation Period:	Start Date:	01-Apr-2013	End Date:	31-Mar-2017	
Expected Effectiveness Date:	15-Mar-2013				
Expected Closing Date:	31-Mar-2017				
Project Financing Data (US\$ Million)					
<input type="checkbox"/> Loan	<input checked="" type="checkbox"/> Grant	<input checked="" type="checkbox"/> Other			
<input type="checkbox"/> Credit	<input type="checkbox"/> Guarantee	Grant from Multi-Donor Trust Fund			
For Loans/Credits/Others					
Total Project Cost :	14.0	Total Bank Financing :	4.0		
Total Co-financing :	10.0	Financing Gap :	0.0		
Financing Source		Amount (US\$ Million)			
Recipient		0.0			
IDA		4.0			
Multi Donor Trust Fund		10.0			
Total		14.0			
Expected Disbursements (in US\$ Million)					
Fiscal Year	2013	2014	2015	2016	2017
Annual	0.5	2.5	3.5	4.5	3.0
Cumulative	0.5	3.0	6.5	11.0	14.0

Project Development Objective(s)			
The proposed project development objective is to support the implementation of government's trade and integration priorities outlined in the 2012 DTIS Roadmap, and in particular to contribute to improved competitiveness and diversification, focusing outside the natural resource sectors.			
Components			
Component Name	Cost (US\$ Million)		
Trade facilitation, trade policy and regulations	5.6		
Diversification and competitiveness	4.1		
Mainstreaming aid-for-trade	4.3		
Compliance			
Policy			
Does the project depart from the CPS in content or in other significant respects?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	
Does the project require any waivers of Bank policies?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	
Have these been approved by Bank management?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
Is approval for any policy waiver sought from the Board?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	
Does the project meet the Regional criteria for readiness for implementation?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	
Safeguard Policies Triggered by the Project	Yes	No	
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name / Description of Covenant	Recurrent	Due Date	Frequency
Trade Program Executive Committee	X		Yearly
<i>The Recipient shall maintain, at all times during implementation of the Project, a Trade Program Executive Committee with a mandate, terms of reference and composition that is satisfactory to the Association.</i>			
National Implementation Unit	X		Yearly
<i>The Ministry of Industry and Commerce shall maintain, at all times during implementation of the Project a National Implementation Unit with a mandate, terms of reference and composition that is satisfactory to the Association.</i>			
Financial Management Manual		01-May-2013	
<i>The Recipient shall, within one (1) month of the Effective Date adopt a Financial Management Manual satisfactory to the Association.</i>			
Appointment of an auditor		01-Jul-2013	
<i>The Recipient shall, within three (3) months of the Effective Date: (a) appoint an auditor on terms of reference acceptable to the Association.</i>			
BAF Management Contract		01-Jul-2013	

The Recipient shall, within three (3) months of the Effective Date: (b) complete the recruitment of a BAF team on terms of reference acceptable to the Association to support the NIU in the implementation of Part B.1 of the Project.

Additional FM Staff		01-Jul-2013	
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The Recipient shall, within three (3) months of the Effective Date: (c) complete the recruitment of additional financial management staff.

Project carried out in accordance with the Financial Management Manual	X		Quarterly
--	----------	--	-----------

The Recipient shall carry out or cause to be carried out the Project in accordance with the Financial Management Manual .

Project carried out in accordance with the BAF Operations Manual	X		Quarterly
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The Recipient shall adopt and carry out or cause to be carried out the Matching Grants in accordance with the BAF Operations Manual.

Changes to the FMM or BAF Operations Manual	X		Quarterly
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The Recipient shall undertake not to amend, suspend, abrogate, repeal or waive or permit to be amended, suspended, abrogated, repealed, or waived, any provisions of the Financial Management Manual and of the BAF Operations Manual without the prior written agreement of the Association.

Availability of FMM and BAF Operations Manual and conflict between provisions.	X		Quarterly
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The Recipient shall ensure that the Financial Management Manual and the BAF Operations Manual are made available at all times and applied in the carrying out of the Project. In the event of any conflict between the provisions of the Financial Management Manual, the BAF Operations Manual and those of this Agreement, the latter shall prevail.

BAF Operations Manual Matching Grant administration	X		Quarterly
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Matching Grants are provided following the guidelines, procedures and selection criteria set forth in the BAF Operations Manual. A Matching Grant Agreement shall be entered on terms and conditions approved by the Association and outlined in the BAF Operations Manual for each Matching Grant. The amount of each Matching Grant shall be determined in accordance with the provisions of the Manual.

BAF Matching Grant Agreements	X		Quarterly
-------------------------------	----------	--	-----------

BAF shall exercise its rights under each Matching Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree in writing, the Beneficiary shall not assign, amend, abrogate or waive any Matching Grant Agreement or any of its provisions.

Conditions

Name / Description of Condition	Type
Financing Agreement / Grant Agreement executed and delivered	Effectiveness

The Financing Agreement / Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Agreement) have been fulfilled.

BAF Operations Manual	Disbursement
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No disbursement will be made for Matching Grants until the Recipient has prepared and approved the BAF Operations Manual satisfactory to the Association.

Team Composition

Bank Staff

Name	Title	Specialization	Unit	UPI
Richard Record	Trade Specialist	Task Team Leader	EASPT	305564
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Phet Udom Mainolath	Program Assistant	Administrative Support	EACLF	370347	
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Name	Title		Office Phone	City	
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Phanthakone Champasih	Program Manager, Australian Embassy/AusAID			Vientiane	
Stefan Schleuning	Head of Cooperation, EU Delegation			Vientiane	
Khankeo Moonvong	Program Officer, EU Delegation			Vientiane	
Armin Hofman	Program Director, GIZ			Vientiane	
Petra Polgar	Trade Advisor, GIZ			Vientiane	
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Huong Nguyen	Program Officer, Irish Embassy/Irish Aid			Hanoi	
Andrew Singer	Consultant, Competitiveness and Diversification			London	
David Tajgman	Consultant, Skills and Productivity			Copenhagen	
Martin Molinuevo	Consultant, Trade Policy			Washington DC	
Simon Hess	Peer Reviewer, EIF Secretariat/WTO			Geneva	
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Lao PDR	Vientiane Capital	Vientiane	X		

LAO PEOPLE'S DEMOCRATIC REPUBLIC
SECOND TRADE DEVELOPMENT FACILITY PROJECT
PROJECT APPRAISAL DOCUMENT

I. STRATEGIC CONTEXT

A. Country Context

1. **Lao PDR has seen strong economic growth during the past decade, driven by the exploitation of natural resources and closer regional integration.** The country is surrounded by some of the fastest growing economies in the world, and it has benefited significantly from external demand for tradables and increased foreign direct investment inflows. Real GDP grew at an average rate of 7.1 percent a year from 2001 to 2010 and is expected to increase to 7.5-8.0 percent during 2011-2015. In 2010, Lao PDR achieved a per capita Gross National Income of US\$ 1,010 and, as such, graduated from low income to (lower-) middle income country status. At this pace, Lao PDR is on track to achieve its long term vision: to graduate from Least Developed Country (LDC) status by 2020.

2. **Impressive poverty reduction has also been achieved in Lao PDR over the past decade and promising progress is being made towards achieving the Millennium Development Goals (MDGs),** however gaps remain. According to national measures, poverty fell from 39.1 percent of the population in 1998 to 33.5 percent in 2003 and to 27.6 percent in 2008. Nevertheless, social indicators have not improved as expected with notably some population groups in remote areas lagging behind.

3. **Against this background, Lao PDR's economy is going through a structural shift from agriculture to natural-resource based industry.** Natural resource-based sectors have been growing very rapidly during the past decade, at an annual average of 20.7 percent in 2003-2010 (supported by mining and hydropower mega projects). As a result, the share of the sectors to GDP almost tripled between 1998 and 2010, increasing to about 16.1 percent by 2010 from 5.9 percent in 1998. The share of non-tradables (services) to GDP grew more moderately, driven by increases in tourism and trade in recent years as well as expansion in infrastructure construction. Similarly, manufacturing (garments, wood and wood products, construction materials, light manufacturing, handicrafts, and, increasingly, food, beverages, and related processing) as a share of GDP has expanded, but at relatively slower rates.

4. **Lao PDR continues to integrate more closely into the rapidly growing regional economy** through the implementation of trade commitments both multilaterally and within the Association of Southeast Asian Nations (ASEAN), the maintenance of relatively low tariffs, and through improved physical infrastructure and connectivity with neighbors. This has resulted in strong growth in cross-border flows of goods, services and investment. However, much of this has been driven by the growing external appetite for Lao PDR's natural resources. Although the resources sector has brought significant benefits to Lao PDR's economy in the form of higher economic growth, an increase in fiscal revenues, and infrastructure improvements, an over reliance on the sector as a primary source of economic growth poses serious risks to the sustainability of the country's long-term development. There is a risk of increased volatility as the economy becomes more susceptible to external shocks driven by commodity price movements. In addition, the sector may not generate the kind of broad-based job and income creation needed to benefit a significant proportion of the Lao population.

5. **Government's broad direction of development is described in the 7th National Socio-Economic Development Plan (NSEDPP),** which outlines clear and specific objectives for increased international and regional integration as a means of achieving economic and social development targets.

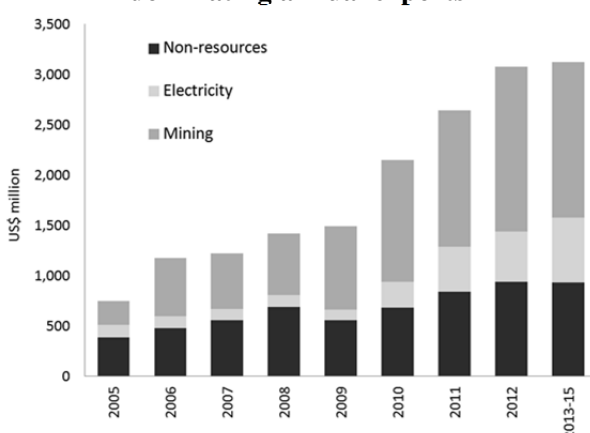
Accession to the World Trade Organization (WTO) and implementation of commitments at the ASEAN level remain high priorities. A key challenge will be to follow through with fuller implementation of legal reforms enacted in recent years. This will be especially challenging in a post WTO accession environment when, evidence from other post accession countries shows, reform momentum may begin to slow. Similarly, as trade and investment flows become increasing driven by the natural resource sectors, substantial efforts will need to be made to ensure that growth in the more labor-intensive non natural resource sectors is not stymied.

B. Sectoral and Institutional Context

6. **Lao PDR has made significant reforms to the enabling environment for trade over the last five years and has deepened commitments at the regional (ASEAN) and global (WTO) level.** A key priority over the next phase of the trade program will be to progressively shift from a *pre* to *post* WTO accession agenda, with an increased focus on implementation of reforms and following through of commitments at a level that directly benefits the private sector. Similarly at the ASEAN level, Lao PDR will need to deliver on its commitments in areas such as tariff liberalization and the establishment of a national single window for trade facilitation.

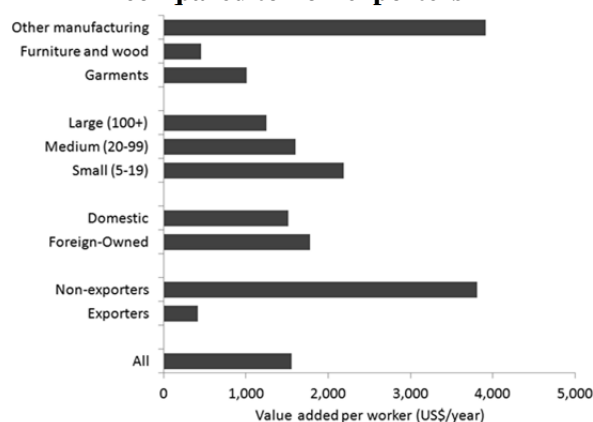
7. **Even under fairly modest projections, Lao trade performance is likely to become increasingly skewed towards natural resource (hydropower and minerals) exports in the years ahead** (Figure 1). While this brings about tremendous opportunities, it also presents real risks to the economy in terms of lack of export diversification. Recent analytical work describes how lack of diversification can restrict economic growth through the early onset of diminishing marginal returns to a more limited range of export products, and through increased risk of terms-of-trade shocks¹. Cross-country research on the “natural resources curse”, actually finds that the core driver of the curse is not the presence of natural resources per se, but the degree of export concentration². Slow job creation is a key risk if the growth of other sectors such as manufacturing and services is constrained.

Figure 1: Mining and electricity are increasingly dominating annual exports



Source: World Bank Lao Economic Monitor (2012)

Figure 2: Exporters show lower productivity compared to non-exporters



Source: World Bank Lao PDR Investment Climate Assessment (2011)

8. **There is growing evidence that export competitiveness in the non natural resource sectors is being eroded as the natural resources boom gets underway.** Lao export flows in non-natural resource

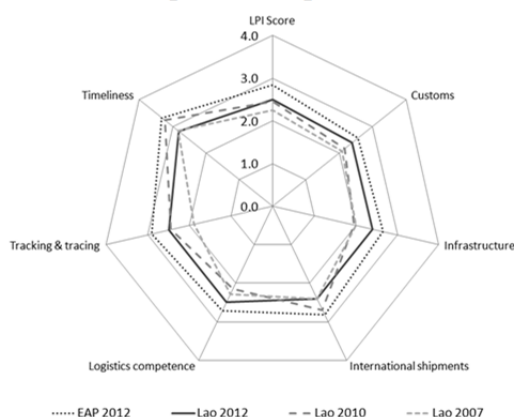
¹ See World Bank (2011) *Lao PDR Development Report 2010 – Natural Resource Management for Sustainable Development*, as well as background papers on diversification and “Dutch disease” for a fuller discussion on the risks faced by Lao PDR associated with natural resource dependency.

² Lederman and Maloney (2009) ‘Does Diversification Matter?’ in Newfarmer, Shaw and Walkenhorst, eds. *Breaking Into New Market – Emerging Lessons for Export Diversification*, Washington, DC: The World Bank.

based sectors tend to be short-lived and rarely in sub-sectors offering scope for significant value addition (Figure 2 and Figure 4). Similarly, exporting firms demonstrate substantially lower productivity compared to firms serving the domestic market³. As in many other LDCs, a not insignificant share of non-natural resource based exports is dependent on trade preferences associated with Lao PDR's least developed country status. There are also increasing signs that the kip is overvalued. Small and medium sized enterprises struggle to access finance and develop the skills necessary to become larger and more efficient.

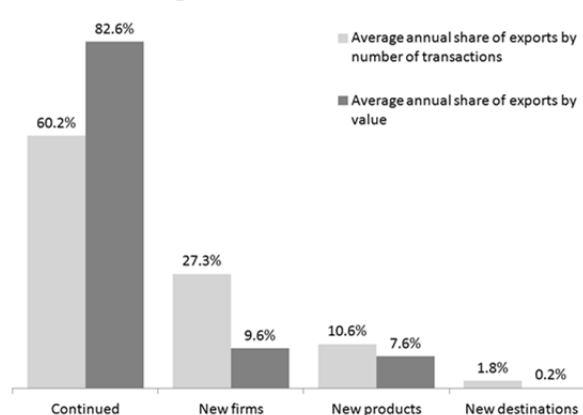
9. **High logistics and trade facilitation costs, due in part to a landlocked supply chain, also tax competitiveness.** While gains have been made in the efficiency of operations along Lao PDR's key trade corridors (Figure 3), costs remain stubbornly high with imbalanced trade and a very high frequency of movement of empty containers⁴. Similarly while tariffs have progressively fallen, non-tariff measures (many of which are implemented in a non-transparent way), are increasingly seen as binding constraints to both greater imports and exports. Key services support sectors remain underdeveloped with weak regulatory frameworks, constraining both services trade and the underlying competitiveness of goods trade that relies on the availability of cost efficient backbone services.

Figure 3: Logistics performance has improved in recent years, but is still behind that of regional competitors



Source: World Bank Logistics Performance Index (2012)

Figure 4: Annual export flows are dominated by continued exports by the same firms, exporting the same products to the same markets



Source: Stirbat, Record and Nghardsaysone, Export Survival Study (2011)

10. **Increased trade and integration has the potential to act as a powerful driver of pro-poor growth.** However, cross-country evidence suggests that the relationship between trade and poverty is complex and not necessarily automatic. Data from the Lao Expenditure and Consumption Survey indicates that a key determinant of poverty reduction in Lao PDR has been the extent to which communities are linked to markets and services⁵. Clearly Lao PDR faces tremendous opportunities from the development of natural resources, but also faces real risks to ensure that the benefits are shared equally, and that risks are appropriately mitigated. Continued efforts to reduce business enabling environment costs, and improve transparency and services to ensure that diversified trade fulfills its potential to act as the linking mechanism between GDP growth, income growth, job creation and poverty reduction.

11. **Trade can also act as a catalyst for increased women's economic empowerment,** if the right policies are in place. Lao PDR has one of the highest female employment participation rates in the region

³ See World Bank (2011) *Lao PDR: Investment Climate Assessment – Policies to Promote Growth in the Non Resource Sectors* for more on the relatively poor productivity of exporting firms vis-à-vis firms exclusively serving the Lao domestic market.

⁴ See World Bank (2012) *Lao PDR: Trade and Transport Facilitation Assessment* for further detail on the performance of key trade corridors according to measures of time, cost and reliability.

⁵ A fuller discussion of poverty trends is included in background papers to the Lao PDR Development Report 2010.

and rapidly growing key export sectors such as garments manufacturing, tourism and agribusiness all have highly feminized workforces. Women employed in such sectors typically earn significantly more than in traditional sectors and cash income earned outside the home can not only improve economic empowerment but also improve status and bargaining power. However, risks abound with the migration of large numbers of young women from rural to urban areas and the associated transition into formal employment⁶. Similarly, while around a third of all businesses in Lao PDR are owned by women, these firms tend to be significantly smaller than average, are predominantly found in the retail and services sectors, and struggle to access finance or adopt modern technology and skills needed to grow⁷.

12. Accession to the WTO is a core policy objective and has acted as a driver of reform of the trade-related legislative framework. Lao PDR is now close to WTO accession and, among other areas; principles of *national treatment* have been introduced into Lao law and border clearance procedures simplified progressively. Efforts are being made to introduce automated information systems for customs clearance, along with more modern risk management techniques at the border to reduce clearance times and improve the efficiency of revenue collection. Still, non-customs agencies have lagged behind. Encouraging steps have been taken to improve inter-agency border coordination through the establishment of a National Trade Facilitation Secretariat in 2010, and the approval by the Cabinet of a National Trade Facilitation Strategy and Action Plan in 2011. Efforts are being made to publish information on trade-related processes and procedures as a part of related efforts to harmonize and simplify redundant border requirements. However, while much of the higher level legislation now meets WTO norms in terms of transparency and non-discrimination, implementation of lower level regulations lags behind resulting in less-than-anticipated actual benefits to the private sector⁸. Similarly for Lao PDR to fully benefit from an open economy, reform of domestic market institutions and strengthening of the legal framework and regulatory environment will need to reach beyond that required for WTO accession.

13. With an objective of graduating from least developed country status by 2020, Lao PDR will also need to focus increasingly on developing skills, and facilitating growth in productivity, value addition and the discovery of new tradable sectors of comparative advantage. Key bottlenecks remain in the trade enabling environment, not least with regard to the limited extent to which laws and regulations are implemented, difficulty in enforcing contracts, the high costs associated with a poorly functioning and landlocked supply chain, an underdeveloped regulatory environment for trade in services, and the weak capacity of government to manage a modern, rules-based framework for trade facilitation.

14. As an LDC, Lao PDR has been an active participant in the global "Integrated Framework" process to support the effective participation of LDCs into the multilateral trading system. Priorities in this area have been articulated in the 2006 Diagnostic Trade Integration Study (DTIS), and in the 2012 DTIS Update. The country has a strong aid-for-trade system with an experienced and high capacity National Implementation Unit (NIU), under the Planning and Cooperation Department of the Ministry of Industry and Commerce (MoIC). Development of the small and medium sized enterprise sector is a key priority for the government in the 7th NSEDP and the importance of reducing red-tape and regulatory impediments to business has been recognized as a key “break-through” area in the government's reform agenda. The 2006 DTIS led to the establishment of the NIU and subsequent formation of a Multi Donor Trust Fund (MDTF) - the *First Trade Development Facility* - with resources committed by Australia, the

⁶ See World Bank (2012) ‘Lao PDR: Labor standards and productivity in the garments export sector – a survey of managers and workers’ for more on the challenges faced by women working in the garments industry, and World Bank (2012) ‘Lao PDR: Mapping the gender dimensions of trade – a preliminary exposition’ for a broader review of linkages between increased international integration and women’s economic empowerment.

⁷ See gender and entrepreneurship chapter in the Lao PDR Investment Climate Assessment 2011 for more on the differential characteristics of businesses owned by men and by women.

⁸ Lao PDR ranks 165 out of 183 countries according to the 2012 Doing Business indicators.

European Union and Germany, and administered by the World Bank with the objective of supporting the implementation of priorities outlined in the DTIS Action Matrix⁹.

C. Higher Level Objectives to which the Project Contributes

15. **The proposed Second Trade Development Facility (TDF-2) aims to support government objectives to achieve high rates of economic growth that translate into meaningful poverty reduction**, as outlined in the Seventh NSEDP. Increased trade, openness and integration can act as a powerful driver of pro-poor growth and catalyst for women's economic empowerment, but only if the right policies are put in place and risks are carefully managed.

16. **TDF-2 forms a core part of the World Bank Group's new 2011-15 Country Partnership Strategy (CPS) for Lao PDR**, which in turn is closely aligned with the Seventh NSEDP. TDF-2 will form a major part of efforts to achieve CPS Strategic Objective 1: "Improving competitiveness and connectivity", and in particular CPS Outcome 1.1: "Strengthening government capacity to support growth diversification and competitiveness". Under the Seventh NSEDP, the government plans to have the non-resource sector contribute more than half of Lao PDR's real GDP growth in the near term and 75 percent of GDP in the medium-term. To achieve these results, policies in Lao PDR will need to focus on creating a positive enabling environment that supports the development of the non-resource sectors by attracting and retaining quality investment.

17. **TDF-2 will build upon the results achieved under TDF-1 and forms part of an ambitious and integrated country trade program** supported by the World Bank in partnership with Australia, the European Union, Germany and Ireland. TDF-1 focused on trade facilitation reforms for non-customs agencies, successfully laying the foundations for a Lao National Single Window; core support to WTO accession negotiations, including technical capacity development for negotiations, legal reform with a priority on sanitary and phytosanitary measures, and accession impact evaluation; as well broader support to trade related research, and sector investments in competitive sectors.

18. **The proposed operation is informed primarily by the government's 2012 DTIS Update, as well as by related analytical work undertaken by the World Bank and development partners**, including the 2010 Lao Development Report (a Country Economic Memorandum), the 2011 Lao Investment Climate Assessment and a series of trade-related analytical products prepared under the Trade Development Facility MDTF (Diversification/Product Space paper, Gender and Trade Work Program, Export Survival Study, ATIGA Tariff Reform Impact Study, Agribusiness Work Program, and the Trade and Transport Facilitation Assessment).

19. **The Lao trade sector is increasingly seen, both within Lao PDR and internationally, as a good practice example of development partner coordination around a government-led country reform program**. TDF-2 will form the core element of a second phase Lao trade program, which also includes a complementary IDA Customs and Trade Facilitation Project, grants from the Japan Social Development Fund, Trade Facilitation Facility, Gender Action Plan and a large trade-related analytical program. The proposed operation is, in turn, closely aligned with the broader aid-for-trade program in Lao PDR and related projects financed by the EIF, USAID, SECO and the ADB among others.

⁹ Lao PDR is receiving a growing amount of trade related technical assistance, with projects financed also by the EIF, USAID, SECO and the ADB among others. See Annex 6 for a fuller description of related aid-for-trade interventions in Lao PDR.

II. PROJECT DEVELOPMENT OBJECTIVES

PDO

20. **The proposed project development objective is to support the implementation of government's trade and integration priorities outlined in the 2012 DTIS Roadmap, and in particular to contribute to improved competitiveness and diversification, focusing outside the natural resource sectors.**

Project Beneficiaries

21. **The ultimate beneficiaries of the project are the firms, entrepreneurs, employees and consumers who stand to gain from an enhanced and more competitive business enabling environment,** a more predictable and transparent trading regime, lower trade facilitation costs, and improved trade policy and regulations. The proposed project aims to reach beneficiaries at multiple levels and through both direct and indirect means.

22. **Trade related technical assistance, including that provided under TDF-2, has the potential to achieve significant and broad based results in terms of improved living standards and poverty reduction.** There will be a number of *direct* beneficiaries from the project, principally enterprises gaining access to consulting services and matching grants from the Business Assistance Facility, and from firms assisted with improved labor standards compliance under the skills and productivity component. In both of these areas, firms that become more competitive will be able to grow faster, employ more workers at higher wages and become more integrated into domestic and cross-border supply chains. Similarly, in both areas there is significant potential for increased women's economic empowerment through improved performance of enterprises owned by women, via greater female employment and through better conditions and working practices in export manufacturing where a disproportionate share of employees are female. However, the greatest impact of TDF-2 is likely to be through the wider and more *indirect* impact on firms, entrepreneurs, employees, livelihood opportunities, consumer prices and taxes attributable through the motivation of reforms and through improvements to the broader policy environment for trade and competitiveness. A broader definition of beneficiaries would also include public sector officials involved in driving the trade administration and policy reform process. It is, however, recognized that there will inevitably be losers (as well as winners) in any reform process who may resist changes to the status quo.

PDO Level Results Indicators

23. The proposed project will contribute to the achievement of specific outcome level change indicators, across the three core pillars in the 2012 DTIS Action Matrix/Roadmap¹⁰. Results monitoring will take place as part of a program based approach led by MoIC during implementation of the 2012 DTIS. The specific performance indicators of the proposed project will be measured in terms of (i) reduced number of days to clear exports and imports; and (ii) improved logistics performance scores. The detailed results framework, including PDO level results indicators and intermediate results indicators, is included in Annex 1.

III. PROJECT DESCRIPTION

24. The proposed operation, as a follow-on to TDF-1, will have a deepened focus on addressing the binding constraints to increased integration by Lao PDR into the regional and multilateral trading system. A highly selective approach has been taken with the identification of activities to be financed under the

¹⁰ These are: (i) conducive trade and investment environment established; (ii) improved competitiveness, quality and value of agricultural, manufacturing and service sectors; and (iii) improved aid-for-trade governance framework for mainstreaming trade and private sector development.

project, with a reduced scope allowing for a fuller engagement in a smaller range of selected areas. A number of potential activities have been excluded from the project to ensure a focused operation with transactions costs minimized to the extent possible¹¹.

25. The project includes three main technical components, described below. The Trade Facilitation, Trade Policy and Regulations component provides for follow-through implementation in existing areas under TDF-1 where existing implementation teams are moving to a set of second generation reforms. In contrast, the Diversification and Competitiveness component provides for a new engagement reflecting the increasing challenges that Lao PDR is facing in this area. The Mainstreaming Aid-for-Trade component provides support to the next generation framework of managing trade related technical assistance to Lao PDR. Activity design is closely informed by the large amount of country trade-related analytical work that has been undertaken by the Bank and other development partners.

A. Project Components

26. The proposed project has three main clusters as summarized below. A full and detailed description of project components and subcomponents is presented in Annex 2.

(A) TRADE FACILITATION, TRADE POLICY AND REGULATIONS

27. This builds on the success of trade facilitation and trade policy activities under TDF-1, and will consist of a number of inter-related activities aimed at improving transparency, predictability and lowering associated compliance costs for traders. Trade facilitation activities will focus primarily on improving inter-agency coordination and supporting the adoption of modern risk based approaches to managing regulatory compliance in non-customs agencies, including reform of non-tariff measures. The trade policy aspect of the project will focus on the provision of essential and continued technical assistance in support of WTO accession related efforts, but progressively shifting to a “beyond WTO” agenda focused on effective implementation of goods and services commitments at both the WTO and ASEAN levels, including a strong emphasis on private sector engagement.

Component A1: Trade facilitation support

28. This will include three main subcomponents building on results achieved under TDF-1, with activities focusing on (i) trade facilitation secretariat and action plan implementation support; (ii) capacity building for managers in trade related agencies; and (iii) trade portal support and development.

Component A2: Non tariff measures review and rationalization

29. The proposed non tariff measures (NTM) activities similarly build on ongoing government efforts to streamline, simplify and harmonize non-customs border agency processes. Activities will include (i) classifying, reviewing and streamlining domestic NTMs; and (ii) assessing NTMs faced by Lao exporters.

Component A3: Trade in services

30. Lao PDR has undertaken, and will continue to undertake, a number of reforms aimed at reforming and liberalizing the economy, including on services trade. This component will complement these efforts by strengthening the governance of the regulatory environment affecting services trade. Activities will include (i) enhancing regulatory capacity in services trade; and, (ii) improving access to services regulations.

¹¹ This necessitated the exclusion of several areas of work previously supported under TDF-1 in order to ensure a focused operation under TDF-2. Activities have been selected based on their relevance to government and donor priorities, the availability of high-quality supporting analytical work and evidence, and an assessment on the probability of interventions being effective, efficient and achieving sustainable change.

Component A4: Trade in goods

31. This component will support the main challenges associated with implementation of WTO obligations, effective participation in ASEAN, and taking full advantage of trade opportunities made available by participation in the multilateral trading system. Activities will focus on (i) strengthening trade policy coordination mechanisms; (ii) disseminating commitments and building capacity on trade remedies; and (iii) further strengthening the legal framework for sanitary and phytosanitary measures.

(B) DIVERSIFICATION AND COMPETITIVENESS

32. This includes a new set of activities aiming to support improved private sector capacity to improve productivity and compete in international markets, focusing on the non natural resources sectors (in particular outside of mining and hydropower). Activities will facilitate the more effective participation of small and medium sized enterprises in the international economy, better skills and labor standards in the manufacturing sector and support to women's economic empowerment.

Component B1: Business assistance facility

33. The objective of this component is to support individual firms in building their skills and experience, so as to become more competitive internationally. Activities will include (i) direct consulting services advising individual firms on business growth plans; (ii) matching grants to assist individual firms financially in purchasing specialized business development services in support of growth plans; and (iii) rigorous impact evaluation of services provided.

Component B2: Labor standards and manufacturing productivity

34. Building on activities in the garments sector under TDF-1, as well as the wider experience of the "Better Work" approach, this component will aim to improve productivity, competitiveness and labor standards focusing on the garments manufacturing sector, an industry where a majority of workers are female. Activities will include (i) a factory standards improvement scheme; and (ii) the transition of the Garment Skills Development Centre towards financial and operational independence.

(C) MAINSTREAMING AID-FOR-TRADE

35. This will provide for support to the next generation of Lao PDR's "aid-for-trade" governance framework as part of efforts to move to a full program based approach for trade and private sector development.

Component C1: National Implementation Unit, and Trade and Private Sector Development Working Group

36. Building stronger technical capacity on trade and private sector development policy within MoIC is a key objective of TDF-2, to support more effective implementation of activities not just financed under TDF-2, but more widely as part of a movement towards a program based approach. This component will include further capacity investments in the NIU, including support to its role as secretariat to the Trade and Private Sector Development Working Group.

Component C2: DTIS action matrix/roadmap challenge facility

37. A challenge facility will be established making resources available to support implementation of smaller priority activities identified within the DTIS action matrix/roadmap on a demand-driven basis. Resources will not be pre-identified under this component, but will remain available to support pro-poor activities proposed on an ongoing basis.

Component C3: Research and policy analysis

38. Building on successful activities under TDF-1, the objective of this component will be to support improved trade and private sector development policy formulation, and better measurement of the impact

of policy. Activities will include investments in (i) research methodology and capacity building; and (ii) a research facility to commission high quality policy relevant research.

B. Project Financing

39. The proposed lending instrument is a Technical Assistance Loan (TAL). An International Development Association (IDA) Grant of SDR 2.6 million (US\$ 4.0 million equivalent) is proposed, co-financed by a Recipient Executed Multi Donor Trust Fund Grant of US\$ 10.0 million, financed by MDTF contributions from the Australian Agency for International Development (AusAID), the European Union, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and Irish Aid.

Project Costs and Financing

Project components	Project costs (US\$)	IDA financing		MDTF financing	
		US\$ equivalent	%	US\$	%
A. Trade Facilitation, Trade Policy and Regulations	5.6m	4.0m	30	10.0m	70
B. Diversification and Competitiveness	4.1m				
C. Mainstreaming Aid-for-trade	4.3m				
Total baseline costs	14.0m	4.0m	30	10.0m	70

C. Lessons Learned and Reflected in the Project Design

40. **Reform momentum needs to be maintained once the goal of WTO accession has been achieved.** A key lesson that has been learned from reform experiences in other countries that have acceded to the WTO, is that momentum can be lost once the incentive of accession is removed. MoIC may lose influence and convening power in the post accession period, and struggle to ensure follow through with efforts to continue streamlining of regulations. This will require significant efforts to raise awareness on the benefits of maintaining a WTO-consistent regulatory framework, not simply for the sake of acceding to the WTO but as a broader means of building economic competitiveness. It is, however, expected that the focus will shift progressively to pending regional/ASEAN commitments, many of which are linked to aspects of the WTO agreements. A key associated challenge will be finding ways to engage more effectively with agencies outside of MoIC. Trade necessarily cuts across a wide range of sectors and interest, with numerous agencies across government engaged in the process of importing and exporting. Coordination is frequently a challenge, but new approaches may be necessary in the next phase to support improved inter-agency coordination. Similarly, it may also be appropriate to respond more rapidly to emerging trade policy needs. A constant challenge under TDF-1 has been how to balance careful planning and accountability with being able to respond rapidly to emerging priorities. This has, at times, created tension with other project modalities, particularly those where implementation takes place outside of government and such projects can respond more quickly with the rapid mobilization of resources.

41. **Translating reforms into results takes time.** The time it takes to implement institutional reforms, and for those reforms to translate into results that are visible to the private sector can be long and uncertain. Similarly, trade outcomes are rarely under the total control of policymakers in the way that specific policy levers may be. A multiplicity of stakeholders, particularly for the type of second generation reforms towards which Lao PDR is moving, can make it hard to sustain reform momentum. Thus it is appropriate to adopt a more realistic level of ambition and focus more deeply in fewer areas. A number of proposed activities have already been excluded from the scope of the proposed TDF-2 to avoid

the risk of an overly complex project that is excessively difficult to implement. The design of the proposed operation focuses more deeply on fewer areas than under TDF-1 and reflects ongoing and proposed future support from development partners in the area of trade and private sector development in Lao PDR.

42. **The complexity of moving to a full program based approach will be taxing on the implementation team.** This will require continued and deepened investments in capacity development for the long term, as well as continued partnerships with initiatives financed outside the TDF. The capacity of MoIC has grown progressively and significant lessons have been learned by both the client and TDF donors during the implementation of TDF-1. Thus, the design of the proposed TDF-2 will benefit from an increasingly seasoned and confident implementing team that has grown with the program. This will be further enhanced during project implementation through specific capacity building activities.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

43. The **Trade Program Executive Committee (TPEC)** will serve as the Steering Committee for TDF-2, as part of efforts to integrate trade related technical assistance into a program based approach¹². The TPEC will be co-chaired by the Vice Minister of MoIC (or designee) and by a donor representative agreed by the donors who finance TDF-2. Membership will consist of representatives of government, including from MoIC and other relevant line ministries, representatives of the private sector and TDF-2 donors. The World Bank will participate as an observer. The TPEC will meet twice per year during which six-monthly project implementation reports and detailed work plans will be presented for review and endorsement. Other key stakeholders may be invited to participate in meetings of the TPEC as observers.

44. As was the case with TDF-1, the **National Implementation Unit** / Foreign Aid Division, within the MoIC Planning and Cooperation Department, is the core technical and fiduciary implementing unit for TDF-2. The NIU will be responsible for coordinating relevant implementing departments responsible for managing components at the technical level, managing the work planning process, and coordinating progress and financial reporting at the project level. Technical assistance, both international and national, will be provided to support these functions. The NIU will also be responsible for providing financial management and procurement services in support of TDF-2 implementing agencies.

45. **Implementing departments** are government departments or other agencies directly responsible for the technical implementation of project components, and for day-to-day execution of activities as stated in work plans approved by the TPEC. Each designated implementing department will be responsible for the preparation of component work plans, ensuring the delivery of specific project outputs and progress reporting to the TPEC. Implementing departments will work closely with the NIU and report to the NIU on all financial, administrative and procurement issues. Project components and/or sub-components will be assigned to implementing departments as required.

46. The World Bank, as **Administrator of the Multi Donor Trust Fund**, will ensure that funds are used in accordance with the requirements of the Grant/Financing Agreement, the Project Appraisal Document and approved work plans. The administrator has the final authority to approve projects or activities in accordance with its procedures and the terms of the Grant/Financing Agreement. The administrator will establish a **TDF Task Team** accountable to the World Bank that will be responsible for coordinating development partner meetings on the TDF, providing administrative support to donor coordination within a program based approach, generating commitments, providing implementation support and technical assistance (analytical and advisory services) to the government. The World Bank

¹² Note that the TPEC is a program level steering committee and supervises the implementation of a number of donor financed projects beyond the TDF. Membership varies depending on the purpose for which a particular TPEC meeting is convened.

will undertake regular implementation support missions to (a) monitor progress on all substantive aspects of the project against the targets, development objectives and performance monitoring indicators set out in the Project Appraisal Document; (b) monitor procurement implementation and disbursements, recommending ways to ensure that procurement activities and grant disbursements proceed smoothly and in line with the approved work plans and procurement plans; (c) review the audited financial statements, audit reports, interim unaudited financial reports and project progress reports submitted by the NIU; (d) ascertain the extent of compliance with Grant/Financing Agreement Covenants, including any issues related to environmental and social safeguards; and (e) review the continued relevance of the project to priorities of the government, the World Bank and donors.

B. Results Monitoring and Evaluation

47. The results monitoring and evaluation framework for TDF-2 is detailed in Annex 1. This is in turn based upon the DTIS 2012 Updated Action Matrix/Trade and Private Sector Development Roadmap. Results will be monitored by the NIU and reported upon as part of six-monthly progress reports. Technical assistance will be provided to support results monitoring by the NIU. Given the nature of the TDF – in particular, its support for a program-based approach and aid-for-trade coordination – a number of indicators relate to the quality of the process and the capacity of the government to manage trade related technical assistance effectively. Hence the impact of TDF-2 will be evaluated through a mix of indicators aimed at (i) specific results in the implementation of the DTIS; (ii) better capacity of the government to manage a program-based approach; and (iii) quality of policy recommendations and reports generated; and, (iv) uptake of policy and institutional reforms.

48. Direct attribution of specific interventions and higher level change in the area of trade and private sector development is challenging and costly, particularly where broad performance indicators are affected by many macro and micro drivers of change. Thus, a key objective of TDF-2 will be to monitor targeted results in the DTIS Action Matrix/Roadmap that are being supported by the project and the continuing logic of project design.

49. The TDF-2 indicators have been selected on the basis that they can be monitored regularly and through available secondary sources of data. Progress reporting by the NIU on TDF-2 and the envisaged program-based approach will become critical sources of information. Data sources include the World Bank enterprise surveys conducted in Lao PDR at regular intervals¹³, and data drawn from the World Development Indicators and World Bank Logistics Performance Index. However, some interventions will require NIU to implement mid-term and end-term surveys (for firms supported under the proposed BAF and skills and productivity schemes respectively).

C. Sustainability

50. The main sustainability issue relates to the government's capacity to maintain trade-related activities such as those currently financed under the TDF and which will continue to be financed under TDF-2 beyond the duration of available financing. A key priority going forward will be to further develop the technical capacity of the team, so that the NIU is able to provide increased technical guidance across implementing departments as well as coordination support. However, the NIU remains partially dependent on externally financed consultants in order to carry out core tasks, raising questions about the longer term sustainability of capacity investments. This risk has been recognized and the TDF-2 is designed in such a way as to enhance government capacity during the life of the project. It is also envisaged that the cost recovery model being developed as part of the World Bank financed National Single Window Preparation Program may ultimately provide a sustainable funding source for critical investments such as those currently funded under TDF-1 and proposed for TDF-2. The NIU is well placed

¹³ The most recent enterprise survey conducted in 2009 will provide a baseline, with a follow up survey planned for 2012 and provisionally in 2014. Follow up enterprise surveys will include panel elements.

to coordinate implementation of the proposed operation, but will require increased resources and staffing to drive the next phase of an enlarged and more ambitious program. MoIC plans to move towards a program based approach in results monitoring, including the use of a single DTIS Action Matrix/Roadmap results framework as a tool for managing all aid-for-trade assistance provided to Lao PDR.

V. KEY RISKS AND MITIGATION MEASURES

51. The overall risk rating is “Low” for preparation and “Moderate” for implementation. This is a reflection of the fact that the proposed project is a follow-on operation, based on a clear set of priorities established by the government as outlined in the DTIS 2012 Update and to be led by an established, committed and increasingly experienced implementation team. The risk for implementation is somewhat higher, reflecting the level of ambition of the proposed project, challenging authorizing environment and necessity of working with a large number of agencies across the trade sector, as well as the broader policy risks of sustaining reform in a post WTO environment. Fuller details of identified risks and mitigating measures are elaborated in Annex 4 (Operational Risk Assessment Framework).

A. Risk Ratings Summary Table

Risk	Rating
Project Stake Holder	Low
Implementing Agency Risk	
- Capacity	Low
- Governance	Low
Project Risk	
- Design	Moderate
- Social and Environmental	Low
- Program and Donor	Moderate
- Delivery Monitoring and Sustainability	Moderate
Overall Implementation Risk	Moderate

B. Overall Risk Rating Explanation

52. With increased experience gained over the course of implementing TDF-1, the MoIC NIU has now established a robust system of fiduciary controls, with an experienced team able to manage an increasingly complex portfolio of activities. The NIU has gained a reputation for high standards in procurement and financial management and increased donor confidence in MoIC’s management of donor resources is one of the major reasons why increased funding is becoming available to support an enlarged aid-for-trade program, including the proposed TDF-2. A well-developed work planning process across participating agencies and coordinated by the NIU, has emerged as one of the enduring strengths of the TDF. A key priority going forward will be to safeguard gains and further develop the technical capacity of the team, so that the NIU is able to provide increased technical guidance across implementing departments as well as coordination support. Increased government staffing will be required in order to assume greater responsibility for fiduciary functions. Further streamlining of operational procedures for fund disbursements will also be necessary. The MoIC has benefitted from strong political support to Lao PDR’s international integration agenda, particularly relating to issues surrounding accession to the WTO. This has acted as a core driver of reform and has helped facilitate the often difficult dialogue across agencies that have an interest in the regulation of trade. A key risk is that momentum will be lost after WTO accession, and the ability of MoIC to work across agencies will be diminished.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

53. The ultimate beneficiaries of the project are the firms, entrepreneurs, employees and consumers who stand to gain from an enhanced and more competitive business enabling environment, a more predictable and transparent trading regime, lower trade transaction costs, and improved trade policy and regulations. There will be a number of *direct* beneficiaries from the project, principally enterprises gaining access to consulting services and matching grants from the BAF, and from firms assisted with improved labor standards compliance under the skills and productivity component. In both of these areas, firms that become more competitive will be able to grow faster, employ more workers at higher wages and become more integrated into domestic and cross-border supply chains. However, the most significant impact of TDF-2 is likely to be through the wider and more *indirect* impact it will have on firms, entrepreneurs, employees, consumer prices and taxes attributable to reforms and changes to the policy environment for trade and private sector development. Such changes are expected to play a key role in facilitating pro-poor growth in Lao PDR and greater women's economic empowerment.

B. Technical

54. The activities to be supported under TDF-2 all follow proven approaches in their respective fields. In appraising activities, particular attention has been given to the existing capacity constraints of the core implementing departments, apparent from the experience of TDF-1.

55. ***Trade Facilitation, Trade Policy and Regulations.*** Activities under the proposed trade facilitation and non tariff measures components follow on from a series of activities completed under TDF-1, including the preparation of an overall reform framework under the National Trade Facilitation Strategy and Action Plan, and through the establishment of a permanent high-level Trade Facilitation Secretariat. High trade transaction costs have been shown throughout developing countries to act as a major barrier to competitiveness, especially so in landlocked developing countries that already face considerable geographic constraints¹⁴. While the country has made significant improvements in improving border performance through major reforms and investments, Lao PDR still lags behind regional competitors¹⁵. Border performance will need to be above regional averages in order to offset the disadvantages of being landlocked. Similarly, further work on trade in services and trade in goods follows from substantial investments under TDF-1 in supporting the WTO accession process. Here, effective participation in the fast growing regional economy requires predictable and transparent trade policy and regulations. Lao PDR has made significant reforms as part of the accession process, but ensuring that the private sector fully benefits from these reforms will require additional efforts to follow through with both multilateral and regional (ASEAN) commitments, and to fully disseminate, implement and enforce enacted legislation.

56. ***Diversification and Competitiveness.*** Activities under the second component of the proposed project will aim to facilitate improved private sector competitiveness and trade diversification in the context of an ongoing natural resources boom. Direct consulting services and BAF matching grants will follow a proven approach to accelerating the use of and deepening the market for business development

¹⁴ Cross-country research has shown that each additional day that a product is delayed prior to being shipped reduces trade by at least 1 percent. Or put differently, each day of delay is equivalent on average to a country distancing itself from its trading partners by an additional 70km. Estimates of the costs of poor trade facilitation are even higher for perishable agricultural products, where a day's delay reduces a country's relative exports of time-sensitive to time-insensitive agricultural goods by 6 percent. See Djankov, Freund and Pham (2006) 'Trading on Time', Policy Research Working Paper No. 3909, Washington DC: The World Bank.

¹⁵ See data from the Logistics Performance Index, the 2011 Lao PDR Investment Climate Assessment and the 2012 Lao PDR Trade and Transport Facilitation Assessment. Lao PDR currently ranks 165th among countries under the Doing Business index, and 168th under the Trading Across Borders sub-index. .

services in underdeveloped markets¹⁶. This approach is informed by significant analysis of the risks of lack of diversification faced in Lao PDR¹⁷, and on the export survival challenges faced by Lao firms when entering new markets¹⁸. While the project will not prescribe the specific use of matching grants, it is anticipated that the primary source of demand for such services will be to finance product standards and compliance, for example on sanitary and phytosanitary standards, hygiene, quality, environmental and social compliance. Similarly the proposed activities to improve manufacturing competitiveness through improved labor standards build on successful experiences gained through the Better Work/Better Factories approaches in Cambodia and Vietnam, as well as on research conducted in Lao PDR¹⁹.

57. **Mainstreaming Aid-for-Trade.** Finally, there is growing cross-country evidence on the returns to be obtained from a well-coordinated and coherent approach to managing and absorbing trade related technical assistance. This has been demonstrated primarily through the Integrated Framework/Enhanced Integrated Framework program to support the effective participation of LDCs in the multilateral trading system and the mainstreaming of trade into national development strategies. Similarly, prior to TDF-1, aid-for-trade in Lao PDR was characterized by very few projects being implemented by the government with significant overlaps and gaps in assistance, limited government ownership and poor impact. While challenges clearly remain, progress made in building government capacity to manage aid-for-trade (through the NIU and across MoIC) under TDF-1 has begun to demonstrate meaningful results in terms of aid management capacity and effectiveness of project delivery.

C. Financial Management

58. The Financial Management (FM) assessment was carried out in June 2012 and updated in September 2012. The assessment is based on the assessment carried out for TDF-1, the PCN, draft PAD and discussion with the finance team of the NIU. The financial management arrangements under TDF-1 have been determined to meet the minimum requirements of OP/BP10.02. The financial management performance and rating has been consistently Satisfactory. The NIU will remain as the implementing agency for TDF-2. Based on the review of current financial management arrangements and associated project activities, the financial management arrangements will be deemed to meet the minimum requirements of OP/BP 10.02 when the following measures have been implemented: (i) update of the financial management manual within one month of project effectiveness; (ii) acceptable financial management procedures and controls on Business Assistant Grants (BAF Operations Manual) in place prior to disbursement against Category 2 (for Business Assistance Grants); (iii) completion of the recruitment of additional financial management staff within three months of project effectiveness; and, (iv) appointment of qualified auditors with terms of reference acceptable to the World Bank within three months of project effectiveness. The annual audit shall also include a sufficient sample of business assistance grants provided during the year.

59. The overall financial management risk is Moderate.

60. Based on the World Bank's Access to Information Policy, the project's audit report, together with audited financial statement, will be subject to public disclosure.

¹⁶ Impact analyses of matching grant schemes in other countries have found rates of return (calculated as the incremental annual value of sales or exports of a firm receiving assistance per dollar invested in matching grants), in the range of 30-40:1. In some very successful cases, the average return has been in excess of 100:1. A recent evaluation of a scheme in Tunisia found the average annual growth rate of participating firms to be 38.9 percent higher than for the control group. See Cadot et al (2011) *Where to Spend the Next Million? – Applying Impact Evaluation to Trade Assistance*, Washington, DC: Centre for Economic Policy Research and the World Bank.

¹⁷ World Bank (2011) *Lao PDR Development Report – Natural Resource Management for Sustainable Development*, Country Economic Memorandum, Washington, DC: The World Bank.

¹⁸ See Stirbat, Record and Nghardsaysone (2011) 'Exporting from a Small Landlocked Economy – An Assessment of Firm-Product-Destination Survival Rates in Lao PDR', Policy Research Working Paper No.5695, Washington, DC: The World Bank

¹⁹ See World Bank (2012) 'Lao PDR: Labor standards and productivity in the garments export sector – a survey of managers and workers', Washington, DC: The World Bank.

D. Procurement

61. Procurement for the proposed project will be carried out in accordance with the World Bank's Procurement and Consultant Guidelines (January 2011), and the provisions stipulated in the Financing/Grant Agreement and in agreed Procurement Plans. The NIU, within the Planning and Cooperation Department of MoIC, has gained project implementation experience during TDF-1. The NIU is familiar with the Bank's Procurement and Consultants Guidelines. For each contract to be financed by the project, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame will be agreed between the recipient and the Bank's Task Team and articulated in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

62. An assessment of the agency's capacity to carry out procurement for the project has been carried out as part of project preparation. The assessment reviewed the NIU organizational structure and capacity of staff to implement procurement for the project. Detailed procurement arrangements can be found in Annex 3.

E. Social (including Safeguards)

63. The project does not include activities that may incur significant social risks or deal directly with the population at large. However, changes to Lao PDR's international trade policies of the type that the project is supporting may inevitably result in losers as well as winners. Project activities focus primarily on increasing trade by reducing trade costs and boosting competitiveness, rather than changing the relative prices of goods. It is anticipated that support to broader improvements of the enabling environment for trade and private sector development will contribute positively towards stronger economic growth, poverty reduction and lower prices of goods.

F. Environment (including Safeguards)

64. The project will finance consulting services, goods, training and workshops. There are no civil works or any activity that may have negative environmental implications. The project is classified under category C.

Annex 1: Results Framework and Monitoring

LAO PDR: SECOND TRADE DEVELOPMENT FACILITY PROJECT

Project Development Objective: To support the implementation of Government's trade and integration priorities outlined in the 2012 DTIS Roadmap, and in particular to contribute to improved competitiveness and diversification, focusing outside the natural resource sectors.												
PDO Level Results Indicators	Core	Unit of Measure	Baseline	Cumulative Target Values				End Target	Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR 1	YR 2	YR 3	YR 4					
1. Reduced mean number of days to clear imports	<input type="checkbox"/>	Days	10.6 (2009)	10.1	9.5	8.5	5.3	5.3	Every 2-3 years	World Bank Enterprise Survey	NIU	% reduction per year
2. Reduced mean number of days to clear exports	<input type="checkbox"/>	Days	7.5 (2009)	7.1	6.8	6.0	3.8	3.8	Every 2-3 years	World Bank Enterprise Survey	NIU	% reduction per year
3. Improved logistics performance score	<input type="checkbox"/>	Number	2.5 (2012)	2.6	2.7	2.9	3.0	3.0	Every 2-3 years	Logistics Performance Index	NIU	Improvement in overall score
Component A: Trade facilitation, trade policy and regulations												
Intermediate Results Indicators												
1. Reduction in percentage of firms identifying customs and trade regulations as a major constraint	<input type="checkbox"/>	%	6.8 (2009)	5.8	4.8	3.8	2.8	2.8	Every 2-3 years	World Bank Enterprise Survey	NIU	Indication of the extent to which end user trade facilitation constraints are being alleviated (% reduction per year)
2. Increase in usage statistics for Lao PDR Trade Portal	<input type="checkbox"/>	% increase in number of hits	tbd	5	10	30	50	50	Annual	Monthly performance statistics	NIU	Increased usage indicator of reliability and relevance to trade community

3. Successful completion rates for Trade Facilitation capacity building program	<input type="checkbox"/>	% of graduations	0	100	100	100	100	100	Annual	Student records	NIU	Successful completion and graduation evidence of relevance to participating individuals and agencies
4. Frequency and participation of National Trade Facilitation Secretariat meetings to resolve trade facilitation issues, with decisions documented and follow up actions prioritized	<input type="checkbox"/>	Number per year	4	4	4	4	4	4	Annual	NTFS Annual Reports	DIMEX	Frequency of planned meetings an indication of secretariat reliability and participation of members an indication of relevance and credibility
5. Reduction in the mean number of days required to obtain import licenses	<input type="checkbox"/>	Days	20.7 (2009)	18.0	15.0	12.0	9.0	9.0	Every 2-3 years	World Bank Enterprise Survey	NIU	Indication of progress streamlining NTMs
6. Reduction in the mean number of days required for services firms to obtain operating licenses	<input type="checkbox"/>	Days	14.7 (2009)	14.1	13.1	11.8	10.1	10.1	Every 2-3 days	World Bank Enterprise Survey	NIU	Indication of progress in reforming regulation of services trade
Component B: Diversification and competitiveness												
7. Sales growth in BAF supported firms compared to non-supported firms	<input type="checkbox"/>	%	0		+20		+20	+20	Annual	Mid term and end term surveys	NIU	Sales growth 1/5 higher than non-supported firms
8. Cumulative number of businesses supported using BAF advisory services	<input type="checkbox"/>	Number	0	50	100	150	150	150	Annual	Progress reports	BAF	Measurement of business services provided

8a. Increase in share of female owned/managed businesses supported using advisory services	<input type="checkbox"/>	%	0	+10	+10	+10	+10	+40	Annual	Progress reports	BAF	Gender indicator of participation
8b. Within those businesses, percentage of women employed	<input type="checkbox"/>	%	0	30	30	30	30	30	Annual	Progress reports	BAF	Gender indicator of impact
9. Garment factory labor standards monitored and reported to international standards	<input type="checkbox"/>	Number of monitored factories	0	0	0	5	15	20	Annual	Inspection records	MoLSW	Operation and reporting of labor inspection an indication of ability to build buyer confidence
10. Cumulative number of garment enterprises using GSC advisory services	<input type="checkbox"/>	Number of user factories	3 (2012)	4	6	8	10	10	Annual	GSC reports	GSC	Measurement of advisory services provided
Component C: Mainstreaming aid-for-trade												
11. Improved aid for trade governance moving towards a program based approach operating under the TPSWG	<input type="checkbox"/>	Descriptive	Fragmented, standalone work programs	Coordinated, joint work planning and results monitoring supervised by the TPSWG					Annual	Progress reports	NIU	Indication of effective aid-for-trade coordination, reporting and communications
12. Increased focus in government planning documents on the poverty, social and gender impact of increased trade and integration	<input type="checkbox"/>	Descriptive	Limited focus	Substantive focus with poverty, social and gender impact mainstreamed					Annual	Progress report	NIU	Indication of the extent to which the impact of trade is being mainstreamed
13. Increased share of firms with female management / ownership participation	<input type="checkbox"/>	%	39 (2009)	41	43	45	47	47	Every 2-3 years	World Bank Enterprise Survey	NIU	Indication of increased female entrepreneurship

Annex 2: Detailed Project Description

LAO PDR: SECOND TRADE DEVELOPMENT FACILITY PROJECT

(A) TRADE FACILITATION, TRADE POLICY AND REGULATIONS

1. This component, which builds on the success of trade facilitation and trade policy activities under TDF-1, will consist of a number of inter-related activities aimed at improving transparency, predictability and lowering compliance costs associated for traders. International evidence strongly suggests that high costs of trade act as a major brake on investment, particularly in the type of diversified trade that has greatest potential to facilitate equitable growth, generate jobs and reduce poverty.
2. Trade facilitation activities will focus primarily on improving inter-agency coordination and supporting the adoption of modern risk-based approaches to managing regulatory compliance in non-customs agencies, including reform of non-tariff measures. Investments financed under this component will be closely linked to and complement broader customs reform and modernization efforts including the ongoing Customs and Trade Facilitation Project, and the proposed Lao National Single Window Support Program, financed by the World Bank²⁰.
3. The trade policy aspect of the project will focus on the provision of essential and continued technical assistance in support of WTO accession related efforts, but progressively shifting to a “beyond WTO” agenda focused on effective implementation of goods and services commitments at both the WTO and ASEAN levels, including a strong emphasis on private sector engagement. A core theme will be on strengthening efforts to ensure that the benefits of integration are maximized in an equitable manner.

Component A1: Trade facilitation support (US\$ 1,300,000)

4. As a key element of the trade facilitation component of TDF-1 extensive technical assistance and advisory support was provided to the MoIC to formalize the Lao PDR Trade Facilitation Strategy and Action Plan and to support the formation of the Lao PDR Trade Facilitation Secretariat, currently chaired by the MoIC Vice Minister and supported by the Department of Imports and Exports (DIMEX). The Secretariat has now been formed with representation of all key public sector agencies as well as representation from the private sector. TDF-1 also financed the development and implementation of the Lao PDR Trade Information Portal that was successfully launched in June 2012 and has been very well received by the trading community. Building on the success of the Trade Portal, TDF-1 has also supported preparatory work on the simplification of trade processes and procedures in relevant non-customs agencies. This work will feed into both implementation of the trade facilitation strategy and ultimately into the Lao PDR National Single Window system and Non-Tariff Measures (NTMs) reform agenda.
5. While significant progress has been made on the trade facilitation agenda under TDF-1 additional support will be required under TDF-2 to build on the reform momentum established to date and ensure the long term sustainability of key programs. TDF-2 therefore includes additional support for trade facilitation under three separate but interrelated sub-components: (i) direct assistance to DIMEX to support and enhance the operation of the Trade Facilitation Secretariat; (ii) capacity building for middle to senior managers in all participating trade related ministries and agencies focused on developing a cadre of officials that understand and are able to apply modern risk based approaches to regulatory compliance

²⁰ See Annex 6 for more detail on activities being financed under the Customs and Trade Facilitation Project, proposed Additional Financing, and the Lao National Single Window Preparation Program.

and effectively plan and guide ongoing trade facilitation reform efforts; and, (iii) additional support to ensure effective maintenance and timely updating of the Trade Portal and its expansion in scope to meet commitments under GATT Article X and ASEAN commitments in respect to the posting of all NTMs on a National Trade Repository and its eventual connection to the ASEAN Trade Repository.

Subcomponent A1-1: Trade facilitation secretariat and action plan implementation support (US\$ 400,000)

6. The Lao PDR Trade Facilitation Secretariat was established as part of the Lao PDR National Trade Facilitation Strategy and Action Plan. It is currently housed in and supported by DIMEX but the provision of adequate secretariat services including inter agency coordination activities and administrative tasks, as well as the preparation of relevant policy and issues papers is an extremely resource intensive activity. As a result the Secretariat is yet to fully achieve its objective of serving as the principal vehicle for discussing national trade facilitation issues and priorities and ensuring effective coordination, monitoring and implementation of Lao PDR's National Trade Facilitation Strategy and Action Plan.

7. Such a situation is not uncommon with global experience suggesting that such trade facilitation coordination bodies are extremely difficult to sustain particularly during their early years without targeted external support²¹. Global experience also suggests that the effectiveness of such bodies is highly dependent on the quality and commitment of the secretariat staff and their capacity to work exclusively on secretariat matters rather than managing such responsibilities alongside their normal duties. The critically important issue is that the Secretariat must have access to competent people able to undertake research and analysis on key policy issues, monitor action plan implementation, encourage private sector participation as well as providing active administrative assistance for agenda planning, meeting support and ongoing information sharing and coordination activities between meetings.

8. The subcomponent will therefore finance the appointment of two highly qualified local consultants to support DIMEX in performing its support functions for the secretariat. One consultant (a trade facilitation specialist) should possess sound policy development and research skills and the other (a coordinator) strong organizational, planning and administrative support skills. To support ongoing coordination efforts between meetings, the subcomponent will also finance the development of a small scale information system to support effective communication and collaboration amongst secretariat members. The system will also assist private sector representatives to more effectively engage with members of the secretariat. To ensure appropriate post implementation support it is envisaged that the system will be built to operate on the Lao PDR Trade Portal platform. The subcomponent will also finance capacity building for the secretariat including in the first year a two-day planning retreat where global examples of good practice can be shared and discussed.

Subcomponent A1-2: Capacity building for managers in trade related agencies (US\$ 600,000)

9. While government officials from trade related agencies have some access to training opportunities from time to time conducted either by the government or development partners, such training is of short duration, usually highly focused on a particular technical area and almost always confined to the officials of one particular agency. To ensure reform momentum is maintained, cross agency cooperation is enhanced, senior and middle level links between agencies are strengthened and a culture of continuous improvement is established, there is a pressing need to support the development of a strong cadre of officials at the senior and middle management levels who understand and can apply modern approaches to public sector management and leadership as well as core competencies necessary to lead and sustain

²¹ See a fuller discussion in World Bank (2011) *Border Management Modernization*, International Trade Department, Washington, and DC: The World Bank.

reforms in the challenging area of trade facilitation. This subcomponent will therefore support the development of a critical mass of skilled and motivated managers across all trade facilitation agencies²².

10. The management development program will be designed to be practical in focus, tailored to the needs of senior and middle managers working in agencies that manage trade, and demanding in terms of participant commitment. Participants will have the opportunity to attend off-site residential programs. The proposed programs will be designed to be practical in focus, tailored to the needs of senior and middle managers working in agencies that manage trade, and challenging in terms of participant commitment. The specific content of the program will be developed in consultation with target agencies and the selected institutional provider but will incorporate a mix of leadership and management development subjects as well as modules focused on the facilitation of international trade and the application of modern approaches to ensuring regulatory compliance. The program would also be designed to support the acquisition of new skills in planning and managing reform and organizational change as well as process simplification and improvement.

11. Under the contract the provider will be expected to undertake a needs assessment to identify the specific content of two different programs; one targeted at the needs of executive/senior managers and one targeted at the current and future needs of middle managers. The provider will then be required to develop and deliver one executive management development program and four middle management programs over a period of one year. The provider would be able to modify or customize existing materials and prepare new materials as required. It is envisaged that the executive management program would be conducted over two five day periods in a residential setting. The four middle management programs would be conducted over a ten day period also in a residential setting. Successful completion of both programs should be acknowledged by the issue of an attendance certificate issued by the provider's institution.

12. The definitive curriculum will incorporate subjects designed to meet existing capacity needs of the identified trade related agencies as well as a range of competencies required to support future strategic reform and modernization priorities. Delivery methods should include a mix of formal face to face sessions and group based learning activities. Where possible, case studies and practical examples of direct relevance to the participant's working environment will be used to demonstrate the practical application of any concepts or approaches being addressed during the program. Likewise, where appropriate and cost effective to do so, professional experts will be used to present technical subjects in key areas.

13. The individual modules making up the program will be identified through consultation with target agencies but may include the following subjects and incorporate others in order to meet capacity building needs of the different trade facilitation related agencies:

- Strategic and operational planning in the public sector environment;
- People management – leadership, team building, and performance management;
- Introduction to ICT – basic principles, business case preparation, project management, and sustainability;
- Managing change – reform planning, marketing and effective implementation;
- Program/project performance monitoring and evaluation;
- Business process reengineering and techniques for continuous improvement;
- Introduction to economics – focus on international trade and development;
- Effective communication and stakeholder consultation;

²² Including officials drawn from the Ministries of Finance, Industry and Commerce, Agriculture and Fisheries, Public Health, Planning and Investment, Foreign Affairs, Public Security, Science and Technology, Post and Telecommunications and officials from the Bank of Lao PDR. The target audience is expected to be at the Deputy Director General, Director of Division or Deputy Director of Division level.

- Integrity development and anti-corruption strategies;
- Modern approaches to border management - risk management, post clearance audit and compliance improvement;
- Policy analysis and development; and,
- Public sector financial and resource management.

14. The subcomponent will finance all costs associated with curriculum design, preparation or modification of learning modules, consultancy fees for academic staff and all expenses associated with the residential venue/s as well as appropriate administrative support, interpretation and translation services²³.

Subcomponent A1-3: Trade portal support and development (US\$ 300,000)

15. The Lao PDR Trade Portal was successfully launched in June 2012 and has been extremely well received by the Lao trading community. All major trade related laws; regulations, procedures, fees, taxes etc are now posted on-line and are easily accessible to the public via a user friendly interface and easy to use search engine. Information is available in Lao and English and the portal also provides the support framework for Lao PDR's SPS and TBT enquiry points. Work has also progressed under the same consultancy contract financed by TDF-1 on the preparation of a roadmap for process simplification that will facilitate related work on business process reengineering to be undertaken both as a part of the National Single Window preparation project and under the NTM component of TDF-2.

16. As is the case with the National Trade Facilitation Secretariat, the long term success and sustainability of the Trade Portal will depend heavily on its performance during its crucial first few years of operation. This will require dedicated resources being provided to ensure all the information provided is kept strictly up to date and that system reliability is good. Experience suggests that such portals quickly lose their relevance if the information available is not absolutely accurate and posted immediately when any changes come into effect²⁴. TDF-2 will therefore finance the continued engagement of a competent Webmaster as well as a Content Coordinator. In addition, due to the need to prepare materials in both languages and the time taken to translate complex regulations, TDF-2 will finance the provision of additional translation and support services for the Trade Portal team.

17. Maintenance and upgrade of the Lao PDR Trade Portal. The portal will aggregate and integrate all trade-related information, including non-tariff measures, from individual ministries and agencies on the Trade Portal²⁵. This activity will consist of:

- a) Update trade-related information including regulations, procedures, fee schedules, penalties and necessary forms on the Trade Information Portal on a regular basis²⁶; and,*
- b) Identify and publish the various processes required on a step-by-step basis for licenses and permit issuance by authorities.*

18. These tasks will ultimately be assumed by DIMEX officials but it is not feasible at this stage to hand over such important roles immediately. Moreover, while the system is already live and operating effectively additional functional enhancements are planned to extend its capacity to support active

²³ Consideration will be given to training-of-trainers with staff of the National University of Laos to embed aspects of the curriculum in other national initiatives.

²⁴ See World Bank (2012) *Developing a Trade Information Portal*, International Trade Department, Washington, DC: The World Bank.

²⁵ There are many import restrictions (requirements) on a number of agricultural products and agricultural inputs (agrochemicals etc.) (Licenses, permits etc.) which may not be compliant (yet) with WTO principles.

²⁶ This will be done on the basis of the information classification system that is part of subcomponent A.2.1.

dialogue and coordination between members of the National Trade Facilitation Secretariat and the private sector. For example, the portal could serve as an excellent vehicle to facilitate public consultation prior to new regulations, non-tariff measures or procedures are enacted. More needs to be done to identify and classify in a systematic manner all existing NTMs as these are currently not organized in a structured way within each ministry.

19. A further important task for the long-term sustainability of the Lao PDR Trade Portal will be to implement and consolidate the institutional mechanisms for collaboration between ministries in order to ensure that all relevant information from each of the ministries is promptly and pro-actively supplied to the Lao PDR Trade Portal for publication.

Component A2: Non-tariff measures review and rationalization (US\$ 1,300,000)

20. Lao PDR has liberalized its trade through extensive unilateral tariff reduction with over half of its tariffs under 5 percent. Its tariff regime is even more liberal under ASEAN, which accounts for most of the country's trade. Under ASEAN over 70 percent of its tariff lines are 0 and 25 percent are under 5 percent. This opening up has served Lao PDR well, with recorded trade booming to 75 percent of GDP in recent years²⁷. As in many other countries, non-tariff measures (NTMs)²⁸ now form a more significant barrier to trade than tariffs. Several ministries are involved in establishing and implementing regulations that may have a trade impact. Yet frequently, new regulations are developed with very little regard to the negative impact they may have on the trading community. NTMs are also most pervasive in the type of diversified food and agribusiness sectors where trade has the greatest potential to generate pro-poor growth.

21. Lao PDR is already engaged in modest streamlining of its stock of NTMs as part of its ASEAN commitments. At the AEC Council Retreat in October 2011 in Malaysia, ministers agreed to address trade barriers that impede intra-ASEAN trade by developing a mechanism for capturing all NTMs (ASEAN Trade Repository), identifying Non-Tariff Barriers and involving the business community to address specific bottlenecks.

22. Lao PDR has made significant progress unilaterally. It has moved ahead of many other ASEAN countries by collecting all regulations and procedures that are involved in the trade of goods at the ASEAN HS-8 level and has recently launched a comprehensive Trade Information Portal²⁹ where this information is posted via a user friendly and searchable website. It has also established a National Trade Facilitation Secretariat, an inter-ministerial committee representing line agencies involved in issuing NTMs, chaired by the Vice-Minister of Industry and Commerce, with DIMEX as the focal point and representation from the Lao National Chamber of Commerce and Industry (LNCCI).

23. The proposed non-tariff measures review and rationalization component is designed to complement and extend ongoing government efforts to streamline and harmonize NTMs. It focuses on three interrelated activities or subcomponents and is designed to:

²⁷ World Bank (2012) *Lao Economic Monitor – May 2012*, Vientiane: The World Bank. Note that one of the effects of reductions in import duties has also been reductions in informal trade.

²⁸ NTMs are policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both (UNCTAD, 2010). The WTO recognizes the need for governments to introduce regulations to achieve non trade legitimate objectives such as consumer protection and food safety. However, non-tariff measures can become protectionist tools and unintentionally and unnecessarily raise trade costs, thus hurting trade competitiveness. Under the new classification adopted by the UN's Multi-Agency Support Team in 2009, the term "NTM" covers measures as different as quotas, technical regulations, sanitary and phytosanitary measures, pre-shipment inspection, or forced channels.

²⁹ The Lao PDR Trade Portal is available at www.laotradeportal.gov.la.

- Enhance transparency and predictability by making additional information on trade requirements and procedures (including NTMs) available via the Trade Portal and to ensure Lao PDR is able to meet its commitments associated with participation in the ASEAN Trade Repository program;
- Establish a sound and well-resourced capacity to identify, categorize and review NTMs with a view to achieving a major reduction in the trade restrictive impact of NTMs and where feasibly possible, their streamlining or in cases where they no longer serve sound policy objectives, their elimination; and,
- Identify and assess the impact of NTMs faced by Lao PDR exporters in ASEAN and other key markets and to strengthen the capacity of relevant officials to participate in negotiations on the elimination, streamlining and harmonization of NTMs.

Subcomponent A2-1: Classifying, reviewing and streamlining domestic NTMs (US\$ 1,100,000)

24. The first subcomponent is focused on establishing a sustainable capacity to identify, categorize and review NTMs with a view to achieving a major reduction in their trade restrictiveness. MoIC is already carrying out a number of reforms with the overall objective of rationalizing and streamlining processes and procedures in non-customs agencies, starting with regulatory provisions falling directly under its own control but extending to the regulations and procedures of other trade related agencies that post information on the Trade Portal. The first part of this work was financed under TDF-1 and involves the preparation of a roadmap on process simplification and harmonization. Additional work will then be required over the period of TDF-2 to further this work and to ensure its integration into complementary work being undertaken by the Customs Department as part of its automation project³⁰ and during similar work expected to be undertaken during the development and implementation of the Lao PDR National Single Window system. Similarly, a large amount of analytical work has already been undertaken in this area, including an assessment of SPS measures by the World Bank³¹.

25. This process will take time and will involve the systematic review of all import, export, and transit documentation and procedures with a view towards simplifying and harmonizing requirements across agencies, eliminating those that are non-essential or duplicative and redesigning those which remain to ensure they are in line with modern internationally recognized risk-based selective intervention approaches. As part of this ongoing work program, this subcomponent will also identify laws and decrees that act as trade barriers because they are unclear or do not have adequate implementation regulations and will assist the relevant ministries in putting in place such regulations according to international good practice.

26. As a first step in the process the subcomponent will focus on the classification of currently identified NTMs in accordance to UNCTAD definitions. To that end, the subcomponent will finance the work of one international and one local consultant for a period of three months.

27. A key focus of this subcomponent will be directed at establishing a sustainable institutional capacity and structure for Lao PDR to identify and prioritize NTMs that present the most problems for traders and to develop the competence to systematically review them to determine their impact and to design and develop improved and less trade restrictive means of achieving desired policy outcomes. Such reviews will define the problem/s faced by traders, the public policy objectives intended, the effectiveness of the measures currently in place and the burden they place on traders (including a cost benefit analysis), and whether an improved or alternative measure or control mechanism could be established to provide the same level of prevention and control in a less costly or trade restrictive way. Alternative options including

³⁰ The Customs and Trade Facilitation Project. See Annex 6 for more detail.

³¹ World Bank (2008) *Lao PDR: Sanitary and Phytosanitary Measures: Enhancing Trade, Food Safety and Agricultural Health*, East Asia and Pacific Region, Sustainable Development Department, Washington DC: The World Bank.

elimination, redesign or the development of improved compliance procedures will be investigated and recommendations for change made accordingly³².

28. It is expected that at the end of the TDF-2 government officials will be able to master and conduct reviews of new and existing NTMs. Typically a review involves several steps which will be fully developed through this activity. The first step of a review starts with input from stakeholders suggesting change, including private or consumers association, or government agencies other than the one enforcing the NTM. This requires the establishment of formal process to receive and collect the information, as well as to designate an agency responsible. Government agencies could also adopt a work program to review the adequacy of their own NTMs. In stage two, the analyst seeks input from various concerned parties including the agency enforcing the NTM, the private sector, and external experts when required (e.g. in case of technical regulations). The analysts will then conduct the assessment based on responses to a questionnaire from all parties so as to lead to a coherent body of information on each issue. In stage three, the analyst builds on the information gathered in interviews to build the formal analysis. This will, in all likelihood, involve more fact-finding, going back to stakeholders for more precise figures, and verifying information.

29. The actual assessment involves answering a set of key questions on the basis of the data and information gather from different sources. The critical questions are: Is there a market failure? Can market forces take care of the problem? This would include also ensuring that the regulation is compliant with international and regional commitments, quantifying the cost of a market failure as well as the costs of not regulating or of alternative measures that would help achieve the desired policy outcome with lower trade restrictiveness.

30. After establishing the legitimacy of regulatory action, i.e. that there is a market failure that cannot be resolved by market forces, the next task is to locate more precisely where the problem lies in order to better target the intervention. The notion that regulatory or other policy interventions should be targeted as close as possible to the source of the problem is known as the “targeting principle”. The following step of the review requires a detail assessment of the cost of the intervention/regulation. First it is necessary to assess the sourcing costs of NTMs, broadly there are two possible sources: one which is reflected in the higher price of imported products affected by an NTM; and the second, verification costs, embodying all other categories, which are reflected in paperwork and managerial costs for importers. Overall, the aim of this exercise is to balancing costs and benefits of the regulations. The final stage of the review consist of assessing if there are other alternatives less costly (more efficient) regulations that allow to achieve similar policy goals and whether these are available at a reasonable cost to the country.

31. In order to ensure the approach described above is appropriately resourced and given sufficient priority by government agencies, an effective neutral and independent institutional mechanism for NTM streamlining will need to be established. Typically, this requires a focal point, an inter-ministerial committee, and substantial private sector involvement. The existing Trade Facilitation Secretariat, a multi-agency committee already established to support the implementation of the Trade Facilitation Strategy and Action Plan (including establishment and operation of the Trade Portal) would seem to be the most appropriate mechanism to oversee the NTM process. DIMEX serves as the focal point and the Vice-Minister of Industry and Commerce is the chair and senior representatives of all key trade related agencies are represented either as Vice Chairs or as members. Likewise, the Lao National Chamber of Commerce and Industry is a member and would logically serve as the focal point for private sector participation in the NTM review process. The capacity of the LNCCI is, however, limited and additional support is proposed under the subcomponent to support their role as focal point for private sector

³² This activity can also build upon work undertaken by the ADB to build capacity and develop standardized tools for Regulatory Impact Assessment.

participation in the review process. In particular, the subcomponent would support the establishment and coordination of a part time NTM working group made up of various LNCCI members with a particular interest in the agenda. The Trade Facilitation Secretariat would then provide a strong coordination mechanism to oversee the NTM agenda and resolve any problems or issues that may arise from time to time during the ongoing process of NTM review. The Trade Facilitation Secretariat will also determine the appropriate approach to streamlining existing NTMs. Issues such as the degree of political sensitivity, complexity of reforms required, and timing will also need to be taken into account. Options for prioritization of the review and streamlining of NTMs are shown in Box 1.

Box 1: Possible criteria that countries can use to guide their own NTM streamlining process

1. Adopt the criteria for NTM elimination and the resulting work program to (i) eliminate NTMs that are potentially non-transparent and discriminatory in application, (ii) next eliminate NTMs that are transparent but discriminatory, (iii) retain NTMs that have scientific basis, or are imposed for public health and safety, environment, religious, or national security reasons, but ensure that they are uniformly applied to both domestic and imported goods. Together with the process of elimination, replace the NTMs with measures that are transparent and achieve the same objective in a less distortive manner.
2. For NTMs which have a protective objective, a reexamination is suggested in view of the commitment to promote intra-regional trade, in which case the replacement tariffs should also be set within the terms of the CEPT. Alternatively, to cushion the impact of the shift, they may be initially set at rates with equivalent impact to the NTM, and gradually reduced in order to be less discriminatory against imports.
3. Following the proposed criteria, the greatest positive impact on trade is likely to come from the removal of NTMs with large potential for non-transparent and discriminatory application and based on the verified ASEAN NTM list, these are administrative pricing, non-automatic licensing, quotas, enterprise-specific restrictions, pre-shipment inspection. These are to be replaced by tariffs, fiscal incentives, or risk management with post-entry audit systems at customs. NTMs that are transparent but discriminate between imports may be considered next although their immediate removal would also yield trade benefits: prohibitions on “non-sensitive” goods, single channel for imports. Tariff quota duties, antidumping measures, restrictive foreign exchange allocation are not included in the ASEAN scheme, the last two affect products outside of the 9 priority sectors, while antidumping is covered by WTO rules (although this must extend to non-WTO members). Tariff quota duties may be tariffed. Prohibitions are usually imposed on sensitive goods for national security, religious or moral, health and safety, or environmental reasons, hence those covering “non-sensitive” goods should be tackled first. The single channel for imports may be replaced with a tax, incentives, and regulations on domestic consumption or operation of buffer stock depending on the purpose of the NTM.
4. Sectors with relatively high NTM incidence and whose products fall under the nine priority goods sectors are electrical equipment, organic chemicals, motor vehicles, tobacco, cereals, sugar, cosmetics, beverages, cereal/flour/milk preparations, edible fruit and nuts, pharmaceuticals, cocoa, dairy products, coffee/tea/spices, live animals, vegetables, meat/fish preparations, vegetable preparations, waste from the food industry, seeds, live trees, meat and edible offal. More often than not, the sectors with high NTM incidence are the same ones under the priority sectors, and confirm the priority selection.
5. Sectors in which ASEAN may have the potential advantage as a low-cost producer and are candidates for testing the above model are taken from a tabulation of those that export the highest values of goods to countries outside the region, are part of the nine priority goods list, and contribute relatively higher value added: fats and oils, organic chemicals, rubber, apparel, computer machinery, electrical equipment, and optical/medical equipment.

Source: ASEAN Secretariat (2006)

32. While the Trade Facilitation Secretariat is likely the most appropriate body to oversee the NTM agenda and DIMEX will serve as the focal point for the program, a technical team will need to be established within DIMEX to support the work program, facilitate the review process, interact with the LNCCI's proposed NTM working group and take responsibility for training and advising officials from the various ministries and government agencies that will undertake review activities. DIMEX does not currently possess adequate resources or sufficiently trained officials with the requisite competence to manage the functions expected to be performed by the technical team. As such, this component will finance one experienced international consultant and two local consultants to oversee the program, support the review process in individual agencies, train and coach agency officials, and provide secretariat support to the

Trade Facilitation Secretariat in NTM matters. The international consultant will be engaged on a full time basis for the first year and part-time thereafter. The two local consultants will be engaged on a full time basis for the duration of the project. Note that the international consultant will also assume responsibility for those activities identified at A2.1. To assist the LNCCI to effectively perform its role as the focal point for private sector participation in the NTM initiative it is proposed to hire one experienced local consultant on a full time basis for the duration of the project to act as the secretary of the proposed NTM working group and to facilitate communication with the technical team located in DIMEX.

33. In terms of methodology to be used to underpin the systematic review process it is expected that extensive use would be made of the NTM streamlining toolkit developed by the World Bank³³. Key ministries involved in issuing and managing NTMs as well as DIMEX staff will be trained to undertake the reviews of the existing stock of their NTMs and propose recommendations on how to address them. Both the stock and flow of NTMs will need to be examined. For the stock of NTMs, a review can start by each concerned ministry and be submitted to the technical secretariat of the Trade Facilitation Secretariat. A process of decision making needs to be put in place in case of disagreement, including elevating the decision to higher levels. The flow of new NTMs also needs to be streamlined. A process of prior consultation, review and impact evaluation needs to be put in place for new NTMs that are adopted.

Subcomponent A2-2: Assessing NTMs faced by Lao exporters (US\$ 200,000)

34. This component will assess the main NTMs facing Lao exporters, especially for agricultural products in the region³⁴. In goods, Lao PDR exports mainly agricultural products, garments and wood based products. Most garments are exported to the EU and benefit from preferential access. Most agricultural products are exported to the region—especially China, Thailand and Vietnam. However, agricultural products and processed food exports often face NTMs in the region. It is not always clear whether the problem is lack of clarity about the NTM requirement in the receiving country or lack of compliance on the Lao exporter side. Preliminary analysis also indicates that Lao PDR imposes widespread export measures and that many of the NTMs faced by exporters are actually domestically imposed NTMs. This subcomponent will include the following activities:

- a) Undertake a survey of exporters to identify the main NTMs faced by exporters, with a focus on agriculture and agro-processed exports to the region³⁵.*

35. The survey results will need to be analyzed. The purpose of which is to identify the key NTMs facing Lao exporters in regional markets and assessing the problem associated with such perceived trade barriers—unclear NTM on the trade partner side, justified NTM but compliance problem on the Lao exporter side, or domestic NTMs constraining Lao exports.

- b) Build the capacity of relevant ministries to negotiate Mutual Recognition Agreements (MRAs) for SPS in key products with bilateral neighboring partners, as well as an action plan to address the issue from the Lao ministry side if required.*

36. This component can also include capacity building to analyze whether trading partners' SPS import requirements such as market access, treatment and rejection are justified under WTO SPS principles; and

³³ World Bank (2012) *Streamlining Non-Tariff Measures: A Toolkit for Policy Makers*, International Trade Department, Washington DC: The World Bank.

³⁴ Growth in cross-border agribusiness has been identified as a sector with particularly high scope for pro-poor impact and women's economic empowerment, see World Bank (2012) 'Mapping the gender dimensions of trade' for more detail.

³⁵ It is proposed that this task be undertaken in cooperation with the International Trade Centre (ITC), who can provide technical assistance to guide on methodology, a standardized questionnaire, analysis and interpretation of results and policy recommendations. The standardized OECD questionnaire and methodology can be applied for this purpose.

capacity building to develop proposals for equivalency on trading partners' import requirements that would increase market access or reduce cost of market access.

37. The subcomponent will therefore finance the conduct of the proposed survey to be undertaken by an independent firm and the engagement of a short term international consultant experienced in negotiating SPS agreements to provide priority capacity building³⁶.

Component A3: Trade in services (US\$ 1,700,000)

38. Typically services are affected by wide range of regulatory measures. Measures affecting the services sectors can be enshrined in general laws and regulations, or specific ministerial measures governing a specific services sector, or they may stem from administrative practices. A more efficient, modernized and better regulated services sector would support Lao competitiveness for exports of goods as well as services by providing a solid infrastructure to the economy. In addition, some services are themselves export-oriented industries, such as tourism³⁷ and cross border services, which would further assist diversification and economic growth.

39. Lao PDR has undertaken, and will continue to undertake a number a reforms aiming at liberalizing the economy, including in services trade. The objective of this component is to complement these efforts by strengthening the governance of the regulatory environment affecting services trade³⁸. The component seeks to i) improve understanding of the services sector, ii) provide for greater access to and transparency of services regulations, and iii) enhance the performance of key services sectors.

Subcomponent A3-1: Enhancing regulatory capacity in services trade (US\$1,200,000)

40. Lao PDR's services sector is at an early stage of development. A number of key sectors are under-regulated or face regulatory and administrative restrictions that impair their growth potential. Little is known about the performance of services sectors and the regulatory framework, which limits the ability of the government to adequately regulate and formulate policies in these sectors.

41. This subcomponent proposes to conduct regulatory assessments in order to enhance information and transparency, identify policy measures to streamline regulatory restrictions in the services sector. To that end, the regulatory assessments will aim to (i) provide an inventory of existing laws and regulatory measures affecting trade and investment in services; (ii) assess services sector performance; (iii) identify alternative regulations and institutional arrangements that effectively serve the same regulatory goals and provide targeted resources to build regulatory capacity in selected services; and (iv) , propose guidelines and concrete actions towards implementing such policy measures by specific government agencies and other relevant actors.

- a) *Develop statistical and policy and regulatory databases to strengthen the capacity of policy makers to benchmark performance market structure and performance indicators (US \$ 100,000)*
- b) *A horizontal regulatory assessment focus on laws, regulation and administrative practices affecting services across the board (US\$ 100,000)*

³⁶ Close cooperation with the new ADB financed Improved SPS Handling in the Greater Mekong Subregion project will be required.

³⁷ Development of the Lao tourism sector is recognized to have significant pro-poor impact.

³⁸ Activities in both trade in services and trade in goods will need to be closely coordinated with the USAID LUNA project. Effective partnership and coordination arrangements have been established between TDF-1 and LUNA based on recognized relative strengths of the two project approaches.

42. A *horizontal* regulatory assessment will focus on laws, regulation and administrative practices affecting services across the board. Examples of horizontal measures that would be captured by such an analysis include identifying measures that affect the temporary movement of foreign skilled labor, or administrative requirements to enterprise registration.

c) Sectoral assessments to deepen understanding of key services, inform sector-specific policies and regulation, and identify gaps in regulation institutions and capacity (US\$ 1,000,000)

43. *Sectoral* assessments will be necessary to deepen understanding of key services, inform sector-specific policies and regulation and ensure consistency of WTO and ASEAN commitments³⁹. Assessments will be undertaken primarily on core “backbone” services sectors that support broader private sector competitiveness, but also those with potential for future direct services exports. In selected services areas, targeted resources will be provided to support regulatory capacity and institution building. Priority attention should be given to services with greater impact on competitiveness and where urgent needs have already been identified as part of work previously undertaken by the Foreign Trade Policy Department (FTPD) under the TDF and/or by other donor supported projects⁴⁰:

- *Backbone services (US \$ 400,000)*. This will include a sector updates and strengthening of regulatory capacity in core backbone services, particularly financial services / insurance and telecommunications. Lao PDR is in the process of implementing a new law on insurance services. The Ministry of Finance is responsible for implementing a complex regulatory framework but has limited human and technical resources. The TDF financed study on insurance services of 2010 will be updated to reflect the principles of the new law, and an action plan developed to identify specific gaps to conduct appropriate supervision of the sector. Similarly, the telecommunications sector is a fundamental component of competitiveness of both goods and services exports. Accession to the WTO will require substantial reform of the current governance framework to comply with the requirement of the Telecoms Reference Paper, including obligations on safeguards to prevent anticompetitive practices, access to interconnection, the establishment of an independent regulator, and others;
- *Professional services (US\$ 300,000)*⁴¹. The implementation of ASEAN Mutual Recognition Agreements for professional services will require a strong regulatory effort. First, this activity will identify the capacity gaps to implement and administer these agreements. Second, this activity will propose a sector-specific roadmap for each of the seven professions covered by ASEAN MRAs⁴², including on (i) the establishment of adequate bodies, especially private regulatory bodies, for the administration of qualifying certifications where necessary, and (ii) enhancement of capacity to regulate and monitor each professional sector, including by adopting best international standards;
- *Other services (US\$ 300,000)*. Building on previous reviews of the transport and logistics market for inbound and outbound services, this activity will prepare an updated regulatory reform action plan of priority actions to improve service delivery and reduce costs. Similarly, building on the findings from the regulatory assessments, this component may also focus on policies and measures that Lao PDR

³⁹ This will build on work undertaken under TDF-1 and require close coordination with planned support under the GIZ RELATED project.

⁴⁰ This activity will build on the series of WTO/GATS services impact studies undertaken by FTPD under TDF-1, including on financial services (insurance), distribution services and professional services (accountancy, law and engineering) as well as on related work by the World Bank and other donors.

⁴¹ This will focus primarily on law, accountancy, engineering and architecture services (covered by the WTO/GATS negotiations).

⁴² In the accountancy profession, work financed under this subcomponent will coordinate closely with planned activities to strengthen the Lao accountancy profession under the proposed World Bank Public Financial Management Strengthening Project.

should implement on services with export potential. The initial focus would be on the tourism sector and the aim is to simplify and facilitate the regulatory framework including reduction in the number of licenses, regulatory simplification and consistency, and/or authorization procedures⁴³. This activity will assess the recent economic developments in the health services sector, including the participation of private providers, and recommend policy actions to ensure governmental policy objectives and the development of the sector. Other service sectors that may be identified by the horizontal and sectoral studies, or are identified as new priorities such as distribution services in light of the correct implementation of WTO commitments.

44. The activities of this component should be outcome oriented and focus on concrete policy recommendations and, wherever possible, support the governments' implementation of such proposals. The services component of the TDF-2 aims largely at overcoming existing supply-side constraints for the development of the services sector in Laos, in particular those constraints caused by the lack of an adequate regulatory framework and capacity. The activities will be organized in the following stages:

- *Identification and prioritization of the most significant constraints and where the gains of reforms are the highest;*
- *Addressing knowledge gaps.* The goal of this stage is to gather and analyze information of both a quantitative and qualitative nature.
- *Validation of results.* The results of the information collection and analysis process should be discussed among all stakeholders that participated in the information collection process, including but not limited to government regulators and private sector agents. The goal is to identify issues that require reforms, as well as those that could be a prioritized for reform, and to build consensus on possible approaches to reform;
- *Reform and integration design.* The expected outcome of this stage is to provide the Lao Government with a menu of options, including requirements, for reforms. The success of this stage is predicated on effectively identifying alternative options and good practices in policy design;
- *Building and implementing an action plan.* The final stage and outcome of this process is building an action plan for reform based on the identified options with an ambitious timetable for implementation; and,
- *Implementation framework.* The action plan should be implemented in partnership with policymakers, regulators, and private sector stakeholders.

45. Building on the knowledge and policy action plans put forward by the regulatory assessments, the subcomponent will, in coordination with the relevant regulatory agencies, implement specific activities that contribute to enhance the regulatory framework. Such activities may include providing technical assistance in the elaboration of regulation, designing procedures for enhancing information in regulation making, and providing targeted capacity building for regulatory agencies.

Subcomponent A3-2: Improving access to services regulations (US\$ 500,000)

46. Laws and regulations on services sectors in Lao PDR are generally dispersed throughout different government agencies and not easily accessible⁴⁴. Lack of information on existing services laws and regulations limits policy making capacity, affects the ability of government officials to adequately represent Lao PDR's interests in international negotiations, and impairs the investment environment.

⁴³ During the appraisal mission, the team took note of the work that GIZ has undertaken in the area of tourism marketing and will coordinate in the future in order to avoid potential duplication.

⁴⁴ The new Law on Making Legislation, which introduces public consultation and publication requirements for the first time in Lao PDR, is an important step towards improving access to laws and regulations.

47. This subcomponent proposes the establishment of institutional procedures to ensure better access to regulations, and the creation of an online tool to improve access to the measures affecting the services trade and investment regime. The establishment of this online information tool will complement the already established Trade Portal concerning trade in goods by making laws and regulations in services easily available. The component includes three separate steps, each of them of institutional relevance in their own right.

- a) As part of the implementation of WTO obligations, the collection of laws and regulation relating to trade in services, and creation of a database, which will bring light to the stock of regulations in services currently in place as well as facilitate access by services providers (enquiry points);*
- b) The establishment of channels of information to ensure the flow information of relevant laws and regulations on services between concerned ministries and agencies; and,*
- c) The creation of the Services Trade and Investment Portal, to feature laws and regulations introducing requirements for the provision of services and allow downloading relevant documents and forms for services providers. Information will be retrievable by the services sector, following relevant international classifications, and modes of supply, in Lao and English languages.*

Component A4: Trade in goods (US\$ 1,300,000)

Subcomponent A4-1: Strengthening trade policy coordination mechanisms (US\$ 550,000)

48. The Ministry of Industry and Commerce is the government ministry responsible for the conduct and implementation of trade policy. The design of trade policy and the coordination functions should reside at the higher level of the relevant ministry, MoIC. In recent years, trade policy in Lao PDR has been focused on the country's objective of becoming a WTO member. In the medium term, the main challenges ahead are the implementation of WTO obligations, effective participation in ASEAN, and taking full advantage of trade opportunities made available by participation in the multilateral and regional trading system. This requires new arrangements for conducting trade policy, including improved inter-ministerial coordination to ensure trade policy coherence and private sector participation⁴⁵.

49. Lao PDR may tackle this by ensuring that responsibility for trade policy formulation and negotiation lies on a single body. This body will be responsible for the coordination with other relevant ministries and public entities, and the private sector. On the other hand, in order to achieve an effective design and management of trade policy, coherence, and an effective implementation of international obligations and commitments, in cross-cutting policy areas such as trade in services and NTMs, the MoIC needs to establish a closer working relationship and dialogue with other line ministries so as to ensure ownership and a successful involvement in the proposed TDF-2 activities.

50. This activity aims at supporting the evolution of the mandate of the existing Lao WTO Secretariat, operating in the framework of the National Steering Committee on Economic Integration, towards a broader trade policy coordination body. The reformed Secretariat – possibly renamed as a Trade Policy Secretariat - will also monitor regulations to ensure conformity with obligations undertaken by Lao PDR to the WTO, to ASEAN and other related fora⁴⁶. To that end, coordination procedures between mid-level

⁴⁵ This subcomponent will build on established partnership arrangements between the key projects providing resources and technical assistance in support of WTO accession and the implementation of ASEAN commitments, namely the USAID LUNA project, SECO activities and the planned GIZ RELATED project.

⁴⁶ This will need to be closely aligned with the Ministry of Justice's new role under the Law on Making Legislation with expands the role of Justice to not only review all proposed regulations (for legal consistency), but also now for regulatory and budget impact, and for consistency with international treaty requirements. However, it is likely that specialised capacity to undertake this

officials at different ministries will be put in place to improve the flow of regulatory information across relevant government departments. Also new arrangements for private sector coordination and participation will be proposed and implemented⁴⁷.

51. This activity will finance technical assistance to the Foreign Trade Policy Department who will be responsible for (i) establishing working procedures of the Secretariat; (ii) proposing an work annual program, in consultation with relevant authorities; (iii) proposing agenda for meetings of the Secretariat; (iv) proposing a consultation process with the private sector and establishing working procedures and information exchange mechanisms; (v) keeping track of work and assessing progress of decisions and initiatives undertaken by the authorities; and (vi) other activities to ensure coordination among ministries and other public agencies, and an adequate consultation process with the private sector.

Subcomponent A4-2: Disseminating commitments and building capacity on trade remedies (US\$ 250,000)

52. The implementation of WTO and ASEAN commitments and other trade policies requires adequate understanding of Lao PDR trade policies and obligations not only by government officials, but also by the private sector and the public in general. This subcomponent will provide for the publication and dissemination of a series of non-technical trade notes to help raise awareness of the benefits of Lao PDR's trade policies at the multilateral and regional level. The short notes will explain in non-technical language issues relating to, for instance but not limited to the following:

- Lao PDR's foreign trade policy, informing the general public about Lao international trade policies;
- Benefits of WTO accession – with sectors and examples where greatest impact is expected;
- ASEAN priorities and benefits for Lao PDR;
- Reducing limitations to goods trade – highlighting programs on NTMs;
- Lao experience in international trade fora – aimed at distributing in international events to raise awareness of Lao PDR's trade experience; and,
- Policies on trade and investment in the services sector.

53. Trade remedies are a threat to export-led growth strategies in developing countries. While trade barriers have been reduced significantly over the last thirty years, countries have increasingly applied antidumping duties, countervailing duties, and safeguard measures to temporarily protect domestic industries. These measures, which are part of the WTO arsenal, may affect Lao PDR's export products in the future. In order to assess the impact as well as to defend Lao PDR's export interests, this activity will also provide technical support to public officials responsible for trade policy, academics and researchers, and the private sector interested in trade policy. The aim of this technical assistance is to help to understand the scope of these trade instruments, including their definition, the legal requirements for applying these measures, WTO jurisprudence, and design strategies and options available to engage with trading partners to protect Lao PDR's rights, including under dispute resolution and settlement mechanisms.

Subcomponent A4-3: Further strengthening the SPS legal framework (US\$ 500,000)

54. When Lao PDR started its WTO accession process it had a weak legal system with gaps and inconsistencies in many areas. In the area of sanitary and phytosanitary measures, covering plant and animal health and food safety, there was little legislation and what was in place had legal weaknesses and did not comply with WTO principles. The preparatory agenda for WTO accession included a number of

consistency and conformity text will remain primarily within the Foreign Trade Policy Department of the Ministry of Industry and Commerce.

⁴⁷ Consistent with existing initiatives such as the Lao Business Forum and Provincial Public Private Dialogue.

priority SPS legislative texts that were required to be in place before accession, and in addition many other pieces of legislation needed to be either put in place or needed upgrading and revision.

55. Strengthening this system to allow for improved protection of domestic food safety, plant and animal health has inherent pro-poor potential as reforms in this area should help underpin greater production and trade in agricultural products, in turn offering increased opportunities for the rural poor to earn income.

56. TDF-1 supported the government in preparing missing and updating existing texts⁴⁸. It has developed a sound methodology of support from first draft through to final draft before adoption which yields consistent texts in Lao and English ready for notification and publication on the Lao PDR Trade Portal. Although major progress has been made in preparing a consistent and compliant body of SPS legislation, at the end of TDF-1 there are remaining major issues of legal quality, compliance with WTO and gaps that still need to be addressed in order to better enable the country's integration into the regional economy and to protect its plant and animal health and food effectively. A further updated framework is also needed for gradually adding (sub-ordinate) technical regulations by government staff with support from capacity building projects in the years ahead⁴⁹.

57. This subcomponent will provide for the SPS legal framework to be further updated within two years with the continued provision of specialized international and national legal technical assistance under a similar approach to that under TDF-1. In addition support will be given for training of Lao government staff in drafting SPS legislation that complies with international principles. There will also be funding for small targeted consultative meetings, involving public and private sector stakeholders, as input to the drafting of legislation. Finally, dissemination will be supported through targeted events, booklets, handouts and information communications technology packages.

(B) DIVERSIFICATION AND COMPETITIVENESS

58. This includes a new set of activities aiming to support improved private sector capacity to improve productivity and compete in international markets, focusing on the non-natural resources sectors. Activities will facilitate the more effective participation of small and medium sized enterprises in the international economy, better skills and labor standards in the manufacturing sector and support to women's economic empowerment.

Component B1: Business Assistance Facility (US\$ 2,500,000)

59. The Lao private sector is at an early stage of development. There are, for instance, only around 620 unique exporters in the whole country and rates of export survival in international markets are low⁵⁰. Local provision of business development services (BDS) is very limited. Recent work by the SME Promotion and Development Office, preparing their BDS Network, indicates that there are only around 20 such providers in Lao PDR. Firms in different industries complain of a serious shortage of skills, and of local management or supervisory capabilities⁵¹. In some of the leading export industries, such as garments, there is a predominance of foreign-owned or joint-venture firms, where head office management functions are undertaken outside Lao PDR. This means that general business management experience is not being built up locally in these firms.

⁴⁸ This has also involved a close and effective partnership with the USAID LUNA project.

⁴⁹ A major new ADB project to build broad based capacity in SPS agencies commenced in 2012 (see Annex 6 for further details). SPS activities under TDF-2 will focus exclusively on the SPS related legal framework.

⁵⁰ Stirbat, Record and Nghardsaysone (2011) 'Exporting from a Small Landlocked Economy – An Assessment of Firm-Product-Destination Survival Rates in Lao PDR', Policy Research Working Paper No.5695, Washington, DC: The World Bank.

⁵¹ See World Bank (2011) *Lao PDR: Investment Climate Assessment – Policies to Promote Growth in the Non Resource Sectors*, Washington, DC: The World Bank.

60. Overall, the Lao private sector lacks the skills and experience locally to build international competitiveness. The government is understandably anxious that its private sector be better prepared for entry into the WTO, and more importantly, for the coming of the ASEAN single market, during or soon after 2015. After which, domestic firms will lose any remaining protective tariff barriers and will be fully exposed to international competition within the domestic market.

61. The primary objective of the proposed Business Assistance Facility (BAF) is to support individual firms in building their skills and experience, so as to become more competitive internationally. The intention is not only that firms in Lao PDR be able to export more, but also that those selling in the domestic market be able to compete more effectively against imports, particularly with the coming of the ASEAN single market. The approach is based on twenty years of experience with this model, covering over twenty countries, within World Bank-funded projects. The unit will provide two forms of assistance to individual private firms operating within Lao PDR:

- a) Direct consulting services, supplied by the professionals staffing the unit, advising the individual firm on its plan to grow the business (US\$ 1,200,000); and,*
- b) Matching grants, to assist the individual firm financially in purchasing specialized business development services, in support of its growth plan (US\$ 1,200,000).*
- c) Impact evaluation (US\$ 100,000).*

62. The unit will run for the full four years of the project. It will be operated as an independent implementing agency within TDF-2, under a management contract to the NIU. A business consulting firm will be selected through competitive bidding for this task. This contractor will bring in the required specialized skills and experience in operating this type of scheme, which is new to Lao PDR.

63. The unit will have three professional staff. The BAF Manager should be an international business consultant with direct experience of having managed or worked on a matching grant scheme elsewhere. The BAF Business Advisor should be a Lao national, with experience in having provided consulting services to firms in Lao PDR. The BAF Administration and Accounts Officer should be a Lao national with an accounting qualification, preferably with previous experience working on World Bank funded projects. The unit will be supervised, on behalf of the government, by a BAF Supervisory Committee, with a majority of Government representatives, but also including private-sector representation⁵². This committee will meet at least every three months to approve BAF work plans, review progress reports and otherwise provide strategic direction to the BAF. As an implementing agency within the project, the BAF will report on a day-to-day basis to the National Implementation Unit.

64. The direct consulting services provided by this team will be provided free of charge. The intention is to assist the individual firm in developing a business growth plan, which will take the firm from its present competitive position to some new position, within the coming two to five years, representing a significant improvement in its ability to compete internationally. This might involve, for instance, entry

⁵² Provisionally the BAF Supervisory Committee will include representatives from the Trade and Product Promotion Department, SME Promotion and Development Office, and Department of Industry, Ministry of Industry and Commerce; from the Investment Promotion Department, Ministry of Planning and Investment; from the External Finance Department, Ministry of Finance, and from the Lao National Chamber of Commerce and Industry. The BAF Supervisory Committee will be chaired by the Director General of the Planning and Cooperation Department, Ministry of Industry and Commerce.

into new export or domestic regional markets; development of new product or service lines; or major improvements in the quality or salability of existing products or services⁵³.

65. Usually, a business growth plan would take a firm through three discrete stages: first, exploration of the market sales potential for the improvement being planned; second, implementation of whatever changes are required based on the results of the first stage; and third, active selling of the new improved offering. Firms will be actively discouraged from going straight to the third stage, without having undertaken proper preparations, in the form of the first two stages.

66. During the implementation of this three-stage business growth plan, it is likely that specialized BDS services will be required, to supplement the general business management advice provided directly by the unit. The matching grants will provide grant assistance for the purchase of any such specialized BDS services required within the implementation of the business growth plan. BAF matching grants will be provided at a single standard rate of 50 percent, to cover the costs of BDS service fees, and associated training, travel and subsistence expenses. Firms will be free to source these specialized services either within Lao PDR or from abroad. Crucially, firms will be required to finance 100 percent of the costs of business development services up front, and then receive the 50 percent reimbursement from the BAF upon the presentation of evidence of expenditures and deliverables. The total grant funding available over the four years of the project will be US\$ 1.2 million.

67. The operations of the BAF will be governed by the BAF Operations Manual, to be approved ahead of effectiveness by the government and the World Bank, and which will have legally binding status, being attached to the Grant/Financing Agreement. Individual applications for grant support will be forwarded by the BAF Manager to the Director General of the Planning and Cooperation Department, who will be responsible for confirming that an application is in compliance with the detailed terms of the BAF Operations Manual. The NIU Director will then prepare and sign, on behalf of the Government, a formal Matching Grant Agreement with the recipient firm. Any rejections by the Director General of applications forwarded by the BAF Manager will be subject to prior consultation with the World Bank. Firms may receive multiple grants over the course of the scheme, but no firm may receive grants above a cumulative maximum of US\$ 200,000. There is no minimum size of grant.

68. Special attention will be given to ensuring effective participation in the scheme by female entrepreneurs, given the additional constraints that female entrepreneurs are known to face within Lao PDR⁵⁴. Gender participation in the BAF will be actively monitored over the course of implementation.

Table 1: Results and Monitoring Indicators for the Business Assistance Facility⁵⁵

Intermediate results indicator	Yr1	Yr2	Yr3	Yr4	Yr5
Percentage of sales growth in BAF supported firms compared to non-supported firms			Sales growth 1/5 higher than non-supported firms		Sales growth 1/5 higher than non-supported firms
Monitoring indicators					

⁵³ Evidence from the Investment Climate Assessment shows that firms in Lao PDR holding an international standards certification (e.g. ISO) are almost twice as productive as other firms.

⁵⁴ See World Bank (2011) 'Trade Development Briefing Note No.6: Gender and Entrepreneurship', which suggests that enterprises owned by women, tend to be smaller, are less likely to export and less likely to employ modern technology compared to firms owned by men. The BAF will also build upon the lessons learned from the entrepreneurship grant scheme piloted in Lao PDR under the Adolescent Girls Initiative. A broader presentation of the gender impact of increased integration is presented in World Bank (2012) 'Lao PDR: Mapping the Gender Dimensions of Trade – A Preliminary Exposition', Washington, DC: The World Bank.

⁵⁵ The full results framework for TDF-2 is detailed in Annex 1.

Cumulative number of businesses supported using advisory services (no.)	50	100	150	150	150
Share of female owned/managed businesses supported using advisory services (%)	Baseline	+10	+10	+10	+10
Within those businesses, percentage of women employed (%)	30	30	30	30	30
Cumulative number of approvals (no.)	15	50	100	150	150
Cumulative value of approvals (US\$)	100,000	400,000	800,000	1,200,000	1,200,000
Cumulative value of disbursements (US\$)	50,000	300,000	600,000	900,000	1,200,000

69. Given that the concept of matching grants is a new in Lao PDR, in the initial stages of implementation the BAF will need to work actively to promote the scheme and raise awareness, particularly in locations outside of Vientiane.

70. A subsidiary objective of the BAF is to build capacity in business membership organizations (BMOs), to provide better services to members, and to better represent their interests and concerns to government through improved public private dialogue⁵⁶. The BAF will provide both general consulting advice and matching grants to BMOs. Grants will be for three purposes: (i) capacity-building within the BMO itself, typically staff training; (ii) the development of new member services; and (iii) the commissioning of outside research or surveys, to inform submissions to government on improving the regulatory or operating environment for members. BAF grants will be at a rate of 75 percent. The total grant funding to a BMO within any one accounting year may not exceed the income it receives in membership subscriptions during that year. No single BMO may receive total cumulative grant funding in excess of US\$ 40,000. There will be a reserved allocation of US\$ 100,000 within the total BAF grant fund for these BMO grants.

Component B2: Labor standards and manufacturing productivity (US\$ 1,600,000)

71. The Lao garments industry, while modest by international standards, is the largest formal sector of manufacturing employment in the country. Annual exports are around US\$ 200 million, most of which go to the European Union. The industry is comprised of approximately 100 firms, employing about 28,000 workers. More than half the firms employ no more than 100 workers; about 10 firms employ more than half the total number of workers in the sector. These firms are considered large by national standards, with more than 500 workers⁵⁷.

72. Workers are mostly young women from rural and peri-urban areas seeking to earn income to secure a better life for themselves and their families. Factory work, although difficult and demanding is considered less arduous and offers better income opportunities than alternatives such as household farming. Workers have very little knowledge of factory work and living conditions prior to recruitment and very limited understanding of what it means to work in a modern industrial setting.

73. Garments manufacturing firms identify the supply of labor as their most significant constraint. Attrition from large and medium firms is around 3.5 percent of the workforce every month, while small firms lose on average just over 6 percent of their workers every month. Firms also report that as many as half of their workforce has been with the factory for three years or more, suggesting very high drop-out

⁵⁶ See Stirbat (2012) 'Determinants of Export Survival in Lao PDR' for more on the positive impact on export performance at the firm level where there is a critical mass of firms exporting the same or similar products to the same markets.

⁵⁷ Unless otherwise referenced, data cited in the description of this component is from World Bank (2012) 'Lao PDR: Labour standards and productivity in the garments export sector – a survey of managers and workers', Washington, DC: The World Bank.

rates and churning primarily among new labour market entrants. As a result, the sector is operating at levels below full capital utilization due to labour shortages. Firms want to invest in improving labour productivity, but are afraid of losing their return on investment because of high staff turnover.

74. The garments manufacturing sector appears to be stuck in a low equilibrium trap with worker dissatisfaction driving high worker turnover, which in turn drives low capacity utilization, investment in workforce skills upgrading and training and productivity. Workers cannot voice their interests and there is no effective system of workforce representation or collective bargaining. Thus, when faced with problems, workers feel that they have little alternative but to withdraw their labor, further exacerbating the labor supply problems that the industry faces. Lao PDR is also struggling with access to premium buyers due in part to a perceived lack of credible information on the industry's labor standards⁵⁸ and management practices.

75. Inspired by models developed by Better Factories Cambodia and similar ILO/IFC Better Work programs elsewhere, this component is designed to address the labour supply, labour productivity, and buyer confidence constraints by improving factory working condition standards through support to factory inspection and training in two subcomponents.

Subcomponent 1: Factory standards improvement scheme (US\$ 1,200,000)

76. The objective of this subcomponent is to: (i) improve actual respect for national laws and international working condition (labor) standards in Lao garment factories; and, (ii) develop buyers' confidence that standards in these factories are being publicly monitored, reliably and accurately reported. This will be done by: (a) strengthening the supervision of working condition standards by the Ministry of Labor and Social Welfare's (MoLSW) Labor Inspection Division to an internationally recognized level of competency and operational effectiveness; and, (b) developing and projecting tripartite industry commitment to improve and monitor these standards as a means of increasing employment in the sector.

Box 2: The Better Work model

The International Finance Corporation (IFC) and International Labor Organization (ILO) launched the "Better Work" (BW) program in 2007, using a model and lessons learned from Better Factories Cambodia, which began operations in 2001. BW programs set up at country-level a garment factory labor standards and condition assessment system that operates parallel to national labor inspection. The BW model includes enterprise advisory services designed to remedy gaps in labor standards identified through factory assessments. In all BW country programs synthesis reports are prepared on the basis of the individual factory assessment reports and published twice a year.. Evidence shows that public reporting encourages the kind of continuous improvement needed in Lao PDR and reduces the probability of reversing compliance gains. Gathering and reporting these data over time enables factories to demonstrate their efforts to improve working conditions.

77. The sectoral labor inspection-strengthening project in Lao PDR is inspired by and will draw on Better Work expertise and methodologies. There are a number of reasons that a full Better Work project is not considered feasible in Lao PDR at this time. For example, there are a relatively small number of international buyers active in Laos. Better Work relies on relationships with reputation-sensitive buyers in order to access factories. Furthermore, suppliers are enticed to participate in Better Work because of the prospect of a reduction in labor audits by their buyer partners⁵⁹. In practice, social auditing of any kind currently touches only a handful of factories in Lao PDR – perhaps 20 out of some 100 – reducing within the industry the incentive for centralizing labor compliance auditing. Better Work programs require significant up-front donor funding even in relatively small markets, with the donor reliance

⁵⁸ To avoid confusion in the Lao language, the term "labor standards" is used here to refer to conditions of work and working environment, not the quality of workers' skills or the results of work.

⁵⁹ These are large international buyers that have been involved in development of the BW program. See <http://www.betterwork.org/EN/buyers/Pages/ParticipatingBuyers.aspx>.

diminishing over time as fees for services cover operational costs. Full cost-recovery which is the goal of new Better Work programs is only possible in larger markets. While garment production for export continues to be very important in Lao PDR – contrary to expectations and hinting at the possibility for niche market positioning – prospects for growth are constrained by its small number of factories and population, outward migration, and transport costs, *inter alia*.

78. This factory standards improvement project will embed proven⁶⁰ sector-specific assessment and remediation processes into existing Lao PDR labor inspection and training institutions. Progress milestones will be agreed, fixed and monitored throughout the project, with the outcome of having a transparent and operational *garment factory inspection* and *enterprise advice service* in place that has raises the confidence of international buyers and meets the needs of local suppliers. Sustainable improvement will be encouraged through transparent public reporting and feedback from local industry actors. Over time, buyer confidence that garment production in Lao PDF is taking place under conditions that respect national laws and international standards will grow. The proposed project will be implemented in three phases.

79. *Phase 1: Initiation.* Comprehensive multi-stakeholder involvement and commitment is a known condition for the success of BW country programs; the unique factors present in Lao PDR make it an absolutely essential condition for this subcomponent's implementation. Significant awareness raising activities will thus be part of the initiation phase of the project. The stakeholders will be made aware of the levels of labor standards, monitoring and advice quality needed for the project to succeed. They will also be made aware of the need to determine their will to engage in the scheme. A project advisory committee will be constituted with representatives of the Association of Lao Garment Industries (ALGI), Lao Federation of Trade Unions (LFTU), Ministry of Labor and Social Welfare (MoLSW), and Ministry of Industry and Commerce (MoIC). Periodic forums involving advisory committee representatives along with representatives of garment factories, and current and prospective buyers will be started during this phase and will continue to meet throughout the project to discuss progress and future plans.

80. Evidence of concerted industry commitment and government leadership will be collected during this phase, and milestones set to assure proper monitoring of progress for the duration of the project. Milestones during this phase include the development of, stakeholder consultation on, and setting of a government policy on promotion of the garment industry as a source of job creation. A high-level policy will give the needed orientation to government line ministries in implementing this subcomponent. Stakeholders through the project advisory committee must agree a work plan with institutional responsibilities during the initiation phase of the project. Consideration should be given to a form of public/private partnership supporting labor inspection improvement with commensurate status.

81. Using BW as a model and drawing as much as possible from its experience, a National Program Coordinator will be engaged to prompt and coordinate the work of the implementing partners including the MoLSW, ALGI, and the LFTU. The Coordinator will be located in the Garment Skills Development Center (GSC). Staff focal points will be appointed during this phase by and within the MoLSW, LFTU, and ALGI with responsibility for heading project implementation activity within their respective institutions.

82. Stakeholders have critically important roles in the subcomponent.

- *MoLSW labor inspectors'* role will ultimately be to inspect garment factories, record and publish results and monitor factory improvement. Their capacities, knowledge and skills will be improved during the component. The MoLSW will also shape garment factory inspection policy during the component and feedback its field experience to the project advisory committee for its

⁶⁰ Those used by Better Work or the best analogous private sector alternatives in their absence.

consideration in consultations with other stakeholders on issues relevant to success of the initiative.

- *ALGI* plays a consultative and facilitative role in executing the component, by being the voice of local garment production facilities. It will be asked to rally industry support for the factory improvement initiative and promote the idea of improving working condition standards, their monitoring and reporting to a broader public. *ALGI* will ultimately aim to promote the Lao garment production internationally.
- *LFTU's* role is to give voice to workers at the factory level, in particular in respect of their working conditions, to enable quality inspections by MoLSW and improve conditions once gaps with standards have been identified.
- *GSC* will benefit from interventions designed to strengthen its capacity to advise factory supervisors and management, and train workers in matters relevant to compliance with international and national labor laws. Their role will ultimately be to assist factories in filling compliance gaps, by bringing training, new ideas and other advice to garment factories. The *GSC* will naturally aim to improve its range of products, driven by factory demand for effective strategies for improving compliance.
- *Garment producing factories* are the subject of inspections and improvement efforts. Their role is to drive the process of factory improvement by facilitating inspection and responding to the identification of compliance gaps by taking remedial actions, looking to improve management systems and skills, and standing ready to demonstrate improvements in compliance through subsequent inspection.

83. It is planned that an agreement for the provision of technical services would be made between the MoIC and an international service provider⁶¹ for the provision of technical assistance, through which all necessary project inputs would be financed and delivered. The National Project Coordinator will liaise with technical service providers directly.

84. Other work items during this initiation phase include a training needs analysis of the labor inspectorate to determine a project that would bring a group of identified inspectors' skills to a level of quality and specialization similar to BW assessment teams; improvement of labor inspection services to any lower level will not achieve the objectives of the project. Ratification of the international standard on labor inspection, ILO Convention No. 81, will be strongly promoted in order to bring to bear this additional international supervision of labor inspection processes⁶².

85. *Phase 2: Capacity building.* Three groups are targeted during this 21-month phase of the project: Factory owners, managers and trade unionists in using self-assessment tools for understanding how the assessment process can identify areas for improvement; labor inspectors in adapting and developing current national practices for this sector in tune with an internationally recognized assessment methodology; and trainers in the use of BW approaches for improving enterprise management and workers' performance in keeping with international and national labor standards.

86. As an early activity of phase 2, industry stakeholders can be introduced to a self-assessment tool designed to take into account Lao PDR law and international labor standards that can be integrated into current tripartite labor inspection practice in Lao PDR. Using this tool with the support of the project (potentially involving labor inspectors in an unofficial capacity), factories can on their own begin to measure performance as a prelude to future assessments formally conducted by labor inspectors. The self-

⁶¹ Consideration will be given to the selection of the ILO, subject to procurement processes. Technical and human resources will be drawn as much as possible from the Better Work project, relevant technical units of the ILO, and private service providers as needed.

⁶² The ILO's Decent Work country program, Lao PDR (2011-2015), includes in its Outcome 2.2, gap analysis, awareness-raising and validation workshops for promoting, *inter alia*, ratification and implementation of Convention No. 81.

assessment process will improve stakeholders' practical understanding of the assessments envisaged by the project.

87. BW will conduct/monitor during this phase inspector training, including mentoring of factory visits, providing feedback to individual inspectors as well as the project and its institutional partners, with a view to making adjustments to the project to improve results⁶³. An assessment tool will be adapted to the Lao PDR and used as a basis for inspector training and their ultimate use. As the scheme proceeds, the MoLSW in consultation with stakeholders, and with international advice and expertise will develop an appropriate scope and frequency for assessment and publically reporting assessment results. Since the legally empowered public labor inspectorate will perform the assessment function⁶⁴, factory consent through subscription to a project is not needed for the participation of factories. Decisions will need to be taken on the groups of factories that will be subject to BW-type assessment. Related to this, the publication of detailed, factory specific data is a sensitive matter and policy decisions will be needed on a publication methodology that balances the project's market promotion objective with expectations of confidentiality of ordinary labor inspection results.

Box 3: Overview of current labor inspection in Lao PDR

Labor inspection is the responsibility of the Labor Inspection Division under the Department of Labor Management of the Ministry of Labor and Social Welfare. As of 2012, there are about 200 inspectors appointed nationwide; most are posted at the provincial level, away from almost all existing garment factories located in Vientiane. There are no specialized inspections for specific industry. Generally, inspection only covers a few elements in the manufacturing factory, prescribed by law: compliance with working conditions, minimum wage and dispute resolution. Inspections are mostly ad hoc or based on complaints petitioned by the trade unions or worker committee. There is no prioritization of inspection or clear policy for any industry. At the Ministry level, there are 10 labor inspectors appointed by the Minister. For the benefit of the garment industry, inspectors at the Ministry can be accessed in addition to some numbers of inspectors appointed at the Vientiane Department of Labor and Welfare and at the district level. Currently, there are about 3 inspectors in Vientiane Department of Labor and Social Welfare, plus two inspectors from each district in Vientiane. In total there will be about 31 labor inspectors (including 10 people at the Ministry) in the geographic area where all Lao PDR garment factories are located.

Possible challenges that could be foreseen may be specialized knowledge of labor standards and inspection, foreign language and perhaps communication skills. It has been reported that inspection of garment factories is inadequate and too basic. Only 4-5 factories are being inspected during a six-month period, seeming to reflect that the current inspection capacity is limited. Currently, there are no inspectors who have a detailed or comprehensive knowledge of the Lao PDR garment industry and/or garment factories. The current BW assessment model, involving 380 factories in Cambodia and 200 in Vietnam, envisages assessment annually with advisory services offered in the intervening period.

Lao PDR has not ratified the ILO's Labor Inspection Convention, 1949 (No. 81), but consideration of ratification is said to be currently on-going. Ratification and full implementation would be one indices of operation of the labor inspectorate to "international recognized labor standards."

88. In connection with the foregoing, and assuming assessment services can reach a level of performance and reporting able to garner the confidence of international buyers, a system for remedy-oriented, potentially productivity enhancing factory-level advice will need to be developed. For its participating factories BW programs bring advisory services *with* assessment, presented as a bundled solution⁶⁵. The type of advisory services offered by BW has similarities to the labor standards and productivity improvement offerings available from the TDF-1 supported Lao Garment Skills Development Centre. During this capacity building phase of the project, international materials and approaches to advisory services and training for management and worker improvement will be adapted and brought to current GSC staff of three full time trainers in post, two positions open, and one manager-cum-part time trainer.

⁶³ Subject to agreement. Or a similar internationally recognized social auditing service.

⁶⁴ The 2006 Labor Law empowers the labor inspectorate.

⁶⁵ This does not include fee-for-service training.

A locally recruited Advice Coordinator will be employed, reporting to and under the supervision of the GSC Director, and charged with liaising as the focal point on behalf of the GSC with the National Project Coordinator. A public/private partnership in the form of an industry initiative could fund additional GSC staff with a view to developing expertise that may be called upon once actual labor inspector assessments begin.

89. The BW model requires factory level committees (Performance Improvement Consultative Committees) to engage workers with managers in discussing the results of assessments, planning action for and monitoring improvement. BW Enterprise Advisers work with factory management to set up factory level committees, animate, mentor, and monitor their work. BW experience shows that these committees can be valuable for improving compliance and developing a positive work environment. Experience also shows that enterprise advisory work is time consuming, and thus costly⁶⁶. Decisions will be needed in Lao on the way workers' voice is brought to improvement processes taking into account the small size of many factories – which might actually make the process less time consuming – and the potentially limited time of GSC advisors. Unlike BW, factories will not automatically receive advisory services bundled with assessment. An appropriate modality will need to be decided, giving consideration to the objective of meeting an international standard for performance that builds potential buyer confidence. The solution might be to require factory level committees but leaving it to factories to establish them, offering GSC advisor support if requested. These matters will be taken up during this phase.

90. Improving the lives of workers by expanding decent work opportunities through improving labor standards and competitiveness of garment factories is an ultimate objective of this subcomponent. The capacity building and attitude change required to do this is needed amongst all the stakeholders. Research results point to numerous substantive areas for improvement, including numerous gender related constraints, the absence of effective factory-level worker representation, and the newness of workers to factory work, as well as in substantive areas of working hours, and safety and health. As reliable information comes in from intensified consultation between the stakeholders, and eventually inspections of workplaces, it can be foreseen that strategies and activities will be needed to address problem areas.

91. The challenges faced by young women entrants to garment factory work in Vientiane are an area already documented for intervention⁶⁷. Women can face discrimination and sexual harassment in the workplace – issues for which international approaches have been developed. In addition to these matters that are close to the shop floor, there are others having to do with recruitment, preparation of young women from rural and peri-urban areas for taking factory work, living in an urban environment for the first time, and similar for which useful seed worker capacity building interventions are appropriate and will be called for development and implementation during this phase of the component.

92. *Phase 3: Piloting.* Labor inspector assessment activities take place during the final 18 months of the component, in accordance with the plan agreed during phase two. Results will be properly recorded, international mentors periodically join assessment visits, and situation reports prepared and published in accord with the plan. Factories will provide the results of assessments and follow up assessments conducted again during the piloting to determine if improvements have occurred. Advisory services will be promoted and their use recorded by GSC and the information included in the annual report on the entire initiative.

⁶⁶ Advisory work in fact takes between 12 and 14 days per year per factory.

⁶⁷ CARE (2012) 'Sewing the line: A qualitative baseline analysis of the risks and opportunities posed for young women by migration from rural Lao to Vientiane for the purpose of employment in the garment manufacturing industry'.

93. Currently some seven of the largest Lao production factories have received certifications by private factory certification groups such as the Business Social Compliance Initiative, Worldwide Responsible Accreditation Production, or Social Accountability International (SA 8000) organizations. The factory standards improvement scheme will effectively help spread the confidence building effects of these currently limited individual factory certifications if it is able to build buyer confidence in good labor governance in Lao PDR.

Subcomponent 2: Transition of the Garment Skills Development Centre towards financial and operational independence (US\$ 400,000)

94. The Garment Skills Development Centre was established under TDF-1 as an operating unit under the ALGI to provide workforce skills and productivity training to the garments industry. The centre started commercial operations in late 2011 and is now providing fee-based training services for sewing operator training, supervisory training and management training based on a curriculum adapted from Indonesia. The GSC was set up under the guidance of the MoIC Trade and Product Promotion Department, and while the centre is beginning to earn fee income, training services remain partially subsidized and the centre still operates as a “project entity”.

95. Support provided under TDF-2 will be focused on the transition of a GSC towards a fully sustainable operating model, with financial and operational independence, and with capability to advise enterprises on management systems the help improve labor standards hand in hand with productivity. With the assistance of technical assistance, GSDC will embed within its current service offerings advisory services using international approaches, as well as international training for management and workers adapted to Lao PDR.

96. A prerequisite for achieving sustainability is that the GSC moves away from operating as a project to a fully independent governance model. This will mean the centre becoming established as a specific legal entity (possibly linked to ALGI), with its own accounts and operating procedures as well as being registered under the Ministry of Labor and Social Welfare. The role of government would therefore shift progressively away from management at the project level to essentially one of supervision, through the establishment of a dedicated GSC Supervisory Board⁶⁸.

97. Overhead costs, including key staff, rent and administrative costs will be supported by TDF-2, but progressively phased out to zero over the planned four-year life of TDF-2 as the GSC achieves greater cost recovery from the provision of services, including remediation targeted advisory services. The formula will be determined according to a new four-year business plan developed by GSC envisaging a full transition to financial independence (US\$ 200,000). Progress with the factory standards improvement scheme could support demand for services from the GSC⁶⁹. The business plan would include provision for the training by GSC in international methodologies and the adaptation of international materials to the Lao PDR factory standards improvement scheme compliance requirements.

98. A final capital injection will also be made to the GSC to support investment in additional equipment to support training service delivery, including the purpose of additional required machines for operator training as well as some more specialized machines (US\$ 50,000).

⁶⁸ This GSC Supervisory Board would be chaired by a representative of ALGI and include representation from MoIC through the Trade and Product Promotion Department, the Department of Industry and the Department of Planning and Cooperation, as well as representation from the Ministry of Labor and Social Welfare. However, a majority of members of the GSC Supervisory Board should be drawn from the private sector, including both representatives of the garments industry as well as from the Lao National Chamber of Commerce and Industry.

⁶⁹ Factories could also access advisory services from other private vendors, and may currently be doing so in connection with their certification programs.

99. Resources will also be provided to support new product development, subject to demonstration of market demand in the approved business plan. This may include compliance services under the ASEAN Federation of Textiles Industries, and training in productivity measurement services and industrial engineering (US\$ 150,000).

100. It is anticipated that grants from the proposed Business Assistance Facility (under Component B1 of TDF-2) may provide support to demand from GSC training services to the private sector.

(C) MAINSTREAMING AID-FOR-TRADE

101. The mainstreaming aid-for-trade component will provide for support to further develop Lao PDR's "aid-for-trade" governance framework as part of efforts to move to a full program based approach. This is an important part of efforts to ensure that the DTIS is implemented effectively and that poverty, distributional and gender issues are fully mainstreamed into trade and private sector development policy making. This component will include further capacity investments in Lao PDR's NIU, including support to its role as secretariat to the Trade and Private Sector Development Working Group, as well as research, policy analysis and communications to support implementation of the 2012 DTIS Action Matrix/Trade and Private Sector Development Roadmap.

Component C1: National Implementation Unit, and Trade and Private Sector Development Working Group (US\$ 2,500,000)

102. The NIU was originally established by the MoIC shortly after the original DTIS as the central unit responsible for coordinating the delivery of trade related technical assistance to Lao PDR. Initially, formed within the General Division of the Foreign Trade Policy Department, the NIU is now the Foreign Aid Division operating at the heart of the new MoIC Planning and Cooperation Department.

103. At the time of the 2006 DTIS, TRTA in Lao PDR was characterized by severe fragmentation with many small projects, and significant overlaps and gaps. Very few projects channeled resources through the government, thus resulting in limited capacity development and limited ownership. Over the course of implementing TDF-1, substantial progress has been made in building the capacity of Lao PDR's ability to manage and absorb TRTA, demonstrated principally through the expansion in capacity and experience of staff in the NIU⁷⁰. The unit is headed by a Director of Division, and includes a mixture of government staff as well as full-time consultants⁷¹.

104. The NIU will be responsible for coordinating and facilitating implementation of activities under TDF-2, including results monitoring and quality control. The NIU will provide MoIC and the Trade Program Executive Committee with advice on the direction and implementation of TDF-2 and signal any problems and implementation bottlenecks. The NIU will work in close cooperating with implementing departments across MoIC where actual activity implementation will take place. The NIU will be responsible for ensuring uniformity of procedures and compliance with appropriate government and donor regulations by preparing and providing guidelines on activity management, work planning, progress and results reporting, procurement (including preparation of terms of reference, evaluation and consultant performance management) and financial management. Operations of the NIU will be guided by an Operational Manual, approved by the World Bank.

⁷⁰ Investments in the NIU made under TDF-1 have been complemented first by an IF Window II project and more recently by an EIF Tier 1 project. It is expected that core TDF-2 investments in the NIU will continue to be undertaken in partnership with the EIF.

⁷¹ The NIU currently includes four full-time government staff. According to the MoIC human resources plan, this is set to increase to thirteen by 2015.

105. The NIU also has a core role in serving as Secretariat to the Trade and Private Sector Working Group (TPSWG). With Lao PDR receiving a not insignificant amount of TRTA, it is critical that the TPSWG function effectively as a mechanism for coordinating and aligning resource flows from donors around an effective partnership for results. The project will provide resources to support the operations of the Working Group, including secretariat services, issue identification and donor coordination and partnership activities.

106. Building stronger technical capacity on trade and private sector development policy within the NIU is a key objective of TDF-2, to support more effective implementation of activities not just financed under TDF-2, but more widely as part of a movement towards a program based approach. To this end, the project will finance technical assistance to support NIU's technical role, including but not limited to the following (i) full-time international trade advisor, to support technical implementation of activities, donor coordination and assistance to the operation of the Trade and Private Sector Development Working Group; full-time national private sector development advisor, to support technical implementation of activities, improved policy analysis and implementation; and (iii) national technical consultants as required.

107. Strong fiduciary standards maintained through the implementation of TDF-1, achieved through the efforts of the NIU, are one of the key justifications for scaling up resources in TDF-2. The NIU will retain centralized responsibility for all procurement and financial management for TDF-2. The project will finance continued technical assistance where necessary to ensure that NIU can carry out its core fiduciary functions effectively, including but not limited to the following: (i) part-time international financial management advisory services; (ii) part-time international procurement advisory services; and (iii) full-time national financial management and procurement consultants as required.

108. Resources, including consulting staff, will also be provided to support core communications, outreach, monitoring and evaluation activities to support implementation of the DTIS Action Matrix/Roadmap, including activities financed by TDF-2.

Component C2: DTIS action matrix/roadmap challenge facility (US\$ 1,000,000)

109. A challenge facility will also be established making resources available to support implementation of smaller priority activities identified within the DTIS Action Matrix/Roadmap on a demand-driven basis⁷². Resources will not be pre-identified under this component, but will remain available to support new activities proposed by implementing agencies on an ongoing basis.

110. Any implementing agency, including both departments within MoIC and other ministries of the government, will be free to submit a proposal requesting resources from the challenge facility. However, in order to be eligible, activities must support the achievement of a specific outcome area as stated in the 2012 DTIS Update Action Matrix/Roadmap. Priority will also be given to activities which have a demonstrable impact on supporting pro-poor growth and/or women's economic empowerment.

111. The NIU will develop a short and standardized template for proposals, which will be considered for approval only at meetings of the Trade Program Executive Committee. The maximum size for any proposal will be US\$ 100,000 and all activities within an approved proposal must be completed within one year, after which any unspent resources will be returned to the facility. It is expected that NIU will assist interested departments in the preparation of proposals to the challenge facility, and review any submissions before presentation to the TPEC.

⁷² A key lesson learned from the implementation of TDF-1 is the need to balance structure and cohesiveness of the project, while also being able to respond rapidly to emerging priorities in a flexible way, while maintaining the quality of interventions.

Component C3: Research and policy analysis (US\$ 800,000)

112. The objective of the research and policy analysis component is to support improved trade and private sector development policy formulation, and better measurement of the impact of policy. This will include both upstream analysis, for example informing the preparation of policy positions in advance of a decision being taken; as well as downstream analysis, measuring the impact, costs and benefits of trade-related policy measures enacted⁷³. This component will build on successful activities undertaken as part of TDF-1, including the development of an advanced trade and competitiveness curriculum for civil servants, the establishment of the Lao Trade Research Digest and the organization of regular trade research forums.

Subcomponent C3-1: Research methodology and capacity building (US\$ 400,000)

113. A core requirement for being able to undertake high quality, policy relevant research is the development of appropriate skills and capacity in research methodology. This subcomponent will provide for a part-time international research advisor to the Economic Research Institute for Trade (ERIT) to support the development of methodological tools and approaches to support trade policy research and to ensure quality. Resources will also be provided to support the development of research capacity within the government, including through the continuation of the Lao Trade Research Digest, the holding of regular trade research forums and through training and by ensuring access to trade-related data⁷⁴.

114. A Visiting Fellowship Scheme will also be established, providing resources to support visiting researchers to be hosted by ERIT for short periods. Such a scheme would be established in partnership with universities abroad and would aim to provide an opportunity for academics, such as postdoctoral researchers, to carry out trade related and policy relevant research in Lao PDR hosted by ERIT. Visiting Fellows would be provided with international travel costs and a modest living allowance during their research period, during which time they would be expected to work alongside ERIT researchers, provide training and methodological guidance, present at seminars and research forum and otherwise contribute towards campus activities while undertaking a specific research project. Some modest resources will also be provided to support the continued delivery of the advanced policy course on trade and competitiveness at both the central and provincial levels.

Subcomponent C3-2: Research facility (US\$ 400,000)

115. The research fund will provide for the commissioning of policy relevant research on issues related to trade and private sector development. Specific research activities will be determined on a rolling basis with each proposal for a research activity to be approved at meetings of the Trade Program Executive Committee. A specific research proposal template will be developed by ERIT. This would be no more than five pages in length, to include: a specific research question to be answered by the activity; a summary of relevant literature including related research previously carried out; the proposed methodology and approach; data requirements, including if any fieldwork is required; resources necessary to undertake the research, including any consultancy inputs if required; as well as expected results and dissemination activities to be undertaken. All research produced with support from the project will be made available to the public. The results of all research activities undertaken will be published in full. Research proposals should be for no more than US 50,000 and should be completed in no more than one year. It is expected that the part-time international research advisor would support the preparation of the

⁷³ For example in terms of changes in volumes and values of imports and exports, source and destination, tariff revenues, investment flows, employment, poverty, social and gender impact etc.

⁷⁴ This will focus primarily on access to publically available data sources. However, there may also be opportunities to link to the proposed Statistics for Results Project currently under preparation, to be financed by the World Bank and implemented by the Department of Statistics, Ministry of Planning and Investment.

template and review all research proposals developed during the course of the project to help ensure methodological rigor.

116. Research proposals will be considered across four main thematic areas in line with priorities outlined in the DTIS Action Matrix/Roadmap: (i) the impact of trade agreements on Lao PDR⁷⁵; (ii) non tariff measures and market access constraints; (iii) diversification (natural resources and non-natural resources trade issues); and, (iv) multi-sectoral trade issues (trade and gender, trade and poverty, trade and the environment, equity and distributional impact, lagging regions). It is expected that all research activities commissioned under TDF-2 should be presented, printed and disseminated in both English and Lao languages.

117. The research fund will be divided into two main windows. The first part of the research fund will be reserved for research activities proposed directly by ERIT, with a maximum ceiling for cumulative research expenses set at US\$ 200,000. The remainder of the fund (US\$ 200,000) will be available to finance research proposals submitted by outside agencies. This might include the National Economic Research Institute, other government research institutes, the National University of Laos, other domestic universities or any other organization that submits a credible research proposal to the fund in line with the core thematic areas. All research proposals, including those submitted by ERIT or other agencies, would need to be approved by the TPEC before activities can commence. Researchers would be encouraged to submit joint collaborative proposals, although for each approved research proposal that would be a lead researcher accountable for ensuring the completion of the activity and follow up dissemination of findings and results. It is expected that ERIT (supported in part by the international research advisor) would be responsible for supervising research progress across the entire research fund.

⁷⁵ It is proposed that this include a specific impact assessment of WTO accession, to be undertaken within three years of Lao PDR's accession.

PROJECT FINANCING

Lao People's Democratic Republic SECOND TRADE DEVELOPMENT FACILITY PROJECT

Project component	Project costs (US\$)
A TRADE FACILITATION, TRADE POLICY AND REGULATIONS	5,600,000
<i>A1 Trade facilitation support</i>	<i>1,300,000</i>
A1.1 Trade facilitation secretariat and action plan implementation support	400,000
A1.2 Capacity building for managers in trade related agencies	600,000
A1.3 Trade portal support and development	300,000
<i>A2 Non Tariff Measures review and rationalization</i>	<i>1,300,000</i>
A2.2 Classifying, reviewing and streamlining domestic NTMs	1,100,000
A2.3 Assessing NTMs faced by Lao exporters	200,000
<i>A3 Trade in services</i>	<i>1,700,000</i>
A3.1 Enhancing regulatory capacity in services trade	1,200,000
A3.2 Improving access to services regulations	500,000
<i>A4 Trade in goods</i>	<i>1,300,000</i>
A4.1 Strengthening trade policy coordination mechanisms	550,000
A4.2 Disseminating commitments and building capacity on trade remedies	250,000
A4.3 Further strengthening the SPS legal framework	500,000
B DIVERSIFICATION AND COMPETITIVENESS	4,100,000
<i>B1 Business Assistance Facility</i>	<i>2,500,000</i>
B1.1 Direct consulting services	1,200,000
B1.2 Matching grants	1,200,000
B1.3 Impact evaluation	100,000
<i>B2 Labor standards and manufacturing productivity</i>	<i>1,600,000</i>
B2.1 Factory standards improvement scheme	1,200,000
B2.2 Transition of the GSC towards financial and operational independence	400,000
C MAINSTREAMING AID-FOR-TRADE	4,300,000
<i>C1 National Implementation Unit, and Trade and Private Sector Development Working Group</i>	<i>2,500,000</i>
<i>C2 DTIS action matrix/roadmap challenge facility</i>	<i>1,000,000</i>
<i>C3 Research and policy analysis</i>	<i>800,000</i>
C3.1 Research methodology and capacity building	400,000
C3.2 Research facility	400,000
Total costs	14,000,000

Annex 3: Implementation Arrangements

LAO PDR: SECOND TRADE DEVELOPMENT FACILITY PROJECT

Project Institutional and Implementation Arrangements

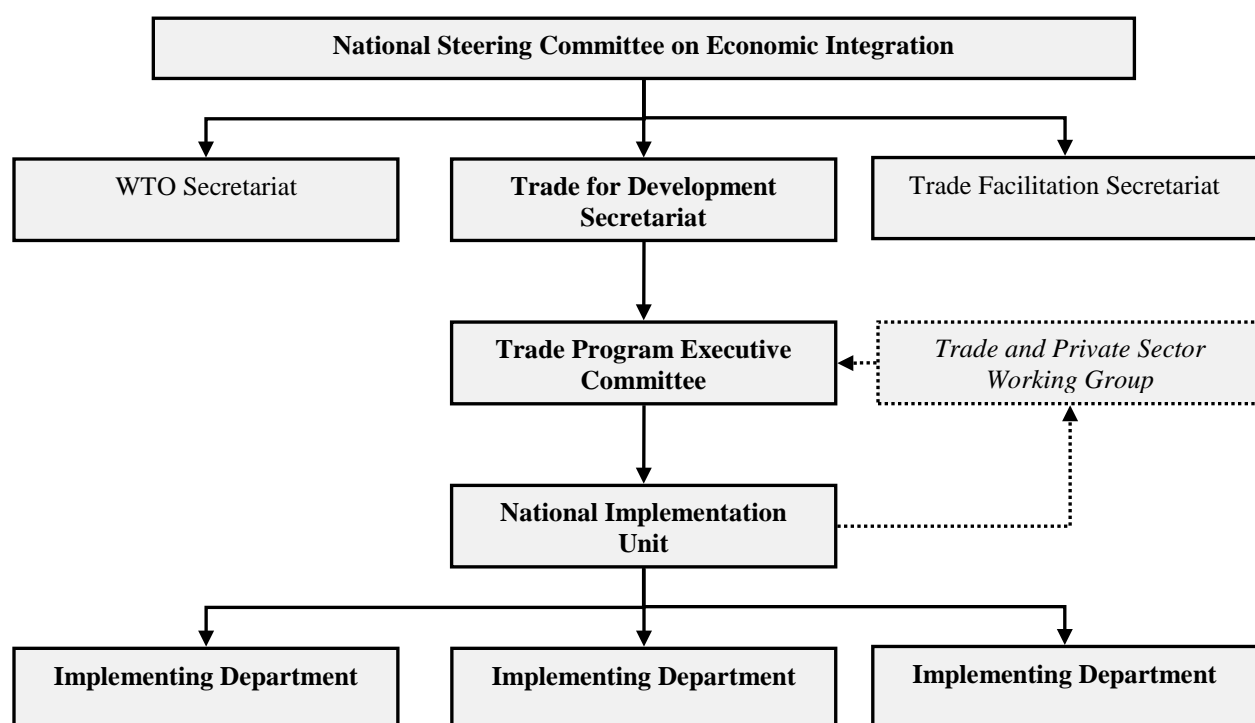
1. The project will be implemented as part of an established framework, with growing capacity and an increasingly experienced team. Overall policy direction will be provided by the **Trade for Development Secretariat**⁷⁶, operating under the supervision of the National Steering Committee for Economic Integration.
2. As part of efforts to move towards a program based approach in aid-for- trade, the Ministry of Industry and Commerce and development partners have established a **Trade Program Executive Committee**, to act as the steering committee for all trade related assistance provided to Lao PDR⁷⁷. The TPEC will serve as the steering committee for TDF-2 and will be co-chaired by the Vice Minister of MoIC (or designee) and by a donor representative agreed by the donors who finance TDF-2. It will consist of representatives of government, including from MoIC and other relevant line ministries, representatives of the private sector and TDF-2 donors. The World Bank will participate as an observer. The TPEC will meet twice per year during which six-monthly project implementation reports and detailed work plans will be presented for review and endorsement. Other key stakeholders may be invited to participate in meetings of the TPEC as observers.
3. As was the case with TDF-1, the **National Implementation Unit** / Foreign Aid Division, within the MoIC Planning and Cooperation Department, is the core technical and fiduciary implementing unit for TDF-2. The NIU will be responsible for coordinating relevant implementing departments responsible for managing components at the technical level, managing the work planning process, and coordinating progress and financial reporting at the project level. Technical assistance, both international and national, will be provided to support these functions. The NIU will also be responsible for providing financial management and procurement services in support of TDF-2 implementing agencies.
4. **Implementing departments** are government departments or other agencies directly responsible for the technical implementation of project components and for day-to-day execution of activities as stated in work plans approved by the Trade Program Executive Committee. Each designated implementing department will be responsible for the preparation of component work plans, taking the lead on issues of technical implementation, ensuring the delivery of specific project outputs and progress reporting to the Trade Program Executive Committee. Implementing departments will work closely with the NIU and report to the NIU on all financial, administrative and procurement issues. Project components and/or sub-components will be assigned to implementing departments as required.
5. The World Bank, as **Administrator of the Multi Donor Trust Fund**, will ensure that funds are used in accordance with the requirements of the Grant/Financing Agreement, the Project Appraisal Document and approved work plans. The administrator has the final authority to approve projects or activities in accordance with its procedures and the terms of the Grant/Financing Agreement. The administrator will establish a **TDF Task Team** accountable to the World Bank that will be responsible for coordinating development partner meetings on the TDF, providing administrative support to donor coordination within a program based approach, generating commitments, providing implementation support and technical

⁷⁶ Formerly known as the Lao Integrated Framework Secretariat.

⁷⁷ TDF-1 was overseen initially by a TDF Steering Committee. Later, and as part of efforts to move towards a program based approach, this responsibility was transferred to the Trade Executive Committee (now the Trade Program Executive Committee) which oversees all trade related technical assistance provided to Lao PDR.

assistance (analytical and advisory services) to the government. The World Bank will undertake regular implementation support missions to (a) monitor progress on all substantive aspects of the project against the targets, development objectives and performance monitoring indicators set out in the Project Appraisal Document; (b) monitor procurement implementation and disbursements, recommending ways to ensure that procurement activities and grant disbursements proceed smoothly and in line with the approved work plans and procurement plans; (c) review the audited financial statements, audit reports, interim unaudited financial reports and project progress reports submitted by the NIU; (d) ascertain the extent of compliance with legal covenants, including any related to environmental and social safeguards; and (e) review the continued relevance of the project to priorities of the government, the World Bank and donors.

Figure 4: Diagram of the implementation framework for TDF-2⁷⁸



6. The **Trade and Private Sector Working Group** is the primary means of government-donor coordination and dialogue in the area of trade and private sector development. It is chaired by a senior representative of the Ministry of Industry and Commerce and co-chaired by two donor representatives⁷⁹. The Working Group, which operates under the Round Table Implementation Mechanism, provides a broader forum for policy dialogue, information sharing and coordination, particularly for bilateral donor assistance provided outside of the main channels. The National Implementation Unit acts as the secretariat to the Working Group.

⁷⁸ This may be adapted with the establishment of the governance framework for the National Single Window.

⁷⁹ The European Union and Germany, at the time of appraisal. The EU is also the Integrated Framework donor facilitator.

Financial Management, Disbursements and Procurement

Financial Management

Summary of the Financial Management assessment

7. The Financial Management (FM) assessment was carried out in June 2012 and updated in September 2012. The assessment is based on the assessment carried out for TDF-1, the PCN, draft PAD and discussion with the finance team of the NIU. The financial management arrangements under TDF-1 have been determined to meet the minimum requirements of OP/BP10.02. The financial management performance and rating has been consistently Satisfactory. The NIU will remain as the implementing agency for TDF-2. Based on the review of current financial management arrangements and associated project activities, the financial management arrangements will be deemed to meet the minimum requirements of OP/BP 10.02 when the following measures have been implemented: (i) update of the financial management manual and have it in place within one month of project effectiveness; (ii) acceptable financial management procedures and controls on Business Assistant Grants (BAF Operations Manual) in place prior to disbursement against Category 2 (for Business Assistance Grants); (iii) completion of the recruitment of additional financial management staff within three months of project effectiveness; and, (iv) appointment of qualified auditors with terms of reference acceptable to the World Bank within three months of project effectiveness. The annual audit shall also include a sufficient sample of business assistance grants provided during the year.

8. The overall financial management risk is Moderate.

Budgeting and planning

9. It is proposed that each implementing department will be responsible for the preparation of annual component work plans and corresponding budget. The budget will be consolidated by the NIU Finance team. The work plan together with budget will be discussed and endorsed at each meeting of the TPEC, the Steering Committee for TDF-2. The TPEC is co-chaired by the MoIC Vice Minister and a donor representative agreed by donor who finances TDF-2. The TPEC will meet bi-annually. The budgeting and planning procedure is similar to under TDF-1; however, the FMM will need to be reviewed and revised in light of changes in procedures and terminology.

10. In budgeting for in and out of country travel, the Minister of Finance Ministerial Decision 0008/MoF and any related notifications by the World Bank or by MoF on the use of official development assistance are to be followed.

Accounting policies and procedures

11. Accounting policies and procedures for TDF-2 will remain the same as under TDF-1. The project will use a cash basis of accounting and follow a double entry system. Accounting policies and procedures are documented in the FMM. It is envisaged that TDF-2 will follow the same accounting policies and procedures as TDF-1.

12. Additional accounting policies and procedures for new activities of Component B will be required. The TDF-2 FMM and the BAF Operations Manual shall detail the working relationship between the NIU and the BAF.

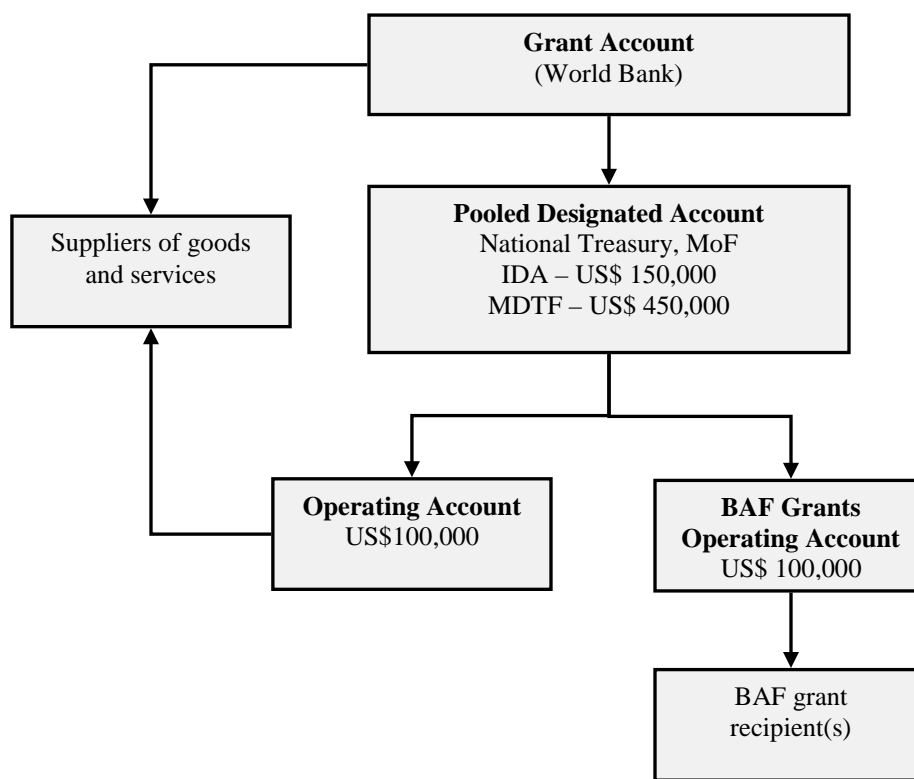
Internal controls

13. Internal controls on payments authorization, cheque signing, safeguarding and use of assets, reconciliations and segregation of duties have been outlined in the FMM. It is envisaged that this will not change from TDF-1. However, the BAF should also put in place internal controls in its operations and these shall be reflected in the Operations Manual.

Fund flows

14. Funds flow arrangements will remain the same as under TDF-1. Detailed funds flow arrangements, withdrawals procedures and controls for TDF-1 are documented in the FMM. An additional account specifically opened to hold the BAF grants is proposed to ensure timely and efficient reimbursement to the grant recipients.

Figure 5: Diagram of fund flows



15. *Designated Account.* Funds will flow from the World Bank to a pooled DA opened at the Bank of Lao PDR and managed by the National Treasury. Pooled DA reconciliation shall be performed on a monthly basis. Funds flow arrangements from the grant account to the designated account remain unchanged.

16. *Operating Account.* The NIU has proposed to open an operating account at a local commercial bank similar to under TDF-1 to ensure timely and efficient payments of small transactions. The NIU will manage this account. Funds will be transferred to this account from the DA and be replenished on a periodic basis. As National Treasury approval is required for an operating account with a ceiling of more than US\$ 20,000, the NIU will initiate the request and obtain the necessary approval before opening the account.

17. *BAF Grants Operating Account.* To ensure timely and efficient reimbursement to grant recipients, another bank account dedicated to store funds for the BAF grants is proposed. The amount to be advanced to this account including acceptable withdrawal/payment and replenishment procedures shall be determined and included in the BAF Operations Manual. The NIU is to obtain the appropriate approval from the Ministry of Finance.

18. Details of authorization and procedures for withdrawals from all bank accounts and bank reconciliations shall be elaborated in the FMM.

Financial reporting

19. The project's financial report/statements will be prepared by the NIU Finance Unit. An IFR shall be prepared on a quarterly basis and submitted to the World Bank no later than 45 days after each quarter end. The IFR format shall be designed and agreed by the time of negotiations. The IFR shall report on the sources and uses of funds, variance analysis and report on progress against the approved work plan and budget. It may also include a procurement progress report.

20. The period for the purpose of financial reporting shall follow the government's fiscal year i.e. from Oct 1 to Sept 30.

21. Any other financial reporting requirements by project management and/or the Ministry of Finance shall also be included in the Financial Management Manual.

Table 2: FM action plan

	Actions	Responsible party	Completion
1	Agree on the format of IFR	NIU	At negotiations
2	Review and revise the FMM	NIU	Within one month of project effectiveness
3	Have in place acceptable BAF grant operations manual	NIU/WB	Before disbursement against Category B (Business Assistance Facility Grants)
4	Appoint qualified auditors with terms of reference acceptable to the World Bank	NIU	Within three months of project effectiveness
5	Recruitment of additional financial management staff	NIU	Within three months of project effectiveness
6	Agree mechanism for disclosure of project audit report and audited financial statement in accordance with the World Bank Policy on Access to Information	NIU/WB	At negotiations

Audit arrangements

22. Qualified auditors with terms of reference acceptable to the World Bank shall be appointed within three (3) months of project effectiveness. The annual audit shall also include an audit of a sample of BAF grants provided to recipients during the year. The audit report shall be submitted to the World Bank within six (6) months of the end of each fiscal year.

23. The audited financial statements and the audit report shall be made available to the public in accordance with the World Bank's Policy on Access to Information. The mechanism for public disclosure has been agreed. The NIU will upload the audit report and audited financial statements onto its website⁸⁰ promptly (within one week) of submission to the World Bank. The audit report and audited financial statements shall remain available for public access on the website throughout the implementation of the

⁸⁰ www.laosoft.org

project and beyond. Disclosure requirements shall be agreed at negotiations and detailed in the revised FMM.

Implementation Support and Supervision Plan

24. To ensure that the FM action plan proposed above is implemented, the FM team will follow up closely with NIU from appraisal to negotiations and Board approval. FM implementation support and supervision will be carried out once a year thereafter as the risk is moderate. The supervision is intended to be extensive and integrated with the task team and procurement team where possible.

Disbursements

25. TDF-2 will be financed by a Technical Assistance Loan, consisting of sources of funds: an IDA grant of US\$ 4.0 million equivalent, and a Multi-donor Trust Fund grant of US\$ 10.0 million.

26. The NIU will open a DA in USD for TDF-2 at the Bank of Lao PDR. The DA will be a pooled account with individual fixed ceiling for each source of funds. The ceiling approximates one quarter's expenditure less expected direct payments. The ceiling may be adjusted from time to time upon reasonable justification.

IDA	US\$ 150,000
MTDF	US\$ 450,000

27. Withdrawals from the grant account will signed off by the External Finance Department of MoF. Applications shall be submitted at least on a monthly basis. Disbursement from the grant account shall be based on Statements of Expenditure. The main disbursement methods are advance and direct payment. Reimbursements and special commitments will also be made available. A disbursement grace period will be needed and shall be equivalent to four months after the project closing date.

28. Disbursement shall be made against the following expenditure categories:

- (1) Consultant Services, Non-consultant services, Goods, Training and Workshops and Incremental Operating Costs; and,
- (2) Business Assistance Facility Grants.

29. Financing percentage between IDA and MDTF:

IDA	30 percent
MDTF	70 percent

30. Disbursement shall be made against the following expenditure categories:

Expenditure categories	Project costs (US\$)	IDA financing			MDTF financing	
		SDR	US\$ equivalent	%	US\$	%
(1) Consultant services, non-consultant services, goods, training and workshops, and incremental operating costs	12.8m	2.37m	3.64m	30	9.16m	70
(2) Sub-grants under the Business Assistance Facility	1.2m	0.23m	0.36m	30	0.84m	70
Total	14.0m	2.6m	4.0m		10.0m	

31. *Incremental Operating Costs (IOC)*. The definition of IOC means reasonable expenditures directly related to the project, incurred by the Recipient including consumable materials and supplies, communication services (postage, telephone and internet), media and printing services, translation and interpretation services, office space rental and utilities, maintenance of office equipment, operation and maintenance of vehicles, fuel costs, bank charges, administrative support staff costs, project staff travel including lodging and per diems, but excluding salaries (including bonuses, fees and honoraria or equivalent payments) of officials of the Recipient's civil service.

Procurement

32. Procurement for the proposed project will be carried out in accordance with the World Bank's Procurement and Consultant Guidelines (dated January 2011), and the provisions stipulated in the Grant/Financing Agreement and in agreed Procurement Plans. The National Implementation Unit, within the Planning and Cooperation Department of the Ministry of Industry and Commerce, has gained project implementation experience during TDF-1. The NIU is familiar with the Bank's Procurement and Consultants Guidelines.

33. For each contract to be financed by the project, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame will be agreed between the recipient and the Bank's Task Team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The section below sets out the procurement arrangements and procedures for the NIU, which would be used for the proposed TDF-2.

Procurement of goods

34. Goods estimated to cost more than US\$ 300,000 equivalent per contract shall be procured through the International Competitive Bidding (ICB) method in accordance with Section 2 of the Bank Procurement Guidelines. Goods estimated to cost less than US\$300,000 equivalent per contract may be procured through the National Competitive Bidding (NCB) method in accordance with paragraph 3.3 and 3.4 of the Bank's Procurement Guidelines and the procedures - including standard bidding documents acceptable to the Bank, set forth in Decree 03/PM dated January 9, 2004, and in the Implementing Rules and Regulations on Decree of Government Procurement of Goods, Works, Maintenance and Services No. 063/MOF, dated March 12, 2004 and No. 0861/MoF dated May 5, 2009 (Amended Version) and including the national standard bidding documents with the Bank's prior concurrence - will be followed subject to the improvements listed in the NCB-Annex to the Grant/Financing Agreement. Goods estimated to cost less than US\$ 50,000 per contract may be procured through the Shopping method in accordance with paragraph 3.5 of the Bank Procurement Guidelines and the procedures, including standard bidding documents acceptable to the Bank, set forth in the aforesaid Decree and Implementing Rules and Regulations. With the prior concurrence of the Bank, goods that meet the circumstances specified in paragraph 3.7 of the Procurement Guidelines may be procured through Direct Contracting.

Selection of consultants

35. Depending on the nature and size of the assignment, methods of selection of firms may include Quality and Cost Based Selection (QCBS), Quality Based Selection (QBS), Least Cost Selection (LCS), and Selection Based on Consultants' Qualifications (CQS). Services for tasks under circumstances which meet the requirements of paragraph 3.8 of the Consultant Guidelines may, with the Bank's prior agreement, be procured through the Single Source Selection method. Services requiring hiring of individual consultants may be procured in accordance with the provisions of Section V of the Consultant Guidelines, whereas Single Source Selection of individual consultants may be done only with the Bank's prior agreement and under the circumstances described in paragraph 5.6 of the Consultant Guidelines.

Shortlists of consultants for consulting services estimated to cost less than US\$ 100,000 equivalent per contract may be composed entirely of national consultants.

36. Services requiring the hiring of consultants by the beneficiary firms for matching grants may be procured in accordance with the provisions of Section II, paragraph 3.13 of the Consultant Guidelines. Under such circumstances, the selection of consultants may be undertaken by the respective beneficiaries in accordance with well-established private sector procurement methods or commercial practices that shall be acceptable to the Bank and shall follow the procedures set out in the BAF Operations Manual.

Assessment of the agency's capacity to carry out procurement

37. An assessment of the agency's capacity to carry out procurement for the project has been carried out as part of project preparation. The assessment reviewed the NIU organizational structure and capacity of staff to implement procurement for the project. Due to the completion of the International Procurement Advisor's contract, and the resignation of the Senior National Procurement Consultant, there are some concerns on the smooth transition of procurement activities from TDF-1 to TDF-2. There is only one National Procurement Officer remaining in the NIU and one government official who has recently joined the procurement team. By the time of appraisal, a new International Procurement Advisor has been recruited.

38. Mitigation measures aimed at strengthening the NIU Procurement team include procurement capacity building as one of the main tasks of the International Procurement Advisor. Strengthening the procurement capacity of the beneficiaries for BAF matching grants will require (i) development of an Operations Manual for BAF matching grants; (ii) providing training to the beneficiaries in applying the Operations Manual (where required), (iii) public disclosure of BAF matching grant award information, (iv) strengthening of complaints handling and feedback procedures; and (v) improved quality and completeness in the filing of documentation. Full details of these mitigation measures will be outlined in the BAF Operations Manual.

39. The overall procurement risk is rated as "Substantial", and after mitigation "Moderate".

Procurement plan

40. A detailed Procurement Plan for the first eighteen months of the project was agreed at negotiations. The Procurement Plan will be updated in agreement with the Task Team annually as required to reflect the actual project implementation needs.

The Bank's procurement review requirements

41. The following contracts shall be subject to prior review by the Bank in accordance with the Procurement Guidelines or Consultant Guidelines:

- (a) All contracts for goods procured through ICB with estimated cost above US\$ 300,000.
- (b) First NCB for goods.
- (c) All contracts for goods procured through direct contracting.
- (d) All consulting services contracts exceeding US\$ 100,000 equivalent for firms and US\$ 50,000 equivalent for individuals per contract. The following individual consultant contracts may also require prior review irrespective of value under the Consultants Guidelines January 2011: consultants hired for long-term technical assistance or advisory services for the duration of the project, above the prior review threshold set forth in the Financing/Grant Agreement or Procurement Plan and (without regard to the prior review threshold) those being hired for legal work, or project related procurement and financial management activities.
- (e) All contracts for hiring of consulting firms to be selected through single source selection and all contracts for the recruitment of individual consultants through single-source selection.

42. All other contracts shall be subject to *ex-post* review by the Bank, and will also include checks for transparency in the procurement process and verification of end-use deliveries, in addition to verification of compliance with the agreed procurement procedures. The percentage to apply to the sample for *ex-post* review will be 20 percent of all contracts.

Implementation support and supervision plan

43. In addition to the above-mentioned prior review, based on the assessment of the capacity of the project implementing agencies it is recommended that procurement implementation support missions, including post review, will be conducted at least twice per year.

Environmental and Social (including safeguards)

44. The project does not include activities that may incur significant social risks or deal directly with the population at large. However, changes to Lao PDR's international trade policies of the type that the project is supporting may inevitably result in losers as well as winners. Project activities focus primarily on increasing trade by reducing trade costs and boosting competitiveness, rather than changing the relative prices of goods. It is anticipated that support to broader improvements of the enabling environment for trade and private sector development will contribute positively towards stronger economic growth, poverty reduction and lower prices of goods.

45. The project will finance consulting services, goods, training and workshops. There are no civil works or any activity that may have negative environmental implications. The project is classified under category C.

Monitoring and Evaluation

46. The results monitoring and evaluation framework for TDF-2 is detailed in Annex 1. This is in turn based upon the DTIS 2012 Updated Action Matrix/Trade and Private Sector Development Roadmap. Results will be monitored by the NIU and reported upon as part of six-monthly progress reports. Technical assistance will be provided to support results monitoring by the NIU. Given the nature of the TDF – in particular, its support for a program-based approach and aid-for-trade coordination – a number of indicators relate to the quality of the process and the capacity of the government to manage trade related technical assistance effectively. Hence the impact of TDF-2 will be evaluated through a mix of indicators aimed at (i) specific results in the implementation of the DTIS; and (ii) better capacity of the government to manage a program-based approach.

47. Direct attribution of specific interventions and higher level change in the area of trade and private sector development is challenging and costly, particularly where broad performance indicators are affected by many macro and micro drivers of change. Thus, a key objective of TDF-2 will be to monitor targeted results in the DTIS Action Matrix/Roadmap that are being supported by the project and the continuing logic of project design.

48.

49. The TDF-2 indicators have been selected on the basis that they can be monitored regularly using available secondary sources of data. Progress reporting from the NIU on TDF-2 and the envisaged program-based approach will become critical sources of information. Data sources include the World Bank enterprise surveys conducted in Lao PDR at regular intervals, and data drawn from the World Development Indicators and World Bank Logistics Performance Index. However, some interventions will require NIU to implement mid-term and end-term surveys (for firms supported under the proposed Business Assistance Facility scheme).

50. A Mid Term Review will be undertaken after approximately two years after effectiveness and an Implementation Completion Report upon closing of the project. The Mid Term Review and Implementation Completion Report missions will draw upon the findings of independent/external evaluation consultant(s), financed via Bank-executed Trust Fund.

Role of Partners

51. TDF-2 will be financed and implemented in the context of established partnership arrangements to support aid-for-trade delivery in Lao PDR. The original TDF MDTF was set up with the objective of improving coordination, building better government implementation capacity and ownership, and reducing the risks of overlaps and gaps in trade related technical assistance. These principles still apply, and hence TDF-2 will reflect a common and pooled approach of financing from Australia/AusAID, the European Union, Germany/GIZ, Ireland/Irish Aid and the World Bank. Donor resources are pooled into a single MDTF, and then on-granted by the World Bank to the Recipient⁸¹. This reduces transactions costs and provides for a larger and more efficient mechanism for the delivery of aid-for-trade resources.

⁸¹ Joint donor visibility guidelines will be prepared by the NIU governing the use of government, donor and TDF logos and identifiers.

Annex 4: Operational Risk Assessment Framework (ORAF)

LAO PDR: SECOND TRADE DEVELOPMENT FACILITY PROJECT

Stage: Board

Project Stakeholder Risks	Rating	Low		
<p>Description: The Ministry of Industry and Commerce has benefited from strong political support to Lao PDR's international integration agenda, particularly to issues surrounding accession to the World Trade Organization. High-level policy priorities are articulated in the Action Matrix to the 2006 Diagnostic Trade Integration Study, and more recently in the 2012 DTIS Update. The Trade Facilitation Strategy and Action Plan also outlines specific priorities relating to border management. As a participant in the global Integrated Framework process to support the effective participation of LDCs in the multilateral trading system, Lao PDR has a functioning and effective IF governance structure, including a strong IF National Implementation Unit, an IF Focal Point (Vice Minister for Industry and Commerce) and an IF Donor Facilitator (currently the EU Delegation).</p> <p>The trade sector also benefits from an increasingly developed institutional architecture for inter-agency coordination, including three permanent secretariats operating under the supervision of the National Steering Committee on Economic Integration: the WTO Secretariat; the Integrated Framework/Trade for Development Secretariat; and the National Trade Facilitation Secretariat. This structure provides the framework, but the key challenge is inevitably associated with day-to-day engagement on key issues, identification of activities and implementation.</p> <p>Coordination with donors takes place under the Trade and Private Sector Development Working Group (recently upgraded from a "sub-group" to a "full working group"), under the annual Round Table Implementation Mechanism. Coordination in the trade sector has historically been poor with fragmented projects and significant overlaps and gaps. This has improved as capacity within MoIC (though the NIU) has improved and a number of donors have elected to pool resources into a common fund, but inevitably not all stakeholders have the same level of interest in a harmonized approach. Public-Private Dialogue takes place via the Lao Business Forum and has progressively improved, however there are still limited means by which the private sector can actively engage the</p>	<p>Risk Management: Structures are now in place to manage inter-agency coordination, government-donor coordination, and public-private dialogue. The challenge is to build capacity and ensure the effective utilization of these structures. The proposed operation will be jointly financed by Australia, the European Union, Germany, Ireland and the World Bank as part of efforts to pool funds into a common approach with reduced transactions costs and high impact. The project will be implemented by the government using established Lao "aid-for-trade" structures and operate under the supervision of the Lao IF Trade Program Executive Committee.</p> <p>Resp: Client</p>	<p>Stage: Ongoing</p>	<p>Due Date: 2013</p>	<p>Status: Not yet due</p>

government on policy issues.				
Implementing Agency Risks (including fiduciary)				
Capacity	Rating: Low			
<p>Description: The IF National Implementation Unit, within the Planning and Cooperation Department of the Ministry of Industry and Commerce will be responsible for overall project implementation, including fiduciary, monitoring and evaluation responsibilities.</p> <p><i>Project management risk:</i> With increased experience gained over the course of implementing the First Trade Development Facility, Lao PDR's IF National Implementation Unit has now established a strong and robust system of fiduciary controls, with experienced Financial Management and Procurement staff able to manage an increasingly complex portfolio of activities. The NIU has gained a reputation for high standards in procurement and financial management and increased donor confidence in MoIC management of donor resources is one of the major reasons why increased funding is crowding in and becoming available to support an enlarged aid-for-trade program, including a the proposed Second Trade Development Facility. A well-developed work planning process across participating agencies and coordinated by the NIU, has emerged as one of the enduring strengths of the TDF. A key priority going forward will be to further develop the technical capacity of the team, so that the NIU is able to provide increased technical implementation guidance across implementing departments as well as coordination support. However, the NIU remains partially dependent on externally financed consultants in order to carry out core tasks, raising questions about the longer term sustainability of capacity investments.</p> <p><i>Activity management risk:</i> Responsibility for technical implementation of components will fall upon key implementing departments across MoIC, likely to include the Foreign Trade Policy Department, Department of Imports and Exports, Small and Medium Sized Enterprise Promotion Office, General Investment Department, Trade and Production Promotion Department and Economic Research Institute for Trade. Business Membership Organizations will also be engaged at the sector and national level (Lao National Chamber of Commerce and Industry). Levels of capacity vary across implementing departments, thus centralized core project management services, including full fiduciary responsibilities; will be managed by the NIU.</p>	Risk Management: Centralized fiduciary and core project implementation services within the NIU. Continued investment in building capacity of the NIU. Increased government staffing quota.			
	Resp: Client	Stage: Ongoing	Due Date: 2013	Status: Not yet due

Governance	Rating: Low			
Description: Fiduciary performance by the NIU under the current TDF-1 has been consistently satisfactory, with capacity built and experience progressively gained in procurement and financial management. All three external audits thus far have delivered unqualified (clean) audit opinions. However, the NIU remains partially dependent on externally recruited staff.	Risk Management: Centralized fiduciary and core project implementation services within the NIU. Continued investment in building capacity of the NIU. Increased government staffing quota. Regular Bank/joint donor implementation support missions, including procurement ex-post and financial management transaction reviews.			
	Resp: Client / Bank	Stage: 2013	Due Date: Ongoing	Status: Not yet due
	Resp: Client	Stage: Ongoing	Due Date: 2013	Status: Not yet due
Project Risks				
Design	Rating: Moderate			
<p>Description: Project design is informed primarily by the 2012 DTIS Update, prepared by the MoIC NIU with the support of the Bank and key development partners. The DTIS Update clearly articulates goals and objectives associated with trade and integration over the next five years, with a prioritized action matrix / roadmap. MoIC has consistently demonstrated strong ownership over the DTIS and has a well-established and functional IF/aid-for-trade governance structure.</p> <p>The design of the project builds on lessons learned during the implementation of TDF-1, and involves a deeper engagement with fewer areas of focus. The proposed TDF-2 Trade Facilitation component, builds on the success of trade facilitation activities under TDF-1 with implementation to be led by an established team in the Department of Imports and Exports, and a strong authorizing environment governed by the new Trade Facilitation Secretariat and the Cabinet approved Trade Facilitation Strategy and Action Plan. Links with the Bank financed Customs and Trade Facilitation Project will continue to be made. Similarly, the proposed Trade Policy and Regulations component also builds on success under TDF-1, with a strong and committed implementation team in the Foreign Trade Policy Department. The focus in this area will, however, inevitably shift from a pre to post WTO accession agenda, with emphasis gradually shifting from multilateral to regional (ASEAN) commitments. The larger risks are associated with the proposed Diversification and Competitiveness component, which – in line with new priorities outlined in the DTIS Update – seeks to support the transition of core industry and commerce policy away from direct interventions to facilitation. This will require new approaches and new implementation modalities for MoIC. Finally, the proposed Aid-</p>	Risk Management: Continued investment in building the capacity of the aid-for-trade governance structure. In-depth investment in the upstream design of activities to be financed under the proposed project. Being able to respond rapidly and effectively where necessary, while maintaining strong centralized fiduciary systems.			
	Resp: Client	Stage: Ongoing	Due Date: 2013	Status: Not yet due

for-trade Mainstreaming component seeks to support the next generation of capacity development in Lao PDR’s aid-for-trade architecture, including further building of the National Implementation Unit / Foreign Aid Division – now placed at the heart of MoIC’s new Planning and Cooperation Department. Nevertheless, as the level of ambition and size of the trade program grows, the core team is likely to come under increasing pressure. Limited government staff numbers poses as risk, as does the challenge of managing competing interests and priorities across implementing departments.				
Social & Environmental	Rating: Low			
Description: The operation presents limited direct social and environmental risks.	Risk Management: None			
	Resp: N/A	Stage: N/A	Due Date: N/A	Status: N/A
Program & Donor	Rating: Moderate			
Description: The TDF MDTF was the first multi donor initiative to support trade and integration activities in Lao PDR, in a sector that has historically suffered from fragmented donor assistance with poor coordination, overlaps and gaps. Substantial improvements in MoIC program management capacity (both within the NIU and across departments) has led to a better managed and integrated program which has resulted in crowding in of resources and increased donor assistance. This presents opportunities as well as challenges, particularly in terms of how to engage with donors that are unable/unwilling to participate in pooled arrangements. Inevitably as donors join the program, transactions costs rise.	Risk Management: Continued maintenance of an in-country trade team to provide day-to-day implementation support to the project, and facilitate donor coordination and communication. Further efforts to use the Trade and Private Sector Development Working Group as a mechanism for donor coordination, and the use of the Trade Program Executive Committee as a super steering committee for all donor funded Trade and Private Sector Development support activities, to the extent possible.			
	Resp: Client/Bank	Stage: Ongoing	Due Date: 2013	Status: Not yet due
Delivery Monitoring & Sustainability	Rating: Moderate			
Description: The NIU is well placed to coordinate implementation of the proposed operation, but will required increased resources and staffing to drive the next phase of an enlarged and more ambitious program. MoIC plans to move towards a program based approach in results monitoring, including the use of a single DTIS Action Matrix/Roadmap results framework as a tool for managing all aid-for-trade assistance provided to Lao PDR.	Risk Management: Continued investment in the capacity of the aid-for-trade management structure. Increased government staffing quota. Adoption of a single program based results monitoring framework.			
	Resp: Client	Stage: Ongoing	Due Date: 2013	Status: Not yet due
Overall Risk Following Review				
Implementation Risk	Rating: Moderate			
Description: The project will benefit from strong existing implementation structures in place within MoIC, satisfactory performance by the client in implementing TDF-1, and significant investments that have been made in identifying the next phase of aid-for-trade priorities in the 2012 DTIS Update. Notwithstanding these mitigating factors, the implementation risk rating is considered to be <i>moderate</i> given the complexity and challenges associated with implementing a larger and more ambitious second phase program. Similarly, while direct technical implementation capacity at the MoIC level is growing, there are significant risks associated with the ability of higher level policy makers to coordinate the implementation of the broader trade related reform agenda following WTO accession.				

Annex 5: Implementation Support Plan

LAO PDR: SECOND TRADE DEVELOPMENT FACILITY PROJECT

Strategy and Approach for Implementation Support

1. As a second phase / follow on project, TDF-2 will be implemented by an established, committed and increasingly experienced implementation team in the Ministry of Industry and Commerce. Well developed work planning, budgeting, reporting and results management approaches are already in place following significant investments made under TDF-1.
2. It is proposed that formal implementation support missions take place on an annual basis. These will be integrated technical and fiduciary missions, undertaken jointly by the World Bank and the trust fund donors.
3. With financing from the Bank-executed portion of the TDF-2 MDTF, the Bank will also maintain a Vientiane-based TDF Facilitation Team throughout the period during which TDF-2 is implemented. This will provide for a full-time team to make available just-in-time implementation support and analytical guidance, as well as being responsible for administration of the MDTF, program management and reporting to MDTF donors. This team will work closely with the NIU and implementing departments to provide technical assistance on trade and private sector development issues across TDF-2, as well as guidance on activity design and implementation, procurement and financial management.
4. Specialized World Bank Financial Management and Procurement staff will provide guidance to the NIU during implementation. The World Bank will also provide additional resources from its administration budget to support enhanced implementation support from technical specialists on issues including customs/trade facilitation, non-tariff measures, trade in services, matching grants administration and Better Work/labor standards in manufacturing.

Implementation Support Plan

5. The first six months of implementation will include a strong focus on ensuring a rapid and effective start-up of activities. Where possible, procurement of major packages will be launched in advance of project effectiveness to minimize delays once formal implementation commences.

Time	Focus areas	Staff skills needed	Resources
Continuous	On-the-ground technical/analytical and implementation guidance	- TDF Facilitation Team	BETF
First 6 months	Getting started with procurement of major packages	- TDF Facilitation Team - Procurement	BETF/WB
First 6 months	Adjustments to FM systems and manuals	- TDF Facilitation Team - FM	BETF/WB
First 6 months	Start-up of major technical activities	- TDF Facilitation Team - Customs/Trade Facilitation - NTMs - Trade in Services - BAF Matching Grants - Better Work - Factory standards - Research facility	BETF/WB
6-18 months	Movement to regular implementation support	- TDF Facilitation Team - Procurement - FM - Customs/Trade Facilitation - NTMs - Trade in Services - BAF Matching Grants - Better Work - Factory standards - Research facility	BETF/WB

6. A Mid Term Review will be undertaken after approximately two years after effectiveness and an Implementation Completion Report upon closing of the project. The Mid Term Review and Implementation Completion Report missions will draw upon the findings of independent/external evaluation consultant(s), financed via Bank-executed Trust Fund.

Annex 6: Aid-for-trade in Lao PDR

LAO PDR: SECOND TRADE DEVELOPMENT FACILITY PROJECT

1. The following short note provides a summary overview of the major related projects currently providing aid-for-trade resources to Lao PDR, and the broader context of donor assistance into which TDF-2 is located. In a number of areas, effective partnership arrangements have been established between aid-for-trade projects operating through government systems and those operating outside. A fuller description of partnership arrangements for trade and private sector development in Lao PDR is included in Annex 3.
2. The **Second Trade Development Facility Project** (US\$ 14.0m, 2013-17) is the largest source of trade related technical assistance to Lao PDR, and is co-financed jointly by Australia/AusAID, the European Union, Germany/GIZ, Irish Aid and the World Bank. The project is informed by priorities in the 2012 DTIS update and focuses on trade facilitation, trade policy, support to diversification and competitiveness and the building Lao institutions responsible for managing aid-for-trade. It follows on the **First Trade Development Facility Project** (US\$ 7.6m, 2008-2013), which provided resources to support the implementation of the original DTIS action matrix. Both TDF and TDF-2 are implemented by the MoIC. In addition, and with financing from the World Bank-Japan Social Development Fund (JSDF), a **Sustainable Silk Production Partnership Project** (US\$ 1.8m, 2011-15) aims to develop domestic supply chains in the production of silk products through a market based approach. The JSDF Silk project is implemented as part of the TDF.
3. The World Bank/IDA **Customs and Trade Facilitation Project** (US\$ 6.0m, 2008-13) is financing the automation of customs systems through the installation of ASYCUDA and related regulatory reforms and adjustments necessary to operate a modernized declaration processing system. The project is implemented by the Lao Customs Department, MoF and aims to facilitate trade by improving the efficiency and effectiveness of customs administration. The project is simplifying customs procedures, eliminating duplication and redundancy, reducing transactions costs and time to clear goods, and increasing transparency and accountability. The World Bank is also financing inputs towards the design of a next phase of customs administration through a **Lao National Single Window Preparation Project** (US\$ 1.35m, 2012-13) with resources from the global Trade Facilitation Facility. Once implemented the National Single Window system will allow traders to submit all import, export and transit information required by regulatory agencies via a single electronic gateway instead of submitting essentially the same information numerous times to different government entities, some that are automated and others that still rely heavily on paper.
4. Trade and investment climate issues form one of five core components in the annual **Poverty Reduction Support Operations** (PRSO4-US\$ 10m, 2008; PRSO5-US\$ 20m, 2009; PRSO6-US\$ 20m, 2010; PRSO7-US\$ 10m, 2011; PRSO8-US\$ 20m, 2012) as part of direct general budget support/development policy grants by the World Bank, with parallel financing by Australia, the European Union and Japan. The PRSOs have supported a series of reforms associated with trade facilitation, investment policy and customs modernization.
5. The **Enhanced Integrated Framework** (US\$ 1.3m, 2010-13), financed from the EIF Multi Donor Trust Fund⁸², has provided Tier 1 resources to support capacity development in the NIU and an update to

⁸² The EIF is a global multi donor initiative aiming to facilitate the effective participation of LDCs in the multilateral trading system. The program, which is operated out of the WTO Secretariat in Geneva, was established by the International Monetary Fund, the International Trade Centre, the United Nations Conference on Trade and Development, the United Nations

the Diagnostic Trade Integration Study. Strong partnership arrangements have been established between the TDF and EIF with shared investments in the NIU and common arrangements to reduce transactions costs including joint progress reporting, a shared financial year, joint work plans and steering committee meetings and a single external audit. It is expected that these arrangements will continue under TDF-2. EIR Tier 2 resources will also be available to support financing gaps for priority trade and private sector development interventions in Lao PDR, likely to be in areas where the TDF-2 is not providing resources.

6. The Asian Development Bank is financing two major trade-related projects in Lao PDR: an **Improved SPS Handling in the Greater Mekong Subregion** (US\$ 13.5m, 2012-17) grant/loan focusing on building institutional capacity and systems for the administration of sanitary and phytosanitary measures; and an **SME Development Program** (US\$ 15.0m, 2010-14) grant/loan providing sector budget support and related technical assistance to support enterprise registration and improved private sector policy. The ADB GMS SPS Project will be the largest source of financing for investment in SPS measures in Lao PDR. As such, the proposed TDF-2 SPS legal framework subcomponent has been carefully designed to complement the ADB project, which will not provide any resources for SPS legal work.

7. The United States Agency for International Development **Laos-US International and ASEAN Integration (LUNA) Project** (US\$ 5.3m, 2009-13) provides technical assistance to support the implementation of the Lao-US bilateral trade agreement, WTO accession and ASEAN commitments. The project, which focuses primarily on legal technical assistance, has played a key role in the development process for a range of laws and regulations related to trade agreements including on transparency, intellectual property, technical barriers to trade, electronic commerce, regulatory impact, commercial dispute resolution, and on legislation affecting services such as telecoms, insurance and lawyers. Effective partnership and coordination arrangements have been established between TDF-1 and LUNA based on recognized relative strengths of the two project approaches, with the TDF able to provide longer term institutional and capacity building investments, and LUNA able to bring in targeted and highly specialized legal technical assistance on demand. In some cases this has involved specialization by the two projects and in other areas joint interventions. It is anticipated that such an approach will continue under TDF-2. USAID also finances an **ASEAN Single Window Project** which provides technical assistance and awareness raising across ASEAN member states, including in Lao PDR. Both projects are implemented by consulting firms.

8. Germany, through the Deutsche Gesellschaft für Internationale Zusammenarbeit, is implementing the third phase of the **Human Resource Development for Market Economy Project** (EUR 6.8m, 2011-2014) supporting activities across SME policy and business development support services, public-private dialogue and vocational training. With resources from the German Monterrey Fund, GIZ also implements a **Supporting Lao Integration into Regional Markets Project** (US\$ 1.0m, 2011-2013), including Germany's contribution to TDF-1. A follow on **Regional Integration of Laos into ASEAN, Trade and Entrepreneurship Development** (EUR 6.4m) program is under preparation for the period 2013-2017 aiming to support the integration of Lao PDR into ASEAN (and including GIZ's contribution to the TDF-2 MDTF).

9. The Swiss State Secretariat for Economic Affairs (SECO) financed project **Enhancing Sustainable Tourism, Clean Production and Export Capacity** (US\$ 4.0m, 2011-2013) provides resources for UN agencies within the UN Inter-Agency Cluster on Trade and Productive Capacity to provide technical assistance to Lao PDR, with a focus on trade promotion in the tourism sector. SECO also finances a **Lao WTO Accession Support Project** providing direct consultancy services to support WTO negotiations.

Development Program and the World Bank. The EIF Multi Donor Trust Fund, which has received contributions from more than 20 donors, is administered by the United Nations Office for Project Services.

10. The International Finance Corporation, a member of the World Bank Group, through its **Investment Climate Advisory Services Program**, provides technical assistance to the Lao government to improve the overall enabling environment for doing business. Funded by SECO, the **Tax Simplification Project** (US\$ 1m, 2012-2015) is supporting efforts to strengthen the tax regulatory environment and improve the tax administration system for SMEs by increasing transparency, fairness and equity. With co-funding from Korea, the **Regulatory Reform Project** (US\$ 0.3m, 2012-2015) aims to improve the legal and regulatory framework related to licensing and on broader regulatory reforms related to the World Bank Group's Doing Business indicators. The project follows on from earlier initiatives focusing on support to preparation and implementation of the Investment Law, and on broader support to public private dialogue via the Lao Business Forum.

