



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 24-Jan-2018 | Report No: PIDISDSC23147



BASIC INFORMATION

A. Basic Project Data

Country Lao People's Democratic Republic	Project ID P164813	Parent Project ID (if any)	Project Name Lao PDR Competitiveness and Trade Project (P164813)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date Apr 13, 2018	Estimated Board Date Jul 13, 2018	Practice Area (Lead) Macroeconomics, Trade and Investment
Financing Instrument Investment Project Financing	Borrower(s) Lao People's Democratic Republic	Implementing Agency Ministry of Industry and Commerce	

Proposed Development Objective(s)

The Development Objective of the project is to improve aspects of the business and trade environment in Lao PDR.

Financing (in USD Million)

SUMMARY

Total Project Cost	20.00
Total Financing	20.00
Financing Gap	0.00

DETAILS

Total World Bank Group Financing	10.00
World Bank Lending	10.00

Environmental Assessment Category

C-Not Required

Concept Review Decision

Track II-The review did authorize the preparation to continue



B. Introduction and Context

Country Context

Lao PDR has seen tremendous economic growth, with gross domestic product (GDP) expanding at an average of more than 7 percent annually over the last two decades. The gross domestic product (GDP) per capita reached USD 1,600 in 2014 (up from USD 227 in 1990), while consumption grew at a much slower rate of only around 2 percent over the same period. Real GDP is expected to grow at average annual rate of 7 percent over the medium term.

Despite strong economic growth, poverty has been less responsive to economic growth but still declined from 33.5 percent in 2002/03 to 23.2 percent in 2012/13. A large share of the population (around 75 percent) remains engaged in subsistence agriculture and strong economic growth experienced over the past decade is yet to translate into a large number of productive and formal jobs in sectors other than low-productivity agriculture.

Overall growth has coincided with a gradual shift from an agrarian to an increasingly natural resource-based (in particular hydropower) and services economy. The share of natural resource-based sectors to GDP tripled between 1998 and 2012 while recently declining slightly. The share of services to GDP also increased, largely due to increases in tourist arrivals, robust growth in trade and an expansion of the construction sector. Similarly, manufacturing (in traditional sectors and more recently in parts and components from the Special Economic Zones) as a share of GDP has also expanded slightly, albeit from a low base. Still, most of the employment is concentrated in the agriculture sector.

The strong resource-based economic growth has occurred despite a highly challenging business and investment environment for the private sector, and the strong economic growth has tended to mask the costs and constraints imposed on business of a still largely unreformed business and investment environment. With Lao PDR ranked 139th out of 190 economies in the World Bank Group's 2017 Ease of Doing Business ranking, the poor business environment has contributed to low job creation in non-resource sectors, which are critical to generating employment and entrepreneurial opportunities to absorb the estimated 900,000 new job seekers joining the workforce in the next decade. Such growth will be essential if Lao PDR is to achieve ambition to graduate from Least Developed Country (LDC) status by 2020. In fact, Lao PDR's growing dependence on the natural resource sector has tended to erode national competitiveness in sectors that have the potential to create jobs and reduce poverty in the long term.

To generate broader and more inclusive growth driven by a stronger private sector, Lao PDR will have to attract new investments outside the natural resource sectors that will require fundamentally improving the business and trade environment.¹ Capital intensive resource sectors have generated only limited formal and productive jobs but investors in other sectors generally compare alternative investment locations, looking particularly for a transparent, dynamic and streamlined environment. However, a complex and opaque business environment and the continued presence of unnecessary barriers to regional trade and integration affect the development of a strong private sector as well as SMEs, and limit the attractiveness of Lao PDR as a destination for efficiency-seeking investments that could generate a high number of jobs and serve the large and dynamic ASEAN market that Lao PDR is centrally positioned in. ASEAN includes large and fast-growing economies and firms that are frequently well connected to global value chains, offering significant opportunities to benefit from external demand for goods and services.

Sectoral and Institutional Context

Despite some progress, the key message from the 2014 Investment Climate Assessment remains valid as the 2016

¹ World Bank, 2017, Lao PDR Systematic Country Diagnostic.



Systematic Country Diagnostic (SCD) confirms: to unlock its full economic potential by attracting higher quality private sector investment in a wider range of diversified sectors, Lao PDR will have to significantly improve the business environment in order to compensate for the natural disadvantages the country faces as a land-locked economy.

During the accession process to the World Trade Organization (WTO) that was completed in 2013, Lao PDR has made important improvements to the business and trade environment, but the reform agenda remains incomplete. While the government made progress on tariff and trade in services liberalization and achieved some rationalization of non-tariff measures (NTMs), significant barriers remain in place, and the implementation of existing regulations frequently generates unnecessary and costly delays. Improvements in trade facilitation have been strong for customs (reducing the time it takes to clear customs at borders for imports (exports) from 10.6 (7.5) to 2 (2) days over the last 5 years), while progress among other (border) agencies has been very limited. However, overall reforms have been slower compared to neighboring countries and the relative ranking on business environment indicators in Lao PDR compared to other countries has deteriorated. The 2016 Enterprise Survey data stresses that challenges in the business environment have remained consistent in relative terms and may have intensified over time.

PDR continues to be characterized by a complex and non-transparent business, trade, and investment environment, compounded by its land-locked status and poor transport and logistics environment. Significant divergence between legislation, regulations and their frequent poor enforcement continue to adversely affect the business environment in Lao PDR, as reflected in poor Doing Business Rankings (139/190) and in the WEF's Global Competitiveness Index where it is ranked at 93 out of 138 countries. The Lao "deals-based" (rather than "rules-based") approach to the enforcement of regulations increases costs, limits business and investment entry, and makes growth less inclusive. Likewise, and despite progress made, the costs of internal and external connectivity remain high as reflected in the 2016 Logistics Performance Index (152/160) and relatively high transport prices.

The difficult and risky business environment generates significant costs for new investments as well as limiting the expansion of existing ones. The 2016 SCD finds that as a small, landlocked economy, Lao PDR will have to attract and retain efficiency seeking investors that aim to serve not only the Lao market but also supply to the larger region. These investors are effectively comparing various potential investment locations and the presence of a simple and transparent business environment becomes an important criterion to attract such investment. While this particularly affects Foreign Direct Investment (FDI), it is equally valid for domestic investors that can choose to invest elsewhere in the region instead of at home. As a result, an improved business and investment environment is not only important for attracting foreign investors, but also necessary to retain domestic investors and those domestic companies that may consider expanding their operations in Lao PDR. In this context, the availability of cost effective support services and firms that can provide related inputs and components that other firms provide is critical too. The importance of improving the environment for the private sector in Lao PDR is clearly reflected in the second pathway of the SCD.

In addition, to attract new investments into this small economy (outside natural resources), firms will require better access to high-quality imported inputs and destination markets, demanding continued trade facilitation and border management reform as part of the government's efforts to improve the overall business environment. In a global economic environment, where production processes are broken down, interlinked, and organized in regional and global value chains, connectivity and smooth trade transactions become increasingly important to allow existing companies as well as new investors to link into such networks. This requires deepening trade facilitation reforms as outlined in the WTO Trade Facilitation Agreement (TFA), which Lao PDR was one of the first LDC's to ratify, and which entered into force in early 2017.

Improving the business and trade environment and attracting job-generating investments will require the government to address the twin challenges of improving the business environment and connecting the Lao economy more seamlessly



with neighbors. More specifically, it will require increasing transparency (including for taxation), simplification of regulatory requirements, reducing policy restrictions on market entry, and increasing consistency and predictability of how existing rules and procedures are implemented and applied in practice. It would also require the removal of restrictions on market entry and some levelling of the playing field between new, existing, formal, and (often large) informal businesses, encouraging competition through new business entry and the formalization of existing but informal economic activity.

These challenges and solutions are increasingly acknowledged by the Lao government but progress has so far remained limited. The government has embarked on a complex and ambitious reform agenda based on a shift from strict legal compliance with international commitments towards the implementation of selected reforms based on clear and pragmatic economic justifications. Despite some progress, more remains to be done, especially as vested interests have in the past at times delayed the implementation of seemingly simple reforms. Other reform efforts have been slow due to the complex inter-dependency of government agencies that have prevented effective coordination, required to implement a complex reform agenda.

Under the new government, support for critical and complex reforms to improve the business and trade environment is growing. The Prime Minister has repeatedly stressed the government's objective of moving Lao PDR to double-digits in the DB Ranking by 2019 and the Ministry of Industry and Commerce (MOIC) organized the 10th Lao Business Forum on March 28 to improve public-private dialogue and address key issues the private sector is facing. The Prime Minister's Office is increasingly supervising these reform efforts, demonstrating increased political attention to improving the business environment that has the potential to overcome some of the challenges implementation faced in the past. The government's efforts to addressing private sector concerns includes the effective implementation of the measures contained in the TFA through the recent adoption of a Trade Facilitation Road Map.

Relationship to CPF

The proposed project responds to the eighth National Socio-Economic Development Plan (NSED 8) of the government which stresses the need for strong economic growth and lower vulnerability as one of three key objectives. Achieving this objective will require a diversification of the economy away from natural resource sectors towards a broader economic base. The proposed project directly contributes to this objective. As the World Bank's Country Partnership Framework for the period FY2017-FY2021 is aligned to the NSED 8, the proposed project also directly contributes to the CPF's first focus area "supporting inclusive growth", in particular through objective 1.2, "making it easier to do business". Addressing the issues outlined in this concept note would enable the private sector to play a critical role in generating inclusive and strong growth.

The proposed project builds on and complements other past and ongoing engagements by the World Bank Group in Lao PDR such as the First and Second Trade Development Facility projects, the Lao PDR Customs and Trade Facilitation Project, two Advisory Services projects supporting investment climate reforms, and the on-going SME Access to Finance project. The proposed project will continue to use the Trade and Private Sector Working Group (TPSWG) chaired by the Minister of Industry and Commerce (and possibly soon co-chaired by the World Bank) to ensure coordination with support provided or planned by development partner, which will also be considered during project design. In particular, the design of this project will build on the GIZ-funded "Regional Economic Integration of Laos into ASEAN, Trade and Entrepreneurship Development (RELATED)" and regional Initiative for ASEAN Integration (IAI) projects, the USAID-funded International and ASEAN Integration (LUNA II) project, as well as a new EU-funded project that is in the design phase.



C. Proposed Development Objective(s)

The Development Objective of the project is to improve aspects of the business and trade environment in Lao PDR.

Key Results (From PCN)

The PDO indicators for the proposed project are:

- An improved business environment as measured by relevant Doing Business Indicators [sub-indicators to be defined such as time to register a business, time to obtain operating licenses]
- Lower trade costs and reduced clearance times for imports and exports (as measured by relevant DB TAB, LPI and Time for Release studies)
- Increased predictability in trade transactions as measured by a reduction in variance of import/export processing and times

D. Concept Description

The proposed project leverages and builds on a long-standing engagement with the Ministry of Industry and Commerce. It strengthens achievements made as part of the First and Second Trade Development Facility projects (with the second one coming to an end in September 2018), but broadens the reform agenda in response to the emerging priorities for the Lao economy and a shift in policy attention to include supporting improvements in the domestic business environment. The operation focuses on those issues of highest priority to allow the Lao economy to attract increased (foreign) investment that can help generate the jobs needed for more inclusive growth.

The proposed project aims to achieve these objectives by supporting three project components of high priority to the government. A) Improving the Business Environment and Strengthening Private Sector Competitiveness; B) Facilitating Trade and Connecting to Markets; and C) Improved Policy Making and Project Management. The three components would primarily fund technical assistance supporting government to undertake relevant policy and regulatory reforms. Such reforms cannot be undertaken by the private sector, requiring public sector funding and justifying World Bank support in line with the “cascade”.²

The proposed project design does not trigger any safeguard policies. The project will focus on policy reforms while the proposed matching-grant sub-component will support private enterprises in improving their competitiveness through co-funding business development services rather than physical investments. The project will not fund physical investment or activities that might result in involuntary resettlement, directly affect indigenous people, or lead to labor influx.

² The objective of the “cascade approach” is to maximize financing for development while minimizing public debt and contingent liabilities. It prioritizes the use of scarce concessional resources for those activities that cannot be directly financed by the private sector nor be financed by the private sector after guaranteeing for risks.



SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will focus on regulatory reforms

B. Borrower’s Institutional Capacity for Safeguard Policies

does not apply

C. Environmental and Social Safeguards Specialists on the Team

Waraporn Hirunwatsiri, Environmental Safeguards Specialist
Martin Henry Lenihan, Social Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The proposed project is to improve aspects of the business and trade environment in Lao PDR. The three main project components are to provide technical assistance to assist government: a) improve the Business Environment and Strengthen Private Sector Competitiveness (through simplifying the company registration process); b) Facilitate Trade and Connection to Markets; and c) Improve policy making (through consolidation/coordination of trade and competitiveness policies, and improved economic analysis/policy development) and Project Management. The project will focus on policy reforms while the proposed matching-grant sub-component will support private enterprises in improving their competitiveness through co-funding business development services rather than physical investments. The project activities will not involve or lead to the completion of technical or engineering designs, or other outputs in preparation for the construction of physical infrastructure or for the implementation of other activities with potentially significant physical impacts. In addition, the project will not fund physical investment or activities that might result in involuntary resettlement, directly affect indigenous people, or lead to labor influx. No



civil works or machinery or construction activities under the project. There will also be no construction for a new building for BAF. It is anticipated that the project activities do not have potentially significant environmental impacts. Therefore, the proposed project design does not trigger any safeguard policies and classified as C category.

Natural Habitats OP/BP 4.04	No
Forests OP/BP 4.36	No
Pest Management OP 4.09	No
Physical Cultural Resources OP/BP 4.11	No
Indigenous Peoples OP/BP 4.10	No
Involuntary Resettlement OP/BP 4.12	No
Safety of Dams OP/BP 4.37	No
Projects on International Waterways OP/BP 7.50	No
Projects in Disputed Areas OP/BP 7.60	No

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Mar 30, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

no safeguard related studies are foreseen

CONTACT POINT

World Bank

Mombert Hoppe
Senior Economist

Borrower/Client/Recipient

Lao People's Democratic Republic



Implementing Agencies

Ministry of Industry and Commerce
Phouvieng Phongsa
Director - National Implementation Unit
phouvieng.p@laomoic.org

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Mombert Hoppe
----------------------	---------------

Approved By

Practice Manager/Manager:	Deepak K. Mishra	13-Feb-2018
Country Director:	Jean-Christophe Carret	18-Feb-2018