



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 13-Jun-2018 | Report No: PIDISDSA24359



BASIC INFORMATION

A. Basic Project Data

Country Lao People's Democratic Republic	Project ID P164813	Project Name Lao PDR Competitiveness and Trade Project	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 18-Jun-2018	Estimated Board Date 27-Sep-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 Objectives are to simplify business regulations, facilitate trade, and improve firm-level competitiveness.

Components

- Improving Aspects of the Business Environment
- Facilitating Trade and Connecting to Markets
- Improving Firm-Level Competitiveness
- Supporting Better and More Inclusive Policies

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	13.00
Total Financing	13.00
of which IBRD/IDA	10.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	10.00
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IDA Credit	10.00
Non-World Bank Group Financing	
Trust Funds	3.00
Lao PDR - Free-standing Trust Fund Program	3.00

Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **Lao PDR has experienced rapid economic growth over the last two and half decades but growth has not been widely shared.** The gross domestic product (GDP) has expanded at an average of more than 7 percent annually since the 1990s, making Lao PDR one of the fastest growing economies in the East Asia and Pacific (EAP) region, moving from low- to a lower middle-income status in a generation. However, household consumption has grown at a much slower rate of only around 2 percent over the same period, with the bottom 40 percent household experiencing lower growth than the rest. As a result, poverty has declined from 33.5 percent in 2002/03 to 23.2 percent in 2012/13, at a significantly slower pace than its South East Asian neighbors. Gender inequality has fallen, but equality in achievements between women and men remains medium to low according to the UNDP Gender Inequality Index. The gender disparity transcends all segments of the society including business: only 7 percent large enterprises in Lao PDR have a female top manager, compared to 31 percent in EAP region.

2. **The strong economic growth has masked the constraints imposed by a largely unreformed investment environment.** Overall, growth has only coincided with a gradual shift from an agrarian to an increasingly natural resource-based economy, while employment is mostly concentrated in the agriculture sector where productivity remains low. According to investors, the complex and opaque business environment (Lao PDR ranks 141 out of 190 economies in the World Bank Group’s 2018 Ease of Doing Business (DB) Index) and excessive barriers to regional trade and integration limit the attractiveness of Lao PDR as an investment destination. Overall, the economy remains inward facing (only 2.9 percent of firms export directly), faces little competition,¹ less than 9 percent of the labor force are private wage employees, and firms innovate little. Investments in non-resource sectors have remained limited and are concentrated in low-productivity service sectors or sectors that are protected.

Sectoral and Institutional Context

¹ Lao PDR ranks 129/137 in terms of “intensity of local competition” in the 2017/2018 World Economic Forum’s (WEF) Global Competitiveness Index.



3. **To support private sector-led growth and increase its competitiveness, the government will have to deepen reforms to improve the business environment, improve connectivity with neighboring economies, and raise firm-level productivity.** High regulatory burden, excessive trade costs, and limited firms' capacity remain the key challenges to private sector-led growth and Lao PDR ranks poorly compared to structural peers in the areas of Doing Business and Logistics Performance (see PAD). Firm productivity remains low due to external costs imposed, limited management capacity, and low labor productivity compared to regional peers.² This is particularly important because, due to its small market size, domestic and foreign businesses are likely to invest in Lao PDR only if they can produce at scale and can link into the large and dynamic ASEAN market.

4. **Recent reforms have led to some improvements but more remains to be done.** Customs clearance times improved significantly with WBG support and transparency has increased.³ The regulatory environment for trade has been improved,⁴ Public-Private Dialogue been strengthened, and some improvements in debt management have also been undertaken recently. However, more remains to be done, particularly with regard to the 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.⁵ This would help level of the playing field between new, existing, formal, and (often large) informal businesses, a key concern according to the Enterprise Survey,⁶ encourage entry, and increase competition

5. **The Prime Minister has issued an Order to improve the business environment, acknowledging the need to deepen the reform agenda and demonstrating the commitment to reforms.** PM Order No. 2 ("the Order") was issued on February 1, 2018, calling for a significant improvement in the Doing Business Indicators as a measure of the business environment. The order strengthens the reform momentum and tasks all Ministries, Ministry-equivalent State Organizations and local administrations to improve procedures and processes with a view to improve the ranking in the DB indicators, identifying one Lead Ministry per indicator. The Department of Investment Promotion at the Ministry of Planning and Investment leads the overall coordination and monitoring of reform progress to Government, although MPI has no technical role in implementing reforms themselves. Since the issuance of this memo, public media has reported extensively on this initiative.

6. **This new high-level support to improve the business and trade environment offers a strong case for providing support to these priority areas.** The project description below outlines the support provided.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

² Labor productivity defined as value added per full time worker. See World Bank, 2018, Doing Business in Lao PDR: Constraints to Productivity, <https://hubs.worldbank.org/docs/imagebank/pages/docprofile.aspx?nodeid=29579731>

³ In addition to the Lao Trade Portal (covering trade in goods), now widely regarded as a lead example of transparency in LDCs, Government launched the Lao Services Portal in 2017 with support from TDF-2 and has taken stock of all operating licenses, planning to make them publicly accessible in one location.

⁴ Since 2013, with support from TDF-2, new laws on Plant Protection, Livestock, Safeguards, and Control of Toxic Chemicals have been approved by the National Assembly, improving the regulatory framework for trade

⁵ Corruption perception remains high in Lao PDR, ranked at 135/180 in the 2017 Transparency International's Corruption Perception Index.

⁶ For a discussion of this issue, see Imboden and Hoppe, 2017, Formal Informality: Informal Practices of Formal Firms as a Key Business Constraint, <https://hubs.worldbank.org/docs/imagebank/pages/docprofile.aspx?nodeid=28129110>



7. The Development Objectives are to simplify business regulations, facilitate trade, and improve firm-level competitiveness.

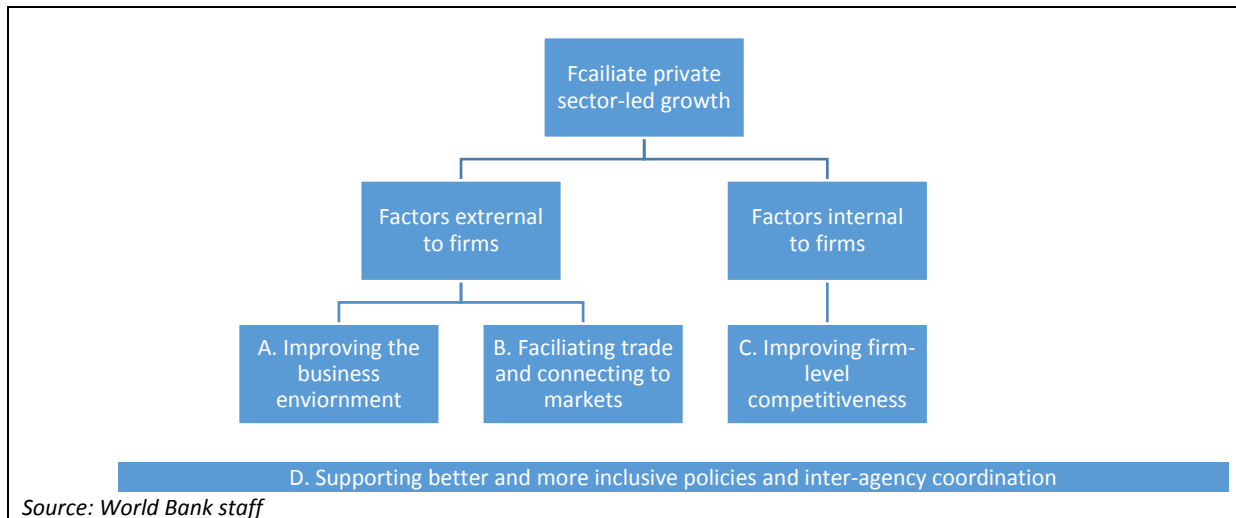
Key Results

8. Key results will be monitored as part of larger efforts to implement the reforms outlined in the Prime Minister’s Order No. 2 (February 2018), but will focus on the key pillars supported by this project. They will be measured in the areas of a) the time needed to start a business, b) reduced time to prepare documentary requirements for imports and exports; and c) sales growth for direct project beneficiary firms compared to non-participants. Definitions and intermediate indicators are presented in the PAD.

D. Project Description

9. The project aims to eliminate barriers to private sector-led growth by improving the regulatory environment, lowering trade costs and raising firm-level competitiveness. Regulatory reforms are expected to reduce high operating costs that are external to firms, especially costs of starting and operating a business, as well as high trade costs. These reforms respond directly to the objectives outlined in the PM Order. They are complemented with interventions to reduce costs internal to firms through matching grants to use business development services, supporting their efforts to improve management practices and to adopt product and process innovations. To increase sustainability, the project will also support the government in making policies more coherent, transparent, and inclusive (Figure 1).

Figure 1: Basic Structure of the Proposed Project



10. The following section summarizes the four pillars. Priority regulatory reforms directly support MOIC in making it easier to start and operate businesses and improving the regulatory environment for trade and its implementation. The project also supports the government, including MPI, in managing and implementing broader reforms to improve the business environment (as outlined in the PM Order) by means of a flexible and demand-driven allocation of funds to interested government departments. Direct support to companies in the form of matching grants to crowd in the use of business development services complements the regulatory



reforms. Pillar D supports the design of better and more inclusive policies and to strengthen inter-agency coordination and sustainability.

A. Project Components

11. **(A) Improving the Business Environment** aims to improve the transparency and efficiency of the general business environment to reduce the costs it currently imposes on all enterprises, and in particular SMEs that find it more difficult to deal with complex and non-transparent procedures that are applied based on deals, rather than rules. Throughout this component, emphasis will be on ensuring that reforms and initiatives benefit particularly SMEs and proportionally benefit women-led enterprises.

12. Supporting the implementation of the PM Order and recent MOIC Notification 0537 from May 4, **Component A1 (Making it Easier to Start a Business)** will focus on two areas: a) support to implement the Order for “Starting a Business” including complementary reforms that MOIC is tasked to lead, and b) moving towards the automation of company registration.

13. **Component A2 (Streamlining and Publishing Operating Licenses)** will provide implementation support to streamlining of 30 priority licenses selected by Government based on the frequency of use, the costs per application they generate, and the relevance for the overall economic development. The component will also include publishing all licenses and will be jointly led by DERM and MPI with implementation support to the license issuing ministries and agencies

14. **Component A3 (Support to Broader Business Reforms)** will support the government to better manage reforms, and especially support the implementation of the PM Order to improve the business environment in Lao PDR and the corresponding Doing Business Ranking. It will support MPI’s Investment Promotion Department (as Secretariat to the Investment Promotion and Supervision Committee) to effectively deliver on its mandate to coordinate the reform agenda of improving the business environment, and provide technical support to relevant line Ministries in the development and implementation of indicator-specific reform action plans. To support implementation of the PM Order in Line Departments, funds will be allocated on a demand-driven basis with the objective of improving elements of the Doing Business ranking.⁷ Resources will be available to support priority reforms under the PM Order in line with international good practice for any of the relevant implementing agencies.

15. **(B) Facilitating Trade and Connecting to Markets** is designed to support the government of Lao PDR in implementing the provisions of the WTO Trade Facilitation Agreement (TFA),⁸ directly linked to the DB indicator for “Trading Across Borders” which MOIC is tasked to lead. Full and effective implementation of the TFA commitments is expected to reduce the high trade costs and delays resulting from administrative procedures, to increase certainty and reliability of imports and exports, and to increase trade transparency.

16. **Component B1 (Supporting the Trade Facilitation Secretariat)** will support the Trade Facilitation Secretariat⁹ (TFS) to coordinate and advance the trade facilitation agenda within the Lao government, to ensure

⁷ This “Challenge Facility” modality allows government departments to compete for these funds based on the submission of specific proposals, increasing ownership. The implementation of such proposals will be subject to specific time frames to ensure delivery of proposed activities and ensuring funds will be effectively used during project implementation.

⁸ Lao PDR was the 18th WTO member to formally accept the WTO TFA (in September 2016).

⁹ The Trade Facilitation Secretariat is Lao PDRs Trade Facilitation Committee.



private-sector participation, and to identify and prioritize trade facilitation issues. It will be led by the Department of Import and Export (DIMEX) under MOIC and provide advisory and implementation support for analyzing, prioritizing and sequencing trade facilitation-related issues, recommending reform actions for the TFS and its members, and closely collaborate with the LBF and the Lao National Chamber of Commerce and Industry.

17. **Component B2 (Trade Facilitation Agreement Challenge Facility)** will finance implementation of specific TFA provisions and close existing gaps of regulatory inconsistency between national regulations and TFA to modernize Lao PDR's trade-related regulations for imports and exports.¹⁰ Funding will be allocated in line with the priorities established under the approved National Trade Facilitation Road Map 2017 – 2022 (TFRM) and based on three criteria: (i) there is strong commitment and ownership from the line departments; (ii) revision of the measures includes the adoption of TFA principles and standards; (iii) measures must be streamlined and simplified. Reforms will then be implemented by technical departments in customs, MOIC, MAF, MOST, MOH and other line agencies based on approved proposals.

18. **(C) Improving Firm-Level Competitiveness will be implemented through component C1 (Business Assistance Facility - BAF).** To complement improvements in the overall business and trade environment, this pillar will support individual private enterprises in accessing business development services through a matching grant facility and by providing free-of-charge advisory services. The intervention aims to *reduce costs internal to firms* by improving company management and innovation in terms of products, markets, and distribution channels such as e-commerce. With few modifications, the facility builds on the original and successful BAF supported under TDF-2 (P130512), ensuring participation of women-led enterprises and companies located outside Vientiane.

19. **(D) Supporting Better and More Inclusive Policies** will support effective project implementation, monitoring, evaluation, and including a gender focus in reforms (**component D1**). It will continue to support improved economic analysis and the transparency agenda for trade and private sector-related regulations (**component D2**), as well as strengthening the Public-Private Dialogue in Lao PDR (**component D3**).

E. Implementation

Institutional and Implementation Arrangements

20. **Implementation arrangements build on the successful project implementation arrangements employed since 2008.** The Project Executive Committee (PEC), chaired by the Minister of Industry and Commerce, will function as the Steering Committee for the project, ensuring coordination with related projects. The National Implementation Unit in the Ministry of Industry and Commerce (MOIC) will be the **Central Executing Agency** responsible for overall project implementation, monitoring, procurement, financial management, and oversight, and providing support to implementing departments. **Implementing departments** are government departments or other agencies directly responsible for the technical implementation of project components and three **Lead Implementing Departments** will play a relatively larger oversight and coordination role jointly with the NIU.

¹⁰ Government departments will compete for these funds based on the submission of specific proposals, increasing ownership (using the "Challenge Facility" modality). The implementation of such proposals will be subject to specific time frames, increasing pressure to deliver on proposed activities and ensuring funds will be effectively used during project implementation.



21. **The project design reflects a multi-party partnership between the government, the World Bank and co-financing donors** contributing to the Multi-Donor Trust Fund co-financing this project. Meetings among co-financing donors will be used to ensure maximum coordination and cooperation.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project will focus on regulatory reforms

G. Environmental and Social Safeguards Specialists on the Team

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

SAFEGUARD 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.

Performance Standards for Private Sector Activities OP/BP 4.03	No
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

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
Because the project will support the implementation of government's trade and integration priorities outside the natural resource sectors it will not finance activities that might result in involuntary resettlement, or directly affect



indigenous people, lead to labor influx, or have potentially significant environmental impacts. Therefore, the proposed project design does not trigger any safeguard policies and classified as C category.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

B. Disclosure Requirements

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

NA

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

NA

Have costs related to safeguard policy measures been included in the project cost?

NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

NA

CONTACT POINT



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Borrower/Client/Recipient

Lao People's Democratic Republic

Implementing Agencies

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APPROVAL

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Approved By

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Country Director:	Viengsamay Srithirath	18-Jun-2018