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Report No: PAD2820

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR7.2 MILLION  
(US\$10 MILLION EQUIVALENT)

AND A

PROPOSED MULTI-DONOR TRUST FUND GRANT

IN THE AMOUNT OF US\$3 MILLION

TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR A

LAO PDR COMPETITIVENESS AND TRADE PROJECT

September 6, 2018

Macroeconomics, Trade and Investment Global Practice  
East Asia and Pacific Region

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CURRENCY EQUIVALENTS  
Exchange Rate Effective July 31, 2018

Currency Unit = Lao Kip (LAK)

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LAK 8,432.41 = US\$1

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US\$ 1.40487 = SDR 1

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FISCAL YEAR  
January 1 - December 31

**ABBREVIATIONS AND ACRONYMS**

A2F	Access to Finance Project
ADB	Asian Development Bank
AMC	Annual Maintenance Contract
AoA	Article of Association
ASEAN	Association of Southeast Asian Nations
BAF	Business Assistance Facility
CPF	Country Partnership Framework
CQS	Selection Based on the Consultants' Qualifications
DA	Designated Account
DB	Doing Business
DERM	Department of Enterprise Registration Management
DIMEX	Department of Imports and Exports
DPC	Department of Planning and Cooperation
EAP	East Asia and Pacific
eCoO	Electronic Signature for Electronic Certification of Origin
ERC	Enterprise Registration Certificate
EU	European Union
FM	Financial Management
FMM	Financial Management Manual
GDP	Gross Domestic Product
GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i> , German Agency for International Cooperation
GRS	Grievance Redress Service
IAI	Regional Initiative for ASEAN Integration
IFC	International Finance Corporation
IFR	Interim Unaudited Financial Report
IPD	Investment Promotion Department
IPF	Investment Project Financing
IPSC	Investment Promotion and Supervision Committee
IRR	Implementation Rule and Regulations
LBF	Lao Business Forum
LCTP	Lao PDR Competitiveness and Trade Project
LDC	Least Developed Country
LNCCI	Lao National Chamber of Commerce and Industry

LTP	Lao Trade Portal
LUNA II	Lao PDR-US International and ASEAN Integration Project II
M&E	Monitoring and Evaluation
MAF	Ministry of Agriculture and Forestry
MDTF	Multi-Donor Trust Fund
MOF	Ministry of Finance
MOH	Ministry of Health
MOIC	Ministry of Industry and Commerce
MOST	Ministry of Science and Technology
MPI	Ministry of Planning and Investment
NIU	National Implementation Unit
NSEDP 8	Eighth National Socio-Economic Development Plan
NTFC	National Trade Facilitation Committee
NTM	Non-Tariff Measure
OECD	Organisation for Economic Co-operation and Development
PDO	Project Development Objective
PEC	Project Executive Committee
PICO	Provincial Industry and Commerce Office
PM	Prime Minister
PPD	Public-Private Dialogue
PPSD	Project Procurement Strategy for Development
PRC	Project Review Committee
QCBS	Quality- and Cost-Based Selection
RELATED	Regional Economic Integration of Laos into ASEAN, Trade and Entrepreneurship Development
RKC	Revised Kyoto Convention
SCD	Systematic Country Diagnostic
SEZ	Special Economic Zone
SMEs	Small and Medium Size Enterprises
SOE	Statement of Expenditure
TA	Technical Assistance
TDF	Trade Development Facility
TDF-2	Second Trade Development Facility
TEC	Technical Executive Committee
TFA	Trade Facilitation Agreement
TFACF	TFA Challenge Facility
TFRM	Trade Facilitation Road Map
TFS	Trade Facilitation Secretariat
TOR	Terms of Reference
TPSWG	Trade and Private Sector Working Group
USAID	United States Agency for International Development
WTO	World Trade Organization

<p style="text-align: center;">Regional Vice President: Victoria Kwakwa  Country Director: Ellen A. Goldstein  Senior Global Practice Director: John Panzer  Practice Manager: Deepak Mishra  Task Team Leader(s): Mombert Hoppe</p>
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**BASIC INFORMATION**

Country(ies)	Project Name	
Lao People's Democratic Republic	Lao PDR Competitiveness and Trade Project	
Project ID	Financing Instrument	Environmental Assessment Category
P164813	Investment Project Financing	C-Not Required

**Financing & Implementation Modalities**

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
27-Sep-2018	31-Dec-2022

Bank/IFC Collaboration

No

**Proposed Development Objective(s)**

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

**Components**

Component Name	Cost (US\$, millions)
Improving the Business Environment	3.40



Facilitating Trade and Connecting to Markets	2.80
Improving Firm-Level Competitiveness	3.90
Supporting Better and More Inclusive Policies	2.90

**Organizations**

Borrower: Lao People’s Democratic Republic  
 Implementing Agency: Ministry of Industry and Commerce

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

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

**DETAILS**

**World Bank Group Financing**

International Development Association (IDA)	10.00
IDA Credit	10.00

**Non-World Bank Group Financing**

Trust Funds	3.00
Lao PDR - Free-standing Trust Fund Program	3.00

**IDA Resources (in US\$, Millions)**

	Credit Amount	Grant Amount	Total Amount
National PBA	10.00	0.00	10.00
<b>Total</b>	<b>10.00</b>	<b>0.00</b>	<b>10.00</b>

**Expected Disbursements (in US\$, Millions)**



<b>WB Fiscal Year</b>	2019	2020	2021	2022	2023
<b>Annual</b>	0.36	0.94	1.74	3.40	3.55
<b>Cumulative</b>	0.36	1.30	3.05	6.45	10.00

**INSTITUTIONAL DATA**

**Practice Area (Lead)**

Macroeconomics, Trade and Investment

**Contributing Practice Areas**

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**Gender Tag**

**Does the project plan to undertake any of the following?**

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

**Risk Category**

**Rating**

1. Political and Governance

● Moderate

2. Macroeconomic

● Moderate

3. Sector Strategies and Policies

● Moderate

4. Technical Design of Project or Program

● Substantial

5. Institutional Capacity for Implementation and Sustainability

● Substantial

6. Fiduciary

● Moderate

7. Environment and Social

● Low



8. Stakeholders	● Substantial
9. Other	● Low
10. Overall	● Substantial

**COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any waivers of Bank policies?

Yes  No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		✓
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

**Legal Covenants**

Sections and Description

Co-financing Deadline

Financing Agreement – Article IV

Deadline: By September 30, 2019

The Co-financing Deadline for the effectiveness of the Grant Agreement is September 30, 2019



Sections and Description

Institutional Arrangements

Financing Agreement: Schedule 2, Section I.A.1-2

Recurrent, Continuous

Obligation of the Recipient to maintain, throughout the Project implementation period, the Project Executive Committee and National Implementation Unit within the MOIC, both with functions, staffing and resources satisfactory to the Association.

Sections and Description

Institutional Arrangements

Financing Agreement: Schedule 2, Section I.A.3

Deadline: within three months from the Effective Date

Obligation of the Recipient to appoint a BAF management contractor on terms of reference and qualifications acceptable to the Association.

Sections and Description

Project Operations Manual

Financing Agreement: Schedule 2, Section I.B

Recurrent, Continuous

Obligation of the Recipient to (1) carry out (a) the Project in accordance with the arrangements and procedures set out in the Financial Management Manual; (b) Parts A.3(b) and B.2 of the Project in accordance with the arrangements and procedures set out in the Challenge Facility Guideline; and (c) Part C of the Project in accordance with the arrangements and procedures set out in the BAF Operations Manual and (2) not amend, waive or abrogate any provisions of the said manuals unless the Association agrees otherwise in writing.

Sections and Description

Annual Work Plans and Budgets

Financing Agreement: Schedule 2, Section I.C

Recurrent, Continuous

Obligation of the Recipient to finalize and furnish to the Association not later than one (1) month before the beginning of each Fiscal Year during the implementation of the Project, a consolidated Annual Work Plan and Budget; and thereafter implement in a manner satisfactory to the Association such annual work plan and budget as shall have been agreed with the Association.

Sections and Description

Challenge Facility

Financing Agreement: Schedule 2, Section I.D

Recurrent, Continuous

Obligation of the Recipient to make Challenge Facility funds available to selected line ministries and agencies for the implementation of Parts A.3(b) and B.2 of the Project.





Sections and Description

Matching Grants

Financing Agreement: Schedule 2, Section I.E

Recurrent, Continuous

Obligation of the Recipient, through a BAF management contractor, to: (1) provide Matching Grants to eligible Beneficiaries in accordance with the eligibility criteria and approval and administration arrangements set out in the BAF Operations Manual; (2) 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; and (3) not assign, amend, abrogate or waive any Matching Grant Agreement, or any of its provisions, unless otherwise agreed by the Association.

Sections and Description

Environmental and Social Safeguards

Financing Agreement: Schedule 2, Section I.F

Recurrent, Continuous

Obligation of the Recipient to ensure that (1) all terms of reference for any technical assistance or studies carried out under the Project are consistent with, and pay due attention to, the Association’s environmental and social safeguards policies, as well as the Recipient’s own laws relating to the environment and social aspects; and (2) in drafting any regulations, guidelines or procedures and carrying out capacity building activities under the Project, due attention is given to said policies and laws.

**Conditions**

Type

Effectiveness

Description

GA Article IV 4.01/4.03 - The Grant Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental action. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 4.01 ("Effective Date").



LAO PEOPLE'S DEMOCRATIC REPUBLIC  
LAO PDR COMPETITIVENESS AND TRADE PROJECT

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## I. STRATEGIC CONTEXT

### A. Country Context

1. **Lao People’s Democratic Republic has experienced rapid economic growth over the last two and half decades.** Gross domestic product (GDP) growth averaged 7.8 percent per year over the past decade, making Lao PDR the 13th fastest-growing economy globally. The GDP per capita reached US\$2,330 in 2017—a tenfold increase from US\$227 in 1990—propelling the country from a low-income to lower-middle-income status in a generation. In 2018, it is expected to meet for the first time the criteria for graduating from the Least Developed Country (LDC) status.<sup>1</sup> With sound policies, Lao PDR’s real GDP is expected to continue to grow at a robust annual rate of around 7 percent over the medium term.<sup>2</sup>

2. **Economic growth, while rapid, has not been widely shared.** The growth process, driven by the mineral and hydropower sectors and with large public ownership, has produced a limited number of productive, formal, and private sector jobs. Poverty has declined from 33.5 percent in 2002/03 to 23.2 percent in 2012/13, at a significantly slower pace than its Southeast Asian neighbors.<sup>3</sup> Household consumption has grown at a much slower rate of only around 2 percent over the same period, with the bottom 40 percent households experiencing lower growth than the rest, making Lao PDR an outlier in the East Asia and Pacific (EAP) region, not experiencing a boost in shared prosperity (Figure 1). Predictably, inequality has widened, with the Gini coefficient increasing from 32.5 to 36.2 between 2003 and 2013.<sup>4</sup> While gender inequality has fallen, equality in achievements between women and men remains medium to low according to the United Nations Development Programme Gender Inequality Index. The 2013 Country Gender Assessment for Lao PDR found that participation in political processes is high, but also stressed the continued need to ensure that women and men are given equal opportunity to access economic opportunities. The gender disparity transcends all segments of the society including business: only 7 percent of large enterprises in Lao PDR have a female top manager, compared to 31 percent in the EAP region (Figure 2).<sup>5</sup>

3. **Rapid growth has been accompanied by limited structural transformation.** 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, increasing from 5.9 percent in 1998 to 18 percent in 2012, while recently declining to 15 percent due to moderation in the mining sector. The share of services to GDP has also increased, largely due to increases in tourist arrivals, robust growth in trade, and an expansion of the construction sector. Similarly, manufacturing (traditionally concentrated in garments, wood and wood products, construction materials, food processing, and more recently parts and components from the Special Economic Zones [SEZs]) as a share of GDP has also expanded slightly, albeit from a low base. Still, the growth process remains skewed to large infrastructure projects and public sector jobs, while employment is mostly

<sup>1</sup> In the March 2018 review, the country met the thresholds for gross national income per capita and Human Assets Index. If it sustains progress until the 2021 review, graduation will be recommended following a three-year transition period, in 2024.

<sup>2</sup> World Bank. 2017. *Country Partnership Framework for Lao PDR FY17–FY21* (Report No. 110813-LA).

<sup>3</sup> Based on Lao PDR Expenditure and Consumption Survey. Last available data is 2012–2013.

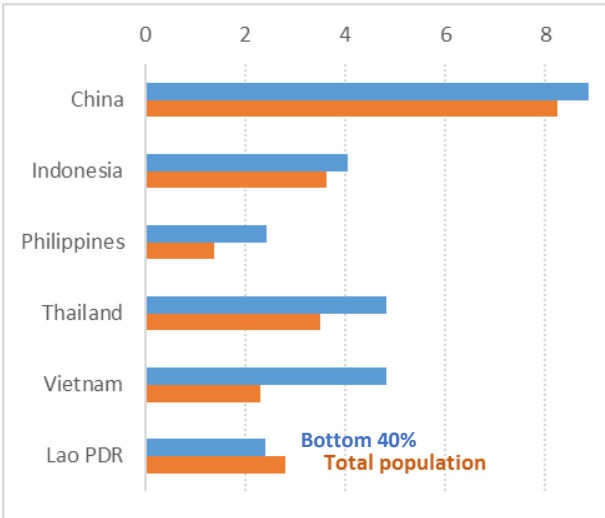
<sup>4</sup> World Bank. 2017. *Lao PDR Systematic Country Diagnostic* (Report No. 112241-LA).

<sup>5</sup> Because underlying reasons for this outcome are currently not well understood, additional analytical work will be undertaken under the project by the Government.



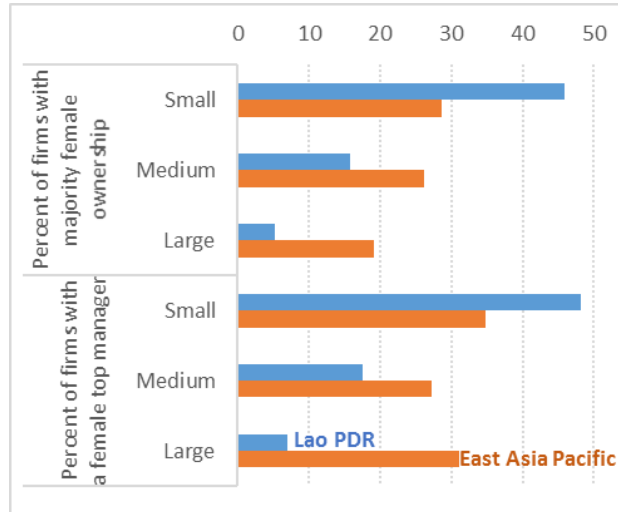
concentrated in the agriculture sector. At the same time, low agricultural productivity and weak investments in non-resource sectors have limited job creation.

**Figure 1. Shared Prosperity**  
(annualized growth in mean consumption or income per capita, latest available years)



Source: Talking on Inequality, World Bank 2016.

**Figure 2. Gender Disparity in Business Ownership**  
(percentage of women owning or managing businesses, 2016)



Source: 2016 Enterprise Survey.

4. **The strong economic growth has masked the constraints imposed by a largely unreformed investment environment.** 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. Due to its small market size, domestic and foreign businesses are likely to invest in Lao PDR only if there is regulatory and legal certainty, and they can produce at scale and link into the large and dynamic Association of Southeast Asian Nations (ASEAN) market, offering significant opportunities to benefit from external demand for goods and services leading to job creation.

5. **In the absence of a vibrant private sector and limited competition, domestic firms have had limited incentive to invest in trade, technology, and innovation.** Investors complain about high cost of doing business and the absence of a transparent, dynamic, and streamlined business environment. Investments in non-resource sectors (investments in agricultural plantations in the north are also resource based) have remained limited and are concentrated in low-productivity service sectors or sectors that are protected. Overall, the economy remains inward facing (only 2.9 percent of firms export directly), it faces little competition,<sup>6</sup> and firms invest and innovate little as a result (Table 1). Links with regional supply chains have mostly emerged through investments by foreign companies into SEZs<sup>7</sup> and through collaboration in the agricultural sector, particularly for high-value crops although low effectiveness of contract enforcement seems to hamper such investments. Overall, diversification of the economy remains

<sup>6</sup> Lao PDR ranks 129 among 137 countries in terms of ‘intensity of local competition, in the World Economic Forum’s 2017–2018 Global Competitiveness Index.

<sup>7</sup> Around 500–1,000 jobs are created each year in more productive and outward-oriented firms in SEZs where streamlined business processes and logistics connectivity have mitigated challenges (World Bank. 2017. *Lao Economic Monitor*).



limited although the number of products exported in significant quantities (valued at more than US\$100,000) by companies in Lao PDR has increased from 254 to 325 between 2011 and 2016. Between 2003 and 2013, only 500,000 jobs were added, most of them being low-productivity jobs.<sup>8</sup> In 2013, private wage employees (formal employment in registered firms and informal wage work) accounted for only 9 percent of the labor force,<sup>9</sup> and formal firms create few jobs (Table 1). With an estimated 900,000 new job seekers joining the workforce in the next decade, the country needs a more productive and outward looking private sector. That will require simplifying regulations and making the business and trade environment more transparent and predictable, to level the playing field, encourage entry, and increase competition.

Table 1. Firms in Lao PDR Do Not Invest or Innovate Enough

	Lao PDR	EAP	All countries
Percentage of firms buying fixed assets	17.0	37.3	41.3
Annual employment growth (percentage)	-0.5	4.6	5.1
Percentage of firms using technology licensed from foreign companies	6.7	17.7	14.6
Percentage of firms that introduced a new product/service	13.5	26.4	36.9
Percentage of firms that introduced a process innovation	8.9	38.1	34.2
Percentage of firms exporting directly (at least 10 percent of sales)	2.9	9.6	11.2

Source: Enterprise Survey Data (data includes firms with at least five employees in selected economic sectors, excluding agriculture).

### B. Sectoral and Institutional Context

6. **High regulatory burden, excessive trade costs, and firms’ limited capacity remain the key challenges to private sector-led growth.** Despite some progress, the key message from the 2014 Investment Climate Assessment remains valid, as the 2016 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 and to compensate for the natural disadvantages the country faces as a landlocked economy.<sup>10</sup> Firms’ productivity also remains low, both due to external costs imposed and also because management capacity remains low. Labor productivity in Lao PDR remains low, with median levels of labor productivity around US\$4,600, lower than regional peers, and labor productivity of firms at the 90th percentile below that of comparable firms at the 75th percentile in Cambodia and Vietnam.<sup>11</sup> Capital intensity also remains low.

<sup>8</sup> World Bank. 2016. *Lao Economic Monitor* (Report No. AUS17628).

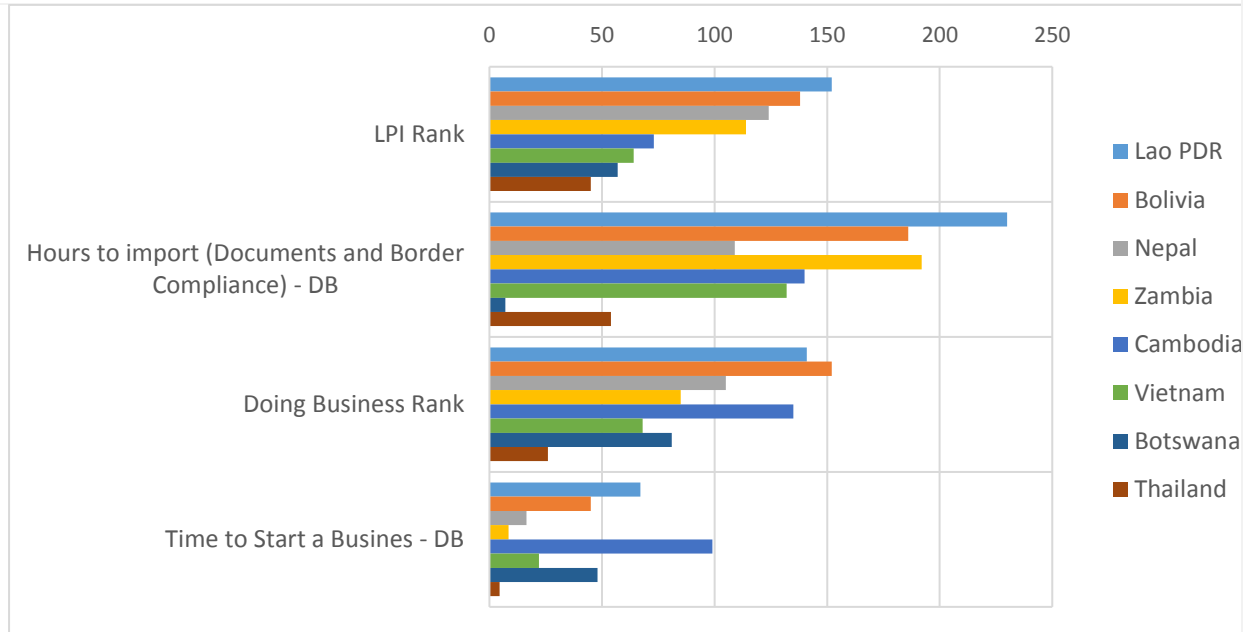
<sup>9</sup> World Bank. 2016. *The Labor Impact of Lao Export Growth* (Report No. AUS9112).

<sup>10</sup> World Bank. 2017. *Lao PDR Systematic Country Diagnostic* (Report No. 112241-LA).

<sup>11</sup> Labor productivity is 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>



Figure 3. Lao PDR Scores Poorly Compared to Its Structural Peers on Doing Business and Logistics Performance Indicators



Source: Doing Business Report, 2018.

7. **The accession to the World Trade Organization (WTO) in 2013 acted as a reform driver, but has slowed down since then.** Lao PDR improved in the DB ranking from 167 in 2010 to 134 in 2016, but progress has since stalled. The poor performance reflects the significant divergence between legislations and regulations and their weak enforcement. The Lao ‘deal-based’ (rather than ‘rule-based’) approach to the enforcement of regulations creates unpredictability, increases costs, makes it difficult to enforce contracts, limits entry and exit, and makes growth less inclusive. Likewise, and despite progress made, the costs of connectivity remain high as reflected in the 2016 Logistics Performance Index (152/160), partially driven by Lao PDR’s landlocked status.<sup>12</sup> In comparison to ‘structural peers’ identified in the SCD, Lao PDR scores poorly (Figure 3). The 2016 Enterprise Survey data show that firm perceptions of challenges in the trade and business environment have remained consistent in relative terms over the last two years.

8. **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.** To improve the business environment, the Ministry of Industry and Commerce (MOIC) has simplified processes to obtain an Enterprise Registration Certificate (ERC), but some of these changes are still imperfectly implemented at the provincial level, where data for the DB index are collected. While the Government has improved regulatory transparency,<sup>13</sup> more remains to be done, particularly with regard to simplifying regulatory requirements, reducing policy restrictions on market entry and exit, and increasing consistency and predictability of how existing rules and

<sup>12</sup> A recent study by IDE-JETRO estimated that more than 40 percent of transport costs between Bangkok and Vientiane are due to border-related costs (such as fees and tolls), generating a ‘penalty’ for firms on the Lao side of the border.

<sup>13</sup> In addition to the Lao Trade Portal (LTP) (covering trade in goods), now widely regarded as a lead example of transparency in LDCs, the Government launched the Lao Services Portal in 2017 with support from Second Trade Development Facility (TDF-2) and has taken stock of all operating licenses, planning to make them publicly accessible in one location.



procedures are implemented and applied in practice.<sup>14</sup> Making the credit market more efficient and ensuring contracts can be effectively enforced to professionalize business relationships, would further help level the playing field between new, existing, formal, and (often large) informal businesses, a key concern according to the Enterprise Survey.<sup>15</sup> Some important reforms, such as the establishment of an independent Telecoms Regulator, the full implementation of the Mutual Recognition Arrangement for accountants within ASEAN, and some improvements in debt management have also been undertaken recently.

9. **In the global economy where production processes are organized in regional and global value chains, seamless trade transactions are critical to allow links to such networks.** Customs modernization has reduced clearance times significantly with World Bank Group support—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 five years—and progress has been made in reviewing the regulatory environment for trade.<sup>16</sup> However, other (border) agencies have received less technical support and have made less progress, and the implementation of existing regulations frequently generates unnecessary and costly delays. Improved coordination among all sectoral ministries at and behind the border will be needed to reduce the costs arising from regulations affecting trade, including those barriers still functioning as non-tariff measures (NTMs) despite some rationalization over the past years. The adoption of a Trade Facilitation Road Map (TFRM) to implement the WTO’s Trade Facilitation Agreement (TFA) in 2017 (Lao PDR was one of the first LDCs to ratify the TFA) lays the foundation to address these challenges more comprehensively. To deepen this reform agenda, the Government has strengthened Public-Private Dialogue (PPD) with the organization of the 10th Lao Business Forum (LBF) on March 28, 2017, widely recognized as a positive development. While some improvements have been made, the PPD is dominated by the agenda of large and well-established companies, while the voice of small and women-led enterprises remains underrepresented. Increasing the inclusiveness and effectiveness of the LBF in identifying and effectively addressing challenges will be important to improve the regulatory framework, make it more coherent, and make its implementation more predictable.

10. **The Prime Minister (PM) 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 DB 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 by 2020. While the Investment Promotion Department (IPD) at the Ministry of Planning and Investment (MPI) will lead the overall coordination and monitoring of reform progress to the Government, the MPI has no technical role in implementing reforms. For each of the indicators, the Order assigns a lead ministry and outlines specific reforms for implementation to resolve challenges, tasking that lead ministry to coordinate with other relevant ministries and bodies where necessary (Table 2 presents the lead ministries). The implementation of the Order, which foresees private sector participation, is directly monitored and supervised by the Investment Promotion and Supervision Committee (IPSC), chaired by the Deputy PM.

<sup>14</sup> Corruption perception remains high in Lao PDR, ranked at 135 among 180 countries in the Transparency International’s 2017 Corruption Perception Index.

<sup>15</sup> Imboden, Anders Stensrud, and Hoppe Mombert. 2017. *Formal Informality: Informal Practices of Formal Firms as a Key Business Constraint*. <https://hubs.worldbank.org/docs/imagebank/pages/docprofile.aspx?nodeid=28129110>

<sup>16</sup> 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.





The IPD at the MPI acts as Secretariat to the IPSC. Reform progress is also reported quarterly to the PM in the Government Cabinet Meeting as well as to the National Assembly Session every six months. This mechanism could ensure the reform accountability of line ministries. Since the issuance of this Order, public media has reported extensively on this initiative.

**Table 2. Responsibilities under the PM Order No. 2**

Lead Ministry	Indicators Assigned
Ministry of Planning and Investment (MPI)	None - coordination function only
Ministry of Industry and Commerce (MOIC)	Starting a business Trading across borders
Ministry of Public Works and Transport	Construction permits
Ministry of Energy and Mines	Getting electricity
Ministry of Natural Resources and Environment	Registering property
Bank of Lao PDR	Getting credit Protecting minority investors
Ministry of Finance (MOF)	Paying taxes
Ministry of Justice and the Judicial Organizations	Enforcing contracts Resolving insolvency
Lao National Chamber of Commerce and Industry (LNCCI)	Identifying and commenting on issues

11. **This new high-level political support to improve the business and trade environment offers a strong case for external partners to provide support to these broadening priority areas.** The project proposes to support with appropriate technical assistance (TA) the broader reform agenda outlined by the PM across multiple ministries. Particular support will be provided to improve the trade environment and the business start-up and operating environment, which the MOIC has been tasked to lead. To complement improvements in the overall business and trade environment, a matching grant facility will support individual private enterprises in accessing business development services to improve firm-level competitiveness.

### C. Higher Level Objectives to which the Project Contributes

12. **The proposed project aims to improve the environment for private sector-led economic growth in a response to the Government’s Eighth National Socio-Economic Development Plan (NSED 8).** The plan 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 toward a broader economic base. The proposed project directly contributes to the Government’s target of qualifying for LDC graduation by 2020 and is aligned with the Government’s vision for trade and private sector development that have been endorsed by the MOIC: enhancing competitiveness of Lao enterprises, improving the business enabling environment, and economic integration under the WTO and ASEAN. Reforms outlined under the PM Order also contribute to the Government’s broader objectives of mobilizing and attracting quality investments, promoting and building the competitive capacity of domestic businesses, and enhancing the trust of domestic and foreign investors into country systems. As the World Bank Group’s Country Partnership Framework (CPF) for the period FY2017–2021 (Report No. 110813-LA) is aligned to 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’. Implementing the proposed activities would enable the private sector to play a critical role in generating



inclusive and strong growth, aligning the project with the World Bank Group’s twin goals of ending extreme poverty and boosting shared prosperity.

**13. The proposed project builds on and complements other past and ongoing engagements by the World Bank Group and other development partners in Lao PDR.** Improvements in processes to start and operate a business build on past engagement with the MPI under two advisory service projects as well as one component under the Second Trade Development Facility (TDF-2 - P130512). They are expected to reduce the costs of doing business by reducing unnecessary procedures and uncertainty. Together with the direct support to enterprises, which builds on the successful Business Assistance Facility (BAF) matching grants under TDF-2, this will improve firm competitiveness, strengthening economic growth. Trade facilitation reforms build on significant improvements at customs with regard to clearance processes at the border (supported by the Lao PDR Customs and Trade Facilitation Project—P101750) and initiatives to increase transparency of NTMs and streamlining-related regulations. The expected reduction in the preparation of documentary requirements and compliance time at the border is expected to lower trade costs and increase the competitiveness of enterprises, while making Lao PDR more attractive to investors to increase investments and generate opportunities for stronger inclusive growth. Support to other areas of the business environment builds on TA provided under the Financial Sector Development Project (P160715) providing support in financial sector-related areas.

**14. Project implementation is embedded in existing coordination structures within the Government and between the Government and development partners.** Continued support to the Trade and Private Sector Working Group (TPSWG),<sup>17</sup> the central coordination mechanism on policy making and Government donor coordination will support the Government in ensuring coherent policy making and allow close coordination between this project and other support provided or planned by development partners (see paragraph 55).

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

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

### B. Project Beneficiaries

**16. The ultimate beneficiaries of the project are households as well as existing and new enterprises, and in particular small- and medium-size firms.** Households will benefit through new and improved (formal) employment opportunities and higher income. Households will also benefit by means of lower prices for goods and increased choice. Existing and new firms are expected to benefit from lower compliance, operating, and trade costs, as well as more directly from matching grants to support investment into business development services. Reforms and management improvements are likely to increase firms’ ability to compete, increase operating income and profitability, and expand operations. Small- and medium-size companies, as well as women-owned and managed enterprises, are expected to benefit particularly as they currently find it more difficult to resolve regulatory challenges they face compared to larger enterprises. As a result, improving the business environment and making it more

<sup>17</sup> The TPSWG is co-chaired by the Minister of Industry and Commerce and the EU.



transparent is expected to particularly benefit these enterprises as they currently find it particularly burdensome to comply. As any regulatory and policy reforms, the project is likely to generate a large number of beneficiaries or ‘winners of reform’ while some stakeholders currently exploiting positions of power due to nontransparent rules and regulations could potentially be net ‘losers of reform’, opening the possibility of such stakeholders advocating against and slowing down change. Hence, understanding the political economy of reform and designing solutions and stakeholder engagement strategy will be critical.

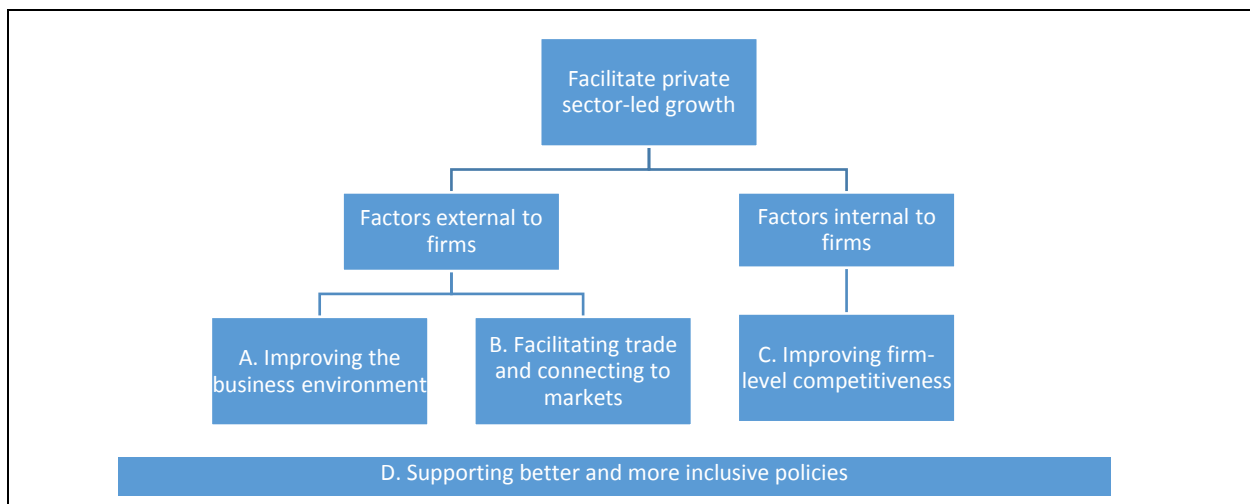
### C. PDO-Level Results Indicators

17. **Key results will be monitored as part of larger efforts to implement the reforms outlined in the PM Order No. 2 (February 2018) and will focus on the key pillars supported by this project.** They will be measured in the areas of (a) time needed to start a business, (b) time to prepare documentary requirements for imports and exports, and (c) sales growth in BAF-supported firms compared to non-supported firms.<sup>18</sup> Definitions and intermediate indicators are presented in the detailed Results Framework in section VII. The Theory of Change is also attached in annex 4.

## III. PROJECT DESCRIPTION

18. **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, unreliable contract enforcement, and high trade costs. These reforms respond directly to the objectives outlined in the PM Order. They are complemented with interventions to reduce internal costs 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, which are more coherent, transparent, and inclusive (Figure 4).

Figure 4. Basic Structure of the Proposed Project



<sup>18</sup> BAF refers to the Business Assistance Facility under Pillar C.



Source: World Bank staff.

**Table 3. Taking Stock of Various Initiatives to Lower the Cost of Doing Business in Lao PDR**

Indicator	Ranking 2018	Distance to Frontier	Ongoing Activities and Source of Funding
DB1: Starting a Business	164	73	<ul style="list-style-type: none"> <li>Stock take, cost estimate of all operating licenses; analysis of internal processes for registering a business at the DERM (TDF-2)</li> <li>From ex ante to ex post enterprise registration (LCTP)</li> <li>Improving other steps in this indicator (LCTP)</li> <li>Improving the enterprise registration database (non-WB: Private Sector and SME Development Program 2, ADB)</li> </ul>
DB2: Dealing with Construction Permits	40	75	<ul style="list-style-type: none"> <li>Procedure simplification and building quality control improvement (LIC)</li> <li>Support regulatory transparency (LIC)</li> </ul>
DB3: Getting Electricity	149	53	<ul style="list-style-type: none"> <li>Simplify procedures at EDL (LIC)</li> <li>Regulatory and tariff transparency (LIC)</li> </ul>
DB4: Registering Property	65	70	<ul style="list-style-type: none"> <li>Currently none</li> </ul>
DB5: Getting Credit	77	55	<ul style="list-style-type: none"> <li>Subsidized credit to SMEs through commercial banks (A2F)</li> <li>Advice on Credit Bureau (BOL) and Collateral Registry (MOF) (FSD)</li> </ul>
DB6: Protecting Minority Investors	172	32	<ul style="list-style-type: none"> <li>Support to Corporate Governance Code and revise Securities Law (FSD)</li> <li>Revision of Enterprise Law (LCTP?)</li> </ul>
DB7: Paying Taxes	156	54	<ul style="list-style-type: none"> <li>Support to VAT implementation (PSFMP)</li> <li>Support to improving taxpayer services at Tax Department (JICA)</li> </ul>
DB8: Trading Across Borders	124	63	<ul style="list-style-type: none"> <li>Transparency and streamlining of NTMs (TDF-2, LCTP)</li> <li>Customs processes (CTFP (ended), LCTP)</li> <li>Support Approved Economic Operator scheme (LIC)</li> <li>Simplify trade procedures across Government agencies (LCTP)</li> <li>Enforcement of Intellectual Property rights at the border (non-World Bank: LUNA)</li> </ul>
DB9: Enforcing Contracts	97	56	<ul style="list-style-type: none"> <li>Advice on Law on Judgement Enforcement (FSD)</li> <li>Support to out-of-court commercial arbitration (non-World Bank: LUNA)</li> </ul>
DB10: Resolving Insolvency	168	0	<ul style="list-style-type: none"> <li>Advice to revision of Insolvency Law (FSD, LCTP)</li> </ul>
<b>DB Overall</b>	<b>141</b>	<b>53</b>	<ul style="list-style-type: none"> <li>Support to MPI's coordination role with PM Order No. 2 (LCTP, non-World Bank: RELATED)</li> </ul>

Note: A2F = Access to Finance Project (P131201) until June 2019; BOL = Bank of Lao PDR; CTFP = Customs and Trade Facilitation Project (P101750) ended June 2017; DB = Doing Business, DERM = Department of Enterprise Registration and Management; EDL = *Electricité de Laos*; FSD = Financial Sector Development Project (P160715); GIZ = German Agency for International Cooperation, *Deutsche Gesellschaft für Internationale Zusammenarbeit*; JICA = Japan International Cooperation Agency; LCTP = Lao Competitiveness and Trade Project (P164813); LIC = Lao Investment Climate Advisory Services (ID601396); LUNA = Lao PDR-U.S. International and ASEAN Integration



Project II; MOF = Ministry of Finance; NTM = Non-Tariff Measures, PSFMP = Public Sector Finance Modernization Program (P158658); RELATED = Regional Economic Integration of Laos into ASEAN, Trade and Entrepreneurship Development, GIZ; SMEs = Small and Medium Enterprises; TDF-2 – Second Trade Development Facility (P130512) ending September 2018; VAT = Value Added Tax.

The distance to frontier measure shows the distance of Lao PDR to the best performing country for the relevant indicator. A value of 0 represents the lowest and 100 the best performer, ‘the frontier’. The ease of doing business ranking is relative among 190 economies. This table outlines selected activities focusing on the DB indicators and is not an exhaustive set of activities under way. Additional projects by other development partners providing related support not directly affecting the DB indicators are mentioned in annex 2.

19. **Specific areas of interventions have been identified based on Lao PDR’s DB performance, ongoing projects, and the Government’s revealed preference.** Table 3 shows Lao PDR’s performance across the 10 DB indicators as well as support provided by the World Bank Group and other development partners that is closely linked. Among the indicators where Lao PDR performs poorly, Starting a Business (rank 164) and Trading Across Borders (rank 124) are the ones that affect regular business operations of enterprises, and there is strong Government commitment to implement them through the PM Order. Other poor-performing indicators are receiving varying degrees of World Bank Group support. For example, an International Finance Corporation (IFC) Advisory Project (ID601396) supports improvement in Getting Electricity and Construction Permits. The Financial Sector Development Project (P160715) TA supports legal reforms to improve the enforcement of contracts, the protection of minority investors, credit information systems, and insolvency; support to reforms of the Tax Law and its implementation is under way with World Bank support and funding from the European Union (EU). Each indicator falls under the responsibility of multiple agencies at various levels (central, provincial, and district) as the DB indicators do not only measure policy changes but also their implementation on the ground, requiring engagement of multiple actors. As a result, the project focuses primarily on improving the environment for starting and operating a business and trading across borders to facilitate links with value chains. However, all other areas are also eligible to receive support under one component in the first pillar. As part of project implementation, the Bank will monitor and update tTable 3 to assist with impact monitoring and coordination across World Bank interventions and among development partners.

20. **The following section and Table 4 summarize the four pillars, annex 1 presents a detailed project description of activities, and the Theory of Change is attached in annex 4.** The project supports the Government in implementing the PM Order and in coordinating and monitoring the complex reform program that the MPI is leading as Secretariat to the IPSC, chaired by the Deputy PM. It uses a ‘Challenge Facility’ to provide funding in support of key reforms outlined in the Order based on strong ownership in other line ministries and emerging Government priorities. This broadens and complements the direct support to the MOIC for the two initial priority regulatory reform areas of making it easier to start and operate businesses and improving the regulatory environment for trade and its implementation. Direct support to enterprises 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.

Table 4. Structure of the Lao PDR Competitiveness and Trade Project

Project Components		Project Costs
<b>Pillar A: Improving the Business Environment</b>		<b>3,400,000</b>
	A.1: Making it Easier to Start a Business	1,300,000
	A.2: Streamlining and Publishing Operating Licenses	750,000



Project Components	Project Costs
A.3: Supporting Broader Business Reforms	1,350,000
<b>Pillar B: Facilitating Trade and Connecting to Markets</b>	<b>2,800,000</b>
B.1: Supporting the Trade Facilitation Secretariat	1,000,000
B.2: Trade Facilitation Agreement Challenge Facility	1,800,000
<b>Pillar C: Improving Firm-Level Competitiveness</b>	<b>3,900,000</b>
C.1: Business Assistance Facility	3,900,000
<b>Pillar D: Supporting Better and More Inclusive Policies</b>	<b>2,900,000</b>
D.1: Project Management and Coordination	1,800,000
D.2: Improving Policy Making and Transparency	600,000
D.3: Supporting Public-Private Dialogue	500,000
<b>Total Investment Costs</b>	<b>13,000,000</b>

### A. Project Components

21. **Pillar A: Improving the Business Environment** builds on recent support under TDF-2 (P130512) to improve enterprise registration processes, the transparency in administering operating licenses, and overall support to the PM Order No. 2. The pillar aims to improve the transparency and 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 nontransparent procedures that are applied based on deals, rather than rules. As a result, regulatory reforms are expected to particularly benefit such companies. Throughout this pillar, emphasis will be on ensuring that reforms and initiatives benefit particularly SMEs and proportionally benefit women-led enterprises.

22. Supporting the implementation of the PM Order No. 2, **Component A.1 (Making it Easier to Start a Business)** will focus on two areas: (a) implement reforms to ease the starting of a business, including with respect to related Department of Enterprise Registration Management (DERM) and inter-agency processes; and (b) automate enterprise registration through developing a new online business registration system and establishing computer terminal helpdesks at DERM and selected Provincial Industry and Commerce Offices (PICOs). Under the first subcomponent, the project will support the DERM in implementing reforms outlined in the PM Order, including those in the recent MOIC Notification 0537 from May 4, 2018. In a major reform effort, this notification moves other requirements to after the issuance of the ERC (that is, moving to an ‘ex post’ approach). Enhancing efficiency through simplification of relevant processes within the DERM will also be supported. Following these simplifications for the ERC (to lock in such improvements), the project will support development of a new online Business (Enterprise) Registration System with a sustainability plan after project end. The proposed system will (a) facilitate access to information for SMEs and enterprises located outside of Vientiane; (b) enable submitting all relevant information for enterprise registration (and change requests) online and tracking such applications online, requiring only one visit to the enterprise registration office to submit originals of all required documents; and (c) include a tool for grievance redressal. To ensure that this electronic system does not disadvantage those applicants without access to the Internet such as SMEs, rural, or women-led enterprises, the project will support the establishment of computer terminal helpdesk(s) with hand-holding support at the DERM and selected provincial offices, allowing applicants to scan, upload, and submit documentation at enterprise registration offices.

23. **Component A.2 (Streamlining and Publishing Operating Licenses)** will provide implementation support to (a) streamline business operating license administration and (b) set up an online portal of





business licenses as a public repository of up-to-date and relevant information concerning such licenses. A total of 30 priority licenses have been selected by the Government based on the frequency of use, the costs per application they generate, and the relevance for the overall economic development. Many of the operating licenses analyzed with standard-cost models under TDF-2 (P130512) affect sectors with strong participation of women-led enterprises. The component will be jointly led by the DERM and the MPI with implementation support to the license issuing ministries and agencies

24. **Component A.3 (Supporting Broader Business Reforms)** will support the Government in the implementation of PM Order No. 2 and in the coordination and monitoring of the complex reform program. It will in particular (a) support the Investment Promotion Department (IPD) at the MPI in coordinating business environment reforms and providing technical support to relevant line ministries and agencies in the development and implementation of specific reform action plans and (b) provide Challenge Facility funds to selected line ministries and departments to implement additional proposed business environment reform. The PM Order demonstrates the Government's clear commitment to reform and a first sub-component will support the Investment Promotion Department (IPD) at the MPI as Secretariat to the IPSC (chaired by the Deputy PM) in the implementation of the PM Order with TA. The support will allow the Secretariat 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; and facilitating exchange of lessons among line ministries. A sub-component of this component will also support setting up and facilitating meetings of technical working groups for each of the relevant indicators to ensure effective inter-ministerial coordination of required reforms. To complement, a 'Challenge Facility'<sup>19</sup> will be established to fund reforms outlined in the PM Order under the leadership of other line departments based on strong ownership. Funds will be allocated on a demand-driven basis on the submission of specific proposals, allowing Government departments to compete for these funds with the objective of improving elements of the DB ranking. Resources will not be pre-identified under this subcomponent and due to specific time frames for the implementation of these proposals, there will be increased pressure to deliver on proposed activities, ensuring funds will be effectively used during project implementation. Resources will be available to support priority reforms under the PM Order for any of the relevant implementing agencies as long as the proposed activities are in line with the PM Order and improve the business environment in line with international good practice. However, ministries expected to initially submit proposals are the Bank of Lao PDR and the Ministry of Justice (see annex 1 for more information).

25. **Pillar B: Facilitating Trade and Connecting to Markets** is designed to support the Government of Lao PDR in implementing the provisions of the WTO TFA.<sup>20</sup> Full and effective implementation of the TFA commitments is expected to reduce the high trade costs and delays resulting from administrative procedures to obtain trade documents and clearance for imports and exports, to increase certainty and reliability of imports and exports, and to increase trade transparency. To achieve this objective, the MOIC developed and approved (in September 2017) the National Trade Facilitation Road Map 2017 – 2022 (TFRM). While the country has made some good progress in customs clearance time and publishing all trade-related legislations, regulations, procedures, tariffs, fees, and forms in a public domain—Lao Trade Portal (LTP)—its trade facilitation performance in rankings on global indicators such as the World Bank's DB (Trading Across Borders) remains poor. To reduce lengthy processes of documentary and border

<sup>19</sup> The 'Challenge Facility' modality builds on a similar modality used under TDF-2 and allows Government departments to compete for these funds based on the submission of specific proposals, increasing ownership.

<sup>20</sup> Lao PDR was the 18th WTO member to formally accept the WTO TFA (in September 2016).



compliance for imports and exports in Lao PDR, the pillar will (a) support the Trade Facilitation Secretariat (TFS) and (b) establish a TFA Challenge Facility (TFACF). The priority areas of support under this pillar will be those relating to (a) transparency, (b) simplification, and (c) coordination.

26. **Component B.1 (Supporting the Trade Facilitation Secretariat)** will support the Trade Facilitation Secretariat<sup>21</sup> (TFS) to strengthen its capacity (as well as that of other relevant line ministries and agencies) to implement the recipient's trade facilitation agenda, including carrying out stakeholder consultations; identifying, prioritizing, and coordinating trade facilitation initiatives; and monitoring and advancing the implementation of related reforms. Led by the Department of Imports and Exports (DIMEX) under the MOIC, this component will fund technical advisers to the TFS that would (a) provide TA to the TFS itself and (b) support the TFS in its efforts to strengthen the capacity of involved line departments. This component will provide advisory and implementation support for analyzing, prioritizing, and sequencing trade facilitation-related issues and recommending reform actions for the TFS and its members, primarily by funding two long-term customs and regulatory experts. Support will permit the TFS to provide specific advice to technical units and liaison focal points in line departments and provinces toward implementing operational and regulatory reforms. It will also allow the TFS to closely collaborate with the private sector through the LBF and to guide the LNCCI and sectoral business associations on advocating for trade facilitation-related issues in representing the trading community. It will also support monitoring and advancing the implementation of reforms.

27. **Component B.2 (Trade Facilitation Agreement Challenge Facility)** will establish a "TFA Challenge Facility"<sup>22</sup> (TFACF) to carry out additional proposed activities related to the implementation of the TFA. Funding under the TFACF will be allocated in line with clear criteria outlined in this document, further elaborated in the Challenge Facility guidelines, and will be guided by the priorities established under the approved road map as well as a documentary compliance assessment in non-customs agencies to be undertaken at the beginning of the project, complementing a Time Release Study for customs undertaken in 2017. Reforms will then be implemented by technical departments in customs, MOIC, Ministry of Agriculture and Forestry (MAF), Ministry of Science and Technology (MOST), Ministry of Health (MOH), and other line agencies. It aims to close existing gaps of regulatory inconsistency between national regulations and the TFA to modernize Lao PDR's trade-related regulations for imports and exports. The project will support priority measures in the TFA based on three criteria: (a) there is strong commitment and ownership from the line departments, (b) revision of the measures includes the adoption of TFA principles and standards, and (c) measures must be streamlined and simplified. The TFACF expects to finance around five proposals throughout the project life, each supporting a number of related reform measures that could be implemented by multiple agencies. Prioritization of proposals will be aligned with the TFRM action plans.

28. **Pillar C: Improving Firm-Level Competitiveness will be implemented through Component C.1 (Business Assistance Facility).** 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. 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 positive experience with the

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<sup>21</sup> The Trade Facilitation Secretariat is being upgraded to be Lao PDR's National Trade Facilitation Committee based on the PM Decision 48, dated 26 July 2018.

<sup>22</sup> See footnote 19 and paragraph 47.





original BAF supported under TDF-2 (P130512) that demonstrated positive results in terms of participating firms' sales growth (see annex 1 for more information). Subsidizing firms' investments into business development services will encourage their increased use in Lao PDR beyond recipients through wider demonstration effects. The component will be implemented by an independent contractor and will consist of two activities. First, under the implementation contract, the facility will increase the provision of direct, free-of-charge, advisory services to potential and actual BAF clients. Second, it will scale up the total amount of matching grants available to crowd in investments into business development services by private firms. Funding allocated to the management contract and the matching grants is detailed in annex 1. To ensure that disadvantaged groups (for example, women-led enterprises and those outside Vientiane) can effectively benefit from free advisory services and can get access to matching grants, targets will be set for outreach to find grant recipients, the delivery of free advisory services, and the share of grants going to women-led enterprises. Supporting business development of these companies would support their growth and help address the current outcome that both groups of companies are underrepresented among larger firms.

29. **Pillar D: Supporting Better and More Inclusive Policies** will support effective project implementation, monitoring, and evaluation, and improved economic analysis policy making under the MOIC's leadership. It will continue to support the transparency agenda for trade and private sector-related regulations, and strengthen the PPD in Lao PDR.

30. **Component D.1 (Project Management and Coordination)** will support the Department of Planning and Cooperation (DPC), and especially the National Implementation Unit (NIU), in overall project coordination across the Government, supporting and overseeing implementing departments in project implementation, undertaking procurement and fiduciary tasks, monitoring implementation progress, managing the Trade and Private Sector Working Group (TPSWG) as its Secretariat, and achieving outcomes. Technical advisers, including a national adviser to assist with identifying gender-specific constraints leading to observed gender outcomes and developing policy reforms to address them, will support the NIU throughout project implementation. Together with gender expertise in other components, this will ensure that reforms will effectively address gender constraints.

31. **Component D.2 (Improving Policy Making and Transparency)** will focus on enabling (a) the MOIC and other relevant ministries and departments to undertake improved economic analysis in support of evidence-based policy making and (b) public access to trade-related information for the purpose of promoting a transparent and predictable policy environment.

32. **Component D.3 (Supporting Public-Private Dialogue)** will continue to support and strengthen the existing public-private dialogue under the Lao Business Forum (LBF) to effectively address challenges faced by the private sector in Lao PDR, including those faced particularly by small, regional, start-up, and women-led enterprises. While there has been some progress with the participation of those enterprises in the PPD, these groups (and their challenges) remain generally underrepresented. Only 21 percent of active participants in the LBF-10 were women, while microenterprises and start-ups only represented 1 percent of working group members. This component will support the Government in implementing an inclusiveness strategy to increase participation developed under TDF-2 (P130512) to ensure more issues raised by small- and women-led enterprises are acted upon.



### B. Project Cost and Financing

33. The project will be a regular Investment Project Financing (IPF) with a duration of four years. It will be funded through an IDA credit with joint co-financing in the form of a grant from a new Multi-Donor Trust Fund (MDTF) that is being established. Co-financing modalities build on the successful experiences with Trade Development Facility (TDF-1) and TDF-2. Table 5 is indicative and all payments will be shared at the same ratio between the grant and credit across all components. As and when additional contributions are passed on to the Government through the Grant Agreement, this fixed disbursement ratio can be amended over time through revisions in the work plan agreed by the Government and the World Bank.

34. It is expected that grant resources, in an indicative total amount of US\$3 million for the recipient-executed portion, will be secured latest by September 30, 2019, and be available for joint co-financing. The grant agreement will be signed upon receipt of the first contributions into the MDTF. Additional grant resources will then be passed on to government as and when they are received without the need to process a restructuring or additional financing. In the meantime, project implementation will start with only available IDA resources. In case the co-financing does not materialize or is less than expected, either additional resources will be sought potentially through an IDA additional financing mechanism or the project will be restructured to be proportionately scaled down. Some of the contributions to the MDTF will also be allocated to World Bank-Executed Trust Funds to support project implementation and analytics. The project will allow for the use of retroactive financing from October 1, 2018, to ensure continuity of key project staff from TDF-2 (P130512), not exceeding SDR1,440,000.<sup>23</sup> Counterpart funding is expected in the form of salaries for Government staff. Private companies will co-fund activities supported through matching grants at 50 percent.

Table 5. Financing (US\$, millions)

Project Components	Project cost	IDA Financing	Trust Funds
Pillar A: Improving the Business Environment	3.4	2.6	0.8
Pillar B: Facilitating Trade and Connecting to Markets	2.8	2.2	0.6
Pillar C: Improving Firm-Level Competitiveness	3.9	3.0	0.9
Pillar D: Supporting Better and More Inclusive Policies	2.9	2.2	0.7
<b>Total Project Costs</b>	<b>13</b>	<b>10</b>	<b>3</b>

### C. Lessons Learned and Reflected in the Project Design

35. Project design is strongly informed by lessons learned from the implementation of similar support programs in the past. Key lessons learned are reflected in the proposed project design in five key areas: (a) anchoring the reform program by supporting Government mechanisms for implementation and monitoring, (b) the need for ownership and holding implementing agencies accountable, (c) the simplicity of project design (including procurement packages) with realistic ambitions, (d) gender-focused support

<sup>23</sup> This follows the 20 percent threshold requirement on retroactive financing.



can successfully address such challenges, and (e) the need for continued coordination with other development partners.

36. **TDF-1 (P106165) supported Lao PDR in the WTO accession process, which provided a strong reform anchor to the reform agenda.** With the MOIC responsible for leading WTO accession, that reform anchor was also internalized at the ministry, allowing the external pressure to be translated into internal pressure, leading to positive outcomes. Accession in 2013 removed the high-level justification for the MOIC to continue to push for reforms, reducing the overall reform momentum. Nevertheless, under TDF-2, post-accession implementation continued, albeit at a slower pace. A key lesson from the implementation of TDF-2 (P130512) is that an external reform anchor is critical to the effective use of TA.

37. **The recent PM Order provides such a reform anchor and the project is designed to respond to this anchor, while broadening support into key complementary reform areas.** To allow for close monitoring of the Order, as well as allowing the PM's Office to assist with overcoming bottlenecks in implementation, the PM's Office will be involved in project supervision at the Steering Committee level. The project is further designed to support the system put in place for the implementation of the Order. It supports the overall coordination and monitoring mechanism under the MPI as Secretariat to the IPSC chaired by the Deputy PM, ensuring accountability. It also supports the MOIC in implementing reforms in the two priority reform areas that the ministry has been tasked to lead. The high-level drive for reforms is expected to complement existing pressure on reform from the TFA, an international, binding agreement. Both will support the TFS in its ability to implement the reform agenda,<sup>24</sup> and the TFS' upgrading and designation as the National Trade Facilitation Committee (NTFC) (following PM's approval) further strengthens its role.

38. **Ownership and accountability are key.** Under past projects, strong progress has been made where line departments took ownership and were held responsible for reporting on progress to the Project Executive Committee (PEC), such as the Ministry of Labor and Social Welfare that significantly improved the labor inspection system with strong technical support from the International Labour Organization. The more Challenge Facility proposals were aligned to other project activities, the more progress was generally made as they were more closely monitored as part of project implementation. To increase ownership and accountability, all agencies that will implement Challenge Facility activities (under Components A.3 and B.2) will be reporting directly to the PEC for progress under this project.

39. **Implementation of past support projects also demonstrated that a complex project with a multitude of activities such as under TDF-2 (P130512) is extremely taxing on the implementation team in the Government as well as the World Bank Group.** As a result, the design of this project aims to simplify the activities supported by focusing primarily on two key areas affecting all businesses: starting (and operating) a business and getting inputs and final goods across borders. As capacity in the NIU at the MOIC and the three lead implementing departments at the MOIC and the MPI has strengthened under TDF-1 (P106165), TDF-2 (P130512), and IFC Advisory Services projects, it is expected that this increased counterpart capacity will contribute to effectively implementing what remains a challenging reform program. The broader support to other areas of the business environment through the Challenge Facility under Component A.3 increases the complexity of project supervision as a result of the increased number of implementing departments, but related risks are mitigated as outlined in the risk section. An increased use of firm contracts instead of multiple individual consultants would also reduce transaction costs and

<sup>24</sup> World Bank Group. 2017. *Trade Facilitation Support Program Annual Report 2016–2017*. Washington, DC.



this approach is reflected in the project design. Last, the allocation of resources for continued capacity building further strengthens this approach.

40. **Support under TDF-2 (P130512) to address gender imbalances led to some encouraging results, but more support is required.** For example, the introduction of a women business working group under the LBF, and efforts to strengthen participation in provinces, resulted in an increase in the number of issues raised by women-led enterprises by 50 percent over the last two years, albeit from a low base. This showed the importance of stronger representation of women-led (and other underrepresented) enterprises in the PPD ensuring that constraints such firms face are discussed and can be addressed, removing obstacles to such firms' growth. Also, 34 percent of matching grants under the original BAF went to women-led enterprises, generating higher sales growth. However, continued support is required to ensure that future growth remains inclusive and that questions of gender equality are sufficiently mainstreamed in Government planning and policy making. A key lesson learned from TDF-2 is that dedicated resources to support gender analysis and inclusiveness were essential in achieving results. This finding is reflected in the project design.

41. **Past engagement shows that even simple reforms can be slowed down by actors at various Government levels.** Reflecting past experience, expectations for outcomes under the project should remain moderate and this has been reflected in the Results Framework. Experience shows that supporting legislative drafting processes generally takes longer than envisaged, while influence on the final outcome of revised laws has proven to be more limited than anticipated. As a result, the proposed project does not plan to support the revision of laws, while keeping the option of providing limited technical inputs into such drafting processes open, should the need arise. Legal changes have frequently not been quickly translated into actual practice on the ground, representing a key shortcoming of the regulatory environment in Lao PDR. As a result, the project aims to support the drafting and revision of relevant secondary legislation, with a focus on their practical implementation on the ground. Nevertheless, because of the large number of districts involved, it often takes time for private sector operators to fully be aware and benefit from such reforms, and perception-based indicators therefore might not accurately reflect changes immediately.

42. **Coordination with other development partners in the past has been critical to generate synergies and will be continued.** While taxing on teams, frequent exchanges of notes and ideas and the participation in each other's planning meetings has proven to improve coordination significantly. The project design reflects extensive consultations with other development partners in Lao PDR and complements the existing and planned portfolio of TA in the area of trade and private sector development. The continued use of a Joint Steering Committee for all projects in this area aims to maintain this strong coordination effort.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

43. **Implementation arrangements build on the successful project implementation arrangements employed during TDF-1 (P106165), TDF-2 (P130512), and the Access to Finance Project (A2F - P131201) projects since 2008.** The Project Executive Committee (PEC), chaired by the Minister of Industry and Commerce (or designee), will function as the Steering Committee for the project. As other projects implemented and coordinated by the MOIC are also steered by the PEC, this ensures coherence and



coordination across development assistance in the areas of trade and private sector development, allowing the PEC to explore and exploit synergies from all projects. Membership of the PEC consists of representatives from all line departments involved in projects overseen by the PEC, while representatives from development partners funding such projects are invited to attend as observers. To allow for effective monitoring of the reforms supported particularly under this project, a representative from the PM's Office of at least Director General level will join all PEC meetings to ensure close links with the PM's reform agenda. This will complement the PM's Office oversight through the IPSC that is chaired by the Deputy PM. As is currently practiced, the PEC will continue to meet every 12 months but will review and endorse work plans for implementation of this project every 6 months following recommendation by the technical-level Project Review Committee (PRC) for this project (approvals will be through email every 6 months). Other key stakeholders may be invited to participate in meetings of the PEC as observers.

44. As under TDF-1, TDF-2, and A2F, the **NIU in the MOIC will be the central executing agency** responsible for overall project implementation monitoring, fiduciary oversight, and providing technical, procurement, and financial management (FM) support to implementing departments responsible for the technical implementation of project components or those implementing Challenge Facility proposals. In close collaboration and agreement with implementing departments, the NIU will also be responsible for preparing the work plans that will be discussed at the PRC and which the PEC will review and endorse. To ensure monitoring of the broader implementation of the PM Order No. 2 (February 2018), the NIU will coordinate on a biweekly basis with the IPD at the MPI providing secretariat services to the IPSC chaired by the Deputy PM.

45. **Implementing departments** are Government departments or other agencies directly responsible for the technical implementation of project components as outlined in the Project Document and further specified in work plans approved by the PEC. Among those implementing departments, three lead implementing departments will play a relatively larger oversight and coordination role jointly with the NIU. These lead implementing departments are the DERM (MOIC), DIMEX (MOIC), and IPD (MPI).

46. The NIU, in coordination with the relevant lead implementing departments, will allocate elements of project implementation to implementing departments depending on their responsibilities for reforms and TA outlined in the Project Document. Each designated implementing department will be responsible for providing inputs into work plans covering their activities, for the timely delivery of specific outputs, and providing progress reporting to the PEC. Implementing departments will work closely with the NIU and report to the NIU on all financial, administrative, and procurement issues.

47. **Challenge Facility modality:** Under two components, a 'Challenge Facility' modality will be employed for which the NIU will develop clear criteria and a short and standardized template for proposals that will be formalized through Challenge Facility guidelines prepared by the NIU and approved by the World Bank. Under Component A.3, funds will be available to support priority reforms under the PM Order for any of the relevant implementing agencies as long as the proposed activities are in line with the PM Order and improve the business environment in line with international good practice. The IPD (at the MPI) will provide advisory support in designing these proposals to line ministries and clear their submission to the NIU. The NIU will undertake a due diligence technical review of the proposals before recommending for World Bank no-objection and PEC approval. All activities within an approved proposal must be completed within one year, after which any unspent resources will be returned to the facility. Under Component B.2, proposals will support priorities in implementing TFA commitments. The project will support priority measures in the TFA based on three criteria: (a) there is strong commitment and



ownership from the line departments, (b) revision of the measures includes the adoption of TFA principles and standards, and (c) measures must be streamlined and simplified. The proposals will be prepared and submitted by line departments following the guidance from the support staff of the TFS. A technical review committee will be established to perform due diligence technical review of the proposals before recommending for World Bank no-objection and PEC approval. This will be led by the TFS (DIMEX) and consist of the experts supporting the TFS as well as the NIU. Prioritization of proposals will be aligned with the TFRM action plans.

48. **The BAF will be governed by the BAF Operations Manual, implemented by an independent contractor, and supervised by the NIU.** The contractor will be represented locally by the BAF Team Leader with staff solely responsible to the BAF Team Leader (with the same operational independence for the BAF team as the BAF Manager under the original BAF). Annex 1 provides further details.

49. The project design reflects a multiparty partnership between the Government, the World Bank, and co-financing donors. The World Bank, as Administrator of the MDTF, will ensure that funds are used in accordance with the requirements of the Grant/Financing Agreement and approved work plans. 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 and agreed as indicators in the minutes of negotiations; (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 (IFRs), and project progress reports submitted by the NIU; (d) ascertain the extent of compliance with Grant/Financing Agreement covenants; and (e) review the continued relevance of the project to priorities of the Government, the World Bank, and donors. MDTF co-financing donors will be invited to participate in these missions, starting with a joint meeting between the World Bank and the donors. In addition, regular informal meetings, including quarterly update meetings, will be held between the World Bank and co-financing donors to discuss progress of the project, exchange views on project implementation, and share relevant reports and other project documents provided to the World Bank. These meetings will also be used to resolve any performance or relationship issues and ensure maximum coordination and cooperation.

## B. Results Monitoring and Evaluation

50. **Impact of project implementation will be monitored by the NIU** through the Results Framework that is attached in section VII. Monitoring of the Results Framework will inform project implementation by providing timely feedback and assisting the NIU in summarizing achievements. Progress reports will be provided quarterly as part of the regular IFRs. The NIU, in coordination with relevant line departments, will have the primary responsibility for collecting, compiling, and reporting relevant data to the World Bank and other stakeholders such as the private sector. It will also undertake baseline studies as well as impact evaluations as outlined in this document. Based on Table 3, the task team will monitor general implementation support to the PM Order by all development partners with the view of continued strong donor coordination.

51. **Because the attribution of specific interventions to higher-level change in the area of trade and private sector development is challenging, the indicators have been selected to respond to key criteria.** Indicators have been selected to be (a) regularly and readily available, (b) reflect key objectives outlined





in the PM Order, and (c) directly linked to project activities. Where available data do not permit easy monitoring of the outlined objectives, a number of indicators have also been selected that will require additional data collection. A midterm review will be undertaken two years after project effectiveness to review progress and if necessary adjust project design.

### C. Sustainability

52. **The project has been designed to generate positive outcomes for the private sector, especially small and medium enterprises, which are expected to advocate for sustainability of these reforms throughout and after project completion.** Reduced operating costs, coupled with improvements in firm management through matching grants, are expected to increase overall competitiveness of firms, their links with neighboring markets, and consequently demand for continued reforms and compliance with rules. The strengthened role of the LBF and high-level support to this reform agenda are expected to ensure policy reversals are avoided. Government commitment to increase staffing levels at the NIU by one person per year over the near future mitigates the risk, as it would allow the NIU to follow up on such reversals in line ministries.

53. **While support to participating companies is expected to be self-sustainable, the country will need both external technical and financial support over a longer period in order to continue and scale up the reform agenda after project completion.** The NIU's role as a coordinator for support from development partners places it in a position to use a variety of funding sources in this regard.

54. **Maintaining new systems will depend on ensuring small but continuous budget allocations, while keeping relevant regulatory information up to date depends on staff capacity.** Given the dependence of technical ministries in Lao PDR on external expertise, it will be critical to use the period of project implementation to build sufficient capacity within relevant ministries to maintain existing information portals. The project has been designed in a way to address these capacity constraints and the financial sustainability of public information portals during project implementation by providing continued capacity building to Government staff and gradually phasing out financial support for hosting relevant websites.

### D. Role of Partners

55. **The proposed project will be implemented with joint co-financing in the form of a grant from a new MDTF that is being established.** The co-financing modality will strengthen donor coordination and build on current successful coordination among projects funded by various development partners and implemented by the NIU. Co-financing development partners will participate in joint implementation support missions throughout project implementation and regular informal meetings will be held to ensure close collaboration and information sharing among co-financing donors, as well as other relevant partners. Continued support to the TPSWG will support the Government in ensuring coherent policy making and will allow close coordination between this project and other support provided by development partners. Based on Table 3, the task team will monitor general implementation support to the PM Order by all development partners with the view of continued strong donor coordination. Annex 2 provides additional information on this coordination.



## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

56. The overall project risk is **Substantial**. The key risks to achieving the Project Development Objective (PDO) are presented below, as are relevant proposed mitigation measures.

57. **The risk arising from the Institutional Capacity for Implementation and Sustainability is rated Substantial.** While capacity at the MOIC to oversee the implementation of the project is strong, it depends on the capacity built under prior projects, and there is a risk that implementation would be affected if key actors are moved to different parts of the Government or leave the MOIC. Implementation capacity in key departments of the MOIC and customs is also strong due to experience with similar World Bank-funded projects, but risks resulting from potential staff (and management) turnover also arise here. Importantly, capacity is lower in some of the line departments that will be the implementing agencies of key components and among implementing agencies expected to submit Challenge Facility proposals which have not been involved in similar TA projects in the past. The implementation risk will be mitigated by providing sufficient resources for well-qualified domestic consultants that could support line ministries in coordinating and overseeing implementation of the proposed project. Concerns regarding sustainability are limited in trade facilitation due to the anchoring of the trade facilitation reforms in international agreements. To ensure sustainability of reforms, the project aims to strengthen the PPD mechanism to ensure its self-sustainability, which would contribute to sustaining policy reforms undertaken and preventing potential rollbacks of reforms.

58. **Risks originating in the Technical Design of the Project are rated Substantial due to the large number of implementing departments expected to participate in project implementation.** Compared to earlier support under TDF-1 and TDF-2, project design expands support to a larger number of implementing agencies as a result of the broad scope of support to the implementation of the PM Order No. 2. This increases the number of activities implemented by various departments and therefore the complexity in project supervision by the NIU. These risks are mitigated by the nature of the Challenge Facility modality, which incentivizes effective utilization of funds and includes their reallocation in case of limited progress. Departments implementing such proposals will also have to directly report to the Steering Committee, increasing oversight and accountability, further mitigating this risk.

59. **Stakeholder risks are also rated Substantial for two reasons.** First, while the supported reforms will lead to overall positive outcomes, a number of stakeholders are currently in a position to exploit the lack of transparency and to extract rents. Some of these stakeholders are likely to be influential within or outside the Government and will perceive themselves as potential losers from reforms. They are therefore likely to advocate against and slow down change. Close supervision and the use of the Challenge Facility modality will mitigate this risk as funds will flow to those reform areas where demand for reforms is strongest. Second, a risk remains with regard to the total funding envelope as no funds have so far been firmly committed into the MDTF although the planned amount is expected to be received. In case the co-financing does not materialize at effectiveness, project implementation will start with only available IDA resources.

## VI. APPRAISAL SUMMARY





#### A. Economic and Financial (if applicable) Analysis

60. **The proposed project is expected to lead to a significantly improved and more transparent business and trade environment, and ultimately to increased investment and more jobs.** Addressing deadweight costs to (potential) economic operators will reduce the overall operating costs of firms located in Lao PDR and reduce the time and cost required to obtain inputs and reach the destination market. Increased transparency in the enabling environment will make Lao PDR more attractive as an investment destination (for domestic and foreign investors) and facilitate entry of new firms, increasing competition in the market and innovation among new firms. Simplification in the regulatory environments in SEZs, which have attracted significant investments, indicates that such simplification helps attract investments and generate jobs—which such reforms on a larger scale are expected to replicate. The resulting increase in investments and expansion of economic activity are expected to generate new and productive jobs in the nonfarm economy, contributing to more inclusive and faster economic growth, poverty reduction, and economic empowerment of women. The matching grants for firms to invest in business development services will directly increase the ability of beneficiary firms to compete nationally, and internationally, allowing them to generate additional sales, jobs, and tax revenue. In addition, the project is expected to have significant positive indirect effects for consumers through lower consumer prices and increased choice. Due to a lack of available microeconomic data and the broad-based nature of supported reforms that are expected to benefit existing and new firms as well as consumers, a quantitative economic analysis has not been undertaken.

61. **Improving the regulatory environment will depend on Government regulatory reform, increased predictability of implementation (by the Government), and more effective delivery of Government services.** The necessary policy and regulatory reforms cannot be undertaken by the private sector, requiring public sector funding that is unlikely to come from the regular Government budget in a fiscally tight environment. Past World Bank support with co-funding from other development partners has generated strong engagement and demonstrated the value added of strong World Bank engagement, allowing the Government to benefit from international good practice and just-in-time TA, justifying continued strong engagement.

#### B. Technical

62. The activities supported under the project build on past support, and approaches to delivering technical assistance are therefore tested and well established to deliver results. However, with the expansion of support to more and new implementing departments, emphasis during appraisal was put on reviewing staff capacity in implementing departments to assess ability to implement the activities supported by this project.

63. **Improving the Business Environment.** Momentum to implement the PM Order is strong in Lao PDR and this pillar aims to improve the transparency and efficiency of the general business environment to reduce the costs it currently imposes on enterprises, in particular SMEs. With the renewed focus by the Government to improve the business environment as outlined in the PM Order, there is strong momentum to improve business registration, streamline regulations, improve the coordination of policy reforms across the Government, and address other challenges in the business environment. The time required to set up a business remains high, and there is strong acknowledgement of these challenges and momentum to address them as shown in the recent MOIC Notification 0537, aiming to move to ex post enterprise registration that the project will support. Improving the transparency and coherence of



business operating licenses remains important to reduce business operating costs, while the reform agenda will have to be broadened to other emerging priorities for reforms in line with the PM Order, which the use of the Challenge Facility under this component will permit.

64. **Facilitating Trade and Connecting to Markets.** Activities under this pillar will assist Lao PDR in reducing the time and costs to trade to reduce the ‘penalty’ of investors that locate in Lao PDR as opposed to neighboring coastal countries. These costs and delays remain high compared to other countries in ASEAN. The establishment of the NTFC which is under way demonstrates the commitment of Lao PDR to the reform agenda and meeting commitments under the TFA. Support to the NTFC, and increasing private sector participation, is expected to significantly strengthen its coordinating role while the use of the ‘Challenge Facility’ will ensure departments compete for funding with implementable proposals that will be implemented under short time frames. Implementation of commitments under the TFA will allow to improve performance in non-customs agencies as well, allowing them to increase their regulatory effectiveness while reducing overall delays through improved risk management and targeting.

65. **Improving Firm-Level Competitiveness.** This pillar and methodology build on the successful matching grant facility under TDF-2 (P130512). The well-tested methodology has been improved in a number of areas, including an agreement to simplify the documentation of tax payments, which created significant delays under TDF-2. The changes are expected to facilitate implementation. The component will increase the provision of direct, free-of-charge, advisory services to potential and actual BAF clients, while also scaling up the total amount of matching grants available to crowd in investments into business development services by private firms. Positive demonstration effects from the facility to a more general use of business development services in the economy are expected. With women-led enterprises investing less in innovation, targeting them is expected to contribute to their growth and to bridging the performance gap with the rest of the enterprises in the economy.

66. **Supporting Better and More Inclusive Policies.** This pillar will support the NIU in project implementation, monitoring, and evaluation, and support improved policy making under MOIC’s leadership based on new economic analysis funded by the component. The NIU has been effective in project implementation, overseeing analytical work and policy guidance in the past and is assessed to be in a strong position to continue this role effectively. To better understand the reasons for gender outcomes that see few medium and large firms led by women, additional analytical work will inform the reform agenda from a gender perspective going forward. Support to increasing the participation of women-led enterprises (and enterprises outside Vientiane) in the PPD in Lao PDR, and strengthening the dialogue overall, will contribute to increased accountability for reforms that address key challenges companies face, particularly those faced by companies currently underrepresented in the dialogue.

### C. Financial Management

67. The assessment was carried out in accordance with the Bank's Directive 'Investment Project Financing'. The assessment is based on assessment of FM performance of the NIU in the implementation of the previous IDA-financed projects and an additional assessment carried out in May 2018. The NIU will continue to be responsible for overall FM of the project. The assessment was carried out to assess if the existing FM capacity and systems of the NIU is adequate for the project. Based on our initial assessment, the NIU’s Finance Unit is adequately staffed and equipped with acceptable FM procedures and systems. An acceptable Financial Management Manual (FMM) is in place. FM staff comprised both the Government and consultants. NIU staff has gained extensive experience implementing many IDA-financed project



namely TDF-1 (P106165), TDF-2 (P130512), and A2F (P131201). The NIU also has experience implementing a number of other donor-financed projects. Hence, current FM capacity at the NIU is considered adequate for the project. It is expected that the same Finance Unit staff will continue working for this project. FM performance has been satisfactory with clean audit opinion. The World Bank team will carry out implementation support missions to assess continued adequacy of FM capacity and systems twice a year. The project is also subject to annual audit of the project's financial statements until the project closes. The IFRs are also required to be prepared and submitted.

#### **D. Procurement**

68. The procurement capacity and risk assessment of the NIU was conducted and concluded that the NIU is familiar with IDA-financed procurement through experience with TDF-1 (P106165), TDF-2 (P130512) including additional financing, and the A2F project (P131201) and has gained project implementation experience. Under the existing project, the NIU is supported by one full-time national procurement consultant and one international procurement consultant on intermittent basis. Procurement under TDF-1 and TDF-2 (including additional financing) were carried out in accordance with the Procurement and Consultant Guidelines. Project performance to carry out procurement was satisfactory. The World Bank conducted procurement post reviews annually and found no major issues. However, there are potential governance risks associated with conflict of interest as Lao PDR is a small community. Risk mitigation measures against the potential risks of conflict of interest and for strengthening integrity and transparency in the procurement process have been implemented in the existing project and will continue with the proposed project.

69. Procurement under the proposed project will be carried out in accordance with the Procurement Regulations for IPF Borrowers dated July 1, 2016, revised November 2017. As required under the Procurement Regulations, the NIU will prepare a Project Procurement Strategy for Development (PPSD) to inform fit-for-purpose procurement arrangements in the Procurement Plan that will cover at least 12 months of implementation. International competitive procurement and consultant selection under all components will be carried out in accordance with the Procurement Regulations. Approaches to national markets (National Procurement and Request for Quotations) will be carried out in accordance with the national regulations including the Procurement Decree No.03, dated January 9, 2004, and Implementation Rule and Regulations (IRR) No. 0063 issued by the MOF on March 12, 2004, and No. 0861/MOF, dated May 5, 2009 (amended version). The project will use the World Bank procurement tracking system, Systematic Tracking of Exchanges in Procurement (STEP), to monitor the procurement implementation.

#### **E. Social (including Safeguards)**

70. Because the project will support the implementation of the 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, or lead to labor influx. Therefore, the World Bank's policies on involuntary resettlement and indigenous people are not triggered for this project. While the project is unlikely to result in adverse social impacts, it has been designed to have a positive social impact, primarily by ensuring that the activities supported benefit SME, rural, and women-led enterprises. This includes measures to provide computer terminals in provincial offices to allow for easier submission of documentation and enterprise registration, supporting PPD under the LBF with a strong emphasis on regional and women-led enterprises, and supporting delivery of free advisory services for women-led or



regionally based enterprises. The impact of reforms and direct support to women-led enterprises will be monitored closely, including through indicators in the Results Framework.

71. **Citizen engagement has been used during project design and will be employed to inform project implementation, monitoring, and evaluation.** During project preparation, discussions with the private sector on business (regulatory) reforms and trade facilitation have been held. The project supports the LBF, a key mechanism to raise and discuss business challenges with policy makers. The forum also functions as a feedback mechanism to the Government for prioritizing relevant regulatory reforms and assessing their implementation, allowing for continued citizen and stakeholder engagement. Private sector involvement in the NTFC will also be supported under the project. This will allow project results to be assessed by the private sector whose feedback through the LBF and the TFC could be used to (re-)assess priorities during project implementation. An indicator on beneficiary feedback assessing the effectiveness of the LBF has been included in the Results Framework. Such feedback would allow the LBF Secretariat to develop recommendations to improve service delivery and ensure unresolved issues remain on the table.

#### F. Environment (including Safeguards)

72. The project activities will focus on policy reforms while the proposed matching grant will support private enterprises in improving their competitiveness through co-funding business development services rather than physical investments. The project 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. There will be no civil works or machinery or construction activities under the project. There will also be no construction or civil works 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 is classified as 'C' category. No safeguard instrument will be required.

73. **Climate and Disaster Risk Screening has been completed using available tools and the project was classified as low risk from climate hazards.** While precipitation and flooding, strong winds, and droughts could impact workers and productive facilities generally, these risks are unlikely to occur on a large scale or to have significant and large-scale impacts. Climate and Disaster Risks are not expected to affect regulatory reforms or overall trade flows other than potentially through impacts of disasters on economic activity and aggregate production.

#### G. Other Safeguard Policies (if applicable)

74. Not applicable.

#### H. World Bank Grievance Redress

75. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be



submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).



**VII. RESULTS FRAMEWORK AND MONITORING**

**Results Framework**

**COUNTRY: Lao People's Democratic Republic**

**Lao PDR Competitiveness and Trade Project**

**Project Development Objective(s)**

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

**Project Development Objective Indicators**

Indicator Name	DLI	Baseline 2019	Intermediate Targets		End Target 2023
			1	2	
<b>Simplify business regulations</b>					
Time needed to start a business (Days)		67.00	55.00	45.00	30.00
<b>Facilitate trade</b>					
Time to prepare documentary requirements for imports and exports (Hours)		216.00	190.00	150.00	108.00
<b>Improve Firm-Level Competitiveness</b>					
Sales growth in BAF supported firms compared to non-supported firms (Percentage)		0.00			20.00



**Intermediate Results Indicators by Components**

Indicator Name	DLI	Baseline 2019	Intermediate Targets		End Target 2023
			1	2	
<b>Improving the business environment</b>					
Time to obtain ERC from DERM (Days)		14.00	10.00		5.00
Time for women-led enterprises as percent of men-led enterprises (Percentage)		100.00	100.00		100.00
Number of operating licenses streamlined (Number)		0.00	10.00	20.00	30.00
Number of operating licenses streamlined in sectors of particular interest to women (Number)		0.00	3.00	6.00	10.00
Procedures to start a business (women) (Number)		8.00	7.00		6.00
Number of new enterprise registrations per year (Number)		6,707.00	7,200.00		7,713.00
<b>Facilitating trade and connecting to markets</b>					
Commitments under the Trade Facilitation Agreement implemented by Lao PDR (Percentage)		21.00	40.00		60.00
Technical Trade Facilitation Secretariat meetings with Private Sector Participation (last 12 months) (Number)		0.00	3.00		4.00
Mean time to clear imports, exports, and transit, through customs (Hours)		9.40	8.00		6.00
<b>Improving Firm-Level Competitiveness</b>					
Total number of grants disbursed (Number)		0.00	50.00	200.00	300.00



Indicator Name	DLI	Baseline 2019	Intermediate Targets		End Target 2023
			1	2	
Grants to women-led enterprises (Percentage)		0.00	40.00	40.00	40.00
<b>Supporting Better and More Inclusive Policies</b>					
Lao Business Fora held per year (Number)		1.00	1.00	1.00	1.00
Issues captured and actioned through the Lao Business Forum that have been raised by women-led enterprises (Percentage)		33.30			40.00
Perception of Lao Business Forum's effectiveness (Text)		Very effective 31 percent			40 percent perceive LBF as very effective
Hits on the Lao Trade Portal (Number (Thousand))		370.60	385.00		400.00

**Monitoring & Evaluation Plan: PDO Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Time needed to start a business	Time needed to start a Business (DB indicator)	annual	Doing Business Indicators	Global indicator methodology	World Bank
Time to prepare documentary requirements for imports and exports	Average of the time needed to prepare documentary requirements for imports and time required for exports	annual	Doing Business Indicators	Global indicator methodology	World Bank





Sales growth in BAF supported firms compared to non-supported firms	Sales growth of those firms benefitting from BAF support as compared to sales growth of firms with similar characteristics.	every two years	Mid-Term review of the BAF and final evaluation.	Survey of firms benefitting and not benefitting from support. Comparable firms will be identified to allow for comparison.	NIU through surveys/evaluation reports
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**Monitoring & Evaluation Plan: Intermediate Results Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Time to obtain ERC from DERM	Time from submission of application for Enterprise Registration Certificate (ERC) to obtaining it.	Semi-annual	DERM registration data. Baseline according to: PM Group (2017), Business Registration Process Map, Report delivered to Department of Enterprise Registration and Management under contract.	Department records	DERM and NIU



Time for women-led enterprises as percent of men-led enterprises	Same as parent indicator	Same as parent indicator	Same as parent indicator	Same as parent indicator	Same as parent indicator
Number of operating licenses streamlined	<p>Count of the number of operating and business licenses at DERM and other line Ministries streamlined. For the purpose of this indicator, the following definitions apply:</p> <p>1) Operating and business licenses are those requirements enterprises have to comply with for starting and operating a business, and which require government approval/confirmation</p> <p>2) The process of streamlining refers to regulatory revisions of regulations or processes that a) reduce the regulatory burdens, unpredictability, and complexity; and b) improve efficiency, effectiveness, compliance, and transparency</p> <p>3) To be counted as streamlined, operating and business licenses will have</p>	Semi-annual	Official documents published	Monitoring of reform efforts through the NIU, DERM, and MPI	NIU



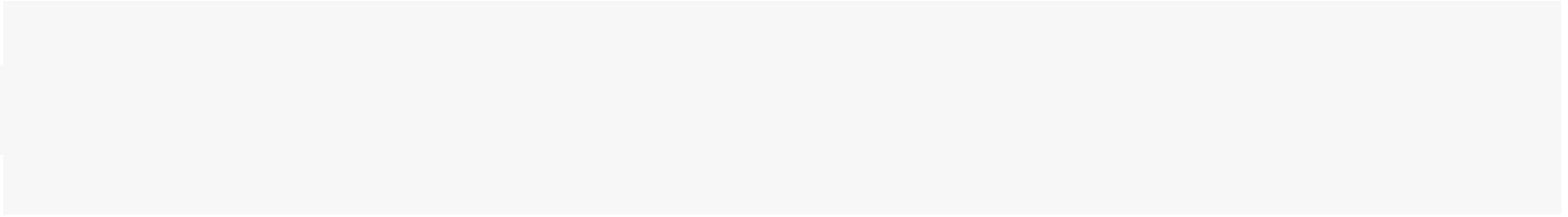
	<p>to cover one or more of the following dimensions: reduction in the number of documents required, reduction in the number of steps, reduction in the number of office visits, the introduction of a value-adding activity by government, a reduction in the time to prepare applications by businesses, a reduction in the time for government to process the application. For any of such dimension to be met, the change has to be at least 10 percent.</p>				
<p>Number of operating licenses streamlined in sectors of particular interest to women</p>	<p>Same as parent indicator</p>	<p>Same as parent indicator</p>	<p>Same as parent indicator</p>	<p>Same as parent indicator: Sectors will be considered "of particular interest to women" if one or both of the following criteria are met: a) the sector has a high participation of women in the workforce; b) the share of women-owned enterprises in that sector is at least 10 percent higher than the simple average of the</p>	<p>Same as parent indicator</p>



				share of women-owned enterprises across all sectors. To estimate these shares, data for the baseline year (2017) will be used.	
Procedures to start a business (women)	Doing Business Indicator for procedures to start a business (women)	Annual	Doing Business Indicators	Global indicator methodology	World Bank
Number of new enterprise registrations per year	Number of new enterprise registrations (annual data)	Annual	DERM enterprise registration records	New enterprise registrations are automatically registered in DERM database	DERM
Commitments under the Trade Facilitation Agreement implemented by Lao PDR	Share of commitments listed in the TFA implemented by Lao PDR and notified as “category A” to the WTO.	Semi-Annual	Self-assessment and validation by Trade Facilitation Secretariat (TFS)	Submission documents to WTO	Trade Facilitation Secretariat
Technical Trade Facilitation Secretariat meetings with Private Sector Participation (last 12 months)	The number of technical Trade Facilitation Secretariat meetings with private sector participation, monitored on a rolling 12-month basis.	Semi-annual	TFS meeting records	The TFS will collect data on participation during TFS meetings	TFS Secretariat and NIU
Mean time to clear imports, exports, and transit, through customs	Time Release Study for customs	Every two years	Survey	WCO-methodology-based instrument undertaken by customs	Customs



Total number of grants disbursed	Number of grants disbursed by the Business Assistance Facility; estimated average size of USD 6,000.	Semi-annual	Reports from company running matching grants scheme	List of approved grants	NIU through contracted firm
Grants to women-led enterprises	Same as parent indicator, for women-led enterprises.	Same as parent indicator	Same as parent indicator	Same as parent indicator	Same as parent indicator
Lao Business Fora held per year	Lao Business Fora organized, counted on a rolling basis within the last 12 months	Annual	LBF meeting records and newspaper articles	Meeting records and interviews	NIU
Issues captured and actioned through the Lao Business Forum that have been raised by women-led enterprises	Issues raised by women-led enterprises during working group meetings that are agreed at the LBF to be addressed	Annual	Records of LBF meetings	Summary of agreements reached	Lao Business Forum and NIU
Perception of Lao Business Forum's effectiveness	Perception surveys undertaken	Annual	Interviews with companies participating in the Lao Business Forum process	Random sampling among participating companies, followed by interviews	LBF, LNCCI
Hits on the Lao Trade Portal	Hits on the Lao Trade Portal (LTP), per annum (calendar year)	Annual	Website statistics from the LTP	Available from Google Analytics	DIMEX and NIU





## ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY : Lao People's Democratic Republic  
Lao PDR Competitiveness and Trade Project

### Pillar A: Improving the Business Environment

1. This pillar builds on the successful engagement under TDF-2, which provided support to the DERM at the MOIC in their efforts to improve enterprise registration processes and the transparency of the administration of business operating licences. It also builds on past support to the MPI under two advisory service projects as well as TA provided under the Financial Sector Development Project (P160715). The business environment remains cumbersome and complex in Lao PDR as evidenced by the poor ranking in the 2018 DB Index where Lao PDR is ranked 141 of 190 economies. As outlined in the Project Appraisal Document, the poor business environment severely affects the ability of the country to retain and attract efficiency-seeking investors that can generate the jobs needed in the future.

2. Supporting the implementation of the PM Order No. 2 from February 1, 2018, the pillar will support improving the transparency, predictability, and efficiency of the general business environment to reduce the (informal) costs it currently imposes on all enterprises. The pillar initially focuses on the current priority area of 'Starting a Business' in the DB Report where Lao PDR is ranked 164, but is designed to broaden support to other areas through Component A.3. Because SMEs find it more difficult to deal with complex and nontransparent procedures that are applied based on deals, rather than rules, regulatory reforms are expected to particularly benefit such companies. Throughout this pillar, emphasis will be on ensuring that reforms and initiatives benefit particularly SMEs and women-led enterprises.

### Component A.1: Making it Easier to Start a Business (US\$1,300,000)

3. This component will improve the processes to start and operate a business in Lao PDR. It will focus on two areas: (a) simplify the process to start a business, focusing on implementing the PM Order on Starting a Business indicator as measured by the DB report and also supporting simplification of processes both within the DERM as well as related processes external to the DERM, including post-registration processes and (b) gradual transition toward the automation of enterprise registration.

4. **TDF-2 confirmed that enterprise registration in Lao PDR remains complex and lengthy.** Currently, companies on the so-called 'negative list' require pre-approval by line ministries, which takes about three months on average (according to the TDF-2 supported assessment) before their ERCs can be issued. Further to the burdensome ex ante line ministry approval for companies on the 'negative list', all enterprises need to go through a number of unnecessary procedures and duplicative documentary requirements across multiple agencies. These include obtaining a name reservation certificate,<sup>25</sup> registering the Article of Association (AoA) and list of assets, obtaining a tax registration certificate, carving and authorizing a company seal, obtaining the approval of content on the company signage, social security registration, and VAT registration before obtaining the ERC. These lengthy ex ante processes, most of which are external to the DERM, make the entire registration process complex and costly for businesses and result in the poor ranking in the 'Starting A Business' indicator. Two of the procedures on company

<sup>25</sup> This requirement has already been partially abolished at the central level and has not yet been implemented at the provincial and district level.



signage approval and the AoA and list of assets registration are unique to Lao PDR only while the company seal procedure is antiquated and not required in more than half the countries around the world.

5. **Once registration is complete, all enterprises are required to obtain relevant business operating licenses which is often another burdensome, nontransparent, and duplicative process** (for those companies on the ‘negative list’ that already received a no-objection for the ERC). Recent analytical work<sup>26</sup> showed that it can take several months to get such operating licenses in the areas of tourism, transport, or agriculture, and anecdotal evidence indicates that delays in other sectors are comparable. The issue of business operating licenses will be addressed in Component A.2.

#### **Subcomponent A.1.1: Streamlining Procedures to Start a Business (US\$700,000)**

6. The subcomponent will provide implementation support to facilitate the process of starting a business that covers the recommendations made under the PM Order, the implementation of the MOIC Notification 0537 from May 4, 2018 (which already starts to implement the PM Order), and further required reforms proposed by the Starting a Business working group led by the MOIC. It will support the DERM in implementing, and further improving, the reforms outlined in the notification, moving requirements to after the issuance of the ERC (moving to an ‘ex post’ approach) and support improving relevant processes within the DERM. As such, the focus will be on both DB procedures and non-DB procedures, which otherwise affect business registration such as ex ante approval by line agencies. The PM Order proposes the elimination of the company signage approval process, requiring the registration of the AoA only after companies have obtained the ERC, improvement and acceleration of the processes for carving and registering company seals, simplification of documentary requirements for the application of a tax identification number, and ensuring of transparent and coherent application of the ERC process across all jurisdictions of Lao PDR. This shift to an ex post approach will cover the processes outlined above and further include the current ex ante approval process by line ministries for companies on the ‘controlled list’,<sup>27</sup> which is not explicitly mentioned in the PM Order but a priority of central and provincial Industry and Commerce offices. To ensure broad-based impact of reforms benefiting all companies, including rural and women-led enterprises, the subcomponent will provide TA to eliminate unnecessary steps as consistent with international good practices, taking ongoing analysis of gender gaps into consideration.

7. This subcomponent will provide technical input and support the implementation of these reforms. It will be implemented with the assistance of a company consisting of at least an international expert and a national adviser (full time). The team will review in detail the former ex ante approval process by line ministries for general steps (outlined above as per the PM Order) as well as the specific ex ante review process for sectors on the ‘negative list’, review the changes introduced with the notification, and support the MOIC in the removal of the duplicative and burdensome ex ante approvals by line ministries for the ‘negative’ sectors being targeted with the MOIC notification after extensive discussions. The team will provide specific recommendations for further required reform and will support implementation to ensure and reassure line ministries that this removal will not impede their regulatory oversight, which will remain

<sup>26</sup> World Bank Group. 2016. “Assessment and Process Mapping of Investment Procedures and Business Operation Procedures in Lao PDR, Vientiane.”

<sup>27</sup> This would mean that upon application, an ERC would be issued by the DERM immediately, before companies would obtain all other documentation and authorizations. That would allow the legal establishment of an enterprise which would then subsequently be able to obtain relevant authorizations and obtain documentation (such as land leases or operating licenses) legally why they currently often cannot, generating challenges during enterprise registration.





in place through issuing business operating licenses. Recommendations will be based on an assessment of the enterprise registration process including calculation of estimated cost and time burden for enterprises, differentiated by size of enterprise and location (in urban center or outside urban center), and disaggregated by sex of ownership. The national adviser will then work with the DERM, line ministries, the PICOs, and district offices to ensure that ex post approval is fully implemented. The company would also prepare legal and policy recommendations to eliminate or streamline other inter-agency steps for the Starting a Business indicator. The advisers would also draft new regulations or amendments to existing regulations (if needed) linked to these external procedures administered by other agencies. These notes would inform subsequent instructions/orders/decisions issued by the MOIC and other ministries to implement further reforms on enterprise registration.

8. In addition, this subcomponent will also enhance transparency and efficiency of registration processes within the DERM, where the enterprise registration internal processes currently take about three weeks. Analysis under TDF-2 has shown that there is significant scope for improvement and a to-be-process map for internal approval processes has been developed. The company mentioned above will support full implementation of that to-be-process map with a view to reducing the time for enterprise registration. It will also support the DERM by identifying and reviewing additional procedures for reform within the DERM and help streamline those procedures, including in selected PICOs. As a priority area of reform, the TA would support the DERM with the implementation of the removal of the name registration certificate on the ground in all provinces through extensive communication and stakeholder outreach. While the DERM has already removed the requirement for a name registration certificate at the central level, this document is still being issued at the provincial level, negating the positive impact of the reforms undertaken.

9. Based on the simplification of business registration and post-registration processes both within the DERM as well as related Starting a Business processes external to the DERM, this subcomponent will design a new online Business (Enterprise) Registration System as a first step to automate enterprise registration process. The design of the proposed system including infrastructure (for example, hardware) and connectivity will be defined based on a functional requirement specification document to be prepared under this subcomponent and will contain a sustainability strategy. The project may support critical hardware and connectivity needs based on the specification document. It will build on the existing database software developed and rolled out in 2008,<sup>28</sup> existing hardware in the PICOs, and the ongoing development of the enterprise registration database with support from the Asian Development Bank (ADB) that will come to an end in mid-2018. The system requirement specification will be developed in consultation with enterprises and officials interacting at the central DERM and selected provincial pilot offices and will be subsequently reviewed and signed off by the DERM before software development.

#### **Subcomponent A.1.2: Automating Enterprise Registration (US\$600,000)**

10. Following the implementation of significant simplifications of processing steps as well as procedures within the DERM and other departments for the issuance of the ERC, the project will support the MOIC in hiring a company to develop, fully implement, and roll out a new online Business (Enterprise) Registration System based on the system design and functional requirement specification document prepared and signed off under Subcomponent A.1.1 based on international good practices and according to the requirements of Lao PDR. That system will be developed only after process simplification under

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<sup>28</sup> This software is currently used for managing information on registered companies, being entered manually.



Subcomponent A.1.1 is completed and Government commitment is fully secured to lock in process improvements. The system is expected to (a) facilitate access to information for SMEs and enterprises located outside of Vientiane; (b) enable submitting all relevant information for enterprise registration online and application tracking online, requiring only one visit to the DERM and PICOs; and (c) include a tool for grievance redressal and a helpdesk supporting companies in getting registered. The proposed system will cover both internal automated workflows within the DERM and will be integrated with external agencies involved in enterprise registration.

11. The proposed system will be web based (with options for mobile access to facilitate outreach to SMEs located outside of Vientiane, if feasible) and will include a client facing portal covering online access to all relevant information, procedures, and forms for download by users. To facilitate access and increase transparency, the process of making all forms available will also include a process of form simplification/standardization. The system will also allow for enterprises to apply for registration (as well as post registration/change requests) online, through online submission of applications and all supporting documentation through the system, permitting users to track transactions online. The system would allocate each application to one case worker who would be able to review all documentation for completeness and interact electronically with the applicant if information is incomplete. Following this electronic exchange and confirmation of complete information, one physical visit by the applicant to a relevant office would remain necessary to submit hard copies of the documentation and manual payment, until this step could be made fully electronic through e-payment and digital signature in the future (not covered under the scope of this project). To ensure that this electronic system does not disadvantage those applicants without access to the Internet, the project will support the establishment of some computer terminals (that is, helpdesks) at the DERM and selected PICOs, allowing the applicants to scan, upload, and submit documentation at these premises. On the back end, the setup of this system will require and support the automation of internal work flows, building on the simplification processes for the issuing of ERCs and change in how post implementation/change requests are being handled.

12. Support under this component will include funding an Annual Maintenance Contract (AMC) for 12–18 months to be implemented by the contractor which will include system maintenance and troubleshooting, immediate first-line support by phone, and second-line on-site support (if needed). Beyond the scope of the project and the AMC, the Government/MOIC will make necessary a budget provision to maintain the system to ensure sustainability.

13. The new system will also contribute to improving the database quality and permit selected data to be made publicly available as per the Company Act and international best practice. In addition to general information on the sectors, activities, and contact information, the database will include (a) sex-disaggregated data, in particular women as manager or in the management structure, (b) geographic location of enterprise, and (c) information on economic subsectors. The system would also include an online helpdesk function or Q&A forum for SMEs, nested within the online system. Through the central system, provincial offices will be connected to the DERM central office where all enterprise registration data will be collected.

14. The system would be initially piloted in high transaction offices such as the DERM, the PICO in Vientiane, the PICO in Pakse, or the PICO in Luang Prabang, depending on the capacity and readiness assessment of such offices which will be undertaken in the beginning of the project. The transaction volume in larger business hubs will justify the cost of the infrastructure upgrade and the system development compared to remote locations with limited transactions. Based on the success of the first



phase pilot covered under this project, the system could potentially be scaled up for a nationwide rollout in a phased manner subsequent to the completion of this project.

### **Component A.2: Streamlining and Publishing Operating Licenses (US\$750,000)**

15. This component will provide implementation support to continued streamlining of 30 priority licenses identified but not yet improved under TDF-2, being mapped and to be made publicly available. These priority licenses have been selected based on the frequency of use, the costs per application they generate, and the relevance for the overall economic development. A large share of these operating licenses that have been analyzed with standard-cost models under TDF-2 affect sectors with strong participation of SMEs and women-led enterprises. The component will also support the setup of an online licensing portal to provide basic legal information of operating licenses starting with 208 licenses, already taken stock of under TDF-2. The component will be jointly implemented by the DERM and the MPI. The project will support one company to work with both ministries on implementing all elements of this component. The team would be expected to contain at least an international license reform adviser (part time) and two full-time local advisers as part of a firm contract covering Component A.2.

#### **Subcomponent A.2.1: Streamlining of MOIC Operating Licenses (US\$300,000)**

16. This project would build on this assessment and support the DERM to prepare detailed implementation guidelines for each of the 18 licenses under the control of MOIC departments compiled under TDF-2 and propose legal amendments as necessary. This work would be completed within the first 12 months of project implementation. Subsequently, the component would support the DERM in supporting the MOIC departments to implement the recommendations to ensure that licenses are streamlined, existing laws and regulations are amended, and new regulations are drafted, approved, and fully implemented. The focus of the support will be on ensuring that regulatory reforms will be implemented in a way that particularly benefits SMEs and women-led companies.

#### **Subcomponent A2.2: Streamlining of other Operating Licenses and License Portal (US\$450,000)**

17. The subcomponent will support the IPSC through its secretariat—IPD of the MPI to assist with the identification of required changes for all licenses not under direct control of the MOIC. The component will support the MPI in managing implementation and coordination across relevant regulatory agencies (with the exception of the MOIC). Under MPI guidance, the firm will work closely with relevant line ministries to ensure that licenses are streamlined, existing laws and regulations are amended, and new regulations are drafted, approved, and fully implemented. The focus of the support will be on ensuring that regulatory reforms will be implemented in a way that particularly benefits SMEs and women-led companies.

18. This subcomponent would further help set up a more systematic approach to publishing and regularly updating the business license information online on an existing website such as the LTP, the Lao Services Portal, or the MPI's website. The scope of available information will build upon the searchable priority license database developed under TDF-2 and will include relevant information on each license such as fees, downloadable forms, list of streamlined procedures, and documentary requirements. Information presented online will be informational at the initial phase covering the priority licenses on the ERC and business operating licenses and other selected sectoral licenses.



19. To develop a long-term systematic approach to licensing reform in Lao PDR, the firm will also support the design of a licensing template, licensing guideline, and a national policy on business-related licenses that would give a clear mandate to a selected ministry to enforce such national policy. It would set out that all new business-related licenses and regulations issued by all departments in the Government would follow the policy and guidelines. Extensive stakeholder outreach and communication campaigns will ensure that the streamlined licenses are in effect and the licenses e-portal is relevant to and used by businesses.

### **Component A.3: Supporting Broader Business Reforms (US\$1,350,000)**

20. This component will support the implementation of the PM Order No. 2, dated February 1, 2018, aiming to support the implementation of DB indicator-based regulatory reforms and to improve Lao PDR's ranking in the DB report significantly. The Order demonstrates the Government's clear commitment to make significant improvement in the country's investment climate and business operating environment and assigned the IPSC led by the Deputy PM to provide strategic guidance and coordinate reform efforts by concerned ministries and agencies. The MPI acts as Secretariat to the IPSC. The PM Order tasks individual ministries to lead the implementation of necessary reforms to improve DB indicator-specific reform measures outlined in the Order, but did not allocate additional resources to either the MPI or the involved line departments.

#### **Subcomponent A.3.1: Coordinating Implementation of the PM Order No. 2 (US\$450,000)**

21. Building on the establishment of an effective coordination mechanism in line with international good practices, currently being supported under TDF-2, this subcomponent will support the IPD (at the MPI as Secretariat to the IPSC) with TA in the implementation of the PM Order, allowing them to effectively deliver on their mandate to coordinate policy reforms in the area of the business environment. It will support the MPI in its efforts to provide strategic guidance and coordinate reform efforts by concerned ministries and agencies to implement the PM Order, to provide technical support to relevant line ministries in the development and implementation of indicator-specific reform action plans, and to facilitate exchange of lessons among line ministries. It will also support the setup of and facilitate meetings of technical working groups for each of the relevant indicators to ensure effective inter-ministerial coordination of required reforms.

22. Funding will permit supporting the Secretariat with an international part-time regulatory expert and two national coordinators who will be responsible for supporting key line ministries in preparing and implementing reform action plans, strengthening inter-ministerial coordination by organizing inter-ministerial working groups for all indicators and ensuring all relevant departments participate, monitoring overall progress with the implementation of the PM Order, and providing regular briefings to the IPD for political follow-up. One of the consultants will also be responsible for supporting line departments in designing and implementing specific proposals that could benefit from resources available to implement the Order.



### Subcomponent A.3.2: PM Order No. 2 Challenge Facility (US\$900,000)

23. Applying lessons from TDF-2, a 'Challenge Facility'<sup>29</sup> will be established to support implementation of the PM Order No. 2 in line departments. Under the facility, fund allocation has not been pre-identified and will be allocated on a demand-driven basis for TA to line departments. Resources will be available to support priority reforms outlined under the PM Order for any of the relevant implementing agencies as long as they meet two criteria: (a) proposed activities are in line with the PM Order and improve the business environment in line with international good practices and (b) there is strong commitment and ownership from the line departments.

24. To access these funds, interested implementing agencies will have to provide a short proposal requesting resources. Proposals must clearly indicate how they directly implement the PM Order, demonstrate that they intend to implement reforms based on international good practices, outline the type of activities that will be funded, the outcomes that will be achieved, and the time frame for the completion of the proposed activities. Each proposal will have to contain reform activities including full implementation of any supported reforms.<sup>30</sup> The NIU will develop clear criteria and a short and standardized template for proposals, which will be considered for approval at meetings of the PEC, following endorsement by the MPI. The size for any proposal will be between US\$100,000 and US\$150,000 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 the MPI (and the NIU) will assist interested departments in the preparation of proposals to the Challenge Facility and review any submissions before presentation to the PEC. Proposals submitted in the initial phase are expected to come from the Bank of Lao PDR and the Ministry of Justice and will potentially focus on the following areas:

- (a) **Getting credit.** (i) Ensuring, in coordination with relevant ministries, that the draft Civil Code, which the National Assembly is due to endorse by the end of 2018, does not adversely affect the Strength of Legal Right Index; (ii) reforming the secured transaction legal framework in accordance with international good practices; and (iii) developing business requirements and implementing Credit Information Bureau enhancements to include credit information from retailers and utility companies, and provide value added services such as credit scoring.
- (b) **Resolving insolvency.** (i) Supporting the revision of the Bankruptcy Law and development of relevant regulations for effective implementation; (ii) promoting appreciation of the importance of the bankruptcy process and supporting initial bankruptcy filings; and (iii) building the capacity of insolvency practitioners to enable bankruptcy cases to be filed, and resolved efficiently.
- (c) **Contract enforcement.** (i) Conducting an assessment of the in-court and out-of-court enforcement system and a mapping of the procedures and analysis of the determinants of the prolonged case duration to identify areas of improvement; and (ii) implementation of

<sup>29</sup> The '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, increasing pressure to deliver on proposed activities and ensuring funds will be effectively used during project implementation.

<sup>30</sup> For example, support to draft legislation could only be supported by the facility if the proposal also covers the approval and implementation of a strategy to effectively implement such legislative changes on the ground.



reforms based on the recommendations from such an assessment, including the revision of relevant laws and regulations and designing effective mechanisms for their enforcement.

- (d) **Protecting minority investors.** (i) Supporting MOIC to reform the Enterprise Law ensuring consistency with other laws, regulations, and practices; and (ii) supporting the Lao Securities Commission Office to implement Corporate Governance enhancements for listed companies.

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

25. This intervention area is designed to support the Government of Lao PDR in implementing the provisions of the WTO TFA.<sup>31</sup> Lao PDR is one of a few member states in ASEAN that still face high trade costs and full and effective implementation of the TFA commitments is expected to result in reduced trade costs and delays, increased certainty and reliability of imports and exports, and greater trade transparency. To achieve this objective, the MOIC developed and approved (in September 2017) the TFRM. It outlines Lao PDR's trade facilitation vision and identifies TFA-related reform priorities to enhance trade competitiveness and achieve compliance with WTO TFA/Revised Kyoto Convention (RKC) standards.<sup>32</sup> According to a 2015 Organisation for Economic Co-operation and Development (OECD) report, Lao PDR has the potential to reduce its trade costs by 19.7 percent with a full implementation of the WTO TFA in several areas including (a) streamlining of procedures, (b) automation, (c) simplification and harmonization of trade documents, (d) advance rulings, and (e) fees and charges.

26. The intervention area aims to reduce lengthy processes of documentary and border compliance for imports and exports in Lao PDR. While the country has made some good progress in customs clearance time and publishing all trade-related legislations, regulations, procedures, tariffs, fees, and forms in a public domain—Lao Trade Portal (LTP)—its trade facilitation performance in rankings on global indicators such as the World Bank's DB (Trading Across Borders) remain poor. The weak performance is driven particularly by burdensome documentation requirements, that is, NTMs. Documentary compliance for exports and imports still takes about 216 hours or 9 days, nearly twice as high as the average time for the EAP region, indicating that the reform agenda remains incomplete. Procedures and discretionary decisions on the process of obtaining import and export permits, certification, and licenses require rationalization, streamlining, and procedural changes to increase administrative unpredictability and reduce time and costs for documentary preparation and compliance times on the ground. Implementing reforms in line with existing commitments and global standards to modernize its administrative and regulatory processes will be key.

27. The pillar will (a) support the TFS and (b) establish a TFACF. Implementation of this pillar will be led by the DIMEX under the MOIC and project activities will be executed by line departments. The priority areas of support under this pillar will be those relating to (a) transparency, (b) simplification, and (c) coordination.

<sup>31</sup> Lao PDR was the 18th WTO member to formally accept the WTO TFA (in September 2015).

<sup>32</sup> Lao PDR ratified the RKC on Simplification and Harmonization of Customs Procedures in July 2016.





**Component B.1: Supporting the Trade Facilitation Secretariat (US\$1,000,000)**

28. This component will support the TFS in its capacity to effectively coordinate the trade facilitation agenda with the Lao Government, engage with the private sector, identify and prioritize trade facilitation issues, and monitor and advance the implementation of reforms. Past support to the TFS under TDF-1 and TDF-2 has strengthened its coordination role in Lao PDR; however, the TFRM stresses that the Secretariat will need to further professionalize and become more effective in leading and monitoring the implementation of meaningful reforms leading to the adoption of international good practices such as those in the WTO TFA and RKC and improve its ability to engage with the private sector for identifying trade-related issues.

29. Following the adoption of the TFRM, seven trade facilitation technical units have been established in key line departments of other ministries to champion TFA-related reforms. Line departments that are members of the TFS are currently preparing, costing, and sequencing individual Departmental Action Plans with support from the TFS to operationalize implementation of the TFRM. It remains critical that private sector issues on trade facilitation continue to be articulated for actionable responses by public agencies to address them. To allow for the monitoring of impact, it is foreseen to undertake a documentary compliance assessment in non-customs agencies at the beginning of the project, complementing a Time Release Study for customs undertaken in 2017.

30. **This component will (a) provide TA to the TFS itself and (b) support the TFS in its efforts to strengthen the capacity of involved line departments.** The TA consists of reform advisory and implementation support for analyzing, prioritizing, and sequencing trade facilitation-related issues and recommending reform actions for the TFS itself as well as its members. This support will be geared to strengthening the Secretariat's ability to identify, prioritize, and undertake meaningful reforms, responding to the issues and needs of the trading community, and assisting the TFS in formally including the private sector. Specialists hired with the TA will also provide screening and technical evaluation support to evaluate proposals under the TFACF (see below). The capacity-building support will be implemented through training activities and provision of trouble shooting in priority areas. The focus will be on handholding of the trade facilitation technical units and liaison focal points in the provinces in undertaking operational and regulatory reforms and for providing necessary support to interact closely with the LBF and guide LNCCI and sectoral business associations on advocating for trade facilitation-related issues in representing the trading community. This component will also support additional technical consultations with the trading community on emerging trade facilitation issues and encourage greater involvement of the trading community in providing advocacy and recommendations for regulatory reforms.

31. **The project will finance a team of four experienced specialists who will assist the TFS to implement this component:** (a) an international customs adviser, (b) an international trade regulations specialist, (c) a national regulatory specialist, and (d) a national private sector coordinator and communications professional. A customs adviser is required to provide advice and reform guidance on implementation of activities that are related to customs issues and priorities for the Lao Customs Department. The trade regulations specialist is required to provide regulatory drafting, including regulatory formulation, and propose streamlining and simplification ensuring that newly enacted trade regulations are in line with WTO TFA principles and standards. The national regulatory specialist is required to bring in a national regulatory context and local issues in identifying redundant regulations and providing support to the international experts. It is expected that the international advisers will initially



work full time to support the Secretariat, while continuing part-time support during the second half of the project. The national regulatory specialist is expected to support the TFS full time during project implementation while the international advisers are expected to work on an intermittent basis. Depending on resource availability, the project will also fund some additional national TFSs that will be embedded in key implementing departments and which will work under guidance from the four experienced specialists at the TFS. The private sector coordinator and communication professional will ensure effective engagement with the private sector and communication of reforms. He/she will assist with preparing publishable communication notes and press releases on trade facilitation issues and reform priorities as well as progress in regulatory and procedural reforms to promote greater awareness of the trading community and general public audiences.

### **Component B.2: Trade Facilitation Agreement Challenge Facility (US\$1,800,000)**

32. This component will establish a “TFA Challenge Facility” (TFACF) to finance implementation of specific reforms identified for implementation of the TFA provisions.<sup>33</sup> Lao PDR will benefit from implementation of the TFA by improving transparency and predictability of regulatory implementation and procedural processes on the ground. Full implementation of the TFA (which Lao PDR committed to) will reduce trade costs and delays resulting from administrative procedures to obtain trade documents and clearance for imports and exports. While Lao PDR validated the existing trade regulations and measures in compliance with the TFA standard provisions under Category A, some of these measures are not fully implemented nor effectively operationalized, for instance administrative appeals and pre-arrival processing. The approved TFRM has clearly outlined some broad time lines and additional technical support required to establish missing regulations and operationalize existing regulations with respect to TFA provisions, allowing Lao PDR to reap the estimated benefits outlined in the OECD study.

33. Funding under the TFACF will be allocated in line with clear criteria outlined in this document and the Challenge Facility guidelines, following clearly prioritized and sequenced reforms to be implemented by technical departments in the MOIC, MAF, MOST, MOH, and other line agencies. It aims to close existing gaps of regulatory inconsistency between national regulations and the TFA to modernize Lao PDR’s trade-related regulations for imports and exports. An analysis showed that the implementation gap remains large and that over 75 percent of all TFA commitments would require adoption of new procedures and processes in trade-related agencies. Lao PDR’s initial notification outlined which TFA provisions under Category A will be implemented immediately upon entry into force of the agreement. Lao PDR’s commitments<sup>34</sup> for TFA provisions under Categories B and C were received by the WTO on March 2, 2018, including indicative dates for implementation. The DIMEX and other border and regulatory agencies are also formulating a detailed action plan to implement specific provisions in the WTO TFA, particularly Categories B and C commitments, over the short and medium term.

34. The TFACF will support priorities in implementing TFA commitments through the approval of Challenge Facility proposals submitted by line departments. The project will support priority measures in the TFA based on three criteria: (a) there is strong commitment and ownership from the line departments,

<sup>33</sup> The ‘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, increasing pressure to deliver on proposed activities and ensuring funds will be effectively used during project implementation.

<sup>34</sup> G/TFA/N/LAO/1 (March 2, 2018). Notification of Category Commitments under the Agreement on Trade Facilitation: Communication from Lao People’s Democratic Republic, dated February 21, 2018.





(b) revision of the measures includes the adoption of TFA principles and standards, and (c) measures must be streamlined and simplified.

35. The TFACF proposals must identify detailed measures and align them with thematic areas such as customs, trade regulations, agriculture, food safety, and standards—broad priorities for support under these areas are outlined in the following paragraphs. The proposals will have to classify each proposed reform measure as follows and clearly define needed technical support in detail:

- (a) Measures exist and comply with TFA commitments but are not in use.
- (b) Measures exist but do not comply with TFA commitments, requiring revisions.
- (c) Measures do not exist and need to be developed, adopted, and implemented.

36. **Customs formalities and procedures.** Key priorities for customs reforms will include (a) synchronizing the Lao customs' website (under development) with LTP; (b) supporting involvement of the trading community in making new customs instructions and procedures to be enacted by the MOF and the LCD; (c) advance rulings; (d) replacing ad valorem fees and charges with flat fees and charges and including fee and charge in electronic payment; (e) administrative appeals; (f) accepting copies of documents (including supporting documents); (g) facilitating electronic customs declaration; (h) enhancing risk management with adoption of proper risk management policy, reviewing current risk management committee and unit, aligning risk management principles at each level of customs controls: pre-clearance, clearance and selection for inspection, post-clearance audit, and post-clearance investigation; (i) expanding the Approved Economic Operator program upon the satisfactory implementation of the pilot phase, supported by the Lao PDR Investment Climate Advisory Project (ID601396); and (j) assessing costs and benefit to extend the working hours for major checkpoints to reduce congestions and lower unnecessary waiting time and costs at borders.

37. **Trade regulations.** Key focus will include (a) reviewing the list of goods that are prohibited and subject to import and export licensing; (b) abolishing automatic licensing requirement for goods that are low risk and non-sensitive in terms of food safety threats, security threats, and environmental threats; (c) conducting process mapping for the top 15 products in traded values that are heavily affected by documentary delays for licensing, permit, and certification in imports and exports to identify key bottlenecks and blockades that contribute to administrative delays in import and export documentary compliance; following the PM Order No. 2, the DIMEX and relevant line ministries in February 2018 have documented and reviewed some procedures and regulations that generate documentary compliance delays for some key products; (d) implementing electronic signature for electronic certification of origin (eCoO) system and establishing the eCoO data interface with the Lao National Single Window for linking with the ASEAN Single Window; and (e) continuing to enhance LTP to expand service-oriented functions for the trading communities such as electronic forms and applications and updating its contents on time.

38. **Agriculture.** Key focus will include (a) strengthening the quarantine's risk management capacity for border clearance by balancing control and trade facilitation, (b) establishing clear quarantine procedures for perishable goods with adoption of risk management, (c) aligning quarantine risk management with customs risk management to allow joint inspection and border clearance, (d) implementing and streamlining key regulations on imports and exports of plant and animal products, and



(e) strengthening and encouraging regulatory compliance to address non-conformity at entry and post entry to enable post-entry investigation into incidents.

39. **Food safety.** Key priorities will include (a) strengthening risk-based food safety inspection capacity for border clearance to balance control and trade facilitation, (b) establishing clear procedures for perishable goods with adoption of proper risk management to allow expedite release, (c) aligning food safety risk management with customs risk management to allow joint physical inspection and border clearance, (d) implementing and streamlining key regulations on imports and exports of food and pharmaceutical products, and (e) strengthening and encouraging regulatory compliance to address non-conformity at entry and post entry to enable post-entry investigation into incidents.

40. **Standards and metrology.** Key attention areas include (a) reviewing and rationalizing the regulatory bodies' presence at border checkpoints to quality and standard checkpoints by strengthening its regulatory function to encourage compliance and enforcement at post-entry surveillance and standard testing to remove unnecessary delays in border clearance; (b) streamlining regulations and procedures on conformity assessment procedures including batch-by-batch inspections, registration of product inspection, and import and export permits; and (c) adopting an appropriate risk management framework for post-entry surveillance in its efforts to enforce compliance and to better allocate scarce resources toward high-risk goods only.

41. The TFACF expects to finance around five proposals throughout the project life. The proposals will be prepared and submitted by line departments following the guidance from the support staff of TFS. A technical review committee will be established to perform due diligence technical review of the proposals before recommending for PEC approval. This will be led by the TFS (DIMEX) and contain the experts supporting the TFS as well as the NIU. Prioritization of proposals will be aligned with the TFRM action plans.

42. To ensure appropriate prioritization and that approval processes would not result in delays or excessive administrative burdens for either the agencies involved or the Secretariat, the Secretariat will assess each proposal against a clear set of criteria in the Challenge Facility guidelines. TFACF templates are also developed in that manual.

### **Pillar C: Improving Firm-Level Competitiveness**

#### **Component C.1: Business Assistance Facility (US\$3,900,000)**

43. Despite progress made, many economic operators in the Lao private sector continue to lag in terms of productivity compared to firms in neighboring countries, for example, labor productivity in the 90th percentile of Lao firms is below labour productivity in the 75th percentile of firms in Cambodia and Vietnam as shown in World Bank (2018). While improvements in the overall business and trade environment will contribute to increased competitiveness, it remains critical to equip companies with the skills and capacity to operate more effectively and to exploit economic opportunities. 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.

44. The primary objective of the BAF is to support individual companies in utilizing business development services, to improve their performance, management capacity, access new markets, and



improve worker skills, and thus become more internationally competitive. As shown in the document, only few firms introduce product or process innovations, and firms with a female top manager invested less in innovation than male-led firms (data from Enterprise Survey). Subsidizing firms' investments into sales-enhancing measures will demonstrate the positive impacts such investments can have, with positive demonstration effects expected to continue enlarging the market for and use of business development services in Lao PDR. BAF2 builds on the positive experience with the original BAF (BAF1) that had been supported under TDF-2, continuing the facility with small modifications. Under the original BAF, allocated funds were fully disbursed and the number of grants extended exceeded expectations (208 compared to a target of 150) and the performance of those firms that received grants exceeded that of non-recipients. BAF grant recipients achieved growth rates 21 percent higher than other firms (compared to a target of 20 percent). The final impact survey revealed a high level of satisfaction with both the advisory services and the grant support received from the BAF, mirroring views of the Government team on the scheme.

45. The new BAF will provide increased direct free-of-charge advisory support to private enterprises, while also scaling up the total amount of matching grants available. Overall, funding available for free-of-charge, advisory services to potential and actual BAF clients, outreach, and grant administration will amount to US\$1.55 million, while US\$2.25 million will be available for matching grants. US\$100,000 will be used for a midterm evaluation and a final evaluation of the BAF. While advisory services will be available to all interested companies, they will be provided with preference to those companies interested in obtaining a matching grant. Being a demand-driven grant scheme, grants will then be extended on a first-come, first-served basis, subject to compliance with the manual. BAF grants will not be available to companies working in the extractives sector, hydropower, telecom operators, and banking services.

46. The operations of the BAF will be governed by the BAF Operations Manual, to be prepared ahead of effectiveness and approved by the World Bank, and which will have legally binding status, being incorporated by reference in the Grant/Financing Agreement. The BAF will be implemented by an independent contractor bidding for the contract to deliver outreach, advisory services, and the administration of matching grants. The contractor will be represented locally by the BAF Team Leader with staff solely responsible to the BAF Team Leader (with the same operational independence for the BAF team as the BAF Manager under the original BAF). After having been forwarded by the BAF Team Leader, the Government, through the Deputy Director General responsible for the NIU, will approve all grant applications, solely "confirming that the application is in compliance with the terms of the BAF Manual, and is thus automatically approved." He/she would not express any opinion as to whether the firm/activity would succeed or fail, recognizing that the Deputy Director General or the BAF Team Leader could not be held responsible if a particular grant recipient firm fails to meet its growth targets. The nature of the first-come, first-served, demand-driven approach is that, inevitably, some grant recipients will fail. 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 Deputy 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.

47. While the fundamental principle of the BAF is its demand-driven nature for accessing (co-)funding under the matching grants, lessons learned from the original BAF indicate the importance of broadening outreach and disseminating the opportunities offered by the BAF widely to ensure all companies have access to the facility.



48. To ensure that disadvantaged groups (for example, women, ethnic minorities, and rural enterprises) can effectively benefit from free advisory services and can get access to matching grants, the BAF contractor will be given specific targets for promotion, outreach, and the provision of free advisory service activities; and a target has been set for grants to go to women-led enterprises. The BAF contractor will report on these activities on a regular basis. In line with a broader outreach of the BAF (under the original BAF, only 25 percent of clients were outside Vientiane district), the Terms of Reference (TOR) for the contract would spell out that one BAF adviser would work exclusively with firms outside Vientiane district.

49. **The BAF team will consist of seven staff.** An international team leader, working part time and initially based in Vientiane until BAF is fully set up, will manage and will have overall responsibility for the operation of BAF2. A full-time locally recruited deputy team leader and gender specialist would ensure continuity of activity delivery throughout activity implementation. The team will further be staffed with three BAF advisers with strong private sector experience of their own. Two of these advisers will be based in Vientiane and one will be responsible for reaching out to provinces. The team would be supported by a locally hired accountant/administrator and one administrative assistant. To strengthen the BAF's perception of a separate entity, operating independently, and with a strong private-sector focus, the BAF will be housed outside government buildings, using commercially available office space. Following selection of the BAF contractor, the BAF Team Leader will take the location decision in line with commercial principles.

50. The supervisory structure for the BAF will be led by a 'BAF Task Force', chaired by the Project Director at NIU and comprising technical-level government officials. Quarterly reporting by the BAF Team Leader to the BAF Task Force in more detail than before would allow Government officers to monitor progress and achievements closely. Detailed case studies could be presented, subject to the client firm agreeing. As part of the reporting requirements, BAF quarterly reports to the BAF Task Force would include details of specific outreach activities and details of the types of firm receiving advisory services (firm size, location, ownership disaggregated by sex, and so on), the type of advice provided (business plan development, advice on grant applications, business start-up, regulatory advice, and so on), present disaggregated grantee data (by sex, firm size, geographic location), and reports on the activities of the regional BAF centers including explanations for their relocation if needed.

51. Matching grants will cover 50 percent of the tax-exclusive amounts incurred by grant beneficiaries, while all additional directly incurred taxes will also be paid from the matching grants fund, effectively increasing the grant amount to more than 50 percent from the recipients' point of view (and keeping it constant at 50 percent from the Government's point of view). To ensure effective implementation of BAF2, the Government will ensure that the management of tax-related documentary requirements will be improved.

#### **Pillar D: Supporting Better and More Inclusive Policies**

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



### Component D.1: Project Management and Coordination (US\$1,800,000)

53. This component will support the DPC and especially the NIU in overseeing implementation of the project and monitoring of implementation progress and achieving outcomes. All support from development partners is currently closely coordinated by the NIU and supervised by a joint Steering Committee, the PEC, chaired by the Minister of MOIC. During implementation of past projects, the NIU, headed by a Director of Division and supported by Government staff and full-time consultants, has built strong experience with project management and supervision.

54. The NIU will be the main Government counterpart for the implementation of the project, responsible for supervising project implementation across all implementing departments inside and outside MOIC, providing work planning, implementation and management support, and procurement services (including TORs quality control and activity management). It will further support the NIU in preparing the PEC meetings and ensuring all critical issues affecting project implementation are discussed and addressed. To support intergovernmental coordination of policy making and prioritization beyond the areas supported by this project, funds will also support the NIU in its role as Secretariat to the TPSWG, a coordination mechanism on policy making and Government donor coordination. The TPSWG is co-chaired by the Minister of Industry and Commerce and the EU.

55. With the NIU is tasked by Ministerial Decree to coordinate all trade-related TA for MOIC, effective project management for the LCTP will also require continued technical capacity building of Government staff to allow such effective coordination across an increasing number of support activities.<sup>35</sup> Building on support provided under TDF-1 and TDF-2, the project will finance TA to the NIU to support their technical role in managing this program-based approach through (a) a full-time national private sector development adviser to in particular support technical implementation of activities under Pillars A and C; (b) a gender expert supporting the Government in identifying gender-specific constraints and designing gender-informed policies and initiatives aimed at increasing the participation of women-led companies in the economy and ensuring gender-specific barriers can be addressed; (c) a national private sector consultant to support implementation of activities to improve the business environment, with a focus on Pillar A and the Challenge Facility under Component A.3; (d) a national trade analyst to support implementation of activities with a focus on Pillar B; (e) a national coordinator for the BAF, donor coordination, and support to the TPSWG; (f) consulting staff to support evaluation, monitoring, and outreach/communications; and (g) national technical consultants as required.

56. Strong fiduciary standards maintained through the implementation of TDF-1 and TDF-2 through leadership of the NIU justify the continued support to the NIU for project implementation and oversight. The NIU will retain centralized responsibility for all procurement and FM under the LCTP. The project will support the NIU with TA to access necessary support from consultants to ensure effective fiduciary oversight, including but not limited to the following: (a) part-time international procurement advisory services, (b) a full-time senior national FM adviser, and (c) full-time national FM and procurement consultants as required.

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<sup>35</sup> These include the Enhanced Integrated Framework (EIF) Tier-2 project, United States Agency for International Development (USAID) LUNA II project, GIZ-funded RELATED and IAI projects, and a potential new EU-funded project.



**Component D.2: Improving Policy Making and Transparency (US\$600,000)**

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

**Subcomponent D.2.1: Improved Economic Analysis (US\$450,000)**

58. This subcomponent will provide funding to the DPC to undertake needed economic analysis that would lead to improved and evidence-based policy making. Funds under this subcomponent are also available to other relevant departments in the MOIC and other related ministries on an application basis. A short proposal form will be used with final allocation being managed by the NIU. Among the studies identified and likely receiving funding are the following (list not exhaustive): (a) preparation of the Government Report for the WTO's Trade Policy Review planned for after 2019 that would be led by the Department of Foreign Trade Policy, (b) a cost-benefit assessment of the impact of concession agreements and other incentive regimes on the economy that would be led by the MPI, and (c) a study on how to measure differentiated impacts of trade and business environment challenges on disadvantaged groups.

**Subcomponent D.2.2: Transparent Information Dissemination (US\$150,000)**

59. The subcomponent will also continue to support the Government's efforts to ensure public access to trade-related information with the objective of generating a transparent and predictable policy environment. In particular, this subcomponent will continue to co-fund (building on TDF-2) the maintenance of the LTP, the Lao Services Portal, and the e-Certificate of Origin system for part of the project and it will also support the Government in other relevant transparency initiatives. The subcomponent will also provide continued technical capacity building to the Government staff updating the portals to ensure long-term sustainability. As part of the project, the Government would ensure that these systems would be fully funded from Government resources at least two years before project completion when support to these activities will end under the LCTP, ensuring their sustainability beyond the LCTP. To this end, the Government will prepare a sustainability plan within the first year of project implementation.

**Component D.3: Supporting Public-Private Dialogue (US\$500,000)**

60. This component will continue to support the existing PPD under the LBF to effectively address the challenges faced by the private sector in Lao PDR, including those faced particularly by small, regional, start-up, and women-led enterprises. With support from TDF-2, the LBF under the leadership of LNCCI has made good progress to take actions on solving main issues and challenges faced by the private sector and the 10th LBF (March 2017) demonstrated strong engagement of Government stakeholders. Two notifications issued by the PM Office in 2017, No.1052/PMO (July 21) and No.1194/PMO (August 9) clearly mandate line departments to act on the decisions of the LBF, strengthening the leverage of the LBF to effectuate change. With the PM Order from February 1, 2018, directing improvements in the DB indicators, this role is further strengthened.

61. With support from a strategic and inclusiveness adviser funded under TDF-2, the LBF Secretariat designed a strategy to become more effective in implementing decisions taken and making the LBF more inclusive. Building on initial positive impacts, this component will support the LBF in fully implementing



this strategy by encouraging participation of small, regional, and women-led enterprises in the PPD, ensuring that they are effectively consulted, their concerns captured and formulated in an actionable manner with support from the LBF Secretariat, and represented and acted upon in the LBF. The component will fund one full-time national experienced researcher and part-time support from an international inclusiveness adviser for the implementation of this strategy. The inclusiveness of outreach and the number of issues raised as a result of this approach will be measured and reported by the LBF team.

62. The component will continue to support the general administration of the LBF, improve capacity of LBF Secretariat staff and private sector representatives to formulate issues in policy-actionable terms, and support the LBF in coordinating with other relevant reforms, such as the TFS. It will fund one full-time national coordinator, a full-time administrative assistant, and make funding available to conduct in-depth analysis and research on issues raised under the LBF to support evidence-based discussions and solutions. Where relevant, this analysis will include a gender lens to ensure that concerns of and challenges that women-led enterprises face are adequately understood.





## ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY : Lao People's Democratic Republic  
Lao PDR Competitiveness and Trade Project

### Project Institutional and Implementation Arrangements

1. **Implementation arrangements build on the successful project implementation arrangements employed during TDF-1 (P106165), TDF-2 (P130512), and the A2F (P131201) since 2008.**
2. **The PEC, chaired by the Minister of Industry and Commerce (or designee), will function as the Steering Committee for the project.** As other projects implemented and coordinated by the MOIC are also steered by the PEC, this ensures coherence and coordination across development assistance in the areas of trade and private sector development, allowing the PEC to explore and exploit synergies from all projects. Membership of the PEC consists of representatives from all line departments involved in projects overseen by the PEC, while representatives from development partners funding such projects are invited to attend as observers. To allow for effective monitoring of the reforms supported particularly under this project, a representative from the PM's Office of at least Director General level will join all PEC meetings to ensure close links with the PM's reform agenda. This will complement the PM's Office oversight through the IPSC. As is currently practiced, the PEC will continue to meet every 12 months but will review and endorse work plans for implementation of this project every 6 months following recommendation by the PRC for this project (approvals will be through email when not meeting physically). The PRC will consist of technical-level officials and will be chaired by the Director General of the DPC, preparing inputs for the decision-making PEC. Other key stakeholders may be invited to participate in meetings of the PEC as observers.
3. As under TDF-1, TDF-2, and the A2F, the NIU in the MOIC will be the central executing agency responsible for overall project implementation monitoring, fiduciary oversight, and providing technical, procurement, and FM support to implementing departments responsible for the technical implementation of project components or those implementing Challenge Facility proposals. In close collaboration and agreement with implementing departments, the NIU will also be responsible for preparing the work plans that will be discussed at the PRC and which the PEC will review and endorse. To ensure monitoring of the broader implementation of the PM Order No. 2 (February 2018), the NIU will coordinate on a bi-weekly basis with the IPD at the MPI providing secretariat services to the IPSC chaired by the Deputy PM.
4. **Implementing departments** are Government departments or other agencies directly responsible for the technical implementation of project components as outlined in the Project Document and further specified in work plans approved by the PEC. Among those implementing departments, three lead implementing departments will play a relatively larger oversight and coordination role jointly with the NIU. These lead implementation departments are the DERM (MOIC), the DIMEX (MOIC), and the IPD (MPI).
5. The NIU, in coordination with the relevant lead implementing departments, will allocate elements of project implementation to implementing departments depending on their responsibilities for reforms





and TA outlined in the Project Document. Each designated implementing department will be responsible for providing inputs into work plans covering their activities, for the timely delivery of specific outputs, and providing progress reporting to the PEC. Implementing departments will work closely with the NIU and report to the NIU on all financial, administrative, and procurement issues.

**6. Challenge Facility modality. Under two components, a ‘Challenge Facility’ modality will be employed for which the NIU will clear criteria and a short and standardized template for proposals, formalized through Challenge Facility guidelines prepared by the NIU and approved by the World Bank.**

Under Component A.3, funds will be available to support priority reforms under the PM Order for any of the relevant implementing agencies as long as the proposed activities are in line with the PM Order, improve the business environment in line with international good practice, and include support to fully implement any supported regulatory changes on the ground. The IPD will provide advisory support in designing these proposals and review them for quality before they are submitted to the PEC for endorsement. All activities within an approved proposal must be completed within one year, after which any unspent resources will be returned to the facility. Ministries expected to submit proposals in the initial phase are the Bank of Lao PDR and the Ministry of Justice. Under Component B.2, proposals will support priorities in implementing TFA commitments. The project will support priority measures in the TFA based on three criteria: (a) there is strong commitment and ownership from the line departments, (b) revision of the measures includes the adoption of TFA principles and standards, and (c) measures must be streamlined and simplified. The proposals will be prepared and submitted by line departments following the guidance from the support staff of the TFS. A technical review committee will be established to perform due diligence technical review of the proposals before recommending them for PEC approval. This will be led by the TFS (DIMEX) and consist of the experts supporting the TFS as well as the NIU. Prioritization of proposals will be aligned with the TFRM action plans. Ministries expected to submit proposals are Customs, MOIC, MAF, MOST, and MOH.

**7. The BAF will be governed by the BAF Operations Manual, implemented by an independent contractor, and supervised by the NIU.** The contractor will be represented locally by the BAF Team Leader with staff solely responsible to the BAF Team Leader (with the same operational independence for the BAF team as the BAF Manager under the original BAF). Annex 1 provides further details.

8. The project design reflects a multiparty partnership between the Government, the World Bank, and co-financing donors. The World Bank, as Administrator of the MDTF, will ensure that funds are used in accordance with the requirements of the Grant/Financing Agreement and approved work plans. 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 and agreed as indicators in the minutes of negotiations; (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, IFRs, and project progress reports submitted by the NIU; (d) ascertain the extent of compliance with Grant/Financing Agreement Covenants; and (e) review the continued relevance of the project to priorities of the Government, the World Bank, and donors. MDTF co-financing donors will be invited to participate in these missions, starting with a joint meeting between the World Bank and the donors. In addition, regular informal meetings, including quarterly update meetings, will be held between the World Bank and MDTF co-financing donors to discuss progress of the project, exchange views on project implementation, and share relevant reports and other project documents provided to the World Bank. These meetings will



also be used to resolve any performance or relationship issues and ensure maximum coordination and cooperation.

## **Financial Management**

### **Summary of the Financial Management Assessment**

9. The assessment was carried out in accordance with the Bank's Directive 'Investment Project Financing'. The assessment is based on assessment of FM performance of the NIU in the implementation of the previous IDA-financed projects and an additional assessment carried out in May 2018. The NIU will continue to be responsible for overall FM of the project. The assessment was carried out to assess if the existing FM capacity and systems of the NIU are adequate for the project. Based on our initial assessment, the NIU's Finance Unit is adequately staffed and equipped with acceptable FM procedures and systems. An acceptable FMM is in place. FM staff comprised both the Government and consultants. NIU staff have gained extensive experience implementing many IDA-financed projects namely TDF-1, TDF-2, and the A2F. The NIU also has experience implementing a number of other donor-financed projects. Hence, current FM capacity at the NIU is considered adequate for the project. It is expected that the same Finance Unit staff will continue working for this project. FM performance had been satisfactory with clean audit opinion. The World Bank team will carry out implementation support missions to assess continued adequacy of FM capacity and systems twice a year. The project is also subject to annual audit of the project's financial statements until the project closes. The IFRs are also required to be prepared and submitted. The overall FM risk is considered moderate.

### **Budgeting and Planning**

10. Planning and budgeting procedures will be similar to TDF-2. Each implementing departments will be responsible for the preparation of annual component work plans and corresponding budget. An annual budget will be prepared in accordance with the annual work plan and with sufficient details by project component/subcomponents. The budget will be consolidated by the NIU finance team. The work plan together with the budget will be discussed and endorsed at each Technical Executive Committee (TEC) meeting, a Steering Committee for the project. The TEC will meet biannually.

### **Accounting Policies, Procedures, and Internal Controls**

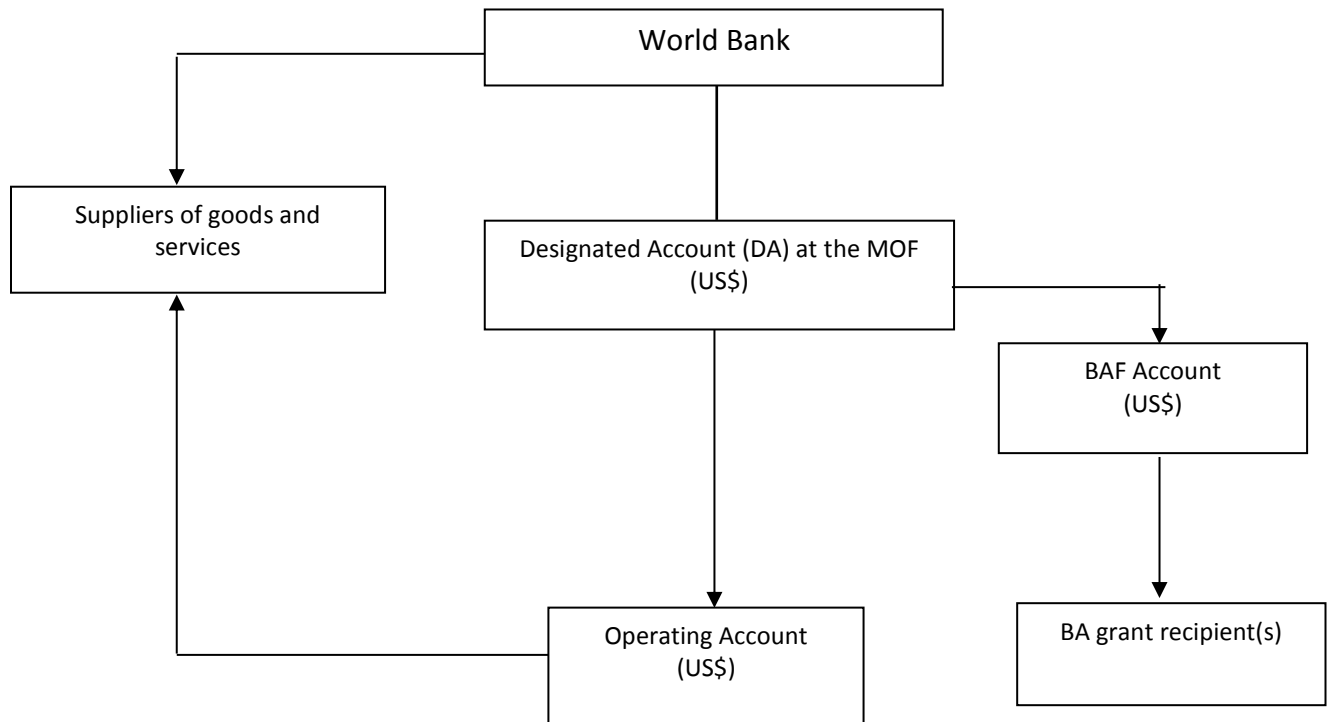
11. The project will use cash basis of accounting and follow a double entry system. Accounting policies and procedures are documented in the FMM. It is envisaged that the project will follow the same accounting policies and procedures as TDF-2. The NIU will also upgrade the existing accounting software (Quickbook version 2014) to a newer version

12. Internal controls on payments authorization, check signing, safeguarding and use of assets, reconciliations, and segregation of duties have been outlined in the FMM, which has been deemed acceptable by the World Bank. It is envisaged that this will not change from TDF-2. Disbursement and documentation requirements for the BAF grants will follow those described in the BAF manual.



## Fund Flows

Figure 2.1. Funds Flow Arrangements



13. Funds flow arrangements will remain the same as TDF-2 as depicted in figure 2.1.

14. **Designated Account.** Funds will flow from the World Bank to a DA to be opened at the Bank of Lao PDR and managed by the National Treasury. The ceiling of the DA will be variable based on six monthly forecasts of expenditure.

15. **Operating account.** Funds will flow from the DA to this account and will be replenished periodically. This account is opened at a local commercial bank ensuring timely and efficient payments of small transactions. The NIU will manage this account. This account will have the same ceiling as TDF-2 at US\$250,000.

16. **BAF grant account.** To ensure timely and efficient reimbursement to grant recipients, another bank account dedicated to store funds for the BA grants will be opened and will have a ceiling of US\$200,000. The NIU will manage this account.

17. Management of bank accounts and controls are included in the FMM.

## Financial Reporting

18. The project's financial report/statements will be prepared by the NIU Finance Unit. An IFR shall be prepared every six months and submitted to the World Bank no later than 45 days after each semester end. The IFR shall report on at least the sources and uses of funds, variance analysis, or progress report against work plan and budget.



19. The project's financial reporting will follow the Government's financial reporting period from January 1 to December 31.

#### **Audit Arrangements**

20. Qualified auditors with TOR acceptable to the World Bank shall be appointed within six months of project effectiveness. The annual audit shall also include an audit of a sample of BAF grants provided to the recipient during the year. The audit report shall be submitted to the World Bank within six months of the end of each fiscal year.

21. 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 by disclosing on the Trade for Development website ([www.t4dlaos.org](http://www.t4dlaos.org)). The NIU will upload the audit report and audited financial statements onto this website promptly, within one week of submission to the World Bank. The audit report and audited financial statements shall remain available for public access on [www.t4dlaos.org](http://www.t4dlaos.org) throughout the implementation of the project and beyond.

#### **Disbursements**

22. The disbursement methods will be advances, direct payments, and reimbursement. A DA opened at the Bank of Lao PDR, managed by the National Treasury, will be used. The DA will be denominated in U.S. dollars. The ceiling will be variable based on six monthly forecasts. Supporting documentation required for eligible expenditures paid from the DAs are Summary Sheets with Records and Statement of Expenditures (SOEs). Reimbursements will also be documented by the SOEs. Direct payments will be documented by records. The frequency of reporting of expenditures paid from the DAs shall be monthly or a period not exceeding three months. Minimum application size for direct payment and reimbursement is US\$100,000 or equivalent.

23. Disbursement shall be made against the following expenditure categories in accordance with financing percentages between IDA credit and the MDTF that will be fixed across all components and defined through the work plans where it can be adjusted periodically.

- (a) Consultant services, non-consultant services, goods, training and workshops, and incremental operating costs
- (b) Business assistance grants

24. The project will have a disbursement deadline date (final date on which IDA will accept applications for withdrawal from the recipient or documentation on the use of Credit and Trust Fund Grant proceeds already advanced by IDA) of four months after the closing date of the project. This 'grace period' is granted to permit the orderly project completion and closure of the Credit and Trust Fund Grant account through the submission of applications and supporting documentation for expenditures incurred on or before the closing date. Expenditures incurred between the closing date and the disbursement deadline date are not eligible for disbursement. All documentation for expenditure forwarded to IDA for disbursements will be retained and be made available to the external auditors for their annual audit, and to IDA and its representatives if requested. If auditors or the IDA implementation support missions find that disbursements made were not justified by the supporting documentation (including IFRs and SOEs),



or are ineligible, IDA may, at its discretion, require the recipient to (a) refund an equivalent amount to IDA or (b) exceptionally, provide substitute documentation evidencing other eligible expenditures.

**Procurement**

25. Procurement under the project would be carried out in accordance with the World Bank’s “Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing” (hereinafter referred to as “Procurement Regulations”) dated July 1, 2016, revised November 2017; and the provisions stipulated in the Financing Agreement. The project will be financed by the World Bank and the MDTF. Procurement under national procurement procedures as agreed with the World Bank will be carried out in accordance with national regulations, including Procurement Decree No. 03, dated January 9, 2004; IRR No. 0063 issued by the MOF on March 12, 2004, and No. 0861/MOF, dated May 5, 2009 (amended version); and the Procurement Manual dated May 2009. Conditions for use of such procedures will be stipulated in the Procurement Plan. Under the proposed project, the World Bank’s planning and tracking system, STEP, will be used.

26. **Procurement Capacity and Risk Assessment.** A procurement capacity and risk assessment of the NIU was conducted. The NIU has been familiar with IDA-financed procurement through experience with TDF-1 and TDF-2 (including additional financing). There are two procurement consultants handling the procurement activities for TDF-2 additional financing (one full time national procurement officer and international procurement adviser on an intermittent basis). The same implementation arrangements have been carried on since TDF-1. The international competitive contracts have been handled by international procurement adviser in TDF-2 additional financing and expected to continue in the new project. Technical inputs will be provided by the three lead implementing departments with support from the national senior technical adviser. The NIU’s current procurement capacity is considered adequate for the project.

27. Although the NIU and the lead implementing departments have experience conducting procurement in accordance with the World Bank procurement procedures through the implementation of previous IDA-funded projects, there are some risks informed during the assessment as listed in table 2.1.

**Table 2.1. Identified Procurement-Related Risks and Mitigation Measures**

Risk/Risk Area	Proposed/Agreed Mitigation Measures	Time Frame for Implementation	Responsibility
Limited knowledge and experience of the MOIC and the NIU with the World Bank’s New Procurement Framework and Regulations that may cause project implementation delays and noncompliance.	Provide procurement training for NIU staff, including initial training during project preparation and in-depth on-the-job procurement trainings during project implementation.  Continue contract with an international procurement adviser to assist the NIU to carry out procurement activities on an intermittent basis.	During implementation	NIU
Limited in-house capacity with international competitive selection	A current international procurement adviser will continue with the new project to assist the NIU and provide knowledge	During implementation	NIU



Risk/Risk Area	Proposed/Agreed Mitigation Measures	Time Frame for Implementation	Responsibility
	transfer and capacity building to the national procurement staff.		
	The NIU to assign at least one full-time officer to work with the World Bank and the international procurement adviser	From appraisal and during implementation	NIU
Coordination risks among the NIU and implementing departments within the MOIC and between line ministries could result in delays Preparation of TORs in TDF-2 additional financing took approximately 4–9 weeks.	The NIU to appoint a project team with members from each department under the leadership of the NIU project director.	From appraisal and during implementation	NIU
	Strengthening the control and coordination arrangements between the NIU and the technical team in the implementing departments to ensure well-coordinated implementation.	From appraisal and during implementation	NIU
Lack of proper work plan activities and Procurement Plan.	Active and close discussions and involvement of the NIU, implementing departments, and the World Bank team in project planning and implementation activities.	From appraisal and during implementation	NIU, implementing agencies, and World Bank
	Undertaking procurement activities in parallel with project preparation activities to allow early start on the critical activities, for example, TORs for BAFs and automating enterprise registration.	From appraisal and during implementation	NIU
	Submission of annual work plans to the World Bank for no-objection at least one month before the start of fiscal year		
Delays due to MOF contract registration procedures. Multiple checking and transactions required at budget department, asset department, and payment separately at the World Bank. The process in TDF-2 additional financing took approximately 4–8 weeks	List out sequential steps and estimated processing time for contract registration and propose to portfolio review meeting; feed this information to licensing reform team for possible inclusion into the reform agenda.	During implementation	NIU and World Bank
Limited contract monitoring and management skills and tools to ensure efficient and timely contract implementation. This may lead to delays with processing of contract amendments.	Strengthening the control and contract monitoring arrangements between the NIU and the lead implementing departments. Technical team in the implementing departments to ensure well-coordinated implementation.	Implementation	NIU
	Using STEP to monitor the contract completion.	Implementation	NIU



Risk/Risk Area	Proposed/Agreed Mitigation Measures	Time Frame for Implementation	Responsibility
Governance risks associated with conflict of interest, fraud and corruption, and collusive practices, which may adversely affect the efficiency and effectiveness of the project implementation.	Enhanced disclosure of procurement information, including publication of the annual Procurement Plan and a quarterly summary of the contract award information for all procurement packages on MOIC’s website and in newspapers.  Requiring staff involved in procurement to declare their interest and sign a declaration form and requiring individual consultants to submit applications in the required form.	Implementation	NIU
Potential unsustainability of three key portals (LTP, Lao Service Portal, and eCoO) after project closing	Letter of commitment and budget allocations from the Government for funding the key portals after project closure.	Implementation	NIU

28. **Procurement strategy and procurement approach.** The MOIC and the NIU have prepared a PPSD and the document (available in separate project files) has been agreed with the World Bank before negotiations. The PPSD presents how procurement activities will support the development objective of the project and deliver the best value for money under a risk-based approach. In addition, the PPSD includes the rationales for procurement decisions including the selection of the approach to market and procurement methods. The PPSD and the Procurement Plan of the project shall be regularly updated as appropriate during the project implementation.

29. The PPSD identified the following major TA activities: four TA assignments (a) consulting firm for management of the BAF (US\$1.55 million); (b) three medium consulting firms under Pillar A, that is, Starting a Business and complementary reforms (US\$650,000); (c) automation of company registration (US\$550,000); and (d) streamlining of 36 priority licenses and publishing all licenses through licensing portal (US\$750,000). The PPSD shows that the above activities are considered high risk because they are critical to the project, of relatively large value, and the contractual period is long term. It also demonstrates that activities above are attractive to the international market.

30. The remaining consulting services under the project are relatively small assignments such as project financial audit, midterm and final assessments, surveys, and so on, with cost estimate ranging from US\$80,000 to US\$100,000 and other consulting assignments are mostly of relatively small scale with cost estimate ranging from US\$30,000 to US\$300,000, for international and national technical expertise.

31. The remaining budget of the project will finance minor procurement of goods and other activities such as training and workshops.

32. All activities listed in the Procurement Plan can be contracted based on conventional selection methods, such as Quality- and Cost-Based Selection (QCBS), Quality-Based Selection, Selection Based on the Consultants’ Qualifications (CQS), Least-Cost Selection, Direct Support, and Individual Consultant for consultants and Request for Quotation for goods. Based on the PPSD, the QCBS method is encouraged to be used for relatively large contracts such as contracts with cost estimate of US\$300,000 equivalent or





above. Thus, selection of an international project management firm for the BAF and other three critical assignments shall also be selected based on the QCBS method. The remaining consulting assignments are mostly of relatively small scale with cost estimate ranging from US\$30,000 to US\$300,000. The PPSD analysis concluded that there may not be sufficient national consulting firms and the international procurement approach will be considered as appropriate for the assignment with CQS selection method. For individuals, some positions that do not require international experiences and have the qualifications and experience in national market, the national approach would be used. The international market approach should also be considered for the contracts that need international experience and international consultants would be beneficial to the project implementation.

33. The procurement of goods comprises vehicles, office equipment, and furniture, which are relatively of simple nature and small value. The market research as part of the PPSD showed that there is a sufficient number of potential suppliers in the country that have the capacity to supply this type of goods. Therefore, it proposes to use the Request for Bids method for the contracts with cost estimate of US\$100,000–US\$600,000 equivalent with national market approach. The Request for Quotation method will be used for the contracts with cost below US\$100,000 with national market approach, including three vehicles that cost slightly over US\$100,000.

34. **Procurement Plan.** Based on the PPSD, the initial Procurement Plan was prepared by the NIU and agreed by the World Bank at negotiations. The Procurement Plan will be entered in STEP and would be updated at least annually by the NIU to (a) reflect project implementation, (b) accommodate changes that should be made, and (c) add new packages as needed for the project. All Procurement Plans and their updates or modifications will be subject to the World Bank’s prior review and no-objection. Contracts not subject to prior review will be subject to post review. The World Bank will carry out procurement post reviews on an annual basis with an initial sampling rate of 20 percent, which will be adjusted periodically during project implementation based on the performance of the project.

#### **Environmental and Social (including safeguards)**

35. Because the project will support the implementation of the 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, or lead to labor influx. Therefore, the World Bank’s policies on involuntary resettlement and indigenous people are not triggered for this project. While the project is unlikely to result in adverse social impacts, it has been designed to have a positive social impact, primarily by ensuring that the activities supported benefit SME, rural, and women-led enterprises. This includes measures to provide computer terminals in provincial offices to allow for easier submission of documentation and enterprise registration, supporting PPD under the LBF with a strong emphasis on regional and women-led enterprises, and supporting delivery of free advisory services for women-led or regionally based enterprises.

36. The project activities will focus on policy reforms while the proposed matching grant will support private enterprises in improving their competitiveness through co-funding business development services rather than physical investments. The project 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. There will be no civil works or machinery or construction





activities under the project. There will also be no construction for a new building for the 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 is classified as category 'C'. No safeguard instrument will be required.

37. Climate and Disaster Risk Screening has been completed by using available tools and the project was classified as low risk from climate hazards. While precipitation and flooding, strong winds, and droughts could impact workers and productive facilities, these risks are unlikely to occur on a large scale or have significant and large-scale impacts. Climate and Disaster Risks are not expected to affect regulatory reforms or overall trade flows (other than potentially through impacts of disasters on economic activity and aggregate production).

### Monitoring and Evaluation

38. The NIU will be responsible for overall monitoring and evaluation (M&E) of project outputs and impact, as well as the development and monitoring of annual work plans. Having strong experience with M&E under TDF-1 (P106165) and TDF-2 (P130512), the NIU will collect all relevant information from line departments as well as publicly available indicators and keep the Results Framework up to date. The NIU will formally report progress on all indicators (summarized in the Results Framework in section VII) during implementation support missions. In addition to collecting relevant data from Government sources, the NIU will also be responsible for undertaking larger evaluation assessments such as for the BAF or the baseline study on trade clearance times. The NIU will identify one staff or consultant responsible for these activities.

39. The 2018 Enterprise Survey data are currently being collected and will be used as a baseline where relevant. Enterprise Survey data are expected to be collected also in 2020 and 2022. A midterm review mission will assess progress in achieving the PDO. An Implementation Completion and Results Report will be prepared by the Government and by the World Bank team within six months after the project closes to assess the project's achievements.

### Role of Partners (if applicable)

40. **The proposed project will be implemented with joint co-financing in the form of a grant from a new MDTF that is being established.** The co-financing modality will strengthen donor coordination and build on current successful coordination among projects funded by various development partners and implemented by the NIU. As mentioned above, continued support to the TPSWG will support the Government in ensuring coherent policy making and allow close coordination between this project and other support provided or planned by development partners. Co-financing development partners will participate in implementation support missions throughout project implementation.

41. In particular, these are the GIZ-funded RELATED and Regional Initiative for ASEAN Integration (IAI) projects, the USAID-funded LUNA II project, including a potential successor project, as well as a new EU-funded project that is in the design phase. Strong complementarity has also been ensured with the IFC-led Advisory Service Project on Investment Policy, that among other things, provides support to two DB indicators, 'Getting Credit' and 'Dealing with Construction Permits'. Table 2.2 provides a detailed overview of current and planned support activities and their links.



**Table 2.2. Recent and Planned Support for Trade and Private Sector Development**

Project Name	Funding	Period	Areas of Support	Comment
TDF-2	MDTF	2008–2012	Trade policy, WTO accession, trade facilitation, trade portal, TBT, SPS, sectoral support	Achievement of WTO accession in 2013
TDF-2	IDA and MDTF	2013–2018	Trade facilitation, NTMs, trade in services, SPS, labor standards, matching grants, PPD, business start-up, and operations	Builds on TDF-1, expansion to business environment in late 2016
Customs and Trade Facilitation Project	IDA	2008–2017	Customs modernization and automation, risk management, approved economic operators	Significant improvements in customs clearance times
Licensing Project	IFC	2012–2016	Obtaining company seal, corporate governance, ‘Getting Electricity’, ‘Construction Permits’	Some improvements but overall limited impact
Investment Policy	WBG	2016–2020	Investment law reform, investment reform mapping, grievance mechanism, ‘Getting Electricity’, ‘Construction Permits’, approved economic operators	Builds on licensing project and customs project; new engagement on investment law and coverage of two DB indicators, ‘Getting Credit’ and ‘Construction Permits’
A2F	IDA	2014–2019	Credit lines to SMEs, TA for SME capacity building	Limited focus on regulatory reforms
Financial Sector Development Project	World Bank Group	2016–2019	Development of stable and inclusive financial sector, including insolvency, getting credit, contract enforcement, minority investors	Support ending in 2019
RELATED	GIZ	2014–2018	Regional economic integration, regulatory reforms, private sector support to benefit from the ASEAN Economic Community	Focus on challenges from a regional angle, regional compliance and coherence.
Regional Initiative for ASEAN Integration (IAI)	GIZ	2015–2017	Barriers to trade and investment in services sectors, with a focus on tourism and health Training for companies on ASEAN single market	Regional project: supports Cambodia, Lao PDR, Myanmar, and Vietnam
LUNA II	USAID	2014–2018	Regulatory reforms for compliance with WTO and ASEAN commitments	Coordination of activities on the ground to exploit synergies and avoid duplication
Second Private Sector and SME Development Program 2	ADB	2013–2018	Enterprise registration, regulatory impact assessment framework, geographical indicator system, SME export development	Support focused on connecting registration offices, not improving processes



<b>Project Name</b>	<b>Funding</b>	<b>Period</b>	<b>Areas of Support</b>	<b>Comment</b>
ARISE Plus Lao PDR	EU	2019–n.a.	Sector-specific business environment constraints, productive capacity, supply-side constraints, climate change resilience, business competitiveness, and investment in selected sectors	Designed to complement the LCTP by MOIC request
Future USAID Project	USAID	2019–n.a.	To be confirmed	The MOIC as expected counterpart will request project to align to the LCTP



## ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY : Lao People's Democratic Republic  
Lao PDR Competitiveness and Trade Project

### Strategy and Approach for Implementation Support

- 1. The Implementation Support Plan is based on experience under TDF-1 and TDF-2 projects.** While the NIU has strong experience with implementing World Bank-funded projects, and capacity has increased over the past, a significant part of project supervision and management has been managed by project staff. The Implementation Support Plan therefore is built around continuing to strengthen capacity of Government staff and continuing to provide inputs for quality assurance of component execution and support to managing inter-ministerial coordination processes. The risks for adequately handling procurement and FM processes are limited but implementation support will also be available in these areas should the need arise. Support to M&E of project indicators will also remain important.
- 2. Quality and efficiency of project implementation.** Because the design of TORs will be essential to ensuring TA provided will fully respond to Government needs, the World Bank team expects to continue to provide detailed advice to the design of TORs. The support strategy further foresees providing best practice examples from other countries regarding the actual implementation of reforms and ensuring that all relevant stakeholders will be on board. Such support will be provided in-country by the local World Bank team, which will also obtain inputs from global experts based in other locations. Implementation Support Missions will provide the opportunity to discuss bottlenecks in greater detail, including gender expertise. To support the Government to focus strategically on (emerging) priorities, the World Bank team also expects to provide guidance and advice to the design of the annual work plans.

### Implementation Support Plan and Resource Requirements

- 3. Implementation Support is expected to be particularly strong in the initial period of project implementation.** In particular, it will be important to start the procurement processes for firm contracts to implement the BAF as well as support moving from an ex ante to ex post regulatory approach to enterprise registration. Additional support will be provided to those agencies expected to develop and implement Challenge Facility proposals, in particular those with less experience with World Bank-funded and recipient-executed projects to date. As is good practice, two full implementation support missions per year are expected to take place, and additional technical support missions will be undertaken where components are not implemented as planned or bottlenecks arise.
- 4. Support missions will comprise key experts for each component and will at times include a gender expert to support the Government in their efforts to address gender-related challenges.** They will also include representatives from the development partners contributing to the joint co-funding MDTF. In addition, frequent day-to-day support will be provided by the team members based in Vientiane who will provide continuous support, including at short notice outside formal mission periods.



Time	Focus	Skills Needed	Resource Estimate	Partner Role
First 12 months	Procurement for BAF Business Registration	Matching grants consultant BR expert	US\$10,000 US\$20,000	
	Identify Challenge Facility Proposals (B)	Trade facilitation expert	US\$20,000	
	Identify Challenge Facility Proposals (A)	Financial sector expert	US\$15,000	
12–48 months	FM Procurement	FM specialist Procurement specialist	US\$10,000 US\$10,000	
	M&E Reform Implementation	M&E expert Economists	US\$10,000 US\$40,000	

Skills Mix Required			
Skills Needed	Number of Staff Weeks per Year	Number of Trips	Comments
Project management and economist	8	2	World Bank staff
Matching grants expert	2	2	Consultant
Business registration expert	4	2	World Bank staff
DB reform expert	1	1	World Bank staff
Trade facilitation	4	2–3	World Bank staff/consultant
Gender	2	1	World Bank staff
Procurement	3–4	2	World Bank staff
FM	3–4	2	World Bank staff

Partners		
Name	Institution/Country	Role
Australian Embassy	Australia	Co-donor participating in missions



ANNEX 4: Theory of Change

