



1. Project Data

Project ID P130512	Project Name Lao PDR Trade Development Facility 2	
Country Lao People's Democratic Republic	Practice Area(Lead) Macroeconomics, Trade and Investment	
L/C/TF Number(s) IDA-H8190,TF-14189,TF-A3946	Closing Date (Original) 31-Mar-2017	Total Project Cost (USD) 15,998,590.96
Bank Approval Date 04-Dec-2012	Closing Date (Actual) 30-Sep-2018	
	IBRD/IDA (USD)	Grants (USD)
Original Commitment	4,000,000.00	12,400,000.00
Revised Commitment	16,284,433.43	12,288,287.54
Actual	15,998,590.96	12,288,287.54

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2. Project Objectives and Components

a. Objectives

The project development objective (PDO) of the Second Trade Development Facility (TDF-2) project, as set out in the Financing Agreement (page 5), was "to support the implementation of the Recipient's trade and integration priorities outlined in the DTIS Roadmap, and in particular to contribute to improved competitiveness and diversification, focusing outside the natural resource sectors." The DTIS is the 2012 version of the government's Diagnostic Trade Integration Study for participating in the multilateral trading system (an earlier version was published in 2006).



The Project Appraisal Document (PAD) substantively had the same PDO.

Achievement of project objectives (Efficacy) will be assessed on the basis of how the “trade and investment priorities” outlined in the DTIS were achieved. The trade and investment priorities included: (i) establishing a trade and investment environment that was to lower compliance costs for traders; (ii) improving competitiveness, value, and quality of agri-business, manufacturing, and service sectors; and (iii) improving the aid-for-trade governance framework for trade.

b. Were the project objectives/key associated outcome targets revised during implementation?
No

c. Will a split evaluation be undertaken?
No

d. Components

The project had three components:

Component 1: Trade facilitation, trade policy and regulations (estimated cost at appraisal US\$5.60 million; actual cost US\$5.69 million, including Additional Financing (AF) of US\$200,000). The component was to expand on successful trade facilitation measures and trade policies introduced under the first TDF (TDF-1), introducing a one-stop shop to reduce red tape and regulatory barriers, and providing support to World Trade Organization access negotiations and trade-related research. The component included the following four sub-components:



Sub-component 1: Trade facilitation support. The sub-component was to include: (i) implementation support for a Trade Facilitation Secretariat; (ii) capacity building for managers in trade-related agencies; and (iii) support to develop the Lao trade portal.

Sub-component 2: Non-tariff measures review and rationalization. The sub-component was to support the streamlining and harmonization of non-tariff measures. Activities included: (i) classifying, reviewing, and simplifying domestic non-tariff measures; and (ii) assessing the impact of non-tariff measures faced by Lao exporters.

Sub-component 3: Trade in services. This sub-component was to improve the regulatory environment affecting services trade.

Sub-component 4: Trade in goods. This sub-component was to support Lao PDR in meeting obligations for joining the WTO, and for effective participation in the Association of Southeast Asian Nations (ASEAN); and in taking full advantage of trade opportunities from participating in the multilateral trading system. Activities were to include: (i) strengthening trade policy coordination mechanisms; (ii) disseminating commitments and building capacity on trade remedies; and (iii) further strengthening the legal framework for sanitary and phytosanitary measures.

Component 2: Diversification and competitiveness (estimated cost at appraisal US\$4.10 million; actual cost US\$5.01 million, including US\$1.1 million of AF). This component was to introduce activities to support the private sector in raising productivity and competing in the international marketplace, focusing on non-natural resources sectors. Activities aimed to facilitate the more effective participation of SMEs in the international economy with a focus on supporting women's economic environment, achieving better skills and labor standards in the garment sector, and increasing transparency for business registration and regulatory requirements. The component included the following two sub-components:

Sub-component 1: Business assistance. The sub-component was to support private SMEs in building their skills and experience for better international competitiveness. Activities included: (i) consulting services, advising firms on business growth plans; (ii) matching grants to assist firms in purchasing specialized business development services in support of growth plans; and (iii) impact evaluations of services provided.

Sub-component 2: Labor standards and manufacturing productivity. Building on activities in the garments sector under TDF-1, this sub-component was to improve productivity, competitiveness, and labor standards in the garments manufacturing sector. Activities included (i) a factory standards improvement scheme; and (ii) transitioning the Garment Skills Development entity towards financial and operational independence.



Component 3: Mainstreaming aid-for-trade (estimated cost at appraisal US\$4,30 million; actual cost US\$5.30 million). The component included the following three sub-components:

Sub-component 1: National Implementation Unit (NIU), and Trade and Private Sector Development Working Group (TPSDWG). The sub-component was to build stronger technical capacity in trade and private sector development policy within the Ministry of Industry and Commerce (MIC) to support more effective implementation of activities financed under TDF-2, and more widely as part of a movement towards a program-based approach to trade policy. Activities included capacity building in the NIU, including support to its role as Secretariat to the TPSDWG.

Sub-component 2: DTIS roadmap challenge facility. A challenge facility was to be established making resources available to support implementation of smaller priority activities identified within the DTIS roadmap on a demand-driven basis.

Sub-component 3: Research and policy analysis. Building on successful activities under TDF-1, this sub-component was to support improved trade and private sector development policy formulation, and better measurement of the impact of policies

Significant Changes During Implementation

US\$2.5 million in AF was provided in December 2016, drawing on a Multi-Donor Trust Fund (MDTF) supporting aid-for-trade (see Section 2e). Additional sub-components were added to the project, but the PDO remained unchanged. One PDO indicator was replaced to provide a more precise target for exports. That change does not warrant a split evaluation of the project. Likewise, intermediate indicators were adjusted, amending targets on existing indicators and introducing four new intermediate indicators.

Components were revised as follows:

Component 2. To allow the private sector to benefit from improvements in the trade policy environment, the component was broadened to include one additional sub-component: business regulations review and rationalization related to entry and operations of enterprises. This sub-component was to increase



transparency and predictability of obtaining business registration certificates and key operating licenses, and support related capacity building in relevant government offices.

Component 3. To strengthen the coordinating role of MIC in trade and private sector-related questions, a sub-component on public-private dialogue was added. It was to support MIC in improving and making more inclusive the Laos Business Forum (LBF), and the Lao National Chamber of Commerce and Industry in implementing a more inclusive LBF.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project cost. At appraisal, the total cost of the project was estimated at US\$14 million. AF added US\$2.4 million. Actual project costs at completion were US\$16 million, the difference reflecting exchange rate fluctuations..

Project financing. IDA contributed US\$4.0 million. The project was co-financed by a Recipient-Executed MDTF Grant of US\$ 10.0 million, financed by MDTF contributions from the Australian Agency for International Development, the European Union, the Deutsche Gesellschaft für Internationale Zusammenarbeit, and Irish Aid.

Dates. The project was approved on November 1, 2012 and became effective on May 8, 2013, with an original closing date of March 31, 2017. AF was approved on December 16, 2016, at which time the closing date was extended to September 30, 2018. The project closed on that date.

3. Relevance of Objectives

Rationale

The project's objectives were relevant to the country situation, government policy, and World Bank strategy. With increasing openness to trade as a result of its commitments to ASEAN and its entry into the WTO), Lao PDR is facing a situation where an expanding natural resources sector risks dominating exports and hindering economic diversification and the growth of non-mineral business development and exports. The goal of diversification was first introduced under TDF-1, and the purpose of TDF-2 was to focus and deepen some of the main initiatives introduced under TDF-1. This aligned with the country's updated DTIS, which included the three trade and integration priorities indicated in Section 1a. It also aligned with the Country Partnership Framework (CPF) for FY17 to FY21. The CPF, while recognizing that advances have been made in trade and competitiveness under this project, includes continued World Bank support for the MIC's ongoing trade and competitiveness program as well as its work on the Lao Investment Climate.



The project also formed part of a country trade program supported by the Bank in partnership with Australia, the European Union, Germany, and Ireland, to facilitate entry into the WTO.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Establish a trade and investment environment that was to lower compliance costs for traders

Rationale

Achievement of the objective involved trade facilitation reforms, including improved transparency, predictability, and lower compliance costs for traders.

The government developed a trade facilitation road map covering the period 2017 to 2022 to guide the work of a National Trade Facilitation Committee (NTFC) set up in 2018 and supported by an NIU, established under TDF-1 to serve as NTFC's secretariat for trade facilitation issues and priorities, to ensure effective coordination, monitoring, and implementation of the road map. NTFC/NIU staff received capacity building technical assistance under the project, seen as essential in view of its complex responsibilities. Capacity building completion rates attained 90 percent in 2018, as targeted.

All non-tariff measures have been catalogued, mapped and published on the Lao PDR Trade Portal, increasing transparency in the trade environment. As a result, the number of hits (visits) to the Portal have increased from 7.18 million in 2013 to 428.76 million in 2018, far exceeding the target of 200 million.

The mean number of days required to obtain import licenses declined from 20.7 in 2013 to 8 in end-January 2019, compared to a target of 14.2 days. Once import licenses were obtained, the mean number of days to clear imports declined from 10.6 to 3.2, compared to a target of 5.3 days. The mean number of days to clear exports declined from 7.5 to 7.2, compared to a target of 3.8 days.



The number of products at 6-digit level of the Harmonized System with exports exceeding US\$100,000 in a year increased from 282 in 2013 to 325 in 2016, against a 2018 target of 300 (data for 2018 is not available).

The mean number of days required for service firms to obtain in-country operating licenses declined from 14.7 in 2009 to 10.1 in 2018, compared to a target of 12.6 days.

The number of new regulations adopted affecting the telecoms (7) /insurance (4) /professional services (3) sectors reached 14, compared to a target of 8. It is, however, too early to assess their impact.

The share of firms identifying customs and trade regulations as a major constraint increased from 6.8 percent in 2009 to 11.4 percent in 2018, compared to a targeted decrease of 2.80 percent.

In summary, the activities and results listed above did move trade facilitation forward in terms of speed of processing and easing of the regulatory burden. At the same time, regulations were still seen as burdensome, even more so than before. The ICR indicated that this may have been due to non-customs agencies role in regulating traded goods; they were not supported under the project.

Rating
Modest

OBJECTIVE 2

Objective

Improve competitiveness, value, and quality of agri-business, manufacturing, and service sectors

Rationale

The objective was to be achieved by facilitating participation of non-natural resource sector small and medium-size enterprises in the international economy; raising skills and labor standards in the manufacturing sector; and supporting women's economic empowerment.



To facilitate competitiveness, (i) a matching grants scheme, the Business Assistance Facility (BAF), was established; (ii) a new system of labor inspection was introduced to help improve labor standards on a voluntary basis; and (iii) simplified business registration procedures were introduced.

As a result,

- The cumulative number of business assistance (matching grant) grant approvals reached 208 in mid-2017, compared to a target of 150. An independent evaluation, using a sample of 30 firms and a control group of similar firms, found that the benefiting firms enjoyed growth of 16 percent in sales from 2013-2017, while the control group saw a decline of 5 percent over the same period.
- The average percentage of female owned businesses among the approved BAF applications was 34 percent, compared to an original target of 40 percent and a revised target at AF of 30 percent. Among female owned businesses, the share of female employees was 42 percent, compared to a target of 30 percent (not revised at AF).
- Labor inspection was strengthened on a voluntary basis to improve labor standards in Lao garment factories. Labor standards were assessed in 10 factories, compared to a target of 5. Initially, a target of 20 had been set, but there was limited interest among local firms, and only large and mainly foreign firms participated.
- The number of new company registrations per year in non-resource sectors increased from 4,353 in 2015 (the indicator was introduced at the AF) to 8,859 in 2018, compared to a target of 4,658. The initiative implied shifting registration certificates from a general business license to a simple registration requirement.

In summary, these outcomes indicate some improvements in competitiveness, primarily in terms of firm growth (in female employment and new company registrations). Outcomes were more modest in female business ownership, where the original target was not met, and in improvements in labor standards among domestic firms.

Rating
Substantial

OBJECTIVE 3

Objective

Improve the aid-for-trade governance framework for trade

Rationale

The objective was to move aid-for-trade governance towards a coordinated program-based approach to managing resource flows from donors, the process operating under the TPSWG and seeking to ensure that poverty, distributional, and gender issues were mainstreamed into trade and private sector development policy making. It also included increasing the effectiveness of the Lao Business Forum in its role as a means



of dialogue between the business community and the government, and increasing the focus on women in the business community.

The ICR (page 17) indicated that in the NIU, coordination was effective across projects (NIU was managing six major projects at the time this project was being implemented), as reflected in it serving as a model for other countries. However, the ICR also noted that coordination was focused on MIC activities, with less attention given to other sectors, such as tourism and agriculture.

The perception of the Lao Business Forum's effectiveness in communicating between the business community and the government, notably about business regulations and their rationalization, improved. A review of Forum members indicated that 94 percent of interviewees classified the Forum as at least somewhat effective (42 percent somewhat effective, 52 percent very effective), compared to a review in 2014 that indicated that 40 percent classified it as somewhat effective and 10 percent as very effective.

The cumulative number of issues and concerns raised by small enterprises and acted on by the Lao Business Forum was 10, equaling the target.

The share of firms with female ownership/management declined from 39 percent to 36 percent, against a target of increasing to 47 percent.

Rating
Substantial

Rationale

The priority objectives were rated **modest** once and **substantial** twice. A leading consideration driving the project was the diversification of exports beyond natural resources. While the government and donors recognized that natural resource exports (hydropower and minerals) were likely to continue to dominate the economy, diversification into non-minerals would at the same time be necessary to create employment opportunities and promote meaningful poverty reduction. Here, the removal of constraints on the growth of other sectors such as manufacturing and services, notably non-tariff barriers, were essential parts of policy. In key areas, TFD-2 moved the agenda forward, although it still may be premature to determine how successful non-mineral exports and their impact on employment or poverty are.



Overall Efficacy Rating

Substantial

5. Efficiency

No traditional quantitative measures of efficiency were applied, either at appraisal or in the ICR, as the project was a technical assistance project. There were elements that contributed to increasing efficiency as well as reducing it. Implementation experienced an 18-month extension, in part with the introduction of AF from the MDTF that allowed the project to be expanded and the results to be strengthened. Implementation may also have been affected by two changes in task team leaders, and government concerns about procurement rules, exacerbated by the absence of Bank procurement expertise in Laos. Efficiency gains were also achieved during project design, as the same project implementation unit, NIU, was used that was already familiar with the Bank from TDF-1. While the use of international consultants was costlier than using civil servants, it was also cost-effective in accelerating implementation and providing capacity building for local counterparts.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of objectives was rated **high**, as the objectives aligned with government and World Bank strategy. The priority objectives were rated **modest** once and **substantial** twice, based on output and outcome assessments. Efficiency was rated **substantial**. These ratings indicate moderate shortcomings in the project's preparation and implementation, leading to an Outcome rating of Moderately Satisfactory.

a. Outcome Rating

Moderately Satisfactory



7. Risk to Development Outcome

The risk to development outcomes is low. However, it did show weakness in meeting gender objectives and labor standards, which may indicate some risk in the future. The project was a follow-up operation based on government priorities articulated in its DTIS, and it was introduced in a context where Lao PDR was actively seeking openings to international trade, i.e. it was joining the WTO, and it was striving to adapt to the ASEAN environment. For that, it has established a robust system of fiduciary controls with the help of the donor community, including the two Bank projects, TDF-1 and 2. This engagement is further being strengthened through an ongoing Bank Competitiveness and Trade project (US\$13 million, 2018-2022).

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was strategically relevant, building on the government's DTIS and drawing on the experience under TDF-1. Initially intended to be more focused than TDF-1, it evolved into a more complex design, albeit with innovations that ultimately would be successful (for instance, the matching grant scheme under Objective 2). Other innovations would not be as successful, notably the introduction of labor standards and the promotion of female entrepreneurship, where results were to fall short of targets. The results framework was output-focused (which is often the case with technical assistance projects), and the links between immediate outcomes and PDO impact therefore not very well defined. The risk analysis appears realistic, and well addressed in the design phase with the heavy emphasis on the government's DTIS. Overall, quality-at-entry therefore had moderate shortcomings.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

Project supervision took place on a semi-annual basis and appears to have been thorough without major disruptions despite there being three separate TTLs. Government concerns during implementation – relating to the BAF and procurement rules causing delays – were resolved with some delay, but without serious impact on project progress.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory



9. M&E Design, Implementation, & Utilization

a. M&E Design

The results framework was designed to capture outputs from the different activities: specific implementation results, changes in capacity, and uptake of policy and institutional reforms. In addition to the monitoring data, the M&E design included data from periodic enterprise surveys. Outcomes are longer term, and with the focus of the project on promoting non-resource exports, the project's three outcome indicators are difficult to attribute only to project inputs.

b. M&E Implementation

Data were collected during regular supervision missions, and when enterprise survey data were available.

c. M&E Utilization

M&E information was used to measure progress on project activities. When appropriate, as in the case of BAF indicators, corrective measures were taken when the program was falling behind targets. The enterprise survey data provided additional information for corrective action, albeit on a more periodic basis.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

No safeguard policies were triggered by the operation. It was classified in environmental assessment category C.

b. Fiduciary Compliance

Financial management. No issues were indicated in the ICR.



Procurement. The NIU raised concerns about World Bank procurement rules and delays (related to TTL changes and the procurement advisor being located in Cambodia). All such issues were solved, albeit with minor delays in implementation.

c. Unintended impacts (Positive or Negative)

None indicated in the ICR.

d. Other

None indicated in the ICR

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	QAE: deficiencies in the results framework.
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

The introduction of a challenge facility provides flexibility to adapt to new challenges during implementation. The introduction of a "challenge facility" under the project made resources available to rapidly respond to small emerging priorities in public agencies that fit within the government's trade integration strategy. For instance, an electronic procedure for obtaining certificates of origin were developed, and a toxic chemicals law was prepared. While the facility turned out to be a flexible means to respond to small priority activities, it also created a risk of expanding the scope of the project and involving too many stakeholders.

A well-defined results framework can be especially useful when implementing technical assistance projects. TDF-2 was a technical assistance project that included capacity building and building for reform. During preparation and implementation, new opportunities arose that expanded on the project and, while useful and ultimately justified, contributed to postponements in implementation that a more rigorous results framework might have avoided. In particular, the experience underlines the disadvantage of not having a clearly defined theory of change. Export promotion was stressed in the PAD, while the PDO focused on diversification more



generally. Designing a clearer theory of change in the beginning, outlining how supported reforms, including ones initiated under the challenge facility, were going to affect economic outcomes, might have facilitated the selection and design of activities.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

As this was a technical assistance project, the evidence of success (or failure) was essentially based on analysis of outputs rather than outcomes, as verifiable outcome data was likely to appear only after some time. A more thorough discussion of the linkages between the immediate outcomes and the longer-term ones of competitiveness and diversification would have been helpful, as would a more structured narrative of activities and results. That said, the evidence was sufficient to allow an assessment of the results and ratings.

a. Quality of ICR Rating Substantial