

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: AB7268

<b>Project Name</b>	Lao PDR Customs and Trade Facilitation Project - Additional Financing
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Lao People's Democratic Republic
<b>Sector</b>	Central government administration (100%)
<b>Project ID</b>	P144992
<b>Parent Project ID</b>	P101750
<b>Borrower(s)</b>	Ministry of Finance
<b>Implementing Agency</b>	Lao PDR Customs Department
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	March 3, 2013
<b>Date of Appraisal Authorization</b>	March 11, 2013
<b>Date of Board Approval</b>	May 28, 2013

### 1. Country and Sector Background

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

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

Government's broad direction of development is described in the 7th National Socio-Economic Development Plan (NSEDPP), which outlines clear and specific objectives for increased international and regional integration as a means of achieving economic and social development targets. Accession to the World Trade Organization (WTO) and implementation of commitments at the ASEAN level remain high priorities. A key challenge will be to follow through with fuller implementation of legal reforms enacted in recent years. This will be especially challenging in a post-WTO accession environment when, evidence from other countries shows, reform momentum may begin to slow.

Trade facilitation performance is improving, but high logistics costs due in part to a landlocked supply chain, continue to tax competitiveness and limit the scope for diversified growth. Improvements have been made through reform to customs processing procedures, through the introduction of an automated customs declaration processing system (ASYCUDA World) and via investments in better border infrastructure. Time Release Survey data shows that the mean customs clearance time has reduced from 17.9 hours in 2010 to 11.2 hours in 2012. This result is consistent with World Bank enterprise survey data which also shows that manufacturing firms reporting that the average number of days to import and export has fallen. Perceptions of trade facilitation performance in Lao PDR

have also seen progressive improvements under the global Logistics Performance Index<sup>1</sup>. However, gains in Lao PDR are from a low base and the country continues to compare unfavorably against neighboring Vietnam and Thailand.

Accession to the WTO has been a core policy objective over recent years and has acted as a driver of reform to the trade-related legislative framework. Lao PDR became a WTO member in February 2013 after fifteen years of negotiations. Encouraging steps have been taken to improve inter-agency border coordination through the establishment of a National Trade Facilitation Secretariat in 2010, and the approval by the Cabinet of a National Trade Facilitation Strategy and Action Plan in 2011. Information on trade-related processes and procedures is now published online as a part of related efforts to harmonize and simplify redundant border requirements<sup>2</sup>. However, while much of the higher level legislation now meets WTO norms in terms of transparency and non-discrimination, implementation of lower level regulations lags behind resulting in less-than-anticipated actual benefits to the private sector<sup>3</sup>. Similarly for Lao PDR to fully benefit from an open economy, reform of domestic market institutions and strengthening of the legal framework and regulatory environment will need to reach beyond that required for WTO accession.

The proposed Additional Financing to the Customs and Trade Facilitation Project aims to support government objectives to achieve high rates of economic growth that translate into meaningful poverty reduction, as outlined in the Seventh NSEDP. Increased trade, openness and integration can act as a powerful driver of pro-poor growth, but only if the right policies are put in place and risks are carefully managed.

## **2. Project Development Objectives**

The objective of the project is to facilitate trade by improving the efficiency and effectiveness of customs administration. The project will simplify customs procedures, eliminate duplication and redundancy, reduce transaction costs and time to clear goods, and increase transparency and accountability.

Key performance to achieve the Project Development Objective of LCTFP-AF will be measured through the following two main project outcome indicators:

- (1) Customs efficiency
  - Reduction in the mean import, export, and transit clearance times; and
  - Reduction in the number of steps to clear commercial shipments.
- (2) Customs effectiveness
  - Increase in the ratio of detections/inspections by Customs; and
  - Increase in the perception of Customs performance and integrity by clients.

## **3. Rationale for Bank Involvement**

The Customs and Trade Facilitation Project – Additional Financing forms a core part of the World Bank Group's new 2011-15 Country Partnership Strategy (CPS) for Lao PDR, which in turn is closely aligned with the Seventh NSEDP. Additional Financing to CTFP will form a major part of efforts to achieve CPS Strategic Objective 1: "Improving competitiveness and connectivity", and in particular CPS Outcome 1.1: "Strengthening government capacity to support growth diversification and competitiveness".

The project also forms part of an ambitious and integrated country trade program supported by the World Bank in partnership with Australia, the European Union, Germany and Ireland. This includes a related IDA and Multi Donor Trust Fund financed project – the Second Trade Development Facility Project<sup>4</sup> – as well as a National Single

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<sup>1</sup> Lao PDR's score under the Logistics Performance Index has improved from 2.08 in 2007, to 2.17 in 2010 and to 2.38 in 2012. However, in 2012 Lao PDR still ranked 113 out of 155 countries.

<sup>2</sup> The launch of the Lao Trade Portal ([www.laotradeportal.com](http://www.laotradeportal.com)) in June 2012 brought the country into line with GATT Article requirements to put information on import and export process requirements into the public domain.

<sup>3</sup> Lao PDR ranks 165 out of 183 countries according to the 2012 Doing Business indicators.

<sup>4</sup> P130512: Lao PDR Second Trade Development Facility Project, 2013-17 (US\$ 4.0m IDA grant, co-financed by a US\$ 10.0m MDTF grant).

Window Non-lending Technical Assistance activity<sup>5</sup>. The proposed additional financing will assist the LCD to play a major role in furthering the government's wider trade facilitation and national competitiveness agenda.

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

The World Bank has extensive experience in institutional reform of customs administrations having managed over 120 related projects over the past twenty years. Lessons from other Customs operations were incorporated into the CTFP's original design and monitoring framework and have likewise been incorporated into the design of the proposed additional financing operation. The Bank's project team draws heavily on technical expertise from the International Trade Department and the Information Communications Technology Department, and project personnel have established a strong and credible professional relationship with client officials.

#### **4. Description**

Component Name

- Automation Support (including Implementation of ASYCUDA World)
- Organizational Development (including Customs Modernization Support)

#### **5. Financing**

Source:	(\$ m.)
BORROWER/RECIPIENT	0.00
IDA Grant	6.00
Total	6.00

#### **6. Implementation Arrangements**

The Steering Committee on Customs Reform and Modernization will continue to supervise implementation of the project, chaired by the Vice-Minister of MoF. Membership consists of representatives from relevant departments of the Ministry of Finance, as well as from other lines ministries with a role at the border, and representatives of the private sector. The World Bank participates as an observer.

The CTFP Project Implementation Unit (PIU) within the Customs Department is responsible for day-to-day implementation of the project, including work planning, progress and results reporting, procurement and financial management.

#### **7. Safeguard Policies (including public consultation)**

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<sup>5</sup> P130772: Lao PDR National Single Window Preparation, 2012-13 (Non-lending technical assistance activity financed via a US\$ 1.35m grant from the global Trade Facilitation Facility MDTF).

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment (OP/BP 4.01)		X
Natural Habitats (OP/BP 4.04)		X
Forests (OP/BP 4.36)		X
Pest Management (OP 4.09)		X
Physical Cultural Resources (OP/BP 4.11)		X
Indigenous Peoples (OP/BP 4.10)		X
Involuntary Resettlement (OP/BP 4.12)		X
Safety of Dams (OP/BP 4.37)		X
Projects on International Waterways (OP/BP 7.50)		X
Projects in Disputed Areas (OP/BP 7.60)		X

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