

**Lao People’s Democratic Republic**

**SECOND TRADE DEVELOPMENT FACILITY**

**Implementation Support Mission – November 2016**

**AIDE MEMOIRE**

<b>KEY PROJECT INFORMATION</b>			
Project Number	P130512	IDA Grant Number	H8190
Signing Date	March 28, 2013	MDTF Grant Number	TF014189
Effectiveness Date	May 8, 2013	Grant Amount	US\$ 14.0 million
Closing Date	March 31, 2017	Disbursements	US\$ 9.43 million

1. A implementation support mission for the Second Trade Development Facility (TDF-2) Multi Donor Program took place in Vientiane, Lao PDR between October 31<sup>st</sup> and November 4<sup>th</sup>, 2016. The mission team was led by Mr. Mombert Hoppe (Senior Trade Economist and Task Team Leader) and included technical staff from the World Bank as well as representatives from Australia/DFAT and the European Union. A full list of mission members is provided in Annex 2.

2. The team would like to express its gratitude to H.E. Mme. Khemmani Pholsena (Minister of Industry and Commerce) for her leadership. The team would also like to sincerely thank Mr. Phouvieng Phongsa (Deputy Director General, Department of Planning and Cooperation) and all the members of the many departments within the Ministry of Industry and Commerce who kindly met with and invested significant time in working with the mission team, prior to and during the mission period.

3. In accordance with the mission announcement letter dated October 14, 2016, the purpose of the implementation support mission was to:

- a. Review overall project implementation progress performance, and provide technical support to the implementation of each component;
- b. Project results monitoring and evaluation;
- c. Review and support procurement and financial management performance, progress and procedures in support of project implementation;
- d. Coordination with other related projects in the Lao PDR aid-for-trade program.

4. This implementation support mission was the fifth full implementation support mission undertaken since the beginning of the project. The Aide Memoire covers progress made since the last support mission in May-June 2016. As part of the World Bank’s Access to Information policy, the team sought guidance from the implementing agencies as to whether the Aide Memoire would be publicly disclosed. It was agreed that it would be publicly disclosed.

**I. OVERALL PROGRESS**

5. The mission notes that project implementation is proceeding at an encouraging pace, with significant progress being made across most TDF-2 sub-components, including legislative processes. However, implementation under the NTM and Trade in Services sub-components is progressing only slowly and MOIC will need to monitor progress very closely

to ensure both sub-components can meet project deliverables in time and generate meaningful results that contribute to the Project Development Objective. Overall, ratings for implementation performance and for progress towards the achievement of the Project Development Objective remain to be considered ‘Satisfactory’. Strong progress under the Business Assistance Facility (BAF) where funds have been fully committed and 50% have been disbursed as well as the component on labour standards are encouraging.

6. There are only 5 months left before the original end of the project (in March 2017), while the processing of Additional Financing is under way and should be completed soon, extending the project to September 2018. However, as agreed during earlier missions, planned activities should be completed as initially planned while some components will be fully completed by the original end date. Therefore TDF-2 remains at a critical phase in its implementation. The project needs to significantly accelerate implementation of key issues such as the Services Trade and Investment Portal, undertake significant and meaningful regulatory reforms in the area of NTMs, ensure legislative changes are completed to deliver results to the country (in particular approval of primary and secondary legislation for the Sanitary and Phytosanitary framework and including secondary legislation for Food Safety), and approving the Decree to setting up of the Telecommunication Regulatory Authority. **Overall, increased high-level political monitoring, guidance, and support to project implementation will be essential to achieve project outcomes. In this regard, it will also be important to fully commit remaining funds and accelerate disbursements to make sure all available funds will be used.**

## **II. STATUS OF PROJECT COMPONENTS**

7. The Second Trade Development Facility (TDF-2) is a multi-donor program financed by Australia, the European Union, Germany, Ireland, the United States and the World Bank focusing on improving trade and private sector development in Lao PDR. TDF-2, implemented by the Ministry of Industry and Commerce, has three main components:

- (A) Trade facilitation, trade policy and regulations;
- (B) Diversification and competitiveness; and,
- (C) Mainstreaming aid for trade.

8. The appraised value of the project is US\$14 million, with implementation over a period of four years, commencing in April 2013<sup>1</sup>. The original closing date for the project is March 31, 2017. Financing is pooled and provided via an IDA grant of US\$4 million equivalent and a Multi Donor Trust Fund grant of US\$10 million.

9. General progress overview is outlined below, and detailed progress regarding implementation of each component is reported in Annex 3.

### **COMPONENT A: TRADE FACILITATION, TRADE POLICY AND REGULATIONS**

#### **A1: Trade Facilitation Support**

10. *Key progress:* The Trade Facilitation Secretariat (TFS) met in August 2016 and continues to make some progress in its efforts to resolve trade facilitation issues and bottlenecks. DIMEX played an active role in advocating for reforms in TFS participating

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<sup>1</sup> All information on TDF-2 can be found on the project website at: <http://www.worldbank.org/projects/P130512/lao-pdr-second-trade-development-facility-project?lang=en>.

agencies, and significant processing time reductions that had been achieved for the production of import licenses for pharmaceutical products. Licenses can now be issued by the Food and Drug Department without the signature of the Minister of Health. An international Trade Facilitation Advisor has been hired and is reviewing implementation progress focusing on Category B and C measures. The Advisor will work closely with both DIMEX and all relevant agencies to develop a practical Action Plan with clear activities, timelines for implementation and appropriate progress monitoring mechanisms. The Lao Trade Portal (LTP) remains relevant and useful to the trading community evidenced by 89,000 hits during the period July – September 2016, and DIMEX keeps updating the portal, loading 74 regulations between April and November 2016.

11. *Identified Challenges:* However, the mission noted that the TFS has only met once during the last 12 months and that it needs to meet more regularly (at least twice per year), work more closely with the Lao Business Forum as it presents a useful opportunity to obtain private sector feedback on key trade facilitation bottlenecks, and report more proactively on progress made. Regarding the restructuring of the overall Committee structure on trade-related issues, the mission stressed the need to ensure the new structure will be functional and actively operating. Regarding the capacity building for managers in trade related agencies, the mission stressed that unless the officials that had participated in the train the trainer programs were mobilized to deliver training the skills would be lost and recommended to organize a training for MOIC staff to allow the trainers deliver a ‘practice training’. With regard to the LTP, DIMEX continues to face challenges in obtaining up to date information from participating line agencies. The mission stressed the need to ensure completeness of the portal and suggested that DIMEX review the full content of the portal to ensure all sections are up-to-date and that it may be an opportune time to reissue the MOIC decision requiring all agencies to provide information in a timely manner, and making use of the TFS and the newly established NTM Working Group to obtain this information. Regarding the electronic Certificate of Origin, the mission again encouraged DIMEX to look for opportunities for further process simplification.

## **A2: Non-Tariff Measures review and rationalization**

12. *Key progress:* Representing a major achievement, MOIC established a NTM Review Working Group in August 2016 which will report to the Trade Facilitation Secretariat. This Working Group, with representation from 16 key trade related agencies, is expected to meet for the first time in November 2016 and will be chaired by the Director General of DIMEX. The mission was advised that DIMEX has already started to work with some key line agencies including the Department of Agriculture, Department of Livestock and Fisheries and the Department of Food and Drugs to identify some prioritized measures for rationalization and streamlining (in particular regarding wooden products, vehicles and fuel). The final report on priority NTMs faced by exporters has been delivered and a validation workshop was conducted in August 2016. The report will be published by DIMEX and uploaded on the Lao Trade Portal.

13. *Identified Challenges:* Overall, little practical progress has been made since the time on the rationalization and streamlining of NTMs. Several NTMs are maintained simply for statistical purposes and the administration of many NTMs remains inefficient and imposes unnecessary costs on the trading community. The mission expressed its disappointment with the lack of progress being made on this important agenda and noted that a much greater level of commitment from DIMEX will be required to lead the rationalization effort, potentially

starting with the rationalization and streamlining of its own NTMs. Despite the conduct of several training activities for officials in both Lao PDR and elsewhere in the region, agencies remain reluctant to accept a common approach to identifying NTMs that could potentially be rationalized.

### **A3: Trade in services**

14. *Key progress:* Only limited progress has been made during the last year on the various activities under this sub-component and disbursements and planned commitments remain low. MOIC's role on trade in services is inherently challenging, and the mission acknowledged the heavy work load of FTPD. The mission, however, notes that attention must also be given to another MOIC key role, which is the monitoring of past commitments implementation. Progress has been made under the Insurance component where two consultants are being hired to support the Ministry of Finance with improving the regulatory framework of the insurance sector. Progress under the Professional Services sub-component is also advancing well. A two-day training for key government staff on legal aspects of trade negotiations was delivered in October 2016 in collaboration with the Advisory Centre on WTO Law (ACWL).

15. *Identified Challenges:* With limited progress made to follow up on the *Horizontal Regulatory Assessment*, FTPD agreed to task the newly appointed Trade Policy Advisor with identifying priority areas under this sub-component and developing an action plan as part as her initial duties. Progress with the implementation of the *Services Trade and Investment Portal (STIP)* continues to face challenges and is lagging behind the originally envisaged implementation plan. To date, only 84 of the around 294 documents are available in English, leaving over 170 instruments for translation. It was agreed that FTPD would allocate additional resources to this task and a local law firm will be hired to ensure timely delivery of the STIP. The mission strongly suggested that FTPD takes an active role in coordinating the process ahead, ideally by tasking the Trade Policy Advisor with a liaison role with the different actors involved.

### **A4: Trade in goods**

16. *Key progress:* The National Steering Committee for Economic Integration (NSC) Secretariat continues to be overloaded due to Lao PDR's chairmanship of ASEAN and work under the ASEAN Economic Pillar. The meeting of the 13<sup>th</sup> NSC originally planned for the end of 2015 has been again postponed and will not take place in November 2016. Progress with the implementation of the WTO Post Accession plan has also been very limited since June 2015, especially as no meetings of the NSC at the Secretariat level have taken place since May 2015 to maintain reform momentum at the technical level. However, the Law on Plant Protection has been submitted to the National Assembly and is scheduled for discussion during the November 2016 session. In a very positive development, the Law on Livestock and Veterinary Matters has also been submitted to the National Assembly and will also be discussed during this session, moving it forward from the last targeted date of June 2017.

17. *Identified Challenges:* FTPD should focus on ensuring no last minute changes affecting the high quality of the laws are introduced. Once approved, Lao PDR can enact the pending implementing regulations to complete the regulatory framework. As the contract with FAO ended in September 2016, the mission recommended that additional technical

support could be funded to ensure continued consistency of these implementing regulations with the laws prior to their enactment. In addition, as agreed during the last implementation support mission, approval of the secondary texts drafted for the implementation of the Food Safety Law at Ministry of Health should be accelerated to ensure that the Food Safety legislation be fully compliant with international commitments by the end of TDF-2.

## **COMPONENT B: DIVERSIFICATION AND COMPETITIVENESS**

### **B1: Business Assistance Facility**

18. *Key progress:* Progress under the Business Assistance Facility (BAF) has been strong. As of November 3, 2016, 200 applications with value of US\$ 1.27 million have been approved, and disbursements for 144 applications reached US\$ 663,000. The BAF has now exceeded the revised target for disbursements of US\$ 650,000 (as agreed during the Mid Term Review) and is well on track to achieve close to full disbursement. The share of grants issued to women led/owned enterprises has increased to 38 percent. Beneficiaries of the BAF program receive technical assistance in the form of business advice to help them grow their business, whether or not the firms actually apply for and receive a BAF grant.

19. *Identified Challenges:* The instructions issued by the Tax Office of Vientiane in February 2016 have clarified procedures on taxation associated with BAF's support, but issues still remain with individual applications and BAF recipients still have to take on a "tax enforcement" role towards independent service providers, generating additional delays and slowing down disbursements. With 5 months left under the contract to implement the BAF, the mission recommended that the BAF team prepare a detailed analysis of due dates for reimbursement applications, assess the risk of further delays for the outstanding 43 grants, and proactively work with companies well ahead of such due dates to ensure the remaining activities will be completed in time and all disbursements can be fully processed by March 2017.

### **B2: Labour standards and manufacturing productivity**

20. *Key progress:* Since the arrival of the second ILO Chief Technical Adviser in March 2016 this component is advancing well. The Ministerial Agreement 5523 on Labor Inspection is at the final stage for signature of the Minister of Labor and Social Welfare, due to start being implemented in January 2017. Together with the national Labor Inspection Plan for 2017-2020 (80% finalized), both are expected to improve significantly the framework for labour inspections. Three women inspectors have been added to the core group of 12 labor inspectors which have been trained. Two additional companies have signed up for the pilot scheme to help factories improve working conditions and productivity through advisory services. Two additional Workplace Improvement Committees have been established. Posters with key messages on the Lao PDR labour law have been produced and will be posted shortly in working places, and a video has been prepared. The Garment Skills Development Centre (GSDC) is now fully recuperating its operating variable costs due to significant work with a GIZ funded project. However, GSDC still generated a significant net operating loss once fixed costs are considered and continues to face difficulties in attracting sufficient participants to their trainings, particularly as direct training for companies.

21. *Identified Challenges:* A critical challenge is the sustainability of the labour standards scheme, given the limitations of Government funding to continue the work and implement the national Labor Inspection Plan beyond March 2017. All partners are currently exploring further funding opportunities, including the potentially to accessing the Challenge Facility, linking supported activities to clearly defined deliverables.

## **COMPONENT C: MAINSTREAMING AID-FOR-TRADE**

### **C1: National Implementation Unit, and Trade and Private Sector Working Group**

22. *Key progress:* The NIU continues to play an important role and its quality work is being recognized as a Ministerial Decision delegates the whole responsibility of use and management of ODA projects within MOIC to the Department of Planning and Cooperation. The next Program Executive Committee (PEC) is scheduled for December 6, 2016. The PEC is considered a successful program level steering committee overseeing all trade related initiatives. The Lao Business Forum (LBF) is tentatively scheduled for December 8, 2016, pending approval from the Prime Minister's Office. The most recent Trade and Private Sector Working Group meeting took place on October 20, 2016 with different presentations on NTMs, Customs Time Release Study and Trade Facilitation Secretariat progress report, Investment Promotion Law as well as highlights of LBF progress.

### **C2: DTIS Challenge Facility**

23. *Key Progress:* Under the Challenge Facility, an additional proposal (to support the insurance regulatory framework) has been approved, bringing the total number of proposals to eight. Six of these have been completed with a total budget committee of \$776,000, and \$566,000 disbursed.

24. *Identified Challenges:* The mission stressed the need to commit the remaining funds by the end of the year and encouraged the MOIC to ensure the Challenge Facility can be accessed by other agencies outside of MOIC, in order to be consistent with the objective of the Facility to be open to all Government ministries. The mission and Government agreed to organize a brainstorming session in November to discuss potential applications in more detail and allocate the remaining funding under the original amount.

### **C3: Research and policy analysis**

25. *Key Progress:* The international research advisor at ERIT continues to provide training and hands-on capacity building to ERIT staff, focusing on research methodology, developed and delivered a training course for policy note writing, and continues to oversee the implementation of the research facility. Two policy briefs were prepared since June 2016, and a third one is under preparation, while two additional proposals have been approved under the research facility. Two additional briefs have been completed published in June's Research Digest: the Utilization of Preferential Trade Agreements and the role of human capital in Lao's participation in regional production networks., ERIT estimates that at least

two of the additional papers will be publishable in the next Research Digest before March 2017.

## **MONITORING AND EVALUATION**

26. Project implementation remains broadly on track toward achieving the Project Development Objective (PDO). However, progress under two of the sub-components (A2 and A3) has slowed and efforts to accelerate implementation will be needed. For example, only limited progress has been made on reviewing and streamlining NTMs. The administration of many NTMs remains inefficient and imposes unnecessary costs on the trading community. On the other hand, indicators measuring the impact of the project show further improvements. For example, according to the WBG's 2016 Enterprise Survey for Lao PDR, the mean number of days to clear imports has further fallen from 3.3 in 2012 to 2 in 2016. Likewise, the mean number of days to clear exports has fallen from 5.6 in 2012 to 2 in 2016, and both indicators exceed their targets. The intermediate indicator on the mean number of days required to obtain import licenses also declined, indicating impact of the project. In contrast to this strong performance, Lao PDR's rank in the Logistics Performance Index (LPI) surprisingly dropped by 20 places to 152 in 2016, contrasting with improvements in customs performance and other indicators. The estimated value for the LPI score is now below its 2007 level although the LPI team confirmed that the change is not statistically significant due the small sample size.

27. In addition, output-level progress was made on BAF implementation to support private sector growth and development. It is now fully committed US\$1.2 million of the matching grant and distributed across many sectors including tourism and hospitality, manufacturing, agribusiness and handicraft. Small and medium firms accounts for 78% of all beneficiary firms. It is critical to closely monitor and ensure the committed BAF grants are used efficiently to bring about results in private sector growth and investment.

## **FIDUCIARY ASPECTS**

### **Procurement**

28. The mission reviewed the progress of pending procurement packages under the current TDF-2 project. There is a delay of one procurement package of goods (Software, Hardware and IT Equipment for Service Trade and Investment Portal) as technical inputs from the concerned departments have yet to be finalized. The mission suggested the NIU to coordinate with the concerned departments to get all technical inputs and start the procurement process to avoid any further delay. The mission suggested NIU to update the Procurement Plan for TDF-2 and submit it to the Bank for no objection by November 7, 2016.

29. The mission also conducted a procurement ex-post review for the procurement packages which were procured by NIU under the current TDF-2 project. There are no major issues found during the reviewing and the NIU have had a good understanding and satisfactorily implemented project procurement. All procurement process of contracts awarded during the review period were in line with the Bank's procurement guidelines

## Disbursements

30. As of November 3, 2016, cumulative disbursements, including DA balances, are:

No.	Currency	Allocations	Disbursements	% of disbursement	Undisbursed amounts
IDA H8190	XDR	2,600,000	1,957,475	75%	642,525
TF14189	US\$	9,900,000	6,707,451	68%	3,192,549

The total financing of the project is XDR2.6 million (US\$4 million equivalent) for IDA Grant and US\$9.9 million for TF. As of November 3, 2016, the disbursements for IDA Grant are XDR 1.96 million (US\$2.8 million equivalent) or 75% of the total IDA allocations; and the disbursements for TF are US\$6.71 million or 68% of the total TF allocations. Compared with the total disbursements recorded in the previous mission (25 May 2016), there is an average increase of around 9%. The total disbursements for both IDA and TF as of 3 November 2016 were **US\$9.53 million**. The project was about US\$1.3 million (or 13%) behind the originally projected disbursements by end of June 2016. Assuming there will be around US\$800,000 additional disbursements by the end of December 2016, the project would be about 14% behind the originally projected disbursements by the end of the quarter, not considering the Additional Financing.

## III. CONCLUSIONS

31. Overall, activities are moving ahead across all components and most sub-components of the project and Government ownership over TDF-2 continues to be strong. However, implementation under sub-components A2 (NTMs) and A3 (Trade in Services) have advanced only very slowly and there are risk to timely completion of both sub-components, including as amounts remain uncommitted. Disbursements remain broadly on track although they are expected to be around 14% behind initial estimates at the end of December 2016 (not considering the Additional Financing). It remains critical for the NIU to more closely monitor implementation and ensure effective execution, particularly of the two identified sub-components. In this regard, it would be important for the NIU to strengthen its guiding and oversight role and to increase the frequency of joint support meetings with the concerned departments, to help accelerate implementation and to ensure that all funds can be effectively committed and used by the end of the project. This enlarged responsibility would mirror the increasingly central role of the NIU in coordinating all trade-related technical assistance. However, higher-level political monitoring, guidance and support to project implementation would be important to overcome challenges and achieve project outcomes as such support has helped to overcome challenges in the past.

32. **Results focus during the remainder of the project and sustainability.** With a number of regulatory changes submitted to the National Assembly and pending approval, focus should shift towards ensuring such legislation and supporting regulations can maintain high standards and can be effectively implemented. With the NTM Review Working Group under the umbrella of the National Trade Facilitation Secretariat set up, real progress on NTM rationalization will require a renewed sense of political will and commitment. For the Trade in Services component to deliver results, it will be essential to ensure that the Services Trade and Investment Portal will be completed in time and according to agreed specifications. If need be, additional resources could be allocated to this activity. In addition, approving the

Telecom Decree that would set the framework for establishing an independent regulatory authority will be important. Remaining funds under the Challenge Facility need to be committed before the end of the year and before adding further resources as part of the Additional Financing. As far as sustainability and capacity building is concerned, it would be important for implementing departments to increasingly allocate time of non-project staff towards project execution to ensure tasks can be continued as consultancy contracts end.

33. *Next steps.* Additional funding of US\$2.5 million to the TDF-2 project has been made available by Australia and the World Bank is currently processing this “Additional Financing” to support a number of new activities, and to extend support to some of the well performing components. The TDF-2 project will also be extended by 18 months which will provide additional time to some components while adding two new sub-components. Still, most of the activities described under the original project document are expected to be completed as planned by March 31, 2017. Negotiations for amending the grant agreement are currently under way and the Additional Financing is expected to be signed before the end of November 2016.

34. The table of agreed actions below summarizes key issues and priorities that will need management attention:

<b>TABLE OF AGREED ACTIONS</b>				
	<b>Action</b>	<b>Responsible entity</b>	<b>Proposed timeline</b>	<b>Comments</b>
<i>Component A: Trade facilitation, trade policy and regulations</i>				
1	Develop a concrete action plan for the NTM components (from January 2017 to September 2018)	DIMEX	December 2016	Include costing of activities to assess possibility of freeing up funds for other components – to be agreed during PRC and PEC
2	Decide what action to undertake regarding the contract for the International NTM Advisor	DIMEX	15 November 2016	If contract is not extended, start as soon as possible new recruitment process to ensure continued support
3	NTMs Review Working Group to have its first meeting.	DIMEX	November 2016	
4	Review contents of the LTP to ensure links are up-to-date, key documents are translated and digitalized	DIMEX	December 2016	
5	Conduct a practice run within DIMEX for the trade facilitation trainers	DIMEX	November 2016	Before the translation of the training of trainers handbook is finalized
6	Agree on use of remaining funds under Trade in Services component to achieve project objectives.	FTPD	November 2016	
7	Task the newly appointed	FTPD	November 2016	Priority commitments to

	Trade Policy Advisor with identifying priority areas under the Horizontal Regulatory Assessment and developing an action plan as part as her initial duties.			be those under the regulatory purview of MOIC
8	Bring necessary additional support (national consultant or a law firm) on board to ensure timely completion of the STIP	FTPD	December 2016	
9	Establish a functioning management structure to ensure that the STIP is finalized by the agreed deadline	FTPD	November 2016 and March 2017	
<b>Component B: Diversification and competitiveness</b>				
10	Prepare detailed overview of outstanding letters of agreements, due dates, and activities likely to be delayed, and proactive action plan to ensure all funds can be disbursed by March 2017	BAF team	November 2016	Close monitoring will be required to ensure all resources can be disbursed in a timely manner.
11	Explore the possibility to have funding from the Challenge Facility to implement the National Labour Inspection Plan	MoLSW ILO NIU	December 2016	Focus on specific activities
<b>Component C: Mainstreaming Aid-for-Trade</b>				
12	Organize monthly reviews and meetings with each implementing agency on all outstanding activities	NIU	On-going	To closely monitor implementation as closing date is approaching (1 <sup>st</sup> week of the month – ideally at DG level)
13	Ensure that the original amount of the Challenge Facility is fully committed and review the guidelines to increase the funding threshold	NIU	December 2016	Pending from last implementation support mission
<b>Fiduciary</b>				
14	Start the procurement process for Software, Hardware and IT Equipment for Service Trade and Investment Portal	NIU	November 2016	Coordinate with concerned departments to get technical inputs
15	Submit updated Procurement Plan	NIU	November 7	Completed in time

**ANNEX 1: List of representatives of Government Agencies and Organizations met during the implementation support mission**

Ministry/Agency	Department/Unit	Name	Title
<b>Ministry of Industry and Commerce</b>	Planning and Investment Department	Mr. Phouvieng Phongsa	Deputy Director General
		Mr. Sengphanomchone	Director
	Official Development Assistance Division and NIU	Mr. Sengxay Phousinghoa	PSD Advisor
		Mr. Somsanith Ninthavong	FM Advisor
		Ms. Nitnida Phongsavath	Trade Officer
		Ms. Sodavanh Souvannaphoum	Deputy Director of Division
		Ms. Pakou Va	Trade Officer
		Ms. Thippaphone Vongxay	Trade Analyst
		Ms. Pinphakone Xayavong	Trade Analyst
		Ms. Viengxay Praphasiri	M & E Officer
		Mr. Keophouthone Inthivong	Procurement Officer
		Ms. Sonevilay Phaengthavah	Trade Officer
		Mr. Phoutsavong Phatsouda	PR Officer
		Ms. Vanida Vongmountha	
		Ms. Lattanaphone Vongsouthi	Deputy Director of Division
		Ms. Sinhдалone Akkharath	
		Ms. Southida	
	Ms. Noutchalin Sitaphone	Procurement Assistant	
	Foreign Trade Policy Department (FTPD)	Ms. Onida Vinavong	Deputy Director of Trade in Services Division
		Mr. Somphone Phady	
		Mr. Ouphachay	
		Mr. Silisack Malavong	Trade Analyst
		Mr. Nongchith Khambounheang	Head of Division
		Mr. Vilaxay Boupha	
		Ms. Vanhnapha Onexayvieng	Trade Officer
	Imports and Exports Department (DIMEX)	Mme. Banesaty Thephavong	Director General
		Ms. Lattana Douangboupha	Deputy of Division

Ministry/Agency	Department/Unit	Name	Title
		Mr. Vanhxay Keokhamphet	Head of CO Division
		Mr. Vilavong Southanilaxay	Officer
		Mr. Khambay	
		Mr. Sonemala Nouanthasing	Deputy Director of Trade Facilitation Division
		Mr. Shahid Meezan	Consultant
	Department of SME Promotion (DOSMEP)	Mr. Sa Siriphong	Deputy Director General
		Ms. Sitthiphone Vilaysom	
	Economic Research Institute for Trade (ERIT)	Mr. Xaysomphet Norasing	Deputy Director General
		Mr. Vannaxay Soukkhaseum	
		Mr. Mana Southichack	
<b>Ministry of Labour and Social Welfare</b>		Mr. Phetviengkham Phouthavy	
<b>ILO</b>		Ms. Kristina Kurths	Chief Technical Advisor
		Ms. Sommany Sihathep	
		Ms. Khemphone Phaokhamkeo	National Coordinator
<b>BAF</b>		Ms. Soudaphone	BAF Advisor
		Mr. Somchit Ounsoutivone	

## ANNEX 2: List of mission members

1	Mombert Hoppe	Senior Trade Economist, GTCDR (Task Team Leader)	World Bank
2	Konesawang Nghardsaysone	Trade Economist, GTCDR	World Bank
3	Gerard McLinden	Lead Specialist, GTCDR	World Bank
4	Martin Molinuevo	Senior Private Sector Specialist, GTCTC	World Bank
5	Latharo Lor	Procurement Specialist, GGODR	World Bank
6	Reaksmey Keo Sok	Financial Management, GGODR	World Bank
7	Elise Vanormelingen	Operations Consultant, EACLF	World Bank
8	Phet Udom Mainolath	Program Assistant, EACLF	World Bank
9	Rachel Jolly	First Secretary	DFAT
10	Mone Sysavath	Program Manager (Rural Development)	DFAT
11	Kalakate Xaythanith	Program Manager	European Union

## ANNEX 3: DETAILED PROGRESS BY COMPONENT

### COMPONENT A: TRADE FACILITATION, TRADE POLICY AND REGULATIONS

#### **A1: Trade Facilitation Support**

1. The trade facilitation component has three subcomponents: (A1.1) Trade Facilitation Secretariat and action plan implementation support; (A1.2) capacity building for managers in trade related agencies; and (A1.3) Lao PDR Trade Information Portal support and development. The TDF-2 trade facilitation agenda builds on the success of TDF-1 with the establishment of the Trade Facilitation Secretariat, Trade Facilitation Strategic and Action Plan, Lao Trade Portal (<http://www.laotradeportal.gov.la>) and the Roadmap for Harmonization and Simplification. There are also close linkages with the ongoing IDA Customs and Trade Facilitation Project, implementation by the Lao Customs Department, Ministry of Finance<sup>2</sup>.

#### ***A1.1. Trade Facilitation Support and Action Plan Implementation***

2. This subcomponent was designed to support the Trade Facilitation Secretariat (TFS) housed in DIMEX to fully achieve its objective of serving as the principal vehicle for discussing national trade facilitation issues and priorities and ensuring effective coordination, monitoring and implementation of Lao PDR's National Trade Facilitation Strategy and Action Plan.

3. The mission met with the Director General of DIMEX and staff to discuss progress on trade facilitation matters. The mission was advised that the Trade Facilitation Secretariat (TFS) met in August 2016 and continues to make some progress in its efforts to resolve trade facilitation issues and bottlenecks identified during consultations in Vientiane and in the provinces. The Director General noted that DIMEX has continued to play an active role in advocating for reforms in TFS participating agencies and highlighted the significant processing time reductions that had been achieved for the production of import licenses for pharmaceutical products. Licenses can now be issued by the Food and Drug Department without the signature of the Minister of Health.

4. While acknowledging the efforts of the Secretariat, the mission highlighted the fact that the TFS has only met once during the last 12 months and that it needs to meet more regularly (at least twice per year) and work more closely with the Lao Business Forum (LBF) as it presents a useful opportunity to obtain private sector feedback on key trade facilitation bottlenecks. The mission suggested that the TFS could be more proactive in reporting on issues identified during its provincial consultations and on the current status of reform activities. Such an approach would foster more effective cooperation between the TFS and the LBF and would raise the public profile of the TFS reform agenda. In an effort to better align various committees relating to trade and private sector development, including linkages with the Lao Business Forum, the MOIC's Department of Planning and Cooperation is drafting a new decree to establish the coordination structure that will encompass Trade Integration, Trade Facilitation, Business Environment, and Competitiveness under the

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<sup>2</sup> The Customs and Trade Facilitation Project is financed via two IDA grants for a total of US\$ 12.5 million equivalent, and supports the automation and modernization of Lao PDR's customs systems.

“National Committee for Trade & Private Sector Development”, to which the TFS would then report. The mission stressed the imperative need to ensure the new Committee structure will be functional and actively operating.

5. In terms of WTO Trade Facilitation Agreement implementation, the mission was advised that an international consultant has now been engaged to support effective planning and delivery of implementation support. The international Trade Facilitation Advisor has already undertaken a series of detailed meetings with key trade facilitation agencies and is currently reviewing implementation progress focusing on Category B and C measures. The Advisor will work closely with both DIMEX and all relevant agencies to develop a practical Action Plan with clear activities, timelines for implementation and appropriate progress monitoring mechanisms. The mission noted that there was a significant degree of overlap and interdependence between the role of the Trade Facilitation Advisor and the NTM Advisor and suggested efforts be made to ensure effective coordination between the two expert advisors.

### ***A1.2. Capacity Building for Managers in Trade Related Agencies***

6. This subcomponent is designed to strengthen the long term sustainability of reform by supporting the development of a critical mass of skilled and motivated senior and middle managers across all trade facilitation agencies to ensure effective inter-agency collaboration and implementation of the Lao PDR Trade Facilitation Strategy and related initiatives. This component had been contracted to the Center for Customs and Excise Studies (CCES) which carried out a training need assessment (in November 2014), designed the training program and completed the Trade Facilitation management capacity building program. CCES delivered train-the-trainer workshops, one executive management development workshop<sup>3</sup>, and four middle management development workshops by December 2015. Overall 84 officials from a range of public and private sector organizations attended the training.

7. While the training programs delivered by the CCES were well received and feedback on the quality and relevance of the information presented was excellent, the mission noted that the officials trained to deliver the material in Lao language had not been mobilized and that no training of additional officials had yet taken place. The mission stressed that unless the officials that had participated in the train the trainer programs were mobilized to deliver training the skills would be lost. DIMEX advised that delays in translating the necessary learning materials had delayed conduct of the next series of training programs. The mission strongly encouraged DIMEX to organize course as soon as practically possible to ensure the trainers maintained their skills, including potentially organizing a training for MOIC staff to allow the trainers deliver a ‘practice training’.

### ***A1.3. Lao PDR Trade Portal Support and Development.***

8. This subcomponent is designed to ensure that all the information provided on the Lao Trade Portal (LTP) is kept strictly up to date and that system reliability is good. The component finances one content coordinator, maintenance and upgrade of the portal and the deployment of additional enhancements.

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<sup>3</sup> The executive training program covers full ranges of modular topics such as trade facilitation, human resource management, ICT management, risk management, managing regulatory compliance, industry consultations and cooperation, leadership, planning in trade facilitation program, project management, policy practice and process redesign and organizational change.

9. *Lao Trade Portal*. The LTP remains relevant and useful to the trading community evidenced by 89,000 hits during the period July – September 2016. The mission noted, however, that maintaining such high usage levels required the information on the site to be accurate and up to date. The mission cited a number of examples where information presented on the LTP was incomplete and where links were not operational. DIMEX reported that they had loaded 74 regulations on the TIP between April and November 2016 but continue to face challenges in obtaining up to date information from participating line agencies and that presenting information in both Lao and English language is a resource intensive task. While acknowledging the resource intensive nature of website maintenance, the mission noted that TDF-2 is financing two local consultants (a Webmaster and a Content specialist) and that it is expected that these staff would prioritize work on the TIP before engaging in any other work. The mission recommended that it may be an opportune time to reissue the Ministry of Industry and Commerce decision requiring all agencies to provide information in a timely manner, and making use of the TFS and the newly established NTM Working Group to obtain timely information. It may also be useful to request such information to be provided by line agencies in both languages as well as in Word format to ensure translations are accurate, keying errors are minimized and information can be uploaded promptly. The mission further agreed that opportunities to upgrade the LTP to a newer generation version would be further developed in the near future.

10. *Electronic Certificate of Origin (E-CO)*. The implementation of E-CO has been completed (funded under the TDF-2 Challenge Fund) and training for local users has been undertaken. While acknowledging the work that has gone into making the system operational, the mission noted that little attention has to date been paid to reengineering the overall application and issue process and that the system currently only automates the existing manual process. As described in the Aide Memoire issued following the June 2016 Implementation Support Mission, the mission again encouraged DIMEX to look for opportunities for further process simplification including the adoption of a fully paperless process until the issuance of the final certificates, and the adoption of a facility for electronic payment. The mission also encouraged DIMEX to work closely with the National Single Window team.

## **A2: Non-Tariff Measures review and rationalization**

11. The Non-Tariff Measures (NTM) component of TDF-2 includes three main subcomponents: (A2.1) NTM data collection and classification; (A2.2) consolidated efforts to streamline domestic NTMs; and, (A2.3) identifying the most binding foreign NTMs faced by Lao exporters. It is also expected that the implementation of this component will progressively build the capacity of officials to master the key issues covered by each subcomponent.

### ***A2.1. NTM Streamlining***

12. While the process of collecting, cataloguing and publishing of all NTMs in the Lao Trade Portal was completed during the second half of 2014 little progress has been made since that time on the rationalization and streamlining of NTMs. Several NTMs are maintained simply for statistical purposes and the administration of many NTMs remains inefficient and imposes unnecessary costs on the trading community. The mission expressed its disappointment with the lack of progress being made on this important agenda and noted

that a much greater level of commitment from DIMEX will be required to lead the rationalization effort, potentially starting with the rationalization and streamlining of its own NTMs. Despite the conduct of several training activities for officials in both Lao PDR and elsewhere in the region, agencies remain reluctant to accept a common approach to identifying NTMs that could potentially be rationalized/streamlined. In discussing the contribution of the international consultant, DIMEX advised that the Regulatory Impact Assessments undertaken to date (vehicle import licenses and petroleum imports) lacked sufficient economic analysis to strengthen the case for rationalization.

13. Representing a major achievement, the mission was advised that MOIC established a NTM Working Group in August 2016 which will report to the Trade Facilitation Secretariat. The Working Group, with representation from 16 key trade related agencies, is expected to meet for the first time in November 2016 and will be chaired by the Director General of DIMEX. The mission was advised that DIMEX has already started to work with some key line agencies including the Department of Agriculture, Department of Livestock and Fisheries and the Department of Food and Drugs to identify some prioritized measures for rationalization and streamlining (in particular regarding wooden products, vehicles and fuel). The mission welcomed the establishment of the Working Group and acknowledged the rationale for including it as part of the Trade Facilitation Committee structure, but stressed that real progress on rationalization will require a renewed sense of political will and commitment.

### ***A2.2 NTMs Faced by Exporters***

14. The mission was advised that the final report on priority NTMs faced by exporters had been delivered and a validation workshop was conducted in August 2016. The report will be published by DIMEX and uploaded on the Lao Trade Portal. However, the report's assessment of external regulatory requirements remains limited while it clearly identified a number of export related NTMs applied within Lao PDR that affect Lao exporters negatively, providing guidance for prioritizing future NTM reforms by the Lao government.

### **A3: Trade in services**

15. While Lao PDR's services sector is at an early stage of development, it plays a vital role in the country's competitiveness. The services sector faces important challenges in its three main areas: skills, connectivity, and governance. The trade in services component of the TDF-2 includes several elements related to the regulation and governance of the services sector. Activities are grouped into two main areas: (i) enhancing regulatory capacity in services trade; and (ii) improving access to services regulations.

16. The mission team expressed their concerns that only limited progress has been made during the last year on the various activities under this sub-component and that disbursements and planned commitments remain low. MOIC's role on trade in services is inherently challenging, as MOIC does not have a direct oversight in the regulation of most services activities, yet it is responsible for reforms in services sectors needed for compliance with international obligations. In that sense, MOIC has actively engaged other line ministries in specific services sectors, notably telecoms, insurance, and accounting, to promote sectoral reform. These efforts are valuable and have led to substantial discussions and progress, although some key deliverables are still pending. Progress has also been limited in the areas under control of MOIC, such as the implementation of the Services Trade and Investment

Portal (STIP) or the implementation of reforms identified by the Horizontal Regulatory Assessment conducted by FTPD in 2014.

17. The WB acknowledges the heavy work load of FPTD, especially in view of ongoing trade negotiations with multiple partners. The mission, however, notes that attention must also be given to another MOIC key role, which is the monitoring of the implementation of past commitments. As a way to ensure greater progress on the areas covered by FTPD mandate, the mission suggests that FTPD appoints a responsible manager for implementation of the Trade in Services sub-component. This manager for implementation should not have negotiating duties, but rather be responsible for the monitoring of the implementation of obligations undertaken in trade agreements. In addition to ensuring delivery of ongoing activities, the mission team encouraged FTPD to accelerate the implementation of this sub-component to ensure the remaining funds can be effectively used and generate results by the end of the project, once it will be extended.

18. On the week previous to the mission, the FTPD, World Bank, and Advisory Centre for WTO Law (ACWL) organized a training on legal aspects of trade negotiations. The two-day training was delivered by a two senior experts from WB and ACWL, and was attended by 27 participants from different agencies, including MOIC, MPI, BoL, and MEF, all of whom are directly involved in negotiations of different elements of trade agreements. The discussion focused on legal issues, including principles of treaty drafting and interpretation, relationship between services and investment disciplines, drafting of positive and negative lists, and legal relationship between multiple trade agreements, and included practical exercises in several of those topics. The WB and ACWL experts welcomed the audience engagement and expressed their availability for any future queries on these and related matters.

19. **Horizontal Regulatory Assessment.** In addition to a number of horizontal matters, the horizontal regulatory assessment identified a number of specific recommendations for improving the business environment, including issues such as business registration. The mission raised concern about the absence of results under this component since the completion of the assessment in January 2015. FTPD and the mission team agreed that FTPD would task the newly appointed Trade Policy Advisor with identifying priority areas related to WTO and ASEAN commitments under the regulatory purview of MOIC and developing an action plan as part as her initial duties.

20. **Telecommunications.** A draft Decree has been prepared for setting up the Telecommunication Regulatory Authority under the Ministry of Posts and Telecommunications. FTPD informed the mission that, together with other relevant agencies, it contributed comments on the draft Decree which remains under review prior to its finalization and submission to the Prime Minister Office. FTPD agreed to share the revised draft decree with the WB when the revision is completed. The mission welcomes FTPD active involvement in the process, and encourages FTPD to continue to track actively the adoption of the Decree, which will entail an important step towards implementation of WTO obligations.

21. **Insurance.** FTPD and the mission discussed the work plan on insurance services that is being implemented by MoF under the Challenge Facility. FTPD expressed that an Insurance Law is being revised and, to their understanding, MoF was planning to have a

rounds of consultations on the draft with private stakeholders, in Vientiane Capital as well as the provinces.

22. **Professional Services.** Following completion of an assessment for the implementation of ASEAN Mutual Recognition Arrangements (MRAs) on professional services in late 2015, the work on Accountancy Services has started. The Department of Accounting (MoF), as the Professional Regulatory Authority, and the Lao Chamber of Professional Accountants and Auditors, as the National Accountancy Body for Accountancy Services, as well as the Monitoring Committee are taking steps to carry out their duties to put in place an assessment mechanism for foreign CPA as required under ASEAN MRAs. A national consultant and an international consultant on accounting have been hired. A workshop on ASEAN COA registration and education process was held on November 4<sup>th</sup> in Vientiane. The mission welcomed the activities on accounting and encouraged MOIC to further the steps towards MRA implementation in the professions identified in the assessment as priorities, such as engineering services.

23. **Services Trade and Investment Portal (STIP).** With the addition of over 100 laws, regulations and forms submitted by the law firm mandated with the database validation (DFDL) submitted to FTPD in October 2016, the collection of laws and regulations has been finalized, yielding a total of 294 laws, regulations and forms. The IT company (Cyberia) has submitted the detailed technical specification documents, which has been approved by FTPD. On the regulatory side, however, very limited progress has been made. Most importantly, i) the international consultant has only submitted a draft classification of laws and regulations to date (on which comments have been provided for finalization); ii) only 121 laws are available in English, half of which have been provided by DFDL and half have been translated by MOIC. An additional 23 laws and regulations are being translated since September 2016 –leaving over 170 instruments for translation; iii) a draft on the sustainability blueprint is not yet available. The WB expressed its severe concern about these delays.

24. Against this backdrop, the mission, FTPD, and NIU, held a technical meeting to identify measures necessary to meet the March 2017 deadline for the STIP. With the IT work progressing well, the teams identified as main bottleneck the translation and processing of the laws and regulations. In light of this challenge, FTPD and the World Bank discussed that it would be necessary to have two parallel tracks of work for laws and regulations to be reviewed and classified: i) the international consultant will continue to classify those instruments available in English (currently, 84, after submission by DFDL); ii) a national consultant or a law firm will be hired to review and process the remaining instruments currently only in Lao language (173), under the substantial supervision and responsibility of the international consultant. In addition, the teams agreed that resources will be allocated for translating the most important remaining laws and regulations, making them available in both languages in the STIP upon launch, while secondary regulation and instruments like forms could potentially be translated subsequently. FTPD also agrees to ensure that the final sustainability blueprint will be approved by Ministerial Guidance upon launch of the STIP. NIU agreed to provide for a speedy review and approval of the proposed contract with the national consultant or law firm, and to ensure any remaining translations will be processed quickly. The mission reassured FTPD that it remains ready to provide swift technical guidance, quality control, and contract reviews. FTPD, NIU, and the World Bank also agree to hold a Virtual Status Report in early January 2017 to assess progress and coordinate way ahead. In order to ensure the STIP can be launched by March 2017 as confirmed by FTPD,

the mission strongly suggested that FTPD takes an active role in coordinating the process ahead, ideally by tasking Trade Policy Advisor with a role of liaising with the different actors involved, in addition to the recommendation made above.

#### **A4: Trade in goods**

25. This component was designed to address the key challenges associated with implementation of WTO obligations, effective participation in ASEAN, and taking full advantage of trade opportunities available through Lao PDR's participation in the multilateral trading system. Activities build on work undertaken during TDF-1 and focus on: (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.

##### ***A4.1. Strengthening trade policy coordination mechanism***

26. The National Steering Committee for Economic Integration (NSC) Secretariat continues to be overloaded due to Lao PDR's chairmanship of ASEAN and work under the ASEAN Economic Pillar. As a result, and due to the changes in government structure for the NSC, the meeting of the 13<sup>th</sup> NSC originally planned for the end of 2015 has been again postponed and will not take place in November 2016. In an effort to better align various committees relating to trade and private sector development, including linkages with the Lao Business Forum, the MOIC's Department of Planning and Cooperation is drafting a new decree to establish the coordination structure that will encompass Trade Integration, Trade Facilitation, Business Environment, and Competitiveness under the "National Committee for Trade & Private Sector Development", and which will be chaired by the Deputy Prime Minister, with the view of replacing the NSC. The mission expressed concerns that the NSC's meeting has again been postponed despite, according to FTPD, the NSC and its Secretariat having sufficiently working procedures and coordinating mandates enacted in the Prime Minister's Decree on the National Steering Committee for Economic Integration, approved on January 23, 2015. Regarding the efforts to establish a new high-level committee, the mission stressed the imperative need to ensure the new Committee will be functional and actively meeting, improving the effectiveness of past arrangements.

27. Following the 12<sup>th</sup> NSC meeting on May 15, 2015, an Action Plan for WTO Post Accession was prepared by NSC Secretariat on June 8, 2015 to tabulate the WTO commitments and follow-up reform actions to be undertaken by line ministries, and is meant to be reviewed during the next meeting which has again been postponed. Progress with the implementation has been very limited since June 2015, especially as no meetings of the NSC at the Secretariat level have taken place since May 2015 to maintain reform momentum at the technical level. Key needed reforms under the Post Accession Action Plan include SPS legislations, trade remedies, setup of an independent regulatory authority for telecommunications, further legislative changes in the area of WTO commitments. The mission suggested to ensure NSC meetings take place more regularly as indicated in the Decree and properly document and keep tracks of reform developments in addition to the Action Plan table.

##### ***A4.2. Disseminating commitments and building capacity on trade remedies***

28. Prior to the last implementation support mission, FTPD had prepared a Guidebook on Lao PDR's economic integration to provide information to the broader range of stakeholders, complementing FTPD's outreach activities. However, the absence of its approval has started to impact the delivery of this component. For example, FTPD has not been able to produce shorter leaflets and brochures focusing on key commitments and sectors to outline commitments made, outstanding reforms, and likely benefits of policy commitments and reforms, as the teams had discussed during the last mission in June. Also, no additional outreach activities have been undertaken since last October, largely due to the competing demands during Lao PDR's ASEAN chairmanship. The mission stressed the urgent need to finalize the Guidebook and simplified material, to use it effectively, and to step up dissemination and capacity building activities to ensure the project can achieve the objectives of this sub-component. FTPD agreed to closely follow up on this matter.

29. The preparation of the Law on Anti-Dumping and Countervailing Measures (being drafted with support of LUNA-2<sup>4</sup>) progresses and the drafting committee being established. It is now scheduled for submission to the National Assembly session in April 2018). It will complement the Law on Safeguards to establish a trade remedy legal framework. With regard to the Law on Safeguards, the public hearings and consultations at provinces have been completed, final revisions are under way with consultations at central level planned in November. The submission of the Law to the Ministry of Justice being planned for the end of November 2016, slipping from an earlier target of September 2016 but still in time to meet the submission deadline for the National Assembly session in April 2017.

#### ***A.4.3 Further Strengthening of the Sanitary and Phytosanitary (SPS) Legal Framework.***

30. The project was designed to improve SPS legislation by removing gaps and inconsistencies, and strengthening compliance with WTO and ASEAN. It also strengthens capacity in the SPS departments and contributes to closing the gap in SPS management capacity between Lao PDR and other countries, and thus it contributes to improved economic integration. The Law on Plant Protection, originally scheduled for submission to the National Assembly in June 2016, has been submitted to the National Assembly and is scheduled for discussion during this session. In a very positive development, the Law on Livestock and Veterinary Matters has also been submitted to the National Assembly and will also be discussed during this session, moving it forward from the last targeted date of June 2017. Before submission to the NA, both laws were of strong technical quality, setting the path to removing gaps and inconsistencies, and strengthen compliance with WTO and ASEAN regarding the SPS legal framework. The mission recommended that FTPD focus on ensuring no last minute changes affecting the high quality of the laws be introduced. Once approved, Lao PDR can enact 11 implementing regulations to complete the regulatory framework. As the contract with FAO ended during the months of September, the mission recommended that additional technical support could be funded to ensure continued consistency of these implementing regulations with the laws prior to their enactment. In addition, as agreed during the last implementation support mission, approval of the secondary texts drafted for the implementation of the Food Safety Law at Ministry of Health should be accelerated to ensure that the Food Safety legislation be fully compliant with international commitments by the end of the TDF-2 project.

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<sup>4</sup> LUNA-2 refers the USAID-funded Lao PDR – U.S. International and ASEAN Integration Project.

## **COMPONENT B: DIVERSIFICATION AND COMPETITIVENESS**

### **B1: Business assistance facility**

31. The objective of this subcomponent is to support individual firms in building their skills and experience to become more competitive internationally. Activities include: (i) direct consulting services advising individual firms on business growth plans; (ii) matching grants to assist individual firms financially in purchasing specialized business development services in support of growth plans; and (iii) rigorous impact evaluation of services provided. BAF is open to all private firms in Lao PDR, employing Lao nationals, irrespective of size, nationality of ownership or of management.

32. In December 2015, a technical support mission provided strong support with the objective of accelerating the approval and disbursements of grants. As of November 3, 2016, 200 applications with value of US\$ 1.27 million have been approved, and disbursements for 144 applications reached US\$ 663,000. While expired grants accounted for US\$ 192,000, 43 active applications with an estimated value of US\$ 541,000 (inclusive tax) remain open. The BAF has now exceeded the revised target for disbursements of US\$ 650,000 (as agreed during the Mid Term Review) and is well on track to achieve close to full disbursement. The share of grants issued to women led/owned enterprises has increased to 38 percent. It is important to note that all beneficiaries of the BAF program receive technical assistance in the form of business advice to help them grow their business, whether or not the firms actually apply for and receive a BAF grant.

33. The instructions issued by the Tax Office of Vientiane in February 2016 have clarified procedures on taxation associated with BAF's support, but issues still remain with individual applications and BAF recipients still have to take on a "tax enforcement" role towards independent service providers, generating additional delays and slowing down disbursements. With 5 months left under the contract to implement the BAF, the mission recommended that the BAF team prepare a detailed analysis of due dates for reimbursement applications, assess the risk of further delays for the outstanding 43 grants, and proactively work with companies well ahead of such due dates to ensure the remaining activities will be completed in time and all disbursements can be fully processed by March 31, 2017.

### **B2: Labour standards and manufacturing productivity**

34. Building on activities in the garments sector under TDF-1, as well as the wider experience of the "Better Work" approach, this subcomponent aims to improve productivity, competitiveness and labor standards focusing on the garments manufacturing sector, an industry where a majority of workers are female. Activities include: (i) a factory standards improvement scheme; and (ii) the transition of the Garment Skills Development Centre towards financial and operational independence.

#### ***B2.1 Factory Standards Improvement Scheme***

35. The second ILO Chief Technical Adviser started work on the ground in March 2016 and activities under this component have been advancing well. The Ministerial Agreement 5523 on Labor Inspection is at the final stage for signature of the Minister of Labor and Social Welfare, due to start being implemented in January 2017. This Ministerial Agreement will reduce the number of inspectors from 258 to 60 and turn them into full time professional

labor inspectors, thus stopping multitasking and threat of reassignment. The national Labor Inspection Plan for 2017-2020 (due to improve compliance with minimum labor law standards and social security law, improve legal and technical knowledge of inspectors, improve coordination between central and local levels) is 80% finalized and the Ministry estimates that it will be finalized and start being implemented by January 2017, at the same time as the Ministerial Agreement. The core group of twelve labor inspectors (including 3 women who were added to the team following the last mission) has been trained. The pilot scheme to help factories improve working conditions and productivity through advisory services provided by the inspectors has started. 12 companies signed up to the pilot (including 2 new ones that joined in August 2016) and Workplace Improvement Committees have been established in 10 garment factories (2 more than in June during the last support mission), with workplace improvement plans developed in 9 of those factories. The inspection checklist, allowing the results to be used as inputs by the Workplace Improvement Committees, has been drafted, piloted in two of the participating companies, and will be rolled out in November. Regarding communication, 7 posters with key messages on the Lao PDR labour law have been produced, will be printed shortly and posted in working places. In addition, a 4 minutes video showcasing the work of this factory standards improvement scheme has been produced. The mission recommended uploading this video on the different websites, including the World Bank one, as well as sharing this video with the development partners present in Lao PDR.

36. A critical challenge is the sustainability of this scheme, given the limitations of Government funding to continue the work and to rightly implement the national Labor Inspection Plan beyond March 2017. The mission discussed the possibility for the Ministry of Labor and Social Welfare to discuss with the NIU the possibility of accessing funding from the Challenge Facility, linking supported activities to clearly defined deliverables. ILO informed the mission that it is exploring funding options from global funds. Estimating more accurately the level of funds required for sustaining the inspection mechanism would be an important step towards identifying a strategy for sustainability.

### ***B2.2 Garment Skills Development Centre***

37. This subcomponent focuses on support to the Garment Skills Development Centre (GSDC) established under the supervision of the Association of Lao Garments Industry with support from the TDF-1. The objective is that the GSC be financially and operationally independent by the end of TDF-2. Support to the operating costs of the GSDC has been phased out as of October 2015 but it is unlikely that GSDC will be able to fully sustain full financial and operational independence by the end of March 2017 even though GSDC is now fully recuperating its operating variable costs fully due to significant work with a donor-funded projects (GIZ, STVET, VELA). However, GSDC still generated a significant net operating loss once fixed costs are considered and continues to face difficulties in attracting sufficient participants to their trainings, particularly as direct training for companies.

## **COMPONENT C: MAINSTREAMING AID-FOR-TRADE**

### **C1: National Implementation Unit, and Trade and Private Sector Working Group**

38. Building stronger technical capacity on trade and private sector development policy within MOIC is a key objective of TDF-2. This is to support more effective implementation

of activities not just financed under TDF-2, but more widely as part of a movement towards a program based approach. This subcomponent includes further capacity investments in the NIU and newly created Division – Trade and Economic Cooperation Division (TECD), including support to its role as secretariat to the Trade and Private Sector Working Group and Government Focal Point for Lao Business Forum.

39. **National Implementation Unit.** The NIU continues to play an important role and ensures TDF-2 can deliver at a satisfactory rate, with project implementation arrangements reducing costs and improving coordination between donors. The quality of the NIU’s work is being recognized as the ODA Ministerial Decision was signed by the Minister of Industry and Commerce on October 28, 2016. This Ministerial Decision delegates the whole responsibility of use and management of ODA projects within MOIC to the Department of Planning and Cooperation, in order to ensure harmonization of development funds towards agreed outcomes – have a One Stop Shop. The NIU and the Implementing Agencies have quarterly meetings (the last one took place in September 2016) and the NIU also organizes separate meetings according to the needs. The NIU will continue close supervision and monitoring of IAs in order to ensure implementation of key issues and to accelerate the disbursements for the remaining 5 months of the original project and beyond once the Additional Financing will be signed.

40. The next Project Review Committee (PRC) is scheduled for November 16 and the Program Executive Committee (PEC) is scheduled for December 6, 2016. The PEC is considered a successfully program level steering committee overseeing all trade related initiatives.

41. **Trade and Private Sector Working Group (TPSWG).** A new Trade and Economic Cooperation Division (TECD under the Department of Planning and Cooperation) has been created and is acting as the Secretariat of the TPSWG. TPSWG meetings take place consistently twice a year since the beginning of TDF-2. The most recent took place on October 20, 2016 with different presentations on NTMs, Customs Time Release Study and Trade Facilitation Secretariat progress report, Investment Promotion Law as well as highlights of Lao Business Forum progress. The meeting was chaired by Minister of Industry and Commerce and co-chaired by the new European Union Ambassador and German Ambassador

## **C2: DTIS action matrix/roadmap challenge facility**

42. The “DTIS challenge facility” under TDF-2 supports demand-driven implementation of smaller priority activities identified within the DTIS action matrix/roadmap. The challenge facility is open to funding applications from any public sector ministry or department from across the Government of Lao PDR.

43. The facility permits to swiftly and efficiently allocate funds to emerging priorities under the overall implementation framework. One new proposal has been approved since the last implementation support mission, bringing the total number of proposals to eight. Of these, six have been completed and closed. While the (i) development of an e-Certificate of Origin system will require further improvements following initial operations (cf component A1), (ii) the development of an ICT strategy for the MOIC has been completed and led to the establishment of an ICT and Statistics Center. The (iii) study on the relation between trade and gender has been finalized and published on the Trade for Development website

(including a summary in the Lao Trade Magazine No. 12, while the study (iv) assessing Barriers to Free Movement of Goods in Domestic Markets has also been completed, indicating the check points effectively restrict internal trade and constitute a powerful psychological deterrent on especially small and medium traders regardless of their status, either formal or informal. Two Decisions on “Factory Standards” and “Factory Management” have been drafted under the (v) Development of Implementing Regulations for the Industrial Processing Law, but are still pending Minister’s decision. The (vi) Law on Chemicals to control the use of toxic chemicals will be discussed at National Assembly during the November session, while the (vii) support the operations of the reinvigorated Lao Business Forum (LBF) is progressing well and 22 private sector working groups’ meetings have been held since June 2016 (with total of 218 participants) and one public-private consultation was held. The 10<sup>th</sup> LBF is tentatively scheduled for December 8, 2016 (pending approval from the Prime Minister’s Office). The latest (viii) proposal was approved in July 2016 to provide Technical Assistance for improving regulatory and institutional framework for insurance services. The selection of the international and national consultants to support the Division of Insurance Supervision at the Ministry of Finance is expected to be completed in November.

44. Overall, the total budget committed for these proposals is \$776,000 of which \$566,000 has been disbursed. The mission stressed the need to commit the remaining funds by the end of the year and encouraged the MOIC to ensure the Challenge Facility be accessed by other agencies outside of MOIC, in order to be consistent with the objective of the Facility to be open to all Government ministries. The mission and government agreed to organize a brainstorming session in November to discuss potential applications in more detail and allocate the remaining funding under the original amount.

### **C3: Research and policy analysis**

45. The objective of this subcomponent is to support improved trade and private sector development policy formulation, and better measurement of the impact of policy. Activities include investments in (i) research methodology and capacity building; and (ii) a research facility to commission high quality policy relevant research.

46. **Research methodology and capacity building.** Under TDF-2 funding, ERIT has developed capacity building programs through the intervention of an embedded international advisor whose contract has been extended to December 31, 2016. The advisor continues to provide training and hands-on capacity building to ERIT staff, focusing on research methodology, developed and delivered a training course for policy note writing, and continues to oversee the implementation of the research facility. Focus since June has been particularly on the drafting of policy briefs, which ERIT wants to be able to deliver faster and at higher quality to MOIC. Two policy briefs were prepared since June, and a third one is under preparation. The research fellowship program envisaged at the outset of the TDF-2 has been cancelled during the MTR. ERIT suggested to extend the contract with the international advisor to the end of March to continue the successful capacity building activities within ERIT.

47. **Research facility.** Since June, two additional proposals have been approved under the research facility. Of the seven original proposals six have been completed. The two papers on the Utilization of Preferential Trade Agreements and the role of human capital in Lao’s participation in regional production networks have been published in June’s Research Digest, and ERIT estimates that at least two of the additional papers will be publishable in the next

Research Digest before March 2017. The research paper on “Production Network and Human Capital: An Analysis of the Manufacturing Sector in Laos” was presented was presented in International Conference on “Dynamics, Economic Growth and International Trade” organized by the School of Economics of the University of Nottingham. The mission and ERIT agreed that of the newly submitted proposals, at maximum two additional proposals would be funded while ERIT should focus on ensuring already approved studies are completed to high standard by the end of TDF-2.