

LAO PEOPLE’S DEMOCRATIC REPUBLIC AIDE MEMOIRE

Implementation Support Mission for the Customs and Trade Facilitation Project

August 15-19, 2016 in Vientiane Capital, Lao PDR

KEY PROJECT INFORMATION			
Project Number	P101750	Board approval date	June 17, 2008
Project closing date	June 30, 2017	Disbursement as of August 2016	US\$ 9.13 million
Total Grant Amount	US\$12.5 million	Grant number	H4030-LA/H8430-LA

I. INTRODUCTION

1. A World Bank Group mission¹ carried out a project implementation support mission for the Customs and Trade Facilitation Project (CTFP) in Vientiane Capital during the period August 15-19, 2016. The key mission objectives were to: (1) review overall project performance and progress by taking stocks of output quality, disbursement pace, fiduciary review, and an update of project result indicators; (2) ensure sustainability of ICT system, organizational effectiveness, and forward dialogue and support in customs implementation of international obligations; and, (3) dialogue on Lao Customs Department (LCD) effort to improve law enforcement to deal with illegal trade of wildlife, non-timber forest products, and timber by targeting of high risk cargos across borders

2. The team would like to express its sincere thanks to Mr. Bounpaseuth SIKOUNLABOUT (Acting Director General, LCD) and staff for their guidance and cooperation during the mission. The mission would also like to express its thanks to directors and customs officers at Thanaleng Customs Checkpoint and Friendship Bridge 1 Customs Checkpoint, and LCD for their support.

3. This Aide Memoire details the mission findings and agreed next steps related to implementation of all activities in CTFP. According to the World Bank's Access to Information Policy, Aide Memoires are to be publicly disclosed unless otherwise indicated by counterparts. The disclosure of the Aide Memoire was discussed and agreed to during the mission with LCD representatives.

II. OVERALL IMPLEMENTATION STATUS AND MANAGEMENT PRIORITIES

4. **Implementation Status.** The overall progress of project implementation is on track and remains “Satisfactory” to meet the Project Development Objective (PDO). As of August 16, 2016, the overall project disbursement stands at 73% for the total grant US\$12.5 million; of which the additional financing grant US\$6.5 million has reached a disbursement level of 56%. LCD completed all agreed actions identified during the last mission.

5. **Implementation Progress.** Key issues associated with the ASYCUDA² World System have been resolved. Despite some long delays by UNCTAD³, the ASYCUDA upgrade was successfully completed

The mission was led by Konesawang Nghardsaysone (Trade Economist and Task Team Leader), and included Gerard McLinden (Lead Customs and Trade Facilitation Specialist), Ramesh Siva (Lead e-Government Specialist), Mombert Hoppe (Senior Trade Economist), Siriphone Vanitsaveth (Financial Management Specialist), Souksavanh Sombounkhanh (Program Assistant, EACLF), Sirirat Sirijaratwong (Procurement Specialist) also provided remote support from Bangkok, and Alina Phonvisay (Program Assistant, EACLF).

² ASYCUDA refers to Automated System for Customs Data, developed and implemented by UNCTAD

³ UNCTAD refers to the United Nations Conference on Trade and Development, a technical agency of the United Nations and established in 1964

in April 2016. The ASYCUDA upgrade can be more accurately described as a complete system replacement. Every single component of the system has been upgraded and modernized - the hardware and operating system, database version, SoClass, ASYCUDA application and the web-server. The system continues to be stable and reliable over the past 4 months after the upgrade. The disaster recovery solution for ASYCUDA to the Thanaleng Customs site has now been completed. The live system is automatically replicating to two offline disaster recovery systems (one replica in LCD's Vientiane Headquarter, and the second located at the Thanaleng Customs disaster recovery site). Strategic Information Communication and Technology (ICT) capability has been developed with a strong focus of the capability to implement the core systems and processes that underpin the deployment of any ICT business system within LCD. Additional progress has been made in capacity building and customs modernization since the previous mission in February 2016. Significant progress has been made on measuring overall reform progress with a draft Time Release Study (TRS) report submitted by the consultancy firm. The report confirms that significant reductions have been achieved since the last report was completed in 2012. See detailed information on reductions achieved at *paragraph 19*. The first sets of deliverables were completed on the two large technical assistance package associated with: a) the Customs Capacity Enhancement program; and b) the Customs Training Center Development program. In both cases key consultancy staff were mobilized in early 2016 and have commenced work with their relevant counterpart teams. Inception reports were completed for major tasks and specific activities, deliverables, and timeframes for each component have been agreed. This activity is now proceeding as planned with feedback to date indicating satisfaction with the replacement specialist.

6. **Management Attention.** At this final year of project implementation, key attention is needed to accelerate implementation of the remaining project activities. While the disbursement rate will continue to accumulate, LCD management needs to pay attention to and accelerate delivery of the project outputs during the remaining timeframe of 10 months until June 2016. Towards the end of the project, it is highly critical now to ensure that UNCTAD remain responsive to the needs of maintenance and support services for the ASYCUDA World system. UNCTAD and LCD should formalize the Services Level Agreement (SLA) proposed by LCD (see a summary of the draft SLA at *paragraph 10*). Critical management attention needs to be exercised to ensure good quality outputs delivered by consultants, especially the expected outputs to be delivered under the Customs Capacity Enhancement Program, commissioned to the Joint-Venture Company of Quality Institute and Bureau Inspection Valuation Assessment Control (QI-BIVAC). Full details of these expected outputs are also included in the Table of Agreed Actions in **Annex 3**. The mission suggests that LCD also needs to closely monitor the pace of the project implementation constantly and effectively without changing and/or rotating any of the appointed Lao Customs manager and staff assigned to the CTFP implementation. Any changes to the project management arrangement at this stage will likely jeopardize the implementation of the project at the remaining period. LCD needs to provide full information and cooperate with the appointed consultants who work on each task to gain the best benefits of their time in country and facilitating their work to deliver the expected outputs.

III. STATUS OF PROJECT COMPONENTS

7. CTFP is financed by the International Development Association (IDA) with a total grant of US\$ 12.5 million, of which US\$6 million (effective on October 20, 2008 and closed in December 31, 2013) and an additional financing of US\$6.5 million (effective on May 28, 2013 and will close on June 30, 2017). CTFP is implemented by LCD of the Ministry of Finance. The PDO is to facilitate trade by improving the efficiency and effectiveness of customs administration and simplifying customs procedures to eliminate duplication and redundancy, reduce transactions costs and time to clear goods, and increase transparency and accountability. CTFP has two components: (a) Automation Support

(including implementation of ASYCUDA World); and, (b) Organizational Development (including customs modernization support).

Component A: Automation Support (including Implementation of ASYCUDA World)

8. **This component has progressed satisfactorily with the delivery of nearly all required outputs, contributing toward component outcomes.** After a long delay reported during the February 2016 mission, the ASYCUDA system upgrade was completed successfully with all components have been upgraded and modernized in April 2016. The system continues to be stable and reliable over the past 4 months after the upgrade. The disaster recovery solution for ASYCUDA to the Thanaleng site has now been completed. The live system is automatically replicating to two offline disaster recovery systems (one replica in LCD's Vientiane Headquarter, and the second located at the Thanaleng disaster recovery site). Strategic information communication and technology (ICT) capability has been developed with a strong focus of the capability to implement the core systems and processes that underpin the deployment of any ICT business system within LCD. Key attentions are to (1) ensure that UNCTAD remains responsive to the needs of maintenance and support services for the ASYCUDA World system; (2) to ensure effective interface between SmartTax and ASYCUDA; and, (3) to ensure successful integration of ASYCUDA and Lao National Single Window. (A full detail of the component progress is enclosed in **Annex 4**).

9. **ASYCUDA implementation, support and maintenance.** The support and maintenance contract with UNCTAD was signed in March 2015 and became effective in June 2015. This contract will remain in effect until June 2017. Currently one advance payment has been made against this contract. UNCTAD presented the audited financial statement for expenditures against the first advance payment very late, only on August 30, 2016. The audited financial statement was to have been presented by end-May 2016 (5 months after end of the UN Fiscal Year), but as of this mission has not been submitted. *The mission recommends that LCD management raise this issue with UNCTAD to ensure no further delays in submitting the financial statement for expenditures against the upcoming second advance payment.*

10. **Service Level Agreement.** During UNCTAD's recent mission to review the support and maintenance progress to date, UNCTAD noted that there was no Service Level Agreement (SLA) associated with the original support and maintenance contract. The LCD requested that UNCTAD should consider compliance with an SLA as part of the second year of maintenance. This request follows on from extended delays experienced by the LCD in the first year, and is designed to potentially mitigate the same management issues re-occurring. UNCTAD requested the LCD to draw up a draft SLA for the second year of the Support and Maintenance Agreement. *The mission recommends that LCD formalize this SLA with UNCTAD quickly by either amending the existing contract or through an exchange of letters.* The draft SLA is in **Annex 6**.

11. **ASYCUDA World Upgrade.** The ASYCUDA upgrade was completed in April 2016. The ASYCUDA upgrade can be more accurately be described as a complete system replacement. The ASYCUDA system is split across two servers; one for the application and database, and the other for the web and web services hosting. Every single component of the system has been upgraded and modernized - the hardware and operating system, database version, SoClass, ASYCUDA application and the web-server. The upgrade was stabilized within a month of its implementation and LCD reports that the system is fully operational. Post upgrade two minor issues have been identified and registered with UNCTAD and are awaiting resolution. These however are not impacting system operations.

12. **SmartTax interface to ASYCUDA.** The current LCD designed interface between ASYCUDA and SmartTax is not properly synchronized with ASYCUDA declaration logic, as it is writing financial information directly into the database, bypassing ASYCUDA, and its E-Document processing. As a result, when a declaration is paid, the status does not change from ‘assessed to paid’ in ASYCUDA; consequently downstream actions such as release orders, exit notes etc. do not function as intended. Additionally, built in ASYCUDA management reporting will not function as these reporting routines use the declaration state to determine if the declaration is completed or not; and thus meets the criteria for inclusion in the report. The LCD has an UNCTAD developed E-Payment web service installed on the ASYCUDA test environment. Liaison and testing with BCEL (Commercial Bank) is now required to ensure this web service meets the LCD requirements, and can be interfaced with the SmartTax system in such a way that ASYCUDA business logic is not violated.

13. **ASYCUDA and Lao National Single Window Interface.** Following extensive discussions, the LCD and their joint venture partner Bureau-Veritas Lao developed a scope of work to integrate the Lao National Single Window system (LNSW) with ASYCUDA. This has been discussed and preliminarily agreed with UNCTAD at a meeting in Kuala Lumpur August 16-17, 2016. The agreed loose integration can be summarized as follows:

(a) After a declarant has completed the permit issuance workflow in the LNSW system, a ‘Shipment Reference’ is sent to ASYCUDA. This will be used to link the associated declaration with the package of Permits contained within the LNSW. The upcoming declaration will show that some/ all applicable permits are valid in the LNSW i.e. there is a trust relationship between the two systems. The declarant will subsequently complete the declaration input process within ASYCUDA. Upon assessment, ASYCUDA will send the final amount to be paid to the single window system; which will combine this amount with other applicable charges to produce a consolidated invoice. This will then be processed via the bank interface, and a notification sent back to ASYCUDA upon successful payment. Once Customs have completed their process, the release order notification will be sent from ASYCUDA to LNSW so that LNSW can ‘close’ that transaction. At any time a Customs officer will have the option to manually log into the LNSW system to validate permits associated with a declaration if required.

(b) It should be noted that a declarant will still be able to generate a declaration and potentially clear goods without using the LNSW system (pre-clearance); in this case, a process will retrospectively inform the LNSW system that a declaration without a shipping Reference has been entered, and the Single Window will generate and populate a reference for that declaration. Customs officers will be able to see that the declaration has no associated permits so that they can make the appropriate decisions dependent on circumstances.

14. The integration approach summarized above does not include the kind of tighter integration and information sharing initially envisaged (and as recommended in the LNSW Blueprint and as implemented by countries in international good practice examples), whereby the information entered into the LNSW system once to obtain permits and certificates is subsequently reused to pre-populate a Customs declaration.

Component B: Organizational Development (*including* Customs Modernization Support)

15. **The component has performed satisfactorily towards the delivery of outputs, contributing to the component outcomes.** The 2016 Time Release Study was completed in July 2016 and reports that the LCD has made significant progress in reducing clearance times at major border crossing points. First sets of deliverables were completed on the two large technical assistance package associated with: a) the Customs Capacity Enhancement program; and b) the Customs Training Center Development program.

Inception reports were completed for major tasks and specific activities, deliverables, and timeframes for each component have been agreed. Key attention is to ensure the expected outputs under the Customs Capacity Enhancement Program, commissioned to by the Joint-Venture Company of Quality Institute and Bureau Inspection Valuation Assessment Control (QI-BIVAC), are delivered timely and in good quality. (A full detail of the component progress is included in **Annex 4**).

16. ***Customs Capacity Enhancement.*** The LCD Customs Capacity Enhancement Program is designed to support the implementation and further development of a range of modern approaches to customs administration consistent with WTO⁴ and WCO⁵ standards. It includes six core components: risk management and intelligence; compliance improvement and authorized economic operators (AEO Program); communication and change management; performance monitoring and client service standards; administrative appeals; and integrity and anti-corruption.

17. All component activities are progressing satisfactorily with reports submitted in accordance with the contract timetable and key counterparts actively engaged in the respective work programs. The mission was encouraged by progress to date, particularly with AEO (which is Lao PDR's trusted trader scheme in broad compliance with the WCO's AEO guidelines), which will be formally launched on a pilot basis in the last quarter of 2016, initially with five large firms accredited to participate in the scheme. Participating firms will be able to take advantage of simplified reporting requirements as well as consolidated declarations and associated duty deferment arrangements. The scheme will progressively be widened as more firms are able to meet the required criteria for participation. A compliance strategy and implementation plan for the LCD was delivered in June 2016. The mission also highlighted the importance of the work being undertaken by the change management and communication specialist and recommended that the LCD move quickly to establish a practical forum for effective dialogue between Customs and the trading community to build trust and confidence during implementation of the AEO scheme. The specialist engaged to develop the change management and communication strategy is also responsible for the anti-corruption component. To date a gap assessment has been conducted on LCD's compliance with the provisions of the WCO Revised Arusha Declaration on Integrity in Customs. The result of the assessment indicates that there is significant room for improvement in several areas and these will be addressed during preparation of the anti-corruption strategy and implementation action plan.

18. While satisfied with progress on individual components, the mission highlighted the need for the consultants to continue to engage with counterparts on all aspects of their assignments including, where practical, by hosting workshops where key counterparts could contribute fully to the design of implementation action plans. The mission also provided some additional guidance on the scope and content of the performance monitoring and clients service standards work where it suggested additional international examples could be used to illustrate appropriate key performance indicators and measurement modalities. The gap assessment on risk management and intelligence was delivered in June 2016 with a note that the report quality needs to be improved. The replacement risk management specialist has started work. Preliminary outputs were reviewed by the mission and assessed as satisfactory. This work will be reviewed in more detail in subsequent missions, especially the design of specifications of a risk management software that has not been prepared yet. The risk management and intelligence work is critical not only to enhance the efficiency of customs revenue collection but also ensure Customs successfully achieves its other important mandates including trade facilitation, community protection and international law enforcement commitments in areas such as wildlife trafficking. The specialist engaged to develop the Administrative Appeals regime has only recently been

⁴ WTO refers to World Trade Organization in Geneva, Switzerland.

⁵ WCO refers to World Customs Organization in Brussel, Belgium.

replaced, as the LCD was not satisfied with the initial consultant proposed by the lead firm. He is expected to commence his assignment in September 2016 and will prepare an initial report by end October 2016. This component will also be reviewed carefully during subsequent missions.

19. **Training Center Development.** The Training Center Development Program is designed to strengthen the LCD's human resource development capabilities. This includes activities associated with the development of a human resource development strategy; the preparation of a comprehensive training curriculum; preparation of relevant modularized training materials; training of trainers; the selection of training aids; and implementation and translation of selected modules of the WCO's e-learning program. Since the last Implementation Support Mission progress has been significant with completion of the training needs analysis and competency assessment framework as well as the completion of task descriptions for key customs positions. The Human Resources Development Strategy and Implementation Plan was delivered in July 2016, setting a clear framework for preparation of the curriculum and training materials. Work is now progressing on the development of an overall training curriculum and the preparation of appropriate training materials covering all key Customs functions. A draft customs training policy was also prepared for LCD to guide how training programs are conducted and scheduled. The policy ensures that training will be offered to staff on a needs basis and that the schedule is publicized well in advance to allow managers and staff to plan attendance. Work has also commenced on identifying the relevant WCO E-learning modules that will ultimately be incorporated into the Customs training curriculum which will include a mix of formal face to face and distance based e-learning modules. The project will also finance translation of the e-learning modules into the Lao language. This will provide a facility for just in time training in key technical areas for staff physically located outside the Vientiane city area.

20. **Time Release Study.** Following completion of the data collection and analysis phase in May/June 2016, a draft TRS report was submitted to the LCD in August 2016. The report indicates that the LCD has made significant progress in reducing clearance times at major border crossing points, with average clearance times falling from 11:24 hours in 2012 to 6:30 hours in 2016, representing a 43% reduction. Likewise, median clearance time has fallen from 3:10 hours in 2012 to 2:50 hours in 2016, representing an 11% decrease. These encouraging results build on an earlier 36% reduction achieved from 2009 – 2012 during the earlier phase of CTFP. The mission encouraged LCD management to publicize the results of the TRS as widely as possible to ensure all staff and key stakeholders are aware that the sometimes difficult reforms that have been undertaken during the course of the project are beginning to deliver major benefits for the trading community.

21. With the encouraging findings in two rounds of TRS, LCD has also identified the procedural areas that need improvement. LCD has first prepared a streamlined procedure on customs declaration submission process for some times but are not implemented yet. More progress can be made if LCD decides to pilot the streamlined procedure at Thanaleng Customs Checkpoint and Savannakhet Friendship Bridge 2 Customs Checkpoint will likely generate benefits for traders and improve customs efficiency with an optimal use of ASYCUDA capability. LCD informed that it would try to optimize and use the electronic customs declaration data to clear imports without requiring a face vetting of all physical customs declaration documents for the compliant traders. Instead, the physical custom declaration documents may subsequently be submitted at the time when the goods are ready for duty payment, inspection and customs release. In line with process streamlining, LCD will also consider to implement its second initiative to reduce current steps to clear goods from 5 to 4 for imports (see **Annex 10**) and 4 to 3 for exports to remove the unnecessary and redundant steps in customs clearance. *The mission recommends that LCD should implement the two new procedures earlier the better to optimize the use of the ASYCUDA system as a part of the to-be-launched AEO program.*

22. ***Risk management support software.*** In support of risk management, Lao Customs has reconsidered the need of a risk management support software to enhance risk analysis, profiling, classification and treatment and targeting. This is highly critical for Lao Customs to ensure that it will be able to achieve an increased efficiency of customs revenue collection as well as its other important mandates including trade facilitation, community protection and international law enforcement commitments in areas such as wildlife smuggling. International experience shows that the ASYCUDA Selectivity Module has limited capabilities when it comes to looking at no-consignment based risk parameters. As part of the risk management and intelligence work under the Customs Capacity Enhancement Program, the functional requirements and capabilities needed for the Risk Management system is being developed.

23. ***Progress on LCD' initiative to improve law enforcement and anti-smuggling operation.*** Following a series of discussions between LCD officials and the Environmental Protection Fund (EPF) Technical Committee, a modified proposal for \$600,000 of grant funding under the second Lao PDR Environmental and Social Project (LENS-II) was submitted to the EPF in June 2016 and was subsequently approved. The grant will finance activities designed to strengthen the LCD's capacity to combat trafficking of illegal wildlife and natural resource products. Specifically, the grant will finance the development and implementation of a Customs enforcement strategy and related capacity development activities as well as improving the LCD's intelligence and coordination capabilities. The mission was able to attend the formal signing ceremony for the grant at which time the Acting DG of the LCD indicated his commitment to working with other relevant agencies to address wildlife related crime. The LCD will now draft ToRs for the various assignments envisaged under the project and move quickly to initiate procurement of the required international specialist support. While the grant amount is less than initially envisaged it provides a strong basis to enhance LCD's capacity in this important area which currently impacts negatively on Lao PDR's international reputation. The mission agreed to provide advice some sample ToRs covering the key tasks envisaged under the project. During the mission kick-off meeting, the mission team gave a list of CITES-related wildlife commodity and related products with classification to the Acting DG for enhancing wildlife related risk profiling and targeting. LCD agreed that risk classification and profiling will be completed in September 2016. A field visit was also made during the mission by the World Bank Country Manager and the mission team to Thanaleng Customs Checkpoint and Friendship Bridge 1 Checkpoint to emphasize the importance of combating illegal trade of wildlife and timber and non-timber forest products (NTFP), drawing attention that the LENS-2 Subgrant is now ready for implementation by LCD.

IV. MONITORING AND EVALUATION

Progress toward the achievement of the PDO has been on track to enhance customs efficiency and effectiveness. With support of the project, customs administration now relies on a live and stable operation of the ASYCUDA World system in 21 customs checkpoints covering more than 90 percent of formal trade in Lao PDR since mid-2015. Based on the 2016 TRS, LCD has made significant progress in reducing clearance times at major border crossing points, with average clearance times falling from 11:24 hours in 2012 to 6:30 hours in 2016, representing a 43% reduction. Likewise, median clearance time has fallen from 3:10 hours in 2012 to 2:50 hours in 2016, representing an 11% decrease. These encouraging results build on an earlier 36% reduction achieved from 2009 – 2012 during the earlier phase of CTFP. They also act as a proxy measure for the effectiveness of risk management within the LCD. Perceptions of the private firms also report significant improvement in customs clearance. The WBG's 2016 Enterprise Survey for Lao PDR released in July 2016 shows that the number of days to clear imports has also reduced from 3.3 in 2012 to 2 in 2016. Likewise, the number of days to clear exports has fallen from 5.6 in 2012 to 2 in 2016. At inception of this project, the number of days to clear imports and exports

stood high at 10.7 and 7.4, respectively. Furthermore, the percentage of firms identifying trade and customs regulations a major constraints in conducting business has also dropped significantly from 12.4% in 2012 to 7.6% in 2016. (See more details in **Annex 4**)

V. FIDUCIARY

Procurement

24. The overall procurement performance for the CTFP is “**Satisfactory**”. Most pending packages are completed. Some packages were removed from the procurement due to inadequate remaining budget from the currency depreciations. LCD submitted an updated procurement plan for the additional procurement packages in May 2016 and the Bank provided comments. The revised updated procurement plan was submitted to the Bank on August 23, 2016 and a no objection by Aug. 31, 2016. A two-day procurement training for LCD senior customs management officers, customs officers and CTFP Project staff from June 29-30, 2016, to enhance their understanding of public procurement rules, guidelines, principles and methods applicable specifically in World Bank-financed projects and generally in government institutions. (See more details in **Annex 4**)

Financial Management

25. The overall financial management performance for the CTFP project is “**Moderately Satisfactory**”. Although external audit was clean and interim unaudited financial reports were submitted timely, there were a few other areas which have not yet improved. Disbursement is still low compared to the previous mission since the project only has less than 12 months closure. Asset register has not yet updated to include new purchases made since 2015. (See more details in **Annex 4**)

VI. CONCLUSION

26. The overall project implementation has been on track with progress toward achievements of the PDO that aims to improve efficiency and effectiveness of customs administration. Lao customs administration now relies on a live and stable operation of the ASYCUDA World system in 21 customs checkpoints covering more than 90 percent of formal trade in Lao PDR since mid-2015. Based on the 2016 TRS, LCD has made significant progress in reducing clearance times at major border crossing points, with average clearance times falling from 11:24 hours in 2012 to 6:30 hours in 2016, representing a 43% reduction. Perceptions of the private firms also report some significant improvements in customs clearance. Management attention remains to accelerate implementation of ongoing project activities during the remaining project timeframe—10 months before the closing date June 30, 2017. Attention is also required to ensure good quality of project activity outputs to be delivered under the Customs Capacity Enhancement Program. Progress evidence and data will be collected during this remaining timeframe to quantify the achievements and key lessons learnt of the project. The next project implementation support mission is proposed in February/March 2017.

ANNEX 1. List of government officials and stakeholders met during the mission

No.	Name	Position	Organization
1	Mr. Bounpaseuth Sikounlabout	Acting Director General, LCD/Project Leader	MOF
2	Mr. Anousak Sisa-ad	Deputy Director of ICT and Planning Division, LCD	MOF
3	Mr. Sayadeth Sisoulath	Division, LCD	MOF
4	Mr. Phoukhong Ouanlamany	Project Analyst, CTFP, LCD	MOF
5	Mr. Ketmany Sivongsa	Financial Management Officer, CTFP, LCD	MOF
6	Mme. Thongdy Southichak	National Customs Regulation Specialist, LCD	MOF
7	Ms. Moukphachanh Sisouvong	Financial Management Assistant, CTFP, LCD	MOF
8	Mr. Sengphet Thanongsakd	National Procurement Consultant, CTFP, LCD	MOF
9	Mr. Thanomsit Khaophibane	Deputy Director of Legislation Division, LCD	MOF
10	Mr. Phoutthanikone Khenavong	Chief of Thanaleng Customs Checkpoint	MOF
11	Mr. Sengsavanh Phouangmanichanh	Deputy Director of Post Clearance Audit Division, LCD.	MOF
12	Ms. Soukpaseuth Naleukhoth	Chief of Unit, Thanaleng Customs Checkpoint	MOF
13	Mr. Soutchay Inthavong	Deputy Chief of Lao-Thai Friendship Bridge 1 Customs Checkpoint, Vientiane Capital	MOF
14	Mr. Sengphet Sourichack	Deputy Chief of Inspection Unit	MOF
15	Mr. Michael Squirrell	International ICT Advisor, ICT and Planning Division, LCD	MOF
16	Ms. BangOnn Phommachanh	Administration Assistant	MOF
17	Ms. Phonethipha Sensoulintha	Assistant to Customs Advisory Team	MOF
18	Mr. Phornsamai Siheuangxay	Sub-Project Coordinator	EPF
19	Mr. Randell Dixon	Performance Monitoring & Client Services Standards Specialist	QI-BIVAC
20	Mr. Athol Gardiner	Change Management Specialist	QI-BIVAC
21	Mr. Steve Cox		QI-BIVAC
22	Mr. Sean Power	Senior Consultant, Emerging Markets Consulting	EMC
23	Mr. Phoutavanh Sithammavanh		EMC
24	Mr. Joseph Haget	Senior Project Manager, LNSW	BIVAC
25	Mr. Elie SAWAYA	Country Manager	BIVAC

ANNEX 2. List of Mission Team Members

1. Konesawang Nghardsaysone, Trade Economist and Task Team Leader (GTCDR)
2. Gerard McLinden, Lead Customs and Trade Facilitation Specialist (GTCDR)
3. Ramesh Siva, Lead Information Specialist (GTIDR)
4. Mombert Hoppe, Senior Trade Economist (GTCDR)
5. Siriphone Vanitsaveth, Financial Management Specialist (GGODR)
6. Souksavanh Sombounkhanh, Program Assistant (EACLF)
7. Sirirat Sirijaratwong, Procurement Specialist (GGODR), also provided remote support from Bangkok.
8. Alina Phonvisay, Program Assistant (EACLF)

ANNEX 3. Table of Agreed Actions

TABLE OF AGREED ACTIONS				
	Action	Responsible entity	Proposed timeline	Comments
Component A				
1.	Formalize this SLA with UNCTAD quickly by either amending the existing contract or through an exchange of letters.	UNCTAD/LCD	End September 2016	Critical to ensure no delays by UNCTAD to provide maintenance and support services to the ASYCUDA System
2.	Submit the past years accounts of the ASYCUDA Fee Amount and the coming years' expenditure plans within 30 days.	LCD	20-September 2016	Critical to ensure sustainability and that LCD continue to have sufficient resources to maintain the ASYCDUA World System.
3.	Complete construction of shelters for the second lot of the back-up generators at the designated sites.	LCD	End October 2016	Ensure no further delays in delivery and installation of the back-up generators
4.	Forms a working group comprising of ICT staff and customs valuation team to prepare an action plan for establishing business processes for utilizing customs valuation module.	LCD ICT Division, Customs Valuation	October 2016	Ensure full use of the capability of customs valuation module.
5.	Take remedial actions as soon as possible to maintain and ensure the back-up generators function properly and more importantly during this monsoon season have stable electricity for the ASYCUDA operation during power outage.	LCD/ICT Division/PIU	Regularly	Ensure business continuity with no disruption to customs clearance
Component B				
6.	Complete the design of technical specifications of risk management software.	QI-BIVAC	End October 2016	
7.	Complete the design of user requirements and technical specifications for any ICT support systems required to enhance research and analysis capabilities	QI-BIVAC	Mid December 2016	

8.	Complete a comprehensive risk management strategy	QI-BIVAC	December 2016/January 2017	
9.	Complete the change management and communication strategy.	QI-BIVAC	End September 2016	
10.	Complete a draft practical monitoring framework to track reform progress and results achieved through quantifiable targets and clear and verifiable performance indicators.	QI-BIVAC	December 2016	
11.	Complete the gap assessment report on administrative appeals.	QI-BIVAC	End October 2016.	Ministry of Finance issued an instruction on administrative appeals.
12.	Complete all relevant procedural guidelines and instructions as well as draft legal administrative appeal instruments including application procedures, forms and processes needed to ensure effective implementation.	QI-BIVAC	December 2016	
13.	Complete a draft integrity and anti-corruption strategy—a set of recommendations on the most practical and effective means of closing identified gaps including a detailed implementation plan and timetable.	QI-BIVAC	October 2016	
14.	Complete the development of training materials including training case studies for the Customs Training Center	Nathan Associate	November 2016	
15.	Launch data collection of 2017 Time Release Study	EMC/LCD	Second week of February 2017	
16.	Complete profiling of CITES related commodity classification risks in the ASYCUDA Selectivity Operation for targeting and law enforcement.	PCA/Risk Management Unit/ICT Division	September 2016	Improving LCD performance on law enforcement against smuggling and illegal trade of wildlife
17.	Monitors the remaining funds against funds needed (expected expenditure) on a regular basis using the template in Annex 4	LCD's FM Team	Regular basis	Ensure full disbursement of project budget at the end of the project

18.	Submit an Annual Work Plan for FY2016-2017 for the project implementation period from October 2016-June 2017.	PIU Manager/CTFP Project Director	End September 2016	To ensure effective monitoring of project activities, projecting the estimate of disbursement until closing date.
19.	Submit the revised Procurement Plan for review	LCD Procurement Unit	24 August 2016	Completed.
20	Submit the UNCTAD audited financial statement for 2015	UNCTAD	End of August 2016	Completed.

ANNEX 4. Detailed Component Progress

Component A: Automation Support (*including Implementation of ASYCUDA World*)

1. **This component has progressed satisfactory towards the delivery of outputs, contributing to the component objective.** After a long delay reported during the February 2016 mission, the ASYCUDA system upgrade was completed successfully with all component have been upgraded and modernized in April 2016. The system continues to be stable and reliable over the past 4 months after the upgrade. The disaster recovery solution for ASYCUDA to the Thanaleng site has now been completed. The live system is automatically replicating to two offline disaster recovery systems (one replica in LCD's Vientiane Headquarter, and the second located at the Thanaleng disaster recovery site). Strategic information communication and technology (ICT) capability has been developed with a strong focus of the capability to implement the core systems and processes that underpin the deployment of any ICT business system within LCD. Key attentions are to ensure that UNCTAD remain responsive to the needs of maintenance and support services for the ASYCUDA World system. UNCTAD and LCD should formalize the Services Level Agreement (SLA) proposed by LCD.
2. ***ASYCUDA implementation, support and maintenance.*** The support and maintenance contract with UNCTAD was signed in March 2015 and became effective in June 2015. This contract will remain in effect until June 2017. Currently one advance payment was made against this contract. UNCTAD presented the audited financial statement for expenditures against the first advance payment very late, only on August 30, 2016. The audited financial statement was to have been presented by end-May 2016 (5 months after end of the UN Fiscal Year). *The mission recommends that LCD management raise this issue with UNCTAD to ensure no further delays in submitting the financial statement for expenditures against the upcoming second advance payment.*
3. ***Service Level Agreement.*** During UNCTAD's recent mission to review the support and maintenance progress to date, UNCTAD noted that there was no Service Level Agreement (SLA) associated with the original support and maintenance contract. The LCD requested that UNCTAD should consider compliance with an SLA as part of the second year of maintenance. This request follows on from extended delays experienced by the LCD in the first year, and is designed to potentially mitigate the same management issues re-occurring. UNCTAD requested the LCD to draw up a draft SLA for the second year of the Support and Maintenance Agreement. *The mission recommends that LCD formalize this SLA with UNCTAD quickly by either amending the existing contract or through an exchange of letters.* The draft SLA is in **Annex 5**.
4. ***ASYCUDA World Upgrade.*** The ASYCUDA upgrade was completed in April 2016. The ASYCUDA upgrade can be more accurately be described as a complete system replacement. The ASYCUDA system is split across two servers; one for the application and database, and the other for the web and web services hosting. Every single component of the system has been upgraded and modernized - the hardware and operating system, database version, SoClass, ASYCUDA application and the web-server. The upgrade was stabilized within a month of its implementation and LCD reports that the system is fully operational. Post upgrade two minor issues have been identified and registered with UNCTAD and are awaiting resolution. These however are not impacting system operations.
5. ***ASYCUDA Valuation Module.*** Training was conducted in the use of the ASYCUDA valuation module shortly after the system was upgraded. LCD is confident that the valuation module, as implemented will be sufficient for introducing a WTO compliant valuation methodology across the LCD.

Participation in the training from the Valuation team was unfortunately low and will severely impact the ability to implement the module. The mission would recommend that LCD consider some international technical expertise to work with the LCD Valuation team to train them and assist in the implementation of this important function. The international expert could help establish the correct business processes; particularly with respect to obtaining pricing information, applying this to existing transactions to build a valuation database, and to communicate to brokers how valuation will be implemented and publish a list of codes related to the models of goods earmarked for valuation check. *The mission recommends that LCD should form a working group comprising of ICT specialists and customs valuation experts to discuss and form an action plan for establishing business processes for customs valuation.*

6. **SmartTax interface to ASYCUDA.** The current LCD designed interface between ASYCUDA and SmartTax is not properly synchronized with ASYCUDA declaration logic, as it is writing financial information directly into the database, bypassing ASYCUDA, and its E-Document processing. As a result, when a declaration is paid, the status does not change from ‘assessed to paid’ in ASYCUDA; consequently downstream actions such as release orders, exit notes etc. do not function as intended. Additionally, built in ASYCUDA management reporting will not function as these reporting routines use the declaration state to determine if the declaration is completed or not; and thus meets the criteria for inclusion in the report. The LCD has an UNCTAD developed E-Payment web service installed on the ASYCUDA test environment. Liaison and testing with BCEL (Commercial Bank) is now required to ensure this web service meets the LCD requirements, and can be interfaced with the SmartTax system in such a way that ASYCUDA business logic is not violated.

7. **ASYCUDA and Lao National Single Window Interface.** Following extensive discussions, the LCD and their joint venture partner Bureau-Veritas Lao developed a scope of work to integrate the Lao National Single Window system (LNSW) with ASYCUDA. This has been discussed and preliminarily agreed with UNCTAD at a meeting in Kuala Lumpur August 16-17, 2016. The agreed loose integration can be summarized as follows:

(a) After a declarant has completed the permit issuance workflow in the LNSW system, a ‘Shipment Reference’ is sent to ASYCUDA. This will be used to link the associated declaration with the package of Permits contained within the LNSW. The upcoming declaration will show that some/ all applicable permits are valid in the LNSW i.e. there is a trust relationship between the two systems. The declarant will subsequently complete the declaration input process within ASYCUDA. Upon assessment, ASYCUDA will send the final amount to be paid to the single window system; which will combine this amount with other applicable charges to produce a consolidated invoice. This will then be processed via the bank interface, and a notification sent back to ASYCUDA upon successful payment. Once Customs have completed their process, the release order notification will be sent from ASYCUDA to LNSW so that LNSW can ‘close’ that transaction. At any time a Customs officer will have the option to manually log into the LNSW system to validate permits associated with a declaration if required; and,

(b) It should be noted that a declarant will still be able to generate a declaration and potentially clear goods without using the LNSW system (pre-clearance); in this case, a process will retrospectively inform the LNSW system that a declaration without a shipping Reference has been entered, and the Single Window will generate and populate a reference for that declaration. Customs officers will be able to see that the declaration has no associated permits so that they can make the appropriate decisions dependent on circumstances.

8. The integration approach summarized above does not include the kind of tighter integration and information sharing initially envisaged (and as recommended in the LNSW Blueprint and as implemented by countries in international good practice examples), whereby the information entered into the LNSW system once to obtain permits and certificates is subsequently reused to pre-populate a Customs

declaration. The consequence if this is that a declarant must interact with two separate computer systems to complete an import or export transaction with the resultant additional time and risks of data inaccuracies associated with rekeying. This unfortunately defeats two of the primary benefits of the National Single Window (NSW), namely – “A single point of submission and the submission of data only once”. This is clearly not a technical problem but is rooted in UNCTAD’s apparent unwillingness to accept a complete Customs Declaration as an electronic message from an external cooperating system. This is an unfortunate situation and will have grave ramifications for other countries aspiring to NSW implementations that already have ASYCUDA implementations. In the case of Lao PDR the “integration” as described above should work albeit with some inconvenience to the trader. It is unclear why, from a technical point of view, Lao PDR’s more ambitious integration approach cannot be accommodated by UNCTAD.

9. ***Disaster Recovery Center and Business Continuity.*** Following the upgrade, the disaster recovery solution for ASYCUDA to the Thanaleng site has now been completed. The live system is automatically replicating to two offline disaster recovery systems (one replica in Vientiane HQ, and the second located at the Thanaleng disaster recovery site). LCD is to be congratulated on now having a zero maintenance triple redundant solution in place.

10. ***Strategic ICT capability development.*** The focus of the capability development to date has been to implement the core systems and processes that underpin the deployment of any ICT business system in LCD. This includes a properly configured and managed network, data backup and recovery and disaster recovery measures, data security systems, virus detection and prevention. This work was completed by February 2016 and the ICT infrastructure for LCD has been stabilized and has been operating in robust and reliable manner. Some routine equipment upgrades and replacements remain to be made and these are in process.

11. ***Local ICT capacity support and Helpdesk implementation.*** The contract for a local ICT company to reinforce LCD’s own ICT capacity was signed in May 2015. Performance of the consultant has been relatively satisfactory. However, the consultant resources are not on-site as stipulated in their TOR and are therefore have been unable to build relationships with key LCD staff. This has also resulted in reduced opportunities for the consultant team to improve their knowledge of Customs business processes and technologies. LCD management needs to ensure there is space available to co-locate the consultant resources with the LCD IT team to gain the full benefit of this consultancy service. Further, LCD IT Team will need to proactively manage the work-program of these consultants moving forward. Monthly work-program review and planning meetings should be instituted. The consultants have installed Helpdesk and Asset Management software, however, the software has not been configured nor have LCD staff been trained in its use. The LCD IT team as a priority should discuss and agree an implementation plan for the Helpdesk and Asset Management system with the consultants.

12. ***Phase out of legacy C2000 system.*** The legacy C2000 system is still in operation in 31 small and traditional checkpoints. The C2000 system is built on obsolete technology that is not presently supportable. Transaction volumes are generally low with correspondingly low collection values. If upon examination of transaction and revenue statistics, LCD determines that it is not economically feasible to connect some or all of these checkpoints, LCD should investigate the use of alternative solutions (e.g. pre-formatted Excel Sheets) that can capture the same information and be uploaded semi-automatically into ASYCUDA.

13. ***ASYCUDA User Fee Account.*** The mission requested the financial statements for the ASYCUDA User Fee Account to review usage. Unfortunately, due to time constraints the reports were

not able to be presented. *The mission looks forward to reviewing the past years accounts and the coming years expenditure plans within 30 days.*

14. **Back-up generators.** The first lot of back-up generators were procured, delivered and installed at 6 locations (Friendship Bridge 1 Customs checkpoint, Boten Customs checkpoint, Boten Customs Warehouse, Dansavanah Customs checkpoint, Vangtao Customs checkpoint, and Chomphet Customs checkpoint). This was completed in November 2015. A second lot of back-up generators for 9 additional sites has been procured. The contract was signed and expect be delivered and installed in the 4th quarter of 2016. LCD from its own resources is installing the shelters for the generators. The implementation schedule is as attached in **Annex 8**. There are reports that the back-up generators at Friendship Bridge I and Vangtao checkpoints have faced some operating failures and such failures have had some minor impact on operation of the checkpoints during power outage. It is critical that LCD shall ensure a proper maintenance of the facility to avoid any disruptions. LCD management should consider issuing a maintenance policy for the generators including Standard Operating Procedures. Additionally LCD management should allocate responsibility to a specific unit within LCD to oversee the maintenance and operation of the generators. The mission recommends that LCD should take remedial actions as soon as possible to maintain and ensure the back-up generators function properly and more importantly during the monsoon season of the year to have stable electricity for the ASYCUDA operation during these typical periods of power outage.

Component B: Organizational Development (including Customs Modernization Support)

15. **Customs Capacity Enhancement.** The LCD Customs Capacity Enhancement Program is designed to support the implementation and further development of a range of modern approaches to customs administration consistent with WTO⁶ and WCO⁷ standards. It includes six core components: risk management and intelligence; compliance improvement and authorized economic operators (AEO); communication and change management; performance monitoring and client service standards; administrative appeals; and integrity and anti-corruption. During the mission the team met with the consultants responsible for several key activities under the Customs Capacity Enhancement program to discuss progress on: Compliance Improvement and AEO; Communication and Change Management; and Performance Monitoring and Client service Standards.

16. All component activities are progressing satisfactorily with mission reports submitted in accordance with the contract timetable and key counterparts actively engaged in the respective work programs. The mission was encouraged by progress to date, particularly with AEO (which is Lao PDR's trusted trader scheme in broad compliance with the WCO's AEO guidelines), which will be formally launched on a pilot basis in the last quarter of 2016, initially with five large firms accredited to participate in the scheme. Participating firms will be able to take advantage of simplified reporting requirements as well as consolidated declarations and associated duty deferment arrangements. The scheme will progressively be widened as more firms are able to meet the required criteria for participation. A compliance strategy and implementation plan for the LCD was delivered in June 2016. Given the clear technical linkages that exist between the various components, the mission strongly recommended that the Post Clearance Audit Division (PCA) work very closely with the specialists supporting the AEO scheme and the risk management and intelligence work. The mission also highlighted the importance of the work being undertaken by the change management and communication specialist and recommended

⁶ WTO refers to World Trade Organization in Geneva, Switzerland.

⁷ WCO refers to World Customs Organization in Brussel, Belgium.

that the LCD move quickly to establish a practical forum for effective dialogue between Customs and the trading community to build trust and confidence during implementation of the AEO scheme. The specialist engaged to develop the change management and communication strategy is also responsible for the anti-corruption component. To date a gap assessment has been conducted on LCD's compliance with the provisions of the WCO Revised Arusha Declaration on Integrity in Customs. The result of the assessment indicates that there is significant room for improvement in several areas and these will be addressed during preparation of the anti-corruption strategy and implementation action plan.

17. While satisfied with progress on individual components, the mission highlighted the need for the consultants to continue to engage with counterparts on all aspects of their assignments including, where practical, by hosting workshops where key counterparts could contribute fully to the design of implementation action plans. The mission also provided some additional guidance on the scope and content of the performance monitoring and clients service standards work where it suggested additional international examples could be used to illustrate appropriate key performance indicators and measurement modalities. The gap assessment on risk management and intelligence was delivered in June 2016 with a note that the report quality needs to be improved. The replacement risk management specialist has started work. Preliminary outputs were reviewed by the mission and assessed as satisfactory. This work will be reviewed in more detail in subsequent missions, especially the design of specifications of a risk management software that has not been prepared yet. The risk management and intelligence work is critical not only to enhance the efficiency of customs revenue collection but also ensure Customs successfully achieves its other important mandates including trade facilitation, community protection and international law enforcement commitments in areas such as wildlife trafficking. The specialist engaged to develop the Administrative Appeals regime has only recently been contracted, as the LCD was not satisfied with the initial consultant proposed by the lead firm. He is expected to commence his assignment in September 2016 and will prepare an initial report by end October 2016. This component will also be reviewed carefully during subsequent missions.

18. ***Training Center Development.*** The Training Center Development Program is designed to strengthen the LCD's human resource development capabilities. This includes activities associated with the development of a human resource development strategy; the preparation of a comprehensive training curriculum; preparation of relevant modularized training materials; training of trainers; the selection of training aids; and implementation and translation of selected modules of the WCO's e-learning program. Since the last Implementation Support Mission progress has been significant with completion of the training needs analysis and competency assessment framework as well as the completion of task descriptions for key customs positions. Work is now progressing on the development of an overall training curriculum and the preparation of appropriate training materials covering all key Customs functions. A draft customs training policy was also prepared for LCD to guide how training programs are conducted and scheduled. The policy ensures that training will be offered to staff on a needs basis and that the schedule is publicized well in advance to allow managers and staff to plan attendance. Work has also commenced on identifying the relevant WCO E-learning modules that will ultimately be incorporated into the Customs training curriculum which will include a mix of formal face to face and distance based e-learning modules. The project will also finance translation of the e-learning modules into the Lao language. This will provide a facility for just in time training in key technical areas for staff physically located outside the Vientiane city area.

19. ***WCO e-learning materials.*** In line with the design of the Customs Training Center's training curriculum, LCD has worked closely with the training experts on selection of the WCO training materials to be obtained. Only most suitable modules will be selected for the Lao Customs' context as these materials will only be for self-learning by junior customs officers who have full time jobs. For a full

access of the self-learning style for customs officers, the prioritized e-learning materials need to be translated into Lao language and can be accessed electronically by staff in all customs checkpoints with network connection.

20. **Customs legal support.** The focus of the consultant's work will be on assessing the gap between the current legal framework and the requirements of the WCO Revised Kyoto Convention (RKC) on the Harmonization and Simplification of Customs Procedures, the WTO Trade Facilitation Agreement (TFA), and relevant ASEAN customs commitments. Early analysis undertaken by the LCD suggests that a significant amount of revision will be required to the legal framework. Following finalization of a contract with the International Legal Specialist significant work has been completed on reviewing the current legal and regulatory framework. A detailed report consisting of over 800 pages of analysis has been submitted and is currently being reviewed by LCD personnel with assistance from the National Legal Specialist financed by the project. This work will form the basis of a series of amendments to the legal framework necessary to ensure compliance with the provisions of the WCO's RKC and the WTO's TFA. Lao PDR ratified its accession to the WCO's RKC in July 2016. Following the legal framework analysis, the International Legal Specialist expects to deliver a gap analysis report presenting priority areas in the existing customs legal framework for legal and regulatory development. LCD expects to launch a revision of the Lao PDR's Law on Customs in 2019.

21. **Time Release Study.** Following completion of the data collection and analysis phase in May/June 2016, a draft TRS report was submitted to the LCD in August 2016. The report indicates that the LCD has made significant progress in reducing clearance times at major border crossing points, with average clearance times falling from 11:24 hours in 2012 to 6:30 hours in 2016, representing a 43% reduction. Likewise, median clearance time has fallen from 3:10 hours in 2012 to 2:50 hours in 2016, representing an 11% decrease. These encouraging results build on an earlier 36% reduction achieved from 2009 – 2012 during the earlier phase of CTFP. The mission encouraged LCD management to publicize the results of the TRS as widely as possible to ensure all staff and key stakeholders are aware that the sometimes difficult reforms that have been undertaken during the course of the project are beginning to deliver major benefits for the trading community.

22. With the encouraging findings in two rounds of TRS, LCD has also identified the procedural areas that need improvement. LCD has first prepared a streamlined procedure on customs declaration submission process for some times but are not implemented yet. More progress can be made if LCD decides to pilot the streamlined procedure at Thanaleng Customs Checkpoint and Savannakhet Friendship Bridge 2 Customs Checkpoint will likely generate benefits for traders and improve customs efficiency with an optimal use of ASYCUDA capability. For an initial pilot start, the importers with Direct Trader Input (DTI) can be targeted for the streamlined procedure. LCD can optimize and use the electronic customs declaration data to clear imports without requiring a face vetting of all physical customs declaration documents. Instead, the physical custom declaration documents can subsequently be submitted at time of goods are ready for duty payment and customs release. In line with process streamlining, LCD can also implement its second initiative to reduce current steps to clear goods from 5 to 4 for imports (see **Annex 8**) and 4 to 3 for exports to remove the unnecessary and redundant steps in customs clearance. The mission recommends that LCD should implement the two new procedures earlier the better to optimize the use of the ASYCUDA system.

23. **Customs valuation support database.** Following an upgrade to ASYCUDA World implemented in June 2016 by UNCTAD, the system's Valuation module has now been commissioned and is progressively being populated with relevant data. This process will take some time and will require significant staff time to complete. LCD staff report that the functionality offered by the module is

satisfactory for their immediate operational needs and that they no longer intend to pursue the option of developing of a separate valuation (price reference) system (or customs valuation support database.)

24. ***Risk management support software.*** In support of risk management, Lao Customs has reconsidered the need of a risk management support software to enhance risk analysis, profiling, classification and treatment and targeting. This is highly critical for Lao Customs to ensure that it will be able to achieve an increased efficiency of customs revenue collection as well as its other important mandates including trade facilitation, community protection and international law enforcement commitments in areas such as wildlife smuggling. International experiences shows that the ASYCUDA Selectivity Module has limited capabilities when it comes to looking at no-consignment based risk parameters. As part of the risk management and intelligence work under the Customs Capacity Enhancement Program, the functional requirements and capabilities needed for the Risk Management system is being developed.

25. ***Progress on LCD' initiative to improve law enforcement and anti-smuggling operation.*** Following a series of discussions between LCD officials and the Environmental Protection Fund (EPF) Technical Committee, a modified proposal for \$600,000 of grant funding under the second Lao PDR Environmental and Social Project (LENS-II) was submitted to the EPF in June 2016 and was subsequently approved. The grant will finance activities designed to strengthen the LCD's capacity to combat trafficking of illegal wildlife and natural resource products. Specifically, the grant will finance the development and implementation of a Customs enforcement strategy and related capacity development activities as well as improving the LCD's intelligence and coordination capabilities. The mission was able to attend the formal signing ceremony for the grant at which time the Acting DG of the LCD indicated his commitment to working with other relevant agencies to address wildlife related crime. The LCD will now draft ToRs for the various assignments envisaged under the project and move quickly to initiate procurement of the required international specialist support. While the grant amount is less than initially envisaged it provides a strong basis to enhance LCD's capacity in this important area which currently impacts negatively on Lao PDR's international reputation. The mission agreed to provide advice some sample ToRs covering the key tasks envisaged under the project. During the mission kick-off meeting, the mission team gave a list of CITES-related wildlife commodity and related products with classification to the Acting DG for enhancing wildlife related risk profiling and targeting. LCD agreed that risk classification and profiling will be completed in September 2016. A field visit was also made during the mission by the World Bank Country Manager and the mission team to Thanaleng Customs Checkpoint and Friendship Bridge 1 Checkpoint to emphasize the importance of combating illegal trade of wildlife and timber and non-timber forest products (NTFP), drawing attention that the LENS-2 Subgrant is now ready for implementation by LCD.

MONITORING AND EVALUATION

26. Progress toward the achievement of the PDO has been on track to enhance customs efficiency and effectiveness. The project aims to facilitate trade by improving the efficiency and effectiveness of customs administration and simplifying customs procedures to eliminate duplication and redundancy, reduce transactions costs and time to clear goods, and increase transparency and accountability. With support of the project, customs administration now relies on a live and stable operation of the ASYCUDA World system in 21 customs checkpoints covering more than 90 percent of formal trade in Lao PDR since mid-2015. Based on the 2016 TRS, LCD has made significant progress in reducing clearance times at major border crossing points, with average clearance times falling from 11:24 hours in 2012 to 6:30 hours in 2016, representing a 43% reduction. Likewise, median clearance time has fallen from 3:10 hours in 2012 to 2:50 hours in 2016, representing an 11% decrease. These encouraging results build on an

earlier 36% reduction achieved from 2009 – 2012 during the earlier phase of CTFP. They also act as a proxy measure for the effectiveness of risk management within the LCD. An important intermediate indicator for the project is the ratio of detections to inspections. Unfortunately, to date the LCD has been unable to provide reliable statistics on this indicator. Work is now underway, however, to utilize ASYCUDA World functionality to record the results of inspection action. Once fully implemented this will provide reliable statics to accurately record and report on this ratio.

27. Perceptions of the private firms also report significant improvement in customs clearance. The WBG’s 2016 Enterprise Survey for Lao PDR released in July 2016 shows that the number of days to clear imports has also reduced from 3.3 in 2012 to 2 in 2016. Likewise, the number of days to clear exports has fallen from 5.6 in 2012 to 2 in 2016. At inception of this project, the number of days to clear imports and exports stood high at 10.7 and 7.4, respectively. Furthermore, the percentage of firms identifying trade and customs regulations a major constraints in conducting business has also dropped significantly from 12.4% in 2012 to 7.6% in 2016.

28. Additional good progress has also being made at the output level on improving risk management and intelligence, compliance management and authorized economic operators, change management and communication, performance measuring and client service standards, administrative appeals and integrity. These are standstill overarching priorities that Lao Customs has initiated and supported by the project to ensure predictability, client satisfaction and transparency and accountability in customs administration. Once these project inputs are completed and fully implemented the performance of LCD is expected to improve further. Unfortunately, these improvements are not being reflected in an improved performance on the World Bank’s Logistics Performance Index (LPI) where Lao PDR ranks at 152, down from 131 in 2014. The mission is unable to reconcile this poor result with the clear progress that has been made on reforming the border management environment, not only in Customs but also in other key agencies. Independently assessed time for release data (outlined above) and enterprise survey data demonstrably illustrate the impact on the reform effort but to date this is not reflected in an improved LPI score. Given the LPI is perception based, this suggests there is significant room for the LCD to improve its Customs/Business dialogue mechanisms and needs to devote much more attention to its external public communication strategy.

FIDUCIARY

Procurement

29. The overall procurement performance for the CTFP is “**Satisfactory**”. Most pending packages are completed. Some packages were removed from the procurement due to inadequate remaining budget from the currency depreciations. LCD submitted an updated procurement plan for the additional procurement packages in May 2016 and the Bank provided comments. The revised updated procurement plan was submitted to the Bank on August 23, 2016 and a no objection by Aug. 31, 2016.

30. *Procurement staffing.* The project’s procurements have been carried out by a full time national procurement consultant with the intermittent inputs from the International Procurement Specialist. There is no government officer assigned to work for the project’s procurement after December 2014. The mentioned procurement consultants conducted the two-day procurement training for LCD senior customs management officers, customs officers and CTFP Project staff from June 29-30, 2016. The workshop was designed to address the needs of CTFP and LCD to enhance staff and management’s understanding of public procurement rules, guidelines, principles and methods applicable specifically in World Bank-financed projects and generally in government institutions.

Financial Management

31. The overall financial management performance for the CTFP project is “**Moderately Satisfactory**”. Although external audit was clean and interim unaudited financial reports were submitted timely, there were a few other areas which have not yet improved. Disbursement is still low compared to the previous mission since the project only has less than 12 months closure. Asset register has not yet been updated to include new purchases made since 2015.

32. *Disbursement.* Disbursement of the additional financing grant as of September 19, 2016 is 58% (up by 16% from the February 2016 mission). However, disbursement is still considered low since the project only has less than 12 months closure. Project training activities and technical delivery of outputs need to be accelerated to improve disbursement and to ensure funds are fully disbursed by the end of the project. Due to the depreciation of SDR against USD, we recommended in the previous mission that the LCD monitors the remaining funds against funds needed (expected expenditure) on a regular basis. However, this has not yet been done systematically. Project budget will be revised in October 2016; therefore, the mission strongly encourages that the project starts monitoring this regularly after budget is revised, using the format provided in **Annex 5** and in the February 2016 mission Aide Memoire. Contingency amount or unallocated amount (between 5-10% of undisbursed amount) will have to be provide for to cover for potential further loss on SDR depreciation.

33. Advance to UNCTAD amounting to US\$0.13 million remained undocumented. The mission urges LCD to urgently follow up with UNCTAD to obtain the audited financial statement so documentation of this advance can be completed. All advances to UNCTAD need to be documented within four months after the closing of the project (i.e. no later than October 31, 2017).

34. *External audit.* We were informed that the field work for the audit of FY15-16 is scheduled to commence in November. However, we noted that one of the auditor’s recommendations has not yet been addressed. This is in relations to updating of asset register and annual physical checks of assets. Some assets purchased since 2015 have not yet been recorded in the register. Moreover, asset registers are not consolidated and did not contain sufficient information. As the annual audit is approaching, we strongly recommend LCD to carry out physical check of all assets purchased under the project and update the asset register before the audit commence i.e. at the latest no later than October 30, 2016.

35. *Financial reporting.* Submission of the Interim unaudited financial report is up to date and have been submitted timely. The next IFR is due on November 15, 2016.

ANNEX 5. Sample of remaining project fund monitoring

Category Description	Undisbursed per Client Connection (USD) as of xx (A)	Commitment (B)	Unliquidated advance (C)	Undocumented expenditure (including UN advance) (D)	Total expected expenditure E=B+C+D	Cash and bank balances (F)	Total remaining funds G=A-E+F
Goods, CS, Non-CS, IOC & Training							

ANNEX 6. Draft Service Level Agreement between UNCTAD and LCD

**ASYCUDA Support and Maintenance Contract
 Service Level Agreement - 8*5 Monday to Friday**

Problems	Response	Commence Investigation	Resolution
Urgent	4 hours	4 hours	ASAP - Best efforts
Non-Critical	1 day	2 days	1 week
Minor	2 days	4 days	2 weeks

Changes	Response	Commence Investigation	Resolution
Urgent	4 hours	4 hours	ASAP - Best efforts
Planned	3 days	5 days	1 week into test environment
Obtaining knowledge	4 days	1 week	

ANNEX 7. List of International Customs Checkpoints⁸ with live operation of the ASYCUDA World System and SmartTax

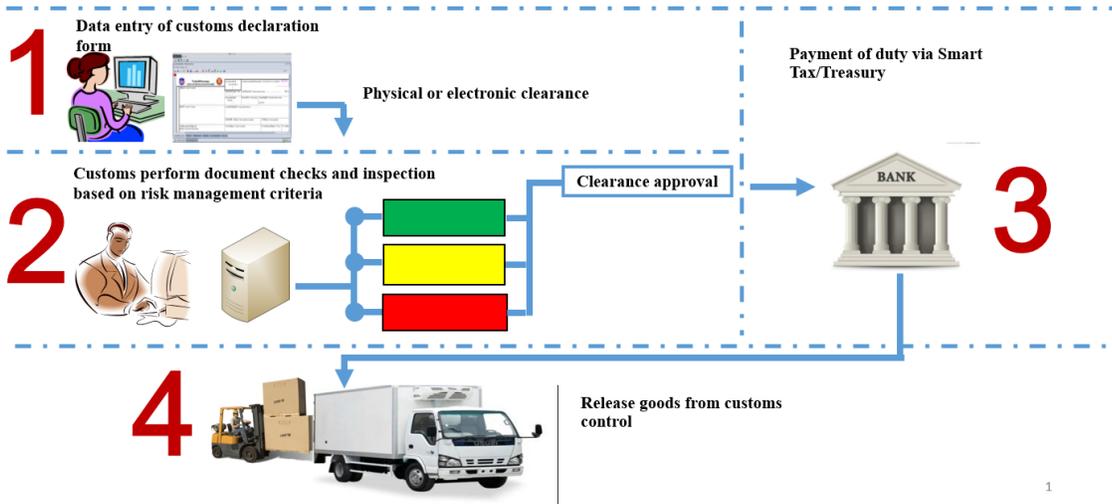
No.	Checkpoints	Date of rollout completion	Network Connection Mode	SmartTax Rollout in 2015
1	Boten (LuangNamtha)	2012	Fibre	Yes
2	Namphao (Bolikhamxay)	2012	Fibre	
3	Friendship Bridge 1 (Vientiane Capital)	2011	Fibre	Yes
4	Friendship Bridge 2 (Savannakhet)	2012	Fibre	Yes
5	Friendship Bridge 3 (Khammuan)	2012	Fibre	Yes
6	Friendship Bridge 4 (Bokeo)	2012	Fibre	Yes
7	Vangtao (Champasack)	2012	Fibre	Yes
8	Dansavanh (Savannakhet)	2012	Fibre	Yes
9	Namheuag (Xayabouly)	2012	Fibre	
10	Namsouay (Houaphanh)	2012	Fibre	
11	Wattay International Airport (Vientiane Capital)	2012	Fibre	Yes
12	Phoukeu (Attapeu)	9-Feb-15	Fibre	
13	Naphao (Khammouan)	11-Feb-15	Fibre	
14	Paksan (Bolikhamsay)	18-Feb-15	Fibre	
15	Namkan (Xiengkhouang)	1-Mar-15	Fibre	
16	Namngern (Xayabouly)	2-Mar-15	Fibre	
17	Nongnokkhen (Champasack)	1-Apr-15	Internet 3G	
18	Phoudou (Xayabouly)	2-Apr-15	Internet 3G	
19	Pahang (Houaphanh)	6-May-15	Internet 3G	
20	Banmom (Bokeo)	7-May-15	Internet 3G	
21	Panghok (Phongsaly)	18-May-15	Internet 3G	

⁸ Pakse and LuangPrabang International Airports are not deployed with the system because of limited volume of trade.

ANNEX 8. Designated sites for the second lot of back-up generators and schedule of installation.

Name of Checkpoints / Generator Power	Expected date completion			
	shelters	delivery	installation	verification
66 kVA, Customs Department, Vientiane Capital	27-Aug-2016	26-Sep-2016	01-Oct-2016	21-Oct-2016
33 kVA, Wattay International Airport, Vientiane Capital	27-Aug-2016	26-Sep-2016	01-Oct-2016	21-Oct-2016
66 kVA, Namsoy Border, Houaphanh	31-Aug-2016	30-Sep-2016	05-Oct-2016	25-Oct-2016
33 kVA, Declaration Control Building, Namphao Border, Bolikhamxay	26-Aug-2016	25-Sep-2016	30-Sep-2016	20-Oct-2016
12 kVA, Vehicle/Passenger Checking Building, Namphao Border, Bolikhamxay	26-Aug-2016	25-Sep-2016	30-Sep-2016	20-Oct-2016
12 kVA, Vehicle/Passenger Checking Building, Dansavanh Border, Savannakhet	24-Aug-2016	23-Sep-2016	28-Sep-2016	18-Oct-2016
66 kVA, Declaration Building, Friendship Bridge II, Savannakhet	24-Aug-2016	23-Sep-2016	28-Sep-2016	18-Oct-2016
12 kVA, Vehicle/Passenger Checking and Warehouse Control Building, Friendship Bridge II, Savannakhet	24-Aug-2016	23-Sep-2016	28-Sep-2016	18-Oct-2016
12 kVA, Vehicle/Passenger Checking Building, Vangtao Border, Champasack	20-Aug-2016	19-Sep-2016	24-Sep-2016	14-Oct-2016

ANNEX 9. Draft process to clear imports



Source: LCD

ANNEX 10. Attached an update to the Result Framework

Project Development Objective (PDO): To facilitate trade by improving the efficiency and effectiveness of customs administration and simplifying customs procedures to eliminate duplication and redundancy, reduce transactions costs and time to clear goods, and increase transparency and accountability.												
PDO Level Results Indicators	Core	UOM ⁹	Baseline Original Project Start (2009)	Progress To Date (2012)	Cumulative Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2013	2014	2015	2016				
1. Reduction in mean import, export and transit clearance times for commercial shipments by 10 percent per year.	<input type="checkbox"/>	Hours	17.9	11.2	10.1	9.1	8.2	7.4	Every 1-2 years	Time Release Survey (TRS)	LCD	Reduction in mean time to clear imports of 34% during 2009-12
				Actual	No data	No data	No data	6.5				
2. Reduction in the number of steps to clear	<input type="checkbox"/>	Number of steps	9 / 7 (import)	5 / 4	5 / 4	4 / 3	4 / 3	4 / 3	Every 1-2 years	LCD regulations	LCD	Reduction in number of steps to import from 9

⁹ UOM = Unit of Measurement.

commercial shipments by 25 percent.			t / export)	Actual	5 / 4	5 / 4	5 / 4	5 / 4 ¹⁰				to 5 and to export from 7 to 4 during 2009-12
3. Increase in the ratio of detections/inspections by 10 percent per year [based on available ASYCUDA data and reports for the purposes of customs control].	□	%	N/A	1.2	1.5	1.9	2.3	2.9	Annual	ASYCUD A managemen t reports	LCD	Indicator of increased use and effectiveness of customs risk management and ASYCUDA selectivity
				Actual	No data	0.88 ¹¹	0.91 ¹²	No data ¹³				
4. Increase in client perceptions of customs performance and integrity as measured by World Bank survey results by 25 percent.	□	Index	2.08	2.38	2.5	2.6	2.7	2.8	Every 2-3 years	Logistics Performan ce Index (LPI)	WB	Sustained improvements in performance as measured by the LPI. Next LPI to be issued in 2016
				Actual	No data	2.45	No data	1.84				
Intermediate Results and Indicators												
Intermediate Results Indicators	Core	UOM	Baseli ne Original	Progre ss To Date	Target Values				Freque ncy	Data Source/	Responsi bility for Data	Comments
					2013	2014	2015	2016				

¹⁰ Revised procedures for e-clearance being discussed but have not been adopted. It is expected that the clearance steps for imports and exports will be 4 and 3 respectively once the procedures are adopted.

¹¹ The ratio was calculated based on the selectivity data (October 2013-March 2014) from the Lao Customs Department

¹² The ratio was calculated based on the selectivity data (Nov 2014 – July 2015) from the Lao Customs Department.

¹³ Data on customs detections are not currently retrievable by the system recording. Currently, a reporting system is prepared to retrieve the detection data from the ASYCUDA system.

			Project Start (2009)	(2012)						Methodology	Collection	
Intermediate Result 1: Improved customs processes and procedures.												
1. Full acceptance of electronic data submission for customs declaration procedures by the end of 2013	<input type="checkbox"/>	Text	Not initiated	Partially completed	Completed					Progress reports	LCD	Pilot would be completed by next mission (Jan 2016)
					Partially completed	Partially completed: Pilot to be conducted						
Intermediate Result 2: Improved ICT infrastructure which supports the implementation of the new customs processes and procedures and is sustainable and reliable.												
2. Prototype developed and accepted by government	<input type="checkbox"/>	Text	Not initiated	Completed						Progress reports	LCD	Task completed at AF approval
3. Accepted prototype validated at pilot site	<input type="checkbox"/>	Text	Not initiated	Completed						Progress reports	LCD	Task completed at AF approval

4. Prototype replicated at remaining checkpoint sites	<input type="checkbox"/>	Text	Not initiated	Planned 11 checkpoint Completed						Progress reports	LCD	Original No. of checkpoint to replicate was 11. AF finances additional 12 checkpoints.
5. Integrated ICT system is in place by 2011, pilot completed and reviewed by 2012, and fully operational in all implementation sites by 2014.	<input type="checkbox"/>	Text	Not initiated	Original 11 checked point completed			Completed: Roll out at 10 out of 12 checkpoints completed			Progress reports	LCD	AF covers additional 12 sites to roll out the prototype. However, the remaining two checkpoint would be dropped from the plan due to its little volume traded.
6. Appropriate front line staff and affected traders trained in advance of pilot testing and pre nationwide rollout.	<input type="checkbox"/>	Text	Not initiated	Original 11 checked point completed			Roll out at 10 out of 12 checkpoints completed			Progress reports	LCD	AF covers additional 12 sites to roll out the prototype by end of the project