

THE LAO TRADE STORY

Implementing Trade Policy and Trade Facilitation
Reforms in Lao PDR





The year is 1998. In the impoverished countryside of Lao PDR, farmers eke out livelihoods at subsistence levels. On the dusty streets of the sleepy capital, Vientiane, infrastructure and industry are only nascent concepts, with the first major bridge to the booming Thai economy having been completed just four years prior. The communist old guard has given way to just over a decade of minimal experimentation with decentralized open markets and private enterprise. The country is still not well integrated into the regional and global economy. By all accounts, it is among the poorest in the world. With nearly 40 percent of the population living below the international poverty line, it is designated a Least Developed Country (LDC) by all international indicators, and the ongoing Asian financial crisis is only making matters more complicated.

Fast forward to 2006. While little has changed in the countryside, the gradual shift toward openness is starting to bear fruit. City streets are beginning to buzz with activity. Tourists are arriving in ever larger numbers. And for the first time in generations, the country welcomes home a growing number

of young, well-educated Lao nationals as they return from their studies abroad. Having been largely segregated from the international trade landscape for so long, the concept of private sector development remains somewhat taboo. Yet, foreign firms are now investing heavily in natural resource exploitation. And in response, budding cooperation and coordination with international development partners on trade issues begins to climb the government agenda. Accession to the World Trade Organization (WTO) is deemed a priority. And in a move to further stimulate trade policy reform and trade facilitation, Australia and the European Union donate nearly \$8 million to a new multi-donor trust fund to be administered by the World Bank.

In 2015, Lao PDR is virtually unrecognizable from what it was just a decade ago. A more open, more outward trade landscape has transformed the country from a closed-off backwater into a fast-growing developing country—complete with coffee shops, restaurants, and billboards lining the streets of what is now a much busier and more lively Vientiane. Rural-urban migration is underway as non-agricultural opportunities are on

the rise. Importers and exporters are experiencing an increasing level of government transparency. Customs operations are nearly fully automated and border clearance times have been drastically reduced. As a crowning achievement—and after 15 years of negotiations—Lao PDR is now a member of the WTO, with its eyes set on establishing itself as an equal partner in the ASEAN Economic Community (AEC). The situation has improved to such an extent that the country has become a model for other LDCs undertaking trade reform. Optimism is in the air, and reformers know that having come so far there is still a tremendous amount to be done.

Within the context of a complex and largely incomplete transition from a planned to a market economy, the strides taken by the Lao government in the relatively niche area of trade policy reform and trade facilitation merit attention. In particular, the political will and commitment to press for trade reforms in such a low capacity environment have resulted in a string of successes that are well-documented by departments within the Lao government and by their donor counterparts.

And yet, outside these circles, this string of successes is not well known. The country still has many visceral challenges to overcome. Trade reform is much less visible, quite often not a front-page story, and rarely capable of changing people's fortunes overnight. Rather, it is a process of deliberate, subtle changes that over time provide the atmosphere for a country to bloom—and Lao PDR is blooming. Understanding the scope and scale of reform that has occurred in order for the country to reach this point is not always easy. Without looking back over the last few years, without peering deeper into the structures that have changed—it is possible to miss just how remarkable this story truly is.





The origins of trade reform in Lao PDR

As the only landlocked country in Southeast Asia, Lao PDR has long faced significant barriers to trade. Since carrying out its first outward-looking economic reforms in 1986, trade with the outside world has mostly been a one-way street: imports. For years, the country has had a weak regulatory framework, lacked proper infrastructure, and offered a very poor investment climate. Domestic producers have faced unknown or unclear export procedures, paper-based and obsolete customs operations, and a level of cooperation between government agencies on trade-related matters that as recently as the mid-2000s was almost nonexistent. This has resulted in an inability to plug into regional supply chains and has limited potential economic growth.

Nevertheless, Lao PDR's location in the heart of Southeast Asia and its political commitment to continue the economic liberalization process made the country well positioned to experience gains from trade reform. It was not that the country

was unwilling to embark on private sector and trade reform. Rather, it lacked clarity at both government and institutional levels as to which reforms should be undertaken and what they might entail. The very prospect of pushing the low-capacity bureaucratic machine into action was daunting, even for reform champions within the government who were committed to furthering the trade and competitiveness agenda.

As a bid to jumpstart the reform process, the government made accession to the WTO a top priority. The goal was to modernize, and the WTO path infused every reform initiative undertaken by the government with a sense of justified legitimacy. Having accession as a tangible goal led to stakeholder buy-in and positively influenced the degree to which reform efforts would later succeed. While institutional commitment to reform varied at times, consensus among policymakers on the need for modernization and to be seen as an equal partner among regional and international bodies



allowed WTO, and later ASEAN, commitments to be used as a lever for regulatory reform.

The country's struggles and inefficiencies in the trade arena throughout the nineties and early 2000s made it a prime candidate to benefit from the Integrated Framework (IF) process, a WTO program designed to help LDCs more actively participate in the global multilateral trading system. In 2004, the Lao Government began that process in earnest under the stewardship of Australia and other development partners. This compelled the Government—in collaboration with donor partners—to coordinate its trade-related line ministries, compile documents, and conduct studies toward the completion of a Diagnostic Trade Integration Study (DTIS) being carried out by the World Bank. The goal was to identify constraints on competitiveness, supply chain weaknesses, and sectors with high growth and export potential in Lao PDR. The IF process also prescribed mainstreaming trade into the country's national development plan and establishing a national implementation unit (NIU) to oversee the reforms. The engagement marked the cultivation of the earliest relationships between government reformers and donor counterparts on trade issues, which included the creation of a World Bank financed Customs and Trade Facilitation project in the Ministry of Finance (MoF)—each of which helped cement the foundation of future reform.

Still, the early days of the IF process presented a considerable challenge for the Government. By the admission of leaders in the Ministry of Industry and Commerce (MoIC), in particular the Director-General of the Foreign Trade Policy Department who oversaw the process, the IF's many requirements and stipulations caused stress within the Government. The MoIC was a low capacity environment in those days, lacking the technical expertise and experience to navigate such a program, and inexperienced in working with outside organizations given its closed past. Relevant stakeholders had to be convened,

procurement procedures institutionalized, and other line ministries crucial for WTO accession identified. For example, cooperation from the Ministries of Agriculture and Finance would be vital in making many of the country's regulations WTO-compliant, but coordination was extremely difficult given the differing incentives and lack of historical cooperation between the agencies. Similarly, an NIU had to be created and staffed from scratch, forcing the MoIC to overhaul its institutional structure and juggle the politics of embedding technical assistance from abroad therein.

Nevertheless, the process drove forward, buoyed by the strong mandate from the highest levels of government. Step by step, as progress was made, the MoIC grew increasingly confident in its own capacity and in the continued financial and technical support from development partners who remained engaged in the process.

Two years later, in 2006, the Government's efforts reached a turning point. Firstly, the DTIS was completed and validated, which strongly emphasized the need to increase competitiveness, as well as deepen international and regional integration. The DTIS identified priority areas upon which to concentrate external trade-related technical assistance, as well as laid the foundation for better management of Official Development Assistance (ODA) in the trade sector. Secondly, a multi-donor trust fund known as the Trade Development Facility (TDF) was established as a financing mechanism to implement the recommendations of the DTIS. Australia and the European Union committed resources of AUD 3.05 million and EUR 4.2 million, respectively. The World Bank—which had contributed country-level analytical work in the preparation of the DTIS and which had its existing Customs and Trade Facilitation lending project underway with the MoF—acted as administrator for the MDTF, as well as contributed its own resources to supervise the project.





Promoting the trade facilitation agenda

Trade facilitation was singled out both as a priority area in the DTIS as well as a major component of the TDF project. Three very tangible goals quickly became apparent to both donors and the Lao Government: the need for a strategy; the need for a permanent national body to coordinate the activities of different agencies; and finally, the need for a deliverable, something that could visibly demonstrate to the trading community that the Government was in fact interested in facilitating trade. The World Bank was particularly active in helping to conceptualize and implement these goals, beginning with the development of a National Trade Facilitation Strategy, which had to be agreed upon not just by the MoIC, but by all relevant agencies.

Even after finalizing the Strategy, the emerging champions of the trade agenda knew there would be no other way to achieve their goals or to implement other accession-related reforms without bringing the relevant line agencies together in the form of a National Trade Facilitation Secretariat (NTFS). They also knew they would have to bring agencies onboard that either wouldn't understand the reform efforts or would put up resistance. To deliver on the Strategy, the forum provided by the NTFS was needed for issues to be discussed, consensus reached, and decisions taken. Eventually, hesitant ministries saw mutual gains could be borne out of the process. Lao political culture had long dictated that if the objective was big, included concrete steps, and was understood by everybody to be a positive—as was rightfully the case with WTO accession—the agencies would coordinate and cooperate at the end of the day.

Leadership of the NTFS was split between two ministries, with the Vice-Minister of the MoIC and the Head of Customs acting as chair and deputy-chair, respectively. In addition, the TDF financed local consultants to serve in the NTFS as facilitators for the private sector. Given that various leaders and heads of associations had their own business-related affairs to see to and could not attend endless government meetings, these facilitators helped to identify and prioritize private sector issues and bring them to the table. The NTFS was a major factor in improving government coordination. It brought all stakeholders together under one umbrella in an unprecedented manner, and its creation represented a major milestone in the evolution of Lao trade reforms. Furthermore, the power share at the top has continued to serve as a symbolic nod to the body's esprit de corps and collaborative ambition.



“ The situation has improved a lot in terms of coordination ”

*Atsaphangthong Siphandone,
Director-General of Customs,
on the impact of the NTFS*



The Lao Trade Portal pushes into new territory

For further progress to be made, the Government needed to take a full account of existing trade law. At the time, hundreds of contradictory regulations, forms, and procedures related to trade existed within the Government, making information on business processes highly difficult to obtain. Private sector representatives in the NTFS were making it clear that the lack of transparency and predictability surrounding regulations was a major investment climate constraint. Transactions had to be done face-to-face, and informal channels and payments were the norm. Any given government official in Lao PDR could claim the necessity of a certain form, payment, or task in order to process a procedure, with little recourse for traders who had no way of knowing or proving that such red tape was truly law. Similarly, many well-intentioned government officials themselves did not know which rules to apply in certain situations. The Government needed a solution.

That solution lay in an online portal where all rules, regulations, procedures, and fees could be indexed, cross-referenced, and searched by commodity code for the benefit of all. Such a portal would institutionalize procedures for traders and lay to bed any doubts regarding which forms and payments were lawful and which were erroneous. It could also be used as a very effective vehicle to build consensus and cooperation between government agencies.

The online portal solution was at once extremely useful and relatively non-threatening to government, as it required nothing of them other than to provide information. But in reality, information on trade regulations and procedures was neither structured nor systematically documented or maintained within the Government. In some cases, certain laws and regulations simply did not exist. This had created an environment favorable to rent-seeking.

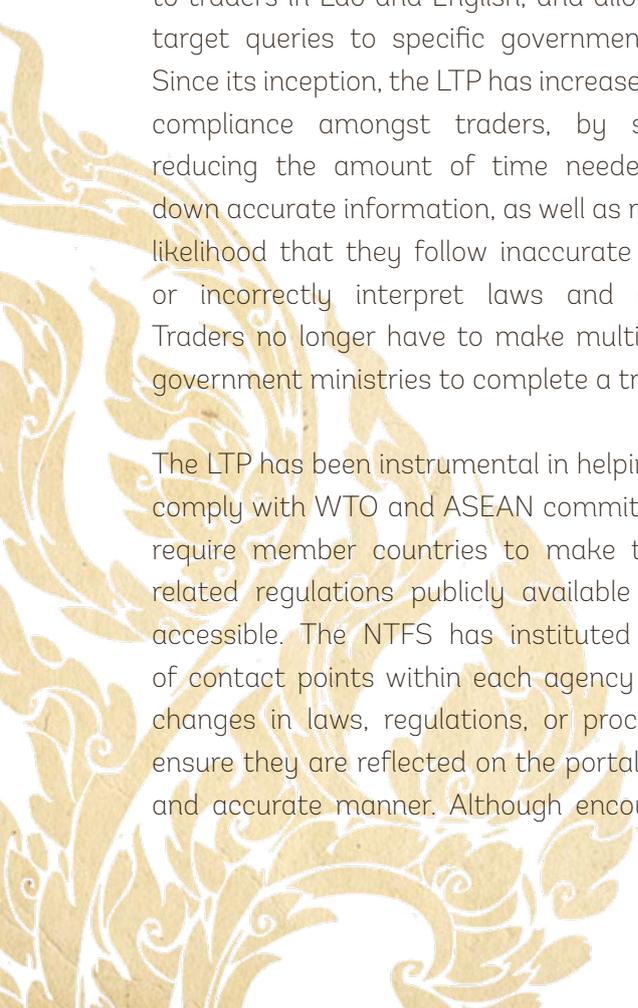
A portal could provide the transparency necessary to shine a light on such practices, but would first require a much fuller understanding of the systems in place. Making the portal a reality would require a broad scope, one that would require changes in governance, operational models, and technical architecture.

The exercise began in mid-summer 2011, immediately disrupting the status quo. Ministries with contradicting regulations were forced to reconcile inconsistencies in a massive streamlining effort. This ensured that only final, polished versions of regulations were posted on the portal. For procedures that had previously been either unformalized or nonexistent, new protocols were created. In effect, the project quickly became one not just of aggregating information, but also of creating information, with anything posted on the portal representing the utmost legitimacy for government and traders alike.

The Lao Trade Portal (LTP) was officially launched on June 22, 2012, twelve months after the start of the project. The portal offers extensive instructions to traders in Lao and English, and allows them to target queries to specific government agencies. Since its inception, the LTP has increased voluntary compliance amongst traders, by significantly reducing the amount of time needed to track down accurate information, as well as reducing the likelihood that they follow inaccurate procedures or incorrectly interpret laws and regulations. Traders no longer have to make multiple trips to government ministries to complete a transaction.

The LTP has been instrumental in helping Lao PDR comply with WTO and ASEAN commitments that require member countries to make their trade-related regulations publicly available and easily accessible. The NTFS has instituted a network of contact points within each agency to monitor changes in laws, regulations, or procedures and ensure they are reflected on the portal in a timely and accurate manner. Although encouraging the

trading community to make use of the portal remains an ongoing challenge, the site has still received over 406,000 visits, with an average of more than 500 visits per day.





Customs reforms

Official customs law has been formalized in Lao PDR since 1994, and improved over time to incorporate international conventions and practices. Spurred by close collaboration with the World Bank on a customs-specific project that predated the TDF, the country had become a member of the World Customs Organization by 2005. In the wake of the TDF, the country subsequently made a stronger push toward full centralization of customs operations in accordance with the conditions of membership in the WTO and the AEC. The backbone of this centralization was the adoption of the Automated System for Customs Data (ASYCUDA), part of a two-pronged customs modernization strategy to automate procedures and build the capacity of customs officials.

Automation of customs now covers 95 percent of trade in Lao PDR. After a lengthy process to completely abolish all manual and paper-based

procedures, by early 2015 ASYCUDA was being used at 22 customs checkpoints nationwide. The training of all customs officers has now been completed, and mechanisms are in place to send any new departmental procedures, instructions, or manuals to on-duty officers, as well as publish them on the Customs Department's website. The Department also sends inspectors to check the performance of officers on a quarterly basis. Customs officers have proven up to the challenge of implementing the new, more transparent system as cross-border trade procedures have become more routine and more efficient. According to the current Director-General of Customs, the improved capacity of customs officers and their improved ability to utilize technology in customs administration has been the "most outstanding achievement" of the reform process.

The customs modernization strategy also covers Lao PDR's impending AEC commitments, requiring a review, and in many cases revision, of all laws. This is now a top priority of the department. By negotiating certain conditions to facilitate trade in the context of ASEAN, the Lao Government has begun a fruitful dialogue with regional partners, including helpful feedback on its own lingering customs inefficiencies. Nevertheless, the country's simplifications of customs regulations and procedures, its reductions in the share of cargo subject to physical inspection, and its fewer processes and faster clearances (from a mean clearance time of 17.9 hours in 2009 to 11.2 hours in 2012) have made it a welcome partner at the ASEAN negotiating table.





Addressing labour needs in manufacturing

Garment Skills Development Centre

In Lao PDR, economic growth is booming due to natural resource exploitation, which according to the World Bank's Investment Climate Assessment¹ provides limited potential in terms of generating increased employment. Conversely, the garment manufacturing sector, which is the country's largest non-resource sector, represents one of the few industries in which meaningful and plentiful jobs can be created, especially for workers migrating from rural areas. Labor accounts for 20 percent of garment production costs on average and is the only homegrown, non-imported input in the entire sector.

Yet despite preferential trade access to the European Union and United States, the Lao garment industry has struggled to compete with more seasoned exporters in countries such as neighboring Cambodia and Vietnam. Stagnant

labor productivity is one of the biggest reasons for this shortfall, due partially to a shortage of semi-skilled workers and a high labor turnover rate on the one hand, and lack of modern technology, logistics services, and human resources on the other. Basic training remains in-house and rudimentary at the entry level, and virtually non-existent at the supervisor and managerial levels.

Under the broader context of WTO accession and its growing portfolio of trade reforms financed under the TDF, the MoIC decided to team up with the Association of Lao Garment Industries in 2011 to establish the Garment Skills Development Centre (GSC). The GSC develops and delivers demand-driven, fee-based training services, consulting, and coaching to garment manufacturers. The courses were originally intended to target supervisors with the goal of improving management. However, the

¹ <http://documents.worldbank.org/curated/en/2014/12/23884202/investment-climate-assessment-2014-policy-uncertainty-midst-natural-resources-boom-vol-2-main-report>

modular curriculum, adapted from a similar facility in Indonesia, provides lessons and training to boost productivity in a number of positions, including topics such as line leading, quality management, leadership, and motivational skills. Although only a limited number of firms are willing to pay for

employee training, the GSC is beginning to make its mark. Early impact evaluation of training services delivered on-site for supervisory skills in the factory has shown an average 18 percent increase in daily productivity among targeted production lines.





Sustainability: Lao Government takes the reins

In 2011, the Lao Government released its 7th National Socio-Economic Development Plan (NSEDP), setting the country on a course to graduate from LDC status by 2020. With the country on the verge of WTO accession at the time, increased international integration remained an explicit focus of the Plan. Yet, there were concerns. The economy was growing, but also growing less diverse. Exports were on the rise, but the types of products were limited and reaching only a small set of destinations. The concern over resource-driven growth decreasing the competitiveness of non-resource exports was palpable in trade circles and in the higher seats of government.

Facing these challenges, and recognizing the need to truly dig in and set the roots of trade reform, the MoIC made the unprecedented decision to conduct its own DTIS—something never before accomplished “in house” by an LDC government.

However, with support from the Ministry of Planning and Investment and funding from the Enhanced Integrated Framework (EIF), the MoIC produced a completely updated, analytically robust study in 2012 that would once again serve as the guide for all aid-for-trade programs in Lao PDR. This second DTIS included a clearer vision and a more granular analysis of private sector and investment problems that had emerged while meeting the goals of its predecessor.

The new DTIS quickly became the basis of a new roadmap, or action matrix, known as the Programme for Trade and Private Sector Development. The Programme would work towards alleviating the concerns of the Government in meeting its trade-related goals under the National Socio-Economic Plan, ensuring the country would become a modern and diversified economy capable of leaving behind its days as an LDC once and for all.



It also presented further proof of the Government's capacity and capability, just how far it had come in a matter of just a few years, and how much further it could go with the continued support of its donor partners.

Cognizant that projects aligned with government priorities had the strongest chance of continued government action, these developments opened another window of opportunity for the World Bank and the donor community. The World Bank saw this as a critical moment to cement its commitment to the Government's agenda on trade and regional integration, drawing up plans for a new, second Trade Development Facility project (TDF-2). This time, however, the pool of willing donors had grown to include the German, Irish, and American international aid agencies—a testament to both the success of the original TDF-1 in leveraging trade

to meet development goals, and to the increasing confidence of donors in the capacity of the Lao government.

TDF-2 is now in place and operational. It is funded by a World Bank/International Development Association (IDA) grant of US\$4 million, as well as another MDTF grant of US\$10 million in contributions from Australia, the European Union, Germany, Ireland, and the United States. Like its predecessor, the TDF-2 has been designed to support the implementation of trade and integration priorities outlined in the Updated 2012 DTIS. But just as the DTIS had evolved to meet new challenges, so too has the TDF-2: its key intent is to now progressively shift from a pre- to a post-WTO accession agenda, and this requires a clear, coherent, and coordinated approach.



The second TDF project sets its sights on the private sector

TDF-2 has three components, each aimed at contributing to improved competitiveness and diversification beyond the natural resource sectors. It is buoyed by a strong awareness within government that, despite all the successes of the first TDF and the reforms related to WTO accession, there are still monumental challenges for improving the investment climate. To that end, a new series of activities aims to ensure that firms, entrepreneurs, employees, and consumers in Lao PDR are the ultimate beneficiaries of a more transparent and predictable business environment. Activities will aim to improve productivity, skills, and standards. They will aim to enhance the capacity of small- and medium-sized enterprises to participate in the global economy. And they will aim to support women's economic empowerment.

One such new mechanism for facilitating diversification and competitiveness within the private sector is the Business Assistance Facility (BAF). BAF is a grant-matching program

designed to help enterprises develop more robust business growth plans. Thirty-five grants totaling roughly US\$220 thousand had been approved as of November 2014, well ahead of the target for approvals for the first year of grants. The majority of proposals thus far have come from tourism, hospitality, and garment manufacturing enterprises based in Vientiane. Yet there are still plenty of positives to take-away, especially the fact that over a quarter of BAF grant approvals are for female-owned businesses.

In addition, TDF-2 will use pilot programs like the DTIS Challenge Facility to further sharpen the technical skills within the NIU and the MoIC on private sector development and programmatic reform. Establishing a fully program-based approach will be a tremendous challenge for the implementation team. Meeting it will require continued and deepened investment in capacity development within the MoIC.





“ At the end of the day, we need to show that without raising competitiveness we can't get to where we want to go ”

*Khemmani Pholsena,
Minister of Industry and Commerce*



What can other client countries learn from the Lao trade program?

In the case of the Lao trade program, the ownership of the process lay squarely on the shoulders of the MolC. The core people working on the program came from within the Ministry, creating a culture not of outside people spending outside money with outside intentions, but rather of the Government implementing its own program with donors supporting them in that process.

Thus, other LDCs can learn a lot from the experiences in Lao PDR, not by being told simply to “take ownership”, but by understanding the capacity building elements at the more granular and pragmatic level that helped foster country ownership. Increasing capacity is a component of every development strategy, but with regard to trade reform in Lao PDR, it was truly effective. Why?





វិស័យឧស្សាហកម្ម និង ពាណិជ្ជកម្ម

ក្រសួងឧស្សាហកម្ម និង ពាណិជ្ជកម្ម
MINISTRY OF INDUSTRY AND COMMERCE

ISUZU



Leadership can be learned

The Lao trade program benefited from a progressive leadership style: on the one hand a hands-off Minister of Industry and Commerce, Dr. Nam Viyaket, with full confidence in his team to carry out the work, and on the other a very untraditional, very open-minded Deputy Minister in Madame Khemmani who drove the process. The latter, who later became minister herself, has been complemented in her efforts by a swelling group of young leaders that have grown under her tutelage to assume high-ranking positions. What is now a respected network of national trade experts initially began as a group with limited technical capabilities and foreign language skills, a tremendous accomplishment in its own right.

Learning-by-doing was the primary vehicle through which this team was empowered to lead. Exposure, especially through informal channels of communication and cooperation both within the government and with external partners, was pivotal in constructing the capacity of individuals that would go on to become trade champions in the MoIC. Representatives at the Lao mission to the WTO in Geneva, for example, worked with staff from other missions, and often exchanged views in largely informal settings. Not only were they able to observe the way negotiations unfolded for their peers, but they also got to know one another, explained difficulties, listened to one another, and shared information before formal meetings. These observations and learning experiences prepared Lao representatives for their own bilateral talks and, in a sense, made them feel like they belonged on the international stage.

At home, the IF process played a similar role. By fostering critical intra-ministry dialogue, information sharing, and coordination, it marked the beginning of staff learning within the government. Cooperation was in line with the WTO accession mandate. If one ministry's views or proposals were at odds with another's, they had to be reconciled out of political necessity. This back-and-forth environment spawned the emergence of individuals with the social, tactical, and progressive influence to overcome deadlock. After WTO accession would ultimately be achieved, it would be the journey that began here—with the increased coordination and development of new leaders more so than the destination of WTO accession itself—that would be viewed as the most valuable consequence of embarking on the process.

Nowhere has the increase in government capacity manifested itself more than in the NIU, the core unit responsible for managing aid-for-trade resources in Lao PDR. The NIU began as a very small, relatively inexperienced team that, after five years of implementing the TDF, has grown into a highly capable, ambitious, and motivated group. Its successful in-house completion of the 2012 DTIS update was a particularly outstanding achievement, to go along with its increasing procurement portfolio. The growth of its leaders is largely attributable to the early tolerance within the MoIC for risk-taking and trial-and-error, without which the NIU would have ended before it began. That faith in the team paved the way for the creation of the NIU's well-developed planning process, which ultimately served as the backbone of the TDF-2.



“ We are committed to our organization. ”

*Banesaty Thephavong,
Director-General, Department of
Imports and Exports*





Empowering youth mobilizes implementation

In a government consisting of many employees from an older generation educated under a different paradigm, MoIC leadership saw talent in a younger generation. Contrary to conventional custom in Lao PDR at the time, they focused more on merit and talent than on years of service in their hiring practices. They placed young, competent people in key positions. This younger generation embraced new challenges. Many had studied overseas at a postgraduate level or higher, and they channeled their ambition into mobilizing, driving, and implementing the trade reform process.

Mme Khemmani advocated heavily for her staff—and in particular the NIU—to think through reform efforts comprehensively, challenging them to convince her that a given path was the right one. She showed little hesitation to ask questions or to test the validity of propositions she agreed with in principle by putting forward opposing arguments, and the process was not without significant hiccups. Mme Khemmani harkens back to an old adage from Ho Chi Minh in her progressive approach to human resources: “To reap a return in ten years, plant trees. To reap a return in 100, cultivate the people.” Thus, her young staff was given real responsibilities from an early stage.

The man charged with building and leading the newly minted NIU, Mr. Phouvieng Phongsa, is an example of reaping these rewards. A fresh-faced young employee, Mr. Phouvieng was barely off the plane from a recently completed scholarship stint in Australia when he was put in charge of spearheading what was, in essence, an empty vessel at the time. Assembling his team, establishing

its position within the hierarchy of power, and carrying out its mandate were processes carrying significant risk. These were, quite frankly, often make-or-break decisions for someone at that point in his career. His willingness to take those risks and his ability to see them through, however, spoke to the confidence of the MoIC in Mr. Phouvieng. But, perhaps more importantly, it illustrated how this younger generation of Lao professionals saw not obligation, but opportunity in government.

The commitment to empowering young staff also manifested itself in chances to travel and enrich the personal and professional lives of young employees. Training and exchange opportunities in Manila, Singapore, Geneva, Washington, and beyond—often made possible via TDF funding—significantly broadened the horizons of young staff. They returned to their institutions with new insights, often providing pathways to progress on existing challenges. This continuing education wasn’t seen as a perk of the job, but as a major asset to valuable members in a budding meritocracy. This phenomenon, at least partially, explains the somewhat remarkable lack of a brain drain among young Lao professionals in government.



An effective institutional structure is important, but don't wait for the perfect solution

Since embarking on the IF process a decade ago, the institutional structures of governance encompassing trade and competitiveness in Lao PDR have evolved to meet new realities. While many important cogs within the bureaucracy remain firmly and appropriately in place, the pathway to reform has been littered with iteration after iteration of organizational charts and workflow matrices. Generally speaking, these charts document the hierarchical relationship between the various levels of coordination in the institutional structure, from national policy formulation at the top to technical supervision and implementation at the bottom.

The MoIC's newly formed Department of Planning and Cooperation (DPC), within which the NIU is now housed, has played a particularly active and central role in redrawing organigrams as necessary. As its capacity grew, it was instrumental in drafting proposals—many of them politically sensitive—for

how to best restructure government institutions. The structure had to be tweaked many times to account for evolving government staffing needs, shifting priorities, and practicality considerations. The tree of new institutions that has grown as a result now consists of a web of technical recommendations, advisory support, and approval processes that are natural candidates for regular ebb and flow. It is a system that works effectively within this specific context—one that was flexible enough to grow and adapt, and yet firm enough to develop a reputation for effectiveness.

More importantly, however, is what the networks of people within the NIU, the DPC, and the MoIC more broadly, were able to achieve during this process of experimentation. An effective institutional structure is important, certainly. In Lao PDR, the marriage of a defined political agenda and the need for a fundamental reshaping of institutional



structures provided a suitable enough setting for success. But all of this realignment would have been meaningless were it not for the social and horizontal relationships at the personal level—the literal human capacity—that coalesced to deliver results in an often convoluted governing environment. Institutions matter, but so do people, and people are likely to mobilize support and improvise solutions long before institutions can be molded in a way that resembles anything near perfection.

While many of the positive experiences in Lao's trade reform efforts are, at least in theory, universal and replicable, many key players in the Lao trade reform process are quick to recognize the uniqueness of their situation. There is simply no getting around the differences in reality from country to country. Madame Banesaty Thephavong, Director-General of the Department of Imports and Exports within the MoIC, muses on the challenges facing any developing country government struggling to improve trade facilitation:

“ They would have to think of which ministry or minister truly understands the importance of trade. He or she should be the one to talk to the higher authorities within government and convey its importance. They themselves have to know how to set up the reform mechanism, but it is not necessarily like in Laos. Maybe what works in Laos doesn't work elsewhere. It depends on their culture. They have to understand their own people, their own line ministries, and especially their own culture. ”



Embedding international consultants with national counterparts has its benefits

There is disagreement in the development community about how, exactly, technical assistance (TA) from abroad should be implemented, but the Lao experience illustrates the importance of governments taking sole responsibility of hiring consultants, managing donor money, overseeing procurement, and handling related tasks. The first iteration of the NIU included embedded TA from abroad, pairing with Mr. Phouvieng to create the earliest drafts of institutional restructuring. And the early going was shaky. This was a government that was unaccustomed to a foreign presence within its walls. Building trust between the technical advisors and their national counterparts was paramount. Without the proper chemistry, these working relationships can fail, as they did on occasion in Lao PDR.

If trust can be created and nurtured, however, the benefits far outweigh the risks. A technical advisor

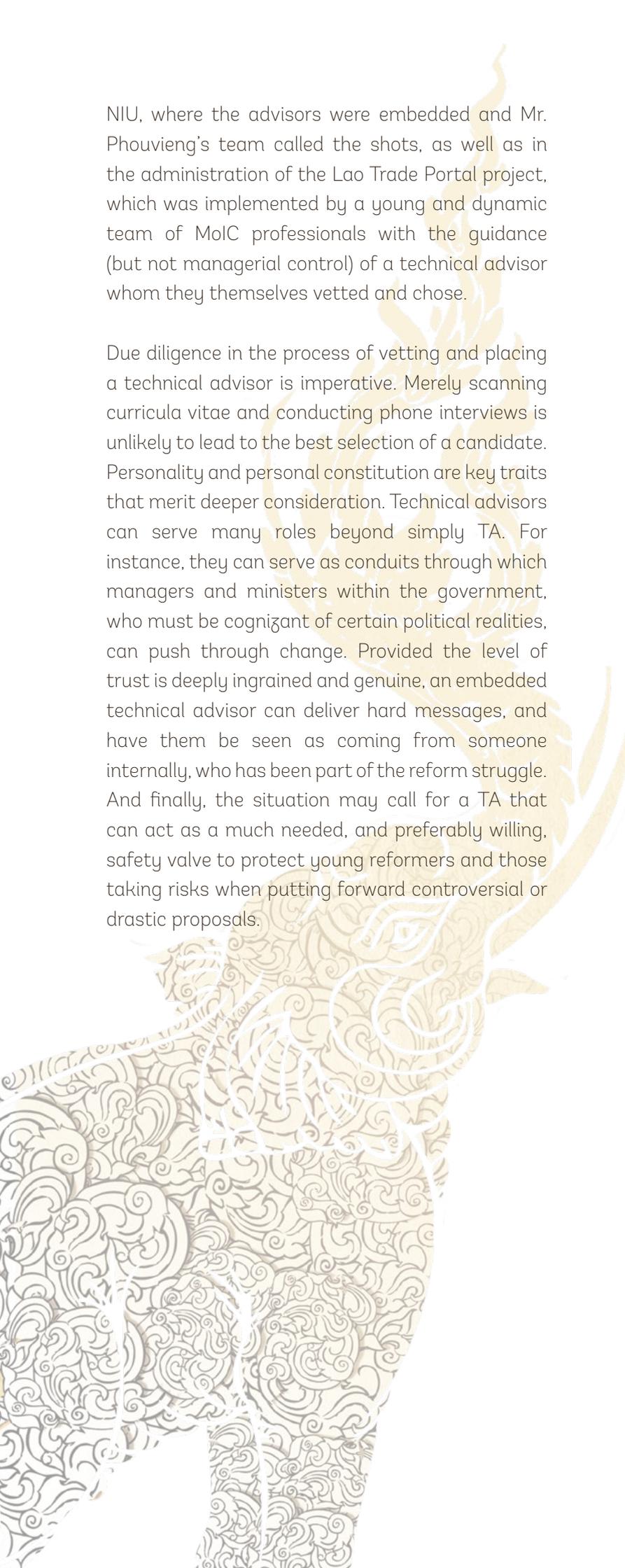
who is professionally astute and understands the politics of reform in developing countries is obviously critical. The key of course is that technical advisors do just that: advise. Too often in donor-client relationships of this sort, the TA is in the driver seat, creating the rather toxic perception that they are imposing an outside agenda. This can especially be the case when an advisor is not physically embedded in the unit, rather working remotely and not seen as a true member of the team. While such an approach may inevitably get quicker results and is often favored by many bilateral donors, its longer term sustainability is highly suspect, and the paternalism that it perpetuates is undeniable.

The embedded approach can be more difficult and more time-consuming to implement, but it is also one that can be far more sustainable and, ultimately, foster real national ownership. This was certainly true in Lao PDR—both in the



NIU, where the advisors were embedded and Mr. Phouvieng's team called the shots, as well as in the administration of the Lao Trade Portal project, which was implemented by a young and dynamic team of MoIC professionals with the guidance (but not managerial control) of a technical advisor whom they themselves vetted and chose.

Due diligence in the process of vetting and placing a technical advisor is imperative. Merely scanning curricula vitae and conducting phone interviews is unlikely to lead to the best selection of a candidate. Personality and personal constitution are key traits that merit deeper consideration. Technical advisors can serve many roles beyond simply TA. For instance, they can serve as conduits through which managers and ministers within the government, who must be cognizant of certain political realities, can push through change. Provided the level of trust is deeply ingrained and genuine, an embedded technical advisor can deliver hard messages, and have them be seen as coming from someone internally, who has been part of the reform struggle. And finally, the situation may call for a TA that can act as a much needed, and preferably willing, safety valve to protect young reformers and those taking risks when putting forward controversial or drastic proposals.





What can development partners learn from the Lao trade program?

Identifying and empowering reform champions is essential

There is a common, albeit seldom verbalized sentiment among many reformers across the developing world and in development institutions: if a government really wants to get something done, the powers that be will install someone capable of getting the job done. But this is an oversimplification. For one, it too often gives credit for reform to a single individual, creating the notion that there must first be a benevolent leader for reform to take place. It also disregards and ignores the myriad of potential political, fiscal, external, or logistical challenges that could stop even the most capable leader in his or her tracks.

Without a doubt, however, the trade reform process in Lao PDR benefitted immensely from the progressive leadership of Mme Khemmani, the current Minister of Industry and Commerce. But by her own admission, the trade reform milestones achieved by her government were first and foremost a team effort, much more attributable to the development and expansion of her team's capabilities than to any one person. She describes the increased ability of the agencies within government to coordinate—amongst themselves, between government and donors, and increasingly with the private sector—as the greatest success of the trade story thus far.

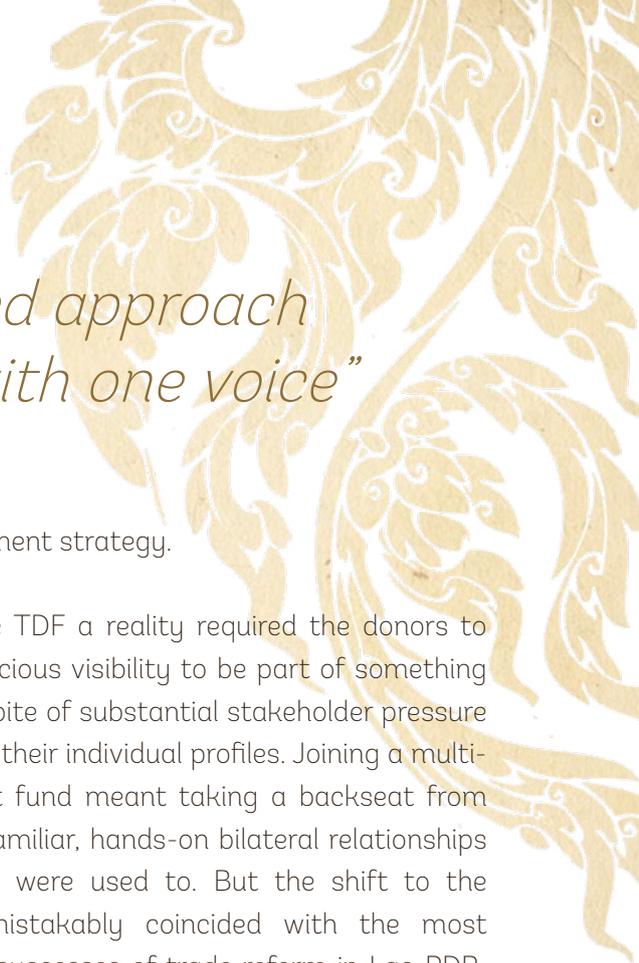
And she is right. Sustained inter-ministry dialogue and the resulting improvement in collaboration unequivocally contributed to the passing of new and transparent trade regulations, streamlined and automated customs operations, increased

public-private dialogue on trade issues, and a demonstrated increase in government capacity.

As indicated, this type of coordination between agencies can only overcome deadlock with the emergence of real leaders and reform champions. However, in the context of a larger government bureaucracy, there may be very few of them. Donors must recognize the political nature of identifying and empowering these champions, and provide them with enough leeway to navigate the corridors of power in an effective manner.

One of the best ways for donors to abet and incentivize such national counterparts—and something which bore out in the Lao case—is to recognize the importance of compromise. Supporting and empowering reformers is a give and take proposition. In allowing somebody else to drive a program, donors may not always get what they want when they want it. But taking the calculated risk of empowering reform champions encourages success, particularly if it is coupled with a commitment to provide these reformers with genuine learning opportunities. Such opportunities, specifically multilateral negotiations support, trainings at the local and regional levels, and funding scholarships to pursue postgraduate studies abroad, were pivotal in Lao PDR.





Donor participation in a pooled approach encourages them to “speak with one voice”

Interactions between donors and governments in the context of ODA can be disjointed, overlapping, and even contradictory in their goals. Each development partner often approaches ODA-recipient governments with its own agenda. Prior to the creation of the TDF, there had never been a culture or precedent for donor coordination in Lao PDR. Donors with a comparative advantage on trade issues, such as the World Bank, had not been the biggest players in the country. Their portfolio paled in comparison to the more traditional regional donors like the Japan International Cooperation Agency and the Asian Development Bank. But once the importance of WTO accession became part of the government narrative, it opened a window of opportunity for like-minded donors interested in trade to work together and create a unified voice. It is critical that donors make the most of these opportunities.

The European Union, Australia, and the World Bank became the founding donors of the TDF. Here, the importance of personal relationships in administering aid-for-trade cannot be understated. Negotiations between the MoIC—in particular its fledgling NIU created during the IF process—and the TDF donors were at once complicated and highly beneficial for both sides. The counterparts argued. There was conflict. But with fortuitous circumstances on their side, their ability to work through differences and reach compromise demonstrated the benefits of empowering a new generation of practitioners. Each counterpart from the donor institutions was early in his or her career, willing to think outside the box, and willing to let the donor community step outside of the spotlight in

its engagement strategy.

Making the TDF a reality required the donors to give up precious visibility to be part of something bigger, in spite of substantial stakeholder pressure to increase their individual profiles. Joining a multi-donor trust fund meant taking a backseat from the more familiar, hands-on bilateral relationships the donors were used to. But the shift to the MDTF unmistakably coincided with the most prominent successes of trade reform in Lao PDR. The creation of the TDF, and the implementation of its funding, stands out for the dual role it has played in facilitating cooperation amongst donors and developing capacity in the government.

Today the MoIC continues to receive aid offers from development partners seeking to create bilateral engagements on trade projects. The MoIC has often responded with the foresight and maturity to direct such suitors to the TDF, where they now know from experience that well-managed donor resources from a unified and established source serve them better than might a potentially lopsided bilateral deal.



The goal is to support, not to impose

Trust between the Lao government and donors took many years to build, from the IF process through the years leading up to the TDF—especially given the largely closed environment from which the country was emerging. In the case of the TDF, it was time and commitment to the cause that helped foster strong working relationships. In a rather unorthodox twist for donors, the TDF partners gave government officials space: space to experiment, space to lead, space to both commit and learn from errors. And this has continued to the present day. Erring from a long and rather established tendency for development organizations to impose their will—hiring consultants without stakeholder consultation, designing programs to meet organizational mandates—the donor community in Lao PDR embraced a culture of support rather than imposition. While donors provided analysis and technical assistance, it was the government that chaired meetings, recruited the actual technical assistance, and ultimately drafted the country’s “action matrix” of reform itself.

In other words, being flexible in component design and implementation is more effective than being dogmatic. Adjusting to the concerns of the beneficiaries is more palatable to clients and more likely to foster deeper reform in the longer run. The best example of this in Lao PDR took place during the infant stages of the information gathering process leading up to the creation of the Lao Trade Portal. There was a strong desire among donors, particularly the World Bank, that the regulatory process be simplified concurrently with the collection of regulatory information from the different line ministries. This insistence was met with resistance on the part of the MoIC, which was already stretched thin in its efforts to gather information. Donor willingness to allow for a more gradual implementation by relaxing this insistence allowed the project to proceed with the full and continued backing of the MoIC, and the task of simplifying procedures ultimately did get underway at a later stage.



*Continuity of support goes a long way, and
upfront technical investment in the design of
activities pays dividends*

As a development partner, the World Bank had a comparative advantage in delivering specialized advisory services and assistance due to its ability to deploy technical specialists in-country, often from World Bank headquarters. By establishing a full time, in-country facilitation team, the Bank was able to provide essential implementation support and complementary analytical work on trade, on demand. From the very early stages, resources from the Bank-executed portion of the TDF were mobilized to support the WTO accession process through negotiation support, sector impact evaluations, and legal technical assistance. But this grew to also include carrying out assessments of the trade and transport facilitation environment, the regulatory framework for trade in services, and the challenges facing crucial trade corridors, all with the diagnostic tools at its disposal.

In a low capacity environment, the presence of this dedicated trade team on the ground in Lao PDR has played an essential role. Not only has it provided meaningful support, but it has also allowed for over a decade of nurturing relationships and cultivating genuine trust with reform champions and counterparts in government. This long-term

commitment cannot be overstated. Most donors have a shifting array of priorities and countless development initiatives beyond trade. It takes a great deal of faith, foresight, and patience in understanding that translating reforms into results takes time. This is particularly true of trade reform, which is often institutional or regulatory and rarely translates into visible results for the private sector in the short term.

The more stakeholders there are, the harder it becomes to sustain reform momentum (and with the larger TDF-2, the number of stakeholders in Lao PDR is growing). Thus, it is important for donors not only to trade some visibility for a more sustainable, country-driven initiative, but also to adopt a realistic level of ambition and focus more deeply in fewer areas. One way to do so is to play an upfront and active role in the technical design of activities. The World Bank's technical guidance with regard to the Lao Trade Portal and improved customs efficiency measures provide some examples of how projects that are designed well at their inception allow for a better allocation of resources and can avoid major implementation delays.



Moving toward the future

There is no master blueprint for making effective use of aid for trade, and often a confluence of specific events and specific personalities creates the ideal environment for reform to blossom. Sometimes it is not necessarily about overhauling entire systems and processes, but rather about identifying small pockets of effectiveness that can grow into a larger engine for reform. The MoIC was one such pocket. The Customs Department became another. And today, these two organizations are leading by example within a government apparatus that has not been swift to modernize in all areas. As Mme Khemmani says, “You have to understand what you want to get.” For her ministry and her country, the goal was clear. The reason the MoIC and other line agencies were able to embark on this arduous path—and emerge in a better place—was because they knew what they wanted to achieve and they wanted to do it the right way.

The Lao trade story is far from a fairytale. For all the effort put into the last decade of reforms, it is merely the ink on the first few chapters of a story that has much more to be written. The Lao economy, and in particular its private sector, is beset by a formidable number of remaining challenges, as outlined in the World Bank’s 2014 Investment Climate Assessment. The country’s impressive economic growth is heavily reliant on a natural resources boom that will neither last forever, nor provide sufficient jobs for the growing workforce in the future. The lack of quality private investment in diversified sectors is stifling labor productivity and the ability to attract new investment has been hindered by a subpar business enabling environment. Workforce education and skills continue to lag behind those of comparable countries. And a gap still remains between written laws and day-to-day business on the ground due to inconsistent and unpredictable enforcement.



Yet, from the perspective of the World Bank, the trade program in Lao PDR thus far—these first few chapters—has been a tremendously positive story. Not only has it begun to deliver real results, but it represents the fruits of what genuine long-term country engagement on trade can realistically achieve. The ends are not analytics, investment lending, and policy dialogue. These are the means. And in the Lao trade story, as the second chapter of the TDF turns a new page, one sees strong evidence of confident central characters with the capacity to effectively manage aid-for-trade resources.

Of course, with WTO accession now achieved, the overarching and tangible goal that drove the process forward for over a decade is gone. Complacency is a real threat, especially if the MoIC allows its influence and convening power to dwindle in the absence of such a clear mandate. But sustaining its reform momentum presents Lao PDR with an opportunity to prove doubters wrong. The accession process was not a superficial undertaking. By demonstrating its commitment to maintaining a WTO-consistent regulatory framework, Lao PDR can reveal a deeper understanding that accession was not an end in itself, but a broader means of building economic competitiveness. Meeting its WTO commitments and fulfilling its pending regional commitments in the ASEAN Economic Community should provide healthy incentives.

Mme Khemmani sums it up wisely: “How can you call it a success story, there are still a million things to do!”





The World Bank Lao PDR
Patouxay Nehru Road
P.O. Box 345
Vientiane, Lao PDR
T: (856 21) 266 200
F: (856 21) 266 299
www.worldbank.org/laos

The Lao trade program involved a multi-donor partnership working in support of the Government of Lao PDR, with contributions from Australia, the European Union, Germany, Ireland and the United States.

