

Lao People’s Democratic Republic

SECOND TRADE DEVELOPMENT FACILITY

Implementation Support Mission – May 2017

AIDE MEMOIRE

KEY PROJECT INFORMATION			
Project Number	P130512	IDA Grant H8190	US\$ 4.0 million
Signing Date	March 28, 2013	MDTF Grants TF014189/TF0A3946	US\$ 11.2 million
Effectiveness Date	May 8, 2013	Total Amount	US\$ 15.2 million ¹
Closing Date	September 30, 2018	Disbursements	US\$ 11.54 million

1. An implementation support mission for the Second Trade Development Facility (TDF-2) took place in Vientiane, Lao PDR between May 8th and May 16th, 2017. The mission team was led by Mr. Mombert Hoppe (Senior Trade Economist and Task Team Leader) and included technical staff from the World Bank as well as representatives from Australia, the European Union, GIZ and USAID. Annex 2 provides a detailed list of mission members.

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

3. In accordance with the mission announcement letter dated April 10th, 2017 the purpose of the supervision mission was to:

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

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

¹ The total appraised amount for TDF-2 is US\$16.5 million while the grant amount already signed is US\$15.2 million which will be increased as additional committed funds to the MDTF are received. Further detail on the grant amounts is provided in section II of this Aide Memoire.

I. OVERALL PROGRESS

5. Overall, the Project performance is progressing well. Disbursements under TDF-2 project stood at 76% on May 5, 2017.² Significant progress has been made in a large number of areas. The Business Assistance Facility (BAF) has been completed successfully, achieving near complete disbursements and exceeding expected results in terms of the number of grants (208 grants approved instead of 150), the share of women-owned businesses in total recipients (34% instead of 30%), the share of women employed within supported businesses (42% instead of 30%), and impact in terms of sales growth for BAF-supported enterprises, which was 21% higher than that of non-BAF beneficiaries. Three laws supported under TDF-2 have been approved and promulgated (the Law on Plant Protection, the Law on Livestock, and the Law on Chemicals), improving the overall regulatory environment in line with project objectives. With support from TDF-2, MoIC organized the very successful 10th Lao Business Forum on March 28, 2017 which was received very positively. Implementing key recommendations from the Forum now take centre stage. Work under the Non-Tariff Measures component has accelerated although more work will be required to achieve the project objectives in these areas. The implementation of the Trade in Services subcomponent has made some progress in the area of accounting, telecommunications, and the Services Trade Investment Portal (STIP); however, the overall progress is more limited compared to other subcomponents and there is room for a more active role of the NIU in MoIC to ensure this subcomponent can achieve intended results. Work under the two new subcomponents has started and the international company to support implementation of component B3 on business regulation review and rationalization is expected to start work in June 2017.

6. The processing of a restructuring and US\$2.5 million Additional Financing (AF) funded through the additional contribution by Australia into the multi-donor trust fund was approved by the World Bank on December 16, 2016, and included an extension of the project by 18 months until September 30, 2018. TDF-2 will soon enter its final year of implementation and therefore remains at a critical phase. Implementation support for the NTM and Services subcomponents remains most relevant and it will be critical to agree on the allocation of funds under the Services subcomponent by the end of May 2017 to ensure remaining funding can be used with maximum impact to support the Project Development Objective. Continued high-level support and involvement for monitoring and project implementation will be needed. Fully committing remaining funds (especially for the trade in services subcomponent and the newly added funds to the Challenge Facility), and accelerate disbursements to make sure all available funds will be used, remains critical.

II. STATUS OF PROJECT COMPONENTS

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

8. The original appraised value of the project was US\$14 million, with implementation over a period of four years, commencing in April 2013. The original closing date for the project was March 31, 2017. With additional funding received from Australia, the project was expanded through an Additional Financing (AF) to an appraised amount of US\$16.5 million

² 70% if calculated against the appraised amount of USD 16.5 million.

in December 2016. The AF also involved a restructuring of the results framework and an extension of the project's closing date for a period of 18 months to September 30, 2018.³ Implementation modalities remain unchanged. Financing for TDF-2 is pooled and provided via an IDA grant of US\$4 million equivalent and a Multi Donor Trust Fund grant of US\$11.2 million (US\$9.9m original Trust Fund⁴ + US\$1.3m added through a parallel Trust Fund⁵).

9. Project extension included the provision of additional resources for a number of existing subcomponents, and added two subcomponents (*B3 Business regulation review and rationalization*, and *C4 Public-private dialogue*). They complement the support provided thus far to ensure that private enterprises will benefit more effectively from improvements made in the areas of trade facilitation, trade policy and regulations, and efforts made to support diversification and competitiveness. Additional support focuses on increased transparency of the business enabling environment, streamlining of procedures, as well as an increase in predictability in the application of existing rules, regulations, and procedures. Specific attention will be on gender impact of existing regulations processes and approach to streamlining. In addition, it supports improving, and making more inclusive, the dialogue and coordination between the Government and the private sector to increase demand for reforms and its follow-through. To ensure an inclusive impact of the reforms supported, a particular focus will be put on the participation of emerging, provincial-level, and women-led enterprises and SMEs in consultations and (where possible) focusing on addressing barriers that particularly affect such businesses. At the same time a number of subcomponents have been completed by the original end date of the project of March 31, 2017.

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

COMPONENT A: TRADE FACILITATION, TRADE POLICY AND REGULATIONS

A1: Trade Facilitation Support

11. *Key progress:* The Trade Facilitation Secretariat (TFS) has developed a draft Trade Facilitation Roadmap covering the period 2017-2022. The TF Roadmap is expected to be finalized and approved during the 6th meeting of the TFS, currently scheduled for June 2017. In terms of support for implementation of the WTO Trade Facilitation Agreement (TFA), DIMEX convened a major meeting of key public and private sector stakeholders in Vientiane to agree on an action plan and an appropriate timeline for implementation of Category B and C measures. Regarding the capacity building for managers in trade related agencies, one training course on trade facilitation and change management has been delivered since November 2016 to members of the TFS and NTM working groups and two more are planned. The Lao Trade Portal (LTP) remains relevant and useful to the trading community evidenced by an annualized growth rate of 13% of page views during the first four months of 2017.

³ All information on TDF-2 can be found on the [project website](#). More details on the AF Project Paper – click [here](#).

⁴ The total amount TF Grant Agreement was amended from US\$10 million to US\$9.9 million in July 2014 due to exchange risk discounting on the remaining unpaid non-USD donor contributions to the MDTF.

⁵ Parallel to the original TF, an additional TF was signed with the Government. While the total amount of the additional grant is US\$2.5 million, the initial amendment to the grant agreement of US\$1.3 million reflects the additional contributions already received from Australia into the MDTF. The remaining US\$1.2 million will be added to this TF once the remaining contributions are received.

12. *Identified Challenges:* While acknowledging the comprehensiveness of the draft TF Roadmap, the mission noted that it proposes the establishment of a series of new coordination and implementation mechanisms that may be extremely difficult to maintain, support and resource over the longer term. The mission suggests for DIMEX to carefully examine the practicality of these new mechanisms for trade facilitation support and the proposed frequency of meetings and reporting requirements, as well as its capacity to adequately support and resource them. The TFS has again only met once formally during the last 12 months but needs to meet at least twice per year to achieve its objectives. Regarding the capacity building for managers in trade related agencies, DIMEX was advised to accelerate the translation of the remaining training modules and ensure that staff trained under the training of trainers programs is deployed effectively to deliver trainings to a wider group of officials from trade related agencies during the remainder of TDF-2. With regard to the LTP, DIMEX has agreed to upgrade it to Tool Kit 2 and provisions for this have been made in the TDF-2 work-plan for the rest of the year. DIMEX was advised to think of ways to exploit the existing readership, in particular the large number of subscribed members, to better understand the needs and views of the trading public, as well as explore ways to analyze the usage of LTP with gender disaggregation and type of businesses. Regarding the Electronic Certificate of Origin, the mission encouraged DIMEX to look for opportunities for further process simplification and avoiding unnecessary burden on the traders.

A2: Non-Tariff Measures review and rationalization

13. *Key progress:* The NTM Working Group consisting of representatives of 16 trade related agencies and chaired by the Director General of DIMEX was formally established in late 2016. During the first quarter of 2017 it met once, and another meeting was held in May 2017. The NTM Working Group has to date completed pilot Regulatory Impact Assessments (RIAs) on Vehicle Import Licenses and Fuel Import Licenses which resulted in eliminating the need for import licenses for vehicle spare parts and crude oil imported for distillation or production in factories. Several Departments (Transportation, Forestry, Food and Drugs, Agriculture, Livestock and Fisheries, Standards and Metrology) have also identified a number of products for which similar RIAs will be conducted in the coming months. The NTM review team has also updated a number of NTMs with 119 NTMs linked to the relevant procedures (10 procedures were additionally updated bringing the total of procedures completed to 30 at the end of 2016); 134 NTMs remain to be updated and is work in progress.

14. *Identified Challenges:* Priority attention still needs to be given to undertake a broad range of simplified RIAs to identify priority NTMs for removal and focusing on effectively addressing them, including by using additional resources available under TDF-2 to support line Ministries with re-designing rules, regulations, and processes. DIMEX was encouraged to work with the trade facilitation group under the Lao Business Forum and draw on the recently completed report on external NTMs (which also identifies NTMs occurring in Lao PDR) to select priority NTMs for removal.

A3: Trade in services

15. *Key progress:* The mission acknowledges the significant efforts deployed by DFTP to actively engage other line ministries in specific services sectors to promote sectoral reforms. A positive development is the promulgation in March 2017 of a Prime Minister Decree establishing the framework for the creation of the Telecommunication Regulatory Authority and the signing of the Ministerial Decision establishing the mandate, functions and responsibilities of the new governmental body. Under the leadership of the Accounting Department (MoF), the Lao Chamber of Professional Accountants and Auditors finalized a policy paper on mechanisms to certify the capacity of accountants from other ASEAN countries in order to operate in Lao PDR. Curricula and testing standards were developed both for foreign Certified Public Accountants (CPAs) wishing to operate in Lao PDR, and for national CPAs wishing to offer their services in other ASEAN countries. Regarding the Services Trade and Investment Portal (STIP), some progress to launch the STIP has been made but the original deadline for launching the STIP in March 2017 has been missed and DFTP is now aiming to launch it by June 2017.

16. *Identified Challenges:* Despite significant efforts deployed by DFTP to actively engage other line ministries, progress in services has been limited to a few sectors such as accounting, telecommunications and STIP. This is partly due to MoIC's inherently challenging role in trade in services. Indeed, while the Ministry does not have a direct regulatory oversight on most of the services sectors, it is nevertheless responsible for reforms in these areas, needed to comply with international and regional obligations. DFTP, NIU and WB agreed to fully earmark by the end of May any uncommitted or saved funds under this subcomponent. Timely and complete launching of the STIP by the revised deadline remains critical which will require addressing a number of challenges.

A4: Trade in goods

17. *Key progress:* The Guidebook on Lao PDR's economic integration prepared by DFTP continues pending approval and only one additional outreach activity (dissemination workshop for new trade officials and internship students in MoIC in February 2017) has been undertaken over the last six months. Both the Law on Plant Protection and the Law on Livestock and Veterinary Matters were approved by the National Assembly in November 2016 and have been promulgated by the President in February 2017. An international legal specialist will work with relevant Ministries to finalize the 11 pieces of secondary regulations required to effectively implement both Laws under the Ministry of Agriculture and Forestry as well as the Food Safety Law under the authority of the Ministry of Health.

18. *Identified Challenges:* Progress towards better aligning various committees relating to trade and private sector development (with the view of replacing the National Steering Committee for Economic Integration (NSC)) remains limited and requires finalization. The meeting of the 13th NSC originally planned for 2015 has been repeatedly postponed due to the Secretariat's workload resulting from Lao PDR's chairmanship of ASEAN in 2016, and no tentative date has been set yet. The finalization and dissemination of the Guidebook on Lao PDR's economic integration remain critical.

COMPONENT B: DIVERSIFICATION AND COMPETITIVENESS

B1: Business Assistance Facility (BAF)

19. *Key progress:* The BAF, the most innovative in the overall TDF-2 project, finished as planned in March 2017 and achieved its targets with a final evaluation carried out early 2017. This subcomponent was fully executed by March 2017 and the grant fund size (US\$1.13 million) was fully disbursed. At closure of the program, BAF had assisted 208 firms (150 firms originally planned), of which 34% were women-owned. The final evaluation showed that BAF-assisted firms achieved average growth rates 21% higher than non-assisted companies. BAF also exceeded expected results in terms of the share of women-owned businesses in total recipients (34% instead of 30%) as well as the share of women employed within supported businesses (42% instead of 30%). BAF grant assistance was spread over a range of industry sectors with a significant share (24%) going to the tourism sector, followed by manufacturing, strengthening and development of BDS, and the agri-business sector. Throughout implementation, tax issues remained tedious and time-consuming for beneficiaries and the BAF team. For any future program, the evaluation suggested to aggregate amounts of overall taxes due on BAF-supported activities on a regular basis, remitting tax payment to the tax authorities in a consolidated manner, thereby reducing the high level of interactions between companies, BAF, and the tax authorities on a case-by-case basis. The final evaluation concluded that the successful completion of the BAF component makes a clear case for a continuation or re-launch of a similar program, ideally without breaking the momentum and experience gained on this program.

B2: Labour standards and manufacturing productivity

20. *Key progress:* The Ministerial Agreement 4277 (previously 5523) on the functions and organization of Labor Inspectors was signed in December 2016 and started implementation in January 2017. The Agreement re-appointed 70 fulltime inspectors, replacing the previous 258 part-time inspectors that were frequently re-assigned. As of end of April 2017, labor inspectors have undertaken 84 factory visits, and provided training on the Labor Law to 680 workers in 8 factories (80% of trainees were women) – compared to 78 workers trained in July 2016. Importantly, from December 2016 to February 2017, the core group of twelve labor inspectors (including 3 women) conducted 10 factory assessments in the garment industry against the checklist covering national Labor Law and core labor standards. The contract with the ILO, implementing this subcomponent, has been extended at no cost until August 31, 2017 to complete outstanding work and fully execute this subcomponent. Regarding the Garment Skills Development Centre (GSDC), support to the operating costs has been phased out as of October 2016 and overall support, including salaries, ended at the end of March 2017 as originally planned. GSDC is fully recuperating its operating variable costs due to significant work with donor-funded projects and is very close to self-financing.

21. *Identified Challenges:* Sustainability of the factory standards improvement scheme is still a critical challenge, especially as budget allocations for labor inspections remain limited, although they are expected to increase now that Decree 4277 is being implemented. To improve the quality of GSDC training services and broaden the offering, the Centre has submitted a US\$150,000 proposal to the Challenge Facility which was approved the first week of May 2017.

B3: Business regulations review and rationalization

22. *Key progress:* This subcomponent (US\$750,000) was added to TDF-2 in December 2016 and effectively started in January 2017, with the Department of Enterprise Registration and Management (DERM) at MoIC taking the leadership role. DERM has hired a domestic consultant in April 2017 to support the department, and an international company to undertake the process of mapping, stock-taking of regulations, and advisory work for regulatory reform is expected to start work in June.

23. *Identified Challenges:* DERM expressed concerns regarding the coordination of mandates with MPI as a result of the changes to the Investment Promotion Law (IPL). The new IPL seems to determine MPI as the responsible body to carry out a development of controlled business list and restructure the One-Stop-Service (OSS), as well as to be an investment facilitating and coordinating agency with line ministries (tasks generally considered under MoIC/DERM's responsibility). However, change of the controlled business list and OSS would not affect DERM's mandate on business registration. The mission was informed that any business activity outside the (yet-to-be-finalized) list will not be subject to pre-approval process by the Investment Promotion and Supervision Committee, and investors in such activities would continue to proceed directly to MoIC for company registration in accordance with the Enterprise Law and regulations. The mission urged both MoIC and MPI to continue their close dialogue on these issues to avoid negative effects on the clarity of the investment process which could negatively affect the ease of doing business.

COMPONENT C: MAINSTREAMING AID-FOR-TRADE

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

24. *Key progress:* The NIU continues to play an important role and ensures TDF-2 can deliver at a satisfactory rate, with project implementation arrangements reducing costs and improving coordination between donors. The NIU/Department of Planning and Cooperation, is now fully responsible for the use and management of all ODA projects within MoIC. The NIU and the Implementing Agencies continue to hold quarterly meetings as well as a number of additional meetings in response to specific issues in order to accelerate the disbursements for the remaining 16 months of the project. The next Project Review Committee is scheduled for June 2017 and will approve the draft work-plans for the last year of project implementation. The Program Executive Committee (PEC), as program level steering committee overseeing all trade related initiatives - not only TDF-2, takes place on a yearly basis: the last one took place in December 2016 and the next one is scheduled for December 2017. The Trade and Private Sector Working Group continues to meet consistently twice a year since the beginning of TDF-2. The most recent meeting took place in October 2016 and the next one is planned for June 2017.

25. *Identified Challenges:* The mission encouraged the NIU to take a more active, coordinating, and implementation role in the area of trade in services where additional work will be undertaken under the leadership of departments in line ministries.

C2: DTIS action matrix/roadmap challenge facility

26. *Key Progress:* Due to important demand, the maximum size for proposals has been increased to US\$150,000. Three new proposals have been approved since November 2016,

bringing the total number of proposals to eleven (of which seven have been completed). The total budget committed for these eleven proposals is US\$1,141,500 of which US\$650,000 has been disbursed.

27. *Identified Challenges:* With more than the originally planned US\$1,000,000 having been allocated to proposals, the mission and Government agreed to allocate the remainder of the newly added funds also by the end of July 2017. The mission encouraged the NIU to further discuss strong interest from Custom to submit two Challenge Facility proposals expected to focus on supporting implementation of key measures contained in the WTO trade Facilitation Agreement.

C3: Research and policy analysis

28. *Key Progress:* The international research advisor at ERIIT, whose contract ended in March, provided training and hands-on capacity building to ERIIT staff, focusing on research methodology, developed and delivered a training course for policy note writing, and oversaw the implementation of the research facility. ERIIT submitted a Challenge Facility proposal (approved in May) that will strengthen the use of the institute as just-in-time research provider to MoIC. All nine of the research proposals funded under TDF-2 have now been completed and ERIIT published the sixth Lao Trade Research Digest in April 2017. Five of the nine papers funded under this subcomponent have been published in the Research Digest, demonstrating their high quality.

C4: Public-Private Dialogue

29. *Key Progress:* This subcomponent (US\$400,000) was added in January 2017 and aims to strengthen the mechanisms for discussions among the private and public sectors by enhancing the capacity, inclusivity and effectiveness of the Lao Business Forum (LBF), with the Lao National Chamber of Commerce and Industry (LNCCI) taking the leadership role. LNCCI has hired a National Gender and Small Business Development Consultant who will work with smaller companies, women-led enterprises, new start-ups and companies in the provinces. Recruitment of a part-time senior international Strategy and Priority Advisor at MoIC is also nearly complete. He is expected to start in June to assist MoIC in ensuring that the LBF is inclusive and effective. The 10th LBF was held on March 28, 2017, and was chaired by the Prime Minister. In the run-up to the forum, the LNCCI and MoIC had identified 32 priority issues raised during roughly 30 working group meetings. 16 of these 32 issues were discussed in detail during the Forum, with solutions for 4 of the issues already presented and implemented.

30. *Identified Challenges:* Following a report submitted by the LBF administrative committee, the mission was informed that the PMO will issue a Notification to concerned ministries to ensure follow-up and implementation of LBF's recommendations. The mission recommended ensuring that LBF results are widely disseminated to increase public awareness and pressure for reform through publication on the LNCCI website and the Trade Portal.

III. MONITORING AND EVALUATION

31. In response to the recommendations from the Mid-Term Review held in June 2015, the results framework was updated as part of the Additional Financing and restructured to

reflect additional areas of support and adjust some indicators for more accurate measurement towards the Project Development Objective (PDO), which remains unchanged. To better reflect the increased diversification of the Lao economy, a PDO indicator measuring the number of significant export products was added, while removing the perception based indicator on logistics performance. Smaller changes were made to improve intermediate result indicators formulation and reflect the newly added subcomponents on *B3 Business regulation review and rationalization* and *C4 Public-Private Dialogue*.⁶

32. Project implementation remains broadly on track toward achieving the PDO. Overall, new data for indicators measuring the impact of the project are encouraging. The Business Assistance Facility fully disbursed available funds and exceeded its targets. Good results were also achieved in the Factory Standards Improvement Scheme where 10 factories have been assessed for their compliance with labor standards, exceeding the final expected target of 5 factories. In addition, three laws supported under TDF-2 have been promulgated over the reporting period (Law on Plant Protection, Law on Livestock, and Law on Chemicals), and the Decree to establish a Telecom Regulatory Authority has been signed by the PM. However, despite recent progress with reforms in the telecommunications sector, progress under the Trade in Services subcomponent (A3) continues to lag behind. Implementation of the subcomponent on NTMs (A2) is starting to accelerate in an encouraging manner but continued close supervision will be required.

IV. FIDUCIARY ISSUES

Procurement

33. The procurement performance for TDF-2 is considered “Satisfactory”. All procurement packages were reviewed and discussed with the project and most of the procurement packages were completed. By early May 2017, the overall procurement work of the project is considered 85% completed. The mission suggested the project should accelerate the procurement process for the remaining packages to complete them as planned.

34. The mission also suggested the project team to update the procurement plan by end of June 2017 as it needs to add some new procurement packages (following some refocusing of activities) and remove packages no longer required, reflecting the technical discussions held during this implementation support mission. The mission agreed that the NIU would send the revised procurement plan for the Bank’s review by June 30, 2017.

Financial Management and Disbursements

35. The overall FM performance is rated as ‘Satisfactory’. The review of bank reconciliations, cash count, monthly financial reports and some selected transactions for a period from June to December 2016 was done during the FM mission held in February 2017. Controls seem to be working as intended. The auditor’s opinion on the financial statements for FY2015/2016 was clean. However, the quarterly interim (unaudited) financial reports for quarter ended on December 31, 2016 and the audit report for FY2015/2016 were not submitted to the Bank on time. The delay of the audit report submission was caused by the external auditor KPMG’s internal clearance procedure. While the latest quarterly interim (unaudited) financial report for the quarter ended on March 31, 2017 was submitted on time,

⁶ More details on the AF and the updated results framework can be found in the AF Project Paper. Click [here](#).

recurring late submission of the IFRs and audit reports may affect performance rating in the future. The mission encourages the project to ensure timely submission of the IFRs and audit reports in the future and to maintain strong controls over financial management. There are a few areas that may still need strengthening in the project's internal control system as outlined below in the table of agreed actions. Lastly and given recent changes, the mission team recommended that the NIU assess the current allocation of FM tasks and responsibilities to ensure continued clear allocation of duties and functions and strong satisfactory performance in terms of Financial Management.

36. As of May 5, 2017, cumulative disbursements, including DA balances, are:

No.	Currency	Allocations	Disbursements	% of disbursement	Undisbursed amounts
IDA H8190	XDR	2,600,000	2,294,056	88%	272,515
TF14189	US\$	9,900,000	7,977,725	81%	1,021,496
TF0A3946	US\$	1,300,000	278,504	21%	1,021,496

37. The total disbursements for IDA and TF as of May 5, 2017 were **US\$11.54 million**. Compared with the total disbursements recorded in the previous mission (November 2016), there is an average increase of around 21%. The total financing of the project is XDR2.6 million (US\$4 million equivalent) for IDA Grant, US\$9.9 million for the original TF, and US\$1.3 million for the parallel TF. As of May 5, 2017, the disbursements for IDA Grant are XDR2.3 million (US\$3.3 million equivalent) or 88% of the total IDA allocations. The disbursements for the original TF are US\$8.0 million or 81% of the original TF allocations. The disbursements for the parallel TF are US\$0.28 million or 21% of the parallel TF allocations. The projected disbursements for end of June 2017 are US\$11.6 million, meaning the project is likely to exceed the projections. However, considering the total budget of US\$16.5 million, the project still needs to disburse around US\$5 million in 16 months (until September 2018) – an average of US\$300,000 per month; thus the disbursement rate should remain strong throughout the end of the project.

38. To reflect the change in relative financing of the overall project from IDA and Multi-Donor Trust Fund (MDTF) resources, the current 70-30% MDTF-IDA disbursement percentages have been adjusted. As a result, the project expenditures will be shared among three sources of funds, namely, IDA (20%), the original TF (60%) and the new (parallel) TF (20%). Once IDA funds are fully utilized (expected by October 2017), expenditures will be shared among the two TFs until one TF is fully utilized.

V. CONCLUSIONS

39. Overall, activities are being implemented as planned across all components and very strong progress has been made in a number of subcomponents. Government ownership over TDF-2 continues to be strong and disbursements are broadly on track. However, with only 16 months remaining before the end of the project, it will be essential to commit remaining resources quickly, including reallocate resources across components where needed. Likewise, it will be important to fully allocate the remainder of the newly added funds to the Challenge Facility by the end of July 2017, and to accelerate the initial discussions with Customs regarding the potential submission of two proposals. While implementation in the area of NTMs is improving, much remains to be done to further improve the trading environment. Implementation in the area of Trade in Services requires management attention and it will be

important to agree quickly on a clear earmarking of remaining resources under the Trade in Services Component to ensure project funds can be spent and contribute to achieving the PDO. Launching of the delayed STIP by July 2017 also remains a priority. The NIU's role in monitoring implementation remains central and the NIU should consider increasing its role in the execution of the Trade in Services component.

40. **Results focus during the remainder of the project and sustainability.** A number of legal changes have been approved by the National Assembly and the establishment of the Telecom Regulator has been approved, so focus should shift towards ensuring these legislative changes translate into impact on the ground. As far as sustainability and capacity building is concerned, it would be important for implementing departments to increasingly allocate time of non-project staff towards project execution to ensure tasks can be continued as consultancy contracts end.

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

TABLE OF AGREED ACTIONS				
	Action	Responsible entity	Proposed timeline	Comments
<i>Component A: Trade facilitation, trade policy and regulations</i>				
1	Review and approve the Roadmap for trade facilitation during the next TFS meeting	DIMEX NIU	June 2017	Review feasibility of proposed structure
2	Deploy trained trainers to roll out capacity building program	DIMEX	June 2017	Deliver training to a wider group of officials from trade related agencies
3	Start process of upgrading to the second version of the Lao Trade Portal	DIMEX	July 2017	
4	Reach out to LNSW Steering Committee to link E-CO to ASW	DIMEX	July 2017	
5	Propose earmarking of uncommitted funds to activities under the NTM component	DIMEX	June 2017	Also discuss with the NIU the need to revise the current work-plan
6	Propose earmarking of uncommitted funds to activities in services component	DFTP	May 2017	DFTP proposed earmarking in late May and final discussions are under way to ensure funds can fully disburse
7	Organize tripartite dialogue between NIU, DFTP, and the Domestic Trade Department	NIU, DFTP	June 2017	To explore and agree on implementation of recommendations
8	Finalize and disseminate guidebook and leaflets on Lao PDR's international commitments	DFTP	July 2017	

9	Provide details for potential further support	MoPT	May 2017	Provided by mid-May
10	Launch STIP	DFTP	June 2017	Possible grace period of 30 days to cater for potential delays
Component B: Diversification and competitiveness				
11	Finalize contract with firm to undertake business regulation review	NIU DERM	May 2017	Contract was signed on May 25 and work to start in June 2017
Component C: Mainstreaming Aid-for-Trade				
12	Organize monthly reviews and meetings with each implementing agency on all outstanding activities	NIU	On-going	Closely monitor implementation as closing date approaching (1 st week of the month – ideally at DG level)
13	Trade and Private Sector Working Group to take place as planned	NIU	June 2017	
14	Ensure that the additional amount of the Challenge Facility is fully committed	NIU	July 2017	With particular focus on the two identified proposals
15	Put in place a methodology to identify issues particularly affecting women-led enterprises	LNCCI	June 2017	
Fiduciary				
16	Update the procurement plan	NIU	June 2017	To reflect mission findings and discussions with DFTP
17	Ensure timely submission of quarterly IFRs	NIU	On-going	45 days after quarter-end
18	Monitor advance clearance to ensure compliance with financial policies	NIU's FM	Ongoing basis	
19	Adjustment of the erroneous classification of expenses between Category 1 and Category 2	NIU	May 2017	

ANNEX 1: List of representatives of Government Agencies and Organizations met during the supervision mission

Ministry/Agency	Department/Unit	Name	Title
Ministry of Industry and Commerce	Department of Planning and Cooperation (DPC)	Mr. Sirisamphanh Vorachith	Director General
		Mr. Phouvieng Phongsa	Deputy Director General
		Mr. Sengphanomchone Inthasane	Division Director, TECD
		Mr. Sengxay Phousinghoa	Trade and PSD Specialist
		Ms. Thongsavanh Tansely	FM Advisor
		Mr. Soulivong Chanthalangsy	Financial Officer
		Ms. Nitnida Phongsavath	Trade Officer
		Ms. Thippaphone Vongxay	Senior PSD Consultant
		Ms. Pinphakone Xayavong	Trade Analyst
		Mr. Phoutsavong Phatsouda	PR Officer
		Ms. Vanida Vongmountha	Trade Analyst
	Department of Import and export (DIMEX)	Mr. Sonemala Nouanthasin	Deputy Director of Trade Facilitation Division
		Ms. Chindaphone Saiguakeat	Private Sector Coordinator
		Mr. Vilavong Southanheuxay	
	Department of Foreign Trade Policy (DFTP)	Mr. Bountheurng Douansavanh	Deputy Director General
		Ms. Onida Vinavong	Deputy Director of Trade in Services Division
		Vilaxay Boupha	Deputy Director of Division
		Ms. Savanham Phongsamada	Trade in Goods Division
		Mr. Silisack Malavong	Trade Analyst
		Ms. Vanhnapha Onexayvieng	Trade Officer
Department of SME Promotion (DOSMEP)	Mr. Sa Siriphong	Deputy Director General	
	Ms. Sitthiphone Vilaysom	Technical Officer	
Department of Enterprise Registration Management (DERM)	Mr. Gnoykham Aphayalak	Director General	
	Ms. Viengnakhone Lovaxy		
	Mr. Vankhoan Sounmalath		
Ministry of Labor and Social Welfare and ILO		Ms. Kristina Kurths	Chief Technical Advisor
		Ms. Khemphone Phaokhamkeo	National Coordinator
Lao National Chamber of Commerce and Industry		Mr. Phoxay Thepphavong	General Secretary
		Mr. Somsay Ouanphilalay	Gender and Small Business Development Consultant
		Ms. Dalaphone Sengdavong	PSD Consultant
Ministry of Finance	State Owned Enterprise Investment Management and Insurance Department	Mr. Phonevilay Thepphavong	Deputy Director of Insurance Division
	Department of Accounting	Phirany Phissamay Duangpanya Volavong	
Ministry of Post and Telecommunications	Department of Planning and Cooperation	Ms. Phavana Douangboubpha	Deputy Director General
		Mr. Phouthasone Phanthalangsy	Deputy Director General
	Department of Telecommunications	Mr. Vanhpheng Sayakhone	Deputy Director General
		Ms. Chaimaly Phakasoum	Deputy Division Director of Telecommunication Regulatory Authority
		Mr. Vongphaseurth Thongkeo	Division Director of International Bilateral Organizations
Ministry of Planning and Investment	Investment Promotion Department	Mr. Intaken	Deputy Director General
		Mr. Kosakan Luanglath	One Stop Shop Department
		Mr. Vanmasy Phonchanheuang	Officer

ANNEX 2: List of mission members

1	Mombert Hoppe	Senior Trade Economist, GTCDR (Task Team Leader)	World Bank
2	Gerard McLinden	Lead Specialist, GTCDR	World Bank
3	Khampao Nanthavong	Private Sector Specialist, GTCEA	World Bank
4	Latharo Lor	Procurement Specialist, GGODR	World Bank
5	Reaksmey Keo Sok	Financial Management, GGODR	World Bank
6	Luc Pugliatti	Consultant	World Bank
7	Giulio Zanetti	Consultant	World Bank
8	Elise Vanormelingen	Operations Consultant, EACLF	World Bank
9	Phet Udom Mainolath	Program Assistant, EACLF	World Bank
10	Elisabeth Ekasari	Program Assistant, EACIF	World Bank
11	Hannah Lord	First Secretary	DFAT
12	Anne-Marie Reerink	Senior Gender Specialist	DFAT
13	Mone Sysavath	Program Manager	DFAT
14	Kalakate Xaythanith	Program Manager	European Union
15	Keovilay Somsangouane	Project Management Specialist	USAID
16	Ms. Sooksaphorn Lian	Advisor of Monitoring	GIZ

ANNEX 3: DETAILED PROGRESS BY COMPONENT

COMPONENT A: TRADE FACILITATION, TRADE POLICY AND REGULATIONS

A1: Trade Facilitation Support

1. The trade facilitation component has three subcomponents: (A1.1) Trade Facilitation Secretariat and action plan implementation support; (A1.2) capacity building for managers in trade related agencies; and (A1.3) Lao PDR Trade Information Portal support and development (<http://www.laotradeportal.gov.la>).

A1.1. Trade Facilitation Support and Action Plan Implementation

2. This subcomponent was designed to support the Trade Facilitation Secretariat (TFS) housed in DIMEX to coordinate and address trade facilitation issues facing the trading community. Since the last implementation support mission in November 2016 the TFS, with the support of the International Trade Facilitation Advisor, has undertaken a comprehensive review of the Trade Facilitation Strategic Plan 2011-2015 and has now developed a draft Trade Facilitation Roadmap covering the period 2017-2022. The mission was advised that the contribution of the International TF Advisor financed by the project has been critical and a decision has been taken to extend his contract for an additional 120 working days. The mission was informed, that the national TF advisor had not yet been replaced due to a lack of qualified applicants and encouraged DIMEX to conclude this process as quickly as possible. Following preparation of the draft Roadmap, a series of consultations were held with public and private sector stakeholders to review the scope and content of the draft. The Roadmap is expected to be finalized and approved during the 6th meeting of the TFS, currently scheduled for June 2017.

3. While acknowledging the comprehensiveness of the draft Trade Facilitation Roadmap, the mission noted that it proposes the establishment of a series of new coordination and implementation mechanisms that experience suggests may be extremely difficult to maintain, support and resource over the longer term. These include:

- A new Sub-Committee on Trade Facilitation, reporting to the National Committee for Trade and Private Sector Development, that is expected to meet at quarterly intervals to oversee the activities of the TFS;
- An increase in the frequency of TFS meetings from one per year, as has been the norm over the last four years, to one per month, as well as a broadening of its role to include significant new performance monitoring responsibilities;
- The establishment of Trade Facilitation Implementation Units (TIUs) in all key trade related agencies staffed by a Director level official supported by a Specialist as well as an Assistant, to act as focal points for trade facilitation activities including preparation and monitoring of an agency level Action Plan; and
- The establishment of a TFS Extension office in each province charged with coordinating activities and reporting on trade facilitation performance at the provincial level.

4. The mission recommended that DIMEX carefully examines the practicality of these new mechanisms for trade facilitation support and the proposed frequency of meetings and reporting requirements, as well as its capacity to adequately support and resource them. For example, the mission noted that the draft Trade Facilitation Roadmap included provision for

DIMEX to deploy a full time Assistant to each of the TIUs and TFS Extension offices throughout the country. The resource implications of such an approach would likely be significant; however, no discussion of how the approach would be financed appears to have been included in the draft TF Roadmap. The mission offered to provide DIMEX with detailed comments on the draft TF Roadmap together with recommendations on more effectively streamlining the proposed governance and coordination structure.

5. While noting the work that has been undertaken to prepare the TF Roadmap and the Secretariat's efforts to consult widely with stakeholders in both Vientiane and the provinces, the mission highlighted that the TFS has again only met once during the last 12 months and that it needs to meet at least twice per year if it is to adequately address the many pressing trade facilitation coordination challenges facing Lao PDR, including implementation of the TF Roadmap once it is finalized and approved. DIMEX officials advised that in addition to formal meetings of the TFS, many informal meetings are held with TFS members at the Director General or Deputy Director General level to discuss and resolve particular issues that are identified through DIMEX consultations. DIMEX agreed to share details on the frequency and content of these meetings with the mission.

6. In terms of support for implementation of the WTO Trade Facilitation Agreement (TFA) the mission was advised that DIMEX convened a major meeting of key public and private sector stakeholders in Vientiane to agree on an action plan and an appropriate timeline for implementation of Category B and C measures. DIMEX noted that as a result of some recent analysis undertaken by the Lao Customs Department, several measures previously categorized as C (measures requiring time and external technical assistance support for implementation) have now been re-categorized to Category B (measures requiring time to implement but not requiring external technical assistance). The mission was also informed that a major TFA related dissemination event was held in Xayabury Province to which public and private sector representatives of six additional provinces were invited. In addition to these dissemination events, the mission was advised that work was progressing on the development of an information handbook on the TFA which will be published in both Lao and English. The need to develop individual agency TFA implementation action plans covering Category A and B commitments is covered in some detail in the draft TF Roadmap. The mission team also encouraged DIMEX to explore opportunities to address e-commerce challenges through the existing trade facilitation mechanisms, and informed DIMEX that it is planning to undertake an assessment of challenges in this area that could be used to advance this agenda.

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

7. This subcomponent is designed to strengthen the long term sustainability of reform by supporting the development of a critical mass of skilled and motivated senior and middle managers across all trade facilitation agencies to ensure effective inter-agency collaboration and implementation of the Lao PDR Trade Facilitation Strategy and related initiatives. The original development of the training program had been contracted to the Center for Customs and Excise Studies (CCES) which subsequently carried out a number of trainings in 2015. Regarding sustainability of the program, the mission was advised that since the last mission in November 2016 one training course on trade facilitation and change management had been delivered by DIMEX staff to members of the TFS and NTM working groups using the materials prepared by CCES. Another training program for officials from DIMEX and relevant TFS agencies is planned to be held in Vientiane in late May and another in the

provinces at the end of June. While acknowledging the conduct of the recent training course and the two planned courses, the mission encouraged DIMEX to accelerate translation of the remaining training modules and to ensure that staff trained under the training of trainers programs are deployed effectively to deliver training to a wider group of officials from trade related agencies during the remainder of TDF-2.

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

8. *Lao Trade Portal.* This subcomponent is designed to ensure that all the information provided on the Lao Trade Portal (LTP) is kept strictly up to date, is comprehensive, and that system reliability is good. The subcomponent also finances an upgrade of the LTP to the newer version of the trade portal software created by the World Bank, the Toolkit Version 2 (TK2).

9. The LTP continues to remain relevant and useful to the trading community as evidenced by the performance statistics. Growth in usage continues to be steady. The total number of page views in 2016 reached 386,475, an increase of 25 percent compared to 2015. During the first four months of 2017 growth has continued at an annualized rate of 13 percent. Also, the number of visitors has grown from 8,614 in 2012 to 45,931 in 2016. The website has also attracted a “membership” of 1,743 users. “Members” are users who have provided an email address and personal details and who have expressed an interest in specific topics. The reason for this impressive growth probably lies in the fact that DIMEX continues to be active in promoting awareness and encouraging usage of the LTP. A “Train the Trainer” event was organized for the LTP focal points in Vientiane Province so that they can disseminate knowledge within their sectors and training events were organized for government officers and the private sector in the provinces of Savanakheth, Khammouane and Salavanh. This program of training will be continued throughout 2017.

10. DIMEX has addressed a number of issues highlighted during the last mission concerning information which had not been kept up to date in the LTP. In particular, DIMEX has updated 10 out of 30 procedures for NTMs in the database with 119 NTMs linked to the relevant procedures. Some 134 NTMs remain to be updated and this is work in progress. While DIMEX admitted that coordination with focal points remains a challenge, they have taken steps to improve it. Since the last mission, one coordinating meeting with the focal points was held as well as the train-the-trainer event above and, overall, the focal points are said to be gradually becoming more responsive. On the whole, DIMEX is showing a real commitment to the ongoing success of the LTP. While the mission commended them on the improvement made, it also stressed the need to continue these efforts.

11. As discussed earlier, DIMEX has agreed to upgrade the LTP to TK2 and provisions for this have been made in the TDF-2 work-plan for the rest of the year. The mission gave DIMEX a demonstration of TK2 and illustrated the new facilities that they would be able to take advantage of in order to support various initiatives and, generally, establish a closer relationship with the trading public (e.g. satisfaction surveys, product/HS mapping which would be beneficial to the Lao National Single Window (LNSW)). More generally, the mission encouraged DIMEX to think of ways to exploit the existing readership, in particular, the large number of subscribed members to better understand the needs and views of the trading public. The mission encouraged DIMEX to explore ways to further analyze the usage of LTP, including by disaggregating data for users by location, gender, and type of business.

12. *Electronic Certificate of Origin (E-CO)*. The implementation of E-CO has been completed (funded under the TDF-2 Challenge Fund) and the system is now operational with 72 companies registered on the E-CO system and 741 forms have so far been issued through the system. However, during the previous mission, it was noted that the way the system had been implemented still required the trader to collect a form from DIMEX, print it, sign it at their premises, hand-deliver it to DIMEX and then wait to receive the form duly signed by the DG after payment. The reason given for this was that the law in Lao PDR and ATIGA (with regard to ASEAN's Form D) require that the trader's authorized signature and corporate stamp should be applied manually. The mission disagreed with this view and carried out a basic analysis of the law to prove that, whilst the DG's hand signature is indeed still required, the trader's signature can be applied electronically which would restrict the need to go to DIMEX in person to only one step in order to collect and pay for the printed E-CO. Since the last mission, no changes were made to the process and DIMEX continues to hold the same view. The mission therefore offered to engage a lawyer to carry out a legal review and encouraged DIMEX to also take legal advice.

13. The mission also informed DIMEX that the ASEAN Secretariat is due to send a mission shortly to Lao PDR to discuss the feasibility and state of readiness of Lao PDR to pilot the exchange of electronic Form D (e-Form D) between member states via the ASEAN Single Window (ASW). DIMEX is aware of this but has not been contacted directly by ASEAN or by BV, the company that is implementing the Lao National Single Window (LNSW) which is expected to be the conduit through which the e-Form D would be exchanged. The mission took the opportunity to visit BV in order to gain clarity on what their proposed approach would be and, therefore, what support could be offered through TFD-2, if any. During this meeting, it transpired that BV had not yet decided on what the process should be. The mission, therefore, suggested that the most logical approach would be for the E-CO system to send the data generated by DIMEX to the LNSW and for the LNSW to provide the interchange with the ASW. BV agreed in principle to this approach and the mission relayed this to DIMEX urging them to ensure that a strong coordination mechanism is put in place between all the parties that need to be involved, i.e. DIMEX, BV, Customs and ASW bearing in mind that any decisions regarding the functioning of the LNSW must be approved by the LNSW Steering Committee.

14. Although not directly relevant to TDF2, during the visit to BV, the mission was able to appraise the current state of deployment of the LNSW. The mission understood that, so far, the only facility implemented by the LNSW is a licensing module currently being piloted within DIMEX. The functioning of the module is constrained, for the same reasons as the E-CO above, by the perceived requirement for signatures to be applied manually. BV is planning to roll out the same module to 9 agencies to cover 19 licenses and permits. However, BV informed the mission that, contrary to what had been planned; the LNSW will not automatically interface with the Asycuda Customs processing system as UNCTAD is declining to allow the data to be transferred to Asycuda automatically. BV has therefore revised the scope of the LNSW to encompass submission of a lorry manifest with a view to improving tracking and visibility of the cargoes though this module would also not integrate with Asycuda and, therefore, it would not be able to track movements whilst the goods are awaiting Customs clearance.

A2: Non-Tariff Measures review and rationalization

15. The Non-Tariff Measures (NTM) component of TDF-2 includes two subcomponents: NTM streamlining and identifying the most binding foreign NTMs faced by Lao exporters. An NTM Working Group consisting of representatives of 16 trade related agencies and chaired by the Director General of DIMEX was formally established in late 2016. During the first quarter of 2017 it met once, and another meeting was held in May 2017.

16. The mission was informed that the NTM Working Group has to date completed pilot Regulatory Impact Assessments (RIAs) on Vehicle Import Licenses and Fuel Import Licenses which resulted in the Minister of Industry and Commerce formally eliminating the need for import licenses for vehicle spare parts and crude oil imported for distillation or production in factories. Appropriate instructions have now been forwarded to the Lao Customs Department who administer license controls at border crossing points. The mission also congratulated DIMEX for their outreach activities as these changes had been communicated through the national press to the public. The Department of Food and Drugs, the Department of Agriculture, the Department of Livestock and Fisheries and the Department of Standards and Metrology have also identified a number of products for which similar RIAs will be conducted in the coming months. In addition, the mission was told that DIMEX is working with the Transportation Department to remove the requirement to have tank and engine numbers certified by DIMEX and improve import licensing procedure for vehicles. As part of the general objective of simplifying NTMs, DIMEX has also undertaken consultations with the private sector with regard to the regulations concerning the movement of white charcoal in Salavanh province and millet in Vientiane province. As a result, DIMEX is coordinating with the Department of Forestry, Ministry of Agriculture and Forestry, in order to simplify the relevant export regulations. In addition, DIMEX has organized consultation meetings with relevant public and private sectors on import licensing of vehicles for project use with duties exemption and illegal drugs in view of the 10th Lao Business Forum. The NTM review team has also updated a number of NTMs in the database with 119 NTMs linked to the relevant procedures (10 procedures were additionally updated bringing the total of procedures completed to 30 at the end of 2016). Some 134 NTMs remain to be updated and this is work in progress.

17. To allow DIMEX address those NTMs most relevant for private sector operations, the mission team suggested that DIMEX work with the trade facilitation group under the LBF and draw on the recently completed report on external NTMs (which also identifies NTMs occurring in Lao PDR) to select priority NTMs for removal. To assist members of the Working Group in undertaking this work, the NTM RIA guidelines prepared by the previous International NTM Advisor are currently being translated into Lao. The mission suggested that DIMEX consider only translating the most important elements of the guidelines. Once the International Advisor commences work (successful candidate already identified and contract negotiation to be completed soon), priority attention will be given to undertake a broad range of simplified RIA to identify priority NTMs for removal and focusing on effectively addressing them, including by using additional resources available under TDF-2 to support line Ministries with re-designing rules, regulations, and processes.

A3: Trade in services

18. The trade in services component of TDF-2 includes several elements related to the regulation and governance of the services sector. Activities are grouped into two main areas:

(i) enhancing regulatory capacity in services trade; and (ii) improving access to services regulations.

19. The mission acknowledges the significant efforts deployed by DFTP to actively engage other line ministries in specific services sectors to promote sectoral reforms. However, progress has been limited to a few sectors (telecommunications, insurance, and accounting), in view of the fact that MoIC's role in trade in services is inherently challenging: while the Ministry does not have a direct regulatory oversight on most of the services sectors, it is nevertheless responsible for reforms in these areas, needed to comply with international and regional obligations. As key regulatory agency, DFTP also raised the need for continued capacity building for their staff to enhance the regulatory framework for the implementation of trade liberalization commitments in services and goods. The mission team took note and agreed to discuss this further with the NIU and DFTP.

20. In light of the limited time remaining for implementation of TDF-2, the mission reviewed each area of support under this sub-component to allow MoIC take clear decisions on the way forward and the potential re-allocation of uncommitted or saved funds: identify the sectors where support may be reduced (in view of the limited developments or buy-in from the concerned implementing agency) or increased to build on progress made. DFTP will propose a clear earmarking of the remaining funds under this sub-component to NIU, and an agreement on allocation is expected to be reached by the end of May. Should this not be possible, the mission encouraged MoIC to explore ways to swiftly reallocate financial resources to other areas falling within the overall framework of TDF-2.

21. **Horizontal Regulatory Assessment.** The horizontal regulatory assessment that was carried out in 2014 identified a number of recommendations for improving the business environment. DFTP informed the mission that the Trade Policy Advisor completed a technical note, including policy recommendations that distribution services are identified as priority sector, to address the inconsistencies between the existing legislative framework and the country's commitments on distribution services at regional and international level. DFTP agreed to share this technical note with the mission team. However, DFTP drew the mission's attention to the difficulties they face in obtaining the buy-in and full commitment on the operationalization of such recommendations from other implementing agencies and suggested to hold tripartite discussions between DFTP, NIU and the implementing agencies concerned, which the mission endorses. In addition, the mission suggested to DFTP exploring to use the National Committee for Economic Integration (to which DFTP is the Secretariat) to advance implementation of commitments across Ministries and Agencies. DFTP also informed the mission that they do not plan to replace the Trade Policy Advisor after her departure at the end of March. The mission suggested for DFTP to review this decision.

22. **Telecommunications.** A positive development is the promulgation on March 27, 2017 of a Prime Minister Decree establishing the framework for the creation of the Telecommunication Regulatory Authority (No 109/PM). The Ministry of Posts and Telecommunications (MPT) informed the mission that the Authority will enjoy a degree of autonomy. The Ministerial Decision establishing the mandate, functions and responsibilities of the new governmental body has also been drafted and signed (No 1684/MPT of April 5, 2017), and MPT agreed to share this Decision with the mission team. In addition, some regulations were drafted and enforced in relation to the four types of telecommunication licenses; and other regulations were enacted regulating various aspects of the ICT sector. MPT expressed that a telecommunication law is being revised and expected to be completed

in 2018, and a decree on radio frequency has been upgraded and is in the process of being converted into law. Pending further review of the milestone achievements regarding the establishment of the Regulatory Authority, the mission suggested that MoIC allocate additional resources to support further work in this area, for example regarding the drafting of regulations relating to pricing, technical and new telecommunication products under the newly created Regulator, skills development of 30 newly appointed staff of the Regulatory Authority, and translation and dissemination of the new regulatory environment. MPT agreed to communicate with MoIC and the WB team to provide further details on their precise needs after receiving the internal approval by Minister.

23. **Insurance.** With support from the Challenge Facility, a comprehensive Technical Report assessing the 2011 Insurance Law, taking into account Insurance Core Principles, and providing guidance on the provisions that should be repealed or amended in order to incorporate international best practices and to comply with ASEAN standards, was completed by the international advisor in December 2016. Recommendations to improve the existing Insurance Law are now in the process of being incorporated into a revised Insurance Law, expected to be submitted to the National Assembly in October 2018. However, the drafting of additional regulations outlined in the Challenge Facility proposal has not advanced as planned but the mission was informed that the international advisor will travel to Vientiane on 20 May for a three-week mission. He will work on finalizing five priority regulations identified by the State Owned Enterprise Management and Insurance Department on insolvency, reinsurance, inspection, standards of international accounting reports and insurance reserves. The mission was also informed that the Ministry of Finance decided to postpone the establishment of an independent insurance regulatory authority. As a result, the Insurance Division remains under the purview of the State Owned Enterprise Management and Insurance Department. Capacity building of staff in the Insurance Division remains important and this will be another priority for the upcoming mission of the international consultant. The mission encouraged the Insurance Division and the NIU to discuss further opportunities for deepening support in the area of insurance services under the TDF-2.

24. **Professional Services.** Based on an assessment for the implementation of ASEAN Mutual Recognition Arrangements (MRAs) on professional services that was completed in late 2015, the work on Accountancy Services is advancing. Under the leadership of the Accounting Department (MoF), the Lao Chamber of Professional Accountants and Auditors, and with support from an international consultant, a policy paper on mechanisms to certify the capacity of accountants from other ASEAN countries in order to operate in Lao PDR was finalized. In addition, curricula and testing standards were developed both for foreign Certified Public Accountants (CPAs) wishing to operate in Lao PDR, and for national CPAs wishing to offer their services in other ASEAN countries (most of the 14 foreign CPAs are expected to take the new aptitude exam in June 2017). A consultation workshop to validate these materials will be conducted in early June. In view of the positive developments, possible additional financial support was discussed that could include: a) capacity building in specific areas for staff of the Accounting Department and for members of the Lao Chamber of Professional Accountants and Auditors, including on the newly drafted Code of Ethics and on the International Finance Reporting Standards for PIEs and Lao Financial Reporting Standards for non-PIEs, provided by the 2013 Accounting law; b) capacity building for 10 experts that currently train new CPAs (training of trainers); and c) potentially funding additional capacity building for CPAs that qualified before the new standards were adopted and need to re-qualify, as the 2014 Independent Audit law only allow them to continue practicing for five years. With regard to the potential support to the establishment of other

MRAs, DFTP informed the mission that no additional government agencies had been lined up for similar support.

25. *Services Trade and Investment Portal (STIP)*. While progress to launch the STIP has been made, the original deadline for launching the STIP in March 2017 has been missed and DFTP is now aiming to launch it by June 2017. However, a number of challenges remain and will require addressing under close supervision from DFTP Senior Management before the portal can be launched.

26. *Content*: Digitization of all legislative texts has been completed and only 30 legal texts are pending translation (expected to be translated by the end of June). Regarding the measures, 294 legislative texts have been analysed and relevant measures were classified or are in the process of being finalized. Two classification batches prepared by the international consultant have been cleared and uploaded by the IT company. The third batch is undergoing quality control and translation by DFTP while batches four and five will be finalized in the coming month. Additional classification in six batches from a local company has been delivered and is undergoing quality control. The World Bank team invited DFTP to ensure that any laws developed over the past year be identified and included in the STIP as quickly as possible, ideally at STIP launch.

27. *Design, Structure, and Governance*: Design of the site was finalized. Most static pages of the site have been completed but summary pages for the country's services commitments are still pending completion. The international consultant prepared a draft Sustainability Blueprint and the World Bank has provided recommendations for improving the Blueprint. DFTP informed that two workshops had been organized to agree with relevant stakeholders on the mechanisms to ensure ongoing cooperation between line ministries and DFTP to maintain the database up to date. A draft Ministerial Decision was prepared and it is now under consideration by MoIC Management. In this context, the WB team pointed out that, based on the Lao Trade Portal experience, a Decision by Deputy Prime Minister, who is also Chairman of the National Steering Committee for Economic Integration (NSC), may be more effective in compelling other governmental bodies to provide DFTP with the necessary information relating to new or amended measures affecting trade in services. The WB team also invited DFTP to explore the possibility of using some of the existing and already established coordination mechanisms under the Lao Trade Portal and closely collaborate with DIMEX on sharing experiences and developing solutions for common challenges.

28. *Launch and maintenance*: DFTP and the mission team agreed that the STIP would be launched by June 30, 2017, with a possible grace period of 30 days to cater for potential delays in the classification and validation of the last batches of services measures and their uploading onto the site. It was agreed that by the launch date, the site will contain a) all legislative texts (294) and measures both in English and Lao, b) all static pages in English and Lao, including sectors' descriptions and country's commitments, c) all identified and classified measures. DFTP indicated that they plan to significantly increase the number and types of outreach, communication, publication and capacity building initiatives that should be undertaken after the launch of STIP. The WB team invited DFTP to investigate the possibilities to cooperate with DIMEX for the conception and implementation of such initiatives, particularly in the provinces. The procurement process for the Content Coordinator and Web Master is under way. To ensure sustainability, it was agreed that a capacity building workshop on how to identify, analyze and classify services measures for the

benefit of DFTP relevant staff and selected representatives of line ministries should take place shortly after STIP launch.

A4: Trade in goods

29. This component was designed to address the key challenges associated with implementation of WTO obligations, effective participation in ASEAN, and taking full advantage of trade opportunities available through Lao PDR's participation in the multilateral trading system. Activities focus on: (i) strengthening trade policy coordination mechanisms; (ii) disseminating commitments and building capacity on trade remedies; and (iii) further strengthening the legal framework for Sanitary and Phytosanitary measures. With the promulgation of the two laws on Plant Protection and the Law on Livestock and Veterinary Matters, activities under this component are nearly complete.

A4.1. Strengthening trade policy coordination mechanism

30. Progress towards better aligning various committees relating to trade and private sector development (with the view of replacing the National Steering Committee for Economic Integration (NSC)) continues to be slow. The Decree being drafted by MoIC's Department of Planning and Cooperation to establish the coordination structure that will encompass Trade Integration, Trade Facilitation, Business Environment, and Competitiveness under the "National Committee for Trade & Private Sector Development", and which will be chaired by the Deputy Prime Minister, has not been finalized yet. In the meantime, the meeting of the 13th NSC originally planned for the end of 2015 has been repeatedly postponed due to the Secretariat's workload resulting from Lao PDR's chairmanship of ASEAN in 2016, and no tentative date has been set yet. The mission expressed concerns regarding the absence of an effective coordination mechanism and the repeated postponement of the NSC in the interim, despite working procedures and coordinating mandates enacted in the Prime Minister's Decree on the National Steering Committee for Economic Integration, approved on January 23, 2015. The mission reiterated earlier concerns regarding the necessity for the new Committee being functional and actively meeting to improve coordination.

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

31. The Guidebook on Lao PDR's economic integration prepared by DFTP continues pending approval and only one additional outreach activity (dissemination workshop for new trade officials and internship students in MoIC in February 2017) has been undertaken over the last six months. As a result of these delays, DFTP has also been unable to produce the shorter leaflets to outline commitments made. DFTP and the mission team agreed that finalization of the Guidebook, additional material, and its dissemination should remain a priority for DFTP. DFTP requested for continued support on remaining activities under Trade in Goods sub-components that were previously approved in the work-plan which include one consultation meeting and one translation on trade agreement activity.

32. While no longer supported under this sub-component, preparation of the Law on Safeguards to establish a trade remedy legal framework continues. The draft law has been submitted to the Government in February 2017 and is now undergoing revisions to be resubmitted to the Ministry of Justice in June. It is expected to be discussed at the National Assembly in October 2017, slipping from the earlier target of April 2017. The Law on Anti-

Dumping and Countervailing Measures (being drafted with support of LUNA-2⁷) is now scheduled for submission to the National Assembly session in October 2018.

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

33. This component was designed to improve SPS legislation by addressing key gaps and inconsistencies, and strengthening compliance with the WTO and ASEAN frameworks. Both the Law on Plant Protection and the Law on Livestock and Veterinary Matters were approved by the National Assembly in November 2016 and have been promulgated by the President in February 2017. Both Laws are an improvement on previous Laws governing the respective subjects and go some way in providing a framework that is more in line with WTO and ASEAN commitments. There are however remaining gaps and ambiguities that will be attempted to be addressed in secondary legislation to the extent possible. Secondary legislation is at an advanced stage and was “held” pending finalization of the Laws in order to ensure alignment with the new frameworks. As agreed during the last mission, the NIU has hired an international legal specialist to work with relevant Ministries to finalize the 11 pieces of secondary regulations required to effectively implement both Laws under the Ministry of Agriculture and Forestry as well as the Food Safety Law under the authority of the Ministry of Health. The international legal specialist is expected to travel to Vientiane in June to work with the government in finalizing the regulations for approval at Minister level. The mission expressed its congratulations for the promulgation of the two Laws but stressed the need to ensure implementing regulations for the three laws are adopted quickly to enable the completion of a robust legislative framework for SPS activities.

COMPONENT B: DIVERSIFICATION AND COMPETITIVENESS

B1: Business assistance facility

34. The objective of this subcomponent was to support individual firms in building their skills and experience to become more competitive internationally. Activities included: (i) direct consulting services advising individual firms on business growth plans; (ii) matching grants to assist individual firms financially in purchasing specialized business development services in support of growth plans; and (iii) rigorous impact evaluation of services provided. The Business Assistance Facility (BAF) started in October 2013 and finished in March 2017, with a final evaluation carried out in the first quarter of 2017. This subcomponent was fully executed as planned by March 2017. The original grant fund size of US\$1.2 million was reduced to US\$1.13 million largely as a result of movements in the XDR/\$US exchange rate. The full disbursement of the BAF is a particular success because the Mid-Term Review had reduced the expected target for disbursements to US\$650,000, the actual full disbursement therefore nearly doubles that revised target.

35. At closure of the program, BAF had assisted 208 firms (above the 150 firms originally planned), of which 34% were women-owned. The final evaluation showed that BAF-assisted firms achieved average growth rates 21% higher than non-assisted companies. Thus, BAF met and surpassed its main goal of increasing the revenue growth of supported firms by 20% more than non-supported firms, and the program was also successful in surpassing the target number of assisted firms. In addition, BAF exceeded expected results in terms of the share of women-owned businesses in total recipients (34% instead of 30%) as well as the share of

⁷ LUNA-2 refers the USAID-funded Lao PDR – U.S. International and ASEAN Integration Project.

women employed within supported businesses (42% instead of 30%). BAF grant assistance was spread over a range of industry sectors with, naturally, a significant share (24%) going to the important tourism sector, followed by manufacturing, strengthening and development of BDS, and the Agri-business sector. The final evaluation showed that BAF-supported firms were generally satisfied with the quality of advice and support they received from the BAF team. Also encouraging is that most BAF-supported firms believed the process relating to applying for a grant and claiming for a reimbursement was relatively straightforward. However, tax documentation remained an issue for firms, with two thirds reporting that they had at least one sort of tax issue that complicated their compliance with the tax documentation requirements.⁸ The BAF team continued to play a key role in resolving such tax issues, including holding a series of high-level meetings with the tax authorities to try to streamline the tax procedures, but issues continued to persist until the end of the project, proving to be tedious and time-consuming for the BAF team. For any future program, the evaluation suggested to aggregate amounts of overall taxes due on BAF-supported activities on a regular basis, remitting tax payment to the tax authorities in a consolidated manner, thereby reducing the high level of interactions between companies, BAF, and the tax authorities on a case-by-case basis. However, a matching grant modality will not be able to address some of the fundamental challenges that SMEs are facing, and the mission highlighted the complementary nature of other subcomponents of TDF-2 that will continue to be implemented. To assess the longer term impact of the BAF on company performance, the Government and the mission team agreed to explore undertaking a longer-term evaluation of the BAF before the end of TDF-2.

36. The mission congratulated the BAF team for achieving the targets for this subcomponent, the most innovative in the overall TDF-2 project. Despite initial challenges, the establishment of a reasonable working relationship between the BAF team, NIU and DoSMEP, which have been designated to co-supervise BAF operations, contributed to this success. The evaluation clearly established that there is a strong entrepreneurial drive in the SME sector in Lao PDR and that interest in the services provided by BAF increased strongly over time, with a strong beneficial impact on the assisted SMEs. Implementation has also proven that the provision of business development services on a co-funding and reimbursement basis works in the Lao environment. The evaluation concluded that the successful completion of the BAF component makes a clear case for a continuation or re-launch of a similar program, ideally without breaking the momentum and experience gained on this program. This would allow to build on the past experience and to harness SME's interest in building their competitiveness and developing activities. The mission stressed the critical role that the independent project implementation team has played in the BAF's success and that a similar arrangement would be required for any follow-on project, despite the higher costs of such a modality.

B2: Labour standards and manufacturing productivity

37. This subcomponent aims at improving productivity, competitiveness and labor standards focusing on the garments manufacturing sector, an industry where an overwhelming majority of workers are female (above 90%). Activities include: (i) a factory standards improvement scheme; and (ii) the transition of the Garment Skills Development Centre towards financial and operational independence. This first element of this sub-

⁸ Any tax costs incurred were met out of the BAF grant fund.

component has been extended to the end of August 2017 without the allocation of additional funding.

B2.1 Factory Standards Improvement Scheme

38. The Ministerial Agreement 4277 (previously 5523) on the functions and organization of Labor Inspectors was signed in December 2016 and started implementation in January 2017. The Agreement re-appointed 70 fulltime inspectors (16 at central level and 54 at provincial level), replacing the previous 258 part-time inspectors that had previously been frequently re-assigned. The national Labor Inspection Plan for 2017-2020 (due to improve compliance with minimum labor law standards and social security law, improve legal and technical knowledge of inspectors, improve coordination between central and local levels) is 90% finalized and the Ministry estimates that its implementation will start by June 2017 (originally planned for January 2017). A workshop on the gender dimension in labor inspection was carried out in November 2016, aiming at raising awareness on gender equality and equity as well as gender issues in the Labor Law and labor inspections, supporting HR managers to better resolve gender-related workplace problems. 12 factories continue to participate in the scheme and 11 Workplace Improvement Committees (WIC) have been established. As of end of April 2017, labor inspectors have undertaken 84 factory visits, and provided training on the Labor Law to 680 workers in 8 factories (80% of trainees were women) – compared to 78 workers trained in July 2016. Importantly, the core group of twelve labor inspectors (including 3 women) conducted 10 factory assessments in the garment industry against the checklist covering national Labor Law and core labor standards (between December 2016 and February 2017). The main non-compliance findings of these factory assessments include excessive overtime work without approval, unclear labor contracts and non-granting of maternity benefits; advisory work to remedy issues identified is under way. A survey is ongoing in 70% of the participating factories regarding the effectiveness of WIC, the impact of the Labor Law trainings and some gender issues: results are expected by the end of May 2017.

39. The contract with the ILO, implementing this subcomponent, has been extended at no cost until August 31, 2017 to complete outstanding work and fully execute this subcomponent. Sustainability of the scheme remains a critical challenge, especially as budget allocations for labor inspections remain limited although they are expected to increase now that decree 4277 is being implemented. ILO informed the mission that they have submitted a proposal to the Vision Zero Fund to continue work in this area.

B2.2 Garment Skills Development Centre

40. This subcomponent focuses on supporting the Garment Skills Development Centre (GSDC) established under the supervision of the Association of Lao Garments Industry. The objective is that the GSDC be financially and operationally independent by the end of TDF-2. Support to the operating costs of the GSDC has been phased out as of October 2016 and overall support, including salaries, ended at the end of March 2017 as originally planned. GSDC is fully recuperating its operating variable costs due to significant work with donor-funded projects (GIZ, STVET, VELA) and is very close to self-financing. Over the past six months, GSDC also managed to reduce the net operating loss although a small loss remains once fixed costs are considered. GSDC continues to face difficulties in attracting sufficient participants to their trainings, particularly as direct training for companies. To improve the quality of their training services and broaden the offering, GSDC has submitted a

US\$150,000 proposal to the Challenge Facility (one year duration) which was approved the first week of May 2017. The proposal consists of two components, namely: 1) human resource development of middle management in garment factories, notably female HR managers and supervisors; and 2) capacity building for GSDC to develop a more industry focused service strategy. The NIU will continue to have one representative in the governance body of GSDC.

B3: Business regulations review and rationalization

41. This subcomponent was added to TDF-2 in December 2016 and effectively started in January 2017. It aims at supporting transparency and rationalization of regulations related to business entry and operations. Activities include: (i) mapping out related regulations, procedures, and processes, making such information publicly available; and (ii) reviewing and streamlining selected regulations affecting the setting up and operating environment for private businesses. A total of US\$ 750,000 has been allocated to implement this new subcomponent, with the Department of Enterprise Registration and Management (DERM) at MoIC taking the leadership role. Implementation of this subcomponent is closely coordinated with other ongoing support (such as the Mekong Business Initiative and ADB's support to DERM) to create synergies and avoid duplication, particularly with regard to the IFC/WB-led Investment Climate Project supporting primarily the Ministry of Planning and Investment (MPI) in improving the investment climate.

42. DERM has hired a domestic consultant in April to support the department in the implementation of this subcomponent. The tender has been issued to hire an international company to undertake the process of mapping, stock-taking of regulations, and advisory work for regulatory reform. The mission was informed that contract negotiations with the successful bidder are nearly complete and the company is expected to start the work in early June. DERM informed the mission that process revisions are a top priority to ensure systematic improvement of business registration and operation. The mission encouraged DERM to quickly undertake the mapping of processes and to start with regulatory reforms afterwards, based on recommendations the international company would provide.

43. DERM expressed concerns regarding the coordination of mandates with MPI as a result of the changes to the Investment Promotion Law (IPL) and the mission team held a joint meeting with MPI and MoIC to address such concerns. The new IPL seems to determine MPI as the responsible body to carry out a development of controlled business list and restructure the One-Stop-Service (OSS), as well as to be an investment facilitating and coordinating agency with line ministries (tasks generally considered under MoIC/DERM's responsibility). However, the mission confirmed that the change of the controlled business list and OSS would not affect DERM's mandate on business registration. The mission was informed that any business activity outside the (yet-to-be-finalized) list will not be subject to pre-approval process by the Investment Promotion and Supervision Committee, and investors in such activities would continue to proceed directly to MoIC for company registration in accordance with the Enterprise Law and regulations. MPI confirmed that it would closely involve line ministries in the process of developing the controlled business list and ensure an alignment to commitments made under WTO and ASEAN investment framework, especially on investment liberalization. MPI expressed its support to MoIC's revision exercise and its readiness to support it. The mission urged both MoIC and MPI to continue their close dialogue on these issues to avoid negative effects on the clarity of the investment process which could negatively affect the ease of doing business.

COMPONENT C: MAINSTREAMING AID-FOR-TRADE

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

44. Building stronger technical capacity on trade and private sector development policy within MoIC is a key objective of TDF-2. This is to support more effective implementation of activities not just financed under TDF-2, but more widely as part of a movement towards a program based approach. The subcomponent is designed to allow the NIU maintain a satisfactory project management arrangement of the project until September 2018, support further capacity building, transfer of responsibilities to Government staff within the NIU, and permit the NIU to increase their coordination role.

45. ***National Implementation Unit.*** The NIU continues to play an important role and ensures TDF-2 can deliver at a satisfactory rate, with project implementation arrangements reducing costs and improving coordination between donors. The NIU/Department of Planning and Cooperation, is now fully responsible for the use and management of all ODA projects within MoIC, thus acting as a One Stop Shop. Since the last implementation support mission, the NIU and the Implementing Agencies (IAs) have continued to hold quarterly meetings as well as a number of additional meetings in response to specific issues that have arisen. The mission encouraged the NIU to continue close supervision and monitoring of IAs in order to ensure implementation of key issues and to accelerate the disbursements for the remaining 16 months of the project. The mission especially encouraged the NIU to take a more active, coordinating, and implementation role in the area of trade in services where additional work will be undertaken under the leadership of departments in line ministries.

46. The next Project Review Committee is scheduled for June 2017 and will approve the draft work-plans for the last year of project implementation. The Program Executive Committee (PEC) takes place on a yearly basis: the last one took place in December 2016 and the next one is scheduled for December 2017. The PEC is considered a successfully program level steering committee overseeing all trade related initiatives, not only TDF-2.

47. ***Trade and Private Sector Working Group (TPSWG).*** The new Trade and Economic Cooperation Division (under the Department of Planning and Cooperation), created in October 2016, is acting as the Secretariat of the TPSWG. The TPSWG, chaired by MoIC and co-chaired by the EU and Germany, continues to meet consistently twice a year since the beginning of TDF-2. The most recent meeting took place on October 20, 2016 and the next one is planned for June 2017, aligning the timing of the TPSWG meetings to the changes in the Lao financial year (in line with the calendar year since 2017).

C2: DTIS action matrix/roadmap challenge facility

48. The “DTIS challenge facility” under TDF-2 supports demand-driven implementation of smaller priority activities identified within the DTIS action matrix/roadmap. The challenge facility is open to funding applications from any public sector ministry or department from across the Government of Lao PDR. An additional US\$ 500,000 has been allocated for this subcomponent, and the maximum size for proposals has been increased to US\$ 150,000.

49. Three new proposals have been approved since the last implementation support mission in November 2016, bringing the total number of proposals to eleven. They (a)

support human resource development for improving labor compliance, productivity and workers' well-being in Laos' garment industry, (b) allocate additional resources to the LBF allowing it to undertake analytical work and analyze and develop solutions to identified challenges in greater detail, and (c) aim to strengthen the policy advice capacity of ERIIT. Of the earlier approved eight proposals, seven have been completed and closed. While the (i) development of an e-Certificate of Origin system will require further improvements following initial operations (cf subcomponent A1), (ii) the development of an ICT strategy for the MoIC has been completed and led to the establishment of an ICT and Statistics Center. The (iii) study on the relation between trade and gender has been finalized and published on the Trade for Development website (including a summary in the Lao Trade Magazine No. 12), while the study (iv) assessing Barriers to Free Movement of Goods in Domestic Markets has also been completed, indicating that check-points effectively restrict internal trade and constitute a powerful psychological deterrent especially on small and medium traders regardless of their status, either formal or informal. Two Decisions on "Factory Standards" and "Factory Management" have been drafted under the (v) Development of Implementing Regulations for the Industrial Processing Law. Following initial submission for Minister's decision, the Department of Industry and Handicraft has been requested to make some revisions to the draft Decisions. The (vi) Law on Chemicals to control the use of toxic chemicals has been approved by the National Assembly during the November 2016 session and has been promulgated in February 2017, while the (vii) support to the reinvigorated Lao Business Forum (LBF) to prepare the 10th LBF meeting in March 2017 has been completed. Activities of the LBF have been further developed into a new subcomponent under TDF-2 (cf component C4). The (viii) proposal providing Technical Assistance for improving regulatory and institutional framework for insurance services (cf. component A3) is under implementation and is expected to close by October 2017.

50. The total budget committed for these eleven proposals is \$1,141,500 of which \$650,000 has been disbursed. With the originally planned \$1,000,000 being fully allocated to proposals, the mission and Government agreed that the newly added funds should also be allocated by the end of July 2017. The mission encouraged the NIU to further discuss strong interest from Custom to submit two Challenge Facility proposals. Both proposals are expected to focus on supporting implementation of key measures contained in the WTO trade Facilitation Agreement and complement and expand on technical assistance activities initiated but not fully completed under the Lao PDR Customs and Trade Facilitation project.

C3: Research and policy analysis

51. The objective of this subcomponent was to support improved trade and private sector development policy formulation, and better measurement of the impact of policy. Activities included investments in (i) research methodology and capacity building; and (ii) a research facility to commission high quality policy relevant research. No additional funds have been allocated to this subcomponent and it has been completed as planned in March 2017.

52. ***Research methodology and capacity building.*** Under TDF-2 funding, ERIIT⁹ has developed capacity building programs through the intervention of an embedded international advisor whose contract ended on March 31, 2017. The advisor provided training and hands-on capacity building to ERIIT staff, focusing on research methodology, developed and

⁹ The Economic Research Institute for Trade (ERIT) has been renamed to The Economic Research Institute for Industry and Trade (ERIIT).

delivered a training course for policy note writing, and oversaw the implementation of the research facility. The research fellowship program envisaged at the outset of the TDF-2 has been cancelled during the MTR in June 2015. To build on the progress made to date, ERIIT has prepared a Challenge Facility proposal that would strengthen the use of the institute as just-in-time research provider to MoIC. The proposal was adopted on May 12, 2017.

53. **Research Facility.** All nine of the research proposals funded under TDF-2 have now been completed and ERIIT published the sixth Lao Trade Research Digest in April 2017 as agreed. The Digest includes three additional papers funded through the Research Facility, focusing on cross-border impacts of Thai SEZs, emerging flower and decorative plant trade, and value chains and SME development. Five of the nine papers have therefore been published in the Research Digest, demonstrating their high quality.

C4: Public-Private Dialogue

54. A new subcomponent of US\$400,000 was added in January 2017 which aims to strengthen the mechanisms for discussions among the private and public sectors by enhancing the capacity, inclusivity and effectiveness of the Lao Business Forum (LBF). This subcomponent builds on the earlier approved Challenge Facility proposal and supports MoIC in its newly transferred high-profile coordination responsibilities for the LBF, allowing MoIC to strengthen LBF operations and the Lao private sector to raise their concerns with high-level Government officials. This subcomponent supports (i) MoIC in improving and making more inclusive the design of the LBF, improving coordination and feedback between the public and private sector, and leading the LBF politically to ensure decisions are followed-up by relevant Ministries; and (ii) LNCCI technically to implement the LBF and making it more inclusive by supporting small and women-led enterprises in formulating their concerns in an actionable manner.

55. In addition to the PSD consultant and administrative assistant at LNCCI (which were originally funded from the Challenge Facility proposal), LNCCI has hired a National Gender and Small Business Development Consultant who will work with smaller companies, women-led enterprises, new start-ups and companies in the provinces (using the regional offices of the LNCCI) to help them formulate their concerns in a manner to allow that input to feed into the LBF process. The consultant will work to put in place an action plan which includes consultation processes and its methodologies to identify issues particularly affecting women-led enterprises. Recruitment of a part-time senior international Strategy and Priority Advisor at MoIC is also nearly completed and the Advisor is expected to take-up duty in June 2017 to assist MoIC in ensuring that the LBF is inclusive and effective. Jointly, both advisors are expected to ensure increased inclusiveness of the Public-Private dialogue, and in particular bringing-up issues raised by women-led SMEs. The mission was informed that among the issues discussed at the LBF, a number had also been specifically raised by women-led enterprises, although not exclusively so.

56. The 10th LBF was held on March 28, 2017, and was chaired by the Prime Minister. In the run-up to the forum, the LNCCI and MoIC had identified 32 priority issues raised during roughly 30 working group meetings. A preparatory LBF Steering Committee Meeting was held on December 28, 2016 under the chairmanship of MoIC Minister and LNCCI President, where issues were discussed and prioritized. 16 of these 32 issues were discussed in detail during the Forum, with solutions for 4 of the issues already presented and implemented. The Forum was very successful in bringing the Government's attention to these issues, and

garnering support to resolving these challenges faced by private sector in operating their businesses. The LBF received widely positive feedback from government, private sector and development partners, and several Provincial Chambers of Commerce and Industry have expressed their interest in participating in the LBF process going forward. The issues raised during the LBF included implementation of value-added tax, cost of logistics, enterprise registration and operating licenses, access to finance and internet excise duties. Following the Forum, the LBF administrative committee, under the guidance of LNCCI, submitted a report, including key issues and proposed solving measures, to the Prime Minister's Office (PMO) for guidance. The mission was informed that the PMO will issue a Notification to concerned ministries to ensure follow-up and implementation. In parallel, LNCCI and LBF committees have directly followed up with responsible departments and line ministries to support implementation. The mission team recommended ensuring that LBF results are widely disseminated to increase public awareness and pressure for reform through publication on the LNCCI website and the Trade Portal.