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**The World Bank**

**East Asia and Pacific Region**

**PREM Sector Department**

**Trade Development Facility Multi Donor Trust Fund**

**Administrative Agreement between Australia/European Commission/German International Cooperation Agency and the International Development Association concerning the Trade Development Facility Multi Donor Trust Fund (TF No. 070918)**

**PROGRESS REPORT**

**(October 1, 2010-September 30, 2011)**

**Abbreviations and Acronyms**

ASEAN Association of Southeast Asian Nations

ASYCUDA Automated System for Customs Data

BETF Bank Executed Trust Fund

CEM Country Economic Memorandum

CIM Centrum für Internationale Migration und Entwicklung

DIMEX Department of Imports and Exports

DTIS Diagnostic Trade Integration Study

EIF Enhanced Integrated Framework

ERIT Economic Research Institute for Trade

EU European Union

FAO Food and Agriculture Organization of the United Nations

FM Financial Management

GATS General Agreement on Trade in Services

GOL Government of the Lao PDR

GSEU Government Sub-Executing Unit

GIZ Gesellschaft für Internationale Zusammenarbeit

IDA International Development Association (of the World Bank)

IF Integrated Framework

IFC International Finance Corporation (of the World Bank)

ILO International Labor Organization

ISR Implementation Status and Results Report

ITC International Trade Centre

JSDF Japan Social Development Fund

LNCCI Lao National Chamber of Commerce and Industry

M&E Monitoring and Evaluation

MAF Ministry of Agriculture and Forestry

MDTF Multi Donor Trust Fund

MoIC Ministry of Industry and Commerce

NAST National Authority for Science and Technology

NGO Non-Governmental Organization

NIFGS National Integrated Framework Governance Structure

NIU National Implementation Unit

NSEDP National Socio-Economic Development Plan

ODA Official Development Assistance

PM Prime Minister

PREM Poverty Reduction and Economic Management

PRSO Poverty Reduction Support Operation

REG Risk Evaluation Group

RETF Recipient Executed Trust Fund

SECO Swiss State Secretariat for Economic Affairs

SNV Netherlands Development Organization

SPS Sanitary and Phytosanitary Standards

TBT Technical Barriers to Trade

TDF Trade Development Facility

TF Trust Fund

TPPD Trade and Product Promotion Department

UNIDO United Nations Industrial Development Organization

USAID United States Agency for International Development

WTO World Trade Organization

1. **Introduction**
   1. The Trade Development Facility (TDF) Multi Donor Trust Fund was created to support the Lao People’s Democratic Republic (Lao PDR) in its efforts to sustain poverty reduction and economic growth, by facilitating trade and the cross-border movement of goods, and by increasing the capacity of the Government to undertake specific tasks related to regional and global economic integration. The Multi Donor Trust Fund (MDTF) assists Lao PDR in implementing the Action Matrix for Trade-Related Assistance, approved by the Government of the Lao PDR and donors in September 2006 as part of the Diagnostic Trade Integration Study, and to achieve the goals set out in the Lao PDR Poverty Reduction Strategy and National Socio-Economic Development Plan.
   2. Trust Fund No.070918 was established via Administrative Agreements between the World Bank and the Government of Australia, and the European Union (EU) respectively in March 2008, as the parent or main trust fund supporting the Trade Development Facility. Additional resources have been contributed into the wider program by Japan, via the World Bank-Japan Social Development Fund. Similarly Germany, via the German International Cooperation Agency (GIZ), joined the MDTF in July 2011. This third progress report[[1]](#footnote-1) covers the period from October 1, 2010 to September 30, 2011 and thus describes the second full year of operations. The reporting period is in line with the Lao financial year and with annual financial reports prepared by the National Implementation Unit.
   3. This report does not repeat nor does it substitute for the twice yearly implementation progress reports or the quarterly interim financial reports prepared by the Ministry of Industry and Commerce, National Implementation Unit. This report complements the regular implementation support mission reports (aide memoires) prepared by the World Bank during each joint donor supervision mission, as well as the Implementation Status and Results reports prepared as part of internal Bank management procedures.
2. **Summary program description**

***Program development objective***

* 1. The Government of the Lao PDR (GOL) is implementing its trade agenda is through the establishment of a permanent National Integrated Framework Governance Structure (NIFGS), a multi-agency entity consistent with the WTO Integrated Framework (IF) and the Vientiane Declaration on Aid Effectiveness. The establishment of this structure permits a more coherent, effective, and participatory implementation of the comprehensive reform plan spelled out in the DTIS Action Matrix, improves the efficiency and effectiveness of ODA, and leads to a reduction in the transaction costs incurred with stand-alone development partner assistance. Development partners in future are expected to consider contributing to the GOL medium-term priorities via the NIFGS.
  2. Based on lessons of experience, the NIFGS is designed to:
  3. avoid small uncoordinated projects, which have high transaction costs both for the Government and development partners;
  4. ensure full involvement of beneficiaries and stakeholders in the design of trade-related interventions;
  5. align all activities with the Government’s existing structures, building ownership and reducing burdensome administrative requirements;
  6. permit reasonable flexibility to adapt to changing circumstances;
  7. permit medium to long-term engagements providing for a strong focus on capacity building and strengthening skills, and
  8. permit transparent and accountable monitoring and evaluation consistent with the objectives established in the IF Action Matrix.
  9. The TDF development objective is to support the establishment of the National Integrated Framework Governance Structure and implement NIFGS’s initial activities facilitating trade and the cross-border movement of goods, and increasing the capacity of the Government to undertake specific tasks related to regional and global economic integration. These activities in turn support the GOL’s larger aims of poverty reduction and economic development, as reflected in the NSEDP. The overarching outcomes pursued are:
* Better trading environment, with simplified bureaucratic procedures including in customs;
* Improved legal and regulatory framework for trade;
* Enhanced general capacity of line ministries and agencies involved in the trade sector;
* Improved private sector capacity to compete in the international market;
* More effective participation in bilateral and multilateral negotiations; and,
* Increased competitiveness of Lao products and contribution to poverty reduction.
  1. Overall implementation of the TDF project is coordinated by the National Implementation Unit (NIU), within the Foreign Trade Policy Department of the Ministry of Industry and Commerce.

***Program outline***

* 1. The Trade Development Facility project is subdivided into five main components. Technical implementation for each component is carried out by a respective Government Sub-Executing Unit (GSEU) as follows[[2]](#footnote-2):
     1. Trade Facilitation: US$0.8 million at appraisal, US$1.08 million at restructuring, led by Department of Imports and Exports, Ministry of Industry and Commerce.
     2. Strengthening of the Sanitary and Phyto-Sanitary Standards (SPS) and Technical Barriers to Trade (TBT) Frameworks: US$1.77 million at appraisal, US$1.55 million at restructuring, led by Department of Planning, Ministry of Agriculture and Forestry.
     3. Increasing Export Competitiveness and Business Environment: US$1.39 million at appraisal and at restructuring, led by Department of Trade Promotion and Product Development, Ministry of Industry and Commerce.
     4. Capacity Building, Trade Policy, Trade Agreements and Global Opportunities: US$1.75 million at appraisal, US$2.38 at restructuring, led by Economic Research Institute for Trade and Foreign Trade Policy Department, Ministry of Industry and Commerce.
     5. Strengthening of the National Implementation Unit: US$1.11 million at appraisal, US$1.21 at restructuring, led by National Implementation Unit, Ministry of Industry and Commerce.

1. **Program financing and disbursements[[3]](#footnote-3)**
   1. Implementation of the Trade Development Facility Project is financed through the Trade Development Facility multi donor trust fund. Administrative Agreements set out the responsibilities of the Government of Australia, the German International Cooperation Agency and the European Union, as donors to the multi donor trust fund, and the World Bank, as trust fund administrator. Australia, GIZ and the EU have committed a total of AUD 3.05 million, EUR 0.28 milion and EUR 4.20 million respectively to the MDTF. The majority of resources, US$ 6.82 million (to be increased to US$ 7.60 million under restructuring), are then on-granted by the World Bank to the Government for recipient-executed activities in order to implement the Trade Development Facility project. Similarly a portion of the MDTF, US$ 1.73 million, is reserved for Bank-executed activities.
   2. Following on from the Mid Term Review of the Trade Development Facility undertaken in January 2011, the Ministry of Finance requested a thirteen month extension for the implementation of the Recipient Executed Trust Fund (TF091201) for the Trade Development Facility project. This would extend the closing date of the project from February 28, 2012 to March 31, 2013. During initial discussions for the set-up of the MDTF, the timeline envisaged was for a four year implementation period for the TDF. However, there was a lengthy delay between the approval of the grant proposal (November 16, 2007), the signing of the RETF grant agreement (August 8, 2008), and project effectiveness (December 11, 2008). Actual disbursements from the BETF began in October 2008 and from the RETF in January 2009. The cost estimates for the program, both the BETF and RETF, were based on activities to be executed over four years. In addition, the program has benefitted from additional resources: (i) realization of exchange rate discounts applied to unpaid donor commitments – approximately US$ 230 thousand; (ii) earned investment income – approximately US$ 240 thousand; and (iii) additional funding from a third donor (GIZ) who recently signed an AA to join the MDTF for a commitment of EUR 280 thousand (approximately US$ 375 thousand). The extension of the timeline proposed by the Government will require no additional resources for Bank Executed activities and for the supervision and program management costs of the TDF for the additional thirteen month period.
   3. The Grant Agreement between the World Bank and the GOL, signed on August 8, 2008, sets out the framework for implementation of the TDF project. Following the submission to the Bank of evidence that the GOL was in fulfillment of the effectiveness conditions outlined in the Grant Agreement, the project was declared effective on December 11, 2008. An amendment will be prepared to the Grant Agreement to provide for the extended implementation period and increased grant amount for the project, as per the Project Restructuring Paper.
   4. During the period under review, a total of US$ 1,881,423 was withdrawn by the NIU into the project designated account for the financing of recipient-executed activities – just over double the amount withdrawn during the previous one-year period. Cumulative withdrawals by the recipient as of September 30, 2011 were a total of US$ 3,265,850 (a disbursement rate of 47.9 percent).

Figure 1: Summary structure of the TDF Multi Donor Trust Fund

**Parent/Main Trust Fund**

TF070918

US$ ~9.4m

**Recipient Executed Trust Fund**

TF091201

US$ ~6.8m (to be increased to US$ 7.6m)

**Bank Executed Trust Fund**

TF091202/091203/094840

US$ ~1.7m

* 1. The Bank-executed portion of the trust fund provides for the establishment of a TDF Facilitation Team, based in the World Bank Vientiane Office. The team is responsible for calling development partner meetings on the TDF and providing administrative support to donor coordination within a trade sector-wide approach, generating commitments, helping to carry out day-to-day management of the TDF, coordinating supervision missions, ensuring compliance with World Bank rules, and – most importantly – providing technical assistance (analytical and advisory services) to the Government. The team, which is part of the Bank’s East Asia and Pacific PREM Sector Department, comprises of one full-time international Trade Specialist, one full-time national Trade Analyst, and one half-time Program Assistant.
  2. During the period under review, a total of US$ 450,837 was disbursed directly from the Bank-executed portion of the trust fund. As of September 30, 2011, a total of US$ 1,118,140 has been disbursed from the Bank-executed trust fund (a disbursement rate of 64.7 percent).
  3. Table 1 presents a summary financial report of transactions under the TDF MDTF since establishment of the MDTF in March 2008, running until September 30, 2011, and including a breakdown for the year October 1, 2010 to September 30, 2011. Total expenditures (from both recipient and Bank-executed portions of the trust fund) and including administrative fees charged against payments into the trust fund during 2010-11 amounted to US$ 2,385,514. Total cumulative expenditures as of September 30, 2011 were US$ 4,546,223. The trust fund balance as of September 30, 2011 was US$ 3,817,230.
  4. Trust funds residing with the World Bank are invested. As of September 30, 2011 a total of US$ 251,791 has been earned as additional income accruing to the TDF.
  5. As per the terms of the Administrative Agreement, a 2 percent fee is deducted by the Bank from trust fund contributions for administrative cost recovery. A total of US$ 53,254 was deducted against payments by donors into the MDTF during the period October 1, 2010 to September 30, 2011. This brings cumulative administrative fees to a total of US$ 162,233.

Table 1: Summary of aggregate disbursements from the TDF MDTF

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **WORLD BANK GROUP** | | | | | | | | | | | | | |
| **LAO PDR TRADE DEVELOPMENT FACILITY MULTI DONOR TRUST FUND** | | | | | | | | | | | | | |
| **TRUST FUND FINANCIAL REPORT** | | | | | | | | | | | | | |
| **(Annual Summary)** | | | | | | | | | | | | | |
| Expressed in United States Dollars | | | | | | |  | |  | |  | |  |
|  |  | |  |  |  | |  | |  | |  | |  |
|  |  | |  |  |  | |  | | Current Year | |  | | Cumulative |
|  |  | |  |  |  | | From: | | 1-Oct-10 | | From: | | 24-Mar-08 |
|  |  | |  |  |  | | To: | | 30-Sep-11 | | To: | | 30-Sep-11 |
|  |  | |  |  |  | |  | |  | |  | |  |
| **Receipts (Note 1)** | | | | | | |  | |  | |  | |  |
|  | Cash Contributions | | | | | |  | | 2,662,727 | |  | | 8,111,662 |
|  | Investment Income (Note 2) | | | | | |  | | 21,481 | |  | | 251,791 |
| **Total Receipts** | | | | | | |  | | 2,684,208 | |  | | 8,363,453 |
| **Disbursements (Note 1)** | | | | | | |  | |  | |  | |  |
|  | **Project Disbursements** | | | | | |  | |  | |  | |  |
|  |  | | Disbursements to Grantee | | | |  | | (1,881,423) | |  | | (3,265,850) |
|  | **Direct Costs Disbursed by WBG** | | | | | |  | |  | |  | |  |
|  |  | Staff Costs and Associated Overheads | | | | |  | | (259,689) | |  | | (746,654) |
|  |  | Consultant Fees, Workshops and Other Costs | | | | |  | | (146,363) | |  | | (244,587) |
|  |  | Travel Costs | | | | |  | | (44,785) | |  | | (126,899) |
|  |  | **Total Direct Costs Disbursed by WBG (Note 3)** | | | | |  | | (450,837) | |  | | (1,118,140) |
|  | **Total Project Disbursements** | | | | | |  | | **(2,332,260)** | |  | | **(4,383,990)** |
|  | **Non-Project Disbursements** | | | | | |  | |  | |  | |  |
|  |  | | Administrative Fees (Note 4) | | | |  | | (53,254) | |  | | (162,233) |
|  | **Total Non-Project Disbursements** | | | | | |  | | **(53,254)** | |  | | **(162,233)** |
| **Total Disbursements** | | | | | | |  | | **(2,385,514)** | |  | | **(4,546,223)** |
|  | Excess of receipts over disbursements / | | | | | |  | |  | |  | |  |
|  |  | | (disbursements over receipts) | | | |  | | 298,694 | |  | | 3,817,230 |
| **Fund Balance** | | | | | | |  | |  | |  | |  |
|  | Beginning of period | | | | | |  | | 3,519,900 | |  | | 0 |
|  | End of period | | | | | |  | | 3,817,230 | |  | | 3,817,230 |
| **Fund balance consists of** | | | | | | |  | |  | |  | |  |
|  | Share in pooled cash and investments | | | | | |  | |  | |  | | 3,817,230 |
|  |  | |  |  |  | |  | |  | |  | |  |
| Notes: | | | |  |  | |  | |  | |  | |  |
| 1. This statement is prepared on the modified cash basis of accounting. Transactions subsequent to this statement date | | | | | | | | | | | | | |
| are recorded in the period in which they occur. | | | | | |  | |  | |  | |  | |
| 2. Investment income is not credited to any trust fund where the daily fund balance is less than USD equivalent $5,000. | | | | | | | | | | | | | |
| 3. Other Direct costs (where applicable) represent all disbursements incurred prior to July 2000. | | | | | | | | | | | | | |
| 4. Administrative fees are charged in accordance with the administration agreement(s). Administrative fees are | | | | | | | | | | | | | |
| generally charged to the trust fund in the same month in which contributions are received, however for administrative | | | | | | | | | | | | | |
| purposes, collection of fees may occur in the month following receipt of the contribution. | | | | | | | | | | | |  | |

* 1. Table 2 presents a summary of donor pledges and cash contributions paid into the TDF by Australia, the German International Cooperation Agency and the European Union. As of September 30, 2011 Australia has paid in a total of AUD 3,050,000 (representing 100 percent of the total pledged amount), Germany has paid into a total of EUR 140,000 (representing 50 percent of the total pledged amount) and the European Union has paid in a total of EUR 3,360,000 (representing 80 percent of the total pledged amount).
  2. As a result of exchange rate movements, the exact total value of the MDTF in US Dollars will not be known until all remaining commitments in Euros have been paid. For this reason, the remaining unpaid contributions were valued at only 80 percent of exchange rates at the time of appraisal. Hence the TDF was designed at US$ 8.5 million (US$ 6.8 million for recipient-executed activities and US$ 1.7 million for Bank-executed activities). As final donor contributions are paid into the trust fund, these exchange rate discounts have been unlocked freeing up additional resources to be allocated to the TDF project (see Project Restructuring Paper for fuller details).

Table 2: Summary of donor pledges and contributions to the TDF MDTF

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **WORLD BANK GROUP** | | | | | | |
| **LAO PDR TRADE DEVELOPMENT FACILITY MULTI DONOR TRUST FUND** | | | | | | |
| **TRUST FUND FINANCIAL REPORT** | | | | | | |
| **(Pledge and Contribution Summary)** | | | | | | |
|  |  |  |  |  |  |  |
| **Donor** | **Current**  (01-Oct-10  to 30-Sep-11) | | | **Cumulative**  (01-May-08  to 30-Sep-11) | | |
|  | EUR | AUD | USD equivalent | EUR | AUD | USD equivalent |
| **Pledge Details** | | | | | | |
| Australian Agency for International Development |  |  |  | 4,200,000 |  |  |
| European Commission | 280,000 |  |  | 280,000 |  |  |
| German International Cooperation Agency |  |  |  |  | 3,050,000 |  |
| Total | 280,000 |  |  | 4,480,000 | 3,050,000 |  |
| **Paid-in Contributions** | | | | | | |
| Australian Agency for International Development |  | 750,000 | 799,425 |  | 3,050,000 | 2,963,540 |
| European Commission | 140,000 |  | 191,660 | 140,000 |  | 191,660 |
| German International Cooperation Agency | 1,260,000 |  | 1,671,642 | 3,360,000 |  | 4,956,462 |
| Total | 1,400,000 | 750,000 | 2,662,727 | 3,500,000 | 3,050,000 | 8,111,662 |
| **Outstanding Contributions** | | | | | | |
| Australian Agency for International Development |  |  |  |  | 0 |  |
| European Commission |  |  |  | 840,000 |  | 1,142,111 |
| German International Cooperation Agency |  |  |  | 140,000 |  | 190,352 |
| Total |  |  |  | 980,000 | 0 | 1,332,463 |
|  |  |  |  |  |  |  |
| Note: |  |  |  |  |  |  |
| Payments represent amounts which have been paid and converted into the trust fund holding currency (if applicable). Amount received but not yet converted into the trust fund holding currency(if applicable) are not included in this figure. Amounts are expressed in historic USD, which reflects the USD equivalent as at the date of payment. Figures for outstanding contributions in USD equivalent are taken at current exchange rate as of November 2011 (EUR 1 = USD 1.360). | | | | | | |

* 1. The World Bank makes a number of in-kind and direct financial contributions to the TDF, including the provision of a supervision budget to which regular Bank staff and consultant costs can be charged (in addition to the TDF Facilitation Team). A total of US$ 162,413 was disbursed through the Bank during the period under review, of which US$ 10,582 was provided as a contribution to Lao trade activities from the global multi donor trust fund for trade and development, US$ 85,441 from the global gender action plan trust fund and US$ 66,390 from the Bank’s administrative budget. These expenditures covered staff costs during the supervision of the TDF, staff costs associated with technical assistance on services and GATS commitments, dissemination of the new National Trade Facilitation Strategy and Action Plan (policy action under PRSO7) by the Department of Imports and Exports across three regions of the country, and a range of activities under the gender and trade work program. The Bank will continue to provide a minimum of US$ 75,000 annually from its administrative budget for ongoing supervision costs for the TDF. As of September 30, 2011 cumulative contributions from World Bank resources in support of the TDF come to a total of US$ 369,061.
  2. The Bank’s role in administering the TDF trust funds also includes providing fiduciary supervision to the recipient-executed project. The costs of the Bank’s procurement, financial management and legal staff are provided as central services to the project (with costs covered as part of the 2 percent administrative fee).
  3. An additional US$ 90,000 was competitively awarded to the TDF Facilitation Team from the World Bank’s global “Gender Action Plan” trust fund in June 2009 in support of a series of activities to mainstream gender into the activities of the Trade Development Facility MDTF. As of September 30, 2011 these funds have now been fully disbursed and identified tasks completed. See section on “Bank Executed Activities” for a fuller description of gender and trade tasks undertaken.
  4. During the period under review the TDF Facilitation Team also successfully secured additional resources from the World Bank-Japan Social Development Fund (JSDF) for a Sustainable Silk Production Partnership in Rural Lao PDR project. The JSDF is a global trust fund administered by the World Bank and financed by the Government of Japan, aiming to pilot activities in developing countries that provide direct benefits to local communities[[4]](#footnote-4). The objective of the grant will be to pilot an innovative model to establish silk production partnerships that will link rural communities to markets via “lead firms”. The activity will be implemented as part of the TDF Component C by the National Implementation Unit and Department of Trade Promotion and Product Development. A total of US$ 1,876,200 has been awarded to the recipient-executed portion of the trust fund, and a total of US$ 157,000 to support Bank-executed support activities over the proposed 4 year period of the grant. A Grant Agreement for the project was signed by the World Bank and Ministry of Finance on April 22, 2011. As of September 30, 2011, an initial advance amount of US$ 100,000 has withdrawn into the project designated account, and US$ 14,481 expended from the Bank-executed trust fund in support of the JSDF project.
  5. New activities linked to regional trade commitments are planned with additional resources (EUR 280,000) made available to the TDF through the entry of Germany, through the German International Cooperation Agency (GIZ), into the multi donor trust fund in July 2011. As a member of ASEAN, Lao PDR is progressively complying with requirements to reduce tariffs under the ASEAN Trade in Goods Agreement, and to harmonize and simplify border procedures in line with the objectives of the ASEAN Economic Community. Major reforms and investments are underway that will contribute towards improved compliance with ASEAN commitments[[5]](#footnote-5). A series of additional activities are planned under the TDF to support the work of GoL in implementing trade-related commitments under the ASEAN Economic Blueprint. These activities will be incorporated into Component D (Capacity Building, Trade Policy, Trade Agreements and Global Opportunities) of the TDF, with work planning managed directly by the ASEAN Division, Foreign Trade Policy Department. Responsibility for overall coordination will remain with the National Implementation Unit.
  6. One of the key responsibilities of the World Bank during the implementation of the TDF is to mobilize additional resources in support of the Trade Development Facility. Thus far additional resources have been mobilized from the World Bank’s Gender Action Plan (US$ 90,000), from the Centre for International Migration (estimated value of US$ 400,000 for a 4-year full time International Garments Centre Manager), from the Japan Social Development Fund (total US$ 2,033,200), from the SNV Netherlands Development Organization (estimated value of US$ 180,000 for half costs of a 3-year full time International Livelihoods and Market Linkages Advisor), and from a contribution of approximately US$ 380,000 by Germany, via the German International Cooperation Agency (GIZ), to the TDF MDTF. Thus, the total value of additional resources that have been “crowded in” to the TDF is estimated at around US$ 3.1 million.

1. **Overall implementation progress**
   1. **The pace of implementation of the TDF, now in its third year of implementation, has accelerated substantially and the Ministry of Industry and Commerce is demonstrating strong ownership and clear commitment to the program.** Strong and effective central program management capacity, both technical and fiduciary, has been built in the National Implementation Unit and the National Integrated Framework Governance Structure appears to be functioning well. The shift to national management of donor resources has made an important contribution to MoIC capacity building and has helped ensure that issues surrounding activity prioritization, cost-effectiveness and sustainability are fully addressed by the MoIC.
   2. **Nevertheless, some components under the TDF are performing better than others.** Coordination of program activities across different ministries (particularly with regard to Component B) has – not surprisingly – proved particularly challenging, resulting in significant delays in implementation. Similarly there are risks that delays may affect the delivery of a number of key activities including some export competitiveness sub-project activities under Component C. In aggregate, overall implementation progress of the TDF is considered to remain “Satisfactory” at this stage.
   3. **The TDF continues to remain highly relevant to the government’s priorities on trade and integration.** The project is now at a position where valuable experiences and lessons learned can be used to help identify future technical and capacity building needs as part of the process of updating the DTIS. A number of issues will need continued management focus in order to ensure than expected results are achieved. The overall project development objective of the TDF is “to support the establishment of the National Integrated Framework Governance Structure (NIFGS) and implement NIFGS’s initial activities to address the key institutional and operational bottlenecks and capacity gaps that hinder cross-border trade”. While a results framework was not included in the initial Project Appraisal Document, efforts were undertaken by the Ministry of Industry and Commerce to prepare a detail framework for monitoring results during the initial stages of project implementation. Similarly, as part of efforts to build a program based approach to trade, the TDF results framework has now been merged with the Enhanced Integrated Framework (EIF) logframe into a combined TDF-EIF results framework. An updated version, with detailed data, is included as Annex X to this document.
   4. **Solid progress is being achieved at the level of the project outcome indicators, indicating that the overall direction of the project is appropriate.** Both non-natural resource based exports and services exports are showing growth – two of the key outcome indicators being tracked under the project – although it is clear that this growth is being overshadowed by the natural resources (principally hydropower and mining) that Laos is witnessing. Modest improvements have also been seen on measures of trade facilitation as captured under the Logistics Performance Index, however time and cost data as captured by the Doing Business surveys has yet to see improvement.
   5. **Results are also on track at the intermediate level for activities facilitating trade development programming.** The measurement of intermediate level outcomes at the activity level under the TDF is divided into two main parts: (i) activities that are “facilitating trade development programming” and otherwise contributing towards the mainstreaming of trade into national development strategy, and movement towards a program based or sector wide approach (in line with the objectives of the global Integrated Framework for Least Developed Countries); and (ii) activities that aim to “address the supply side issues identified in the DTIS”. In this first part, promising results are being seen with the activation of the National Integrated Framework Governance Structure, and development of Lao PDR’s aid for trade mechanisms. Similarly the increased capacity of MoIC in managing aid for trade is seeing “crowding in” of resources and a growing share of assistance channeled through official structures.
   6. **However, many of the intermediate level outcome indicators for the core supply side issues identified in the DTIS have yet to respond as a number of activities are only just beginning to be implemented.** Given the time taken to design activities, identify and procure technical assistance, progress on intermediate level outcome indicators for activities to address the supply side issues has been more mixed. While activities have commenced across almost all key activities, it is still too early to see inputs fully translated into outputs, let alone significant outcomes achieved.

***Recipient-executed activities (progress by component)***

* 1. ***Component A – Trade Facilitation****.* After some initial delays, the Department of Imports and Exports (DIMEX) GSEU team is now making strong progress across all aspects of the Trade Facilitation Component. Highlights during the year under review include the completion and subsequent approval by the Cabinet of the National Trade Facilitation Strategy and Action Plan, the establishment of the National Trade Facilitation Secretariat and its subsequent launch, and a strong start in activities to design and implement the Trade Portal. The key challenge in the year ahead will be to ensure that this strong momentum is maintained to allow the planned results anticipated under this component to be achieved during the remaining time available under the TDF.
  2. *Trade Facilitation Strategy and Action Plan:* After a series of national consultative events, a final version of the National Trade Facilitation Strategy and Action Plan was submitted to the Cabinet for approval, and subsequently endorsed formally in July 2011. With final reshaping and the completion of internal consultations, the final draft of the Trade Facilitation Strategy and Action Plan was presented, and subsequently endorsed, at a multi-agency validation workshop chaired by the Minister of Industry and Commerce in March 2011. Following formal validation at the Strategy and Action Plan at the technical level, the document was submitted to the Prime Minister’s Office for approval by the Cabinet, with formal approval provided in July 2011. Approval by the government of the Strategy/Action Plan was a policy action, successfully met, under the Seventh Poverty Reduction Support Operation (annual budget support operation of the World Bank, financed in parallel by Australia and the EU). The national coordinating body was also formally established via the approval of a Decision of the Deputy Prime Minister in October 2010 that provides the mandate to establish a National Trade Facilitation Secretariat. This Secretariat will operate under the National Steering Committee for Economic Integration and be chaired by the Deputy Prime Minister. A key focus during the year ahead will be to ensure that the National Trade Facilitation Secretariat becomes fully operational, including effective participation from key related agencies such as the Lao Customs Department and representatives of the private sector.
  3. *Implementation of the Lao PDR Trade Portal:* Following the completion of a lengthy procurement process, a contract was signed with the selected consulting firm in June 2011 and the team mobilized in the following month. The procurement process was delayed in part as a result of concerns surrounding the level of ambition of activities within the assignment, long term sustainability of the portal, absorptive capacity of DIMEX and changes in the proposed staff of the consulting team. As such, the signed contact was negotiated to exclude activity four which is focused on preparing a practical roadmap for process simplification and harmonization of procedures and documentation requirements for licensing and permit issuing authorities. However, with a successful start-up of activities to design the Trade Portal, strong steps have now been taken towards the establishment of the portal – now planned for a formal launch in March 2012. A Trade Portal governance structure has been put in place, including the set up of a multi agency operational team, and detailed information technology plans prepared outlining the steps necessary for Lao PDR to progress from a manual trade facilitation system, to an automated single window system consistent with the ASEAN single window. Significant work has been undertaken to collect detailed information on import/export/transit regulations, procedures, rules, permits, fee schedules to be loaded into the Trade Portal. With increased momentum in the work to design the Trade Portal, plans are advanced to now add the roadmap for process harmonization and simplification back into the consulting assignment.
  4. *Trade facilitation legislation:* Under the PRSO process, the World Bank and other donors are supporting the government’s efforts to reform trade facilitation legislation and procedures in order to bring about increased private sector investment, streamlined cross-border trade, and the introduction of a more transparent rules-based system consistent with WTO principles. To this end, three key pieces of trade facilitation legislation needed to be revised: (i) PM Decree on Import Licensing (successfully revised as a completed policy action under PRSO5); (ii) PM Decree on Rules-of-Origin (successfully revised as a completed trigger under PRSO6); and (iii) PM Decree on the Import and Export of Goods. This third piece of legislation was a trigger, successfully met, under PRSO7 and provides for the replacement of the existing PM Decree on Import-Export Management with WTO consistent legislation that, most importantly, introduces the principle of “national treatment” and non-discriminatory trading rights for both foreign and domestically produced goods into Lao law. The Decree provides a framework for the processing of imports, exports, transit goods/temporary imports and re-exports. It is an essential part of bringing the Lao legal framework for trade in line with the principles of the WTO Agreement, and as such this reform is a requirement for the Lao WTO accession Working Party negotiations. Following a series of consultative events, the new decree was approved by the Cabinet in February 2011.
  5. ***Component B – Sanitary and Phytosanitary Standards (SPS) and Technical Barriers to Trade****.* While progress under this component continues to be behind schedule, faster implementation during the period under review saw the start-up and implementation of a number of key activities. The restructuring of the GSEU including transfer of GSEU management from the MAF Department of Agriculture to the Department of Planning has helped improve coordination between the relevant departments to some extent. Coordination of complex technical activities across different ministries has – not surprisingly – proved challenging, particularly given the limited capacity in SPS within government. Slow implementation of key SPS legislative activities has been identified as a particular bottleneck for WTO accession negotiations. Given delays associated with selecting consultants for the large assignments under Component B, there are concerns about the limited remaining time under the TDF for implementation and whether there will be sufficient support to translate expected outputs from the major activities into outcomes.
  6. *Legal and regulatory reforms:* The legal and regulatory reforms activity is the major deliverable of Component B and a key element of Lao PDR’s WTO accession process. Following the preparation of detailed terms of reference specifying the legal and regulatory reforms and adjustments required across the fields of plant health, animal health and food safety, a request to single source this consulting assignment to the FAO was granted by the Bank in March 2010. A contract was subsequently signed between the NIU and FAO in April 2011. However, as of September 30, 2011 the FAO has still not mobilized due to the withdrawal of the FAO Team Leader for the assignment. An alternative candidate has been proposed and it is expected that the team will be able to mobilize by December 2011. Given the lengthy delays associated with the mobilization of this technical assistance contract, the prioritized list of legal instruments included in the terms of reference may need to be updated during the inception phase of the FAO team. The USAID Luna project is now also engaging on some aspects of the SPS legal work, so it will be of key importance to avoid overlaps and duplication of tasks.
  7. A new short term International Food Safety Specialist has been appointed to advise the Food and Drug Department, following the withdrawal due to illness of the previous consultant.
  8. *Risk-based policies:* The risk-based policies activity, including the establishment of a multi-departmental “Risk Evaluation Group” is an important first step in efforts to move towards risk based SPS measures such as regulatory reform, inspections and border controls. In less complicated cases it can also be applied to market access requests. As of September 30, 2011, the risk based policies consulting team has made solid progress with the implementation of training and capacity building activities. A formal “Risk Evaluation Group” has been established with three technical teams (in plant health, food safety and animal health respectively). A series of initial training events have been undertaken, with case studies identified to be carried out over the course of the 18 month assignment. Training and practical “learning by doing” by the three technical groups under the REG alongside the consulting team will be supplemented by a series of visits to relevant risk evaluation institutions abroad.
  9. *Government Sub-Executing Unit:* The SPS GSEU was transferred from the Department of Agriculture to the Department of Planning within the Ministry of Agriculture and Forestry in mid 2010. This has resulted in improved coordination across the key SPS departments, but significant challenges remain. A capable and well-functioning SPS coordination unit is an important element not only for participation in the TDF and other donor funded programs, but for the build-up of an effective SPS system that serves the country well and is consistent with the WTO Agreement. The SPS Enquiry point may perhaps best be integrated into this unit, with support from the TDF.
  10. *Improving legislation and regulation for Technical Barriers to Trade:* In the area of technical barriers to trade, the TDF provides for the financing of a team to assist NAST[[6]](#footnote-6) in the preparation of a comprehensive assessment of the legal and institutional reform, and capacity building needs for TBT. Following the selection of a consulting firm to carry out this assignment in December 2010, the assessment was completed in June 2011. The report outlines a number of legislative, institutional and capacity building areas needing reform and development in order to established an appropriate national quality infrastructure system for Lao PDR. The outcome of this assignment presents an opportunity to identify the scope of a follow-up and more substantial set of TBT activities, to be financed via Tier 2 of the Enhanced Integrated Framework or a Second Trade Development Facility project. However, any further support to NAST will be dependent on the ongoing strategy development exercise being undertaken with the support of the USAID Luna project and the clear identification of a financing gap.
  11. ***Component C – Export Competitiveness and Business Environment****.* With the completion of all feasibility studies under Component C, activities are now focused on implementation of the five priority sector sub-projects. The Trade and Product Promotion Department (TPPD)[[7]](#footnote-7) has worked energetically to kick start activities but the large portfolio of activities required to implement has proved challenging. Close efforts will be required to ensure that all sub-projects move forwards and achieve the desired results within the remaining time available for the TDF.
  12. *Garments Service Centre:* This sub-project, being carried out in partnership with the Association of Lao Garments Industries, is now almost a year into implementation and proving to be the most successful of the sub-projects implemented under Component C. Following a lengthy process of business planning and curriculum development and customization, new premises were identified in which to establish the centre and initial training events began in mid 2011 with the delivery of the first sewing supervisor and operator training course in September 2011. The Centre has made commendable steps to ensure cost recovery during all training events, and is beginning to generate the revenues necessary to see progressive steps towards financial sustainability. With this progress, it is important to consider further steps towards operational independence including the establishment of separate bank account and financial management systems in the Centre, the gradual handover of day-to-day management responsibility from TPPD to ALGI and the Centre, and the shift is responsibilities from the International Centre Manager (funded by GIZ/CIM) to the National Deputy (with the International Centre Manager taking on the role of advisor). Nevertheless it is unlikely that the Centre will be able to achieve full financial sustainability in the remaining time available under the TDF project life, so it is important to consider what level of cost recovery is feasible and how the operations of the centre will be sustained beyond the TDF.
  13. *Sustainable Silk Production Partnership:* This sub-project, implemented in partnership with the Lao Handicrafts Association, has now been scaled down to focus on some modest pilot silk production partnership activities and support to the Lao Handicrafts Festival, while the more significant production support activities are being financed under the JSDF grant. TPPD are in the process of recruiting a business planning consultant to support the Lao Handicrafts Festival as part of efforts to improve sustainability, as well as providing resources to support outreach and product development activities for the 9th and 10th Lao Handicrafts Festivals. After a search for additional funds, a 4-year grant agreement for US$ 1.8 million was signed between the Ministry of Finance and the World Bank in April 2011. The grant is funded from the Japan Social Development Fund of the World Bank. The project will be implemented as part of the TDF with core coordination, procurement and financial management carried out by NIU and with technical implementation undertaken by TPPD. Project management services will be provided by the SNV Netherlands Development Organization, an NGO with substantial experience of applying the “inclusive business” model to be utilized under the project. As of end September 2011, the core project management team has been mobilized within TPPD, and initial work to prepare and operations manual is well advanced. A number of lead firms have expressed interest in working with the project. A key challenge in implementing the project will be in reaching out to the larger and higher capacity silk firms or lead firms, in order to ensure that a sufficient number of target households to engage in production partnerships are reached.
  14. *E-Commerce for Handicrafts Products:* The Department has now provided training to some 40 handicrafts firms and assisted them to upload details of 120 products into a Business-to-Business website (www.buyasean.com.la). A series of outreach events have been held by TPPD in order to boost awareness and understanding of the website, including at the 10th Lao Handicrafts Festival. Previous issues surrounding viruses have been resolved with the website again fully functional. In terms of planning any future support, it would be informative to conduct a simple tracer study of these businesses to measure any changes in the use of information technology for marketing following the training, and assess whether this was significantly higher than national trends adoption of IT by Lao businesses.
  15. *Secondary Wood Processing:* Activities under this sub-project have proved most problematic in getting started, primarily driven by lack of private sector buy-in to the project. As such, a decision has been made by TPPD to scale back the intervention to a much smaller scale and deploy available TDF resources towards agribusiness activities instead. The revised sub-project now focuses around a more modest set of activities to support the Wood Processing and Furniture Association, including a series of market linkages activities aiming to improve competitiveness of the Lao processing sector.
  16. *Strengthening the Role of the Private Sector in Managing SPS:* The Champasak Trade Modernization Project was developed following a successful study of cross-border agribusiness carried out in the south of Laos during mid 2009. However, project implementation was delayed as a result of lack of consensus among project stakeholders on the scope and objectives of the project. Much of these challenges have now been resolved and the procurement of a set of equipment to establish a basic SPS diagnostic and technical assistance facility in Pakse is well advanced. The Provincial Government has already provided a strong financial commitment to the sub-project, including the provision of office space for the diagnostic facility. The key challenge will be to make this facility fully operational, including the planned SPS export market requirement training and outreach events before the project closes.
  17. The related Luang Prabang Agribusiness Study offers potential for further activities, especially if it helps address a well-defined market failure. A successful Luang Prbang Agribusiness Scoping Study was undertaken via a series of field visits in early 2011, and culminating in a dissemination workshop in July 2011. Using resources freed up from elsewhere within Component C, a modest budget has been allocated to support pilot activities in Luang Prabang aiming to facilitate greater food product market linkages between producers and the tourism and services sector. Activities are being carried out in partnership with UNIDO and ITC, via the SECO UN Cluster project.
  18. ***Component D – Capacity Building****.* The Economic Research Institute for Trade (ERIT) has made solid progress in implementing the capacity building aspects of Component D and moved quickly ahead with the delivery of a large number of training events, mostly aimed at entry level and provincial industry and commerce officials. It will be important during the remainder of the TDF to ensure that adequate lessons are learned in terms of the effectiveness, efficiency and mode of delivery of training courses offered by ERIT. Similarly it will be important to increase the focus of activities on building trade research and policy analysis capacity among mid level industry and commerce officials.
  19. *Upgrading Government Officers’ Trade Knowledge and Management Skills:* A large program of training activities have been undertaken, including a well received six-week full-time English language and IT course for Provincial Industry and Commerce Office staff in late 2010. ERIT have worked hard to collect feedback information on training delivered through a system of exit questionnaires. The training has been appreciated by most participants according to participant evaluation reports. Given that there is always scope for improvement, thought might be given to also looking for areas to improve the training as part of the course evaluation process.
  20. Thought might also be given to the need for institutionalizing training initiatives. Experience suggests that there will be an ongoing need to provide training for civil servants on integration related issues, and that the demand for such training is likely to increase in the post-WTO accession period. Some assessment may be required of the need to develop training capacity and curriculum to extend training to more officials. These issues may need to be considered as part of the DTIS update, and it would be useful for the capacity building component to draw on the experience of ERIT in providing input to the DTIS update.
  21. *Course in International Trade and Competitiveness:* Following the completion of the procurement process, a contract was signed in February 2011 between NIU and the selected consultancy firm to partner with ERIT to design and deliver a series of short, intensive trade policy training courses in the English language for mid level civil servants. This 18-month activity is now well under way with a high quality curriculum now fully developed, and an initial training-of-trainers event undertaken. The first full delivery of the course will take place in December 2011. This will be a key part of ERIT’s efforts to provide high quality and relevant advanced capacity building services to staff of the Ministry of Industry and Commerce.
  22. *Support to Academic and Research Institutions:* The first edition of the Lao Trade Research Digest was published in December 2010, and a second edition in June 2011. An encouraging response to the two calls for submissions has seen a number of papers submitted by civil servants and outside researchers subsequently edited and published. ERIT is planning to publish the third edition of the Digest in early 2011. Similarly a regular Research Forum has been established with a series of events in 2010 and 2011, where researchers were invited to ERIT to present and discuss current work on trade policy and related issues. These activities are an important part of efforts to establish ERIT as a think-tank and clearing house of trade research in Laos. Some of this research will also contribute to better understanding of bottlenecks and policy options that can be used by other TDF components, and to providing inputs to the DTIS update. It will be important for this encouraging momentum to be sustained during the remainder of the TDF.
  23. ***Component D – Trade Policy, Trade Agreements and Global Opportunities****.* With additional resources made available into the TDF, a new set of activities focusing on regional trade are planned to be implemented under Component D by a new GSEU established in the ASEAN Division of the Foreign Trade Policy Department.
  24. *Technical Capacity Development for Trade and WTO Compliance:* This sub-component, managed directly by the Multilateral Division of the Foreign Trade Policy Department, has helped facilitate government efforts in negotiating WTO accession. The component finances a number of full-time technical staff in the WTO accession team, including the first full-time lawyer in the Ministry of Industry and Commerce. A successful WTO accession impact study on the Lao insurance sector was carried out in and disseminated in July 2010 and a further impact study on the distribution sector completed in mid 2011, as part of efforts to advance accession negotiations and engage with concerned sectors. A further impact study focusing on professional services is planned to be undertaken in early 2011. Work was also undertaken in December 2010 with support from the World Bank on GATS commitments and trade in services options for WTO accession in the financial services sector. Preparations and participation by officials in WTO accession Working Party meetings are also financed under this component, including most recently the 7th meeting of the Working Party in June 2011. The component has strong linkages across the TDF, particularly with the Component B where work on SPS has been identified as a potential bottleneck in accession negotiations, but also to the work on trade facilitation (Component A), TBT (Component B) and the capacity building work being undertaken by ERIT in the remainder of Component D. The large USAID Luna project, implemented by Nathan and Associates to support Lao compliance with the US Bilateral Agreement, WTO accession and ASEAN commitments is also providing significant support on legal drafting. Close attention will need continue to be needed to ensure that overlaps and gaps are minimized.
  25. *Regional Trade Policy:* New activities are planned under the 2011-12 work plan focusing on regional trade policy, and to be implemented by a new GSEU established in the ASEAN Division of the Foreign Trade Policy Department. Studies are planned to assess the impact of potential new agreements, particularly in the area of services, and on preference utilization under overlapping bilateral, regional and multilateral trade agreements. Fuller details are included in the Project Restructuring Paper attached as an annex to this report.
  26. ***Component E – Strengthening of the National Implementation Unit****.* Substantive progress has been made in building the capacity of the National Implementation Unit. The NIU is now fully staffed, with a mixture of government officials and staff financed via the TDF and EIF, plus an advisor funded directly by AusAid as part of its commitment to the TDF. The unit was upgraded to an ODA Division within the Foreign Trade Policy Department in mid 2010. Project monitoring reports provide compelling evidence of strengthened capacity in planning, coordination, implementation, procurement, financial management, and reporting. Staff are enthusiastic and professional. NIU management and staff demonstrate a high commitment to TDF implementation. Impressive coordination and work planning systems are in place and the National Integration Framework Governance Structure is working well. A key priority in the next phase of the TDF will be to continue this process by further building the capacity of the NIU Technical Unit and by extending capacity building success in the NIU out to GSEUs. Long term sustainability of technical skills should also be a focus, and to this missions have urged that additional government officials be appointed to the NIU.
  27. Strengthened capacity is already helping the MoIC to be more strategic in planning and implementing development assistance activities. Key officials are more aware of and sensitive to issues of efficiency, cost-effectiveness, sustainability and accountability. Their awareness of these issues is also impacting on other officials with whom they work on a regular basis. The development of an effective National Implementation Unit has also helped in mobilizing commitments for additional support from Japan (JSDF commitment of US$ 1.8m) and Germany (GIZ commitment of EUR 280k).
  28. With the launch of the EIF Tier 1 Project, promising efforts are underway to ensure that TDF and EIF systems are harmonized, including operating on a single calendar (1 October to 30 September), joint auditing, and the integration of the EIF and TDF results framework into a combined aid for trade results framework. Similarly, the first meeting of the Trade Executive Committee in September 2011, acting as a joint steering committee for the TDF and EIF was a major step forward towards further harmonization of the two government implemented trade programs in MoIC.
  29. *Monitoring and Evaluation:* Progress is being made with the monitoring and evaluation system, with a strong focus on results in the most recent six-monthly Steering Committee reports, including presentation of data in the merged aid for trade results framework. However, the NIU has struggled to retain full-time M&E staff. It is also important to recognize that the core objective of monitoring high level indicators (e.g. non-resource trade/GDP ratios and trends in the logistics performance index) is not to attribute the change to the TDF, but rather to be sure that tangible progress is being made with national programs supported by TDF (as well as by the government and other stakeholders). Another key element should be to demonstrate plausible links between project activities and policy and institutional reforms, and then to be able to make some assessment about how those reforms are likely to impact on business, on public resource use efficiency, and on other stakeholders. It is not always easy to identify such indicators in advance, and it may sometimes make more sense to present these linkages in a simple matrix format. The key is to ensure that responsible officers are regularly thinking about results, and not just about inputs and outputs.
  30. The foundations have been established for an effective vehicle for planning and implementing all future support to the Ministry of Industry and Commerce. The ongoing program to update the DTIS provides an ideal opportunity to consider the long-term capacity building needs of the trade sector (which will become an even more pressing issue following WTO accession), and to begin thinking about the scope for a follow-up or Second Trade Development Facility.
  31. The third TDF annual retreat took place in Savannakhet in August 2011 and provided a good opportunity for teambuilding, brainstorming on how to improve the TDF. GSEUs shared their lessons learned and challenges faced in implementing the program, and discussions took place on the proposed component work plans for the 2011-11 financial year. The growing quality and depth of the work planning process has proved to be one of the most impressive aspects of the TDF.
  32. *Procurement:* The overall procurement performance has been improving and progressing well with a continued “Satisfactory” rating. All major selection packages under the project were completed during the year under review with the focus now on contract implementation. Considerable experience of procurement methods has been gained by the NIU during the life of the TDF, which will provide a strong foundation for the planned follow-up operation. The Procurement Unit of the NIU consists of the Senior National Procurement Officer and one Project Assistant, supported by a part-time International Procurement Advisor (recruited in February 2011 to support during the administration of large procurement packages). The most recent procurement ex-post review was carried out by the World Bank in January 2011.
  33. *Financial Management:* The Financial Management system operating by the NIU also continues to be rated “Satisfactory”. Three successive unqualified (clean) audit opinions have been provided by external auditors and the NIU has consistently submitted quarterly Interim Unaudited Financial Reports on time. The NIU Financial Management unit is fully staffed with a full-time International Financial Management Specialist, National Finance Officer and Accounts Clerk (this third position is financed by the EIF). The FM risk remains at Moderate. Recommendations from previous missions have largely been implemented. An FM capacity building plan is in place and activities underway. The most recent FM transaction review was undertaken by the World Bank in January 2011.

***Bank-executed activities***

* 1. The Bank-executed portion of the TDF MDTF provides for a TDF Facilitation Team consisting of one full-time international Trade Specialist, one full-time national Trade Analyst, and one half-time Program Assistant. The team is responsible for calling development partner meetings on the TDF and providing administrative support to donor coordination within a trade sector-wide approach, generating commitments, helping to carry out day-to-day management of the TDF, coordinating supervision missions, ensuring compliance with World Bank rules, and – most importantly – providing technical assistance (analytical and advisory services) to the GOL.
  2. Implementation support work undertaken during the period under review has focused on assisting the NIU and GSEUs accelerate the pace of implementation of TDF activities. Day-to-day implementation support has included assistance in a number of areas such as advice and guidance in the preparation of terms of reference, work plans, procurement plans, procurement documents, financial management systems, reports, results frameworks etc.
  3. Two formal implementation support missions were fielded during the year 2010-11; the midterm review of the TDF project in January-February 2011, undertaken jointly by the World Bank, Australia and the EU; and a start-up implementation support mission for the JSDF Sustainable Silk project in September 2011. Aide memoires prepared after each mission are attached as annexes to this report.
  4. Regular informal consultation meetings with staff members from the Australian Embassy and the EU Delegation have been arranged as a means of keeping the TDF donors abreast of progress. The TDF Facilitation Team was also actively represented in the Trade and Private Sector Development Sub-Group, the main government-donor consultative forum in this sector.
  5. Analytical work under the Bank-executed portion of the trust fund has continued during the period under review, based on the Programmatic Concept Note approved by the World Bank in June 2009 as well as new and emerging areas of interest. Work has been prioritized based on analytical activities being complementary to the recipient-executed aspects of the project, and to inform future operations and policy. Key outputs include the continuation of a series of concise “Trade Development Briefing Notes”, each focusing on one trade technical issue. A further three issues of the briefing notes were produced during the year under review focusing on the regulatory burden faced by exporters (Issue 5 – July 2011); gender and entrepreneurship (Issue 6 – September 2011); and determinants of export survival (Issue 7 – November 2011). New trade development briefing notes are planned for delivery every three to four months.
  6. Work initiated during 2009-10 but completed during the year under review, included the *Export Survival Study*.This research, carried out jointly with the Lao Customs Department (who have released detailed customs transactions data for research purposes for the first time), was completed with the publication of a research paper subsequently published as a World Bank Policy Research Working Paper in June 2011 (No.5695)[[8]](#footnote-8)*.* This research, based on a new methodology developed by the World Bank’s trade department in Washington, involves the analysis of detailed five year export data, disaggregated at the firm, product and destination level, and provides some illuminating insights into the determinants of survival and success among Lao exporters. A follow up research paper is under preparation using 2010 data, released by the Lao Customs Department at the monthly transactions level.
  7. Also working in close cooperation with the Lao Customs Department, and based on the release of detailed import tariff transactions data, the *Tariff Reform Impact Simulation Tool (TRIST)* is being applied to Lao data. This is a standard computer model developed by the World Bank to estimate the impact of tariff changes to a country’s import revenue, import flows, production and employment. The tool requires detailed import data including information on actual tariffs, excise duties and all levies and taxes applied on imports at the border. The analysis for Laos is still underway, with a view to estimating the impact of 2015 ASEAN liberalization.
  8. The *Gender and Trade* work program initiated during 2009-10 with additional resources made available via the World Bank’s Gender Action Plan was largely completed during the year under review. Three main areas of work were undertaken: (i) background research to the Investment Climate Assessment on gender and entrepreneurship, including a detailed research paper which was used to prepare a gender chapter in the Investment Climate Assessment as well as a Trade Development Briefing Note; (ii) a mapping study of the various theoretical impact channels through which gender and trade interact (including two missions to Laos in November 2010 and May 2011 by a specialist from the Institute of Development Studies in the UK), prepared as a research paper and input to the DTIS; and (iii) a survey of labour market conditions in the garment sector (including survey of 55 firms and a series of garments worker and ex-worker focus group discussions, with results presented at a workshop in October 2011) to inform the DTIS and next phase of interventions in the garments sector. Both the gender and trade mapping study and garments sector assessment will be published in early 2012. The Lao gender and trade analytical work has attracted a large amount of attention, partly due to the growing interest in gender and trade issues and the release of a World Development Report on gender in late 2011. Indicative findings of the Lao gender and trade program were presented at a Gender Action Plan donor conference in Washington, DC in April 2011 and findings from the garments survey at an ILO/IFC Better Work global conference also in Washington, DC in October 2011. Findings have also been published in an IFC “Smartlesson”[[9]](#footnote-9).
  9. A major new piece of analytical work initiated during the year under review was the *Trade and Transport Facilitation Assessment*, undertaken as part of a series of similar assessments in Southeast Asia (Thailand, Cambodia, Vietnam and Laos)[[10]](#footnote-10). The research is aimed at gaining a better understanding of the determinants of high cost and lack of competitiveness of Lao exports on key regional transport/transit corridors. The work consists of two main parts of field research: (i) a series of corridor assessments, including trucking surveys, border clearance surveys and the collection of corridor trip sheets along the three principle trade routes for Lao PDR (Vientiane, Savannakhet and Pakse to Bangkok/Laem Chabang respectively); and (ii) a series of more in-depth analyses of specific firm logistics supply chains in four major export sectors (garments, coffee, fresh and processed fruit and vegetables). As of end September 2011, the fieldwork has been largely completed and the detailed analysis is in the process of being prepared. The findings will inform the DTIS update and the next phase of policy and investment activities to be financed under the TDF follow up operation.
  10. A mission was fielded in December 2010 in response to a specific request from the Ministry of Industry and Commerce to work on *WTO/GATS Services Negotiations*, in particular focusing on the financial services sector. The mission included a review of the financial services sector from a GATS perspective and two workshops supported by World Bank specialists on trade in services, as well as former WTO negotiators in services from Vietnam.
  11. Consultancy inputs from the Bank-executed trust fund were also used to support a number of agribusiness related inputs, including support to the *Luang Prabang Agribusiness Study*, undertaken during early 2011 jointly with the Department of Trade and Product Promotion to investigate the scope of increased market linkages between the Luang Prabang tourism/services sector, and local suppliers of vegetable products. The findings from this study were subsequently used to prepare a pilot project intervention, financed jointly by the TDF and SECO/UN Cluster project. A series of *Agribusiness Value Chain Studies* were also carried out jointly with the IFC during the year under review focusing on the scope for increased inward investment, export growth and market integration in the coffee, tea, rice and cardamom product sectors.
  12. Analysis has also been undertaken using the World Bank’s standard *Trade Outcomes Analysis* competitiveness toolkit, with preliminary results presented at the Economic Research Institute for Trade. Earlier research on *Export Dynamics and Diversification* using the Hausmann-Hwang-Rodrik “product space” methodology was published in the December 2010 edition of the Lao Trade Research Digest, edited by ERIT.
  13. Significant support is also being provided to the work being undertaken by the Ministry of Industry and Commerce to *Update the Diagnostic Trade Integration Study*. The World Bank TDF Facilitation Team is an active part of the DTIS Task Team, and the Bank-Executed Trust Fund has financed direct consultancy inputs on Sanitary and Phytosanitary Measures, Technical Barriers to Trade, and Export Competitiveness. A large number of trade-related analyses undertaken by the World Bank TDF Team have also been used to provide inputs and background material for the DTIS update.
  14. In addition the team also provides trade-related cross-support in a number of areas, including leadership of the trade facilitation aspects of the annual Poverty Reduction Support Operations (also co-financed by Australia and the EU), and contributions on trade and private sector development to the Country Policy and Institutional Assessment, Country Partnership Strategy document, Joint Staff Assessment Note, the Lao Economic Monitor, the Rice Price Inflation Policy Note, Investment Climate Assessment and other publications.
  15. Finally, the TDF Facilitation Team is responsible for formal administration of the TDF trust funds, including providing “no objections” to prior review activities in procurement and financial management, overseeing disbursements, submitting trust fund letters of representation (as part of the World Bank’s “single audit” requirement for all trust funds), issuing “calls of funds”, and reporting on project and trust fund activities.

1. **Indicative work program for year beginning October 1, 2011**

***Recipient-executed activities***

* 1. New annual work plans for the period October 1, 2011 to September 30, 2012 were presented to the 6th meeting of the TDF Steering Committee on September 23, 2011. This was the first meeting of the Trade Executive Committee and the meeting, chaired by the Vice Minister for Industry and Commerce and the EU Head of Operations, served as the steering committee for not only the TDF, but also the EIF and SECO-UN Cluster Project.
  2. Highlights include the launch of the Trade Portal (under Component A); the mobilization of the SPS legal reform team, and completion of SPS Risk Evaluation Group activities (under Component B); full operations of the Garment Services Centre, first silk production partnership agreements with lead firms, and establishment of the Champasak SPS diagnostic facility (under Component C); the delivery of the advanced policy course in Trade and Competitiveness, the extension of TDF activities to ASEAN/regional trade policy activities, the eighth (and possibly ninth) working parties for Lao WTO accession, and WTO accession impact studies in the professional services sector (under Component D); and efforts to continue the movement towards a program based approach (under Component E).
  3. The restructuring of the TDF, including extension of the closing date and increase in size of the grant amount (in line with the findings of the midterm review) will also be completed by the end of 2011. Preparation of a follow up operation (Second Trade Development Facility) will begin in late 2011, based on priorities to be outlined in the DTIS update.

***Bank-executed activities***

* 1. The TDF Facilitation Team will continue to provide ongoing analytical and advisory support, as well as carrying out implementation support, fiduciary and trust fund administrative functions during the year ahead. Specific analytical outputs envisaged include the preparation of additional Trade Development Briefing Notes, and completion of the ongoing Trade and Transport Facilitation Assessment, and TRIST analysis. The major focus of the team during 2012 will be on the preparation of the Second Trade Development Facility, and establishment of a new multi donor trust fund.

1. **Points for follow-up**
   1. *Completion of project restructuring.* A draft Project Restructuring Paper has been prepared providing for a closing date extension for the TDF from end February 2012 to end March 2013, based on a request received by the World Bank from the Ministry of Finance in May 2011, and an increased in the grant amount from US$ 6.8 million to US$ 7.6 million. This restructuring, including an amendment to the grant agreement between the World Bank and Ministry of Finance for the TDF will be processed as soon as all administrative agreement amendments have been countersigned by Australia, the European Union and Germany.
   2. *Implementing remaining activities in the time available.* The TDF project is now entering the latter stages of implementation, with an revised expected closing date of end March 2013. With a slow start, many uncompleted activities have been carried over from previous work plans into the 2011-12 work plan. The scope for further delays to implementation is now very limited. The principle challenge facing the TDF now is to complete planned activities within the remaining time available to ensure that the project is fully completed and disbursed by the closing date.
   3. *Building project management skills across the TDF.* Significant experience has been gained by the NIU and GSEUs through the course of implementing the TDF. However, key gaps remain and performance across GSEUs is inevitably inconsistent. Continued efforts will be needed to build capacity in core project management skills, including in consultant output management.
   4. *Improving efficiency of payment processing while maintaining strong fiduciary controls.* Transaction processing systems have improved progressively over the course of implementing the TDF, and the expansion in size of the project operating account to a ceiling of US$ 100,000 in August 2011 has further helped facilitate faster processing. Further efforts will need to be made to speed up and improve the efficiency of payments made under the project, including working in cooperation with the National Treasuring in the Ministry of Finance. However, it is also important to ensure that adequate fiduciary controls continue to be maintained by the NIU. The TDF has established a good reputation for high quality procurement and financial management and this reputation is one of the key determinants of growing donor confidence and resource mobilization in the trade sector.
   5. *Ensuring continued donor coordination in the trade sector.* The TDF was set up as a first stage in efforts to build a sector-wider approach in trade. The MDTF is by far the largest project implemented directly by MoIC, and this is the first time that the ministry has been directly responsible for managing accounts, disbursements, procurement and financial management. The TDF was conceived with the objective of reducing transactions costs by bringing a number of donors into a single coordinated program of work. The Lao trade program is now growing and becoming increasingly complex as new donors enter, including USAID and GIZ (in trade policy) and the SECO/UN Cluster (in competitiveness). There are real risks that new interventions outside of the NIFGS, will lead to disjointed interventions, high transaction costs, parallel systems that jeopardize the investments being made from the TDF multi donor trust fund. Managing this enlarged program, and attempting to find synergies and opportunities to reduce transactions costs, will continue to be a key area of focus.
   6. *Showing results.* While commendable efforts have been made to prepare and manage a unified aid for trade results framework, and to link project reporting to results, it will be especially important during the closing stages of TDF implementation to demonstrate achievements and results.
   7. *Next phase of trade-related assistance.* Donors have expressed strong interest in continuing to support the government’s trade agenda, including the possibility of a Second Trade Development Facility. A major focus of efforts during 2012 will be on preparing the next phase of trade related assistance, including TDF-2, based on the priorities outlined in the DTIS.
2. **Attachments**
3. Joint Donor TDF Mid Term Review Mission – Aide Memoire (January 24-February 3, 2011).
4. JSDF Inception Mission – Aide Memoire (September 5-9, 2011).
5. Implementation Status and Results Report (ISR) (December 25, 2010).
6. Updated Aid for Trade Results Framework (September, 2011).
7. Showcase of outputs produced under the TDF during 2010-11.
8. Final draft TDF Restructuring Paper (November 2011).

1. The first progress report covered the period October 1, 2008 to September 30, 2009 and the second the period October 1, 2009 to September 30, 2010. [↑](#footnote-ref-1)
2. More detailed information on the design of the TDF project is available in the Project Appraisal Document. Note that the project is currently in the process of being restructured in order to increase the size of the grant amount and to extend the closing date. See Project Restructuring Paper for fuller detail. [↑](#footnote-ref-2)
3. Note that while the following section of this report describes summary information on financial disbursements, formal and more detailed financial information is provided to donors via the Trust Fund Financial Reports made available on client connection. [↑](#footnote-ref-3)
4. Further information on the JSDF is available here: <http://www.worldbank.org/jsdf> [↑](#footnote-ref-4)
5. The installation of ASYCUDA World by the Lao Customs Department (financed via the IDA Customs and Trade Facilitation Project) and the establishment of a Trade Portal by the Department of Imports and Exports (under Component A of the TDF MDTF) are key parts of efforts by GoL to move towards electronic processing and the establishment of a National Single Window, consistent with the ASEAN Single Window. [↑](#footnote-ref-5)
6. Recently incorporated into a new Ministry of Science and Technology. [↑](#footnote-ref-6)
7. Note that the department was formally titled the “Department for Production and Trade Promotion (DPTP)”. [↑](#footnote-ref-7)
8. Available for download at <http://go.worldbank.org/LM29IWKFH0>. [↑](#footnote-ref-8)
9. See <http://smartlessons.ifc.org/smartlessons/lesson.html?id=1494>. [↑](#footnote-ref-9)
10. See for details of the World Bank’s standard TTFA methodology at <http://siteresources.worldbank.org/EXTTLF/Resources/Trade&Transport_Facilitation_Assessment_Practical_Toolkit.pdf>. [↑](#footnote-ref-10)