

AID-FOR-TRADE CASE STORY

LAO PEOPLES' DEMOCRATIC REPUBLIC

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Executive Summary

The Trade Development Facility is a multi donor trust fund with initial financing from Australia and the European Commission. The objective of the TDF is to support the National Integrated Framework Governance Structure and to put into operation its initial activities facilitating trade and the increased cross-border movement of goods, and to increase the capacity of the Government to undertake specific tasks related to regional and global economic integration. The TDF Grant Agreement was signed by the Government of Laos and the World Bank on August 2008, but the project was not declared effective until December 2008. The multi-donor trust fund is administered by the World Bank, and all activities are executed by the Government. The multi donor trust fund also finances a World Bank-based TDF Facilitation Team that is responsible for coordination of donor support within the Trade SWAp, administration of the multi-donor trust fund, and the provision of analytical and advisory services on trade.

Within the MTRF, the TDF is financing technical assistance, capacity building and provision of goods for a total of US\$ 6.82 million, in five components that cover (i) Trade facilitation – simplification and automation of procedures (other than customs); (ii) Sanitary and Phyto-sanitary Standards (SPS) and Technical Barriers to Trade (TBTs) – strengthening legal and regulatory frameworks; (iii) Export competitiveness and business environment – market-driven interventions to improve productivity in key sectors; (iv) Capacity building, trade policy and agreements – technical assistance to support local policy analysis capacity, particularly with reference to ongoing trade negotiations; and (v) strengthening of the National Implementation Unit – the anchor unit for the Trade SWAp.

1. Issues Addressed

The TDF project was designed in response to the main constraints identified in the Diagnostic Trade Integration Study. The DTIS recognised that trade is increasingly important for the Lao PDR under its socio-economic development agenda. The DTIS, conducted jointly by the Government of the Lao PDR (GOL) and development partners strongly emphasizes that building competitiveness and further regional and international integration are essential for national socio-economic development. The Action Matrix outlines priority areas where trade related technical assistance is required in areas covering export competitiveness, trade facilitation, the business environment, trade policy, trade agreements and global opportunities, and trade opportunities for the poor.

2. Objectives Pursued

The main objective of the TDF is to ensure that the National Integrated Framework Governance Structure is in place, fully operational and has the capacity to manage and implement the Trade SWAp. With financing from the TDF, the GOL expects to achieve the following outcomes:

- Substantial reduction in the time to import, export and transit non-customs clearance for commercial shipments;
- Substantial closure of the gap between the current SPS legal and regulatory framework and that required to facilitate trade, protect health and for the Lao PDR to accede to the WTO;
- Substantial performance improvement among firms selecting themselves to participate in TDF-funded sub-projects, measured by achievement in performance benchmarks in terms of unit productivity or output, and;
- Better informed and coordinated trade policy formulation process, achieved through the development of a systematic national training mechanism that meets the capacity building needs of Lao trade officials.

3. Design and Implementation

The TDF project is implemented through the National Integrated Framework Governance Structure- NIFGS (see diagram below). The Trade Development Facility project consists of five main components, each of which are carried out by a respective **Government Sub-Executing Unit (GSEU)** as follows:

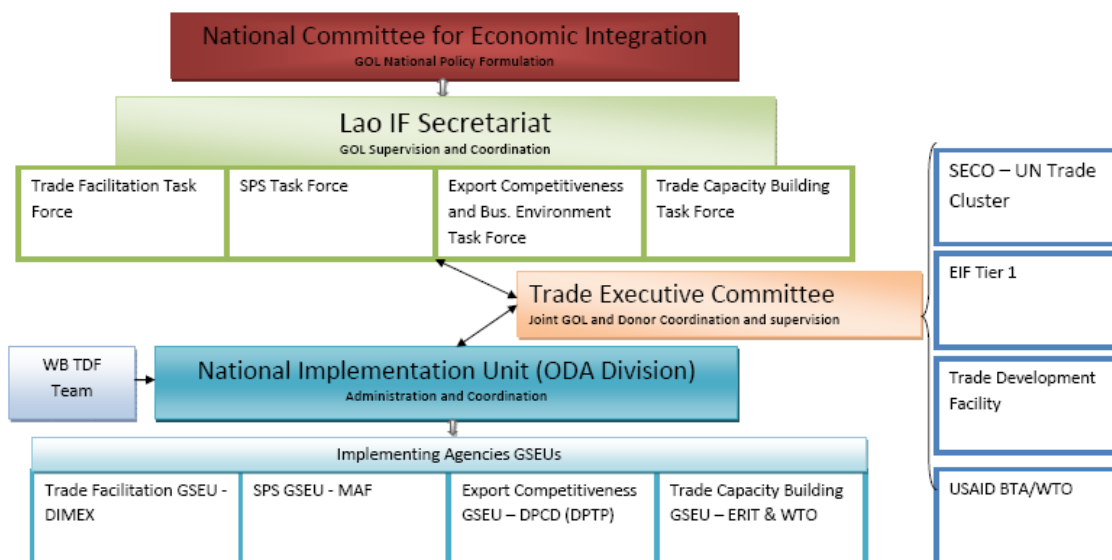
- (a) **Trade Facilitation:** led by Department of Imports and Exports, Ministry of Industry and Commerce.
- (b) **Strengthening of the Sanitary and Phyto-Sanitary Standards (SPS) and Technical Barriers to Trade (TBT) Frameworks:** led by Department of Agriculture, Ministry of Agriculture and Forestry.
- (c) **Increasing Export Competitiveness and Business Environment:** led by Department of Production and Trade Promotion, Ministry of Industry and Commerce.
- (d) **Capacity Building, Trade Policy, Trade Agreements and Global Opportunities:** led by Economic Research Institute for Trade and Foreign Trade Policy Department, Ministry of Industry and Commerce.
- (e) **Strengthening of the National Implementation Unit:** led by National Implementation Unit, Ministry of Industry and Commerce.

The GSEUs are guided by **IF Task Forces** on technical and policy direction. The Task Forces consist of senior civil servants from a variety of Departments and line Ministries involved. All the IF Task Forces together will together form the **IF Secretariat**. The IF Secretariat in turn reports to the National Steering Committee for Economic Integration. As such, a mechanism for the coordination and implementation of trade related activities across a variety of stakeholders is created, both at the technical and policy level.

To date the TDF project has been overseen by a dedicated Steering Committee. However, a joint committee is currently in the process of being established as the Aid for Trade Executive Committee. The Aid for **Trade Executive Committee** (TEC) is mandate to provide strategic advice, coordination and approval with regards to the implementation of trade related programs and projects in Lao PDR. The TEC is co-chaired by a senior representative (Minister or Vice Minister of the MoIC) and by a Donor Facilitator or a Donor Representative agreed by the donors who financially contributed into the trust fund. The TEC meet a minimum of two times per year to approve the annual implementation work plan and to discuss and make decision on any pending issues. The National Implementation Unit (NIU) housed within the Official Development Assistance (ODA) of the Foreign Trade Policy Department (MoIC) will act as a support secretariat to the TEC.

The structure of the National Integrated Framework Governance Structure can be seen below.

Diagram 1: the National Integrated Framework Governance Structure-NIFGS



4. Problems Encountered

The TDF project has been innovative for Lao PDR firstly in that it is a trust fund implemented by the Government, through Government systems, and secondly involves the requirement of substantial intra- and inter-ministerial communication. Hence, a key problem has been the introduction of different systems which increase Government ownership, but also responsibility and time commitment. Key to solving these problems has been high level political leadership and direction as well as the introduction of medium-term local technical and administrative staff. Likewise, intra- and inter-ministerial coordination can be difficult, and here the sense of ownership of the implementing agencies as opposed to the central contracting body is critical. With direct contracting through the Government, effective management of international and local consultants has necessitated new procedures and skills, with increased understanding and involvement from procurement

through to contract implementation and follow-up. Another problem has been interactions and evolving requirements and development of procedures and decrees in financial procedures. Here it can be difficult to comply with both Ministry of Finance and Trust Fund Manager's requirements in a timely manner. Furthermore, it has been apparent that in creating such new processes and structures the initial start-up time is longer than initially planned.

5. Factors for Success/Failure

The key factors for success in the project revolve around the willingness to participate by implementing agencies and the degree to which this is aligned with the 'Departmental responsibilities' delegated by senior management. Here, operational finance for Departments to assist in the project delivery and their day to day activities has assisted in local buy-in and effectiveness. Likewise, the above has to be led from support and guidance from high ranking officials and statements of political leadership and direction. Continued support from Donors and Development Partners has been important, together with the assistance of an international trade advisor to the NIU. The existence of a strong technical support team in the Trust Fund Manager has been very important to effective implementation as well as dialogue with the Trust Fund Manager and Donors. Additional technical and administrative support through contracted short-medium term local staff under the direct guidance and direction of Government officials has been a critically important factor. This is particularly so in the fiduciary side where finance and procurement skills are difficult to recruit and retain in line ministries within the public service. Finally, together with the EIF, the TDF has provided a forum for developing a Sector Wide Approach (SWAp) to trade and private sector development. Complimentarily between the two programmes has been critical for the success of each, particularly in the programmatic operations of the National Implementation Unit.

6. Results Achieved

A results framework has been established for the project against which targets are being monitored. Given that the project has only been operational for two years or the planned four years, it is not possible as yet to focus on the final results. However, at the current stage the results can be summarised as below.

The **Project Development Objective (PDO)** is to support the establishment of the National Integrated Framework Governance Structure (NIFGS) and implement the NIFGS's initial activities to address the key institutional and operational bottlenecks and capacity gaps that hinder cross-border trade. In this regard, after initial design through the IF Window II project, the NIFGS has largely been made operationally active with practical project and policy related activities, right from the Government Sub-Executing Units (GSEUs) to the National Implementation Unit, the Task Forces and the NSCEI. Furthermore, through the instigation of project activities further national bodies have been established to feed into the NSCEI, such as a national Trade Facilitation Secretariat. Likewise, the National Implementation Unit has been successfully established and is the key driving force for the project. New Aid for Trade projects are also now using both the NIFGS as a means for project implementation and in some cases the mechanisms of the TDF or EIF. Here, a further \$1.9m has been committed by the Japanese Social Development Fund which will be implemented through the TDF structures, and talks are underway with other Donors for additional contributions.

With regard to overcoming bottlenecks and capacity gaps, the project has led to the development of a Trade Facilitation Action Plan, the completion of feasibility studies and project designs for implementing 5 sub-projects focused on productivity enhancement, namely: (1) Garment Service centre; (2) Sustainable Silk production Partnership; (3) E-Commerce for Handicraft project; (4) Secondary Wood Processing and (5) Strengthening the Role of the Private Sector in Managing SPS.

To date the TDF project has contributed to capacity development of Lao PDR officials through a large number of capacity building and training activities delivered through the Economic Research Institute for Trade (ERIT) across the country with almost 1,000 persons having been trained. ERIT have also successfully published the first issues of the Lao Trade Research Digest in December 2010, a journal planned to be published on a bi-annual basis. Further promoting research, a monthly research forum has been established where the trade research papers are presented for discussion by a wide variety of stakeholders. These sessions to date have been well attended with robust discussion.

With regard to Lao PDR's WTO accession, the WTO team has also been successful in completing an impact study on the Lao insurance sector in July 2010, as well as the successful attendance and conclusion of WTO accession working party meetings.

The National Implementation Unit has been built around a core of Government Officials, TDF and EIF funded staff, and housed within the newly established Official Development Assistance (ODA) Division of the Ministry of Industry and Commerce. The NIU now comprises of 3 main units, namely the Technical, Finance and Procurement units with clear roles and responsibility and dedicated, predominantly local staff. The NIU is also assisted by a supporting international trade advisor. In addition to the implementation of the TDF and EIF projects, the NIU also assists in the coordination of trade related assistance in other development projects as well as through supporting the Trade and Private Sector Development Sub-Group of the Round Table Process.

7. Lessons Learned

Trade projects by their nature tend to be cross-cutting and require extensive coordination amongst different public and private sector agencies. Some key lessons learnt in the TDF project to date include:

- It is critical to have political interest, leadership and involvement of at least one senior official willing to devote time and effort to the successful implementation of the project.
- The NIU needs to be able to communicate and coordinate across various Departments and other line ministries. As such, the NIU requires leadership at a level of seniority comparable to the key officials for project dialogue and implementation in the corresponding Government agencies.
- Given capacity constraints in terms of numbers and at times skills of Government Officials it has been important to introduce and utilise national short-medium term staff to assist with extra project related duties. In the TDF each GSEU has at least one local 'coordinator' to assist with project implementation.
- Finance and procurement responsibilities are central to efficient, effective and reliable project implementation. In the case of Lao PDR it has been critical having capable contracted local (and at times international) staff able to set up and implement relevant systems. This enables more focus to be placed on the technical implementation. Additionally, it is extremely difficult to interest and motivate technical Government Officials to move away from core responsibilities and focus on fiduciary aspects for which they will have limited career development opportunities.
- Clear financial and procurement guidelines need to be established. Working through national financial systems, which in themselves may be in development can be difficult.
- Implementation through Government systems is a learning curve and cannot be rushed too fast. It requires the long term development of understanding and skills of developing and managing local and international projects. For instance, management of international consultants requires skills and understanding that is developed over time. Additionally, processes (such as selection committees & project procurement procedures) will need time to be refined and evolve. The project should be seen in the medium term development of local capacity to effectively implement trade related projects.
- Implementing through a variety of organisations requires effective management, and regular coordination and consultation. It has also been useful to focus on short term (monthly planning and meeting) within an annual implementation plan framework. Moving to monthly planning has increased effectiveness in setting focus and achievable goals for each implementing agency.
- The project design and implementation needs to fit together with the work, priorities and incentives of each Government agency, and not be perceived as being 'extra work' and non-core to their everyday work.
- An initial set project design is useful to guide implementation.
- An active local Development Partner (Trust Fund Manager) with a dedicated team to interact with and support the project is key to the current success. Critical to this point is that the 'supportive' as opposed to 'checking and auditing' nature of this support. It is also useful having a full time international advisor within the NIU to work alongside, build and support NIU and GSEU staff.
- However, it is important that the vast majority of project management and activity is through country nationals who work under the guidance of the Government system.

8. Conclusion (applicability to other programs)

The Trade Development Facility is an innovative and important project for Lao PDR. Together with the Enhanced Integrated Framework system, the TDF has laid the basis for a sector wide approach to Trade and Private Sector Development in Lao PDR. It has provided a framework for the operation and development of the National Integrated Framework Governance Structure contributing both to the mainstreaming of trade within Government institutions as well as implementation of trade related assistance through public sector mechanisms. From an initial investment from the Government of Australia and the European Union, the TDF has crowded in and aligned additional development assistance with government priorities, guidance and implementation systems. Although this is a unique case and local custom and design is of utmost importance, the TDF may provide some indicators for other programmes as outlined in the lessons learnt above.
