



1. Project Data

Project ID P101750	Project Name Lao PDR Customs and Trade Facilitation		
Country Lao People's Democratic Republic	Practice Area(Lead) Trade & Competitiveness	Additional Financing P144992,P144992	
L/C/TF Number(s) IDA-H4030,IDA-H8430,IDA_-H4030,IDA_-H8430	Closing Date (Original) 31-Dec-2013	Total Project Cost (USD) 12,500,000.00	
Bank Approval Date 17-Jun-2008	Closing Date (Actual) 30-Jun-2017		
	IBRD/IDA (USD)	Grants (USD)	
Original Commitment	6,000,000.00	0.00	
Revised Commitment	12,475,594.89	0.00	
Actual	11,528,252.71	0.00	
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2. Project Objectives and Components

a. Objectives

The Project Development Objective (PDO) as stated in the Financing Agreement (Schedule 1, page 4) was: **"To facilitate trade by improving the efficiency and effectiveness of customs administration and simplifying customs procedures to eliminate duplication and redundancy, reduce transactions cost and time to clear goods and increase transparency and accountability."**

The PDO as stated in the Project Appraisal Document (PAD, page 30) was similar. **"To facilitate trade by improving the efficiency and effectiveness of customs administration."** The PAD further states **"that the project will simplify customs procedures, eliminate duplication and redundancy, reduce**



transactions costs and time to clear goods and increase transparency and accountability".

With the approval of the Additional Financing for the project (discussed in section 2d), the PDO for the project was aligned with the PDO in the original Financing agreement.

The substance of the two PDO formulations is virtually identical. IEG adopts the FA formulation

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

28-May-2013

c. Will a split evaluation be undertaken?

No

d. Components

There were two components.

One. Implementation of Automated Systems for Customs Data Management (ASYCUDA World).

Appraisal estimate US\$6.63 million. Actual cost at closure US\$6.30 million. (ASYCUDA was a system developed by the United Nations Conference for Trade and Development (UNCTAD). There are overall 80 installations of ASYCUDA worldwide, of which World is the latest version). This component aimed at financing the installation costs of the system and related activities (such as, translations, modifications and training). The system was to be implemented in three phases: The first phase aimed at development of a functional prototype in the Lao PDR Customs Department (LCD) headquarters in Vientiane, the capital. The second phase aimed at deployment of the computerized system in a pilot site. The third phase following the validation of the pilot, aimed at rolling out the system in customs offices nationwide.

The system was to include modules for different customs-related activities (such as cargo and manifest processing, declaration processing, Bonds and warehousing, transit control, transaction valuation and price analysis, payment processing, risk management and so on). Other activities in this component included preparation of customs offices for receiving the new system (such as for the computer equipment and incremental operating costs), training the staff of LCD and other regulatory agencies to facilitate the adoption and long-run sustainability of the ASYCUDA World system.

Two. Customs Modernization Support. *Appraisal estimate US\$5.62 million. Actual cost at closure US\$5.34 million.*

This component aimed at providing technical assistance for complementary reforms required for implementing the system. Activities included technical assistance for introducing the World Trade Organization (WTO) Valuation Agreement, post clearance audit, a compliance improvement and management strategy, intelligence and risk management development, an advance ruling system, an integrity and anti-corruption strategy and an administrative appeals system.

Additional Financing (AF) was approved in June 14, 2013. Activities were added to both components and the target values were revised to reflect the progress achieved to date. The revised activities in the two components are as follows.



One. Automation support (including implementation of ASYCUDA World). Given that the ASYCUDA World had already been implemented, activities were added to enhance the in-house capabilities to manage current and future Information and Communication Technology (ICT) systems and related infrastructure. Activities included integration of complementary ICT investments such as the National Single Window System (NSW).

Two. Organizational Development (including customs modernization support). Activities in this component aimed at extending the improvements in customs work practices and procedures that had been implemented in the original project and finance some key activities that were initially to be conducted in the final year of the original project but were deferred due to reallocation of priorities towards additional support for ASYCUDA and a funding shortfall due to exchange rate fluctuations. Activities that were added included establishing a customs training center, technical assistance to develop enabling regulations implementing the new Customs Law and financing for an ongoing operation of project management capacity established under the original project.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project costs. Estimated project cost (including baseline cost and costs associated with contingencies) US\$12.50 million. Actual cost at closure (there were no contingencies during implementation) US\$11.64 million.

Project Financing. The project was initially financed by an IDA grant of US\$6.00 million. AF of US\$6.50 million was approved on 20 May 2013. With this the total IDA grant was US\$12.50 million. Amount disbursed at closure was US\$11.64 million. An amount of US\$0.26 million was undisbursed and about US\$0.56 million was due to exchange rate changes during project implementation. There was parallel financing for complementary customs modernization activities at appraisal from the International Monetary Fund (IMF), the French Development Agency (AFD in French), the European Community, the World Customs Organization (WCO) and Australia. The ICR however provides no details on the amount contributed by other donors.

Borrower Contribution. None was planned.

Dates. AF was approved on May 28, 2013. Both the original project and the project with AF closed as scheduled on December 31, 2013 and June 30, 2017 respectively.

3. Relevance of Objectives

Rationale

Economic growth in the years before appraisal was mainly led by the mining sector, limited processing activities and service industries. The export structure was concentrated both in terms of commodity composition (consisting mainly of mining goods and processing activities such as garments) and in terms of geographical direction (Lao PDR mainly exported to the neighboring Association of South East Asian Nations (ASEAN) countries of Vietnam, Thailand, Cambodia, Malaysia and Indonesia, and to China. The goal of sustaining economic growth through among other thing diversifying the export structure both regionally and globally was important in the country context (Lao PDR had in the years before appraisal had initiated



negotiations for accession to the World Trading Organization (WTO) and Lao PDR became the 157th member of the WTO on February 2, 2013).

The PDO continues to be relevant to the Government strategy. The strategy articulated in the Sixth National Socio-Economic Development Plan (NSED) at appraisal for the 2006-2010 period strategy underscored the need for policy-interventions on trade and regional integration for increasing exports, sustaining economic growth and reducing poverty. The strategy explicitly highlighted the importance of customs and trade facilitation initiatives for creating a more transparent, less costly and more equitable trading environment for importers and exporters. These objectives were reiterated in the seventh NSED for the 2011-2016 period. The PDO remains relevant to the current eighth NSED for the 2016-2020 period. This strategy highlighted the need for achieving sustained and inclusive growth through greater integration in the international economy.

The PDO was well-aligned with the Bank strategy. At appraisal, the PDO was consistent with the Country Assistance Strategy (CAS) that was updated in 2007. The CAS highlighted the need for sustaining growth, improving external competitiveness, facilitating trade and deepening regional integration and explicitly identified the need for strengthening the capacity of Lao PDR's customs department for achieving its objectives. The PDO was aligned with the Country Partnership Strategy (CPS) for the 2012-2016 period objective of "improving competitiveness and connectivity" (ICR, page 6). The Country Partnership Framework (CPF) for the 2012--2020 identified the need for supporting export competitiveness and "making it easier to do business" (ICR, page 11).

Rating

High

4. Achievement of Objectives (Efficacy)

Objective 1 Objective

To improve efficiency of customs administration through simplifying customs procedures to eliminate duplication and redundancy and reduce transactions costs and time to clear goods.

Rationale

Outputs (ICR pages 12-16 and pages 25-31).

- The ASCYUDA World Prototype was developed and accepted by the government on December 31, 2011. The prototype, which represented a shift from a "manual-based process" to an "automated customs system" was validated at the pilot site on April 30, 2012 and the prototype was replicated at 24 checkpoints, representing 98% of formal trade in Lao PDR, at project closure. This exceeded both the original and revised targets of 16 and 23 checkpoints respectively. The system to date serves about 250,000 - 300,000 customs transactions (including exports) annually.
- ASCYUDA World training was provided to the customs staff at the rollout site and the trading



communities at the designed worksites.

- An in-house ICT capability system was installed with trained professional staff and a help-desk capability system was established to support troubleshooting.
- A Disaster Recovery Center (DRC) was established to have live replication of customs data as a system backup of the main production server for the ASCYUDA World System.
- Backup generators were installed in 15 high priority operating sites to address the issue of power outages.
- An Information and Communication Technology (ICT) sustainability plan was developed and this plan was adopted by the government at project closure.
- The Direct Trade Input (DTI) facility was introduced and extended to large firms. This facility enabled the large firms to have direct links with ASCYUDA World for data entry, submission and communication on the customs clearance process.
- Alongside these outputs, the Laos PDR self-financed a SmartTax System for electronic payment of customs duty, taxes and fees at 18 checkpoints which had the ASCYUDA World Platform. This system provided for a direct link between the customs checkpoints, participating commercial banks and the National Treasury.

Outcomes.

- The project development outcomes pertaining to reductions in the average time taken for importing, exporting and transit clearance (as a landlocked country the time taken for customs clearance at land borders is important for Lao PDR) was to be monitored by the Time Release Study (TRS) developed by the World Customs Organization (WCO). (The methodology of this study entails measuring the time taken for various customs formalities (from submission of customs declaration, valuation and assessment, inspection, duty payment and eventual release for clearing consignments by customs). According to the four TRS conducted during the lifetime of the project, the average time to clear imports, exports and transit cargo declined from 17.9 hours at the baseline in 2009 to 6.5 hours at project closure in 2016. This exceeded both the original and revised targets of 11.7 hours and 7.4 hours respectively. The ICR (page 12) notes that the average clearance time increased in 2017 to 9.4 hours due mainly to the sharp jump in imports of railroad construction in the north and delays in the removal of cargo from warehouses and that warehouse efficiency was not a part of the activities supported by the project.
- The number of steps required for customs clearance was reduced from nine at the baseline to five for imports and from seven to four for exports by the closure of the original project on December 2013. On March 1, 2017, the customs department launched new streamlined customs procedures supported by the project, which further reduced the steps required for clearing imports from five to four and for exports from four to three as per the revised target.

It is reasonable to assume that the key technical and operational changes through customs automation supported by the project made a significant contribution to realizing the PDO of improving the efficiency of customs administration and thereby to the long-run development objective of increasing exports and sustaining high economic growth through creating a less costly and more equitable environment for Lao PDR's traders.



Rating
Substantial

Objective 2

Objective

To facilitate trade by improving the effectiveness of customs administration through increasing transparency and accountability.

Rationale

Outputs.

- Technical assistance was provided for regulatory reforms pertaining to customs valuation practices based on WTO Valuation principles (WTO Valuation Agreement prescribes using the transactions value as reflected in the customs invoice as the preferred method for valuing imports). WTO also provides a number of preferred alternatives that may be applied in specific circumstances. The WTO guidelines proscribe the use of other methods (such as pre-determined minimum values or other arbitrary and fictitious prices) for valuing imports by member countries. At project closure, the old practice of customs valuation based on pre-determined minimum values was replaced with transaction-value-based practice.
- World Customs Organization (WCO) based Time Release Studies were conducted as targeted for measuring customs performance.
- As indicated above, ASCYUDA World training was provided to the customs staff at the rollout site and the trading communities at the designed worksites.
- A Training Need Assessment and a Human Resource Development Plan were conducted and accepted by the customs department. A customs training curriculum with a suite of all relevant training material in the Lao context that was consistent with the WCO e-learning program was developed. The program also covered the Training of Trainers (TOT) to prepare qualified trainers for future running of the customs training program at the Lao Customs Training Center. At project closure, 90% of trained trainers in the program had passed the examination and training qualifications.
- Gap assessments and strategy documents were prepared for risk management, compliance improvement, implementation of the Authorized Economic Operators (AEOs), performance monitoring and client service standards, change management and communications, administrative appeals, customs integrity and anti-corruption. These documents aided in the development of the 2017-2021 Customs Development Strategy.
- A review of the legal and regulatory gaps was completed to bring the Lao PDR's legal and regulatory customs framework to be fully compliant with the Revised Kyoto Convention and the WTO Trade Facilitation Agreement.
- Based on ASCYUDA selectivity data, physical inspection of cargo declined from 100% at the time of piloting ASCYUDA World in 2012 to 60% in 2013, 50% in 2015 and 46% in 2017. No targets were set for



this indicator at design. but the project team acknowledged that this was an intended reform in the project approach to improve efficiency in port operations.

Outcomes.

- The PDO of improving effectiveness of customs administration through increasing transparency and accountability was to be measured through the indicator of 'increase in the ratio of detections/inspections by 10% a year'. The ICR (page 14) notes that that Lao customs was not able to provide reliable data on customs detection over physical inspection as the ASYCUDA system was not equipped to have the functional capability to produce reports that could compare the duty amount entered by traders and the actual duty amount that was assessed and due after the inspections had taken place. Given that the results of inspections were not recorded on the ASYCUDA platform until 2017, the results could not be used to measure the effectiveness of the inspection process. Given that it seems to be a global weakness of the functional capability of the ASYCUDA system, it is not clear if either the Bank or the Borrower knew about it in advance or took corrective measures during implementation.
- The rankings in the Logistics Perception Index (LPI) developed by the Bank was to be used for measuring the perception of customs performance. (The LPI aggregates the customs performance in seven areas, including efficiency and effectiveness of customs and other border procedures, logistics costs (including freight rates), and infrastructure quality, the ability to track and trace shipments, timeliness in reaching a destination, and the competence of the domestic logistics industry over time on a scale of one to five - with five connoting the best). The LPI sub-score for customs performance and integrity for Lao PDR improved from 2.08 in 2007 to 2.17 in 2010, 2.38 in 2012 and 2.45 in 2014. The score however dropped to 2.07 in 2016, below the 2007 score. The ICR provides no details on the fall in score in 2016.
- According to the World Bank Enterprise Survey, the number of firms that identified customs and trade regulation as a major constraint fell from 12.4 in 2012 to 7.6 of firms in 2016.

Given the nature of activities supported by the project, while it is difficult to ascertain the extent to which the contributed to improving effectiveness of customs through increasing transparency and accountability, it is reasonable to conclude that the activities in conjunction with ASYCUDA World activities, made a significant contribution to realizing the PDO.

Rating

Substantial

Rationale

There is substantial evidence that the outcomes relating to the first PDO of customs efficiency were realized. While it is difficult to assess the extent to which activities contributed to improved customs effectiveness it is reasonable to conclude that the project activities made a substantial contribution to realizing the outcome.



Overall Efficacy Rating

Substantial

5. Efficiency

Economic Analysis. An economic analysis was conducted both at appraisal and at closure for the original project with component one activity (implementation of the electronic customs management system-ASYCUDA World). This component accounted for 53% of the total project cost at appraisal and 54% of the actual project cost at closure respectively. There was no revised estimation of the economic benefits of the AF. The economic benefits of customs efficiency were assumed to result from a combination of factors including lower administrative cost of customs services, lower compliance cost of traders and the time saved by traders whose goods would be processed faster through expedited customs clearance. Other benefits that were factored in the quantitative analysis included reduction in the variance of clearance time would permit traders to keep lower inventories. The ex-post Economic Internal Rate of Return (EIRR) was estimated to be 147% and the Net Present Value (NPV) at 10% discount rate US\$222.40 million at project closure (as compared to the ex ante EIRR of 170% and the NPV of US\$176.00 million). The difference in EIRR at closure and the EIRR at appraisal was the result of administrative cost reductions at project closure being lower than anticipated.

Administrative and Operational Issues. There were procurement delays in the initial years of the project. These were mainly due to a combination of factors including the inadequate operational capacity of the customs department, lack of key operational and technical experts and issues associated with the technical support provided by the service provider to install, adapt and maintain ASCUUDA World. These factors contributed to delays in the initial years and thereby contributed to the limited time that was available for activities associated with customs reforms, which were deferred for implementation at the AF period. There were again procurement delays associated with activities for the AF period, which were eventually resolved with the hiring of an international procurement adviser, based on the recommendations of the bank supervision team.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	170.00	53.00 <input type="checkbox"/> Not Applicable
ICR Estimate	✓	147.00	54.00 <input type="checkbox"/> Not Applicable



* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of objective to the government and bank strategy is rated as High. Given that both the original and revised outcomes were either realized - the first sub-objective - to improve efficiency of customs administration through reducing transactions costs and time to clear goods - is rated as Substantial. While it is difficult to assess the extent to which project activities contributed to the second objective - to improve customs effectiveness, it is reasonable to conclude that project activities made a significant contribution to increasing transparency and accountability. Overall efficacy is rated as Substantial. Efficiency was rated as Substantial.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

Technical Risk. The establishment of a WTO-compliant ASYCUDA system user-fee and including a policy effectiveness condition stipulating that the income from the fee be placed in a special escrow account dedicated to support the maintenance and further development of the system could be expected to contribute to the sustainability of the system. However, there is still technical risk, given that the customs valuation and risk modules and the exemption module were not fully functional at project closure. In addition, it is worth noting that both custom clearance time and the LPI index have increased after project closure, the former due to issues in warehousing efficiency which, while not covered by the project does affect the efficiency of customs as targeted by the PDO.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was prepared based on the experience from prior institutional development projects in Lao PDR (e.g., Financial Management Capacity Building Project) and from the experience of prior Bank-financed customs reform projects in Vietnam and Cambodia in the region and from similar projects in countries in transition in Europe and Central Asia. Lessons incorporated at design included seeking to ensure project ownership through entrusting the project management responsibility to the Director General of Customs, to minimize the risk of policy reversals through having a customs administration specialist from the start, minimizing risk through implementing an "off-the-shelf" software package with accompanying standardized procedures that was available in the market (as opposed to developing a unique Lao PDR-specific application), establishing a WTO-compliant ASYCUDA system user-fee and including a policy effectiveness condition stipulating that the income from the fee be placed in a special escrow account



dedicated to support the maintenance and further development of the system. Several risks were identified at appraisal including substantial risks associated with lack of sustained political commitment to the project, weak capacity for reform, financial management risk and scope for corruption in a weak control environment. Mitigation measures were applied and the overall risk was rated as Moderate. Appropriate arrangements were made at approval for M&E (discussed in section 9) and fiduciary compliance (discussed in section 10b).

There were some shortcomings in design. It is not clear if there was a detailed assessment of the Lao Customs Department's staff and operational capacity at design. This contributed to key delays in the early years and thereby contributed to the deferment of activities pertaining to customs reforms activities.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

There were about 15 supervision missions (excluding technical visits) during the lifetime of the project and these missions were conducted twice a year. The task team was based in Vientiane and this aided close coordination during project implementation. The team was proactive in following up and coordinating with the service provider that supported the implementation of the ASCYUDA World. The supervision missions identified challenges and took corrective measures to ensure that implementation was on track. For instance, the procurement delays associated with activities for the AF period were eventually resolved with the hiring of an international procurement adviser, based on the recommendations of the bank supervision team. Given that the Laos customs department was not familiar with the Bank's fiduciary requirements, the team provided extensive support to build capacity and this aided in fiduciary compliance (discussed in Section 10b).

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The four key outcome indicators were appropriate for monitoring performance. The first two indicators - reduction in clearance time for imports, exports and transit cargo and reduction in the number of steps for clearing commercial shipments - were appropriate for monitoring performance with respect to customs efficiency. The two other indicators - an increase in the ration of detections/inspections by customs and the increase in the perception of the traders with respect to customs performance and integrity - were



appropriate for monitoring performance with respect to customs effectiveness, but were inconsistent in how they were applied.

The M&E design envisioned monitoring project performance with respect to reductions in customs clearance times through the standard World Customs Organization based Time Release Study (TRS), a standard accepted throughout the world (discussed in Section 4). The TRS process which had commenced at appraisal provided base line data for the results framework.

b. M&E Implementation

Four Time Release Studies (one each in 2009, 2012, 2016, 2017) were conducted for monitoring performance with respect to customs clearance times. The indicator associated with the number of steps to clear commercial shipments was based on the information from the Laos customs department.

c. M&E Utilization

The M&E indicators reported by the customs department in their semiannual and quarterly reports were discussed by the Bank team with the customs department management. These indicators were used both for monitoring project progress and also to measure the performance of the customs department and indicators pertaining to average import, export and transit clearance time was used both for dialogues on further reforms and for comparing the performance of the customs department with that of other countries.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was classified as a Category C project. No safeguard policies were triggered by the project either at appraisal (PAD, page 17) or during implementation (ICR, page 22).

b. Fiduciary Compliance

Financial Management. An assessment was conducted at appraisal to assess the financial management capacity of the implementing agency (PAD, page 44). The assessment concluded that there financial management risks in view of the weak government financial management systems, which were undergoing reform at appraisal. The mitigation measures adopted for minimizing risks included additional training for financial management staff. The ICR (page 22) notes that there were no major financial management issues



during implementation. Interim financial reports and audited financial statements were delivered in a timely fashion and they were unqualified.

Procurement. An assessment was conducted at appraisal to assess the capacity of the implementing agency to address procurement issues (PAD, page 54). The assessment concluded that the customs department's capacity was weak as it had no prior experience managing Bank projects. The mitigation measures adopted at appraisal to minimize procurement risks included implementing few procurements with a large part outsourced to the service provider. The ICR (page 22) notes that there were procurement issues in the initial years due to the lack of qualified procurement staff. However, the capacity issue was resolved through recruiting a part-time international procurement adviser and this aided in completion of the procurement packages during implementation.

c. Unintended impacts (Positive or Negative)

d. Other

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Bank Performance	Satisfactory	Moderately Satisfactory	There were moderate shortcomings in Quality-at-Entry.
Quality of M&E	Substantial	Substantial	---
Quality of ICR		Substantial	---

12. Lessons

The ICR draws the following main lessons, which IEG supports, from the experience of implementing this project:

(1) Political commitment and client ownership may be necessary but not sufficient for successful project implementation. In the case of this project, the Laos customs department performed much better in implementing activities associated with customs automation but was less successful in implementing activities associated with customs modernization and reforms which were hampered by procurement delays on the IT side. While the former activities were standardized, required external support and were less complex, the latter set of activities required a range of complex regulations and procedures that required internal support from customs. The experience of this project showed that in addition to adequate project supervision, hands on support for institutional support may be required for ensuring project success.



(2) In-country supervision may aid in relatively complex customs reform programs. The implementation of this project was aided significantly from intensive supervision by the Bank team who were based in-country.

(3) Regulatory and institutional reforms can be more successful when there are strong pressures and commitments to be met for regional and international trade integration. Lessons learnt from this project demonstrated that any reform priority that was linked to international commitments such as the WTO Accession may get political and managerial support for action.

(4) In a low capacity environment, capacity gaps and training activities need to be identified early to drive the pace of project implementation. The implementation of this project could have been expedited in the early years through an early gap assessment identifying a priority plan and plan aimed at sequencing of activities with a staff training plan.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is reasonably well-written. It is candid while discussing the issues that arose during implementation. The lessons that the ICR draws are based on evidence and analysis.

Given that monitoring of project performance was based on WCO developed Time Release Studies (TRS), it would have been useful to provide a more detailed exposition of the methodology followed in administering the TRS.

a. Quality of ICR Rating

Substantial