

LAO PEOPLE’S DEMOCRATIC REPUBLIC

AIDE MEMOIRE

Implementation Support Mission for the Customs and Trade Facilitation Project

(P101750 IDA Grant H4030-LA/H8430-LA)

July 27 - August 7, 2015

KEY PROJECT INFORMATION			
Project Number	P101750	Board approval date	June 17, 2008
Project closing date	June 30, 2017	Disbursement as of August 2015	US\$7.7 million
Total Grant Amount	US\$12.5 million	Grant number	H4030-LA/H8430-LA

I. INTRODUCTION

1. A World Bank Group carried out a project implementation support mission for the Customs and Trade Facilitation Project (P101750) in Vientiane, Luang Namtha Province and Bokeo Province, Lao PDR, during the period 27 July – 7 August, 2015. The key mission objectives were to: 1) follow-up on project implementation issues identified in the March 2015 mission, particularly under Components A and B; 2) undertake field visits to Customs international border checkpoints on the PRC border (Boten) and the Thai border (Houaysay - Thai Friendship Bridge # 4 and Golden Triangle EPZ) as well as visits to the Disaster Recovery Center and Training Academy (located at Thanalang); and 3) meet with the concessionaire (Bureau Veritas) currently implementing the Lao PDR National Single Window system to discuss the process and timelines for connecting the system with the LCD’s ASYCUDA World system.

2. The team would like to express its sincere thanks to Mr. Athsaphangthong Siphandone (Director General, Lao Customs Department), Mr. Bounpaseuth Sikounlabout (Deputy Director General, Lao Customs Department), and Mr. Somphit Sengamanyong (Deputy Director General, Lao Customs Department) for their guidance and cooperation during the mission. The mission would also like to express its thanks to Lao Customs staff in Boten, Houaysay and Thanalang, and the Project Implementation Unit for their support during the mission.

3. The mission confirmed with and Lao Customs Department that this Aide Memoire will be subject to public disclosure.

II. OVERALL IMPLEMENTATION STATUS AND MANAGEMENT PRIORITIES

4. **Implementation Status.** The overall project implementation has progressed well and rated as “Satisfactory” and is on track to meet the Project Development Objective. As of August 5, 2015, the overall project disbursement rate is at 62% for the total grant US\$12.5 million; of which the additional financing grant US\$6.5 million is disbursed at 29%. The project continues to accelerate with the two major project procurements to be finalized and consultants deployed by the end of September 2015. Lao Customs Department has made significant improvements since November 2014 and March 2015 missions by completing geographical rollout of the ASYCUDA system in 10 customs checkpoints by end of July 2015. The ASYCUDA system is now in live operation at 21 checkpoints, replacing the outdated legacy C-2000 system. This covers 99 percent of all Lao PDR trade. The automated selectivity system is also in live operation. Likewise, trade statistics are now

collected in real time and Customs operational procedures have been standardized at all major border checkpoints. ASYCUDA Kiosks have been established at the newly automated checkpoints to allow traders to prepare customs declarations and over time the utilization of Direct Trader Input (DTI) will increase and will be progressively implemented at all checkpoints. In addition, the electronic payment system (SmartTax) which connects the ASYCUDA system to commercial banks to streamline the payment of duties and taxes has been rolled out to 8 checkpoints (see ANNEX 4 Table 2) and provides a real-time link between ASYCUDA and the Government’s financial management information system (FMIS). The rollout has eliminated the inefficient and time consuming process of manually calculating and submitting daily revenue collection reports at the checkpoints. The mission recommended further improvements as highlighted in ANNEX 3 of this Aide Memoire.

5. Significant progress has also been made on procurements. Several major procurements are currently being finalized and the selected firms will be mobilized to commence work within the next two months. In addition, an International Procurement Advisor has been hired and is providing capable support to the Project Implementation Unit. The contract for local ICT Support has been finalized and the team was recently mobilized and has commenced work. Following the signing of the support and maintenance agreement with UNCTAD an inception mission was conducted in the second week of June 2015 and the first operational mission is expected to be conducted in mid-August 2015. This mission is particularly important as it will ensure the latest version of the ASYCUDA software is deployed which incorporates a number of functional and reliability improvements. The two remaining large selection packages for: 1) Customs Training Center is at contract negotiation and signing stage; and 2) Customs Capacity Enhancement Program is now at contract negotiation stage and the draft negotiated contract will be submitted to the Bank for no objection on September 15, 2015.

6. **Management Priorities.** The mission emphasized the importance of quickly finalizing the two major consultancy procurements and the need to work closely with the consultancy firms to ensure quality delivery of project activity outputs, outcomes and results. While disbursement is now accelerating, it is also important to ensure that all required documents attached to the withdrawal applications meet World Bank Loan Department requirements. Any mistakes and delays in processing withdrawal applications will affect the pace of disbursement and implementation of project activities. The mission agreed with LCD on the following actions:

TABLE OF AGREED ACTIONS				
	Action	Responsible entity	Proposed timeline	Comments
<i>Component A</i>				
1.	DRC will be completed and fully operational	LCD	5 October 2015	Ensure back-up servers are in place.
2.	Back-up generators will be delivered and installed for the five prioritized checkpoints (see foot note in page 5)	Supplier/LCD	End of September 2015	Ensure reliability of power supply to prevent disruption during power outages. Power outages are common for remote customs checkpoints.
3.	Extend ICT Advisor contract based on available resources.	LCD	Mid-September 2015	Ensure remedial measures to ensure reliability and availability of LCD’s ICT infrastructure including reliable network connectivity

	Action	Responsible entity	Proposed timeline	Comments
Component B				
4.	Submit the draft negotiated contract on Customs Training Center Development for no objection	LCD	August 12, 2015	Ensure the contract is signed as soon as possible to rapidly mobilize the consulting team.
5.	Submit the draft negotiated contract on customs capacity enhancement program for no objection	LCD	September 15, 2015	Ensure the contract is signed as soon as possible to rapidly mobilize the consulting team.
6.	Submit the TER for TRS for no objection	LCD	September 4, 2015	Ensure the contract is signed as soon as possible
7.	Submit the draft negotiated contract for international legal advisor for no objection.	LCD	September 1, 2015	Ensure the contract is signed as soon as possible.

III. STATUS OF PROJECT COMPONENTS

7. The Customs and Trade Facilitation Project (CTFP) is financed by the International Development Association (IDA) with a total grant of US\$ 12.5 million, of which US\$6 million (effective on October 20, 2008 and closed in December 31, 2013) and an additional financing of US\$6.5 million (effective on May 28, 2013 and will close on June 30, 2017). CTFP is implemented by Lao PDR Customs Department of the Ministry of Finance. The project development objective is to facilitate trade by improving the efficiency and effectiveness of customs administration and simplifying customs procedures to eliminate duplication and redundancy, reduce transactions costs and time to clear goods, and increase transparency and accountability. CTFP has two components:

- (a) Automation support (including implementation of ASYCUDA World); and,
- (b) Organizational development (including customs modernization support).

Component A: Automation Support (*including Implementation of ASYCUDA World*)

- **Key developments:** There has been good progress in the establishment of the LCD Disaster Recovery Center (DRC). The refurbishment work for the DRC at Thanaleng has been completed and all equipment has been procured. The backup servers will be moved and installed in the DRC, shortly and the DRC is expected to be operationalized by early October, 2015.
- **Key challenges:** Network reliability to remote border stations continues to be a challenge. Users have reported 2-3 outages lasting 4-6 hours every month. LCD will need to discuss network reliability with their service provider and ensure measures are put in place to improve network reliability.
- **Key immediate recommendations:** (i) Ensure the establishment of the DRC remains on track; (ii) Continue to undertake the remedial measures identified by the ICT Advisor to ensure reliability and availability of LCD’s ICT infrastructure including reliable network connectivity.

8. **ASYCUDA implementation, support and maintenance.** The support and maintenance contract with UNCTAD was signed in April 2015. An inception mission was carried out by UNCTAD in early June 2015. LCD has identified 25 activities that need to be undertaken by UNCTAD. These activities have been submitted as comments to the UNCTAD inception report some time ago. The report still remains to be finalized and work initiated. A priority activity is the

upgrade of the version of ASYCUDA World and the underlying software sub-systems. LCD should insist that UNCTAD keeps to its proposed project schedule and not cause additional delays.

9. **Rollout to additional 12 remaining checkpoints.** As of May 2015, 10 of the 12 additional checkpoints have had ASYCUDA rolled out. The system runs fully live operation at all 21 international customs checkpoints. The system was not deployed for Luang Prabang International Airport and Pakse International Airport due to the very small volume of trade. The two sites are dropped from the project financing of its rollout but may be reconsidered for future deployment by LCD's own resources when there is adequate trade volume. Instead, LCD decided to deploy the ASYCUDA at Thadeua traditional Customs Checkpoint bordering with Thailand and cover the expansion of International Wattay Airport Customs Checkpoint. With the additional rollout, ASYCUDA World covers almost 99 percent of formal trade. LCD anticipates its own resources to roll out the system additional small traditional and border crossing checkpoints of about 40 in the future.

10. **Strategic ICT capability development.** The focus of the capability development to date has been to implement the core systems and processes that underpin the deployment of any ICT business system in Government. Such systems include a properly configured and managed network, data backup and recovery and disaster recovery measures, data security systems, virus detection and prevention. Based on the project plan that was submitted in October 2014, this work is now approximately 70% complete. Key outstanding projects that have not commenced include centralized antivirus management and centralized and automated data backup and recovery. This delay in commencement is due to slow procurement. Extensive measures have been put in place to mitigate risks until such time as the required systems are procured. The Customs network has been redesigned to scale out to an anticipated 40+ border posts. An innovative and low cost solution was designed and implemented to facilitate customs systems access from those border posts where private sector service providers could not provide fiber optic connectivity. The stability and cost effectiveness of the solution developed now makes it feasible for the LCD to deploy ASYCUDA to 'traditional' border posts that were previously out of scope. Additional legacy Customs systems are in the process of being modernized. These include re-hosting and migrating system such as the Customs website, the obsolete Customs system (C2000) and other internally developed programs running on a very old version of Sybase. Signification work has been done to resolve configuration and performance issues exhibited by the core ASYCUDA World Customs system. These include fully virtualizing the production and backup environment to facilitate disaster recovery, improving network resilience, database performance tuning and query optimization and improving database security. Additional work is still required, and is part of the major ASYCUDA upgrade scheduled.

11. **ICT Advisor.** The current ICT Advisor's contract will end in September, 2015. Per the original TOR and contract the full time nature of the current contract will evolve into a periodic support with 4 visits a year for the remainder of the project. Given the ongoing challenges to LCD's ICT infrastructure and the remaining work to further improve the stability and reliability of the infrastructure, LCD should consider retaining the ICT Advisor on a full time basis if the remaining resources in the project allow for it.

12. **Disaster Recovery Center and Business Continuity.** The refurbishment of the DRC in Thanaleng has been completed. All necessary equipment has been procured and delivered. Full application disaster recovery is now ready for full operation. The implementation has been delayed

due to slow procurement of required technologies and the unavailability of a fast network link between the Customs HQ and the DRC site at the Thanaleng border post. Once communications are established; critical infrastructure will be relocated to the disaster recovery site, and replication from HQ to the DRC will occur every five minutes. All critical systems have been virtualized to simplify the process of replicating core systems and database, and real-time migrating the services with no user downtime if necessary. The disaster recovery process is actioned from a simple graphical user interface with no system reconfiguration required.

13. **Back-up generators.** The re-bid of back-up generators for 5 prioritized customs checkpoints was completed in July 2015. The contract was signed in July 2015 and the supplier is now ready to deliver back-up generators to prioritized customs checkpoint sites¹. LCD is responsible for constructing housing storages for back-up generators through its own budget. As of July 28, 2015, LCD completed the housing storages in four checkpoints. The construction of housing storages for back-up generators in Boten International Customs Checkpoint office and the Boten Customs Warehouse is undergoing and expects to be completed within two weeks. LCD is also responsible for ensuring the ICT team provide technical inputs and specifications on the next package of the back-up generator procurement in order to further the procurement processes.

14. **CCTV and video conference facility.** LCD reported that procurement of CCTV and Video Conference Facility is now considered not the highest priority. It intends to reallocate resource for higher prioritized activities. The mission acknowledged that procurement of CCTV and video facility is not yet necessary. Dropping these two activities does not deem having any impact on achieving the project development objective.

Component B: Organizational Development (including Customs Modernization Support)

- **Key achievements:** LCD has made solid progress on the selection of consulting services for the Customs Training Center Development and the Customs Capacity Enhancement program.
- **Key challenges:** Any further delays in key procurement actions will have a major impact on the implementation of key project activities and will compromise the output and outcomes of the activities, taking into account the project timetable.
- **Key immediate recommendations:** (i) Further to the Bank no objection to the technical evaluation report on June 9, 2015, LCD will submit the draft negotiated contract on customs training center development for no objection on August 12, 2015, and the draft negotiated contract on customs capacity enhancement program for no objection on September 15, 2015 and (ii) submit the draft negotiated contract for the international legal advisor for no objection on September 1, 2015.

15. **Customs Capacity Enhancement and Training Center Development.** The Bank provided no objection to the TER for Customs Capacity Enhancement Program on July 23, 2015. LCD expects to open the financial proposals on August 12, 2015 and will proceed with contract negotiation. It expects to submit the draft negotiated contract for no objection on September 15, 2015. In addition, the Bank has provided a no objection to TER on Customs Training Center Development on June 9,

¹ Prioritized international checkpoints for back-up generators include Friendship Bridge One (1 unit), Boten Customs Office (1 unit), Boten Customs Warehouse (1 unit), Densavanh (1 unit), Vangtao (1 unit) and Namhueang (1 unit).

2015 and now LCD has completed the negotiation with the first ranked firm. LCD expects to submit the draft negotiated contract for Customs Training Center Development for no objection by August 12, 2015. These contracts are a key element of the Organizational Development Component and are considered essential to meeting the project's development objectives and are critical to building LCD capacity and ensuring sustainability of improvements.

16. **Legal advisor.** The selection of the individual international legal advisor has progressed well. The Bank provided no objection to the evaluation report of the EOIs on July 3, 2015. LCD has negotiated with the first ranked candidate and it expects to submit to the draft negotiated contract for no objection on August 14, 2015. The legal advisor will play an important role in helping the Lao Customs Department revise the Customs Law to ensure its consistency with WCO and WTO requirements.

17. **Time Release Study.** LCD has made good progress on the selection of a consulting firm to conduct two additional Time Release Studies (TRS). The Bank provided no objection to the shortlisted firms on July 14, 2015. It expects that LCD will receive the technical proposal on August 20, 2015 and that the TER of the technical proposals will be submitted to the Bank for no objection on September 4, 2015. The TRS aims to provide further data to measure progress against the results framework in efforts to reduce the time to clear imports, exports and transit goods for the ASYCUDA World system is in operation. The first and second TRSs for Lao PDR were conducted in 2009 and 2012, respectively. The results of the earlier TRS surveys have been widely used to inform and measure changes in efficiency and effectiveness of customs clearance processes.

18. **Customs Valuation Support Database.** LCD has postponed a decision on the valuation support database until such time as they assess the enhanced functionality available through the latest version of the ASYCUDA World system. This cannot be tested until such time as the new version is installed. This is scheduled to be completed in early September following the UNCTAD support and maintenance mission. Depending on the quality of the new functionality the LCD may contemplate the development of a more sophisticated Customs Valuation Support Database.

An update on Lao PDR National Single Window implementation

19. During the visit the mission met with the National Single Window concessionaire, Bureau Veritas (BV) to discuss the proposed functionality of the system and its implementation timeline. The BV representatives outlined an approach that is generally consistent with the functionality described in the Bank-funded LNSW Blueprint developed in 2013. The BV representatives are currently finalizing the prototype and some data exchange testing has already been conducted. Based on progress to date the team believes they will be ready to pilot the system with one agency (Ministry of Commerce) by the end of the year and will connect other agencies progressively after the pilot is completed. Progress will, however, be dependent on being able to connect effectively with the ASYCUDA World system. The mission understands the new version of the ASYCUDA system that will be installed in September should facilitate connection to the LNSW. The BV team have been on the ground since late 2014 and have been meeting regularly with stakeholders. The BV team agreed to keep the Bank team briefed on developments and will share relevant information and materials as they are developed. Once fully operational the LNSW system should provide the necessary functionality for all government agencies that currently issue certificates, licenses and permits (CLP) related to import/export clearance to receive a single submission electronically and

process such CLPs with an automated workflow management system so as to integrate seamlessly and without duplication of data entry with ASYCUDA World.

Environment and Natural Resources Law Enforcement Issues

20. During the visit the mission discussed progress on the processing of the sub-project proposal for assistance under the LENS-II project to strengthen the LCD's anti-smuggling capacity of illegal wildlife trade. The mission was informed that the project has been submitted to the Environment Protection Fund (EPF) with endorsement from the Department of Forestry Inspection (DOFI) for approval by the EPF Board. The project was endorsed internally by the Minister of Finance and discussions have already taken place between the LCD and DOFI to clarify the scope and content of the project to be known as the CUSTOMS LENS project. DOFI has indicated its full support for the project and will endorse it during consideration by the EPF Board.

IV. MONITORING AND EVALUATION

21. The project implementation remains broadly on track in delivering key outputs and results. The PDO consists of improving customs efficiency and effectiveness of customs administrations by simplifying the customs procedure that reduces time and cost for customs clearance. The automated selectivity system is in live operation now in all 21 checkpoints. The latest selectivity data from ASYCUDA World for November 2014 – July 2015 was made available to the Mission. Compared to previous data, customs clearance is getting improved by being able to reduce the full physical inspection rate by 2 percent point from 52 percent in September 2014. There have been also some adjustments in routing more customs declarations through the yellow channel for full document check while and decreasing those that route through the blue channel for goods subject to post clearance audit. This is a reasonable action to reduce redundancy in the customs clearance process. An increase in customs declarations routed through the green channel has demonstrated a good sign of improvement in the efficiency of Lao PDR's customs clearance (see further analysis in ANNEX 5). Further analysis of customs performance in terms of efficiency and effectiveness will be carried out with the new data of Time Release Study (TRS) to be available by the end of 2015.

V. FIDUCIARY ISSUES

Procurement

22. The overall procurement performance for the CTFP project remains “**Moderately Satisfactory**”.

23. The LCD provided the mission the updated status of each procurement package. The mission is pleased to see the progress on the TA packages. However, the shopping procurement packages are still behind the agreed schedule. These are pending packages for obtaining technical and specification inputs from the ICT team to finalize the procurement documents to proceed the procurement process. The mission would like to urge more coordination from the other divisions in LCD to provide their technical inputs in timely manner to the procurement team to accelerate the procurement process. If any planned packages are no longer needed, the decision should be made and removed those packages from the procurement plan. The updated procurement plan would be submitted for the Bank's no objection on August 31, 2015.

Financial Management

24. The mission was pleased to note that many recommendations from the previous mission have been implemented. However, financial management performance remained “**Moderately Satisfactory**”. We acknowledged that the audit report was submitted timely.

25. **Disbursement.** Disbursement of the additional financing grant as of August 5, 2015 is at 29%. An increase of 20% from just 9% in the November 2014 mission. However, disbursement is still considered low since the project is almost half way through its implementation life. According to project’s record to date, implementation of this year’s budget is at 68%. We were informed that next year’s budget (FY15-16) process will commence end of September or early October. We encouraged the project to prepare more realistic estimates of the annual project budget. Moreover, project commitment needs to be monitored and taken into consideration when preparing the budget.

26. **Financial reporting.** Interim unaudited financial reports submitted contained errors requiring correction and resubmission. It is highly recommended that the report be checked thoroughly before submission to the World Bank. The next IFR is due on August 15, 2015

27. **External audit.** Contract has been signed with Ernst & Young Lao Limited for the whole life of the project. As the end of fiscal year is approaching, it is highly recommended that the project start communicating with the auditors to plan for the FY14-15 audit. In addition, LCS needs to ensure that auditors’ recommendations have been implemented.

VI. CONCLUSION

28. The overall project implementation has progressed well with accelerating disbursement over the past several months. Significant improvements has been made since March 2015 mission by completing all geographical rollout by end of May 2015. There are now all 21 customs checkpoints that are running live operation of the ASYCUDA system, replacing the legacy C-2000 system. The automated customs checkpoints are in use of a risk management system and has improved customs valuation and statistics reporting. The automation has now covered 99 percent of total trade. Key attention of management still need to ensure that two pending large procurement packages are finalized with contract signing in September 2015. The proposed next project implementation support mission will take place in January/February 2016.

ANNEX 1. List of government officials and stakeholders met during the mission

	Name	Position	Organization
1	Mr. Athsaphangthong Siphandone	Director General, Lao Customs Department	MOF
2	Mr. Bounpaseuth Sikounlabout	Deputy Director General, Lao Customs Department/Project Leader	MOF
3	Mr. Somphit Sengmayvong	Deputy Director General, Lao Customs Department	MOF
4	Mr. Khampen Sichanthalath	Director/Chief of Friendship Bridge I International Customs Checkpoint, Lao Customs Department	MOF
5	Mr. Anousak Sisa-ad	Deputy Director of ICT and Planning Division, Lao Customs Department	MOF
6	Mr. Vongvanhpheng Phoumsavanh	Deputy Director of Customs Exemption Division, Lao Customs Department	MOF
7	Mr. Phoukhong Ouanlamany	Project Analyst, CTFP, Lao Customs Department	MOF
8	Mr. Ketmany Sivongsa	Financial Management Officer, CTFP, Lao Customs Department	MOF
9	Mr. Sengphet Thanongsakd	National Procurement Consultant, CTFP, Lao Customs Department	MOF
10	Mr. Thao Chanthakhad	Director of Customs Formality, Classification and Procedures Division	MOF
11	Mr. Khamdeng Thammaseng	Deputy Chief of Boten Customs Checkpoint, LuangNamtha province	MOF
12	Mr. Khamdy Thasithong	Deputy Chief of Boten Customs Checkpoint, LuangNamtha province	MOF
13	Mr. Nhantha-Nho Douangmany	Chief of Administration Unit, Boten Customs Checkpoint, LuangNamtha province	MOF
14	Mr. Sithong Phommachanh	Chief of Passengers and Vehicles Unit, Boten Customs Checkpoint, LuangNamtha province	MOF
15	Mr. Sisomphone Vivansay	Deputy Chief of Export-Import Unit, Boten Customs Checkpoint, LuangNamtha province	MOF
16	Mr. Vongtavanh Phouangpheth	ITC officer, Customs Department	MOF
17	Mr. Sourivek Khounsamnane	ITC officer, Customs Department	MOF
18	Mr. Hatsady Phommathep	Chief of Warehouse and Inspection Unit, Boten Customs Checkpoint, LuangNamtha province	MOF
19	Mr. Chanthavy Phothisane	Deputy Director, Golden Triangle Special Economic Zone	

20	Mr. Sanlasern Silavong	Acting Chief of Friendship Bridge 4 Customs Checkpoint, Bokeo province	MOF
21	Mr. Khamlar Visisombath	Chief of administration Unit, Friendship Bridge 4 Customs Checkpoint, Bokeo province	MOF
22	Mr. Khamsay Phoulichanh	Chief of Vehicles management Unit, Friendship Bridge 4 Customs Checkpoint, Bokeo province	MOF
23	Mr. KhamNgone Khounsathone	Chief of Warehouse and Inspection Unit, Friendship Bridge 4 Customs Checkpoint, Bokeo province	MOF
24	Mr. Joseph Haget	Senior Project Manager, Bureau Veritas	
25	Mr. Richard Tardieu	Country Manager, Bureau Veritas	
26	Mr. Michael Squirrell	ITC international consultant, CTFP, Lao Customs Department	MOF
27	Ms. Ackhasone Manipakone	Sales Customer Services Manager, Lao Toyota company—DTI firm	
28	Mr. Korlakanh Srithirath	Deputy Director of Customs Control, Inspection and Anti-Illicit Trade Division, Lao Customs Department	MOF
29	Mr. Sompasong Amphaengphai	Deputy Director of Customs Clearance Division, Lao Customs Department	MOF
30	Mr. Michael Squirrell	International ICT Advisor, ICT and Planning Division, Lao Customs Department	MOF
31	Mr. Brice Meuangkot	NCG	

ANNEX 2. List of Mission Team Members

1. Konesawang Nghardsaysone, Trade Economist and Task Team Leader (GTCDR)
2. Gerard McLinden, Lead Customs and Trade Facilitation Specialist (GTCDR)
3. Ramesh Siva, Lead E-Government Specialist (GTIDR)
4. Maika Watanuki, Operation Analyst (GTCDR)
5. Siriphone Vanitsaveth, Financial Management Specialist (GGODR)
6. Souksavanh Sombounkhanh, Program Assistant (EACLF)
7. Sirirat Sirijaratwong, Procurement Specialist (GGODR), also provided remote support from Bangkok.

ANNEX 3. Follow up on previous recommendations and general observations on international checkpoint visits

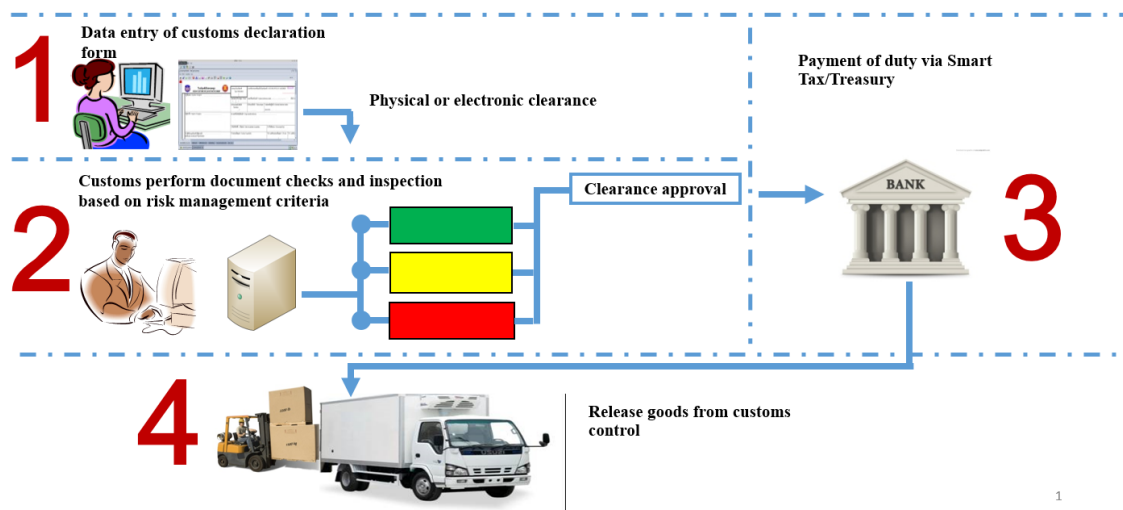
Follow up on previous recommendations

29. LCD continued to make good progress on refining the necessary regulations governing the procedures and process of customs clearance to permit a pilot of advance clearance of goods before document lodging. Excellent progress has been made on the uptake of DTI, with 23 companies now taking advantage of the facility to prepare and lodge customs declarations at their own premises as well as the newly automated payment system now in operation.

30. The mission was pleased to see that its recommendations on process streamlining made during previous missions are now being acted upon by the LDC. In particular, the mission has previously recommended that removing the requirement for traders to lodge paper copies of the customs declaration and supporting documentation prior to the commencement of customs processing would deliver significant results in terms of reduced processing time and transaction costs. The mission was informed that a pilot project would soon commence to allow traders to submit an electronic declaration in advance of goods arrival, and that once lodged electronically, processing would commence immediately with paper submission only required prior to final clearance. The mission understands that some changes are required to the legal framework to allow the pilot to proceed and that these have not yet been finalized.

31. LCD reported that a draft declaration process map (see figure 1) was prepared and presented to the CTFP Steering Committee Meeting, chaired by H.E. Mr. Santiphab Phomvihane (former Vice Minister of Finance), in May 2015. LCD has now moved ahead to finalize the legal requirements and to progress swiftly to implementation of the pilot. Such an approach would provide a very visible demonstration of LCD’s commitment to reform and modernization and would deliver positive and immediate benefits to traders particularly those that already demonstrate a high level of compliance.

Figure 1 Draft process map for customs clearance.



Source: Lao Customs Department’s ICT Team

General observations on international checkpoint visits

32. While it is clear that the introduction of the ASYCUDA World system at key Customs checkpoints has resulted in significant trade facilitation improvements and operational effectiveness, the mission remains concerned that the full potential of the system to streamline Customs operations and reduce transaction costs for traders is not yet being realized. The processing of import, export and transit declarations at the checkpoints visited only commences when a printed and signed copy of the declaration (and all required supporting documents) are submitted to Customs. This requirement effectively prevents pre-arrival processing of declarations and limits the capacity of Customs and other agencies to coordinate inspection activities. The mission has made recommendations on this issue in previous Aide Memoires and is pleased to see that the LCD is planning to launch a pilot project to test the feasibility of removing this requirement, at least for compliant traders. Under the proposed pilot, documents with the required signatures will still be submitted and verified prior to final release being granted but green channel consignments will effectively be released immediately upon arrival and payment of duties, fees and charges.

33. While the mission was pleased to see the SmartTax system, initially piloted in Thanaleng and subsequently rolled out to other major checkpoints, is working well and has gained widespread acceptance amongst the trading community, it is concerned that its capacity to lower trade transaction costs is limited by the fact that it currently only caters for payments of duties and taxes. Fees and charges, including the ASYCUDA user fee, need to be paid to the bank and the receipt taken by hand to Customs for verification prior to final release. Such an approach means that many of the potential efficiency and time saving benefits of the new system are not being fully realized. The mission was advised that the LCD's technical team is currently exploring means of using the same technology to facilitate payment of fees and charges but faces some challenges in doing so. The LCD nevertheless advised that they recognize the benefits of the suggested approach and will continue to work on finding solutions to the challenges identified.

Visit to Boten international checkpoint (Luang Namtha Province)

34. On July 28 the mission made a site visits to border checkpoints at Boten on the People's Republic of China (PRC) border and met with senior LCD staff to review operations and assess the impact of key project deliverables. Discussions focused predominately on the ASYCUDA World system, inter-agency and cross border coordination mechanisms, as well as operational challenges.

35. While there are some seasonal variations, the border checkpoint is responsible for processing approximately 200 trucks per day of which over 30 percent are in transit between PRC and Thailand. It also processes approximately 5 coaches and up to 100 passenger vehicles per day. The border is open from 8:00 am to 4:00 pm and again from 4:30 pm to 8:00 pm. Operating hours have been harmonized with the PRC. The majority of transit goods are transshipped at the checkpoint and are on-carried to Thailand on Thai registered trucks. Likewise, goods destined for home consumption are transshipped at the border (at the State owned monopoly warehouse) and carried on both Thai and Lao registered trucks. During the visit the mission noted that containerized cargo was routinely carried by Thai trucks.

36. The mission was advised that the ASYCUDA World selectivity module has been implemented and import declarations are assessed into green, yellow, blue or red channels. Risk profiles are developed in headquarters but local customs staff also use their own local knowledge to

change the assigned channel. In practice, this invariably means that green channel assignments are sometimes reassigned to other more intrusive documentary or physical examination channels. Officials met during the visit claim that approximately 20 – 30 percent of imported consignments are routed to the green channel and are not subject to physical examination or scanning. They note, however, that due to the physical layout of the border facilities and infrastructure, inspections are frequently undertaken by Quarantine at the Immigration checkpoint in advance of declarations being submitted to Customs. This can potentially result in two separate time consuming inspections of the same cargo consignment. The mission suggests that potential exists for some streamlining and rationalization of the inspection process to ensure no consignment is inspected twice. As Customs inspection decisions are only during declaration processing this will necessarily require Quarantine to delay inspections until such time as the declarations are submitted.

37. The mission was informed that Customs officials give a high priority to trade facilitation and are attempting to further improve their risk management capabilities. The also noted that implementation of the ASYCUDA system has resulted in significant improvements in efficiency and reduced clearance times. They did note, however, that system reliability needs to be enhanced as they face frequent power outages and connectivity disruptions. While the power situation is expected to be improved soon once the project-financed generator is installed, the connectivity issue will need to be resolved through discussions with Lao Telecom (see specific discussion of this issue under Component A).

38. In terms of operational effectiveness, the mission remains concerned that the full potential of the ASYCUDA system to streamline Customs operations is not yet being realized. As elsewhere in Lao PDR, the processing of import, export and transit declarations only commences when a printed and signed copy of the declaration (and all required supporting documents) are submitted to Customs. This requirement effectively prevents pre-arrival processing of declarations and limits the capacity of Customs and other agencies to coordinate inspection activities. The mission has made recommendations on this issue in previous Aide Memoires and suggests the LCD give urgent attention to implementing a pilot project to test the feasibility of commencing processing, at least for selected high compliance traders that are utilizing DTI, prior to formal lodgment of supporting documents. Under such a pilot, documents with the required signatures could still be submitted and verified prior to final release being granted but green channel consignments could effectively be released immediately upon arrival and payment of duties, fees and charges.

39. While the mission was pleased to see the SmartTax system, initially piloted in Thanaleng, has also been implemented in Boten it currently only caters for payments for duties and taxes. Fees and charges, including the ASYCUDA user fee, need to be paid to the bank and the receipt taken by hand to Customs for verification prior to final release. Such an approach means that many of the potential efficiency and time saving benefits of the new system are not being realized. The mission recommends that the LCD work with the participating banks to ensure the SmartTax system be extended to cover all fees and charges associated with import, export and transit activities.

40. In terms of inter-agency coordination, the mission was informed that formal meetings of the heads of all agencies present at the border are held on a monthly basis complemented by day to day meetings on operational matters. The agencies present at the border are: LCD; the State Assets Management Agency; Veterinary; Quarantine; Immigration; Border Management Authority; and Public Security (Police). In addition, a representative of the Provincial Public Health Department

visits as required, and two commercial banks have established offices. Formal coordination meetings with officials on the PRC side of the border are convened on a quarterly basis and day to day coordination between Lao and PRC Customs officials is frequent particularly on operational matters pertaining to traffic management and are facilitated by staff with good Mandarin language ability. Information exchange is, however, extremely limited and no formal process for intelligence exchange is currently in place, at least at the local level.

41. The mission also discussed anti-smuggling activities and was advised that the checkpoint has had a great deal of success combating timber smuggling. Officials noted that in recent years they had detected 43 cases of timber smuggling totaling 82 tons of protected rosewood. The smuggled goods were typically detected during scanning or as a result of tip offs. The usual modus operandi was to conceal the timber under consignments of agricultural products. The checkpoint's success in this area is very encouraging and will no doubt be further strengthened when the LCD's anti-smuggling capabilities are enhanced under the proposed new technical assistance project to be financed out of the LEN-II project commences later in 2015.

Visit to Houaysay international checkpoint - Friendship Bridge # 4 and Golden Triangle EPZ (Bokeo Province)

42. On July 30 the mission visited the Friendship Bridge # 4 on the Thai border. Like the Boten checkpoint, the ASYCUDA system and SmartTax systems have been implemented and are delivering positive trade facilitation benefits including enhanced capacity to assess risk, improved capacity to determine value, and reduced processing time. Both systems seem to be well received by the trading community. The mission was informed that attention was paid to the delivery of training for both Customs officials and members of the trading community prior to implementation and this resulted in a relatively trouble free implementation process. Officials noted, however, that like the Boten checkpoint, frequent power outages and connectivity disruptions impact heavily on system performance and reliability.

43. The checkpoint is responsible for processing approximately 100 trucks per day of which 10 are imports for home consumption, 30 are in transit between Thailand and PRC, and the rest are temporary imports that will ultimately be exported to PRC after duties are paid on certain commodities. Only a very small number of trucks carry Lao exports to Thailand and approximately 25 trucks per day exist to Thailand empty. In addition, several coaches are processed each day and approximately 75 passenger vehicles are processed. Operating hours have been harmonized with Thailand. Imports for home consumption are typically transshipped onto Lao trucks for local delivery. Thai registered trucks carry transit consignments on to Boten where they are transshipped onto PRC registered trucks. Loading and unloading of transshipment goods is undertaken at the State owned warehouse which is located within the checkpoint precincts.

44. The checkpoint has no scanning facilities although officials advised that the purchase of a scanner is currently under consideration by LCD management. The mission noted, however, that there is a scanning facility in the nearby town of Houaysay which was previously used to support Customs operations prior to opening of the Bridge. Officials were not able to advise whether the scanner is still in operational condition or whether consideration had been given to moving it to the Bridge checkpoint. They also advised that Thai Customs authorities on the other side of the border scan all shipments to Lao PDR suggesting there is some potential for sharing of facilities/images. The mission was advised that provision has already been made to accommodate Thai Customs

officials within the checkpoint and that the Thai authorities have provided similar accommodation for Lao PDR customs officials. It seems, however, that the legal framework does not currently allow this very practical approach to be implemented. The mission was informed, however, that LCD is currently working on an MOU with Thai Customs to overcome this issue and allow officers from each country to be stationed on the other side of the border. They do not currently conduct any joint inspections or share intelligence at the checkpoint level relying instead on information provided by headquarters or local informants.

45. The mission also visited the Golden Triangle EPZ. The mission met with the Vice President of the EPZ Board. Apart from tourist and casino services, the zone is not currently able to attract any significant investments associated with manufacturing or agricultural product processing. Imports to the EPZ include mostly construction materials and food items. Major imports are from PRC and Thailand typically pass through the international customs checkpoints including Boten with PRC and the Friendship Bridge 4 with Thailand. The nearest Customs Office is five kilometers away from the boat landing gateway to the EPZ. Customs officers are not on duty at the zone but are called to clear cargo when required at the request of the zone authority. Without a full time Customs presence there is a risk that the zone could provide loopholes for smuggling. Given its location, risks include illicit trade in wildlife, timber and other prohibited goods. In such environment, and with infrequent cargo shipments the mission recommends that mobile inspection teams pay particular attention to the zone and environs to counter illegal activities.

ANNEX 4. List of International Customs Checkpoints with live operation of the ASYCUDA World System
Table 1. Additional Financing – Geographical Rollout of 10 checkpoints

Checkpoints	Date of rollout completion	Network Connection Mode
Phoukeu (Attapeu)	9-Feb-15	Fibre
Naphao (Khammouan)	11-Feb-15	Fibre
Paksan (Bolikhamsay)	18-Feb-15	Fibre
Namkan (Xieng Khouang)	1-Mar-15	Fibre
Namngern (Xayabouly)	2-Mar-15	Fibre
Nongnokkhien (Champasack)	1-Apr-15	Internet 3G
Phoudou (Xayabouly)	2-Apr-15	Internet 3G
Pahang (Houaphanh)	6-May-15	Internet 3G
Banmom (Bokeo)	7-May-15	Internet 3G
Panghok (Phongsaly)	18-May-15	Internet 3G

Note: Pakse and Luang Prabang Airports are not deployed with the system because of limited volume of trade.

Table 2. Original Financing – Main rollout in 11 checkpoints and the Rollout of SmartTax System in 2015

Checkpoints	Date of rollout completion	Network Connection Mode	SmartTax Rollout in 2015
Boten (Luang Namtha)	2012	Fibre	Yes
Namphao (Bolikhamsay)	2012	Fibre	
Friendship Bridge 1 (Vientiane Capital)	2011	Fibre	Yes
Friendship Bridge 2 (Savannakhet)	2012	Fibre	Yes
Friendship Bridge 3 (Khammuan)	2012	Fibre	Yes
Friendship Bridge 4 (Bokeo)	2012	Fibre	Yes
Vangtao (Champasack)	2012	Fibre	Yes
Dansavanh (Savannakhet)	2012	Fibre	Yes
Namheuang (Xayabouly)	2012	Fibre	
Namsouay (Houaphanh)	2012	Fibre	
Wattay International Airport (Vientiane Capital)	2012	Fibre	Yes

ANNEX 5. Detailed analysis of the result framework

46. The project has progressed well toward achieving the project development objective² (PDO). The project implementation remains broadly on track in delivering key outputs and results. The PDO consists of improving customs efficiency and effectiveness of customs administrations by simplifying the customs procedure that reduces time and cost for customs clearance including reduction of the share of goods being subject to (lengthy) physical inspection with the risk-based approach. At the previous missions in November 2014 and March 2015, the mission had already confirmed that the modest improvement in the share of physical inspections in customs control through the use of the ASYCUDA World selectivity module. Also, the 2014 Logistics Performance Index (LPI)³ has already shown that client perception of Lao customs performance and integrity increased from 2.38 (2012) to 2.45 (2014) in a scale of scores from 1 to 5. As a results of the project interventions, Lao Customs has performed slightly better with some improvements in efficiency of customs clearance processes by having faster, simpler and more predictable formalities for clearing imports, exports and transits. While no latest data available from Time Release Study (TRS), the mission also confirmed during the field visits that the ASYCUDA World system has been successfully rolled out and in live operation in deployed checkpoints. LCD will conduct the third TRS by the end of 2015.

47. Lao PDR Customs has also made some favorable progress in risk management capacity through the application of the selectivity module in ASYCUDA World. The automated selectivity system is in live operation now in all 21 locations. The latest selectivity data from ASYCUDA World for November 2014 – July 2015 was made available to the Mission. Compared to previous data, customs clearance is getting improved by being able to reduce the full physical inspection by 2 percentage point from 52 percent in September 2014. There have been also some adjustments in routing more customs declarations through the yellow channel for full document check while and decreasing those that route through the blue channel for goods subject to post clearance audit. This is a reasonable action to reduce redundancy in the customs clearance process. It means that more goods subject to post clearance audit are now routed straight away to the yellow channel for full document check without first routing through the blue channel and then rerouting to the yellow channel. Overall, an increase in customs declarations routed through the green channel has demonstrated a good sign of improvement in the efficiency of Lao PDR’s customs clearance.

Table 1. Routing of customs declarations through selectivity channel

Time Intervals	Green	Yellow	Blue	Red	Total
Oct 2013-Sep 2014	13%	28%	6%	52%	100 %
Oct 2014-Jul 2015	14%	29%	7%	50%	100 %
Change (percentage point) from Sep 2014	1%	0%	0%	-2%	

Source: Lao Customs Department

² The project aims to facilitate trade by improving the efficiency and effectiveness of customs administration and simplifying customs procedures to eliminate duplication and redundancy, reduce transactions costs and time to clear goods, and increase transparency and accountability.

³ World Bank (2014). Connecting to compete—trade logistics in the global economy. Logistics Performance Index and Its Indicators. Washington, DC.

48. The remaining interventions will complement the observed results to date to achieve final targets. On the ICT infrastructure, the rollout of the ASYCUDA is considered successfully completed. The two remaining checkpoints—Luang Prabang International Airport and Pakse International Airport—are not rolled out due to limited trade volume. Currently, there is almost no air cargos through these two checkpoints. Air transport services focus only on passengers' travels including transits for tourism. Further effort by LCD will be to ensure that most compliant traders with DTI connection can have their goods cleared in advance without lodging their customs declarations in parallel until the goods are ready to be released by Customs. Traders will submit their documents only once when paying duties and customs release of goods. The pilot is planned for early 2016. These interventions will further improve the efficiency of the customs administration in facilitating imports, exports and transits

49. The ongoing intervention on the customs modernization will strengthen the capability and effectiveness of Lao PDR's customs administration through the Customs Training Center Development Program and the Customs Capacity Enhancement Program for both senior and mid-level customs officers. The first program will strengthen capability of customs officers through a full functioning Customs Training Center (Academy) with short-term good practice training courses including WCO e-learning materials for all customs officers. The second program will introduce a range of new and improved customs procedures in line with international standards and accepted good practice principles and will focus on enhancing and building LCD capacity in risk management and intelligence, the implementation of a compliance improvement strategy, the introduction of administrative appeals mechanism, the development and piloting of an Authorized Economic Operator (AEO) regime, as well as client service standards and related performance monitoring systems, and support for change management and enhanced communication capabilities.

ANNEX 6. Attached an update to the Result Framework
Revised Project Results Framework – Customs and Trade Facilitation Project

Project Development Objective (PDO): To facilitate trade by improving the efficiency and effectiveness of customs administration and simplifying customs procedures to eliminate duplication and redundancy, reduce transactions costs and time to clear goods, and increase transparency and accountability.												
PDO Level Results Indicators	Core	UOM ⁴	Baseline Original Project Start (2009)	Progress To Date (2012)	Cumulative Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2013	2014	2015	2016				
1. Reduction in mean import, export and transit clearance times for commercial shipments by 10 percent per year.	<input type="checkbox"/>	Hours	17.9	11.2	10.1	9.1	8.2	7.4	Every 1-2 years	Time Release Survey (TRS)	LCD	Reduction in mean time to clear imports of 34% during 2009-12
				Actual	No data	No data	No data					
2. Reduction in the number of steps to clear commercial shipments by 25 percent.	<input type="checkbox"/>	Number of steps	9 / 7 (import / export)	5 / 4	5 / 4	4 / 3	4 / 3	4 / 3	Every 1-2 years	LCD regulations	LCD	Reduction in number of steps to import from 9 to 5 and to export from 7 to 4 during 2009-12
				Actual	5 / 4	5 / 4	5 / 4					
3. Increase in the ratio of detections/inspections by 10 percent per year [based on available ASYCUDA data and reports for the purposes of customs control].	<input type="checkbox"/>	%	N/A	1.2	1.5	1.9	2.3	2.9	Annual	ASYCUDA management reports	LCD	Indicator of increased use and effectiveness of customs risk management and ASYCUDA selectivity
				Actual	No data	0.88 ⁵	0.91 ⁶					

⁴ UOM = Unit of Measurement.

⁵ The ratio was calculated based on the selectivity data (October 2013-March 2014) from the Lao Customs Department

⁶ The ratio was calculated based on the selectivity data (Nov 2014 – July 2015) from the Lao Customs Department.

4. Increase in client perceptions of customs performance and integrity as measured by World Bank survey results by 25 percent.	<input type="checkbox"/>	Index	2.08	2.38	2.5	2.6	2.7	2.8	Every 2-3 years	Logistics Performance Index (LPI)	WB	Sustained improvements in performance as measured by the LPI. Next LPI to be issued in 2016
				Actual	No data	2.45	No data					
Intermediate Results and Indicators												
Intermediate Results Indicators	Core	UOM	Baseline Original Project Start (2009)	Progress To Date (2012)	Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2013	2014	2015	2016				
Intermediate Result 1: Improved customs processes and procedures.												
1. Full acceptance of electronic data submission for customs declaration procedures by the end of 2013	<input type="checkbox"/>	Text	Not initiated	Partially completed	Completed					Progress reports	LCD	Pilot would be completed by next mission (Jan 2016)
					Partially completed		Partially completed : Pilot to be conducted					
Intermediate Result 2: Improved ICT infrastructure which supports the implementation of the new customs processes and procedures and is sustainable and reliable.												
2. Prototype developed and accepted by government	<input type="checkbox"/>	Text	Not initiated	Completed						Progress reports	LCD	Task completed at AF approval
3. Accepted prototype validated at pilot site	<input type="checkbox"/>	Text	Not initiated	Completed						Progress reports	LCD	Task completed at AF approval

4. Prototype replicated at remaining checkpoint sites	<input type="checkbox"/>	Text	Not initiated	Planned 11 checkpoint Completed						Progress reports	LCD	Original No. of checkpoint to replicate was 11. AF finances additional 12 checkpoints.
5. Integrated ICT system is in place by 2011, pilot completed and reviewed by 2012, and fully operational in all implementation sites by 2014.	<input type="checkbox"/>	Text	Not initiated	Original 11 checked point completed			Completed: Roll out at 10 out of 12 checkpoints completed			Progress reports	LCD	AF covers additional 12 sites to roll out the prototype. However, the remaining two checkpoint would be dropped from the plan due to its little volume traded.
6. Appropriate front line staff and affected traders trained in advance of pilot testing and pre nationwide rollout.	<input type="checkbox"/>	Text	Not initiated	Original 11 checked point completed			Roll out at 10 out of 12 checkpoints completed			Progress reports	LCD	AF covers additional 12 sites to roll out the prototype by end of the project