



Report and Recommendation of the President to the Board of Directors

Project Number: 43120-026
Grant Number: 0296-LAO
September 2017

Proposed Grant for Additional Financing Lao People's Democratic Republic: Trade Facilitation: Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion Trade Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 11 September 2017)

Currency unit	–	kip (KN)
KN1.00	=	\$0.00012
\$1.00	=	KN8,294.50

ABBREVIATIONS

ADB	–	Asian Development Bank
AFF	–	agriculture, food, and forestry
ASEAN	–	Association of Southeast Asian Nations
CIU	–	component implementation unit
GMS	–	Greater Mekong Subregion
Lao PDR	–	Lao People's Democratic Republic
MAF	–	Ministry of Agriculture and Forestry
PMU	–	project management unit
PRC	–	People's Republic of China
SPS	–	sanitary and phytosanitary
TA	–	technical assistance

NOTE

In this report, "\$" refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 43120-026	
Project Name	Trade Facilitation: Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion Trade Project	Department /Division	SERD/SEPF
Country Borrower	Lao People's Democratic Republic Lao PDR	Executing Agency	Ministry of Agriculture and Forestry
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Industry and trade	Trade and services		10.00
		Total	10.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 2: Trade and investment		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Some gender elements (SGE)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	Yes	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG4, SDG8, SDG17		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		10.00	
Sovereign Project grant: Asian Development Fund		10.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.32	
Government		0.32	
Total		10.32	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed grant to the Lao People's Democratic Republic (Lao PDR) for the additional financing of the Trade Facilitation: Improved Sanitary and Phytosanitary (SPS) Handling in Greater Mekong Subregion (GMS) Trade Project.¹

2. The Asian Development Bank (ADB) approved the original Trade Facilitation: Improved SPS Handling in GMS Trade Project in June 2012.² The project aims to strengthen institutional support and develop capacity for SPS handling in Cambodia and the Lao PDR through improved surveillance and monitoring of plant health, animal health, and food safety; the creation of a pool of SPS specialists through better tertiary education in food sciences; and enhanced regional cooperation in SPS handling.³ Based on the success of the current project in its delivery of outputs, the Government of the Lao PDR requested additional financing to scale up project activities, include additional provinces for support under the project, and commence nationwide rollout of the food safety management system.⁴ The project will facilitate greater trade in agriculture, food, and forestry (AFF) products through an increase in focus on improving SPS measures for plant health, animal health, and food safety applicable to key trade requirements of the GMS. The additional financing will scale up activities in the three main outputs: (i) surveillance and inspection for plant health, animal health, and food safety; (ii) enhanced education levels and university training of SPS specialists; and (iii) regional cooperation and harmonization for SPS measures and practices. The project will be implemented by the Lao PDR Ministry of Agriculture and Forestry (MAF). The current project's approach and structure remain valid.

II. THE PROJECT

A. Rationale

3. The current project was developed based on the commitment of the Lao PDR to implement the GMS regional cooperation strategy of connectivity and competitiveness.⁵ While recent investments in physical infrastructure have improved connectivity and created new opportunities for trade, governments in the region recognize that weak national legal, institutional, and operational capacity for delivering SPS services has hindered the establishment of a harmonized and robust GMS framework for SPS, which has impeded growth in exports of food products and incomes of farm households. Governments in the GMS need to invest in national SPS management systems from farm to table, and coordinate SPS service delivery better across jurisdictions.⁶ The current project has been successful in improving legal, institutional, and

¹ The design and monitoring framework is in Appendix 1.

² ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loans, Grant, and Technical Assistance to the Kingdom of Cambodia and Lao People's Democratic Republic: Trade Facilitation: Improved Sanitary and Phytosanitary Handling in the Greater Mekong Subregion*. Manila. SPS measures and issues are defined in the 1994 World Trade Organization Subsidiary Agreement on the Application of Sanitary and Phytosanitary Measures.

³ The GMS includes Cambodia, the People's Republic of China, the Lao PDR, Myanmar, Thailand, and Viet Nam.

⁴ The Government of Cambodia has deferred its request for additional financing as it continues to implement activities under the current project and TA 8732-REG.

⁵ Greater Mekong Subregion. 1992. GMS Economic Cooperation Program. GMS.

⁶ ADB. 2012. *Technical Assistance for Implementing the Greater Mekong Subregion Core Agriculture Support Program (Phase 2)*. Manila. (TA 8163-REG). This TA is facilitating the development of the GMS Strategy and Action Plan on *Promoting Safe and Environment Friendly Agro-Based Value Chains in the Greater Mekong Subregion for 2018–2022*. Based on an agro-based value chain approach, the strategy has two pillars: policies and investments, and certification of food safety and quality. The resulting GMS strategy and action plan document is envisaged for endorsement by the GMS agriculture ministers during the third quarter of 2017.

operational capacities for SPS service delivery in Cambodia and the Lao PDR; including management and cooperation on essential SPS issues to be resolved in the region. Achievements under the project include market access agreements with bilateral trading partners for key AFF exports, upgrades to laboratory equipment crucial for testing and analysis of plant and animal health and food safety, and updated curricula and teaching methodology for SPS education in the Faculty of Agriculture at the National University of Laos. Under the current project, the governments of Cambodia and the Lao PDR have successfully pilot tested a food safety scheme involving the assessment and grading of food establishments. Technical assistance (TA) on Enhancing Capacity for SPS Arrangements to Facilitate Trade in the GMS is also supporting progress by providing for cooperation between customs and SPS agencies, regional capacity building, and the development of a monitoring and evaluation framework (footnote 4). National trade data show clear benefits such as the increased export volume of AFF goods resulting from improved SPS management systems under ADB's support. For example, under the framework of market access agreements with bilateral partners, rice exports from the Lao PDR to the People's Republic of China have increased 400% from 2015 to 2017.⁷ Other AFF products experienced robust export growth from 2012 to 2015, such as corn (67%) and cassava (328%).

4. Despite this progress, additional financing is required to support reforms in the Lao PDR to enhance SPS institutions and operational capacity in line with the country's GMS commitments.⁸ The current project focuses on improved surveillance and monitoring of plant health, animal health, and food safety in three provinces⁹, while additional provinces such as Savannakhet and Oudomxay require support under the project. Additional financing will facilitate the rollout of a national food safety management system, including a ratings scheme of food establishments, to improve food safety for the population and visitors to the Lao PDR. Enhancing food safety in the Lao PDR will boost its reputation as a tourism destination, which is imperative as tourism accounts for 6.4% of gross domestic product. The first batch of food science students from the project will graduate in 2018, and additional investments are needed to ensure a sufficient number of qualified food scientists in the long term.

5. **Eligibility criteria for additional financing.** The proposed project meets the eligibility criteria of being: (i) technically feasible, economically viable, and financially sound; (ii) accorded high priority by the government; and (iii) consistent with the project's developmental objectives. As the current country partnership strategy for 2017–2021 is being drafted, the additional financing is included in the country operations business plan for the Lao PDR, 2017–2019.¹⁰ The review missions for the project confirmed its technical and economic viability, and economic soundness. Based on the targets of the Lao PDR National Strategy for Agricultural Development, 2011–2022,¹¹ the project is aligned with government priorities. The proposal for additional financing will allow a scale-up of project activities in outputs 1 to 3, expanding coverage to additional provinces, supporting the nationwide rollout of the ratings scheme of food establishments, and enhancing the Lao PDR's coordination on SPS matters in the GMS. The current project is also aligned with the GMS 10-year Strategic Framework, 2012–2022¹² and facilitates cross-border trade and investment, including continued progress of the Lao PDR's SPS management and monitoring under the current project. The project will contribute to pillar 4 (cooperation in regional public goods) of ADB's Regional Cooperation and Integration Strategy.¹³

⁷ Other bilateral market access agreement partners include Thailand and Viet Nam.

⁸ Based on current project implementation progress, additional financing will be provided to the Lao PDR while additional support will be provided to Cambodia at a later stage.

⁹ Vientiane capital, Luang Prabang and Pakse

¹⁰ ADB. 2016. *Lao PDR Country Operations Business Plan (2017-2019)*. Manila.

¹¹ Government of the Lao PDR, MAF. 2010. *Strategy for Agricultural Development 2011 to 2022*. Vientiane.

¹² ADB. 2012. *GMS Economic Cooperation Program Strategic Framework (2012-2022)*. Manila.

¹³ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

6. Only two of the top five exports from the Lao PDR are AFF products, while over 70% of its labor force is engaged in agriculture. Exports of other AFF products could be expanded significantly by raising productivity in agriculture and reducing SPS-related barriers to exports of these products through market access agreements with trading partners for key crops. From 2010 to 2014, exports of AFF products increased by over 90%.¹⁴ Nevertheless, poor SPS management capacities continue to limit market access for many AFF products from the Lao PDR, both in the GMS and globally. The Government of the Lao PDR has limited institutional and human resources to protect crops, livestock, and consumers against health hazards caused by plant pests, animal diseases, and food-borne diseases. While the current project has facilitated better SPS systems, the Lao PDR needs more sustained and scaled up assistance to ensure longer-term SPS capabilities. Effective national SPS management systems are building blocks for regional harmonization and for establishing trust among GMS countries in each other's SPS measures.

7. Despite the significant improvement resulting from the current project, Lao PDR continues to face challenges in: (i) undertaking surveys on crop pests and diseases required by market access agreements; (ii) undertaking risk management through inspections and interceptions of imported products; (iii) monitoring trade and use of agricultural pesticides required by market access agreements; (iv) updating and understanding new risks of forest pest spread associated with trade in wood and forest products; and (v) maintaining and expanding the regional trade in crop products. Lao PDR also needs to: (i) continue containment of transboundary animal diseases; (ii) improve surveillance of veterinary drugs and feed; and (iii) improve animal food product safety. Food safety practices are poor and awareness of the importance of food safety is low, resulting in very high levels of food-borne illness; inadequate attention to food safety in food establishments; and inadequate monitoring of food, food establishments, and food poisoning outbreaks. Food safety supervision has added importance, given the increasing tourist volumes in the Lao PDR.

8. Compliance with global SPS requirements requires national specialists to undertake tasks related to surveillance, risk analysis, testing, pest identification, production standards, and conformity assessment. Given the large proportion of the local labor force in the agriculture sector, it is important to invest in the education of future SPS specialists who will help ensure the quality and safety of AFF goods. Trading partners and private companies often require the application of good agricultural practices, good manufacturing practices, and quality assurance management (such as hazard analysis critical control point systems). The Association of Southeast Asian Nations has established regional cooperation on food safety and harmonized standards recognition for agricultural products. GMS countries are considering the establishment of a trade facilitation working group, with two subgroups for customs and SPS, to meet as required.¹⁵ As the Lao PDR increasingly participates in regional and global trade, it will need to ensure that AFF goods exports meet the stringent standards of importing countries. However, specialists who can perform these surveillance and analytical tasks are lacking. The current project introduced SPS training at the National University of Laos, and the first batch of locally trained SPS specialists will join the workforce in 2018. Continued support in this area would help strengthen the capacities of SPS agencies in the Lao PDR by supplementing their staff with locally trained experts.

9. **Lessons.** The project builds on past and ongoing technical assistance related to SPS supported by development partners and ADB. Enforcement of SPS standards and management systems remains a challenge in the Lao PDR. Experience shows that due to limited government absorptive capacity, donors must adopt a phased approach to formulate well-targeted and

¹⁴ Government of the Lao PDR, Lao PDR Trade Portal. <http://laotradeportal.gov.la/index.php>.

¹⁵ The proposal to reactivate the trade facilitation working group will be submitted for consideration and endorsement by the GMS ministers in September 2017.

sequenced projects to ensure the implementation of bilateral and regional commitments on cooperation and harmonization. An integrated approach to the three main areas of concern (i.e. food safety, animal health and plant health) is beneficial so as to develop a common framework for SPS standards. Development partners such as the Food and Agriculture Organization of the United Nations and the United States Agency for International Development support other aspects of SPS capacity building in the GMS, including legislative and regulatory reform, which complement the project and contribute to addressing SPS issues comprehensively.

10. The current project has delivered pest lists for 11 crops, which were crucial for meeting bilateral market access agreements requirements, as well as food safety training to improve risk management and hazard response, including for food manufacturing establishments. The current project is rated *on track* by ADB's project performance rating system. As of 31 August 2017, overall physical implementation progress of the project was estimated at 93% against the elapsed implementation period of 91%. Cumulative contract awards amount to \$13.4 million or 97% of net project amount while cumulative disbursements amount to \$12 million or 87% of net project amount. Identified risks such as weak institutional capacity were mitigated through staff training and capacity building in the project management unit as well as component implementation units (CIUs). Since project effectiveness, ADB has conducted seven review missions and confirmed that: (i) implementation progress has been satisfactory and no substantial changes to project design and approach are envisioned; (ii) MAF and CIUs have the capacity, experience, and expertise needed to implement ADB-financed projects; and (iii) the current project interventions have produced tangible benefits to the Lao PDR. Cambodia has opted to defer any additional financing until 2019, in line with its implementation schedule for completing activities and the project pipeline.

B. Impact and Outcome

11. The impact remains unchanged for the additional financing project: Lao PDR AFF products that are safer, more efficiently produced, and traded in greater quantities. The outcome will be an enhanced SPS management system in the Lao PDR, which will contribute to intraregional trade, export competitiveness, and health protection. With additional financing, current project progress will be scaled up to include coverage of more provinces¹⁶ in the Lao PDR and a greater number of staff receiving capacity building.

C. Outputs

1. Output 1: Strengthened Surveillance and Inspection Programs

12. **Plant health.** Assistance will continue to focus on: (i) surveillance to maintain the pest lists for 15 products developed under the current project and additional pest lists for another five crops for use in market access arrangements with countries such as the People's Republic of China (PRC), Thailand, and Viet Nam (the current project enabled market access agreements for rice exports to the PRC, and additional financing will support additional crops such as Job's tears, and cassava market access agreements); (ii) strengthening related pest identification, diagnostic, and analytical services through investments in laboratory facilities, equipment, and training; (iii) improving the capacity to approve pesticides formulation analysis, monitoring, and its residual testing; (iv) improving the capacity to respond to pest forecast and outbreaks; (v) doubling the capacity to provide post-entry quarantine for new plant species following the construction of the first post-entry quarantine facility under the current project; and (vi) improving

¹⁶ Including Bolikhamxay, Champasak, Khammuane, Xiengkhouang, and Savannakhet.

international reporting of pest situations and strengthening the supply chains associated with crop products.

13. **Animal health.** The focus will continue to be on: (i) strengthening transboundary animal diseases surveillance and response programs by extending the transboundary animal diseases surveillance work being undertaken in two provinces under the current project to two further provinces; (ii) improving disease management capacities for priority transboundary animal diseases (foot-and-mouth disease and classical swine fever); (iii) improving the management of risks associated with the movement of live animals, with additional financing supporting the development and implementation of a national strategy to control illegal animal trade;¹⁷ and (iv) improving the monitoring of veterinary drugs, animal feeds, and animal products safety monitoring.

14. **Food safety.** The focus will continue to be on: (i) maintaining and expanding the size of the current food safety surveillance program to assess more hazards and ensure its effective implementation nationwide after the pilot work done under the current project; (ii) providing training to 700 more food establishments on food safety hazards management, in addition to the 800 food premises trained under the current project, and grading a further 360 food premises in addition to the 360 premises graded under the current project; (iii) providing specific training in good manufacturing practices and good hygiene practices for target food processing companies and certification for a subset of these (targeting those keen on exporting); and (iv) improving food-borne illness response capacity, which will include selectively strengthening laboratory capacities with upgraded microbial testing abilities to identify key microbiological risks such as salmonella. The project will raise awareness and improve the implementation of food safety standards in the food processing and tourist industries by promoting good hygiene practices, good manufacturing practices, and enterprise grading.

2. Output 2: Improved Regional Cooperation and Harmonization

15. The current project supports the participation of the Lao PDR in various bilateral working groups and consultations on import handling, as well as national measures, in line with regional SPS requirements including those of the Association of Southeast Asian Nations. The project supports the Lao PDR's effective participation in regional fora such as the Southeast Asia and China Foot-and-Mouth Disease project; the International Food Safety Authorities Network; the Association of Southeast Asian Nations Rapid Alert System for Food and Feed; and twinning arrangements between the Lao PDR and other countries in the region on SPS issues. Through improvements in the national SPS framework, such as capacity building for surveillance, inspection, monitoring, and data collection, the project facilitates the Lao PDR's participation and contribution to regional SPS information exchange and cooperation on mutual recognition and harmonization of standards and regulations. The project will also continue to support SPS cooperation through bilateral working groups in plant health, animal health, and food safety.¹⁸

3. Output 3: Enhanced Education Levels and University Training of Sanitary and Phytosanitary Specialists

16. The project will focus on upgrading academic education for SPS specialists at the Faculty of Agriculture at the National University of Laos. This will cover: (i) curricula updates following curricula development provided in the current project, including harmonization in line with regional

¹⁷ Implementation will focus on provinces with international border posts and high levels of transit activity.

¹⁸ This will include the establishment of new bilateral groups (e.g., on plant health between the Lao PDR and Viet Nam) where necessary.

standards where relevant; (ii) teaching quality improvement; (iii) training opportunities such as MAF and Ministry of Health internships for students; and (iv) further upgrading of faculty laboratory and teaching facilities.

D. Investment and Financing Plans

17. The original Lao PDR project was estimated to cost \$14.46 million.¹⁹ With additional financing, the Lao PDR project is estimated to cost \$24.78 million.

Table 1: Project Investment Plan²⁰ (\$ million)

Item	Current Amount ^a	Additional Financing ^b	Total
A. Base Cost^c	Lao PDR	Lao PDR	
1. Plant health	3.12	3.09	6.21
2. Animal health	3.40	2.04	5.44
3. Food safety	2.48	2.42	4.90
4. Academic education	2.20	0.65	2.85
5. Project management	2.38	1.61	3.99
Subtotal (A)	13.58	9.81	23.39
B. Contingencies^d (B)	0.78	0.50	1.28
C. Interest During Implementation^e (C)	0.10	0.00	0.10
Total (A+B+C)	14.46	10.32	24.78

Note: Numbers may not sum precisely because of rounding.

^a Refers to the original amount. Includes taxes and duties of \$0.616 million to be financed from ADB grant resources.

^b Includes taxes and duties of \$0.553 million to be financed from the grant proceeds. Recurrent costs make up about 22% of additional financing.

^c In 2017 prices.

^d For the current amount, physical contingencies are computed at 5%–10% for civil works and 5%–10% for field research and development, training, surveys, and studies. Price contingencies computed on the basis of Asian Development Bank international and domestic price escalation factors for the Lao People's Democratic Republic; include provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate. For the additional financing, physical contingencies computed at 2.9% of the base cost, and price contingencies computed at 2.4% of the base cost of investment costs (civil works, equipment, consulting services, training, awareness, campaigns, workshops and meetings, and laboratory systems support) and of recurrent costs (consumable goods and services, and maintenance and operating expenses).

^e Interest during implementation for the Asian Development Bank loan has been computed on standard Asian Development Fund terms—at 1.0% per annum.

Source: Asian Development Bank estimates.

Table 2: Financing Plan

Source	Current Lao PDR		Additional Financing Lao PDR		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
ADB loan	3.00	20.75	0.00	0.00	3.00	12.11
ADB grant	11.00	76.07	10.00	96.95	21.00	84.76
Government	0.46	3.18	0.32	3.05	0.78	3.13
Total	14.46	100.00	10.32	100.00	24.78	100.00

ADB = Asian Development Bank, Lao PDR = Lao People's Democratic Republic.

Note: Bank charges related to the imprest account will be financed through the grant proceeds.

Source: Asian Development Bank estimates.

¹⁹ See footnote 2. This is part of a regional project for Cambodia and the Lao PDR that included the Cambodia loan of \$11 million and the Lao PDR loan of \$3 million and grant of \$11 million.

²⁰ A country's eligibility for Asian Development Fund grants under the revised grant framework is determined by its risk of debt distress. The latest debt sustainability analysis determined that the Lao PDR had a high risk of debt distress and was therefore eligible to receive 100% of its Asian Development Fund allocation as grants.

18. The Government of the Lao PDR has requested a grant not exceeding \$10 million from ADB's Special Funds resources (Asian Development Fund) to help finance the project. ADB's total contribution will be \$24 million, amounting to 96.9% of the total project cost. ADB will finance recurrent costs to ensure smooth project implementation and longer-term capacity development. In the original financing, the Government of the Lao PDR financed the equivalent of \$0.46 million. For the additional financing, the Government of the Lao PDR will finance the equivalent of \$0.32 million to cover the costs of staff, office space, and other in-kind contributions.

E. Implementation Arrangements

19. Based on its positive project implementation track record, MAF's Department of Planning will continue to be the project executing agency, or project management unit (PMU). The PMU will continue to assume its role under the expanded project. The CIUs will also continue to oversee their respective outputs. The CIUs will be the Department of Agriculture, the Department of Livestock and Fisheries, the Food and Drugs Department, and the Faculty of Agriculture at the National University of Laos. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.²¹

20. All procurement financed by the ADB grant will be carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Consultant recruitment will be carried out in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Project implementation, procurement, and financial management will be aligned with the government's standard operating procedures. A project advance account established at the Ministry of Finance, and a sub-account administered by the PMU, will be consolidated and audited annually by auditors acceptable to ADB.

Table 3: Implementation Arrangements

Aspects	Arrangements	
Implementation period	January 2018–December 2020	
Estimated completion date	31 December 2020 (Grant closing date: 30 June 2021)	
Management		
(i) Oversight body	Project steering committee chaired by MAF; members consist of CIU leads	
(ii) Executing agency	MAF	
(iii) Key implementing agencies	Department of Agriculture; Department of Livestock and Fisheries; Food and Drugs Department; and Faculty of Agriculture (National University of Laos)	
(iv) Implementation unit	PMU (8 staff), each component implementation unit (2–3 staff)	
		Lao PDR
Procurement	National competitive bidding	Multiple contracts (\$2.964 million)
	Shopping	Multiple contracts (\$0.098 million)
	Direct purchase	Multiple contracts (\$0.089 million)
Consulting services	Individual consultants ^a	31 contracts; 98 person-months (international); 186.0 person-months (national) (\$2.274 million)
	Least-cost selection method	2 contracts; 7.5 person-months (international); 7.5 person-months (national) (\$0.155 million)
	Single source selection	5 contracts; 29.0 person-months (international); 84.0 person-months (national) (\$0.757 million)
Advance contracting	Advance contracting of PMU project management and financial consultants in Q3–Q4 2017 for the following positions: international project management and procurement advisor; national financial management specialist; national procurement specialist; project administrative assistant; secretary.	

²¹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements
Disbursement	The grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed upon between the Government of Lao PDR and ADB.

ADB = Asian Development Bank, Lao PDR = Lao People's Democratic Republic, MAF = Ministry of Agriculture and Forestry, PMU = project management unit, Q = quarter.

^a The recruitment of 31 individual consultants instead of a firm is supported in view of the experience of the PMU.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

21. A key feature of the project technical design is to focus on the components dealing with plant health, animal health, food safety, and academic education for SPS capacity development in the Lao PDR. Despite the institutional breadth in each component, technical interventions are similar in focusing on strengthening surveillance and inspection systems, upgrading human resources, and involving the provision of a range of technical expertise, training, workshops, and hardware to achieve this purpose. The additional financing project design will continue to focus on individual components (i.e., plant health, animal health, food safety, and education) to ensure continued progress in these aspects.

22. The major technical design parameters are (i) a recognition that plant, animal, and food safety surveillance systems start from a low information and human capacity base, and that enhancing SPS capacity should take a pragmatic and practical approach; (ii) promoting simple and cost-effective approaches where possible (e.g., the use of rapid test kits and construction of shared laboratory facilities); and (iii) an emphasis on strengthening university teaching as opposed to research. The project has been designed to complement ongoing and planned interventions by various development partners and ADB. Subregional cooperation is promoted through participation in regional SPS fora, bilateral working groups, information exchange, mutual recognition of standards, training attachments, academic exchanges, and twinning arrangements.

B. Economic and Financial

23. The economic rationale for the project is that SPS services address market inadequacies pertaining to public goods (including regional public goods), asymmetric information, negative externalities, and coordination failures in protecting plant and animal health and ensuring food safety. The project is expected to engender significant economic benefits, including an increase in the income of producers and exporters of AFF products as a result of lower SPS-related trade barriers, an increase in farmers' incomes owing to higher crop yields, a decrease in farmers' losses from animal diseases, a reduction of the country's economic losses resulting from food-borne diseases, and an increase in domestic income generated by tourism. With an economic internal rate of return of 11.5% and a considerable positive impact on government revenue, the project is economically justifiable and financially sustainable.²²

C. Governance

24. The financial management assessment concluded that the overall fiduciary risk in the Lao PDR is moderate. This assessment is based on concerns regarding: (i) transparency in the use of public finances with limited public access to government budget and financial information; (ii) low awareness of modern internal controls in the public sector; and (iii) weak government

²² Economic Analysis (accessible from the list of linked documents in Appendix 2).

oversight and the slow pace of reform. The assessment recommended that detailed consolidated annual project financial statements be audited in accordance with international standards on auditing by an auditor acceptable to ADB, such as the State Audit Organisation of the Lao PDR. The PMU will prepare and submit to ADB quarterly project progress reports, which will include: (i) a narrative description of physical and financial progress made during the reporting period; (ii) changes in the implementation schedule; (iii) problems or difficulties encountered; and (iv) activities to be undertaken in the next reporting period.

25. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government. The specific policy requirements and supplementary measures are described in the project administration manuals (footnote 19).

D. Poverty and Social

26. The project will increase trade in the Lao PDR's AFF products as their safety improves and they gain acceptance in foreign markets. Improved SPS handling of AFF products will enhance agricultural productivity, making AFF trade more predictable and lowering transaction costs. This should lower consumer prices in markets, contributing to improved living standards and increased competitiveness of the Lao PDR. An improved surveillance and outbreak response to livestock diseases will benefit rural households, as animal mortality will be reduced. Improved national food surveillance reduces exposure to illness and time off work for all, including the poor. Regarding tourism, grading will stabilize and formalize food establishments, indirectly sustaining the employment of workers in food preparation and serving. The grading visits and audits of national food safety surveillance systems will also generate formal employment.

27. The current project is categorized as having some gender benefits, and the additional financing will align with this. Gender analysis was conducted during project preparation, and targets on women's participation in training were included in the project design and monitoring framework and loan covenants. Sex-disaggregated data collection was integrated into the project's monitoring and evaluation system. Gender targets have been met under the current project. As of 31 August 2017, 370 (56%) out of 660 participants of training in food safety handling and good manufacturing practice were females (target 30%), 40% of participants in SPS training were females (target 30%), and more than 50% of PMU and CIU staff are women (target 30%). As women dominate agricultural employment in the Lao PDR²³ and their participation in tourist-related employment is high, they will particularly benefit from additional project investments. Selected gender targets, such as women's participation in training and the ratio of female staff in the PMU, have been identified and reflected in the design and monitoring framework.²⁴

E. Safeguards

28. The resettlement, environmental assessment and review, and indigenous peoples planning frameworks agreed by the government and ADB were updated based on ADB's Safeguard Policy Statement (2009). Compliance with safeguard policy and gender requirements of the current project is satisfactory. During project implementation, no negative environmental, resettlement, or indigenous peoples impacts were encountered as a result of project activities. Given the small scale and location of the proposed civil works, minimal impacts during construction are anticipated, and these can be dealt with by adhering to national environmental, health, and safety regulations. The additional financing project is classified category C for impacts on the environment, involuntary resettlement, and indigenous peoples.

²³ Women account for over 50% of workers engaged in agriculture in the Lao PDR.

²⁴ The target identification draws from the results and data collected under the current project.

F. Risks and Mitigating Measures

29. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and management plan.²⁵ The overall risk of the project is moderate, with mitigating measures. The project will strengthen staff capacity in financial management to allow efficient accounting and reporting of financial performance. It will establish or use existing ministerial websites to: (i) disclose project progress, bid notifications, and their results; and (ii) provide a grievance mechanism for corrupt practices.

Table 4: Summary of Risks and Mitigating Measures

Risk	Mitigating Measures
Public financial management. Lack of sustainability of project achievements after completion owing to insufficient government budget allocation to operations cost and systems maintenance.	The government has made assurances that it will allocate annual budgetary resources to cover recurrent costs related to the operation and maintenance of the surveillance, inspection, and monitoring systems for plant health, animal health, and food safety. The grant agreement includes a covenant requiring the government to allocate budget for sustaining SPS systems beyond the project implementation period.

Source: Asian Development Bank.

IV. ASSURANCES

30. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and grant documents.

31. The government has agreed with ADB on certain covenants for the project, which are set forth in the grant agreement.

V. RECOMMENDATION

32. I am satisfied that the proposed grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the grant not exceeding \$10,000,000 to the Lao People's Democratic Republic from ADB's Special Funds resources (Asian Development Fund) for the additional financing of the Trade Facilitation: Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion Trade Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Takehiko Nakao
President

12 September 2017

²⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

REVISED DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Current project AFF products become safer, more efficiently produced, and traded in greater quantities.			
Overall project¹ Unchanged and aligned with the Lao PDR MAF's Agricultural Development Strategy, 2011–2020			
Results Chain	Performance Indicators and Targets with Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Current project Enhanced SPS management systems Overall project Unchanged	Current project a. 3 crop- or product-specific market access agreements based on new pest and/or disease information by 2016 (2010 baseline 0) b. Effectiveness of animal disease outbreak response by 2016 (14 responses per year for Cambodia, 4 responses per year in the Lao PDR) c. Effectiveness of food hazard response (product, violation, dispossession, and compliance enforcement knowledge gained through training) by 2017 d. 1,260 tourist establishments and food processing enterprises in 6 major centers graded on good hygiene and manufacturing practices by 2017 (2010 baseline 0) e. GMS trading partners regard Cambodia and the Lao PDR plant, animal, and food SPS data and practices as more reliable by 2017 Overall project a. 6 crop- or product-specific market access agreements based on new pest and/or disease information in total by 2020 (baseline: 3 in 2016) b. Improved animal disease outbreak response in 4 provinces in the Lao PDR by 2020 (baseline: 2 provinces in 2017) Effectiveness of animal disease outbreak response by 2016 (14 responses per year for Cambodia) c. Unchanged d. Unchanged e. GMS trading partners regard Cambodia and the Lao PDR plant, animal, and food SPS data and practices as more reliable (timeliness and quality of reporting to partners and international organizations), with increased formal trade in the Lao PDR AFF products to the GMS by 2020 (annual value up 20%–25% from \$166 million in 2009)	National databases: MAF, ministries of health, RUA, FA-NUOL Attitudinal survey of Lao PDR regional trading partners Project completion report Survey reports	Risks Climate change adversely impacts crop production and export capabilities Major new health hazards (e.g., SARS, avian, or swine flu) emerge, resulting in reallocation of resources for SPS activities.

¹ The overall project outcome and outputs are applicable only to the Lao PDR as the Government of Cambodia has deferred its request for additional financing.

Results Chain	Performance Indicators and Targets with Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outputs</p> <p>Output 1</p> <p>Current project Strengthened surveillance and inspection programs</p> <p>Overall project Unchanged</p>	<p>1a.</p> <p>Current project Programmed annual surveys of pest and disease information for priority crops from 2012 to 2017 (2010 baseline no robust and systematic survey program in place)</p> <p>Overall project Programmed annual surveys provide pest and disease information, including pesticide formulation and residue analysis, covering priority crops in the Lao PDR, by 2020</p> <p>Programmed annual surveys of pest and disease information for priority crops from 2012 to 2017 in Cambodia</p> <p>1b.</p> <p>Current project Surveillance of transboundary animal diseases established in 2 provinces in the Lao PDR and 2-3 provinces in Cambodia by 2017 (2010 baseline no systematic risk-based surveillance)</p> <p>Overall project Surveillance of transboundary animal diseases established in 2 provinces in the Lao PDR and established risk-based surveillance and awareness of transboundary animal diseases in 4 provinces in the Lao PDR by 2020 (baseline: 2 provinces)</p> <p>Surveillance of transboundary animal diseases established in 2–3 provinces in Cambodia by 2017</p> <p>1c.</p> <p>Current project Risk-based, programmed annual food safety surveys and inspection established in the capitals of Cambodia and the Lao PDR; rolled out to 2 -3 areas in Cambodia and the Lao PDR by 2017 (2010 baseline: no systematic risk-based surveys)</p> <p>Overall project Risk-based, programmed annual food safety surveys and inspection capacity established in 6 provinces of the Lao PDR by 2020 with annual reporting showing a reduction in subsequent reported food outbreaks in those provinces; risk-based, programmed annual food safety surveys and inspection established in the capital of Cambodia</p>	<p>Project monitoring and evaluation reporting</p> <p>Quarterly and annual monitoring and evaluation reporting</p> <p>ADB review missions</p> <p>Annual reports of MAF</p> <p>National animal health and food safety institutions' reports</p>	<p>Lack of sustainability of project achievements after completion owing to insufficient government budget allocation to operational cost and systems maintenance</p>

Results Chain	Performance Indicators and Targets with Baselines	Data Sources and Reporting Mechanisms	Risks
	1d. Current project National food laboratories selectively upgraded by 2016 Overall project Unchanged		
Output 2 Current project Improved regional cooperation and harmonization Overall project Unchanged	2a. Current project Active participation in Southeast Asia China Food and Mouth Disease project, International Food Safety Authorities Network, and ASEAN Rapid Alert System for Food and Feed by sharing data and annual reporting by 2017 (2010 baseline: no systematic data sharing and reporting) Overall project Unchanged 2b. Current project Bilateral working groups held, topics discussed, and agreement reached by 2017 Overall project Bilateral working groups on plant health, animal health, and food safety established with memorandum of agreement signed for trade in key crops of the Lao PDR, by 2020 Bilateral working groups held, topics discussed, and agreement reached by 2017 in Cambodia 2c. Current project Institutional twinning arrangements implemented by 2017 Overall project Unchanged 2d. New target Information sharing undertaken on food safety regulatory requirements with ASEAN Food Safety Network in the Lao PDR by 2020	Project monitoring and evaluation reporting Bilateral working groups' reports ADB review missions	
Output 3 Current project Enhanced education levels and university training of SPS specialists Overall project	3a. Current project Teaching and laboratory facilities (3 departments and/or faculties shared microbiology laboratory in Cambodia, and 1 core faculty equipment in the Lao PDR upgraded by 2014) Overall project Unchanged	Project monitoring and evaluation reporting Annual reports of RUA, FA-	

Results Chain	Performance Indicators and Targets with Baselines	Data Sources and Reporting Mechanisms	Risks
Unchanged	<p>3b. Current project Plant pest and disease, animal pest and disease, food safety curricula upgraded, with associated teaching materials produced by 2016 (2010 baseline: insufficient curricula) Overall project Plant pest and disease, animal pest and disease, food safety curricula upgraded, with associated teaching materials produced by 2016; and collaboration between NUOL, MAF, and MOH strengthened in SPS surveillance, testing and diagnostics, teaching in the Lao PDR by 2020 (baseline in 2016: no collaboration with government agencies for surveillance and diagnostics, 1 semester of government agency guest teaching per year)</p> <p>3c. New target Postgraduate trainees completed courses (at least 30% female) 9 annual internships for students to find placement in MAF or MOH for on-the-job training in the Lao PDR by 2020 (baseline: no graduate trainees or internships in 2016)</p>	NUOL, and University of Health Sciences ADB review missions	
<p>Key Activities with Milestones</p> <p>1. Strengthened surveillance and inspection programs</p> <p>1.1 Plant health program</p> <p>1.1.1 Enhance quarantine facilities; boost inspection and monitoring measures on plant health, pesticides, and pest lists; construct a further post-entry quarantine facility; and have it fully operational by 2020.</p> <p>1.1.2 Conduct capacity building for staff in charge of plant protection and plant health in best practices training, fumigation protocols, laboratory management, and English language competency design, plan, implement, and maintain time-bound pest surveys (4 per year) on priority crops (corn, cabbage, and others to be determined) and develop new pests lists for a further 5 crops by 2020.</p> <p>1.1.3 Conduct capacity building for provincial stakeholders in drone surveillance and integrated pest management practices by farmers</p> <p>1.2 Animal health program</p> <p>1.2.1 Enhance laboratory facilities, boost inspection and monitoring measures on animal health especially priority transboundary animal diseases, safety of animal feeds, and meat production facilities</p> <p>1.2.2 Develop programs to raise awareness for animal health and handling practices, including TAD for new provinces in Bolikhamxay and Khammuane.</p> <p>1.2.3 Conduct capacity building for animal health inspection and surveillance, including training on outbreak investigation and response, and maintenance of database facilities for TAD and animal feed information.</p> <p>1.3. Food safety program</p> <p>1.3.1 Enhance laboratory facilities, boost inspection and monitoring measures on food safety including imported food risks, food-borne diseases.</p>			

<p>1.3.2 Conduct capacity building for food safety monitoring and inspection, including proficiency testing and regional training for inspection staff, and training and certification for restaurants and food processing establishments to enhance capacity for food safety measures.</p> <p>1.3.3 Develop risk-based assessment profiles, manuals, visual aids, and guides for inspection staff</p> <p>1.3.4 Develop campaigns and materials for raising awareness on food safety in at least 6 provinces by 2020.</p> <p>2. Improved regional cooperation and harmonization</p> <p>2.1 Participate in bilateral working group meetings held annually with the PRC, Thailand, and Viet Nam on plant health, animal health, and food safety.</p> <p>2.2 Participate in annual bilateral working group with Cambodia on animal health.</p> <p>2.3 Annual information sharing on plant and animal health management measures through ASEAN networks.</p> <p>3. Enhanced education levels and university training of SPS specialists</p> <p>3.1 Continue delivery of the revised SPS academic curricula from 2016</p> <p>3.2 FA-NUOL participants attend short courses (2 per year from 2018–2020; 30% of trainees are female)</p> <p>3.3 Award postgraduate scholarships to FA-NUOL staff and students (3 in total over 2018–2020; at least 30% are female)</p> <p>3.4 Provide on-site (i.e., at FA-NUOL) English language training (5–10 courses per year; 30% of students and staff attending are female).</p> <p>3.5 Upgrade departmental laboratory, including computers, by 2019</p> <p>3.6 Upgrade faculty transport (bus, van, pickup) provisions by 2019</p> <p>Project Management Activities</p> <p>Project management unit to be managed by local staff, with advisory support from international expert, to continue administering improved SPS management mechanisms</p> <p>Technical advisory and national steering committee meetings</p> <p>Annual project review report and project monitoring and evaluation</p> <p>Awareness and stakeholder workshops (from 2018)</p> <p>At least 50% of female staff in PMU</p> <p>English proficiency training for key project staff</p> <p>Maintain and operate PMU in accordance with financial management manual, procurement manual, and monitoring and evaluation framework prepared by the end of 2012, ADB and government rules and legislation</p>
<p>Inputs</p> <p>ADB: \$3 million loan (current), \$11 million grant (current), \$10 million grant (additional), \$24 million (overall)</p> <p>Government: \$0.46 million (current), \$0.31 million (additional), \$0.77 million (overall)</p>
<p>Assumptions for Partner Financing</p> <p>Unchanged</p>

ADB = Asian Development Bank; AFF = agriculture, food, and forestry; ASEAN = Association of Southeast Asian Nations; FA-NUOL = Faculty of Agriculture at the National University of Laos; GMS = Greater Mekong Subregion; Lao PDR = Lao People's Democratic Republic; MAF = Ministry of Agriculture and Forestry (Lao PDR); MAFF = Ministry of Agriculture, Forestry, and Fisheries (Cambodia); MOH = Ministry of Health (Lao PDR); PMU = project management unit; PRC = People's Republic of China; RUA = Royal University of Agriculture (Cambodia); SARS = severe acute respiratory syndrome; SPS = sanitary and phytosanitary; TAD = transboundary animal diseases

Source: Asian Development Bank

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=43120-026-2>

1. Grant Agreement
2. Sector Assessment (Summary): Industry and Trade
3. Project Administration Manual
4. Summary of Project Performance
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Risk Assessment and Risk Management Plan

Supplementary Document

11. Financial Management Assessment Report