



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 12-Sep-2024 | Report No: PIDDC00454



BASIC INFORMATION

A. Basic Project Data

Operation Name	Operation Short Name
Lao PDR: Improved Access to Disaster Risk Financing	Lao PDR PF
Operation ID	Financing Instrument
P505224	Investment Project Financing (IPF)
Beneficiary country/countries	Region
Lao People's Democratic Republic	Lao People's Democratic Republic
Environmental and Social Risk Classification	
Moderate	
Date PID Prepared	Estimated Date of Approval
25-Feb-2024	15-Nov-2024
Borrower(s)	Implementing Agency
Lao People's Democratic Republic (Lao PDR)	Ministry of Finance

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Operation Cost	3.60
Total Financing	3.60
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	3.60
Southeast Asia Disaster Risk Insurance Facility (SEADRIF) Pr	0.60
Global Facility for Disaster Reduction and Recovery	3.00

B. Introduction & Context

Country Context

Despite being among the fastest-growing economies in the world before COVID-19, the growth model of the Lao People's Democratic Republic (Lao PDR) was already showing its limitations. Lao PDR is a landlocked country of 7.5



million people. Economic growth averaged about 7 percent over the two decades to 2019, but the economy's growth pattern was capital-intensive, resource-driven, and debt-fueled. Economic growth had been steadily decelerating from 8 percent in 2013 to 5.5 percent in 2019. Growth was predominantly driven by large foreign investments in hydropower, mining, and construction (of transport infrastructure), which provided few job opportunities. Unemployment rose from 4 to 16 percent during 2012–2018, while migration increased (especially to Thailand). The domestic private sector has consistently been hampered by an unfavorable business environment, particularly by limited competition and transparency. The financial sector is dominated by state-owned banks, and limited credit has flowed to the private sector. The domestic insurance sector is vastly underdeveloped. Growth also came at a high environmental cost, as the construction of hydropower dams damaged river ecosystems and negatively impacted agriculture, fisheries, and biodiversity.

After being severely affected by the COVID-19 pandemic, economic growth is starting to recover gradually, but is not expected to return to pre-COVID-19 level in the medium-term. Real GDP growth declined sharply from 5.5 percent in 2019 to 0.5 percent in 2020, owing to the wide-ranging economic impacts of COVID-19 – including the collapse of international tourism. Growth gradually recovered to 2.5 percent in 2021, and 2.7 percent in 2022, driven largely by the service sector as domestic and international tourism picked up. This recovery continued into 2023 when growth is estimated at 3.7 percent, owing to tourism, transport, and logistics services, and foreign investment. But merchandise export growth remains muted, partly affected by higher business costs, labor shortages, and lower external demand. Moreover, the recovery has been undermined by macroeconomic instability, with high inflation and a sharp currency depreciation weakening incomes, consumption, and investment.

The World Bank assesses Lao PDR to be in debt distress with an unsustainable outlook under the Low-Income Countries Debt Sustainability Framework (LIC-DSF). High public debt levels have contributed to acute macroeconomic instability, which is undermining development prospects. Lao PDR is facing both solvency and liquidity challenges, owing to significant financing needs, limited financing options, low foreign exchange reserves, and considerable depreciation pressures. Public and publicly guaranteed (PPG) debt amounted to 112 percent of GDP at the end of 2022, or 125 percent of GDP if domestic expenditure arrears and a swap arrangement are included. A single bilateral creditor accounts for about half of the external public debt stock and repayments are scheduled for 2023–2026. The energy sector, mostly represented by Electricité du Laos (EDL), has played an important role in public debt accumulation, accounting for about 43 percent of total PPG debt in 2022. There are also substantial contingent liabilities associated with public-private partnerships (PPPs) and non-guaranteed borrowing of state-owned enterprises (SOE), but these fiscal risks have not been adequately quantified yet. The ratio of debt service (i.e., principal and interest) to domestic revenue increased from 35 percent in 2017 to 43 percent in 2022, but it would have reached 72 percent in the absence of debt service deferrals. Meanwhile, combined public spending on education and health declined from 4.9 percent of GDP in 2013 to just above 2.0 percent as per estimates for 2023. In the absence of debt service deferrals, interest payments would have overtaken social spending levels in 2022. Debt sustainability is contingent on the outcome of ongoing debt negotiation with key creditors.

One of the significant implicit contingent liabilities is natural disaster relief, recovery, and reconstruction; Lao PDR is highly exposed to disasters and risks arising from climate change, with marginalized communities at even greater risk. The risks of disasters linked to climate hazards have been underscored by events in 2011 (back-to-back tropical storms), 2013 (extreme flooding), 2015 (severe drought), 2018 (flooding), and 2019 (tropical storms). Annual expected losses from floods alone range between 2.8 percent and 3.6 percent of GDP. Climate models show a trend of consistent warming and an increase in the intensity of heavy rains, altering the Mekong hydrological system, with floods increasing in frequency. Such events are projected to have significant impacts on the country's ecosystems, community infrastructure, population health, productivity of labor, and agricultural livelihoods (reduced crop yields and adverse



impacts on livestock). In addition, key economic activities, including mining, hydropower, and agriculture, have also resulted in high rates of deforestation, natural resource depletion, and environmental degradation, further exacerbating vulnerability to natural hazards and climate shocks and stressors. Such shocks typically affect the poor disproportionately and exacerbate existing inequalities, given their greater reliance on climate-sensitive agricultural livelihoods and more limited access to resources and information to support coping and adaptation strategies.

Sectoral and Institutional Context

Confronted with a tight fiscal space and at risk of frequent climate and natural disaster events, Lao PDR has been trying to develop additional buffers to finance disaster relief and recovery efforts. Given its high debt to GDP ratio the Government of Lao PDR has very little room for maneuver in case of an exogenous shock. Recognizing the need for a comprehensive disaster risk financing management approach, the Government of Lao PDR has increasingly sought to supplement its own contingency budgets, reserve funds, and available donor assistance with other means of financing a quick response to catastrophic events. The details of this comprehensive risk management approach were documented most recently in the National Financial Protection Strategy against Disaster Risks, launched by Lao PDR Ministry of Finance in April 2023.

The Government has been availing of one such instrument to secure pre-arranged risk financing from Southeast Asia Disaster Risk Insurance Facility (SEADRIF) since 2021. In December 2018, a Memorandum of Understanding (MOU) was signed by Cambodia, Indonesia, Lao PDR, Myanmar, Japan, and Singapore to establish SEADRIF as a regional entity. Subsequently, the SEADRIF Company (the Company) was incorporated in Singapore in April 2019 as a licensed insurance company under the Singapore Insurance Act. The Company is legally owned by Inter-trust acting as Trustee of the SEADRIF Trust and regulated by the Monetary Authority of Singapore. It is governed by a Board of Directors comprising experienced professionals. A US\$12 million trust-funded grant (P170913) was approved by the World Bank to the Company in December 2020, for the purpose of capitalization and also to cover start-up and operating costs for the Company.

In February 2021, the Ministry of Finance of Lao PDR entered into a 3-year insurance policy with the Company to provide protection against floods, up to around US\$ 28 million. The premium of US\$ 5 million was paid by the Ministry of Finance of Lao PDR, through an IDA loan (Lao PDR Southeast Asia Disaster Risk Management Project, P160930). This insurance policy, the first product of the Company, is a hybrid insurance product, providing payouts for small, medium, and severe flood events. The insurance product consists of two complementary components covered by one single premium: i) a parametric insurance component to provide a limited but fast payout to insured countries following medium or severe flood events; and ii) a finite component to bridge the coverage gap that arises from basis risk (e.g., mismatch between the actual loss and the modeled loss) under the parametric component and losses which are not sufficient to trigger a payout under the parametric component. The Company kept the first US\$ 3 million of loss per year and got reinsurance coverage from a group of international reinsurers in Singapore, Tokyo, Hong Kong, London, and Zürich for any losses above US\$ 3 million, through a broker.



There were two claims for payouts from the finite component to Lao PDR, a total of US\$1.5 million, and no payouts from the parametric components in the initial policy period. Under the finite component, Lao PDR Ministry of Finance submitted the notice of loss forms to trigger two payouts on Friday 11 August 2023, the Company made the payouts on Monday 14 August 2023, within just 1 business day. One claim was for US\$800,000 to support response for flooding in August 2023. The second claim is for US\$700,000 to support remaining rehabilitation tasks after a tropical storm in August 2022. At the request of the Government of Lao PDR, the Company extended this policy to provide coverage till July 31, 2024. To ensure continued financial protection after the first policy lapsed while the government is looking for funding, an extension of the policy was made at with a total aggregate limit of US\$ 3 million. The premium of US\$320,000 was made available upon an agreement with the Company to share its underwriting profits from the first policy for Lao PDR. The extension only covers parametric component with product modifications to allow for payouts for different triggers at smaller scales.

In a letter dated October 13, 2023, the Government has requested assistance from the World Bank to secure funding for premium payment that would allow for this coverage to continue. Accordingly, the proposed recipient-executed trust fund (RETF) seeks to mobilize resources to support the Government in this objective. Discussions are already underway between the Ministry of Finance and the Company on the details of the policy renewal, including modifications to the original policy as agreed to between the two parties. The WB task team will provide technical support to the MoF in this process via an evaluation of the first policy. Additional technical support will address the need to expedite the claims submission processes at the MoF and ensure that payouts are disbursed in a timely manner.

Relationship to CPF

The project is in line with the expected outcomes and approach of the FY2023-2026 World Bank Group's Country Partnership Frameworks (CPF; Report No. 177311-LA). The project enables the government of Lao PDR to develop additional buffers in the narrowed fiscal space to mitigate disaster and climate shocks, thereby easing the constraints of its ability to fund socio-economic priorities and adequately respond to shocks. It contributes to the High Level Outcomes (HCOs) of 'Living Standards Protected from Macroeconomic Risks' and 'Increased Human Resilience to Shocks' by providing access to immediate post-disaster liquidity for disaster recovery and enhancing its resilience to natural hazards and climate shocks.

The project contributes to the WBG's Private Capital Enabling objective by crowding in the (re)insurance and capital markets through promoting public-private partnerships to bridge the financial protection gap, support long-term development and open new markets and opportunities for private solutions. The Company is also expected to leverage the private sector expertise from insurance managers, asset managers, reinsurers, reinsurance brokers, legal and technology companies to help deliver solutions to and improve risk market infrastructure for participating countries.

In the Ninth National Socio-Economic Development Plan (NSED), covering the period 2021-2025, the government of Lao PDR defines reducing disaster risks as one of the six prioritized outcomes. The NSED sets out measures to



graduate Lao PDR from Least Developed Country (LDC) status by 2026, placing emphasis on public debt management, quality economic growth, social and environmental development, improved living standards, and increased preparedness for emergencies.

C. Development Objective

Development Objective

To strengthen Lao PDR's financial resilience to disasters and climate shocks through improved access to pre-arranged risk financing mechanisms.

Key Results

Outcome: Lao PDR has access to pre-arranged risk financing mechanisms

Results Indicator: Amount of private capital that Lao PDR will be able to crowd in for financial protection (\$)

D. Preliminary Description

Activities/Components

Component 1: Financial Planning for Disaster Resilience

The RETF will comprise a single component/ activity that will assist the Government of Lao PDR make a premium payment to get insurance coverage from the SEADRIF Insurance Company. The component is entirely financed by trust funds with contributions from the Governments of Japan, UK, and Germany to the amount of US\$3.6 million

Sub-component 1.1: Payment of Disaster Risk Insurance Premium

Of the total grant amount of US\$3.6 million to the government of Lao PDR, US\$3.4 million will be used by the government to pay insurance premium to/through SEADRIF insurance company for an insurance policy and service in return. This is a one-time transaction where all the premium will be paid in one tranche.

Sub-component 1.2: Support for management of E&S risks

The remaining grant amount of US\$200,000 will be utilized to assist the recipient manage the environmental and social risks for activities funded from the proceeds of a payout, as and when such a payout is made.

Environmental and Social Standards Relevance

E. Relevant Standards



ESS Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Not Currently Relevant
ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8: Cultural Heritage	Not Currently Relevant
ESS 9: Financial Intermediaries	Relevant

Legal Operational Policies		
Safeguard Policies	Triggered?	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Area OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

The project consists of a single component to support Lao PDR in making premium payments for pre-arranged risk coverage from the SEADRIF Insurance Company. The ESMS, Operational Manual, and Contingency Plan prepared by the SEADRIF and the government of Laos for the ongoing project (P170913) will be reviewed and updated (if necessary) based on the experience learnt from the current project and will be applied to the proposed project ensuring that the SEADRIF related activities and the insurance payouts are implemented in compliance with the ESF requirement. The SEADRIF has already employed an international E&S expert who has been delivering ESF training to the SEADRIF trustee and company, and is planning to deliver training to the related ESF focal unit in the Government agencies. In addition to this existing ESMS and E&S expert, a consulting firm will be recruited to support the Government of Lao PDR and ensure that the activities funded under the insurance payouts are in compliance with ESF requirements. Environmental and Social risk of activities to be supported under the insurance payouts are expected to be Moderate or Low. The new infrastructure subprojects will not be eligible for project financing, but the insurance payout can be used for non-infrastructure expenses such as social protection payouts, school feeding or the purchase of medical supplies and equipment. The exclusion list together with risk classification guideline provided in the SEADRIF's ESMS will be used to screen out any proposed new infrastructure subproject or activity with High or Substantial E&S risk. The new infrastructure or subprojects with High or Substantial risk will be excluded. The new ESCP between the World



Bank and the Government of Lao PDR (Ministry of Finance) will be prepared to include all actions and measures required, and ensure that the project is in compliance with ESF requirements.

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