



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 08-Apr-2019 | Report No: 135956



BASIC INFORMATION

A. Basic Project Data

Country Lao PDR	Project ID P166839	Project Name Second Green Resilient Growth Development Policy Operation	Parent Project ID (if any)
Region East Asia and Pacific	Estimated Board Date May 2019	Practice Area (Lead)(s) MTI/ENV	Financing Instrument Development Policy Financing
Borrower(s) Lao People’s Democratic Republic	Implementing Agency Ministry of Planning and Investment		

Proposed Development Objective(s)

The objective is to support the Government of Lao PDR to achieve fiscal sustainability and financial sector stability, adopt green growth planning and monitoring, and introduce green growth tools and principles in priority sectors.

Financing (in US\$, Millions)

SUMMARY

Total Financing	40
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DETAILS

Source: IDA	40
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Decision

The Chair of the Decision Meeting authorized the team to proceed with appraisal and negotiation of the proposed operation.



B. Introduction and Context

Country Context

The comparative advantage of Lao People’s Democratic Republic (Lao PDR) is its natural capital, which has fueled rapid growth averaging around 8 percent per annum since 2000. Over half of its wealth is in its natural resource endowment. Water resources provide a hydropower potential of up to 25,000 megawatts (MW), generating growth and poverty reduction opportunities, provision of reliable, clean, and affordable energy, higher exports, and government revenues. The Mekong River is the largest inland fishery in the world, and Lao’s portion possesses the second-highest fish diversity in the world, which is the source of nearly half of the country’s animal protein consumption. Lao PDR still has among the highest forest cover percentage in the region, supporting a value of timber and non-timber forest products of US\$10,740 per capita. Lao PDR is also a global biodiversity hotspot, with protected areas covering 17 percent of the country’s land area, and “natural sites” account for almost 60 percent of the nearly 2000 officially-designated tourism sites. Meanwhile, subsoil assets have added around US\$3,000 per capita; however, following the initial boom in the mid-2000s, the recent weak performance of low-grade copper and gold, and a sustained ban on new mines in place, renewable natural resources remain critical for continued economic growth and development.

The GoL recognizes that a sound macroeconomic environment creates the platform for growth. Strengthening the fiscal and financial framework safeguards against fiscal and financial crises that negatively impact growth, resilience, sustainability, and poverty reduction. Fiscal sustainability and financial sector stability contribute to growth by ensuring that (i) sufficient public resources are available for growth-enhancing policies, and (ii) the financial sector is secure and sufficiently sound to support private-sector led growth. Conversely, a greener growth path can contribute to macroeconomic stability by ensuring growth is sustainable and as such can generate a stable and robust stream of revenue for the government. Therefore, the GoL is focusing its efforts on strengthening revenue and containing expenditure to ensure a sustainable fiscal framework. Additionally, to promote financial sector stability, the Bank of Lao PDR (BoL) is in the process of improving the regulatory and supervisory framework by, among other things, revising the BoL Law, commercial bank law and moving towards risk-based supervision.

Relationship to CPF

The GGDPO2 closely reflects the priorities for achieving the twin goals identified in the Lao PDR Systematic Country Diagnostic (SCD) and supported by the Country Partnership Framework (CPF). The GGDPO directly addresses two of the five top SCD priorities: i) promoting strategic use of the natural resource and responsible management of the environment; and ii) putting public debt on sustainable path and strengthening financial sector stability. These priorities are also transposed in the CPF for FY17–FY21, with the GGDPO series most directly supporting the CPF’s objective 1.1 of putting public finances on a sustainable path and supporting financial sector stability, the objective 3.1 of promoting environmental protection and sustainable natural resources management, and objective 3.2 of putting in place enhanced disaster risk management and climate and disaster resilience. The GGDPO series is expected to also improve the overall governance system, a key cross-sectoral issue identified in the SCD and the CPF. A multi-sector portfolio of investment and technical assistance lending of the WBG supports the GGDPO agenda.

C. Proposed Development Objective(s)

The objective is to support the Government of Lao PDR in achieving fiscal stability, promote financial sector stability and consolidating its pathway towards green growth. Three pillars aim to i) strengthen prospects for fiscal sustainability and promote financial sector stability; ii) adopt green growth planning and monitoring; and iii) introduce green growth tools and principles in priority sectors.



Key Results

The GGDP02 supported reforms are expected to help gradually reduce the fiscal deficit; improve public financial management; lower the debt/GDP ratio by improving the public debt management; and better monitoring of the financial sector and the legal framework to strengthen financial sector stability. It will also facilitate the integration of green growth principles into the country's strategic and development framework as well as support interventions in key environment and natural resource sector that can lower environment and health risks and support growth and job creation.

D. Program Description

The Program Development Objective of GGDP0-2 is to achieve fiscal sustainability and financial sector stability, adopt green growth planning and monitoring, and introduce green growth tools and principles in priority sectors. The program's three pillars complement one another to improve the growth prospects of the country and help make economic activities cleaner, more resource-efficient, and more resilient. Pillar 1 supports economic management actions to address key macroeconomic risks. Pillar 2 establishes policy-level instruments for green growth planning, financing, and monitoring. Pillar 3 aims to incorporate green growth principles in selected sectors, including measures for sustainably using the country's key natural assets (water, forests, and biodiversity), building resilience of infrastructure to climate risks, and promoting cleaner, more efficient production and consumption by regulating pollution.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Planning and Implementation (MPI) is responsible for overall implementation of the proposed operation and for coordinating the monitoring and evaluation of the result indicators for the series. The MPI has set up a high-level team under the Director General to monitor and evaluate the progress of the proposed operation. This team has the capacity to monitor and evaluate the results of the budget support operation. The MPI coordinates with the relevant government departments on the respective indicators. The results indicators chosen for the operation have been selected with a view to the ready availability of data of reasonable timeliness and quality. Capacity constraints in such a small public administration affect the array, timeliness and quality of available data. Where possible, results indicators have been selected from those that already exist, rather than requiring new data to be produced, diverting scarce capacity from core data collection and analysis functions.

F. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The policy actions supported by the GGDP0 series are expected to have positive poverty and social impact. Temporary short-term (and non-significant) negative effects were identified from the stricter control over logging as well as with increased protection of national part areas; however, in both cases the adopted policies provided for protection of interest of vulnerable groups and creation of green jobs in sustainable forestry.

Environment Impacts

The policy actions supported by this operation are expected to have positive effects environment impacts. The reforms are expected to improve environmental governance and green growth opportunities – including green jobs –, improve environmental health, facilitate cleaner technologies and production, and climate change mitigation and adaptation as a result of policies and regulations that improve water management, deforestation control, SEA, ESIA, chemicals, air and water pollution. The NGGS and public investments financed through EPF projects will also contribute to environmental sustainability. Likely positive effects also include increase in forest quality and cover, improvement in



biodiversity standing and wildlife populations; maintenance of environment flow from watersheds, more-equitable use of water between users, decrease in pollution from pesticides and industrial discharges, and enhanced resilience of public infrastructure and production activities to natural disasters. Although a focus on fiscal consolidation may limit the GoL’s ability to recruit staff at environmental agencies and finance investments, other investment project financing and external support from the Bank and other development partners will help the GoL overcome that potential constraint in the first years of macroeconomic adjustments.

G. Risks and Mitigation

Close engagement with the GoL on the design of the program and this operation, and significant advisory services and associated investment operations, continue to mitigate the overall high risk of the operation. The GGDPO series face high overall risks from political, governance and macroeconomic factors against a backdrop of on-going reforms and institutional modernization.¹ Bank-supported advisory services and investment operations in diverse sectors will help mitigate the risks posed by constraints in institutional capacity and the program’s moderate complexity. Additionally, the robust dialogue on economic management continues to gradually lower macroeconomic risks while substantial upstream dialogue with the GoL aims to ensure solid ownership of reforms. It is important for the World Bank to continue its deep policy dialog and technical support to help the reform momentum.

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Borrower/Client/Recipient

Ministry of Finance

Implementing Agencies Ministry of Finance, Ministry of Planning and Investment, Ministry of Natural Resources and Environment, Ministry of Public Works and Transport, Ministry of Agriculture and Forestry, Ministry of Industry and Commerce, Ministry of Energy and Mines, Ministry of Science and Technology and National Institute for Economic Research

¹ See Section 6 for a detailed description of the risks to this operation.



FOR MORE INFORMATION CONTACT

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APPROVAL

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