Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 01-Nov-2017| Report No: 135955

BASIC INFORMATION

A. Basic Project Data

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

Proposed Development Objective(s)

The objective is to: support the Government of Lao PDR in achieving fiscal stability and consolidating its pathway towards green growth.

Financing (in US$, Millions)

SUMMARY

Total Financing	40

DETAILS

Source: IDA	40

Decision

The meeting authorized the team to proceed with the preparation of the proposed operation.

B. Introduction and Context

Country Context

Lao PDR achieved rapid economic growth, though with limited inclusion and with growing evidence that the key growth sources, accommodating macroeconomic policies and rapid use of natural resources, may have run their course. GDP growth rate averaged 7.2 percent per annum since 2000 with Gross National Income per capita reaching US$2,330 in 2017. While poverty, based on the national poverty line, declined from 34 percent in 2002/03 to 23 percent in 2012/13, this reduction was modest, relative to the high GDP growth and when compared to regional peers and inequality widened. A broader growth base recently may suggest a stronger link between growth and poverty reduction. However, large fiscal deficits resulted in accumulation of public debt while the rates of depletion of natural resources exceeded 10 percent of GNI per year over 2010-2012. Costs go beyond the loss of economic output, disproportionally affect the vulnerable and are adding to an already weak ability to manage natural disasters. Decelerating growth, to an estimated 6.7 percent in 2017, is indicative of the limitations of this growth pattern.

Lowering macroeconomic risks and transitioning to green growth will help Lao PDR to maintain strong economic growth, increase incomes for more people, and protect the environment and human health. The close link between green growth and macroeconomic stability is fully at play in Lao PDR with natural resources being key drivers of economic growth, export proceeds and livelihoods for a large part of the population. Failure to make economic growth greener will reduce potential growth and could trigger instability. Limited capacity and an evolving governance and institutional framework hinders faster progress.

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 and consolidating its pathway towards green growth. Three pillars aim to i) strengthen prospects for fiscal sustainability and financial sector stability; ii) consolidate green growth principles across the national development strategy and iii) incorporate green growth in selected sectors.

Key Results

The GGDPO2 supported reforms are expected to help gradually reduce the fiscal deficit and lower the risk of debt distress to moderate, improve the capacity to manage public debt and lower the risks in the financial sector. 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. Concept Description

The program consists of three pillars. Pillar 1 supports efforts to reduce fiscal and financial sector risks. It includes measures to boost revenues (reducing exemptions, increasing excise rates, imporving tax policy and adminsitration), control the deficit and establish a debt management function. At the same time, bringing the legal framework for the financial sector in line with good practice is expected to strengthen the ability of the central bank to regualte and supervise the financial sector.

Pillar 2 establishes the instruments for green growth planning, financing and monitoring, to make economic activities cleaner, more resource-efficient, and more resilient. Under the GGDPO1, green growth principles were introduced into the 8th NSEDP (2016-2020) and a Green Growth National Steering Committee (GGNSC) was established. Building on this, GGDPO2 supports the adoption of a National Green Growth Strategy (NGGS) that will include actions, financing opportunities, targets, and indicators to measure progress on the transition toward green growth. The operations also aims to support identification of sustainable financing option for the government's environmental objectives as well as improve efficiency and transparency of use of funds. The operation also support strengthening of instruments to analyze and mitigate environmental and climate risks, including Strategic Environmental Assessments, Environmental and Social Impact Assessments, and tools to promote climate resilient infrastrcuture and investment.

Pillar 3 aims to consolidate green growth principles in selected sectors, promoting sustainable use of the country's key natural assets, water, forests, and biodiversity, while developing more sustainable, cleaner production and consumption systems through less polluting agricultural production and improved management and monitoring of pollution, and climate risks to infrastructure.

E. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The policy actions supported by the GGDPO series are expected to have positive poverty and social impact. Modest negative impact may result from higher excises on fuels, however, this is mitigated by the relatively benign inflationary environment. In addition, consumption survey data show that the poor spend a smaller share of their available resources on transport. 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.

CONTACT POINT

World Bank

Evgenij Najdov, Senior Country Economist e-mail: enajdov@worldbank.org
Stephen Danyo, Senior Environment Specialist e-mail: sdanyo@worldbank.org
Ernesto Sanchez-Triana, Lead Environment Specialist e-mail: esancheztriana@worldbank.org

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

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Evgenij Najdov, Stephen Danyo, Ernesto Sanchez-Triana

Approved By

Country Director:	Ellen A. Goldstein	