



# Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 18-Jun-2019 | Report No: PIDC24647



## BASIC INFORMATION

### A. Basic Project Data

Country Lao People's Democratic Republic	Project ID P164573	Project Name Disaster Risk Management Development Policy Operation with a Catastrophe Deferred Drawdown Option (P164573)	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Board Date Mar 17, 2020	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	Implementing Agency Ministry of Finance		

### Proposed Development Objective(s)

The program development objective is to strengthen Lao PDR's institutional, technical, and financial capacity to manage the impacts of climate and disaster risks.

### Financing (in US\$, Millions)

#### SUMMARY

<b>Total Financing</b>	40.00
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#### DETAILS

<b>Total World Bank Group Financing</b>	40.00
World Bank Lending	40.00

#### Decision

The review did authorize the preparation to continue

### B. Introduction and Context

#### Country Context

- Lao PDR is vulnerable to natural disasters, which pose a challenge to the achievement of Lao PDR's development goals.** Exposed to floods, landslides, drought, and tropical storms and cyclones, flooding stands out as the major



natural hazard in Lao PDR. From 1970 to 2010, 33 natural hazard events (mostly floods and droughts) were registered, affecting almost 9 million people. Lao PDR experienced major typhoons in 2009 (Ketsana) and in 2011 (Haima) as well as in 2013 when floods caused damages over US\$270 million. In 2018, Lao PDR experienced its most expensive floods in a decade, with estimated damage and losses of US\$371.5 million, equivalent to 2.1 percent of Lao PDR's projected Gross Domestic Product (GDP) for 2018.<sup>1</sup> Using basic modeled flood impacts, expected economic losses from a high-impact flood (one occurring on average once every 100 years) are 11.7 percent of GDP.<sup>2</sup> This is the highest value relative to GDP in the Association of Southeast Asian Nations (ASEAN) region. The estimated average annual fiscal cost of floods is 2.7 percent of government expenditures, and can be as high as 9 percent in years with more severe events.<sup>3</sup>

2. **The proposed Development Policy Operation (DPO) with a Catastrophe Drawdown Option (CatDDO) will support strategic policy reforms to increase resilience of Lao People's Democratic Republic (PDR) to the adverse impacts of natural hazards.** The program will support three policy areas of action: (i) strengthening institutional capacity for disaster risk management; (ii) mainstreaming disaster risk management into development planning and sectors; and (iii) strengthening financial capacity to manage disaster risks and post-disaster budgetary processes.
3. **The macroeconomic policy framework is deemed adequate for this operation,** due to the Government of Lao PDR (GOL)'s fiscal consolidation and reforms, and efforts to strengthen the financial sector. Lao PDR has taken fiscal consolidation measures since 2018 and fiscal policy continues to be consistent with the prevailing economic conditions. The implementation of the Tax Strategy Development Plan will deliver improvements on the revenue side while expenditure is being curtailed by the strict control of the civil service wage bill and suspension of non-disbursing public projects. The Public Debt Management Law is providing the necessary legal framework to control debt while the Bank of Lao PDR (BoL) Law is increasing the stability of the financial sector. Going forward, the GOL is strongly committed to pursuing fiscal reform efforts over the medium term consistent with reducing the fiscal deficit and debt/GDP ratio. Therefore, based on the fiscal framework, Lao PDR should be on a path to return to moderate risk of debt distress.

#### Relationship to CPF

4. **The program is fully aligned with the World Bank Group's East Asia Pacific Regional Strategy,<sup>4</sup> as well as the current Country Partnership Framework (CPF) for Lao PDR for the period FY17-21.** The CPF (Report #110813, April 29, 2017) aims at supporting lasting accessible opportunities, including sustained green growth, improved access to human and infrastructure services, and opportunities for all.<sup>5</sup> The proposed program directly supports one of the nine central objectives of the CPF: "Putting in place enhanced disaster risk management and climate and disaster resilience", and more generally contributes across the three focus areas. The proposed program is also in line with the Lao PDR Systematic Country Diagnostic of 2016 (Report number 112241, March 9, 2017)<sup>6</sup>, which identifies one of the 11 priority areas as "Putting in place strengthened disaster risk management." It directly supports the East Asia and Pacific

<sup>1</sup> Government of Lao People's Democratic Republic. 2018. *Post-Disaster Needs Assessment 2018 Floods*, Lao PDR.

<sup>2</sup> Based on analysis using historical loss data from the Emergency Events Database (EM-DAT). World Bank/GFDRR. 2012. *Advancing Disaster Risk Financing and Insurance in ASEAN Member States: Framework and Options for Implementation*, Vol. 1. Washington, DC: World Bank.

<sup>3</sup> World Bank. 2017. *Disaster Risk Finance Country Diagnostic Note: Lao PDR*.

<sup>4</sup> World Bank. 2016. *East Asia and the Pacific. Overview - Strategy*. Website accessed April 2019.

<sup>5</sup> World Bank. 2017. *Lao PDR: Lasting Accessible Opportunities - Country Partnership Framework for Lao PDR 2017–2021*. Washington DC: World Bank Group. Report number 110813-LA.

<sup>6</sup> World Bank. 2017. *Lao PDR - Systematic Country Diagnostic: Priorities for Ending Poverty and Boosting Shared Prosperity*. World Bank Group. Report number 112241.



Regional Strategy Update from 2019 which identifies “Strengthening resilience through institution building and innovative financing” as one of four main objectives. The proposed program will strengthen resilience and directly contribute to the achievement of these priority actions.

### **C. Proposed Development Objective(s)**

The development objective is to strengthen Lao PDR’s institutional, technical, and financial capacity to manage the impacts of climate and disaster risks.

#### **Key Results**

5. **Adoption of the prior actions and the achievement of results indicators under this operation is a key step in strengthening Lao PDR’s resilience to natural disasters and climate change.** The new Disaster Management Law, prepared by the Ministry of Labour and Social Welfare, is expected to become the overarching key piece of legislature in the sector and will clarify processes related to disaster preparedness, response and recovery, including outlining a process for declaring a disaster. The Public Works and Transport Sector Strategy, prepared by the Ministry of Public Works and Transport, will highlight specific priorities to mainstream disaster and climate resilience in the sector. The Ministry of Finance publishing a Ministerial Instruction on the Management of Donations for Disaster Assistance will improve the efficiency, efficacy, and transparency of such funds.

### **D. Concept Description**

6. **The proposed operation will be the first IDA CatDDO in Lao PDR.** It responds to the country’s need to advance reforms to strengthen its disaster and climate change resilience, as well as its need for disaster risk financing mechanisms to address the economic impact of adverse natural events. The program will support Lao PDR in managing crisis by providing immediate liquidity in the aftermath of natural disasters, available for full or partial disbursement at any time within three years from the signing of the development policy grant, subject to the triggering of the agreed drawdown condition.
7. The World Bank will also support the implementation of priority reforms with Prior Actions and expected results in the following three pillars:

#### **Pillar A---Strengthening Disaster Risk Management Institutional Capacity.**

Prior Action #1. The Disaster Management Law is approved by the National Assembly. *Coordinator: Ministry of Labour and Social Welfare.*

#### **Pillar B – Mainstreaming DRM into National Development Planning and Sectors.**

Prior Action #2. A Climate-Informed 10-Year Public Works and Transport Sector Strategy is approved by the Ministry of Public Works and Transport. *Coordinator: Ministry of Public Works and Transport.*

#### **Pillar C – Enhancing the Financial Capacity to Manage Disaster Risk and Post-Disaster Budgetary Processes.**

Prior Action #3. A Ministerial Instruction on the Management of Donations for Disaster Assistance is issued by the Ministry of Finance. *Coordinator: Ministry of Finance.*



## E. Poverty and Social Impacts and Environmental Aspects

### Poverty and Social Impacts

8. **The program will contribute to the World Bank Group's Twin Goals of ending extreme poverty and boosting shared prosperity.** Natural disasters have a disproportionate impact on the population with the highest poverty rates.<sup>7</sup> The poor and vulnerable are not only overexposed to disasters through living in at-risk areas but also lack the resources and assets to cope and recover from disasters, losing two to three times their share of wealth compared to the nonpoor. Natural disasters also result in permanent impacts on education and health, exacerbating, for example, stunting in Lao PDR where some 44 percent of children under 5 are stunted. The proposed results indicators will support better protection and preparedness of people and assets. Improved government capacity, clearer responsibilities and mandates for post-disaster response and recovery activities for the most-vulnerable households, including Emergency Response Plans at the local level, can support poor communities in dealing with the impacts of disasters, reducing their need for falling back on negative coping strategies like cutting expenditures in health or education. Greater focus on institutional coordination and mainstreaming risk reduction into development will also help reduce damages as Lao PDR continues to grow and accumulate assets. Reforms in the hydromet and early warning systems will help prevent or lessen unnecessary loss of lives and damages through better information and improved end-user communication. Finally, enhancing the capacity to manage the financial risks of disasters, and setting out guidelines for the post-disaster budgetary process will help shield the GOL's budget and mitigate long-term fiscal impacts. The approval of a National Disaster Risk Finance and Insurance Strategy by the MOF will support the GOL's capacity to meet post-disaster funding needs, including those of poor and vulnerable groups.

### Environmental Impacts

9. **The program is not expected to have a significant impact on Lao PDR's environment, forests or other natural resources.** The majority of reforms in this operation are aimed at strengthening the institutional and regulatory framework for disaster resilience, and are therefore unlikely to have direct environmental effects. On the contrary, prior actions and results indicators can enhance proper natural resource and environmental management. The integration of risk reduction and resilience measures into development planning, such as mainstreaming disaster and climate resilience into the 9<sup>th</sup> Five-Year National Socio-Economic Development Plan will increase the Government's capacity to manage natural disasters.

## CONTACT POINT

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### Borrower/Client/Recipient

<sup>7</sup> Hallegatte, S., Vogt-Schilb, A., Bangalore, M., Rozenberg, J., 2017. *Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters*. Climate Change and Development; Washington, DC: World Bank.



## The World Bank

Disaster Risk Management Development Policy Operation with a Catastrophe Deferred Drawdown Option (P164573)

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### APPROVAL

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### Approved By

Country Director:	Gevorg Sargsyan	21-Jun-2019
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