Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 28-Nov-2018 | Report No: PIDISDSA24948
## BASIC INFORMATION

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Lao People's Democratic Republic</td>
<td>P167534</td>
<td>Enhancing Public Finance Management through Information and Communication Technology (ICT) and Skills (E-FITS) Project</td>
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<table>
<thead>
<tr>
<th>Region</th>
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<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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<tr>
<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tr>
<td>Investment Project Financing</td>
<td>Lao People's Democratic Republic</td>
<td>Ministry of Finance of Lao PDR</td>
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**Proposed Development Objective(s)**

The PDO is to contribute to the coverage, timeliness and transparency of financial reporting, and to enhance public financial management skills.

### Components

- Component 1: Setting the foundations for a core public financial management system
- Component 2: Public Finance Management Skills Program and Change Management
- Component 3: Project Implementation

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

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<th>Description</th>
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<td>Total Financing</td>
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### DETAILS

- World Bank Group Financing
The World Bank
Lao PDR Public Finance Management Modernization Project (P167534)

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<th>International Development Association (IDA)</th>
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<tr>
<td>IDA Credit</td>
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Environmental Assessment Category
C-Not Required

Decision
The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The Lao People’s Democratic Republic has experienced rapid economic growth over the past decade, though this has not translated into proportional gains in poverty reduction.** A landlocked country of 6.9 million, its gross domestic product (GDP) growth averaged 7.6 percent per year over the past decade and poverty declined from 33.5 percent to 23.2 percent between 2002/03 and 2012/13, making it the 13th fastest-growing economy globally. However, the growth has not been particularly inclusive and driven largely by mega projects in the natural resource sector, which have created limited employment opportunities. The pace of poverty reduction was modest compared to some of its neighbors (a 1.0 percent increase in GDP in Cambodia translated to 1.2 percent poverty reduction, whereas in Lao PDR it was only 0.4 percent). Inequality widened over the last decade and the Gini-coefficient increased from 32.4 (2002) to 36.2 (2012). Inequality in Lao PDR is increasingly characterized by rising inequality within urban areas and between rural and urban areas.

2. **The country has been struggling to address fiscal deficits posing pressing challenges for economic management.** Efforts to improve fiscal sustainability have been made through moderating wage increases and staff recruitment and by introducing spending cuts. While these measures initially helped tackle the deficit in 2015 and 2016, they were countered by low commodity prices resulting in lower-than-expected revenue income.¹ In 2017, the deficit stood at 5.5 percent of GDP and is expected to decline to 4.9 percent of GDP in 2018. Public debt is substantial at around 60 percent of GDP in 2017 and is expected to further increase to 62.6 percent of GDP in 2018. The public debt is exposed to significant exchange rate risk, non-trivial interest rate risk and a relatively modest refinancing risk. While current debt management risks are not very high, overall, the environment for public debt management in Lao PDR is expected to change over the coming years, with a gradual move from access to concessional funding towards market terms.

3. **Fiscal difficulties have been affecting availability and quality of service delivery.** The large fiscal deficits

¹ The tax/GDP ratio fell from 16.1 in 2014/15 to 15.1 in 2017.
have limited the ability of the public sector to allocate budget to social sectors and infrastructure maintenance needed to address the country’s development challenges. Critical sectors remain underfunded and contribute to weak learning outcomes, significant losses from preventable health issues, poor productivity of farmers and high incidence of malnutrition. Recent increases in spending have improved the availability of public services, however, many indicators related to access to and quality of basic public services (i.e. immunization, expected years of schooling) for Lao PDR remain closer to the average for lower middle-income rather than upper middle-income countries.

4. The political environment has been increasingly favorable to reforms reflected in ambitious development targets in the Government of Lao PDR (GoL) program. Lao PDR is governed by a single party, the Lao People’s Revolutionary Party. The 10th Party Congress in January 2016 made notable changes in the Politburo, followed by the appointment of a new Government in April 2016. With the change in political leadership, the Government has announced a comprehensive reform program to address governance challenges, promote the rule of law, and improve economic management. With a development vision based on green growth, the objective of the Government’s 2016–2020 8th National Socio-Economic Development Plan (NSEDP) is to reduce poverty and to prepare Lao PDR for LDC graduation by 2024 and progress toward the Sustainable Development Goals (SDGs). Achieving these goals will require an efficient and effective public financial management (PFM) system and public sector.

Sectoral and Institutional Context

5. Over the past 15 years, the GoL had undertaken reforms to strengthen the public sector and its PFM system. Backed by broad donor support, a 1st generation of reforms during 2003 and 2012 focused on putting in place regulations, processes and procedures required for a basic PFM framework. It was accompanied by capacity building to strengthen the human capital for the implementation of the reforms and significant progress was achieved, such as the centralization of the treasury, customs and tax functions, the introduction of a Treasury Single Account (TSA) and the implementation, upgrade and roll-out of the basic Government Financial Information System (GFIS) up to the provincial level. In 2012, a turn in the Government’s donor cooperation policy and the decision to turn away from a broad donor-funded PFM program led to a stalling of PFM reforms. A turning point came in 2016 with the appointment of the current Government, which re-invigorated the commitment for PFM reforms, re-engagement with the donor community, and initiated the preparation of the “second generation reforms.”

6. However, efficiency in public expenditures management is constrained by an outdated information system and procedures, weak cash and debt management, and inefficiencies in wage bill management. In addition, there are still some inconsistencies in the legal and institutional framework governing PFM. The 2010 Public Expenditure and Financial Accountability (PEFA) Report had identified significant weaknesses in oversight of aggregate fiscal risk, multiyear fiscal planning, transparency and accountability of the budget process, and internal control mechanisms. A series of analytical work conducted during 2016 and 2018 took stock of the

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2 PEFA rating scores of D or D+
3 A new PEFA Assessment is ongoing and expected to be finalized for project appraisal. As limited reforms were undertaken since the 2010 PEFA Assessment, ratings and the overall status of the PFM system have not changed significantly from the 2010 Assessment.
4 This analytical work consisted of a series of technical papers prepared under the Lao PDR Public Finance Management Modernization Program (P158658), the first phase of a EU-financed Single Donor Trust Fund.
current PFM practices and the remaining challenges to set up a core PFM system.

7. **Lao PDR is a unitary system and its public administration system consists of the central and local levels which are considered part of the Government.** The central level includes the ministries and ministry-equivalent agencies while the local level is divided into provincial, district and village levels. The 2015 State Budget Law defines the ministries and ministry-equivalent agencies and provinces as 1st tier budget units, while the ministry’s departments, provincial functional departments and districts are treated as 2nd tier budget units. Progress has been made in updating the Chart of Accounts (CoA) to set the stage for the production of financial statements compliant with the International Public Sector Accounting Standards (IPSAS), however, it does not yet support comprehensive transaction processing, budget management, controlling, and information requirements at all levels of government operations. The main issue, as identified in a 2017 WB Technical Note, remains the absence of a comprehensive integrated organization classification, including district codes in the CoA. As a result, budgets cannot be allocated to the various sector budget units at the district level and those expenditures cannot be checked against budgets before execution. This hinders the decentralization of transaction entry and budget controls to the district level, where they occur. Direct transaction entry at the district level would reduce time and effort for information generation and processing, and would allow to provide timely, reliable, and complete budget reports on expenditures incurred at the district level as a whole, and by the various sector departments, such as education and health. Distinguishing sector budget units at the district level from those at the higher (provincial and central) levels, would also provide information and input for policy and decision making at the service delivery level.

8. **Past reforms led by the National Treasury (NT) to introduce a TSA and improve cash management remain incomplete.** A review of the current cash management practices noted that an earlier attempt in 2011/12 to consolidate government bank balances in the TSA at the Bank of Lao PDR (BoL) based on the zero-balance account (ZBA) mechanism was partially successful. While the BoL and commercial banks provide daily information on the balances and daily transactions of all accounts under the control of the NT, account balances are not being consolidated in a single account at the end of each day. In addition, some earmarked fund accounts, internally generated revenue accounts (which hold spending unit earnings, fees etc.) and donor fund accounts are kept outside the BoL in commercial banks. Consequently, the NT is working on a weekly cash cycle, resulting in cash rationing (including delay in salary payments), and taking on expensive short-term borrowing. In the absence of commitment controls, government entities enter in commitments without confirmation of budget availability, which results in payment arrears.

9. **As a result, the NT is struggling to meet the increased demand for comprehensive and timely budget execution information, while effective management of public expenditures is constrained by outdated PFM information systems and procedures.** The existing information in the central system is not sufficient for many counterparties within the Ministry of Finance (MoF), line ministries, and donors, which has caused attempts to build parallel data collection and reporting systems not only for tracking budget management at the district level, but also at the line ministries. MoF has initiated a number of Information and Communication Technology (ICT) initiatives related to development and implementation of information systems to improve support to PFM business functions and service delivery to citizens and business. However, the current GFIS covers only a subset of functionalities required for a full functioning budget execution system with bank reconciliation not yet in place and

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5 Technical Note on steps to Improve Cash Management and Fiscal Reporting; Janis Platais, June 2017; in project files. This review was undertaken as part of the EU SDTF Public Finance Management Modernization Program (P158658).
6 Ibid.
the district offices not being included in the GFIS coverage.

10. **The new Public Debt Law, approved in early 2018, paves the way to prepare the country’s debt management function for a changing borrowing environment.** The new law provides the legal framework for improved debt management, including a debt management strategy. As noted in the recent Policy Note\(^7\) on Debt Management, MoF does not produce reports on overall debt and risks and is not able to generate complete cash flows that are essential inputs to the ongoing analysis of alternative borrowing plans that feed into the development of the debt management strategy. This is partly because MoF is using an outdated and un-serviced debt management system for debt recording.

11. **The absence of a job classification system and a structured training system limit the development of human resources for more effective public financial management.** As noted in the recent Policy Note on Pay and Compensation\(^8\), there is currently no classification system describing different profiles (job purpose, responsibilities and technical skills required for each position), which often results in staff of MoF not having the relevant qualifications for PFM-related positions. This has created the need for capacity building to upgrade PFM skills, however, government budget for capacity building is limited and happens mostly on the job. Furthermore, staff rotations frequently cause knowledge drain and the continuous need for training new staff. Capacity building relies heavily on donor support, thus being externally driven in both content and frequency and limiting its coverage mostly to the central level. The absence of a structured system for skill requirements for different job profiles system and training management impedes the identification of relevant training and progressive learning modules for different positions.

12. **To address the array of challenges mentioned above, the MoF has undertaken major reform efforts on a broad level and developed the Public Finance Development Strategy 2025 and Vision 2030 (PFM Strategy).** It serves as the blueprint for the second generation of PFM reforms, which aim to continue previous reforms undertaken during 2003–2012 and to finalize the development and implementation of core PFM systems. Capacity building and skills enhancement are recognized as a crucial cross-cutting element. The Strategy is accompanied by action plans for the first implementation phase 2018–2020. It foresees actions commonly recommended as minimum requirements of a core PFM system, such as (a) an adequate regulatory framework, (b) a sound accounting system and treasury-centric budget execution processes, (c) a realistic budget preparation process, and (d) ultimately a core Financial Management Information System (FMIS).

13. **The PFM Strategy emphasizes on the cross-cutting element of capacity building and ICT in the PFM reforms and MoF has prepared an ICT Strategy to guide the use of ICT systems in the reform process.** The ICT Strategy 2018-2025, the first of its kind within GoL, foresees a phased approach to replace existing and introduce new systems and applications, starting with a core FMIS, revenue management, and debt management systems, which then would be followed and expanded by modules, among other, on e-procurement, asset management and additional tax collection applications. On the revenue side, a new tax revenue information system (TAXRIS) is expected to start operating January 2019, while the customs system (ASYCUDA) is in place. The ICT Strategy calls for the develop a complete set of interfaces with budget units, banks, and other relevant ministries/organizations, between Government agencies, and between the Government and the private sector in order ensure data accuracy and integrity and to facilitate tax payments, electronic payments, and the

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\(^7\) Prepared as part of the 2018 Public Expenditure Analysis (P158831).

\(^8\) Ibid.
application of modern tools such as smartphones, tablets, ATMs and others. On the expenditure side, the ICT Strategy foresees the development of modern systems and tools to manage expenditure, linking the public finance management system between MOF, central entities, and local entities, and between MOF and the banking sector. This would include modules on budget preparation, budget execution, fiscal reporting, auditing, and public debt.

14. The proposed Enhancing Public Finance Management through Information and Communication Technology and Skills (E-FITS) project will support the implementation of the MoF’s PFM Reform Strategy and ICT Strategy through a new FMIS and by developing a PFM skills training program at MoF. The preparation and implementation of the proposed E-FITS project is supported by the Public Finance Management Reform Program (TF073110), a Single-Donor Trust Fund (SDTF) funded by the EU, which is providing technical assistance (TA) and capacity building to set-up the policy and process needed for the implementation of a core PFM system.

C. Proposed Development Objective(s)

Development Objective(s)

15. The project development objective (PDO) is to contribute to the coverage, timeliness and transparency of financial reporting, and to enhance public financial management skills.

Key Results

16. Key indicators for measuring the achievement of the PDO are:

(i) Annual financial statements covering central, provincial and district (excluding state-owned enterprises and other statutory entities) comparable with the approved budget are submitted to the State Audit Organization;

(ii) In-year budget execution reports covering all levels of Government (central, provincial and district) are prepared quarterly, and are made publicly accessible in user-friendly format on the Ministry of Finance’s website within four weeks from the end of each quarter;

(iii) Annual financial statements are made publicly accessible within 6 months of the end of the fiscal year on the Ministry of Finance’s website.

(iv) 80 percent of staff (disaggregated by gender and job profile) have completed the PFM Skills Program.

D. Project Description

17. The E-FITS project has three components focusing on improving MoF’s ICT environment, enhancing PFM competences, and providing support to project management. Component 1 will address the principal investment outlined in MoF’s PFM and ICT Strategies - the implementation of a new FMIS. The new FMIS is a critical enabler of the implementation of MoF’s PFM Strategy. MoF’s PFM and ICT Strategies, and analytical
underpinnings prepared under the Public Finance Management Modernization Program\(^9\) (P158658) emphasize the need for a new FMIS system as a cross-cutting tool to enhance public financial management, introduce adequate availability and credibility of financial flows, enhance controls over the budget, and to expand the coverage to the district level. This component would include the implementation of a new core FMIS, the establishment of a supporting platform to operate MoF’s software applications, the upgrade of the debt management system, and the establishment of links/interfaces to other government information systems.

18. **A 2016 review\(^{10}\) of the current GFIS indicated that it covered only a subset of functionalities required for a full functioning budget execution system.** The GFIS was updated and rolled out to the provincial level in the mid-2000s, and currently is connected to the about 40 central level government agencies, the 17 provincial treasuries, and the nine districts of Vientiane Capital. The almost 160 remaining districts are not included in the GFIS coverage and their aggregate transactions are entered by the respective provincial treasuries. The GFIS is mainly used to record payment processing steps, while the actual approval and processing consists of manual steps involving hard copies and physical signatures that could take up to 21 steps leading to payments taking an average of up to 10 days to complete. The GFIS has no commitment control function and while at the central level, ex-ante budget availability controls are generally undertaken, at the provincial level many payment transactions are only recorded in GFIS after the payment has been processed.

19. **The current GFIS is limited in its capability to provide the technological backbone of a core PFM system.** The technical ability of the GFIS to include the required updates for full functionality is limited as the technology used for system development is becoming obsolete, and the technical architecture and documentation is poor, leading to challenges in timely and comprehensive budget execution reporting. At the same time, there are no interfaces for data exchange between the current GFIS and other existing government IT systems, such as the Automated System for Customs Data (ASYCUDA), the Debt Management and Financial Analysis System (DMFAS), and the Personnel Information Management System (PIMS) used by the Ministry of Home Affairs (MoHA). The Tax Revenue Information System (TAXRIS) is expected to be launched in January 2019.

20. **Embedded in a broader PFM reform process, an FMIS can result in notable benefits.** Supported by broader PFM reforms, the FMIS can facilitate, among others, better cash management by providing up-to-date data on available financial resources; reduced routine workload through shifting transaction processing to the location of their origin; and improved budget execution by ensuring that all expenditures are in accordance with budget appropriations, providing real-time reporting for decision making and accountability through publication of user-friendly reports. The FMIS would also allow full integration of the approved budget and budget execution data; enable close monitoring of outstanding bills; cash in Government bank accounts, arrears, and fiscal deficits; and finally, improve the quality and availability of budget execution reports and baseline data.

21. **Component 2 will support the MoF in the implementation of its PFM Strategy by addressing PFM capacity constraints and by establishing a change management program.** MoF’s PFM Strategy identifies the need for upgrading PFM capacity among MoF staff as one of the cross-cutting requirement for successful PFM reforms and effective public financial management. At the same time, PFM reforms and specifically, FMIS

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\(^9\) EU-financed Bank-executed Single Donor Trust Fund (SDTF), which was implemented during March 2016 and August 2018.

\(^{10}\) Technical Note: Status of the Government’s current Financial Management Information System (FMIS) and the way forward towards strengthening it to provide better support for Treasury management and budget execution; Ali Hashim, October 2016; in project files. This review was undertaken as part of the EU SDTF Public Finance Management Modernization Program (P158658).
implementation bring about significant transformation, for example through the move from manual administrative to more analytical-focused tasks. This component will include the identification of a PFM competency framework, the delivery of PFM training and a change management program.

22. **The third component will provide support the PIU at the MoF in overall project coordination** across GoL departments, supporting and overseeing project implementation, undertaking procurement and fiduciary tasks, monitoring implementation progress, and achieving outcomes. This will include the hiring of local consultants, e.g. procurement, financial management, M&E and project management consultants; technical advisors, including international advisors to assist with the procurement process and the supervision of the FMIS contract implementation will support the PIU throughout project implementation.

23. **A EU-financed SDTF Program will complement the proposed project through provision of technical assistance for the necessary broader PFM reforms.** A EU SDTF (Public Finance Management Reform Program (P167660/P167661) with a duration of four years (estimated August 2018 to August 2022) in the amount of EUR5 million, will complement the proposed Project by providing technical assistance and capacity building for implementation of core PFM reforms. The SDTF will also allow for the start of several project-related activities during project preparation; namely, the start of change management activities, the preparation of bidding documents and the set up and start of a Project Implementation Unit (PIU) in MoF, facilitating a jump start to Project implementation, once approved by the Board.

E. Implementation

Institutional and Implementation Arrangements

24. **To oversee the implementation of MoF’s PFM Strategy, a National Steering Committee (NSC) on PFM Reform was established.** The NSC chaired by the Deputy Prime Minister will ensure the government-wide coordination of the PFM reform progress. Within the MoF, a PFM Reform Technical Working Committee (TWC) has been established, supported by a PFM Reform Secretariat to manage the implementation of MoF’s PFM Strategy.

25. **The Project Implementation Unit (PIU) under the oversight of the MoF’s PFM Reform Secretariat will be responsible for project implementation.** The PIU will be the central executing agency responsible for overall project implementation monitoring, fiduciary oversight, and providing technical, procurement, and financial management support to implementing departments responsible for the technical implementation of project components. The PIU will consist of a team of government staff, local consultants and international advisors, and will be supported by implementing technical departments.

26. **Financial management arrangements.** Funds will flow to a designated account opened at the BoL. Cash advance will be provided to implementing departments and agency for activities to be implemented. The PIU will be responsible for the accounting and reporting of the project expenditure. A bi-annual interim unaudited financial report (IFR) will be prepared by the PIU and submitted to the WB, and project expenditure will be annually audited by an independent qualified auditor.

27. **Procurement arrangements.** The proposed project procurement will be carried out in accordance with World Bank’s ‘Procurement Regulations for IPF Borrowers, dated July 1, 2016, revised November 2017 and August 2018; and provisions stipulated in the Financing Agreement. Procurement under national procurement
procedures as agreed with the World Bank will be carried out in accordance with national regulations including Procurement Decree No. 03, dated January 9, 2004; Implementation Rule and Regulations (IRR) No. 0063 issued by the MOF on March 12, 2004, and No. 0861/MOF, dated May 5, 2009 (amended version); and the Procurement Manual dated May 2009, and conditions for use of such procedures will be stipulated in the Procurement Plan.

28. **To inform fit for purpose procurement arrangements to feed into the project’s procurement plan covering at least the first 18 months of implementation, the MOF is preparing a Project Procurement Strategy for Development (PPSD) to be discussed with the Bank by project appraisal.** The PPSD presents how major procurement activities under the project will support the development objective of the project and deliver the best value for money under a risk-based approach. In addition, the PPSD includes the rationales for procurement decisions including the selection of the approach to market and procurement methods. The PPSD shall be updated, once the major contracts in the project have been identified; and the procurement plan of the project shall be regularly updated as appropriate during the project implementation.

29. **The initial capacity and risk assessments undertaken by the Bank rates procurement risk substantial.** Besides the selection of a few consultants to support system design project implementation, most of the project funds will be used for a large IT procurement. This IT package would likely be procured under one responsibility contract (turnkey contract, including hardware, software and training for end-users) for which the procurement process is highly complex. Meanwhile, the capacity of MoF to manage such type of complex procurement is limited even though it has implemented several World Bank-financed projects. Limited capacity and lack of familiarity with the new procurement regulations for IPF could contribute to major delays in the implementation of procurement activities. Mitigation measures for procurement risks are proposed in the detailed procurement arrangement section.

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**F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)**

The main project location will be Vientiane Capital. However, the roll-out of the planned FMIS system will include provinces and districts.

**G. Environmental and Social Safeguards Specialists on the Team**

Martin Henry Lenihan, Social Specialist
Alkadevi Morarji Patel, Social Specialist
Thiri Aung, Environmental Specialist
SAFEGUARD POLICIES THAT MIGHT APPLY

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<th>Safeguard Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
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<td>Projects in Disputed Areas OP/BP 7.60</td>
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KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
   Not applicable (C)

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
   Not applicable (C)

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
   Not applicable (C)

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
   The Project is rated Category C and therefore no safeguard capacity is required.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
   Not applicable (C)
B. Disclosure Requirements

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
NA

Have costs related to safeguard policy measures been included in the project cost?
NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
NA

CONTACT POINT

World Bank

Fanny Weiner
Sr Public Sector Mgmt. Spec.

Saysanith Vongviengkham
Public Sector Specialist
Borrower/Client/Recipient
Lao People's Democratic Republic

Implementing Agencies
Ministry of Finance of Lao PDR
Dr. Bounleua Sinxayvoravong
Director General, Fiscal Policy and Law Department
laospfm@gmail.com

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): | Fanny Weiner  
| Saysanith Vongviengkham |

<table>
<thead>
<tr>
<th>Approved By</th>
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<tbody>
<tr>
<td>Safeguards Advisor:</td>
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<tr>
<td>Practice Manager/Manager:</td>
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<td>Country Director:</td>
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