

PROGRAM INFORMATION DOCUMENT (PID)

CONCEPT STAGE

November 9, 2016

Report No.: 110034

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| Operation Name | Green Growth DPF |
| Region | EAST ASIA AND PACIFIC |
| Country | Lao People's Democratic Republic |
| Sector | General agriculture, fishing and forestry sector (60%); Energy efficiency in Heat and Power (15%); Irrigation and drainage (15%); Other Renewable Energy (10%) |
| Operation ID | P159956 |
| Lending Instrument | Development Policy Financing |
| Borrower(s) | Ministry of Finance |
| Implementing Agency | Ministry of Planning and Investment |
| Date PID Prepared | September 18, 2016 |
| Estimated Date of Appraisal | February 6, 2017 |
| Estimated Date of Board Approval | March 28, 2017 |
| Corporate Review Decision | Following the corporate review, the decision was taken to proceed with the preparation of the operation. |
| Other Decision <i>{Optional}</i> | <i><u>Teams can add more if they wish or delete this row if no other decisions are added</u></i> |

I. Country and Sector Background

1. **Lao PDR has made impressive progress on economic growth and poverty reduction in recent years, but further improvements are needed to make this development path more inclusive and sustainable.**¹ With an average growth rate of 7.8 percent per annum over the last

¹ Based on World Bank, 2016. Lao People's Democratic Republic: Systematic Country Diagnostics.

decade, it was the second fastest growing economy in the rapidly growing East Asia and Pacific (EAP). Between 2002/03 and 2012/13, absolute poverty, based on the national poverty line, declined from 33.5 percent of the population to 23.2 percent. This was driven by increasing households' endowments and economic opportunities, including growing human capital, access to land and creation of off-farm jobs. Given the high aggregate growth between 2002/03 and 2012/13, the pace of poverty reduction was modest when compared to regional peers. While disadvantaged groups, such as ethnic minorities, face constraints to move out of poverty, also non-poor households remain vulnerable to fall back into poverty when they face shocks.

2. **Lao PDR's dependency on natural assets, geography and economic and social legacies have intertwined to shape a unique development experience of strong growth, limited inclusion and considerable risks to sustainability.**² This experience reflects small size and landlocked location within a rapidly growing region, as well as the relative abundance of natural resources, such as water, timber and minerals. Almost half of the country's wealth is based on natural assets, which has been an engine for growth. In addition, institutions have not kept pace with the changes in the economy. GoL arrangements need to improve levels of voice and accountability, strengthen rule of law and governance. In the absence of these, low human development outcomes as well as the high environmental cost of economic activity and vulnerability to shocks and disasters have been amplified.

3. **The country's growth has come with a considerable impact on the country's environment due to increasing pollution and natural resource depletion, which it depends on for sustained growth.** As a resource-rich country, Lao PDR's GDP growth has been driven by a growing use, and indeed depletion, of natural resources and increased pollution. The costs of environmental degradation, including health costs from environmental pollution, forest depletion and GHG emissions, have been rising. In 2013 they were at 7.4 percent of GDP, which is much higher than other countries in EAP. Overall, the country is depleting more capital than it is investing in new forms of (physical, human and natural) capital. This results in a depletion of its wealth, which has nearly doubled from \$180 per capita to \$320 per capita since 2000 (measured in 2011\$). Such depletion cannot be sustainable and would undermine growth in the future.

4. **There is a strategic opportunity to support the engagement of the GoL to promote a more sustainable and greener growth path.** The Party Congress, that occurs every 5 years, adopted the 10th Party Resolution that committed to the new SDGs and prioritized effective utilization of natural resources and industrialization and modernization with principles of green development. The Vision 2030, Strategy 2025 and the newly approved VIII NSEDP embraces GG objectives. With clear support from the National Assembly, the new Government, with leadership from the Prime Minister, has confirmed endorsing GG as an overarching framework and seeks support to take the agenda forward on the policy, institutional and financing fronts. At international level, the Sustainable Development Goals and the intended Nationally Determined Contributions (INDCs) will require national actions to strengthen sustainability including, climate change mitigation and adaptation by Lao PDR. With the ongoing investment projects and advisory services that are supportive of the GG agenda, in particular from the WB, there is a strong basis to scale-up this support.

² Based on World Bank, 2016. Lao People's Democratic Republic: Systematic Country Diagnostics.

5. **This program information document describes the first, single tranche operation for a credit in the amount equivalent to US\$40 million in a series of three development policy operations (DPO) to the Lao People’s Democratic Republic (PDR).** The operation would assist the Government of Lao People’s Democratic Republic (GoL) to strengthen its green growth (GG) reform action as a contribution to improving sustainability and quality of its growth. This comes in support of the implementation of new domestic and international commitments with renewed Party Direction and 5-year National Socio-Economic Development Plan (NSEDP), a new government – amidst the start of the ASEAN Economic Community, the global adoption of the Sustainable Development Goals (SDGs), and a new global climate agreement. A framework for green and resilient growth can help to orchestrate the GoL’s action to meet its development goals and commitments.

6. **The Macro Economic Framework point to Lao economy strong expansion in recent years.** GDP growth averaged 8.0 percent per annum since 2000 with GNI per capita reaching US\$1,730 in 2015 and making Lao PDR a lower-middle income country. Natural resources (accounting for 44 percent of total wealth in 2014) were a key driver of growth during this period. Initially, growth was driven by mining; but a decline in prices as well as sector regulation issues lowered its contribution. Construction of power plants, largely expected to meet demand in neighboring countries, emerged as the main engine of growth later on. Lao PDR’s installed capacity increased ten-fold between 2000 and 2015 to above 6,000MW, mostly through engagement with the private, largely foreign, sector.

7. **The macroeconomic environment, while remaining challenging, has improved in past years but the risks to this outlook are significant.** An overall assessment will be made at a later stage and reflect more recent data and discussion with the authorities. While the fiscal deficit and public debt levels are high there has been some fiscal consolidation and the macroeconomic stability and public finance management agenda appears to have become more center-stage (including through the recent establishment of a National Economic Steering Committee to better coordinate economic policies). Also, credit growth has moderated to more sustainable levels; though risks remain. The Bank will closely monitor the situation to ensure that the environment is adequate for such an operation. This would require greater collaboration from the authorities on data sharing. The on-going uncertainty in the global economy and related enhanced volatility in commodity prices could reduce demand for Lao PDR exports and put further pressure on GoL revenue and the already low reserves. Also, liquidity and solvency of fiscal accounts can be tested in case the announced fiscal consolidation is derailed. Similarly, failure to keep credit growth at manageable levels and address weaknesses in the financial sector can trigger a larger instability and create a significant fiscal burden in case risks materialize.

II. Operation Objectives

8. **The operation, the first in a programmatic series of three single tranche DPO operations, supports the GoL in strengthening the foundations and accelerating implementation of its GG agenda** introduced in the VIII NSEDP and the 2030 vision and 2025 strategy. The VIII NSEDP Overall Goal statement includes graduating from LDC status by 2020 “through continuous and inclusive, along with sustainable growth and green growth,

development”. The sustainable and green growth dimension of the Goal is supported through Outcome 3 which is that *natural resources and the environment are effectively protected and utilized according to green-growth and sustainable principles*.

9. **In support of the Overall Goal, this operation sets its program development objective (PDO) to support GoL in strengthening the policy framework to realize a transition to greener growth and initiate implementation in selected sectors and areas;** whereby growth is increasingly *efficient* in the use of natural resources, *clean* by minimizing environmental impacts, and *resilient* by accounting for the role of environmental management and natural capital in preventing physical disasters. The PDO would be achieved through three Pillars that seek policy and institutional measures for planning, financing and monitoring the GG transition (Pillar I), promoting sustainable goods and services from natural capital (Pillar II), and developing greener and cleaner production and consumption systems (Pillar III). In essence, the operation aims to improve prioritization and decision-making based on new principles that reflect green growth, while institutionalizing a proactive planning and governance regime to attract investors with a transparent and stable investment environment. The growth is also to extend benefit sharing and livelihood opportunities to the communities and ensuring access to sustainable use of natural resources and environmental services.

10. **Pillar I supports the GoL’s efforts to improve planning, financing and monitoring for GG across sectors and landscapes.** The pillar strengthens the institutions and processes for planning, monitoring, reporting, and financing of GG activities. The policy actions institutionalize a number of practical tools and necessarily brings multiple sectors together through systemizing access to information – including impact assessment, consultation results, etc. towards a more prudent planning and budgeting that would minimize and internalize the social and environmental costs. It also mobilizes financing mechanisms based on polluter- and user-pays-principles to reduce behaviors with negative impact while increasing resources to finance environmental protection and remediation. This broad shift hinges on improved cross-sectoral engagement and wider consideration of coordinated planning on larger geographic scale and longer time scale to convert natural capital into shared wealth.

11. **Pillar 2 focuses on natural capital management by improving the governance regimes and supporting the basis for expanding economic value from their sustainable management.** Focusing on the country two most valuable natural resources--water and forest—the policy measures under this pillar would help organize the distribution of water use in river basin and the sustainable management of forests and ecosystem services (watershed protection, timber and non-timber forest products as well as tourism). Consistent with GG, the ultimate goal is to restore the revenue stream from forest timber, to enable rivers to continue fueling hydropower but not at the detriment of agriculture and fisheries, and to establish tourism as a new revenue stream from conservation forests. The pillar would promote new economic activities that concern community inclusion to offer opportunities for alternative livelihoods, while also improving natural resource governance to better protect the rights of the communities to natural resources and ecological services. Specifically, the water sector reform seeks to introduce a new overarching approach to managing the resources holistically with a multi-sector coordination at the heart of planning the use of water. The forest sector is to institutionalize the high-level efforts on eliminating leakage, while implementing policies towards inducing production of goods and services with better conservation impact and economic value.

12. **Pillar 3 supports the GoL’s efforts to develop and implement selected cleaner production and consumption systems.** The pillar supports reforming GoL approach with improved capacity to better regulate polluting activities and to promote cleaner production system. The ambitions of the pillar’s policy actions and institutional set up are to introduce a pollution control regime that proactively and strategically monitors and prevents polluting activities. With a concrete sector intervention in agriculture – this pillar aims to demonstrate through the largest economic sector of the country the country’s commitment to reduce the environmental impact, but mainly to boost commercial Lao products to brand the country as a clean producer.

III. Preliminary Description

Pillar 1. Planning, financing and monitoring the GG transition

Policy Track 1.1. Building the country instruments for GG planning, financing and monitoring

13. **To build on, and strengthen these efforts, this DPO series would support the development of the institutions and processes for planning, financing and monitoring for the implementation of GG actions.** The DPO would support the government on planning, through the development and adoption of a GG strategy that further articulates the plans of how GG would contribute to graduation from LDC status, progressing on SDGs, implementation of the Climate Change Paris Agreement, and reaching upper middle-income country status. On financing, the DPO would support the GoL to develop and implement green fiscal instruments to provide financial incentives for green growth. These instruments can include environmental tax which generate GoL revenues of which a certain share can be dedicated to the EPF, and environmental fees and fines that could be directly contributed to the EPF. As such, these fiscal instruments can also contribute to the financing of GG channeled through the EPF.

14. **DPO 1 Prior Action #1:** The VIII NSEDP adopted by the National Assembly is considered as Prior Action under the first operation in the DPO series. The VIII NSEDP signals a transition to greener growth that prioritize effective management and utilization of natural resources. The VIII NSEDP most significantly introduces green growth in the overall goal statement and in Outcome 3, to ensure sustainable growth that uses natural resources sustainably while protecting the ecosystem and environmental benefits. Finally, promoting sustainable ecotourism, SMEs development and organic agriculture are ventures newly emphasized that embody the principle of GG. This plan is complemented by a GG National Steering Committee that would be established for leading the country’s GG agenda, chaired by the (Deputy) Prime Minister and comprising membership of several ministries. The National Steering Committee is mandated to be responsible for overseeing the green growth agenda and its progress by requiring and reviewing reports prepared by the secretariat (the Ministry of Planning and Investment Department of Planning). The Committee would also be responsible to ensure the integration of the progress and lessons learned from green growth reporting to inform subsequent NSEDPs and longer term plans.

15. **DPO 1 Prior Action #2:** The DPO 1 supports the GoL operationalizing of green fiscal instruments. The establishment of the necessary legal framework and operational mechanisms will be laid out in a Roadmap, overseen by a multi-sector body under the leadership of MOF. The Roadmap elaborates on the concept of green fiscal instruments and its principles that were first introduced in the Tax Law and the Environment Protection Law as tax and fee. The Roadmap also defines specific green fiscal instruments and how they can be coordinated and applied in the Lao context, including potential distributional impacts. The updated EPF decree defines the funding sources that could contribute to the EPF, including green fiscal instruments.

Policy Track 1.2. Shifting towards Development Decision-Making informed by Priorities for Environmental Protection and Climate Resilience

16. **The DPO will help to overcome political barriers to adopt improved legal frameworks and increase the ability for integrating GG-related assessments and information into investment planning.** The DPO would enable inter-ministerial discussion and education about the value of improved investment planning based on international good practices. In particular, the DPO would support the GoL's efforts to integrate SEA into policy and strategic decision making process. It would also strengthen the requirement for ESIA to enable stronger compliance, enforcement, reporting and transparency and mitigate negative impacts of investment projects. Furthermore, it would support the integration of climate and disaster risks management into public investment project processes

17. **DPO 1 Prior Action #3.** This action would enable GoL to develop a new decree on SEA under cooperation and consensus of planning and economic sector ministries, including through a multi-sector vetting process. The decrees identify key stakeholders and essential procedural steps for conducting SEA as an integral part of developing national and sector policies, strategies and plans.

18. **DPO 1 Prior Action #4.** For the ESIA, which is upgrading its existing regulation, the DPO would focus on establishing a work plan and budget for the multi-sector drafting committee. This is a procedure of particular importance given that much of the challenges in the current regime stems from the complex system that involve multiple sectors, requiring synchronization. Closer technical collaboration between MONRE and sector ministry is required in implementing the reform that will allow timely and adequate integration of ESIA results and Environmental and Social Monitoring and Management Plans (ESMMP) to inform the development of contractually binding terms of Standard Environment and Social Obligations (SESO).

19. **DPO 1 Prior Action #5.** The policy guidelines for integrating climate and disaster risk management into public investment project processes would be adopted by MPI. The guidelines establish recommendations on how climate and disaster risk and potential risk mitigation measures can be identified at various stages of the project planning process.

Pillar 2. Improving governance of natural capital for sustainable goods and services

Policy Track 2.1. Shifting towards Integrated and Sustainable Water Resources Management and Uses

20. **GoL is moving towards introducing a governance regime to manage water through integrated river-basin management approach and departing from current scheme that grants “water rights” to commercial users.** The Department of Water Resources (DWR) under MONRE is embarking on a mandate to create River-Basin Management Plans (RBMP) for at least the 10 priority river basins as indicated in VIII NSEDP. The World Bank Group has been engaged in building the new water resource management regime, through Mekong IWRM project. The IFC advisory project has focused on making the hydropower investment environment more inviting with a reliable regulatory regime. In order to establish sound RBMPs, the current efforts to establish the new Water Law would need to be finalized. Under development since 2012 with support from WBG and other donors including DFAT, the new Water Law introduces measures to establish a legal regime that would grant authority to the regulator and allow investors and users to access information and be part of the transparent management regime. The DPO is to support the Water Law and its subsidiary regulations, and bringing closer the collaboration between MONRE and sector ministries. The operation would support the development of integrated management of all types of water uses over a broadened physical scope and longer time span, operationalizing the water database, water use allocation rules, certificate system, and legal registry.

21. **DPO 1 Prior Action #6: The GoL has developed and adopted a roadmap toward a new water legislation, with a multi-sector drafting committee and agreed work plan and budget.** The new Water Law drafted under MONRE leadership, requires rigorous vetting by key water user sectors such as the Ministry of Energy and Mines and Ministry of Agriculture and Forestry. The roadmap is to ensure substantive coordination and collaboration for the content of the new Law, which would first establish MONRE Department of Water Resources (DWR) of MONRE as the lead regulator and introduces essential elements for setting up a clear management system: 1) authorizing the regulatory body to maintain a database of water surveys with information on quantity and quality, 2) institutionalizing the RBMP, and 3) allocating water uses to commercial users via certificate system³. The RBMP is essentially a coordination approach to mobilize different authorities to work together at the scale of a river basin. Water Allocation Sub-Plans would be established as part of RBMPs, legally binding for all sectors with a clear set of rules for different water availability scenarios. The Water User Certificate scheme would allow DWR, MONRE to regulate water uses in terms of volume and conditions under circumstances requiring adjustment (e.g. during drought period), as opposed to the current system that lacks any of such control.

Policy Track 2.2: Improving forest resources management and diversifying their economic and social benefits.

22. **The DPO seeks to support the GoL for improving forest resources management and**

³ WL Part II Ch.1, Regulation on Data and Information *tentative title*; WL Part II Ch.2, Regulation on River Basin Management Planning and Water Use Allocation *tentative title*; WL Part III Ch.1, Regulation on Water Use Certificate *tentative title*, respectively.

diversifying their economic and social benefits. Balancing environmental concerns with economic development entails managing forests to sustain revenues and maintain social and ecosystem services. The DPO would support GoL efforts to set up an improved legal and institutional framework for forests and for protected areas while addressing the immediate challenges of salvage logging, timber certification and ecotourism through two Prior Actions.

23. **DPF 1 Prior Action #7: The GoL has issued orders to strengthen the regulation of timber harvest and export.** Whereas previous regulations on illegal logging were vague, providing a smokescreen for destructive logging practices. In 2016, the Prime Minister issued Order 15⁴ (PMO15) with a strong emphasis on addressing the problems associated in salvage logging. The Order as well as subsequent regulations⁵ to intensify action against illegal logging and export⁶ also prioritize processing wood, promoting good manufacturing practice guidelines for timber supply chain, and reforming the National Wood Processing Industry Association and Lao Furniture Association to improve production of value-added products. The order also provides a basis for strengthening collaboration between MAF and MOIC and to add weight to the ongoing efforts to establish certified timber trade system pursued with the EU through Voluntary Partnership Agreement and others.

24. **DPO1 Prior Action #8: The GoL adopts a road map to reform protected area management as well as update the mandate of the Watershed Protection and Management authority (WMPA).** Based on the conclusion of the ongoing review of protected areas, the GoL would reform the national protected area classification (from national conservation forest to a more appropriate IUCN standard) and institutional arrangements. The new law would set the stage toward international standards such as the IUCN Green List of protected areas. Key principles of the reform would be: centralized authority, delegated accountability, standardized and collaborative management, benefit sharing, community-private ecotourism, etc. For the DPO1, the GoL would adopt a road map that sets the reform's calendar and writing committee. In complement, GoL would pilot the reform by strengthening WMPA, an autonomous institution tasked to manage the Nakai Nam Theun NPA located in the Annamite Range Moist Forests and poised to become the first of two Lao national parks.

Pillar 3. Developing greener and cleaner production and consumption systems

Policy Track 3.1. Reducing agriculture sector impact on the environment and promoting Good Agriculture Practice for high-value products

25. **The DPO series would support the GoL agenda to brand its agriculture product as clean and organic products as the Organic Garden of ASEAN.** The series first recognizes the upgrading of MAF Ministerial Decisions on Pesticides Control (DPO1) and Fertilizer Control (DPO2) into Prime Ministerial Decrees. The upgrading is stronger commitment to improve control of chemical use in the agriculture sector, including by more stringent penalty and sanctions that would apply in the case of violations. The World Bank Group Enabling Business for Agriculture has in the past two consecutive years surveyed the Lao legislations and

⁴ No.15/PMO 13 May 2016 on Strengthening Strictness of Timber Harvest Management and Inspection, Timber Transport and Business.

⁵ PM Notification (No.679/PMO, 1 June 2016)

⁶ 31 May 2016, 1 June 2016, X June 2016 from PMO, MAF, MOIC.

regulations identifying that the ban on economically and environmentally harmful practices such as selling open fertilizer bags should be accompanied by a penalty scheme. The subsequent policy actions link to improving the GAP standards to reflect these evolutions in chemical use legislations, and also strengthening the incentive scheme for farmer groups and farmers who meet the GAP standards. By means of meeting GAP standards, the applicant farmers demonstrate meeting the minimum requirements under Pesticides and Fertilizer Control legislations. Hence the DPO aims to ultimately measure the increased participation of farmer groups obtaining GAP certification, supported through stringent regulatory requirements but also an incentive scheme to encourage cleaner production.

26. DPO 1 Prior Action #8. The GoL has adopted Decree on Pesticides Control. Pesticides and fertilizer regulations are upgraded into decrees with stronger provisions for sanctions and penalties. The decree on Pesticides Control would be adopted by the Prime Minister. It would include newly imposing penalty for sale of mismanaged pesticides containers, regulation on treatment of obsolete chemicals, and pest reporting obligations.

Policy Track 3.2. Strengthening pollution monitoring and management

27. Current priority pollution management agenda are multiple, including strengthening legal basis for grant stronger enforcement authority as well as information tools for maintaining a proactive management. These priorities are more specifically (a) establishing a stronger legal basis⁷ to grant stronger authorities for MONRE, given that many pollution sources are associated with licensed activities granted by other ministries; (b) stronger provisions for responsibility and accountability of polluters to resolve, improve, and rehabilitate the affected area and to allocate budget for pollution inspection; and (c) establishing subnational pollution monitoring function at province and district level, since now there are only Environment Monitoring Units for large projects; (e) improving financing for pollution control is another priority. The 5-Year National GoL's Budget Plan (2016-2020) does not allocate for pollution control; and while the 2013 Environmental Protection Law stipulates operators with polluting impact are subject to environmental tax, the mechanism is not yet in place. In the meantime, provincial governments have accessed the Environmental Protection Fund to remediate pollution problems, mobilizing 925,000USD for 82 specific projects over the past decade.

28. DPO 1 Prior Action #10 (DPO1): The GoL has increased its capacity to regulate multi-sectoral national environmental quality standards that sets the overarching rules for key sectors across landscape. Upgrading the regulation to a higher level legal document is welcomed, as pollution control involves many sector ministries who have authority over polluting activities and entities that fall under sector mandates (e.g., MEM, MAF, MOIC, etc.) and therefore need to grant MONRE with oversight authority to mobilize line ministry cooperation to pollution monitoring and control. Hence upgrading of the 2011 National Environmental Quality Standards (NEQS) as PM Decree is a welcomed and much supported action.

IV. Poverty and Social Impacts and Environment Aspects

⁷ as now the pollution control regulation is a Ministerial Instruction No.0745/MONRE dated 11 February 2015

29. Given the importance of land and water based livelihoods to the poor and vulnerable in Lao PDR, the policy reforms supported by this DPO should serve to strengthen the resilience, and improve the wellbeing, of the country's poorest households. Improving the policy and financial framework for GG has the potential to contribute to job creation in the long term, by fostering investment in GG, while also strengthening the resilience of the poorest households to climate shocks through improved availability and use of climate and disaster risk information. Policies for the promotion of sustainable goods and services from natural capital would contribute to the more sustainable and equitable allocation of use rights to vulnerable families depending on water and forest resources for their livelihoods. Finally, policies for the promotion of cleaner production and consumption systems would serve to strengthen the viability of vulnerable farming households hoping to increase the production and sale of higher value organic agricultural products, while actions to improve pollution management would improve the health and safety of residents in urban areas.

30. In terms of potential adverse social effects, it is anticipated that the policy reforms would cause minimal disruption to the livelihoods and wellbeing of poor and vulnerable households dependent on natural resources. In order to analyze potential social effects, the Bank would review a range of recent social assessments and analytical studies supported by the Bank and other donors, which are focused on natural resource management. These assessments and studies include a consideration of the gender and ethnic dimensions of natural resource management in Lao PDR. Where the review identifies possible adverse effects, recommendations would be made on how these can be avoided, minimized, or mitigated in order to ensure the livelihoods and wellbeing of the poorest and most vulnerable households are not worse off. The Bank team would also explore the possibility of conducting a strategic environmental and social assessment as part of the accompanying technical assistance during the implementation of the policy reforms.

31. **As part of the preparation of the Laos Green Growth DPO, the Bank would conduct a policy environmental analysis.** In line with the World Bank OP 8.60, the main objectives of the analysis would be following: (i) assess whether the policies supported by the programmatic series, in general, and this operation, in particular, are likely to cause adverse or positive significant effects on the environment, forests, and other natural resources; (ii) for those policies that may have likely significant effects, whether adverse or positive, analyze the systems for reducing such adverse effects and enhancing positive effects, identifying potential gaps or shortcomings in these systems; (iii) identify the actions that the GoL is undertaking or is planning to undertake to address the gaps identified in the systems. For those gaps that have not been considered or are not addressed by GoL, the policy environmental analysis would produce recommendations to incorporate environmental considerations in the DPO series or in the environmental dialogue between the GoL and the Bank to close these gaps.

32. **The policy environmental analysis would inform the environmental risk analysis of this DPO.** At concept these risks on environment forests and natural resources are moderate to low because the effects on the environment from the operation are expected to be largely positive although these benefits are likely to unravel over the long term. Likely positive effects 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, industrial discharges; and, enhanced

resilience of public infrastructure and production activities to natural disasters. However, adverse effects may result from indirect or unexpected reactions from stakeholders affected by reduced access to timber in forests, water resources or decreased agricultural productivity. Whether these effects can be significant would depend on the Lao systems to manage potential indirect.

V. Tentative financing

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|---|-------------|
| Source: | (\$m.) |
| International Development Association (IDA) | 40.00 |
| Borrower/Recipient | |
| Others (specify) | |
| | Total 40.00 |

VI. Contact point

World Bank

Contact: Christophe Crepin

Title: Practice Manager

Tel: (202) 473-9727

Fax: (202) 614-0893

Email: ccrepin@worldbank.org

Borrower

Contact: Ms. Phonevanh Outhavong

Title: Acting Director General, Department of Planning, Ministry of Planning and Investment

Tel: (856) 030 5059165

Email: outhavongphonevanh@gmail.com

VII. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>