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# WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

for the Lao People's Democratic Republic, 2017-2021





Supporting inclusive growth



Investing in people



Protecting the environment

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Cross-cutting theme:



Strengthening institutions to establish  
a rules-based environment

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## CURRENCY EQUIVALENTS

Exchange Rate Effective as of March 1, 2017

Kip 8,200 = US\$1.00

**FISCAL YEAR:** January to December

## ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank	Lao PDR	Lao People's Democratic Republic
AML	Anti-Money Laundering	LECS	Laos Expenditure and Consumption Survey
ASA	Advisory Services and Analytics	LENS 2	Second Lao Environment and Social Project
ASEAN	Association of South East Asian Nations	LSIS	Lao Socio Indicator Survey
BOL	Bank of Lao PDR	MDG	Millennium Development Goals
CGAP	Country Gender Action Plan	MDTF	Multi-Donor Trust Fund
CLR	Completion and Learning Review	MEM	Ministry of Energy and Mines
COS	Country Opinion Survey	MIGA	Multilateral Investment Guarantee Agency
CPF	Country Partnership Framework	MIWRM	Mekong Integrated Water Resources Management
CPS	Country Partnership Strategy	MMR	Maternal Mortality Ratio
CPIA	Country Policy and Institutional Assessment	MOF	Ministry of Finance
CRVS	Civil Registration and Vital Statistics	MONRE	Ministry of Natural Resources and Environment
DPF	Development Policy Financing	MW	Megawatt
EAP	East Asia and Pacific	NSEDP	National Socio-Economic Development Plan
ECD	Early Childhood Education	NT2	<i>Nam Theun 2</i>
EdL	<i>Electricité du Laos</i>	PFM	Public Finance Management
EU	European Union	PLR	Performance and Learning Review
FCPF	Forest Carbon Partnership Facility	PPP	Purchasing Power Parity
FIP	Forest Investment Program	PRF	Poverty Reduction Fund
FY	Fiscal Year	SCD	Systematic Country Diagnostic
GDP	Gross Domestic Product	SDG	Sustainable Development Goal
GNI	Gross National Income	SDR	Special Drawing Right
GOL	Government of Lao PDR	SEEDTA	Sustainable Energy and Extractives Development Technical Assistance Project
HGNDP	Health Governance and Nutrition Development Program	SME	Project Small and medium enterprise
HMTA	Technical Assistance for Capacity Development in Hydropower and Mining Sector	SOB	State-owned bank
ICA	Investment Climate Assessment	UN	United Nations
IDA	International Development Association	UNFPA	United Nations Population Fund
IEG	Independent Evaluation Group	UNICEF	United Nations Children's Fund
IFC	International Finance Corporation	WBG	World Bank Group
IMF	International Monetary Fund	WHO	World Health Organization



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# I. EXECUTIVE SUMMARY

**1. This document presents the World Bank Group (WBG) Country Partnership Framework (CPF) with the Lao People's Democratic Republic (Lao PDR) for 2017-2021.** The WBG CPF aims at supporting *Lasting Accessible Opportunities for all* including sustained green growth, improved access to human and infrastructure services, and opportunities for all. The previous Country Partnership Strategy (CPS) 2012-2016 built a solid foundation and a strong relationship with the Government of Lao PDR (GOL).

**2. The CPF supports the GOL's 8th National Socio-Economic Development Plan (NSEDP) for 2016-2020.** The 8th NSEDP introduces policies intended to put Lao PDR on a path to reduce poverty and promote shared prosperity in a sustainable manner, based on green growth principles. Lao PDR's development has advanced greatly in the last two decades, although significant challenges remain. Incomes have risen, poverty has declined, access to several key public services has improved and as a result Lao PDR met a number of its Millennium Development Goals. With GDP growth averaging 8 percent per year since 2000, Lao PDR today is a lower-middle income country with a GNI per capita of around US\$1,740 in 2015. However, growth has been driven mainly by exploitation of its abundant natural resources and has been less inclusive, resilient, and sustainable than for regional comparators. Widespread malnutrition and overall low consumption levels highlight the challenges that remain for the basic well-being of the country.

**3. Within the country's economic and social context and the lessons of experience, the CPF uses three selectivity filters to focus the planned WBG engagement during FY 2017-2021.** The first filter is that the CPF supports the priorities of the GOL as outlined in their 8th NSEDP. The second focuses on the priorities identified in the Systematic Country Diagnostic (SCD). The third relates to the WBG's comparative advantage including in relation to the programs of other development partners. The CPF reflects a shared understanding among stakeholders of the development priorities facing Lao PDR. The envisaged WBG program reflects wide consultations with the private sector, development partners, civil society, academia, and GOL.

**4. The SCD for Lao PDR, completed in February 2017,** identified an overarching priority of strengthening institutions, as well as the following three development pathways: (i) sustainable and efficient management of natural resources; (ii) unlocking the potential in non-resource sectors to create opportunities; and (iii) building the assets of people to be able to take on these opportunities and to mitigate risks and protect gains. This CPF is based on the SCD analysis, findings, and development pathways.

5. The CPF aims to support Lao PDR to accelerate progress toward the WBG twin goals of ending extreme poverty and boosting shared prosperity<sup>1</sup>. Progress toward these goals will involve maintaining the current robust growth rates, while increasing inclusiveness, lowering vulnerability, and shifting to a greener and more resilient growth pattern.

6. The CPF aims to support 10 of the 20 objectives of the 8th NSEDP, selected based on WBG comparative advantage, client demand and key constraints to poverty reduction and shared prosperity identified by the SCD. The targeted results are closely aligned with the targets of the Sustainable Development Goals.

TABLE 1: CPF FOCUS AREAS AND OBJECTIVES



7. **CPF financial envelope.** The CPF financial envelope will support Lao PDR’s development through an indicative International Development Association (IDA) 18 core country allocation for FY 2018-2020 in the range of US\$242 to US\$272 million. The IDA18 allocation represents an increase of approximately 60 percent from the IDA17 commitments for FY 2015-2017, of around

1. The WBG’s twin goals are: (1) to reduce the percentage of people living on less than US\$1.25 a day to 3 percent at the global level by 2030, and (2) to improve the living standards of the bottom 40 percent of the population. See the World Bank Group Strategy 2013.

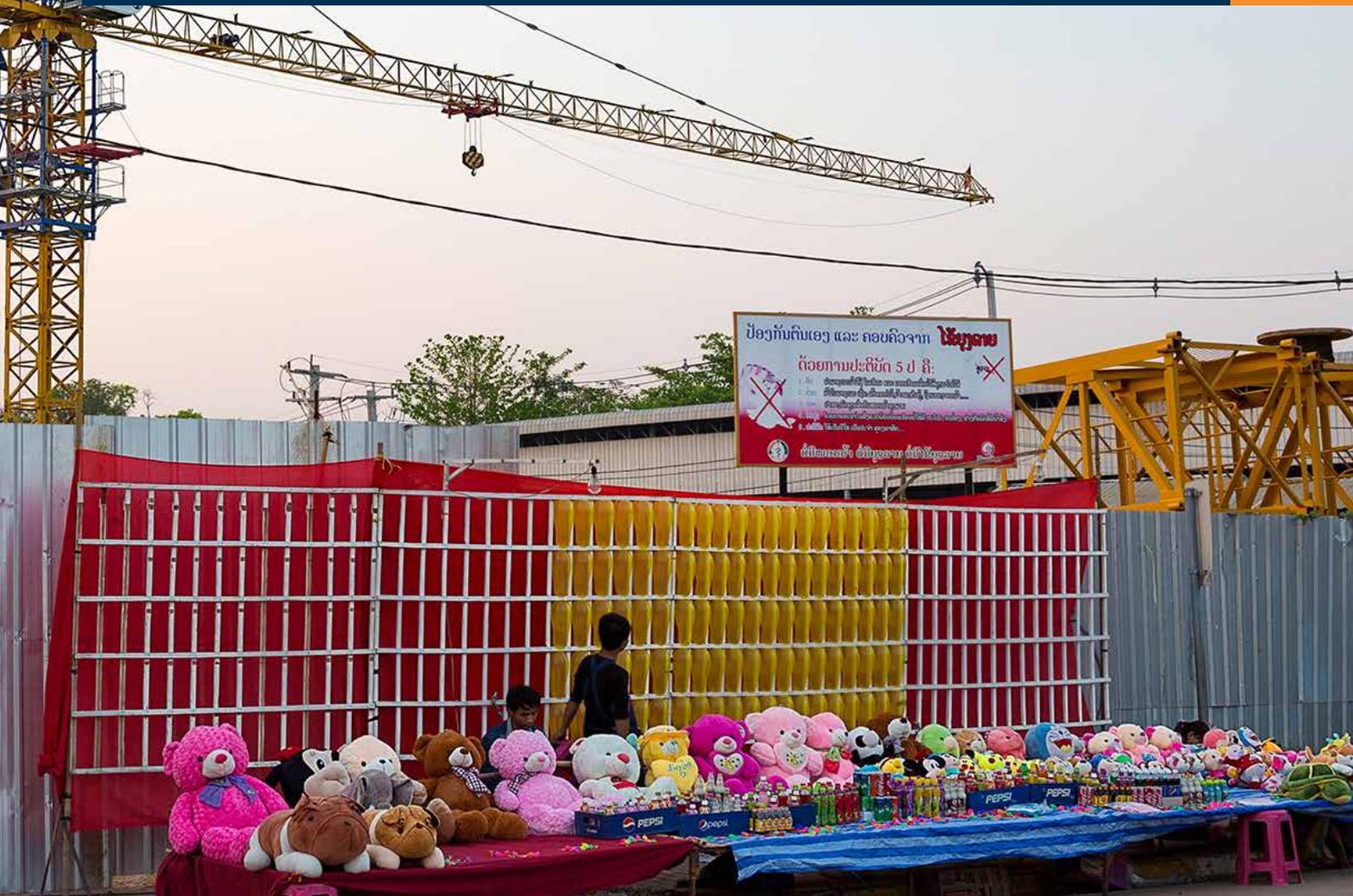
US\$173 million. This new IDA financing will complement the ongoing IDA financed portfolio for Lao PDR which stands at US\$347.5 million as of February 2017, complemented by US\$60 million in trust fund resources. Options to use Regional IDA financing will be explored, including in particular for the energy sector. The International Finance Corporation (IFC) has a current portfolio of US\$35 million. The expected increase in WBG financing provides an opportunity to significantly scale up impact in the key areas of green growth as well as malnutrition through a significant program in health, education, agriculture, and rural water supply and sanitation, the latter being the second leading cause of child stunting worldwide.

**8. “One World Bank Group” coordination and collaboration among the World Bank, IFC and the Multilateral Investment Guarantee Agency is strong and is continuing to intensify.** For each expected outcome, the CPF envisages the delivery of tailored development solutions through packages of WBG knowledge, convening, and financial services.

**9. The overall risk to the achievement of the CPF development objectives is assessed as *Substantial*.** Lao PDR faces a number of risks and vulnerabilities that could significantly affect the achievement of its economic and social goals and the expected results of the WBG-supported interventions under the proposed CPF. The key risks relate to weak governance; a fragile macroeconomic situation, with a high risk of debt distress; and weak enforcement of policies regarding natural resources management. Strong political commitment will be key to overcome the serious governance challenges in Lao PDR, and there are indications of such commitment by the new Government.



## II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA



### Recent Economic Developments

10. One of the most vivid shifts observed in the new Government of Lao PDR (GOL), appointed in April 2016, is the more explicit and substantive commitment to sustainability and green growth<sup>6</sup>. It has become apparent that while the development of natural resources will continue to be a key driver of economic growth, without an improved system to sustainably manage the natural capital, the social and environmental costs will be irreparable and may soon outweigh the economic benefits of exploitation and reduce future opportunities. The 15-year Vision, 10-year Strategy, and 5-year 8th National Socio-Economic Development Plan (NSED) adopted by the newly elected National Assembly all reinforce the commitment to the larger paradigm shift, naming green growth and sustainability as the orientations that will guide the Government to reaching its goal towards becoming an upper-middle-income country by 2030.

6. The WBG defines green growth as “growth that is **efficient** in its use of natural resources, **clean** in that it minimizes pollution and environmental impacts, and **resilient** in that it accounts for *natural hazards* and the role of environmental management and natural capital in *preventing physical disasters*” (World Bank 2012. Inclusive Green Growth: The Pathway to Sustainable Development).

**11. The Lao economy continues to expand strongly; though growth rates in recent years have been below historical averages.** In 2016, economic growth moderated to around 7 percent, compared to 7.4 percent in 2015 and around 8 percent on average since 2000, reflecting flat output in mining, moderation of credit growth and public spending. With GNI per capita reaching US\$1,740 in 2015, Lao PDR is a lower-middle income country. With natural capital accounting for 45 percent of national wealth (2013), the growing use of natural resources contributed on average 3 percentage points of total growth during this period. At the same time, there was an increasing trend of environmental damage in Lao PDR, with natural capital depletion per capita having jumped six-fold between 2000 and 2013. Growth in the mid-2000s was driven by mining; however, its contribution declined in recent years reflecting the decline in prices as well as weak regulatory environment. Later on, hydropower projects, largely expected to meet demand in neighboring countries, were the main source of growth with Lao PDR increasing installed capacity ten-fold between 2000 and 2016 to above 6,000 MW, mostly through engagement with national and international private sector.

**12. More recently, growth has become more broad-based.** Services expanded, including wholesale and retail trade, as well as tourism and transport due to spillovers from natural resource projects, some liberalization of the economy (banking sector, transport, etc.), as well as fiscal expansion. Still, services remain concentrated in low-value added traditional sectors. Agriculture, where two thirds of the labor force was engaged in 2012 (last available data), remains characterized by subsistence farms with low productivity. However, there are signs of emerging commercialization of rice production and increasing importance of other crops such as vegetables, maize, beans, coffee, banana, rubber, etc. Manufacturing grew, apart from traditional garment manufacturing, albeit from a low base and mostly confined to the special economic zones, suggesting Lao PDR firms could participate more effectively in regional supply chains. Rapid growth and an expanding consumer base also boosted construction activity in commercial and residential real estate.

**13. The economic outlook for the medium term remains broadly positive, subject to improved macroeconomic management, strengthened planning and management in the power sector, and reforms that improve the business environment.** In the baseline scenario, growth is expected to average around 7 percent per year as a favorable regional economic outlook provides an important pull factor for the Lao PDR economy. Following declines in recent years, copper prices are expected to edge up. Around 500-1,000 MW per year is expected to be added to the power system capacity over the medium term as power projects come on stream. This should ensure a robust outturn for Lao PDR exports and FDI. The non-resource sector is expected to remain dynamic as rents from the resource sector trickle down into higher demand and closer integration under the ASEAN Economic Community opens opportunities for the private sector. However, in the absence of improvements in economic management, macroeconomic risks and the likelihood of adverse effects on growth and livelihoods remain high. While the authorities have proposed a number of reforms, the track-record is still evolving. Similarly, realizing the opportunities for the private sector would require reforms in

a range of areas that would move Lao PDR up from the current, very low, rankings on international measures of competitiveness, including governance reforms critical for the growth of a vibrant private sector, such as dealing with vested interest and establishing a level playing field. Crucial energy sector reforms include measures to identify markets for the rapidly increasing power generation, plan the future expansion of generation so as to improve management of water resources across various uses, increase efficiency, and ensure a matching of liabilities and sales. Further weakening of copper, gold, coffee, and rubber prices could reduce mining and agriculture output, adversely affect livelihoods, and put further pressure on fiscal accounts.

**14. Fiscal policy over the medium term will aim to improve the sustainability of public accounts; however, ambitious public investment plans are currently projected to keep the deficit and debt elevated.** On the revenue side, the tax law was amended to increase the excise tax rates on a number of goods (to be effective from 2018 and expected to generate additional revenues of around 0.3 percent of GDP), and new taxes are being considered (land, environment and property taxes). To improve tax administration, the authorities revised the value-added tax law to simplify filing and amended the implementing instruction to ensure more effective enforcement. Revenue from the mining industry (US\$129 million in 2015-2016) will gradually decline as the two dominant operations wind down within the next five years<sup>3</sup>. These revenues will increasingly be replaced by growing revenues from the power sector (US\$151 million in 2015-2016). At the same time, the authorities intend to keep a tight control over employment and wage spending, upgrade the framework for public procurement and improve public investment management. Stronger controls, renegotiation of the terms of existing liabilities, as well as the requirement to allocate 30 percent of capital spending to clearance of arrears, is expected to gradually resolve the arrears issue. These measures are expected to create some fiscal space. However, in the absence of further measures, this additional fiscal space is expected to be absorbed by the Government contribution to the Lao PDR section of the proposed Kunming–Singapore rail line, keeping the deficit and public debt levels elevated.

**15. With Lao PDR moving to high risk of debt distress, the space for future borrowing has narrowed significantly and concerns over debt sustainability have grown.** In 2016, interest expenditures are expected to have been around 1.5 percent of GDP, exceeding for example the budgetary allocation to the agriculture sector. Debt servicing needs will increase from 7 percent of GDP over the last decade to 12 percent between 2016 and 2020. Fiscal slippages, including for example cost overruns on the railway project that would be borne by Lao PDR, or more difficult access to foreign markets in response to tightening global monetary conditions, would mean that debt servicing could become unsustainable. Ensuring that the debt burden remains sustainable will require gradual fiscal consolidation as well as improved public debt management that will provide increased awareness of risks of non-concessional borrowing and prioritization to ensure borrowing for priority and credible projects with highest rates of return.

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3. The GOL has, so far, expressed reservations about adopting the Extractive Industries Transparency Initiative (EITI), but is actively exploring a more efficient fiscal regime for the mining industry.

## Poverty Profile

**16. While the evolving macroeconomic framework has improved compared to a few years ago, the macroeconomic situation remains challenging and the commitment to consolidation is yet to be fully established.** On the one hand, the fiscal and current account deficits and debt levels are high and may increase in the near term. On the other hand, the proposed fiscal measures (removal of exemptions, expansion of the tax base, strengthening of tax administration) and financial sector policies (restructuring of weak banks) appear consistent. These measures, together with stronger debt management function and better supervision and regulation of the banking sector, can result in stabilizing debt levels and improved sustainability prospects, although further adjustments may become important depending on the fiscal turnout over time. While there are increasing signs of credibility of the framework, the commitment and capacity of the authorities is yet to be tested.

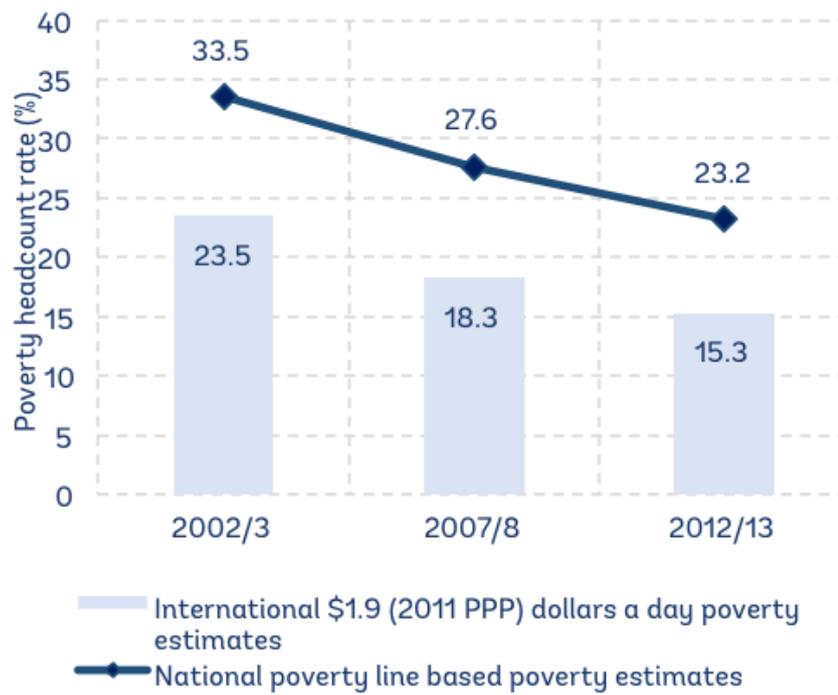
**17. Poverty in Lao PDR has declined. The country met its Millennium Development Goal target of reducing extreme poverty to below 24 percent by 2015 and living conditions improved significantly.** Estimates from the most recent Laos Expenditure and Consumption Survey (LECS 5) show that the poverty rate – based on the national poverty line – declined from 34 percent in 2002/03 to 23 percent in 2012/13 (representing around 1.5 million people). Measured using the internationally comparable poverty line of US\$1.90 2011 PPP dollars a day, poverty declined from 24 percent in 2002/03 to 15 percent in 2012/13 (Figure 1)<sup>4</sup>. Reaching the WBG goal of reducing extreme poverty to less than 3 percent would mean reducing the number of poor people in Lao PDR by more than 800,000.

**18. Consumption levels for the majority of the population are still low by international standards.** Nearly 80 percent of the population still lives on less than US\$ 5.5 a day in 2011 PPP dollars, below which households are deemed to be economically insecure. This compares to less than 40 percent in Vietnam and less than 20 percent in Thailand (Figure 2). Even the richest 10 percent (excluding the very rich who are generally not captured in surveys) in Lao PDR on average live on less than the benchmark for the global middle class of US\$15 in 2011 PPP dollars a day. This makes the shared prosperity agenda relevant for the vast majority of the population.

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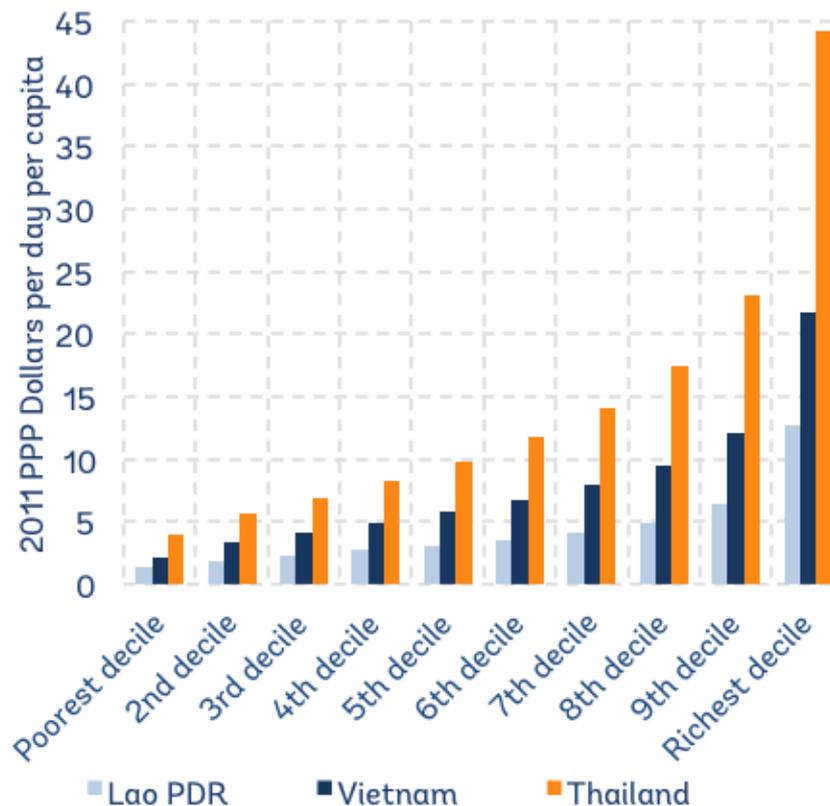
4. Purchasing Power Parity (PPP) is a measure used to compare incomes or other economic variables in real terms, controlling for differences in price levels in different countries.

FIGURE 1: Poverty trend in Lao PDR



Source: LECS 5

FIGURE 2: Mean consumption by decile

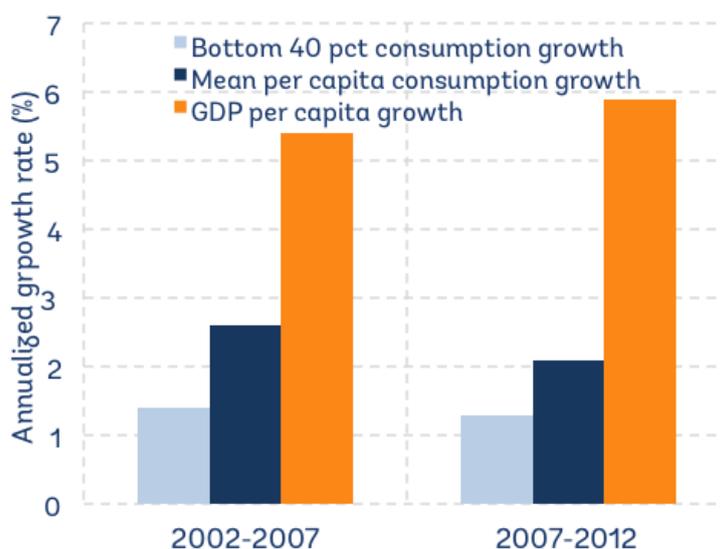


Source: LECS 5

**19. Aggregate improvements in welfare mask large differences between regions and socio-economic groups.** At 29 percent, the poverty rate in rural areas was higher than the 10 percent in urban areas with the gap widening between 2007/08 and 2012/13. Poverty is also concentrated in upland areas and among the less educated, and those who primarily depend on subsistence farming. Poverty is particularly concentrated among ethnic minority groups. About two thirds of the poor in Lao PDR are ethnic minorities, even though they only constitute a third of the population in the country.

**20. Each percent increase in GDP per capita contributed to a 0.4 percent reduction in poverty in Lao PDR,** compared to a 1.2 percent reduction in poverty in Cambodia<sup>5</sup>. Economic growth not only failed to translate into a proportionate increase in household consumption on average, but was also more favorable to the non-poor. Average consumption per capita grew by 2.2 percent per year – about 3.5 percentage points lower than GDP per capita between 2002/03 and 2012/13. At just 1.3 percent per year, consumption growth was even lower for the bottom 40 percent (Figure 3), so inequality has been rising.

FIGURE 3: Consumption, especially by the poor, grew slower than economic growth



Source: LECS 5 and National Accounts data

**21. Gender gaps are gradually narrowing in primary and lower secondary education, however they persist in health, especially reflected in the persistently high maternal mortality, early marriages and teenage pregnancy.** Early marriages and low age of first pregnancy raise the risk of health complications especially for young women.

5. World Bank 2012. Poverty profile in Lao PDR: poverty report for the Lao consumption and expenditure survey 2012–2013 (Report No. 100120).

**22. Growth in household labor income was the major contributing factor to poverty reduction.** This was driven by increasing households' endowments and economic opportunities. More specifically: (i) human capital improved and educational attainment increased; (ii) access to land increased (including agriculture land in rural areas); and (iii) off-farm job opportunities expanded, resulting in a decline in the share of agriculture in primary employment from 73 percent in 2002/03 to 64 percent in 2012/13.

**23. Agriculture was the sector generating most income for poor people and thereby reducing poverty.** Increased consumption by poor households due to agricultural growth accounted for 44 percent of poverty reduction between 2002/03 and 2012/13. In comparison, the second and third largest contributors to poverty reduction were manufacturing (14 percent) and hotels and trade activities (7 percent each). Agricultural growth averaged 4 percent, much below potential for an agrarian country, and therefore failed to generate a larger impact on poverty reduction.

**24. Higher education attainment facilitated the transition into off-farm employment where earnings are higher and also contributed to agriculture income growth by raising agriculture productivity.** Overall, households with more education were more likely to escape poverty whether in agriculture or non-agriculture sectors. Education was a key enabling force to allow people to climb out and stay out of poverty. The gap in the likelihood of exiting poverty between ethnic minorities and the *Lao Loum* narrows when taking into account education attainment and livelihoods, although it is not completely eliminated.

**25. In the absence of an adequate safety net, the high household vulnerability has been a drag on poverty reduction.** A large number of people fell back into poverty even as many others escaped, slowing the pace of poverty reduction. Half the people who were poor in 2012/13 were previously non-poor. In general, households are poorly equipped to deal with frequent financial shocks. Households dependent on agriculture and fisheries are the most vulnerable, in part due to extreme weather events and also due to price volatility.

## Development Challenges

**26. Beyond natural resources, strong growth in construction and services was off-set by mediocre performance in agriculture and manufacturing.** On the one hand, slow growth in productivity and profitability in agriculture limited its contribution to poverty reduction. On the other hand, services expanded strongly but remain underdeveloped and concentrated in traditional, lower value-added activities. Growth in the non-agriculture sector, largely driven by natural resources, did not result in a commensurate increase in jobs, with less than 20,000 jobs created out of the 400,000

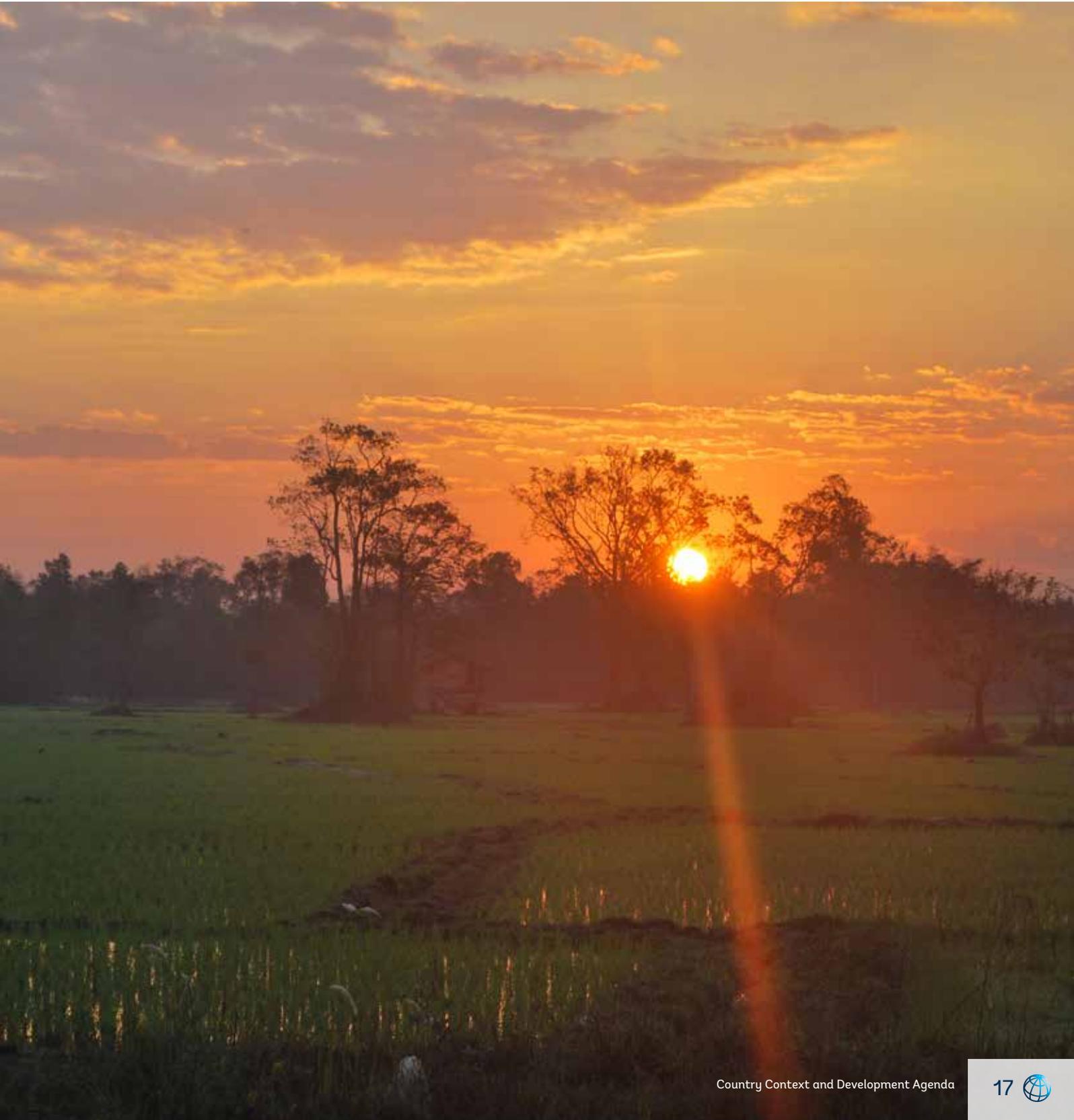
non-agriculture jobs created from 2002/03 to 2012/13. Furthermore, a greater share of the most rewarding jobs required higher levels of education, an asset many of the poor lack thus limiting their participation in the growth process.

**27. Addressing key human development weaknesses (such as under nutrition) requires a multi-sector approach involving interventions in a number of priority areas.** Furthermore, the concentration of poor outcomes within ethnic groups raises the importance of targeted approaches and extensive outreach to generate demand for services. Finally, policies and interventions should be driven by the insight that, over the long term, migration will likely be a pathway to economic integration for a big part of the population, especially the ones in remote and rural areas where economic opportunities will continue to remain limited while the ability to deliver public services constrained.

**28. Access to basic services has improved over time however challenges remain.** The electrification program in Lao PDR, which is one of most successful programs in the world, is entering the final stage, as the rate of electrification now exceeds 90 percent of households. The challenge is to reach the remaining 10 percent. Access to improved water supply and sanitation is increasing; however, gaps remain and disproportionately affect the poor. For example, only 60 percent of primary schools have water supply and toilets. The length of the road network has increased by around 50 percent over the last decade with approximately 56 percent of the rural population now having access to all weather roads, however, some areas, mostly rural, still remain unconnected.

**29. The country's growth has come with a considerable impact on the country's environment due to increasing pollution and natural resource depletion.** Similar to other resource-rich countries, Lao PDR's GDP growth has been driven by a growing use, and indeed depletion, of natural resources and on activities which have increased pollution. The costs of environmental degradation have been rising, reaching above 7 percent of GDP in 2013, which is much higher than other countries in EAP, and mainly driven by forest depletion. The country has the highest percentage of forest cover in Southeast Asia and one of the world's highest rate of species endemism making it a global priority for biodiversity conservation. However, deforestation and forest degradation is rapid: the estimated forest cover has declined to around 40 percent of the territory in 2010 (from 70 percent in 1940 and 47 percent in 1992). Wildlife is under increasing threat from illegal hunting and loss of habitat (including aquatic ecosystems), and the rate of extinction of species is accelerating, such as the Indochinese Tiger and Irrawaddy Dolphin. Beyond depletion, the opportunistic exploitation of renewable resources has made the resulting economic growth relatively inefficient. In particular, the hydropower sector may be reaching its limits for growth in the absence of management of water resources, including coordination of power facilities ("hydraulic balance") and with non-power uses of water. At the same time, economic activities are increasingly vulnerable to climate change and natural disasters. Floods and droughts could adversely affect economic activities.

**30. Lao PDR's dependency on natural assets, geography, economic and social legacies have together shaped a development experience of strong growth, limited inclusion and considerable risks to sustainability.** Lao PDR's key development challenge is to maintain robust economic growth, while addressing institutional and human development as well as the environment degradation the country faces.





## Overview of WBG Partnership Framework

**31. The World Bank Group (WBG) Country Partnership Framework (CPF) aims at supporting *Lasting Accessible Opportunities for all*. Within the country's economic and social context and the lessons of experience, the CPF uses three selectivity filters to focus the planned WBG engagement during 2017-2021.** The first filter is that the CPF supports the priorities of the Government of Lao PDR (GOL) as outlined in their 8th National Socio-Economic Development Plan (NSEDP). The second focuses on the priorities identified in the Systematic Country Diagnostic (SCD). The third relates to the WBG's comparative advantage including in relation to the programs of other development partners. The envisaged WBG program reflects wide consultations with the private sector, development partners, civil society and academia, as well as the Government.

**32. The WBG CPF draws on the findings of the recently completed SCD<sup>6</sup>.** The SCD highlighted that similar to other resource-rich countries, Lao PDR's GDP growth has been driven by a growing use, and indeed depletion, of natural resources. Furthermore, this growth did not effectively convert into government revenues nor human and physical capital for supporting jobs or building competitiveness sectors. The SCD suggests three pathways to the WBG Twin Goals: (i) sustainable and efficient management of natural resources; (ii) unlocking the potential in non-resource sectors to create opportunities; and (iii) building the assets of people to be able to take on these opportunities and to mitigate risks and protect gains. These pathways sit in the overarching effort to strengthening institutions. Stemming from these pathways are twelve priority areas highlighted in Table 2 below.

**TABLE 2: LAO PDR SYSTEMATIC COUNTRY DIAGNOSTIC PRIORITIES**

**TOP PRIORITIES**



Promoting strategic use of natural resources and responsible management of the environment



Increase agricultural productivity to support incomes



Investing in improving nutrition to achieve children's full potential



Improving quality of education and keeping girls in school



Putting public debt on a sustainable path and strengthening financial sector stability

**HIGH PRIORITIES**



Making it easier to do business and create good jobs



Investing in infrastructure for growth and inclusion



Improving access to and quality of health services for more productive people

**MEDIUM PRIORITIES**



Putting in place a strengthened disaster risk management



Introducing a basic social protection system to lower vulnerability



Improving inclusiveness of the financial sector to improve access to credit and lower risks

**< Enhancing governance and creating a rules-based environment >**

6. World Bank 2017. Systematic Country Diagnostic (Report No 112241-LA)

**33. The CPF aims to support 10 of the 20 objectives of the 8th NSEDP, selected based on WBG comparative advantage, client demand and key constraints to poverty reduction and shared prosperity identified by the SCD.** The targeted results are closely aligned with the targets of the SDGs. Many of the results of the CPF will be achieved through the existing portfolio of projects under implementation with new support developed to build on lessons learned and to support achievement of the SDGs.

**34. The CPF supports the global agenda** adopted by Lao PDR through the SDGs, which have been thoroughly mainstreamed into the 8th NSEDP and the Paris Agreement on climate change, which Lao PDR ratified in September 2016. The WBG will continue collaborating closely with development partners and UN agencies. The CPF is also closely aligned with the WBG East-Asia and Pacific (EAP) Strategy, which focuses on five priority areas: (i) inclusion and empowerment; (ii) jobs and private sector-led growth; (iii) governance and institutions; (iv) infrastructure and urbanization; and (v) climate change and disaster risk management; with a special focus on gender and nutrition.

**35. Maintaining a gender informed portfolio.** Addressing gender issues is fully mainstreamed in the WBG's interventions. Currently around 80 percent of the ongoing portfolio of projects is gender informed, i.e. the projects address gender in their analysis, actions and monitoring dimensions. This is relatively high compared to EAP WB regional standard. The aim is to maintain this level. With private sector, IFC investment and advisory activities also aim to promote women's role in businesses.

**36. "One WBG coordination" and collaboration among the WB, International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) is strong and is continuing to intensify.** The WB and IFC collaboration has grown substantially over the years, notably in the water, forestry, trade and financial sectors.

**37. The CPF program is centered on *Lasting Accessible Opportunities for all* and targets three focus areas for WBG engagement in Lao PDR,** namely: (i) supporting inclusive growth, (ii) investing in people, and (iii) protecting the environment. These focus areas are complemented by a cross cutting theme of strengthening institutions to establish a rules-based environment.



## FOCUS AREA 1: SUPPORTING INCLUSIVE GROWTH

### Objective 1.1 - Putting public finances on a sustainable path and supporting financial sector stability

**38. The WBG plans several avenues of support for improvements in the management of public finances and macroeconomic stability, cognizant of the critical importance of sustained strong government ownership and leadership in the pursuit of prudent fiscal, monetary, financial, and exchange rate policies.** The ongoing Macroeconomic Monitoring, including through the well-regarded Lao Economic Monitor series, will continue enabling the WBG to provide real-time advice to Government on macroeconomic matters. The WBG Financial Sector Development ASA is expected to support the Bank of Lao PDR (BOL) improve Anti-Money Laundering provisions and the compliance of state-owned banks with Basel Capital Adequacy Ratios. The provision of Development Policy Financing (DPF) support will continue to be an important vehicle for policy dialogue on macroeconomic management, such as through potentially including economic management actions under the supported programs. The proposed Statistics and Civil Registration and Vital Statistics (CRVS) Project will aim to strengthen the GOL's capacity to produce and disseminate reliable and timely macroeconomic and social-poverty statistics for the monitoring and evaluation of the 8th NSEDP targets and SDGs, and to conduct regular macroeconomic surveillance. The WBG

will continue supporting the GOL to strengthen its budget planning, preparation and execution processes through the ongoing Public Finance Management (PFM) Modernization program. The PFM Modernization support is also expected to help improve the business environment with the work on VAT administration, which is a key constraint to businesses, and which in turn is expected to expand the tax base and increase revenues. Support to a good PFM system for supporting service delivery across sectors will be provided through ASA services with possible IDA financing depending on progress with PFM reforms and Government demand. WB support in the hydropower and mining sectors is currently provided through the Technical Assistance for Capacity Development in Hydropower and Mining Sector (HMTA) Project. Subject to GOL demand, this may be complemented with Lao PDR engagement in the Extractive Industries Transparency Initiative.

## **Objective 1.2 – Making it easier to do business**

**39. While there have been improvements in aspects of the trade and business environment, Lao PDR still needs significant improvements to make it easier to do business, improve access to finance and create good jobs.** The WBG will continue its support to the Ministry of Industry and Commerce's ongoing successful trade and competitiveness program as well as carry on its work on the Lao Investment Climate. Particular efforts will be required to address non-tariff measures and cumbersome procedures. This work builds on successful support to the Customs and Trade Facilitation program (ending in June 2017) where customs clearance times and efficiency have improved. The WB is supporting access to finance through the ongoing SME Access to Finance Project and IFC is working with selected intermediaries in banking and non-banking financial sectors. The WBG is also currently supporting financial stability and inclusion through a program to improve regulatory oversight, creditor rights, deposit insurance, accounting standards and the financial infrastructure.

**40. Consistent with its green economy model, Lao PDR is well-placed to develop clean and high value agriculture products to take advantage of nearby markets, which are becoming increasingly wealthy.** The WBG will support these objectives through new funding to a proposed Agriculture Commercialization program and continue to support improving the challenging business and trade environment in Lao PDR, which particularly affects agricultural products and the development of an agribusiness sector aimed to serve neighboring markets.

**41. Tourism, and in particular eco-tourism, is increasing and provides an opportunity to create jobs, while at the same time building on the green growth focus.** Through the dialogue on the Green Growth DPF and related knowledge work the WBG plans to support analysis on ways to strengthen the strategy to attract high value tourists, to brand Lao PDR as a destination, and to support SMEs to respond to the demands of this market. IFC plans to continue exploring opportunities to support the private sector to increase its level of service in the tourism sector.

## Objective 1.3 – Investing in infrastructure for growth and inclusion

**42. The Government has an extensive agenda to enhance infrastructure services with a particular focus on inclusion and reaching the last ten percent of the non-electrified households.** WBG support has been successful in particular in the road and energy sectors and will continue. The ongoing as well as the newly approved Lao Road Sector Projects support road asset management and improved climate resilience of the road network. The national road network, serving an increased traffic volume around main cities, including Vientiane, and transit traffic, is crucial for Lao PDR to play its role as regional hub and exploit economic potential from regional integration. Investment, in particular on National Road 13, the key backbone of the country, is planned. The Government program to improve efficiency and reliability of power distribution in selected load areas in Vientiane served by Electricite du Laos, is supported by the ongoing Power Grid Improvement program, aiming to reduce electricity losses for overall efficiency of the sector.

**43. The Government has been successful in developing its hydro resources, and electricity exports to neighboring countries are contributing significantly to revenues.** The WBG is currently supporting the feasibility analysis of a power link with Vietnam as well as looking to put in place a renewable energy project (for hydro, wind or solar). Both IFC and MIGA are assessing selected independent hydropower projects for potential investment in near term and to provide political risk guarantees for these projects. To improve the performance of Government oversight institutions for the hydropower and mining sectors, the WB is providing extensive analytical support through the ongoing Technical Assistance for Capacity Development in Hydropower and Mining Sector (HTMA) Project to the Ministry of Energy and Mining. Given the importance of these sectors to the economy, the Ministry has requested a proposed follow up program, the Sustainable Energy and Extractives Development TA Project (SEEDTA). IFC launched a Hydro Advisory Program in 2012 focused on improving environmental and social standards of the hydropower sector. The goal is to ensure that new hydropower projects led by the private sector adhere to good international industry environmental and social practices.

**44. An extensive agenda to improve the access of rural poor to basic services** and strengthening their participation in development processes. The recently approved Poverty Reduction Fund (PRF) III Project will continue supporting community-driven improvements in infrastructure in rural villages. The PRF III Project and the Lao Road Sector Project II will both continue to support improvements in rural roads to increase the share of population with access to all season roads.



## FOCUS AREA 2: INVESTING IN PEOPLE

### Objective 2.1 – Reducing the prevalence of malnutrition

**45. Malnutrition is the key area in Lao PDR where MDGs were not achieved.** The rate of stunting among under 5 year olds remains stubbornly high at 44 percent. The expected increase in IDA funding will be used to scale up WB support to the National Nutrition Strategy in areas where WB has a comparative advantage. WB is currently providing support through a number of interventions, including through the ongoing Health Governance and Nutrition Development Program (HGNDP) which supports the national behavior change campaign (US\$5 million campaign) as well as family planning, and water and sanitation interventions, and through the ongoing support to the Poverty Reduction Fund, which supports access to clean water, demand creation for sanitation, and facilitates nutrition awareness raising. The CPF envisages exploring a new operation to support water supply and sanitation, the second leading cause of child stunting worldwide. Further, the CPF envisages support to social protection program to incentivize use of health and education services, with a particular focus on adolescent girls, and with the aim to address stunting. The proposed Agriculture Commercialization program is expected to increase incomes and to help address undersupply of nutritious food for low income rural people. The WBG will also increase its focus on malnutrition by ramping up advocacy, policy dialogue and knowledge work related to malnutrition.

### Objective 2.2 – Improving quality of primary and pre-primary education and keeping girls in school

**46. Improving education outcomes is core to the development agenda of Lao PDR; the overall needs in early childhood education are particularly significant.** The WBG support is focused on pre-

primary and primary schooling through the ongoing Second Global Partnership for Education Project and the Early Childhood Education Project, both of which will continue through the CPF period until July 2019. The CPF envisions follow-on support to the education sector, with a continuing focus on investing in early years. WB also supports the National School Feeding program in conjunction with the World Food Program as a means to keep children in school and provide supplementary nutrition for children. Included in this is provision of clean cook stoves, as well as a behavior change element to support improved nutrition outcomes. There are several development partners actively involved in supporting the Government's education program (including the EU, GIZ, Australia and ADB), and World Bank support is complementary to this.

## **Objective 2.3 – Improving access to and quality of health services**

**47. In line with the Government's Health Sector Development Plan 2016-2020, Lao PDR aims to deliver free Maternal Child Health care and to focus on primary healthcare, hygiene promotion, health financing and improved human resources and governance in the sector.** Like the education sector, there are a number of development partners active in the health sector including GAVI, WHO, UNICEF, and UNFPA. A key concern is that significant funding in the sector is expected to be withdrawn towards end of 2017 as Lao PDR graduates from eligibility for such funding. WB support to the Government's health program is provided through the ongoing HGNDP (ongoing until December 2020), the focus of which is on Maternal Child Health, family planning, nutrition, and birth registration. The HGNDP is about 50 percent disbursed and is expected to need additional financing. The CPF will also include a new project focusing on strengthening demand for health services, particularly access to Universal Health Care. Full coverage of family planning, including meeting the unmet 20 percent demand, is planned to be financed by IDA with the support of UNFPA for delivery. A civil management information system, which will be established as part of the proposed statistics and CRVS Project, aims to support the system to expand universal health coverage.

## **Objective 2.4 – Reducing vulnerability and inclusive access to social services**

**48. Formal social protection mechanisms to improve resilience should accompany investments in health and education.** People are vulnerable to shocks and the access to and utilization of health and education services are low, particularly in remote areas and among certain groups. During the CPF period, the WBG aims to support elements of a basic social protection system largely aimed at reducing rural vulnerability, incentivizing demand for and use of social services, and improving maternal and child health and nutrition. With a particular focus on adolescent girls, the envisaged mechanism includes allowances, school feeding and stipend programs. These measures will be coupled with behavioral change actions. A key issue is also vulnerabilities to shocks, especially for the poor and near poor, highlighting the need for more targeted support for poverty reduction and vulnerable groups near the poverty line; the program will explore how to mitigate these, complementing ongoing programs in health, education, and poverty reduction.



## FOCUS AREA 3: PROTECTING THE ENVIRONMENT

### Objective 3.1 – Promoting environmental protection and sustainable natural resources management

**49. The 8th NSEDP and the *National Strategy on Climate Change* seek to put Lao PDR on a green growth development path.** The WBG approach in the green growth development policy financing series focuses on recognizing the current challenges found in the sustainability of growth, but also looking to capitalize on opportunities. More concretely, the approach being supported includes the strengthening of the regulatory regime with tools and coordination mechanisms to integrate environmental and social considerations into planning and investment decisions, a departure from ad hoc development activities to exploit natural resources. This culture of proactive management and planning will be matched by also a strengthened ‘policing’ capacity to build the rules-based environment.

**50. The WBG will continue and increase support to Lao PDR for the protection of the environment and responsible management of natural resources**, including through the ongoing Second Lao Environment and Social Project which supports the dedicated financing vehicle, the Environment Protection Fund, to build its capacity and credibility as a fund. The WBG will also continue to support Lao PDR efforts to combat illegal wildlife trafficking, an international concern, with Lao PDR being the key transit route to Vietnam and China. The ongoing Scaling-Up Participatory Sustainable Forest Management Project, which is financed in part by the Forest Investment Program, works through the Ministry of Agriculture and Forestry to support the sustainable management of about 40 production forests and over 900 villages in sustainable livelihoods all aimed at climate change mitigation. Under the Forest Carbon Partnership Facility (FCPF), assistance is being provided to the Government to develop a national strategy and capacities for climate change mitigation through Reducing Emissions from Deforestation and Degradation (REDD+). In parallel to the FCPF, a new Carbon Finance operation is being prepared and aims at improving the forest protection in six provinces in order to reduce greenhouse gas emissions.

**51. Lao PDR's key asset is the Mekong River and its tributaries. Sustainable management of the river basins across multiple sectors, including hydropower, is critical.** WB support is being provided through the ongoing Mekong Integrated Water Resources Management (MIWRM) program, which is mirrored in similar programs in Cambodia, Vietnam, and to the Mekong River Commission. This is complemented by the work in the Ministry of Energy and Mines through the HMTA Project. Additional Financing to the MIWRM Project is intended to further support the development the rules-based environment for water use across all sectors, and the proposed SEEDTA contains a focus on mainstreaming water management, and application of any emerging water laws, in the hydropower sector.

### **Objective 3.2 – Putting in place enhanced disaster risk management and climate and disaster resilience**

**52. The WBG will support the Government's goal to achieve green growth through enhancing the resilience towards natural hazards.** WBG financing will be provided to help reduce the risk of flooding and enhance disaster risk financing capacity of Lao PDR. The project will strengthen flood resilience in Oudomxay province, which is particularly vulnerable to floods. It will also strengthen the capacity of the Department of Meteorology and Hydrology to predict flash floods and distribute last-mile early warning communication. WB will also support the Ministry of Finance to increase the financial resilience of Lao PDR against natural disasters and the Government's capacity to meet post-disaster funding needs. Finally, the transport sector will be strengthened by integrating disaster resilience into the rehabilitation of roads. WB funded projects include emergency components for rapid response.



## CROSS-CUTTING THEME: STRENGTHENING INSTITUTIONS TO ESTABLISH A RULES-BASED ENVIRONMENT

### **53. Strong institutions are the basis for results throughout government programs, and the WBG CPF financing and advisory program includes a strong focus on strengthening institutions.**

In the Ministry of Finance, the macroeconomic monitoring and the ongoing public finance management modernization program are designed to provide timely advice as needed. Ongoing support is provided to the financial sector, in particular the Bank of Lao PDR. The quality of the institutions, and the rules-based environment in the financial sector will be helped by enhancing the legal and regulatory framework, particularly around supervision and orderly bank resolutions, while also building capacity to enforce compliance. The ongoing project on Strengthening the National Statistical System is essential to analysing poverty data and supporting the collection and dissemination of gender disaggregated indicators. It is planned to follow this statistics project with an expanded project, including support to Civil Registration and Vital Statistics, a key recruitment for delivery of effective social protection programs. In the Ministry of Health, the HGNDP supports the health management system. In the road sector, the recently approved Road Sector Project 2 includes extensive support to the development of the planning and budgeting systems for effective road maintenance as well as support to development of e-procurement in the Ministry of Public Works and Transport for effective management of the contracting process and increased transparency.

**54. The CPF program envisages IDA Development Policy Financing (DPF) support, provided the macroeconomic policy framework is adequate.** The DPF series currently under preparation support the transition towards green growth in Lao PDR and strengthened resilience through improved macroeconomic management. While the outcomes of the planned DPF series will be most directly dedicated to the protection of the environment and sustainable management of natural resources, the overall policy reform agenda that the series will support is fundamentally oriented toward improving governance and creating a rules-based environment. Underlying challenges to the shift to shared and sustainable growth have their roots in the weaknesses of the governance system to manage the development of natural resources. Dialogue with the authorities in preparation of the DPF series focuses on policy reform in specific sectors – e.g., energy and extractives, water, forest, and agriculture – around cultivating a culture of forward looking and integrated planning and management.

**55. For each expected outcome, the CPF envisages the delivery of tailored development solutions through packages of WBG knowledge, convening, and financial services.**

## Implementing the Country Partnership Framework

**56. The CPF financial envelope will support Lao PDR's development through an indicative IDA18 core country allocation for FY2018-2020 in the range of US\$242 to US\$272 million.** The IDA18 allocation represents an increase of approximately 60 percent from the IDA17 commitments for FY2015-2017 of around US\$173 million. This new financing will complement the ongoing IDA financed portfolio for Lao PDR which stands at US\$347.5 million as of February 2017 complemented by US\$60 million in grant trust fund resources. The increase in IDA financing provides an opportunity to significantly scale up impact in the key areas of green growth as well as on malnutrition through a significant program in rural water supply and sanitation.

**57. IFC has a current outstanding investment services portfolio of US\$35 million** in power, banking, manufacturing, and tourism sectors. The current IFC outstanding advisory services portfolio is US\$13 million. During the CPF period, IFC will continue its advisory programs in strategic sectors including hydropower, forestry, and financial sectors, while seeking investment opportunities in sectors such as energy (particularly hydropower and other forms of renewable energy), financial services (bank and non-bank financial institutions), agriculture, tourism, and manufacturing industries.

TABLE 2: INDICATIVE WORLD BANK GROUP PROGRAM 2017-2021

FOCUS AREAS:

KEY INSTRUMENTS:



Supporting Inclusive Growth

**KNOWLEDGE & CONVENING**

- Macroeconomic Monitoring – including Lao Economic Monitor and Public Expenditure Analysis
- Poverty Analysis
- Public Finance Management Modernization Analytical Program
- Financial Sector Development Analytical Program
- Trade and Competitiveness Analytical Program

**FINANCING**

- Road Sector Project 2
- Loan to Banque Franco Lao – IFC
- Loan to ACLEDA Bank – IFC
- Loan to a commercial bank – IFC
- Statistics and CRVS
- Agriculture Commercialization
- Investment in hydropower (Xekatom)– IFC
- Competitiveness and Private Sector Development
- National Road 13 North
- Rural Development / Electrification
- Energy Connector Project



Investing in People

- Civil Registration and Vital Statistics (CRVS)
- Addressing Vulnerability and Malnutrition
- Pro-poor Rural Water Supply and Sanitation
- Education Sector Analytical Program

- Additional Financing for Health Governance and Nutrition Development Program
- Social protection system to reduce vulnerability and malnutrition
- Universal Health Coverage
- Water Supply and Sanitation for Health
- Education in early years



Protecting the Environment

- Mining and Hydro strategies
- Energy and Extractives Analytical Program
- Hydro Advisory (IFC)

- Mekong Integrated Water Resources Management Additional Financing
- Disaster Risk Management
- Sustainable Energy and Extractives Development Technical Assistance
- Green House Gas Emissions Reduction from Forests (Carbon Fund)
- Forestry plantation & processing – IFC
- Renewable Energy Project (hydro, solar or wind) – IFC



Cross-cutting Theme: Strengthening Institutions

- Green Growth Analytical Work *Knowledge Work to above contribute to overall strengthening of institutions*

- Green Growth Budget Support series (funding in 2017, 2019, and 2021)

**58. This CPF will cover a five year period to match the timing of the 8th NSEDP, with a mid-term Performance and Learning Review (PLR).** The program will be flexible to evolve as demand and progress dictates. The PLR will take stock of developments and provide an opportunity to adjust as needed.

**59. The performance of WB-financed Government programs in Lao PDR is strong.** Consistently high disbursements demonstrate strong absorption capacity. World Bank supported programs are implemented through regular ministry structures by Government staff, with strong implementation support from the World Bank. The program has grown from 12 IDA financed projects amounting to US\$233 million at the launch of the previous CPS (March 2012) to a program of 18 projects (14 IDA financed) currently under implementation totaling US\$408 million (of which IDA US\$347.5 million). The average size of projects increased to US\$25 million. The portfolio is currently rated 80 percent satisfactory (2 problem projects out of 18). The Trust-Funded portfolio is managed strategically, directly supports the CPF objectives, and is linked to the IDA-funded projects. The program is implemented as a one WBG and close cooperation with IFC is shown through several sectors. To complement the annual WB-ADB joint portfolio reviews hosted by the Ministry of Planning and Investment, bi-annual portfolio reviews for the WB only have also been introduced since early 2016 and will continue.

**60. The WBG has established strong partnerships with the GOL and other development partners.** There is a significant development partner presence in Lao PDR. The Government seeks to harmonize donor support through the Roundtable Process chaired by the GOL and through the Vientiane Declaration, which follows the principles of the Paris Declaration. The WBG program seeks to support Government programs, rather than standalone WBG supported projects, and to support them in conjunction with other development partners.



## IV. MANAGING RISKS



**61. The overall risk to the achievement of the CPF development objectives is assessed as *Substantial*.** Lao PDR faces a number of risks and vulnerabilities that could significantly affect the achievement of its economic and social goals and the expected results of the WBG supported interventions under the proposed CPF. The key risks relate to weak governance; a fragile macroeconomic situation, with a high risk of debt distress; and weak enforcement of policies regarding natural resources management. Strong political commitment will be key to overcome the serious governance challenges in Lao PDR, and there are indications of such commitment by the new Government.

# ANNEX: CPF RESULTS MONITORING MATRIX



## FOCUS AREA 1: SUPPORTING INCLUSIVE GROWTH

As set out in the SCD, growth, poverty reduction and shared prosperity will depend on a growth strategy that is supported by the private sector as the engine of growth. WBG support towards a more productive private sector for more and better jobs will focus on (i) good connectivity and infrastructure; (ii) increased agricultural productivity, and (iii) ensuring fiscal sustainability through revenue mobilization and quality of spending functions for improved debt management and financial sector stability. This focus area will also support Outcome 1 of the 8th NSEDP, which centers on Sustained and Inclusive Growth through agriculture modernization, infrastructure development, improved competitiveness and macroeconomic stability.

## Objective 1.1 - Putting public finances on a sustainable path and supporting financial sector stability

**Intervention Logic:** Sustaining economic growth in a more challenging global environment will require fiscal sustainability and macroeconomic stability. In this regard, containing the fiscal deficit is important to ensure public debt remains at sustainable levels. Concurrently, financial sector stability will be important for a sound macroeconomic framework and promoting a vibrant business environment.

### CPF Objective Indicators

1. Annual NSEDP is underpinned by a macroeconomic framework with prudent deficit target in order to keep debt on a sustainable path
  - Baseline: Public debt of 68% of GDP at end 2016
  - Target: Public debt of 65% of GDP or less by 2020<sup>7</sup>
2. Public reporting, and compliance with regulations of the Capital Adequacy Ratio, by types of banks:
  - Baseline: Not reported
  - Target: > Regulatory minimum

### Supplementary Progress Indicators

- % Increase of registered tax payers who pay VAT.
  - Baseline: 75% (registered tax payers: 2,777 of which 2,086 are paying VAT)
  - Target: 85% (10 % increase or 275)
- Reduction in wage bill:
  - Baseline: 8.4% of GDP in FY15/16
  - Target: 7.4% of GDP in 2020
- Bank of Lao PDR laws and related regulations revised toward compliance with international standards (*SDG 10.5: Regulation and M&E financial market institutions*):
  - Baseline: 0 laws/regulations (2016)
  - Target: 5 laws/regulations (2021)

### WBG Program

#### Knowledge and Convening

- Macroeconomic Monitoring – Lao Economic Monitor and Public Expenditure Analysis (P148008)
- Public Finance Management Modernization (P158658)
- Financial Sector Development Analytical Program (P160715)

#### Financing

- On-going:
- Strengthening the National Statistical System Project (P129825) – closes June 2017
  - Technical Assistance for Capacity Development in Hydropower and Mining Sector (P109736) – closes Sept 2018
- Pipeline:
- Green Growth DPF series (IDA 17, 18 and 19) (P159956)
  - Statistics and CRVS (IDA 18)

## Objective 1.2: Making it easier to do business

**Intervention Logic:** The weak business and financing environment is evidenced by investment and trade regulations which are generally restrictive, and often inconsistent and uncertain. Improving the business climate and markets is amongst the government's priorities in order to attract private sector capital, essential for the creation of jobs and the reduction of poverty. WBG engagement would focus on (i) improving the business environment and the competitiveness of the Lao private sector, and (ii) increasing productivity of agriculture by supporting a shift from rice self-sufficiency to more competitive rice-based farming systems and high value niche products.

7. The 65% target for the public debt to GDP ratio is expected to be achieved with the implementation of policies envisaged to be supported by the DPF series. As of February 2017, these policies are still to be agreed and finalized. In the absence of these policies, the baseline scenario projects public debt at 69% of GDP by 2020 and this framework is presented in Table 2 of the CPF.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>3. Improving the Getting Credit System:</p> <ul style="list-style-type: none"> <li>• Baseline: 55 (Doing Business-2017 Distance to Frontier)</li> <li>• Target: more than 60 (DB-2021)</li> </ul> <p>4. Reduced mean number of days to clear imports (SDG 8.a: Aid for Trade commitments)</p> <ul style="list-style-type: none"> <li>• Baseline: 2.85 (average of last two ICAs)</li> <li>• Target: not go beyond 2.5 days</li> </ul> <p>5. Change in value of agricultural production per hectare of agricultural land in the Project areas (SDG 2.3)</p> <ul style="list-style-type: none"> <li>• Baseline: US\$ 715/ha</li> <li>• Target: US\$ 820/ha</li> </ul>	<p>Value of financing facilitated by the Credit Bureau</p> <ul style="list-style-type: none"> <li>• Baseline: US\$ 1.27m equivalent (Kip 10,344m) (2014)</li> <li>• Target: greater than US\$ 1.33m equivalent (Kip 10,843m) (2022)</li> </ul> <p>Number of days to obtain an operating license (ICA-ES)</p> <ul style="list-style-type: none"> <li>• Baseline 16.3</li> <li>• Target: Less than 13</li> </ul>	<p><b>Knowledge and Convening</b></p> <ul style="list-style-type: none"> <li>• Trade and Competitiveness Analytical Program (P146216)</li> <li>• Poverty Analysis (P156311)</li> <li>• Financial Sector Development Analytical Program (P160715)</li> <li>• Lao Credit Bureau Phase 2 (IFC - 600450)</li> <li>• Lao Secured Transactions Phase 2 (IFC - 6005235)</li> <li>• Lao Payment Systems (IFC - 579207)</li> </ul> <p><b>Financing</b></p> <p>On-going:</p> <ul style="list-style-type: none"> <li>• Customs and Trade Facilitation Project (P101750) – closes June 2017</li> <li>• Second Trade Development Facility Project (P130512) – closes Sept 2018</li> <li>• SME Access to Finance Project (P131201) – closes June 2019</li> <li>• ABL Lao Kip Loan (IFC - 631193)</li> <li>• Electricite Lao (IFC - 28141)</li> <li>• BFL Risk Sharing Facility (IFC - 32726)</li> <li>• KS Resort – Sofitel LPB (IFC - 27914)</li> <li>• Essilao (IFC - 32557)</li> </ul> <p>Pipeline:</p> <ul style="list-style-type: none"> <li>• Agriculture Commercialization (P161473) (IDA 18)</li> <li>• Competitiveness and Private Sector Development (IDA 18 and TF)</li> </ul> <p>IFC Pipeline:</p> <ul style="list-style-type: none"> <li>• Additional investment in selected commercial banks</li> </ul>

## Objective 1.3: Investing in infrastructure for growth and inclusion

**Intervention Logic:** Good connectivity and infrastructure are a vital prerequisites for functioning markets and international competitiveness, and even more so in a landlocked country like Lao PDR. The WBG's program will support improved transport logistics through investments in infrastructure, technology and strengthened sector regulation, increased access to infrastructure services in rural communities through community-driven investments, and increased energy efficiency.

## CPF Objective Indicators

6. Share of rural population with access to an all-weather road (SDG 9.1)

- Baseline: 53%
- Target: 57%

7. Electricity losses per year reduced in the Power Grid Improvement Project area

- Baseline: 22%
- Target: Less than or equal to 14%

8. Percentage of poor villages in the 43 poorest districts with improved access to at least one basic service (i.e. water supply, education, health, rural road)

- Baseline: 0%
- Target: 75%

## Supplementary Progress Indicators

Roads in good and fair condition as a share of total provincial and district roads in Project area.

- Baseline: 50%
- Target 65%

## WBG Program

### Knowledge and Convening

- Lao Roads PPP (IFC - 600156)
- Poverty Analysis (P156311)
- Pro-Poor Rural Water Supply and Sanitation (P161074)

### Financing

On-going:

- Road Sector Project (P102398) – closes Sept 2017
- Road Sector Project 2 (P158504) (IDA 17) – approved Dec 2016 - closes Aug 2022
- Power Grid Improvement Project (P149599) – closes March 2020
- Poverty Reduction Fund III (P157963) – approved May 2016 - closes June 2020

Pipeline:

- National Road 13 North (IDA 18)
- Sustainable Energy and Extractives Technical Assistance Project (IDA 18)
- Energy Connector Project (IDA 18)
- Rural Development / Electrification (IDA 18)

IFC Pipeline:

- Investment in hydropower (Xekatom) (FY18)



## FOCUS AREA 2: INVESTING IN PEOPLE

Eliminating extreme poverty and boosting shared prosperity involves enabling the accumulation of human capital, particularly health, education and nutrition, to ensure a healthy and productive population in the future. This Focus Area will center on improving nutrition in the early years and the quality and inclusiveness of health and education services with a view to allow future generations to reach their full potential. These objectives are closely aligned with Outcome 2 of the NSEDP, where outputs 2, 3, 4, and 5 concentrate on improved nutrition, education, health and social welfare. In addition, improvements in human assets will support the country's graduation from Least developed Country status, also a key goal for Lao PDR.

## Objective 2.1: Reducing prevalence of malnutrition

**Intervention Logic:** Investing in people begins with ensuring good nutrition status in the early years of life, during which there is a limited window to maximize each individual's ability to reach her full potential. Lao PDR still has more than 40 percent of under 5 year olds suffering from chronic under-nutrition (i.e., they are “stunted”). The causes of stunting in Lao PDR are numerous and multi-sectoral, including: (i) generally poor infant and young child feeding practices are generally poor; (ii) suboptimal food diversity and nutrient; (iii) a large number of undernourished pregnant women; (iv) high disease burden among young children; (iv) poor sanitation and unsafe water; and (v) Lao-specific cultural beliefs and food taboos among the 49 ethnic groups are not always conducive to good nutrition. As such, accelerating progress in reducing stunting will involve a multi-sectoral approach that will include interventions to improve access to water and sanitation, toilet use in schools and remote communities and improved maternal health and pregnancy care.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>9. Stunting rates of under 2 year olds in targeted areas (<i>SDG 2.2</i>)</p> <ul style="list-style-type: none"> <li>• Baseline: 42%</li> <li>• Target: &lt;33%</li> </ul> <p>10. Number of villages declared open defecation free in targeted priority districts</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Target: 200</li> </ul>	<p>Number of female village facilitators trained in SBCC in target districts (administrative data):</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Midline: 300</li> <li>• Target: 600</li> </ul>	<p><b>Knowledge and Convening</b></p> <ul style="list-style-type: none"> <li>• Addressing Vulnerability and Malnutrition (P160711)</li> </ul> <p><b>Financing</b></p> <p>On-going:</p> <ul style="list-style-type: none"> <li>• Health Governance and Nutrition Development Program (P151425) – closes Dec 2020</li> <li>• Poverty Reduction Fund III (P157963) – approved May 2016 - closes June 2020</li> </ul> <p>Pipeline:</p> <ul style="list-style-type: none"> <li>• Social protection system to reduce vulnerability and malnutrition (IDA18)</li> <li>• Additional Financing for Health Governance and Nutrition Development Program (IDA 18 and TF)</li> <li>• Universal Health Coverage (IDA 18)</li> <li>• Water Supply and Sanitation for Health (IDA 18)</li> <li>• Agriculture Commercialization (IDA 18)</li> <li>• Investing in early years (ECD/Early Grade Reading) (IDA19)</li> </ul> <p>Pipeline:</p> <ul style="list-style-type: none"> <li>• Agriculture Commercialization (P161473) (IDA 18)</li> <li>• Competitiveness and Private Sector Development (IDA 18 and TF)</li> </ul> <p>IFC Pipeline:</p> <ul style="list-style-type: none"> <li>• Additional investment in selected commercial banks</li> </ul>

## Objective 2.2: Improving quality of primary and pre-primary education and keeping girls in school

**Intervention Logic:** One third of Lao's second graders cannot read a single word, limiting their ability to continue schooling (and, later, become productive workers). Especially for low-income children, the problems start early, with a large proportion of 6 year olds arriving unprepared to learn. To tackle this challenge, WBG support will focus on enhancing early grade literacy outcomes by piloting a new early grade reading pedagogy approach, and providing primary schools with more resources (through block grants) to enhance their learning environments. The CPF also aims to expand the access to and quality of formal and informal early childhood education programs.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>11. Percentage of pre-school aged children (3-5 year olds) attending ECD/ECE/preschool program increases in target areas (SDG 4.2.2)</p> <ul style="list-style-type: none"> <li>• Baseline (2015/16): 11% (F: 11%)</li> <li>• Target: 48% (F: 48%)</li> </ul> <p>12. Number of out of school children of primary age, (SDG 4.1.2)</p> <ul style="list-style-type: none"> <li>• Baseline (2015-16): 8,761 (F: 5,217) – around 1.2% of total boys and 1.5% of total girls</li> <li>• Target: 6,500 (F: 3,000)</li> </ul>	<p>Primary education dropout rate (disaggregated by gender)</p> <ul style="list-style-type: none"> <li>• Baseline (2015-16): 4.7 (F:4.5)</li> <li>• Target: 4.0 (F:3.8)</li> </ul>	<p><b>Knowledge and Convening</b></p> <ul style="list-style-type: none"> <li>• Evaluation of Early Childhood Development Services (P156227) – <i>Closes Feb 2017</i></li> <li>• Quality of Education in Lao PDR (P153341) – <i>Closes Feb 2017</i></li> </ul> <p>Financing</p> <p>On-going:</p> <ul style="list-style-type: none"> <li>• Early Childhood Education Project (P145544) – <i>closes July 2019</i></li> <li>• Second Global Partnership for Education (P149130) – <i>closes July 2019</i></li> </ul> <p>Pipeline:</p> <ul style="list-style-type: none"> <li>o Education in early years (IDA)</li> </ul>

## Objective 2.3: Improving access to and quality of health services

**Intervention Logic:** Addressing health barriers to skills acquisition and labor market participation would be essential for ensuring that all individuals have the capacity to contribute to productivity and are in the position to enjoy human development outcomes. WBG support will include measures aimed at improving financial protection for health, addressing a key dimension of vulnerability and impoverishment- catastrophic health expenditure. Moreover, efforts will continue to improve reproductive and child health outcomes, as well as to prepare the health system for the epidemiological transition to non-communicable diseases.

## CPF Objective Indicators

13. Maternal mortality rate (SDG 3.1.1)
- Baseline: 197 (2015 - WHO, UNICEF, UNFPA, World Bank Group, and United Nations Population Division Maternal Mortality Estimation Inter-Agency Group, *Maternal Mortality in 1990 - 2015*)
  - Target: 180
14. Number of women who deliver with a skilled birth attendant at home or at a health facility (*SDG 3.7*)
- Baseline: 95,528 (18 provinces, 2016, based on DHIS2) – around 53% of total births
  - Target: 10% increase over baseline
15. Number of new women aged 15-49 years adopting long term family planning methods in target provinces (data will be disaggregated for adolescent girls aged 15-19 years):
- Baseline: 45,746 women (14 provinces, 2016, based on HGNDP DLIs/ DHIS2)
  - Target: 10% increase over baseline

## Supplementary Progress Indicators

- Number of pregnant women who received the 4th Antenatal Care contacts
- Baseline: 94,511 (18 provinces, 2016, based on DHIS2) – around 53% of total births
  - Target: 10% increase over baseline
- Number of children age 12-23 months who received the third dose of DPT containing vaccine (DPT3) by their first birthday
- Baseline: 74.6% (according to DHIS 2)
  - Target: Over 85% coverage

## WBG Program

### Knowledge and Convening

- Addressing Vulnerability and Malnutrition (P160711)
- Pro-Poor Rural Water Supply and Sanitation (P161074)

### Financing

#### On-going:

- Health Governance and Nutrition Development Program (P151425) – closes Dec 2020

#### Pipeline:

- Additional Financing for Health Governance and Nutrition Development Program (IDA 18 and TF)
- Universal Health Coverage (IDA 18)
- Statistics and CRVS Operation (IDA 18)

## Objective 2.4: Reducing vulnerability and inclusive access to social services

**Intervention Logic:** As noted in the SCD, the pace of poverty reduction in Lao PDR has been modest compared to regional peers, and inequality has widened. Vulnerability is high - even when people move out of poverty, and these gains are put at risk by frequent shocks -especially among ethnic minorities and people in rural and upland areas. Thus, there is a critical need to introduce a government-led social protection program to reduce vulnerability and malnutrition in the short term, while laying the foundation for an effective delivery system serving multiple sectoral programs in the long term.

### CPF Objective Indicators

16. Program beneficiaries as a share of the rural population in the selected districts

- Baseline: 0%
- Target: 50%

*Potential additional indicators to be discussed with Government and to be included at the time of the CPF Performance and Learning Review*

### Supplementary Progress Indicators

National targeting system developed and used for more than one program.

- Baseline: 0
- Target: >1

### WBG Program

#### Knowledge and Convening

- Addressing vulnerability and malnutrition (P160711)

#### Financing

On-going:

- Poverty Reduction Fund III (P157963) – approved May 2016 - closes June 2020

Pipeline:

- Social protection to reduce vulnerability and malnutrition (IDA 18)



## FOCUS AREA 3: PROTECTING THE ENVIRONMENT

Natural resources have delivered growth and can continue to do so if properly managed. Therefore, putting in place effective systems for responsible natural resource management will be critical to ensure sustainability of growth and social gains over the medium term. Moreover, given the high levels of vulnerability in Lao PDR, enhanced disaster risk management and climate resilience is also critical to protect the incomes and livelihoods of the poor and bottom 40 percent. This Focus Area supports Outcome 3 of the NSEDP on the Protection of Natural Resources and the Environment, and particularly the first two outputs encompassing natural resources management and preparedness for natural disasters and risk mitigation.

### Objective 3.1: Promoting environmental protection and sustainable natural resources management

**Intervention Logic:** Rich forest biodiversity has seen fast decline, driven by multiple factors including industrial development and activities for livelihood that are exacerbated by lack of governance systems. Development of natural resources such as water and minerals that have driven the country's growth in the last decade is on track of depletion without systematic governance regime to ensure sustainability of these assets or to nurture the sector in an inclusive manner. An emerging concern is the pollution agenda, a consequence of industrial activities and changing consumer behavior. The WBG intervention therefore focuses on supporting the Government in strengthening the governance regime in institutional, technical, and policy aspects.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>17. Area brought under enhanced biodiversity protection measured by the score of management effectiveness (<i>SDG 15.1</i>)</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Target: 1.2 million ha (Area increases as score increases from one level to another)</li> </ul> <p>18. Forest area brought under forest landscape management plans (Hectare) (<i>SDG 15.2</i>)</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Target: 750,000 ha</li> </ul> <p>19. At least three river basin plans approved by MONRE.</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Target: 3 plans</li> </ul> <p>20. Number of publicly available annual reports on the implementation of policy on sustainable hydropower development (2016-2021).</p> <ul style="list-style-type: none"> <li>• Baseline: 1</li> <li>• Target: 5</li> </ul> <p>21. Number of Priority Pollution Watch Sites for which monitoring reports are regularly updated and publicly disclosed.</p> <ul style="list-style-type: none"> <li>• Baseline: 0</li> <li>• Target: 3 Priority Pollution Watch Sites</li> </ul>	<p>Improved Power Strategy/ White paper</p> <ul style="list-style-type: none"> <li>• Baseline: Existing strategy (2016)</li> <li>• Target: White paper issued by MEM (2018); White paper presented to the Government for endorsement (2019)</li> </ul> <p>Improved Mining Sector Strategy</p> <ul style="list-style-type: none"> <li>• Baseline: Existing strategy (2016)</li> <li>• Target: Revised/update mining sector strategy issued by MEM (2018); Revised/update mining sector strategy presented to the Government for endorsement (2019)</li> </ul>	<p><b>Knowledge and Convening</b></p> <ul style="list-style-type: none"> <li>• Lao Forestry advisory (IFC - 594367)</li> <li>• Lao Hydro Advisory (IFC - 589087)</li> <li>• Green Growth Analytical Work (P162394)</li> </ul> <p><b>Financing</b></p> <p>On-going:</p> <ul style="list-style-type: none"> <li>• Second Lao Environment and Social Project (P149130) – <i>closes June 2021</i></li> <li>• Scaling-Up Participatory Sustainable Forest Management (P130222) – <i>closes Aug 2018</i></li> <li>• Technical Assistance for Capacity Development in Hydropower and Mining Sector (P109736) – <i>closes Sept 2018</i></li> <li>• Mekong Integrated Water Resource Management (P104806) – <i>closes March 2018</i></li> <li>• Nam Theun 2 Social and Environmental Project (049290) – <i>closes Dec 2017</i></li> </ul> <p>Pipeline:</p> <ul style="list-style-type: none"> <li>• GHG Forest Emissions Reduction (Carbon Funds) (P125082)</li> <li>• Mekong Integrated Water Resources Management Additional Financing (IDA 18) (P159447)</li> <li>• Sustainable Energy and Extractives Development Technical Assistance (IDA 18)</li> </ul> <p>IFC Pipeline:</p> <ul style="list-style-type: none"> <li>• Forestry plantation &amp; processing</li> <li>• Renewable energy Project (hydro, solar or wind)</li> </ul>

## Objective 3.2: Putting in place enhanced disaster risk management and climate and disaster resilience

**Intervention Logic:** Economic losses from disasters are an increasing threat to sustainable development, impeding poverty reduction and inclusive growth in Lao PDR. Highly disaster-prone, Lao PDR needs to invest in disaster risk management to protect its development gains. While this implies certain upfront costs, global experience suggests that the direct and indirect benefits exceed these costs. Resilient investments can save lives, decrease losses, and protect future growth.

### CPF Objective Indicators

22. Length of road receiving climate resilience periodic maintenance

- Baseline: 0 km
- Target: 687 km

23. The Department of Meteorology and Hydrology of MONRE has enhanced the early warning system and climate information system (SDG 1.5 & SDG 13.1).

- Baseline: No
- Target: Yes

24. Lao PDR has access to immediate financing in response to an eligible emergency

- Baseline: No
- Target: Yes

### Supplementary Progress Indicators

### WBG Program

#### Financing

On-going:

- Road Sector Project 2 (P158504) – approved Dec 2016 - closes Aug 2022

Pipeline:

- Disaster Risk Management Project (IDA 18) (P160930)



## CROSS-CUTTING THEME: STRENGTHENING INSTITUTIONS TO ESTABLISH A RULES-BASED ENVIRONMENT

While embracing market economy concepts, Lao PDR's governance arrangements to support the transition have been evolving very gradually. The arrangements provide stability but the rule of law is weak, appetite to improve the regulatory quality has been subdued, and corruption is widespread. Strengthened institutions will thus be critical for achieving results in each of the three Focus Areas, and is aligned to the first of the three cross-cutting themes of the 8th NSEDP which looks to Enhance Effectiveness for Public Governance and Administration.

### CPF Objective Indicators

25. Percentage of Category 2 investment projects with complete disclosure of relevant information through integrated database and public information platform, and having a valid ECC, prior to approval of concession agreements (related to an NSEDP indicator<sup>8</sup>).

- Baseline: 0%
- Target: 50%

26. Establishment of Standard Operation Procedure (SOP) for Hydropower Plant Development.

- Baseline: No SOP
- Target: Applied SOP

### Supplementary Progress Indicators

### WBG Program

#### Knowledge and Convening

- Green Growth Analytical Work (P162394)

#### Financing

On-going:

- Nam Theun 2 Social and Environmental Project (P049290) – closes Dec 2017
  - Technical Assistance for Capacity Development in Hydropower and Mining Sector (P109736) – closes Sept 2018
  - Second Lao Environment and Social Project (P149130) – closes June 2021
- Pipeline:

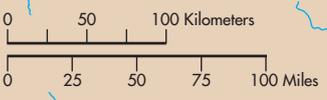
- Green Growth DPF series (IDA 17, 18 and 19) (P159956)

8. This is an indicator that is contributed by two results indicator (Green Growth DPF and LENS2)PF.

100°E 102°E 104°E 106°E 108°E  
 22°N 20°N 18°N 16°N 14°N



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## LAO PEOPLE'S DEMOCRATIC REPUBLIC

- CITIES AND TOWNS
- ⊙ PROVINCE CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES



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