

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No. AB7517

<b>Project Name</b>	Additional Financing for the Technical Assistance for Capacity Building in the Hydropower and Mining Sectors
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Lao People's Democratic Republic
<b>Sector</b>	Hydropower (37%); Other Mining and Extractive Industries (18%); Public administration- Energy and mining (33%); Tertiary education (12%)
<b>Project ID</b>	P148755
<b>Borrower(s)</b>	MINISTRY OF FINANCE
<b>Implementing Agency</b>	MINISTRY OF ENERGY AND MINES
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<b>Environment Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	February 10, 2014
<b>Date of Appraisal Authorization</b>	April 2, 2014
<b>Date of Board Approval</b>	June 3, 2014

## 1. Sector Background

1. The hydropower and mining sectors are core drivers of growth for the Lao economy, together accounting for over 21% of government revenue in 2013. Hydropower in particular is growing rapidly, with the installed capacity increasing from 200MW in 1996 to 700MW in 2006; and over 2,500MW today (including Nam Theun operations, which started in 2010). This rapid pace of development is set to continue: 17 hydropower projects (5,300MW) are currently under construction and additional 56 (with potential installed capacity of 13,600MW) are under consideration. The mining sector has already experienced a period of tremendous growth from an annual production value of some \$10-15 million in 2003 to more than \$1.6 billion in 2012. Revenue collected by government from mine operations has seen a similar surge from less than 1% of government revenue in 2002 to around 16% in 2013. While the majority of the production can be ascribed to two operations, i.e. Lane Xang Minerals Ltd. and Phu Bia Mining, a large number of small-scale operators have emerged. As a result of these mostly unregulated operations, negative environmental and social impacts are reported to be on the rise. The fast pace of investments has raised questions about the government's capacity to sustainably manage these sectors. Key among the challenges is the government's ability to adopt a multi-sectoral approach to managing these two sectors. Accordingly, the demand for stronger sector governance is both greater and more complex than anticipated during the original project design.

## 2. Objectives

The Project Development Objective (PDO) is *to increase human capacity and improve the performance of government oversight institutions for the hydropower and mining sectors.* The Technical Assistance for Capacity Development in the Hydropower and Mining Sectors Project (HMTA) additional financing (AF) is designed to scale up and extend the impact of the institutional and human capacity development efforts that are being supported under the original HMTA project by: (i) promoting the operationalization

of legal, policy, and regulatory frameworks and management tools along the value chain in both the hydropower and mining industries, including planning, awarding, management and monitoring of concession agreements as well as revenue management and inclusive growth; (ii) monitoring, evaluating, and fine-tuning these tools for optimum performance, appropriateness, and applicability to country context; and (iii) expanding support to capacity development activities at national and local levels, and further strengthening the capacity of educational institutes to produce a skilled workforce in the hydropower and mining sectors.

### **3. Rationale for Bank Involvement**

The Bank has a long-standing engagement in the sector and remains committed to promoting and strengthening governance and management mechanisms of the hydropower and mining sectors. This is also in line with the objectives of the Seventh National Socio-Economic Development Plan of Lao PDR, which is to optimize its use of natural resources, by maximizing revenue to the state, minimizing environmental and social costs, improving efficiency and transparency in the sector development, and attracting quality investment. The HMTA and the AF are fully consistent with the Country Partnership Strategy (2012-2016) supporting the strategic objective 2 for the sustainable management of natural resources, and contributing specifically to outcome 2.1: Strengthened governance and management of hydropower and mining sectors, including sustained NT2 implementation.

The original project supported agencies at the Ministry of Energy and Mines (MEM) to put in place laws, regulations, operational procedures, and key management tools such as standard Concession Agreement (CA) documents for hydropower and mining concessions, fiscal policy options, hydropower management models, system-avoided costs options, and the policy on sustainable hydropower development. All of these studies and upgrading of regulations have been coupled with capacity building. Institutionalization, the effective application of these efforts, and the implementation of follow-up activities are critical to enhance PDO impacts. The Government of Lao PDR (GOL) has requested additional assistance for strengthening compliance monitoring of the CA process, safety aspects in hydropower and mining development, and capacity building on technical, environment and social safeguards in the two sectors. There are also opportunities to move forward power sector reform, positioning the country as significant power trader and connector with neighboring countries. In the mining sector, the administration has responded to the surge of unregulated small-scale operations by introducing a moratorium on the issuance of new mining licenses in 2011. The moratorium was intended to allow the authorities room for a comprehensive review of operators' performance in order to correct and, if necessary, revoke non-compliant and inactive licenses. Unfortunately, the review has had little effect to date since inspection capacities remain weak and no clear framework for control and performance requirements has been developed. In sum, the political will to improve management of the sector is hampered by the weak enforcement capacities of line ministries and GOL has requested additional support in this area.

The proposed AF would provide support to develop sector strategies through high-level policy dialogue. In order to support institutional sustainability the AF would finance sector management improvements through the operationalization of upstream work (legal, regulatory and technical aspects), and will continue to strengthen organizational as well as managerial and technical human capacities. The AF would deepen the work on fiscal regimes and financial flows to sectors, to ensure that agencies are able to carry their monitoring and oversight functions. The AF would also emphasize the strengthening of mechanisms to enhance inter-ministerial and sector coordination.

### **4. Description**

The following is a summary of the activities financed by the additional financing.

- Component 1: Joint Hydropower and Mining Learning Program.** Additional support of US\$3.0 million (for a total of US\$5.34 million) would be provided to the MEM, PDEMs, and relevant agencies to: (a) further strengthen the human resource capacity of the MEM<sup>1</sup> and PDEMs by financing short-course training addressing immediate needs to improve core functions and long-term training courses in the form of scholarships for key personnel to pursue higher education in country and abroad in critical areas for both hydro and mining, and by strengthening the capacity of MEM's Department of Personnel and Organization (DPO) to manage human resource development and training; (b) further support for the Faculty of Engineering at NUOL and technical schools through: (i) technical assistance to update curricula, (ii) teacher training, exchanges, and internships at regional universities/institutes, and industry (private sector), (iii) procuring educational laboratory equipment, library books, and teaching aids as needed for improving the quality of education; and (c) deepen the cooperation and partnership between industry and education institutes by strengthening the trade working groups established during the original project.
- Component 2: Hydropower Sector Development.** Additional support of US\$7.0 million (for a total of US\$10.22 million) would be provided to MEM, PDEMs, National Assembly (NA), Ministry of Finance (MOF), Ministry of Natural Resources and Environment (MONRE), and Ministry of Planning and Investment (MPI) for technical assistance, training, study tours, workshops, needed equipment, and operating costs to: (a) operationalize the PSHD, and the Independent Power Producer (IPP) process<sup>2</sup> with a focus on: (i) effective management and monitoring of CA, including developing standard operation procedures for the implementation of the IPP process, (ii) technical and engineering capacity to address safety issues in hydropower development, (iii) establish a hydropower fiscal mechanism to improve revenue collection and facilitate budget allocation to agencies and provinces; (b) apply the system avoided cost methodology and develop production costing model; and (c) prepare a hydropower sector strategy and road map for cross-border power trading (system-to-system power trade). This component is implemented in partnership with IFC.
- Component 3: Mining Sector Development.** Additional support of US\$6.0 million (for a total of US\$8.55 million) would be provided to MEM, PDEMs, MONRE, NA, MOF, and MPI through technical assistance, training, study tours, workshops, necessary equipment, and operating costs to: (a) complete and operationalize the improved standard terms and conditions of CAs, in particular: (i) developing standard operation procedures for the mining concession process, (ii) strengthening staff capacities for negotiation, CAs management, inspection, monitoring, and project evaluation, (iii) building capacity for the establishment of the community development funds<sup>3</sup>, (iv) establishing operation and maintenance arrangements for the mining cadaster system and extending it to link MPI, MONRE, MOF, and MEM, (v) developing geo-data collection capacity, and (vi) establishing a mineral fiscal mechanism and building capacity for revenue collection, and facilitating budget allocation to agencies and provinces; (b) develop a sector strategy focused on improving sector governance, including further strengthening the oversight capacity of the NA, and strategic environmental and social assessment.

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<sup>1</sup> The Ministry is comprised of 8 departments/office/institutes at central level i.e. Cabinet, Department of Personnel and Organization (DPO), Department of Inspection (DOI), Department of Energy and Planning (DEPP), Department of Energy Management (DEM), Department of Energy Business (DEB), Institute of Renewable Energy Promotion (IREP), and Department of Mines (DOM). PDEMs are responsible for MEM activities at provincial level.

<sup>2</sup> The Independent Power Producer (IPP) comprises the following key steps: Memorandum of Understanding (MOU) signing, Project Development Agreement (PDA) signing, Concession Agreement (CA signing), Commercial Operation Date (COD), and Project Transfer.

<sup>3</sup> The AF support is limited to the development of guidelines and regulations for the establishment of community development funds, and will not finance any activity related to the implementation of the funds on the ground.

- **Component 4: Project Administration and Management.** Additional support of US\$1.8 million (for a total of US\$2.18 million) would be used to finance consultancy services for the Project Secretariat Office (PSO) established within MEM for ensuring effective and timely implementation of project activities. Key functions of PSO include, coordination, financial management, procurement, safeguards, monitoring, and reporting on project progress including maintaining all project records. In addition, the AF would finance consultancy services to develop: (i) an IT platform to support business processes within MEM, (ii) the internal control system for the hydropower and mining sectors led by MEM's Inspections Department, and (iii) support the implementation of the ministerial decree on gender advancement.

## 5. Financing

Source:

BORROWER/RECIPIENT	(\$m.)
International Development Association (IDA)	00.00
	<u>17.80</u>
Total	17.80

## 6. Implementation

Based on lessons from the implementation of the original project, the implementation arrangements will be strengthened to improve inter-agency and inter-ministerial coordination, project monitoring, and procurement processing. Under the AF, MEM remains the main executing agency through the Cabinet Office, Department of Energy Business (DEB), the Department of Energy Policy and Planning (DEPP), the Department of Energy Management (DEM), Department of Mines (DOM), and Department of Personnel and Organization (DPO). Three new divisions of MEM are included for the implementation of the AF. The Division of Inspection (Inspection Department) will lead in the development of an internal control system; the Division for the Advancement of Women within the Cabinet, will lead activities to implement the decree on gender equality at the Ministry, and the Division of Statistics will lead the development of the IT system. The Project Secretariat Office (PSO) under the Cabinet remains responsible for overall project implementation, monitoring, reporting, and coordination. NUOL and the three selected education institutes are responsible for the implementation of sub-components under Component 1. The project steering committee (PSC) led by the Vice Minister of MEM and comprising representatives of the implementing agencies will continue to oversee project implementation and coordination among ministries concerned. Two Working Groups, for Hydropower and Mining, respectively will be established to enhance coordination and facilitate timely implementation of project activities. In addition, three inter-ministerial committees established during the original project to improve implementation will continue guiding activities related to fiscal and development of hydropower and mining concession agreement standards.

## 7. Safeguard Policies (including public consultation)

<b>6. Safeguard Policies Triggered</b> ( <i>please explain why</i> )	<b>Yes</b>	<b>No</b>
<b>Environmental Assessment (OP/BP 4.01)</b>	X	
<b>Natural Habitats (OP/BP 4.04)</b>		X
<b>Forests (OP/BP 4.36)</b>		X
<b>Pest Management (OP 4.09)</b>		X
<b>Physical Cultural Resources (OP/BP 4.11)</b>		X
<b>Indigenous Peoples (OP/BP 4.10)</b>	X	
<b>Involuntary Resettlement (OP/BP 4.12)</b>		X
<b>Safety of Dams (OP/BP 4.37)</b>		X
<b>Projects on International Waterways (OP/BP 7.50)</b>		X
<b>Projects in Disputed Areas (OP/BP 7.60)</b>		X

### **8. Contact point**

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