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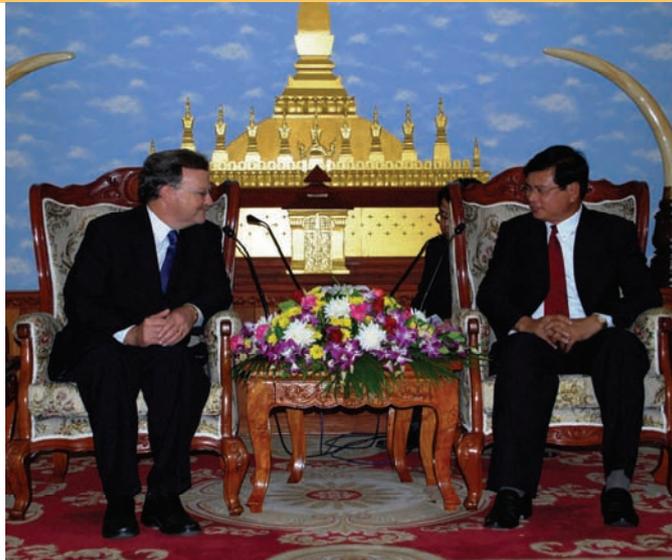
Ian Porter: Seven Wonderful Years

World Bank Country Director for South East Asia Retires

Seven years ago as the region was emerging from the Asian financial crisis, Ian Porter became the World Bank Director for South East Asia. Being optimistic by nature, he was confident that the region would see solid economic growth, especially in Laos. Ian strongly believed that the Government's policies to attract investment and stabilize the economy would lead the country in the right direction. Seven years later as Ian retires from the World Bank, he explains that the results have been even better than he expected. (for more see the interview with Ian on page 2-3).

At a recent farewell party, hosted by the World Bank, Country Manager for Laos, Patchamuthu Illangovan, highlighted some of the major achievements that occurred under Ian's leadership. Perhaps the most important has been the success of the Nam Theun 2 (NT2) process. In the early years of this decade, there were many skeptics who thought concerns related to environment, social, governance/transparency, and public financial management were too big a challenge to be overcome. Some believed that the NT2 project was too large for a small country like Laos. In short, there were many doubts about whether the project would go ahead. **Under Ian's leadership, however, the World Bank was able to design interventions to ensure that all stakeholders' concerns were addressed.** Now, we are just over a year away from seeing NT2 begin its operations and start generating power and revenues for the country, while benefiting the impacted people.

Another major achievement has been to engage the Government in a major reform effort through the use of the



Farewell meeting with the Prime Minister of Lao PDR, H.E. Mr. Bouasone Bouphavanh

Poverty Reduction Support Operation (PRSO). Four years later the PRSO has become an effective means of supporting the Government's reform effort and now includes Australia, the European Union, and Japan as partners. According to Illangovan, *"Ian fought hard to win the approval of PRSO from Bank senior management at a time when not everyone was convinced that the Government was ready for such a program driven approach to reform. The rest is history, and we are now in the fifth year of PRSO and a long list of reforms have been accomplished."*

In addition to these, Ian's vision for getting the World Bank more involved in the Greater Mekong Sub-region has led to major activities, such as a regional power transmission project and initiatives in water, trade, labor migration, environment and climate change.

The Lao government recognized Ian's contribution to the development of Laos

during his final visit as Director for Southeast Asia. H.E. Mr. Bouasone Bouphavanh, the Prime Minister of Laos thanked Ian for his contribution to the development of Laos, and on behalf of the Government of Laos, Minister of Planning and Investment, H.E. Mr. Soulivong Daravong awarded a Friendship Medal, which Ian accepted on behalf of the World Bank Group, in recognition of his contribution to the country.

During this final round of meetings with the government, Ian highlighted three areas that require continued focus and emphasis to take advantage of the ongoing reform agenda:

1) Natural Resources Management The country's growth will continue to be fulfilled

through exploitation of natural resources. This needs to be done in a sustainable way. Both the NT2 Hydropower Project and Lane Xang Minerals mining project in Sepon have shown that Laos can be a world leader in this respect. Future projects should continue to take advantage of such lessons, and ensure that quality investments are attracted, benefits are equally shared among all Lao people including future generations, and resources and social and cultural practices are protected. >>

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On behalf of the World Bank Group, Ian receives Friendship Medal from Minister of Planning and Investment, H.E. Mr. Soulivong Daravong.

“Ian has put significant effort into aid coordination between the World Bank and the Lao Government to mobilize soft loans and funding grants for the implementation of 28 projects in various sectors worth more than US\$350 million. On behalf of the Lao Government, we express our sincere gratitude to Ian for this great contribution to Lao socio-economic development and the fight against poverty in his 7 years in charge of the World Bank’s South East Asia section.”
H.E. Mr. Soulivong Daravong, Minister of Planning and Investment.

2) Financial Sector - The need for access to finance is huge, especially in rural areas. As Laos contemplates more reforms in this sector, emphasis should be placed on developing a more modern and well regulated sector that offers a range of products and services that can contribute to the expansion of domestic and foreign private sector, and help rural households.

3) Public Administration/Civil Service - Over the past four years, several partners have contributed to capacity development among institutions, organizations and individuals. Laos needs to move to the next stage of building a more modern and efficient public administration, through more targeted reforms.

The Prime Minister indicated his support for the World Bank’s continuing efforts in these areas and agreed with all three points raised while supporting further cooperation with concerned ministries. The Prime Minister also made some suggestions to the World Bank:

- recognizing that IDA resources are limited, ***the World Bank should consider providing other instruments such as IBRD*** (International Bank for Reconstruction and Development) credits to Laos;
- the World Bank should look into increasing its ***involvement in financial services to encourage private sector development, including providing financing to small and medium enterprises.***

At his meeting with the Minister of Planning and Investment, major issues discussed included developing a sound legal framework through the preparation of a good practice Investment Law; government revenue generation through effective taxation, royalties and fees; benefit sharing (community, provincial, national); managing major infrastructure projects (especially for hydropower); managing environmental and social concerns building on the experience of NT2 and the Sepon mining project; and governance and contract management.

Interview with Ian C. Porter

Before his farewell party, Ian shared some of his impressions and experience working in Laos.

Q: Can you share with us your perspectives on Laos seven years ago and now?

A: In the last 7 years there have been major changes in Laos, even bigger than I could have anticipated. A major thing that comes to mind is the rapid economic growth reaching a consistent level of 6-7% per year over the last 7 years. This growth has had a significant impact on reducing poverty and improving social indicators. It’s not just the numbers either. I can see the changes with my own eyes when visiting Vientiane and rural areas where we can see improvements in infrastructure, significant new housing and construction and a general improvement in the lives of the Lao people.

Q: What have been the most significant changes in Laos since 2001?

A: The strong economic growth has been stimulated by very important economic reforms. The government introduced processes such as the Lao Business Forum to reach out to the private sector, and has developed a better business enabling environment through reforms such as the Enterprise Law and the Law on Commercial Banks. Also recognizing that Laos is in the middle of a very rapidly growing and dynamic region, the government has made an extra effort to attract private investment, which is benefiting the country.

Q: Did you expect this rapid growth?

A: Whenever I met the Minister of Finance throughout the years, I told him I was very optimistic about the Lao economy. However, like most of us in the World Bank, as much as we were confident of the potential of the country, we have all been pleasantly surprised with the level and consistency of the growth.

Q: Other than NT2, what have been the major achievements of the World Bank during the last 7 years?

A: Other than NT2, important challenges we have taken on include supporting the government to strengthen its overall financial management and public expenditure management, supporting the government in the area of trade facilitation and with accession to WTO. At the sector level, we have worked with the government to develop its first sector-wide transport operation. In social sectors, we have programs to improve the quality of education and health services and to ensure that people have access to those services. And, at the moment, we are carrying out important analytical work on the issues affecting the development of upland villages - to increase income and livelihood in remote areas, and conserve the environment for future generations.



Minister of Finance, H.E. Mr. Somdy Douangdy speaks at Ian’s farewell reception

Q: How about the challenges of working in Laos in general?

A: In the last few years, the World Bank and the Government have developed a stronger partnership – a lot more trust, confidence and respect on both sides. Because of this strong partnership the government is more direct with us and at the same time we are also more frank with the government through our interaction and because of the good dialogue developed over the last few years through PRSO. The big challenge on the government side is the need for greater capacity to effectively implement reforms. >>



"We at the World Bank have been both lucky and privileged to have had Ian serve as our Director for this long. He brought leadership, passion, commitment, and dedication to the job. My colleagues in the Vientiane Office join me in applauding your leadership. We wish you the very best as you retire from the World Bank at the end of the month after 32 years of outstanding contribution to development." Patchamuthu Illangovan, World Bank Country Manager for Laos



The World Bank Group staff has grown from 13 (2001) to 60 (2008)

Significant changes are taking place in the government with a new generation of leaders accelerating the pace of reform. In the last 7 years the significant growth of the World Bank country office in Vientiane has made the dialogue with the government much easier. We are working on very complex issues, and it can be difficult from time to time. However, the strong partnership and increased capacity of the World Bank and the government are making our relationship and our work in the country more effective.

Q: To support the Government of Laos in achieving its 2020 goal of graduating from least developed country status, what should the World Bank be doing more of and do differently?

A: Also discussed with Minister of Finance, H.E. Mr. Somdy Douangdy in my last meeting with him, an important strategy for us is to strengthen our collaboration within the World Bank Group. We need to combine the experience, capacity, resources and instruments that IDA (International Development

Association) has, together with that of the IFC and MIGA (Multilateral Investment Guarantee Agency) to help the government both in policy and at the operational level. One area we have in mind already for strengthening this collaboration is the financial sector. IFC has already done some important work recently to develop the legal and regulatory framework and strengthen banking supervision. IDA will strengthen its work in this area by further engaging the government on its financial sector strategy and by finding opportunities to support the development of the financial sector infrastructure perhaps in the areas of secured transactions and payment and clearing systems.

In the hydropower sector, we will see what we can support in terms of operations. The World Bank is planning a large capacity building project to support the development and sustainability of the hydropower sector. Such support combined with financing from IDA, IFC and MIGA could lead to significant developments in this sector.

We need to continue to support the government in the area of capacity building, particularly in public administration reform. We

also need to continue to help the government in implementing important programs that we have been supporting such as public financial management, infrastructure, rural development, and social services.

Q: Can you share with us your most memorable personal achievement working in Laos in the last 7 years?

A: In terms of my role as Director in Laos, the day I look back at with the most satisfaction is when the Board of Directors approved the Lao Country Assistance Strategy (CAS) in 2005, which included the PRSO operations and support for NT2. In particular, NT2 is something that we had been working on wholeheartedly for a number of years. Once it was approved as part of the CAS there was no turning back. This was the result of the hard work the government and we had been putting in for a long time. To be honest, I was not sure the day would ever come that the NT2 project would be approved. I look forward to the next memorable day at the end of 2009, when I come back for the launching of NT2. ■

James Bond Advises Mekong Countries to Develop Hydropower Sustainably

The Mekong River Basin is nearly the size of France and Germany combined. It flows through six countries and its water and biodiversity resources are second only to the Amazon River Basin. The region is so large, that the Lower Mekong River Basin – Thailand, Vietnam, Cambodia and Laos – is home to about 60 million people, almost a third of the countries' combined populations.

But who are these 60 million people living along the basin? Unfortunately up to one third of them are very poor, living on less than US\$1 a day. Mainly rural farmers and fishermen, these people rely heavily on the resources that the river offers them – both fish and water. Any changes to this aquatic system can have an impact on their lives – whether floods, loss of fishery, impacts to their diet, income, and more. So

while the basin has crucial aquatic resources that can offer tremendous benefits to people in Laos, Thailand, Vietnam and Cambodia, changes to its flow and system can impact many of the people living along it.

In order for any developments in the Lower Mekong River Basin to be done sustainably, there are five considerations that I would suggest.

The first focuses on weighing benefits and impacts. For any management of the river basin to take place, careful considerations need to be taken. It is essential to establish *what* the impacts are, *how* extensive they are, *who* they impact, and *what* the ultimate benefits are. We cannot 'jump the gun' and say that any developments in the region would have a negative or a positive impact.

We need to have information and facts to base any judgments on a solid analytical foundation. Unless careful studies and assessments are conducted, the full extent of the benefits and detriments of development in the basin cannot be properly evaluated.

My second proposition focuses on the importance of keeping a regional perspective on the basin's development and the political and economic issues at stake in all the Mekong countries. The studies that need to take place must take into consideration the effects any development will have in the whole lower river basin. Moreover, they also need to take into consideration the regional effects that the development can have with an aim of ensuring that the benefits of the developments can be widely shared.

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Karin Finkelston

Director of East Asia Pacific, International Finance Corporation

Q&A

On August 18, 2008 Karin Finkelston took over as Director of East Asia and Pacific (EAP) for the World Bank's International Finance Corporation (IFC). Prior to this position, Karin was the Deputy Director of EAP focusing on IFC's investment program in the region and IFC Country Manager in China. Her first job in IFC 12 years ago was as Country Officer for Laos. Being familiar with Laos, Karin shared with us her mission and priorities as the new Director.

What are your first priorities for the region and for Laos in your new role of IFC EAP Director?

First, let me speak about IFC priorities across the EAP region. We have two top priorities. The first is that IFC in EAP is trying to do much more in IDA countries versus the middle income countries. For EAP, this means Mongolia, Laos, Cambodia, Vietnam and the Pacific. So, in short Laos is a big priority for IFC. The second priority in the region is climate change and the development of renewable energy. In Laos I think we have an opportunity to promote climate change work through support of the hydropower sector.

I am here in Laos to find ways to work with the World Bank to support the hydropower

sector, rural electrification, and other areas where we can put IDA and IFC products together to better serve Laos and the Lao people.

In addition to collaborating in the power sector, IFC and IDA have been discussing ways to collaborate more to support financial sector development. As the World Bank Group, we would like to support the Government in increasing access to finance for Lao people and businesses. IFC is working with the government to develop the legal framework for commercial banking, and we invested in the ANZ Vientiane Commercial Bank. I think this is a good first step and now we would like to do more around Small and Medium Enterprise Finance, micro-finance, and potentially support the government with the privatization of the state-owned bank BCEL (Banque Pour Le Commerce Extérieur Lao).

What would you like to see Laos achieve in the next 10 years?

I think Laos has a huge competitive advantage in hydropower and natural resources. This is something that the Lao government, on behalf of the Lao people, need to manage well. There are about 70 hydropower projects of various sizes being looked at, so I would really like to see the government prioritize these projects and set a high standard for managing the environmental and social impact of these

projects. I think NT2 is a good example of how a project can strive for very high standards of environment and social sustainability while at the same time earning revenue for the country. We also need to look at ways for IFC and IDA to work together to help the government to do these projects more efficiently so we can speed up the process without losing focus on environmental and social concerns. I believe the combined strengths of IDA and IFC can help the government to achieve these goals.

What opportunities are there for IFC to strengthen its operations in Laos?

In Laos we have focused on providing advisory services to the government through legal reforms such as the Enterprise Law, Law on Commercial Banks and currently the Investment Law. We also serve as the secretariat for the Lao Business Forum. We are working closely with the rest of the World Bank team to support the improvement of the business enabling environment. We are now planning to strengthen our team in Laos by hiring two investment officers who will be tasked with developing our investment portfolio in Laos. I see a lot of investment potential in Laos not only in the natural resources sector but also in supporting SMEs through bank investments and by making smaller investments to meet the demand of Lao businesses. ■

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The third consideration is properly mitigating the impacts on the environment and the people affected. While stakeholder participation and engagement is important throughout all the processes that I have mentioned, it is especially important when social and environmental impacts are being managed. Communities need to have a say in this process, as well as civil society organizations and partners. Best practice programs need to be implemented.

For example, Laos can draw on the lessons that are emerging from the Nam Theun 2 project. The preparation of NT2, with the numerous studies conducted and the at-length consultation processes, paved the way for more participatory, transparent and improved hydropower development in Laos. These lessons can be evaluated and replicated in future projects so the best social and environmental programs are put in place in order to effectively manage impacts.

Fourth, a key player in all of these developments is the private sector. There is a need to attract responsible partners that can help the Government to appropriately implement social and environmental programs. While the lure of the construction



James Bond visited NT2 while in Laos

may be foremost in developers mind, the importance of developing socially and environmentally sustainable and responsible hydropower projects must also be at the top of the priority list.

In order to bring all these elements together, my last consideration is the importance of the MRC. Sustainable hydropower development in the Mekong basin will not be possible unless there is an institution that can liaise and coordinate between the varying interests of all the countries. The MRC can add great value to the whole process of hydropower development, from enhancing the impact assessments that are done, leading the way on cumulative impact assess-

ments, providing policy advice to the various countries, disseminating information, engaging stakeholders, ensuring transparency of processes and more. The MRC clearly needs to exercise its role of helping countries cooperate and promote sustainable development of its water as it takes forth its Hydropower Program.

I believe that these five considerations can help Thailand, Cambodia, Vietnam and Laos think about developments in the Lower Mekong Basin in a more sustainable fashion. We must all ensure that any developments are truly for the benefit of these countries' populations. ■

James Bond is Chief Operating Officer of the World Bank Group's Multilateral Investment Guarantee Agency. This piece is based on his speech at the Mekong River Commission consultation on hydropower on September 25, 2008. The piece was featured in the Bangkok Post.



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