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# The World Bank in Laos

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## Towards More Effective Management of Public Finances

The Government's commitment to more effective management of financial resources has resulted in significant progress in 2007, marked by the issuance of the new Budget Law in February followed by a New Audit Law in July. In September, the Prime Minister instructed the Ministry of Finance to go ahead with reforms to centralize the customs, tax and treasury departments illustrating a strong commitment to improving transparency and effectiveness of Public Financial Management. These reforms are important milestones for the government and provide important momentum to the Government's medium to long term **Public Expenditure Management Strengthening Program (PEMSP)** initiated in 2005 (See Box 1).

Lao PDR has been one of the most decentralized countries in the East Asia Region where the provinces are responsible for spending a large proportion of total public expenditures. While decentralization can result in service delivery that is more responsive to local needs, strong centrally managed institutions are needed to monitor revenue collection and distribution. To address the need for more effective centralized institutions, the Government decided to centralize customs, tax and treasury department. The World Bank's Financial Management Capacity Building Project is

supporting the Government in implementations of these plans. The World Bank works together with the Ministry of Finance and Ministry of Planning and Investment to assist the Government to improve budget preparation, execution, reporting and auditing, all of which are essential for better management of funds generated from Nam Theun 2 as well as increased revenues from the mining sector. The goal of the project is to help the government to establish a mechanism to manage revenues with greater transparency and accountability, while ensuring that funds are targeted to poverty reduction and environmental protection.

In this regard, the new Budget Law of 2007, which focuses on increased centralization and revenue sharing, will significantly improve the central-local government fiscal relations framework. It is intended that all shared revenues will be pooled and managed centrally and distributed to provinces according to a simple sharing rule. This will help the government to establish greater control of public finance resources and align policies to the budget more clearly.

To improve tax collection and reduce leakages in tax revenue, the Government has introduced a new invoice form, which requires traders to disclose the identities of purchasers. >>

### BOX 1.

#### About PEMSP (Public Expenditure Management Strengthening Program)

PEMSP was adopted by the Government of Laos in November 2005 based on technical assistance and advice by the World Bank, IMF, ADB, UNDP and bilateral donors. PEMSP is a program aiming to strengthen the capacity of the Ministry of Finance and Provincial Finance Departments in fiscal planning and budgeting, budget execution, accounting and reporting as well as financial legislation and regulatory framework.

## In this issue

- ◆ Towards More Effective Management of Public Finances
- ◆ World Bank Events
- ◆ Nam Theun 2 Update
- ◆ Sustainable Natural Resource Management
- ◆ Q&A: About IDA



# Events in February:

## ◆ Catalyst of Change: An Open Dialogue with the Legendary Leaders of Asia

Organized by the World Bank East Asia Pacific region, the ASEAN Secretariat and the Global Development Learning Network (GDLN) Asia Pacific. This unique effort brings together yesterday's leaders of Asia with the leaders of tomorrow in a series of in-depth discussions through videoconfer- ence. First Series in December 21, 2007 - Key speakers - World Bank Vice President, James Adams, and Former ASEAN Sec- retary General, Ong Keng Yong. Here is the link to summary report of the first series: [http://www.jointokyo.org/en/fea- tured\\_stories/story/catalysts/](http://www.jointokyo.org/en/fea- tured_stories/story/catalysts/)

Second Series on February 1, 2008 - Key speaker - Fidel Ramos, Former President of the Philippines

◆ "Second Series of Semi- nars on Public Expenditure Review" to be held at University of Laos, Faculty of Economics and Business Management, during the 4th week of February (date to be confirmed).

This new invoicing mechanism makes it easier for the tax department to audit business expenses and creates a better paper trail for tracking business revenues and expenditures. Furthermore, an electronic tax return submission system is now available for large taxpayers at the Vientiane Capital Tax Office. Once tax returns are reviewed, taxpayers will directly deposit money into designated accounts in commercial banks.

Meanwhile, the New Audit Law allows the State Audit Organization (SAO) to report directly to the National Assembly instead of to the Prime Minister. With this new law, audit reports will be published and subject to legislative oversight. The SAO is mandated to audit all public sector operations, foreign-aid loan and grant investment projects, budget support and state-owned enterprises. SAO New Zealand will help with capacity building measures.

Another breakthrough in the reform process is the new charts of accounts

(COA) and budget nomenclature, which is also a component of PEMSP. The main feature of the new COA is the functional (sectoral) classification, which is consistent with the International Monetary Fund's internationally recognized Government Financial Statistics (GFS) conventions. An upgrade of the Government Financial Information System (GFIS) is in progress to more effectively identify, track and monitor budget execution reports on time. This will help the Government to manage funds in a more transparent and effective manner.

The reforms in public financial manage- ment will increase the Government's capacity to manage its financial resources. This will allow the Government to better allocate funds to improve access to public services, including health care and educa- tion, and to protect the environment so that the country can meet its Millennium Development Goal objectives of reducing poverty and bring the country out of least developed status. ■

**What is PFM?** Public Financial Management (PFM) refers to the legal and organizational framework for supervising all phases of the budget cycle, including the prepara- tion of the budget, internal control and audit, procurement, monitoring and reporting arrange- ments, and external audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective allocation of public services. (Source:OECD)

## World Bank Participation in December 2007 Events



22 December: Street March against HIV/AIDS



21 December: International Day against Corruption



## Nam Theun 2 Countdown: Four months to impoundment

June 2008 is an important milestone for the completion of the Nam Theun 2 (NT2) Hydropower project, when a large flow of water from the Nam Theun river will be diverted by the closing of the Nakai dam spillway gates and fill the reservoir that will fuel one of the largest power plants in southeast Asia when it goes into operation in 2009. The dam, built over a five-year period, will be an important asset for Lao PDR as the income it generates will help improve the lives of the country's six million people, while also improving the lives of the affected

communities. It will provide much needed resources for improving education, better access to medical services and to support environmental protection. The World Bank shares the government's commitment to ensure the impacts from the NT2 project on affected communities and the environment are minimized and appropriately managed. The 12-year program to prepare for the day when NT2 opens for business is progressing well and areas in need of attention are being addressed.

**CONSTRUCTION:** The construction of the main dam and electromechanical work is 71 percent done. Excavation work has been completed and significant progress has been made in building the power station and transmission lines. The diversion tunnel closure is scheduled to occur in April 2008, and reservoir

impoundment is scheduled for mid-June 2008. Construction of project roads – spanning over 140km - is progressing well. To address concerns about erosion and excessive dust, grass and over 10,000 trees have been planted covering 28 hectares near the dam and along the main access road.



**NAKAI PLATEAU:** Villagers being resettled in the Nakai Plateau are in the process of moving into their new houses, which have been designed according to their preferences. The resettlement areas are equipped with water supply, schools, electricity and new roads. By May 2008, all the houses for 6,200 residents will be ready and the relocation process will be completed.

The villagers have started their new livelihood activities such as rice production, seasonal crops, planting fruit trees, raising pigs and frogs, livestock, forest products and in the future subsistence fishing in the reservoir. Health problems among villagers have dropped significantly due to better water and sanitation, regular health check-ups and the provision of mosquito nets.

**DOWNSTREAM:** Villagers living downstream of the dam have started to benefit from improved safe water supply and protection from floods ahead of project impacts. A group of pilot villages has also been taking part in new livelihood development programs focused on agriculture, fish ponds and handicrafts, among others, to help them generate income beyond that derived from river fishing. The objective is to help villagers

generate money from a variety of different sources to compensate for any changes in fishing catches after the river diversion. This will be scaled up to all impacted villages in the downstream areas. Implementation, however, remains a challenge and it will require considerable attention going forward to ensure that villagers are adapting and benefiting from the new livelihood opportunities.



**WILDLIFE AND ENVIRONMENTAL PROTECTION:** Progress in dealing with illegal mining, wildlife poaching, and logging threats to the Nakai-Nam Theun National Protected area continues. Improvement has also been noted in wildlife monitoring. Salvage logging has been completed and more than 90 per-

cent of the commercially available timber has been harvested.

**PROJECT LANDS:** Progress has been made in the delivery of compensation payment to villagers losing land to the project. However, payment of compensation needs to be accelerated, especially for villagers heavily affected.



## Sustainable Natural Resource Management: An analytical study

Lao PDR is a landlocked and mountainous country with extensive natural resources - especially its mining and hydropower which could be a major driver of growth and public revenue and is expected to account for two-thirds of the country's exports.

Effective management of these natural resources is one of the country's greatest challenges. If managed well, these natural resources can help lift the country out of poverty. If managed poorly, the result could be environmental degradation, negative social impacts and a lost opportunity for the country to capitalize on its greatest asset. The stakes are high for the government, development partners and private sector to do it right.

Lao PDR's natural resource endowment is multi-faceted. Abundant water resources result in hydropower having impressive potential for both domestic power generation and for electricity exports. To date Lao PDR has tapped only a small portion of its potential capacity - 643MW of an estimated 20,000MW. By 2015 Lao rivers will fuel 14 hydropower plants scheduled to be in operation. With much of the power generated planned for export to Thailand, Vietnam and Cambodia, the Lao Government aims for the country to become the battery of the Mekong region.

Mining has already begun to show its potential impact on the economy with gold and copper emerging as drivers for export growth. Significant mineral deposits of gems, potash and lignite have also been confirmed. The mining sector has the potential to contribute to the economic development of the country. Forests cover nearly half of the country and much land could be utilized for rubber, bamboo, eucalyptus and other forestry plantations.

For all of these natural resource sectors, their development contribution will ultimately depend on how the revenue and benefit streams are managed and the environmental risks are mitigated.

The Government of Lao PDR recognizes the importance of this natural resource base for economic development and poverty reduction. The World Bank has

been working with the government to address concerns regarding natural resource management, not only to improve the management of revenues generated through development of natural resources but most importantly to manage the social and environmental impacts. As these issues are complex and interrelated, the World Bank is committed not only to help the government develop increased policy capacity but also to help maintain consistency in dealing with all of these issues.

To support the government in developing effective natural resource management policies, the World Bank is launching the "Country Economic Memorandum (CEM) on Natural Resource Management," a major initiative to be completed in 2008. This CEM will address the objective of how best to utilize the country's rich natural resource endowment in a way that is sustainable and will benefit the country for generations to come.

The CEM will inform the dialogue with the government on the issues and policies related to natural resource management, particularly for hydropower, mining, forestry, and land usage and will:

- ◆ analyze the costs and benefits of natural resource management-related policies;
- ◆ identify winners and losers from the upcoming changes due to growing natural resource related activities;
- ◆ assess the financial and investment implications of developing Lao PDR's natural resources; and
- ◆ measure the fiscal, environmental and social sustainability of the different approaches that the Government of Lao PDR might take to managing natural resources.

This analytical study complements the ongoing project activities of the World Bank in natural resource management and will inform future natural resource management initiatives in Lao PDR. ■

## Q&A

### What is IDA?

The IDA (International Development Association) is part of the World Bank that focuses on poorest countries. IDA complements the World Bank's other lending arm - the International Bank for Reconstruction and Development (IBRD) - which serves middle-income countries with capital investment and advisory services.

### What are IDA credits and grants?

IDA lends money - known as credits - on concessional terms. This means that IDA credits have no interest charge and repayments are stretched over 35 to 40 years, including a 10-year grace period. IDA also provide grants to countries at risk of debt distress.

### How large is IDA assistance to Lao PDR?

From 1977 to 2006, total IDA assistance for Lao PDR reached US\$839 million. During this period, IDA was the third largest source of official development assistance to the country, ranking behind Japan and the Asian Development Bank. Currently all financing of IDA to Lao PDR is in the form of grants.

More on IDA:

<http://www.worldbank.org/ida>



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