



Report Number : ICRR0020693

1. Project Data

Country
Lao People's Democratic Republic

Practice Area(Lead)
Macroeconomics, Trade and Investment

Programmatic DPL
Planned Operations: 4

Approved Operations: 2

Operation ID
P125298

Operation Name
Lao PDR PRSO 8

L/C/TF Number(s)
IDA-H8000

Closing Date (Original)
31-Dec-2012

Total Financing (USD)
20,000,000.00

Bank Approval Date
09-Aug-2012

Closing Date (Actual)
31-Dec-2012

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	20,000,000.00	0.00
Revised Commitment	20,000,000.00	0.00
Actual	20,426,406.00	0.00

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IEGEC (Unit 1)

Operation ID
P143025

Operation Name
Lao PDR PRSO 9 (P143025)



L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-53010,IDA-H8000,IDA-H8810	31-Mar-2014	20,000,000.00
Bank Approval Date	Closing Date (Actual)	
30-Sep-2013	31-Mar-2014	
	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	20,000,000.00	0.00
Revised Commitment	20,000,000.00	0.00
Actual	20,493,156.00	0.00

2. Program Objectives and Policy Areas

a. Objectives

This Review validates two Poverty Reduction Support Operations (PRSOs)--8 and 9, which support the Government of Lao PDR's (GOL's) Poverty Reduction Program. The Program Document (PD) for PRSO8, the first of four operations under the original series, articulates the program's objectives as follows: "support policies and institutional reforms that enable the sustainable management of increasing revenues from the natural resource sectors to deliver improved public services" (PD, p. 1). The PDO remained the same for the second operation under the series. The planned third and fourth operations did not materialize (Sections 5 and 7.b). Accordingly, this assessment considers the following two objectives:

Objective 1: Enable the sustainable management of increasing revenues from the natural resource sectors;

Objective 2: Deliver improved public services.

b. Pillars/Policy Areas

PRSO8 listed five policy areas:

- (i) Coordination and fiscal management for macroeconomic stability:** This area supported a "natural resource responsive" macro policy framework through better coordination. Several agencies monitored macroeconomic development in their own areas but coordination remained limited. This policy area included the Ministry of Finance (MOF) instructing revenue-collecting agencies to submit their plans disaggregating revenues from natural resource sectors, including from hydropower and mining;
- (ii) Strengthening public financial management (PFM) and civil service for public service delivery:**



This area supported implementation of a Treasury Single Account framework, including a zero balance account in all three state-owned commercial banks that provide banking services to the GOL;

(iii) Sustainable revenue management in the natural resource sectors (mining and hydropower): This area supported the adoption of fiscal regimes that balance Government and private sector interests in these sectors; and the establishment of sustainable financing mechanisms for their planning, management, and monitoring, in consistency with overall public sector financial management;;

(iv) Sustainable public financing mechanisms of schools and health facilities: This area supported the distribution of school block grants to public primary schools based on a per student formula; and the adoption of the National Free Maternal and Child Health (MCH) Policy; and

(v) An investment climate for diversification and competitiveness: This area supported transparent access to all trade related processes and procedures, simplification of enterprise registration procedures, and abolishment of investment licenses.

The PRSO9 made several changes to adapt to new policy reform developments, as indicated by the authorities (PD, PRSO9, p. 26). The policy areas and the prior actions were revised, primarily to reflect the dropping of two original PRSO9 triggers covering treasury processes and the assignment of responsibilities to local administrations.

The PRSO9 regrouped the first and second policy areas under PRSO8 into its first policy area below, while maintaining the other three.

The PRSO9 policy areas are:

(i) Strengthened fiscal and PFM: This area supported the establishment of a unified debt management legal framework to clarify debt management mandates across the government, and development of a legal framework for strengthened debt reporting and transparency;

(ii) Sustainable revenue management in the natural resource: This area covered mining and hydropower, and supported the establishment of a mining revenue committee which would report on fiscal regime policy issues and options in the sector;

(iii) Sustainable public financing mechanisms for schools and health facilities: In education, this area supported financing for dissemination of school-based expenditure reports. In health, it supported a plan for scaling up free MCH, including a roadmap for human resource development over the next three government fiscal years; and

(iv) An improved investment climate for diversification and competitiveness: This area supported the implementation of a customs risk management approach for imports.

c. Comments on Program Cost, Financing, and Dates

PRSO8 was supported by an IDA Grant of SDR13.3 million (US\$20.0 million equivalent), and was approved by the Board on August 9, 2012. It became effective on October 3, 2012, and closed on schedule on December 31, 2012. PRSO9 was financed by an IDA Credit of SDR6.7 million (US\$10.0 million equivalent) and an IDA Grant of SDR 6.7 million (US\$10 million equivalent). It was approved on September 30, 2013, became effective on October 29, 2013, and closed on schedule on March 31, 2014. The two Grants and the



Credit were fully disbursed.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The two objectives were relevant to country conditions. The focus on sustainable management of revenues from natural resources responded to the rapid expansion of revenues from the hydropower and mining sectors. While these had contributed to general economic growth, greater fiscal revenues, and to reducing local poverty, volatile commodity prices and limited opportunities for direct employment in those sectors meant that Lao PDR needed to maximize those revenues over time, while diversifying its economy into other tradable sectors capable of generating more employment. The focus on service delivery addressed inadequate financing arrangements for schools and health facilities. The program's objectives are also relevant to the World Bank Group's (WBG's) priorities for Lao PDR, as stated in the Country Partnership Strategy (CPS) FY12-16. The focus areas of the CPS are: (i) promoting competitiveness and connectivity; (ii) sustainable natural resource management; and (iii) inclusive development, and the cross-cutting theme of improving public sector management. The objectives are also relevant to the Government's Seventh National Socio-Economic Development Plan 2011-2015 (NSED7), which emphasizes strengthening fiscal and PFM, sustainable revenue management in the natural resource sectors (mining and hydropower), sustainable public financing mechanisms for schools and health facilities, and an improved investment climate for diversification and competitiveness.

Rating

High

b. Relevance of Design

The program had a clear statement of development objectives, and the four policy areas were linked to the objectives, although the strength of the reforms varied. Towards the **first objective** (sustainable revenue management), the program envisaged improvements in overall fiscal management and in the fiscal regimes of the natural resource sectors. Towards this objective, the program also envisaged improvements in the investment climate, which could encourage diversification. The program was stronger on overall fiscal management than on the specific fiscal regimes, where little or no detail was identified, or on the investment climate, where actions were limited to initiating rules-based border procedures and to an undefined streamlining of the business environment in two (undefined) areas. On overall fiscal management, the program supported a broader and better defined array of actions which could contribute to such management. Revenue-collection agencies were to break down revenues into non-resource and resource revenues, including separate breakdown by mining and hydropower in the revenue collection plans. This was expected to enable policy makers to respond to natural resource revenue trends and associated risks. There were also



actions on budget preparation, budget execution and the adoption of international accounting and auditing standards. With respect to the **second objective** (service delivery), the program envisaged introduction of capitation grants to help finance primary public schools and a scaling-up of the MCH program and the health equity fund. These could be expected to have some impact on service delivery. The lack of fairly identified and articulated actions to improve the fiscal regimes of natural resource sectors was a major design shortcoming, as it takes time to develop and implement these actions and to have any impact towards program objectives.

The choice of instrument was appropriate for supporting the targeted reforms. It was originally intended as a series of four operations thereby providing time for the reforms to be implemented.

The macroeconomic framework for the program was broadly satisfactory. The IMF's 2012 Article IV Consultations noted Lao's strong growth performance, an appropriately tight monetary policy, broadly adequate fiscal policy, and a sound financial sector. It cautioned, nevertheless, that civil service growth could crowd out higher priority spending and that financial sector vulnerabilities could emerge from rapid credit growth (August 2012, Article IV Consultations).

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

Enable the sustainable management of increasing revenues from the natural resource sectors.

Rationale

This sub-objective was to be achieved by improving overall fiscal management, putting in place a standard fiscal policy framework for the mining and hydropower sectors, and improving the investment climate for diversification. On overall fiscal management, the program sought targets with respect to the medium term fiscal framework, budget preparation, budget execution, and international accounting and auditing standards. On building a medium term fiscal framework, the program's targets were "Macroeconomic policy is consistent with macroeconomic stability, with framework in place" and "Moderate risk of debt distress, debt legal framework clearly defined, debt management and financial analysis system (DMFAS) operational." These were partially achieved. The Government established a medium-term macro fiscal framework for 2016-20 but macroeconomic policy was not consistent with stability, as reflected in the IMF's 2016 Article IV assessment that reports a widening fiscal deficit. While the DMFAS is operational, the debt legal framework has not been enacted yet and the risk of debt distress is high (IMF). On budget preparation, the target that "Budget has been allocated to tier -2 entities level in four key service delivery ministries was partially achieved. The budget has been allocated to tier-2 level in two key service delivery ministries-- health



and education, and the Vientiane Capital Administration. On Budget execution, the target that “At least >70 % of cash balance consolidated into the TSA” was achieved at 95%, although the zero-balance account mechanism, a critical component needed to improve cash management by maintaining zero net balances at commercial banks, is not yet fully in place. On accounting and auditing, the target was that “The budget for the fiscal year ending 30 September 2015 is prepared using the new reporting format at the selected entities for pilot project and at the central level. “ It was not achieved. All in all, expected outcomes on overall fiscal management were only partially achieved.

The **fiscal policy framework for the mining and hydropower sectors** was a critical element in the program’s aim to achieve sustainable management of revenues from natural resources. Its target of “Core fiscal standard implemented in at least one case”, was not achieved. This was a significant shortcoming because the intended sector fiscal regimes remain critical for the management of revenues from natural resources, the centerpiece of this objective. Although MOF adopted a decree on the principles of standardized fiscal regime for hydro and mining sectors, specific reform proposals are yet to be discussed by the Government. Furthermore, regulations issued in 2015 covered only royalties and not taxes. Moreover, mining royalty rates remained flat and the regime regressive (ICR, p. 15).

On the **investment climate**, the program partially achieved the targets to reduce the number of days it takes to import from 46 to 28 (at 26 in 2015), the number of required documents in import and export processes from 10 to 7 (at 8 in 2015), the number of days to start a business from 93 to 60 (at 73 in 2015), and the cost of starting a business from 7.6% of GNI to 6% on GNI (at 4.9% of GNI in 2015). There is no indication in the ICR of how these efforts contributed to the economic diversification that was to contribute to reduced dependence on natural resource revenues and to increased employment.

All in all, the program achieved modest improvements in overall fiscal management, but with little or no evidence indicating a sustainable management of revenues from natural resources.

Rating
Modest

Objective 2

Objective

Deliver improved public services.

Rationale

The operations focused on public education and health services. Sustainable financing mechanisms for education (capitation grants) and health (increased access to free maternal and child care) were key to improving education and health services and outcomes. These mechanisms were to help enhance resource allocation and execution in both sectors, and strengthen linkages between financial transfers and service outputs. On **education**, the program partially achieved the target to reduce the textbook-pupil ratio from 1:18



to 1:1 (at 1:1.2), and surpassed the targets to increase the number of districts completing quality standards assessments for primary education from 0 to 30 (at 80) and to increase the number of schools that report self-assessments of education quality standards from 0 to 600 (at 2521). Nevertheless, attribution of these results is in question, as the expected financing towards those results did not fully materialize (ICR, p. 15). On **health**, the program surpassed the target to increase the share of births attended by skilled staff from 37% to 50% (at 58%).

Rating
Substantial

5. Outcome

The program's objectives were highly relevant. Relevance of design was weak towards the first objective (revenue management) and stronger towards the second objective (service delivery). With respect to efficacy, achievement of the first sub-objective of sustainable revenue management in mining and hydropower was weak due to substantial delays in implementing the triggers and the necessary interim steps to establish fiscal regimes for natural resource sectors. These delays occurred shortly after PRSO9 was approved (and resulted in the cancellation of the two subsequent operations). The second objective was met successfully. Overall, the program had significant shortcomings on relevance of design and efficacy, and the outcome is assessed as **moderately unsatisfactory**.

a. Outcome Rating

Moderately Unsatisfactory

6. Rationale for Risk to Development Outcome Rating

The risks of not maintaining the outcomes that were achieved, and of not fully realizing the outcomes that were only partially achieved remain high for two reasons. First, there is little indication that reforms will move forward. Many reforms were only partially implemented, especially in the fiscal and PFM areas, as the broader government reform program stalled. Although the PFM agenda has become of greater importance, and the policy dialogue with the Bank has been gradually restored, it is unclear whether the government will accelerate delayed reforms. Despite technical assistance from the Bank and the dialogue in 2014, there were very poor results in sustainable revenue management in the mining and hydropower sectors. The number of unmet triggers also made PRSO10 and PRSO11 unfeasible. Second, budget constraints may impair achievements in



education and health, Although the targets in these areas were met, maintaining the financing mechanisms cannot be guaranteed, given that budget financing was substantially less than planned even in FY13/14 and FY14/15. The risk posed by the macroeconomic context is high, due to the dependence on hydropower revenues (that are lower than expected) and commodity prices (copper prices declined), and on growth in China and other trading partners.

a. Risk to Development Outcome Rating
High

7. Assessment of Bank Performance

a. Quality-at-Entry

The Bank worked closely with the Lao PDR government and with other development partners within the partnership framework in preparing the PRSO series. This framework provides the main aid coordination tool, for example, with the European Union (EU) focusing on the dialogue in the social sectors, and the EU, Australia and other partners providing complementary support including technical assistance for implementation. The Bank team incorporated critical findings from analytical work in preparing this operation, especially on PFM (based on the 2010 Public Expenditure and Financial Accountability (PEFA) Assessment and the 2010 Public Expenditure Review (PER)), and prepared and appraised this series based on key principles that had contributed to success of the PRSO4-7. The PEFA and the PER had emphasized the need to address the fragmented budgeting mechanism, to continue Treasury centralization reforms, and to incorporate international accounting standards. The series also draws its key policy reforms from the 2010 Lao PDR Development Report on Natural Resource Management for Sustainable Development, which identified strengthening the management of revenues from the natural resource sectors managing volatile mining revenues, as critical to sustaining development (PD, PRSO8, p. 20).

The program was expected to have positive social and poverty impacts, as most of the poorest and vulnerable groups depended on natural resources for their livelihoods, and better management of hydro and mining projects was considered key to reducing poverty and improving social indicators. The program also expected that positive or neutral environmental impacts would result from natural resource management and diversified growth. Implementation arrangements were appropriate. A PRSO Steering Committee, chaired by the Vice Ministry of Finance, was to lead the implementation of the PRSO program. Its Secretariat was to oversee implementation and coordinate all relevant ministries and agencies. M&E design was also appropriate (Section 9.a), although it reflected a results framework that needed more specificity in some areas, as well as weak links (under PRSO8) between reforms and outcomes. Risks were well identified and mitigation measures appropriate. Macro risks included continued rapid credit growth and public over-borrowing, with a buildup of unsustainable levels of debt/contingent liabilities. To mitigate the first risk, measures included PRSO support to improve banking disclosure, strengthening of the macro framework, and increased attention to natural resources in macro management. To mitigate the second risk, the PRSO supported a stronger fiscal and debt policy framework, management and reporting. Furthermore, the series identified risks of political backsliding, reform delays, and limited capacity. The series partly mitigated these risk through recentralization of budget execution at the National Treasury and revenue administration, as well as through technical assistance and the medium term horizon of the program.



Nevertheless, an inadequate assessment of the feasibility of reforms and the pace of reforms necessary to achieve the program's objectives, particularly on fiscal regimes for natural resource sectors, was a significant shortcoming of quality-at-entry. The program's results framework could have been more specific with regard to those regimes. Furthermore, as the ICR notes (p. 13), some of the prior actions in PRSO8 were weakly linked to program outcomes (i.e., on the intended fiscal deficit).

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

The Bank team, mostly based in the country office, made the best possible effort to monitor the program, despite difficulties in obtaining data from the Borrower, and a challenging environment, where the fiscal situation was deteriorating. The team revised the results framework under PRSO9 to maintain its relevance under changing government priorities and to maintain the quality of the series. However, the program faced further difficulties soon after approval of PRSO9, including resource revenue management and investment climate reforms (ICR, p. 20). The ICR states that there was no Implementation Status and Results Report, although one should have been prepared in this case, as the time between PRSO8 and PRSO9's Board dates exceeded one year (ICR, p. 20). The team made a considerable effort to get the series back on track, through dialogue with the Borrower and by waiting to see if the PRSO10 triggers were met; however, limited progress towards the triggers prevented going forward with PRSO10.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Unsatisfactory

8. Assessment of Borrower Performance

a. Government Performance

The government worked with the Bank and other development partners in assembling the PRSO series that was closely aligned to the priorities of the NSEDP7. The government's commitment, however, weakened during implementation, especially during preparation of PRSO9 (ICR, p. 20). Several factors in government performance affected the achievement of program objectives: ministerial changes, including in MOF; excessive civil service wage increases introduced in late-2012 that made it difficult to implement reforms in fiscal and PFM, and to increase spending on health and education; the decision to not proceed with the implementation of the Treasury Management Information System (TMIS), which also affected PFM reforms in budget preparation and execution and the TSA (and the TMIS trigger); contracting a local company to implement the Lao Financial Information System (LFIS), which mirrored some of the inefficient



budget processes; and single source procurement of the National Single Window (NSW). Overall slow implementation of the broader government reform program affected fiscal and PFM reforms under the PRSO series. These factors also affected resource revenue management and investment climate reforms. Reluctance to share data on fiscal, financial and monetary developments impacted the Bank's ability to assess the adequacy of the macro framework, and factored in the deterioration of the policy dialogue with the Bank and other development partners (ICR, p.12 and 21).

Government Performance Rating

Unsatisfactory

b. Implementing Agency Performance

Implementing Agency Performance Rating

Overall Borrower Performance Rating

Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The PRSO9 M&E indicators reflected the program's objectives, and were clearly specified. The indicators were measurable and were also to be monitored under the broader government program. The baselines for the indicators were measured. Nevertheless, M&E design reflected a results framework that could have been more specific (Section 3.b).

b. M&E Implementation

Two factors adversely affected M&E implementation. First, as indicated above (Section 7.a), the results framework in PRSO8 included some outcomes and related indicators that were not supported by the prior actions and triggers in the policy matrix. Accordingly, the initial footing for M&E was not sufficiently robust. Second, although this shortcoming led to a revision of the results framework and indicators for PRSO9 preparation (Section 7.b), the slowdown in the pace of reforms from the second half of 2013 (following PRSO9 Board approval) led to a weakening of the overall engagement with the Bank and other development partners in terms of the policy dialogue and data sharing. This made it difficult to monitor and evaluate progress under the series, and to identify emerging issues, especially under the first policy area.



c. M&E Utilization

The ICR notes that M&E arrangements in Lao PDR are frequently lacking or are delinked from policy making. M&E information under the Program does not appear to have been utilized to revise policies or objectives.

M&E Quality Rating

Negligible

10. Other Issues

a. Environmental and Social Effects

No safeguard policies were triggered by the operations. The ICR does not report on any safeguards-related issues.

b. Fiduciary Compliance

The ICR does not report on any related fiduciary compliance issues.

c. Unintended impacts (Positive or Negative)

None.

d. Other

None.

11. Ratings



Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Risk to Development Outcome	Substantial	High	Uncertainty in government reforms and future budgetary allocations to health and education, and slower growth in the region.
Bank Performance	Moderately Satisfactory	Moderately Unsatisfactory	There was a significant quality-at-entry shortcoming regarding the feasibility, specificity and pace of reforms. Some actions were not robustly linked to outcomes.
Borrower Performance	Unsatisfactory	Unsatisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

The ICR offers several lessons listed below:

Clarifying the DPO instrument to all implementing agencies and having a robust coordination mechanism are important in terms of line ministries' understanding of the overall program. In this case, line ministries perceived reforms as MOF-led, which led to difficulties in implementing reforms. The limited understanding of the DPO instrument in implementing agencies resulted in weak incentives and hampered the ability of the Secretariat to coordinate activities.

Ensuring the right institutional lead is in place is key to moving reforms forward. In general, this seems to have been the case in the PRSO operations. Some areas of the operation may have stalled partly as they were implemented by one institution, while other parts of the agenda were the domain of other agencies. This factor can be overcome with appropriate dialogue and coordination with all stakeholders during program preparation.

Complementary technical assistance can support the implementation of reforms in a low capacity environment. For example, multi-donor trust fund (MDTF) contributions in the form of technical assistance



helped in achieving simplified trade and business requirements.

IEG adds the following lesson:

In designing a results framework, weak links between prior actions and the expected outcomes will impede achievement of the intended outcomes. In the fiscal area, for example, prior actions on weakly defined fiscal reforms for natural resource sectors were unlikely to achieve the intended outcome (a fiscal standard in place) within the life of the program.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is well written and candid. It has a good background section, identifies the shortcomings of the overall program and gives a balanced view of the PRSO series. The report is also candid about the weaknesses in Bank and Borrower performance, and their consequences for program implementation. However, its assessment of outcomes could have focused more on the PDO as articulated (sustainable fiscal management and public service delivery) instead of the pillars of the results framework, with a broader discussion, for example, of fiscal and debt sustainability and their relation to achievements under the four clusters.

a. Quality of ICR Rating

Substantial