

Lao PDR
AIDE MEMOIRE
August 22 to 25, 2001

Introduction

A World Bank mission¹ on the Nam Theun 2 project visited Vientiane during the period of August 22-25, 2001 and held discussions with H.E. Mr. Soukanh Mahalath, Minister of Finance, H.E. Mr. Thongloun Sisoulith, Deputy Prime Minister and President of the Committee for Planning and Cooperation, H.E. Mr. Soulivong Daravong, the Minister of Industry and Handicraft, H.E. Mr. Bountiem Phitsamay, Minister, Lao National Committee for Energy, Prime Minister's Office, H.E. Mr. Souli Nanthavong, Minister of the Prime Minister's Office and various government officials on the project. The mission also consulted with the developers and representatives of various donor agencies.

The [presentation](#) made by the mission to a meeting of government officials, and the [list of participants](#) at this meeting is attached for reference ².

The mission wishes to thank the Lao PDR government for the excellent arrangements made for its visit and for the frank and cordial manner in which the discussions have been conducted.

Main Points

The main points made by the mission are summarized below:

- The World Bank recognizes the importance of the proposed NT2 project in meeting the energy needs of the region and promoting regional cooperation in the energy sector. It appreciates the efforts made by government and the developers to develop a financially, technically and managerially sound project. But it must be made clear that the rationale for Bank involvement in the proposed project is the potential the project offers in terms of poverty alleviation and environmental protection in Lao PDR.
- Therefore, the World Bank is prepared to consider support to the project, only if it is strongly embedded in a development framework, characterized by concrete performance, that aims at poverty reduction and environmental protection.
- World Bank support would, of course, be contingent on the proper design and establishment of implementation capacity relating to safeguard policies, an area where commendable progress has already been achieved.

¹ The mission comprised of Messrs. Ian Porter, J. Shivakumar, Christopher Chamberlin, Enrique Crousillat, Rahul Raturi, Linda Schneider and Peter Stephens.

² See attachments 1 and 2.

- In addition to this, it would be important to develop greater understanding and wider support for the project among the international donor community and global and local civil society.

Actions to be taken

A series of actions need to be taken to address the issues mentioned above.

1. There is need for the Bank to carry out due diligence on the financial, technical, economic, technical and legal aspects of the private sector investment project with the cooperation of the developers and government.

2. In regard to safeguard policies, while it was recognized that the progress made by government and the developers was excellent, the EAMP needs to be improved further, particularly in respect of arrangements for the management of the northern extension, fishery and livelihood issues relating to Xe Bang Fai, the preparation of an IPDP, the public consultation process and Mekong related issues.

3. Another important issue that requires resolution relates to the design and implementation of a funding mechanism to demonstrate that the NT2 project would also directly supports the poor. Such a mechanism may initially be funded by an IDA credit and could subsequently be used to channel a portion of NT2 revenues into direct support for the poor.

4. In regard to the **key** issue of concern to the Bank -- the development framework in which the project would operate -- improvement in macro and sectoral areas is essential, since the poverty and environmental benefits of the project cannot be realized without such improvements and because progress in reforms in these areas has lagged behind in recent years. The areas that requires immediate attention, on which work is already underway, include:

- (a) The record of performance under the IMF's PRGF,
- (b) The development of a full PRSP to underpin poverty alleviation and progress in meeting program targets,
- (c) Improvements in fiscal discipline, transparency and overall public expenditure management,
- (d) The restructuring of state enterprise and state commercial banks,
- (e) Visible progress in dealing with illegal logging and protecting bio-diversity in conservation areas and securing results from village forestry initiatives,
- (f) Improvements in EDL's financial performance through tariff reform, restructuring, efficiency improvements and a better sectoral framework, and
- (g) Improvements in the performance of the Bank supported project portfolio in Lao PDR.

5. In regard to mobilization of international support, besides securing broad support among international donor agencies and the Bank's own shareholders, there is need to explore scope for direct financial support for the project, particularly from IFC, MIGA,

ADB and bilaterals. The international water issues also needs to be addressed with the Mekong riparian countries.

6. An effective communications approach covering donors, the international private sector, civil society (both local and global) and the media is required to ensure transparency and make readily available accurate information regarding the project.

Response to government queries

1. In response to government's query as to the time line for Bank support, it was made clear that Bank support would be assured only when the Bank's Board approved the project. The project could be taken to the Bank's Board only after clear progress is made on all the areas mentioned above. It was pointed out that the resolution of these issues is well within the government's control and that therefore the pace of action by government would determine the pace with which the Bank could move ahead.

2. In response to another question from government officials as to whether the Bank was now introducing new goalposts beyond what was foreseen in the Bank's letter of December 1997, it was clarified that such new goalposts reflected some changes in the standards now expected from Bank supported projects. It also resulted from the mixed performance of the Lao PDR government in regard to economic matters during the past few years, which has resulted in the accumulation of a set of overdue reforms.

Next Steps

The World Bank mission indicated that it would be prepared to send the following missions between September and December 2001 to support the government in addressing the agenda and work program described above.

1. A NT2 mission to discuss and review the economic, financial, legal and technical aspects of the proposed project.
2. An NT2 Safeguards mission to advise on necessary EAMP revisions and updates.
3. Forestry mission to continue preparation of a forestry project.
4. Energy mission to supervise the ongoing project and discuss policy and institutional issues.
5. A mission to assess ongoing work on the Social Fund project preparation and make recommendations for the design of the project and its possible linkage to NT2 revenues.
6. An economic mission to support work by government on the preparation of the PRSP, support to the further development of the structural adjustment credit, together with ADB (covering the financial sector, SOE and public sector reform), discuss capacity building in the financial and public sectors, and liaise with IMF on the progress relating to the PRGF.