### Project Information Document (PID)

#### Appraisal Stage

<table>
<thead>
<tr>
<th><strong>Project Name</strong></th>
<th>Road Sector Project</th>
</tr>
</thead>
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<tr>
<td><strong>Region</strong></td>
<td>East Asia and Pacific</td>
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<tr>
<td><strong>Sector</strong></td>
<td>Roads and Highways</td>
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<tr>
<td><strong>Project ID</strong></td>
<td>P102398</td>
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<tr>
<td><strong>Borrower(s)</strong></td>
<td>Government of Lao PDR</td>
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<tr>
<td><strong>Implementing Agency</strong></td>
<td>Ministry of Public Works and Transport&lt;br&gt;Lanexang Avenue&lt;br&gt;P.O. Box 4467&lt;br&gt;Vientiane&lt;br&gt;Loa People’s Democratic Republic&lt;br&gt;Tel: (856-21) 412-741  Fax: NA&lt;br&gt;<a href="mailto:sommad@laotel.com">sommad@laotel.com</a></td>
</tr>
<tr>
<td><strong>Environment Category</strong></td>
<td>[ ] A  [X] B  [ ] C  [ ] FI  [ ] TBD (to be determined)</td>
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<td><strong>Date PID Prepared</strong></td>
<td>December 7, 2009</td>
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<td><strong>Date of Appraisal Authorization</strong></td>
<td>December 17, 2009</td>
</tr>
<tr>
<td><strong>Date of Board Approval</strong></td>
<td>March 25, 2009</td>
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### 1. Country and Sector Background

1. Lao People’s Democratic Republic (Lao PDR) has a population of 5.7 million and a land area of 236,800 km², with a population density of 24 persons/km²—one of the lowest in the region—and 65% of the population living in the rural areas. While the country is mostly mountainous and does not have access to the sea, it is located centrally within the Greater Mekong Subregion (GMS)—which consists of Cambodia, Lao PDR, Myanmar, Thailand, Vietnam, and Yunnan and Guangxi Provinces of China—and thus is directly land-linked with the Subregion’s population of almost 300 million. Lao PDR has achieved steady economic growth in recent years, but remains one of the world’s poorest countries. Its per capita gross national income was US$580 in 2007. The incidence of poverty varies by geographic areas, and rural poverty at 38 percent is far higher than urban poverty at 20 percent. Empirical evidence from recent studies indicates a strong correlation between access to basic infrastructure services and the incidence of poverty.

2. Road is the predominant mode of transportation in Lao PDR. The road network carries 90 percent of passenger traffic (passenger-km) and 61 percent of freight traffic (ton-km). The Mekong River and its tributaries carry the remaining share of freight (39%) along with an 8 percent share of passenger traffic (representing a doubling of the share it had in 1990). Although the volume of airfreight is negligible (0.22%), domestic-passenger air transport has reached 2 percent of the demand, and plays a crucial role in linking urban areas and otherwise inaccessible parts of the country. A 3.5 km rail link, extending from the Thailand rail network to Vientiane, was open to traffic in 2009.

3. The road system extends over 35,500 km. The national road network comprises approximately 6,900 km of roads, most of which have either a sealed (56 percent) or gravel (30 percent) surface. The network is mostly in an acceptable condition (80 percent of paved roads are classified as good or fair) and is generally constructed to an appropriate standard for the volume and nature of the traffic carried. However, the provincial roads (totaling 5,500 km) and district and rural roads (almost 18,000 km) are mostly gravel or earth roads and vulnerable to heavy rains and floods.
4. The Government of Lao PDR (GOL)’s Sixth National Socio-Economic Development Plan (NSEDP 2006-2010) defines priorities and key actions for Lao PDR to realize its economic and social development potential. The main objective for infrastructure development in the NSEDP is to ensure that an efficient transport system creates favorable conditions for sustainable growth and poverty reduction, as well as regional integration. Regarding the latter, the country’s transport network is integral to the GMS transport network and associated economic corridors. In addition, the Government’s commitment to eradicating poverty has resulted in rural roads being identified as a priority focus in order to provide year-round access to basic services, markets, and new opportunities for the poorest districts.

5. Guided by the NSDEP, the Ministry of Public Works and Transport (MPWT) developed a National Transport Strategic Plan (NTSP) for 2009-2015 with technical assistance from the World Bank, Swedish International Development Cooperation Agency (SIDA) and Australian Agency for International Development (AusAID), as a basis for aligning government and donor resources to support the identified sector priority investments. Importantly, it establishes procedures and methods for the prioritization of investments, as well as estimates of the indicative costs and available resources. As the road sector dominates the transport sector, the NTSP emphasizes the development of road infrastructure and focuses on measures for maintaining and preserving the existing road networks, and improving rural accessibility by completing provincial and district linkages with all-weather road access. The NTSP – which will be updated from time to time – provides a prioritized rolling investment and maintenance program for the road sector based on the application of a Unified Road Management Framework (URMF). The URMF extends the existing Road Management System (RMS) by applying the Provincial Roads Management Maintenance System (PRoMMS) data such that an optimized program be developed from all road classifications. The combined use of these two systems facilitates the establishment of overall sector priorities and funding allocations. The NTSP serves as an effective planning foundation to ensure that the Government is able to lead the sector development and coordinate all available resources in an efficient manner for the benefit of the country.

6. Despite continued improvement, the road network is not yet adequate to connect all parts of the country and meet the growing demand. Only 53 percent of the national roads and 3 percent of the local roads are paved. The network is especially vulnerable to rainy seasons and floods. Landslides, embankment erosion, road flooding, and seasonal closures of roads occur frequently. More than 10 percent of all district centers and over 40 percent of the villages do not have year-round road access. On September 29, 2009, Typhoon Ketsana swept across the southern part of Lao PDR, causing enormous damages and loses in five provinces (Attapeu, Sekong, Saravanh, Champasack, and Savannakhet). A Post-Ketsana Damage and Loss Assessment estimates that about 1,842 km of roads and a number of bridges were severely or partially damaged, and the damages amount to US$13 million. If not restored soon, the damages would continue to cause economic loses mainly in terms of higher vehicle operating costs and longer travel time, further hampering the recovery of the severely affected local economy.

7. The country’s road network has other major deficiencies. Growing traffic and faster vehicle speeds on the main roads have caused road accidents to increase in recent years. The country’s large land area, low population density, and mostly hilly and mountainous topography require extensive road network to connect the people and all parts of the country, resulting in a relatively heavy financial burden for road provision and maintenance. GOL aspires to continue the effort to develop the GMS transport links to neighboring countries and to improve the national road network through upgrading and paving, while making new effort to preserve and improve the provincial roads and to expand rural basic access to more villages.

8. Financing will continue to be a major constraint for the GOL to achieve its strategic objectives in the road sector. Road construction and maintenance are funded mainly from three sources: external assistance, central and provincial government budgets, and a dedicated Road Maintenance Fund (RMF).
Since 1990, multilateral and bilateral donors together have contributed almost 80 percent of the public expenditures for roads, but in recent years funding from domestic sources—especially direct user charges—has been increasing steadily. The RMF was established in 2001 with revenues mainly from a fuel levy. As a result of a growing vehicle fleet and fuel levy increases (now at 300 kip per liter), the RMF revenues have grown to US$23 million a year, and could meet 40 percent of the country’s annual road maintenance needs. A new funding source to the sector is the revenues that the GOL will soon receive from electric power trade from the Nam Thuen 2 Hydropower Project, part of which will be spent for poverty reduction-focused basic rural access improvement activities. Despite growing domestic resources, donor financial support to both capital investment and maintenance remains crucial but also limited.

9. To more effectively achieve the Government’s objectives, the MPWT is pioneering processes to harmonize aid and align available resources to support the sector priorities identified in the NTSP. Over the last three decades and with assistance from donors, the MPWT has made significant progress in strengthening its technical and managerial capacity, especially for the implementation of donor-funded investment projects. In 2000, the Ministry agreed with the donors to harmonize the standard bidding documents for road works, adopt a single financial management system, and shift the responsibilities for the implementation of donor-funded projects—including procurement, financial management, disbursement, and reporting—from the Project Implementation Units (PIU) to the relevant MPWT executing departments and divisions as well as the Provincial Departments of Public Works and Transport (DPWTs). This laid a solid foundation for the implementation of the Road Maintenance Program (RMP), which has been jointly funded by the RMF, IDA, SIDA, ADB and Japan (through a PHRD Grant).

10. The 2005 Paris Declaration for Aid Effectiveness and the 2008 Accra Agenda for Action have significantly influenced the way of development cooperation in Lao PDR. The GOL and a number of development partners active in Lao PDR signed the Vientiane Declaration on Aid Effectiveness in December 2006. Through the Vientiane Declaration, the GOL and development partners agreed to adhere and commit to the following principles: (i) Government ownership—Government exercises effective leadership and the development policies, strategies, and coordinates development actions; (ii) Alignment—Partners align with the Government’s strategies and use strengthened Government regulations and procedures; (iii) Harmonization and Simplification—Partners’ actions are more harmonized, transparent and collectively effective; (iv) Managing for Results—Government and partners work together to manage resources and improve decision making for results; and (v) Mutual Accountability—Both government and partners are accountable for results. Guided by the Vientiane Declaration and as an initial step to move toward sector-wide approach in the transport sector, the MPWT and development partners have forged partnership through the Government-Donor Infrastructure Sector Working Group (ISWG). The MPWT has also taken actions to strengthen its existing systems, such as environmental and social safeguards for the road sector through the preparation and adoption of an Environmental and Social Operations Manual (ESOM). Moreover, the MPWT has adopted a rigorous planning and prioritization process in sector strategic planning (through the application of the URMF), and initiated actions to establish an internal control system and introduce the practice of internal audit. The MPWT is poised to strengthen its sector management capacity so that it will be able to take full ownership of the development and implementation of sector policies, strategies, and programs.

2. Objectives

11. The project development objective is to improve road services on two main national corridors and the provincial road network, to recover the conditions of Typhoon Ketsana damaged roads, and to establish a contingency fund for quick disaster response in the road sector. The achievement of the objective will be measured by the following key outcome indicators by the end of the project:

- Reduced travel time on upgraded roads;
• Increased number of people connected by paved roads;
• Increased percentage of provincial road network in good and/or fair condition;
• Recovered conditions of Typhoon Ketsana damaged roads; and
• An emergency contingency fund established for quick restoration of passability and safety of disaster affected national and provincial roads.

3. Rationale for Bank Involvement

12. Lao PDR is a low-income country with enormous need for external financing of its development programs. The Bank has been one of the key donors in the transport sector for two decades. The Bank has also brought extensive global sector knowledge and experiences to the sector through lending operations and support to institutional capacity development. The project will capitalize on the institutional outcomes achieved from previous operations, especially the Bank-led, multi-donor funded RMP, and add value through financing crucial physical investment, and supporting the strategic planning, design, preparation, implementation, and management of road infrastructure in an environmentally and socially responsible manner. Built on the MPWT’s continuing effort in aid harmonization, the project will support the pilot use of country system for environmental assessment, the establishment of internal audit function, the strengthening of fiduciary management systems especially at the provincial level, and the establishment of an emergency contingency fund for rapid response to disasters. All these are designed as relevant supporting functions to improve the effectiveness of physical investments and delivery of road services to the people.

4. Description

13. Component A: Road Network Improvement and Preservation (Total US$31.93 million; of which GOL’s Road Maintenance Fund (RMF) US$8.00 million, GOL contribution of US$6.38 million and IDA US$17.55 million). This component will finance physical works for the upgrading of two priority national road links, the periodic maintenance of the provincial road network, and road safety improvements. All these subcomponents are selected from the priority list of investments identified in the NTSP. The two national roads to be upgraded are: (a) NR 1B from Pak Nam Noy to Ban Yo, Phongsali Province, 109 km; and (b) NR 6A from Sop Bao to Ban Dan, Houaphan Province, 62 km. These are two of the several remaining primary national road sections without pavement. The provincial roads to be included under the project are identified from the MPWT’s Annual Works Programs (AWP).

14. Component B: Institutional Strengthening (Total US$2.45 million; of which PHRD US$1.00 million and IDA US$1.45 million). The component aims to provide technical assistance to both MPWT and the Provincial DPWTs in the areas of strategic planning and management, country system for environmental safeguards, fiduciary management and internal controls.

15. Component C: Disaster Recovery and Contingency (Total US$8.80 million from IDA). The component aims to support quick recovery of about 1,100 km of Typhoon Ketsana damaged roads in the five southern provinces (Attapeu, Sekong, Saravan, Champasack and Savannakhet) and establishment of an emergency contingency fund for quick response to the impacts of natural disasters on the road network. The contingency fund would be disbursed only after a national emergency has occurred, or is about to occur, for emergency civil works and construction materials needed to ensure the passability and safety of the affected national and provincial road links. It is anticipated that funds may be reallocated to this window from other components to meet emergency road repair needs following natural disaster, and if required, additional financing may be sought to restore funding to the other components.
5. Financing

Source: ($m.)

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<td>BORROWER/RECIPIENT</td>
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<td>International Development Association (IDA)</td>
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<td><strong>Total</strong></td>
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6. Implementation

16. The MPWT is the Project Implementing Agency and will be responsible for overall technical supervision, execution and management of the project. Similar to the RMP-2, the project will be implemented using the existing MPWT organizational structure and institutional arrangements. The project will involve the Department of Planning and Cooperation (DPC) for strategic planning, planning capacity building and monitoring, Department of Roads (DOR) for road maintenance and improvement, the Department of Transport (DOT) for road safety improvement, Department of Personnel (DOP) for institutional development and training, Department of Inspection (DOI) for the internal control system, Cabinet Office for public disclosure, and the provincial DPWTs for data collection, local road planning, civil works procurement and contract management. Strategic review and oversight of the Project will be provided by the MPWT Management led by the Minister or a designated high-ranking official. The Director General of DPC (who also chairs the Secretariat for Aid Harmonization) or a designated Deputy Director General of DPC, will manage and coordinate the project implementation and monitoring at the working level.

7. Sustainability

17. According to the experience of donor-funded projects in the Lao transport sector, the project outcomes in terms of improved road services and lower transport costs could be sustainable if the preservation and maintenance of the infrastructure assets are adequate. GOL has established a good track record in road maintenance through the implementation of RMP over the last eight years, and has implemented step-by-step increases of the fuel levy for the RMF. The RMF has grown steadily to the revenue level of US$23 million this year. With the continuing and improved performance of the RMP, which will continue to be supported under a component of the Project, and with the MPWT’s commitment to further increase the fuel levy to a more sustainable level, there is a certain degree of assurance for the sustainability of road infrastructure services to be provided under the Project.

18. This Project also focuses on the sustainability of institutional capacity development. One effective way of achieving this is to help the government take full responsibilities for strategic planning, program formulation and project implementation. The GOL and MPWT’s increased commitment to aid effectiveness provides assurance to a certain extent, but this must be supported by concrete actions that follow the principles of aid harmonization and effectiveness. This Project will provide technical assistance to such actions for the strengthening of the MPWT’s relevant systems with respect to strategic planning, environmental safeguards and internal controls.

8. Lessons Learned from Past Operations in the Country/Sector

19. Past experiences of donor-funded road projects in Lao PDR indicate that these individual projects have brought real benefits to the people and economy. However, physical investments funded under these projects were not identified systematically through a rigorous planning and prioritization process. It was recognized in recent years that better aid effectiveness could be achieved by aligning donor and government resources to address the sector priorities identified and agreed through a rigorous sector strategic planning process. As part of the project preparation, the IDA team and other donors collaborated...
to assist the MPWT to formulate a NTSP using a planning and prioritization process supported by the URMF. The project components and subcomponents included in this project are identified and defined from the NTSP. It is expected that through the implementation of the physical investments and the supporting institutional functions, the project would help strengthen the MPWT's capacity for strategic planning, prioritization and management of road sector programs.

20. The MPWT has implemented donor-funded projects through its departments and divisions within the organizational internal structure instead of project implementation units (PIUs) for the past nine years. While the system has been working, the experiences from the Provincial Infrastructure Project (PIP), Road Maintenance Program Phase 1 (RMP-1) and Phase 2 (RMP-2), and other donor-funded projects indicate that the internal control functions are weak, leading to poor quality and poor accountability of civil works. Through a series of defined measure for strengthening internal controls and accountability, this project will support the development of internal control functions including an internal audit function by following international good practices.

21. The project will support a number of relatively small consultant services, instead of large ones, mainly because the IDA-funded RMP-1 and RMP-2 and other donor-funded projects in recent years have supported a range of major consultancies involving international consulting firms and covering almost all aspects of the sector management. It is time to fill the gaps and consolidate the institutional capacity with the Ministry staff taking the lead and ownership and the international consultants providing customized support. The experience of RMP-2 implementation over the last few years also proves that it is more effective to have highly focused individual consultants to assist the crucial areas of the sector management.

22. The road network in Lao PDR is vulnerable to heavy rains and floods during monsoon seasons, which frequently cause landslides, embankment erosion, and damages on and closure of road sections and bridges. The MPWT and the provincial DPWTs have established arrangements to mobilize private contractors and force account for emergency repairs to ensure passability and safety. For example, the mountainous provinces sign contracts with private contractors every year for expected emergency works with pre-negotiated unit prices on a specific road or road section, and the contractors would mobilize to carry emergency works under the technical supervision and monitoring of the DPWT. However, the MPWT and DPWTs always struggle to mobilize financing which results in unnecessary delays and consequent adverse effects on the people and communities. To address this need, the project will support an emergency contingent fund which would enable fast disbursement for emergency works and procurement of construction materials.
9. Safeguard Policies (including public consultation)

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<th>No</th>
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10. List of Factual Technical Documents


11. Contact point

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¹ Environmental and Social Safeguard Issues in Bank Supported Projects (OP/BP 4.00)
* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas