



# The World Bank in Laos

January-February 2009

Issue no 9

## Annette Dixon: First Impressions

World Bank Country Director for Southeast Asia visits Laos

**W**orld Bank Country Director for Southeast Asia, Ms. Annette Dixon, visited Laos from 18-25 January 2009 for the first time in her new role. A field trip to Nam Theun 2 project (NT2), meetings with the Prime Minister of Laos and various ministers were scheduled to complete her first visit to Laos.

During her first round of meetings with the GoL (Government of Lao PDR), Ms. Dixon highlighted various areas that require continued focus. The implications of the Global Financial Crisis (FC) on Laos; NT2 Revenue Management and sector specific issues were key highlights on the agenda.

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### Implications of Global Financial Crisis on Laos

At her meeting with the Prime Minister, H.E. Mr. Bouasone Bouphavanh, major issues were discussed. According to Ms. Dixon the FC—different from the Asian Crisis as it is worse and spreading more rapidly—is unfavorable to Laos' growth and affecting various sectors in Laos. Reduction of global industrial production by over 20% and reduction of mineral prices will affect Laos directly.

The Prime Minister indicated that Laos faces two challenges: *FC is affecting Laos and as the result estimated that the Gross Domestic Product (GDP) might decrease by 2% this year. Apart from the FC, Laos has been affected by the flooding in 2008 costing 80 million USD in disaster recovery (livelihood, infrastructure, and productivity of people).*



Meeting with Prime Minister, H.E. Mr. Bouasone Bouphavanh

H.E. Mr. Soulivong Daravong (Minister of Energy and Mines) stated: *During the FC, GoL is pushing hard for more investments on infrastructure sector and encouraging more private sector investments so that the country is prepared, competitive and well positioned.*

H.E. Mr. Sinlavong Khoutphaythoune (Minister of Planning and Investment) said that: *The World Bank's support is crucial for Laos to overcome the financial crisis.*

### GoL measures to mitigate FC impacts

The Prime Minister indicated the following measures to mitigate FC impacts; *encourage and educate people to take ownership of the country's development and be prepared to go through the crisis; collectively working with private sector to seek solutions and to mitigate the impacts of the FC; ensure that the investment climate is favorable to attract more quality investors; put in place policy to help people*

*affected by flood; work hard to mobilize funds and investments internally and externally to generate employment opportunities; seek help from International Financial Institutions and donors to address the financial crisis.*

H.E. Mr. Somdy Douangdy (Minister of Finance) mentioned: *We are urgently looking for other funding resources to compensate the loss of revenue caused by the FC. The Ministry of finance is seeking the World Bank and other donors for financial support through budget support programs such as PRSO or ODA<sup>1</sup> in order to stimulate the economy. GoL treats the FC as an important issue and has assigned each DPM to work closely with line ministries to address this issue.*

**The World Bank will continue to provide assistance to address the financial Crisis, and if needed will mobilize additional financial and technical resources. >>**

<sup>1</sup> More information on PRSO & ODA; [www.worldbank.org/laos](http://www.worldbank.org/laos)

<sup>2</sup> More information on IDA on page 3

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### NT2 & Revenue management

The relationship between the World Bank and GoL has strengthened more over the years, according to the Minister of Finance.

A significant factor contributing to this relationship is the preparation and implementation of Nam Theun 2 project which has increased the opportunity of enhancing understanding between the World Bank and GoL staff. NT2 contributes to the social development of the country, but also generates a good business environment and boosts the interest of investors.

NT2 has set a good benchmark for technical, social and environmental standard. Hence, this project sets a high standard for future quality

investments and is a big source of revenue.

**Revenue Management** – The Prime Minister indicated: *GoL appreciates the World Bank's advice on NT2 revenue management and will develop detailed expenditure plans.*

Some sectors for GoL to consider as priority include: mother and child health; rural development; education and infrastructure. GoL has expressed its commitment to increase expenditure in some sectors. There is also a commitment from GoL to spend more on the health sector and put in place programs during the crisis. This is a good opportunity to focus on priority sectors and the World Bank is ready to work with GoL to identify priority programs. ■



## NT2

## SITE VISIT



The World Bank Country Director for Southeast Asia Ms. Annette Dixon visited the NT2 project from January 19-20. NT2 was the first project that Ms. Dixon visited on her first trip to Lao PDR where she learned more about three main components of the project, namely the resettlement, the downstream area, and the watershed area. She also visited the physical construction of the dam including the reservoir, the powerhouse, and the downstream channel.

While examining the physical component of NT2, Ms. Dixon also took the opportunity to hear about the lives of the villagers affected by the project. On the first day of the trip, she visited Nongbouakham, a resettlement village, where she interacted with health personnel and learned about health services and situation in the village. Ms. Dixon also had the opportunity to meet with the downstream villagers of Mahaxay district and observed one of the livelihood programs. ■

## INTRODUCING...

Ms. Annette Dixon, a New Zealand national, joined the World Bank in March 1999. Since then she has worked across countries of Europe and Central Asia in various positions and has been Country Director for Central Asia since February 2006.

In December 2008, Ms. Dixon enters the position of Country Director for Southeast Asia (covering Cambodia, Lao, Malaysia, Thailand, and the Greater Mekong Sub-Region) and Representative in Bangkok for Myanmar in the East Asia and Pacific Vice Presidency (EAP).

Ms. Dixon brought to the Bank significant social policy and management experience, gained during her service in the Government of New Zealand,

where she was Chief Executive of the Ministry of Youth Affairs. She also served as General Manager, Sector Policy, and Deputy Director-General in the Ministry of Health; Director of Health Policy, Department of the Prime Minister; and Manager, Policy Division, of the Ministry of Women's Affairs. Prior to becoming a senior public servant, Ms. Dixon worked for ten years with non-governmental organizations.

Ms. Dixon holds a Master of Public Policy in Politics, Economics, and Law from Victoria University, Wellington, New Zealand. She was also awarded the Harkness Fellowship, which she undertook at The George Washington University in 1994/95. <<



Ms. Dixon visits NT2

## WORLD BANK EVENTS

**March 02:** Signing of two agreements:

- ◆ SUFORD Additional Financing (Sustainable Forestry for Rural Development)
- ◆ Rice Productivity Improvement Project

**March 9:** Signing of "Public Finance Modernization and Governance Programme in Lao PDR"

**Mid March:** Civil Society Fund – selection process



## Q&A

### Ms. Annette Dixon World Bank Country Director for Southeast Asia



#### What is your impression on your first visit to Laos in general?

Laos is a country that has tremendous natural beauty and many assets and opportunities. It has abundant resources and the challenge for Laos is to use those resources for the benefit of the whole population and for future generations. At the same time Laos is a poor country and there's much to be done. For the World Bank this is a high priority country. We have a very strong relationship with the government and many opportunities to help the government make the right policy choices and to use the resources wisely for the benefit of the population.

#### What are your first priorities for Laos in your new role as Country Director?

There are two priorities that are very evident to me at the moment. The first of course is to help the government do whatever it can to mitigate the impacts of the Global Financial Crisis. Laos is a country which is very exposed to the global shocks and we need to work with the government to ensure that in the short-term we do as much as possible to reduce the impacts on the most poor and vulnerable. Another priority is the Nam Theun 2 project (NT2). This is a critical time for NT2 because it's the last year before the project starts production. NT2 revenues will start flowing this year and we will work with the government to make sure the revenues are used for the best possible outcomes. These revenues are coming on stream at a time when the global financial crisis is reducing the government budget. We have been working on putting in place public financial management reforms which will strengthen the overall capacity of the government to manage resources wisely. There are a lot of things to be done in Laos and at a time of great risk and great opportunity we need to be focused.

#### From your past experience as Country Director in the Central Asia Region, what would be applicable to Laos? In what ways?

I've come from a region that was also rich in natural resources. I was Central Asia Country Director for three years. That time I saw the government in Kazakhstan dealt with a huge oil boom. They had to focus on using this oil boom to diversify the sources of growth and to ensure that the benefits from the oil remains for future generations. This is particularly relevant to the situation in Laos where you have mineral resources and also hydropower projects coming on stream. Of course in my previous job I also looked after five different countries and a very diversified group. In my new job I have the same situation. I have two IBRD<sup>1</sup> countries which help the bank get knowledge at middle-income countries. These countries are really looking behind global expertise and knowledge. Add two IDA<sup>2</sup> countries and the challenge of working in Myanmar where the bank doesn't provide direct assistance, but does support the roles of other donors and developing partners. Perhaps most importantly, like Central Asia, the Greater Mekong Sub-region shares many resources (especially water) and the countries need to cooperate to So it's a little bit similar in the sense that I had a similar mix in my previous job.

#### What opportunities are there for the World Bank to expand or strengthen its operation in Laos to support the Government of Laos in achieving its 2020 goal of graduating from least developed country status?

Laos has already been reforming, so we do have the opportunity to increase IDA-resources. But most importantly, IDA is playing a critical role in mobilizing other donors to bring resources to Laos.

We have SWAps<sup>3</sup> (Sector Wide Approaches) in place or under development and there's a lot more we can do to bring additional resources here -both through budget support and investment operations. We have good experience of pooling our funds with other donors and bringing additional trust funds with IDA to help the government move the development of the economy in the society pool.

#### How about the challenges of working in Laos in general?

So far I haven't seen too many challenges. I have only seen wonderful opportunities. There is a lot to do and we have a huge agenda. If we have a challenge it's because we have to make a trade-off. Our resources are less than what needs to be done, so we have to make choices and that's probably the hardest thing.

#### *"Laos is a country that has tremendous natural beauty and many assets and opportunities"*

We have to decide where our money can be best placed to get the best outcome for the country as a whole.

#### Any advice for the country office in Laos, on working with the government and developing counterparts? What are your expectations from the Lao Country office?

I think not just for the office but for the whole country team. One thing that is really important is that the World bank has a lot to offer and we have lots of knowledge. We are very passionate and eager to help, but we also need to remember that we have a lot to learn from our counterparts of the country, the government, the development partners, the NGO's and from the communities that we interact with directly. I hope that we can be open to learning. At the same time compiling all the knowledge that we have and knowing we can be helpful. ■

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**IBRD** - 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. IBRD and IDA share the same staff and headquarters and evaluate projects with the same rigorous standards.

**IDA** - is The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living conditions.

**SWAps** - enable donors to better align their assistance resources to support the Government-owned development programs. Key elements of the SWAps include: government ownership and leadership; partnerships with development partners; agreed sector policy framework/ strategies based on shared vision and priorities; common sector program/ expenditure framework; coordination /alignment of resources; and harmonized implementation mechanisms.



## World Bank Economic Update

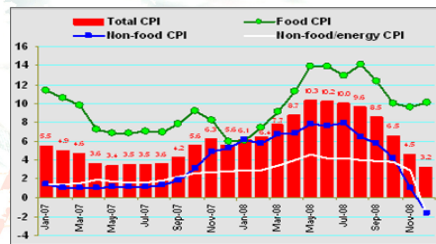


*"The Government of Lao PDR has achieved its revenue target for the third consecutive year"*

The Lao PDR economy continues to grow, but at a relatively slower pace as the impacts of the global financial turmoil are starting to be felt.

### GROWTH

**The Lao PDR Gross Domestic Product (GDP) growth is expected to slow-down (about 7% in 2008 and projected at 5-6% in 2009) as the impacts of the global financial turmoil are starting to be felt.** However, growth remains fairly strong and still driven by the ongoing hydropower projects as well as agro processing industries, construction and other services. In addition to domestic consumption, medium-term growth will be sensitive to changes in global commodity prices (mainly metals and agriculture) as well as to demand and investment from neighboring countries (especially Thailand, China and Vietnam).



Inflation in Lao PDR. Source: WB Monthly Economic Update January 28, 2009.

**GOL'S REVENUE PERFORMANCE**  
**Government Of Lao PDR (GoL) revenue policy and administration reforms, as well as sizable resource revenues, have resulted in strong revenue performance and in achieving the deficit target.** Based on preliminary estimates, revenue collection has slightly exceeded its targets in FY2007/08 for a third year in a row. Revenue collection (excluding grants) has risen from 14

percent of GDP in FY2006/07 to about 14.9 percent of GDP in FY2007/08. Strong revenue performance has helped maintain the fiscal deficit at below 3 percent during the last two fiscal years. Resource revenues have increased from 2.3 percent of GDP in FY2006/07 to about 3.0 percent of GDP in FY2007/08. The Lao pace due to high prices of fuel and other investment imports in the first three quarters of the year. Gross international reserves increased from US\$539 million at end-2007 to about US\$623 million (or equivalent to about 5 months of non-resource imports) by November 2008, due to increased private and official inflows, but this growth is expected to slow down due to the financial crisis repercussions. At the same time, broad money (M2)<sup>1</sup> grew by 13 percent by November 2008 compared to December 2007 and banking sector credit increased by 74 percent during the same period. This rapid credit growth poses a severe risk of new Non-Performing Loans (NPLs) and liquidity problems, especially for Lao Development Bank (LDB) and Agriculture Promotion Bank (APB).

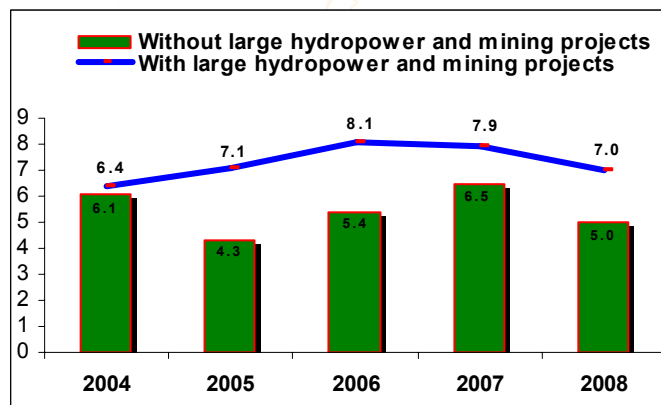
### MOVING FORWARD

**The economy is facing a number of challenges in dealing with the impacts of the global financial crisis.** These feed through a projected decline in foreign direct investment (FDI), commodity prices, potential private sector credit constraints, and declining exports. The projected reduction in fiscal revenues (from reduced resource revenues, import taxes and other export revenues) will limit Government's ability to conduct fiscal policy, at the time when a fiscal stimulus may be most needed. ■

<sup>1</sup> M2 is the total amount of money available in an economy at a particular point in time. Including physical currency in circulation, demand deposits, time deposits, savings deposits, and non-institutional money-market funds.

### References & more information

- Lao Economic Monitor (LEM) November 2008
- World Bank Monthly Economic Update 28/01/2009
- The Lao PDR Economic Monitor is available on the World Bank's website: [www.worldbank.org/lao](http://www.worldbank.org/lao).



Lao PDR Gross Domestic Product (GDP) growth. Source: World Bank Monthly Economic Update January 28, 2009.

### INFLATION

**Lao PDR macroeconomic situation remained strong in 2008 with the headline inflation declining to 3.2% in Dec 2008 (averaged annual inflation of 7.6% in 2008) and continues to be low in 2009.** After peaking at 10.3 percent in May 2008, the year-on-year inflation rate dropped precipitously to 2.4 percent in January 2009, due to sharp decline in oil and food prices. Lower fuel prices brought down the cost of transportation, construction materials and other products, leading to further decline in core inflation.

### EXCHANGE RATE

The kip nominal exchange rates remained strong and fairly stable against both the US dollar and Thai baht during the past few months. The exchange rate level as of end-January 2009 is kip 8400 per 1 US\$ and kip 243 per 1 baht.

GoL's recurrent spending for key priority sectors, especially education and health has also risen while capital expenditure declined. External public debt declined to 60 percent of GDP, but remains elevated. The external public and publicly guaranteed debt (in Net Present Value terms) as a percentage of GDP also remains high but has been declining from 46 percent in 2007 to about 38 percent by end-2008.

### EXTERNAL BALANCE

**The overall external balance was in surplus as capital inflows continued to balance the large current account deficit (of above 15 percent of GDP).**

The non-resource current account balanced with deficit of less than 10 percent of GDP. Although global commodity prices have been falling fast in the recent months, Lao exports overall in 2008 were higher than in 2007 by about 20 percent (in nominal terms), driven largely by mining and other non-resource sectors. Imports are also expected to grow at a simi-



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