



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 03/15/2023 | Report No: ESRSC03306



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Lao People's Democratic Republic	EAST ASIA AND PACIFIC	P179016	
Project Name	Lao PDR Public Financial Management Reform Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Governance	Investment Project Financing		6/19/2023
Borrower(s)	Implementing Agency(ies)		
Ministry of Finance of Lao PDR	Ministry of Home Affairs		

Proposed Development Objective

The development objective is to support the Government of Lao PDR to improve the management of its public financial and human resources

Financing (in USD Million)	Amount
Total Project Cost	3.00

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The proposed project is an integral part of the Bank’s overall support to the MoF on PFM reforms. The project is part of the 3rd PFM Reform Program implemented by the Bank and funded by DFAT Australia and the EU. This Program is a continuation of the current PFM Reform Program (P167660 and P167661), which started supporting the MoF to implement its Public Finance Development Strategy 2025 and Vision 2030. As is the case with the current 2nd PFM Program, the 3rd PFM Program will be executed by two complementary instruments, with the same component structure The first one is a Bank-executed Programmatic Advisory Services and Analytics (PASA, P179015) which will provide technical support and advisory services leveraging the World Bank’s technical and international expertise. The

Public Disclosure



second in a Recipient-executed trust fund (RETF, this project), which will focus on strengthening local implementation capacity. This will include support for GoL’s actions for policy implementation through national and international consultants to enhance implementation capacity and through training and dissemination events to increase knowledge and facilitate decision making on the reform processes. The combination of a BETF and an RETF has worked very well during the implementation of the current 2nd PFM Program. The two instruments will be embedded under the Financial Management Umbrella TF at the Governance Global Practice. The two instruments are implemented in parallel with an ongoing investment project- the Enhancing ICT through PFM and Skills Project (E-FITS, P167534)- focused on supporting the MoF to implement several core PFM systems. They will also inform the design and support the implementation of a proposed follow-on project to E-FITS included in the Bank’s new CPF for Lao PDR 2022-2026.

- The project development objective will be achieved through five components:
- Component 1: Improving Budget Preparation and Public Expenditure Management
 - Component 2: Enhancing Domestic Revenue Mobilization
 - Component 3: Improving Public Procurement
 - Component 4: Modernizing Human Resources Management in the Civil Service
 - Component 5: Project implementation, analytics and just-in-time support

D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

This project will be implemented nationwide, with meetings and trainings organized in the provinces. The project has no physical footprint or land acquisition and will not construct any physical structures or finance any external modifications of any facilities, since the project will work through existing government institutional structures to achieve its goal.

Lao PDR is culturally diverse with 50 ethnic groups. Cities in Lao PDR are small in population, with only the capital city Vientiane having a population of more than 100,000 people and few high-rise buildings. City centers are not very densely built up and have wide peri-urban areas around them. The total population of Laos is 7.3 million people in 2020. Besides the urban-rural divide, because the country is geographically long , there is also often a divide into 3 areas, North, Central and South.

Poverty remains high among ethno-linguistic minority households and households headed by people with lower levels of education. Nearly 35 percent of those living in households headed by someone with no formal education are poor, compared to just 3 percent in households headed by those with at least a completed upper secondary education. While poverty tends to be higher among minority ethno-linguistic groups, in recent years, the Hmong-lumien group fell further behind due to lagging farm productivity. The incidence of poverty has become highest among Hmong-lumien ethnic groups at 38.4 percent, followed by the Mon-Khmer (32.7 %) and the Sino-Tibetan (18.1 %). Hmong-lumien ethnic groups constitute 19 percent of the poor, despite making up less than 10 percent of the population.

Climate mitigation and adaptation are priorities for the Government since the effects of climate change and the country’s geography make it prone to river flooding and extreme temperatures. With around 70% of the Lao



population relying on subsistence agriculture for their livelihoods, climate change effects, such as unpredictable rains and extended dry seasons, will have a significant impact on the lives of people across the country. A review of tax laws and secondary legislation (subcomponent 2.1) will address current shortcomings by providing a comprehensive legal and institutional framework in line with the international good practices and the country's needs. To this end, the project plans to provide support to strengthen the capacity of the Ministry of Finance (MoF) through local expertise in reviewing and drafting legislative initiatives (such as land tax, environment tax), conducting consultations at the central and provincial levels, dissemination and training with relevant stakeholders.

Economic growth averaged about 7 percent over the two decades to 2019, but the economy's growth pattern was capital-intensive, resource-driven, and debt-fueled. In particular, growth was predominantly driven by large foreign investments in hydropower, mining, and construction (of transport infrastructure), which provided few formal job opportunities. The emerging domestic private sector has been hampered by an unfavorable business environment, particularly through a lack of competition and transparency. The financial sector is dominated by state-owned banks, and limited credit has flowed to the private sector.

Key stakeholders include Ministry of Finance, the Ministry of Home Affairs (MoHA), the Ministry of Planning and Investment (MPI), the Ministry of Education and Sports, the State Audit Organization (SAO), the Bank of the Lao PDR (BOL), the National Assembly (NA), state-owned enterprises (SOEs), the Provincial People's Assemblies and the Local Authorities. Within the MoF, the following departments will be direct beneficiaries: Fiscal Policy Department, National Treasury, State Budget Department, Financial Information Technology Department, Tax Department, State Asset Department (including its Procurement and Price Monitoring Division), Accounting Department, Organization and Personnel Department.

D. 2. Borrower's Institutional Capacity

The Project Implementation Unit (PIU), which sits within the FPD and is under the oversight of the MoF's PFM Reform Secretariat, will be responsible for project implementation. The PIU is currently implementing the existing RETF and the E-FITS project. It will continue to be the central executing agency responsible for the implementation of this RETF, as well as the E-FITS follow-on project in the future. The PIU will be responsible for the day-to-day management of the Project, support for the implementation of the complementary BETF, coordination and follow up with technical departments and the Bank team, monitoring, fiduciary oversight, and providing technical, procurement, and FM support to implementing departments responsible for the technical implementation of project components financed by the RETF. The PIU consists of a team of government staff (the head and deputy head of the PIU) and local consultants. In the future, it may also be supported by international resident advisers. Component 5 of the Program foresees continuous capacity building and training for the PIU, which will also be supported by the Bank team through the TF Management and RETF Supervision budgets. In addition to the PIU, within the MoF, a PFM Reform Technical Working Committee (TWC) has been established, supported by the PFM Reform Secretariat, to manage the implementation of the MoF's PFM Strategy, prepare the action plans and monitor implementation. Lastly, the National Steering Committee (NSC) on PFM reform will oversee the implementation of the MoF's PFM Strategy. The NSC chaired by the Minister of Finance will ensure governmentwide coordination of the PFM reform progress.

This Institutional arrangement has experience in implementing Bank-financed projects under the Environmental and Social Safeguard Policies. However, these projects are classified as low risk and have no safeguards policies triggered. Therefore, the PIU has no experience with implementing projects under the Environmental and Social Framework (ESF) and in the preparation of the required ESF instruments. At the projects' level, the PIU will deploy and



environmental and social (E&S) safeguards specialists/consultant to support the preparation and implementation of project specific ESF instruments.

A project level institutional capacity assessment will be conducted during project preparation to: (i) assess on the MoF/PIU capacity in meeting the objectives of the relevant Environmental and Social Standards (ESSs); and (ii) identify measures to strengthen capacities for effective implementation of the relevant guidelines and standards, that are applicable to the proposed project. These measures will be captured in a Capacity Strengthening Plan, which will be included in the Project Operation Manual (POM) and reflected in the Environmental and Social Commitment Plan (ESCP).

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Low

Environmental Risk Rating

Low

The environmental risk is classified as Low. The Project’s activities are mainly aimed at improving the management of its financial and human resources in the country, which will result in mainly soft activities, such as technical assistance and capacity building. The project will not finance civil works, so there are no environmental risks associated with physical infrastructure development. Potential risks and impacts to humans and the environment are likely to be low and easily mitigated in a predictable manner. Environmental risks and impacts anticipated for this project include: (i) risks related to the possible purchase of office furniture and IT equipment for the PIU, MOF or MOHA. Occupational Health and Safety risk and limited waste generation associated with this activity are anticipated, and it will also be necessary to plan for the disposal of the end-of-life equipment. This can be easily mitigated with an e-waste management plan, which the client will prepare and include in the Project Operation Manual (POM) and reflected in the Environmental and Social Commitment Plan (ESCP). The supply of the electronic equipment is not expected to have adverse impact on energy consumption; and (ii) risks related to the health and safety risk associated with exposure to COVID-19, which will also need to be considered during face-to-face training (planned in components 1, 2, 3 and 4). It should also be taken into account that the PIU has no prior experience with the Bank's ESF, and the E&S capacity of Ministry of Finance will need to be assessed during preparation. However, it is planned to hire experienced environmental and social specialists/consultants who have already worked on ESF projects. They will support the preparation and implementation of project specific ESF instruments.

Social Risk Rating

Low

The social risk is classified as Low. The project will finance technical assistance and capacity building to support fiscal stability. The project will not finance construction works. Whilst the project aims to deliver a range of benefits, project activities have the potential to generate minimal, predictable, mitigatable social risks and impacts, that are low in magnitude. Social risks and impacts anticipated for this project include: (a) risks of exclusion of some beneficiary groups/institutions and therefore related to limited stakeholder engagement; (b) risks related to the labor and working conditions of project workers and (c) risk of Sexual Exploitation and Abuse and Sexual Harassment (SEA/SH) in relation to training and working conditions. These risks and impacts are low, and they are for the most part predicable and possible to mitigate during the lifetime of the project. This risk rating takes into consideration lack or minimal familiarity and ES capacity of the PMU, which will be assessed during preparation. The anticipated risks can be mitigated through appropriate actions/risk management plans. Given the scope of the project, the focus on the

Public Disclosure



Ministry of Finance and the activities, child labor and or forced labor is a very low risk. Particular attention will be paid to monitor and verify compliance in the application of ESS10 with ESS2 requirements to be included in contracts and with the risk of SEA/SH.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

The project has no physical footprint or land acquisition and will not construct any structures or finance any external modifications of any facilities, since the project will work through existing government institutional structures to achieve its goal. Thus, no key environmental and social risks related to physical and geographical issues, biodiversity, land access, and cultural heritage, have been identified. However, the project recognizes the following standards as relevant to the project: ESS 1; ESS 2; ESS 3, and ESS 10.

Project activities are expected to have minor environmental risks and impacts related to the provision of office and IT equipment and face-to-face trainings; this includes Occupational Health and Safety (OHS) risks to workers, including risk of exposure to COVID-19, and generation of minor amounts of waste (office waste and electronic waste). Measures to mitigate the OHS and waste management should be included in the technical specification of the supply bidding documents. Management and disposal of the expected e-waste at the end of life should also be addressed in an e-waste management plan, which would be included in the Project Operation Manual (POM), along with a guideline to limit the spread of covid 19 during face-to-face training.

Project activities are expected to have minor social risks and impacts related to consultations, trainings, dissemination, awareness raising, held at central, provincial or district level and include: (a) risks related to limited stakeholder engagement; (b) risks related to the labor and working conditions of project workers and (c) risk of Sexual Exploitation and Abuse and Sexual Harassment (SEA/SH) in relation to training and working conditions. These risks and impacts are low, and they are for the most part predicable and possible to mitigate during the lifetime of the project. These risks and impacts will be managed and mitigated through an SEP, inclusion of CoC in contracts and a fit-for-purpose LMP prior to appraisal that will include a brief analysis of gaps and mitigation measures on ESS2. The POM will further develop the labor principle and practices under the project.

A SEP including a Grievance Redress Mechanism (GRM) will be prepared prior to appraisal to guide the Borrower to identify stakeholders, build and maintain a constructive relationship with them, and to meet communication and disclosure requirements with a particular focus on project-affected parties. The SEP will include inclusion and engagement strategies. Further details are provided ESS10.

An Environmental and Social Commitment Plan (ESCP), drawn and agreed between the Bank and the Borrower, will set out the important measures and actions that will be required for the project to meet environmental and social requirements over the project's lifetime. These measures will be implemented within a specified time-frame and the status of implementation will be reviewed as part of project monitoring and reporting.

Areas where "Use of Borrower Framework" is being considered:



The client's E&S Framework is not proposed to be relied on for this project, in whole or in part. The Framework will not likely address the risks and impacts of the project in a manner to achieve objectives materially consistent with the ESSs.

ESS10 Stakeholder Engagement and Information Disclosure

The Client will prepare an SEP, including a GRM, before appraisal and incorporating the findings from the stakeholder identification and assessment process during project preparation. The SEP will be updated, disclosed, and implemented throughout the different phases of the project life cycle. It will be developed early in the project preparation process to inform engagement, to address key risks and develop communication and engagement strategies and materials to effectively reach out to affected and interested stakeholders to ensure accessibility and cultural appropriateness..

The project is expected to involve different groups of stakeholders, including government line agencies. The main direct beneficiaries of this Grant will be the public servants of the participating entities, who will benefit from on-the-job training and participation at workshop and training events. Interested and affected stakeholder groups include the citizens of Laos as indirect beneficiaries who stand to gain from more clarity and structure on tax payment compliance processes through the increased availability of taxpayer information and services from the Tax Department. Similarly, businesses and citizens will benefit from more transparent and available information on opportunities of public tenders. Citizens will also benefit from easier access to budget information through a citizens' budget. In the long run, the citizens of Lao PDR will ultimately benefit from improved service delivery through improved management and more efficient use of public resources.

The project's stakeholders and the level of their engagement will be identified and analyzed by the client during project preparation, and will likely include: (a) the Ministry of Finance (MoF), the Ministry of Home Affairs (MoHA), the Ministry of Planning and Investment (MPI), the Ministry of Education and Sports, the State Audit Organization (SAO), the Bank of the Lao PDR (BOL), the National Assembly (NA), state-owned enterprises (SOEs), the Provincial People's Assemblies and the Local Authorities; (b) private sector; (c) citizens of Laos; (d) other development partners at the central level. These stakeholders will need to be further defined as project components are determined and consultations take place.

Meaningful engagement will be key for managing concerns as well as the potential risks and impacts resulting from the project activities. The engagement will need to take into consideration consent, language, literacy, access to information, vulnerability, and cultural needs of the various groups including ethnic groups. The project is nationwide and as such likely to operate in areas where ethnic groups are present. The project is expected to bring substantial benefits, including, clarity and structure on tax payment compliance processes.

The SEP will be implemented, updated, and disclosed throughout the different phases of the project life cycle. It will be developed early in the project preparation process to inform engagement to address key risks and develop communication and engagement strategies and materials to effectively reach out to affected and interested stakeholders to ensure accessibility and culturally appropriateness.

Public Disclosure



The SEP will include a strong Project Grievance Mechanism and measures to ensure disclosure to project beneficiaries and other stakeholders. This project involves a range of internal stakeholders that include capacity-building activities for government staff, international study visits, selection and training of beneficiary groups/institutions, etc. Hence, the project will need to include an accountable and transparent GRM as a key social risk mitigation measure to avoid exclusion risks.

As part of the information disclosure arrangement, the SEP, LMP and the ESCP will be disclosed publicly on the websites of the Borrower. Consultation meetings will be conducted in a manner consistent with applicable government guidance on COVID-19 measures for public meetings. Meaningful consultation with relevant stakeholders will be conducted before appraisal, and its results adequately recorded and disclosed.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

This standard is considered relevant for the project. The project will involve civil servants (government staff appointed from the implementing and concerned agencies at all levels), direct workers (consultants hired directly by the PIU) and contracted workers (service providers, employees of consulting firms), but is not anticipated to involve any primary supply workers (workers from ongoing providers of essential goods and materials) nor community workers.

The Project will be implemented primarily by Government staff from the MOF. ESS2 is relevant for the proposed Project in terms of direct workers employed in the project activities as well as contracted workers working through consultancy firms e.g. to support capacity building. Such contracting will be done by the Government of Laos and will request the firms' documented evidence that their working conditions are in line with ESS2. The project will prepare a fit-for-purpose LMP prior to appraisal that will include a brief analysis of gaps and mitigation measures. The OM will further develop labor principle and practices under the project. The ESCP will reflect commitments concerning labor practices.

Given the scope of the project, the focus on the Ministry of Finance and the activities, child labor and or forced labor is a very low risk.

A worker grievance mechanism will be put in place as part of the LMP to ensure a basic, responsive grievance mechanism to allow workers to quickly inform management of poor labor conditions (such as extended work hours without overtime) and unsafe work practices. This commitment will be captured in the ESCP.

Government agencies increased use electronic systems for management of human resources is not anticipated to lead to staff redundancies; therefore, there is no plan to lay off government staff, who are on a government contract. Instead, training for additional skills will be provided, as the project has a component on PFM training and capacity building. This is also not expected to disproportionately impact certain groups like women or ethnic groups.



In Laos, gender-based violence (GBV) remains a serious issue. Distance and travel time to health facilities increase the difficulty for women to seek care, while gender norms contribute to widespread tolerance and acceptability of GBV and reduces women’s willingness to seek help. The project will need to ensure that any risks of SEA/SH is addressed. To address the risk of SEA/SH, the ESCP will include to commitment to include a Code of Conduct (CoC) to prevent and manage SEA/SH into the contract. Codes of Conduct (CoC) which will be included in the letter of appointment for government staff and contractors. The SEA/SH risk rating for the project is Low.

ESS3 Resource Efficiency and Pollution Prevention and Management

This standard is relevant. The project will provide the PIU or MOF or MOHA staff with IT equipment, such as PCs and laptops. The energy consumption due to the purchase and use of IT equipment is not expected to increase significantly, but the components design should consider including energy efficiency in the technical specifications of bidding documents for the supply of the equipment.

It should also be considered that dismantled electronic equipment and materials generated with IT equipment may cause risks to human health and the environment if not disposed of in an environmentally sound and safe manner. Where obsolete equipment and materials cannot be reused, they should be recycled or disposed of by licensed contractors. Therefore, the project shall (i) consider proper dismantling, storage, handling, and final disposal of e-waste in accordance with internationally recognized practices; (ii) include monitoring of the types/quantities of Waste Electrical and Electronic Equipment (WEEE) disposed of; and (iii) document evidence of proper management (e.g., recycled, refurbished, discarded, exported). Guidelines for management and disposal of end-of-life equipment should be included in an e-waste management plan prepared and included in the POM, while measures to handle and dispose the minor quantities of waste that are expected during installation should be included in the technical specification of the bidding documents for the supply of the equipment.

Lao PDR is developing Lao Environmental and Waste Management Project (P175996), which aims to improve environmental, solid waste and plastics, and pollution management in Lao PDR ; in these conditions, depending on the timing of project implementation, the project's e-waste management will benefit from the national strategy that will be prepared under the Lao Environment and Waste Management Project.

ESS4 Community Health and Safety

ESS4 is not relevant at least at the Concept Stage. However, measures to mitigate community health and safety risks originating from COVID-19 or e-waste mismanagement must be addressed (e.g. in order to avoid negative impacts of e-waste scavenging) as part of the planned ICT strategy to be developed. The proposed project will neither finance nor support any civil works. No rehabilitation or construction of new infrastructure or other actions that would imply environmental or social risk or having negative impact on the environment or community health and safety will be financed.

Measures to reduce and manage COVID-19 risks will be included in the SEP, LMP and the commitment to include such measures in any contracts included in the ESCP. A guideline to limit the spread of covid 19 during face-to-face training should be included in the POM.

Public Disclosure



ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

This standard is currently considered not relevant. The project will not include any activities which require land acquisition, physical and/or economic displacement.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

IT equipment will be installed, and project activity will take place within the existing footprint of facilities; hence, ESS 6 is not relevant to the proposed project.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

This standard is currently considered not relevant. The project will not include any activities which require any community level interventions .

ESS8 Cultural Heritage

This standard is currently considered not relevant. The Project will not finance any activities that will affect known cultural heritage sites as well as on intangible cultural heritage.

ESS9 Financial Intermediaries

Not currently relevant. There are no financial intermediaries that are part of the project.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways No

OP 7.60 Projects in Disputed Areas No

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? No

Financing Partners

None

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

To be undertaken, prepared, disclosed and consulted upon prior to appraisal:



1. Standalone Stakeholder Engagement Plan (SEP), including Stakeholder Analysis and a Grievance Redress Mechanism.
2. Fit-for-purpose Labor Management Procedures (LMP) that will include a brief analysis of gaps and mitigation measures.
3. Environmental and Social Commitment Plan (ESCP).

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

- Effective implementation of the project’s E&S instruments
- Effective operationalization and effective implementation of GRMs.
- Meaningful stakeholder engagement throughout project implementation.
- Effective operationalization of Incident Management System.
- Implementation risks management measures and their monitoring.
- ESF capacity building for the implementing agencies.
- Allocation of adequate resources (human, including consultants and financial resources) for the implementation of risk management measures and monitoring.
- E-Waste Management Plan preparation under the Project operation Manual (POM) within one month of the project effectiveness date, and implementation to mitigate the impacts and risks of e-waste generation. The equipment supplies technical specifications to address Energy Efficiency requirements.
- Availability of adequate and competent environment and social specialists in the Project Management Unit to support environment and social risk management.
- Prepare a Capacity Strengthening Plan, which will be and included in the POM within one month of the project effectiveness date.
- Based on the LMP, further develop labor principle and practices under the project in the POM.

Public Disclosure

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

20-Mar-2023

IV. CONTACT POINTS

World Bank

Contact:	Elena Georgieva Georgieva-Andonovska	Title:	Senior Public Sector Mgmt. Specialist
Telephone No:	5784+6203 / 856-21-266203	Email:	egeorgievaandono@worldbank.org
Contact:	Maxwell Bruku Dapaah	Title:	Senior Financial Management Specialist
Telephone No:	5778+8348 / 66-2-6868348	Email:	mdapaah@worldbank.org



The World Bank

Lao PDR Public Financial Management Reform Project (P179016)

Contact: Viengmala Phomsengsavanh Title: Public Sector Specialist
Telephone No: 5784+6264 / 856-21-266264 Email: vphomsengsavanh@worldbank.org

Borrower/Client/Recipient

Borrower: Ministry of Finance of Lao PDR

Implementing Agency(ies)

Implementing Agency: Ministry of Home Affairs

V. FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

VI. APPROVAL

Task Team Leader(s): Elena Georgieva Georgieva-Andonovska, Maxwell Bruku Dapaah, Viengmala Phomsengsavanh
Practice Manager (ENR/Social): Mona Sur Recommended on 15-Feb-2023 at 23:25:24 EST