ICR Review

Operations Evaluation Department

Report Number: ICRR10419

1. Project Data:	
OEDID:	C2821
Project ID:	P004209
Project Name:	Third Structural Adjustment Credit
Country:	Lao People's Democratic Republic
Sector:	Economic Management
L/C Number:	C2821
Partners involved:	
Prepared by:	Alice C. Galenson, OEDCR
Reviewed by:	John Johnson
Group Manager:	Laurie Effron, Acting Manager
Date Posted:	08/16/1999

2. Project Objectives, Financing, Costs and Components :

Objective: to support greater efficiency in private and public investment, deepening the reforms carried out under SAC I and II.

Components: (1) creating a private sector enabling environment through reform of the state enterprise sector, the regulatory framework and the financial sector; and (2) enhancing public resource management by improving public expenditure management, increasing professionalism and cost effectiveness of the civil service, and reforming the social security system.

Financing/Costs: US$40 million equivalent, of which $20 million (2nd tranche) was canceled.

Dates: Board approval Jan. 22, 1996; closed December 31, 1998, 18 months behind schedule, following two extensions.

3. Achievement of Relevant Objectives :

Many of the specific conditions were achieved. Under reform of the state enterprise sector, five strategic state owned enterprises (SOEs) were commercialized, and a plan prepared for the rest; all non-strategic ones were privatized, liquidated or offered for sale, but there was little investor interest, so most remained in the public sector; hard budget constraints continued for SOEs; an enterprise performance monitoring system was established. Regulatory reform was only partially achieved, with the adoption of two implementing regulations. Under financial sector reform, the government improved prudential regulations for commercial banks, and carried out required bank audits. All conditions under public expenditure management were met: a new budget nomenclature was adopted and a project monitoring system was established and produces quarterly reports. However, progress towards the main objectives was modest at best.

4. Significant Achievements :

Substantial improvements were made in the budgetary process and in budgetary transparency. External audits of banks provided important information on the health of the financial sector. Initial steps were taken to commercialize key public utilities.

5. Significant Shortcomings :

Success of the reforms required the maintenance of a sound and stable macroeconomic framework, and the government failed to do this. (The exogenous impact of the Asian crisis was only part of the problem.) It also failed to meet some of the conditions for second tranche release. Regulatory reform made little progress: implementing regulations for the Foreign Investment Law and the Budget Law were drafted, but were not implemented, in part because the Bank never provided feedback; the regulation for an Arbitration Decree was not prepared; and preparation of a medium-term national legal framework development plan was not completed. Loan-loss provisioning for commercial banks was not enforced, as it would have bankrupted the banks. Several bank managers lacked technical knowledge on how prudential regulations were to be applied, and the BOL could not provide detailed guidance.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Negligible	Negligible	
Sustainability :	Uncertain	Unlikely	Sustainability depends on a substantial number of actions by the government, and there is no reason to believe from the record that these will take place.
Bank Performance :	Deficient	Unsatisfactory	
Borrower Perf .:	Deficient	Unsatisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

(1) The design of adjustment support must take account of management capacity; when it is weak, operations should be focused, limited to high impact reforms in a few areas. (2) The Bank should focus more on the outcome and impact of reforms during supervision, rather than solely on details of specific conditionalities . (3) The Bank needs mechanisms to ensure that the needs of smaller clients are not overlooked in the face of sudden increases in the needs of larger clients. (4) Greater efforts are needed to build broad ownership of and support for reform at the highest levels of government; this will require efforts to understand the nature of decision making and the political economy of reform in relatively closed societies like the Lao PDR. (5) Adjustment operations are not suitable vehicles for legal and other reforms that require a substantial build -up.

8. Audit Recommended? ○ Yes ● No

9. Comments on Quality of ICR :

The ICR does an excellent job of evaluating the credit, except that it does not describe the outcome of the civil service or social security components.