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Strengthening Post-Disaster Budget Execution Mechanism in Lao PDR



FLOODS

Laos Flooding June 2021



Disaster Risk Financing
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Abbreviations

Abbreviation	Meaning
CDMC	Central Disaster Management Committee
COA	Chart of Accounts
CSOs	Civil society organizations
DCC	Department of Climate Change
DDMC	District Disaster Management Committees
DFAT	Department of Foreign Affairs and Trade
DIPECHO	European Commission's Humanitarian Aid Department Disaster Preparedness Program
DMF	Disaster Management Fund
DRF	Disaster Risk Finance
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
DSF	Department of Social Welfare
EU	European Union
FAO	Food and Agriculture Organization
FMIS	Financial Management Information System
GFDRR	Global Facility for Disaster Reduction and Recovery
GFIS+	Government Financial Information Management System
IASC	The Inter-Agency Standing Committee
LAK	Lao Kip has been Laos's currency since 1955.
LDCF	Least Developed Countries Fund
MAF	Ministry of Agriculture and Forestry
MoES	Ministry of Education and Sports
MoF	Ministry of Financing
MoH	Ministry of Public Health
MoLSW	Ministry of Labour and Social Welfare
MoNRE	Ministry of Natural Resources and Environment
MPI	Ministry of Planning and Investment
MPWT	Ministry of Public Work and Transport
NCF	National Contingency Fund
NDMO	National Disaster Management Office

Abbreviation	Meaning
NGOs	Non-Governmental Organizations
NSDRR	National Strategy on Disaster Risk Reduction
NSEDP	National Socio-Economic Development Plan
PCF	Provincial Contingency Fund
PDF	Provincial Disaster Management Fund
PDMC	Provincial Disaster Management Committee
PDNA	Post-Disaster Needs Assessment
PDoLSW	Provincial Department of Labour and Social Welfare
PFM	Public Finance Management
PIBRR	Public Investment Budget for Reconstructing and Rehabilitating
SADRMPP	Southeast Asia Disaster Risk Management Project
SBD	State Budget Department
SEADRIF	South East Asia Disaster Risk Insurance Facility
SOEs	State-Owned Enterprises
SRF	State Reserve Fund
SWF	Social Welfare Fund
UN	United Nations
UNCERF	United Nations Central Emergency Response Fund
UNDP	United Nations Development Programme
WB	The World Bank
WFP	UN World Food Programme
WHO	World Health Organization

Executive Summary

Introduction

This report dives deep into the critical area of post-disaster budget mechanisms, identifying gaps and suggesting significant enhancements to boost their effectiveness within Laos.

The report thoroughly reviews existing practices, suggests improvements, and maps out a plan for implementing these enhancements within a legislative framework. The focus here is on enhancing the government's capacity to manage financial shocks from natural disasters, thereby preserving developmental gains and maintaining fiscal stability.

Key Objectives

Comprehensive Review

The report initiates a detailed exploration of current post-disaster budget mechanisms, pinpointing the limitations within the existing framework. Analysts based this review on five distinct reports covering various facets of disaster budget management, including execution mechanisms, contingency planning, damage assessment protocols, data management, and systems for post-disaster funding.

Proposed Enhancements

The report lays out strategic enhancements to fortify the current mechanisms in disaster risk management. These enhancements ensure a more

efficient allocation and use of financial resources following disasters.

Design and Implementation

The report sketches a plan for the suggested improvements, weaving in revised processes, strategies, and the legislative backdrop. It stresses the necessity of a holistic and strategic approach to financial management amid natural disasters.

Disaster Risk Finance in Laos: An Overview

The report's most significant section speaks to the current state, pinpointing gaps and issues in the legal environment, implementation processes, legislative efficacy, and data management concerning disaster risk finance (DRF). It underlines the absence of a comprehensive legal framework for disaster risk management, the hurdles in executing post-disaster budgets, and the pivotal role of data in effective DRF.

Disaster Risk Financing Tools

The report investigates ex-ante financial instruments, including reserve funds, budgetary allocations, and insurance policies, showcasing the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) as a crucial advancement toward financial resilience against disasters.

Donor Assistance

It recognizes the backing from development partners, like the Global Facility for Disaster Reduction and Recovery (GFDRR) and the World Bank, in boosting Laos's disaster risk management and recovery capabilities.

Challenges and Recommendations

The report points out significant obstacles in managing the financial impact of natural disasters in Laos, such as the lack of adequate financial provisions, the complexity of damage assessment, and the scant knowledge of insurance

mechanisms at the provincial and district levels.

It recommends bolstering disaster management committees, improving coordination for emergency assistance and post-disaster recovery, developing efficient post-disaster reimbursement mechanisms, and enhancing awareness of SEADRIF insurance.

The report stresses the urgent need for a comprehensive strategy to improve Laos disaster risk finance and management. By adopting the recommended enhancements and utilizing financial tools like SEADRIF, Laos could significantly boost its resilience to natural disasters, safeguarding its developmental strides and fiscal stability.



Figure 1: Xe-Pian River, in Attapeu Province. Photo Credit: Phouthavong SOUVANNACHAK

Introduction

The objectives of this report unfold as follows:

1. Conduct a comprehensive review of existing post-disaster budget mechanisms to identify gaps and limitations within the current framework.
2. Propose enhancements to these mechanisms to bolster their effectiveness.
3. Outline a design for the recommended improvements, incorporating new or revised processes, strategies, and the legislative context.

The concept of disaster risk finance, which critically includes managing post-disaster execution, aims to enhance governmental capacity to accurately identify and fulfill obligations emanating from disaster-induced shocks while safeguarding developmental achievements and maintaining fiscal stability.

In response, governments are increasingly adopting a holistic and strategic approach to manage the financial ramifications of natural hazard-induced disasters.

Over the past fifteen years, development partners have increased their support, helping countries assess their financial exposure, evaluate existing disaster finance mechanisms, and develop policy frameworks, implementation strategies, and economic tools to manage disaster-related financial risks adeptly.

This report builds on the analysis of five distinct reports stakeholders have discussed and evaluated, covering topics such as

- budget execution mechanisms, government disaster contingency planning,
- damage assessment and reporting protocols,
- data management for disaster expenditure tracking and
- accounting systems for post-disaster funding.

This report explores the budgeting process and current practices, outlining the roles and responsibilities of various stakeholders in post-disaster relief, early recovery, and reconstruction efforts.

This exploration includes examining contingent budgetary provisions, the timeline of critical fiscal actions, and the clarity of stakeholder responsibilities and procedural timelines.

It reviews the mechanisms for budget reallocation post-disaster, the formulation and approval of supplementary budgets, and the regulations governing the release of public funds for disaster response, often linked to the declaration of a disaster state at different governmental levels.

The report highlights notable deviations between actual budgetary execution and formalized procedures.

Governments must efficiently execute these funds to maximize the financial resources available immediately following a disaster.

Timely and efficient fund deployment presents a significant challenge for many governments, even under normal conditions.

This report will compare described processes with real-world disaster responses to identify challenges to effective post-disaster fund execution.

Moreover, the report will prioritize potential reforms and outline a pragmatic sequence and timeline for their implementation.

The recommendations will consider various contextual factors in PDR Laos, including:

- governmental capacity,
- relevant political-economic considerations, and
- overarching governmental objectives.

Figure 2: People pushing a bus at a landslide site in Laos.



Source: <http://www.drivenachodrive.com/2013/09/a-landslide-brought-it-down/>

Disaster Risk Finance and Management in Laos

Overview

This section, the largest of the report, will draw content from each previous report to state the current situation and highlight gaps and issues.

- **Legal Environment:** It details the environment for executing the post-disaster budget, focusing on our findings regarding the current status of the legislative framework and its effectiveness in implementing government policies on disaster risk management.
- **Implementation Processes:** It also covers the processes government ministries and other relevant stakeholders follow to implement these policies.
- **Legislative effectiveness:** Additionally, this section summarizes our analysis of the legislative effectiveness and its implementation by government ministries and stakeholders.
- **Data:** Effective disaster risk management and finance depend on data availability to relevant government ministries for decision-making.

Legal Environment

Clarity of Stakeholder Duties

Lao PDR lacks a comprehensive legal framework for disaster risk management

that outlines the duties of various stakeholders and procedures involved in emergency response, recovery, and disaster preparedness.

The Department of Social Welfare (DSF) under the Ministry of Labour and Social Welfare (MoLSW) acts as the Secretariat for the Central Disaster Management Committee (CDMC), and the DSF implements the Lao PDR National Strategy on Disaster Risk Reduction (NSDRR) 2021-2030. For a complete list of relevant legislation, refer to Annex 1.

Legislative Environment Covering Budget Management and Use

The State Budget Law includes provisions for budget allocation to the:

- State Reserve Fund (SRF),
- National Contingency Fund (NCF), and
- Provincial Contingency Fund (PCF).

The Prime Minister approves the NCF, while a Provincial Governor approves the PCF, allocating it to the district level based on the Provincial People's Assembly authorization.

The NCF and PCF serve for emergencies of national defense-security, epidemic outbreaks, and natural catastrophic events. If either contingency fund remains unused in the same fiscal year, it is added to the SRF by the government.

These three funds are foundational to the existing legislative framework for Disaster Risk Financing (DRF).

Moreover, the Disaster Management Law presents an opportunity to develop a more comprehensive legislative framework for DRF.

Relevance of State Budget Law to DRM

The State Budget Law's provisions for budget allocations to the State Reserve Fund (SRF) and National Contingency Fund (NCF) are vital for long-term funding sources for disaster-related expenses.

However, the government has faced challenges in fully achieving these fund allocations due to the significant demands on the state budget, a struggle that may continue.

With the current budget deficit, the government recognizes the opportunity cost of diverting funds from immediate expenditure priorities to disaster reserve fund accounts. The Decree on Disaster Management Fund (DMF) No. 631/Gov, dated December 24th, 2020, outlines the fund's use for emergency aids, reconstruction of essential infrastructures, damage assessment, and operations. Occasionally, the government has used a road fund for transportation recovery.

Disaster response funds

Figure 1 Institutional structure for central disaster management committee and financing in Lao PDR in Appendix 1 provides a diagrammatic map of how funds are managed and allocated.

The government employs two types of funds for disaster responses: the NCF for emergency response and the Public

Investment Budget for Reconstructing and Rehabilitating (PIBRR).

The government allocates a yearly budget of not less than 100 billion LAK for NCF. For the year ending 2023, the government approved a 150 billion LAK budget for the NCF, with 110 billion LAK for the central level and 40 billion LAK for the provincial level or Provincial Contingency Fund (PCF).

Initial emergency response

In the event of a disaster, the Provincial Disaster Management Committee (PDMC) uses the allocated PCF for emergency response. If the PCF is insufficient, the PDMC summarizes the required budget for recovery activities and sends this information to the CDMC, which requests government use of the NCF. For urgent and severe disasters, the government can transfer part of the NCF to the affected province, allowing it to manage the budget with proper auditing.

Reconstruction and rehabilitation funding

The Ministry of Planning and Investment (MPI) allocates the PIBRR on damaged infrastructures for the following year. MoLSW plans disaster response activities and budget needs for reconstruction and rehabilitation following a disaster.

For the year ended 2023, the government approved a disaster reconstruction and rehabilitation budget of LAK 220 billion.

Reconstruction and rehabilitation planning

Sector ministries are responsible for damaged public assets and create plans for recovery and rebuilding after disasters, coordinated by MPI, the Ministry of Finance (MoF), and MoLSW based on

comprehensive assessments post-disaster, under the direction of CDMC.

Sector ministries include the Ministry of Public Work and Transports (MPWT), Ministry of Agriculture and Forestry (MAF), Ministry of Education and Sports (MoES), and Ministry of Public Health (MoH).

Implementation processes

Loss coverage

The government, individuals, and enterprises ultimately cover most asset losses for each party.

Households face financial burdens when they do not receive compensation for damages to private property, lost agricultural products, and the non-restoration of critical utilities. Similarly, companies must absorb costs when third parties do not compensate them for emergency services provided, such as urgent infrastructure repairs.

Post-disaster expenses

In previous years, the government depended on annual contingency budgets and unpredictable donor contributions to fund post-disaster expenses, which proved insufficient when disaster costs surpassed the contingency funds' value.

To mitigate this reliance on erratic donor funding, the government established the State Reserve Fund (SRF) in November 2013 to cover disaster costs. With the operationalization of the SRF and a focus on reserve money and contingency budgets, the government's financial exposure to frequent but high-impact catastrophic events has decreased.

Assessment of damages and flow of funds

The process for assessing damages and managing the subsequent flow of funds involves two primary methods:

Emergency Damage Assessment and Reporting

The relevant disaster management committee collaborates with local authorities in the disaster-stricken area to assess the damage and urgently plan for emergency assistance.

The World Food Program (WFP) supports the assessment and reporting format, which assessors must complete within 72 hours based on data received from the disaster areas.

Post-Disaster Damage Assessment and Reporting

The Provincial Disaster Management Committee (PDMC) works with local governments to draft a post-disaster recovery plan. This plan integrates into the socio-economic development and annual budget plans for submission to the provincial people's council for approval.

For widespread or severe disasters, the Central Disaster Management Committee (CDMC) collaborates with relevant ministries, organizations, and local governments to develop a recovery plan for submission to the Ministry of Planning and Investment and the National Assembly.

The assessment process can be time-consuming and is often hampered by assessors in their rush to collect data, leading to inaccuracies due to a lack of detailed supporting information and comparative data. Establishing annual baseline data is essential for accurate

before-and-after comparisons. Post-disaster assessments frequently rely on initial estimates because the CDMC or PDMC may not visit the disaster site due to budget constraints for travel.

Despite requests for assessments within 72 hours, practical limitations often prevent this timely evaluation. The CDMC Secretariat gathers disaster data in Excel and maintains the Lao Di database, which is updated annually with raw, unanalyzed data. The Secretariat's team faces limitations in staff expertise for damage assessment and information system utilization.

The CDMC, its Secretariat, and the Ministry of Planning and Investment are all urged to refine their reporting processes to ensure the accuracy of aid disbursement and prevent the provision of duplicate assistance. Annex 4 outlines the implementation responsibilities and indicates the complex reliance on various committees.

Legislative Effectiveness

Financing tools

The pre-arranged governmental resources in Lao PDR are ready for immediate deployment in emergencies to support essential relief and response efforts. These include reserve funds and budgetary allocations, ensuring some level of funding in disaster events.

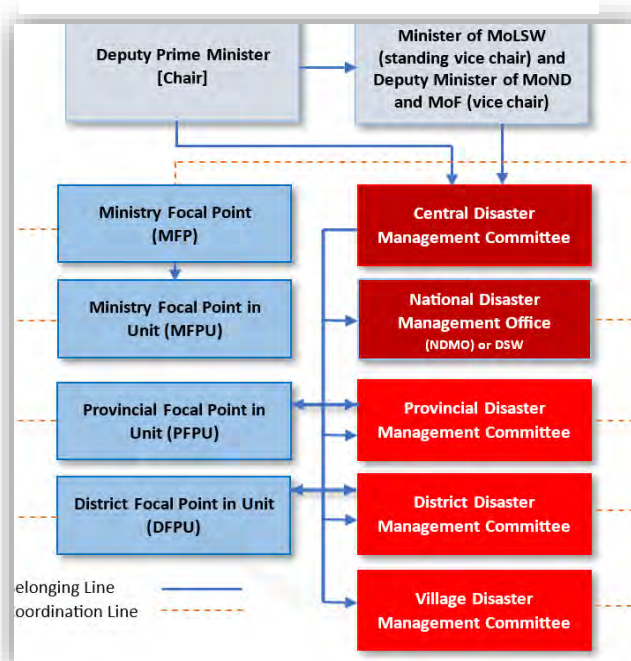
However, our analysis indicates a significant overlap between accounts, with broad utilization of current funds for disaster-related expenses. Currently, at least two funds support risk reduction and

preparedness, while at least three cover rehabilitation and reconstruction costs.

Almost all funds finance disaster relief and response as part of their mandated use.

Consolidating funds with similar objectives and sources under the State Reserve Fund could enhance the government's ability to mobilize resources more effectively.

Figure 3: Institutional Structure for Central Disaster Management Committee and Financing in Lao PDR



Data constraints

Accounting systems and processes

The Government Finance Statistics (GFS) Manual by the International Monetary Fund (IMF) guides the compilation and presentation of data on public finances.

GFS coverage

According to the GFS, the public sector encompasses all institutional units under the government's direct or indirect control, including the general government sub-sector, which consists of central, state,

and local governments, each with its budgetary units, extra-budgetary units, and social security funds, with social security funds also forming a separate sub-sector.

The public corporation sub-sector comprises financial corporations, such as state-owned banks and the central bank, and non-financial corporations, such as state-owned enterprises.

Role in disaster preparedness and response

Accounting is critical in disaster preparedness and response, documenting resource use for donors and higher government levels.

Annually, the government allocates approximately 2 billion to each province's state reserve fund for disaster expenses. In a disaster, provinces utilize this budget, recording expenditures in account 63. The provincial and relevant departments record financial aid from mobilization or donors in 47 deposit accounts.

The Ministry of Finance (MoF) is updating the Chart of Accounts (COA) to integrate with the government Financial Information Management System (GFIS+) and the Financial Management Information System (FMIS) for enhanced detail and accuracy.

The MoF leads the development and oversight of the accounting system, including the post-disaster recovery account. The Advisory Accountancy Board within the MoF serves as the technical advisor on accounting regulations, offering advice and recommendations for amending accounting and financial standards and reporting systems to reflect

the evolving Lao socioeconomic situation for the MoF's consideration and approval.

Key government agencies involved in the accounting system for post-disaster include the following:

- Accounting Department and the Accounting Regulatory Department of the Ministry of Finance (serving as the Secretariat),
- Financial Policy Department,
- State Budget Department,
- Department of State-Owned Enterprises Reform and Insurance, and
- Finance-Accounting Department of the Bank of Lao PDR.

The MoF has the authority to:

- formulate and revise financial reporting standards and accounting regulations;
- monitor the accounting processes and policies of relevant entities;
- develop and modernize accounting operations following regional and international standards and
- collaborate with foreign, regional, and international accountancy organizations.

The state reserve fund, with its yearly limit, supports expenditures outside other designated categories without specific allocation for disaster-related expenses due to the unpredictability of such events. A forecasting tool for potential future disaster losses and damages is essential for activating the reserve fund for disaster relief and for the Accounting Regulatory Department to include a specific chart of accounts under Chapter 63.

Integrating the state reserve fund with other funds poses challenges due to its

fixed amount and the earmarking of funds like Official Development Assistance (ODA) for specific purposes. Additionally, providers transfer private sector and organizational donations during or after disasters.

Decree No. 631, 2020, regulates the disaster management fund, outlining its purpose, principles, revenue sources, expenses, withdrawals, organizational structure, committee roles, and responsibilities. However, this fund depends on the state reserve fund and follows a withdrawal procedure from treasury departments, highlighting a budget allocation independence issue for disaster-related expenditures.

Establishing the financial independence of the disaster management fund requires a legal document, enabling the creation of a dedicated chart of accounts for disasters once a revenue and expenditure plan is in place. This integration facilitates efficient resource utilization for disaster victims.

Assessment of damages and flow of funds

Emergency Damage Assessment and Reporting

Assessing and reporting the damage and urgently planning for emergency assistance is currently undertaken using a unified report format and structure, with emergency information compiled in an Excel database and on an emergency assessment form, as per sector requirements.

As outlined above, The World Food Program (WFP) supports the assessment and reporting format, which authorities complete within 72 hours based on data from the disaster areas.

Post-Disaster Damage Assessment and Reporting

The assessment process is often lengthy and compromised by the hurried data collection, resulting in inaccuracies due to the absence of detailed supporting and comparative information.

Establishing baseline data each year to facilitate accurate comparisons before and after disasters is crucial. Frequently, post-disaster evaluations depend on preliminary estimates as budgetary constraints hinder the CDMC or PDMC from visiting the affected sites.

Although there are requests to complete assessments within 72 hours, practical challenges frequently delay these evaluations.

The CDMC Secretariat compiles disaster data in Excel and annually updates the Lao Di database with unprocessed data. However, a lack of damage assessment and information system management expertise limits the Secretariat's team's performance.

The CDMC, its Secretariat, and the Ministry of Planning and Investment must enhance their reporting procedures to improve the effectiveness of aid delivery and avoid the issuance of duplicate aid,

Figure 4: A flood-ravaged road in Khammouane



Disaster Risk Financing Tools

Ex-ante financial instruments

Ex-ante financial instruments are arrangements set up before an event occurs, designed to manage financial risks, and provide financial resources in the event of a specific risk materializing, such as a disaster or loss.

They include pre-arranged governmental resources ready for immediate emergency deployment to support essential relief and response efforts.

Reserve funds and budgetary allocations

For Laos PDR, this includes reserve funds and budgetary allocations (regular and contingency budgets), ensuring some level of funding in disaster events. This setup excludes specific provincial funds and the Road Maintenance fund, which can allocate a portion (estimated at 10%) for road repair post-disaster.

Contingency plan

In 2021, the government proactively developed a contingency plan as a prerequisite for purchasing an insurance policy from the Southeast Asia Disaster Risk Insurance Facility (SEADRIF).

Insurance

Insurance policies are a prime example of ex-ante financial instruments because they involve paying premiums in advance to secure financial protection or coverage against potential future losses or damages. This mechanism allows

individuals, businesses, and governments to transfer the financial risk of unforeseen events to insurance companies, providing a financial safety net before any loss occurs.

SEADRIF concept

The plan developed by the government outlined procedures for the effective and timely use of SEADRIF insurance payouts following a disaster, ensuring alignment with the SEADRIF Environmental and Social Management System (ESMS).

The aim is to mitigate the impact on property, reduce loss of life, and ensure prompt compensation to affected organizations and individuals.

According to the Disaster Management Law – Disaster Control Article 21, disaster control efforts must limit the impacts of disasters to prevent severe damage to health, life, public assets, property, and the community. Local authorities are responsible for providing immediate emergency assistance when disasters strike.

With backing from Japan and Singapore, Lao PDR agreed to establish Sub-Trust A to create and manage the SEADRIF Insurance Company. Registered and licensed in Singapore, this general insurance company develops and offers catastrophe risk insurance products, including a regional catastrophe risk pool.

SEADRIF's mission is to enhance the financial resilience of ASEAN's population, particularly the poor and vulnerable, against climate change and natural disasters. It aims to provide ASEAN countries with technical assistance and disaster risk financing solutions, facilitating swifter and more reliable recovery and response efforts.

Insurance secured

Lao PDR secured a SEADRIF insurance policy on January 29th, 2021, offering coverage from February 01st, 2021, to January 31st, 2024. The policy includes Parametric Insurance and Finite/Soft Trigger components, totaling 5,000,000 USD—3,500,000 USD for Parametric Insurance and 1,500,000 USD for the Soft Trigger.

According to MoF's Instruction No. 0883/MoF on SEADRIF Insurance Management Payouts, Article 5, Parametric Insurance covers two flood types: medium and severe. The payout for a medium flood is 3,796,816 USD per incident, while a severe flood triggers a total payout of 9,492,040 USD per

incident. Lao PDR could receive a maximum annual payout of 9,492,040 USD under parametric insurance during the policy term, contingent upon meeting the specified trigger points.

Article 6 addresses the Finite or Soft Trigger component, covering disasters specified in Article 03 of the disaster management law, including floods, flash floods, droughts, storms, earthquakes, landslides, pests, and diseases. Lao PDR is eligible for Finite payouts if such disasters occur.

SEADRIF exclusions

SEADRIF excludes certain events, such as:

- Human-made violence, including war, attacks, invasions, revolutions, crimes, and related activities that cause direct and indirect costs,
- Any fraudulent, dishonest, and immoral behavior by the insured,
- Climate change resulting from human activities, and
- Disasters that are caused by human activities as defined in the PELC regulations.



SEADRIF

SOUTHEAST ASIA
DISASTER RISK INSURANCE FACILITY

Donor Assistance

In 2018, the government of Lao PDR, in collaboration with the Global Facility for Disaster Reduction and Recovery (GFDRR), the World Bank, the UN, the EU, and civil society organizations (CSOs), led a comprehensive Post-Disaster Needs Assessment (PDNA) covering social, productive, and infrastructure sectors, along with cross-cutting issues like disaster risk management, governance, and climate change adaptation. The GFDRR provided crucial advisory and financial support for the PDNA.

The assessment identified transportation and waterways as the most affected public sectors, constituting 75% of the total damages. The World Bank facilitated immediate recovery and reconstruction support through an additional \$25 million for the Lao Road Sector II Project for road repair, implemented by the Department of Roads, MPWT, and another \$25 million for the Southeast Asia Disaster Risk Management Project (SADRMP) to

rehabilitate embankments, implemented by the Department of Waterways, MPWT.

The Inter-Agency Standing Committee (IASC), including heads of UN humanitarian agencies and critical disaster management NGOs, launched a US\$43 million Disaster Response Plan, enhancing the government's nationwide response efforts. Additionally, Lao PDR secured a \$42.7 million grant from the UNCTF, supporting disaster response activities in Khammouane Province and six targeted districts, with the collaboration of several ministries, agencies, and four United Nations agencies (WFP, FAO, WHO, and UNDP).

A joint initiative on Disaster Risk Reduction (DRR) received support from major donors, including the European Commission's Humanitarian Aid Department Disaster Preparedness Program (DIPECHO), Australian DFAT, WB, and ADB for infrastructure development, alongside LDCF and co-financing mechanisms like the Green Climate Fund and GFDRR.

Figure 5: Villagers participating in a series of training sessions on community-based disaster risk management, supported by the UN Office for Disaster Risk Reduction (UNDRR) and the World Food Programme (UNDRR/Sanjay Pariya)



Findings

Overview

Lao PDR faces significant challenges in managing the financial impacts of natural disasters due to the absence of a comprehensive strategy or policy.

The country has experienced costs from previous disasters that have surpassed allocations from contingency budgets and disaster funds, revealing a gap in sufficient financial provisions for major disaster events.

Disaster-related expenses increase yearly, yet the government struggles to recoup costs from past incidents.

No contingent credit facilities exist for Lao PDR to access additional funds in emergencies, despite such mechanisms being available for recovery purposes through private creditors and international partners, including the World Bank.

Contingent credit could offer bridge financing for quick post-disaster recovery, allowing the government to secure short-term loans based on specific triggers, such as disaster declarations.

Challenges in damage assessment include time-consuming processes and compromised accuracy due to rushed information gathering.

The lack of comparative data further hinders analysis, underscoring the need for annual baseline data establishment.

Budget limitations often prevent the Central Disaster Management Committee (CDMC) or Provincial Disaster Management Committee (PDMC) from conducting on-site assessments, impacting the completeness and reliability of assessments.

The Secretariat of the CDMC collects disaster information in Excel. It maintains the Lao Di database with annually updated raw data but faces limitations due to a lack of detailed analysis and specialized staff expertise.

Moreover, coordination between the CDMC and relevant ministries is inadequate due to restrictive laws and regulations, contributing to insufficient government support for disaster preparedness and response.

Financial allocations primarily focus on disaster response, relief, and reconstruction, with minimal investment in preparedness.

A comprehensive database to support contingency planning requires fundamental budget data for disaster expenditures, preparedness, response, relief, and reconstruction is absent.

Knowledge about SEADRIF insurance at provincial and district levels is limited and needs expansion.

Recommendations



1. Strengthen the capacity of disaster management committees at all levels through a capacity development plan, improving their understanding of disaster management.
2. Increase state investment in disaster management to develop a comprehensive database system for better reporting, including budgets for disaster expenditures and preparedness, response, relief, and reconstruction needs.
3. Enhance emergency assistance and post-disaster recovery coordination, including systematic, uniform, centralized assessment, and information collection.
4. Establish an effective post-disaster reimbursement mechanism with monitoring, budget planning, and expenditure tracking for disaster operations.
5. Develop compatible technologies and standardized methods for data collection and sharing between the LaoDi database and all relevant ministries.
6. Update and strengthen the LaoDi disaster information system with detailed and transparent reporting formats.
7. Improve the accuracy of assistance disbursement and prevent duplication by enhancing coordination among the CDMC, its Secretariat, and the Ministry of Planning and Investment.
8. Amend current legislation to facilitate a more immediate flow of funds and develop a comprehensive

- funding plan with a dedicated emergency trust fund.
9. Create guidelines and standards for evaluating the impacts of disaster events and develop regulations for better emergency response coordination.
 10. Implement new processes for disaster declaration and the distribution of payments from the emergency fund to ensure transparency and accountability in using external relief funds.
 11. Promote awareness of SEADRIF insurance at the district and provincial levels to facilitate claims for repairing damaged property and infrastructure.



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Annexures

Annex 1 References and Relevant Legal Instruments

The laws and regulations that govern PFM and DRM reviewed for this report included:

- *The Disaster Management Law, No. 71/NA, dated June 24th, 2019;*
- *Procurement law (Amended), No. 30/NA, dated November 02nd 2017;*
- *State Budget law (Amended), No. 71/NA, dated December 16th, 2015;*
- *State Investment law (Amended), No. 72/NA, dated December 15th, 2015;*
- *Meteorology and Hydrology Law, No. 36/NA, dated November 13th, 2017;*
- *Value Added Tax Law, No. 48/NA, dated June 20th, 2018;*
- *Income Tax Law, No. 67/NA, dated June 18th, 2019;*
- *Exercised Tax, No. 68/NA, dated June 19th, 2019;*
- *Tax law (Amended), No. 66/NA, dated June 17th, 2019;*
- *Custom law (Amended), No. 81/NA, dated June 19th, 2020;*
- *Decree on Organization and Operation of the Disaster Management Committee, No. 199/PM, dated May 08th, 2023;*
- *Decree on Disaster Management Fund, No. 631/GoV, dated December 24th, 2020;*
- *Decree on Road Fund, No. 130/GoL, dated June 01st 2016;*
- *Decree on Environment Protection Fund, No. 94/GoV, dated March 08th 2017*
- *Decree on Management and Usage of Official Development Assistance, No. 357/GoV, dated October 09th 2019;*
- *Decree on Social Welfare, No. 169/GoV, dated June 19th, 2013;*
- *Decree on State Reserves, No. 291/GoV, dated November 05th 2013;*
- *Decree on National Treasury, No. 259/NA, dated June 01st 2010;*
- *Decree on Climate Change, No. 321/GoV, dated September 18th, 2019;*
- *Decree on Endorsement and Enforcement of Climate Change Strategy of Lao PDR, No. 137/PM, dated March 12th, 2010;*
- *Decree on Endorsement and Enforcement of Disaster Risk Reduction Strategy 2021-2030, No. 510/PM, dated July 26th, 2021;*
- *Decision on Social Welfare Fund, No. 1977/MoLSW, dated July 19th, 2018;*
- *Decision on Organizing and Operation of the Disaster Management and Climate Change Committee, No. 6389/MoES, dated November 22nd, 2022,*

- *Decision on Usage of State Budget, Save, and Extravagant, No. 0200/MoF, dated January 25th, 2023;*
- *Instruction on Management and Usage of Donation Fund for Disaster Assistance (Instruction No.1516/MoF, dated May 21st, 2019).*
- *Instruction on Implementation of Procurement Law, No. 0477/MoF, dated February 13th, 2019;*
- *Additional Instruction on Article 13 and Article 31 of Instruction on Implementation of Procurement Law, No. 1995/MoF, dated June 24th, 2019;*
- *Instruction on Management and Usage of Joint State Budget for Implementation of ODA, No. 1987/MPI, dated November 17th, 2020;*
- *Instruction on Implementation of Decree on Social Welfare, No.874/MoLSW, dated February 23rd, 2015;*
- *Instruction on Management of Revenues-Expenditures of Technical Service's fees and State fund, No. 0016/MoF, dated January 03rd, 2019;*
- *Instruction on the Inspection of State Budget Management, No. 1672/MoF, dated June 03rd 2019;*
- *Instruction on State Budget Implementation, No. 0018/MoF, dated January 03rd 2019;*
- *Notification on providing leftover budget into the state budget's account no.0846/MoF dated March 23rd, 2020.*
- *The 9th Five-Year National Social-Economic Development Plan (NSED)2021-2025;*
- *Vision to 2030 and Public Finance Development Strategy to 2025;*
- *Annual budget plan and five-year budget plan;*
- *Lao PDR Resilience Framework 2022-2025;*

The legislation that governs DRM at the provincial level includes

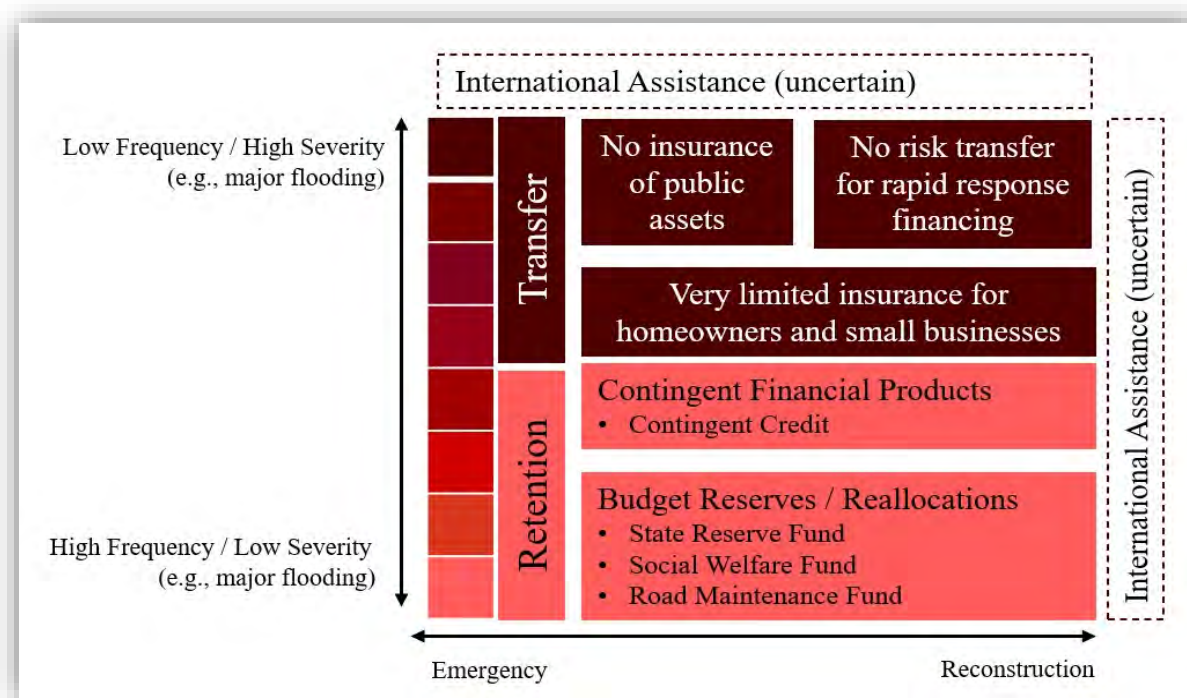
- *Decision on Disaster Management Fund, No. 437/PG.ZBY, dated March 22nd, 2023;*
- *Decision on Disaster Management Fund, No.388/PSY, dated May 12th, 2022;*
- *Decision on Disaster Management Fund and Social Welfare, No. 90/PG.XK, dated May 16th, 2022;*
- *Decision on Disaster Management Fund and Social Welfare (Amended), No. 111/ODY, dated February 24th, 2022;*
- *Decision on Reserved Fund for Disaster Victims, No. 1096/PG.ODY, dated July 31st, 2018;*
- *Decision on Compensation for Victims from Flood Risk Management Project in Xay District, Oudomxay Province. No. 1105/PG.ODY, dated September 15th, 2020.*

Annex 2. Risk-Layering Approach

Three-tiered risk-layering strategy

Lao PDR has adopted a Disaster Risk Finance Strategy based on risk-layering. Risk-layering means less expensive funding sources come first, and more expensive ones arrive under highly needed circumstances. The Lao PDR Government's risk-layering strategy is below.

Figure 6: Three-tiered risk-layering strategy available to the Lao PDR government



Annex 3. Scope of Use of Funds

Comparison of the scope of use of funds for disaster-related expenditure

Name of Fund (responsible agency)	Preparedness	Relief and Response	Rehabilitation and Reconstruction
National Contingency Fund (State Budget Department, MoF)		✓	✓
State Reserve Fund (State Budget Department, MoF)	✓	✓	✓
Social Welfare Fund (MoLSW)		✓	
Disaster Management Fund (DSW, MoLSW)	✓	✓	
Road Maintenance Fund (MPWT)			✓
Provincial Emergency Fund (e.g., Bolikhamxay, Xayyabouly, Oudomxay Province)		✓	

Annex 4. Disaster Assessment and Reporting

Responsibilities for disaster assessment and reporting

VDMC: Village Disaster Management Committee (VDMC)

DDMC: District Disaster Management Committee (DDMC)

PDMC: Provincial Disaster Management Committee

CDMC: Central Disaster Management Committee

Figure 9: Disaster at Villages Level

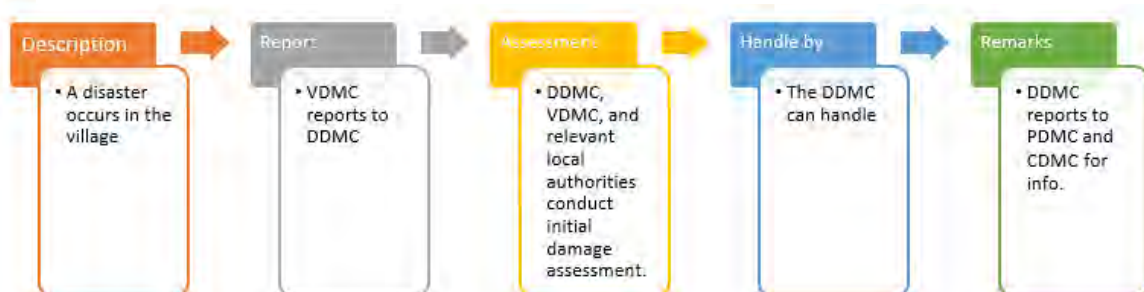


Figure 9: Disaster at Villages and Districts Level

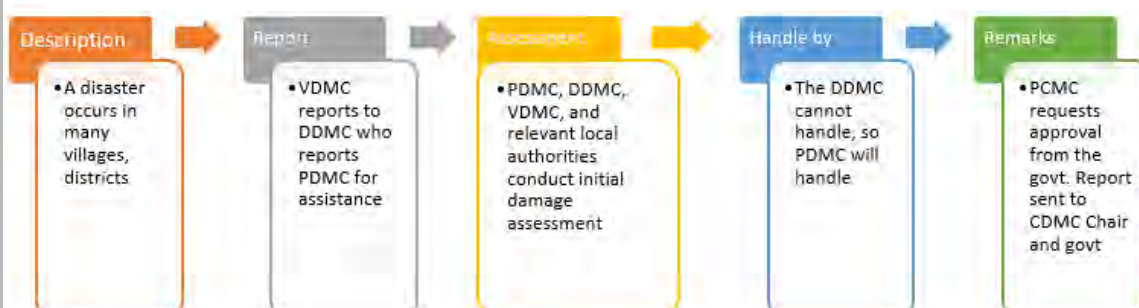


Figure 9: Disasters at Districts and Provinces Levels

