

Lao PDR

Development Finance Assessment

Seizing opportunities to deliver sustainable
LDC graduation through an integrated
national financing framework



November 2017

Contents

Executive summary	1
1. Introduction	4
2. Context	6
2.1 Sustainable development	6
2.2 Policy objectives	9
3. Financing landscape: bottlenecks, challenges and opportunities	11
3.1 Overall financing landscape.....	11
3.2 Domestic public resources.....	12
3.3 International public resources	13
3.4 International private resources.....	17
3.5 Domestic private resources	20
4. The building blocks of an integrated national financing framework	23
4.1 Assessment of the existing framework.....	23
Building Block 1: Leadership and institutional coherence	25
Building Block 2: Vision for results	25
Building Block 3: Financing strategy	26
Building Block 4: Financing policies for specific flows	28
Building Block 5: Monitoring and evaluation	30
Building Block 6: Accountability and dialogue	31
5. Private sector development	33
5.1 Introduction.....	33
5.2 Opportunities for increased private sector development	33
5.3 Challenges in the business environment	34
5.4 The private sector in the context of the INFF	35
Building Block 1: Leadership and institutional coherence	35
Building Block 2: Vision for results	36
Building Block 3: Financing strategy	36
Building Block 4: Financing policies for specific flows	37
Building Block 5: Monitoring and evaluation	38
Building Block 6: Accountability and dialogue	38
6. Leaving no one behind	40
6.1 Introduction.....	40
6.2 The challenges of leaving no one behind.....	40
6.3 Leaving no one behind in the context of the INFF	42
Building Block 1: Leadership and institutional coherence	42
Building Block 2: Vision for results	42
Building Block 3: Financing strategy	43
Building Block 4: Financing policies for specific flows	43
Building Block 5: Monitoring and evaluation	45
Building Block 6: Accountability and dialogue	45
7. Conclusions, recommendations and examples of good practice	46

Summary.....	46
Recommendations, including areas for further work	46
Good practices to share with other ASEAN members.....	48
Annex 1: Financing flows data methodology notes.....	50

Executive summary

Across the ASEAN region, ambitions are high for the developmental progress that can be achieved in the era of the Sustainable Development Goals (SDGs). The Government of Lao PDR has set itself the ambitious goals of graduating from least developed country (LDC) status by 2020 and reaching upper-middle-income country (UMIC) status by 2030. Realizing these ambitions will require it to mobilize the right scale and mix of finance, incorporating all resources—public and private, domestic and international. The government has increasingly recognized that, to achieve this, as well as utilizing these resources effectively it requires an integrated national financing framework (INFF), as outlined in the Addis Abba Action Agenda (AAAA). This paper forms part of a project to assess the financing challenges and opportunities that ASEAN countries face, and the policies and institutional frameworks that governments can adopt to address them in implementing the SDGs. It is one of 10 country studies undertaken alongside an ASEAN regional report, in order to facilitate dialogue at the country and regional levels about financing the SDGs.

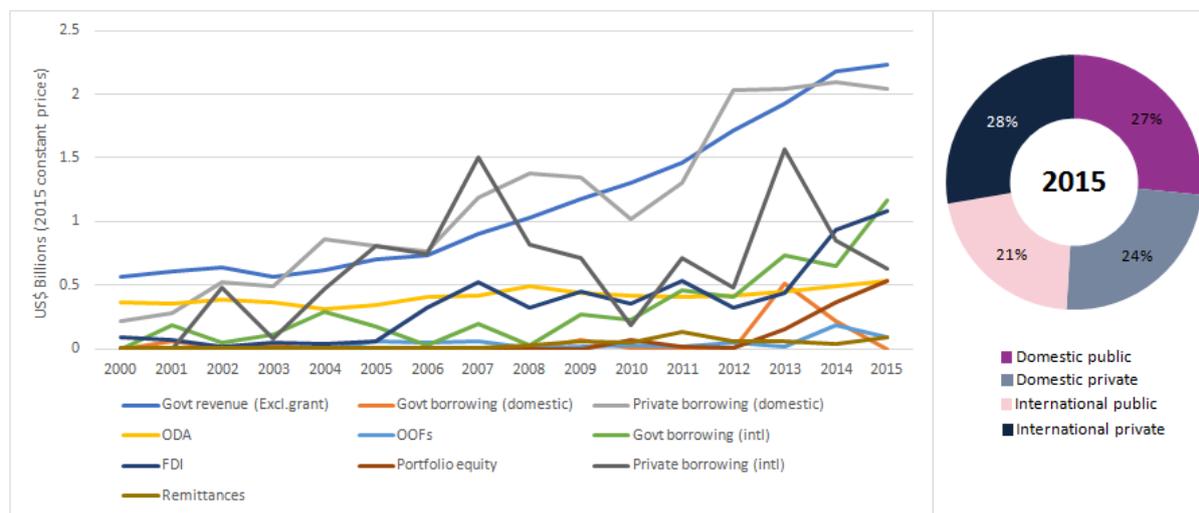
Lao PDR has achieved notable success in recent years on some economic and social indicators, including sustained economic growth, a halving of poverty levels and improved outcomes in health and education. Yet significant challenges remain. Growth has been driven by sectors that provide only low levels of employment, which has led to rising inequality, and levels of poverty and vulnerability remain high. The government faces challenges in delivering quality health and education systems as well as key infrastructure such as water, roads and electricity. There is a significant geographic divide, with those in rural areas in the north and south of the country facing higher rates of poverty and vulnerability and poorer public services and infrastructure. There are also environmental concerns: bigger areas used for mining concessions and agricultural land have reduced the country's forested area from 70 percent of total land area in 1940 to 40 percent in 2010, and the country faces high levels of risk from climate change. Not addressing these environmental issues could harm potential growth areas and threaten the sustainability of any progress achieved in development.

Meeting these challenges will require a sizable increase in all resources, but the outlook for financing is uncertain. Growth in public finances is needed to provide public services and infrastructure to the most marginalized rural communities. However, there are constraints to revenue collection, and increased non-concessional borrowing has meant that the government is facing higher budgetary interest payments, which are constraining its fiscal space. Foreign direct investment (FDI), which has been central to past increases in private finance, is set to decline significantly as hydropower projects are finalized and as a result of a moratorium on new mining concessions. Poor infrastructure and the lack of a skilled workforce have negative impacts on manufacturing growth, and laws restricting foreign participation in the tourism industry create barriers to increasing FDI in other areas. While portfolio equity and domestic private finance resources have increased following the introduction of a securities exchange market, the number of companies listed has stagnated and with it levels of investment. Domestic private finance has been constrained by high interest rates on commercial borrowing and by lack of access to financing, particularly for small and medium-sized enterprises (SMEs). Lao PDR remains highly dependent on international public resources compared with other ASEAN countries, particularly in certain social (e.g. health, education and social welfare) and economic sectors (e.g. agriculture). However, the government faces a number of potential challenges in maintaining levels of investment, as certain development partners are re-prioritizing investments to other geographic areas (e.g. Gavi and the Global Fund), and graduating from LDC status may see the modality of official development assistance (ODA) shift away from grants.

Despite these challenges to increasing development finance, there are also opportunities. Accession to the WTO and integration into the ASEAN Economic Community provide opportunities for increased international trade. Continued investment in transport infrastructure to make Lao PDR “land-linked” and low wages may encourage increased inward

investment. This could aid domestic public resource mobilization, although a balancing act may be required between incentivizing investment and raising revenue. There may also be potential to access other forms of international public resources, such as climate financing.

Figure 1: Development financing has increased almost seven-fold since 2000 and its forms have diversified, but there are challenges ahead in maintaining this trend



	2014	2015	2016	2017	2018	2019	2020	2021
FDI as a % of GDP	21.3	16.7	16.8	17.3	15.6	13.5	9.9	8.2
Non-grant government revenue (%GDP)	17.9	19	16.2	16.6	17	17.3	17.8	17.9

Source: For pie chart refer to Annex 1. For the table, refer to IMF Country Report No.17/53

The concept of an INFF can provide a useful analytical tool to assess a government’s financing policies and institutional structures within the context of the development needs and financing outlook outlined above.

While in Lao PDR there is substantial high-level political commitment to the SDGs and to national long- and medium-term development plans from the President and Prime Minister downwards, coordination across ministries at the technical level could be strengthened and capacity within key ministries could be increased. The country’s Vision 2030 and its 8th Five-Year National Socio-Economic Development Plan (2016–2020) (NSED) provide a clear overarching direction and a guiding policy framework up to 2020, which has broad buy-in across government as well as with development partners. Estimates have been made of the capital investments required for the 8th NSED, although there is no clear detail on what resources could finance which aspect of the plan. The government has recently drafted a public finance strategy to 2025, which is linked to the NSED, although currently it operates on an annual budgeting cycle rather than a medium-term one, which means that there is a lack of coordination between this strategy and development planning. There are also several sectoral and thematic development plans that detail activities alongside financing needs and expected sources, although their coverage and quality vary.

The Vientiane Declaration on Partnership for Effective Development Cooperation (2016–2025) (VDPEDC), the 8th NSED and the sector work plans, as part of the country’s Round Table Process (RTP), have provided a framework for successfully aligning support from development partners. The lack of a clearly defined private sector strategy, however, has hampered the focus on shaping private sector development that would finance the desired outcomes of the NSED and prepare the country for sustainable LDC graduation. The

monitoring and evaluation framework introduced in the 8th NSEDP is aligned with the SDGs, but there is a need for further buy-in to and ownership of the plan, as well as improvements in the statistical systems that monitor it. To further aid alignment with the SDGs, there may be merit in extending it beyond 2020 to 2030.

There is clear government leadership to ensure not only that no one is left behind, but also that those at the local level are empowered with authority over investments. However, the lack of resources constrains service delivery, and there is no focused strategy for how to deliver public services or how to shift to a more inclusive growth model. In addition, data challenges limit understanding of who and where the poorest people are, what their needs are and what financing is reaching them, and this affects planning and policymaking.

In general, despite the developmental and financing challenges it faces, the Government of Lao PDR is showing clear leadership in delivering on the SDGs and on national goals. In all aspects of the INFF, the government has structures in place that link the building blocks together, although this paper finds a number of ways in which they could be strengthened. Overall, the INFF concept may prove useful in framing ongoing reforms and potentially guiding the formulation of the proposed national SDG roadmap, so that the government is able to shape not only its own investments but also those of other development actors, in order to graduate from LDC status in a sustainable manner.

1. Introduction

Across the ASEAN region, ambitions are high for the development progress that can be achieved in the era of the Sustainable Development Goals (SDGs). The Government of Lao PDR is no exception in this regard, having set ambitious targets for the country of graduating from least developed country (LDC) status by 2020 and reaching upper-middle-income country (UMIC) status by 2030. In addition, under these overarching targets, it has set economically focused objectives of more inclusive growth as well as social and environmental objectives to ensure that growth and development are sustained. However, having national development goals that truly emphasize sustained social and environmental principles alongside economic progress also brings challenges for the government. From an economic perspective, diversifying away from an economy based on growth in natural resource sectors that provide only low levels of employment (mining, timber and hydropower) to a model with higher employment and inclusive growth that aims to reduce poverty and inequality will not be easily accomplished. This is especially true when the government is at the same time trying to improve the delivery of public services, within a context of wanting to arrest declines in forest coverage and mitigate against the likely impacts of climate change.

Delivering on these ambitious national development goals will require both the necessary scale and mix of financing—public, private, domestic and international—and for structures to be in place to ensure that resources are sufficient and are allocated in the most effective and efficient manner. Action of this sort at the country level will be key to implementing the SDGs, Financing for Development and other global agendas. The Addis Ababa Action Agenda states: “Cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks [INFFs], will be at the heart of our efforts.”¹ The Inter-Agency Task Force on Financing for Development notes in its 2017 report that INFFs, which take into consideration all financing sources and policies, can provide coherence across strategies and plans designed to implement the SDGs.² An INFF is a framework of policies and institutional structures designed to take a holistic approach to managing and mobilizing all types of financing—domestic, international, public, private—for sustainable development results. It has six building blocks, which work together to align a government’s financing strategy across all available resources. These frameworks provide a structure and a prompt for governments to assess their financing frameworks as a whole, and to guide thinking about reforms that are needed to strengthen them to implement a strategic, holistic, results-driven approach to financing their development objectives.

Using the concept of an INFF, the Development Finance Assessment³ approach⁴ that this paper follows can help countries identify areas for strengthening their management of financing for the SDGs with Integrated Financing Solutions. A DFA helps a government to understand and adapt its policies, institutions and strategies for the financing challenges the country will face in achieving results across the economic, environmental and social dimensions of sustainable development. It supports the government to establish and strengthen an INFF, and assesses two main questions:

¹ Addis Ababa Action Agenda, paragraph 9. http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

² Inter-Agency Task Force on Financing for Development (2017). ‘Financing for Development: Progress and Prospects, 2017’. <https://developmentfinance.un.org/financing-development-progress-and-prospects-2017>

³ UNDP’s Bangkok Regional Hub has been developing the Development Finance Assessment (DFA) and Integrated Financing Solutions to respond to growing demand from countries to establish evidence and analysis and to introduce policy and institutional reforms for managing the increasing complexity of domestic and international sources of finance for development. The DFA and Integrated Financing Solutions support governments to use the concept of the INFF to help strengthen policies and actions for mobilizing different types of finance for economic, environmental and social results within a single, coherent framework. See more at: <http://www.asia-pacific.undp.org/content/rbap/en/home/ourwork/democratic-governance-and-peacebuilding/ap-def.html>

⁴ More on the DFA approach can be found here: <http://www.asia-pacific.undp.org/content/dam/rbap/docs/meetTheSDGs/Achieving%20the%20Sustainable%20Development%20Goals%20in%20the%20Era%20of%20the%20AAAA%20-%20DFAs%20as%20a%20tool%20for%20Linking%20Finance%20with%20Results.pdf>

1. What are the main financing challenges and opportunities for achieving sustainable development objectives?
2. How can the government strengthen an INFF that will address these challenges and opportunities?

With reference to the themes outlined above, the objectives of this DFA paper therefore are firstly to provide background to the developmental context in Lao PDR (Chapter 2), before providing an update on the previous DFA carried out in 2016 and looking at the country's current and future development financing landscape and the challenges and opportunities that exist (Chapter 3). The paper then reviews how the government is structuring development financing within the six INFF building blocks in overall terms (Chapter 4), before looking at the key policy area of private sector development (Chapter 5) and the importance of leaving no one behind (Chapter 6), given that inclusive growth and poverty reduction are high on the government's agenda. Chapter 7 provides a conclusion, alongside recommendations for action and examples of good practice, which hopefully will provide some useful insights for Lao PDR and other ASEAN governments and for development actors.

This paper forms part of a project to assess the financing challenges and opportunities that ASEAN countries face and the policies and institutional frameworks that governments can adopt to address them in implementing the SDGs. It is one of 10 country studies undertaken alongside an ASEAN regional report, in order to facilitate dialogue at the country and regional levels about financing the SDGs.

The approach taken by this paper aggregates a wide range of existing assessments by government, international agencies and other partners that analyse specific aspects of the sustainable development, financing, and policy and institutional contexts. It adds value by collating these analyses, taking a 'big picture' perspective across them and applying the lens of an INFF to assess the priorities for government across financing as a whole. In doing so, it establishes an analytical baseline for an INFF and provides recommendations on how to strengthen the policies and institutional structures that the government uses to manage financing strategies. It presents a number of recommendations outlining steps that the government and its partners can take to strengthen the INFF or leverage new flows, including follow-up discussions and analysis that may be developed in a later phase.

2. Context

2.1 Sustainable development

Since 1990 Lao PDR has seen a significant improvement in its Human Development Index (HDI) score, which has risen from 0.39 to 0.59 in 2015. It is above both Myanmar and Cambodia on the HDI, but is still currently ranked 138th globally and is classified as a “medium human development” country.⁵ A central factor in its improvement has been sustained economic growth over this period, with gross domestic product (GDP) per capita rising in nominal terms from just US\$291 in 2000 to US\$1,925 in 2016.⁶ Against this background, the country has made significant progress in attaining the Millennium Development Goals (MDGs) in a number of areas, but significant challenges remain.

- National poverty rates were halved from 46 percent in 1992/1993 to 23 percent in 2012/2013,⁷ meeting the MDG target, although the country’s poverty levels remain among the highest in the ASEAN region. The proportions of underweight and stunted children declined from 36.4 percent and 48.2 percent respectively in 2000 to 27 percent and 43.7 percent in 2011,⁸ and although a lack of recent data makes it unclear whether the MDG targets (of 22 percent and 34 percent respectively) were met, the country remains one of the lowest-ranked globally on these measures, at 124th out of 132 countries in the case of stunting and 81st out of 130 for underweight children.⁹
- There have been significant declines in both infant and under-five mortality rates, from, respectively, 170 and 104 per 1,000 in 1995 to 67 and 45 per 1,000 in 2015, although the MDG targets were narrowly missed. The major factor behind these falls was a significant increase in vaccination coverage, although it is thought that almost one third of children still do not receive DPT or BCG vaccinations.¹⁰ The picture is similar with regard to maternal health, where MDG targets were met on mortality rates (estimated in 2015 at 197 per 100,000), but not in universal health coverage (UHC).
- Although MDG targets were met on enrolment for both primary and secondary education, large disparities exist between urban and rural areas.¹¹ Also, significant challenges remain with regard to completion rates in education, which in part is a result of the quality of education provided across all levels. Issues commonly cited include a lack of qualified teachers, high teacher absentee rates and a lack of both teaching materials and infrastructure.
- The country met MDG targets on the incidence of tuberculosis, malaria deaths and the prevalence of HIV, although there has been a decline in the number of people living with HIV who are receiving antiretroviral (ARV) treatment (estimated in 2015 at 41 percent¹²) and there has also been an increased incidence of malaria, particularly in the south of the country.
- Access to improved drinking water sources and sanitation facilities has increased significantly, although in 2015 it was estimated that, respectively, 18.5 percent and 24.8 percent of people remained without access.¹³ In the context of environmental issues, the country’s forest cover has declined significantly, from 70 percent of the total

⁵ 2016 UN Human Development Report.

⁶ IMF World Economic Outlook Database (April 2017 version).

⁷ 5th National Human Development Report, Lao PDR.

⁸ Joint malnutrition dataset, May 2017. UNICEF, WHO and World Bank Group.

⁹ Global Nutrition Report (2016).

¹⁰ MDG Progress Report 2015: Progress and Transition of Health-related MDGs to SDGs in Lao PDR.

¹¹ Education for All 2015 National Review – Lao People’s Democratic Republic.

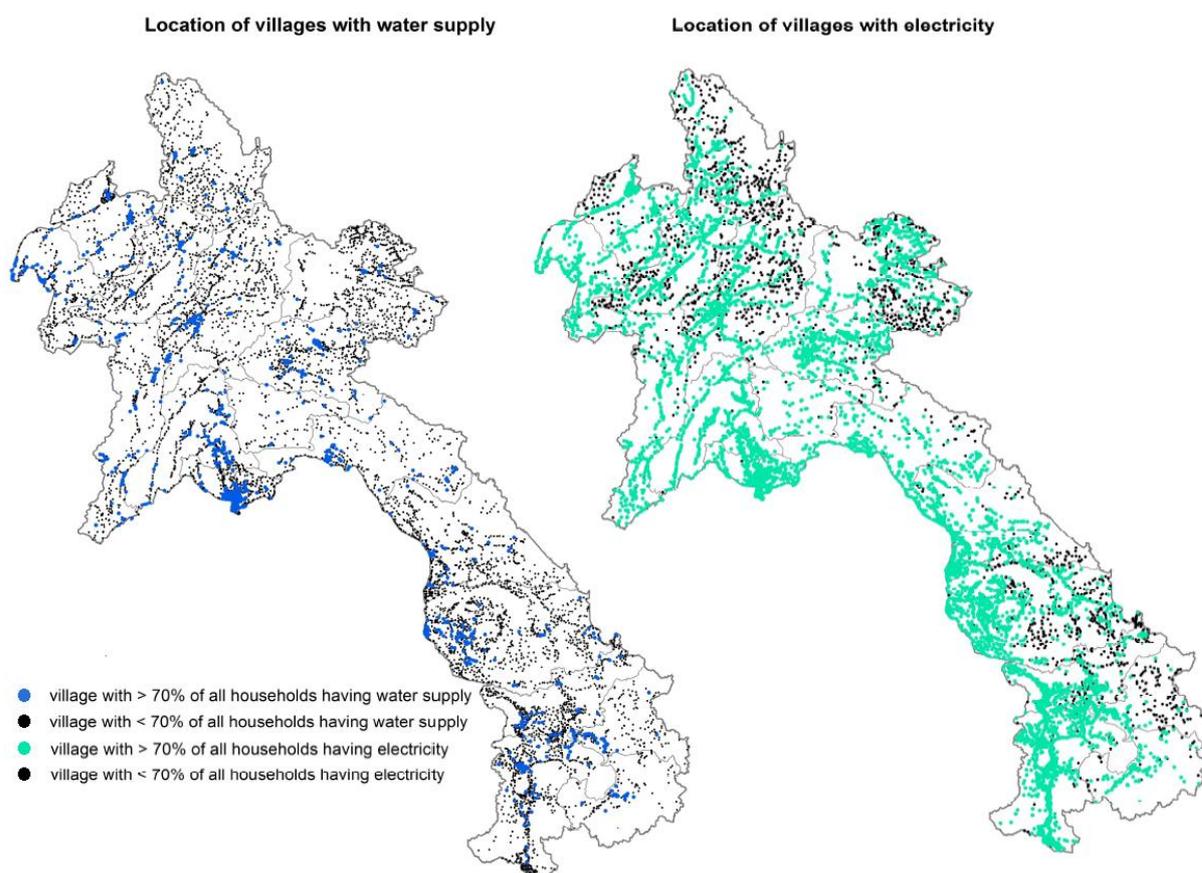
¹² WHO. <http://apps.who.int/gho/data/node.main.626?lang=en>

¹³ Joint Monitoring Programme for WASH – LAO PDR (July 2017 update).

land area in 1940 to around 40 percent in 2010, largely as a result of an increase in agricultural activities.¹⁴

Although the country has made significant socio-economic progress over the past 25 years, it still faces significant challenges as it moves into the era of sustainable development. For example, while MDG attainment indicators and other social outcomes have been broadly positive, there are significant geographical variations, meaning that there are now distinct divides between rural and urban areas and between regions in the north and south of the country compared with the capital Vientiane. For instance, as noted in UNDP's 5th National Human Development Report for Lao PDR (2017), poverty levels in the south of the country increased by 6 percent between 2007/2008 and 2011/2012. Moreover, nearly half the population in Saravane and over 40% in Bokeo and Sekong live in poverty, compared with just 6 percent in Vientiane. This variation is highlighted in Figure 2.1, which shows differences in rural infrastructure not only in different regions but also in villages in similar geographical locations. Meeting development goals will therefore require specific investment of resources to bridge this development divide, which in turn requires a clear understanding of the needs of populations at the local level.

Figure 2.1: Significant variations exist in rural access to basic infrastructure



Source: Lao Population and Housing Census 2015 – Provisional Report

Although economic growth has remained robust, it has been driven primarily by expansion in the mining and hydropower sectors. This has given rise to a number of challenges. The first is that reliance on specific sectors can leave the economy vulnerable to external shocks (e.g. the impact of falling global or regional demand on metal prices) or to internal supply issues (such as the current moratorium on new mining concessions). In recent years both of these factors have led to reduced economic growth. The second is that neither the mining nor the

¹⁴ National Rio+20 Report for Lao PDR.

hydropower sector has provided much in the way of employment opportunities for the country (Figure 2.2; mining and hydropower are included in the secondary sector), meaning that income inequality has risen (from 34.6 in 2002 to 37.9 in 2012/2013¹⁵) as the agriculture sector, which provides the bulk of employment in Lao PDR, has suffered from low growth and productivity.

Figure 2.2a: The economy is diversified between the primary, secondary and tertiary sectors, but...

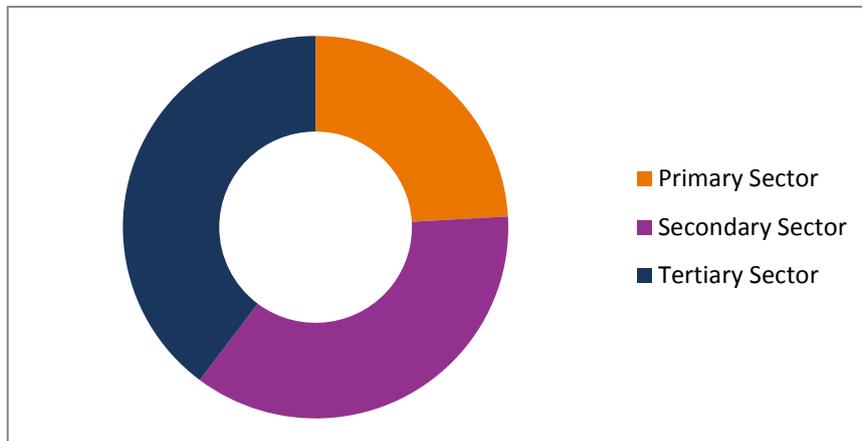
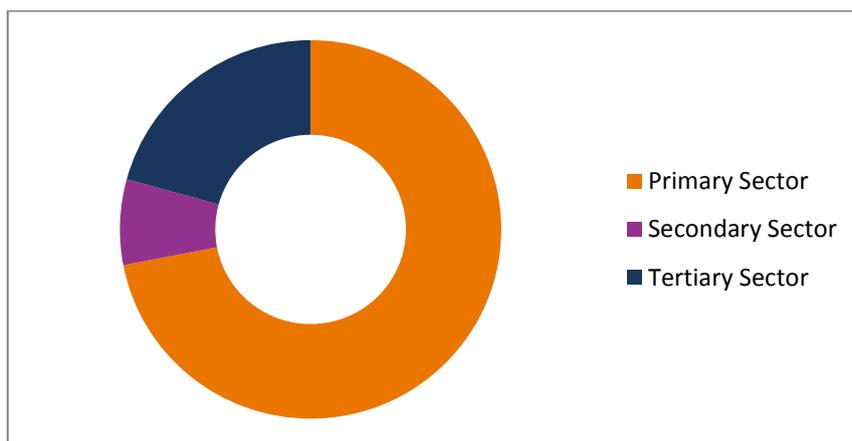


Figure 2.2b: ...employment is concentrated in the primary sector (agriculture)



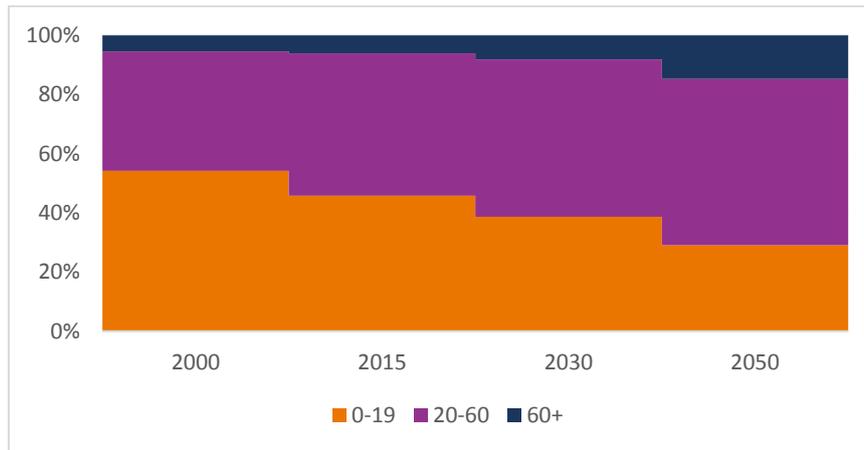
Source: 2015 Population and Housing Census, Lao Statistics Bureau

This lack of inclusive, employment driven growth poses a continued challenge as the working age population is set to increase substantially, from an estimated 3.2 million in 2015 to 4.5 million in 2030 (Figure 2.3). The increase in human resources presents a clear demographic dividend with significant opportunities to drive robust growth, as has been the case in other east Asian countries (e.g. Republic of Korea and China). However, it will be crucial to ensure that the working population are in productive employment, which demands that the labour market has sufficient absorptive capacity and that people are sufficiently qualified to participate in it. However, key impediments to creating a skilled workforce include low enrolment rates in secondary and tertiary education and the inability of educational institutions to provide the quality of education needed.¹⁶

¹⁵ World Bank Open Data. data.worldbank.org

¹⁶ Ministry of Education and Sports, Lao PDR – Annual Report 2014–2015 and Plan 2015–2016.

Figure 2.3: The working-age population is set to increase significantly



Source: UNDESA Population Division

The country is also facing significant challenges in terms of its geography and environment. First, as the only landlocked country in the ASEAN region it faces difficulties in exporting goods beyond the borders of its immediate neighbours, not only logistically but also from the perspective of cost and comparative advantage. Also, given its mountainous topography and sparse population density, infrastructure development and service provision covering the whole population are likely to be costly. From an environmental perspective, the reduction in forest cover due to agricultural expansion brings with it challenges of changing hydrology and soil fertility. In addition, given the country's topology of mountainous areas and floodplains, climate change is expected to have a significant effect, with increased temperatures and rainfall predicted to have a negative impact on agricultural production and to increase the proportion of the population at risk of environmental disaster.¹⁷ These geographic and environmental factors will play a significant role in shaping progress, and so it is essential that development plans take account of them and can be adapted to mitigate their impacts.

2.2 Policy objectives

The sustainable development context described above is well known to the national government, and it has provided clear policy objectives to meet the challenges faced through the overarching Vision 2030, the 10-Year Socio-Economic Development Strategy and the current (8th) Five-Year National Socio-Economic Development Plan (2016–2030) (NSEDP).

The key overall policy objective of the 8th NSEDP is for the country to graduate from LDC status by 2020 in a way that meets all of the assessment criteria (income, economic vulnerability and human assets) to enable it to continue to grow sustainably after graduation, while the goal of Vision 2030 is to reach UMIC status. The overall objectives of the 8th NSEDP also include achieving the SDGs and in particular reducing poverty. The 8th NSEDP has three main policy outcomes to achieve this.

1) Sustained, inclusive economic growth with economic vulnerability reduced to levels required to support growth. This is based on seven specific outputs:

- Output 1: sustained and inclusive economic growth
- Output 2: macroeconomic stability
- Output 3: integrated development planning and budgeting
- Output 4: balanced regional and local development
- Output 5: improved public/private labour force capacity
- Output 6: local entrepreneurs competitive in domestic and global markets
- Output 7: regional and international cooperation and integration.

¹⁷ http://www.mekongarcc.net/sites/default/files/lao_pdr_eng_may2014-press-small_2.pdf

2) Human resources are developed and the capacities of the public and private sectors are upgraded; poverty in all ethnic groups is reduced, and all ethnic groups and both genders have access to quality education and health services; the unique culture of the nation is protected and consolidated; and political stability, social peace and order, justice and transparency are maintained. This is also based on seven specific outputs:

- Output 1: improved living standards through poverty reduction and the Sam Sung process
- Output 2: food security is ensured and the incidence of malnutrition is reduced
- Output 3: access to high-quality education
- Output 4: access to high-quality health care and preventive medicine
- Output 5: enhanced social welfare
- Output 6: protection of traditions and culture
- Output 7: political stability, order, justice and transparency.

3) Natural resources and the environment are effectively protected and utilized according to principles of green growth and sustainability; there is readiness to cope with natural disasters and the effects of climate change and for reconstruction following natural disasters. This is based on three specific outputs:

- Output 1: environmental protection and sustainable management of natural resources
- Output 2: preparedness for natural disasters and risk mitigation
- Output 3: reduced instability of agricultural production.

Along with these three main policy outcomes, the government has highlighted a number of cross-cutting outputs:

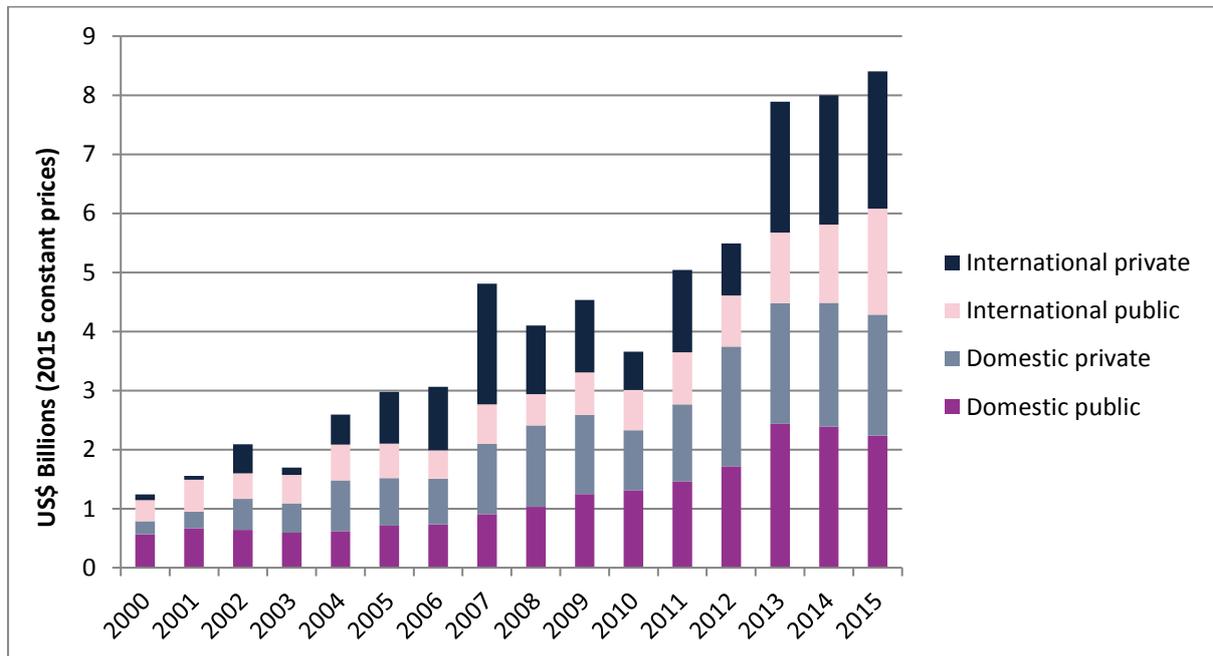
- Output 1: public governance and administration enhanced
- Output 2: local innovation and use of science, technology and telecommunications promoted, information and communication technologies (ICT) enhanced
- Output 3: gender equality and empowerment of women and youth.

3. Financing landscape: bottlenecks, challenges and opportunities

3.1 Overall financing landscape

With sustained economic growth since 2000, Lao PDR has seen a significant increase in real terms in financial resources: not only total amounts but also in all sources of financing—domestic, international, public and private (Figure 3.1). In 2000 the development financing landscape was dominated by international public and domestic public resources but over time, as the economy has been increasingly liberalized, private sector development both domestic and international has grown significantly, and in 2015 each different type of resource provided roughly similar levels of finance for the country.

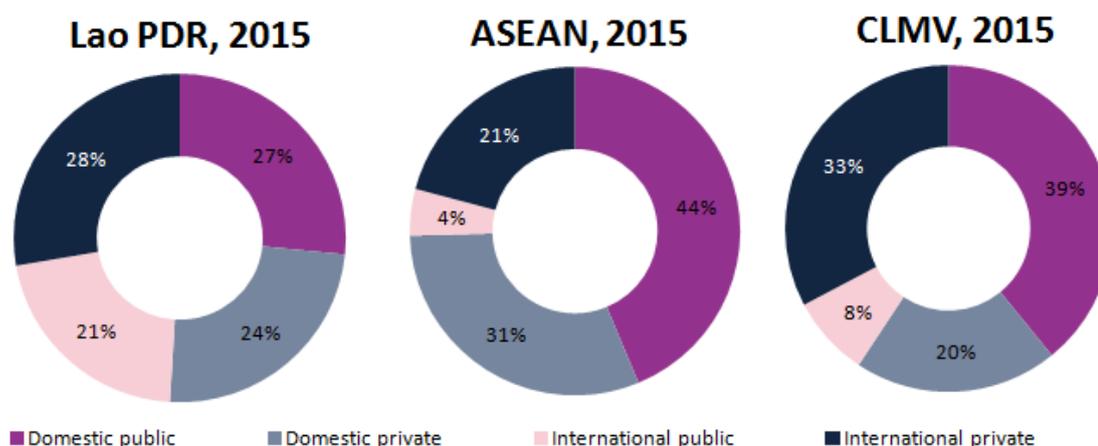
Figure 3.1: Both domestic and international private finance have increased significantly over time



Source: Refer to Annex 1

While the development financing landscape has changed significantly, it remains very different from that of ASEAN countries as a whole. For example, in Lao PDR there is greater dependence in proportional terms on international public finance and less on domestic public resources (Figure 3.2). The situation is similar when looking at the CLMV grouping of Cambodia, Laos, Myanmar and Viet Nam.

Figure 3.2: Despite an increased and diversified mix, the financing structure remains very different from the rest of ASEAN



Source: Refer to Annex 1

3.2 Domestic public resources

As shown in Figure 3.1, domestic public resources grew significantly in real terms between 2000 and 2015, from around \$570 million to \$2.2 billion. This success was due not only to sustained high levels of economic growth but also to increasing levels of revenue collection as a proportion of economic output (from around 14.5 percent in FY 2000/2001 to 19 percent in 2014/2015). This improved mobilization of domestic public resources as a percentage of GDP is a result of increases in both natural resource-based and non resource-based revenue.

However, in FY 2015/2016 there was a fall in revenue both in real terms and as a percentage of GDP (to 16.2 percent), due to falling global mineral prices and lower than expected non-resources revenue (especially value-added tax (VAT) and excise duty), at both local and national government levels. This had a significant impact on the fiscal deficit and necessitated a revision of the budget to curtail government expenditure. At present the government is still some way off meeting the capital requirements of the 8th NSEDP, with the 2015/2016 state budget allocating only around LAK1.4 billion (Lao kip), against the stated benchmark the government has set itself of LAK4.5 billion per annum.

Despite this setback, the government of Lao PDR sees significant potential to expand domestic public resources, and this is a key driver of its financing policy in national development plans. For example, the 2017 Public Finance Development Strategy from the Ministry of Finance (MoF) targets domestic public resource mobilization in the 2016–2020 period at 16–18 percent of GDP, based on economic growth of 7.2 percent per annum. This is expected to be achieved with new hydropower plants coming online, combined with increases in indirect VAT and excise taxation and trade taxes as a result of improved revenue collection (Table 3.1).

Table 3.1: The government hopes to raise additional domestic public resources in the medium term

	2015/2016	2017	2018	2019	2020
1. Tax revenue (% of GDP)	14.3	14.3	14.8	15.0	15.4
Profits tax	1.9	1.6	1.6	1.5	1.5
Income tax	1	1.0	1.0	1.1	1.2
VAT	3.8	3.9	4.0	4.2	4.3
Excise tax	3	3.3	3.6	3.7	3.6
Import duties	1.5	1.5	1.6	1.7	1.7
Hydropower royalties	0.7	0.8	0.8	0.9	0.9
Mining royalties	0.5	0.4	0.3	0.2	0.2

Other	1.8	1.8	1.8	1.8	2
2. Non-tax revenue (% of GDP)	1.9	2.3	2.3	2.3	2.4

Source: IMF Country Report No.17/53, based on MoF long-term fiscal outlook

In order to increase non resource-based revenue, the government has targeted improved administration through better compliance and staff capacity (e.g. improving the collection of lump sum tax) and has enacted changes to the tax regime as set out in the 2015 Tax Law, such as increasing excise taxation on certain goods.

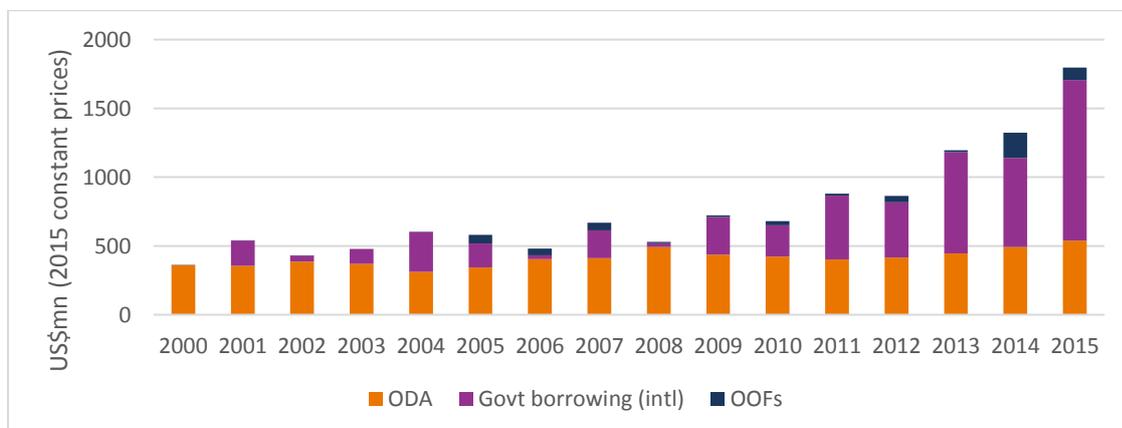
While there is potential for increased revenue mobilization, the government faces challenges both in the medium term to 2020 and in the longer term to 2030. First, improving revenue administration is likely to require significant investment in order to improve human resources (e.g. more district tax officers) and infrastructure (e.g. improved taxpayer offices and recording systems), and this is challenging given the government’s current financial position. In addition, the largely informal SME sector is a clear bottleneck, with compliance issues in some respects outside of the government’s direct control. Looking forward to 2030, with the proposed ASEAN Free Trade Area (AFTA) it is likely that collection of customs taxes will decline, and the shortfall will have to be met by other revenue streams. New mining operations may potentially provide increased domestic public resources, although it is not clear when the current moratorium will be lifted, as the government is keen to ensure that mining activity takes account of the interests of local communities and environmental concerns.¹⁸

3.3 International public resources

Overseas public development assistance has played a major role in financing development in Lao PDR and it continues to do so. Since 2000, levels of international public resources have remained relatively stable in real terms, with the result that this form of financing now makes up a smaller proportion of development financing overall (Figure 3.3). However, in 2015 it was significantly higher than the proportion for the ASEAN or CLMV country groupings, at 23 percent.

Within the overall resource mix, official development assistance (ODA) has until recently been the major source of international public finance, although since 2013 increased government borrowing—primarily from Thailand and China to support infrastructure development—has seen this become the largest flow (Figure 3.3). Other official flows (OOF), although making up a smaller proportion of total international public resources, have been utilized in the past, most recently through the Asian Development Bank (ADB) in 2014 and from France in 2012 to support hydropower development.

Figure 3.3: ODA has provided consistent levels of financing, with government borrowing increasing in 2014 and 2015



Source: Refer to Annex 1

¹⁸ http://www.vientianetimes.org.la/FreeContent/FreeContent_PM245.htm

The total estimated amount of international public resources in 2015 was \$1.8 billion; while not all of this was capital investment, it is significantly higher than the level of investment outlined in the 8th NSEDP, of around \$764 million. However, the growing use of non-concessional borrowing since 2014 has increased the level of public debt to 65.8 percent of GDP, with 12.8 percent of it being non-concessional as opposed to 3 percent in 2013. This has led the IMF to state that the government is currently at high risk of external debt distress.¹⁹ This is underlined by the fact that government interest payments on external finance increased from 0.2 percent of GDP in 2013/2014 to 1.1 percent in 2015/2016.

As for ODA, in 2015 total gross disbursements were \$538 million, of which two thirds was in the form of grants (Table 3.2). ODA grant disbursements were spread across a large variety of areas in the social, economic and governance sectors. Although loans made up one third of ODA, this was concentrated primarily within the infrastructure sector (Table 3.2).

Table 3.2: ODA grant and loan disbursements by sector, 2015

Sector	ODA grants (US\$ millions)	ODA loans (US\$ millions)
Agriculture and food security	41.5	2.4
Banking and business	6.7	0.0
Education	44.2	-0.2
Environment	14.4	0.8
Governance and security	44.4	0.0
Health	56.3	0.0
Humanitarian	8.6	11.5
Industry and trade	15.0	2.1
Infrastructure	39.6	95.7
Water and sanitation	37.0	1.2
Other social services	5.4	5.7
Other	70.9	35.4
Total	384.0	154.4

Source: OECD Creditor Reporting System (CRS)

The primary channel of delivery for ODA is through the Lao PDR government, which accounts for over 50 percent of the total. This can be seen when looking at the major providers of ODA (Table 3.3). Almost no ODA is channelled through recipient country NGOs, as development partners provide only limited support to national non-profit associations (NPAs); moreover, these still require significant support for capacity development to be able to deliver larger portions of ODA. The majority of ODA provided bilaterally in 2015 originated from within the Asia-Pacific region; although other Development Assistance Committee (DAC) donors also provide financing, typically this is not specifically through the Lao government. Multilateral organizations such as the ADB and the World Bank (through the International Development Association (IDA)) also provide significant support.

¹⁹ IMF Country Report No.17/53.

Table 3.3: Main disburers of ODA and their respective channels of delivery in 2015 (US\$ millions)

Channel type	Japan	Korea	ADB	Thailand	Australia	IDA	Germany	United States	Switzerland	Luxembourg	Total
Recipient Government	101.2	66.0	67.9		8.2	28.8		0.1	2.8		275.0
Donor Government	0.2	18.5		41.1	4.4			2.5	0.5		67.1
Donor country-based NGO	3.7	1.5			0.4			13.2	7.0	8.7	34.5
Public Sector (unspecified whether donor or recipient)					1.5		27.2				28.8
Other	2.1	2.1	0.0	0.0	8.4	0.0	0.5	2.5	4.8	2.7	23.2
United Nations		0.1					0.1	7.0	4.9	4.8	16.9
Public-Private Partnerships (PPPs) and Networks					13.5						13.5
Total	107.2	88.2	67.9	41.1	36.4	28.8	27.8	25.3	20.0	16.2	458.9

Source: OECD CRS

While ODA may be a small resource in overall development financing, it plays a significant role in financing certain sectors, both in overall terms and in the government budget, given that the majority of it is channelled through the government. Table 3.4 shows that total ODA disbursements accounted for around 16 percent of the state budget in FY 2014/2015, but that its contribution was significantly higher in certain economic sectors, such as infrastructure and agriculture, and in social sectors such as health. Also, the contribution of foreign assistance to capital spending within the state budget is very high: for example, in 2015/2016 it made up almost 60 percent of total capital spending and was significantly higher in key social and economic sectors, including health, where it accounted for over 80 percent of the total. A principal reason for this is the lack of fiscal space available to the government to invest domestic public resources in capital projects. For example, in 2015/2016 the total recurrent budget (16.4 percent of GDP) was higher than the total amount of non-grant revenue collected (16.2 percent).

Table 3.4: ODA and external on-budget assistance play a significant role in key social and economic sectors

	2013/2014	2014/2015	2015/2016
Total			
ODA as a % of state budget	13.0	16.2	
Foreign capital as a % of total state budget capital spending	66.0	68.4	59.4
Agriculture			
Agriculture ODA as a % of agriculture state budget		36.7	
Agriculture state budget: foreign funding of capital spending as a % of total capital spending	62.5	71.2	54.9
Education			
Education ODA as a % of state budget		9.5	
Education state budget: foreign funding of capital spending as a % of total capital spending	69.2	58.6	70.6
Health			
Health ODA as a % of state budget		24.0	
Health state budget: foreign funding of capital spending as a % of total capital spending	77.0	82.0	82.4
Infrastructure			
Infrastructure ODA as a % of state budget		31.8	
Infrastructure state budget: foreign funding of capital spending as a % of total capital spending	59.8	63.0	65.7

Sources: OECD CRS; State Budget Plans FY 2013/2014, FY 2014/2015 and FY 2015/2016

This dependence is further apparent when looking at specific projects and programmes of government ministries. For example, the whole of the school feeding programme under the Ministry of Education is dependent on grants from partners,²⁰ while many of the government's social protection programmes are reliant on external support,²¹ as are statistical surveys carried out by the Lao Statistics Bureau.

Looking at specific financing apart from ODA, there is also significant investment by non-DAC countries, such as China, India and Thailand. For example, Chinese financing has typically been in the form of OOF-like flows, with major investment previously in hydropower and more recently in the \$5.8 billion China–Laos high-speed railway.²² Between 2006 and 2013, the Government of Thailand provided \$293 million in ODA-like flows to Lao PDR. The Indian government has supported several projects through Indian lines of credit, with a total value of \$160 million since 2004.²³

While current levels of international public development financing may well be sufficient to meet the funding requirements laid out in the 8th NSEDP, there remain a number of challenges in maintaining these levels, both up to 2020 and beyond to 2030.

The framework for international non-governmental organization (INGO) support detailed in the Decree on INGOs (2010) and the guidelines for implementation (2015) stipulates certain requirements for types of support (e.g. INGOs are not able to directly support NPAs, and their projects need to have 70 percent of their funding budgeted towards the cost of activities²⁴) and requires INGOs to carry out certain administrative duties, such as agreeing a memorandum of understanding (MoU) with the government and reporting on activities. This is the government's preferred method of INGO support, but it potentially creates barriers to the involvement of some INGOs in the country, and others who have wanted to obtain a licence to operate have faced significant delays in obtaining MoUs. Therefore, continued dialogue with INGOs around the process of obtaining operating permits may open up opportunities for further ODA investment in the country.

Government borrowing has significantly increased the amount of international public resource inflows into the country since 2014; however, the non-concessional nature of such borrowing is having an impact on the government's fiscal position, which potentially will affect development spending from domestic public resources over the coming years. Therefore, utilizing this form of financing is a key challenge, both in terms of selecting areas with a high likelihood of a return on investment and ensuring the sustainability of public debt.

Within the wider context of global ODA, there has been growing emphasis on development partners focusing on need (e.g. poverty levels or specific sector needs) and on geography (e.g. increasing flows to Africa). This poses a challenge for the Lao government in both the short and longer terms, given that it remains heavily reliant on this form of finance for its own delivery of services within key social and economic sectors. In the shorter term, it is expected that key funders to the health sector, such as Gavi and the Global Fund, will continue to reduce their support and that alternative funding for these programmes will be required. Also, the government's key aim of LDC graduation could potentially hamper access to the highest level of concessional grants and loans, which—unless domestic public resources increase—poses a challenge for the government in funding the delivery of basic services. In this regard, lessons from other countries that have recently graduated may be helpful, such as Samoa (Box 3.1). The development contexts may differ, but for Samoa (and also the Maldives) having a clear transition strategy in place that allows development partners to commit long-term support has

²⁰ Ministry of Education Report 2014–2015.

²¹ Social Protection in Lao PDR – Frameworks, Vulnerabilities, Coping Strategies and Gaps.

²² <https://www.asiasentinel.com/econ-business/china-laos-railroad-project/>

²³ <https://www.odi.org/sites/odi.org.uk/files/resource-documents/10458.pdf>

²⁴

<http://www.directoryofngos.org/ingo2/a/download?id=document2165&field=file¬etype=document&file=MjAxNV9HdWlkZWxpbmVzIE1vRkFfSU5HT19FbmcucGRm>

been crucial to maintaining levels of ODA, along with increased alignment and ownership over ODA financing.

Box 3.1: Experiences and lessons from Samoa on ODA financing after LDC graduation

Before Samoa graduated from LDC status in 2014, there was concern that levels of ODA support would fall, as certain funds were linked to the country's LDC status (e.g. the LDC Fund for climate change), and that the support received would consist more of loans rather than grants (such as support from multilateral institutions). Another concern was that UN agencies would withdraw funding that allowed the country to participate in international conferences.

However, since Samoa graduated from LDC status, levels of ODA have remained stable. One key reason for this has been the reforms initiated by the government before graduation, such as implementation of the national development plan (2012–2016) and the linked joint policy agreement with development partners. This has meant that grant support from key partners, such as Australia and New Zealand, has been maintained, with increased levels of budget support due to improved government structures. The government has also managed to maintain its travel budget with several UN agencies on a transitional basis.

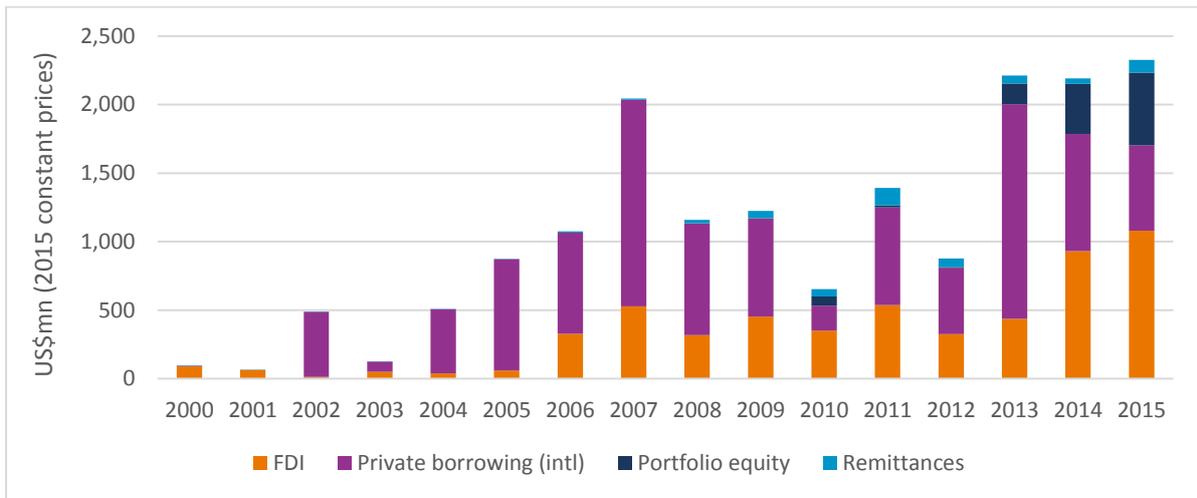
In addition, the Samoan government has continued to increase levels of wider international public financing from China and India, although this support has consisted mainly of concessional lending and public debt has increased to over 50 percent of GDP. However, the government has improved its own fiscal position, by rationalizing expenditures and increasing revenues by 1.5 percent of GDP from 2014/2015 to 2015/2016, although further increases are required to reduce aid dependence.

Sources: IMF Country Report 17/112; 'Samoa's Smooth Transition Strategy Report 2015'; 'Monitoring of Graduated Countries from the Category of Least Developed Countries – Maldives and Samoa (March 2015)'

3.4 International private resources

Since 2000, inflows of international private resources have grown significantly in real terms, to an estimated \$2.3 billion in 2015. The mix of international private resources has also increased over time, with foreign direct investment (FDI) and private equity increasing significantly since 2014 (Figure 3.4).

Figure 3.4: The mix of international private resources has changed significantly over time



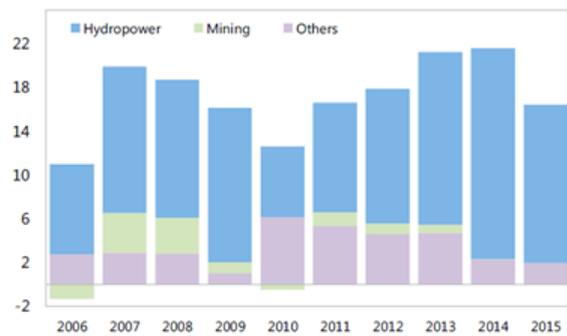
Source: Refer to Annex 1

Over the past 10 years FDI financing has been dominated by investment in hydropower and mining, with agriculture the third major area of investment (Figure 3.5). However, with the current moratorium on new mine development and with new hydropower stations about to come online, levels of FDI are set to drop significantly, from 16.9 percent of GDP in 2016 to 8.5 percent in 2021.

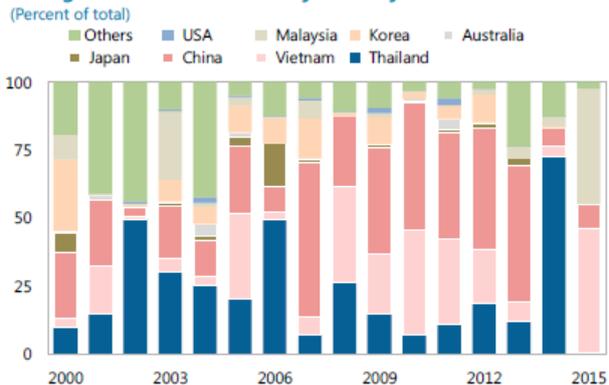
The government has highlighted FDI as one of the key forms of the private sector finance that is planned to provide 57 percent of the funding required under the 8th NSEDP, so this predicted decline presents a major challenge, underlining the need to encourage FDI within a range of economic activities.

Figure 3.5: FDI in mining and hydropower is expected to fall significantly over the medium term

FDI, Private Sector
(Percent of GDP)



Foreign Direct Investment: By Country



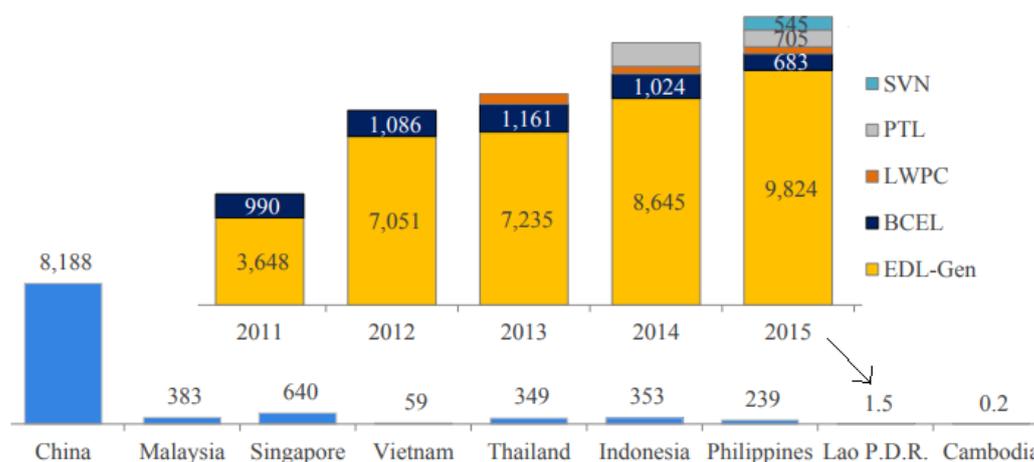
	2014	2015	2016	2017	2018	2019	2020	2021
FDI as a % of GDP	21.3	16.7	16.8	17.3	15.6	13.5	9.9	8.2

Source: IMF Country Report No.17/53

Portfolio equity financing has increased significantly since the launch of the Lao Securities Exchange in 2011. Over time, foreign investment has grown as holding limits have been increased to 25 percent in the public electricity company EDL-Generation and new companies have been listed, such as Lao World Public Company (LWPC), Petroleum Trading Lao and Souvanny Home Center (SVN), with no limits on foreign holdings. However, although the government has offered significant incentives to companies to list on the stock exchange, it has struggled to attract foreign and domestic entities to do so, which has meant that market

capitalization has remained fairly stagnant in recent years and is significantly lower than in other countries in the ASEAN region (Figure 3.6).

Figure 3.6: Market capitalization in the Lao Securities Exchange has stagnated and current levels are significantly lower than in most other ASEAN countries



Source: Lao Securities Exchange Market Performance Report 2015
 Note: Top bar chart is in Lao kip (billions) and bottom bar chart is in US\$ (billions).

In addition to portfolio equity on the Securities Exchange, there has been increased direct investment in SMEs, such as through the Cambodia–Laos–Myanmar Development Fund II, a regional private equity fund that has invested in enterprises such as Joma Bakery Cafe and Planet Online.²⁵

According to official data, in 2015 remittances totalled an estimated \$92 million, or around 0.7 percent of GDP. However, research has suggested that the official figure underestimates remittance contributions from migrant workers and that in fact in 2015 remittances could have been as high as \$284.5 million.²⁶ A significant number of migrant workers are from rural communities and it is likely that these flows play an important role in poverty alleviation and rural development. This makes it vital for the government to obtain an accurate picture of remittance flows, and this something it is currently working towards, alongside improving access to services (Box 3.2).

²⁵ <http://www.sifem.ch/investments/portfolio/show/cambodia-laos-myanmar-development-fund-ii/>

²⁶ Lao Labor Migration and Remittance – Trends and economic and livelihood implications.

Box 3.2: Moving towards better reporting of remittance flows and access to services in Lao PDR

It is estimated that around one third of the Lao population benefit from remittances. Around 50 percent of those who use remittance services go through formal regulated banking systems, with the rest utilizing a range of unregulated formal or informal services (e.g. post offices or friends and family).

At present the government does not have an accurate picture of remittance flows in either the formal or informal sector, but it is currently looking to implement a new international transactions reporting system (ITRS), which will enable individual cross-border banking transactions to be recorded. Systems of this sort have been established in other countries in ASEAN, such as the Philippines and Indonesia, and have been backed up by laws requiring residents to submit information on transactions, and experiences from these may provide useful insights for the Lao PDR government.

While ITRS implementation will help the government to better understand regulated banking remittance flows, it will need to look at other measures to estimate other, less regulated services, and there are a number of opportunities in this regard. For example, the Bank of the Lao PDR is currently working with the United Nations Capital Development Fund (UNCDF) to improve access to financial services; this includes piloting mobile money schemes, with the longer-term goal of regulating the system and allowing for cross-border flows. This has potential for the government to better track remittances that do not flow through regulated channels.

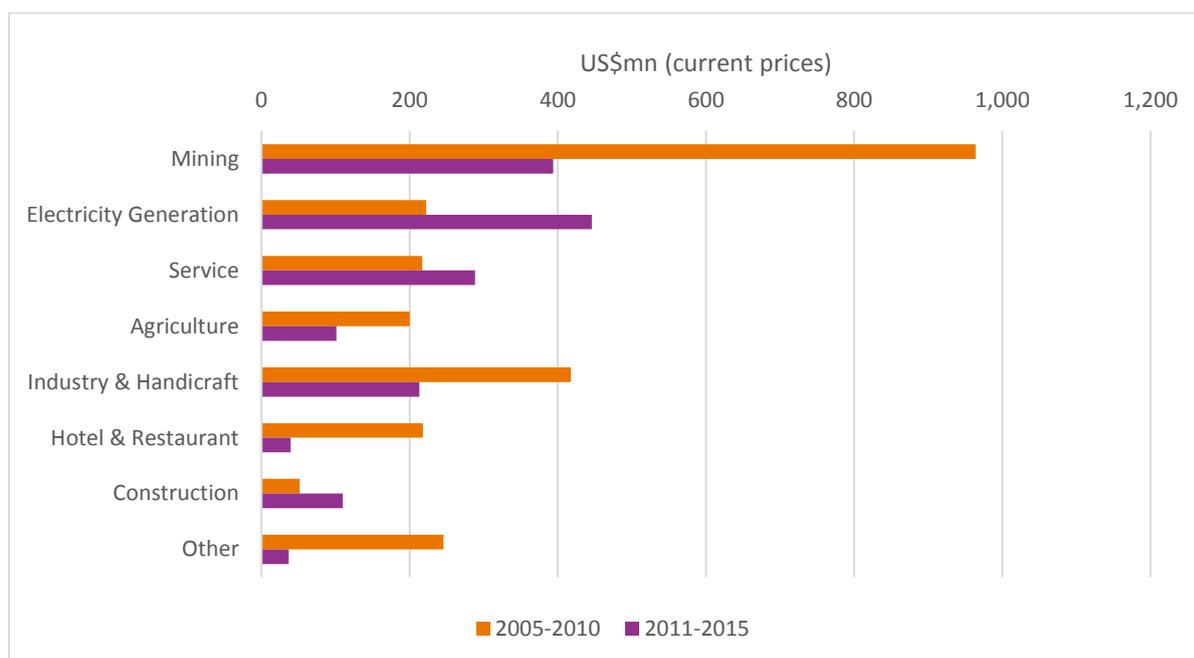
Countries such as the Philippines also conduct regular surveys to estimate the likely contribution made by remittances in kind. Friends and family are a key source of remittance flows in Lao PDR, and so it may be useful to undertake a similar survey of in kind remittance flows.

Sources: UNCDF (2016), 'Lao PDR, Financial inclusion Roadmap 2016–2020', IMF Country Report No.17/53

3.5 Domestic private resources

Like international private financing, private domestic investment has increased significantly over time, rising in real terms from an estimated \$300 million in 2000 to \$2.7 billion in 2015, which makes it currently the country's largest development finance resource. The Ministry of Planning and Investment provides some insights on the sectors where it is concentrated (Figure 3.7), although it only focuses only on larger investments for which it has had to give approval. The data show that, as with FDI inflows, major domestic investments are concentrated in mining and electricity generation, although the moratorium on mining significantly reduced investment in 2011–2015 compared with 2005–2010.

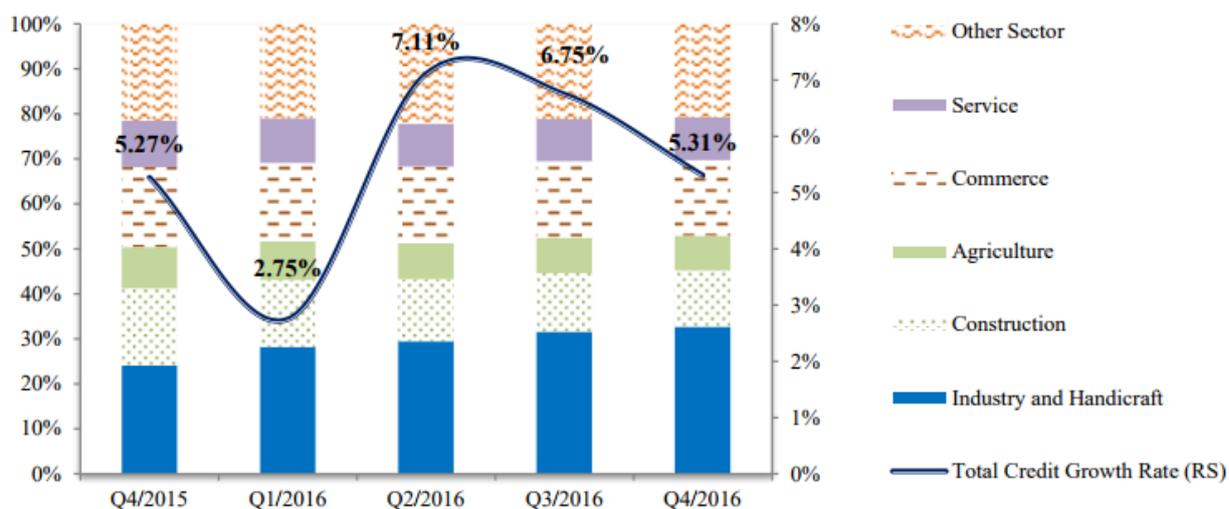
Figure 3.7: Private financing is concentrated in a few main sectors



Source: Ministry of Planning and investment statistics

As highlighted by the previous DFAA²⁷, an increase in the availability of credit to the private sector has been a key factor in the increase in domestic private investment. This trend continued in 2016, with increases seen in every quarter (Figure 3.8), although the focus is still on more formal sectors and access to financing for SMEs remains a key issue. As well as increasing the availability of credit, the Bank of the Lao PDR has been working with commercial banks to reduce interest rates, to levels similar to those seen in other countries in the region.

Figure 3.8: The availability of credit to the private sector continued to grow in 2016



Source: Bank of the Lao PDR Quarterly Report Q4/2016

²⁷ <http://www.asia-pacific.undp.org/content/dam/rbap/docs/meetTheSDGs/Laos%20PDR%20DFA%20-%20Development%20Finance%20for%20the%208th%20Nat%20Socio-Economic%20Dev%20Plan%20and%20the%20SDGs.pdf>

The expansion of private resources since 2000, from both domestic and international sources, has been a key driver of sustained economic development and has helped to bring within reach the 8th NSEDP's goal of graduating from LDC status. In 2015 capital investment by the private sector was estimated at \$4.4 billion (excluding borrowing), exceeding the NSEDP target of \$3 billion. However, with the predicted decline in investment in the hydropower sector, the continued moratorium on new mining projects and the challenges involved in encouraging investment in other sectors, there is a risk that the private sector will not be able to sustain funding to meet the country's development financing targets.

4. The building blocks of an integrated national financing framework

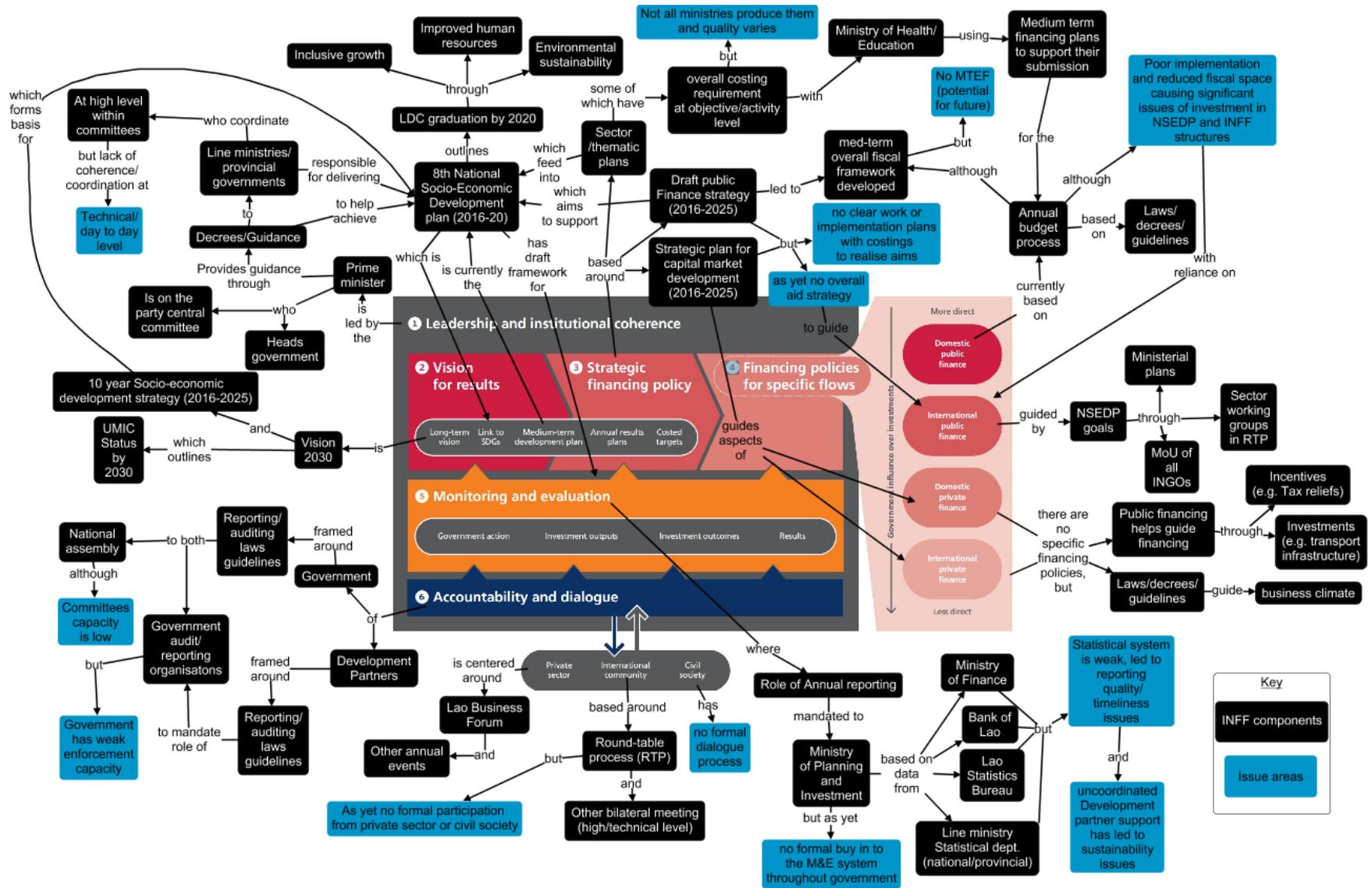
4.1 Assessment of the existing framework

With the ambitious national development agenda that the Government of Lao PDR has set itself and the challenges and opportunities that exist in the country's diverse financing landscape, it is crucial for the efficient and effective use of development resources that governance structures are in place that enable the integration of different financing flows, alongside development planning and monitoring and evaluation.

This chapter seeks to assess how the current structures and processes in Lao PDR map to the concept of an integrated national financing framework (INFF), highlighting challenges, recommendations and best practice examples, which are further articulated in Chapter 7.

Figure 4.1 provides an overview of how government structures and processes map to the building blocks of the INFF concept and how they are linked to one another. It also highlights (in blue boxes) specific challenges for the government in fully integrating the building blocks. The picture appears complex, but each building block is analysed in detail in the chapter. One particular aspect to note is that there are structures and processes in place that enable Lao PDR's own financing framework to be an integrated one. There are specific issue areas that, if focused on, could lead to better integration, although a major challenge facing the government is the limited fiscal space to invest resources within those areas (as outlined in Chapter 3).

Figure 4.1: The INFF structure in Lao PDR



Building Block 1: Leadership and institutional coherence

At the highest political level within Lao PDR there is a strong commitment to national development planning and, with it, to the SDGs. Each five-year plan is presented and agreed upon at the Congress of the Lao People's Revolutionary Party. The Prime Minister plays a key role in linking together the party and the government, as the role encompasses being both head of government and a member of the party's Central Committee. Therefore, when in 2016 Prime Minister Thongloun Sisoulith outlined at the 71st session of the UN General Assembly the country's commitment to attaining the SDGs through its national development plans,²⁸ this was a clear indication of high-level leadership from the party and a clear mandate to Lao government at all levels to work to achieve this. The government is currently in the process of designing a national roadmap for SDG implementation, with the aim of providing clearer roles and greater coordination and coherence across government and with development partners.

Various decrees, laws and guidelines have provided a basis for establishing structures not only for the frameworks of other INFF building blocks (e.g. the Prime Minister's Instruction No.24/PM²⁹), but also for defining leadership roles within government, such as the role of the Ministry of Planning and Investment in formulating national development planning and monitoring its success (or otherwise).

In terms of horizontal coordination across government, committees made up of party members and government representatives play the leading role in decision-making and coordination. There are numerous committees that are relevant to financing and to the execution of national development plans, and the government is in the process of establishing a committee for the implementation of the SDGs, whose members are currently being finalized. However, at the lower technical and operational levels there is a lack of formalized coordination structures, which has led to a lack of clarity on leadership and on responsibilities for certain cross-cutting activities.

The centralized nature of government in Lao PDR, combined with a significant devolvement of responsibilities, provides a clear sense of vertical coordination and understanding of roles at the subnational level, particularly in terms of provincial government. For example, line ministries at the national level have clear responsibility for the coordination of activities at the provincial level and for ensuring the alignment of activities with national development planning. However, there is less coordination within administrative units at lower levels, for both districts and villages. Nevertheless, the government is piloting an approach, based on Prime Ministerial Decree No.16 of 2014,³⁰ to provide a clear vertical coordination framework that makes provinces strategic units, districts planning units and villages implementing units.

Building Block 2: Vision for results

Overall national development planning is currently based around three main linked policy frameworks: Vision 2030, the 10-year Socio-Economic Development Strategy and the 8th NSEDP (2016–2020). Vision 2030 sets out in very broad terms Lao PDR's aim of becoming an upper-middle-income country (UMIC) by 2030 and provides overarching goals in economic, social and environmental areas. The 10-Year Socio-Economic Development Strategy sets out broad aims in a range of key social, economic and environmental areas, including the aim of graduating from LDC status by 2020 and having a transitional period until 2025. The 8th NSEDP, which runs to 2020, sets out a clearer results-focused framework that includes one specific objective, three outcomes (economic, social and environmental) and a number of outputs (seven, seven and four respectively) for each of these outcomes.

²⁸ <https://opendevlopmmentmekong.net/news/sustainable-development-goals-spur-progress-in-laos/-/!story=post-2884571&loc=40.7305991,-73.9865811,7>

²⁹ This guided the formulation of Vision 2030, the 10-Year Socio-Economic Development Strategy (2016–2025) and the 8th National Socio-Economic Development Plan (2016–2020).

³⁰

<http://www.directoryofngos.org/ingo2/a/download?id=document1846&field=file¬etype=document&file=MTlwNjE1X1BNb3JkZXJfZGVjZW50cmFsaXNhdkGlvb9MYW8ucGRm>

Within the 8th NSEDP there are clear links to Building Blocks 3 (financing strategy), 5 (monitoring and evaluation (M&E)) and 6 (dialogue) of the INFF. For example, it sets out the amount of capital investment required to meet the objectives and outcomes set (LAK223 trillion), along with the estimated percentages required of different types of financing. This provides some clarity on the financing role of different resources, but a more fully costed plan at the outcome level, which also include estimates of recurring costs, together with an outline of the type of development financing required, would improve integration with other INFF building blocks. In addition, the 8th NSEDP sets out a clear monitoring framework with indicators and targets to assess how successfully the plan is being delivered, which in theory links well to Building Block 5. However, although the Ministry of Planning and Investment is responsible for reporting on NSEDP implementation, the monitoring framework is merely a suggested approach for wider actors to use and report on, rather than being a clearly mandated framework to which line ministries and agencies must adhere.

As with the 7th NSEDP and its links to the MDGs, the 8th NSEDP is aligned with the SDGs, not only in the body of the text but with specific outcomes and indicators in the monitoring framework linked to specific SDG goals. In addition, the government has articulated which SDG goals it will be tracking.³¹ It has also stated that it is essential to integrate the SDGs into national development targets, so that M&E efforts are aligned and coordinated around a nationally owned approach.

With strong vertical and horizontal coordination within government (as outlined in Building Block 1), there is a process in place to ensure that line ministry and provincial government development plans and sector strategies are aligned with national development planning. However, in development planning by line ministries there are significant differences in content: for example, the education sector plan is clearly costed but the Ministry of Industry and Commerce has outlined financing requirements only in broad terms, while the agricultural plan details only specific objectives and targets. The latest ministry plans were formulated before the 8th NSEDP came into force, but having clearly costed plans across all ministries could assist the drafting of fully costed development plans within future NSEDPs. In addition, ministerial plans are shared with Sector Working Groups (SWGs), which are able to comment on them (see Building Block 6).

Building Block 3: Financing strategy

Apart from the indicative capital costings outlined in the 8th NSEDP, there is no other document that gives details of the different types of development financing required to meet the country's development targets to 2020. However, there are strategies—either planned or being drafted—to guide the use of specific development finance flows.

Government finance

The government has recently drafted a public finance development strategy to 2025, in accordance with specific laws that govern the country's budgeting process (e.g. the 1991 Constitution, the Budget Law of 2006 and the revised Budget Law 2015). Its objective is to strengthen public finances so as to achieve the outcomes detailed in Vision 2030 and the 8th NSEDP, with overall targets on GDP growth, state revenue collection, expenditure and debt management drawn directly from the 8th NSEDP. The document sets out 10 strategies to strengthen public finance, including:

- Developing fiscal policy that better assesses revenue generation, with spending rationalized and aligned with the NSEDP, and ensuring the continuation of fiscal decentralization (based on the Sam Sung guidelines³²);

³¹

<http://www.directoryofngos.org/ingo2/a/download?id=document2269&field=file¬etype=document&file=U0RHIHRhYmxlcYyA3QXByMjAxNy5kb2N4>

³²

<http://www.directoryofngos.org/ingo2/a/download?id=document1835&field=file¬etype=document&file=MTIwNjE1X1BNb3JkZXJfZGVjZW50cmFsaXNhdGlvbi5wZGY=>

- Ensuring prudent macroeconomic policy and debt management;
- Improving the legal framework for public financial management (PFM), providing clarity for better management and enforcement;
- Building international relationships to increase access to international public financial resources;
- Introducing a range of other PFM reforms (increasing capacity, ensuring transparency and accountability, improving accounting systems).

While this strategy sets out a clear agenda for the next eight years, the framework for implementation is still unclear, for two reasons. The first is that, while goals have been established, there is no clear roadmap for the implementation of specific priorities and no definition of agencies responsible for delivery and monitoring. Also, responsibility for financing the strategy over the first five years rests with development partners and this may be problematic, as not only is funding not guaranteed but support from development partners has been fragmented. Therefore it is recommended that this strategy is improved to provide a clear roadmap for implementation along with a costed plan, around which development partners can provide coordinated support.

International public finance

The Vientiane Declaration on Partnership for Effective Development Cooperation (VDPEDC) provides the overall strategic framework to guide international public financing over the period 2016–2025.³³ It calls for cooperation from development partners in a number of specific areas:

- To support priorities outlined within the NSEDP, including on a sector-by-sector basis though the policies discussed in SWGs within the country's Round Table Process (RTP);
- To support government efforts to increase domestic resource mobilization;
- To support improvements in the government's statistical capacity to monitor and evaluate progress against the NSEDP.

While the VDPEDC provides some overall strategic direction, there is at present no holistic strategy to help guide international public financing further. Instead, two Prime Ministerial decrees have set a framework for the development of different ministerial strategies. Decree No. 75 on the management and utilization of ODA provides a mandate for the Ministry of Planning and Investment to plan on-budget ODA grants in line with the NSEDP, while line ministries and provincial governments also develop ODA projects based on their own strategies and the MoF is responsible for the coordination of non-grant ODA. In addition, the Ministry of Foreign Affairs is mandated to provide strategic oversight of off-budget activities of INGOs, based on the framework detailed in Decree No. 13 on INGOs, which aligns activities with government priorities. This current framework, where strategies for international public finance are spread across different ministries, has created coherence issues for the government, with a lack of clarity on the overall strategy for ODA and on which development partners are funding which areas, both on- and off-budget. The government is well aware of this issue, and it is in the process of revising Decree No. 75 to provide greater clarity on the division of labour, which it will consult on. In addition, the government is set to draft an aid strategy to 2025, which hopefully will provide a clearer implementation framework for international public resources.

Line ministry sector strategies

As outlined above, some sectoral or thematic medium-term development plans drawn up by ministries contain specific costing frameworks that articulate financing requirements from both government sources and from other development partners. However, these plans differ significantly in their level of detail: for example, the National Agricultural Biodiversity Programme (NABP) has costings at the activity level detailing both government and non-

³³ <http://rtm.org.la/wp-content/uploads/2015/11/Vientiane-Partnership-Declaration.pdf>

government contributions, while some plans detail requirements at the objective level (e.g. the nutrition strategy) or total sector level (e.g. education), and others do not contain any specific financing strategies at all. Given the importance of line ministries in setting the strategic direction for both planning and financing, there would be significant merit in having a more consistent approach to facilitating the coordination of development financing.

International and domestic private resources

Various laws and decrees help to shape the direction of private investment in Lao PDR. For example, the Investment Promotion Law 2009 (and revision in 2016) and the 2006 Enterprise Law set the framework for private sector investment. The stated objectives of both laws are to further socio-economic development, with the investment law being designed specifically to help the government guide investments in pursuit of this aim. It mandates a number of ministries to develop strategies and policies on private sector investment along with the Ministry of Planning and Investment, who are also responsible for validating the investment according to the details of the law. However, there is a lack of coherence in strategic oversight between the different ministries, and the Ministry of Planning and Investment has no opportunity to guide the strategy in relation to the NSEDP. This is a similar issue to that affecting the ODA financing strategy. To address it, the government could consider mandating the Ministry of Planning and Investment to provide an overall strategy for all ministries to follow, with powers to review planned investments according to NSEDP alignment criteria, rather than simply conforming to the investment law. Regarding public–private partnerships (PPPs), there is currently a decree in draft form which, it is hoped, will provide clarity to line ministries on utilizing this type of financing mechanism.

Other laws and decrees have helped to shape the formation of capital markets and approaches to them (e.g. the law on securities and the decree on the establishment of the Lao Securities Commission (LSC)). In addition, the government has produced a strategic plan for capital market development over the period 2016–2025, with the overall aim of having 25 companies listed on the securities exchange market by 2020 and 60 by 2025. However, as highlighted in Chapter 3, there are challenges to achieving this aim, given the level of competition from other securities markets in the region as well as government capacity constraints.³⁴

Building Block 4: Financing policies for specific flows

Lao PDR the two main policy areas that are relevant for development financing are fiscal policy and monetary policy.

Fiscal policy

Fiscal policy in Lao PDR is at present formulated on an annual basis and is bound principally by the Budget Law 2006 and its 2015 revision, as well as by various other laws (e.g. education and health laws), decrees (e.g. 269/PM, 25/PM and 80/PM) and guidelines. Each year the MoF issues a budget circular and budget ceilings to line ministries and provincial governments, based on revenue projections for the coming year. The line ministries and provincial governments submit their budget proposals to the MoF and their public investment programmes (PIPs) to the Ministry of Planning and Investment for consideration and approval. The budget is then drafted and submitted to the National Assembly for approval (with hearings closed to the public). If additional financing is required to cover deficits, then the MoF will request the Bank of the Lao PDR to issue sovereign bonds. Revenues and expenditures are monitored throughout the financial year, and if required the budget is revised. The State Audit Organization (SAO) is responsible for auditing accounts at both the national and provincial levels, and produces an annual report (the most recent was published in 2014–2015).

³⁴ A detailed list of challenges is outlined in: OECD (2016). 'The Corporate Governance Landscape and Capital Market Development in Lao PDR'.

As the budgeting process is based on an annual timeframe, there is no direct assessment of or alignment with development planning objectives. However, a number of development partners are providing technical assistance to improve PFM and create a broader horizon for the formulation of fiscal policy. For example, the government has recently produced long-term fiscal policy estimates up to 2020 (Chapter 2). It is also envisaged that the MoF will look to implement medium-term expenditure frameworks (MTEFs) and results-based budgeting in the future, alongside more structural reforms introduced with the help of development partners (e.g. alignment with international budget standards and improved accounting procedures through capacity building and systems strengthening).

In addition to overall fiscal policy, there are specific policies guiding both revenue and expenditure.

Revenue policy: Responsibility for revenue generation is outlined by the Budget Law, which mandates the types of revenue to be collected by national and provincial governments, with some revenues to be used solely by one or the other and other revenues to be shared between them. The 2015 Tax Law and the VAT Law provide a framework for the taxation regime, which also informs citizens and companies of their compliance responsibilities. Given the government's current fiscal position, the new tax and VAT laws have sought to increase revenue through measures such as increased taxation in certain areas (e.g. excise duties) and to provide clearer guidance in order to reduce loopholes, while also providing incentives or exemptions for citizens (Chapter 6) and private companies (Chapter 5). As outlined in Chapter 3, the implementation of revenue policy has fallen short of expectations, due to a number of factors including a lack of compliance, lack of human resource capacity to collect taxes and enforce regulations, and unclear laws that are applied inconsistently in different provinces. As detailed in the public finance strategy, one key priority is to review the current taxation regime and the impacts it is having and to assess the potential for increasing revenue while promoting social development goals.

Expenditure policy: There are many specific laws that help guide priority setting in expenditure policy. For example, the education and health laws both specify that a minimum percentage of the budget should be allocated to these sectors (17 percent and 9 percent respectively). However, given the current fiscal constraints, these targets have not been reached, and in FY 2015/2016 the education sector received only 14.5 percent of the budget and health 7.2 percent. At present spending policies are decided on an annual basis, but with the support of development partners both the Ministry of Education and the Ministry of Health are implementing their own MTEFs linked to stated outcomes. This has helped them to align their plans with specific budgetary needs, with the Ministry of Health also providing evidence to the MoF on the thinking behind its submitted budget proposals. Although the MoF intends to make reforms in this area, implementation of these medium-term plans could provide it and other line ministries with some useful lessons.

Monetary policy

The Bank of the Lao PDR is responsible for the country's monetary policy, and through its policy framework it plays an important role in facilitating development financing. For example, its management of reserves plays a key role in macroeconomic stability, which is essential to the confidence of investors and development partners. In addition, through its setting of lending rates and supervision of commercial banks, it has played a major facilitating role not only in the availability of credit (Chapter 3), but also in lowering lending rates for businesses. The IMF in its latest staff report has recommended that a number of reforms be put in place with regards to monetary policy, including further developing local, foreign exchange and government debt markets and developing an institutional framework that creates a clearer mandate and independence for the national bank to allow for greater flexibility in adjusting interest rates.

Building Block 5: Monitoring and evaluation

The VDPEDC (see Building Block 3) outlines the need for the government to establish an overall M&E framework in order to measure success against socio-economic targets. Therefore, within the 8th NSEDP an M&E framework was included for the first time, which details indicators to be tracked for every output under each outcome, with a baseline of the latest available data and targets set for 2020. The framework states which ministry or agency is responsible for reporting on each indicator, along with the timeframe for doing so. There is no requirement for non-governmental actors to report against this framework, only to provide information as part of the wider government statistical system (see below). The indicators range from measuring specific development financing flows (government financing, ODA, private investment) to socio-economic or environmental outcomes linked where possible to the SDGs. The Ministry of Planning and Investment is responsible for reporting annually on the progress of NSEDP implementation; although no progress reports have been published since the M&E framework was created, it is expected that these annual updates will form a key part of reporting through the 8th NSEDP. In addition, the NSEDP will undergo a mid-year review next year, which will be conducted in conjunction with Lao PDR's first voluntary SDG report. However, although the M&E framework has been established, there are a number of challenges to be faced.

- At present some indicators do not set actual targets to be achieved, but are simply monitored. Indicators that do have a target have a 2020 goal, rather than yearly or mid-point assessment criteria. In addition, although indicators are mapped to the SDGs, there is no 2030 target linked to them.
- As yet there is no defined structure for integration of the M&E framework across government. The Ministry of Planning and Investment is currently responsible for data collection from the wider statistical system, rather than the framework sitting across government ministries as an integrated part of their own M&E obligations. As highlighted in the text of the 8th NSEDP, for this framework to be sustainable there needs to be greater clarification of roles and responsibilities and greater use of it throughout government.
- Across government (national and subnational), there is a lack of statistical capacity to enable ministries and agencies to report effectively and in a timely manner against the framework. Moreover, there is a lack of government resources to enable substantive investment in statistical systems. This issue was highlighted in the VDPEDC as an area where development partners need to provide assistance to the Lao government. These partners are therefore playing a key role across various ministries in strengthening capacity, including the Lao Statistics Bureau (e.g. funding for surveys, institutional support and ICT development), line ministries (e.g. district health information management) and financial reporting ministries (e.g. MoF, Ministry of Planning and Investment). However relying on support from development partners has led to issues such as a lack of coordination between systems implemented by different departments or ministries, and delays in the disbursement of funds have caused projects to be delayed.

Building Block 6: Accountability and dialogue

Accountability mechanisms

There are three main forms of accountability mechanism within government, which is accountable to the National Assembly. Outside these structures dialogue mechanisms bring together other organisations and citizens, though there are no formal systems of accountability.

Institutions and mechanisms for government accountability: Regarding the accountability of government itself, the SAO and the State Inspection Authority are responsible through various laws and decrees (e.g. the 2007 Audit Law, 2005 Law on Anti-Corruption) for ensuring that government entities are held accountable by means of audited accounts and inspection procedures.

In addition, through laws and decrees in respect of INGOs and private sector investment (e.g. Law on Independent Audit, Decree on INGOs) there are a range of requirements on auditing norms and the reporting of activities. However, as highlighted previously, due to a lack of government M&E capacity, there are issues with a lack of compliance and the accountability of non-state actors.

Role of the National Assembly: The government is also accountable to the National Assembly, which is made up primarily of members of the Lao People's Revolutionary Party. The Assembly is responsible for enacting amendments to laws as well as for considering and adopting socio-economic plans and the state budget. Within the Assembly there are six committees (including the Law Committee and the Economic, Planning and Finance Committee), which are responsible for supporting sessions through secretariat duties.

Dialogue mechanisms

The central dialogue mechanism between the government and development partners is the Round Table Process (RTP), which involves a high-level round-table meeting every five years aligned with the formulation of the NSEDP, as well as annual RTP Implementation meetings, where partners jointly take stock of progress and challenges related to national priorities and set priorities for the coming year. Throughout the year Sector Working Groups (SWGs) discuss development priorities at a more operational level, producing annual action plans and reports (Box 4.1).

High-level dialogue: With the implementation of the VDPEDC and recognition of the role played by both the private sector and South–South cooperation, there has been a broadening of actors involved in the RTP. For example, NPAs and private sector actors are now invited to actively participate in high-level meetings.

At the international level, the country's LDC status means that the government receives funding to attend various UN meetings, including those of the High-level Political Forum. However, as highlighted in Chapter 3, if the country graduates from LDC status it will need to provide resources to maintain this international dialogue.

Non-formal dialogue processes also play an important role, typically in higher-level discussions between the government and regional neighbours (e.g. China, Viet Nam and Thailand) and at a lower, more technical level with other development partners.³⁵

³⁵ <https://www.odi.org/sites/odi.org.uk/files/resource-documents/10458.pdf>

5. Private sector development

5.1 Introduction

The private sector has been at the forefront of Lao PDR's sustained economic development over the past 20 years. In the context of the SDGs, its continued growth will be critical to providing the necessary financing, both public and private, to deliver on national developmental outcomes and help the country achieve LDC graduation, by improving gross national income (GNI) per capita and its scores on the Economic Vulnerability Index (EVI).

As outlined in Chapter 3, private sector investment has increased significantly and is now exceeding targets set in the 8th NSEDP, but there is a risk that these levels will not be sustained. In addition, the government's desire for strong inclusive growth means that the economy needs to be less reliant on natural resources. This chapter sets out the various opportunities that exist to increase private sector development, the challenges involved and what actions the government is taking to facilitate private sector development in the context of the six INFF building blocks.

5.2 Opportunities for increased private sector development

The Government of Lao PDR, in collaboration with development partners, has identified a number of specific sectors and areas that have significant potential for private sector development.

Mining production: Mining has been one of the key drivers of economic growth and has attracted significant development financing, including increased government revenue generation. The country has an abundance of natural resources, including significant reserves of gold, copper and lead-zinc, much of which remain unutilized.³⁶ However, since 2012 a moratorium on new mining concessions has prevented significant new development (Box 5.1).

Box 5.1: The moratorium on new mining concessions

In July 2012 the Lao government imposed a moratorium on new mining concessions, due to concerns that operators were not complying with laws and regulations. This had led to a number of issues:

- Mining operations, including small-scale ones, were having negative impacts on the local environment and on communities.
- Mining concessions that had been granted were not being operationalized.
- Laws and regulations to ensure the health and safety of staff were not being adhered to.

The moratorium was put in place to enable the government to monitor and evaluate the activities of concessions that had already been signed. In October 2016 Prime Minister Thongloun Sisoulith stated that the moratorium would remain in place and that inspections would continue, stressing that natural resources needed to be preserved for future generations.

Sources: http://news.xinhuanet.com/english/2016-10/19/c_135766922.htm;
<https://minerals.usgs.gov/minerals/pubs/country/2013/myb3-2013-la.pdf>;
http://www.dmr.go.th/download/lao_thai56/pdf_dat/Mining%20activities%20in%20Lao%20pdr%20.pdf

Organic agriculture: The agricultural sector is the country's biggest source of employment (61 percent), and its continued development will be crucial for more inclusive and focused growth. However, its share of economic growth has declined over time, as a result of low productivity levels. At the same time, the area under cultivation has doubled since 1999, which

³⁶ http://www.calibre.manchester.ac.uk/images/downloads/int_pub_rep/calibre_refs_geo_minres.pdf

has resulted in a significant loss of forest cover. A central emphasis for the sector’s future direction has been on increasing exports to boost development, despite high transportation costs as the country is landlocked and competition from neighbouring countries. One important area that has identified is high-value organic agricultural products.

Tourism: In common with other CLMV countries, Lao PDR is endowed with diverse areas of natural beauty. Since 2008 it has seen significant annual growth of 15.2 percent in visitor arrivals, the second highest in the ASEAN region. However, a significant proportion of this involves short-stay tourism from regional neighbours (especially Thailand and Viet Nam) and expenditure per visitor is much lower than in other countries (Table 5.1). Reliance on tourism from a small number of countries means that visitor arrivals are not expected to increase in the medium term, constraining development in this sector. The challenge therefore is to diversify tourist arrivals in a competitive regional environment and increase opportunities for greater employment within the sector, while managing the natural environment and reducing risks from expansion of the agricultural and mining sectors.

Table 5.1: Comparison of economic indicators for tourism in CLMV, 2015

	Lao PDR	Cambodia	Myanmar	Viet Nam
ASEAN share of international visitors (% of total)	4.3	4.4	4.3	7.3
Direct contribution to GDP (%)	4.6	13.5	2.3	6.6
Employment in tourism sector (millions)	0.1	1	0.7	2.8
Average expenditure per visitor (US\$)	155	631	453	1,204

Source: ADB (2017), ‘Tourism Sector Assessment, Strategy, and Road Map for Cambodia, Lao People’s Democratic Republic, Myanmar, and Viet Nam (2016–2018)’

A number of other areas have been identified for potential development. For example, Lao PDR has low wages compared with neighbours in the region (e.g. four times lower than in China), and manufacturing has been seen as a key growth area, particularly the garment industry and other areas such as electronics. The government has established a number of special economic zones (SEZs) over the past five years, which it plans to expand. It has also considered increasing its use of PPPs to encourage private sector investment in a range of areas, including transport infrastructure, natural resources and health service provision.³⁷

5.3 Challenges in the business environment

There are many opportunities for further private sector development, but the country faces some clear challenges with regard to the business environment. An overall sense of this can be gathered from looking at global indicators, such as the World Bank’s Doing Business index, on which Lao PDR is ranked 139th out of 190 countries, and Transparency International’s Corruption Perceptions Index, where it is ranked 123rd out of 176. Behind these statistics are a number of key cross-cutting challenges if the government is to realize the potential of private sector investment.

Infrastructure: One of the challenges facing the country is the fact that it is landlocked, which significantly increases the costs of exporting goods. Internal infrastructure development is also a problem: for example, road networks—both rural roads and highways—have been identified as a key impediment in accessing markets.³⁸ In addition, the cost and the time taken to obtain

³⁷ See DFAA paper from 2016 for further information.

³⁸ See LAO PDR Trade Portal (2017). ‘Logistics Costs in Lao People’s Democratic Republic’ for an overview of transportation challenges.

an electricity connection has been identified as a key constraint for SMEs, while another issue for large firms is the reliability of the water supply.³⁹

Human resources: Low wages have been identified as a key opportunity to attract investment, but a major issue highlighted by various surveys has been the lack of a sufficiently skilled workforce. For example, according to a Japan External Trade Organization (JETRO) survey of business conditions in 2016, the quality of the Lao workforce was the lowest in the whole of the Asia-Pacific region.⁴⁰ This was also highlighted as the biggest obstacle for medium-sized and large firms in the 2016 World Bank Enterprise Survey⁴¹. The major reasons for this have been identified as low levels of enrolment in education, particularly beyond lower secondary level, and the quality of education at the upper secondary and tertiary levels.

Legal framework: The country's legal framework and its implementation have also been cited as significant barriers to private sector development. A number of issues have been identified here, including unclear laws, uneven application by provincial governments, non-compliance and a lack of capacity to enforce laws (as highlighted by the mining sector).⁴² This challenge was acknowledged as a "significant challenge" by Khemmani Pholsena, the Minister of Industry and Commerce, at the 10th Lao Business Forum in 2017.⁴³

Other challenges include **low levels of integration between SMEs and multinational businesses** to help facilitate domestic private sector growth, **access to and affordability of credit for SMEs** (as outlined in Chapter 3) and aligning national standards to comply with international and regional standards, which has resulted in the existence of significant **non-tariff barriers**.⁴⁴

5.4 The private sector in the context of the INFF

The private sector is expected to deliver over half of the investment required if the country is to achieve inclusive economic growth. This section reviews the government structures in place to achieve its stated aims within the context of the INFF and offers recommendations for improvement.

Building Block 1: Leadership and institutional coherence

Role of the Prime Minister's Office: The Prime Minister has responsibility for oversight of ministries and, as head of government, a member of the Party Central Committee and the chair of various other committees, helps to lead the shaping of policy. The current Prime Minister, Thongloun Sisoulith, has taken an active role in leading on private sector development as seen, for example, in his chairing of the Lao Business Forum in March 2017. At this meeting he specifically challenged the government to aim at achieving a double-digit ranking on the World Bank's Doing Business index.

Committees at national and provincial levels: A number of national and provincial committees play a significant role in coordinating government ministries and agreeing on policy decisions. The main one of these is the Committee on Investment Promotion, which is the national committee responsible for private investment decisions, particularly in relation to SEZs; smaller investments are the remit of provincial committees. High-level ministerial coherence is underscored by the fact that 12 ministries are members.

Ministerial level: The various committees provide a high degree of coherence at the highest level of government, but at the ministerial level there are quite separate roles and responsibilities concerning private sector development. Private investment responsibilities are split between the Ministry of Planning and Investment (land concessions and large-scale

³⁹ See World Bank Enterprise Survey 2016. The issue of electricity supply has also been raised by the Lao National Chamber of Commerce and Industry.

⁴⁰ https://www.ietro.go.jp/ext_images/en/reports/survey/pdf/rp_firms_asia_oceania2016r.pdf

⁴¹ <http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/Profiles/English/lao-pdr-2016.pdf>

⁴² The OECD Investment policy review: Lao PDR provides a holistic evaluation of these challenges.

⁴³ http://www.laocci.com/images/stories/2017/press%20release%20for%20the%2010th%20lbf_eng.pdf

⁴⁴ See, for example: A field survey: Non-tariff measures (NTMs) faced by exporters of Lao PDR

projects), the Ministry of Industry and Commerce (general activities) and local government (general activities at provincial and municipal levels), which means that there is a lack of coordination or cross-working and a lack of clarity for private investors. This distinct separation of responsibilities and day-to-day working has also had an impact on information standards and sharing: for example, the Ministry of Planning and Investment does not receive a clear idea from other ministries what private sector actors are investing or investment levels within a specific timeframe.

Building Block 2: Vision for results

Overall long- and medium-term development plans: Vision 2030 and the 10-Year Socio-Economic Development Strategy set the overall vision for increased private sector investment in Lao PDR, outlining the need for an industrialized and modern economy that is competitive and integrated with the global and regional economies. The specific role of the private sector is further articulated in the 8th NSEDP, which highlights the need for private sources to provide investment for over half of the goals it contains and outlines a number of critical requirements:

- Commit to enhance the skills of the workforce to meet demands from companies in order to compete internationally;
- Encourage private sector investment specifically on economic development in hydropower, SEZs, processing industries, railways, vehicle assembly and the development of tourism;
- Encourage public-private investment in the education and health sectors;
- Commit to further investment in infrastructure (including rural areas) and improve the legal framework to encourage investment.

However, while overall financing needs are set out within the NSEDP, along with the preferred role to be played by private sector investment, there is no integration between the two, such as a disaggregation of areas in which private sector investment should be focused or what the roles of domestic and international private actors might be.

Sector development plans: There are a number of sector plans that draw on strategies outlined in overall development plans. For example, the development vision for 2030 for trade and the private sector outlines three main pillars of government activity—enhancing business competitiveness, improving the business environment and deepening economic integration (e.g. integration into the ASEAN Economic Community and continued alignment with WTO rules)—with specific medium-term activities for each detailed up to 2020. Other sector strategies, such as those for agriculture, tourism and education, also contain specific references to private sector development but, like the NSEDP, these do not provide specific details or implementation plans.

Building Block 3: Financing strategy

There is no specific financing strategy for private sector development, but there are aspects of relevance in other strategic documents.

Strategy on domestic public resources: This document, currently in draft form, outlines a number of areas of relevance to the private sector, including improving the legal framework, strengthening private sector accounting to improve information for revenue collection, improving PFM and other data systems to support business development and designing fiscal policy that allows for private sector growth (in terms of revenue and expenditure). However, at present it does not specify what activities are required to operationalize this strategy, the amount of financing required or how financing will be organized. Providing this level of detail would help to facilitate wider financing for the strategy and would help to action those areas that are key for private sector investment.

International public resources: Although the government has no overall aid strategy (see Chapter 4), the VDPEDC and the NSEDP together provide a strategic framework for development partners to support private sector development in Lao PDR. For example, the

country strategies of partners such as the ADB, the World Bank and the EU have all been aligned with these plans, with their financing strategies focused around private sector development.

Sector development plans: At the sector level, some development plans do provide detail on what it will cost to implement them. For example, Vision 2030, produced by the Ministry of Industry and Commerce and with a focus on development of trade and the private sector, outlines the need for development partners to contribute 70 percent of the financing needed for the activities it describes, underlining the government’s dependence on them for financing the implementation of its plans.

Building Block 4: Financing policies for specific flows

Fiscal policy

Public expenditure policy: Fiscal policy formulation is based on an annual budgeting process, but the government’s strategic emphasis on creating an inclusive and integrated “land-linked” economy has meant that a significant proportion of the fiscal envelope has been allocated to fund investments in infrastructure works and transport. For example, the government’s own capital investment in this sector accounted for around 30 percent of its total budgeted capital investment from FY 2013/2014 to FY 2015/2016 (Table 5.2). Combined with significant on-budget foreign capital investment in the sector, the overall fiscal envelope was higher than for the education sector in 2015/2016. However, despite this level of investment, the country still faces significant issues with road infrastructure, both in terms of national highways and rural roads connecting villages.⁴⁵

Table 5.2: Investment in works and transport represents a significant proportion of total government and foreign on-budget spending

	2013/2014	2014/2015	2015/2016
Works and transport			
Overall fiscal envelope for works and transport and Road Maintenance Fund (% of total)	12.5%	13.0%	15.2%
Domestic capital investment in works and transport (% of total domestic capital)	31.2%	29.8%	29.0%
Foreign capital investment (as a % of total sector capital investment)	62.6%	66.0%	68.4%

Source: State Budget Plans 2013/2014, 2014/2015 and 2015/2016

Note: ‘Fiscal envelope’ is defined as total state budget and funds, minus debt repayments.

Taxation policy: There are a number of ways in which the government is trying to facilitate increased private sector development via its taxation system. First, its taxation law offers tax incentives for companies listing on the stock exchange or utilizing its “one-stop shop” as part of its investment promotion service. In addition, it is continuing to strengthen PFM reforms to reduce the cost of compliance for the private sector; the “smart tax” payment system recently introduced at eight customs checkpoints is one example.⁴⁶

However, there are also a number of issues with regards to taxation policy. For instance, the government needs to better understand the costs and benefits of private sector taxation and exemptions. The OECD has recommended that it conduct a cost-benefit evaluation of taxation

⁴⁵ As highlighted by the 5th Human Development Report, Lao PDR.

⁴⁶ <http://laotradeportal.gov.la/index.php?r=site/display&id=1251-.WYA8MYTyuUk>

of the private sector and incentives to encourage its development.⁴⁷ This would help it to assess whether current tax arrangements are fit for purpose or whether they need to be rationalized, so as to increase domestic resource mobilization and to focus on investing in key areas highlighted by the private sector (e.g. education and transport infrastructure).

The government also needs to review laws and decrees to provide greater clarity for the private sector. For example, an incentives policy has been added to the recently revised law on tax to encourage the listing of companies on the Lao Securities Exchange; however, it emphasizes only domestic companies, with no consideration for companies listing from abroad. Providing clearer guidance on this issue would help both to ensure that private sector companies understand their rights under law and that laws are applied evenly across the country.

Monetary policy: As outlined in Chapter 4, the government's monetary policy has played a key role in promoting private sector development, through expanding capital markets, increasing the availability of credit and increasing access to financing by lowering interest rates.

Building Block 5: Monitoring and evaluation

Overall M&E framework within the 8th NSEDP: The M&E framework detailed in the NSEDP outlines a number of specific areas where private sector development should be tracked: for example, monitoring levels of private sector investment (e.g. total FDI, number of investment projects approved), the quality of investment (e.g. percentage of projects approved based on financial and economic assessments and those needing environmental impact assessments) and levels of concessional, SEZ and public investments. In addition, the M&E framework is intended to track other aspects critical to private sector development, such as workforce capacity and skills, targets on trade facilitation and the overall business climate. However, while the M&E framework has an extensive focus on private sector development, there are a number of issues.

- Currently there are no baseline data or targets set on investment amounts or on the quality of investments. While there are challenges regarding data, having some form of target against which to measure progress may be useful to guide policy decisions.
- The separation of responsibilities between government ministries means that there are challenges in monitoring international private resources, gathering timely survey data (e.g. on employment) and understanding the extent of approved private investments. The government has committed to make improvements, but this situation is not likely to change significantly in the short term.

In addition to the indicators detailed in the overall framework, other data could help to inform progress on private sector development, such as data from within government (e.g. economic data from the Bank of the Lao PDR and government budget data) and also from non-state actors (including reports from the Lao Chamber of Commerce and Industry (LNCCI) and surveys from development partners and trade organizations). Such data could be treated as complementary to the M&E framework indicators in informing policy decisions.

Building Block 6: Accountability and dialogue

Accountability: As outlined in Chapter 4, government accountability is guided by a number of laws, decrees and guidelines. The government is accountable both to itself and to the private sector, with the National Assembly able to review approved private investment projects

⁴⁷ http://www.keepeek.com/Digital-Asset-Management/occd/finance-and-investment/occd-investment-policy-reviews-lao-pdr-2017_9789264276055-en - page8

and government investment decisions relating to the private sector through its budget approval processes.

Dialogue

High-level engagement

RTP: The implementation of the VDPEDC in 2015 marked a significant change in the RTP, giving the private sector an important role as a development partner and involving private sector actors in the consultation process and as participants in high-level round-table meetings. In addition, private sector development is a critical component of the SWGs, especially the SWG on trade and the private sector but also others with relevance, such as those on agriculture, infrastructure, education, natural resources and the environment. However, although issues around private sector development are discussed within the RTP and the development partners appointed as co-chairs of the SWGs are highly relevant (e.g. the EU, Germany) as they fund related projects, in future greater participation by the private sector in both the SWGs and high-level meetings might be beneficial, domestically and internationally, across a range of sectors.

Lao Business Forum: The LBF, which is supported by the World Bank, provides the main formal opportunity for dialogue between the private sector and government. The forum, which began in 2005, held its 10th session in March 2017. This latest session was significantly restructured compared with previous ones, and the LNCCI praised it for helping to resolve matters of importance, either at the ministerial level or through guidelines issued by the Prime Minister's Office.

Annual events and external engagement: Outside of the main formal process, the Ministry of Planning and Investment periodically holds events highlighting investment opportunities in Lao PDR and, in cooperation with the Ministry of Foreign Affairs, coordinates participation in international events (although for both of these the resources available are limited).

Informal consultation and feedback

In general there is limited scope for the private sector to engage in continuous dialogue with the government, although the LNCCI has stated that this is dependent on the willingness of departments to engage. There has been no dialogue or consultation on areas that are likely to have a significant impact on specific laws, such as the decree on PPPs. Therefore, rather than the private sector raising concerns to government on an ad hoc basis, the LBF or the RTP could perhaps be used as a channel for more open consultation on government policy.

The government does not have any formal annual feedback survey process for the private sector, but annual surveys by other actors (e.g. the World Bank, JETRO) provide useful opportunities for the private sector to raise issues for government to engage on.

6. Leaving no one behind

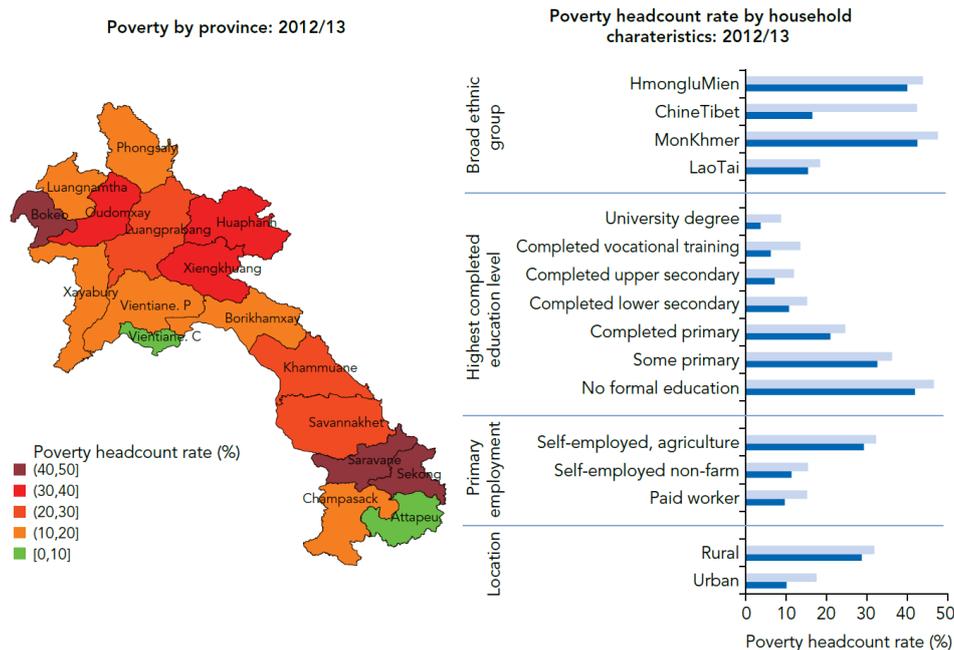
6.1 Introduction

Strong economic growth over the past 20 years has led to significant reductions in poverty in Lao PDR, from 41.4 percent of the population in 2003 to 28.8 percent in 2012/13 on the international \$1.25 a day measure, and from 33.5 percent to 23.2 percent in terms of the national poverty line. Along with the reduction in poverty, significant progress has been made in the areas of health, education and rural infrastructure. The government is committed to attaining the SDGs, with ambitious targets on meeting the needs of the entire population and leaving no one behind. However, this requires a significant investment of development finance up to 2030 and also a better understanding of the locations and needs of the poorest citizens, along with a framework that brings these two components together and channels resources according to need and comparative advantage. This chapter outlines the challenges the government faces with regards to attaining the ambitious SDG targets and leaving no one behind, and then reviews how it is structuring financing to meet these goals, based on the building blocks of the INFF.

6.2 The challenges of leaving no one behind

Poverty is concentrated in specific geographies and in certain groups: While poverty levels have declined significantly in Lao PDR, rates remain among the highest in the ASEAN region. One key factor in continued high levels of poverty is that economic growth has been inequitable and has been driven by sectors that provide low levels of employment, with the result that those most marginalized by these growth patterns remain in poverty. Figure 6.1 shows the significant differences in levels of poverty across the country, geographically and within specific groups. For example, geographically there are significantly higher poverty levels in rural areas and in certain provinces in the north and south of the country. A large proportion of the poorest households are engaged in agriculture, have little or no formal education and belong to two specific ethnic groups, the Mon–Khmer and Hmong–Lumien, who make up 20 percent of the total population. Therefore, to continue to reduce and eventually eliminate poverty, the challenge for the government is to provide development financing and policy instruments that not only deal with short-term needs but provide sustainable economic activities for these groups. Having access to this information provides an opportunity to begin to understand where the poorest people are and what their needs might be.

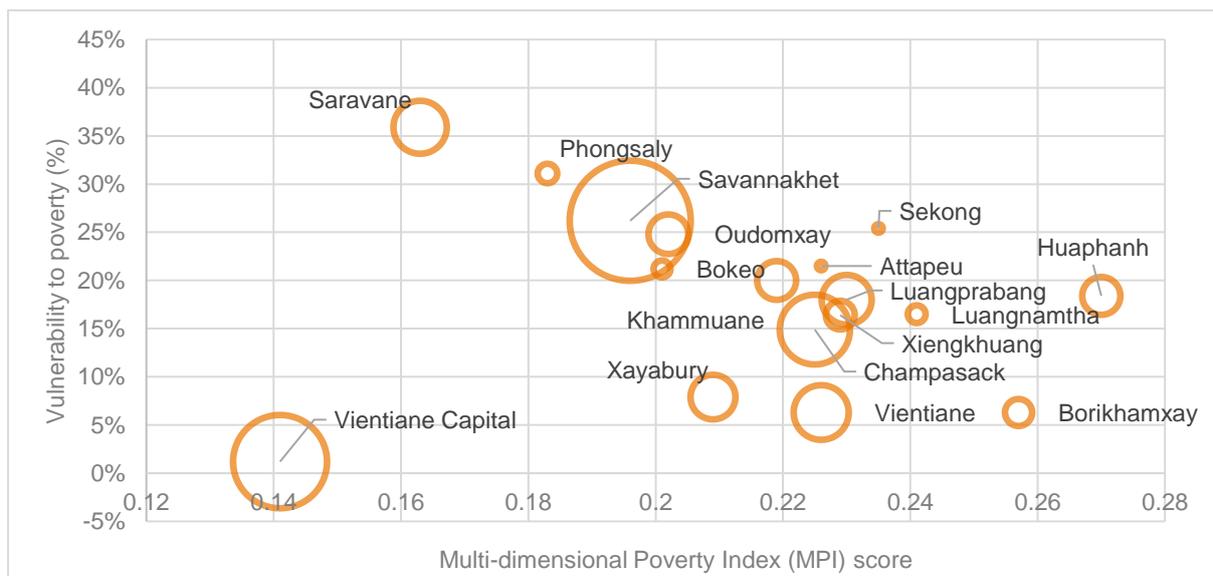
Figure 6.1: Poverty remains highest amongst agricultural households in rural areas with little or no formal education



Source: Poverty profiled in Lao PDR, Poverty Report for the Lao Consumption and Expenditure Survey, 2012–2013. Lao Statistics Bureau, 2014

Vulnerability to poverty is also a key issue: Reducing poverty is a key challenge, but many people remain vulnerable to slipping back into poverty. As Figure 6.2 shows, in provinces where multi-dimensional poverty is lower (apart from the capital Vientiane), a significant proportion of the population remains vulnerable to poverty. This underlines the fact that the government cannot focus attention solely on the poorest, but must also take account of the ongoing needs of the most vulnerable to help keep them out of poverty.

Figure 6.2: In provinces with lower multi-dimensional poverty levels, a significant proportion of people are vulnerable to poverty



Source: OPHI Country Briefing Paper – Lao PDR.

Note: The size of the bubbles corresponds to the size of provincial populations.

Financing development within sparsely populated areas is difficult, in both the short and longer terms: Poverty is substantially higher in rural areas than in urban areas. Rural settings suffering from high levels of poverty typically include villages with small populations that lack basic infrastructure (roads, electricity, water) and services (health, education). Delivering services to such areas is critical for poverty alleviation, but it requires a significant investment with little potential financial return, which makes private sector investment challenging. In addition to upfront capital costs for delivering infrastructure and services, there are significant recurring costs in terms of upkeep, maintenance and management of services. The challenge for government therefore is to understand what the critical needs of these villages are and to ensure that financing is provided for both initial and longer-term delivery on such needs.

Climate risks underscore the importance of being able to respond to the needs of populations in disaster-prone areas: As discussed above, there is a clear link between levels of poverty and vulnerability and employment in rural agriculture, which is prone to climate risks such as flooding and drought, particularly in the south of the country. For example, adverse climatic conditions have contributed to muted growth in the agriculture sector, with rates of 2 percent in 2015 and 2.5 percent in 2016. With Lao PDR at significant risk from the adverse impacts of climate change, a central challenge for the government is how to support communities to build resilience to mitigate against these risks and ensure that structures and financing are in place to deal with crisis situations.

Against this background, the following section assesses the policy and institutional structures that define the government's approach to the "leave no one behind" agenda, in the context of the INFF concept and its six building blocks.

6.3 Leaving no one behind in the context of the INFF

Building Block 1: Leadership and institutional coherence

With the Party and Prime Minister according a high level of political importance to national development plans and their links to the SDG goals, there is a clear sense of leadership at the national level in the effort to leave no one behind. This commitment is further evidenced by Prime Ministerial Decree No. 16, which calls for greater decentralization of government, with power devolved to villages to become "developmental units", as communities at that level are better placed to understand their own needs.

This decentralization process has yet to be implemented beyond specific pilot studies, but the creation of the National Committee for Rural Development and Poverty Eradication (NCRDPE), formerly under the Prime Minister's Office and now under the Ministry of Agriculture and Forestry, has provided a focal point within national government to better map where the poorest and most vulnerable people are located and the needs and challenges that they face. The government is also implementing specific projects and programmes through its Poverty Reduction Fund (PRF).

Building Block 2: Vision for results

National development planning has a strong emphasis on the leave no one behind agenda, in both the medium and longer terms. Each of the three main objectives contained in the 8th NSEDP has clear links to this agenda: for example, inclusive growth (e.g. balanced geographical development, emphasis on SMEs), human resources (village services, provision of education and health services and poverty reduction) and natural resources (disaster preparedness and sustainable agricultural production). In addition to these three overarching objectives, there is a commitment to gender equality, which is included as a cross-cutting issue.

Building Block 3: Financing strategy

Public finance development strategy: This overall strategy, currently in draft form, makes a number of references to ensuring the efficiency of spending and to designing an expenditure policy that prioritizes poverty reduction and other objectives within the NSEDP. In addition, it commits the government to delegating budget responsibilities to lower-level administrative units, as defined in the Sam Sung guidance.

International public resources: As detailed in Chapter 5, there is no overall government aid strategy, but the VDPEDC and the NSEDP provide a strategic framework for development partners to help in leaving no one behind. The text of the VDPEDC also contains a commitment from development partners to help track developmental disparities, both geographically and in terms of gender equality.

Sector strategies: There are numerous sectoral strategies that outline further detailed objectives and costed activities (e.g. the national strategy on climate change, development plans for health and education, agriculture vision and development plan, national nutrition strategy, financial inclusion roadmap). Although these do not feed directly into the budgeting process, both the Ministry of Health and the Ministry of Education have developed MTEFs based on these plans, with the support of development partners; these have helped them to prioritize their own funding and have helped to secure funding from the MoF and the Ministry of Planning and Investment.

Building Block 4: Financing policies for specific flows

Fiscal policy: As outlined in Chapter 5, a central focus for the government in terms of expenditure policy has been using resources to provide key infrastructure, such as roads and electricity for the poorest villages. The commitment to funding rural roads is backed up by Prime Ministerial Decree No. 9, which created the Road Maintenance Fund (RMF); this directs a certain percentage of resources to fund rural roads.

The provision of infrastructure and public services in rural areas is central to sustained and inclusive growth, but the limited fiscal space in which the government operates has meant that other important sectors, such as education and agriculture, have seen declines in levels of planned expenditure (Table 6.1). As explained in Chapter 4, funding for both education and health is currently below the levels committed to by the government, and recent reports have highlighted the lack of funding available in both sectors for adequate staffing, goods and services (e.g. medical supplies) and infrastructure. The squeeze on domestic public resources is highlighted by the significant contribution made by development partners in funding capital investment across key sectors.

Table 6.1: Government financing of sectors key to leaving no one behind

	2013/2014	2014/2015	2015/2016
Education			
Overall fiscal envelope for Ministry of Education and Sports and Education Fund (% of total)	15.08%	13.93%	14.11%
Domestic capital investment in education and sports (% of total domestic capital)	9.21%	9.12%	6.54%
Foreign capital investment (as a % of total sector capital)	69.24%	58.61%	70.60%
Health			

Overall fiscal envelope for Ministry of Health and Health Fund (% of total)	7.03%	7.47%	8.39%
Domestic capital investment in Ministry of Education and Sports (% of total domestic capital)	3.96%	3.87%	2.76%
Foreign capital investment (as a % of total sector capital)	77.02%	81.96%	82.43%
Agriculture			
Overall fiscal envelope for Ministry of Agriculture and Forestry (% of total)	3.27%	3.59%	2.71%
Domestic capital investment in agriculture and forestry (% of total domestic capital)	6.91%	6.35%	5.84%
Foreign capital investment (as a % of total sector capital)	62.47%	71.17%	54.86%
Water resources and environment			
Overall fiscal envelope for Ministry of Public Works and Transport and Road Maintenance Fund (% of total)	0.99%	0.87%	0.96%
Domestic capital investment in water resources and environment (% of total domestic capital)	1.13%	0.83%	0.66%
Foreign capital investment (as a % of total sector capital)	75.32%	77.39%	81.16%

Source: State Budget Plans 2013/2014, 2014/2015 and 2015/2016

Note: 'Fiscal envelope' is defined as total state budget and funds, minus debt repayments.

This overall expenditure policy creates issues for the financing of key sectors, and the PFM structure set out in the Budget Law also creates financing challenges in terms of leaving no one behind. For instance, provincial governments are able to retain 100 percent of some revenue streams, which has meant inequitable patterns of government spending between provinces. In 2015/2016, for example, the provincial government of Vientiane was allocated 56 percent of the total provincial budget for public works, and there are also significant differences between provinces in per capita health and education spending. Another key challenge is in M&E, in understand who are the poorest in society and providing them with free access to services, e.g. through the Health Equity Fund.

In terms of revenue policy, the 2015 Finance Act provides a progressive framework for domestic public resource mobilization, with tiers of direct (e.g. income tax, lump sum tax) and indirect taxation (e.g. VAT exemptions on certain items such as agricultural products) that aim to reduce the tax burden on the poorest. However, the government is reliant on indirect sources of tax collection and has also planned increases in excise duty on items required by the poorest (e.g. fuel), so there is a need for a detailed assessment of how the tax regime is impacting the poorest citizens.

Monetary policy: As highlighted in Chapters 4 and 5, monetary policy has been central to increasing private sector investment. In the context of leaving no one behind, in 2015 the government introduced an ad hoc interest rate policy to provide commercial banks with

guidance on reducing the cost of lending in order to increase access to credit for SMEs.⁴⁸ However, as highlighted by the Financial Inclusion Roadmap 2016–2020, there remain significant challenges in terms of access to financial services (25 percent of people have no access), lending facilities (only 9 percent borrow from formal institutions) and insurance (77 percent of adults have no insurance).⁴⁹

Building Block 5: Monitoring and evaluation

The M&E framework detailed in the NSEDP outlines a number of specific areas and indicators relevant to the leave no one behind agenda. For example, under inclusive growth, indicators have been designed to monitor regional GDP growth rates; Outcome 2 on human resource development has indicators on economic poverty and inequality, as well as tracking outcomes in key sectoral and thematic areas (e.g. nutrition, health, education and WASH); while gender equality is a cross-cutting theme. However, as already explained, there are issues with successfully implementing this framework and challenges with respect to leaving no-one behind.

For example, some indicators—such as for gender equality—have no baseline data or actual identified targets, which makes it very difficult to track them. In addition, many of the relevant indicators are based on five-yearly survey data and there is no means of disaggregating information to smaller administrative units. Therefore, even if new surveys are carried out within the period covered by the 8th NSEDP, there will be only one data point to measure, and obtaining a fuller picture of geographical variances will be difficult. There are also challenges in obtaining accurate annual administrative data from information management systems in the health and education sectors.

Building Block 6: Accountability and dialogue

Accountability: The government has no formal accountability mechanisms with regard to the poorest and most marginalized in society, although members of the National Assembly are meant to represent the views of their constituents. However, through the VDPEDC the government has committed to enhancing transparency on budget information in a timely manner; although this has not yet been fully realized, it offers a potential opportunity for citizens to hold the government to account.

Dialogue: In terms of high-level engagement, the implementation of the VDPEDC in 2015 marked a significant change in the RTP, with certain NPAs being involved in the consultation process and participating in high-level round-table meetings. However, as yet the involvement of NPAs in the SWGs has been limited, although many of the key themes relevant to leaving no one behind cut across many of the SWGs.

Outside of the mechanisms for high-level formal dialogue, the government also engages with the poorest and most marginalized people in a number of ways. The NCRDPE conducts mapping and gathers feedback from the poorest communities to try and assess needs in different areas, in order to better allocate funding through the Poverty Reduction Fund. Also, based on guidance from the Sam Sung process and its commitment to equitable growth, the government, along with development partners, is conducting various pilot studies to assess needs and collect feedback at the village level.

⁴⁸ IMF Country Report No.17/53.

⁴⁹ http://mafipp.org/wp-content/uploads/2016/11/161031-MAP-Lao_Summary-Synthesis-note-4th-draft-biblio-Eng.pdf

7. Conclusions, recommendations and examples of good practice

Summary

Following economic liberalization in the 1980s, Lao PDR has experienced strong and sustained annual single-digit economic growth. This has corresponded with an almost seven-fold increase in real terms in financing resources for development between 2000 and 2015. There has been an increase across all types of financing—public, private, domestic and international—and today each resource makes up around one quarter of the total mix. As a result of this economic growth and greater flow of financial resources, the country has seen significant changes, with poverty rates cut in half over a period of 20 years, significantly improved health and education outcomes and greater access to infrastructure, such as telecommunications, electricity, roads and water and sanitation. However, this development progress has not been shared equally by everyone, with significant variations between populations in marginalized rural areas and those living in Vientiane and other urban areas, as economic growth has largely been driven by the natural resource sectors of hydropower and mining, which create only low levels of employment.

To address these increasingly inequitable patterns of growth, the government has committed to building a more inclusive economic model structured around the country's graduation from LDC status. Lao PDR could conceivably achieve graduation simply by meeting the income per capita criterion—which it will almost certainly do, as GDP growth is projected to remain robust in the medium term—but instead the government has focused on graduating by meeting all three criteria, and has outlined long- and medium-term development plans that include ambitious social, economic and environmental targets. These have been designed so that the country is in a better position not only to graduate but to sustain its momentum and build towards UMIC status by 2030. Delivering on these ambitious plans will require further substantial increases in development resources, which must be utilized in the most efficient and effective manner possible, with particular priority given to private sector development and ensuring that no one is left behind. As this paper has shown, increasing the scale of all the different forms of development finance is a significant challenge, but opportunities exist and the government has to capitalize on them.

To facilitate this, this paper has shown how the concept of an INFF can provide assistance in linking development financing to wider government structures and processes, in order to help maximize not only the scale of financing but to better target it and to monitor and evaluate its outcomes. The Government of Lao PDR has clear structures and processes in place across the various building blocks, and provides some best practice examples that may be of interest to other ASEAN countries. It is already undertaking a number of reforms with support from development partners in order to strengthen certain areas of the INFF concept, such as PFM reform and improving statistical capacity. However, there are other areas where the government could potentially strengthen the building blocks and the linkages between them, and recommendations for such actions are outlined below.

Recommendations, including areas for further work

Use the INFF concept to help guide the integration of structures for an effective development agenda

- Overall, while there are some clear linkages between the building blocks of the INFF (particularly between Building Blocks 1 and 2 and dialogue in Building Block 6), there is a lack of integration and joined-up thinking, especially in terms of moving from the vision for results through financing to M&E, although some progress is being made (e.g. PFM reform). The concept itself and lessons from other countries on greater integration between planning, financing strategies, policies and M&E may be useful for the government and ultimately could help it to implement its ambitious national

development agenda by 2020 and Vision 2030, with potential in the first instance to guide the formulation of the national SDG roadmap process.

Improve development planning to strengthen integration with other building blocks (especially Building Blocks 3, 4 and 5)

- **Strengthen longer-term planning to 2030:** At present the medium-term NSEDP is the only planning document that sets out a clear monitoring framework and overall financing strategy (albeit at the top level). The government has committed to attaining the SDGs, integrating them into its own planning, and has set out its objectives of graduating from LDC status and becoming a middle-income country by 2030. It may therefore want to consider creating a stronger planning document for the period up to 2030, which outlines a monitoring framework linked to the 2030 SDG targets and other priorities, with estimated costs needed to achieve this to help guide financing.
- **Improve the monitoring framework and its integration with wider structures, and define costed strategies at the outcome level:** Although the government has successfully integrated a monitoring framework into the 8th NSEDP, based on recommendations in the VDPEDC, there are a number of ways in which this could be strengthened. For example, targets have been identified, along with ministries responsible for tracking them, but as yet this remains a suggested approach rather than being integrated into wider M&E structures. In addition, issues of statistical capacity mean that at present it is not possible to track certain indicators on a yearly basis or even within the plan's five-year cycle. Therefore, as a next step it might be helpful to consider an implementation strategy for the monitoring framework to operationalize it further, as well as considering a review of the indicators and outlining what indicators can be tracked in what timescale within the current statistical capacity and using other indicators as proxies to facilitate a yearly evaluation of progress.
- **Aim for greater consistency in ministerial sector plans:** There are a number of ministerial development plans and there are linkages between them and the overall NSEDP, but they are not uniform in nature. Some detail a planned implementation framework of activities alongside costed estimates for development actors (e.g. the National Agricultural Biodiversity Programme), some list activities and overall costed needs (e.g. the Ministry of Education), while others only list planned activities (e.g. the Ministry of Agriculture). Given the importance of sectoral plans not only for overall development planning but also for guiding financing allocations (budgetary and wider financing), the government might want to consider taking action to standardize these plans in line with best practice examples where activities are linked to financing.

Improve technical coordination and information sharing between ministries for greater coherence

- National and provincial committees provide opportunities for coherence at a high level, but there is a lack of coordination and information sharing between ministries at the technical level. Therefore, the government might want to look at providing coherence structures to facilitate this.

Strengthen financing strategies (Building Block 3) to help guide effective dialogue and planning

- The government has recently drafted a public finance strategy, and although it sets a framework for objectives, it lacks a clear action plan with costings and priority setting that development partners could support. At present there are many development partners providing technical assistance for PFM, so having a clearer implementation plan could help to facilitate both increased and more coordinated investments from

them. This recommendation could also prove useful for the aid strategy that the government is drafting.

Build a better understanding of the impact of taxation policy on private sector development and the leave no one behind agenda

- In both of these areas taxation policy has a significant impact on outcomes, both positive and negative. Therefore, the government might want to consider undertaking a broad assessment of the tax regime and its rates, incentives and exceptions to review their impacts and make adjustments as appropriate.

Build a better understanding of financing policies (Building Block 4) and activities (Building Block 5) to help guide effective dialogue (Building Block 6) and planning (Building Block 1)

For there to be effective dialogue and effective planning processes on national development objectives, transparency of information is needed in terms of financing and related activities. In this regard there are two recommendations:

- **Improve the reporting and accountability of non-state actors:** The government has identified challenges in understanding the extent of wider development financing in the country, whether international public resources or funding from the private sector. It has identified its own internal issues in coordinating knowledge sharing across ministries with regards to ODA and private investment, and is working to improve reporting standards to facilitate a better understanding of international finance flows (e.g. remittances). The government has also outlined challenges in relation to the compliance of development partners and private sector entities with reporting requirements. It is crucial that non-state actors are able to provide this information to the government, to help guide its development activities.
- **Improve the transparency and quality of budgetary information:** The government is currently undertaking a number of reforms with regard to PFM, both within the MoF and at the ministerial level, but development partners have outlined the difficulties involved in accessing budgetary information and obtaining a detailed understanding of what programmes and activities the government is prioritizing over the short and medium terms. To facilitate greater dialogue and to aid planning by development partners, the government should continue its reform processes and ensure that information on public finances is available and accessible, in a timely manner.

Recognize the need for financing policies (Building Block 4) to prioritize the strengthening of statistical capacity, bounded by an integrated government financing strategy (Building Block 3) for a coordinated M&E framework (Building Block 5)

- The challenges of statistical capacity are well known to government and to development partners, with commitments articulated in the VDPEDC, but there still appears to be a lack of coherence across government and a lack of buy-in for an overall M&E framework to measure the progress of the NSEDP. This lack of coherence has led to development partners supporting different M&E systems within different ministries. The Lao Statistics Bureau has a strategic plan, but it may also prove useful to have a strategy that articulates a whole-of-government approach to M&E.

Good practices to share with other ASEAN members

- Lao PDR has shown high-level political and governmental commitment to the MDGs and now to the SDGs and their integration within national development planning, and this is set to be further guided by the formulation of a national SDG roadmap.

- The NSEDP plays a central role in helping to shape the direction of development across government (both horizontally and vertically), and is also the main focus within the RTP, and this has encouraged donors to align their programmes with it.
- The round-table mechanism has been successfully aligned with global processes of aid effectiveness (in 2006) and effective development cooperation (in 2015). In addition, the process has been effectively led by government and development partners as co-chairs of high-level meetings and SWGs and has been effectively managed on a day-to-day basis by the UN Division of the Department of International Cooperation, within the Ministry of Planning and Investment.
- There has been commitment to the leave no one behind agenda through the planned Sam Sung process of empowering village communities and efforts to identify the poorest people and their needs through the National Committee for Rural Development and Poverty Eradication.

Annex 1: Financing flows data methodology notes

Analysis of financing flows was undertaken from the country perspective, and so national data sources were preferred over international data sets where adequate coverage and metadata were provided. Across the 10 country papers and regional report included in this project, all financing data and analysis are in constant 2015 US\$ unless otherwise specified. Data from national sources reported in national currencies were converted into constant US\$ using exchange rates and GDP-based deflators, following normal practice.

Domestic public finance

Domestic public finance refers to government resources that originate domestically. It covers government revenue (excluding any grants received to avoid double-counting with international resources) and government borrowing from domestic sources (i.e. domestic financing). Both series were sourced from national budget documents where available, with data from IMF Article IV Reports used to fill gaps where needed.

Domestic private finance

Domestic private finance refers to investment by the domestic private sector. Few countries produce data on domestic commercial investments directly, so gross fixed capital formation (GFCF) was used as a proxy, with capital expenditure and FDI deducted in order to obtain a figure for domestic private investment alone. GFCF data exclude certain types of investment such as land sales and purchases and all kinds of financial assets, and they do not make any deductions for depreciation of fixed assets. These estimates should therefore be treated as estimates of the general trends and scale of this type of financing.

International public finance

International public finance includes official development assistance (ODA), other official flows (OOF) and government borrowing from international sources. ODA figures are sourced from OECD DAC data. OOF data are sourced from OECD DAC Table 2B for all countries, as comprehensive data on this type of finance are not readily available from national sources. Government borrowing refers to lending from bilateral and multilateral institutions and private entities received or guaranteed by the state. For consistency across country papers and to ensure that overlaps with ODA loans and OOF could be accounted for, data for this flow were also sourced from international data sets for all countries.

International private finance

International private finance includes FDI, portfolio equity, private borrowing from international sources and remittances. FDI data are based on national sources for all countries. Portfolio equity and remittances were based on national sources for countries with sufficient coverage, or World Bank data otherwise. Portfolio equity data based on national sources were sourced from the liabilities line of portfolio investments (equity component) in balance of payments (BOP) tables. Private borrowing from international sources refers to commercial debt (both long- and short-term) and is based on international data from the World Bank's International Debt Statistics for all countries; this was done for consistency across the country papers and due to patchy coverage and availability of data on this type of finance in national sources.



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