

SUMMARY OF 9TH NSEDP MTR RECOMMENDATIONS

THE 2ND HALF OF THE 9TH NSEDP – LAYING THE FOUNDATION FOR THE 10TH NSEDP

1. The priority is to consolidate a foundation for economic recovery. The foundation could include being built around the demographic transition and the comparative advantages that it brings. At the same time the severe impacts of the current macro-economic issues on the most vulnerable must continue to be recognised and the risks to vulnerable communities mitigated.
2. Short-term prospects for pro-poor growth are clouded by the threat of continued macro-economic instability and the further compression of developmental expenditures by unsustainable debt obligations. The immediate objective is to protect purchasing power and access to public services from macroeconomic instability and fiscal pressure on social spending.
3. Medium-term prospects for poverty reduction and shared prosperity are impeded by stagnant job-creation, which created non-pro-poor growth. The next objective is therefore to improve the labour opportunities and incomes of vulnerable households.
4. It needs to be widely recognised that long-term prospects for livelihoods of the poor and vulnerable are dependent upon natural resources: a third objective could be to strengthen sustainable livelihoods through better management of natural resources.
5. Policies and policy adaptations are needed that balance short-term stabilization needs against the longer-term challenges for tackling income inequality and the climate crisis. In effect the aim will be to establish balance between economic, inclusivity and environmental imperatives. This aim will underpin the shaping of the 10th NSEDP.
6. It is not entirely a question of constraints - there are opportunities that need to be seized. For example, the Lao PDR is in the early stage of its demographic transition, during which the number of people in productive age will exceed the number of dependent younger and elderly in need of care and support. This one-time demographic window of opportunity could drive higher economic growth if adequate investments are urgently made in human

capital development. Public health and education spending fell from 4.3% to 3.1% of GDP over 2016-21. The risk of losing out on the potential of demographic dividend could result in increased vulnerabilities, poverty, and a demographic loss with severe implications on the development trajectory of the country as it moves towards graduation from the least developed country status.

7. During times of economic slowdown, policies to maintain demographic resilience and improve human capital development should be considered among the most urgent priorities of financing strategies and response plans. With over 80,000 new job seekers entering the labour market annually over the next decade, investments in the preparedness of young people are key to Laos' economic recovery and growth.

8. This will require continued reforms to strengthen governance, to promote economic diversification and competitiveness, to improve the business climate and foster private sector development, and to enhance investment in human capital, health, education and social protection.

9. While the Lao PDR's abundant natural resources represent a real comparative advantage if managed sustainably, the nation has not yet managed to decouple economic growth from the exploitation of its natural resources which are under genuine pressure due to land conversion, missing land rights and climate change.

10. The expanding economy can provide additional Government revenue, if public finance management systems become more efficient, accountable and transparent; public debt needs to be brought back to a sustainable level. In addition, the Lao PDR's young population and human capital creates the potential of a demographic dividend – as a surge of young people, not burdened with supporting a large proportion of elderly dependants, enter the workforce – but only if their education and skills are of sufficient quality and appropriateness for the needs of the labour market.

11. Implementation of the 2nd half of the NSEDP should benefit from the well thought through responses to the challenges. Taking into account the various responses, in essence the recommendation of this Mid-term Review is that, with immediate effect, strong action is taken to mitigate the worst effects of the macro-economic problems. This means:

- **Raising public revenues to protect spending on education, health, and social protection;**
- **Improving expenditure allocation and efficiency;**

- **Expediting debt negotiations;**
- **Strengthening financial sector stability; improving the business environment to promote investment and exports; and**
- **Avoiding short-term solutions (acceleration of mining, hydropower investments, even increasing use of chemicals in farming) that are detrimental to longer-term environmental prospects.**

12. It is good to report that action is already being taken on some of these priorities. One of these will be very helpful – having established that during the 8th NSEDP period (2016-2020), the annual government budget did not reflect well the policy priorities defined in the NSEDP, the 9th NSEDP Financing Strategy has been prepared and this will help to convert NSEDP policy into concrete budget spending. This alignment of plan and budget will begin in the course of the second half of the 9th NSEDP and it is intended that it will be implemented fully in the 10th NSEDP.

13. The aim is to use these measures in the 2nd half of the 9th NSEDP to lay the foundation for a 10th NSEDP which is more focused and effective than previous 5-year plans. It will require highly focused implementation of the 9th NSEDP in its remaining years and of the 10th NSEDP – re-allocating public spending into priority areas and recognising that human capital is a critical foundation of inclusive and sustainable development.

14. To help to achieve this it is recommended that a supplementary set of core performance indicators is introduced for the second half of the 9th NSEDP¹. These ‘core’ indicators will focus attention on: revenue generation; sector budget allocation as strengthened revenue streams are achieved, poverty reduction (focus on rural poverty), export promotion with additional value added and associated job growth, import reduction, carefully managed natural resources and overall capacity building to support the implementation of these focused measures.

15. With the end of the National Agenda at the end of this year, a very prioritised set of NSEDP implementation actions could pick up that mantle (and reduce the need for a successor National Agenda).

¹ The existing performance indicators will remain in place.

CONCEPTUALISATION OF THE 10TH NSEDP

16. On the basis of the DoP draft MTR, the desk review findings and the findings of the MTR evaluation workshops and follow-up meetings with ministries and development partners that a consensus exists concerning the priorities for the Lao PDR's economy and development trajectory. This apparent consensus is consistent with the Resilience Framework, advisory prescriptions for stabilising the macro-economy and the 9th NSEDP Financing Strategy priorities.

The concept is 'economic transformation underpinned by investment in human capital'.

17. The country has committed to the achievement of priorities in many critical sectors (human capital, climate change, environmental protection, governance) and as achievement is directly linked with the State's resources, the first and foremost priority is to urgently increase government revenues through a fiscal policy that does not compromise the Lao PDR's priorities to reduce inequality (i.e., considering the progressivity of the tax system) and the transition towards low-carbon and sustainable development:

18. The economic transformation will aim at growth which provides jobs. In association with incremental increases in carefully targeted investment in education and health this strategy should enable the Lao PDR to exploit its comparative advantages and build for long-term and inclusive sustainability. Incorporation of a national strategy for benefiting from the demographic transition and demographic dividend and integration of the National Policy on Population and Development (2019-2030), NSEDP are recommended.

19. If successfully implemented, it will ensure that Lao citizens will be begin to be sufficiently prepared to create and benefit from emerging opportunities in the expanding national economy and greater integration into the ASEAN region. The immediate priority is to consolidate a foundation for the economic recovery. The foundation could include being built around the demographic transition and the comparative advantages that it brings.

20. It is also widely recognised that long-term prospects for livelihoods of the poor and vulnerable are dependent upon natural resources: a further objective could be to strengthen sustainable livelihoods through better management of natural resources.

21. All this will require continued commitment to reforms to strengthen governance, to promote economic diversification and competitiveness, to

improve the business climate and foster private sector development, and to enhance investment in human capital, health, education and social protection.

22. The pillars of the approach to the 10th NSEDP would be:

ECONOMIC STABILITY – A PRE-CONDITION

23. A development trajectory can only be identified and implemented if macro-economic stability can be assured and that there is a realistic expectation that funding for human capital investment will become available, even if only incrementally as the economy strengthens.

FOCUS ON ENVIRONMENT FRIENDLY, JOB-CREATING ECONOMIC TRANSFORMATION

24. Economic transformation requires a shift from relying on growth which is capital-intensive, resource-driven, and debt-fuelled, predominantly driven by large foreign investments in hydropower, mining, and construction (of transport infrastructure), to growth which provides informal, but most importantly, formal, long-term job opportunities – essentially job-creating growth, not jobless growth.

FOCUS ON INVESTMENT IN EDUCATION AND HEALTH

25. As more funding becomes available in the course of the second half of the 9th NSEDP and into the 10th NSEDP, the question will be where in the education and health sectors is it best to provide support and how should it be delivered.

26. Revenue mobilization through tax reforms that enables targeted cash transfers to the most affected groups is a cost-effective and sustainable policy response to prolonged crisis. In response to soaring prices, a number of new cash transfer programs have been implemented in many countries and directed to multiple groups of beneficiaries such as workers, students, children and families with children, the elderly, low-income households and other vulnerable groups².

² For example, in Indonesia, the government provides cash transfers to 16 million workers (6 % of the population) who make less than IDR3.5 million (\$245) per month. Some other cash transfers are provided to support health expenses and to help families with children (as child allowances or for education purposes) to alleviate the impact of declining private spending on human capital.

27. In Laos, to effectively implement these measures in a constrained fiscal environment, it is recommended that the government adopts tax reforms (e.g., increasing VAT and removing unnecessary tax exemptions) to expand fiscal space and use part of the additional revenue to provide cash transfers to vulnerable households and invest in improving the existing targeting tools and benefit transfer systems.

28. Moving away from tax cuts and exemptions to more progressive fiscal interventions like targeted cash transfers will allow the government to protect household livelihoods from the ongoing price shocks at a lower fiscal cost

THE CONTINUED USE OF RESULTS BASED MANAGEMENT

29. It is recommended that the 10th NSEDP continues to use RBM principles and the design of the 10th NSEDP will benefit from a review of the effectiveness of the design of the 9th NSEDP. This is discussed in detail in the main report, with many recommendations made on how to strengthen the Plan. It is recommended that work on the design of the 10th NSEDP should start now and be continued through the second half of the 9th NSEDP. The process of preparation of the 10th NSEDP should consider the enhanced role and organisation of the SWG system and effective incorporation of the private sector.

ANNEX

Background to 9th NSEDP Implementation (to mid-year 2023)

30. The NSEDP was developed through a participatory process involving all relevant stakeholders, and it was based on an analysis of the domestic, regional and international contexts and challenges, and an assessment of the potential impact of the COVID-19 pandemic. The NSEDP integrated the Agenda 2030 for Sustainable Development and the SDGs³, as well as the Paris Agreement on Climate Change and its Nationally Determined Contributions (NDC). The overall objective of the 9th NSEDP was three-fold:

- To continue the efforts to graduate from the Least Developed Country status, ensure employment for people, improved livelihoods and better well-being, maintain the social order, strive to realize the Sustainable Development Goals (SDGs) in 2030, and effectively translate the National Green Growth Strategy into actions;
- To breakthrough shortcomings and obstacles faced in the previous development efforts and emerging challenges such as, the implications of the COVID-19, climate change, trade war and the regional and international uncertainties;
- To turn the nation's endowments and potentials into spearheading manufacturing and services, and an engine of growth to lay a foundation for a gradual shift toward a self-reliant and strong economy.

31. It is sometimes assumed that the current challenges facing the Lao PDR are the result of external problems. Although this is partially correct, it is also the case that over many years preceding the 9th NSEDP the Lao PDR's growth model was already showing its limitations. Economic growth averaged about 7 percent over the two decades to 2019, but the economy's growth model was aimed at short-term gains, being capital-intensive, resource-driven, and debt-fuelled. Economic growth had been steadily decelerating from 8.0 percent in 2013 to 5.5 percent in 2019. The growth which had been predominantly driven by large foreign investments in hydropower, mining, and construction (of transport infrastructure), provided very few formal, long-term job opportunities.

³ At the midpoint of Agenda 2030, the SDGs are in jeopardy as progress stalls amid the climate crisis, economic fluctuations, conflicts and pandemic aftermath. The SDG Summit took place on September 18-19, 2023 under the auspices of the United Nations General Assembly, aimed to catalyse renewed efforts towards accelerating progress on the SDGs, and served as a vital roadmap out of these challenges.

32. Over time, a combination of heavy borrowing by state owned enterprises (SOEs), high fiscal deficits (averaging 5 percent of GDP in 2015-2020), a steady deceleration of GDP growth and exchange rate depreciation all contributed to a rapid deterioration in debt ratios⁴.

33. The need to service large external debts (estimated at over 110 percent of GDP in 2022), together with high import prices and limited foreign exchange, contributed to a sharp fall in the value of the kip. This caused high inflation, in turn weakening income, consumption, and investment. For many households, real income is falling and spending on health and education is declining.

34. The COVID-19 pandemic had severely impacted the country (with only 0.5 percent GDP growth in 2020) and the pandemic exacerbated the problems created by the structurally weak economy. This was the context of the opening years of the 9th NSEDP and government and development partners responses have both highlighted the need to be resilient and for long-term and inclusive sustainability.

35. The government supplemented the 9th NSEDP with a National Agenda for Resolving Economic and Financial difficulties in 2021–2023. The agenda aims to strengthen macro-economic management and improve the business environment to promote inclusive and equitable growth. At the same time a 9th NSEDP Financing Strategy was prepared collaboratively between government and development partners and advisory analyses were prepared by other development partners. There has been a vigorous and positive response to the challenges by government and key stakeholders.

⁴ The energy sector, mostly represented by Electricité du Laos (EDL), has played an important role in public debt accumulation, accounting for about 42 percent of total PPG debt in 2021. There are also substantial contingent liabilities associated with public-private partnerships (PPPs) and non-guaranteed SOE borrowing, but these fiscal risks have not been adequately quantified yet.