



**Lao People's Democratic Republic**  
**Peace Independence Democracy Unity Prosperity**

**THE 9<sup>TH</sup> NATIONAL SOCIO-  
ECONOMIC DEVELOPMENT PLAN  
FINANCING STRATEGY (2023-2025)**

**Government of Lao PDR**

*With the technical assistance of the United Nations Joint Programme on Financing Efficiency, financed by the Joint SDG Fund, and the contributions of a broad coalition of development partners*

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## Foreword

The 9<sup>th</sup> National Socio-Economic Development Plan (2021-2025), which operationalises the Resolution of the 11<sup>th</sup> Party Congress, is the country's blueprint for high-quality, focused, green, and sustainable development. This five-year plan aims to take Lao PDR to graduate from Least Developed Country (LDC) category, envisaged for 2026, with a focus on six outcomes: (1) Stable and sustainable economic growth, (2) Strengthened human capital development, (3) Enhanced people's wellbeing, (4) Improved environmental protection and climate action, (5) Increased regional cooperation and integration, and (6) Efficient governance and administration. However, several targets of the 9<sup>th</sup> NSEDP are unlikely to be met because of several challenges, including COVID-19 pandemic, the Fuel, Financing, Food, and Fertiliser crisis, and climate change. These shocks have increased pre-existing economic vulnerabilities and widened the gap between the financial resources available and development needs.

In 2021, the Government adopted the National Agenda on Addressing Economic and Financial Difficulties (2021-2023). However, despite significant efforts by policymakers, development partners, and society, "*the policy response in least developed countries was much more limited owing to weak fiscal conditions, major supply chain and logistic challenges, weak resilience capacity and static global support*", in Lao PDR and elsewhere, as is recognised in the Doha Programme of Action for LDCs.

The Government accelerated efforts to address this challenging global and national context through various means, including through the formulation of a Financing Strategy to accompany the national plan, which could take forward the National Agenda's principles. The Financing Strategy was prepared between 2021 and early 2023, under the leadership of the Ministry of Planning and Investment, convening the Government of Lao PDR, development partners, and civil society, through an exercise of transparent and evidence-based policy formulation, based on the Integrated National Financing Framework methodology, agreed by member States at the 3<sup>rd</sup> International Conference on Financing for Development.

I am proud to endorse the 9<sup>th</sup> NSEDP Financing Strategy as the Government of Lao PDR's guiding policy document for the period 2023-2025 to help focus the attention on priority actions to address our development finance challenges and help bring the country back on track to achieve the 9<sup>th</sup> NSEDP objectives, graduate from LDC category, and ultimately achieve the SDGs.

The Financing Strategy's 54 policy actions, detailed action matrix, and monitoring and evaluation plan provide concrete and practical steps to increase the financial means to achieve our national development priorities. It also resolves major policy trade-offs, such as ensuring that the increase in the volume of development finance does not undermine our aspirations for balanced and sustainable development.

I call on all stakeholders to urgently initiate the implementation, and on development partners to swiftly align their support to the Financing Strategy's policies, for a coordinated, effective, and efficient implementation.

Finally, I take this opportunity to congratulate the Ministry of Planning and Investment and thank the United Nations in Lao PDR and the Joint SDG Fund, and all involved stakeholders, for together contributing to the formulation of this Financing Strategy.

Vientiane Capital, on 30.06.2023.....

**Prime Minister of Lao PDR**



## Executive summary

In 2015, at the Third International Conference on Financing for Development in Addis-Ababa, Ethiopia, Member States of the United Nations agreed that “*cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks [INFF], will be at the heart of [their] efforts*”. **Financially sound development planning**, mobilising State budgets, private investments, and development aid was seen as an imperative to the realisation of a country’s development aspirations.

The Government of Lao PDR implements the Addis-Ababa Action Agenda through the 9<sup>th</sup> National Socio-Economic Development (NSED) Financing Strategy (2023-2025), which, for the first time in Lao PDR, specifies how to finance national development. Just like the 9<sup>th</sup> NSED itself, the Financing Strategy must be understood as a vital guiding document to all programmes, projects, and activities, of all actors, contributing to Lao PDR’s development.

The formulation of the 9<sup>th</sup> NSED Financing Strategy is driven by **the Government’s commitment to ensure continued and sustainable development progress**, in a rapidly evolving international, regional, and local context, which has brought about unprecedented challenges for the implementation of the 9<sup>th</sup> NSED, the country’s aim to graduate from the Least Developed Country (LDC) status by 2026, and the achievement of the Sustainable Development Goals (SDGs), as acknowledged in the National Agenda on Addressing Economic and Financial Difficulties (2021-2023).

Although the country has experienced decades of high levels of growth and declining poverty, revenues remains low in comparison with neighbouring countries while debt levels remain challenging and contributions from the private sector are insufficient. These factors have created various challenges for the realisation of the country’s development aspirations. Moreover, recent compounded shocks, e.g., COVID-19, the global Food, Energy and Finance crisis, and the environmental and climate change crisis – have further intensified the negative impacts on Lao PDR’s economic and financial fundamentals, created new development needs, and more generally, called for new and more coherent policy directions.

The 9<sup>th</sup> NSED Financing Strategy aims to **put finance at the service of development** and particularly to support the implementation of the 9<sup>th</sup> NSED by identifying policies that can **increase the volume and/or alignment of all financial flows to the national plan’s 6 outcomes and 25 outputs**.

To achieve this objective, the Financing Strategy applies the INFF approach to Lao PDR, adapted to the Lao context, with a **holistic** – i.e., looking at all sources of finance – **country-owned**, i.e., complementary to the national plan – and **goal-oriented**, i.e., focused on accelerating the financing and achievement of national development priorities – **action framework** that covers the remainder of the current planning cycle (2023-2025).

The Financing Strategy is therefore composed of **four core chapters** structured against a double classification: public (domestic/international) and private (domestic/international). In line with the evidence generated ahead of policy formulation, a final core chapter was added, focusing on priority sectors that are instrumental to Lao PDR’s sustainable development progress: human capital (health and education) and green and climate-resilient growth, people-

centered, and environmentally sustainable. These priorities are mainstreamed across all actions of the Strategy to ensure inclusive development finance.

Between December 2020 and September 2022, extensive debates, consultations, and meetings led to the identification of **19 policy directions** and **54 practical actions**. Within this comprehensive reform framework, several priorities among priorities emerge.

The **relinking of fiscal policy with inclusive growth** is the most important precondition to continued development progress (*policy objective 1.1.1 State revenues primarily increase through a fiscal policy shift to broaden the tax base, in line with inclusive growth priorities*) in the context of Lao PDR's revenue to GDP ratio that is much below regional peers. Although the need to increase revenue is strong, this must be done **without risking Lao PDR's environmental and climate objectives** specified in the country's Nationally Determined Contributions (*policy objective 1.1.2: revenue generation does not compromise the 9th NSEDP environmental sustainability directions and priorities*).

Broadening the tax base to ensure sufficient revenues for development is paired with an imperative to **make public** (*policy objective 2.1.1 2023-2025 budget allocations and public investments, at the national and local level, and in all sectors, support the achievement of the 9th NSEDP*) **and foreign** (*4.1.1: quality FDI contributing to national development priorities increase through a focused investment promotion strategy based on non-fiscal incentives and reforms of the business environment*) **financial flows contribute more directly to the country's development objectives**. Meanwhile, the current administrative and financial processes need to be reviewed to ensure the consistent alignment of annual budget allocations, medium-term budget frameworks, and public and private investments decisions, with the 9th NSEDP.

**Reducing current debt levels is another important priority of the Government.** This entails the continuation of ongoing negotiations, but also the exploration of debt relief initiatives, and improved debt management (*policy objective 1.3.1: immediate debt relief is needed to free fiscal space for development investments*).

These core reforms are accompanied by a wide range of measures to improve the strategic planning, efficiency, and effectiveness of development aid, in particular in ODA-dependent sectors, improve access to finance for Lao businesses, manage risks in the financial sector, simplify the business environment, or curb illicit financial flows.

**Improving coherence, efficiency, and effectiveness** of all financing for development policies, programmes, and projects is another central purpose of the Financing Strategy. This requires **scaling-up and solidifying multi-stakeholder partnerships**.

The value added of the Financing Strategy largely lies in the fact that it is the result of **progressive consensus** built through series of technical and high-level workshops, engaging all key Government ministries, development partners, and the private sector. This inclusive approach, steered by the Ministry of Planning and Investment, with the support of the UN, facilitated open and evidence-based debates on the causes and drivers of complex development and financial challenges, whose origins are often found in weak management of trade-offs, insufficient coordination, and siloes.

Maintaining this multi-stakeholder approach will be essential for a **smooth and effective implementation**. For this reason, the governance and monitoring of implementation, which begins in January 2023, is the subject of a final chapter (with an action matrix, providing details on responsible entities, required partners, timelines, means of verification for monitoring, and coordination mechanisms).

## List of acronyms

<b>AAAA</b>	Addis-Ababa Action Agenda
<b>ADB</b>	Asian Development Bank
<b>AML</b>	Anti-Money Laundering
<b>AMLIO</b>	Anti-Money Laundering Intelligence Office
<b>APG</b>	Asia Pacific Group
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>BoL</b>	Bank of Lao PDR
<b>CDP</b>	Committee for Development Policy (of the United Nations)
<b>CFT</b>	Counter Financing of Terrorism
<b>CoA</b>	Chart of Accounts
<b>DFAT</b>	Department of Foreign Affairs and Trade of Australia
<b>DPs</b>	Development Partners
<b>EPF</b>	Environment Protection Fund
<b>ESSDP</b>	Education and Sport Sector Development Plan
<b>EU</b>	European Union
<b>FATF</b>	Financial Action Task Force
<b>FDI</b>	Foreign Direct Investments
<b>FPI</b>	Foreign Portfolio Investment
<b>GDP</b>	Gross Domestic Product
<b>GFCF</b>	Gross Fixed Capital Formation
<b>GGGI</b>	Global Green Growth Institute
<b>GNI</b>	Gross National Income
<b>IDA</b>	International Development Association
<b>IMF</b>	International Monetary Fund
<b>IFC</b>	International Finance Corporation
<b>IFF</b>	Illicit Financial Flows
<b>IFMIS</b>	Integrated Financial Management Information System
<b>ILO</b>	International Labour Organisation
<b>INFF</b>	Integrated National Financing Framework
<b>JP</b>	UN Joint Programme on Financing Efficiency
<b>JICA</b>	Japanese International Cooperation Agency
<b>LAK</b>	Lao Kip
<b>LDC</b>	Least Developed Country/ies

<b>LNCCI</b>	Lao National Chamber of Commerce and Industry
<b>MAF</b>	Ministry of Agriculture and Forestry
<b>MEM</b>	Ministry of Energy and Mines
<b>MoES</b>	Ministry of Education and Sports
<b>MoF</b>	Ministry of Finance
<b>MoFA</b>	Ministry of Foreign Affairs
<b>MoH</b>	Ministry of Health
<b>MoIC</b>	Ministry of Industry and Commerce
<b>MoLSW</b>	Ministry of Labour and Social Welfare
<b>MoNRE</b>	Ministry of Natural Resources and Environment
<b>MoUs</b>	Memorandums of Understanding
<b>MPI</b>	Ministry of Planning and Investment
<b>MSME</b>	Micro, Small and Medium-Sized Enterprises
<b>NDCs</b>	Nationally Determined Contributions
<b>NGO</b>	Non-Governmental Organisation
<b>NMNCAH</b>	Nutrition, Maternal, New-Born, Adolescents, and Child Health
<b>NPL</b>	Non-Performing Loans
<b>NSEDP</b>	National Socio-Economic Development Plan
<b>ODA</b>	Official Development Assistance
<b>ODA-MIS</b>	ODA Management Information System
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PFM</b>	Public Finance Management
<b>PM</b>	Prime Minister
<b>ProFIT</b>	Provincial Facilitation for Investment and Trade
<b>RTM</b>	Round Table Meeting
<b>RTP</b>	Round Table Process (of Lao PDR)
<b>SDGs</b>	Sustainable Development Goals
<b>SEZ</b>	Special Economic Zones
<b>SOE</b>	State-Owned Enterprises
<b>SRH</b>	Sexual and Reproductive Health
<b>UHC</b>	Universal Health Care
<b>UN</b>	United Nations
<b>UNCDF</b>	United Nations Capital Development Fund
<b>UNDESA</b>	United Nations Department for Economic and Social Affairs
<b>UNDP</b>	United Nations Development Programme

<b>UNFPA</b>	United Nations Population Fund
<b>UNICEF</b>	United Nations Children's Fund
<b>UNODC</b>	United Nations Office on Drugs and Crime
<b>USD</b>	United States Dollar
<b>VAT</b>	Value-added tax
<b>VDCAP</b>	Vientiane Declaration on Partnerships for Effective Development Cooperation 2015-2025
<b>WB</b>	World Bank
<b>WHO</b>	World Health Organisation

## Introduction

The Financing Strategy was developed between January 2021 and September 2022 by the Ministry of Planning and Investment (MPI), with wide multi-stakeholder support, to identify practical steps to support the achievement of the goals set out in the national plan in an increasingly challenging financial context. This introduction elaborates on the context, objectives, and process followed.

### **A Financing Strategy for the 9<sup>th</sup> NSEDP**

The Financing Strategy was developed as a companion document to the 9<sup>th</sup> National Socio-Economic Development Plan (NSEDP). Aiming at a high-quality, sustainable, green, and focused development, the national plan specifies priorities to get back on track to achieve the Sustainable Development Goals (SDGs) in the context of COVID-19's socioeconomic impacts – the plan was recalibrated in late 2020 to consider impacts – and its recovery, the triple planetary crisis, and sustainable Least Developed Country (LDC) graduation.

The NSEDP is composed of six pillars, of which two (1 and 6) directly justify the formulation of a national Financing Strategy to specify processes and tools to finance national development priorities:

- (1) Sustainable economic growth, which prioritises resolving macro-fiscal challenges, public financial management (PFM) reform, increased revenue mobilisation, improved expenditure, and debt management, and diversifying economic growth.
- (2) Human capital development;
- (3) People's wellbeing;
- (4) Environmental protection and climate change management;
- (5) Regional cooperation and integration;
- (6) Good governance and administration, which prioritises improvements in the efficiency and effectiveness of the public administration and of national planning processes.

The plan to formulate a dedicated Financing Strategy was formally presented by MPI at the December 2020 High-Level Consultation on the 9<sup>th</sup> NSEDP, under the Round Table Process (RTP). At the event, government, development partners (DPs), and representatives from the civil society agreed that the country was at risk of not achieving the 9<sup>th</sup> NSEDP and failing on the SDGs, in large part because of shrinking fiscal space, with high levels of debt and failing revenue collection, unpredictable trends in Official Development Assistance (ODA), and an uncondusive business environment for private investments into national development priorities.

Since then, identifying practical strategies and actions to increase the resource envelope for development investments and improving the returns of available resources have been national priorities. The relevance of the Financing Strategy was exacerbated by the more recent external shocks faced by Lao PDR – the Fuel, Financing, and Food crisis – that feed on the country's macroeconomic, fiscal, and socioeconomic vulnerabilities.

The Financing Strategy also builds on the National Agenda on Economic and Financial Difficulties 2021-2023. This document was developed in response to the macroeconomic and financial difficulties experienced by Lao PDR, identified in the the 11<sup>th</sup> Party Congress Resolution.

The National Agenda identifies five key vulnerabilities: (1) weak economic diversification, overreliance on the resource sector, and vulnerability to external shocks, (2) high budget deficit (3) high debt and servicing levels leading to shrinking fiscal space, (4) deficits in foreign currency, and (5) financial sector vulnerabilities. The National Agenda’s specific “core actions” have framed the Financing Strategy’s scope and objectives:

- Core action 1: promote production to substitute imports and support exports to build up a strong and sustainable revenue base.
- Core action 2: strengthen revenue collection, in particular tax revenue.
- Core action 3: promote frugality, tackle extravagance, enhance effectiveness of investment-expenditure, and address domestic-foreign debt.
- Core action 4: create/ maintain monetary stability;
- Core action 5: enhance public management governed by the rule of law<sup>1</sup>.

### **The Integrated National Financing Framework**

The global development finance erodes the world’s collective aspiration for a more sustainable future, as set out in the 2030 Agenda. There are simply not enough resources allocated to the achievement of the SDGs.

Pre-COVID-19, the funding gap to achieve the SDGs was estimated at US Dollars (USD) 2.5 trillion per year in low-income and developing countries. The Organisation for Economic Cooperation and Development (OECD) estimated that the pandemic could have caused the funding gap to increase by 70%, reaching USD 4.2 trillion, with broad reductions in revenue collection, remittances, and Foreign Direct Investments (FDI), while financial needs for social sectors (health, education, social protection) and climate change have increased<sup>2</sup>.

In 2015, at the Third Financing for Development conference, Member states, including Lao PDR, reflecting on these worsening trends, endorsed the new Addis-Ababa Action Agenda (AAAA). In Ethiopia, world leaders called for “*cohesive nationally owned sustainable development strategies, supported by Integrated National Financing Framework (INFF)*”<sup>3</sup>. They acknowledged that national plans have rarely come with associated financing plans, and that the gap between resources and needs was large and increasing. The central innovation of the AAAA, the INFF, aims to relink planning and financing by<sup>4</sup>:

- Taking an *integrated* (i.e., comprehensive) approach to financing, as the traditional sources of development finance – the State budget and ODA – alone cannot meet increasing needs. The INFF proposes to explore the contributions of the private sector, by mapping investment opportunity areas aligned with the SDGs and government priorities. The INFF approach categorises all potential development flows into domestic/international and public/private.
- The INFF also proposes to explore data, coordination, and administrative challenges that if addressed, would contribute to problem solving and collaboration to ensure more efficient and effective investments for development.

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<sup>1</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021). Note: two translations of the document (by ADB and the UNRCO) are used.

<sup>2</sup> OECD and UNDP, Closing the SDG Financing Gap in the COVID-19 era, (2021)

<sup>3</sup> UN, Addis Ababa Action Agenda of the Third International Conference on Financing for Development, (2015)

<sup>4</sup> UNDESA and UNDP, Integrated national financing frameworks: A short and practical Introduction, (2022)

- Proposing to develop financing strategies for *national* plans tailored to every country’s needs, realising that a one-size-fits-all approach cannot efficiently address the variety of institutions

**Table 1 – INFF classification**

	<b>Domestic</b>	<b>International</b>
<b>Public</b>	<ul style="list-style-type: none"> <li>▪ Tax revenue</li> <li>▪ Non-tax revenue</li> <li>▪ Debt</li> <li>▪ SOEs revenues</li> </ul>	<ul style="list-style-type: none"> <li>▪ ODA</li> <li>▪ Other Official Flows</li> <li>▪ South-South cooperation</li> </ul>
<b>Private</b>	<ul style="list-style-type: none"> <li>▪ Private investment</li> <li>▪ Credit</li> <li>▪ National NGOs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Foreign Direct and Foreign Portfolio Investments</li> <li>▪ Illicit finance</li> <li>▪ Remittances</li> <li>▪ International NGOs</li> </ul>

- and financial constraints faced by countries with different socioeconomic systems, levels of development, and vulnerabilities.
- Favouring collaboration and consensus in a structured process with four phases:
  - *Inception*, to mobilise and familiarise relevant national and international stakeholders with objectives, processes, and methodologies, and set up relevant and efficient processes and coordination mechanisms<sup>5</sup>.
  - *Diagnostics*, providing stakeholders with a platform to discuss (1) the main impediments to the mobilisation and spending effectiveness of resources and (2) the costs (i.e., financial needs) of national development priorities<sup>6</sup>.
  - *Financing Strategy*, to define clear policy directions and concrete actions that would increase the volume and effectiveness of all available development finance flows<sup>7</sup>.
  - *Implementation, monitoring and evaluation*<sup>8</sup>, to deliver upon the course outlined by the Financing Strategy and ensure that agreed actions unlock resources and development results.
- By emphasizing robust governance and coordination mechanisms as essential success criteria, as formulation and implementation should be based on consensus on priorities between all sectors and all parties (government, DPs, civil society), in preparation for a multi-stakeholder implementation, with clearly delineated roles and responsibilities for maximal efficiency and effectiveness<sup>9</sup>.

<sup>5</sup> Inter-Agency Task Force on Financing for Development, Inception phase, (2020)

<sup>6</sup> Inter-Agency Task Force on Financing for Development, Assessment and diagnostics: Overview, (2020)

<sup>7</sup> Inter-Agency Task Force on Financing for Development, Financing Strategy, (2021)

<sup>8</sup> Inter-Agency Task Force on Financing for Development, Monitoring and review, (2021)

<sup>9</sup> Inter-Agency Task Force on Financing for Development, Governance and Coordination, (2021)

- The INFF lends itself to being a flexible mechanism which can be used to facilitate action and follow-up as well as periodic updates of the diagnostics, and suggested course of action in the Financing Strategy, in line with changing circumstances, new priorities and forthcoming national development plans.

## Objectives

At the 2021 High-Level Round Table Meeting (RTM), H.E. Deputy Minister of Planning and Investment Ms. Phonevanh Outhavong set out the objectives and scope of the 9<sup>th</sup> NSEDP Financing Strategy<sup>10</sup>. The scoping process followed six months of research and assessments to reach a shared understanding of the Lao PDR financing landscape (presented in the next chapter), a daylong consultation with government and DPs (28 October, 2021) on priority policy areas for inclusion in the strategy, and a dedicated structured dialogue for validation (10 November, 2021)<sup>11</sup>. The objectives of the Financing Strategy are summarised below before the list of financing policy areas.

### ► Financing national development priorities

As mentioned, the 9<sup>th</sup> NSEDP Financing Strategy is entirely dedicated to the financing and achievement of the priorities contained in the national plan (2021-2025).

Aligned with the SDGs, the Nationally Determined Contributions (NDCs), and other key international commitments of Lao PDR, the 9<sup>th</sup> NSEDP was prepared by MPI in close consultation with central local governments, DPs, and civil society. Updated to consider the multidimensional impacts of COVID-19 in late 2020, it is the overarching framework to which sectoral and sub-national strategies and DPs' strategies must align.

Despite an agreement on the development of a dedicated Financing Strategy for the national plan, and due to delays resulting from the COVID-19 pandemic, the Financing Strategy was finalised in 2022.

In spite of this one-year delay, MPI remains committed to the initial objective. This implies that the timelines for the policy objectives and actions contained in the Financing Strategy are of at most three years. Priorities will need to be achieved by the end of the planning cycle (i.e., 2025), even if they often represent the first steps of a longer and more sustainable change in the governance and management of development finance.

However, while the 9<sup>th</sup> NSEDP Financing Strategy is timebound, the INFF as an approach is not. This approach indeed suggests regular consultations on planning and financing for development through cycles of synchronised national plans and financing strategies. The future NSEDP should either be directly costed and resourced or accompanied by a new Financing Strategy, to ensure progress through cycles of financially sound planification.

In the context of macroeconomic instability, as of September 2022, with rising inflation and currency depreciation, it is important to note that the Financing Strategy does not contain specific policies and actions, beyond debt management, to improve macroeconomic stability. The sound management of inflation, of the exchange and interest rates, and broader monetary

<sup>10</sup> UN in Lao PDR, Press release: Lao PDR's Development Policy Priorities for the Next 5 Years: High-Level Consultation on the 9th NSEDP under the Roundtable Process, (2020)

<sup>11</sup> MPI, High-Level RTM calendar, (2021)

policy, will nonetheless be a precondition for the achievement of the policies and actions of the Financing Strategy.

► **An overarching framework for action**

The Financing Strategy does not replace or compete with other national policy frameworks (e.g., the LDC Graduation Smooth Transition Strategy (STS)) and more specific plans (e.g. the Health Financing Strategy). Instead, it builds on these, and the directions of the 9<sup>th</sup> NSEDP and the National Agenda on Economic and Financial Difficulties, to understand which policies and actions need to be accelerated and properly sequenced, and gaps that need to be filled, to ensure the achievement of both planning and financing policy objectives.

► **Rapidly implementable priorities**

The core objective of the Financing Strategy – financing the 9<sup>th</sup> NSEDP for the achievement of its priorities within the next three years – implies that the focus is on rapidly implementable policies and actions.

Throughout the formulation process, stakeholders have prioritised “*low-hanging fruits*”<sup>12</sup>: actions that, while not derailing long-term financial sustainability, can best and rapidly increase the volume of resources and/or better align currently available finance with national development priorities, to get back on track with the SDGs.

In addition to this focus on rapidly implementable policies, consensus emerged on the necessity to further prioritize. The Financing Strategy is not exhaustive. It acknowledges that the country is in a challenging financial situation, that absorptive capacity of government remains constrained, that DPs cannot readily mobilise all needed technical assistance and are insufficiently coordinated, and that shared priorities and actions are needed for sustainable and transformational change. While staying true to the holistic INFF approach and its four sources of finance, the strategy therefore followed a thorough process to progressively select policy areas, policies, and actions, that could be best implemented. This prioritization effort was thoroughly consulted to adequately appraise what is financially and technically possible, rather than only focusing on what is desirable.

► **Enhanced collaboration and streamlined technical assistance**

A secondary but still important set of objectives of the Financing Strategy has been to structure and coordinate stakeholders, programmes, and projects to maximise the efficiency and effectiveness of actions, in line with the strategy’s objective to increase returns of every Lao Kip (LAK) or USD invested in development.

Financing for development being by nature a cross-cutting and systemic topic, the successful implementation of the strategy requires the formulation of shared priorities beyond the traditional planning and financing ministries. Including the relevant officials of line ministries offered a chance to strengthen inter-ministerial cooperation for a whole-of-government approach capable to consider multiple financial challenges and potential actions with synergies and trade-offs (e.g., what does higher debt servicing mean for the financing of social sectors?).

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<sup>12</sup> Inter-Agency Task Force on Financing for Development, Financing Strategy, (2021)

Similarly, by mobilising relevant DPs, the strategy aimed at coordinating the most relevant expertise for an evidence-based strategy.

Moreover, by identifying concrete and forward-looking actions with stakeholders, the strategy also attempts to set the foundations for coordinated future programmes and projects – to link planning and financing more closely, improve PFM, or accelerate the transformation of the investment promotion regime – reducing redundancy, increasing allocative efficiency, and facilitating synergies.

The process was therefore designed to formulate a shared plan for effective and efficient interventions. To reflect this objective, the Financing Strategy includes detailed action matrices with clearly defined lead entities, responsibilities, roles, and timelines.

► **A statement of policy change**

In a context marked by general market and DPs’ concerns with Lao PDR’s budget management and socio-economic development planning, negatively impacting Lao PDR’s ability to attract ODA and investments and secure affordable borrowing, the strategy also serves as a signal of Lao PDR’s policy plans to address this. It is hoped that the Financing Strategy is understood as the signal of a credible policy shift capable to initiate substantial progress towards stable, sustainable, and financially sound development planning. This explains the long focus on diagnostics, for evidence-based financial planning, and the addition of an Implementation, Monitoring, and Governance chapter, for measurability and accountability.

**Scope: selected policy areas**

The Financing Strategy is structured against five core chapters, which reflect the INFF approach, tailored to the Lao PDR context. Under each chapter, policy areas were selected by the Government of Lao PDR following several rounds of consultations. They were presented at the second structured dialogue and endorsed at the 2021 High-Level RTM, as follows:

**1 Domestic public finance**

- 1.1 Domestic revenue mobilisation
- 1.2 Expenditure management
- 1.3 Sustainable debt management

**2 International public finance**

- 2.1 ODA predictability, efficiency, and effectiveness
- 2.2 Accessing LDC specific funds until graduation

**3 Domestic private finance**

- 3.1 Business environment for MSME development
- 3.2 Financial inclusion

**4 International private finance**

- 4.1 Foreign Direct Investments
- 4.2 Illicit financial flows
- 4.3 Remittances

**5 Financing priority sectors**

- 5.1 Health Finance
- 5.2 Education Finance
- 5.3 Green and Climate Finance

## A multi-stakeholder formulation process

The formulation of the 9<sup>th</sup> NSEDP Financing Strategy has been the first attempt at implementing the INFF approach in Lao PDR. After the finalisation of the 9<sup>th</sup> NSEDP in December 2020, the process has progressed through the first three phases of the INFF (see figure 1 at the end of the chapter):

- ▶ **Inception (December – May 2021):** to create the conditions for the successful formulation of a Financing Strategy, agreeing governance and coordination mechanisms, setting processes and timelines, and reviewing concepts and methodologies was crucial. A technical working group was created at the initiative of the Deputy Prime Minister, facilitating the inclusion of core government entities, such as the Ministry of Finance (MoF), the Bank of the Lao PDR (BoL), and DPs. An inception workshop took place in Vang Vieng on 6-7 April, 2021, to discuss the INFF methodology and begin discussions on financial constraints to development.
- ▶ **Diagnostics (May – November 2021):** this research phase primarily aimed to provide all involved parties with a shared understanding of the main financing challenges to overcome and investment needs, in preparation for policy formulation. The broad scope of the INFF approach also justified the strengthening of the multi-stakeholder approach. Line ministries and a technical assistance team composed of a growing number of DPs<sup>13</sup> helped to refine general and sectoral analyses for a more accurate diagnostic of the financing landscape of Lao PDR. Findings were presented and discussed in a dedicated structured dialogue (14-15 October, 2021) and endorsed at the High-Level RTM, chaired by the Prime Minister (PM) (15 November, 2021).
- ▶ **Policy formulation (November 2021 – September 2022):** this phase ran in parallel to the finalisation of the diagnostics, to facilitate evidence-based financial planning. A scope and outline, with selected sections and policy areas were discussed in a second structured dialogue (10 November, 2021) and endorsed at the High-Level RTM. A detailed workplan and methodology to discuss policy objectives and concrete actions was agreed at the beginning of 2022. This included a series of technical-level workshops, as follows:
  - Public finance (covering domestic and international public flows) was discussed on 6-7 June, 2022.
  - Private finance (covering domestic and international private flows) was discussed on 23-24 June, 2022.
  - Specific financing options for environmental, climate, health, and education and sports priorities were discussed on 11-12 August, 2022.
  - Implementation arrangements and monitoring and evaluation were discussed on 1-2 September, 2022.

A zero draft of the Financing Strategy was circulated to all government entities ahead of a writeshop, which took place on 1-2 September, 2022. An advanced draft was circulated ahead of a High-Level Consultation with involved ministries and DPs, which took place on 16 September, 2022.

A final draft was circulated ahead of a third and final structured dialogue, which took place on 28 September, 2022. MPI then submitted the draft Financing Strategy to higher leadership for endorsed.

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<sup>13</sup> incl. the WB Group, IMF, ADB, EU, and UN Agencies.

As mentioned, acknowledging the responsibilities and functions of a wide range of stakeholders in development planning and financing, and the necessity to formulate a well-consulted plan for an efficient implementation, MPI led a multi-stakeholder effort.

A core team composed of government officials from the Department of Planning, supported by technical specialists from the UN led progress through the various phases of the INFF, with regular consultations between H.E. Deputy Minister of Planning and Investment Ms. Phonevanh Outhavong, the Resident Coordinator to Lao PDR and the UNDP Representative, to provide directions and keep track of progress.

Government entities and an ever-growing number of DPs provided specific insights and relevant technical expertise to the 9<sup>th</sup> NSEDP Financing Strategy. These stakeholders were mobilised through sequenced meetings and workshops facilitating small group discussions and debates between experts on challenges, opportunities, policy shifts, and options for the financing of national development priorities.

At critical junctions, across all sources of finance and sectors, *structured dialogues* were organised to collect final technical inputs and facilitate consensus on priorities and next steps.

The list of other closely involved stakeholders include:

- **MPI's** Investment Promotion Department and Special Economic Zone (SEZ) Office, for an investment promotion regime aligned with national development priorities, the International Cooperation Department, to improve ODA's efficiency and effectiveness, and the Development Research Institute, for technical advice across all policy areas.
- **MoF's Departments of** Tax, Fiscal Policy, Budget, State Owned Enterprises, Customs, External Finance, and Debt Management, to relink the budget with national development priorities and alleviate Lao PDR's debt burden.
- **Bank of Lao PDR's Departments of** Monetary Policy, Anti-Money Laundering, Commercial Banks Supervision, and Financial Institutions Departments, to improve the sustainability and productivity of the financial sector, curb illicit financial flows (IFF), increase remittances, and enhance FDI quality, and consider macroeconomic stabilisation.
- **The Ministry of Foreign Affairs (MoFA)**, to take advantage of Lao PDR's current LDC status and align the formulation of the LDC STS with the Financing Strategy.
- **The Ministry of Commerce and Industry (MoIC)** to facilitate MSME development and improve the business environment.
- **The Ministries of Health (MoH) and Education and Sports (MoES)** to finance critical priorities for human capital progress.
- **The Ministries of Natural Resources and Environment (MoNRE), of Agriculture and Forestry (MAF), and Energy and Mines (MEM)** to curb unsustainable investments and ensure the financing of green growth, biodiversity, and climate change priorities in line with Lao PDR's Nationally Determined Contributions.
- **The Ministry of Labour and Social Welfare (MoLSW)**, to facilitate and reduce the costs of remittance flows.
- **The Lao Academy of Social and Economic Sciences (LASES)**, to provide academic expertise for evidence-based policies and actions.
- The private sector, represented by the Lao Chamber of Commerce and Industry (LNCCI), Information, Communication and Technology, Young Entrepreneurs and SME Associations.

Technical assistance to the formulation of the Financing Strategy was led and coordinated by the UN Resident Coordinator's Office with technical assistance:

- The UN Country Team, in particular the UN Joint Programme on Financing Efficiency<sup>14</sup>, which was officially launched in March 2021, the World Health Organisation (WHO) on health finance, the UN Children's Fund (UNICEF) on education finance, the UN Office on Drugs and Crime (UNODC) on IFF, and the UN Department for Economic and Social Affairs (UNDESA) and the UN Environment Programme (UNEP) on green and climate finance.
- The WB Group and the EU, which provided technical expertise and quality assurance across all chapters.
- The Asian Development Bank (ADB) and the International Monetary Fund, which contributed to the diagnostics.
- The Global Green Growth Institute (GGGI) and the OECD on policy objectives and concrete actions to finance environmental and climate priorities.
- The Department of Foreign Affairs and Trade of Australia (DFAT) on FDI screening.

## Methodology

To summarise, the Financing Strategy aims to support the achievement of national development priorities within the next three years, building upon and complementing existing policy frameworks, through priority policies and actions of scale, led by multistakeholder implementation, in an effort to restore confidence in Lao PDR's ability to plan and finance development. To achieve these clear objectives and prepare implementation, the core chapters of the Financing Strategy were prepared following a detailed methodology summarised in figure 2:

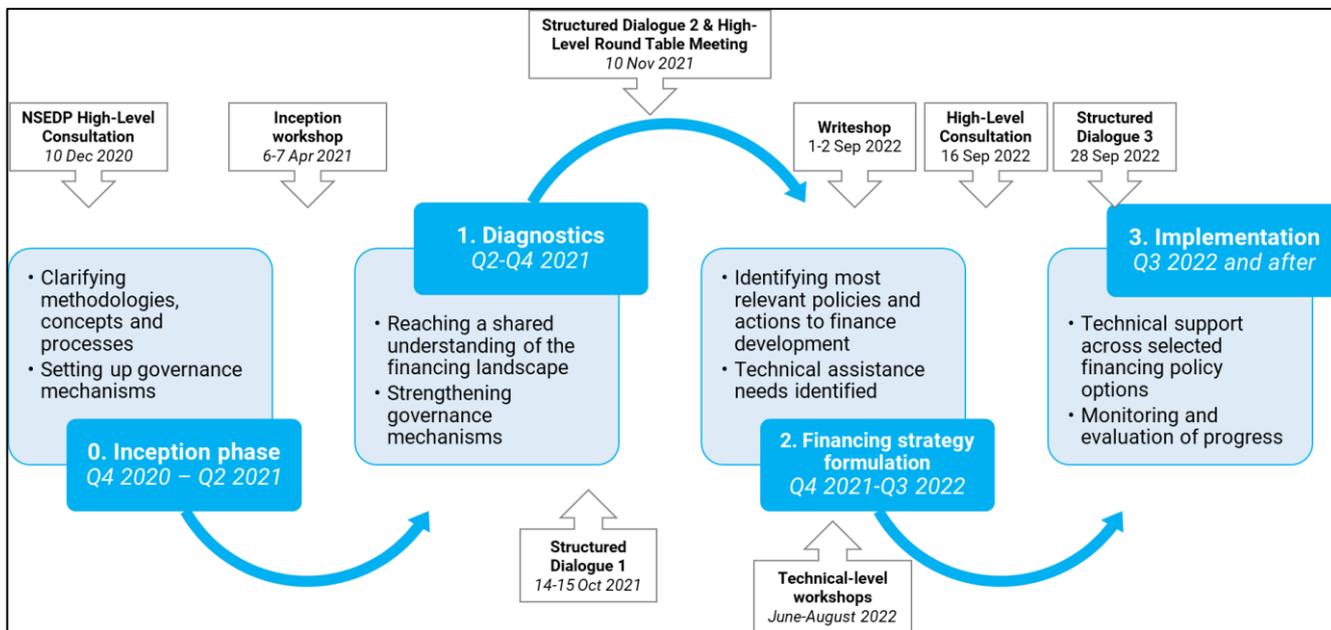
- ▶ Under each policy area, one or several specific *policy objectives* were first defined. They indicate the government's desired outcomes and the directions of the changes that need to occur. These were prepared considering existing policy frameworks, notably the 9<sup>th</sup> NSEDP and the National Agenda, as well as the shared findings on the Lao development finance landscape.
- ▶ In line with the specific objectives and scope of the Financing Strategy, the document contains detailed action matrices. These were first filled with existing actions that required acceleration before gaps were identified and filled with new proposed actions. These matrices are the most important part of the Financing Strategy, specifying the objectives and modalities of each agreed action, including:
  - their type, with the following typology: laws and regulations (e.g., new decree); financing instruments (e.g., new bond issuance); tools and information technology (IT) systems (e.g. rollout of the Integrated Financial Management Information System (IFMIS)); capacity building (e.g. training of civil servants); governance and coordination (e.g. new INFF committee); data and analytics (e.g. improved cost estimates for national planning); policy definition (e.g. a new FDI mobilization strategy).

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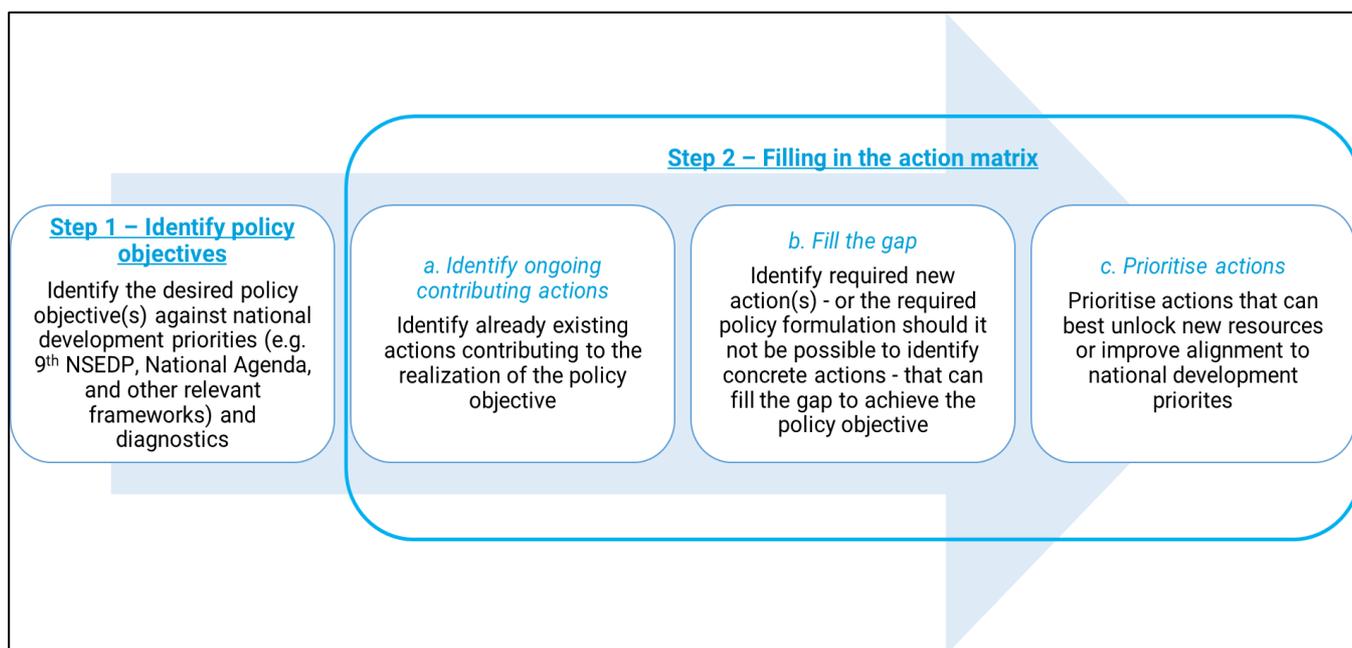
<sup>14</sup> Led by the UN Resident Coordinator and her office, and funded by the UN SDG Joint Fund, the JP brings together the UN Development Programme (UNDP), supporting MPI to develop the Financing Strategy, the UN Capital Development Fund (UNCDF), providing technical assistance to the Ministry of Finance on tagging budget expenditures against the SDGs, and the UN Population Fund (UNFPA), developing with MoH an investment case to identify priority health investments.

- responsibilities and roles for government leads, at department level, and associated entities.
- the coordination mechanism, and.
- their timeframe.

Certain actions are emphasized in the Financing Strategy. Due to their potential impacts on several financing flows, some are found under several policy objectives. They are only added once in the action matrix, under the most related policy objectives, but with columns indicating links to other policy objectives.



**Figure 1 - Formulation process**



**Figure 2 - Defining policy objectives and actions**

## Diagnostics

Between April and October 2021, the diagnostics phase saw the development of a shared understanding of financial challenges and opportunities. Led by MPI, this effort was supported by a coalition of Government entities and development partners, which provided data and quality assured the research, most notably MoF and BoL, international financial institutions, the EU, and the UN. The research design and findings are summarised in this chapter but more can be found in the High-Level RTM Handbook<sup>15</sup>.

### Research design and process

Most studies used mixed methods, including desk research, analysis of financial data provided by relevant government entities, interviews, and statistical modelling.

The findings presented in this chapter were discussed at a technical-level at the first structured dialogue (October 14<sup>th</sup>-15<sup>th</sup>) and endorsed with modifications at the High-Level RTM (15<sup>th</sup> November). They now represent the analytical basis against which the evidence-based Financing Strategy was prepared.

Two research pieces were of specific relevance for all chapters of the Financing Strategy:

- A joint UN assessment of the financing landscape (“**the financing report**”)<sup>16</sup>, integrated in the High-Level Round Table Handbook, to better understand the four sources of finance of the INFF prior to the development of the Financing Strategy. This study, prepared by an international expert, in close consultation with national authorities and DPs, estimated the volume and distribution of financing flows that *could* contribute to development objectives.
- This assessment was paired with another joint analysis of the financial costs of national development priorities to assess the financing gap (“**the costing report**”<sup>17</sup>). Due to data limitations, and challenges in the sequencing of national planning<sup>18</sup>, the initially planned development of statistical estimates of the financial needs of the 9<sup>th</sup> NSEDP outcomes and outputs was replaced by reviews of national (e.g., costed sector plans) and international (e.g., average cost of mitigation efforts for LDCs) studies on the financial costs of development progress. Guidelines for the realisation of a costed national plan in the next iteration of the planning cycle, in alignment with international best practices, were also prepared.

The financing and costing reports were supplemented by more specific studies, including:

- A study to appraise costs and socio-economic benefits of health interventions in Sexual and Reproductive Health (SRH) and Nutrition, Maternal, New-Born, Adolescents, and Child Health (NMNCAH) (“**the health investment case**”<sup>19</sup>). This study informs the health financing section of the Financing Strategy, but also provides methodological tools to increase the allocative efficiency of investments, which can be replicated in the health sector and beyond.

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<sup>15</sup> 13<sup>th</sup> High-Level Round Table Meeting Handbook: Consolidated Background Documents, (2021)

<sup>16</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>17</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Costing National Development Priorities, (2021)

<sup>18</sup> The monitoring and evaluation framework of the 9<sup>th</sup> NSEDP was only finalised towards the end of the first quarter of 2021, and many indicators had missing data and baseline. The existence of a finalised M&E framework is a prerequisite for the production of statistical cost estimates.

<sup>19</sup> UNFPA, Health Investment Case: Prioritising Health Investments for Human Capital Development, (2022)

- An analysis, led by UNCDF, of the Thai market appetite for Lao PDR bond issuance through an analysis of disclosed repayment commitments and additional data from capital markets (“**the bonds report**”<sup>20</sup>). The study informed debt management challenges, in particular Lao PDR’s potential financing through commercial debt issuance.
- An analysis, led by UNDESA, of the available climate finance and constraints to the mobilisation of additional resources from international funds to finance climate priorities (“**the climate finance report**”<sup>21</sup>).

### Overarching findings

Two important findings are relevant across all sources of finance, as they shed light on varying contributions across financial flows. These, and their implications for the Financing Strategy, are presented below.

- The financing report found that, in 2020, financing flows amounted to 47.3% of 2020 Gross Domestic Product (GDP)<sup>22</sup>, with the following estimated distribution:

**Table 2 – Distribution of financial flows**

	<b>Domestic</b>	<b>International</b>
<b>Public</b>	15.7% of GDP	3.1% of GDP
<b>Private</b>	21.7% of GDP	7.5% of GDP

These numbers must be interpreted carefully. Indeed, with development priorities requiring between investments between 20-30% of GDP<sup>23</sup>, Lao PDR may appear to have enough resources to achieve the 9<sup>th</sup> NSEDP. This number reflects all financing flows. While ODA or remittances can be confidently considered as “development finance”, importantly, the financing report found that the State budget is currently misaligned with national development priorities, with debt repayments squeezing out development investments, and inadequacies between budget allocations and desired outcomes, while private sector investments have the potential for greater alignment to national development priorities. In particular, the financing report considers that private sector resources could be progressively realigned to national development priorities with a more adequate regulatory and policy frameworks, business environment and investment promotion regime.

Therefore, while the potential of development finance in Lao PDR appears to exceed the costs of national development priorities, the volume of available development finance is in fact relatively low. This is a central finding of the costing report: the financial needs of the 9<sup>th</sup> NSEDP far exceed available resources, justifying the formulation of a Financing Strategy to increase the volume of development finance and the alignment of existing financing flows to the national plan<sup>24</sup>.

<sup>20</sup> UNCDF, Lao PDR bonds: A Stocktake and Analysis of Lao PDR Bonds, (2021)

<sup>21</sup> UNDESA, Developing the strategic guidelines for climate financing, considering possible linkages between climate financing and post COVID-19 agricultural development in Lao PDR, (2021)

<sup>22</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>23</sup> Due to strong data limitations, confidence in this bracket is limited.

<sup>24</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

- In part due to the nature of most costs associated with development progress – investments in social sectors, financing of public goods, administrative reforms (specified in the below section) – the State budget and ODA will remain the drivers of development progress, at least until a more favourable business environment is in place, which should begin within the 9<sup>th</sup> NSEDP cycle, but will most likely deliver results with a lag<sup>25</sup>. With *Lao PDR*'s expected graduation (= in 2026), it will be important to anticipate and prepare for the likely impacts during the NSEDP period, particularly given the relatively low revenue mobilization rates and the burden of debt payments. This explains why the Financing Strategy is primarily focused on concrete and rapidly implementable actions to increase State revenues and improve the efficiency and efficacy of both public expenditures and ODA, and legal and regulatory updates for a more SDG-aligned business environment and trade and investment promotion regime.

### **The costs of development**

As it was not possible to derive statistical estimates of the costs of the 9<sup>th</sup> NSEDP outcomes and outputs, literature reviews were prepared.

These were focused on appraising the financial costs<sup>26</sup> of outcomes and outputs to understand where funding would be most needed, and which financing flow(s) would be most likely to contribute, through national and international estimates. Overall, these studies reveal that (1) investment needs are considerable, with limited confidence that with around 20-30% of GDP of development investments<sup>27</sup>, Lao PDR could achieve the 9<sup>th</sup> NSEDP, (2) the key role of the State budget in driving development progress, requiring both notable increases in State revenues and focused expenditures, (3) seemingly underfunded outcomes, notably outcome 2 (health, education and sports, and social protection) and outcome 4 (green growth, environmental protection, and climate change management).

More specific findings, organised by 9<sup>th</sup> NSEDP outcome, are summarised below<sup>28</sup>:

#### **► For Outcome 1, Sustainable Economic Growth:**

- The financial cost of administrative reforms, PFM, and systems enhancement are likely to be relatively modest, although implementation of State-Owned Enterprises (SOEs) reforms can be costly, and technically challenging.
- Realising the objectives set out in Outcome 1 will require many investments beyond the State budget, given the predominant role of private sector investment in driving growth. Historical measures to influence investments have had specific financial implications for the State's budget and attempts at mobilising private sector resources will need to consider the necessity to limit fiscal costs.
- More recent and accurate estimates of aggregate investment are required to model the historical relationship between investment and growth, and thereby approximate investment needs.

<sup>25</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Costing National Development Priorities, (2021)

<sup>26</sup> The literature reviews dealt with financial costs, or investment needs. These are the monetary values of the costs of achieving a specific policy priority (e.g., achieving the country's mitigation targets will cost 2% of GDP). The reviews do not review economic costs (e.g., climate change costs X% of GDP of Lao PDR every year), opportunity costs or costs of inaction (e.g., not investing in climate change mitigation will cost X% of GDP), or socioeconomic costs (e.g., climate change leads to X number of additional deaths through extreme weather events).

<sup>27</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Costing National Development Priorities, (2021)

<sup>28</sup> References, for all of these literature reviews, are accessible in: MPI and UN, Structured Dialogue 1: Diagnostics – Costing National Development Priorities – Investment Needs across the 9<sup>th</sup> NSEDP - References, (2021)

### Box 1 – The Health Investment Case

During the diagnostic phase of the Financing Strategy, UNFPA supported the development of an analysis estimating the costs and the socio-economic benefits of investing in SRH and NMNCAH.

- This study demonstrates that reaching full coverage targets for Family Planning and Nutrition, Maternal, Newborn, Child, and Adolescent Health interventions in Lao PDR by 2030 is affordable and can generate six dollars in economic returns for every dollar invested (USD 6:1).
- The analysis recommends simultaneous implementation of the most cost-effective interventions in the provinces with the worst maternal, infant and child survival indicators. This approach is recommended due to the limited fiscal space and the need to enhance efficiency in allocating resources across provinces and districts.
- The greatest return on investment is in making rights-based family planning methods available in all provinces to reduce unintended pregnancies. Averting unintended pregnancies can further decrease the cost requirements for other health interventions and lead to economic benefits from increased workforce participation, additional years of education for adolescents, and increased lifetime earnings for women. Family planning scale-up can also significantly contribute to reducing maternal and child deaths and improving other health and nutrition indicators (stunting) due to the decline in fertility risks from spacing and improved birth outcomes such as adequate birth weight.
- Even though the interventions included in this study have different benefit-cost ratios, with some having higher ratios than others, all interventions are required to reach the SDGs health targets. An essential next step to optimising the allocation of limited financial resources will be identifying the most cost-effective mix of interventions required for each province based on their relevant health indicators, using the methodology adopted in this analysis.

#### ► For Outcome 2, Human Capital:

Sector plans for health and education and sports, aligned to the 9<sup>th</sup> NSEDP, provide estimates of anticipated costs to implement initiatives designed to achieve priority outcomes. Together, health and education and sports investment needs make up approximately 4.4% of GDP per year<sup>29</sup>. This figure is well below global estimates of resources required to achieve the corresponding SDGs. For countries in Asia-Pacific, on average, 4.7% of GDP alone is estimated to be needed for health<sup>30</sup>. The Education Framework for Action 2030 sets two key education finance benchmarks for Governments: to allocate 4-6% of GDP to education and/or to allocate 15-20% of public expenditure to education<sup>31</sup>.

#### ► For Outcome 3, People's Wellbeing:

- UNFPA found that the scale-up of SRH and NMNCAH interventions could cost an additional USD 109.0 million more than business as usual over 2021-2030<sup>32</sup> (see box 1).
- While financial resources are important, most strategies for achieving gender equality require a mix of financial investments and political commitment coupled with changes in legislation, political and administrative rules, social attitudes, and norms.

<sup>29</sup> These two sector plans were designed with the assumption that their resources envelope would be low and could be further decreasing.

<sup>30</sup> Stenberg et al., Financing transformative health systems towards achievement of the Health Sustainable Development Goals (...), (2017)

<sup>31</sup> UNESCO et al., Incheon Declaration and Framework for Action for the implementation of SDG 4, (2016)

<sup>32</sup> UNFPA, Health Investment Case: Prioritising Health Investments for Human Capital Development, (2022)

- A costing of social protection objectives in Lao PDR undertaken by ILO found that the planned rollout would cost around 0.1-0.15% of GDP annually<sup>33</sup>.
  - Unexploded ordnances clearance require 105 million a year, which roughly amounts to 0.5% of GDP per year<sup>34</sup>.
- **For Outcome 4, Environmental Protection and Climate Change Management:**
- According to global estimates, green and resilient infrastructure investment could reach an average 4-5% of GDP for low and middle-income countries annually. In Lao PDR, this would represent around USD 1 billion a year<sup>35</sup>.
  - Biodiversity protection costs amount, globally, to 0.3% of GDP per year, which applied to Lao PDR, would represent USD 60 million a year of investments in 2020<sup>36</sup>.
  - Lao PDR's 2021 NDCs, aligned with the 9<sup>th</sup> NSEDP objectives, estimated that mitigation investment needs amount to USD 4.8 billion by 2030, which is around USD 500 million a year (around 2.5% GDP per year)<sup>37</sup>.
  - Outcome 4 also includes legislative and regulatory changes and investments to promote a shift in production and consumption patterns, which may have more limited financial costs and help to (1) internalize the costs of pollution and (2) unlock private sector finance for sustainability objectives.
  - Technical assistance and knowledge transfers are crucial in support of dedicated financial resources, which mostly originate from the public sector.
- **For Outcome 5, Regional Cooperation and Integration:**
- The costs of realizing the priorities set out under this Outcome are amongst the most expensive in the 9<sup>th</sup> NSEDP.
  - The likely cost of Outcome 5 alone far exceeds Government capital expenditure and ODA that is likely to be available. Various global estimates suggest that total infrastructure investment needs for Lao PDR would be from USD 1 billion or 5% of 2020 GDP (lower WB estimate<sup>38</sup>) to USD 2 billion or 10% of GDP (higher International Monetary Fund (IMF) estimate<sup>39</sup>) per year over the course of the 9<sup>th</sup> NSEDP. However, the nature of these costs allows scope for greater involvement of private funds, and therefore the full cost is not expected to fall exclusively on the public budget.
  - Trade-offs exist between concessions to attract private investment, and the need for macroeconomic stabilization set out in Outcome 1, and sustainability, set out in Outcome 4.
- **For Outcome 6, Good Governance and Administration**
- Improving public sector efficiency and effectiveness implies a heavy reliance on public sector investment (domestic and international), as has historically been the case. Global estimates suggest that governance priorities, across all outcomes, require 6% of GDP of annual investments, which amount to USD 1.2 billion in 2020 in Lao PDR<sup>40</sup>.

<sup>33</sup> Economic Policy Research Institute, Costing of social protection programmes to support the 9<sup>th</sup> NSEDP in Lao PDR, (2020)

<sup>34</sup> Calculated as part of the costing report.

<sup>35</sup> WB, Beyond the Gap: How Countries Can Afford the Infrastructure They Need while Protecting the Planet, (2019)

<sup>36</sup> Sustainable Development Solutions Network, SDG Costing and Financing for Low Income Developing Countries, (2019)

<sup>37</sup> Government of Lao PDR, Nationally Determined Contributions, (2021)

<sup>38</sup> WB, Understanding the Cost of Achieving the Sustainable Development Goals, (2020)

<sup>39</sup> IMF, Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs, (2019)

<sup>40</sup> Sustainable Development Solutions Network, SDG Costing and Financing for Low Income Developing Countries, (2019)

- For low-income countries, achieving justice targets would cost USD 20 per person to provide access to basic justice services, while for middle-income countries the cost would increase to USD 64 per person. In Lao PDR, this would amount to USD 146-467 million a year, which represents around 0.7-2.5% of GDP<sup>41</sup>.
- Many policy priorities are considered to require relatively low investment needs as they consist in legislative and regulatory improvements but will require targeted technical assistance.

## **The resources envelope**

Findings for each source of finance were discussed and refined through multi-stakeholder dialogues, in order to facilitate the identification of most relevant policies and actions. These are summarised below.

### **► Domestic public finance**

Four main findings were identified through the financing report and UNCDF's bond report, which were debated and refined with relevant stakeholders through workshops and a dedicated structured dialogue:

- Increasing the volume of State revenues should be the most important objective of the Financing Strategy. State revenues are currently insufficient to drive the achievement of 9<sup>th</sup>NSEDP. According to estimates undertaken for the financing report, revenues, notably tax revenues, need to grow from around 9% in 2020 to around 16% of GDP by the end of the planning cycle<sup>42</sup>. The 9<sup>th</sup> NSEDP and the National Agenda (with a 2023 target) aim to reach the 15% WB-recommended threshold<sup>43</sup>. Such rapid increase will require investments in tax administration and efficiency and substantial fiscal policy shifts to broaden the tax base and subject large foreign and domestic investment projects to taxation, as proposed in the National Agenda.
- On the spending side, there are important inconsistencies between current public allocations and the 9<sup>th</sup> NSEDP policy priorities that will need to be resolved. Public resources dedicated to (1.6% of GDP) and public works (2.2% of GDP) still amount to more than 20% of all public expenditure in 2020. Resources dedicated to environmental protection and water resources represent less than 1% of total expenditure (0.8%) and only a fraction of GDP (0.2%). In parallel, allocation to social sectors and public investments in human capital remain limited and in contradiction with the 9<sup>th</sup> NSEDP policy priorities. Total resources spent on sociocultural sectors amount to 4.1% of GDP, with education and sports (1.8% of GDP) and health (1.0% of GDP) being the most financed sectors<sup>44</sup>, but well below recommended standards, Association of South East Asian Nations (ASEAN) peers, and even the country's needs.

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<sup>41</sup> The Task Force on Justice, Justice for All, (2019)

<sup>42</sup> Calculated as part of: MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>43</sup> Junquera-Varela and Haven, Getting to 15 percent: addressing the largest tax gaps, (2018) and Gaspar et al., Tax Capacity and Growth: Is There a Tipping Point?, (2016)

<sup>44</sup> MoF data provided for: MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

- Transparency is insufficient and will be necessary for evidence-based policies and to restore confidence. Currently, the publicly disclosed State budget, reports nearly 50% of expenditures under “other organisations”<sup>45</sup>. Similarly, the bond report showed that there is weak confidence in Lao PDR’s ability to repay debt, significantly limiting debt refinancing at a reasonable cost<sup>46</sup>.
- The bond report found that debt servicing squeezes out development investments from the State budget. Research estimated that USD 1,700 million is due to be serviced by the government during the 9<sup>th</sup> NSEDP<sup>47</sup>. With increased pressure on revenues, there is mounting pressure from debt servicing. With Moody’s August 2020 and 2022 downgrades of Lao PDR credit rating to Caa2 and then Caa3 (from B3)<sup>48</sup>, and Fitch’s CCC- rating<sup>49</sup>, the country now has the lowest credit rating in Asia without being in default. Analysis indicates that there is no market demand for a Caa2-rated Asian sovereign bonds in Thailand, Singapore, and Hong Kong, limiting the scope of borrowing as a potential source of development finance. Finally, sentiment for new Lao PDR debt is weak, due to the current credit rating, and potential for default. Although debt is available, its high cost must be considered in the context of debt sustainability.

► **International public finance**

- ODA heavily contributes to social sectors and will likely continue to be a driver of development progress throughout the 9<sup>th</sup> NSEDP even as a transition strategy should be put in place in anticipation of Lao PDR’s upcoming LDC graduation in 2026. Representing 3.3% of Gross National Income (GNI) in the latter part of the previous cycle<sup>50</sup>, ODA is a significant driver of development investments in Lao PDR, often more than its theoretical role as a targeted supplement to State Budgets allocations.
- For better ODA targeting, efficiency, and effectiveness, accurate ODA data is required. The ODA Management Information System (ODA-MIS) Dashboard of MPI needs to be rehailed and regularly updated. Resource allocation decisions and workplans of Ministries and DPs will be better informed where the ODA-MIS Dashboard data sets are complete, accurate and valid. This is vital in light of upcoming graduation and the potential shifts to less concessionary sources of finance.
- The Government of Lao PDR’s absorptive capacities and shortcomings in development partner’s coordination and collaboration are important limitations to ODA’s potential development returns. Many departments are overwhelmed by multiple, sometimes redundant, and often insufficiently coordinated projects<sup>51</sup>. Therefore, any additional ODA project should consider the absorptive capacities of national and sub-national facilities responsible for delivering those targets. One strategy may be to focus any additional ODA on only high-impact development activities that demand fewer inputs from national and sub-national facilities. Another strategy may be to outsource ODA delivery to qualified entities, including from civil society. Moreover, government and DPs remain driven by resources availability and project delivery. The government should ensure programmes and

<sup>45</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>46</sup> UNCDF, Lao PDR bonds: A Stocktake and Analysis of Lao PDR Bonds, (2021)

<sup>47</sup> The figure does not include unlisted bonds issued by the government and other SOEs besides EDL-Gen, see UNCDF, Lao PDR bonds: A Stocktake and Analysis of Lao PDR Bonds, (2021)

<sup>48</sup> Trading Economics, Laos Credit Rating, [accessed 20/09/2022]

<sup>49</sup> Laotian Times, Top Credit Rating Agency Plans to Withdraw its Rating for Laos, (2022)

<sup>50</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>51</sup> MPI, Mid-term review of the implementation of the VDCAP 2015-2025, (2021)

projects have clear governance mechanisms to ensure timely and high-quality delivery, while build the capacity to appraise new project proposals, answer strategic needs, and are coordinated through SWGs to maximise efficiency.

- Lao PDR has not accessed LDC-specific funds as much as it could. Moreover, graduation may impact the country’s ability to access ODA and measures need to be taken during the 9<sup>th</sup> NSEDP cycle. Capacity should be built, and technical support provided to increase access to LDC-specific funds within the 9<sup>th</sup> NSEDP timeline, and that the LDC Graduation STS led by MoFA and the 9<sup>th</sup> Financing Strategy are well linked.

#### ► **Domestic private finance**

- The domestic private sector has significant potential as a source of development finance but is largely untapped. The financing report found that Lao PDR investment promotion policies primarily focuses on the attraction, retention and, growth of FDI, not domestic investments. Policy shifts to facilitate MSME development and Lao private companies’ contributions to national development priorities should begin during the 9<sup>th</sup> NSEDP cycle but will only deliver results with a substantial lag, as they require important regulatory reforms and the achievement of substantial progress on human capital development priorities.
- Efforts need to be made to stimulate domestic private investment through an improved business environment and more robust access to credit for MSMEs. The WB reported that the ratio of non-performing loans (NPL) increased due to COVID-19, and that while bank capitalization has increased, the financial system remained fragile<sup>52</sup>. Previous financing reports reported that there were few credit options for MSMEs, in particular in rural areas, echoing the Enterprise Survey’s findings that 36% of MSMEs cited access to finance as their biggest obstacle<sup>53</sup>. Moreover, the 2<sup>nd</sup> edition of the Provincial Facilitation for Investment and Trade (ProFIT) survey reported the prevalence of informal charges and practices and administrative difficulties limiting private sector development<sup>54</sup>. However, access to finance policies to unlock domestic private investments will need to consider macroeconomic stabilization priorities.
- More research into the domestic private sector is required. Notably, the financing report found that assessments could be improved with more reliable proxies to measure these investment flows<sup>55</sup>. A better proxy than pre-COVID Gross Fixed Capital Formation (GFCF) data should be identified ahead of further research on policy options to grow this source of finance. Further, the analytics and insights for potential SDG and NSEDP-aligned investment opportunities can be strengthened through dialogues with the private sector and financial institutions.

#### ► **International private finance**

- Significant policy reforms will be needed to redirect future FDI to priority sectors in the 9<sup>th</sup> NSEDP, which calls for FDI “*in line with socio-economic development goals*”, that “*target the distinct potential of different sectors and regions*”, “*are efficient, effective, and sustainable*”, “*help alleviate poverty, improve social sector development and utilise natural*

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<sup>52</sup> WB, Lao PDR Economic Monitor August 2021, (2021)

<sup>53</sup> WB, Enterprise Survey 2018, (2020)

<sup>54</sup> ADB, Provincial Facilitation for Investment and Trade Index, 2022

<sup>55</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

*resources carefully while protecting the environment*<sup>56</sup>. Currently, the country has been able to attract FDI primarily in resource extraction, with concerns over sustainability and climate change, only generating limited job opportunities for the Lao workforce, and making limited contributions to state revenue. Limited alignment with the 9<sup>th</sup> NSEDP is a key concern, with existing FDI to the social sub-sectors of Health (0.3%) and Education and Sports (0.0%) being almost nil<sup>57</sup>. The Financing Strategy should address the reform of the trade and investment promotion regime and the business environment and fiscal policy reforms side by side, reconsidering tax exemption schemes, to concretely unlock progress on these two major sources of finance. This is also critical in the context of planning for the LDC Graduation anticipated in 2026.

- Reforms of the business environment towards simplification, predictability, transparency, and incentives for investments in priority sectors can improve investors' confidence, in the context of LDC Graduation. In particular, Foreign Portfolio Investment (FPI), which have fluctuated significantly over the 8<sup>th</sup> NSEDP 2016- 2020, are complex operations that require strong confidence in a country's business environment, transparency, and technical assistance<sup>58</sup>.
- FDI inflows are likely to continue in line with regional economic growth prospects, underpinned by investments from China, which has become Lao PDR's largest single source of investors. The financing report recommends exploring investment promotion from other sources in addition, to diversify partnerships and minimise exposure to economic risks<sup>59</sup>.
- By curbing IFF, Lao PDR's can reduce challenges to the achievement of the 9<sup>th</sup> NSEDP, increase revenues, and improve Lao PDR's investor profile. IFF, which could account to 14.4% of GDP<sup>60</sup>, impact the achievement of national development priorities for three main reasons: they reduce the budget envelope (tax evasion and failure to fulfil obligations), affect investor's confidence, and inadequate budget allocation and alignment with development needs<sup>61</sup>.
- Remittances provide support to poverty alleviation and household well-being objectives of the 9<sup>th</sup> NSEDP, contributing to a sizeable share of the budget of 10% of households. Despite an important reduction in remittance levels during the COVID-19 outbreak, it is expected that flows will restart with the country's reopening. Ensuring safe migration pathways and digital transfer options will reduce the costs of remittances would increase the potential of this development finance flow<sup>62</sup>.

► **Additional findings**

- Important data limitations will need to be resolved to develop evidence-based policies and actions. While more investments in data collection and data systems are needed to appraise what drives each investment flow, certain obstacles can be more readily overcome. In particular, transparency and public reporting on critical public finance issues (budget

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<sup>56</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>57</sup> Data provided by BoL for: MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>58</sup> Ibid.

<sup>59</sup> Data calculated for: MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021). See assumptions.

<sup>60</sup> UNODC, Conducting corruption and financial investigations in Lao PDR, (2017)

<sup>61</sup> WB, Illicit Financial Flows brief, (2017)

<sup>62</sup> MPI and IOM, Remittance Landscape in Lao PDR 2022, (2022)

composition, debt repayment schedules) would open the door for more thorough analyses, leading to improved solutions.

- Government and DPs identified shortcomings in coordination and information management, impeding the alignment, efficiency, and effectiveness of all investments. Within government specifically, challenges in the sequencing, governance, and coordination of the national planning and budgeting cycles were identified as constraining the alignment and development returns of all investments. The formulation of national development priorities led by MPI, the development of national budget expenditure frameworks and ceilings, and the various planning and budgeting processes taking place at ministry and provincial levels to prioritise investments, were identified as insufficiently coordinated. Reengineering processes to strengthen integrated and coordinated planning and financing for sustainable development was seen as crucial to both the increase in the volume of development finance and the alignment and returns of existing investments.
- Throughout the diagnostics phase, there were concerns regarding the financing and achievement of certain priorities, which are of particular importance for Lao PDR's continued development progress. In particular, in the context of population growth and the demographic transition, human capital development through the achievement of health and education and sports outcomes, and investments to mitigate and adapt to climate change and environmental challenges, were identified as at risk of not being achieved due to underfunding. Both the health – in the health Financing Strategy – and education – in the Education and Sports Sector Plan – sectors point to critically low budget allocations forcing them to significantly downscale ambitions<sup>63</sup>. Looking ahead, a recalibration of budget allocations to social sectors will also be needed in preparation of the forthcoming youth bulb, to ensure approximately the creation of approximately 82,000 jobs annually until 2030<sup>64</sup>. Nearing the demographic transition, Lao PDR will have to ensure poverty reduction and meaningful employment among a growing population to enjoy the potentials for an acceleration of socio-economic growth and benefits associated with a larger share of population in working-age<sup>65</sup>. Failing to do so, on the other hand, may lead to higher social costs and social instability. While there has not been a costed climate change and environment plan, the literature review of the costs of achieving the related outcome, based on Lao PDR 2021 NDCs and global estimates revealed that the 9<sup>th</sup> NSEDP Outcome 4 – Environmental Protection and Climate Change Management – was also judged severely underfunded. These findings justified the inclusion of a dedicated chapter further exploring health, education, and environmental and climate finance.

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<sup>63</sup> Ministry of Health of Lao PDR, Health Financing Strategy 2021-2025 and Vision 2030, (2021) and Ministry of Education and Sports, Education and Sports Sector Development Plan 2021-2025, (2020)

<sup>64</sup> UNFPA, Window of Opportunity for Realizing a Demographic Dividend, (2020)

<sup>65</sup> The demographic dividend is the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share (14 and younger, and 65 and older).

## 1. Domestic public finance

Without significant fiscal, expenditure management, and debt management policy shifts, Lao PDR will not achieve the 9<sup>th</sup> NSEDP and the SDGs. The challenges with financing development, on account of critically low revenues, limited and inefficient expenditures, and the rising burden of debt repayments, are amongst the biggest impediments to development progress.

This chapter specifies the policy directions and actions that are to be taken to increase rapidly the volume, efficiency, and effectiveness of the State's development investments. Under the three policy areas of this financing flow (1.1 revenue mobilisation, 1.2 expenditure management, and 1.3 debt sustainability), policy objectives and contributing actions are presented. A full action matrix specifying responsibilities and timeline is available at the end of the Financing Strategy.

### Policy area 1.1: domestic revenue mobilisation

The State of Lao PDR does not currently have enough revenues to finance its development priorities. The tax to GDP ratio, in 2020, was the lowest of 28 selected Asia-Pacific economies, at 8.9% according to the OECD<sup>66</sup>, more than 6 points below the IMF-expected level for developing countries.

The financing report estimated that the tax to GDP ratio was, in 2020, at a similarly low level, at 9% of GDP. It simultaneously found that, for a balanced budget, the ratio needed to increase by 7.3 points, to 16.3%, under an optimistic growth scenario considering the current volatility of the global economy (4% average growth p.a.)<sup>67</sup>. The achievement of priorities in many critical sectors (human capital, climate change, environmental protection, governance) is directly linked with the State's resources, as was mentioned in the diagnostics chapter. Therefore, the Financing Strategy's first and foremost priority is to urgently increase government revenues through a fiscal policy that does not compromise on Lao PDR's priorities to reduce inequality (i.e. considering the progressivity of the tax system) and the transition towards a low-carbon and sustainable development pathway the country has committed to (e.g. limiting resource-generating but also polluting and environmentally degrading projects).

Two objectives structure the Financing Strategy's domestic revenue mobilisation policy area. The first one is concerned with terminating investment promotion policies that have generated important fiscal costs and led to reduced revenues even as the economy has grown. Broadening the tax base should not be done at the expense of Lao PDR's inclusivity and equality priorities, implying few and limited increases in consumption tax rates for households, and instead, a focus on increasing the currently minimal contribution of the corporate income tax (CIT) to revenues. The second policy objective reflects Lao PDR's revenue structure. With an important share originating from resource extraction, the country is at risk of compromising its environmental and climate priorities when encouraging natural resources extraction<sup>68</sup>. The State should therefore only promote revenue generation-projects with "*minimal environmental impacts yet generat(ing) more economic benefits*", as suggests the National Agenda<sup>69</sup>.

<sup>66</sup> OECD, Revenue Statistics in Asia and the Pacific – Lao PDR, (2022)

<sup>67</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>68</sup> OECD, Lao PDR: Details of non-tax revenue, (2021) and Detail of Public Revenue – Lao PDR, (2022)

<sup>69</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021)

► ***Policy objective 1.1.1: State revenues primarily increase through a fiscal policy shift to broaden the tax base, in line with inclusive growth priorities***

The 9<sup>th</sup> NSEDP and the National Agenda prioritise an urgent increase in tax revenue via the broadening of the tax base and a modern tax administration. This approach is consistent with international practices. The OECD, in a paper entitled Tax Design for Inclusive Economic Growth<sup>70</sup>, explains that taxation for inclusive economic growth can go through four main avenues: (1) broadening tax bases while keeping tax rates low (2) strengthening the overall progressivity of the tax system, (3) affecting pre-tax behaviours and opportunities, and (4) enhancing tax policy and administration. Points (1) and (4), which are more accessible for developing countries, are key priorities of the 9<sup>th</sup> NSEDP and the National Agenda.

Looking at Lao PDR’s tax composition clarifies through which avenue the broadening of the tax base should take place. The structure of tax revenue was significantly different than in other regional economies according to the OECD<sup>71</sup>. Most notably, taxes on goods and services represented a total of 45% of tax revenue, against 27% on average in the region. The contributions of personal income tax and CIT were significantly lower in Lao PDR (respectively 10 and 13%) than in the region (17 and 20% on average). A large number of corporate tax exemptions have been granted to domestic and foreign investors to stimulate growth. MoF estimated that 3,000 to 4,000 billion LAK per year are lost to tax exemptions (200-270 million USD), which amounts to almost 2% of GDP<sup>72</sup>.

In line with the national frameworks and international practices, broadening the tax base by eliminating fiscal costs – i.e., strictly limiting new tax exemptions – is therefore a central measure of the 9<sup>th</sup> NSEDP Financing Strategy, supported by other measures to modernise and capacitate the tax administration and systems and review the investment promotion regime.

The National Agenda orders, under Core Action 1, to “*avoid entering into agreements that are inconsistent with laws and regulations, that request exemptions of provisions stipulated in laws*”, suggesting that the broadening of the tax base should go through a strict limitation of new tax exemptions. It further states that “*should there be additional provisions not stipulated in the law and regulations, concerned sectors must uniformly agree or attain endorsement from the National Assembly prior to signing the investment agreement*”<sup>73</sup>.

The Tax Administration Law provides four rationales for exemptions on tax obligations, namely the implementation of (1) international treaties, (2) the Law on Investment Promotion, (3) projects of national importance, and (4) special exemption policies in the case of force majeure or natural disasters. Therefore, reviewing the Law on Investment Promotion (and other laws: the Mineral Law, the Law on Land, the Customs Law) and MPI’s instructions, which specify eligibility and priorities for tax exemptions, is critical to efficiently reverse tax base-eroding policies. The National Assembly’s oversight role of new investments, as stated in the National Agenda, should also be strengthened so that parliamentarians assess effectively large investment projects’ expected development and financial returns.

This important shift in fiscal policy and the review of the investment promotion regime (see 4. International Private Finance) are interlinked. The Financing Strategy calls for these two important priorities are simultaneously addressed by MoF (collect taxes), MPI (guiding national

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<sup>70</sup> Brys et al., Tax Design for Inclusive Economic Growth, (2016)

<sup>71</sup> OECD, Lao PDR: Details of non-tax revenue, (2021) and Detail of Public Revenue – Lao PDR, (2022)

<sup>72</sup> Shared in discussions at technical workshops, 6-7 June, 2022.

<sup>73</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021)

planning and investment promotion), with technical assistance from international financial institutions.

The broadening of the tax base alone is not sufficient. Measures to increase the capacity of the administration, support simplification and digitalisation of revenue collection, and raise awareness of businesses and households are complementary. Efforts to increase value-added tax (VAT) registration, which MoF has been leading through the Tax Registration Information System (now covering 76% of businesses)<sup>74</sup>, can yield additional revenues. Making businesses and citizens register to pay their taxes has been challenging, despite multiple attempts by the Tax administration through awareness raising and incentives. Technical assistance, building on international practices, to enhance dissemination and increase societal awareness of taxation for development should also be envisaged.

An increase of tax rates is not considered in the 9<sup>th</sup> NSEDP and the National Agenda. This is broadly consistent with international recommendations on tax designs for inclusive growth, as mentioned before. However, considering Lao PDR's low VAT rate by regional standards, the Financing Strategy calls for a restoration (from 7 to 10%) of the tax rate, which will need to consider recent inflationary trends weighing on livelihoods.

Moreover, under the MoF Instruction No. 4490 and Notification No. 4491, certain importers of goods, notably fuel, will be given special rights regarding VAT and excise tax on importation at the border. Such reduced rates are common. Reviewing and harmonizing consumption tax and excise rates and exemptions according to best international practices would help to minimise costs and maximise returns based on incentives for private sector development. The MoF was already planning to resume to a 10% VAT rate in the last years of the 9<sup>th</sup> NSEDP<sup>75</sup>.

Discussions between stakeholders, finally, revealed that laws and regulations in emerging sectors (e-commerce, cryptocurrency) may be insufficient and that revenue collection from these should be explored, following best international practices. The government has for instance been encouraging cryptocurrency mining, in line with the National Agenda's request to explore new sectors. Eleven companies have signed agreements on cryptocurrency mining with the Ministry of Technology and Communications, at USD 500,000 per license (9 companies have paid for their licenses). Two have signed agreements to operate cryptocurrency exchange with BoL's Department of Payment Systems<sup>76</sup>.

Agreed actions to support the rapid increase of State revenues are:

- ➔ The assessment of fiscal costs and review, harmonisation, and update of the laws, regulations, and processes, to broaden the tax base and abolish and renegotiate CIT and other fiscal exemptions **(also found under 4.1.1)**.
- ➔ The multi-stakeholder formulation of a comprehensive FDI attraction and promotion strategy, which would contain (1) a FDI policy statement that clarifies Lao PDR's strategic vision for FDI promotion and attraction, (2) the review of the Investment Promotion Law and SEZ regulations (3) the cost-benefit analysis and proposed reforms of the current incentive regime's laws and regulations, prioritising targeted fiscal incentives for priority sectors (social sectors and green growth) and non-fiscal incentives and (4) reforms of the

<sup>74</sup> Shared in discussions at technical workshops, 6-7 June, 2022.

<sup>75</sup> Ibid.

<sup>76</sup> Ibid.

business environment, notably for facilitated entry and increased investor protection, all guided by international standards through technical assistance (**also found under 4.1.1 and 5.**).

- ➔ The strengthening of inter-ministerial processes and capacity of the National Assembly, MoF, and MPI to review large investment projects' financial schemes and expected fiscal implications (**also found under 1.2.2 and 4.1.1**).
- ➔ The acceleration of projects to modernise and digitalise tax systems, facilitating e-registration and e-payment, and facilitate formalisation to improve the performance of tax collection (**also found under 3.1.1 and 3.2.1**).
- ➔ The acceleration of tax administration capacity development to increase revenue collection.
- ➔ The dissemination of tax law and regulations of businesses and broader societal awareness raising of tax for development.
- ➔ The harmonisation of tax rates to optimise revenue generation while fostering private sector development and investments in priority sectors and green growth, including the assessment of expected revenues generated, business registrations, administrative feasibility, and impacts on livelihoods of a potential restoration of the VAT rate to 10% (**also found under 3.1.1 and in 5.**).
- ➔ The study of the costs, benefits, feasibility, and relevance of environmental fiscal reform (e.g., carbon tax), sin taxes, and other pre-market interventions, to simultaneously influence behaviours and development outcomes, and generate resources for priority sectors, with careful consideration of the current capacity of the tax administration and centralisation of the budget process (**also found under 5.1.1 and 5.3.1**).
- ➔ The regulation of revenues from rapidly growing sectors, such as e-commerce and cryptocurrency mining and trading.

► ***Policy objective 1.1.2: revenue generation does not compromise the 9<sup>th</sup> NSEDP environmental sustainability directions and priorities***

PM's Order No. 61 authorised the excavation, processing, and export of minerals against the payment of fees and royalties to the State at about USD 2 million per hectare, per company. So far, fifty companies have registered under this scheme. As mentioned under policy objective 1.1.1, the government has been encouraging cryptocurrency mining, for which environmental implications are important: the demand for energy consumption from the eleven registered companies amounts to over 1,100 MW<sup>77</sup>.

These examples show that, during the 9<sup>th</sup> NSEDP, as per its policy directions and those of the National Agenda, revenue from resource sectors is expected to increase significantly.

However, the 9<sup>th</sup> NSEDP and National Agenda also prioritise a less resource-intensive development pathway, highlighting the current limited contribution of large mining and energy projects to inclusive growth and employment<sup>78</sup>.

The 9<sup>th</sup> NSEDP recalls that “*the Government had previously suspended mining concessions to improve policies and regulations to ensure national interests and manage environmental impacts*” and that “*the country will still need to use natural resources for*

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<sup>77</sup> Ibid.

<sup>78</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021) & Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

*economic and social development but will use them responsibly in line with sustainable and green growth directions*<sup>79</sup>.

In line with the priority given to broadening the tax base (see policy objective 1.1.1) and sustainability considerations, new revenue generating resource-extraction projects should be a secondary objective. Instead, the focus should be on improving the capacity of the tax administration to collect higher revenues from existing projects, reinforce and enforce environmental and socioeconomic safeguards, and the strengthening of laws and regulations to prevent the illegal extraction (to boost environmental revenues) and trade (to boost custom duties) of environmental revenues.

Agreed actions to manage the environmental sustainability of revenues include:

- ➔ The temporary halt on new resource extraction projects combined with the update of legislation, regulation, and processes for the future implementation of natural resources extraction projects in line with the inclusive, sustainable, and climate-resilient development pathway of the 9<sup>th</sup> NSEDP (**also found under 1.2.2, 4.1.1 and 5.3.1**).
- ➔ A capacity needs assessment to assess challenges and opportunities to strengthen enforcement of (fiscal, environmental, forestry, wildlife) laws and regulations and improve institutional and human capacity to curb and prosecute environmental trafficking (**also found under 4.2.1 and 5.3.1**).

## **Policy area 1.2: expenditure management**

There is a broad consensus on the misalignment between national development priorities on the one hand, and budget allocations and public investments on the other hand. Solving this inadequacy for the remainder of the 9<sup>th</sup> NSEDP is an important priority of the Financing Strategy. Meanwhile, improving processes and capacity to maximise allocative efficiency and development returns, and efforts to synchronise the planning and budget cycles, can put the State on the right trajectory to drive development progress again. This policy area is therefore structured against two policy objectives: one concerned with the urgency to reallocate the limited resources available (1.2.1.), and the other to accelerate PFM reforms (1.2.2.).

### **► Policy objective 1.2.1: 2023-2025 budget allocations and public investments, at the national and local level, and in all sectors, support the achievement of the 9<sup>th</sup> NSEDP**

The financing report<sup>80</sup>, as well as the 8<sup>th</sup> NSEDP review<sup>81</sup>, found a long-lasting inconsistency between budget allocations and investment projects, and national development priorities. Indeed, the 9<sup>th</sup> NSEDP prioritises public investments in “*rural infrastructure, human resource development, (...) governance and administration, (...) research*” but not “*highways, railways, and transmission lines*”<sup>82</sup>.

However, In the 2020 State Budget, public resources dedicated to energy and mines (1.6% of GDP) and public works (2.2% of GDP) still amount to more than 20% of all public

<sup>79</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>80</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>81</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>82</sup> Ibid.

expenditure in 2020. Resources dedicated to environmental protection and water resources represent less than 1% of total expenditure (0.8%) and only a fraction of GDP (0.2%). In parallel, allocation to social sectors and public investments in human capital remained insufficient. Total resources spent on sociocultural sectors amount to 4.1% of GDP, with education and sports (1.8% of GDP) and health (1.0% of GDP) being the most financed sectors<sup>83</sup>, but well below recommended standards and ASEAN peers<sup>84</sup>, not fully considering efforts needed to achieve national commitments including to Universal Health Care (UHC) and broadening of skillsets through formal education and technical and vocational training aimed at the diversification of the workforce.

Moreover, allocation ceilings fixed for several planning cycles – 35% social, 35% economic, 30% others – are now obsolete and misaligned with the 9<sup>th</sup> NSEDP<sup>85</sup>.

There is a clear alignment between the 9<sup>th</sup> NSEDP, the National Agenda, and the diagnostics on the necessity to ensure full alignment of budget decisions, at all levels and in all sectors, with the national development priorities. This policy objective is therefore concerned with the pressing reorientation and alignment of both recurrent and investment expenditures on national development priorities notably in human capital (health, education and sports, and social protection) and green growth.

MPI has already initiated this effort. To strengthen the alignment of public expenditures with the 9<sup>th</sup> NSEDP objectives, it has issued notifications to line ministries and local authorities to prioritize investments to directly support the 9<sup>th</sup> NSEDP, limited large-scale projects, suspended disbursement for unnecessary technical activities, and promoted cost-effective investments. The Department of Planning of MPI is also working with the Japanese International Cooperation Agency (JICA) on a Public Investment Management Action Plan 2022-2030. A 3-year public investment rolling plan is being developed to align with the MOF's PFM expenditure framework to inform budget ceilings.

Agreed actions to urgently align the remaining years of budget allocations with the 9<sup>th</sup> NSEDP priorities include:

- ➔ The simultaneous mid-term review of the 9<sup>th</sup> NSEDP, update of the Public Investment Plan currently being developed, and alignment of the medium-term expenditure framework, reviewing 2024 and 2025 budget ceilings and yearly allocations (**also found under 5.**).
- ➔ The reassessment and possible termination of all public and public-private investment projects that are not in line with the 9<sup>th</sup> NSEDP priorities or are experiencing increasing costs and delays weighing on the State budget (**also found under 1.3.1**).
- ➔ The temporary halt on new resource extraction projects combined with the update of legislation, regulation, and processes for the future implementation of natural resources extraction projects in line with the inclusive, sustainable, and climate-resilient development pathway of the 9<sup>th</sup> NSEDP (**also found under 1.2.2, 4.1.1 and 5.3.1**).

► ***Policy objective 1.2.2: transparent and modern public financial management improves the allocative efficiency and 9<sup>th</sup> NSEDP-alignment of the budget***

<sup>83</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>84</sup> See diagnostics.

<sup>85</sup> Shared in discussions at technical workshops, 6-7 June, 2022.

Improved alignment of public investments with national development priorities will, in the long run, originate from marked changes in PFM. The 9<sup>th</sup> NSEDP prioritises PFM efficiency, “*more modern, transparent, and agile (...) ensuring that budget allocation is in line with the development priorities*”<sup>86</sup>. As in most developing countries, planning and budget cycles are not sufficiently synchronised.

Adjusting the budget cycle to the rhythm of national planning processes would facilitate allocation decisions that support development priorities.

- The budget preparation has historically been annual in Lao PDR. MoF fixes budget ceilings for line ministries and provincial governments, in light of revenue projections and within broad constraints for sectors. Line ministries then share with MoF and MPI their financial plans under these constraints. This short-term focus also does not allow for concrete discussions on prioritization and sequencing of spending for maximal allocative efficiency and alignment to national development priorities. The current attempt by MoF to develop medium-term expenditure frameworks will need to be synchronised with the multi-year investment plan currently being developed by MPI. The same needs to take place for annual planning and budgeting processes.
- Budget execution is also marked by significant challenges. The allocative efficiency is constrained by limited technical capacities for evidence-based planning and budgeting within line ministries and subnational levels of government. Strengthening capacity to undertake cost/ benefit analyses – such as the health investment case – to determine where, when, and how to spend limited resources is critical in the current context. Additionally, capacities to assess socioeconomic returns and broader environmental implications and select investment projects require attention. MPI issues instructions to line ministries in line with the Law on Public Investment and uses a scorecard for project selection. These processes and tools should be urgently reviewed for investment projects contributing to national development priorities. Limiting and maximising the efficiency of recurrent expenditures is also needed. The National Agenda estimated that in the current context, “*implementing the amended decree on frugality and tackling extravagance focused on prudent administrative expenditure*”<sup>87</sup> was a priority.
- Budget monitoring and evaluation lacks capacity. Processes currently cannot appropriately support budget reviews and preparation. Ongoing projects to revise the Chart of Accounts (CoA), tag the budget against the SDGs and outcomes of the 9<sup>th</sup> NSEDP, need to be accelerated.
- Throughout, budget transparency is also a concern. The financing report only analysed half of all public expenditures, as the other half is combined under “other organisations” in the State budget.

One additional difficulty is inherent to the division of labour within government, with MoF tasked with revenue forecasting and recurrent expenditures, while MPI is in charge of macroeconomic forecasting and public investment. Strengthened coordination mechanisms are needed to further integrate planning and budgeting processes: costed national plans equipped with financing strategies, aligned public investment plans and medium-term expenditure frameworks, and synchronised NSEDP implementation plans and yearly budget allocations.

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<sup>86</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>87</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021)

Actions agreed to increase allocative efficiency of public investments and accelerate the integration of planning and budgeting processes at all levels of government are:

- ➔ The acceleration of projects to synchronise and sequence the quinquennial, multi-year, and annual national planning and budgeting processes, for cycles of financially sound national planning as per the INFF approach.
- ➔ The update of the State Budget Law, Public Investment Law, Public Procurement Law, and related regulations such as Decree 599/PM on austerity measures, and adoption of the PM Decree on Budget Formulation, to facilitate the formulation, execution, and monitoring of budget and investment plans in line with national development priorities (**also found under 5.**).
- ➔ The review and update of regulations and processes to appraise public and private investment proposals, including the update of the investment scorecard, the systematisation of cost-benefit analyses and other evidence-based methodologies through training and technical assistance, and improvements of PPP governance and regulations (**also found under 4.1.1.**).
- ➔ The acceleration of all PFM projects – e.g., IFMIS rollout, SDG, and 9<sup>th</sup> NSEDP budget-tagging, green and gender budgeting, CoA revisions – to integrate national development priorities in all stages of the budget cycle (**also found under 2.1.2 and 5.**).
- ➔ The convening of a National Conference on PFM to disseminate recent legal and regulatory updates and take stock of progress towards an evidence-based budget cycle and expenditures aligned with national development priorities.
- ➔ The strengthening of inter-ministerial processes and capacity of the National Assembly, MoF, and MPI to review large investment projects’ financial schemes and expected fiscal implications (**also found under 1.1.1 and 4.1.1.**).
- ➔ The temporary halt on new resource extraction projects combined with the update of legislation, regulation, and processes for the future implementation of natural resources extraction projects in line with the inclusive, sustainable, and climate-resilient development pathway of the 9<sup>th</sup> NSEDP (**also found under 1.1.2, 4.1.1, and 5.3.1.**).
- ➔ The exploration of the relevance and institutional feasibility of increased budget autonomy for the National Health Insurance Bureau, towards a semi-autonomous status (**also found under 1.2.2.**).
- ➔ The exploration of specific changes required to the laws, regulations, processes, and CoA to facilitate centralised planning, prioritisation, and budgeting of the education and sports sector and improved allocative efficiency of public funding, in the context of limited fiscal space (**also found under 5.2.1.**).
- ➔ The development of procurement guidelines for line ministries, and the systematisation of green procurement practices across all government, as well as capacity development (**also found under 5.3.1.**).

### **Policy 1.3: sustainable debt management**

Lao PDR was considered at high risk of debt distress in the 2019 IMF Article IV and trends suggest that the situation has worsened<sup>88</sup>. MoF’s 2021 Public Debt Bulletin (providing data to 2020) reveals a debt to GDP ratio of 72%, with high levels of external debt (67% of GDP, 92.1% of total debt denominated in foreign currencies), making the current depreciation

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<sup>88</sup> IMF, Article IV Consultation Staff Report, (2019)

of the LAK a threat to the country's financial stability (exchange rate used amounted to less than LAK 10,000/USD 1, whereas the official exchange rate has reached 15,000/1 in August 2022). In addition to the foreign exchange risk, the refinancing risk was high, with more than 11% of 2020 debt to be repaid by the end of 2021, and with similar projections every year. During the rest of the 9<sup>th</sup> NSEDP (2022-2025), the country will need to repay and service USD 5.1 billion, or 48% of its total debt stock. For the full 9<sup>th</sup> NSEDP cycle (2020-2025), this amounts to USD 8.6 billion<sup>89</sup>.

From available sources, the largest single creditor was by far China (57% of all concessional debt, 47% of all debt), followed by creditors with less than 10% of debt (ADB, International Development Association, Thailand, Korea, Japan, etc.). Commercial creditors represented 7% of all debt. Of all debt, 9.8% was publicly guaranteed debt owned by SOEs<sup>90</sup>.

This policy area is split between the pressing need to address immediate debt challenges (1.3.1), while setting the scene for sustainable debt issuance as a financing tool for development, through increased transparency and improved debt management (1.3.2).

► ***Policy objective 1.3.1: immediate debt relief is needed to free fiscal space for development investments***

Debt repayments and services are weighing considerably on the budget's ability to finance development. In 2022 for the first time, the cost of debt service will exceed resources available for health and education combined.

The 9<sup>th</sup> NSEDP states that “*the accumulation of domestic and foreign debt has increased pressure on the budget*” and prioritises increases in revenues and debt consolidation to alleviate this burden. Contingent liabilities, in particular, need to be addressed: “*most state-owned enterprises operate at a loss and are heavily indebted*”<sup>91</sup>. The National Agenda adds that new debt issuance must be limited, that debt renegotiations must be explored, that contingent liabilities are reduced, and equitization and the selling of assets is accelerated<sup>92</sup>.

Most of these efforts are however severely constrained. With the credit rating downgrades of Lao PDR, making the country the lowest sovereign rating in Asia without being in default, appetite for bonds is limited, making new bond issuance costly, therefore limiting prospects for debt consolidation<sup>93</sup>.

While restoring a balanced budget supporting national development priorities will appear to primarily go through higher revenue mobilisation and more aligned expenditure management, concrete steps to alleviate the debt burden are urgently needed. A thorough assessment of the debt payment schedule, identification of potential substitution of commercial loans with high interest rates with more concessional loans, negotiations with foreign creditors, and careful consideration of SOEs (the Agricultural Promotion and Lao Development Banks were recently reformed) are pressing.

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<sup>89</sup> MoF, Annual PPG Debt Statistics Bulletin, (2020)

<sup>90</sup> Ibid.

<sup>91</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>92</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021)

<sup>93</sup> See diagnostics.

Innovative solutions, such as debt swaps (in particular for investments in the protection of nature or in climate adaptation and mitigation), which facilitate bilaterally negotiated debt alleviation in exchange for investments to accelerate development, should also be explored.

Against this backdrop, specific technical assistance in managing debt distress is needed to accompany the MoF's efforts.

Three actions to urgently alleviate Lao PDR's debt burden are agreed:

- ➔ The study and exploration of multilateral debt alleviation and suspension initiatives to free fiscal space in support of development investments and provide Lao PDR with sufficient time to increase the revenue to GDP ratio.
- ➔ The continuation of debt consolidation through renegotiations to (1) cancel or reduce debt repayments and/or lengthen the maturity of loans to the second half of the 2020s without losing access to future loans and (2) explore debt swaps with major creditors (**also found under 5.3.1**).
- ➔ The reassessment and possible termination of all public and public-private investment projects that are not in line with the 9<sup>th</sup> NSEDP priorities or are experiencing increasing costs and delays weighing on the State budget (**also found under 1.2.1**).

► ***Policy objective 1.3.2: transparent and evidence-based debt management will progressively create the conditions for sustainable debt issuance***

This policy objective is complementary to 1.3.1, looking at ways to improve Lao PDR's ability to confidently borrow on more affordable terms while maintaining sustainable debt levels, in order to finance national development. Creating the conditions for sustainable debt issuance will entail many actions listed under the first and second policy areas of this chapter, to raise revenues and make better use of available resources, towards a more balanced budget.

However, improved debt analytics, debt management capacities, coordination within government and with DPs, and transparency will help to restore creditors' confidence currently affecting Lao PDR's borrowing costs.

Transparency, in particular, is key. Indeed, one of the key findings of the sovereign bonds report was the reported loss of confidence of commercial creditors in Lao PDR's ability to service debt, generating higher interest rates<sup>94</sup>. Similarly, several partners have also implemented a ban on budget support, such as the EU and Member States, due to concerns over Lao PDR's financial management.

In the 9<sup>th</sup> NSEDP, lack of transparency is listed as one of the main shortcomings of the previous planning cycle and is one of the key directions of the output 1.2, under outcome 1, on robust and stable macroeconomic management<sup>95</sup>. The National Agenda is even more forthcoming: "*the transparency principle will inform the success in the implementation of the national agenda as well as instil society and international community's confidence and trust in the Government's effort of addressing economic-financial difficulties*"<sup>96</sup>.

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<sup>94</sup> UNCDF, Lao PDR bonds: A Stocktake and Analysis of Lao PDR Bonds, (2021)

<sup>95</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>96</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021)

While debt issuance is not a priority to finance development investment now, the 9<sup>th</sup> NSEDP cycle can see significant improvements creating an enabling environment for later sustainable bond issuance.

Agreed actions to manage public debt sustainably and progressively improve its role in financing development include:

- ➔ The acceleration of projects to increase debt transparency in line with international standards, through the more frequent publication of disaggregated debt data, including for SOEs, and an annual publication reviewing the debt portfolio, analysing, and modelling repayment trends, and associated risks.
- ➔ The review of the Public Debt Management Law and associated regulations against best international practices.
- ➔ The acceleration of all development projects to increase the MoF's capacity on data collection, analysis, reporting, and software use.
- ➔ The pursuit of ongoing work to reform SOEs, focusing on large companies presenting contingent liabilities.
- ➔ The preparation of a medium-term debt issuance and management strategy, including the long-term exploration of green bonds, assuming the progressive return to a more manageable financial situation allowing for debt issuance (**also found under 5.3.1**).

## 2. International public finance

ODA has historically been used to support critical dimensions of the country's development progress, often more than its expected role to strategically complement the State budget, in key sectors such as health, nutrition, education, social protection, or climate change. In a context marked by fiscal difficulties, maximising the volume and the allocative efficiency of ODA is critical, to support a transition towards fiscal sustainability<sup>97</sup> and the emergence of a more SDG-aligned private sector<sup>98</sup>. The 9<sup>th</sup> NSEDP has, accordingly, ambitious targets for ODA mobilisation. Under the Outcome 1 “*Continuous quality, stable and sustainable economic growth achieved*”, Output 3, ‘*Investment quality and effectiveness enhanced*’, the target is 18% of total investment for the period 2021-2025.

This chapter specifies the policy directions and actions that will be taken to increase rapidly the volume, efficiency, and effectiveness of development aid, in line with the policy directions of the Vientiane Declaration on Partnerships for Effective Development Cooperation 2015-2025 (VDCAP) and the INFF, which suggests a transition from aid as a driver of development to aid as a catalyser of public and private investments.

Under the two policy areas of this financing flow (2.1 ODA predictability, efficiency, and effectiveness, 2.2 mobilise LDC-specific finance), objectives and contributing actions are presented. A full action matrix specifying responsibilities and timeline is available at the end of the Financing Strategy.

### **Policy area 2.1: ODA predictability, efficiency, and effectiveness**

Optimising ODA's contribution to development can go through two main avenues: the more evidence-based planning of development aid, for targeted projects and maximised synergies (2.1.1), and the improved delivery of ODA, through simplified and harmonised procedures and capacity development of recipients to efficiently manage ODA (2.1.2).

#### **► Policy objective 2.1.1: the efficiency and effectiveness of ODA increases through enhanced planning, monitoring, and coordination**

The diagnostics show that despite the substantial contribution of ODA in financing development in Lao PDR (3.1% of GDP), and the strong partnership that the Government has with DPs, the predictability of ODA remains low<sup>99</sup>. A mid-term review of the VDCAP found that in Lao PDR, only 70% of ODA was disbursed as scheduled in 2019 (LDC average is 84%). Medium-term predictability is even lower, with only 32% of ODA available in expenditure plans for the next three years (LDC average is 66%). Aid alignment to country priorities was only moderate (65%), and the share of development co-operation recorded on budgets subject to parliamentary scrutiny was insufficient, at 24%<sup>100</sup>.

The limited use of the ODA-MIS database has made flows difficult to predict, track, and analyse. The financing report found that the database was not viable for analytical and planning purposes, with most of the 436 project entries annotated as “not submitted”<sup>101</sup>. The

<sup>97</sup> See Domestic Public Finance.

<sup>98</sup> See Domestic and International Private Finance.

<sup>99</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>100</sup> MPI, Mid-term review of the implementation of the VDCAP 2015-2025, (2021)

<sup>101</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

VDCAP review also indicated challenges in terms of accessing standardized information, particularly with respect to ODA flows from non-OECD DPs<sup>102</sup>.

In the same way that the formulation of aligned budget and investment plans is needed, multi-stakeholder and evidence-based planning and budgeting of ODA can improve the mobilisation and targeting of these flows.

Governance issues are critical. Improving development coordination mechanisms and forums such as the Sector Working Groups (SWGs), as the VDCAP suggests, is needed to reduce aid fragmentation and develop Programme-Based and Sector Wide ODA strategies, through complementary or joint programmes and projects<sup>103</sup>. Improving the current institutional architecture, will require capacity development of the SWGs secretariat for cross-sectoral coordination, and of leads for intra-sectoral coordination, as well as the revision of the scope and sequencing of the RTP, for more strategic and multi-stakeholder planning and efficiency of development cooperation.

The four agreed actions to increase the strategic planning of ODA and other development aid flows are:

- ➔ The review and publication, on a semi-annual basis, of the ODA-MIS database, for improved strategic planning **(also found under 5.)**.
- ➔ The multi-stakeholder formulation of a medium-term ODA strategic mobilisation plan (2024-2025), aligned with the 9th NSEDP mid-term review, 2030 ODA strategy and medium-term expenditure framework, highlighting priority sectors for ODA, and encouraging joint approaches.
- ➔ The coordination of the annual production and publication of a forward-looking matrix with all planned ODA and other aid projects, for the remainder of the 9th NSEDP (2023-2025), structured against the national plan's outcomes and outputs **(also found under 5.)**.
- ➔ The multi-stakeholder review of the RTP and SWGs, for inclusive partnerships mechanisms facilitating the joint evidence-based strategic planning and delivery of ODA programmes contributing to the 9<sup>th</sup> NSEDP outcomes, anticipating transition for ODA-reliant sectors **(also found under 2.1.2)**.

► **Policy objective 2.1.2: ODA delivery can accelerate through harmonization and simplification of regulations and the management of the absorptive capacity of national entities**

The VDCAP mid-term review found insufficient harmonisation and simplification impedes ODA delivery.

A report prepared in 2021 by the International Non-Governmental Organisations (NGOs) network specifically highlighted challenges in the approval of Memorandums of Understanding (MoU). It was found that while the MOU approval process follows relevant regulations, there have been cases where adherence to the guidelines for project approvals was not feasible. Consequently, this has caused delays and potential deviations from original implementation plans for certain projects, resulting decreased funding for INGOs or limiting

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<sup>102</sup> MPI, Mid-term review of the implementation of the VDCAP 2015-2025, (2021)

<sup>103</sup> Ibid.

their ability on budget performance<sup>104</sup>. As a result, the VDCAP review highlighted the need to streamline the MoU process as an important task<sup>105</sup>. Discussions during technical-level workshops revealed that administrative capacity was a key constraint in managing MOUs.

The financing report noted that ‘ODA delivery rates in Lao PDR can be improved with more attention to donor liaison and administration capacity in Ministries’<sup>106</sup>. Different processes governing programme design, implementation, and reporting generate pressures on the capacity of government entities which are often solicited by several DPs.

Insufficient PFM reforms also limit the use of the government’s own budget processes for ODA delivery (only 42% of projects according to the VDCAP review). Challenges stated in the VDCAP review mentioned slow progress on PFM reforms and limited donor confidence in the national budget process<sup>107</sup>.

Streamlining both government and DPs’ procedures for ODA funded projects, accelerate PFM reforms, and strengthened coordination can reduce absorptive capacity challenges and accelerate ODA delivery.

Agreed actions to improve the implementation of ODA and other development aid programmes and projects include:

- ➔ The acceleration of all PFM projects - e.g., IFMIS rollout, SDG, and 9th NSEDP budget-tagging, green and gender budgeting, CoA revisions – to integrate national development priorities in all stages of the budget cycle (**also found under 1.2.2 and 5.**).
- ➔ The multi-stakeholder review of the MoU approval process leading to regulatory updates and the development and dissemination of clear procedures and templates.
- ➔ The multi-stakeholder review of ODA processes and procedures towards harmonisation and simplification (**also found under 5.**).
- ➔ The multi-stakeholder review of the RTP and SWGs, for inclusive partnerships mechanisms facilitating the joint evidence-based strategic planning and delivery of ODA programmes contributing to the 9<sup>th</sup> NSEDP outcomes, anticipating transition for ODA-reliant sectors (**also found under 2.1.1.**).

## Policy area 2.2: LDC finance

On 26<sup>th</sup> February 2021, the UN Committee for Development Policy (CDP) recommended Lao PDR for graduation from LDC status with an extended 5-year preparatory period reflecting the severe and ongoing impact of COVID-19<sup>108</sup>.

The 9<sup>th</sup> NSEDP fully recognizes the importance of preparing for LDC graduation: “*the Government must continue to prioritise and prepare comprehensively for LDC graduation over the extended 5-year preparatory period (2021-2026) to ensure that graduation is smooth and sustainable*”<sup>109</sup>.

In light of upcoming graduation, the Financing Strategy takes a dual focus on (1) maximising access to LDC-specific multilateral funds for the second half of the implementation

<sup>104</sup> INGO Network, MoU survey, (2021)

<sup>105</sup> MPI, Mid-term review of the implementation of the VDCAP 2015-2025, (2021)

<sup>106</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>107</sup> MPI, Mid-term review of the implementation of the VDCAP 2015-2025, (2021)

<sup>108</sup> UN, Lao PDR is recommended to graduate in 2026 from the Least Developed Country Category with an extended preparatory period, (2021)

<sup>109</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

of the 9<sup>th</sup> NSEDP and (2) prioritising fiscal sustainability and mitigation of impacts on ODA in the STS.

► **Policy objective 2.2.1: urgently mobilise LDC-specific funds to finance national development priorities**

The financing report highlighted that “*current fiscal revenue constraints caused by the COVID-19 pandemic signal that Lao PDR is likely to seek additional ODA support to meet 9<sup>th</sup> NSEDP social sub-sector development targets and specific technical assistance needs*”<sup>110</sup>.

Therefore, making the most of existing eligibility periods for LDC-specific support is needed, as explained the assessment of the impacts of graduation led by UNDESA.

After applicable transition periods, Lao PDR will lose access to the LDC Fund (LDCF-managed by the Global Environment Facility) for climate change, although projects approved before graduation would still be funded. Similarly, after a transition period of five years, Lao PDR would no longer have access to the LDC Technology Bank, which provides support to LDCs on science, technology and innovation, or the Investment Support Programme for LDCs, which provides on-demand legal and professional assistance to LDC governments and eligible SOEs or private sector entities for investment-related negotiations and dispute settlement<sup>111</sup>.

To tap LDC-specific funds, one action was agreed:

➔ In preparation for the LDC V Conference (5-9 March 2023), the assessment of challenges, opportunities, and best practices to mobilise ODA from multilateral funds, Technology Bank, and Investment Support Programme.

► **Policy objective 2.2.2: prioritise financing sustainability in the forthcoming LDC Graduation STS**

UNDESA’s Graduation Assessment for Lao PDR calls for the formulation of a STS to mitigate graduation impacts and use the opportunity offered by graduation to strengthen existing cooperation with multilateral, regional and bilateral partners. Consequently, MoFA announced at the High-Level RTM in 2021 that it would be leading and coordinating the formulation of a STS. A well-prepared STS can help guide a sustainable and irreversible graduation process, enhanced and more coordinated support by DPs, as well as identifying investment and capacity development priorities.

The main purposes of the STS are to:

- Identify pathways of graduation;
- Summarise existing information on the impacts of losing LDC-specific international support measures;
- Identify parameters that will require management;
- Identify mitigation measures;
- Determine prioritized transition measures.

<sup>110</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>111</sup> UN, Lao PDR Graduation Assessment, (2020), UNDESA, LDC Graduation Assessment for Lao PDR, (2020), and UNCTAD, Lao PDR Vulnerability Profile, (2021)

Building on 2.2.1, this policy objective provides directions for the development and implementation of a STS, coordinated by MoFA, with support from the UN Country Team.

To prepare for sustainable and irreversible graduation during the 9<sup>th</sup> NSEDP cycle:

- ➔ The STS prioritises (1) the mobilisation of technical assistance for the sustainable and resilient financing of development, (2) to adapt to and mitigate impacts for continued strategic mobilisation of development aid, (3) and finance priority sectors of green growth, climate change management, and social sectors (**also found under 5.**)

### 3. Domestic private finance

The central finding of the financing report, with regards to domestic private finance, is that it has by far the greatest potential to make greater contributions to national development priorities.

The 9<sup>th</sup> NESDP acknowledges this, targeting the mobilisation of 19.4% of GDP for the period 2021-2025 from the private sector, representing 49% of total investment<sup>112</sup>.

Improving the business environment is a priority of both the 9<sup>th</sup> NESDP and the National Agenda. Reviewing a business environment currently focused on attracting FDI through tax incentives will lead to significant results, albeit with delays, due to the scope of regulatory reforms needed.

Moreover, when most businesses report access to finance as their most important constraint, attention must also be given to the financial sector and its role as a catalyser of private investments.

This double focus on the enabling environment for MSME development and financial inclusion structures this chapter. Under 3.1 (a business environment for MSME development) and 3.2 (sustainable financial inclusion), objectives and contributing actions are presented.

#### **Policy area 3.1: a business environment for MSME development**

This policy objective is concerned with the transformation of the business environment, which needs to be reformed to adequately support MSME development.

##### **► Policy objective 3.1.1: improve the business environment to unlock domestic private finance flows in priority sectors**

The 9<sup>th</sup> NESDP prioritises MSME development, which is a specific output (under Outcome 1, output 4), focusing on “*Better quality, robust, and regionally and internationally competitive micro, small and medium-sized enterprises*”<sup>113</sup>.

The National Agenda requests to “*improve a more facilitative business environment and speedily reduce unnecessary barriers*”. As the recent PROFIT survey showed, improvements on the costs of business registration improved, but informal practices remain highly prevalent<sup>114</sup>.

The 9<sup>th</sup> NESDP also recognizes the importance of improving the ease of doing business (with a focus on the ease of doing business ranking, now discontinued) to increase private investments. Under Outcome 1 ‘*Continuous quality, stable and sustainable economic growth achieved*’, Output 3 focuses on strengthening coordination between the concerned sectors to implement the PM’s Orders No. 02 and 03. MoIC has been leading efforts to implement these regulations. Successes include the drastic reduction in the expected number of procedures and the time required to start a business (from 173 days to 5), and a significant improvement in the registration process for business units to obtain social security, with processing times being reduced from 30 days down to just 2 days<sup>115</sup>.

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<sup>112</sup> Government of Lao PDR, 9<sup>th</sup> NESDP official translation, (2021)

<sup>113</sup> Ibid.

<sup>114</sup> Ibid.

<sup>115</sup> Shared in discussions at technical workshops, 24-25 June, 2022

The 9<sup>th</sup> NSEDP also highlights the need to ‘*create incentives for both domestic and foreign private investment*’ in priority sectors such as green growth, healthcare, trade, and skills development. Indeed, most of the domestic private investments remain poorly aligned with the 9<sup>th</sup> NSEDP priorities, as they historically went into mining, electricity and in the tourism sector<sup>116</sup>. Ways to strengthen alignment and public-private dialogues for NSEDP-aligned business creation could be catalytic, identifying practical ways to incentivise Lao businesses in priority sectors.

Moreover, formalisation of businesses can facilitate their integration into more complex value chains and the financial system. Steps mentioned under 1.1.1 to formalise businesses – integrating them to the tax base in particular – should therefore be encouraged.

Actions agreed to facilitate MSME development in priority sectors are:

- ➔ The acceleration of the implementation of the PM’s Orders 02 and 03 to simplify the business environment, especially current efforts to disseminate recent regulatory changes and steps to obtain a business license through user-friendly digital platforms, and reduce informal charges
- ➔ A public-private dialogue to increase research and policies on an enabling environment and incentives for MSME (1) development in priority sectors, (2) integration with regional and international value chains, and (3) responsible business practices.
- ➔ The acceleration of projects to modernise and digitalise tax systems, facilitating e-registration and e-payment, and facilitate formalisation to improve the performance of tax collection (**also found under 1.1.1 and 3.2.1**).
- ➔ The harmonisation of tax rates to optimise revenue generation while fostering private sector development and investments in priority sectors and green growth, including the assessment of expected revenues generated, business registrations, administrative feasibility, and impacts on livelihoods of a potential restoration of the VAT rate to 10% (**also found under 1.1.1 and 5**).

### **Policy area 3.2: financial inclusion**

Improvements in the business environment are necessary, but as the Enterprise Survey showed, access to finance was seen as the biggest constraint to business creation by 36% of MSMEs<sup>117</sup>. More generally, the financial sector remains underdeveloped in Lao PDR, and steps to strengthen the role of credit as a catalyser for additional private investments should be taken. While 3.2.1 focusses on access to finance for MSMEs, 3.2.2 looks at increasing sustainability and resilience of the financial sector for continued support to growth.

#### **► Policy objective 3.2.1: increase access to finance for MSME development**

Limited access to finance is recognised as an important impediment for the development of a dynamic private sector in Lao PDR. Corrective measures under Core Action 1 of the National Agenda prioritise the strengthening of the SME fund and the expansion of financing modalities in agriculture, processing, tourism, or handicraft, in line with Decree No. 299.

<sup>116</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>117</sup> WB, Enterprise Survey 2018, (2020)

Corrective measures under Core Action 4 also encourages specific actions to encourage commercial banks and microfinance institutions to facilitate MSME development<sup>118</sup>.

The Decree on SME Promotion Fund No. 299/GO, dated September 4, 2019, has recently been updated to align with the Law on MSME Promotion No. 16/NA, dated July 7, 2022, and is now known as the Decree on MSME Promotion Fund No. 05/GO, dated January 12, 2023. The Fund remains however limited in its ability to finance MSME development, with only LAK 762.82 billion (around USD 50 million) available as of 2022<sup>119</sup>.

Moreover, as mentioned in the policy objective above, formalisation of businesses can facilitate their integration into the financial system and increase access to finance.

The financing report, which concluded that there was limited policy support to domestic investment, supports those existing policy directions, which would require acceleration. It also specifies that credit options are limited, especially in rural areas, and that while microfinance has expanded, it remains a limited source of finance, only representing 0.8% of GDP in 2020 (against 0.3% in 2015)<sup>120</sup>.

Actions agreed to facilitate MSME access to finance are:

- ➔ A public-private dialogue on financial inclusion to improve financial services and products, access to finance, notably through the standardisation of credit history and collaterals management and potential minimum requirements for financial inclusion, digitalisation, and financial literacy (**also found under 3.2.2**).
- ➔ The assessment of the SME Promotion Fund's performance over the last 10 years to inform strategic planning and replenishment.
- ➔ The acceleration of projects to modernise and digitalise tax systems, facilitating e-registration and e-payment, and facilitate formalisation to improve the performance of tax collection (**also found under 1.1.1 and 3.1.1**).

► **Policy objective 3.2.2: improve the financial sector's sustainability and credit availability for priority investments in line with macroeconomic stabilisation priorities**

Strengthening the resilience and sustainability of the financial sector are core objectives of both the 9<sup>th</sup> NSEDP and the National Agenda, which can be summarised in three policy directions as follows:

- The implementation of international standards in financial and risk management, in particular with regards to financial consumer protection and the management of NPL, through reformed financial SOEs, improved capital adequacy ratios and streamlined procedures to approve loans.
- Digitalisation to support more secure and reliable electronic payments and transactions.
- Development of more appropriate financial instruments to support production and consumption. As mentioned, the financing report noted that the offer of financial services remained underdeveloped, especially in remote areas.

<sup>118</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021)

<sup>119</sup> Shared in discussions at technical workshops, 24-25 June, 2022.

<sup>120</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

The sustainability of the financial sector has been a long-lasting challenge – and has justified the reforms of the Lao Development and Agricultural Promotion Banks – but COVID-19 exacerbated this challenge. The WB noted that the NPL ratio increased from 3 to 3.2% and that bank profits declined. However, the Capital to Risk-Weighted Assets Ratio increased from 11.8% in Q4 2019 to 13.2% in Q4 2020, following updated risk regulations, demonstrating the necessity to strengthen financial regulations considering current global financial trends<sup>121</sup>.

In parallel, access to credit is an important policy direction in Lao PDR, as mentioned under 3.2.1, which will require efforts from the financial sector, in a tightening monetary environment with increasing policy rates.

The policy objective therefore focuses on matching simultaneous priorities to strengthen the financial sector, facilitate access to credit, and enhance macroeconomic stabilisation.

Actions agreed to improve the financial sector sustainability and credit policies are:

- ➔ The acceleration of projects to strengthen financial risk management regulations and procedures and consolidate the banking sector, considering current macroeconomic and monetary risks.
- ➔ A public-private dialogue on financial inclusion to improve financial services and products, access to finance, notably through the standardisation of credit history and collaterals management and potential minimum requirements for financial inclusion, digitalisation, and financial literacy (**also found under 3.2.1**).
- ➔ The formulation of policy recommendations to improve the environmental sustainability of the financial sector (**also found under 5.3.1**).
- ➔ The revision of the Law on Payment Systems and other financial regulations to facilitate reliable, affordable, and safe remittance transfers (**also found under 4.3.1**).
- ➔ Multi-stakeholder research to understand and define a policy framework to lift constraints and reduce the costs of safe and reliable remittance transfers through an updated policy, regulatory, and financial environment, looking at best international practices (**also found under 4.3.1**).

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<sup>121</sup> WB, Lao PDR Economic Monitor August 2021, (2021)

## International private finance

International private financial flows have already been mentioned several times in the Financing Strategy. Under domestic public finance, the investment promotion regime, which has mainly consisted in the granting of fiscal exemptions to attract foreign investors, has generated important fiscal costs. IFF, which in addition to financing activities directly threatening development progress, escape the tax administration's reach. Under domestic private finance, it was acknowledged that the current investment promotion regime was more designed towards attracting FDI, while MSME development was still constrained by an inadequate business environment.

The Financing Strategy calls for stronger alignment of all financing flows to national development priorities. Therefore, this chapter, is primarily concerned with the update of the policies, laws, and regulations to strengthen the link between growth and revenues as well as diversify FDI, and attract investments in priority sectors, such as health, education and sports, or green growth sectors and the promotion of export and trade (4.1). As mentioned earlier, in line with the State budget's crucial role in financing development, restoring a larger revenue base is an important priority that has implications for the incentive's regime.

This crucial policy area is complemented by two more specific sections looking at the curbing of IFF (4.2) and the facilitation of remittance transfers (4.3), which have historically contributed to livelihoods.

### Policy area 4.1: Foreign Direct Investments

#### ► Policy objective 4.1.1: quality FDI contributing to national development priorities increase through a focused investment promotion strategy based on non-fiscal incentives and reforms of the business environment

The Investment Reform Map found that FDI represent a large source of investment in Lao PDR, accounting for 48% of GFCF by the private sector in 2017. Since 2012, FDI are the largest source of external finance, above ODA and remittances. As mentioned in the diagnostics chapter, FDI have so far largely been concentrated in the resource sector (hydropower, representing 80% of all renewable energy investments, mining, 15% of capital investment, and construction), with limited investments in knowledge-intensive industries. FDI mostly originate from Thailand, China, Vietnam, and other ASEAN countries, with a weak geographical diversification compared to regional peers. Overall, the International Finance Corporation (IFC) argues that Lao PDR “*is not attracting the type of FDI that promotes skills upgrading, generates knowledge spill overs, and creates ample job opportunities*”<sup>122</sup>.

The financing report findings echo those of the Investment Reform Map. FDI are currently largely destined to five sectors (85%) that provide limited qualified employment opportunities: construction (32%), electricity and gas (26%), agriculture, forestry, and fishing (13%), manufacturing (9%) and mining and quarrying (6%). FDI to health (0.3%) and education (0%) are practically non-existent. Moreover, the financing report argued that fiscal

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<sup>122</sup> MPI and IFC, Investment Reform Map: A Foundation for a New Investment Policy and Promotion Strategy, (2021)

exemptions generated important fiscal costs for the State budget, impeding the financing of national development priorities<sup>123</sup>.

The 9<sup>th</sup> NSEDP and the National Agenda are clear on the necessity to continue attracting FDI, which have had a historical contribution to Lao PDR's growth but call for their improved alignment to national development priorities, including their contribution to the State's budget, sustainability, and opportunities for decent employment.

According to the 9<sup>th</sup> NSEDP, FDI must be “*in line with the direction of socio-economic development goals*” (quality), target “*the distinct potential of different sectors and regions*” (focused), be “*efficient, effective, and sustainable*” (green) and “*help alleviate poverty, improve social sector development, and utilise natural resources carefully, while protecting the environment*” (sustainable). FDI, “*a major source of development funding*”, should “*create jobs*” and “*promote technology transfer and capacity building*”<sup>124</sup>. The Green Growth strategy, a guiding framework for the 9<sup>th</sup> NSEDP, specifies that “*incentives for both domestic and foreign private investments in priority sectors with green growth potential*” should be developed<sup>125</sup>.

The 9<sup>th</sup> NSEDP Outcome 4 further prioritises environmental sustainability in economic development, highlighting that “*it is important to improve legislation and management of the use of land and natural resources to ensure the sustainability of investment projects and the management of pollution and waste promote green growth through targeted investments in green sectors, which will help diversification and shifting towards a more circular economy*”<sup>126</sup>. The National Agenda calls for FDI that contribute to regional integration and export objectives, but whose economic benefits and environmental sustainability have been thoroughly identified<sup>127</sup>.

Moreover, while the National Agenda highlights the role of SEZs to attract FDI, it also orders to improve the revenue system, closing “*high leakages*”, “*reviewing tax policies and legislations*”, “*reform public revenue mechanism*” and provide the National Assembly with an oversight role for large investment projects<sup>128</sup>.

The Investment Reform Map provides key directions for necessary reforms throughout the investment life cycle to ensure Lao PDR moves from being the recipient of resource-seeking FDI, which generates limited decent employment and improvements in livelihoods, to efficiency-seeking FDI. These include the necessity to develop a vision or “*Investment Policy Statement*” and efforts to simplify the business environment, including for trade and export, notably reducing “*restrictions on FDI entry and establishment in the country*”. The Reform Map also proposes to review the current investment regime, in particular to “*replace current incentives instruments with incentives that are more targeted and less harmful and expensive than tax exemptions*”<sup>129</sup>.

Against this backdrop, and in line with the Investment Reform Map's recommendations, an investment promotion regime that simultaneously supports FDI attraction, national development priorities, and contributes to resolving Lao PDR's fiscal challenges is prioritised.

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<sup>123</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>124</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>125</sup> MPI, National Green Growth Strategy of the Lao PDR till 2030, (2021)

<sup>126</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>127</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021)

<sup>128</sup> Ibid.

<sup>129</sup> MPI and IFC, Investment Reform Map: A Foundation for a New Investment Policy and Promotion Strategy, (2021)

Actions agreed to attract quality, sustainable, and aligned FDI are:

- ▶ The multi-stakeholder formulation of a comprehensive FDI attraction and promotion strategy, which would contain (1) a FDI policy statement that clarifies Lao PDR's strategic vision for FDI promotion and attraction, (2) the review of the Investment Promotion Law and SEZ regulations (3) the cost-benefit analysis and proposed reforms of the current incentive regime's laws and regulations, prioritising targeted fiscal incentives for priority sectors (social sectors and green growth) and non-fiscal incentives and (4) reforms of the business environment, notably for facilitated entry and increased investor protection, all guided by international standards through technical assistance (**also found under 1.1.1. and 5.**).
- ▶ The assessment of fiscal costs and review, harmonisation, and update of the laws, regulations, and processes, to broaden the tax base and abolish and renegotiate CIT and other fiscal exemptions (**also found under 1.1.1**).
- ▶ The development of foreign investment risk assessment tools and associated capacity development, to strengthen the institutional review of investments against national development priorities (**also found under 4.2.1 and 5.3.1**).
- ▶ The review and update of regulations and processes to appraise public and private investment proposals, including the update of the investment scorecard, the systematisation of cost-benefit analyses and other evidence-based methodologies through training and technical assistance, and improvements of PPP governance and regulations (**also found under 1.2.2**).
- ▶ The strengthening of inter-ministerial processes and capacity of the National Assembly, MoF, and MPI to review large investment projects' financial schemes and expected fiscal implications, through targeted technical assistance (**also found under 1.1.1 and 1.2.2**).
- ▶ The acceleration of tax administration capacity development to increase revenue collection (**also found under 1.1.1**).
- ▶ The temporary halt on new resource extraction projects combined with the update of legislation, regulation, and processes for the future implementation of natural resources extraction projects in line with the inclusive, sustainable, and climate-resilient development pathway of the 9<sup>th</sup> NSEDP (**also found under 1.1.1, 1.2.2, and 5.3.1**).
- ▶ Following the finalisation of the current pilot phase for hospital autonomy, the development of a clear regulatory framework and guidelines to ensure the well-regulated mobilisation of private resources maintaining quality and inclusivity of health care, as well as the exploration of the costs, benefits, feasibility, relevance, and best practices to mobilise private sector resources for quality and inclusive healthcare, which would inform policies and actions to improve the business environment and investment promotion regime (**also found under 5.1.1**).
- ▶ The assessment of the costs, benefits, feasibility, relevance, and best practices to mobilise private sector resources for quality and inclusive education, which would inform policies and actions to improve the business environment and investment promotion regime (**also found under 4.1.1**).
- ▶ The formulation of policy recommendations to incentivise investments in green growth and to create a clear taxonomy for sustainable activities, which would inform policies and actions to improve the business environment and investment promotion regime (**also found under 5.3.1**).

## Policy area 4.2: illicit financial flows

### ► Policy objective 4.2.1: completing the FATF’s Mutual Evaluation and implementing the associated action plan is a first step towards curbing illicit financial flows, increasing government revenue, and improving Lao PDR’s international profile

IFF were initially not studied as part of this exercise but were found to require more attention at the first structured dialogue (October 2021) and were included in the list of policy areas of interest by MPI ahead of the High-Level RTM (November 2021). While the 9<sup>th</sup> NSEDP does not address comprehensively IFF, focusing more broadly on tackling corruption and closing revenue leakages<sup>130</sup>, the National Agenda is more explicit. One of six core directions (“enhance rule of law efficacy especially strict enforcement of laws and sub-laws, addressing corruption, improving business environment, and address inappropriate use/abuse of power by officials”), is addressed in Core Actions 2 and 5, and requires a combination of improved regulations and capacity development of relevant institutions<sup>131</sup>.

According to the WB, “*Illicit financial flows refer to cross-border movement of capital associated with illegal activity or more explicitly, money that is illegally earned, transferred, or used that crosses border*”<sup>132</sup>. IFFs affect the ability to fully collect revenue and thereby hinder economic development<sup>133</sup>. This includes the illegal acts of corruption or tax evasion, the results of illegal acts, such as smuggling and trafficking, or the use of funds for illegal purposes. The impacts IFFs are therefore threefold:

- Reduced fiscal envelope of the government for development investments: tax evasion and corruption directly reduce government revenue. UNCTAD, as part of its vulnerability assessment for Lao PDR’s LDC Graduation, quoted a study pointing to evidence of mispricing in the mineral industry. A more recent study by the National Institute for Economic Research (NIER) supported these initial results and highlighted that the customs administration lacked capacity to spot prices abnormalities.
- Illegal activities in Lao PDR negatively affect investors’ confidence, limiting the volume of FDI in the country. A report by Gan Integrity, previously the anti-corruption portal, points to challenges related to regulations including a lack of respect and awareness of the rule of law and regulation that sometimes prompts evasion of procedures to fast-track investments. Such restrictions in turn also risk further attraction of investments that do not comply with the law which can act as a disincentive for dedicated and pellucid FDI flows.
- The activities themselves and their consequences on people’s wellbeing and the environment of these activities are in direct contradiction with Lao PDR’s national development priorities.

Lao PDR is currently undertaking its Financial Action Task Force (FATF) 4<sup>th</sup> Mutual Evaluation Cycle, led by the Asia Pacific Group on Money Laundering (APG)<sup>134</sup>. The Lao PDR National Coordinating Committee for Anti Money Laundering (AML) and Counter Financing of Terrorism (CFT), through the Anti-Money Laundering Intelligence Office (AMLIO), is the focal point of this Mutual Evaluation. The latter assesses the country’s technical compliance and effectiveness in implementing the FATF’s 40 recommendations, and its progress against 11 Immediate Outcomes. APG has now completed its virtual desk-level collation of information

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<sup>130</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>131</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021)

<sup>132</sup> WB, Illicit Financial Flows brief, (2017)

<sup>133</sup> UNODC, Conducting corruption and financial investigations in Lao PDR, (2017)

<sup>134</sup> Financial Action Task Force, 4<sup>th</sup> Round Procedures, (2021)

in relation to AML/CFT legislation, practices, and policies. The on-site visit was supposed to take place in May 2022 but was delayed and took place on 12-13 September 2022. If the APG determines that Lao PDR has not satisfied all the technical and effectiveness criteria, it will provide Lao PDR with an action plan to address deficiencies, identifying both public and private sector activities Lao PDR will need to undertake to achieve a satisfactory level of technical compliance and effectiveness. A continued unsatisfactory rating of Lao PDR's technical compliance and effectiveness, within the "*observation period*" (12-18 months) could lead to the designation of Lao PDR as being subject to "*increased monitoring*", known as "*grey listing*"<sup>135</sup>, which could have a significant negative impact on Lao PDR's international profile and its ability to attract new investments.

IFF therefore threaten the completion of the national development priorities: corruption and tax evasion reduce the government's fiscal envelope, and the illegal activities themselves, from illegal trafficking, threaten the sustainable development of the country, and impact confidence in Lao PDR as a credible destination for investment. With limited data on IFFs, and a lack of a clear policy framework on the subject, the upcoming finalisation of the FATF Mutual Evaluation and its action plan can help the country to take rapid and concrete actions to address IFF.

Agreed actions to curb IFF are:

- ▶ The support to the completion of the FATF mutual evaluation to assess Lao PDR's shortcomings in mitigating money laundering and terrorist financing risks and curbing IFF and implement resulting recommendations to improve the country's compliance and effectiveness
- ▶ The acceleration of capacity development and training for the AML/CFT task force, line ministries, and law enforcement to support FATF's Mutual Evaluation and its follow-up procedures
- ▶ The development of foreign investment risk assessment tools and associated capacity development, to strengthen the institutional review of investments against national development priorities (**also found under 4.1.1 and 5.3.1**).
- ▶ A capacity needs assessment to assess challenges and opportunities to strengthen enforcement of (fiscal, environmental, forestry, wildlife) laws and regulations and improve institutional and human capacity to curb and prosecute environmental trafficking (**also found under 1.1.2. and 5.3.1**).

### **Policy 4.3: Remittances**

- ▶ **Policy objective 4.3.1: as the region reopens, rapidly defining a policy framework for remittances will help identifying actions needed to facilitate their contributions to livelihoods**

With approximately 0.9 million Lao nationals outside of Lao PDR in 2019, migration is an important livelihood strategy according to the International Organisation for Migration. Close to 10% of households receive remittances from migrant workers, which for the latter, constitute around 60% of their income. Remittances are estimated to represent 2.3% of GDP

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<sup>135</sup> Financial Action Task Force, Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems, (2021)

per year between 2016 and 2021, according to the Development Research Institute of MPI and the International Organisation for Migration (IOM)<sup>136</sup>.

As the country reopened its borders at the beginning of May 2022, it is expected that remittance levels, which fell between 2019 and early 2022, will progressively increase. The procedures put in place to accommodate labour migration, including vaccination requirements, will need to be studied appropriately, in the context of a limited regulatory framework for labour migration. The International Labour Organisation (ILO) noted that although domestic work is now a formal sector for regular migration to Thailand, currently the channels of recruitment involve 42 agencies authorised by the Ministry of Labour and Social Welfare to provide overseas job placement services. These recruitment agencies carry out recruitment, monitoring and management activities<sup>137</sup>.

The 9<sup>th</sup> NSEDP does not refer to remittances, but certain policy priorities would increase remittance flows, including:

- Safe and regular migration pathways would facilitate remittance flows: *“Improve the management of border areas, ensure measures for systematic migration; combat transnational crime, and increase the capacity of border officials”* (under Outcome 6, Public Governance and Administration, Output 3, Ensure Political Stability, Peace, and Order (...)).
- Improvements in the banking system would expedite transfers to Lao families. In particular, the 9<sup>th</sup> NSEDP states: *“modernise the system of payments and revenue collection through various systems such as mobile banking/systems (Mobile Money) (...) and the development of the digital economy”*.
- The transition from informal to formal employment. The 9<sup>th</sup> NSEDP also states the need to *“promote the creation of favourable conditions and a conducive environment, such as having regulations on the use of labour, employment of contracts, decent wages and welfare, and occupational safety and health to incentivize more workers to enter the formal labour market”*<sup>138</sup>. Formalisation of the migrant worker status would help them acquire the documentation often necessary to transfer resources from abroad into Lao PDR.

Agreed actions to facilitate remittance flows are:

- ▶ The revision of the Law on Payment Systems and other financial regulations to facilitate reliable, affordable, and safe remittance transfers (**also found under 3.2.2**).
- ▶ The acceleration of projects to increase migrant registration and formalise the migrant worker status and improve safe and regular labour migration pathways.
- ▶ The pursuit of ongoing multi-stakeholder research to understand and define a policy framework to lift constraints and reduce the costs of safe and reliable remittance transfers through an updated policy, regulatory, and financial environment, looking at best international practices (**also found under 3.2.2**).

<sup>136</sup> MPI and IOM, Remittance Landscape in Lao PDR 2022, (2022)

<sup>137</sup> ILO, Australian Aid, and Canada, Triangle in ASEAN Quarterly Briefing Note, (2022)

<sup>138</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

## Priority sectors finance

The addition of a chapter delving deeper into the financing of green growth, climate change adaptation and mitigation, and human capital development was agreed at the 2021 High-Level RTM<sup>139</sup>. This decision reflected the importance given to the achievement of environmental, climate, and human capital outcomes in the 9<sup>th</sup> NSEDP, for sustainable and irreversible LDC Graduation and the achievement of the SDGs, in the context of the COVID-19 socioeconomic impacts.

Human capital development is a key national priority, found under the 9<sup>th</sup> NSEDP second (improved quality of human resources) and third (enhanced well-being of the people) outcomes. Health (output 1) and education (output 2, outcome 2) are dedicated outputs. There are significant concerns regarding the impacts of COVID-19 on the financial sustainability of the health and education and sports systems, in addition to the enormous challenges posed to the provision of quality and inclusive access to healthcare and learning opportunities, which were already underfinanced.

Environmental and climate priorities, which are two of four key directions of the national plan, as well as a dedicated outcome, also face significant financing challenges, relying heavily on limited ODA. Managing Lao PDR's important climate vulnerability (the country ranks 137 out of 180 countries in the 2020 ND-Gain Index<sup>140</sup>, assessing climate vulnerability and readiness to adapt and mitigate impacts, ranking 38<sup>th</sup> in the list of most vulnerable, and 142<sup>nd</sup> in the list of most ready countries) will require the significant scaling-up of green and climate finance, as emphasized in the diagnostics.

Most often, and as a result of the multisectoral nature of the INFF approach, identified solutions are part of broader policies and actions mentioned under the previous chapters. The Financing Strategy for the 9<sup>th</sup> NSEDP was considered most relevant when tackling large, multi-stakeholder, and pressing issues, such as insufficient budget allocations, business environment transformation, or revenue generation. These critical actions, of specific relevance for these priority sectors, are listed below.

Then, under each policy area, objectives and contributing actions that are specific to the priority sectors are presented.

Actions found in other sections of the Financing Strategy which will require to integrate the specific concerns of the priority sectors of health, education and sports, and green growth and climate change management are:

- ▶ The harmonisation of tax rates to optimise revenue generation while fostering private sector development and investments in priority sectors and green growth, including the assessment of expected revenues generated, business registrations, administrative feasibility, and impacts on livelihoods of a potential restoration of the VAT rate to 10% **(also under 1.1.1 and 3.1.1)**.
- ▶ The acceleration of all PFM projects - e.g., IFMIS rollout, SDG, and 9th NSEDP budget-tagging, green and gender budgeting, CoA revisions – to integrate national development priorities in all stages of the budget cycle **(also found under 1.2.2 and 2.1.2)**.

<sup>139</sup> 13<sup>th</sup> High-Level Round Table Meeting Handbook: Consolidated Background Documents, (2021)

<sup>140</sup> Notre Dame Global Adaptation Initiative Index, Lao PDR, (2022) [accessed 20 September 2022]

- ▶ The simultaneous mid-term review of the 9th NSEDP, update of the Public Investment Plan currently being developed, and alignment of the medium-term expenditure framework, reviewing 2024 and 2025 budget ceilings and yearly allocations (**also found under 1.2.1 and 5**).
- ▶ The update of the State Budget Law, Public Investment Law, Public Procurement Law, and related regulations such as Decree 599/PM on austerity measures, and adoption of the PM Decree on Budget Formulation, to facilitate the formulation, execution, and monitoring of budget and investment plans in line with national development priorities (**also found under 1.2.2**).
- ▶ The review and publication, on a semi-annual basis, of the ODA-MIS database, for improved strategic planning (**also found under 2.1.1**).
- ▶ The coordination of the annual production and publication of a forward-looking matrix with all planned ODA and other aid projects, for the remainder of the 9th NSEDP (2023-2025), structured against the national plan’s outcomes and outputs (**also found under 2.1.1**).
- ▶ The multi-stakeholder review of ODA processes and procedures towards harmonisation and simplification (**also found under 2.1.2**).
- ▶ The STS prioritises (1) the mobilisation of technical assistance for the sustainable and resilient financing of development, (2) to adapt to and mitigate impacts for continued strategic mobilisation of development aid, (3) and finance priority sectors of green growth, climate change management, and social sectors (**also found under 2.2.2**).
- ▶ The multi-stakeholder formulation of a comprehensive FDI attraction and promotion strategy, which would contain (1) a FDI policy statement that clarifies Lao PDR’s strategic vision for FDI promotion and attraction, (2) the review of the Investment Promotion Law and SEZ regulations (3) the cost-benefit analysis and proposed reforms of the current incentive regime’s laws and regulations, prioritising targeted fiscal incentives for priority sectors (social sectors and green growth) and non-fiscal incentives and (4) reforms of the business environment, notably for facilitated entry and increased investor protection, all guided by international standards through technical assistance (**also found under 1.1.1 and 4.1.1**).

## Policy area 5.1: health finance

- ▶ **Policy area 5.1.1: health priorities are financed through sustainably increasing budget allocations for quality and inclusive essential health services, enhanced allocative efficiency of all public funding, and the regulated mobilisation of private resources**

Health and nutrition (more inclusive and better-quality healthcare) constitute a dedicated output under the second outcome (Improved quality of human resources), in which the priority is to achieve the UHC goal by 2025, with a dedicated focus on “*Strengthen(ing) and ensur(ing) the sustainability of the health financial system including small hospitals*”<sup>141</sup>. In addition, health is a priority investment sector as per the third output (Investment quality and effectiveness enhanced) of Outcome 1 (Continuous quality, stable and sustainable economic growth achieved).

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<sup>141</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

The 9<sup>th</sup> Health Sector Development Plan and updated Health Sector Reform Strategy both have a strong commitment towards achieving Universal Health Coverage through strengthening Primary Health Care.

The Health Financing Strategy 2021-2025 was developed to provide strategic directions and priorities to resolve major issues affecting the sustainable financing of the health sector and impeding progress towards health outcomes. Two issues are of significant importance for the 9<sup>th</sup> NSEDP Financing Strategy.

Firstly, domestic funding for health has been consistently below needs. It has never exceeded 3% of GDP, which is the lowest figures amongst ASEAN countries<sup>142</sup>. Simply achieving the regional average would require the tripling of domestic government health expenditure. With the economic downturns due to the impact of the COVID-19 pandemic, budget cuts to central (30%) and provincial (10%) levels from 2020 have worsened the situation<sup>143</sup>. Attempts at strengthening the budget funding from the health sector have not been successful. In a context of limited fiscal space affecting all sectors, the potential of a tobacco tax to direct resources to the health sector is challenged to the centralisation of the budget process, which does not allow for the allocation of specific proceeds from specific taxes to specific budget lines. ODA remains a major contributor to health financing but faces the prospect of key donor transitions, including GAVI, the Vaccine Alliance, with regards to the immunization programme. Co-financing, which would help to safeguard ODA, appears challenging in the current fiscal context.

Secondly, lack of accountability in the health sector and suboptimal PFM have limited the allocative efficiency of health investments.

Against this backdrop, the Health Financing Strategy 2021-2025 was built on four guiding principles:

- Financial sustainability through increased domestic financing (implying an increase in broader revenue mobilisation) and improved ODA targeting and coordination;
- Financial accountability through improved PFM;
- Enhanced efficiency in allocation of budget and human resources across health facilities and vertical programmes, and focus on primary health care;
- Equity to ensure access to health services to all, with a focus on the poorest and most vulnerable.

It also has three core directions:

- “Taking ownership”, for more sustainable domestic funding for health, and more accountable and transparent PFM.
- “Doing the right things”, for increased efficiency in allocation of resources.
- “Doing things the right way”, for more efficient health service delivery and strategic purchasing of health services<sup>144</sup>.

The single most important priority of the Health Financing Strategy is therefore to increase the share and the volume of domestic public funding, which will be dependent on the expansion of the revenue base. Nonetheless, steps to increase allocative efficiency are also

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<sup>142</sup> WB, Current health expenditure (% of GDP) – East Asia & Pacific, (2022) [accessed 20 September, 2022]

<sup>143</sup> Shared in discussions at technical workshops, 11-12 August, 2022.

<sup>144</sup> Ministry of Health of Lao PDR, Health Financing Strategy 2021-2025 and Vision 2030, (2021)

important in the context of limited fiscal space. Improvements in the volume and returns of resources can help to mobilise ODA strategically, in the context of increasingly tangible co-financing requirements. The mobilisation of complementary private resources through increased hospital autonomy is one priority for the health sector, although challenges to equitable and inclusive access to healthcare for the poor and vulnerable should be addressed to achieve UHC. Developing a clear guidance and regulatory framework for the mobilisation of private resources should be considered.

Agreed policies and actions to finance health priorities are:

- ➔ The study of the costs, benefits, feasibility, and relevance of environmental fiscal reform (e.g., carbon tax), sin taxes, and other pre-market interventions, to simultaneously influence behaviours and development outcomes, and generate resources for priority sectors, with careful consideration of the current capacity of the tax administration and centralisation of the budget process **(also found under 1.1.1 and 5.3.1)**.
- ➔ Following the finalisation of the current pilot phase for hospital autonomy, the development of a clear regulatory framework and guidelines to ensure the well-regulated mobilisation of private resources maintaining quality and inclusivity of health care, as well as the exploration of the costs, benefits, feasibility, relevance, and best practices to mobilise private sector resources for quality and inclusive healthcare, which would inform policies and actions to improve the business environment and investment promotion regime.
- ➔ The exploration of the relevance and institutional feasibility of increased budget autonomy for the National Health Insurance Bureau, towards a semi-autonomous status.
- ➔ The conclusion of discussions with bilateral and multilateral partners for continued ODA and/or budget support during the 9th NSEDP cycle, conditioned to marked improvements to fiscal policy and PFM, which would generate fiscal space for co-financing in the next planning cycle **(also found under 5.3.1)**.
- ➔ The systematisation and adaptation, in priority sectors faced with hard budget constraints, of cost-benefit analysis and other methods to optimise the utilisation of limited budget allocations **(also found under 5.2.1 and 5.3.1)**.

## Policy area 5.2: education finance

- ▶ **Policy area 5.2.1: education and sports priorities are financed through sustainably increasing budget allocations, the enhanced allocative efficiency of all public funding, and the regulated mobilisation of private resources**

In the 9<sup>th</sup> NSEDP, the education sector is considered a priority investment sector in the third output (Investment quality and effectiveness enhanced) of Outcome 1 (Continuous quality, stable and sustainable economic growth achieved), and is listed as a focus area for private investments and PPPs. Education is the second output (improved quality and access to education) under the second outcome (improved quality of human resources) of the 9<sup>th</sup> NSEDP and prioritises primary education. There is no specific focus on the financing of these priorities in the national plan<sup>145</sup>.

The 9<sup>th</sup> NSEDP is complemented by the Education and Sports Sector Development Plan (ESSDP), which formulates eight high-level sectoral outcomes:

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<sup>145</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

- High-Level Outcome 1: Increased number of graduates from early childhood education to upper secondary education, including Non-Formal Education, with improved learning outcomes, particularly literacy and numeracy skills but also other 21<sup>st</sup> century skills, with special focus on disadvantaged and gender equity;
- High-Level Outcome 2: Increased number of knowledgeable and competent teachers and principals meeting the teaching standards that are used to inform their professional development with regular performance assessment;
- High-Level Outcome 3: All schools have the financial and human resources to function effectively and efficiently, alongside strengthened management capacity to enable improved student learning outcomes;
- High-Level Outcome 4: Increased adult and youth literacy rates with reduced disparities related to gender, poverty, ethnicity, disability and location;
- High-Level Outcome 5: The quality and number of school leavers and post-basic graduates entering employment, both nationally and regionally is aligned with the needs of the 9<sup>th</sup> NSEDP and graduation from Least Developed Country status;
- High-Level Outcome 6: Education sector is appropriately organised, managed, resourced, monitored and assessed at all levels to efficiently and effectively further improve sector performance;
- High-Level Outcome 7: Disparities are reduced through a supporting ESSDP financing plan that directly addresses relevant output targets, considering the context of real resource and capacity constraints;
- High-Level Outcome 8: The physical and mental well-being of Lao citizens is maintained; sports personnel, amateur and professional athletes meet the standards of athletic performance, and contribute to promoting Laos on the international stage, bringing pride to all its people<sup>146</sup>.

The impacts of the COVID-19 pandemic on the education outcomes have been significant. Unequal disruptions of schools' activities across the country have exacerbated already suboptimal student learning outcomes, increased learning poverty that may never be recovered, and reinforced gender inequalities, in particular in already vulnerable communities<sup>147</sup>. As most households point to financial constraints as the single most important explanation for school dropouts, ensuring quality and inclusive education is a priority.

The addition of a dedicated policy area on education finance is justified by these important impacts for a generation of Lao children and the simultaneous underfunding of the sector, which was already unable to finance the education and sports priorities pre-COVID-19, both acknowledged in the national statement of Lao PDR to the Transforming Education Summit. In fact, the ESSDP, aligned with the 9<sup>th</sup> NSEDP, contains a dedicated costing and financing chapter, in order to address the chronic underfunding of a sector that employs the largest number of civil servants and is critical for LDC Graduation and the SDGs achievement. Previous education plans have fallen short of expectations due to the budget constraints, with remaining disparities in access to quality education and teacher training directly caused by lack of resources, notably to train teachers.

MoES notes that desired outcomes may not be realised *“if the financing share of the Government of Lao PDR budget to education remains at levels similar to that during the period*

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<sup>146</sup> Ministry of Education and Sports, Education and Sports Sector Development Plan 2021-2025, (2020)

<sup>147</sup> World Bank, UNICEF, and UNESCO, The State of the Global Education Crisis – a path to recovery?, (2021)

2016-2020”<sup>148</sup>, and consequently prepared two budget plans (a steady state scenario and an enhanced quality scenario), reflecting uncertainty under a hard budget constraint. Additionally, the ESSDP has two clear policy priorities regarding funding: “*securing a fair share of the State budget*”<sup>149</sup>, at 18% of the total budget, in line with the law and internationally recommended benchmarks, and “*improving allocative efficiency*”<sup>150</sup>. ODA, which has significantly contributed to education outcomes, requires improved strategic planning and coordination between partners, to ensure that access to quality education progresses everywhere in Lao PDR<sup>151</sup>.

The improvement of allocative efficiency within the education and sports sector, which would support better returns on investment, is challenged by the decentralisation, at the ministerial level and below, of expenditure management, and shortcomings of the CoA and budget tracking systems.

The development of private schools is identified by officials and specialists as positive, but not unlike privatisation dynamics in the health sector, requires careful regulation to ensure equitable access to education and learning opportunities. Currently, FDI in the education sector are almost zero. To ensure the ongoing development of education therefore, it is necessary to mobilise resources from a variety of sources, including international organisations, development partners, the private sector, the local community, and parents alike.

Agreed policies and actions to finance education and sports priorities include:

- ➔ The exploration of specific changes required to the laws, regulations, processes, and CoA to facilitate centralised planning, prioritisation, and budgeting of the education and sports sector and improved allocative efficiency of public funding, in the context of limited fiscal space.
- ➔ The assessment of the costs, benefits, feasibility, relevance, and best practices to mobilise resources from international organisations, development partners, the private sector, the local community, and parents for quality and inclusive education, which would inform policies and actions to improve the business environment and investment promotion regime.
- ➔ The systematisation and adaptation, in priority sectors faced with hard budget constraints, of cost-benefit analysis and other methods to optimise the utilisation of limited budget allocations (**also found under 5.1.1 and 5.3.1**).

### Policy area 5.3: green and climate finance

- **Policy objective 5.3.1: green growth and climate-resilient development are financed through sustainably increasing budget allocations, improved green budgeting, strategic mobilisation of ODA, and increasing private investments in an enabling business environment.**

As mentioned, sustainability and climate change management are critical priorities of the 9<sup>th</sup> NSEDP<sup>152</sup>. The National Agenda<sup>153</sup>, while primarily concerned with pressing economic

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<sup>148</sup> Ibid.

<sup>149</sup> Ibid.

<sup>150</sup> Ibid.

<sup>151</sup> Shared in discussions at technical workshops, 11-12 August, 2022.

<sup>152</sup> Government of Lao PDR, 9<sup>th</sup> NSEDP official translation, (2021)

<sup>153</sup> Government of Lao PDR, National Agenda on Economic and Financial Difficulties, (2021)

and financial difficulties, notes that all projects must minimise environmental impacts. These national directions are specified by the Green Growth Strategy<sup>154</sup>, the 2021 NDCs<sup>155</sup>, specifying Lao PDR's commitments against the Paris Agreement, as well as the draft National Strategy on Climate Change.

Because the costs of green growth and climate change are significant<sup>156</sup>, contributions from all sources of finance will be required. Required changes to green domestic public finance are in particular significant:

- With currently significantly lower budget allocations to environmental protection and climate change (MoNRE) compared with those provided to resources sectors (MEM)<sup>157</sup>, and many public investment projects in unsustainable sectors, reviewing the distribution and focus of expenditures (both recurrent and capital) will be imperative. In the overarching attempt to relink planning and budgeting, green budgeting can support the assessment of the environmental impacts of fiscal policy as well as facilitating costing of environmental and climate priorities for more evidence-based budget allocations. Additionally, green procurement can support the mainstreaming of sustainability priorities through the recurrent expenditures.
- Revenue generation in Lao PDR (natural resources royalties represented 5-10% of total revenue) was also a source of environmental concern<sup>158</sup>. As identified in the second policy objective of the Financing Strategy<sup>159</sup>, fiscal policy changes will largely be based on the expansion of the revenue base, while revenue-generating resources extraction projects will require strict environmental safeguards.
- Moreover, the achievement of environmental and climate priorities can be supported by innovative approaches to fiscal policy. The Green Growth Strategy specifically prioritises environmental fiscal reform and pre-market interventions and financial policies to support responsible production and consumption<sup>160</sup>. Environmental fiscal reform, notably carbon taxation, is to be explored in the context of Lao PDR to internalise the cost of pollution and support the clean energy transition. Debt for nature swap proposals, which can unlock resources otherwise destined for interest repayments, can be integrated into broader negotiation strategies to alleviate the debt burden<sup>161</sup>. Green bonds could later be explored as a tool to mobilise affordable resources for specific activities, subject to managing overall debt liabilities. In the short-term, budget support for climate-resilient development, under conditions of credible macroeconomic policies and PFM, will be explored. Emissions trading schemes could also generate significant amount of revenues for Lao PDR, monetising and marketing the right to pollute, but will require the development of guidelines, procedures, systems, and capacity development, and should be considered at the regional level to be cost-effective.

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<sup>154</sup> MPI, National Green Growth Strategy of the Lao PDR till 2030, (2021)

<sup>155</sup> Government of Lao PDR, Nationally Determined Contributions, (2021)

<sup>156</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Costing National Development Priorities – Investment Needs across the 9<sup>th</sup> NSEDP - References, (2021)

<sup>157</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Financing National Development Priorities, (2021)

<sup>158</sup> Ibid.

<sup>159</sup> See 1.1.2 revenue generation does not compromise the 9<sup>th</sup> NSEDP environmental sustainability directions and priorities.

<sup>160</sup> MPI, National Green Growth Strategy of the Lao PDR till 2030, (2021)

<sup>161</sup> UNDP, Unlocking fiscal space for biodiversity and climate financing in Lao PDR, (2021)

- As presented under 4.2 (IFF), potential revenues escape from the State budget. Curbing illegal environmental trafficking (e.g., wildlife, timber) would not only generate revenues, but also improve chances to safeguard biodiversity.

With limited budget allocations, ODA has played a crucial role. Maintaining important ODA levels will be important in the context of limited fiscal space and will require more strategic planning and predictability<sup>162</sup>. Lao PDR does not currently have any national accredited entity to the international vertical funds. Accelerating the ongoing process to establish the Environment Protection Fund (EPF), and progressively, other national funds, as a national accredited entity could support strategic planning of ODA. Technical assistance to the EPF and MoNRE to directly access and develop project design, data production and analysis, and monitoring, reporting, and verifying capacity will be critical. However, due to the known challenges to meet requirements for proposals, it is unlikely that the EPF will be able to access vertical funds within the 9<sup>th</sup> NSEDP cycle. Therefore, strengthened collaboration and cooperation between the various accredited DPs could facilitate synergies and reduce redundancies between programmes and projects.

While attracting private resources could only represent a secondary objective in the health and education and sports sectors, the costs of green growth and climate change mitigation lend themselves more easily to contributions from the private sector (e.g., energy efficiency, renewable energy, or green infrastructure development)<sup>163</sup>. However, in addition to the identified shortcomings of the current investment promotion regime, lack of appropriate incentives and of a clear taxonomy for sustainable activities, the weaknesses of environmental standards and challenges to their enforcements, and the lack of a clear screening process for investments, were considered obstacles to green FDI.

Agreed actions to finance environmental and climate priorities are:

- ➔ The study of the costs, benefits, feasibility, and relevance of environmental fiscal reform (e.g., carbon tax), sin taxes, and other pre-market interventions, to simultaneously influence behaviours and development outcomes, and generate resources for priority sectors, with careful consideration of the current capacity of the tax administration and centralisation of the budget process (**also found under 1.1.1 and 5.1.1**).
- ➔ The temporary halt on new resource extraction projects combined with the update of legislation, regulation, and processes for the future implementation of natural resources extraction projects in line with the inclusive, sustainable, and climate-resilient development pathway of the 9<sup>th</sup> NSEDP (**also found under 1.2.1, 1.2.2, and 4.1.1**).
- ➔ The development of procurement guidelines for line ministries, and the systematisation of green procurement practices across all government, as well as capacity development (**also found under 1.2.2**).
- ➔ The capacity development of national funds and establishment of the EPF as the first Accredited Entity for Lao PDR, combined with strengthened collaboration between DPs currently accredited to vertical funds, for strategic green ODA programmes and projects
- ➔ The formulation of policy recommendations to incentivise investments in green growth and to create a clear taxonomy for sustainable activities, which would inform policies and

<sup>162</sup> See International Public Finance.

<sup>163</sup> MPI and UN, Structured Dialogue 1: Diagnostics – Costing National Development Priorities – Investment Needs across the 9<sup>th</sup> NSEDP - References, (2021)

actions to improve the business environment and investment promotion regime (**also found under 4.1.1**).

- The study of the feasibility and relevance of carbon credits and emissions trading schemes, and potential policies and actions to finance biodiversity protection.
- A capacity needs assessment to assess challenges and opportunities to strengthen enforcement of (fiscal, environmental, forestry, wildlife) laws and regulations and improve institutional and human capacity to curb and prosecute environmental trafficking (**also found under 1.1.2 and 4.2.1**).
- The continuation of debt consolidation through renegotiations to (1) cancel or reduce debt repayments and/or lengthen the maturity of loans to the second half of the 2020s without losing access to future loans and (2) explore debt swaps with major creditors (**also found under 1.3.1**).
- The systematisation and adaptation, in priority sectors faced with hard budget constraints, of cost-benefit analysis and other methods to optimise the utilisation of limited budget allocations (**also found under 5.1.1 and 5.1.2**).
- The preparation of a medium-term debt issuance and management strategy, including the long-term exploration of green bonds, assuming the progressive return to a more manageable financial situation allowing for debt issuance (**also found under 1.3.2**).
- The development of foreign investment risk assessment tools and associated capacity development, to strengthen the institutional review of investments against national development priorities (**also found under 4.1.1 and 4.2.1**).
- The conclusion of discussions with bilateral and multilateral partners for continued ODA and/or budget support during the 9<sup>th</sup> NSEDP cycle, conditioned to marked improvements to fiscal policy and PFM, which would generate fiscal space for co-financing in the next planning cycle (**also found under 5.1.1**).
- The formulation of policy recommendations to improve the environmental sustainability of the financial sector (**also found under 3.2.2**).

## Implementation arrangements

In order to ensure a successful implementation of policies and actions in a multi-stakeholder setting, guided by the information provided by the regular monitoring and evaluation of progress, the Government of Lao PDR, with the support of the UN, discussed and identified specific implementation arrangements (notably at a dedicated workshop on September 1<sup>st</sup> and 2<sup>nd</sup> 2022) based on the following criteria:

- While the INFF guidance suggests the establishment of a dedicated INFF committee, linked to the national planning coordination mechanism, the Government of Lao PDR preferred to use and repurpose already existing coordination mechanisms, to avoid the delays generated by the formulation of Terms of Reference, the identification of chairs, and of the adequate human and financial capacity to prepare agendas and meetings;
- For every policy and action, were identified:
  - A single department lead, every time this was possible, for efficient management of implementation within existing configurations;
  - Other government entities that need to be involved;
  - The identification of the most relevant coordination mechanism(s), with, as relevant, recommendations for updates;
  - Means of verification and indicators (where relevant);
  - The timeframe.

These various elements are summarised in this chapter and detailed in the action and monitoring and evaluation matrices<sup>164</sup>.

### Governance and coordination

The Financing Strategy's implementation is led by the Government of Lao PDR, and more specifically, by eight different ministries and entities (MPI, MoF, BoL, MoNRE, MoIC, MoES, MoH, MoFA), and around twenty different departments.

Among 54 policies and actions:

- 60% are new actions, while 40% are already being implemented;
- 60% are relevant for at least two policy areas (28% for more than two policy areas);
- 90% require the involvement of more than one government department;
- Moreover, most actions receive financial and technical assistance support, which will require efficient coordination with DPs, and many under the Private Finance chapters will require to associate the private sector.

These figures emphasize the necessity to define relevant governance and coordination mechanisms for a successful implementation.

Moreover, the 9<sup>th</sup> NSEDP Financing Strategy's dual objective – increasing the volume of development finance or the alignment of resources to national development priorities – is answered by several dedicated actions (a quarter of the total) aiming at strengthened governance and coordination arrangements (Table 3), and some looking at the pursuit or conclusion of negotiations, or the multi-stakeholder formulation of new policies, which must be supported by

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<sup>164</sup> See Annexes 2 and 3.

dedicated multi-stakeholder engagement (Table 4). MPI identified, in this context, 7 existing coordination mechanisms best capable to coordinate the implementation and monitor progress of the Financing Strategy (Table 5).

### **Monitoring and evaluation**

The monitoring and evaluation system for the 9<sup>th</sup> NSEDP Financing Strategy is to be undertaken at least annually and is threefold:

1. Regular monitoring and evaluation of progress is directly undertaken by the lead entities for the action(s) they are in charge of. This means that ministries and departments are expected to integrate these policies and actions within their workplans;
2. Annual or semi-annual evaluation of progress is led by the 7 coordination mechanisms listed above, most importantly through the MPI-MoF meetings, which oversee the implementation of the most important actions of the Financing Strategy;
3. The Financing Strategy, as part of the 9<sup>th</sup> NSEDP package, is to be evaluated systematically through the national planning cycle process led by the Department of Planning of MPI, in 2023 (through the Mid-Term Review of the 9<sup>th</sup> NSEDP) and in 2025 (through the final evaluation of the 9<sup>th</sup> NSEDP).

To facilitate the monitoring and evaluation process, the action matrix (annex 3) is equipped with an addition column specifying means of verification and indicators (where relevant).

### **Development assistance**

Many policies and actions already being implemented and prioritised through the Financing Strategy receive financial and technical support from a wide range of partners. To ensure the re-alignment, as relevant, of existing programmes and projects, and the development of new initiatives in support of the achievement of this strategy, the Government of Lao PDR is committed to:

- As mentioned under the International Public Finance chapter, using the SWGs and RTP to guide development work in line with the country's policy directions on development finance.
- At the end of 2022 in particular, the Government of Lao PDR will organise, under the leadership of MPI, a Round Table Implementation Meeting, which will offer an opportunity to gather financial and technical support to implement the Financing Strategy within the next three years, in particular from those DPs that expressed interest in this work through the formulation phase.
- MoFA is also expected, as per the agreed action under 2.2 LDC Finance, to mobilise DPs' support in the context of upcoming LDC Graduation, including for the implementation of the Financing Strategy.

**Table 3 – Governance and coordination policies and actions of the Financing Strategy**

<ul style="list-style-type: none"><li>• The simultaneous mid-term review of the 9th NSEDP, update of the Public Investment Plan currently being developed, and alignment of the medium-term expenditure framework, reviewing 2024 and 2025 budget ceilings and yearly allocations</li></ul>
<ul style="list-style-type: none"><li>• The acceleration of projects to synchronise and sequence the quinquennial, multi-year, and annual national planning and budgeting processes, for cycles of financially sound national planning as per the INFF approach</li></ul>
<ul style="list-style-type: none"><li>• The convening of a National Conference on PFM to disseminate recent legal and regulatory updates and take stock of progress towards an evidence-based budget cycle and expenditures aligned with national development priorities</li></ul>
<ul style="list-style-type: none"><li>• The continuation of debt consolidation through renegotiations to (1) cancel or reduce debt repayments and/or lengthen the maturity of loans to the second half of the 2020s without losing access to future loans and (2) explore debt swaps with major creditors</li></ul>
<ul style="list-style-type: none"><li>• The coordination of the annual production and publication of a forward-looking matrix with all planned ODA and other aid projects, for the remainder of the 9th NSEDP (2023-2025), structured against the national plan’s outcomes and outputs</li></ul>
<ul style="list-style-type: none"><li>• The multi-stakeholder review of the RTP and SWGs, for inclusive partnerships mechanisms facilitating the joint evidence-based strategic planning and delivery of ODA programmes contributing to the 9th NSEDP outcomes, anticipating transition for ODA-reliant sectors</li></ul>
<ul style="list-style-type: none"><li>• The multi-stakeholder review of the MoU approval process leading to regulatory updates and the development and dissemination of clear procedures and templates</li></ul>
<ul style="list-style-type: none"><li>• The multi-stakeholder review of ODA processes and procedures towards harmonisation and simplification.</li></ul>

**Table 4 – Policies and actions with multi-stakeholder implementation**

<ul style="list-style-type: none"><li>• The continuation of debt consolidation through renegotiations to (1) cancel or reduce debt repayments and/or lengthen the maturity of loans to the second half of the 2020s without losing access to future loans and (2) explore debt swaps with major creditors</li></ul>
<ul style="list-style-type: none"><li>• The multi-stakeholder formulation of a medium-term ODA strategic mobilisation plan (2024-2025), aligned with the 9th NSEDP mid-term review, 2030 ODA strategy and medium-term expenditure framework, highlighting priority sectors for ODA, and encouraging joint approaches</li></ul>
<ul style="list-style-type: none"><li>• The STS prioritises (1) the mobilisation of technical assistance for the sustainable and resilient financing of development, (2) to adapt to and mitigate impacts for continued strategic mobilisation of development aid, (3) and finance priority sectors of green growth, climate change management, and social sectors</li></ul>
<ul style="list-style-type: none"><li>• A public-private dialogue to increase research and policies on an enabling environment and incentives for MSME (1) development in priority sectors, (2) integration with regional and international value chains, and (3) responsible business practices</li></ul>
<ul style="list-style-type: none"><li>• The acceleration of projects to strengthen financial risk management regulations and procedures and consolidate the banking sector, considering current macroeconomic and monetary risks</li></ul>
<ul style="list-style-type: none"><li>• The multi-stakeholder formulation of a comprehensive FDI attraction and promotion strategy, which would contain (1) a FDI policy statement that clarifies Lao PDR's strategic vision for FDI promotion and attraction, (2) the review of the Investment Promotion Law and SEZ regulations (3) the cost-benefit analysis and proposed reforms of the current incentive regime's laws and regulations, prioritising targeted fiscal incentives for priority sectors (social sectors and green growth) and non-fiscal incentives and (4) reforms of the business environment, notably for facilitated entry and increased investor protection, all guided by international standards</li></ul>
<ul style="list-style-type: none"><li>• The conclusion of discussions with bilateral and multilateral partners for continued ODA and/or budget support during the 9th NSEDP cycle, conditioned to marked improvements to fiscal policy and PFM, which would generate fiscal space for co-financing in the next planning cycle</li></ul>

**Table 5 – Coordination mechanisms for implementation**

Mechanism	Role
MPI-MoF meetings	<ul style="list-style-type: none"> <li>• To coordinate implementation and monitor progress of most actions under 1. Domestic Public Finance</li> <li>• Frequency of meetings increases from once to twice a year</li> </ul>
NSEDP coordination (MPI)	<ul style="list-style-type: none"> <li>• To coordinate and monitor the integration of planning (NSEDP, PIP) and financing (MTEF, yearly allocations) frameworks</li> <li>• To review progress of the entire Financing Strategy in 2023 (through the Mid-Term Review process) and 2025 (through the final evaluation of the 9<sup>th</sup> NSEDP)</li> </ul>
National Steering Committee on PFM (MoF)	<ul style="list-style-type: none"> <li>• To coordinate implementation of and monitor PFM reforms</li> <li>• Should be convened annually in the margins of the RTM</li> </ul>
RTP/ SWGs (MPI)	<ul style="list-style-type: none"> <li>• To offer a forum to consult DPs and coordinate ODA in support of the Financing Strategy implementation, through the 2023, 2024, and 2025 RTM</li> </ul>
VDCAP Secretariat (MPI)	<ul style="list-style-type: none"> <li>• To coordinate implementation and monitor progress of efficiency and effectiveness of ODA</li> </ul>
LDC Committee (MoFA)	<ul style="list-style-type: none"> <li>• To coordinate the formulation of the LDC STS</li> </ul>
Lao Business Forum (MoIC)	<ul style="list-style-type: none"> <li>• To coordinate implementation and monitor progress of most actions under 3. Domestic Private Finance, and 4. International Private Finance</li> <li>• To offer a forum to consult the private sector</li> </ul>

## Annex 1: Chapters, Policy Areas, and Objectives

Source of finance	Policy area	Policy objective
<b>1. Domestic Public Finance</b>	<b>1.1 Revenue mobilisation</b>	1.1.1: State revenues primarily increase through a fiscal policy shift to broaden the tax base, in line with inclusive growth priorities
		1.1.2: revenue generation does not compromise the 9th NSEDP environmental sustainability directions and priorities
	<b>1.2 Expenditure Management</b>	1.2.1: 2023-2025 budget allocations and public investments, at the national and local level, and in all sectors, support the achievement of the 9th NSEDP
		1.2.2: transparent and modern PFM improves the allocative efficiency and 9th NSEDP-alignment of the budget
	<b>1.3 Debt Management</b>	1.3.1: immediate debt relief is needed to free fiscal space for development investments
		1.3.2: transparent and evidence-based debt management will progressively create the conditions for sustainable debt issuance
<b>2. International Public Finance</b>	<b>2.1 ODA predictability, efficiency, and effectiveness</b>	2.1.1: the efficiency and effectiveness of ODA increases through enhanced planning, monitoring, and coordination
		2.1.2: ODA delivery can accelerate through harmonization and simplification of regulations and the management of the absorptive capacity of national entities
	<b>2.2 LDC Finance</b>	2.2.1: urgently mobilise LDC-specific funds to finance national development priorities
		2.2.2: prioritise financing sustainability in the forthcoming LDC Graduation STS
<b>3. Domestic Private Finance</b>	<b>3.1 Business Environment for MSMEs</b>	3.1.1: improve the business environment to unlock domestic private finance flows in priority sectors
	<b>3.2 Financial Inclusion</b>	3.2.1: increase access to finance for MSME development
		3.2.2: improve the financial sector's sustainability and credit availability for priority investments in line with macroeconomic stabilisation priorities

<b>4. International Private Finance</b>	<b>4.1 FDI</b>	4.1.1: quality FDI contributing to national development priorities increase through a focused investment promotion strategy based on non-fiscal incentives and reforms of the business environment
	<b>4.2 Illicit Financial Flows</b>	4.2.1: completing the FATF’s Mutual Evaluation and implementing the associated action plan is a first step towards curbing IFF, increasing government revenue, and improving Lao PDR’s international profile
	<b>4.3 Remittances</b>	4.3.1: as the region reopens, rapidly defining a policy framework for remittances will help identifying actions needed to facilitate their contributions to livelihoods
<b>5. Priority Sectors Finance</b>	<b>5.1 Health Finance</b>	5.1.1: health priorities are financed through sustainably increasing budget allocations for quality and inclusive essential health services, enhanced allocative efficiency of all public funding, and the regulated mobilisation of private resources
	<b>5.2 Education Finance</b>	5.2.1: education and sports priorities are financed through sustainably increasing budget allocations, the enhanced allocative efficiency of all public funding, and the regulated mobilisation of private resources
	<b>5.3 Green and Climate Finance</b>	5.3.1: green growth and climate-resilient development are financed through sustainably increasing budget allocations, improved green budgeting, strategic mobilisation of ODA, and increasing private investments in an enabling business environment.

## Annex 2: action matrix

No	Action	Main objective	Type of action	Status	GoL Lead	GoL department lead(s)	Coordination	Other involved entity	To implement by	Related to
<b>1.1 Revenue mobilisation</b>										
1.1.1: State revenues primarily increase through a fiscal policy shift to broaden the tax base, in line with inclusive growth priorities										
1	The assessment of fiscal costs and review, harmonisation, and update of the laws, regulations, and processes, to broaden the tax base and abolish and renegotiate CIT and other fiscal exemptions	Increase the volume of development finance	Laws and regulations	New action	MoF	Fiscal Policy Department (MoF) and Tax Department (MoF)	MPI-MoF meetings	Investment Promotion Department (MPI) Tax Department (MoF)	Q4 2023	4.1.1
2	The strengthening of inter-ministerial processes and capacity of the National Assembly, MoF, and MPI to review large investment projects' financial schemes and expected fiscal implications	Increase volume and alignment	Multiple	New action	NA MoF MPI	Planning, Financing and Audit Committee (NA) External Finance Department (MoF) Planning Department (MPI)	MPI-MoF meetings NA consultations	Investment Promotion Department (MPI)	Q4 2025	1.2.2 4.1.1
3	The acceleration of projects to modernise and digitalise tax	Increase the volume of development finance	Tools and IT systems	Being implemented	MoF	Tax Department (MoF)	MPI-MoF meetings		Q4 2025	3.1.1 3.2.1

	systems, facilitating e-registration and e-payment, and facilitate formalisation to improve the performance of tax collection									
4	The dissemination of tax law and regulations of businesses and broader societal awareness raising of tax for development	Increase the volume of development finance	Capacity development	New action	MoF	Tax Department (MoF)	Lao Business Forum	Enterprise Registration and Management Department (MoIC)	Q4 2025	
5	The harmonisation of tax rates to optimise revenue generation while fostering private sector development and investments in priority sectors and green growth, including the assessment of expected revenues generated, business registrations, administrative feasibility, and impacts on livelihoods of a potential increase	Increase the volume of development finance	Financing instrument	New action	MoF	Fiscal Policy Department (MoF) and Tax Department (MoF)	MPI-MoF meetings Lao Business Forum	Tax Department (MoF) SME Fund and Enterprise Registration and Management Planning (MoIC) Planning Department (MPI)	Q4 2024	3.1.1 5.1.1 5.2.1 5.3.1

	of the VAT rate from 7% to 10%									
6	The acceleration of tax administration capacity development to increase revenue collection	Increase the volume of development finance	Capacity development	Being implemented	MoF	Tax Department (MoF)	MPI-MoF meetings		Q4 2025	
7	The regulation of revenues from rapidly growing sectors, such as e-commerce and cryptocurrency mining and trading	Increase the volume of development finance	Laws and regulations	Being implemented	MoF	Fiscal Policy Department (MoF)	MPI-MoF meetings	Tax Department (MoF) State Asset Management (MoF) MoTC MoIC	Q4 2023	
1.1.2: revenue generation does not compromise the 9th NSEDP environmental sustainability directions and priorities										
8	The temporary halt on new resource extraction projects combined with the update of legislation, regulation, and processes for the future implementation of natural resources extraction projects in line with the inclusive, sustainable, and climate-resilient development	Increase alignment to 9th NSEDP	Laws and regulations	New action	MPI	Investment Promotion Department (MPI)	MPI-MoF meetings NA consultations	Planning Department (MPI) Planning and Finance Departments (line ministries)	Q4 2023	1.1.2 4.1.1 5.3.1

	pathway of the 9th NSEDP									
1.2.1: 2023-2025 budget allocations and public investments, at the national and local level, and in all sectors, support the achievement of the 9th NSEDP										
9	The simultaneous mid-term review of the 9th NSEDP, update of the Public Investment Plan currently being developed, and alignment of the medium-term expenditure framework, reviewing 2024 and 2025 budget ceilings and yearly allocations	Increase volume and alignment	Governance, processes, and coordination	New action	MPI MoF	Planning Department (MPI) State Budget Department (MoF)	DOP/MPI coordination MPI-MoF meetings	Planning and Finance Departments (line ministries)	Q4 2023	5.1.1 5.2.1 5.3.1
10	The reassessment and possible termination of all public and public-private investment projects that are not in line with the 9th NSEDP priorities or are experiencing increasing costs and delays weighing on the State budget	Increase alignment to 9th NSEDP	Laws and regulations	New action	MPI	Planning Department (MPI)	MPI-MoF meetings	State Budget Department (MoF) Planning and Finance Departments (line ministries)	Q4 2023	1.3.1
1.2.2: transparent and modern public financial management improves the allocative efficiency and 9th NSEDP-alignment of the budget										

11	The acceleration of projects to synchronise and sequence the quinquennial, multi-year, and annual national planning and budgeting processes, for cycles of financially sound national planning as per the INFF approach	Increase alignment to 9th NSEDP	Governance, processes, and coordination	New action	MPI MoF	Planning Department (MPI) State Budget Department (MoF)	MPI-MoF meetings	Planning and Finance Departments (line ministries)	Q4 2025	
12	The update of the State Budget Law, Public Investment Law, Public Procurement Law, and related regulations such as Decree 599/PM on austerity measures, and adoption of the PM Decree on Budget Formulation, to facilitate the formulation, execution, and monitoring of budget and investment plans in line with national development priorities	Increase alignment to 9th NSEDP	Laws and regulations	Being implemented	MPI MoF	Planning Department (MPI) State Budget Department (MoF)	MPI-MoF meetings	Planning and Finance Departments (line ministries)	Q4 2023	5.1.1 5.2.1 5.3.1

13	The review and update of regulations and processes to appraise public and private investment proposals, including the update of the investment scorecard, the systematisation of cost-benefit analyses and other evidence-based methodologies through training and technical assistance, and improvements of PPP governance and regulations	Increase volume and alignment	Multiple	New action	MPI	Investment Promotion Department (MPI)	MPI-MoF meetings	Planning Department (MPI) State Budget Department (MoF)	Q4 2023	4.1.1
14	The acceleration of all PFM projects - e.g., IFMIS rollout, SDG, and 9th NSEDP budget-tagging, green and gender budgeting, CoA revisions – to integrate national development priorities in all stages of the budget cycle	Increase alignment to 9th NSEDP	Multiple	Being implemented	MoF	State Budget Department (MoF)	National Steering Committee on PFM	Planning Department (MPI) Planning and Finance Departments (line ministries)	Q4 2025	2.1.2 5.1.1 5.2.1 5.3.1

15	The convening of a National Conference on PFM to disseminate recent legal and regulatory updates and take stock of progress towards an evidence-based budget cycle and expenditures aligned with national development priorities	Increase volume and alignment	Governance, processes, and coordination	New action	MoF	State Budget Department (MoF)	National Steering Committee on PFM	Planning and Finance Department (line ministries)	Q3 2023	
16	The development of procurement guidelines for line ministries, and the systematisation of green procurement practices across all government, as well as capacity development	Increase alignment to 9th NSEDP	Multiple	Being implemented	MoF	State Asset Management Department (MoF)	MPI-MoF meetings	Planning and Finance Departments (line ministries)	Q4 2023	5.3.1
<b>1.3 Debt Management</b>										
1.3.1: immediate debt relief is needed to free fiscal space for development investments										
17	The study and exploration of multilateral debt alleviation and suspension initiatives to free fiscal space in support of development	Increase the volume of development finance	Data and analytics	New action	MoF	Debt Management Department (MoF)	MPI-MoF meetings Macroeconomic SWG		Q3 2023	

	investments and provide Lao PDR with sufficient time to increase the revenue to GDP ratio									
18	The continuation of debt consolidation through renegotiations to (1) cancel or reduce debt repayments and/or lengthen the maturity of loans to the second half of the 2020s without losing access to future loans and (2) explore debt swaps with major creditors	Increase the volume of development finance	Multiple	Being implemented	MoF	Debt Management Department (MoF)	MPI-MoF meetings Macroeconomic SWG	MoFA	Q4 2025	5.3.1
1.3.2: transparent and evidence-based debt management will progressively create the conditions for sustainable debt issuance										
19	The acceleration of projects to increase debt transparency in line with international standards, through the more frequent publication of disaggregated debt data, including for	Increase the volume of development finance	Multiple	Being implemented	MoF	Debt Management Department (MoF)	MPI-MoF meetings Macroeconomic SWG		Q4 2025	

	SOEs, and an annual publication reviewing the debt portfolio, analysing, and modelling repayment trends, and associated risks									
20	The review of the Public Debt Management Law and associated regulations against best international practices	Increase the volume of development finance	Laws and regulations	New action	MoF	Debt Management Department (MoF)	MPI-MoF meetings Macroeconomic SWG	Planning Department (MPI)	Q4 2023	
21	The pursuit of ongoing work to reform SOEs, focusing on large companies presenting contingent liabilities	Alleviate the burden on the government towards embracing the principles of good corporate governance	Implementation of the government-approved reform plan of each SOE that incorporates measures tailored to the specific needs of each enterprise	Being implemented	MoF	SOE Management Department (MoF)	MPI-MoF meetings Macroeconomic SWG	Debt Management Department (MoF) Departments in charge of SOEs (line ministries)	Q4 2025	
22	The preparation of a medium-term debt issuance and management strategy, including the long-term exploration of green bonds, assuming the	Increase the volume of development finance	Policy definition	New action	MoF	Debt Management Department (MoF)	MPI-MoF meetings Macroeconomic SWG	Planning Department (MPI)	Q4 2025	5.3.1

	progressive return to a more manageable financial situation allowing for debt issuance									
<b>2.1 ODA predictability, efficiency, and effectiveness</b>										
2.1.1: the efficiency and effectiveness of ODA increases through enhanced planning, monitoring, and coordination										
23	The review and publication, on a semi-annual basis, of the ODA-MIS database, for improved strategic planning	Increase volume and alignment	Data and analytics	Being implemented	MPI	International Cooperation Department (MPI)	RTP/ SWGs	Planning, Finance, and Cooperation Departments (line ministries)	Q2 2023	5.1.1 5.2.1 5.3.1
24	The multi-stakeholder formulation of a medium-term ODA strategic mobilisation plan (2024-2025), aligned with the 9th NSEDP mid-term review, 2030 ODA strategy and medium-term expenditure framework, highlighting priority sectors for ODA, and encouraging joint approaches	Increase volume and alignment	Policy definition	New action	MPI	International Cooperation Department (MPI)	RTP/ SWGs	Planning, Finance, and Cooperation Departments (line ministries)	Q3 2023	
25	The coordination of the annual production and	Increase volume and alignment	Governance, processes, and coordination	New action	MPI	International Cooperation	RTP/ SWGs	Planning, Finance, and Cooperation	Q3 2023	5.1.1 5.2.1 5.3.1

	publication of a forward-looking matrix with all planned ODA and other aid projects, for the remainder of the 9th NSEDP (2023-2025), structured against the national plan's outcomes and outputs					Department (MPI)		Departments (line ministries)		
26	The multi-stakeholder review of the RTP and SWGs, for inclusive partnerships mechanisms facilitating the joint evidence-based strategic planning and delivery of ODA programmes contributing to the 9th NSEDP outcomes, anticipating transition for ODA-reliant sectors	Increase volume and alignment	Governance, processes, and coordination	New action	MPI	International Cooperation Department (MPI)	VDCAP Secretariat coordination	VDCAP Secretariat members	Q3 2023	2.1.2
2.1.2: ODA delivery can accelerate through harmonization and simplification of regulations and the management of the absorptive capacity of national entities										
27	The multi-stakeholder review of the MoU	Increase volume and alignment	Governance, processes, and coordination	New action	MoFA	International Organisations	MoFA-INGO coordination		Q3 2023	

	approval process leading to regulatory updates and the development and dissemination of clear procedures and templates					Department (MoFA)				
28	The multi-stakeholder review of ODA processes and procedures towards harmonisation and simplification	Increase volume and alignment	Governance, processes, and coordination	New action	MPI	International Cooperation Department (MPI)	VDCAP Secretariat coordination	VDCAP Secretariat members	Q3 2023	5.1.1 5.2.1 5.3.1
<b>2.2 LDC Finance</b>										
2.2.1: urgently mobilise LDC-specific funds to finance national development priorities										
29	In preparation for the LDC V Conference (5-9 March 2023), the assessment of challenges, opportunities, and best practices to mobilise ODA from multilateral funds, Technology Bank, and Investment Support Programme	Increase volume and alignment	Data and analytics	New action	MoFA	International Organisations Department (MoFA)	LDC Committee	LDC Committee members	Q2 2023	
2.2.2: prioritise financing sustainability in the forthcoming LDC Graduation STS										

30	The STS prioritises (1) the mobilisation of technical assistance for the sustainable and resilient financing of development, (2) to adapt to and mitigate impacts for continued strategic mobilisation of development aid, (3) and finance priority sectors of green growth, climate change management, and social sectors	Increase volume and alignment	Policy definition	Being implemented	MoFA	International Organisations Department (MoFA)	LDC Committee	LDC Committee members	Q1 2023	5.1.1 5.2.1 5.3.1
<b>3.1 Business environment for MSMEs</b>										
3.1.1: improve the business environment to unlock domestic private finance flows in priority sectors										
31	The quality implementation of the PM's Orders 02 and 03 to simplify the business environment, especially accelerating current efforts to disseminate recent regulatory changes and steps to obtain a business license through user-	Increase the volume of development finance	Laws and regulations	Being implemented	MoIC	Enterprise Registration and Management Department (MoIC)	Lao Business Forum	LNCCI	Q4 2025	

	friendly digital platforms, and reduce informal charges									
32	A public-private dialogue to increase research and policies on an enabling environment and incentives for MSME (1) development in priority sectors, (2) integration with regional and international value chains, and (3) responsible business practices	Increase volume and alignment	Policy definition	New action	MoIC	Planning and Cooperation Department (MoIC)	Lao Business Forum	LNCCI Department of Planning (MPI) Department of Fiscal Policy (MoF) SME Fund (MoIC) Planning, Finance, and Cooperation Departments (line ministries)	Q1 2024	
<b>3.2 Financial inclusion</b>										
3.2.1: increase access to finance for MSME development										
33	A public-private dialogue on financial inclusion to improve financial services and products, access to finance, notably through the standardisation of credit history and collaterals management and potential minimum requirements for financial inclusion,	Increase the volume of development finance	Policy definition	New action	BoL	Commercial Banks Supervision Departments (BoL)	Lao Business Forum	LNCCI Financial Institutions Supervision and Monetary Policy Departments (BoL)	Q1 2024	3.2.2

	digitalisation, and financial literacy									
34	The assessment of the SME Promotion Fund's performance over the last 10 years to inform strategic planning and replenishment	Increase volume and alignment	Data and analytics	New action	MoIC	SME Promotion Fund (MoIC)	Lao Business Forum	State Budget Department (MoF) Planning Department (MPI)	Q1 2024	
3.2.2: improve the financial sector's sustainability and credit availability for priority investments in line with macroeconomic stabilisation priorities										
35	The acceleration of projects to strengthen financial risk management regulations and procedures and consolidate the banking sector, considering current macroeconomic and monetary risks	Increase the volume of development finance	Multiple	Being implemented	BoL	Commercial Banks Supervision Department (BoL)	Lao Business Forum Macroeconomic SWG	Monetary Policy Department (BoL)	Q4 2025	
<b>4.1 Foreign Direct Investments</b>										
4.1.1: quality FDI contributing to national development priorities increase through a focused investment promotion strategy based on non-fiscal incentives and reforms of the business environment										
36	The multi-stakeholder formulation of a comprehensive FDI attraction and promotion strategy, which would contain (1) a FDI policy	Increase volume and alignment	Policy definition	New action	MPI	Investment Promotion Department (MPI)	MPI-MoF meetings Lao Business Forum	LNCCI Department of Planning (MPI) Department of Fiscal Policy (MoF) Monetary Policy	Q4 2023	1.1.1 5.1.1 5.2.1 5.3.1

<p>statement that clarifies Lao PDR's strategic vision for FDI promotion and attraction, (2) the review of the Investment Promotion Law and SEZ regulations (3) the cost-benefit analysis and proposed reforms of the current incentive regime's laws and regulations, prioritising targeted fiscal incentives for priority sectors (social sectors and green growth) and non-fiscal incentives and (4) reforms of the business environment, notably for facilitated entry and increased investor protection, all guided by international standards</p>							<p>department (BoL) Planning, Finance, and Cooperation Departments (line ministries)</p>		
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37	The development of foreign investment risk assessment tools and associated capacity development, to strengthen the institutional review of investments against national development priorities	Increase alignment to 9th NSEDP	Tools and IT systems	New action	MPI	Investment Promotion Department (MPI)	MPI-MoF meetings	Department of Planning (MPI) Department of Fiscal Policy (MoF) Monetary Policy and Commercial Banks Supervision departments, and AMLI Office (BoL)	Q4 2023	4.2.1 5.3.1
<b>4.2 Illicit Financial Flows</b>										
4.2.1: completing the FATF's Mutual Evaluation and implementing the associated action plan is a first step towards curbing IFF, increasing government revenue, and improving Lao PDR's international profile										
38	A capacity needs assessment to assess challenges and opportunities to strengthen enforcement of (fiscal, environmental, forestry, wildlife) laws and regulations and improve institutional and human capacity to curb and prosecute environmental trafficking	Increase alignment to 9th NSEDP	Data and analytics	New action	BoL	AMLi Office (BoL)	AMLi Office coordination	FATF focal points MAF, MoNRE	Q1 2024	1.1.2 5.3.1
39	The support to the completion of the FATF mutual	Increase alignment to 9th NSEDP	Data and analytics	Being implemented	BoL	AMLi Office (BoL)	AMLi Office coordination	FATF focal points	Q4 2023	

	evaluation to assess Lao PDR's shortcomings in mitigating money laundering and terrorist financing risks and curbing IFF and implement resulting recommendations to improve the country's compliance and effectiveness									
40	The acceleration of capacity development and training for the AML/CFT task force, line ministries, and law enforcement to support FATF's Mutual Evaluation and its follow-up procedures	Increase alignment to 9th NSEDP	Capacity development	Being implemented	BoL	AMLI Office (BoL)	AMLI Office coordination	FATF focal points	Q4 2025	
<b>4.3 Remittances</b>										
4.3.1: as the region reopens, rapidly defining a policy framework for remittances will help identifying actions needed to facilitate their contributions to livelihoods										
41	The revision of the Law on Payment Systems and other financial regulations to facilitate reliable, affordable, and safe remittance transfers	Increase the volume of development finance	Laws and regulations	Being implemented	BoL	Commercial Banks Department (BoL)	Lao Business Forum	Banking Operation and Payment Systems Departments (BoL)	Q1 2024	3.2.2

42	The acceleration of projects to increase migrant registration and formalise the migrant worker status and improve safe and regular labour migration pathways	Increase the volume of development finance	Multiple	Being implemented	MoLSW	Social Welfare Department (MoLSW)			Q4 2025	
43	The pursuit of ongoing multi-stakeholder research to understand and define a policy framework to lift constraints and reduce the costs of safe and reliable remittance transfers through an updated policy, regulatory, and financial environment, looking at best international practices	Increase the volume of development finance	Data and analytics	Being implemented	MPI	Development Research Institute (MPI)		Social Welfare Department (MoLSW) Commercial Banks, Legal, Financial Institutions and Monetary Policy Departments (BoL)	Q1 2024	3.2.2
<b>5.1 Health Finance</b>										
5.1.1: health priorities are financed through sustainably increasing budget allocations for quality and inclusive essential health services, enhanced allocative efficiency of all public funding, and the regulated mobilisation of private resources										
44	Following the finalisation of the current pilot phase for hospital autonomy, the	Increase the volume of development finance	Policy definition	Being implemented	MoH	Planning and Cooperation and Finance Departments (MoH)	Health SWG Lao Business Forum	Investment Promotion Department (MPI)	Q4 2023	4.1.1

	development of a clear regulatory framework and guidelines to ensure the well-regulated mobilisation of private resources maintaining quality and inclusivity of health care, as well as the exploration of the costs, benefits, feasibility, relevance, and best practices to mobilise private sector resources for quality and inclusive healthcare, which would inform policies and actions to improve the business environment and investment promotion regime									
45	The exploration of the relevance and institutional feasibility of increased budget autonomy for the National Health Insurance Bureau,	Increase alignment to 9th NSEDP	Laws and regulations	New action	MoF	State Budget Department (MoF)		Planning and Cooperation and Finance Departments (MoH)	Q4 2023	1.2.2

	towards a semi-autonomous status									
46	The conclusion of discussions with bilateral and multilateral partners for continued ODA and/or budget support during the 9th NSEDP cycle, conditioned to marked improvements to fiscal policy and PFM, which would generate fiscal space for co-financing in the next planning cycle	Increase the volume of development finance	Multiple	Being implemented	MPI	International Cooperation (MPI)	RTP/ SWGs	State Budget Department (MoF) Planning, Finance, and Cooperation Departments (MoH and other line ministries)	Q2 2023	5.3.1
47	The systematisation and adaptation, in priority sectors faced with hard budget constraints, of cost-benefit analysis and other methods to optimise the utilisation of limited budget allocations	Increase alignment to 9th NSEDP	Data and analytics	New action	MoH MoES MoNRE MAF	Departments of Planning and Financing			Q4 2025	
<b>5.2 Education Finance</b>										
5.3.1: education and sports priorities are financed through sustainably increasing budget allocations, the enhanced allocative efficiency of all public funding, and the regulated mobilisation of private resources										

48	The exploration of specific changes required to the laws, regulations, processes, and CoA to facilitate centralised planning, prioritisation, and budgeting of the education and sports sector and improved allocative efficiency of public funding, in the context of limited fiscal space	Increase alignment to 9th NSEDP	Laws and regulations	New action	MoF	Department of State Budget (MoF)		Finance Department (MoES)	Q4 2023	1.2.2
49	The assessment of the costs, benefits, feasibility, relevance, and best practices to mobilise resources from international organisations, development partners, the private sector, the local community, and parents for quality and inclusive education, which would inform policies and actions to improve	Increase volume and alignment	Data and analytics	New action	MoES	Department of Planning Department of Finance (MoES)	Lao Business Forum	Investment Promotion Department (MPI)	Q4 2023	4.1.1

	the business environment and investment promotion regime									
<b>5.3 Green and Climate Finance</b>										
5.3.1: green growth and climate-resilient development are financed through sustainably increasing budget allocations, improved green budgeting, strategic mobilisation of ODA, and increasing private investments in an enabling business environment.										
50	The formulation of a policy to improve the environmental sustainability of the financial sector	Increase volume and alignment	Data and analytics	New action	BoL	Commercial Banks Department (BoL)	Lao Business Forum	Financial Institutions Supervision and Monetary Policy Departments (BoL) Planning and Cooperation Department (MoNRE)	Q2 2024	3.2.2
51	The study of the costs, benefits, feasibility, and relevance of environmental fiscal reform (e.g., carbon tax), sin taxes, and other pre-market interventions, to simultaneously influence behaviours and development outcomes, and generate resources for priority sectors, with careful consideration of	Increase volume and alignment	Financing instrument	New action	MoF	Fiscal Policy (MoF) and Tax (MoF)	MPI-MoF meetings	Planning, Finance, and Cooperation Departments (MoH, MoNRE, MAF)	Q1 2024	1.1.1 5.1.1

	the current capacity of the tax administration and centralisation of the budget process									
52	The capacity development of national funds and establishment of the EPF as the first Accredited Entity for Lao PDR, combined with strengthened collaboration between DPs currently accredited to vertical funds, for strategic green ODA programmes and projects	Increase volume and alignment	Multiple	Being implemented	MoNRE	Department of Planning and Cooperation (MoNRE and MAF)	RTP/ SWGs	National Funds	Q3 2024	
53	The formulation of policy recommendations to incentivise investments in green growth and to create a clear taxonomy for sustainable activities, which would inform policies and actions to improve the business environment and	Increase volume and alignment	Policy definition	New action	MPI	Investment Promotion Department (MPI)	Lao Business Forum	Planning and Cooperation Department (MoNRE)	Q1 2024	4.1.1

	investment promotion regime									
54	The study of the feasibility and relevance of carbon credits and emissions trading schemes, and potential policies and actions to finance biodiversity protection	Increase volume and alignment	Policy definition	New action	MoF	Planning Department and Development Research Institute (MPI)	MPI-MoF meetings	Fiscal Policy Departments (MoF) Planning and Cooperation Departments (MoNRE and MAF)	Q4 2025	

### Annex 3: Monitoring and Evaluation matrix

No.	Action	GoL Lead	GoL department lead(s)	Means of Verification
1	The assessment of fiscal costs and review, harmonisation, and update of the laws, regulations, and processes, to broaden the tax base and abolish and renegotiate CIT and other fiscal exemptions	MoF	Fiscal Policy Department (MoF)	Revenue to GDP ratio (%)
2	The strengthening of inter-ministerial processes and capacity of the National Assembly, MoF, and MPI to review large investment projects' financial schemes and expected fiscal implications	NA MoF MPI	Planning, Financing and Audit Committee (NA) External Finance Department (MoF) Planning Department (MPI)	Reporting at MPI-MoF meetings and NA consultations
3	The acceleration of projects to modernise and digitalise tax systems, facilitating e-registration and e-payment, and facilitate formalisation to improve the performance of tax collection	MoF	Tax Department (MoF)	Tax to GDP ratio (%)
4	The dissemination of tax law and regulations of businesses and broader societal awareness raising of tax for development	MoF	Tax Department (MoF)	Evaluation at Lao Business Forum
5	The harmonisation of tax rates to optimise revenue generation while fostering private sector development and investments in priority sectors and green growth, including the assessment of expected revenues generated, business registrations, administrative feasibility, and impacts on livelihoods of a potential increase of the VAT rate from 7% to 10%	MoF	Fiscal Policy Department (MoF)	Assessment produced: Yes/No

6	The acceleration of tax administration capacity development to increase revenue collection	MoF	Tax Department (MoF)	Reporting by MoF
7	The regulation of revenues from rapidly growing sectors, such as e-commerce and cryptocurrency mining and trading	MoF	Fiscal Policy Department (MoF)	Updated regulations: Yes/ No
8	The temporary halt on new resource extraction projects combined with the update of legislation, regulation, and processes for the future implementation of natural resources extraction projects in line with the inclusive, sustainable, and climate-resilient development pathway of the 9th NSEDP	MPI	Investment Promotion Department (MPI)	Updated regulations: Yes/ No
9	The simultaneous mid-term review of the 9th NSEDP, update of the Public Investment Plan currently being developed, and alignment of the medium-term expenditure framework, reviewing 2024 and 2025 budget ceilings and yearly allocations	MPI MoF	Planning Department (MPI) State Budget Department (MoF)	Evaluation at MPI-MoF meetings Share of budget allocated to social sectors and green growth (%)
10	The reassessment and possible termination of all public and public-private investment projects that are not in line with the 9th NSEDP priorities or are experiencing increasing costs and delays weighing on the State budget	MPI	Planning Department (MPI)	Ongoing projects reassessments: Yes/ No
11	The acceleration of projects to synchronise and sequence the quinquennial, multi-year, and annual national planning and budgeting processes, for cycles of financially sound national planning as per the INFF approach	MPI MoF	Planning Department (MPI) State Budget Department (MoF)	Evaluation at MPI-MoF meetings Share of budget allocated to social sectors and green growth (%)

12	The update of the State Budget Law, Public Investment Law, Public Procurement Law, and related regulations such as Decree 599/PM on austerity measures, and adoption of the PM Decree on Budget Formulation, to facilitate the formulation, execution, and monitoring of budget and investment plans in line with national development priorities	MPI MoF	Planning Department (MPI) State Budget Department (MoF)	Updated laws and regulations: Yes/ No
13	The review and update of regulations and processes to appraise public and private investment proposals, including the update of the investment scorecard, the systematisation of cost-benefit analyses and other evidence-based methodologies through training and technical assistance, and improvements of PPP governance and regulations	MPI	Investment Promotion Department (MPI)	Updated regulations and processes: Yes/ No
14	The acceleration of all PFM projects - e.g., IFMIS rollout, SDG, and 9th NSEDP budget-tagging, green and gender budgeting, CoA revisions – to integrate national development priorities in all stages of the budget cycle	MoF	State Budget Department (MoF)	Evaluation at National Steering Committee
15	The convening of a National Conference on PFM to disseminate recent legal and regulatory updates and take stock of progress towards an evidence-based budget cycle and expenditures aligned with national development priorities	MoF	State Budget Department (MoF)	Event took place: Yes/ No
16	The development of procurement guidelines for line ministries, and the systematisation of green procurement practices across	MoF	State Budget Department (MoF)	Procurement guidelines: Yes/ No

	all government, as well as capacity development			
17	The study and exploration of multilateral debt alleviation and suspension initiatives to free fiscal space in support of development investments and provide Lao PDR with sufficient time to increase the revenue to GDP ratio	MoF	Debt Management Department (MoF)	Policy paper on debt alleviation initiatives potential: Yes/ No Debt to GDP ratio (%)
18	The continuation of debt consolidation through renegotiations to (1) cancel or reduce debt repayments and/or lengthen the maturity of loans to the second half of the 2020s without losing access to future loans and (2) explore debt swaps with major creditors	MoF	Debt Management Department (MoF)	Debt to GDP ratio (%) Debt servicing/ budget (%)
19	The acceleration of projects to increase debt transparency in line with international standards, through the more frequent publication of disaggregated debt data, including for SOEs, and an annual publication reviewing the debt portfolio, analysing, and modelling repayment trends, and associated risks	MoF	Debt Management Department (MoF)	Evaluation at MPI-MoF meetings
20	The review of the Public Debt Management Law and associated regulations against best international practices	MoF	Debt Management Department (MoF)	Review undertaken: Yes/ No
21	The pursuit of ongoing work to reform SOEs, focusing on large companies presenting contingent liabilities	MoF	SOE Management Department (MoF)	Evaluation at MPI-MoF meetings Publicly guaranteed debt/ GDP (%)
22	The preparation of a medium-term debt issuance and management strategy, including the long-term exploration of green bonds, assuming the progressive return to a more manageable	MoF	Debt Management Department (MoF)	Strategy prepared: Yes/ No

	financial situation allowing for debt issuance			
23	The review and publication, on a semi-annual basis, of the ODA-MIS database, for improved strategic planning	MPI	International Cooperation Department (MPI)	Review: Yes/ No Publication: Yes/ No
24	The multi-stakeholder formulation of a medium-term ODA strategic mobilisation plan (2024-2025), aligned with the 9th NSEDP mid-term review, 2030 ODA strategy and medium-term expenditure framework, highlighting priority sectors for ODA, and encouraging joint approaches	MPI	International Cooperation Department (MPI)	Strategy prepared: Yes/ No
25	The coordination of the annual production and publication of a forward-looking matrix with all planned ODA and other aid projects, for the remainder of the 9th NSEDP (2023-2025), structured against the national plan's outcomes and outputs	MPI	International Cooperation Department (MPI)	Matrix produced: Yes/ No
26	The multi-stakeholder review of the RTP and SWGs, for inclusive partnerships mechanisms facilitating the joint evidence-based strategic planning and delivery of ODA programmes contributing to the 9th NSEDP outcomes, anticipating transition for ODA-reliant sectors	MPI	International Cooperation Department (MPI)	Multi-stakeholder review undertaken: Yes/ No Update of RTP/SWG: Yes/ No
27	The multi-stakeholder review of the MoU approval process leading to regulatory updates and the development and dissemination of clear procedures and templates	MoFA	International Organisations Department (MoFA)	Multi-stakeholder review undertaken: Yes/ No Update of MoU procedures: Yes/ No

28	The multi-stakeholder review of ODA processes and procedures towards harmonisation and simplification	MPI	International Cooperation Department (MPI)	Multi-stakeholder review undertaken: Yes/ No
29	In preparation for the LDC V Conference (5-9 March 2023), the assessment of challenges, opportunities, and best practices to mobilise ODA from multilateral funds, Technology Bank, and Investment Support Programme	MoFA	International Organisations Department (MoFA)	Policy paper identifying opportunities for LDC finance: Yes/ No
30	The STS prioritises (1) the mobilisation of technical assistance for the sustainable and resilient financing of development, (2) to adapt to and mitigate impacts for continued strategic mobilisation of development aid, (3) and finance priority sectors of green growth, climate change management, and social sectors	MoFA	International Organisations Department (MoFA)	STS prioritises (1), (2), and (3): Yes/ No
31	The quality implementation of the PM's Orders 02 and 03 to simplify the business environment, especially accelerating current efforts to disseminate recent regulatory changes and steps to obtain a business license through user-friendly digital platforms, and reduce informal charges	MoIC	Enterprise Registration and Management Department (MoIC)	Evaluation at Lao Business Forum
32	A public-private dialogue to increase research and policies on an enabling environment and incentives for MSME (1) development in priority sectors, (2) integration with regional and international value chains, and (3) responsible business practices	MoIC	Planning and Cooperation Department (MoIC)	Public-private dialogue takes place: Yes/ No Policy formulated: Yes/ No

33	A public-private dialogue on financial inclusion to improve financial services and products, access to finance, notably through the standardisation of credit history and collaterals management and potential minimum requirements for financial inclusion, digitalisation, and financial literacy	BoL	Commercial Banks Supervision Departments (BoL)	Public-private dialogue takes place: Yes/ No Policy formulated: Yes/ No
34	The assessment of the SME Promotion Fund's performance over the last 10 years to inform strategic planning and replenishment	MoIC	SME Promotion Fund (MoIC)	Assessment produced: Yes/No
35	The acceleration of projects to strengthen financial risk management regulations and procedures and consolidate the banking sector, considering current macroeconomic and monetary risks	BoL	Commercial Banks Supervision Department (BoL)	Evaluation at Lao Business Forum
36	The multi-stakeholder formulation of a comprehensive FDI attraction and promotion strategy, which would contain (1) a FDI policy statement that clarifies Lao PDR's strategic vision for FDI promotion and attraction, (2) the review of the Investment Promotion Law and SEZ regulations (3) the cost-benefit analysis and proposed reforms of the current incentive regime's laws and regulations, prioritising targeted fiscal incentives for priority sectors (social sectors and green growth) and non-fiscal incentives and (4) reforms of the business environment, notably for facilitated entry and increased investor protection, all guided by international standards	MPI	Investment Promotion Department (MPI)	Multi-stakeholder formulation process: Yes/ No New investment promotion and management strategy: Yes/ No FDI (% GDP and broken down by sectors and 9th NSEDP)

37	The development of foreign investment risk assessment tools and associated capacity development, to strengthen the institutional review of investments against national development priorities	MPI	Investment Promotion Department (MPI)	Foreign risk assessment tool produced: Yes/ No FDI (% GDP and broken down by sectors and 9th NSEDP)
38	A capacity needs assessment to assess challenges and opportunities to strengthen enforcement of (fiscal, environmental, forestry, wildlife) laws and regulations and improve institutional and human capacity to curb and prosecute environmental trafficking	BoL	AMLIO Office (BoL)	Capacity needs assessment prepared and disseminated: Yes/ No
39	The support to the completion of the FATF mutual evaluation to assess Lao PDR's shortcomings in mitigating money laundering and terrorist financing risks and curbing IFF and implement resulting recommendations to improve the country's compliance and effectiveness	BoL	AMLIO Office (BoL)	Action plan prepared: Yes/ No
40	The acceleration of capacity development and training for the AML/CFT task force, line ministries, and law enforcement to support FATF's Mutual Evaluation and its follow-up procedures	BoL	AMLIO Office (BoL)	Evaluation by AMLIO
41	The revision of the Law on Payment Systems and other financial regulations to facilitate reliable, affordable, and safe remittance transfers	BoL	Commercial Banks Department (BoL)	Revision undertaken: Yes/ No
42	The acceleration of projects to increase migrant registration and formalise the migrant worker status and improve safe and regular labour migration pathways	MoLSW	Social Welfare Department (MoLSW)	Evaluation by MoLSW

43	The pursuit of ongoing multi-stakeholder research to understand and define a policy framework to lift constraints and reduce the costs of safe and reliable remittance transfers through an updated policy, regulatory, and financial environment, looking at best international practices	MPI	Development Research Institute (MPI)	Policy paper produced: Yes/ No
44	Following the finalisation of the current pilot phase for hospital autonomy, the development of a clear regulatory framework and guidelines to ensure the well-regulated mobilisation of private resources maintaining quality and inclusivity of health care, as well as the exploration of the costs, benefits, feasibility, relevance, and best practices to mobilise private sector resources for quality and inclusive healthcare, which would inform policies and actions to improve the business environment and investment promotion regime	MoH	Planning and Cooperation and Finance Departments (MoH)	Policy paper produced: Yes/ No
45	The exploration of the relevance and institutional feasibility of increased budget autonomy for the National Health Insurance Bureau, towards a semi-autonomous status	MoF	State Budget Department (MoF)	Recommendation issued by MoF: Yes/ No
46	The conclusion of discussions with bilateral and multilateral partners for continued ODA and/or budget support during the 9th NSEDP cycle, conditioned to marked improvements to fiscal policy and PFM, which would generate fiscal space for co-financing in the next planning cycle	MPI	International Cooperation (MPI)	Outcomes of negotiations evaluated through RTP Volume of ODA in priority sectors

47	The systematisation and adaptation, in priority sectors faced with hard budget constraints, of cost-benefit analysis and other methods to optimise the utilisation of limited budget allocations	MoH MoES MoNRE MAF	Departments of Planning and Financing	Number of appraisals undertaken in each Ministry
48	The exploration of specific changes required to the laws, regulations, processes, and CoA to facilitate centralised planning, prioritisation, and budgeting of the education and sports sector and improved allocative efficiency of public funding, in the context of limited fiscal space	MoF	Department of State Budget (MoF)	Recommendation issued by MoF: Yes/ No Update of laws, regulations, and CoA: Yes/ No
49	The assessment of the costs, benefits, feasibility, relevance, and best practices to mobilise resources from international organisations, development partners, the private sector, the local community, and parents for quality and inclusive education, which would inform policies and actions to improve the business environment and investment promotion regime	MoES	Department of Planning Department of Finance (MoES)	Policy paper produced: Yes/ No
50	The formulation of policy recommendations to improve the environmental sustainability of the financial sector	BoL	Commercial Banks Department (BoL)	Policy paper produced: Yes/ No
51	The study of the costs, benefits, feasibility, and relevance of environmental fiscal reform (e.g., carbon tax), sin taxes, and other pre-market interventions, to simultaneously influence behaviours and development outcomes, and generate resources for priority sectors, with careful	MoF	Fiscal Policy (MoF)	Policy paper produced: Yes/ No

	consideration of the current capacity of the tax administration and centralisation of the budget process			
52	The capacity development of national funds and establishment of the EPF as the first Accredited Entity for Lao PDR, combined with strengthened collaboration between DPs currently accredited to vertical funds, for strategic green ODA programmes and projects	MoNRE	Department of Planning and Cooperation (MoNRE and MAF)	Number of accreditations
53	The formulation of policy recommendations to incentivise investments in green growth and to create a clear taxonomy for sustainable activities, which would inform policies and actions to improve the business environment and investment promotion regime	MPI	Investment Promotion Department (MPI)	Policy paper produced: Yes/ No
54	The study of the feasibility and relevance of carbon credits and emissions trading schemes, and potential policies and actions to finance biodiversity protection	MPI	Department of Planning and Development Research Institute (MPI)	Policy paper produced: Yes/ No