





Report No: AUS0000591



## Lao Peoples's Democratic Republic

# Public Expenditure and Financial Accountability (PEFA) Assessment 2018

March 2019



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Lao PDR

Public Finance Management (PFM) Modernization Program - Public Expenditure  
and Financial Accountability (PEFA) Assessment

March 2019

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat,

March 21, 2019

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## List of Acronyms

ACH	Automated Clearing House
ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated System for Customs Data
BCEL	<i>Banque pour le Commerce Exterieur Lao</i>
BoL	Bank of Lao PDR
CMM	Committee for Macro-fiscal Monitoring
COFOG	Classification of the Functions of Government
CPI	Consumer Price Index
DIC	Department of International Cooperation
DMFAS	Debt Management and Financial Analysis System
DPTA	Development Plan for Tax Administration
EDL	<i>Electricité du Lao</i>
EU	European Union
FDI	Foreign Direct Investment
FPLD	Fiscal Policy and Law Department
EPF	Environmental Protection Fund
ESDP	Education Sector Development Plan
FAIR	Foreign Aid Implementation Report
FITC	Financial Information Technology Center
FMCBP	Financial Management Capacity Building Project
FMIS	Financial Management Information System
GDP	Gross Domestic Product
GFIS	Government Financial Information System
GFS	Government Finance Statistics
GIAA	Government Inspection and Anti-Corruption Authority
GIZ	German Agency for International Cooperation ( <i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i> )
GNI	Gross National Income
GoL	Government of Lao PDR
HDI	Human Development Index
HSRSF	Health Sector Reform Strategy and Framework
ICT	Information and Communication Technology
IMF	International Monetary Fund
INTOSAI	International Audit Standards
IPSAS	International Public Sector Accounting Standards
ISSAI	International Auditing Standards for SAI
IT	Information Technology
JICA	Japan International Cooperation Agency
KEXIM	Korea Export-Import Bank
LDB	Lao Development Bank

LDC	Least Developed Country
LPRP	Lao People's Revolutionary Party
LSX	Lao Securities Exchange
MAF	Ministry of Agriculture and Forestry
MEM	Ministry of Energy and Mines
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund
MoES	Ministry of Education and Sports
MoF	Ministry of Finance
MoH	Ministry of Health
MoHA	Ministry of Home Affairs
MoIC	Ministry of Industry and Commerce
MoJ	Ministry of Justice
MoNRE	Ministry of Natural Resources and Environment
MoU	Memorandum of Understanding
MPI	Ministry of Planning and Investment
MPWT	Ministry of Public Works and Transport
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
MTRS	Medium-Term Revenue Strategy
NGPES	National Growth and Poverty Eradication Strategy
NPA	Nonprofit Association
NSEDP	National Socio-Economic Development Plan
NSSF	National Social Security Fund
NT2	Nam Theun 2 Hydropower Project
ODA	Official Development Assistance
PCAP	Project for Enhancing Capacity of Public Investment Program Management
PEFA	Public Expenditure and Financial Accountability
PFAC	Planning, Finance, and Audit Committee
PFD	Post-filing Division
PFDS	Public Finance Development Strategy
PFM	Public Financial Management
PFMSP	Public Financial Management Strengthening Program
PIL	Public Investment Law
PIM	Public Investment Management
PIMS	Personnel Information Management System
PIP	Public Investment Plan
PPG	Public and Publicly Guaranteed
PPP	Public-Private Partnership
PRF	Poverty Reduction Fund
PRSO	Poverty Reduction Support Operations



RMF	Road Maintenance Fund
RMP	Revenue Management Program
SAO	State Audit Organization
SBG	School Block Grant
SBL	State Budget Law
SDC	Swiss Agency for Development Cooperation
SDG	Sustainable Development Goal
SDTF	Single-Donor Trust Fund
SIAA	State Inspection and Anti-Corruption Authority
SME	Small and Medium Enterprise
SOCB	State-Owned Commercial Bank
SOE	State-Owned Enterprise
TA	Technical Assistance
TD	Tax Department
TMI	Tax Management Information System
ToR	Terms of Reference
TSA	Treasury Single Account
TSDP	Tax Strategic Development Plan
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WCO	World Customs Organization
WTO	World Trade Organization

# Executive summary

## Introduction

1. **Since 2005, the economy of the Lao People’s Democratic Republic has grown at a rate of above 7 percent, one of the fastest rates of the region, accompanied by steady poverty reduction and favorable economic prospects.** With its small, landlocked geographical position, total surface area of 236,000 square kilometers, and a population of approximately 6.7 million, Lao PDR has benefited from its considerable endowment of natural resources from mining, hydropower, and forestry production to sustain a rapid growth. The Government of Lao PDR (GoL) maintains a vision of a ‘land-linked’ rather than landlocked economy, prioritizing easy access to larger, emerging neighboring economies, with the opportunity to reach the broader Mekong region, including Southern China. Plans to invest in the Belt and Road Initiative will support public and private investment in transport infrastructure and promote tourism in the region, although debt implications need to be carefully assessed. Since 2015, Lao PDR is considered a lower-middle-income country based on its gross national income (GNI) per capita and is also in the medium human development category according to the United Nation’s Human Development Index (HDI), with a score of 0.586 in 2015 and a rank of 138 out of 188 countries.

2. **Despite recent strong performance, Lao PDR faces considerable challenges to modernize its economy and deliver the structural transformation that has become critical for sustained and inclusive growth.** Fiscal sustainability is an issue as low commodity prices result in lower-than-expected revenue income, and despite measures taken to cut spending and halt wage increases and staff recruitment in 2015 and 2016, the deficit stood at 5.5 percent of gross domestic product (GDP) in 2017 and is expected to decline to 4.9 percent of GDP in 2018. The country is at high risk of debt distress with public debt at around 60 percent of GDP in 2017 and is expected to further increase to 62.6 percent of GDP in 2018. Fiscal pressures have limited the ability of the public sector to allocate budget to social sectors and infrastructure maintenance that is needed to address the country’s development challenges.

3. **The government faces significant public financial management (PFM) challenges.** Weak and inefficient public sector management and uneven reforms ownership have been binding constraints to the pace and the effectiveness of PFM reforms. Lao PDR is at the lower end of most governance indicators in the Association of Southeast Asian Nations (ASEAN) region, particularly in terms of accountability, government effectiveness, regulatory quality, rule of law, and corruption. The importance of the overall PFM reform agenda to enhance quality and coverage in the delivery of public services is essential to the credibility of the policy-making agenda and to the mobilization of and support from the private sector and development community.

4. **The Public Financial Management Strengthening Program (PFMSP) adopted in 2005 was one of the important components of the GoL’s long-term framework for public finance reform and supported the ‘first-generation reforms’ (2000–2013),** such as the centralization of the National Treasury, customs, and tax functions; the introduction of a Treasury Single Account (TSA) in 2006; and rollout of the Government Financial Information System (GFIS) to the provincial level. After a gap of three years, ‘the second-generation reforms period’ was initiated following the appointment of a new government under a reform-oriented Prime Minister. With the top leadership’s commitment, including the Minister of Finance—who is also the Deputy Prime Minister—and his management team, the dialogue with the donor community has been revitalized and the pace of reform has accelerated.

5. **Plans to improve governance of public resources require major changes in the strengthening of government institutions and respond to new development opportunities and challenges.** The range of new laws that includes the new Public Procurement Law (October 2017) and the new Public

Debt Management Law (June 2018) that will better control public investment projects and strengthen debt management policy respectively, as well as the tax policy and administration reform and planned adoption of the revised value added tax (VAT) Law represent progress. However, to reduce debt vulnerabilities and maintain a pattern of expenditure that will support graduation from Least Developed Country (LDC) status, Lao PDR's reform implementation needs to accelerate, and the agenda must adjust to new technology and innovation and related institutional transformation and develop knowledgeable and competent human resources.

6. **The Public Expenditure and Financial Accountability (PEFA) assessment is therefore timely as it provides evidence on underlying PFM systems performance that can help shape the next generation of reforms.** The overall objectives of this 2018 Lao PDR PEFA assessment based on the 2016 methodology are to help the GoL prioritize reform actions in the Vision to 2030 and Public Finance Development Strategy (PFDS) to 2025, build the capacity and understanding of technical staff to deliver the needed reforms, and establish a platform for measuring PFM progress. While there have been previous assessments in 2006 (external assessment) and 2010 (joint assessment with the World Bank) using the previous PEFA methodology, there has been no comparison made with the previous scores. This PEFA assessment is therefore intended to provide a baseline to anchor and measure the impact of ongoing reforms.

7. **The assessment analysis period covers the previous three completed fiscal years (2014/2015, 2015/2016, and 2017 with a cutoff date of August 2018).** It should be noted that the three-year period from 2014 to 2016 was marked by political transition and a change of government that affected the policy agenda.

## Assessment of PFM system performance

8. **Overall, the assessment confirms that Lao PDR's new ambitious reform agenda is needed to establish solid foundations for improved PFM processes and procedures.** The effectiveness of the PFM systems in place is limited, capacity for enforcement of the existing regulatory framework is lacking, and the monitoring of performance can still be considerably strengthened. Table 1 provides an overview of the performance ratings on the 31 indicators and 94 dimensions extracted from the scoring of individual indicators in Section 3 of the report where the narrative and justification for each score are presented. Annex 1 provides a table with a summary of the performance narrative for each dimension and indicator.

9. **The emerging strengths in PFM in Lao PDR are primarily associated with the development of instruments that have allowed more prudent fiscal management and control of budget execution,** such as the adoption and progressive implementation of the new State Budget Law (SBL) in 2015, the introduction of fiscal rules on the budget deficit and the debt-to GDP ratio, the progressive resolution of domestic payment arrears related to public infrastructure projects, and debt inherited from direct lending of Bank of Lao PDR (BoL) to local government's off-budget infrastructure spending. A more solid treasury and cash management system at the central government level, and the focus on tax policy and management have created a solid platform for automation and integration of PFM processes and improved the quality of financial reporting and oversight. However, these initiatives are still to have a full impact on the PEFA scores in the relevant indicators.

10. **Weaknesses are linked to the limited credibility of the budget as an instrument to achieve high-level policy objectives and the absence of a fully developed medium-term expenditure framework (MTEF) that is integrated into the budgeting process.** Links between the multiyear strategic development plans approved at high level, sector strategic plans supported by development partners' funding, and annual allocation of resources through the budget are weak. Budget monitoring is hampered by the manual consolidation of the expenditures below provincial level and the absence

of systems to track resources available at the service delivery level. The absence of a unified chart of accounts to track expenditures by economic functional and programmatic classification hinders informed decision making. Fiscal data consolidated by the National Treasury rely on manual processes that may affect the data's reliability. Government systems rely mostly on the GFIS with limited coverage and functions, which affects the timely and comprehensive budget execution reporting. The current GFIS covers only a subset of functionalities required for a full functioning budget execution system; core functionalities related to commitment controls and bank reconciliation are not yet in place and the district offices are not included in the GFIS coverage. The missing interface between the Automated System for Customs Data (ASYCUDA) under the Customs Department and the Tax Revenue Information System (TaxRIS) by the Tax Department (TD), with the GFIS does not allow for comprehensive and accurate revenue and expenditures records. The internal and external audit functions are not sufficiently resourced and skilled to mitigate the control weaknesses identified.

11. **The assessment shows that two of the 31 indicators scored either 'A' or 'B', scores considered above the basic alignment with good practice.** The remaining indicators received scores of either 'C' or 'D', which suggests basic alignment with the standards for a 'C' and weak performance for a 'D'. Table 1 shows that the government's reform program is timely and apposite for strengthening PFM practices. The scores for all 31 indicators and 94 dimensions are summarized in Table 2.

**Table 1: Summary of PEFA scores by pillar**

Core of PFM performance	Performance indicators	Score					Total indicators
		NA	A	B/B+	C/C+	D/D+	
Budget reliability	PI-1 to PI-3		1		1	1	3
Transparency of public finance	PI-4 to PI-9	1			1	4	6
Management of assets and liabilities	PI-10 to PI-13					4	4
Policy-based fiscal strategy and budgeting	PI-14 to PI-18				1	4	5
Predictability and control in budget execution	PI-19 to PI-26			1	1	6	8
Accounting and reporting	PI-27 to PI-29				1	2	3
External scrutiny and audit	PI-30 to PI-31				1	1	2
<b>Total</b>		<b>1</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>22</b>	<b>31</b>

## Impact on the main objectives of public finances

12. The impact of the PFM performance, as described earlier, on the overall achievement of the three main fiscal and budgetary outcomes is as follows:

- **Aggregate fiscal discipline is affected by the limited capability to prepare robust projections of macroeconomic and fiscal performance.** A thorough reporting of revenue and expenditure operations within and outside the budget has improved control over fiscal risks and commitments to maintain expenditures during budget execution, and delivery of the budget aggregates as planned is still insufficient.
- **The government currently does not have a solid macro-fiscal framework and the definition of strict fiscal rules is limited in the absence of a consistent and sustainable fiscal strategy.** The simple modeling instruments in place, based on realistic revenue forecasting and aligned with international practices, are undermined by political decisions inherited from the centrally planned systems (based on GDP targets). The platform established by the Fiscal Policy and Law Department (FPLD) as a medium-term fiscal framework (MTFF) provides a medium-term

approach with forward estimates and fiscal outcomes; the fiscal rules on the total annual budget deficit, set at a maximum 5 percent of GDP, and the outstanding (foreign and domestic) debt, at not more than 60 percent of GDP, are not strictly obeyed.

- **Cash management and payments of the main expenditures are controlled through the National Treasury and are set against the constraints of the quarterly and monthly plans from the approved State Budget.** Payroll is centralized and has been strictly controlled since the overruns experienced in 2015. Expenditure arrears are not authorized and fiscal risks to the central government budget are identified. However, control over the provincial and municipal budgets is limited to cash rationing, even if it has not formally been the case in the recent years. Operations outside the government’s financial reporting by subnational level and state-owned enterprises (SOEs) still comprise significant amounts that are neither consolidated nor disclosed and therefore fiscal risks related to SOEs operations cannot be consistently monitored. The revenues and expenditures of the extrabudgetary funds have their own financial reporting and benefit from spending flexibility. The main problem concerning the budget carryovers at the end of each fiscal year has been addressed and payments allowed after the end of the closing date are based on liabilities recorded and authorized at the end of the fiscal year; therefore, if it delays the closing of accounts, it does not undermine the meaning of annual budgets.
- **The revenue administration has not yet defined plans to improve tax compliance and collect tax arrears.** The absence—at present—of a well-formulated risk-based administration of revenue is a constraint, as there is no structured and systematic process for assessing, ranking, and quantifying taxpayers’ compliance risks. The application of risk criteria and monitoring of the ageing and collectability of arrears is conditioned by the access to reliable and comprehensive data from internal and external sources through a proper tax information management system, which has still to be developed, and depends upon the enforcement capacity from the tax administration. At present, the tax legislation offers interpretation loopholes and many options for tax exemptions, and a significant amount of tax debts are being negotiated between tax collectors and taxpayers.
- **Contingent liabilities are identified and analyzed but are not disclosed.** The comprehensive overview of the exposure to significant risks from explicit contingent liabilities within the infrastructure sector has been consolidated at the high level of government and led to a concrete debt restructuring effort over the last two years but has not been made public. In addition, data on the quantification of, and provision for, implicit contingent liabilities, some of which may be considerable, are unavailable, for example, the potential need to bail out large SOEs with non-guaranteed debts. Additionally, the unavailability of information pertaining to explicit contingencies relating to health and social security schemes, with no data available on these, is also a concern.
- **Weak medium-term planning processes, and the limited reliability of resource flows—and the budget adjustments driven by lower-than-expected revenue outturns—affect the capacity to deliver the plans at the sector level.** Furthermore, the existing MTFE and MTEF established—with donor support—are not consistent with resource availability, and the link between capital and recurrent expenditure managed through distinct processes is weak. As a result, the framework is not used as a basis to focus on priorities in the allocation of funds among institutions and sectors, and strategic sector planning remains weak. Externally funded projects are monitored separately and there are no systems to track allocations received by service delivery units.
- **Competitive tendering procedures for procurement can be improved to strengthen the way resources are allocated.** The recently approved Public Procurement Law will have new

instructions concerning the principles and operation of capital construction budgeting, including regulations on appropriations, fund allocation, payment, and final accounting for capital construction projects to bring it into line with good international practices.

- **Public investment management (PIM) remains weak due to limitations in planning capacity and a systematic application of pre-feasibility and selection criteria.** These weaknesses continue into the downstream phase, where there is no consolidated monitoring of decentralized implementation and processes for the costing, quality assurance, and reporting on value for money and fiduciary integrity are not harmonized. Detailed technical and costing guidelines are available at the central government level (provided by Japan International Cooperation Agency [JICA]) but the management of public investments is decentralized to the line ministries and provinces, with no standardized quality assurance for socioeconomic and environmental evaluations and no pre-feasibility studies.
- **Weak monitoring of provincial government spending undermines the quality of local spending.** The budget execution reports have limited reliability, as consolidation of the district level is entered manually into the GFIS.
- **Ex post budget scrutiny reveals a mixed oversight performance between the external audit function and the National Assembly.** The low capacity and absence of effective internal control and internal audit functions in line ministries and subnational governments has resulted in fragmented, suboptimal use of resources. The role of the State Audit Organization (SAO) in the oversight over government spending is essential, and budget execution of all central agencies and line ministries is audited, but there is no audit opinion and SAO reports are not published. The response by the government to audit recommendations is not monitored on an annual basis and there is no comprehensive, transparent, and effective follow-up on external audit and budget reports by the National Assembly.
- **Transparency in public finances needs to be improved as does timely access to data and performance information.** As Lao PDR is committed to improve PFM systems and adopt good governance principles, it has to improve accountability, transparency, and efficiency in all aspects of public sector performance. Inadequate information management systems, based on cash transactions, manual reconciliations, and cumbersome procedures should be upgraded to allow for effective management of public expenditures.

## Ongoing and planned reform agenda

13. **This PEFA assessment highlights PFM reform areas that have already been identified by the government and the approval of the Vision to 2030 and Public Finance Development Strategy to 2025 by the Prime Minister in July 2017 has placed PFM reforms as a government priority.** The strategy provides the framework for the medium- and long-term reform envisaged by the government and has high-level political support. The main objectives of the PFDS are to strengthen public finances management to sustain dynamic and stable economic growth and to support a graduation from LDC status by 2020. Emphasis is on regional and international integration, while at the same time, focusing on protecting the environment, creating prosperity, and enhancing the livelihoods of all ethnic groups.

14. **Fiscal consolidation and revenue mobilization have been defined as being of paramount importance to support the government's need for infrastructure spending and effective delivery of public services.** The new strategy aims at implementing a fiscal policy program to ensure macroeconomic and fiscal stability and strengthening the revenue and resource mobilization to support dynamic social and economic growth. The PFDS includes 10 strategies and action plans to support reform priorities in core PFM systems.

15. **The wider donor community has renewed its commitment to support those reforms through funding and technical assistance (TA).** The World Bank will continue to support this process through the ongoing Public Financial Management Reform Program Single Donor Trust Fund (PFM Reform SDTF) funded by the European Union (EU). Other donors, including the IMF, ADB and JICA are also providing assistance in the PFM area.

## Summary of results

16. **The PEFA performance assessment based on the 2016 PEFA methodology presents scores for the indicators and for each dimension, as listed in Table 2.**

Table 2: Performance status at a glance

PFM performance indicator		Scoring method	Dimension ratings				Overall rating
			i.	ii.	iii.	iv.	
<b>Pillar I. Budget reliability</b>							
PI-1	Aggregate expenditure outturn	M1	A				<b>A</b>
PI-2	Expenditure composition outturn	M1	D*	C	A		<b>D+</b>
PI-3	Revenue outturn	M2	B	D			<b>C</b>
<b>II. Transparency of public finances</b>							
PI-4	Budget classification	M1	C				<b>C</b>
PI-5	Budget documentation	M1	D				<b>D</b>
PI-6	Central government operations outside financial reports	M2	D	D	C		<b>D+</b>
PI-7	Transfers to subnational governments	M2	NA	NA			<b>NA</b>
PI-8	Performance information for service delivery	M2	C	C	D	D	<b>D+</b>
PI-9	Public access to fiscal information	M1	D				<b>D</b>
<b>III. Management of assets and liabilities</b>							
PI-10	Fiscal risk reporting	M2	D	NA	D		<b>D</b>
PI-11	Public investment management	M2	C	C	D	D*	<b>D</b>
PI-12	Public asset management	M2	C	D	D		<b>D+</b>
PI-13	Debt management	M2	C	D	D		<b>D+</b>
<b>IV. Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2	C	D	D		<b>D+</b>
PI-15	Fiscal strategy	M2	D	C	D		<b>D+</b>
PI-16	Medium-term perspective in expenditure budgeting	M2	C	C	D	D	<b>D+</b>
PI-17	Budget preparation process	M2	C	D	A		<b>C+</b>
PI-18	Legislative scrutiny of budgets	M2	D	B	A	B	<b>D+</b>
<b>V. Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2	D	D	C	D	<b>D</b>
PI-20	Accounting for revenue	M1	B	A	C		<b>B</b>
PI-21	Predictability of in-year resource allocation	M2	C	C	D	C	<b>D+</b>
PI-22	Expenditure arrears	M1	D*	D			<b>D</b>
PI-23	Payroll controls	M1	C	C	D	D	<b>D+</b>
PI-24	Procurement management	M2	D	D*	D	D	<b>D</b>
PI-25	Internal controls on non-salary expenditure	M2	C	C	B		<b>C+</b>
PI-26	Internal audit	M1	D	D	D*	D*	<b>D</b>
<b>VI. Accounting and reporting</b>							
PI-27	Financial data integrity	M2	D	B	B	C	<b>C+</b>
PI-28	In-year budget reports	M1	D	B	D		<b>D+</b>
PI-29	Annual financial reports	M1	C	C	D		<b>D+</b>
<b>VII. External scrutiny and audit</b>							
PI-30	External audit	M1	D	D	C	C	<b>D+</b>
PI-31	Legislative scrutiny of audit reports	M2	A	D	C	D	<b>C</b>

# 1. Introduction

## 1.1 Rationale and purpose

1. **Efficient utilization of overall resources through sound public financial management (PFM),** good governance, and oversight are priorities in the reform agenda of the Government of Lao PDR (GoL). The strengthening of PFM systems is fundamental to the successful development of Lao PDR and has been center stage in the government's policy agenda. There has been slow progress in strengthening the quality of PFM systems and processes since 2010, and there has also been a pause in the PFM reform agenda since 2013.

2. **This Public Expenditure and Financial Accountability (PEFA) Assessment is intended to assess the current state of PFM in Lao PDR.** This PEFA uses the upgraded 2016 methodology that has more demanding PFM standards with new calibration and scoring criteria. While it is expected that the assessment generates relatively low scores and reveals severe PFM performance gaps, the government expects that the narrative will also highlight the area of ongoing or planned reform action to link the analysis to the existing areas of the new PFM reform agenda and to support the post-PEFA dialogue on the priorities and sequencing of the reform actions.

3. **Two previous PEFA assessments have been carried out:** in 2006 a partial assessment by external reviewers and in 2010 a World Bank-led assessment using the 2005 PEFA framework and covering the 2004–2007 period. Results of the 2010 assessment reflected a picture of few strengths and major weaknesses in Lao PDR's PFM systems. Key strengths pertained to budget credibility and comprehensiveness of budget documentation. Weaknesses, on the other hand, were identified across dimensions of budget execution such as financial reporting, weak recording of cash, payroll controls, and internal audit, as well as high variation between budgets and outturns. Many indicators describe the reform efforts of key stakeholders of the budget process and point at reforms remaining 'work in progress'.

4. **There has been no further comprehensive PFM diagnostic conducted since the last PEFA assessment in 2010.** However, numerous analytical reviews in the form of technical notes on specific components of the PFM system have been carried out as part of the World Bank's engagement, including through the ongoing implementation of the European Union (EU)-financed Public Financial Management Reform Program Single Donor Trust Fund (PFM Reform SDTF). These analyses cover the past and ongoing technical support provided to the Ministry of Finance (MoF) since 2016, mainly in the areas of budget formulation, tax policy and administration, debt management, procurement accounting, treasury and Financial Management Information System (FMIS), and wage bill.

5. **Development partners have actively supported those reforms through funding and technical assistance (TA).** The World Bank will continue to support this process through the ongoing PFM Reform SDTF funded by the EU. Other donors are also providing assistance in the PFM area. The International Monetary Fund (IMF) provides TA on tax policy and fiscal reporting and was previously engaged in updating the chart of accounts. Japan International Cooperation Agency (JICA) finances two resident technical advisers, one working with the TD and the other with the Fiscal Policy and Law Department (FPLD). JICA has also funded a series of TA programs on Public Investment Management (PIM) in the Ministry of Planning and Investment (MPI). With funding from the Korea Export-Import Bank (KEXIM), the MoF currently implements a tax administration information technology (IT) system. The Asian Development Bank (ADB), through its Governance and Capacity Development in Public Sector Management Program, supports the MoF in the formulation of a Medium-Term Fiscal Framework (MTFF). Finally, the Gesellschaft für Internationale Zusammenarbeit (*Deutsche Gesellschaft für Internationale Zusammenarbeit*, GIZ) and the Swiss Agency for Development



Cooperation (SDC) with further EU funding is initiating a program to provide capacity building to the State Audit Organization (SAO), the National Assembly, and the Ministry of Justice (MoJ).

6. **These reports and TA programs have been made available to the Lao PEFA Assessment Team.** Direct consultations were made by the Lao PEFA Assessment Team with relevant experts to cross-reference the findings from the assessment, validate the technical narrative on performance, and integrate the ongoing or planned activities within the report where relevant. The team also reached out to other donors, through direct consultation or peer review, in the areas where additional work has been performed (IMF on fiscal policy, ADB on external audit and decentralization, JICA on public investment, and GIZ on parliamentary scrutiny).

### **Purpose of the assessment**

7. **In this context, the GoL agreed at the end of 2016 to carry out a PEFA self-assessment managed by the World Bank and financed by the EU, to establish a diagnostic study of the PFM system using the PEFA 2016 methodology.**<sup>1</sup> It is expected that the PEFA exercise will give further impetus to the momentum created by the launch of the PFM reform agenda, mobilizing the participating institutions on the subsequent dialogue on PFM reform policy decisions.

8. **The overall objective of the PEFA assessment is to provide a baseline with an evidence-based PFM performance assessment to guide the government's PFM reform strategy and potential engagement with its development partners in further strengthening PFM in the country.**

9. **The specific objectives of the 2018 PEFA assessment are to**

- Help the government prioritize its initiatives laid out in the Vision to 2030 and Public Finance Development Strategy (PFDS) 2025 focusing on the areas where basic foundations systems are required;
- Build the capacity and understanding of government technical staff on the underlying PFM systems and standards and practices to strengthen their ability to deliver on the PFM action plans; and
- Establish the government's platform for measuring PFM progress going forward and enable regular updates to the PFM reform program and subsequent monitoring.

10. **For development partners, the PEFA Lao PDR 2018 is an opportunity to define a common diagnostic as a basis for dialogue with the government on its future PFM reform needs and the priority areas for reform in the short term to midterm and to plan their program of support accordingly.** For the World Bank and the EU, the report will provide an input to confirm the appropriateness of their ongoing budget support operations and their ongoing and future TA program. For example, the EU's planned Economic Governance Program in Lao PDR is aligned with supporting the implementation of reform recommendations following the PEFA, and it uses the finalization of the PEFA assessment 2017–2018, as well as a number of indicators to monitor the progress of this program. The EU's ongoing (2013–2018) budget support operation in Lao PDR amounts to EUR 14 million and a new budget support program of EUR 55 million for the education sector is planned for 2018.

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<sup>1</sup> The PEFA Program is a partnership of the World Bank, the European Commission, the U.K. Department for International Development, Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, and IMF. A Steering Committee, comprising members of these agencies, manages the program. A Secretariat is located at the World Bank in Washington, DC. The new 2016 PEFA framework was launched in February 2016.

11. **The PFM Modernization Program Single-Donor Trust Fund (SDTF) funded by the EU and managed by the World Bank was established in January 2016 for a first phase until September 2018.** This supports the government’s PFM reforms in general and the implementation of the government financial management agenda. It is expected that the recommendations of the PEFA report will support the definition of priorities for the GoL’s public finance reform agenda and contribute to the design of Phase 2 of the program, which is planned to run from October 2018 to September 2021.

## **1.2 Assessment management and quality assurance**

12. **The PEFA assessment has been carried out jointly by the GoL, the World Bank team, and consultants.**

13. **The government set up the PEFA assessment governance structure as per the recommended structure of the PEFA methodology.** This included the PEFA Steering Committee (Oversight Team), the PEFA Assessment Technical Working Group (Assessment Team), and the Secretariat for the PEFA Assessment Technical Working Group through a Minister of Finance/Deputy Prime Minister’s decision dated July 25, 2017. While the MoF is the main government liaison office through its representation in the Lao PEFA Assessment Steering Committee, other institutions, such as the MPI, Ministry of Health (MoH), Ministry of Education and Sports (MoES), SAO, and the National Assembly contributed to the PEFA assessment through their representation in the Lao PEFA Assessment Team. Similarly, organizations and officials not represented in the Lao PEFA Assessment Team but involved in budget formulation, budget execution, procurement, internal audit, control, and accounting and reporting will be contacted to ensure correct data are used for the scoring of indicators (see Annex 3B). Additionally, some major line ministries have been involved to triangulate information obtained from the MoF directorate and assess performance of decentralized systems applying a sampling approach (PI-8, PI-24, and PI-26). The main revenue collecting extrabudgetary funds have been covered as has one province (Luang Prabang), as representative of the provincial government.

14. **The World Bank country team provided continuous support to the self-assessment with technical guidance and quality assurance throughout the assessment process.** Two PEFA and PFM specialists, Ms. Sylvie Zaitra (Lead) and Mr. Brandon Lundberg, were contracted by the World Bank to support the Lao PEFA Assessment Team through technical inputs, dissemination of scoring methodology, and evidence requirements. This assistance included the drafting of the report for discussion and validation. While the consultants supported the government in all PEFA inputs and outputs, the World Bank team has been closely involved and responsible for the overall dialogue with the GoL counterparts throughout the assessment process, providing technical guidance and mobilizing World Bank expertise to ensure the quality of the report and supporting the MoF PEFA Secretariat in the mission planning and coordination, follow up on information and data collection, and translation between and during consultants’ missions to facilitate the assessment process. Data collection, assessment, drafting of the write-ups and report, and scoring have been carried out by the Lao PEFA Assessment Team’s lead expert and submitted to the Steering Committee’s review and endorsement before the peer review process.

15. **Internal and external peer reviewers were involved** in the review of the concept note and the final report. There was a validation process that included a retreat in August 2018 with technical and political counterparts of the government’s team to comment on the results, which provided endorsement of the PEFA and commitment to the process. External peer reviewers include the GoL, the PEFA Secretariat, donor representatives of the PFM Reform SDTF Program.

16. All stakeholders worked together to ensure a quality assessment report is produced. Decisions on final ratings have been made in consultation with the World Bank.

17. **The assessment management and quality assurance arrangements**, with the names of all individuals who participated in the different stages of the assessment process, are presented in Box 1.1.

**Box 1.1: Assessment management and quality assurance arrangements**

**PEFA assessment management organization**

**Oversight team/steering committee**

**Chair and members from Ministry of Finance**

- Mr. Atsaphangthong Siphandone, Deputy Minister of Finance, Ministry of Finance (Head)
- Dr. Bounleua Sinxayvoravong, Director General, Fiscal Policy and Law Department (Deputy Head)
- Mrs. Yord Phengsombath, Deputy Director General, National Treasury
- Mrs. Khonemany Phimmasack, Deputy Director General, Tax Department
- Mr. Angkhansada Muangkham, Deputy Director General, External Finance Department

**Assessment team leader and team members/assessment manager**

- Team Leader/Head: Dr. Bounleua Sinxayvoravong, Director General, Fiscal Policy and Law Department, Ministry of Finance
- Deputy Head: Mr. Soulivath Souvannachoumklam, Deputy Director General, Budget Department, Ministry of Finance
- Manager: Mrs. Sifong Oumavong, Director of Economics and Fiscal Policy Division, Fiscal Policy and Law Department, Ministry of Finance
- Dr. Vilaithong Southavilay, Deputy Director General, Institute of Financial Information Development, Ministry of Finance
- Mr. Bounthong Munanong, Deputy Director General, Inspection Department, Ministry of Finance
- Dr. Kotxaythoun Phimmasone, Deputy Director General, Ministry of Health
- Mrs. Dara Phrakonekham, Deputy Director General, Ministry of Education and Sports
- Mr. Oula Somchanhmvong, Deputy Director General, Ministry of Planning and Investment
- Mr. Xayoh Huerngnimit, Deputy Director General, State Audit Organization
- Mrs. Choummaly Khammounty, Division Director, Ministry of Finance
- Mr. Chanmina Pamanivong, Division Director, Ministry of Finance
- Mrs. Souksakhone Sithitbandith, Acting Director, National Assembly
- Mr. Bounmi Sibounhueng, Deputy Director, Ministry of Health
- Mr. Duangchai Keomixay, Deputy Director, Ministry of Finance
- Mr. Souphavanh Phanthavyxay, Deputy Director, Ministry of Finance
- Mr. Souksavath Manachit, Deputy Director, State Audit Organization
- Mrs. Boupavanh Keomixay, Ministry of Planning and Investment

**PEFA Secretariat, Ministry of Finance**

- Mrs. Sifong Oumavong, Director of Economics and Fiscal Policy Division, Head
- Mrs. Soulitha Keopaseuth, Deputy Director Division, Deputy Head
- Mr. Keoaloun Duangphachanh, Deputy Director Division, member
- Mr. Chintanakone Soisithattha, Sector Head, member
- Mr. Anulack Onkhamtay, Sector Head, member
- Mr. Vithanom Keokhounsi, Technical Staff, member

**World Bank**

- Mr. Fily Sissoko, Practice Manager
- Mr. Maxwell Bruku Dapaah, Senior Financial Management Specialist and Team Leader (since November 2018)
- Mr. Saysanith Vongviengkham, Public Sector Specialist and Co-Team Leader (until December 2018)
- Mrs. Fanny Weiner, Senior Public Sector Management Specialist and Co-Task Team Leader
- Mrs. Siriphone Vanithsaveth, Senior Financial Management Specialist
- Mrs. Viengmala Phomsengsavanh, Technical Consultant to the Lao PEFA Assessment Secretariat
- Mr. Duangpanya Volavong, Tax Consultant
- Mr. Hari Purnomo, Senior Public Sector Specialist
- Mrs. Sourignahak Sakonhninhom, Program Assistant

#### **Technical assistance**

- Mrs. Sylvie Zaitra (Lead), PFM consultant
- Mr. Brandon Lundberg, PFM consultant (until December 2017)
- Mr. John Short, PFM consultant (quality assurance)

#### **Review of concept note and/or terms of reference (ToR)**

Date of reviewed draft concept note: November 9, 2017

Invited reviewers and reviewers who provided comments:

Mrs. Sifong Oumavong, Director of Economics and Fiscal Policy Division, Ministry of Finance

Mr. Eric Deschoenmaeker, EU

Mr. Guillaume Brule, PEFA Secretariat

Mr. Pierre Messali, World Bank

Date of final concept note: January 23, 2018

#### **Review of the assessment report**

Dates of reviewed draft reports: Feb 8, 2019

Invited reviewers and reviewers who provided comments:

Dr. Bounleua Sinxayvoravong, Director General, Fiscal Policy and Law Department, Ministry of Finance

Mrs. Sifong Oumavong, Ministry of Finance, Director of Economics and Fiscal Policy Division, Fiscal Policy and Law Department, Ministry of Finance

Mr. Eric Deschoenmaeker, EU

Mr. Guillaume Brule, PEFA Secretariat

Mr. Pierre Messali, World Bank

Date of final report: March 27, 2019

Date of PEFA Check: March 21, 2019

Date of publication on PEFA Secretariat website: September 2019

## **Quality assurance**

18. **Peer reviews included internal and external peer reviewers and cover the concept note and the draft and final reports.** The GoL's internal peer reviewers were all the relevant GoL technical departments. The World Bank's internal review included at least one representative from the World Bank's Governance Global Practice. External peer reviewers have included the PEFA Secretariat, EU as donor representative. The quality assurance process was articulated through the Lao PEFA Assessment Team and the Lao PEFA Assessment Steering Committee.

19. **The Lao PEFA Assessment Team held periodic meetings and debriefings, including with development partners, to serve as checkpoints for reviewing progress and adjusting timelines as needed.** The final decision on ratings were done after confirmation by the PEFA Secretariat—through the PEFA review and PEFA Check process (see [www.pefa.org](http://www.pefa.org))—based on the evidence provided in the draft report that the methodology has been consistently applied.

## **1.3 Assessment methodology**

### **Scope and coverage of the assessment**

20. **The assessment is based on the PEFA 2016 framework issued by the PEFA Secretariat in February 2016 using all the 31 performance indicators and 94 dimensions of the framework.** The report was prepared in accordance with the PEFA Handbook, Vol. I and II and guidelines available on

its website ([www.pefa.org](http://www.pefa.org)). The assessment team worked closely with the PEFA Secretariat to seek guidance and clarifications when required.

21. **The PEFA assessment focuses on the national level of Lao PDR PFM systems**, seeking to cover the entire PFM architecture, the revenue side and the expenditure side, through the budget cycle from planning through execution to control, reporting, and audit. This covered all the budgetary agencies of Lao PDR including the 46 ministries and state agencies (even if only 17 are presented in the State Budget Plans)—including the oversight institutions such as the SAO and the National Assembly on budget and audit reports—and 6 other semi or fully extrabudgetary funds and 183 state-owned enterprises (SOEs) partially or fully controlled by the government. All sectors have been included in the assessment—except information on aspects of defense, public order, and safety functions that have been left outside the scope of the samples for reasons of national security—with a focus on service delivery sectors.

22. **The list of government entities assessed as part of the PEFA exercise is presented in Annex 3.** Extrabudgetary funds with budget allocation and donors' grants toward specific purposes (such as poverty reduction, road maintenance, reforestation, and social security benefits) are managed by ministries or agencies and are wholly or partially financed by specific revenues (such as taxes on road transport and social security contributions). Both revenue and expenditure of these extrabudgetary funds are included in the MoF budgetary aggregates for central government revenue and expenditure to determine the government's overall financing needs and therefore will also be covered by the assessment, reviewing available information on each of these funds (PI-6).

23. **The 183 SOEs providing most of the utility services have their own financial regime but remain mainly under the management of the ministry that covers their activities.** Directors are appointed jointly by the MoF and the ministry concerned. The government has recently embarked upon the restructuring and privatization of SOEs under the restructured SOE Department within the MoF. SOEs producing revenues and representatives of main economic sectors out of the 183 listed SOEs have been analyzed (PI-10) based on their financial position and the information available from the MoF SOE Department. Information on capital, government share, turnover, and profit/loss status in 2017 financial reporting was made available to the assessment team.

#### *Subnational governments*

24. **In the Lao PDR context, the development of a subnational governmental arrangement is at an early stage.** The 18 provinces/cities remain part of the central government as first-tier budgetary units (State Budget Law [SBL]). There are also 148 districts that are considered second-tier spending entities. Although the districts are considered second-tier spending entities, they are in nature and practice deconcentrated units of the central government as provincial governors exercise considerable authority over their budget allocation and operations. The ministries at the central government level constitute the policy tier while the provinces and the districts are engaged in the delivery of public services and implementation of development programs. A formula-based allocation for fiscal transfers to provinces is still being developed with assistance from development partners. The performance of provincial PFM systems was covered together with central government systems under respective indicators. The budget allocations to provinces are meant to cover all the expenditures, including the civil servants' salaries and wages and other expenditures, of the 148 districts. As the functional allocation of the provincial budgetary resources is flexible and reporting is not consolidated and monitored systematically at the central level, budget execution may not always follow the declared priorities of the central government for infrastructure and public services development. Furthermore, if estimated revenues collected at the provincial level are budgeted for, any shortfall of cash and deficit has to be covered by the central government, affecting its fiscal performance. The lower district level of the government, the resource allocation from provincial level

to district services (PI-7), and the consolidation of the reporting and fiscal risks attached to district operations (PI-10.2) have not been assessed, as the transfer system is not yet developed.

### When performance is assessed

25. **The assessment covers statistical information related to revenue and expenditure during the most recent three fiscal years for which information was available and comparable.** As the assessment was conducted between September 2017 and August 2018, the period of analysis at the start of the exercise was 2013/14, 2014/15, and 2015/16. Until 2016 the fiscal year in Lao PDR ran from October 1 to September 30. After a supplementary budget was voted for the last three months of calendar year 2016, the new 2017 fiscal year ran from January 1 until December 31, 2017. At the end of the assessment, the periods of analysis used in accordance with the methodological requirements defined for each indicator are defined under Table 1.1.

**Table 1.1: Periods of analysis for the Lao PDR 2018 PEFA assessment**

Period covered for the analysis	Fiscal years in reference
Last three years' financial report	2014/2015, 2015/2016, 2017
Last budget submitted to the legislature (with cutoff date August 2018)	2018
Last annual financial report submitted for audit	2017
Last three completed fiscal years	2014/2015, 2015/2016, 2017
Last completed fiscal year	2017
At time of assessment	Between March and August 2018
Cutoff date	August 31, 2018

26. **The cutoff date to update the evidence and change the scores was defined as August 31, 2018.** When possible, information about progress in improving PFM available up to the time of the final mission in August 2018 (when the scores have been presented to and validated by MoF officials, World Bank, and EU) has been updated.

27. **The GoL and the World Bank agreed not to track performance changes to the previous Lao PDR PEFA 2010.** This PEFA is to establish a new baseline for the PFM reform monitoring and dialogue with development partners by using the latest PEFA methodology.

28. **The assessment team consulted a wide range of persons and documents.** The list of persons consulted is provided in Annex 3A. The list of documents consulted from various ministries and budgetary agencies and studies and analysis produced by the World Bank and other development partners as inputs to the assessment are in Annex 3B. This also includes the core PFM laws and regulations, five-year and annual development plans, annual budgets, budget execution reports, annual audited financial statements, and audit reports.

29. **Capacity building and PFM training was provided to the government counterparts throughout the assessment and they support the development of the PFM reform actions plans.** Key counterpart members of the government attended a PEFA workshop on the 2016 methodology organized by the PEFA Secretariat in Manila (March 2017). A PEFA training session was organized with the PEFA Secretariat in Vientiane for the Lao PEFA Assessment Team in May 2017. This training was to explain in detail the 2016 PEFA methodology and scoring and the data requirement for the successful conduct of the PEFA self-assessment. Further targeted trainings on the upgraded 2016 PEFA framework methodology have been undertaken by the consultants during their main field missions in September and November 2017.

30. The final timetable for the Lao PDR 2018 PEFA activities is presented in Table 1.2.

**Table 1.2: Timetable of the Lao PDR 2018 PEFA milestones and deliverables**

<b>Milestones and deliverables</b>	<b>Dates</b>
<b>PEFA 2016 methodology training</b> (with the PEFA Secretariat) <b>Establishment of the 2018 Lao PEFA Assessment Steering Committee (Oversight Team) by the GoL</b>	May 2–5, 2017 July 25, 2017
<b>First mission consultants (September 4 to 29, 2017)</b> <ul style="list-style-type: none"> <li>• Refresher workshop with Lao PEFA Assessment Team</li> <li>• First draft concept note</li> <li>• Official launch workshop by the GoL with PFM stakeholders</li> <li>• <b>Initial data stocktaking</b> requests submitted to the government counterpart team</li> </ul>	September 2017
<b>Second mission consultants (November 20 to December 8, 2017)</b> <ul style="list-style-type: none"> <li>• Finalization of concept note</li> <li>• <b>Data collection</b> by focal points in the GoL</li> </ul>	November–December 2017
<b>Third mission lead consultant (March 1 to 8, 2018)</b> <ul style="list-style-type: none"> <li>• Follow up data collection</li> </ul>	March 2018
<b>Fourth mission lead consultant (June 21 to 30, 2018)</b> <ul style="list-style-type: none"> <li>• Follow up data collection</li> <li>• Retreat for validation at the technical level with Lao PEFA Assessment Team</li> <li>• GoL’s feedback and completion of the PEFA report</li> </ul>	June 2018
<b>Fifth mission lead consultant (July 31 to August 10, 2018)</b> <ul style="list-style-type: none"> <li>• Follow up data collection</li> <li>• Retreat for validation at the technical level with Lao PEFA Assessment Team</li> <li>• Data gap analysis and final scores’ validation</li> </ul>	August 2018
<b>Issue of draft PEFA report for peer review process</b> <ul style="list-style-type: none"> <li>• Peer review comments submitted</li> <li>• Issue of final draft PEFA report with review matrix</li> <li>• Feedback from the PEFA Secretariat</li> </ul> <b>Official endorsement of the final PEFA report by the GoL</b>	January to March 2019
<b>PEFA dissemination</b> <ul style="list-style-type: none"> <li>• Final dissemination workshop and publication on websites (MoF, PEFA Secretariat, donors)</li> <li>• Presentation of PEFA country experiences (Vietnam, the Philippines and Indonesia)</li> </ul> <b>Updating of PFM reform action plans</b> <ul style="list-style-type: none"> <li>• PEFA performance matrix and recommendations for the Public Finance Strategy action plan</li> </ul>	March 2019 onward

## **PEFA assessment findings and PFM reform**

31. **The report includes a description of the ongoing reform agenda to ensure that the PEFA findings are integrated into the country PFM reform process.** After the report is completed, a specific annex—not included in the PEFA guidelines—will identify short- to medium-term initiatives aimed at enhancing the performance of the PFM systems. The assessment results are expected to be reflected in the government’s PFM policy document and action plans. To support this, the Lao PEFA Assessment Team will discuss the link with the ongoing PFM agenda and learn from other countries how the PEFA process can provide some traction to the design and sequencing of the PFM policies. Other follow-up measures could include discussions with the authorities to develop complementary programs to support cooperation in the areas highlighted by the assessment. A workshop was organized on March 26, 2019 in Luang Prabang, Lao PDR toward developing a detailed monitoring and evaluation plan to follow up and assess the progressive results of continuous reforms.

## 2. Country background information

### 2.1 Country economic situation

32. **The GoL has made stop-start, and thus slow but steady, progress in implementing reforms and building the institutions necessary for a market economy.** Lao PDR is currently the second fastest growing economy in Association of Southeast Asian Nations (ASEAN) and among the top 13 in the world and managed to change itself from a mountainous and landlocked country primarily engaged in subsistence agriculture and forestry to a successful ‘land-linked’ country, known as the ‘Battery of Asia’. It has transformed itself by prioritizing easy access and power supply to Thailand, China, Myanmar, Vietnam, and Cambodia, its larger and fast-emerging neighboring economies.

33. **The transition from a centrally planned economy to a market-oriented one over the last 30 years has delivered considerable achievements.** After independence in 1975, Lao PDR introduced a centrally planned economic system. Under this system, the country failed to achieve the expected growth and development, and a shift to a market economy (‘New Economic Mechanism’) was initiated in 1986. Although the Asian Financial Crisis in the late 1990s exposed the country to macroeconomic instability and high dependency on foreign aid flows, the government has made slow but steady progress in implementing reforms and building the institutions necessary for a market economy, culminating in accession to the World Trade Organization (WTO) in February 2013.

34. **Since 2005, the economy of Lao PDR has grown at a rate of above 7 percent annually, one of the fastest rates of the region.** Economic prospects remain favorable. Nominal gross domestic product (GDP) was estimated at LAK 119,731 billion or US\$14,5 billion in 2017, with a per capita income of US\$2,150 in FY2016.<sup>2</sup> GDP growth is projected to remain at around 6.7 percent in 2017 and 6.6 percent in 2018, supported by a continuation of resource-related foreign direct investment (FDI) (mainly hydropower)<sup>3</sup> with growing opportunities for the non-resource sector resulting from closer ASEAN integration and efforts to improve the investment climate. Average annual inflation was less than 1 percent in 2017 and is expected to remain moderate at around 3 percent.<sup>4</sup> The current account deficit was high at 13 percent of GDP in 2017, although it is estimated that about half the deficit reflected imports related to large FDI projects, including the Kunming-Vientiane railway project, which is part of China’s Belt and Road Initiative.<sup>5</sup>

35. **Throughout most of the 2000s, growth was driven by mining, but in recent years, the main sources of growth have been large hydropower projects.** Following the decline of the mining sector due to lower prices and a weak regulatory environment, the power sector has expanded significantly, driven by demand mostly coming from neighboring countries. In 2016, 30 percent more power generation went online, with exports rising to neighboring countries such as Thailand. Growth has further diversified through the service industry, wholesale and retail trade, and tourism and transport. Air traffic increased notably in 2016 after the liberalization of air transport, which helped boost tourism (mainly from China and the Republic of Korea).

36. **However, high growth has been accompanied by increased vulnerabilities, especially to commodity prices.** Public debt has risen and falling commodity prices have left the government struggling to address fiscal deficits, posing pressing challenges for economic management. In recent years, Lao PDR has maintained a fiscal deficit with debt levels considered high for the region. The fiscal deficit averaged 5 percent of GDP from 2013 to 2016, compared to 1.3 percent of GDP in other

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<sup>2</sup> Source: World Bank estimates from <https://data.worldbank.org>.

<sup>3</sup> Source: World Bank staff estimates and projections as of September 19, 2017.

<sup>4</sup> Source: IMF Country Report No. 17/53, 2016 Article IV Consultation.

<sup>5</sup> Article IV Consultation with Lao PDR published in March 2018.



developing countries in Asia. Public debt is now around 67 percent of GDP, compared to 38 percent in other developing countries in the region. The start of the construction of the railway line connecting Vientiane to the border with China (Lao-China Railway) as part of the Kunming-Singapore railway will potentially boost domestic demand but will also lead to widening of the fiscal and external balances likely financed by borrowing from China. A high current account deficit, a tightly managed and overvalued exchange rate, and low reserves leave the economy vulnerable to external shocks. High public debt and fiscal deficits pose a key risk. Gross international reserves remain low at about one month of prospective imports.

**37. Private economic activity in Lao PDR is growing, including through the recently established Special Economic Zones, but the sector remains small and dominated by SOEs.** Lao PDR was ranked 139, out of 190 economies, on the 2017 Ease of Doing Business rankings. Furthermore, the GoL maintains ownership stakes in key sectors of the economy such as telecommunications, energy, finance, mining, and utilities services through a network of SOEs. Although there is no publicly available list of Lao SOEs, the GoL reports that there are 183 SOEs in Lao PDR with more than US\$5 billion in assets.<sup>6</sup> The GoL announced its intention to increase private ownership in SOEs through listing on the Lao Stock Exchange, such as Lao Airlines, or spinning off parts of large SOEs, such as the state electrical utility, *Electricité du Lao* (EDL).

**38. The financial sector is slowly developing but the Lao PDR capital market is still small.** The Lao Securities Exchange (LSX) began operations in 2011 with two stocks listed, both state run.<sup>7</sup> In 2012, the GoL increased the proportion of shares that foreigners can hold on the LSX from 10 percent to 20 percent. As of April 2017, there are only five companies listed on the LSX: *Banque pour le Commerce Exterieur Lao* (BCEL), *Electricité du Laos - Generation* (EDL-Gen), Petroleum Trading Lao (fuel stations), Lao World (property development and management), and Souvanny Home Center (home goods retail). The absence of long-term credit options in the domestic market hampers the development of the domestic private sector.

**39. The banking system is under the supervision of the Bank of Lao PDR (BoL) with limited ability to conduct a monetary policy and weak regulatory and enforcement capacity in the banking sector, as the domestic financial structure remains weak.** Capital inflows and outflows in multiple currencies other than the kip, principally in Thai baht and U.S. dollar, in the domestic economy, limit the ability of the central bank to manipulate the money supply at the desired level. The dollarization rate has decreased significantly since the Asian crisis but remained at about 52 percent<sup>8</sup> in 2016. The last IMF Article IV report suggests the risk of banking system distress that could cause a credit crunch and a slowdown in economic activity or a scenario where a macroeconomic or external shock with sudden slowdown in economic activity leading to higher nonperforming loans and exposing weaknesses in the solvency of the domestic bank system.

**40. Social and economic development in Lao PDR falls within the framework of successive five-year plans.** The government's development agenda in the medium term, as specified in the 8th National Socio-Economic Development Plan (NSED) 2016–2020, is to (a) strengthen the non-resource sector, focusing on tourism, small and medium enterprises (SMEs), and agro-processing; (b) strengthen environmental and social safeguards on hydropower and mining; (c) enhance the rule of law; and (d) improve access to safety net systems, health, and education. Nearly half of the proposed indicators for monitoring and evaluating development outcomes in the NSED are linked to the United Nation's 17 Sustainable Development Goals (SDGs). The government projects that through the

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<sup>6</sup> Source: IMF Article IV for Lao PDR dated February 2017.

<sup>7</sup> BCEL, and the power generation arm of the electrical utility, EDL-Gen.

<sup>8</sup> "Lao PDR: Accelerating Structural Transformation for Inclusive Growth." Country Diagnostic Study, 2017.

implementation of the NSEDP, GDP growth will average 7.5 percent; however, these estimates have already been revised slightly downward given the moderate level of economic activity in 2016.

41. **Poverty has fallen, and Lao PDR has made progress toward its goal of graduation from Least Developed Country (LDC) status.** Lao PDR has for the first time met the criteria for LDC graduation in 2018. The gross national income (GNI) per capita reached US\$2,330 in 2017 and poverty has fallen from 34 percent in 2002/03 to 23 percent in 2012/13,<sup>9</sup> meeting the Millennium Development Goal (MDG) target of reducing poverty to below 24 percent. Since 2015, Lao PDR is considered a lower-middle-income country based on its GNI per capita and is also in the medium human development category according to the United Nation's Human Development Index (HDI), with a score of 0.586 and a rank of 138 out of 188 countries in 2015. Life expectancy at birth is 66.6 years. Adult literacy rate (ages 15 and older) is 79.9 percent.

42. **Nevertheless, the reduction in poverty has been accompanied by rising inequality as the benefits of growth and poverty reduction have not been evenly distributed.** The widening inequality is reflected in geographic and ethnic disparities. Lao PDR performance in both the human assets index and economic vulnerability index is lagging behind its peers. Inequality has widened, with an increase in Gini coefficient rising from 0.3 percent to 0.37 percent between 1992/1993 and 2012/2013 affecting both rural and urban areas. While urban areas near the border of Thailand have lower poverty, the incidence is much higher in the northern part of the country.

**Table 2.1: Key macroeconomic indicators and outlook**

	2014	2015	2016	2017 (pr.)	2018 (pr.)	2019 (pr.)	2020 (pr.)
<b>Real economy</b>	<b>Annual percentage change, unless otherwise indicated</b>						
Real GDP	7.5	7.4	7.0	6.7	6.6	6.9	7.0
GDP deflator	-0.1	-0.7	1.6	2.5	2.8	2.6	2.5
Consumer price index (CPI) (average)	4.2	1.3	1.5	2.0	3.0	3.0	3.0
Output gap	0.9	0.6	0.3	0.0	-0.3	-0.1	..
Real effective exchange rate	142.6	163.5	160.4	—	—	—	—
<b>Fiscal accounts</b>	<b>Percentage of GDP</b>						
<b>Revenues</b>	<b>24.1</b>	<b>22.9</b>	<b>19.6</b>	<b>19.5</b>	<b>20.1</b>	<b>20.8</b>	<b>21.5</b>
Taxes	15.6	15.8	15.1	15.0	15.5	16.2	16.8
Nontax	2.9	2.5	2.6	2.4	2.5	2.5	2.6
Grants	5.6	4.6	1.8	2.0	2.1	2.1	2.1
<b>Expenditures</b>	<b>28.0</b>	<b>26.6</b>	<b>25.2</b>	<b>25.7</b>	<b>25.0</b>	<b>24.3</b>	<b>24.0</b>
Current primary expenditure	16.6	15.7	15.2	14.3	14.0	13.5	13.2
Interest payment	1.0	1.1	1.3	1.3	1.3	1.5	1.6
Capital expenditure	10.4	9.8	8.8	10.1	9.7	9.3	9.2
General government balance	-3.8	-3.7	-5.7	-6.2	-4.8	-3.5	-2.5
General government total debt	64.9	65.8	68.0	70.5	70.4	68.4	65.0
<b>Balance of Payments</b>	<b>Percentage of GDP, unless otherwise indicated</b>						
Current account balance	-17.7	-17.3	-14.2	-14.0	-17.0	-16.6	-15.8
Merchandise exports	35	31	29	30	29	30	31
Merchandise imports	54	49	44	43	45	45	44

<sup>9</sup>Source: World Bank estimates from <https://data.worldbank.org>; poverty measured as poverty headcount ratio at national poverty lines.

	2014	2015	2016	2017 (pr.)	2018 (pr.)	2019 (pr.)	2020 (pr.)
Services, net	3.6	3.6	3.3	2.1	1.6	1.1	0.9
FDI	12.1	12.4	8.7	10.8	12.5	12.7	10.7
Gross reserves (US\$, millions,)	816	987	815	986	1,134	1,299	1,437
In months of imports	1.7	2.2	1.6	1.8	1.8	1.9	2.0
Exchange rate, US\$ (average)	8,035	8,117	8,198	8,280	8,363	8,447	8,531
<b>Other items</b>							
GDP (nominal, LAK, billions)	94	101	109	120	131	144	158
GDP (nominal, US\$, billions)	11.8	12.4	13.4	14.5	15.7	17.0	18.5

Source: pr. = projected. World Bank, 2014 to 2016 (actual) and 2017 (with forward estimates)

Note: As per government fiscal calendar, the data from 2014 to 2016 cover the period from October to September and from 2017 onward the data cover the new fiscal calendar year from January to December.

43. **Structural transformation is necessary to achieve sustained and inclusive growth.** The largest percentage of the population continues to be engaged in agriculture, which is mostly characterized by subsistence farming. Two-thirds of the population lives in rural areas, although the urban population increased 40 percent between 2005 and 2015. Despite the robust growth over the last decade, wealth has been concentrated in the natural resource sectors, which are capital intensive and create relatively few jobs. With low productivity in agriculture and weak performance in manufacturing, consumption has increased at only 2 percent per year. About 82 percent of workers were in agriculture or self-employed in 2015.<sup>10</sup> Other significant sectors of employment include: trade (11 percent), manufacturing (7 percent), and public services (6 percent), as of 2013.

## 2.2 Fiscal and budgetary trends

### Fiscal performance

44. **In recent years, Lao PDR has maintained a fiscal deficit with debt levels considered high for the region.** Public debt is now around 67 percent of GDP, compared to 38 percent in other developing countries in the region. The latest 2017 Debt Sustainability Analysis by the IMF/World Bank confirms that Lao PDR faces a high risk of debt distress. Lao PDR's external public and publicly guaranteed (PPG) debt has risen for the past few years. The nominal stock of PPG external debt increased from US\$5.4 billion at end-2013 to about US\$6.5 billion at end-2015 due mainly to higher borrowing from Thailand and China and sovereign bond issuance in the Thai market. Debt financing needs are expected to grow as the deficit is gradually reduced and non-concessionary loans are coming to maturity. The stock of public debt arrears is unclear and government agencies have reported significant differences in numbers. As a result, an inter-ministerial committee has been set up to validate actual stocks. In addition, there are plans to set up a PIM division in the MoF to monitor planning and disbursements of investment funds.

45. **Fiscal policy over the medium term aims to improve the sustainability of the fiscal position.** Turning to bilateral borrowing and fewer concessionary sources to finance the budget and investment projects can expose the country to more fiscal risk. Fiscal consolidation through improved revenue collection and spending efficiency is required to help stabilize and eventually reduce the public debt burden. The fiscal deficit is projected to stabilize in 2017 resulting from the government's effort to strengthen non-resource taxation, review exemptions, and improve PFM. The macroeconomic policy dialogue under the Vision 2030 and the NSEDP 2025 includes measures that would facilitate a stronger fiscal adjustment to reduce the deficit by around 1 percentage point of GDP on average per year and lower public debt ratio to 65 percent of GDP by 2020 and 55 percent of GDP by 2022. A National

<sup>10</sup> Lao PDR Systematic Country Diagnostic, March 2017.

Economic Steering Committee was recently established to better coordinate economic policies. Failure to make progress on fiscal consolidation, strengthen debt management, deal with weak banks, and increase confidence in the exchange rate will test macroeconomic stability with severe implications for growth, public service delivery, and poverty reduction. Tax policy and administration reforms are likely to require significant improvements in data gathering and revisions to tax laws in 2018–2019. The GoL plans to institute reforms under the new Public Debt Management Law and the new Public Procurement Law will start to address the high level of debt and put a limit on annual borrowing and restrict new debt to concessional terms, as well as establish an official medium-term target.

46. **On the revenue side, new policies reflect the efforts by the authorities to reduce the fiscal gap and strengthen the revenue administration.** The fiscal position deteriorated in 2015/16 due to revenues falling short of target. The revenue-to-GDP ratio is estimated to have declined to 19 percent in 2015/16 (about LAK 20.4 trillion or US\$2.5 billion) from 23 percent of GDP in 2014/15. Revenue collection increased slightly through improved value added tax (VAT) enforcement and profit tax shares, while relevant commodity prices (gold and copper) and foreign grants declined. Effective fiscal measures have been implemented since early 2016, for instance the calculation of import duties on fuel and vehicles on actual invoice price rather than outdated reference prices, and most fuel tax exemptions for investment projects were removed in August 2016.<sup>11</sup> The Tax Law was amended in December 2015 to increase the excise tax rates on imported goods (to be effective from 2018), and new taxes are being considered (land, environment, and property taxes). The VAT Law was also revised in 2015 to simplify filing, and implementing instructions were prepared to ensure more effective enforcement.

47. **On the expenditure side, the annual State Budget Plan 2017, revised and approved by the National Assembly in December 2016, promotes budgetary oversight in budget preparation and presentation,** and introduces an annual medium-term budget and public debt framework, with the aim of achieving a more efficient allocation and execution of public resources. The government budget for 2015/16 was approximately US\$3.3 billion equivalent, of which, for example, about US\$466 million was allocated to the education sector (US\$258 per student) and US\$237 million to the health sector (US\$36 per person). Wages represented approximately US\$1,120 million in 2015/16 (above 8 percent of GDP), and their share was particularly high in these sectors. There were also significant funds from development partners, which were implemented directly and thus were not included in the budget.

48. **The authorities have envisaged measures to improve fiscal discipline and create some fiscal space.** As revenue from the mining industry will increasingly be replaced by growing revenues from the power sector (around US\$100 million in 2016), the government intends to keep a tight control over employment and wage spending, upgrade the framework for public procurement, and improve PIM. Stronger controls, renegotiation of the terms of existing liabilities, and the requirement to allocate 30 percent of capital spending to clearance of arrears are expected to gradually resolve the arrears issue.

49. **Public expenditure reform is needed to improve the efficiency and transparency of public expenditure and reorient spending toward better social sector outcomes.** Over the past decade overall public spending has increased more rapidly in Lao PDR compared to its regional peers, yet spending on social assistance is lower, and the public sector wage bill is among the highest. Health and education outcomes are also below regional averages and need higher and targeted investment. At the same time, public investment has been volatile as the government has attempted to deal with poor coordination between central and local authorities and governance issues in part by closing investment projects and settling arrears. Lao PDR is ranked low (123) on Transparency International's Corruption Perception Index. The government has already set a goal of better targeting investment and social spending and had already moved to better control public investments projects.

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<sup>11</sup> Source: World Bank internal note on PFM reform.

50. **Table 2.2 presents aggregate fiscal data.** This shows that there was an overall fiscal deficit greater than 6.9 percent of GDP in 2014/15 but this fell to 5.8 percent in 2015/16 as the fall in expenditure was greater than the fall in domestic revenue. Grants fell significantly in 2015/16, which placed a greater burden on domestic revenue. Foreign financing of the deficit is more important than domestic sources.

**Table 2.2: Aggregate fiscal data**

	2014/15	2015/16	2017
Total revenue	17.9	15.8	16.2
Domestic revenue	15.4	14.7	14.6
Grants	2.5	1.1	1.7
Total expenditure	22.3	20.5	21.5
Current	12.6	13	12.5
Capital and onlending	9.7	7.5	9.0
Aggregate deficit (including grants)	-4.4	-4.7	-5.3
Aggregate deficit (excluding grants)	-6.9	-5.8	-7.0
Net financing			
- external	4.8	4.7	n.a.
- domestic	0.4	1.2	n.a.

Source: World Bank data.

Note: Totals may not add up due to rounding.

51. **Given the structure of the chart of accounts, expenditure is not classified by function.** The only information available on the breakdown of expenditures by government sectors for 2017 and 2018 is presented in Table 2.3.

**Table 2.3: Budget allocations by government sectors**

No.	Description	Total 2017 (LAK millions)	Total 2018 (LAK millions)
	<b>Total expenditure</b>	<b>32,402,000</b>	<b>32,809,412</b>
<b>I</b>	<b>Economic sector</b>	<b>1,910,847</b>	6,100,193
1	Finance	436,553	2,035,247
2	Planning and investment	84,361	511,477
3	Agriculture and forestry	330,628	473,688
4	Public works and transports	894,934	2,746,340
5	Energy and mines	87,494	245,519
6	Industry and commerce	76,876	87,922
<b>II</b>	<b>Social and cultural sector</b>	<b>5,597,200</b>	<b>8,690,859</b>
1	Foreign affairs	73,820	94,386
2	Justice	80,893	95,033
3	Information, culture, and tourism	187,206	229,778
4	Labor and social welfare	916,824	1,068,253
5	Education and sports	2,729,036	4,187,926
6	Public health	1,294,147	2,527,414
7	People's supreme court	61,916	73,545

No.	Description	Total 2017 (LAK millions)	Total 2018 (LAK millions)
8	Public prosecutor general	59,173	70,358
9	State audit	17,308	25,569
10	Science and technology	48,939	89,124
11	Water and environment	127,939	229,471
III	<b>Other administration</b>	<b>24,893,954</b>	<b>18,018,360</b>

Source: MoF

Note: Totals may not add up due to rounding

52. Spending by the central government is broken down by economic categories in Table 2.4. Salaries and other compensation and capital expenditure account for over 30 percent in similar share with debt repayment amounting to below 20 percent of the total. Operational expenditures have remained steady at an average of 8 percent of total expenditure.

**Table 2.4: Budget allocations by economic categories (As a percentage of total expenditures)**

	2014/15	2015/16	2017 (est.)
Salary and employee allowance	27.35	29.27	31.08
Compensation and policy allowances	3.96	4.37	5.25
Operation expenditure	8.63	8.05	9.23
Technical activities and subsidies	4.02	5.83	4.86
Financial expenditure	3.51	0.00	6.56
Other expenditures	0.70	0.58	1.23
New purchase for operation	0.47	0.58	0.00
Capital - external expenditure	24.68	20.67	24.93
Capital - local expenditure	10.90	10.86	16.86
External debt	6.41	11.29	—
Domestic debt	9.38	8.49	—
Total	100.00	100.00	100.00

Source: MoF.

Note: est. = estimate.

## 2.3 Legal and regulatory arrangements for PFM

53. **Lao PDR's PFM architecture is the outcome of two distinct phases or generations of PFM interventions.** The first phase largely promoted international good practice, laying the foundation for the second. From a centrally controlled and planned environment, with little exposure to international practices and ideas, the country managed to evolve, adapt, and adjust to reforms, including their sequencing and implementation time frame. PFM is considered a crucial tool for macroeconomic management policy and implementation at the VII to IX Congresses of the Central Party Committee and in the V to VII five-year NSEDP.<sup>12</sup> The second generation of PFM reforms, taking place since 2016, is designed to put the country on a new, steadier, and more sustainable path.<sup>13</sup>

54. **Over the past 15 years, under the leadership and close guidance of the Central Party Politburo and the government, significant progress has been achieved in several reform areas.** Important milestones have been reached in the centralization of the National Treasury, customs, and

<sup>12</sup> MoF. 2018. "Vision 2030 and Public Finance Development Strategy 2025."

<sup>13</sup> World Bank. 2018. "From Alternative Path to Public Financial Management and Public Sector Reform."

tax functions; the introduction of a Treasury Single Account (TSA) and Automated System for Customs Data (ASYCUDA); the upgrade and rollout of the Government Financial Information System (GFIS) to the provincial level; and the introduction of the basic platform of the Debt Management and Financial Analysis System (DMFAS). The decentralization framework (under the Sam Sang policy) was piloted to delegate clear responsibilities from central department level to local finance departments at provincial and district levels. The Central Party Politburo and government guidance and policies were translated into laws and regulations including new fiscal legislation to integrate modern PFM practices in revenue and expenditure management and support the implementation of the NSEDP.

55. **The revised legislation includes Tax, VAT, and State Budget Laws; Customs Law; State Assets Law; Accounting Law; Independent Audit Law; and the Insurance Law.** The legislation aimed at addressing revenue leakages and misuse of expenditures to make public finance entities more transparent. Secondary legislation defined core systems and practices: Prime Minister’s Decree on Economization and Anti-Extravagant Spending, the Decree on States Reserves; the Unification of the Charts of Accounts and Budget Nomenclature; Instructions on Administrative Costing Norms; Decree on National Treasury; and Presidential Ordinance on Excise Tax on Vehicles. Steps were taken toward the introduction of a new tax collection IT module through the banking system (Smart Tax, Easy Tax).

56. **Despite strong political and technical commitment to the MoF throughout the decade, the ambitious reform agenda eventually stalled in 2013 for political, technical, and operational reasons.** Reform progress had been slower than initially envisaged due to capacity constraints and insufficient qualified human capital within and outside the MoF to implement the program initiatives across several areas and institutions. Subsequent changes in the administrative and institutional arrangements weakened reform implementation, and further personnel changes and rotation at the senior and technical level weakened the reform implementation structure. Ultimately, the decision of the MoF to turn to alternative funding sources for the design and procurement of an integrated treasury system halted most of the program. The relationship of the government with the wider donor community on PFM reform entered into a hiatus. PFM reforms progress was haphazard during 2013–2016 and many first-generation reforms were left incomplete. As a result, the PFM regulatory framework was left fragmented as the secondary legislation and instructions required to enforce the legal provisions and establish the related PFM systems were not completed.

57. **The second-generation reforms period was initiated following the appointment of a new reform-minded government in 2016.** A new program for comprehensive PFM legal reform aligned with international standards was launched. The revised SBL 2015 fulfills the role of an organic Budget System Law for the core PFM systems and complies with all the key good practice principles of a modern Budget Law:<sup>14</sup> clear assignment of roles and responsibilities of key budgetary institutions and officials from the National Assembly, MoF, MPI, other line ministries and their budget controllers, and local government. This law provides the features of a comprehensive PFM Law or Public Finance Act covering all principles to regulate the structure and functioning of PFM in Lao PDR.

58. **The budget cycle is adequately covered.** It includes indicative multiyear spending ceilings that are required as a basis for the State Budget (Articles 3, 56), performance-based budgeting (formulation of programs and projects), the medium-term fiscal documentation, and allocating revenues at central and local levels. Some weaknesses are still to be improved at the secondary legislation stage: content requirements for key budget documentation, linking of the annual State Budget with and timing of the medium-term fiscal policy documents presented to the National Assembly; coverage and obligations of the SOEs and various extrabudgetary funds; in-year reporting obligations; assets and liabilities management; flexibility and authority given to the executive to change the budget using

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<sup>14</sup> Ref. PFM Technical Guidance Note No. 2, Reforming Budget System Laws, prepared by Ian Lienert and Israel Fainboim, October 2007.

surpluses, reserves, and virement without adequate legislative approval and reporting requirements; and basis for the transfers to provinces (formula and/or criteria for fiscal equalization).<sup>15</sup>

59. **Other core PFM laws are in place.** Some of these have been recently promulgated but overall, secondary legislation and accompanying detailed instructions are not yet enable a direct and effective enforcement of the regulatory framework. An overview of the main PFM responsibilities and laws is presented as follows:

- **Planning and capital investment.** The main responsibility lies with the MPI for the preparation of the five-year NSEDP and the annual NSEDP and implementation measures, outlining the main strategic orientations, targets, goals, and tasks for the preparation of line ministries' plans and budgets. The MPI is responsible for the economic forecasting and capital expenditure planning through the Public Investment Plan (PIP) submitted to the National Assembly for approval with the annual budget. The MPI oversees the implementation of the Public Investment Law 2015, regulates the types of public investment projects according to budget thresholds, and also oversees the responsibilities at central and local levels for the implementation of the PIP: the MPI, National Assembly, provincial administration, and people' provincial assemblies based on the categorization of the projects.
- **Budgeting, accounting, and reporting.** The MoF is the main ministry responsible—on behalf of the government—for PFM. It is responsible for the consolidation and submission of the annual budget, revenue and expenditure management in line with relevant laws and regulations, and a mandate to maintain the fiscal stance and macroeconomic stability by addressing liquidity shortfalls and adhering to budget deficit targets. The SBL 2015 and recently enacted Debt Management Law are the legal foundations for this. The MoF is also responsible for developing and modernizing PFM tools with the aim of increasing revenues and financing socioeconomic development.
- **Internal audit.** The responsibility for the internal audit lies with the Inspection Departments at every level of government in the MoF, line ministries, and provinces. They report at the minister's or governor's level and their main function is compliance and control, based on annual plans and management's requests. The role of the inspection departments fulfils a control and investigation function but can be considered as internal audit services with limited risk-based approach. The MoF Inspection Department has the mandate to inspect financial management and financial operations in both the MoF and line ministries.
- **The Government Inspection and Anti-Corruption Authority (GIAA), an independent, ministry-level body reporting directly to the Prime Minister, is charged with analyzing corruption at the national level and serves as a central office for gathering details and evidence of suspected corruption.** Additionally, each ministry and province hosts a GIAA office independent from the organization in which it is housed. The regional State Inspection and Anti-Corruption Authority (SIAA) offices feed into the SIAA's central system in the application of the relevant anti-corruption laws. In September 2009, Lao PDR ratified the United Nations Convention against Corruption. Domestic and international firms have repeatedly identified corruption as a problem in the business environment and a major detractor for international firms exploring investment or business activities in the local market. Transparency International's Corruption Perception Index ranked Lao PDR at 123 of 176 countries worldwide in its 2016 report. According to the SIAA, the government has prosecuted some individuals for corruption, but public knowledge of the prosecution and allegations is limited. Nevertheless, the Central Party Politburo and the government have been taking serious action against

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<sup>15</sup> Technical Note Review of the State Budget Law 2015, Dr. Lynne McKenzie, February 2017.



corruption in recent years, requiring individual property declarations by government officials and civil servants beginning in 2014. As of January 2017, more than 1,900 officials and civil servants at the central level, 98,000 people under ministerial supervision, and 142,000 officials and civil servants under provincial administrations have declared their assets.<sup>16</sup>

- **External audit responsibility rests with the SAO operating in accordance with the revised Law on State Audit 2012.** Main provisions of the law are aligned to the international audit standards (INTOSAI). The SAO reports to the National Assembly and to the Prime Minister and its scope of work covers all government expenditures at central and provincial levels, including SOEs, extrabudgetary funds, and capital projects. Its reports are produced on an annual basis but with delays (the last one available covers the 2016 State Budget implementation and was submitted to the National Assembly in November 2017) and are not published, even if the annual submission of the consolidated findings on the audit of the State Budget implementation to the National Assembly is largely broadcasted and followed on TV and in the media and there is a National Assembly resolution that obliges the government to follow up on the SAO report.

## 2.4 Institutional arrangements for PFM

60. **Over the last 40 years, the Lao PDR political system transitioned progressively and smoothly from a centralized communist regime to a market-oriented economy.** Lao PDR gained full independence as a constitutional monarchy in 1954. In 1975, the Lao People's Revolutionary Party (LPRP) took control of the government, ending a six-century-old monarchy, and instituted a socialist regime and a centrally planned economy system, replacing the private sector with state enterprises and cooperatives. The weak performance of the country's economy was not able to stimulate the expected growth and development, and a shift to a market economy ('New Economic Mechanism') was initiated in 1986. The new constitution of 1991 redefined the country's political and economic system and codified the country's partial liberalization since the late 1980s, while preserving the one-party state. The GoL began decentralizing control and encouraging private enterprise, and the country began opening up to the world in the 1990s.

61. **Under the current 2015 Constitution, the state consists of the National Assembly, President, government, local administration, People's Court, and the Office of the Public Prosecutor.** The Pathet Lao movement came into power in 1975 founding the socialist Lao People's Democratic Republic (Lao PDR) governed by the LPRP. The first constitution was adopted by the Supreme People's Assembly in August 1991. In 2003, the Constitution was amended to espouse a free market economy within a socialist context, support religious freedom, and protect the environment. The second amendment took place in 2015 and has allowed the establishment of the Local People's Assembly, for the first time, to function like the National Assembly at the provincial level. The 2015 Constitution also stipulates, for the first time, that the President can hold office for not more than two consecutive terms, whereas the 2003 Constitution had no indication of the term.

62. **The National Assembly is the legislative branch of Lao PDR.** Its role in shaping the State Budget and in overseeing budget processes is critical. It has the right to make decisions on fundamental issues of the country, and to oversee the activities of the executive organs, the People's Courts and the Office of the Public Prosecutor. It elects the President for a five-year term. The National Assembly representatives are elected every five years through universal suffrage. At the last election in March 2016, 149 seats were contested, (an increase of 17 from the previous election) representing 18 provinces, with 5 not being members of the LPRP. The National Assembly meets twice a year for a three-week period when proposed legislation is scrutinized. The Planning, Finance, and Audit

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<sup>16</sup> Vientiane Times, January 18, 2017.

Committee (PFAC) was established as a permanent entity of the National Assembly to interact with the MoF on the budget and review audit results of state financial reports prepared by the SAO.

63. **The executive branch is governed by the President**, who is the head of state and representative of the multi-ethnic Lao people. The government is the executive branch of the state and the Prime Minister is the head of the government. Policies and decisions are decided by the LPRP through the 11-member Politburo and the 55-member Central Committee. Government decisions are vetted by the Council of Ministers appointed by the President, after they have been approved by the National Assembly. Although the LPRP remains the supreme authority, legislation the budget must be approved by the National Assembly, which exercises oversight over the GoL. The mandate of the SAO is founded on the 2007 Audit Law and audit reports are made to the National Assembly as well as to the Prime Minister.

64. **The People's Courts constitute the judicial branch of the state** and consist of the People's Supreme Court, Appellate Courts, People's Provincial Courts and City Courts, People's District Courts, and Military Courts.

65. **Lao PDR is a unitary state divided administratively into 17 provinces** (*khoueng*) and one prefecture (*kampheng nakhon*), which includes the capital city Vientiane (*Nakhon Louang Viangchan*). Provinces are further divided into 148 districts (*muang*) and about 8,500 villages (*ban*). Since the elections in 2016, the Provincial People's Assemblies have been established at the provincial level. Each province is divided into districts (an average of 8) made up of towns and villages. Provincial governors and the heads of districts are appointed by the central government while the village heads are appointed by the villagers.

66. **Much executive authority has been delegated to provincial governors**. The ministries and provinces are all part of the central government as first-tier budget entities and financed through the national budget. The provinces have the power to collect revenues on behalf of the central government and decide on the final allocation of their budget. They are also refinanced throughout the year in case of a shortfall of revenues.

67. **The Lao PDR Constitution was amended in 2015 with a stronger focus on social development and greater emphasis on the protection of natural resources and environment**. In 2015, the Party Congress, which convenes every five years, adopted the 10th Party Resolution that committed to the new SDGs and prioritized effective utilization of natural resources, industrialization, and modernization with principles of green development. The 15-year vision, 10-year strategy, and 5-year 8th NSEDP adopted by the newly elected National Assembly in 2016 will guide the government to reach its goals.

68. **The prime responsibility for managing the public finances rests with the MoF**. Under the Decree on the Organization and Activities of the Ministry of Finance (No. 80/PM, February 28, 2007), functions include formulating, stipulating, and implementing policies in terms of budgeting, taxes, customs and excise, treasury, state assets management, fiscal balance, and budget financing and risk management. It also provides recommendations on fiscal and financial sector policies.

69. **The current organization of the MoF defines the main responsibilities**. These are allocated to different departments: budget preparation and procurement to the Budget Department, including allocation of expenditure provision to ministries and provinces; and budget execution, cash management, and accounting to the National Treasury, including cash flow forecasting, receipts and payments, and domestic borrowing. The coordination of the overall fiscal policy and fiscal forecasting and liaison with the MPI on macroeconomic modeling is the responsibility of the FPLD. External borrowing (and the

servicing of external debt) is the responsibility of the External Finance Department of the MoF. The Department of International Cooperation (DIC) of the MPI coordinates the receipt of external grants.

70. **Revenue is mainly the responsibility of the Tax Department (TD) and the Customs Department.** Profit tax, income tax, turnover taxes, VAT, and excise taxes are administered by the TD and customs duties, VAT, excise, and turnover taxes are collected on imports by the Customs Department. The SOE Department monitors the finances and reporting of SOEs, while the State Assets Department is in charge of revenues from the exploitation or sale of state property. The Accounting Department sets the accounting standards for both private and public sectors but is not responsible for government financial reporting (which is undertaken by the Budget Department and National Treasury).

71. **The MPI also plays an important role in the preparation of the capital budget.** It has the responsibility to prepare the macroeconomic forecasts that provide the context for the budget preparation. Its Planning Department collects and prioritizes the investment projects to be approved by the National Assembly in the budget. In carrying out these functions, the MPI considers the scope for external borrowing (determined by the MoF External Finance Department in accordance with debt sustainability criteria) and the revenue forecasts from the MoF. The selection of projects follows a screening process based partly on political orientations from the NSEDP and the objectives to reduce poverty and partly on the application of technical public investment criteria defined in established guidelines.

72. **Based on Decree 253/PM dated August 19, 2011, the Ministry of Home Affairs (MoHA) has the role of secretariat to the government at the macro level, regarding governance reform at the central and local level and civil service management.** In charge of the implementation of the National Governance and Public Administration Reform Program, its mandate includes: Article 3.5 “To encourage and instruct public administration at local level to be in line with the Law on Local Administration” and Article 3.6 “To formulate development plans and appraisal of civil servant performance; establish mechanisms and manage civil servants, estimate quota of civil servants for long term, medium term and annually; to study policies related to salary and benefit and other policies for civil servants and make proposals to the Government.”

73. **Line ministries and provinces are responsible and accountable for their own financial administration.** Within each line ministry and provinces there are spending units responsible for financial control and the approval of payments, including payroll. Payment requests are then forwarded to Treasury’s provincial offices for payments to be made. Ministries are also required to prepare annual financial statements to be submitted to the MoF. Each line ministry includes an Inspection Department fulfilling the function of an internal audit unit (but with more of a control orientation) which reports directly to the responsible minister and is responsible for compliance and financial audits. The ministries are responsible for central functions of the government and for national institutions such as universities and specialist hospitals.

74. **Most public services are delivered to the citizens by provincial and district administrations.** Provincial budgets are allocated directly by the MoF without discussion with the relevant line ministries. Thus, provinces have been free to determine their own priorities, sometimes ignoring stated government priorities for preference to be given to the priority districts or, for example, to particular medical services. To establish some effective control over these priorities, the National Assembly has been pressing the government to introduce norms for the allocation of expenditure at the province/district level. The provinces have also been in charge of the collection of most revenues and of Treasury operations in their areas, but they have to centralize revenues and expenditures and cash balances within the centralized Treasury system and control over all government revenues (including charges for services) and over all government bank accounts. Substantial progress has already been made with controlling tax and custom revenue. Automated interbank clearing arrangements have been

introduced to consolidate government cash resources in the TSA and ultimately in the GFIS reporting system, although there is no interface and the information has to be inserted manually.

75. **The external audit institution, SAO, has a clear mandate to audit all central government organizations.** The SAO has the power to obtain all necessary information to achieve this. It reports to the National Assembly semiannually covering audit issues, and through its audit reports on the government’s annual State Budget Implementation Report. It has made good progress in improving its institutional capacity and is in the process of adopting professional standards based on international practices, but its overall effectiveness and capacity is limited by the lack of resources (in number of auditors and skills), and it plays a major role in the budget scrutiny and effective parliamentary scrutiny. It receives external support.

**Table 2.5: Structure of the public sector (number of entities)**

	Public sector				
	Government subsector		Social security funds	Public corporation subsector	
	Budgetary unit	Extrabudgetary unit		Nonfinancial public corporations	Financial public corporations
Central	35, of which 17 ministries and 18 provinces	8	1	180	3
First-tier subnational	148 districts	0			
Lower level of subnational	0	0			

**Table 2.6: Financial structure of the central government - actual expenditure**

2017: Budget estimates	Central government (LAK, millions)			
	Budgetary operations	Extrabudgetary operations	Social security funds	Total aggregated
Revenue	31,463,000	458,699	Unavailable <sup>17</sup>	21,216,847
Expenditure	32,402,000	458,659	Unavailable	32,834,206
Transfers to (-) and from (+) other units of general government	Unavailable	Unavailable		
Liabilities	Unavailable	Unavailable		
Financial Assets	Unavailable	Unavailable		

Source: 2017 State Budget implementation estimates (MoF).

## 2.5 Other important features of PFM and its operating environment

### Degree of centralization of the PFM systems and the Sam Sang policy framework

76. **The 8th NSEDP 2016–2020 acknowledged the link between greater devolution and local governance to achieve more sustainable and inclusive growth.** The Sam Sang directive, issued in 2012, remains the principle policy directive defining the GoL’s ‘decentralization framework’, with practical implications of the Sam Sang directive for design and structure of intergovernmental fiscal relations still being developed based on assessment of findings from recent pilot activities and the GoL’s evolving policy priorities and objectives. Politburo Resolution No. 03/ CPP/2012 seeks to accelerate local economic development through targeted dissemination of party resolutions and GoL policies, decentralized public

<sup>17</sup> Estimated at LAK 505 billion (see PI-19).

administration, and development of targeted villages. The Sam Sang ('Three Builds') directive proposes villages as the development unit, districts as the integration unit, and provinces as the strategic unit.

77. **Subsequent guidance from the National Assembly, Prime Minister, and the Guiding Committee for Sam Sang Pilot Projects has provided greater direction.** The Sam Sang comprises three elements: (a) a political manifesto, (b) an approach to decentralized administration, and (c) a national targeted development program. The Sam Sang represents a significant policy change because it requires wide-ranging reforms to public administration functional assignments. Because of this, the resolution was designed to be piloted and then its early implementation evaluated and reported to leaders before decisions were made about scaled-up implementation. The Sam Sang pilot, launched in October 2012 and completed in early 2015, directed 15 ministries to delegate more responsibilities, functions, and resources to local administrations, particularly at the district level. The pilot devolution strategy was implemented and tested nationwide in 109 targeted villages (out of 8,470) located in 51 targeted districts (out of 145). It intends to promote a fully functional local administration equipped to plan, budget, and deliver local public services with greater budgetary discretion and revenue responsibilities. At the same time, the 2015 constitutional revisions and updates to the Law on Local Administration have aimed to provide a clearer separation of powers such as establishing Peoples' Provincial Assemblies and clearer mandates, roles, and responsibilities of different levels of government and public administration.

78. **The piloting of the Sam Sang policy initiative 2012–2014 has shown signs of effectiveness; routine procedures and service delivery appear to be matched with clearer delegation of authority** (Sam Sang Pilot Steering Committee Report, 2014). Furthermore, revenue collection supposedly increased twofold to threefold, with the management of public expenditure reported as more efficient by government officials. The SBL 2015 amendments continued to assign central and province levels as budget holders. Districts have increased budget sign-off authority but were not given budget holder status. In the spirit of the Sam Sang, the District Development Fund mechanism helped build the capacities of local authorities to improve public administration and service delivery. With capital investment grants, various projects have been implemented in 53 of the country's 148 districts.

79. **Local government budgets account for a stable share of approximately 30 percent of total general government spending over the four-year period covering FY2014/15 to FY2018.** High shares of total government spending are spent for health and education at a consolidated share of approximately 65–70 percent annually.<sup>18</sup>

80. **The MoF is currently engaged in a process to formulate a new decree to define an agenda to serve as a practical 'road map' for strategic direction and implementation arrangements for decentralization reform over coming years.** This is particularly concerning

- Sector-specific expenditure assignments, focusing on 'priority sectors' (especially health and education);
- Revenue assignments: Clarifying responsibility for revenue administration and which level (tier) of the government collects revenue from specific revenue instruments, noting that a process is currently underway to strengthen capacity for assessments of local revenue bases (property and businesses), starting in the capital city, Vientiane; and
- Policy options for transfer mechanisms, consistent with the Provincial Administration Law 2015 and Provincial National Assembly Law 2015.

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<sup>18</sup> Support for Governance and Capacity Development, Draft Inception Report, March 5, 2018, Jonathan G. Dunn, ADB Fiscal Decentralization Advisor.

**81. The main budgetary provisions of the SBL to be addressed relate to the following:**

- Articles 46 and 47: Explicitly referring to ‘fiscal gap’ transfers and how that affects the GoL’s intentions to move to a system of formula-based transfers determined on the basis of ‘expenditure drivers’ relevant to a well-defined set of functional expenditure assignments, together with appropriate indicator(s) of revenue capacity.<sup>19</sup>
- Article 48: Authorization for use of ‘specific’ transfers to address national policy priorities provides the legal basis for formula-based conditional transfer mechanisms.

**82. While there is steady progress in administrative and representational devolution, progress on fiscal decentralization is not yet on the agenda.** While there are provinces, these still operate as an arm of the central government as deconcentrated entities with service delivery functions and with districts under their control. This is due to the challenging overall macroeconomic situation.

### **Government budget process**

**83. In principle, the budget process is determined by the revised SBL 2015, which prescribes the procedures and the calendar to be followed in preparing the budget for submission to the National Assembly.** The law envisages the issue of an MoF circular early each (calendar) year with instructions on the rules to be applied by ministries, provinces, and districts in preparing the following year’s budget. Dissemination of the circular should be followed by consultations with members of the National Assembly and other stakeholders before submissions are made to the MoF in March. The MoF then consolidates submissions into a draft budget to be submitted to the GoL in April. Once it is approved collectively by ministers, the budget should be submitted to the National Assembly 15 days before the opening of its June/July session.

**84. Actual PFM practice often diverges from the requirements stated in the law.** From the initial consultation and bottom-up formulation process, although there are multiple consultations between the MoF, line ministries, and provinces on the overall level of the State Budget and there are clear instructions on the allocation for staff and capital expenditures, there are no fixed ceilings issued by the MoF to guide line ministries in the preparation of their budget proposal.

**85. Various channels are in place for the bottom-up participatory process in governance and budget oversight through forums for people’s participation.** These range from indirect participation through representative institutions such as the National Assembly to the approved party mass organisations (Lao Youth Union [LYU] and Lao Women’s Union [LWU]) and formal business associations (Lao Federation of Trade Unions [LFTU]). Over the past five years, the National Assembly has provided oversight of public services and aspired to increase people’s participation in the decision-making process. A constitutional amendment adopted at the Ordinary Session in December 2015 paves the way for establishing Peoples’ Provincial Assemblies and changing the political landscape at the local level. The 2009 Decree 115 on Associations also marks an important step in the formal recognition of non-profit associations (NPAs) as partners in development. These organizations are primarily engaged in community development activities rather than advocacy, and they are still working to establish their operational space and to engage in meaningful policy dialogue at subnational and national levels; NPAs’ participation in the Governance Sector Working Group and Round Table Meetings is seen a positive direction<sup>20</sup>.

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<sup>19</sup> Support for Governance and Capacity Development, Draft Inception Report, March 5, 2018, Jonathan G. Dunn, ADB Fiscal Decentralization Advisor.

<sup>20</sup> Although Lao PDR has among the highest proportions of women in national parliaments in the region, women’s representation is still low at the district and village levels. There were only 145 women village chiefs from the total of 8,651 villages (2 percent). Thus, improvement of women’s participation in village development is critically important.

86. **The National Social Security Fund (NSSF) is governed by the Social Security Law (No. 34/NA dated July 26, 2013) and managed by the Ministry of Labour and Social Welfare.** Articles 55 and 56 of the act require all employers to contribute 6 percent of an employee's monthly salary to the NSSF, with a further 5.5 percent to be contributed by insured employees, which is deducted from salaries and will be paid by the employer to the NSSF. Benefits under the NSSF include the provision of funds for health care during child birth, workplace injuries and illnesses, old age pensions, funeral grants, surviving family benefits, and unemployment benefits. Decision No. 1740/MOLSW, dated April 25, 2016, adjusts and raises the maximum ceiling of insurable earning established at five times the minimum wage set by the GoL, from LAK 2 million to LAK 4.5 million as of January 1, 2017. The decision also sets the minimum level of insurable earnings on which NSSF contributions are to be made by employers on behalf of individual employees at not less than 50 percent of the current monthly minimum wage (LAK 900,000), that is, LAK 450,000.

87. **The Nam Theun 2 Hydropower Project (NT2), in operation since 2010, introduced key international good PFM practices and played an important role in strengthening the country's overall PFM framework, paving the way for broader PFM reforms.**<sup>21</sup> In particular, the Revenue Management Program (RMP) associated with its operations was set to assist the GoL to implement priority poverty reduction and environmental programs using revenues from the NT2 facility. Net revenues from royalties, dividends, profit taxes, and dividend taxes serve to finance eligible programs and projects selected by the government based on RMP criteria (poverty alleviation or environmental management) and implemented through the State Budget. The eligible projects are public investment projects selected by the MPI and implemented by sector-specific ministries, such as Education, Health, and Energy and Mining. Examples include reforestation, school and dormitory construction, supply of medical equipment to health centers, and rural access road construction. Eligible programs include poverty programs such as School Block Grants (SBGs), Free Maternal and Child Health Scheme, Poverty Reduction Fund (PRF), and Health Equity Fund, which are under the oversight of the MoF, MoH, and MoES. The RMP seeks to ensure and monitor compliance of this requirement by tracking revenue sources and the allocation and disbursement to eligible projects and programs, including audits. As of the end of December 2016, the government has received over US\$153 million in net revenues from the project since the start of commercial operations in 2010. Net revenues of around US\$28 million are estimated in 2017. On average, NT2 revenues have accounted for about 1 percent of the national budget during this period. The RMP arrangements have also introduced good budget transparency practices as the government published the SAO audit reports on the implementation of selected eligible programs from FY2009/10 to FY2014/15. In September 2017, the SAO published the audit reports on the NT2 revenues on its website, among the first reports made publicly available by the institution.

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<sup>21</sup> From the World Bank internal note on RMP summary, September 2017.

### 3. Assessment of PFM performance

#### PILLAR ONE: Budget reliability

##### PI-1. Aggregate expenditure outturn

88. This indicator assesses the credibility of the budget by calculating the extent to which actual aggregate expenditure deviates from the original budget for the last three years of available data. The coverage is Budgetary Central Government. The assessment is based on the budget and actual expenditure for the fiscal years 2014/15, 2015/16, and 2017.

Indicator/Dimension	Score	Brief explanation
PI-1 Aggregate expenditure outturn	A	At 102.0% for 2014/15, 95.7% for 2015/16, and 100.1% for 2017, aggregate expenditure outturn deviated less than 5% from the approved budget in all three fiscal years.

89. Table 3-1 presents aggregate outturn and approved budget. Outturn relative to the budget was 102.0 percent in 2014/15, 95.7 percent in 2015/16, and 100.1 percent in 2017. Outturn data for the last completed budget, for 2017, was estimated by the MoF at the time of the assessment and are not official data.

Table 3-1: Aggregate expenditure outturn and approved budget<sup>22</sup>

Fiscal year	Original approved budget (LAK, millions)	Aggregate expenditure outturn (LAK, millions)	Outturn as a % of budget
2014/15	31,000,000	31,605,370	102.0
2015/16	33,405,000	31,984,206	95.7
2017	33,830,973	33,833,324	100.1

Source: MoF published Official Gazette and FPLD data estimates for 2017.

90. As aggregate expenditure outturn deviated less than 5 percent from the approved budget in all the three fiscal years, the score is A.

##### PI-2. Expenditure composition outturn

91. This indicator measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition. The assessment is based on the budget and actual expenditure for the fiscal years 2014/15, 2015/16, and 2017. The coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-2 Expenditure composition outturn	D+	Dimension scores combined by Method M1 (weakest link)

<sup>22</sup> The approved original budget is the State Budget Plan approved by the National Assembly and includes debt interest and capital repayment but excludes—or covers only partially—expenditures funded from external loans and grants that may not be available at the time of the budget submission to the National Assembly. These are allocated mostly to the capital budget. The extrabudgetary funds that are recorded—for both revenue and expenditure—are only for the part that comes from government contribution. However, this represents most of their budget, except for the Road Maintenance Fund (RMF) and the Environmental Protection Fund (EPF).



2.1 Expenditure composition outturn by function	D*	Variance in expenditure composition by administrative classification was 4.8%, 24.2%, and 14.6% for the fiscal years 2014/15, 2015/16, and 2017, respectively, which would justify a C. However, the inconsistency in the presentation of budget data and the magnitude of aggregated budget under categories 'others' and 'other institutions' does not allow to score adequately and the score is D* for lack of information.
2.2 Expenditure composition outturn by economic type	C	Variance in expenditure composition by economic classification was 13.7%, 12.1%, and 2.1%, <sup>23</sup> respectively, in the three years under consideration and less than 15% in two of the three years.
2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the contingency vote was less than 1% in each year.

## 2.1 Expenditure composition outturn by function

92. **Due to inconsistency in the presentation of the sector/functional classification in the published State Budget reports, the variance in expenditure composition could not be calculated fully by functional classification.** Moreover, the absence of consistent data on the functional/sectoral breakdown at the provincial level and the aggregation of categories such as 'others' and 'other institutions' distort the calculation and the assessment, even if they are partially aligned to the administrative classification.

93. **The variance calculated on this basis is presented in Table 3-2.1.** This assumes that the figures for original budget and budget outturn are comparable using the line ministries and aggregated categories 'others' and 'other institutions', with details of the calculations shown in Annex 4.

**Table 3-2.1: Calculation of variance by administrative/sectoral classification**

Fiscal year	Composition variance by administrative classification (%)
2014/15	4.8
2015/16	24.2
2017	14.6

Source: MoF published Official Gazette and FPLD data estimates for 2017.

94. **Based on these assumptions, the composition deviations amount to 4.8 percent, 24.2 percent, and 14.6 percent for the fiscal years 2014/15, 2015/16, and 2017, respectively, that is, less than 15 percent in two of the three years.** This would correspond to a C score. However, as the presentation of the budget allocations and outturn at the provincial level is not consistently available for the three years and also due to the absence of a proper functional classification and the inconsistency in the presentation of the budget data, the score is D\*, which reflects the unavailability of consistent data.

## 2.2 Expenditure composition outturn by economic type

95. **The difference in composition between the originally approved budget and outturn by economic classification including interest on debt but excluding contingency items is summarized in Table 3-2.2.** Detailed data are presented in Annex 4.

<sup>23</sup> This calculation is based on temporary and non-official 2017 budget execution data provided by the FPD as of March 8 2019.

**Table 3-2.2: Calculation of variance by economic classification**

Fiscal year	Composition variance by economic classification (%)
2014/15	13.7
2015/16	12.1
2017	2.1

Source: MoF published Official Gazette and FPLD data.

96. **The data for each economic category shows some consistency from one year to another.** The main expenditure category ‘salaries and allowances’ is underspent for the three years, reflecting the policy to contain salaries and wages compared to previous years. The ‘capital expenditure’ category is systematically overspent over the three years as external financing from donor loans and grants and the information on the realization of donors’ commitment is only partially available at the time of budget planning. The classification by economic categories is not fully Government Finance Statistics (GFS) compliant: there are recurrent expenditures included in capital expenditures funded externally.

97. **Variance in expenditure composition by economic classification was calculated at, 13.7 percent, 12.1 percent, and 2.1 percent (estimated) respectively in the three years.** As this is less than 15 percent in at least two of the three years the score is C.

### 2.3 Expenditure from contingency reserves

98. **Article 3: Government and Local Reserve Funds in the SBL refers to “allocations provided for in the annual budget expenditure plan to be used in meeting contingencies and urgent requirements.”** This covers items such as defence, security, mitigation of natural calamities, and epidemics. The contingency share is included under the provision for ‘other expenditures’ in the economic classification and is composed of the State Accumulation Fund and the Government and Local Reserve Fund in the approved budget. Table 3-2.3 presents the amount allocated for contingency and its relative size with detailed data provided in the tables in Annex 4.

**Table 3-2.3: Calculation of contingency share**

Fiscal year	Percentage of the original budget
2014/15	0.0
2015/16	0.2
2017	0.21
Average period 2014–2017	0.14

99. **Actual expenditure charged to the contingency vote was less than 1 percent in each of the three years:** Score A.

### PI-3. Revenue outturn

100. This indicator measures the change in revenue between the originally approved budget and end-of-year outturn. The assessment is based on the budget and actual revenue from fiscal years 2014/15, 2015/16, and 2017. The coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-3 Revenue outturn	C	Dimension scores combined by Method M2 (average).
3.1 Aggregate revenue outturn	B	At 96.9%, 86.2%, and 96.3% in the fiscal years 2014/2015, 2015/2016, and 2017, respectively, aggregate revenue outturn was between 94% and 112% of the originally approved revenue budget in two of the last three completed fiscal years
3.2 Revenue composition outturn	D	At 20.7%, 26.3%, and 19.6% in the fiscal years 2014/2015, 2015/2016, and 2017, respectively, revenue composition variance was above 15% in the last three completed fiscal years.

#### 3.1 Aggregate revenue outturn

101. Revenue outturns during the fiscal years 2014/15 and 2017 have been relatively close to the original budget estimates as shown in Table 3-3.1. However, in 2015/16 actual revenue deviated from budgeted revenue significantly by 13.8 percent. This performance related to external factors, such as global market fluctuations and the subsequent volatility in commodity prices such as gold, crude oil, and agricultural products (coffee, rubber, and so on), which have a strong impact on production and exports. Moreover, a slowdown of GDP growth from 7.5 percent in 2014/15 to 6.9 percent in 2015/16 from mining, vehicle, construction, fuel, and others generated a decline in revenue collection.

Table 3-3.1: Total revenue outturn (LAK, millions)

Fiscal year	Original approved budget	Actual aggregate revenue	Total revenue outturn (%)
2014/15	20,536,030	19,905,799	96.9
2015/16	23,632,780	20,367,047	86.2
2017	21,463,000	20,665,958	96.3

Source: MoF Published Official Gazette and FPLD data for 2017 estimates.

102. At 96.9 percent, 86.2 percent, and 96.3 percent in the fiscal years 2014/2015, 2015/2016, and 2017, respectively, aggregate revenue outturn was between 94 percent and 112 percent of the originally approved revenue budget in two of the last three completed fiscal years: Score B.

#### 3.2 Revenue composition outturn

103. Tax revenues increased from 66.3 percent in 2014/15 to 82 percent of total revenue in 2017. VAT, excise tax, profit tax, income tax, and import duties generate 81 percent of all tax revenue. The compositional variance of revenue is generally high but deteriorated in 2015/16 as shown in Table 3.2. There were large deviations in profit tax collected from domestic and foreign companies, mostly due to declining global mining prices and exports. The increase in VAT collected from imported goods and services did not offset the severe decline in domestic VAT collection from construction, telecommunication, and other sectors. Income tax, however, exceeded the original forecasts. Nontax revenues—equivalent to 2.7 percent of GDP—increased significantly in 2015/16 (35 percent) and cover administration fees, dividends, overflight right fees, concessions and fines, and forest

preservation fund tax. However, the most important part of this variance originates from large deviations in actual receipt of external grants compared to budgeted grants, with a sharp decline from 6 percent in 2014/15 to less than 2 percent in 2017, resulting from a decrease in non-project aid as shown in Annex 4.

**Table 3-3.2: Revenue compositional variance (LAK, millions)**

<b>Fiscal year</b>	<b>Composition variance (%)</b>
2014/15	20.7
2015/16	26.3
2017	19.46

Source: MoF Published Official Gazette and FPLD data.

104. **At 20.7 percent, 26.3 percent, and 19.46 percent in the fiscal years 2014/2015, 2015/2016, and 2017, respectively, revenue composition variance was above 15 percent in the last three completed fiscal years: Score D.**

## PILLAR TWO: Transparency of public finances

105. **This indicator evaluates whether the classification of the Public Budget and reports and the State Budget and reports are in line with internationally recognized standards.** The time period is at the time of the assessment. The coverage is Budgetary Central Government.

### PI-4. Budget classification

Indicator/Dimension	Score	Brief explanation
PI-4 Budget classification	C	Since 2016, the budget classification is based on administrative, economic classification that is GFS compatible. It produces documentation consistent with the GFS standard at a two-digit level. These classifications are also embedded in the chart of accounts and can produce a broad functional classification but not Classification of the Functions of Government (COFOG) compliant.

106. **The GFIS budget classification used by the Budget Department and the National Treasury uses a four-field structure divided into budget nomenclature (economic classification)/accounting codes, source of funds, organizational structure, and projects.** The budget nomenclature is mapped to the accounting codes and GFS 2001 economic classification. Since 2010, changes have been made to synchronize the economic classification segment in the existing chart of accounts used for accounting purposes with that used for budgeting. With the harmonization of the budget nomenclature and accounting codes, mapping tables between the two sets of codes are no longer required in GFIS for economic and administrative classifications.

107. **The existing GFIS coding structure does not fully meet the requirements for recording budgets appropriations and processing transactions for second-tier budget units.** It does not ensure the segregation of accounting records of provinces and districts.

108. **A separate function code segment is not available at present.** The budget classification and chart of accounts do not provide for a functional classification. Functional reporting, however, can be done through bridging tables that group organizational units by function to provide a broad sectoral/functional presentation compliant with the GFS functional classification. The level of disaggregation of the budget published in the Official Gazette also enables a quasi-functional presentation of the budget for the main sectors, includes provinces, and is used for planning and reporting of the budget. However, it is not compliant with COFOG standards (and not even the 10 main functions). Detailed GFIS functional classification contains other mapping tables that link different elements of the chart to produce reports for management purposes such as by sector, location, and source of funds (mainly for donor-funded projects and loans). There is no program/subprogram classification by ministries.

Figure 3-4: CoA for Lao PDR State Budget

Organization	Project	Fund	Economic (GL)
Primary Ordanoto (3)	Project size category (1)		Part (2)
Office (3+2)	Controlling agency (1+3)		Sub-part (2+2)
Department (5+2)	Start year (4+2)	Fund type (1)	Division (4+2)
Unit (7+2)	Project code (6+4)	Donor grant/load (1+4)	Detail (6+2)
<b>Legend</b>			
Controls are established and applied at this level	Transactions are processes at this level		

Source: World Bank presentation on chart of accounts, September 5, 2018.

109. **The 2018 government budget was prepared using two classifications:** (a) an administrative classification, representing spending units at central government and provincial levels and (b) an economic classification at an aggregate level, produced by the Fiscal Policy and Law Department. The detailed administrative classification is used for planning and reporting on budget, but the use of 'other' and 'other organizations' in published budget plans (as presented in Annex 4) significantly reduces the comprehensiveness, consistency, and comparability of the budget presentation and does not allow for in-depth analysis of the budget priorities and execution. The budget data aggregated under 'other' and 'other institutions' distorts the budget data presentation and remains large, covering defence and other security expenditures which cannot be disclosed for confidentiality reasons.

110. **Budget preparation uses the same chart of accounts for the formulation, execution, and reporting of the central government's budget.** Budget ceilings provided to the ministries, budget submissions to the National Assembly, and government in-year budget reports are presented at an aggregated level of economic classification. Once the budget is approved by the National Assembly, the budgets are broken down and executed at ministry and province levels.

111. **Budget preparation is based on Microsoft Excel spreadsheets.** This is then uploaded into the GFIS as the final budget.

112. **The budget classification system of Lao PDR** is defined by administrative and economic classifications compliant with the GFS standard at a two-digit level. It is possible to produce associated geographic and broad functional categories. These classifications are also embedded in the chart of accounts: Score C.

113. **Through the harmonization of the Chart of Accounts that started in 2018, the government, supported by the World Bank and the IMF, aims to merge the budget classification with the account code to be complaint with GFS 2011.** The budgeting and accounting reforms also envisage the transition from single-entry accounting to a double-entry system and to International Public Sector Accounting Standards (IPSAS) cash basis financial reporting. The rollout of the GFIS to the second-tier spending entities at the provinces level will likely take place during the proposed FMIS implementation. A sequenced action plan for the reform of the accounting system in line with the introduction of the FMIS has been defined in sequences, with Phase I: Administrative, Source of Funds, Projects - focused on coverage, consistency, and FMIS processes; Phase II: Economic and Geographic - focused on GFS/IPSAS alignment and FMIS processes; Phase III: COFOG and Counterparty; and a Phase IV: Program (outside current reform agenda).

## PI-5. Budget documentation

114. **This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements.** The period is the last budget submitted to the legislature (Budget 2018) and the coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-5 Budget documentation	D	Budget documentation for 2018 fulfilled 2 basic elements and 2 additional elements, that is, in 4 of the 12 key elements.

115. **The 2018 budget documentation package submitted to the National Assembly on October 16, 2017 consisted of**

- Budget statement delivered to the National Assembly by the Minister of Finance;
- Reporting on the first 6 months of 2017 budget execution;
- Estimates of the revenue forecast of the 2018 State Budget implementation at an aggregate level and by collecting agencies;
- Expenditures estimates against the State Annual Plan;
- Deficit forecast and projected external and domestic financing; and
- General statement on measures to deliver the estimates and enhance execution.

116. **Other budget documentation is submitted to the legislature in separate submissions.** During discussions between the government and the National Assembly before the budget package, economic and fiscal policy information is provided to agree on the main expenditure priorities and deficit projections. The above documents are considered the budget documentation for this indicator.

117. **The objective, content, and structure of the budget process are described under Article 29 of the SBL (government responsibilities), but most provisions are still to be fully implemented.** Description of the 12 key elements of budget documentation is summarized in Table 3-5 along with the criteria for assessment.

**Table 3-5: Summary of Information formally included in the State Budget implementation documentation submitted to the National Assembly**

Basic elements	Criterion fulfilled	Source of document and comments on availability
1. Forecast of the fiscal deficit or surplus or accrual operating result	Yes	The State Budget Statement mentions the overall budget revenue and expenditures and budget balance before financing. Official Development Assistance (ODA) financing is included for the part recorded by the MPI on capital investment but is not specified in the aggregate budget figures.
2. Previous year's budget outturn, presented in the same format as the budget proposal	No	The 2016 budget implementation report is not available at the time of the 2018 budget submission. When it is circulated, it covers the actual budget figures against the revised budget figures for 2016 in the same format as the State Budget Plan for 2017 and 2018 and reporting revenue and expenditure at the aggregate level of administrative classification disaggregated at the provincial level and revenue by collecting agencies and category of taxes.
3. Current fiscal year's budget presented in the same format as the budget proposal	Yes	This can be either the revised budget or the estimated outturn. The aggregate budget outturn is presented at the aggregate level of economic classification.
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates	No	Justification: The budget presentation includes the projected revised budget, and actual outturn for 2017 is shown at the aggregate level but there is no breakdown or comparison with previous year's outturn and it does not provide breakdown at the administrative level.
<b>Additional elements</b>		
5. Deficit financing, describing its anticipated composition	Yes	External financing and resource mobilization for 2018 and anticipated financing composition of the budget deficit is broken down between external (ODA, bonds, and macro balance) and domestic instruments.
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	Yes	GDP growth rates with breakdown by sector is prepared by the MPI and the MoF and discussed with the National Assembly's PFAC before the session of the budget submission. Exchange rate to the U.S. dollar and interest rate assumptions are explicitly stated in the macroeconomic document prepared by the MPI and the FPD, and specific information is available on the projected debt service/revenue ratio.
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	Debt stock information managed by the MoF's External Finance Department (external) is available but not the stock of domestic debt managed by the Budget Department (internal). External debt portfolio and debt stock are



Basic elements	Criterion fulfilled	Source of document and comments on availability
		presented according to the debt instrument and holders of debt based on the DMFAS reporting. The external debt sustainability analysis as well as a cost and risk analysis for both external and domestic debt is performed by the FPD with IMF assistance (Article IV) but not distributed outside MoF senior management (see PI-13).
<b>8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard</b>	<b>No</b>	No information on the government's holdings of financial assets is provided in the budget documents.
<b>9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts</b>	<b>No</b>	No information is provided on guarantees issued, PPPs that may incorporate indirect guarantees, or any other contingent liabilities.
<b>10. Explanation of budget implications of new policy initiatives and major new public investments, with estimate of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.</b>	<b>No</b>	The budget statement by the MoF includes a general outline of all proposed new revenue measures but no estimates of the impact on revenue is presented for any of them, except for the wage bill, when relevant, if there is a policy change.
<b>11. Documentation on the medium-term fiscal forecasts.</b>	<b>No</b>	The budget proposal provides indicative budgets for the next two years and medium-term projections of revenue and expenditure, budget balance and financing, that is, estimates for 2018 and projections for 2019 and 2020 with breakdown by main category of expenditure (chapter 60 to 67), revenue items (by broad revenue categories and collecting agencies), and details of development projects at ministry and provincial levels (public investment program). However, forward estimates for 2019 and 2020 are only indicative and based on incremental calculations and not linked to the sector plans or the medium-term expenditure framework (MTEF) projections.
<b>12. Quantification of tax expenditures</b>	<b>No</b>	Tax expenditures are not presented in the budget documentation, neither in detailed nor in aggregate format.

118. **Budget documentation for 2018 fulfilled two basic elements and two additional elements, that is, 4 of the 12 key elements: Score D.**

119. **The SBL 2015 specifies the content of the State Budget that should be presented to the National Assembly and includes elements 2, 4, and 7 required for this indicator. The Budget Department is developing the documents accordingly.**

## PI-6. Central government operations outside financial reports

120. This indicator measures the government’s depth of knowledge of revenue and expenditure reported outside the central government budget. The assessment of this indicator is based on the information and reports available for fiscal years 2017 and 2018. The coverage is the central government.

121. In the Lao PDR context, expenditures and revenue not included in the financial reports fall into three categories: (a) operations of the central government carried out by extrabudgetary entities carrying out government functions and receiving a State Budget allocation, (b) technical fees charged by budgetary entities, and (c) ODA-funded expenditures implemented by development projects.

Indicator/Dimension	Score	Brief explanation
PI-6 Central government operations outside financial reports	D+	Dimension scores combined by Method M2 (average).
6.1 Expenditure outside financial reports	D	The amount of extrabudgetary expenditure that remains off-budget and not on government financial records but reported separately is related to externally financed projects and the expenditures from the statutory extrabudgetary funds. For 2016 and 2017, the amount of unreported expenditures cannot be fully estimated but is likely to be more than 10% of total government budget expenditure.
6.2 Revenue outside financial reports	D	Government financial reports concerning revenue from grants and loans from development partners have not been produced systematically and timely and the amount involved is likely to be in the order of 25% of total Budgetary Central Government revenue. The technical revenue generated by service fees and charges from budgetary entities is consolidated at the ministry level.
6.3 Financial reports of extra budgetary unit	C	The two main extrabudgetary funds representing over 50% but less than 75% of the extrabudgetary funds combined annual expenditure (from the government fiscal transfers and own resources) have submitted financial reports within 9 months of the end of the financial year in 2018.

### 6.1 Expenditure outside financial reports

122. There are approximately 15 extrabudgetary funds in Lao PDR. These funds can only operate if a law is issued through a specific Prime Minister decree that establishes their operation. Each decree includes a specific provision for the statutory funds to submit their financial revenue and expenditure report to their respective ministry, which should then be consolidated. However, the annual State Budget Plan reports only the main extrabudgetary funds that have submitted information to the MoF on time for the budget planning (see below)<sup>24</sup>:

- **Ministry of Education:** Provincial universities and school fees collected.
- **MoH:** Health Fund, originally covering the activities of the Health Equity Funds, community health and pro-poor health insurance and free maternal and child health services in selected

<sup>24</sup> The decrees for the five main extrabudgetary funds include provisions to report to government, but without a clear specification of the MoF and time line.

provinces. The new integrated National Health Insurance scheme, which has been launched and piloted since September 2017 in selected provinces, is currently financed through contributions from both the public and private sectors.

- **Ministry of Public Works:** Covering the Road Fund governed by the Decree on Road Fund, dated June 1, 2016, financed through levies on fuel prices integrated to the budget revenue (0.5 percent of GDP).
- **Ministry of Agriculture and Forestry (MAF):** Covering the Forestry Development Fund and more recently the PRF, financed by donors, governed by the Decree on Poverty Reduction Fund, dated August 3, 2017.
- **Ministry of Energy and Mines (MEM):** Covering the Renewable Energy Fund.
- **Ministry of Labor:** Covering the Social Security Fund established through the decree dated October 17, 2012.

123. **Other major extrabudgetary funds operate under their respective decrees.** These are financed directly through own resources from the private sector or development partners and established as follows:

- **EPF** governed by the Decree on Environment Protection, dated March 8, 2017 and mostly funded by development partners and established as an autonomous organization, both financially and administratively.
- **Other funds** such as the Tobacco Control Fund (decree dated May 21, 2013), the small and medium enterprise (SME) Fund, the Tourism Fund, and so on.

124. **Table 3-6.1 below summarizes additional information available on the MoF website on extrabudgetary funds for 2017 and 2018** and provides amounts corresponding to approximately 2.5 percent of the estimated expenditure for 2017.

**Table 3-6.1: 2017 and 2018 budget expenditure of extrabudgetary funds (LAK, millions)**

No.	Description	2017		2018	
		Plan	Expenditure	Plan	Expenditure
	<b>Revenue-Expenditure Funds</b>	849,800	849,800	767,637	703,637
<b>1</b>	<b>RMF</b>	660,000	660,000	724,000	660,000
<b>2</b>	<b>Forestry Development Fund</b>	6,800	6,800	4,000	4,000
<b>3</b>	<b>EPF</b>	—	—	33,035	33,035
<b>4</b>	<b>Renewable Energy Fund (MEM)</b>	—	—	700	700
<b>5</b>	<b>SME Fund</b>	—	—	1,902	1,902
<b>6</b>	<b>Tourism Fund</b>	—	—	2,000	2,000
<b>7</b>	<b>Health Fund</b>	183,000	183,000	2,000	2,000
		850,000	850,000	767,637	703,637

Source: Official Gazette and MoF website.

125. **As presented in the State Budget Plans, the technical revenues and income collected by extrabudgetary funds are also planned to be spent by the same entity.** This implies that there is no reallocation of these revenues to other budget entities.

*Development expenditure funded by development partners*

126. **Expenditure from external financing in the form of grants and loans funded by development partners is only partly covered in government financial reports.** Development Partner-funded

expenditure channeled through the government's accounts, such as for capital projects, is consolidated into the State Budget and covered by government reports. However, significant amounts of development partner-funded expenditure are not incorporated and thus kept off-budget. The exact amount can be estimated from the latest available Foreign Aid Implementation Report 2017 (Semi-annual FAIR 2017) covering information on reported ODA projects, programs, and activities and covered by the data set from the ODA management system of the MoF and from the MPI's DIC. The total amount pledged by 324 active bilateral and multilateral donors for 2017 totals US\$980 million, composed of US\$215.3 million as grants and US\$764.5 million as loans, that is, approximately 25 percent of total government budget expenditure from the 2017 State Budget.

127. **Since the implementation of the SBL, planned expenditures—financed by planned technical revenues—by service delivery units are systematically and consistently recorded in the accounts and reported in government financial reports from the ministries and provinces.** The amount of extrabudgetary expenditure that remains off-budget and not on government financial records but reported separately is related to externally financed projects and the expenditures from the statutory extrabudgetary funds. For 2016 and 2017, the amount of unreported expenditures cannot be fully estimated but is likely to be more than 10 percent of total government budget expenditure: Score D.

## 6.2 Revenue outside financial reports

128. **Article 33 of the SBL stipulates the obligations for all ministries and government agencies to “Supervise the budget units under their responsibility in collecting and transferring technical revenues to the State Budget in full and in compliance with the laws and regulations.”** Since 2016, the State Budget planning covers the various fees that can also be charged by government entities for the delivery of public services, particularly in the education (registration fees) and health (patient fees, drugs, and so on) sectors.

129. **Technical revenue and administrative fees are collected in separate bank accounts at the service delivery collecting point.** Technical revenues are accounted for in the budget with a provision for carryover in case there is a surplus at the end of the fiscal year. Ceilings for revenue and expenditures have been approved in the State Budget Plans in 2017 and 2018 with a breakdown for provincial universities and provincial estimates for the school fees' collection for the Ministry of Education and charges collected as out-of-pocket payments from health centers and district and provincial hospitals and the fees collected from the drug revolving fund for the MoH. The figures reported in the State Budget amount to less than 2 percent of the aggregate reported expenditure.

130. **At present, data on off-budget revenue from grants and loans from development partners are produced at least once a year but technical revenue collected through government operations are not systematically and consistently reported by the ministries and provinces.** The amount of extrabudgetary revenue that remains unreported for 2017 cannot be fully estimated but is likely to be more than 25 percent of total government budget revenue: Score D.

## 6.3 Financial reports of extrabudgetary units

131. **Although all funds and agencies that receive annual budget allocations from the State Budget are required to submit financial reports on their extrabudgetary expenditure to their respective ministry and the MoF, there is no clear reporting system and follow-up process for tracking such expenditure.** Thus, it is difficult to assess the compliance of the reporting and therefore the significance of the expenditure and revenue that remain outside the budget. As mentioned earlier, extrabudgetary funding includes funds from external sources, additional revenue sources, and income generated through service fees. Reporting varies from one fund to another. Revenues from the Road Fund are, for example, included in the overall figures for tax revenue, and a consolidated financial

report is prepared and submitted to the National Assembly annually. However, as these funds are not covered by the GFIS accounting system, financial information can be reported with substantial delays.

132. **The MoF does not carry out a specific oversight or monitoring role of the extrabudgetary funds and units.** Each decree that establishes a fund defines the obligations for the annual submission of the plans, budget, periodic financial reporting, audit, and oversight by the National Assembly. In the absence of a designated department with the authority and responsibility to collect from the responsible line ministry and prepare and submit financial reports to be consolidated in the State Budget Implementation Report presented to the National Assembly within nine to ten months of the end of the fiscal year, the reporting obligations are not effectively implemented. This is partly because the supporting instructions, guidelines, and policies have not yet been issued by the MoF.

133. **The six main extrabudgetary funds (out of approximately 15 extrabudgetary funds), representing 2.5 percent of government annual planned expenditure in 2017 have obligations to submit their financial reports to their respective supervising ministry.**<sup>25</sup> Two main funds, namely the RMF and the Health Insurance Fund, have submitted their reports to their respective line ministries in 2017. The score is C as over 50 percent<sup>26</sup> in value of extrabudgetary funds are submitted to the government within nine months of the end of the year.

134. **The MoF has made it a priority to include the reporting of the statutory bodies in the government reports.** It is finalizing and issuing regulations on ownership of statutory bodies and obligations to report annual financial implementation to a designated single department or unit to which all information should be forwarded for consolidation and liaison with the MoF.

135. **Data requirements on receipts and implementation of aid management are currently being developed by the MPI to collect information from ministries and development partner so that the ODA reports may be issued with more accuracy and timeliness.** Together with the process of reviewing the Prime Minister Decree No. 75 on the management and utilization of ODA, the MPI is now developing an online database for the ODA Management Information System ([www.ODA-mis.gov.la](http://www.ODA-mis.gov.la)) that will ease and streamline the tracking, monitoring, and tracking of ODA project implementation. Once the system is fully operational, ODA data will be more accurate and available on time. It will also facilitate and expedite the production of the FAIR report by MPI.

## PI-7. Transfers to subnational governments

136. **This indicator assesses the transparency and timeliness of transfers from the central government to subnational governments with direct financial relationships to it.** It considers the basis for transfers from the central government and whether subnational governments receive information on their allocations in time to facilitate budget planning. The assessment of this indicator is based on fiscal year 2017. The coverage is the central government and the subnational governments who have direct financial relationship with the central government.

137. **Although the provinces in Lao PDR have locally elected assemblies, they may not at present fully meet the criteria of autonomy from the central government.** Part IV of the Law on Local Administration establishes that provinces are not legally independent from the central government,

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<sup>25</sup> This assessment could not verify the exact number of reports received by the different ministries for 2017. Only the MoH provided the report received from the Health Insurance Fund for 2017 and the Ministry of Public Works and Transport confirmed the date of submission of the RMF report.

<sup>26</sup> These two funds are estimated to represent at least 50 percent of all allocations to extrabudgetary funds in 2017 (Source: MoF).

as their finances are part of the national budget planning and execution process and at their level of operations are integrated into the GFIS treasury system, except for the district level.

138. **Article 39 of the SBL 2015 states the division of responsibilities over the State Budget:** “The division of responsibilities between the central and local levels shall follow the principle that the central level is responsible for macro-level management, legal development, supervision, monitoring and support of the State Budget execution while the local level has the key responsibility on the budget execution on the basis of centralized State Budget. The division of responsibilities over the State Budget revenues and expenditures between the central and local levels shall ensure the unity principle by which the central level plays role in managing and macro-adjusting the budget revenues and expenditures nationwide, making fiscal transfers to deficit provinces, Capital city, districts, municipals and cities which shall enhance their ownership gradually. The local level shall enhance their untapped potentials and capacity for the purpose of improving the revenue collection capacity, managing expenditure strictly and responding to the need of the local socio-economic development.”

139. **The review of the actual mechanisms established between the central government and provinces established that the provincial governments** (a) are headed by a governor or mayor appointed by the Prime Minister after the provincial assembly is elected; (b) exercise some of the functions of government at a level below that of the central government; (c) have the fiscal authority to levy taxes and are de facto entitled to spend or allocate some, or possibly all, of the taxes or other revenue that it receives according to its own plans and policies, albeit within the general processes and regulations from the central government. The Sam Sang directive, issued in 2012, remains the principle policy directive defining the ‘decentralization framework’, and the conclusions and recommendations on recent pilots will shape the government evolving policy priorities and objectives and have direct implications for the design and structure of intergovernmental fiscal relations still being developed.

140. **It should be appreciated that the devolution process in Lao PDR is still in its early stages.** Based on the above narrative and chapter 2.5, PI-7 Transfers to subnational government is considered to be Not Applicable in Lao PDR.

Indicator/Dimension	Score	Brief Explanation
PI-7 Transfers to subnational governments	NA	Dimension scores combined by Method M2 (average).
7.1 System for allocating transfers	NA	
7.2 Timeliness of information on transfers	NA	

### 7.1 Systems for allocating transfers

141. Not applicable.

### 7.2 Timeliness of information on transfers

142. Not applicable.

## PI-8. Performance information for service delivery

143. This indicator examines the service delivery performance information in the executive's budget proposal or its supporting and documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. The period covered is as follows: dimension 8.1 - performance indicators and planned outputs and outcomes for the next fiscal year; dimension 8.2 - outputs and outcomes of the last completed fiscal year; dimensions 8.3 and 8.4 - last three completed fiscal years. The coverage is Central Government Services managed and financed by other tiers of government and should be included if the central government significantly finances such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents.

144. For the assessment, the education and health sectors have been selected as the two major ministries to measure the information on service delivery performance available in the budget documentation (Table 3-8).

Table 3-8. Service Delivery Performance- Education and Health Sectors

Ministry/Agency	Budget allocation (LAK, millions)	SD > 50% (Y/N)	Program objectives	Performance indicators	Performance data for planned SD programs		
					Outputs	Outcomes	Activities
Public Health	1,294,147	Y	Y	N	Y	Y	Y (partial)
Education and Sports	2,729,036	Y	Y	N	Y	Y	Y (partial)
Public Works and Transport	894,935	Y	N	N	N	N	N
Agriculture and Forestry	330,628	Y	N	N	N	N	N
Total budget value of the ministries selected	5,248,746	Y					
Percentage of SD ministries compliant	16% of total budget		77%	0%	77%	77%	Less than 77%
<b>Coverage</b>			All SD ministries (that is, > 90% by value of SD ministries)	All SD ministries (that is, > 90%)	All (>90%)	Most (>75%)	Majority (>50%)

Note: SD = service delivery.

145. Overall sector spending (planned) targets have been set in the 8th NSEDP endorsed by the National Assembly for education and health at respectively 17 percent and 9 percent of the government budget. Education and health outcomes are considered priority sectors for sustainable future growth of Lao PDR, and the NSEDP and National Assembly resolution stipulate that the sectors should receive respectively 17 percent and 9 percent of the State Budget allocation to build the human capital necessary, alleviate poverty, and graduate from LDC status as planned for 2024. The authorities increased allocations to the social sectors since 2016, but it is unclear if these have resulted in more services of improved quality. Further significant increases in allocations are unlikely given the challenging fiscal context of government spending in the upcoming years and the need for strict fiscal consolidation. Improvements in education and health sector outcomes would need to come from

improved efficiency of spending. These targets were set to simultaneously raise and stabilize allocations, which can be erratic due to uncertainty about aid flows to the sectors. These, so far, turn out to be overly optimistic and difficult to track in the absence of a programmatic budget structure and as the expenditure of the sector includes the provincial level.

Indicator/Dimension	Score	Brief explanation
PI-8 Performance information for service delivery	D+	Dimension scores combined by Method M2 (average).
8.1 Performance plans for service delivery	C	Sector strategic plans and reports are published online for the two major service delivery ministries representing 77% of the service delivery ministries: Education (ESDP 2016–2020) and Health (Health Sector Reform Strategy and Framework [HSRSF] till 2025) with key performance targets and outputs for key service delivery functions as defined in the sector strategic plans and a broad link with the annual NSEDP at the outcome level. While links exist between the budget and the forecasts targets for each budget year, the targets are not part of the budget documentation and annual reports on sector performance report only aggregate allocation of state and ODA resources to the plan and there are no key performance indicators.
8.2 Performance achieved for service delivery	C	Annual information on achievement of targets and main activities is prepared by both the MoES and MoH and published in their annual strategic plans available online and in print, describing the targets and estimated achievement for the current year, using the same format and activity-based presentation as their annual plan, with limited financial information at the aggregate level.
8.3 Resources received by service delivery units	D	Budget classification and chart of accounts do not include cost center codes at the level of government service delivery units. Ad hoc reports can be produced at the ministry level on actual government transfers to or expenditure by service delivery units, but do not include the substantial off-budget funding of service delivery through technical revenues or donors' funding. All fragmented sources of financing in major service functions such as health and education are not consolidated.
8.4 Performance evaluation for service delivery units	D	Several performance evaluations of service delivery in Lao PDR have been carried out in the last three years, mostly through development partners' assistance but not necessarily published and do not systematically include evaluation of efficiency. Evaluations of effectiveness and efficiency have been carried out for a few donor-funded programs during the past three years in terms of performance audits and published, but not covering more than 25% of the total of service delivery ministries in the last three years.

## 8.1 Performance plans for service delivery

### *Education sector*

146. **The government's strategic priorities for the education sector are guided by the Education Sector Development Plan (ESDP) for 2016–2020.** The ESDP sets the strategic framework as well as spending targets aimed at adjusting subsector delivery to changes in the student population structure and improving classroom education quality. However, the key performance indicators for the expected program outcome, if they are stated for most programs, are not fully specified or quantified.



Any related quantitative indicators are mostly of an output- and activity-based nature. Similarly, each subprogram has a separate set of indicators that is defined as an activity or input.

### *Health sector*

147. **The health sector is governed by the Health Sector Reform Strategy by 2020 and by Prime Minister Decree 029 of 2013 and the successive HSRSF to 2025 (issued in 2016).** The 8th National Health Sector Development Plan strives for an acceleration of the health sector reform, particularly the development of human resources, the improvement of governance and financing, and the completion of the comprehensive health information system. Phase 2 (2016–2020) of the Health Sector Reform Strategy aims to ensure essential health services of reasonably good quality are accessible for the majority of the population. In the medium term, the GoL aims to cover 80 percent of the population with an essential package of services and appropriate financial protection by 2020 and to achieve Universal Health Coverage by 2025. It is envisioned that over 95 percent of the population will be covered by the social health protection scheme and that out-of-pocket payment will be reduced to less than 30 percent of health expenditure.

148. **To achieve the policy objectives, the government has introduced financial protection mechanisms for the poor.** These include health equity funds and free care for maternal and child health to improve financial protection for the poor and the targeted groups such as pregnant women, mothers, and children under 5 years in the past years. A list of program-level strategies/targets is also defined, such as the National Strategy and Action Plan for Integrated Services on Reproductive, Maternal, Newborn, and Child Health. The targets and focus areas of the sector strategies are, in turn, broadly consolidated within the annual NSEDP, which mirrors the list of outputs and priorities from the respective sectoral plans but does not mention any costing or budget information.

149. **Sector strategic plans and reports are prepared and systematically published online or distributed in printed version for the two major service delivery ministries—Education (ESSDP 2016–2020) and Health (HSRSF till 2025)—** with key performance targets and outputs for key service delivery functions as defined in the sector strategic plans and a broad link with the annual NSEDP at the outcome level.

150. Information on activities to be performed by programs is available for the MoES and the MoH, which represent 77 percent of the identified service delivery ministries but there are no specific key performance indicators defined by programs: Score C.

## **8.2 Performance achieved for service delivery**

151. **In the absence of an adequate performance measurement framework for the service delivery sectors, the reports on performance remain very general and are centered on delivered activities.** The gap between the annual NSEDP plan adopted by the National Assembly defining broad targets and outcomes and the sector plans and the absence of performance-based budget information does not allow for a comprehensive and consistent presentation of performance results measure. However, the annual reporting follows the same format and presentation of the plan and provides an informative narrative about the activities delivered against the plans and contribution to the achievement of targets.

152. **Annual information on achievement of targets is prepared by both the MoES and MoH and consolidated in their annual strategic plans.** These describe the targets and estimated achievement for the current year, using the same format and activity-based presentation as their annual plan, with limited financial information at the aggregate level. The annual reports are systematically published: Score C.

### 8.3 Resources received by service delivery units

153. **In the education sector, the SBG transfers, covering the (non-staff) school operating costs for all schools from pre-primary up to upper secondary level and financed based on Prime Minister Decree No. 136 (2010)<sup>27</sup> is the only direct tracking tool of annual transfers made to the frontline education service delivery units by provinces.** It is in principle available through the MoE system. Expenditure to health centers may also be available. However, no information is consolidated in ministry budget reports and no other systematic reporting on actual resources received by other delivery units at other levels is compiled. Budget classification and the chart of accounts do not include cost center codes at the level of government service delivery units. Ad hoc reports can be produced at the ministry level on actual government transfers to or expenditure by service delivery units, but do not include the substantial off-budget funding of service delivery through technical revenues or donors' funding. All fragmented sources of financing in major service functions such as health and education are not consolidated: Score D.

### 8.4 Performance evaluation for service delivery

154. **Evaluation of service delivery performance in Lao PDR takes place at various levels and is fragmented among various stakeholders.** There is no government performance measurement framework based on annual reviews of achievement on the program performance indicators reflected in the budget. The monitoring and evaluation function in ministries is still limited to the annual planning and reporting activities. Information on performance to the ministry for the annual planning process is often too general at the outcome level or activity based and is not SMART<sup>28</sup> and thus not verifiable. Development Partners rely on their own tools and monitoring activities to measure progress and performance. While each of these mechanisms contributes to monitoring effective delivery of outputs and activities, none of them include a consistent evaluation of efficiency. Moreover, none of these evaluation reports are published.

155. **The performance assessments carried out during 2014–2017 in the health sector serve as an illustration.** These include the last government 2015 census, the 2014 Service Availability and Readiness Assessment, PFM in the health sector in Lao PDR: Service Delivery Challenges and Opportunities (World Bank 2018), government expenditure on health in Lao PDR (recent trends and findings from a health center survey (World Bank 2016).

156. **A few performance audits are said to have been carried out by the SAO during the past three years but are not accessible.** The capacity of the SAO staff to conduct performance audits is still very limited.

157. **Several performance evaluations of service delivery in Lao PDR have been carried out in the last three years, mostly through development partners' assistance, but are not necessarily published and do not systematically include evaluation of efficiency.** Evaluations of effectiveness and efficiency have been carried out for a few donor-funded programs during the past three years in terms of performance audits and published but not covering more than 25 percent of the total of service delivery ministries in the last three years: Score D.

## PI-9. Public access to fiscal information

158. **The indicator evaluates comprehensiveness of fiscal information available to the public.** This information is important for the public. At the same time, transparency of fiscal information implies

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<sup>27</sup> Details on SBGs largely drawn from 'School Finance in Lao PDR' by Ogawa Keiichi and Viriyasack Sisouphanthong, UNESCO, 2015.

<sup>28</sup> Specific, Measurable, Attributable/Attainable, Relevant, Timely

its easy access, without restrictions (registration and fee). The period is the last completed fiscal year and the coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-9 Public access to fiscal information	D	The government makes available only two of the five basic elements but not on time. So none of the elements meet the scoring criteria.

159. Table 3-9 shows the nine elements determining the assessment of public access to key fiscal information, with the assessment of each key element.

Table 3-9: Public access to key fiscal information

Elements of information for public access	Public availability	assessment
<b>Basic elements</b>		
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents is available to the public within one week of the executive's submission of them to the legislature.	No	The government budget proposal to the National Assembly is broadcasted on TV on the day of the session to the National Assembly but not published.
2. Enacted budget. The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	No	The State Budget Plan is published in the Government Gazette (issued by the Government Printer) in hard copy only but with a delay of up to six months. It is also usually posted on the MoF website.
3. In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance.	No	The regular quarterly financial reports produced by the MoF are internal, not presented to the National Assembly, and not publicly available.
4 Annual budget execution report. The report is made available to the public within six months of the fiscal year's end.	No	The Annual State Budget Plan implementation report is published in the Government Gazette (issued by the Government Printer) in hard copy only and with a delay of up to one year. It is also usually posted on the MoF website. GFS Annual Reports for 2011–2015 and 2015–2016 have been prepared and circulated in hardcopies and posted on the MoF website but with a delay (November 2018 for 2015–2016 report).
5. Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within 12 months of the fiscal year's end.	No	The annual financial statements are not posted on any website. The session of the presentation of the SAO Report for 2015/16 was broadcasted on TV in November 2017 but the report is not available to the public.
<b>Additional elements</b>		
6. Pre-budget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public at least four months before the start of the fiscal year.	No	The government statement on the economic and fiscal policy assumptions is presented to the National Assembly but not available to the public.

Elements of information for public access	Public availability	assessment
7. Other external audit reports. All non-confidential reports on central government-consolidated operations are made available to the public within six months of submission.	No	All reports produced by the SAO are confidential.
8. Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a ‘citizens’ budget,” and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal’s submission to the legislature and within one month of the budget’s approval.	No	There is no citizens’ budget.
9. Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	No	Macroeconomic forecasts are prepared by the MoF on a medium-term, annual, six-monthly, and quarterly basis discussed within the government and presented to the National Assembly (except the quarterly ones) but not published.

160. The government makes available only two of the five basic elements but not on time, so none of the elements meet the scoring criteria: Score D.

## PILLAR THREE: Management of assets and liabilities

### PI-10. Fiscal risk reporting

161. **This indicator measures the extent to which fiscal risks to the central government are reported.** Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments, public corporations, and contingent liabilities from the central government’s own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. The assessment is based on the information available for the most recent fiscal year 2017. Coverage for dimension 10.1 is central government-controlled public corporations. For dimension 10.2 it is subnational government entities that have direct fiscal relations with the central government and for dimension 10.3 it is the central government.

Indicator/Dimension	Score	Brief explanation
PI-10 Fiscal risk reporting	D	Dimension scores combined by Method M2 (average).
10.1 Monitoring of public corporations	D	43 SOEs, representing approximately 70% of SOEs’ turnover, had submitted 2017 annual financial statements and financial information to the MoF within nine months of the end of the financial year, but no information is available on their audit status or their publication. Only five listed SOEs had published audited financial statements within six months of the end of financial year as legally required. There is no overall consolidated report.
10.2 Monitoring of subnational governments	NA	
10.3 Contingent liabilities and other fiscal risks	D	No reporting takes place on contingent liabilities and other fiscal risks from the central government’s operations.

#### 10.1 Monitoring of public corporations

162. **Data on the MoF-recorded SOEs show that of the 183 SOEs registered with state participation, 60 are publicly owned (more than 50 percent owned by the state) and report at the central government level.** Data on SOEs are presented in Annex 5. There is no general legal provision for the SOEs to publish audited financial statements unless they are publicly listed or are required by the nature of their operations: state-owned banks in the financial sector or utility companies. Out of the 60 SOEs listed by the MoF SOE Department as of September 2018, 43 have submitted their financial report within nine months of the end of their financial year. Of these 43, 5 listed companies<sup>29</sup> have published their audited financial reports in the same period. These 43 SOEs represent approximately 70 percent<sup>30</sup> of the total turnover of the SOEs registered by the MoF. The publication and timeliness of financial reports for the rest of the SOEs could not be assessed.

163. **The SOE Department within the MoF has been recently assigned to support the government policy toward the restructuring of the SOE sector.** It is now better resourced to track and monitor financial information and trends on SOE operations, which may allow the preparation of the relevant

<sup>29</sup> Listed companies are BCEL, Lao Development Bank (LDB), Agriculture Development Bank, Lao Airlines, and EDL-GEN with financial reports audited by audit firms and the SAO.

<sup>30</sup> Due to unavailability of information on some unreported SOEs, the total turnover cannot be assessed accurately. About 67 percent represents an approximate figure based on the available data from the SOE Department.

reporting within the MoF. However, their current analysis does not highlight fiscal risks as it does not link trends to loan guarantees issued by the government, payment arrears, and so on. Two types of SOE-related liabilities are of particular importance:

- Substantial amounts of taxes are outstanding with SOEs. Tax revenue loss from SOEs is a fiscal risk that could be reported by the TD, which is responsible for the assessment of SOE tax liabilities. However, the latter are not highlighted in key fiscal documents.
- Borrowing without an explicit government guarantee and incurring nonperforming loans with state-owned commercial banks (SOCBs).

164. **While budget documents and dedicated debt reports cover debt sustainability, little consideration is given to government guarantees issued—including letters to facilitate bank overdrafts.** There is no specific consolidated report on the SOE performance and although SOE management and subsequent liabilities is a high priority focus area for the MoF, specific information on SOE-related fiscal risks is not publicly available in government financial reports. SAO audit reports cover the SOE sector but specific mention to SOE operations were not identified in the 2014/15 report.

165. **The 43 SOEs that had submitted 2017 annual financial statements and financial information to the MoF within nine months of end of the financial year represented approximately 70 percent of the total turnover of the SOEs, but no information is available on their audit status or their publication.** Only five listed SOEs had published audited financial statements within six months of the end of financial year as legally required. There is no overall consolidated report. Score D.

## 10.2 Monitoring of subnational governments

166. Not Applicable.

## 10.3 Contingent liabilities and other fiscal risks

167. **The financial reporting of the government includes general statements on the fiscal targets and trends but no specific identification of fiscal risks to the government.** Contingent liabilities arising from infrastructure projects or from PPPs are not addressed in MoF reports, apart from the capital expenditure arrears. No risks are disclosed. The SBL does not include an annual fiscal risk assessment report as part of documentation requirements. Given that (a) financial reports are prepared on the basis of cash accounting—that is, with no reporting obligations on actual liabilities or contingent liabilities and (b) extrabudgetary funds do not report to the MoF or report with substantial delays (see PI-6.3), and those reports do not specify contingent liabilities (to the extent that the assessors have been able to view the reports), the conclusion is that very little analysis of fiscal risk from government operations is actually taking place. As evidenced by the backlog of arrears spiraling out of control on provincial capital expenditures until 2016, it is a major challenge for the government to address.

168. **No reporting takes place on contingent liabilities and other fiscal risks from central government's operations:** Score D.

169. **Fiscal discipline and reporting on contingent explicit and implicit liabilities have become the major focus of the government since 2016.** This has led to the consolidation and refinancing of the backlog of capital expenditure arrears (see PI-13) and the restructuring of the MoF, with the consolidation of the domestic and external debt and the new ToRs for the SOE Department and State Assets Management Department. Enforcement of the new functional and legal requirements in place is considered a critical priority of the PFDS.

## PI-11. Public investment management

170. This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. The assessment is based on the fiscal year 2017 and covers the central government.

Indicator/Dimension	Score	Brief explanation
PI-11 Public investment management	D	Dimension scores combined by Method M2 (average).
11.1 Economic analysis of investment proposals	C	Economic analysis has been conducted for the 10 major projects selected from the PIP 2017. It should in principle be also included in the investment proposals submitted to the MPI for review and inclusion in the State Budget. However, it is only conducted for major investment projects and joint investments with external financing. These represent at least 25 percent of the pipeline and are not published
11.2 Investment project selection	C	Before their inclusion in the budget, major investment projects representing at least 25 percent of the pipeline are prioritized by the spending agencies and the MPI for inclusion in the PIP and the annual budgets for National Assembly approval.
11.3 Investment project costing	D	Projections of the total capital cost of some of the major investment projects, together with the capital costs for the forthcoming budget year, are included in the PIP attached to the budget documentation. They do not comprehensively cover the capital and recurrent costs over the whole life of the investment.
11.4 Investment project monitoring	D*	Full capital project costs to date can only be collected manually during the year from the implementing entities. On-site visits are carried out jointly between the implementing entity and the MPI Monitoring and Evaluation Department to check on physical progress, but this is only done on a sample basis. There is no database on the integrated system to report and monitor in the PIP implementation and calculate deviations from the original budget envelope.

171. For the assessment, a sample of 10 major projects identified by the assessment team from the 2017 PIP is illustrated in Table 3-11. The total investment cost of the 10 megaprojects identified does not necessarily meet the requirement to represent 1 percent or more of the annual budget expenditure but has been extracted from the 2017 PIP endorsed by the National Assembly and submitted by the MPI for inclusion in the budget.

**Table 3-11. 2017 Public investment megaprojects plans (LAK, millions)**

No.	Name of: - Ministry - Project name and location	Project duration	Total project cost	Implemented costs up to 30/6/2016	Estimated date of payment up to 31/12/2016	Plan 2017 starts 1/1/2017		
						Payment (using 500 billion portion) FY 2015-16	Plan 2017	Total
<b>A</b>	<b>Central level</b>							
1	<b>Ministry of Energy and Mines</b>							
	Infrastructure project: - Grid 22kv Samnuea-Phathi-Vienthong-Khetsone project (in Huaphanh province)	2010-17	188,750	169,902	114,110	-	5,000	5,000
2	<b>Ministry of Public Works and Transport</b>							
	Infrastructure project: - Road construction Xay-Nga District (phase 1, long: 18 km) project (in Oudomsay province)	2015-23	38,100	28,620	3,500	-	2,810	2,810
3	<b>Ministry of Education and Sports</b>							
	Infrastructure project: - Infrastructure of Savannakhet University (in Savannakhet province)	2012-20	250,000	50,866	44,000	4,000	30,000	34,000
4	<b>Ministry of Defense</b>							
	Infrastructure project: - Construction of borders (throughout the country)	2011-15	284,000	99,400	44,790	-	6,000	6,000
<b>B</b>	<b>Provincial level</b>							
5	<b>Huaphanh</b>							
	Infrastructure project: - 2 layers of road construction (Samphanthong-Sontay, Vienthong District, 61 km)	2012-22	288,684	187,067	18,000	-	5,000	5,000
6	<b>Vientiane</b>							
	infrastructure project - Road & bridge construction (Nanokphoum, Thoulakhom District-Naxay, Thaphabart)	2012-22	404,772	254,983	70,163	3,837	20,000	23,837
7	<b>Vientiane Capital</b> (missing info.)							
8	<b>Savannakhet</b>							
	infrastructure project: - 2 layers of national road construction, including bridge no. 9 to Saravane province border	2013-22	406,000	93,542	17,000	-	7,000	7,000
9	<b>Champasack</b>							
	infrastructure project: - Road no.14 A construction from Sukoumma-Mounlapamok (Lao-Cambodia border), long 78 km - Road no.14 C construction from conjunction Mounlapamok- Pakouy (Samliem), long 82.2 km	2013-23	879,000	236,301	31,000	-	12,000	12,000
10	<b>Sekong</b>							
	infrastructure project: - Road construction (Kaluem new village) (Lao-Vietnam border), long 118.50 km	2012-19	399,300	231,594	87,000	-	12,000	12,000

Source; PIP 2017, MPI.



## 11.1 Economic analysis of investment proposals

172. **Public investment projects that have been included in the PIP have been prioritized by the government entities and included in their respective five-year plan.** In principle, the proposing entities should conduct an ex ante assessment during the pre-investment stage according to the so-called 'JICA guidelines' developed under a JICA-financed 'Project for Enhancing Capacity of Public Investment Program Management' (PCAP), governing all public investment procedures, and recently updated in 2016.

173. **The guidelines for ministries' planning departments include a project planning phase: "stage when the potential public investment projects are identified, formulated and designed and the necessary environmental, disaster prevention, climate risk, social impact analysis are made."** However, the checklist for the project proposal for a new infrastructure project includes that "a financial/economic analysis of the project is conducted, and one among Net Present Value, Cost and Benefic Ratio, and Internal Rate of Return, is calculated and attached."

174. **Specific information for the 10 major projects selected as the sample could not be accessed.** However, the checklist of information collected for the major projects screened by the MPI officials was provided and confirmation was received that all externally financed and very strategic and visible projects are covered by a systematic economic analysis and feasibility study. However, ministries and provinces indicate that economic analysis is not always conducted for projects funded from domestic resources and that cost estimation cannot be done in a consistent manner due to financial and technical capacity constraints. Economic feasibility studies for smaller projects in the investment pipeline are therefore seriously constrained and are often bypassed.

175. **Investment proposals are reviewed by the MPI.** However, in any case, with external funding or not, the results of economic and social assessments that are made in the formulation of government investment projects are not published.

176. **Economic analysis should in principle be included in the investment proposals submitted to the MPI for review and inclusion in the State Budget.** It is conducted systematically for major public investment projects and joint investments with external financing. These represent at least 25 percent of the pipeline, but are not published: Score C.

## 11.2 Investment project selection

177. **Improving public investment selection has been a major focus of the government.** Since 2017 after the guidelines were revised, screening (with letters A to F) before selection has been in place under a new and well-defined system. All projects identified by the ministries and provinces should first—as a precondition—be included in the relevant PIP that contains detailed project lists for each of the five years in the five-year NSEDP to qualify and be included in the stock of projects to be undertaken by the government with State Budget funding.

178. **Investment proposals are prepared based on the templates and provisions from the 'JICA Guidelines'.** The PIP contains a detailed list of all projects already preapproved for inclusion in the budget with a breakdown by category, cost by year, total costs, and implementation agency. It is managed by the Evaluation Department within the MPI. This department is responsible for the review of the pipeline of proposals from ministries and provinces and for the screening of the projects through a set of objective criteria to identify the list of potential projects that can be prioritized and be included in the State Budget.

179. **The identification and selection process at the provincial level involves the following steps for the projects:**

- The Public Investment Project Priority List and the Three-Year Rolling Plan are developed based on the five-year PIP and the NSEDP. The investment proposals are submitted to the provincial assembly to be included within the investment ceiling to be defined by the MPI for the year.
- Once the capital budget ceiling is defined, the MPI sends annual instructions and guidance based on the PIP and the NSEDP, to start the annual ministry/province capital budgeting process.
- After consultation, sector departments will send all investment proposals from districts and respective service facilities to the Planning Department with some prioritization, using the proposal format and methodology developed under the PCAP.
- The planning department will start its appraisal process and validate technical details, costs, and so on with the following key criteria for screening and prioritizing:
  - Consistency with the NSEDP and sector and province plans
  - Relative priority given by the proposing department
  - The status of the investment: 'debt', 'ongoing' or new (with highest priority given to the first two categories)
- The ranking of projects is established on a scale of A to F carried out by the Evaluation Department. Only investments ranking highly in this process, A or B, exceptionally C, are then submitted to the MPI for review and clearance and to respective sector ministries for review and consolidation.
- Following announcement of the National Assembly-approved budget, and the capital investment ceiling within it, the provincial assembly will endorse the investments submitted at the following January session.
- For larger capital budget requests, ministries will submit proposals directly to the MPI. If the proposal is approved by the MPI, it will then be included in the budget proposal to the National Assembly

180. **The PIP is structured by six thematic areas.** These are sustainable economic growth, social support and disaster risk management, social development, infrastructure development, improved governance, and gender capacity development. Of these thematic areas, investment projects that are on top of the priority list ('flagship' projects) are those focused on sustainable economic growth and infrastructure development. In principle, all projects are screened by the MPI according to the 'JICA' evaluation criteria and methodology. However, it is unclear just how far this process really captures relative costs and benefits or factors in other national policy or geographic targeting criteria, such as preference for underserved areas. Then, the PDPI ranks proposals based both on priorities assigned by the originating department and by project status/commitment criteria.

181. **The PDPI division establishes ceilings based on the resource envelope available and whether the project fits into the priority list.** Some projects are included in the PIP but due to limited funding may not be included in the current year budget and left for the next one. Additionally, upon presentation of the PIP and list of projects to the government cabinet, the political importance of projects and central government priorities will also be taken into account. Ultimately, the prioritization process is conditioned by the need to clear the backlog of debt arrears, the limited fiscal space for new investment financing, and the major infrastructure priorities defined at the central government level.

182. **Before their inclusion in the budget, major investment projects are normally prioritized by the spending agencies at the central level and the MPI PDPI Department for inclusion in the PIP and**

**the annual budgets for National Assembly approval.** However, information could be obtained from the MPI for only some of the 10 megaprojects identified from the PIP 2017: Score C.

### 11.3 Investment project costing

183. **The MPI manages two pipelines of projects.** Project cost estimates for donors and externally funded projects include the total project costs for the entire project life cycle. Such costs include the cost of carrying out feasibility studies covering up to the end of the project life cycle.

184. **For government-sponsored projects, the total capital costs for the past period and the next for budget period are included in the PIP and submitted for National Assembly approval with the State Budget Plan.** However, even though the total costs are calculated, the estimates are at times not reliable in the absence of comprehensive feasibility studies. Estimated costs are continuously revised during the implementation stage of the project, as evidenced by the number of projects started in a year and still ongoing after several years due to cost overrun. The full costing and inclusion of the recurrent costs of the projects are the responsibility of each ministry and province. Given limited capacity and budget constraints, there is a strong incentive to get the project in the pipeline to ensure availability of a budget envelope at some point. The MPI technical review is the final screening for the cost estimates and decision on inclusion in the PIP. According to information collected from the MPI, projects with incomplete information are subject to revision until full costing is submitted. However, it is not clear whether this secures the adequate financing under the recurrent budget prepared by the MoF. The parallel budget process is a constraint and the absence of integrated management information system is an issue to capture projects and their total costs.

185. **Total estimated capital costs for major projects together with the capital costs for the forthcoming budget year are included in the budget documents.** The dual budget formulation process and the absence of an integrated project management system between the MPI and the MoF generate a constraint, and the costs presented in the PIP are often not fully comprehensive or calculated based on reliable costing methodology: Score D.

### 11.4 Investment project monitoring

186. **The project implementing entity is responsible for monitoring the total cost of a project as well as financial and physical implementation progress during the project life cycle.** Such monitoring is meant to take place regularly during the implementation. It is compulsory before the final, and often only, payment to the contractor. For ongoing projects such monitoring provides information for the capital budget submission. For the physical monitoring, the Implementing Department and the MPI Evaluation Department jointly carry out on-site visits to the projects to evaluate the physical progress on the ground. A report is produced as a formal attachment for payment by the National Treasury. However, given the number of projects that are concurrently being carried out (more than 300), and the limited resources available at the central government level, physical verification is carried out on a sample basis. Coverage during the year could not be calculated directly but is estimated at 40–50 percent of the projects under implementation (corresponding to the number of projects receiving payments in one year).

187. **Full capital project costs to date can only be collected manually during the year from the implementing entities.** There is no database on the integrated system to report and monitor the PIP implementation and calculate deviations from the original budget envelope: Score D\*.

188. **Improvement of the PIM has been one of the key policy priorities for the government since 2016.** The launch of the debt diversion initiative and passing of the new Public Debt and Procurement Laws are defining a strong framework to impose strong measures to ensure a more transparent and

sustainable selection and implementation of infrastructure projects in the future. The MPI has been instructed to take an active role in this area and to set up a centralized, robust PIM monitoring system. Meanwhile, government sectors and provinces must follow their five-year investment budget plans as a reference or guideline for infrastructure development in their areas.

## PI-12. Public asset management

189. **This indicator assesses the management and monitoring of government assets and transparency of asset disposals.** The assessment is based on the fiscal year 2017. The coverage for dimension 12.2 is Budgetary Central Government and for dimension 12.3 is central government for financial assets and central government for nonfinancial assets.

Indicator/Dimension	Score	Brief explanation
PI-12 Public asset management	D+	Dimension scores combined by Method M2.
12.1 Financial asset monitoring	C	Responsibility for state financial assets management, including the register, and monitoring and preparation of internal reports on the government portfolio is shared between the External Finance, SOE, and National Treasury. Financial assets are mainly estimated at their acquisition value and in the case of market instruments at fair market value. There are neither consolidated records nor publication of the information, but government holdings in major categories of financial assets are covered by some government internal reporting.
12.2 Nonfinancial asset monitoring	D	Nonfinancial assets management is decentralized to each government entity using the assets. Major ministries (Education, Health, and Public Works) maintain a manual registry with records of entries of mobile fixed assets and carry out periodic inventories, but there is no consistent methodology for the valuation of all assets. Other records of nonfinancial assets are fragmented and incomplete at different levels and there is neither consolidation nor publication of comprehensive information on holdings of any type of nonfinancial assets.
12.3 Transparency of asset disposal	D	Transfers and disposal of nonfinancial assets is covered by standing rules on asset disposal, but the provisions are yet to be enforced. There is no consolidated information available on such disposals, including the information of both acquisition and disposal values.

### 12.1 Financial asset monitoring

190. **Financial assets management in Lao PDR is regulated through provisions from the State Budget Department, the 2010 Treasury Law, and the recently approved 2018 Public Debt Law.** These regulations cover the management and recording of financial assets and related debt instruments. Records of market financial assets are maintained by the External Finance Department following IMF templates, and the SOE Department monitors government investments in various public entities. The National Treasury consolidates cash balances held in various commercial banks and produces a consolidated monitoring report on a monthly basis (see PI-21.1).

191. **The government uses cash basis of accounting, which means that all investment acquisitions are expensed in the year in which state ownership has been recognized.** The government holds diverse financial assets, including cash, securities in listed and non-listed corporations, loans, and

receivables. Registers for financial assets are in place for the monitoring of some of those assets, but records are manual and there is no systematic tracking and valuation system. The reporting on public corporations at the time of the assessment covered basic information on financial performance on turnover and the profit/loss statements for 47 of 60 public corporations (see PI-10.1). The financial statements produced by the National Treasury provide information on the financial assets portfolio and there is a specific register available on loans granted by the government. Overall, the recording of information in the annual financial reports, while fragmented and not covering systematically all the financial assets held by the government, can be confirmed. Nevertheless, the financial assets are not subjected to periodic evaluation.

192. **Responsibility for state financial assets management, including the register, and monitoring and preparation of internal reports on the government portfolio, is shared between the External Finance and SOE Departments, and the National Treasury.** Financial assets are mainly estimated at their acquisition value and in the case of market instruments at fair market value. There are neither consolidated records nor publication of the information, but government holdings in major categories of financial assets are covered by some reporting: Score C.

## 12.2 Nonfinancial asset monitoring

193. **The monitoring of nonfinancial assets is governed by the 2012 Law on State Assets.** This law covers maintaining and updating records on acquisitions, movements, changes in use, and disposals of such assets. Additionally, the Law on Investment Promotion prescribes the royalties and fees to be levied on concessions and natural resources. The law categorizes the public assets between the natural resources for public use (land and all other natural resources) and the state government assets acquired and accounted for through the State Budget (fixed assets, buildings, roads, equipment, and so on). The responsibilities and classification for state assets management are fully decentralized and based on location (central government, provinces, and districts) and funding sources. Assets recorded by the Ministry of Public Works are, for example, assigned to each public works project.

194. **There is no cadaster system in place.** The government land records are currently being established to map and value holdings of all government land and buildings, including their economic use for government operations or leased to a third party. The management of land and subsoils is a shared responsibility between the MEM responsible for the mapping of resources, the State Assets Department responsible for the collection of concessions fees granted under the MPI's authority, and the Ministry of Natural Resources and Environment (MoNRE) responsible for the management and central register of government land and payment of land taxes. Reports are supposed to be submitted annually at the end of the fiscal year and audited, and physical inventory is the responsibility of the management of each entity. Valuation is made only at the time of transfer.

195. **The State Assets Department at the MoF is responsible for the consolidation of fixed and immovable state assets fully owned by the government based on information reported by ministries, provinces, and statutory funds maintained in hard-copy format.** These records are decentralized and held manually, mainly for fixed movable assets such as vehicles, IT, and specialized equipment. There is no control over the systematic recording and accounting at each level. Ministries such as the Ministry of Public Works, Ministry of Education, or MoH maintain registers updated annually and keep track of equipment items through inventory-based controls, but recordkeeping in many other government entities is only partial or even nonexistent.

196. **Stricter rules exist for donor-funded assets recorded separately and reported to the External Finance Department as part of the project or loan agreement.** Such assets are usually transferred to the implementing ministry at the end of the project.

197. **Nonfinancial assets management is decentralized to each government entity using the assets.** Major ministries (such as Education, Health, and Public Works) maintain a manual registry with records of entries of mobile fixed assets and carry out periodic inventories, but there is no consistent methodology for the valuation of all assets. Other records of nonfinancial assets are fragmented and incomplete at a different level and there is neither consolidation nor publication of comprehensive information on holdings of any type of nonfinancial assets: Score D.

### 12.3 Transparency of asset disposal

198. **The disposal or transfer of state assets is governed by Section 4 of the State Assets Law and assigned to relevant committees at central and local government levels.** However, the full enforcement of the law is yet to be implemented and the legal provisions on disposal of public assets need to be aligned with other laws such as the new law on public procurement.

199. **Transfers and disposals of assets are managed at the decentralized level.** In the absence of systematic registers and valuation for most of the nonfinancial assets, there is no system to identify and value the assets being disposed of and income generated by the public auction of government assets. For example, the disposal of government luxury cars following a specific Prime Minister decree in 2016 was managed by ad hoc committees established at the line ministry level. A current practice to transfer assets under the custody of civil servants as a retirement benefit is managed and controlled by the Ministry of Labor and the MoF (under Decree 272 and 343). Land transfers represent a major part of the nonfinancial asset sales recorded in the State Budget for a total of 5 percent of total revenue in 2015/16. In general, information on transfers and disposals is not included in budget documents, financial reports, or other reports.

200. **Transfers and disposal of nonfinancial assets is covered by standing rules on asset disposal.** The provisions are yet to be enforced and there is no consolidated information available on such disposals, including the information of both acquisition and disposal values: Score D.

### PI-13. Debt management

201. **This indicator assesses the management of domestic and foreign debt and guarantees.** It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. The assessment is evaluated for dimension 13.1 at the time of assessment. For dimension 13.2, it is based on the last completed fiscal year, 2017, and for dimension 13.3, at the time of assessment, with reference to the last three completed fiscal years.

Indicator/Dimension	Score	Brief explanation
PI-13 Debt management	D+	Dimensions combined by Method M2.
13.1 Recording and reporting of debt and guarantees	C	External debt reports are produced on a monthly and quarterly basis and shared with the FPD providing information on composition of external debt and interest rate. Domestic debt records and guarantees have been maintained and the information on obligations and repayments is only partial. Aggregate information on debt stock and service is included in the in-year and annual budget reports to the National Assembly.
13.2 Approval of debt and guarantees	D	The Constitution and the SBL require contracting and reporting on all government debt and guarantees through the Minister for Finance subject to approval by the National Assembly. At present all the debt-related

Indicator/Dimension	Score	Brief explanation
		transactions and issuance of guarantees are still under consolidation between the MoF, MPI, and all relevant stakeholders at central and provincial levels. Once the new Public Debt Law becomes fully operational, the score for this dimension should improve.
13.3 Debt management strategy	D	There are regular Debt Sustainability Analysis reports performed jointly with the IMF-World Bank. The Public Debt Law requires the preparation of a medium-term debt management strategy and a report is available in draft form as an internal document.

202. **The public debt level is high and the joint IMF-World Bank Debt Sustainability Analysis has moved Lao PDR to high risk of debt distress.** By end-2017, public debt increased to around 61 percent of GDP, compared to an average of 38 percent of GDP for emerging and developing Asia.

### 13.1 Recording and reporting of debt and guarantees

203. **The responsibility for public debt management and reporting for both external and domestic debts has recently been consolidated under the External Finance Department at the MoF.** Public debt management is now governed by the Public Debt Law adopted during the last National Assembly session on November 23, 2018. Until then, the External Finance Department was responsible for maintaining the records of all public debt contracted by the state for foreign borrowing while the Budget Department was responsible, in collaboration with the National Treasury for the records of domestic debt. Foreign loans are systematically recorded, and the report on the external public debt is prepared on a monthly basis, taking into account new and ongoing debt, and sent to the FPD to be used as an input to the MTF.

204. **Foreign debt records are managed by the External Finance Department back-office using the DMFAS of the United Nations Conference on Trade and Development (UNCTAD).** Reconciliations are performed on transactions on a monthly basis for all external debt principal and interest payments. Debt reports are produced on a monthly and quarterly basis and shared with the FPD, providing information on composition of external debt and interest rate. Actual foreign exchange rates and integrity of the external debt data are reported as fairly accurate although regular reconciliations with debt creditors could not be confirmed. Some guarantees are reported in the DMFAS but not all. At the end of the fiscal year, the aggregated debt stock and plans are submitted to the National Assembly together with the State Budget Plan. Only the detailed breakdown of the foreign debt portfolio is shared when the DMFAS reports are circulated during the annual debt report to the IMF.

205. **Domestic debt reports are produced but kept confidential.** The backlog of infrastructure projects and liabilities inherited from the previous government and absence of reliable information still place a heavy burden on the domestic debt management. However, the fiscal consolidation undertaken by the government since 2015 has translated into greater scrutiny on domestic borrowing. Domestic debt records and guarantees have been maintained by the Budget Department and the information on obligations and repayments has been verified and confirmed against bank records, so even if it is manually maintained, there is an organized system to keep track of contingent liabilities as government issues consent letters and guarantees to third parties and SOEs.

206. **External debt reports are produced on a monthly and quarterly basis.** They are shared with the FPD, providing information on composition of external debt and interest rate. Domestic debt records and guarantees have been maintained and the information on obligations and repayments is

only partial. Aggregate information on debt stock and service is included in the in-year and annual budget reports to the National Assembly: Score C.

### 13.2 Approval of debt and guarantees

207. **The 2015 Constitution of Lao PDR Article 53 grants the National Assembly the authority to “consider and adopt fundamental financial policy, monetary, budget deficit percentage, national debts percentage, and public debts percentage.”** The MoF is mandated<sup>31</sup> to monitor and manage both domestic and foreign public debt contracted by the government, and, under Article 55 of the SBL, it is responsible to submit to the National Assembly “a report on public debts and total debts falling due during the year or overdue, estimated interest and principal payments and medium-term debt forecasts.”

208. **Up to 2016, the level of domestic debt had spiraled out of control, mostly due to unrecorded debt on infrastructure projects at the provincial and district levels.** Unauthorized projects were carried out by private companies that paid the cost of construction up front, with a ‘commitment’ by the local authorities that they would be repaid by the government budget. Since 2017, the stock of arrears accumulated at the provincial level has been consolidated and a repayment schedule agreed with the contractors and commercial banks through the so-called government’s triangle-debt-diversion disbursement initiative.

209. **A new Public Debt Law was promulgated and adopted during the last National Assembly session on November 23, 2018, as a result of this situation.** Under Article 16 paragraph 2, all borrowing and public debt management decisions are centralized at the MoF, with the sole authority to sign the loan agreements and to contract borrowing and issuing guarantees on behalf of the government, including onlending and guarantees issued for the provinces and SOEs, as long as it can report that it is kept within confirmed borrowing capacity and borrowing ceiling approved by the Government and the National Assembly.

210. **The Constitution and the SBL require contracting and reporting on all government debt and guarantees through the Minister for Finance subject to approval by the National Assembly.** At present, all debt-related transactions and issuance of guarantees are still under consolidation between the MoF, MPI, and all relevant stakeholders at central and provincial levels: Once the new Public Debt Law becomes fully operational, the score for this dimension should improve but now stands at D.

### 13.3 Debt management strategy

211. **The IMF-World Bank Debt Sustainability Analysis Framework is currently the main tool used to evaluate the sustainability of public debt.** The report on Lao PDR Debt Sustainability Analysis<sup>32</sup> was prepared and circulated by the IMF assessing the impact of government borrowing on the general economic environment. It also looked into factors that have driven the government to contract debt for the period up to 2016. The 2017 joint IMF-World Bank Debt Sustainability Analysis has moved Lao PDR to high risk of debt distress.

212. **The government has endorsed the need to minimize debt on commercial terms and maintain borrowing on concessionary terms where the loan proceeds are directed toward**

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<sup>31</sup> Article 3 from Decree 144/PM dated May 8, 2017 on Organization and Function of the MoF: “To manage public debts at the safe level and the level approved by the National Assembly, ensure economic stability; report debt status to the government and the National Assembly as defined by law.”

<sup>32</sup> <https://www.imf.org/en/Publications/CR/Issues/2018/03/23/Lao-Peoples-Democratic-Republic-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-45750>.



**developmental projects.** Under the new legal responsibility for debt issues, a debt management strategy has been developed and is available in draft form as an internal document, but as of August 2018, it has not yet been made publicly available: Score D.

213. **The recently adopted 2018 Public Debt Law provides the strategic framework to improve debt management and particularly the issuance of sovereign debt and guarantees.** It is expected that guidelines should be developed for the preparation of (a) a five-year plan (Strategy for Public Debt Management in Lao PDR) that provides broad guidelines for public debt management, (b) a rolling three-year plan (medium-term borrowing plan) that provides targets for the debt structure and risk exposure, and (c) the tool to perform regular Debt Sustainability Analysis to inform borrowing decisions. The External Finance Department has also requested assistance from donors to replace the DMFAS version used since 2011 and migrate to the Commonwealth Secretariat-Debt Recording and Management System (CS-DRMS).

## PILLAR FOUR: Policy-based fiscal strategy and budgeting

### PI-14. Macroeconomic and fiscal forecasting

214. This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. The period is the last three completed fiscal years. The coverage for dimension 14.1 is the whole economy and for dimensions 14.2 and 14.3 is the central government.

Indicator/Dimension	Score	Brief explanation
PI-14 Macroeconomic and fiscal forecasting	D+	Dimensions combined by Method M2 (average).
14.1 Macroeconomic forecasts	C	Macroeconomic forecasts are prepared annually.
14.2 Fiscal forecasts	D	The government prepared forecasts of the aggregate revenue, expenditure, budget balance, and financing for the budget year and the following two years for the first time in 2016 and partially presented with the budget documentation submitted to the National Assembly. Explanation of the underlying assumptions is incomplete and there is no comparison to the previous year's forecasts.
14.3 Macro-fiscal sensitivity analysis	D	No macro-fiscal sensitivity analysis takes place and no fiscal scenarios are available covering external risk factors. A Debt Sustainability Analysis is prepared with IMF-World Bank assistance but only for external use.

#### 14.1 Macroeconomic forecasts

215. The macroeconomic planning process has two strands. One is part of the formal national planning process, the NSEDP, and there is also a cross-agency effort to develop a macroeconomic framework. The formal planning process is led by the MPI, which is responsible for the formulation of the five-year and annual NSEDP, the country's development strategy. The NSEDP is approved by the National Assembly and includes targets for growth, inflation, and a general direction for macroeconomic policies. Variables used in the macroeconomic simulation include the targeted GDP growth rate decided by the MPI, inflation decided between the MPI and the BoL, interest rates, and the exchange rate. The framework covers a data series of the last two years, the current year, the year to be planned, and the next three years (seven years in total). The forecasts are updated at least annually for annual budget purposes and forecasts are updated when the revised State Budget is submitted to the National Assembly. These are limited to the upcoming budget year and the first six months of the following year.

216. Macroeconomic forecasts and assumptions are the result of a top-down process. This is based on an investment-driven growth formula using the capital output ceiling combined with a GDP growth target and under the MPI responsibility. The GDP growth rate estimate uses a consistent framework based on growth rate indicators and data from four sectors of the economy (agriculture, mines and energy, commerce, and transport) and is given to the FPD to produce fiscal forecasts and subsequent 'adjustment' to revenue and expenditure projections. In parallel to the formal 'old' model, the FPD also calculates more accurate medium-term macroeconomic forecasts. The underlying assumptions are also prepared by the FPD based on modeling tools supported by the IMF and ADB,

but information is not official and is kept internally. The FPD's dedicated unit for macroeconomic analysis is supported by the IMF but does not appear to be fully functional and or empowered.

217. **The National Assembly does not receive detailed information on the macroeconomic scenario apart from the oil price and exchange rate.** Once approved by the National Assembly, the NSEDPs provide guidance for sectoral plans, including the annual budget. Plans are rarely revisited and only midterm reviews are undertaken to take account of new developments.

214. **There is a Committee for Macro-fiscal Monitoring (CMM).** This was established in 2014 and was composed of the MPI, MoF, National Institute for Economic Research, BoL, and Lao Statistics Bureau. It meets every quarter to review the macroeconomic and fiscal situation and design policy measures as necessary. However, there is no in-depth independent review of the economic forecasts outside the CMM.

218. **Forecasts used for the budget preparation are systematically too optimistic, leading to overestimation of revenue.** As a result, the link between policies and expected outcomes is weak. While the government has already improved the consistency of macroeconomic projections and developed an MTFE, there is still a need to formally establish the link with the underlying policy framework and the formal planning process through the production of the NSEDP. Macroeconomic forecasts are prepared annually: Score C.

## 14.2 Fiscal forecasts

219. **Revenue forecasting in Lao PDR takes place as part of the budget preparation process, part of the broader planning process.** The MoF's FPLD coordinates the process with inputs from revenue collecting departments (TD, Customs Department, State Asset Department, SOEs, and so on). Forecasts are typically done at individual tax/nontax instrument level and are based on macroeconomic assumptions (growth, inflation, and so on) provided by external agencies. In 2016, the MoF produced, for the first time, a five-year fiscal plan, called the MTFE document. The midterm forecasting is, however, largely the result of FPD internal calculations, mostly on an incremental basis with unsupported adjustments on specific revenue outturns. The MoF's FPD has been developing its own GDP-based model for revenue forecasting, with support from the IMF and the World Bank. The MoF reported that the model has been used in the actual budgeting process in combination with inputs from revenue collection departments.

220. **The data constraints and limited technical capacity environment have an impact on the MoF's ability to produce reliable forecasts.** The data that are produced are in some cases not fully reliable and or not publicly accessible. The Lao Statistics Bureau has an ambitious plan to improve the availability of quality statistics while the ongoing Tax Revenue Modernization Project should help digitize and improve tax records. Repeated revenue collection shortfalls in Lao PDR suggest that there is considerable scope to improve revenue forecasting. Actual revenues in 2015/16 were 10.5 percent below the midyear revised estimates and a full 19 percent below the projections made in the initial 2015/16 budget.

221. **The underlying macroeconomic assumptions for the forecasts are based on the forecasts and are not linked to other forecasts such as the GDP targets from the NSEDP.** These are outlined in PI-14.1. Other assumptions (for example, tax policy and expenditure policy changes) are only referred to in general terms with no quantitative targets except when referring to the wage bill in previous years. An explanation of the differences between the annual update and the corresponding forecasts made in the previous year is not provided.

222. **The government prepared forecasts of the aggregate revenue, expenditure, budget balance, and financing for the budget year and the following two years.** This was done for the first time in

2016 and the forecasts were presented in the budget documentation submitted to the National Assembly. However, description of the underlying assumptions is incomplete and there is no comparison to the previous year's forecasts: Score D.

### 14.3 Macro-fiscal sensitivity analysis

223. **Alternative fiscal scenarios (for example, pessimistic or optimistic scenarios) are not produced.** Analysis of changes in underlying assumptions affecting macroeconomic and fiscal variables, including external risks such as commodity prices, exchange rates, and so on, and macro-fiscal sensitivity analysis is not undertaken. An internal Debt Sustainability Analysis is also not available (PI-13.3): Score D.

### PI-15. Fiscal strategy

224. **This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy.** It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. The period for dimension 15.1 is the last three completed fiscal years and for dimensions 15.2 and 15.3 it is the last completed fiscal year. The coverage is central government.

Indicator/Dimension	Score	Brief explanation
PI-15 Fiscal strategy	D+	Dimensions combined by Method M2.
15.1 Fiscal impact of policy proposals	D	Fiscal impact of proposed revenue measures and expenditure policy is not fully costed or estimated in the budget submitted to the legislature.
15.2 Fiscal strategy adoption	C	The government presents a fiscal strategy of qualitative objectives for the forthcoming budget year, which is presented to the National Assembly. Quantitative fiscal targets were adopted by the government internally as part of the PFDS but are neither set in law nor submitted to the National Assembly.
15.3 Reporting on fiscal outcomes	D	The government prepares an internal report on progress made toward broad fiscal targets but there is no systematic reporting against quantitative and qualitative targets based on implementation of specific fiscal policies.

### 15.1 Fiscal impact of policy proposals

225. **The FPD of the MoF is responsible for preparing revenue policy proposals and for revenue estimates of tax and nontax revenue.** It prepares a consolidation of the fiscal forecasts based on information from collecting departments for each tax and nontax revenue to estimate an MTEF for the definition of aggregate expenditure ceilings. However, the revenue impact of tax measures such as the new amended VAT Law as of July 2015 was not estimated or quantified.

226. **The FPD is also responsible for reviewing the fiscal impact of expenditure policy proposals in collaboration with the Budget Department.** However, as sector development plans/strategies typically do not include multiyear costing for each target or outcome, estimates of the budget impact of expenditure policy proposals are not directly available. Budget estimates draw on the proposals presented in the sector plans and strategies but at a very general level, with reference to the NSEDP by sectors. The costing and alignment of these sector plans with the budget are still weak and the FPD has just started to work on the definition of a comprehensive MTEF with ADB assistance (see PI-16).

227. **Fiscal impact of proposed revenue measures and expenditure policy is not fully costed or estimated in the budget submitted to the legislature:** Score D.

### 15.2 Fiscal strategy adoption

228. **The SBL Article 55 requires that the MoF presents its fiscal policy, budget policy, and medium-term budget framework (MTBF) and medium-term budgets to the National Assembly.** At present, the MoF has consolidated the PFDS 2025 and Vision 2030 endorsed by the Prime Minister as well as macro targets for 2020 as follows:

- GDP growth above 7.2 percent and GDP per capita US\$3,217;
- Inflation rate below the economic growth rate;
- Stability of the exchange rate maintained; exchange rate fluctuation of the kip against major currencies within  $\pm 5$  percent per year;
- Total state revenue between 17 percent and 18 percent of GDP, of which domestic revenue is between 15 percent and 16 percent of GDP;
- Budget expenditure between 22 percent and 24 percent of GDP;
- Salary expenditure not exceeding 45 percent of domestic revenue;
- Public debt maintained below 65 percent of GDP; and
- A budget deficit below 5 percent of GDP per annum.

229. **The FPD also prepared a three-page fiscal policy document in 2017 for the 2018 budget submission to the National Assembly.** This was based on the MTFP with revenue and expenditure projections for three years, with the intention to adjust these figures on a rolling basis, as was already the case in 2018 with the 2019 budget submission. The MoF budget statement to the National Assembly refers to general fiscal principles and fiscal objectives based on quantitative targets.

230. **There is a restriction on debt-to-GDP ratio and the level of public debt is limited in the medium term.** This serves as an anchor to the government fiscal policy but is not necessarily complied with. Furthermore, there are no detailed multiyear projections on the debt limit, and the link with the projections of expenditure and revenue that are presented in the State Budget Plan is missing.

231. **The government presents a fiscal strategy of qualitative objectives for the forthcoming budget year, which is presented to the National Assembly.** Quantitative fiscal targets were adopted by the government internally as part of the PFDS but are neither set in law nor submitted to the National Assembly: Score C.

### 15.3 Reporting of fiscal outcomes

232. **In the absence of formulation and adoption of a comprehensive fiscal strategy by the government, reporting on fiscal outcomes is based on the fiscal targets stated in the State Budget Plan submission to the National Assembly and the five-year MTFP adopted from 2016 to 2020.** Several reports issued by the MoF discuss fiscal policy issues and underlying macroeconomic developments, including during 2018, the annual 2017 report, and 2018 four-month report (June 2018), and the six-month report (October 2018), which are all submitted to the National Assembly. Since fiscal policy targets are defined only at a broad level, but reporting on their achievement is made as a general statement with broad explanation on deviations. The reports discuss developments but do not make direct comparison to the qualitative and quantitative objectives stated during the previous year's budget policy cycle. This information is not publicly available. The government

publishes the Government Financial Statistics Annual Report with detailed description on performance and progress toward fiscal targets, but the report is only circulated almost two years after the end of the fiscal year.

233. **The government prepares an internal report on progress made toward broad fiscal targets.** There is no systematic reporting against quantitative and qualitative targets based on implementation of specific fiscal policies: Score D.

234. **The provisions from the SBL relating to the establishment of a relevant fiscal policy framework are progressively being incorporated to help ensure long-term fiscal sustainability.** The capacity to undertake fiscal impact analysis of revenue and expenditure policy changes is gradually being developed as the MTF and MTEF are being introduced with the World Bank and ADB support.

## PI-16. Medium-term perspective in expenditure budgeting

235. **This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings.** It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. For dimensions 16.1, 16.2, and 16.3, the assessment is based on the last budget submitted to the legislature, 2017. For dimension 16.4, the assessment is based on the last budget submitted to the legislature, 2017, and the current budget, 2018. The coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-16 Medium-term perspective in expenditure budgeting	D+	Dimensions combined by Method M2 (average).
16.1 Medium-term expenditure estimates	C	While detailed estimates by economic classification at a four-digit level are available within the State Budget Plan for the current budget year, aggregate estimates at a two-digit level of expenditure are presented for the two following years.
16.2 Medium-term expenditure ceilings	C	The 2018 budget circular from the MoF indicates the aggregate expenditure ceiling prepared based on the MTBF prepared by the government (or five-year budget plan revised every year) and endorsed by the National Assembly.
16.3 Alignment of strategic plans and medium-term budgeting	D	Medium-term strategic plans are prepared for each sector of the NSEDP at least for ministries representing at least more than 75 percent of budgeted expenditure. However, the costing is not systematic across all ministries, and medium-term budget projections from the MoF are not drawing directly on expenditure policy proposals from these sector plans.
16.4 Consistency of budgets with previous year's estimates	D	Budget documents do not provide any explanations of changes to the updated medium-term expenditure estimates compared to the previous year's estimates.

### 16.1 Medium-term expenditure estimates

236. **The MoF introduced a medium-term approach to budgeting in 2016 through the formulation and presentation of a five-year budget framework to the National Assembly.** An MTF document with projections of the main revenue streams and GDP assumptions was also prepared by the FPD in 2017 and endorsed by the government. The document presented revenue estimates for 2017–2020 with projections for all taxes and simulation of GDP growth based on the variables used in the GDP

modeling work (see PI-14). Subsequently, the MoF formulated a five-year budget plan to provide a budget framework to the implementation and reporting on the NSEDP and presented aggregate ceilings for expenditure and main revenue projected for 2017–2020 to the National Assembly during the submission of the 2017 budget in November 2016.

237. **The five-year budget framework presents an aggregate level of revenue and expenditure and macroeconomic assumptions used for the projections.** At present, detailed estimates by economic classification at a four-digit level are only available within the State Budget Plan for the current budget year. The planning process in place at the sector level produces Annual Costed Sector Plans aligned to the sector development plans prepared by the ministries based on the broad strategic orientations and targets of the NSEDP. These plans present projections of financing requirements by programs based on activity-based costing at some degree of aggregation and not at a detailed item level but cannot link the sector policy directly with the annual budget process.

238. **While detailed estimates by economic classification at a four-digit level are available within the State Budget Plan for the current budget year, aggregate estimates of expenditure are presented for the two following years at a two-digit level:** Score C.

## 16.2 Medium-term expenditure ceilings

239. **The 2018 Budget circular from the MoF indicates the aggregate expenditure ceiling prepared based on the MTBF.** Expenditure ceilings are endorsed only at the aggregate level and include a projection for the two following years. There are no expenditure ceilings issued to line ministries before or within the budget circular, and the line ministries' submissions are revised in accordance with the National Assembly approval of the aggregate budget ceilings, as per budget calendar (see PI-17.1).

240. **The government and the National Assembly approved aggregate expenditure ceilings for the budget year and the two following years in 2017 for the 2017–2020 period:** Score C.

## 16.3 Alignment of strategic plans and medium-term budgeting

241. **SBL Article 55 requires the development of an MTBF.** The Lao PDR strategic planning process is well-structured and translates into a five-year NSEDP 2016–2020, which is revised in 2018 after two years. The MPI provides overall strategic guidance on national development planning under the NSEDP formulation process and line ministries receive instructions to align their sectoral plans, activities, and budgets during the five-year NSEDP implementation period and during the annual planning process supporting the annual budget formulation.

242. **The NSEDP has no costing information for the three main sector strategies and outcomes (Inclusive Economic Growth, Enhanced Human Development, and Improved Environmental Protection).** The sector strategies that underpin the NSEDP prepared by main ministries covering all the major economic, social, and strategic sectors—education, health, public works, and agriculture represent more than 75 percent of the total budgeted expenditure in 2015/16. These sector plans identify objectives, milestones, activities, outputs, and outcome targets and detailed costs of main categories of recurrent costs and major investments. These plans contain various performance indicators (PI-8.1).

243. **The information on costs is not systematically prepared and presented as there are no consistent cost norms across government.** The link between budget allocation and estimation of funding needs calculated by the ministries remains weak. The NSEDP, sector strategies, and annual plans are typically broadly defined, overly ambitious, and aspirational in nature, with actual funding ultimately being defined by the availability of resources and prevailing political priorities. Additionally,

major sectors plans—such as health, education, transport, energy, and agriculture—depend heavily on ODA funding (and other nongovernmental funding), much of which is off-budget.<sup>33</sup> Furthermore, the dual planning processes between the capital budget allocations based on identification of capital projects by the MPI and the current budget allocations by the MoF result in a fragmented process and inconsistency between the policy priorities and allocations assigned.

244. **Medium-term strategic plans are prepared for each sector of the NSEDP at least for ministries representing some 75 percent of budgeted expenditure.** However, the costing is not systematic across all ministries, and medium-term budget projections from the MoF are not drawing directly on expenditure policy proposals from these sector plans: Score D.

#### 16.4 Consistency of budgets with previous year's estimates

245. **The projections for the following subsequent years of the medium-term budget framework are calculated incrementally based on the aggregate revenue estimates.** They are revised from one year to the other or from one budget report to the next. Changes to the expenditure projections are mostly due to overambitious revenue forecasts, but they are also caused by natural disasters, major project cost overruns, or adjustment of new priorities in the NSEDP. Overall, recurrent adjustments to budget plans reflect the poor predictability of the annual budget as a result of weak planning and budgeting process. The current budget estimates (aggregate expenditure ceilings) often change significantly before and during the implementation and are reported to the National Assembly,<sup>34</sup> and budget outturns vary significantly from the approved estimates (see PI-2).

246. **Budget documents do not explain the differences between approved estimates and actual outturns for the previous year or likely outturn for the current year (say 2016/17 and 2017/18 respectively in the 2018/19 budget documentation) except for a few deviations at a highly aggregated level.** The narrative tends to focus mostly on the economic assumptions to explain the GDP growth outturn. Consequently, no explanations are given for changes to the medium-term projections compared to the previous year's estimates. Most ministries are not concerned by the medium-term projections as they bear no binding significance in the final budget allocations decisions.

247. **Budget documents do not provide any explanations for changes to the updated medium-term expenditure estimates compared to the previous year's estimates:** Score D.

248. **The MoF has already planned to further develop the fiscal management provisions of the SBL.** This will also develop a roadmap for medium term budgeting for four main ministries (Education, Health, Public Works and Transport, and Agriculture and Forestry).

#### PI-17. Budget preparation process

249. **The indicator evaluates the effectiveness of stakeholder engagement in the budget preparation process, including the consistency and timeliness of involvement of persons conducting the policy.** The period for dimensions 17.1 and 17.2 is the last budget submitted to the legislature and for dimension 17.3 it is the last three completed fiscal years. The coverage is Budgetary Central Government.

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<sup>33</sup> From the FAIR report for 2017, estimated ODA funding accounts for approximately 30 percent of total government budget, and from the ESSP annual report for 2015/16, ODA represents more than twice the government contribution for capital budget (chart of accounts chapter 67).

<sup>34</sup> For instance, the 2018 budget was estimated at LAK 34.9 trillion in the five-year budget framework, changed to LAK 33.3 trillion in the revised four-year budget framework one year later, and submitted to and approved by the National Assembly for LAK 32.8 trillion.



Indicator/Dimension	Score	Brief explanation
PI-17 Budget preparation process	C+	Dimensions combined by Method M2 (average).
17.1 Budget calendar	C	A formal budget calendar exists with steps that are generally adhered to. However, in practice spending units have around two weeks to prepare their budget proposals and estimates after receipt of the budget instructions and respective ceiling.
17.2 Guidance on budget preparation	D	A general budget circular (MoF) and set of instructions (MPI) are circulated to all spending units with general description of the budget formulation context and instructions for specific expenditure categories, including capital and current expenditures. Individual notifications with final ceilings to each ministry are circulated only after the initial budget submission to the National Assembly with proposed aggregate expenditure and revenue plans, as approved by the Minister for Finance.
17.3 Budget submission to the legislature	A	The MoF has, on behalf of the government—in each of the last three years—presented the annual budget proposals to the National Assembly at least eight weeks before the start of the fiscal year.

### 17.1 Budget calendar

250. **The SBL and internal government and MoF processes regarding the budget formulation rely on a budget calendar with sequenced activities and deadlines as summarized in Table 3-17.1.** The substantial delays and usual shortfalls reported by the MoF and the consulted ministries have been summarized in the table to highlight the weaknesses in the overall process.

251. **In general, ministries are given only two weeks to review and submit their budget proposals after issue of the first set of ceilings.** There is still some uncertainty about the final estimates submitted to the National Assembly and adjustments are made before the final consolidation. Ministries consulted explained that the short deadlines for adjustments made it difficult to consult with the technical departments that eventually become responsible for implementing the budget.

**Table 3-17.1: Calendar for State Budget Plan formulation<sup>35</sup>**

Deadline dates	Steps	Effective date (based on ministries and MoF feedback)
<b>By March</b>	<b>Annual socioeconomic plan:</b> The Prime Minister issues an instruction for the drafting of the annual socioeconomic development plan and the budget plan by sector.	The Prime Minister Decree is often issued with some delay or sometimes not issued at all.  Policy decisions can be made late, for example, salary increases are not announced in the beginning of the fiscal year, making it difficult to work out the fiscal envelope.
<b>By May</b>	<b>Aggregate budget ceilings:</b> The MoF estimates aggregate budget ceilings for the following year and indicates to the MPI the overall capital investment budget ceiling and the breakdown between the central government and the provinces. <sup>36</sup>	

<sup>35</sup> Based on SBL Article 56 and actual 2018 State Budget submission.

<sup>36</sup> The PIL (Article 24) indicates that the province share shall not be less than 50 percent of the total state capital budget.

Deadline dates	Steps	Effective date (based on ministries and MoF feedback)
<b>By June 30</b>	<p><b>Annual MoF budget circular:</b> The Minister of Finance issues an instruction, budget circular on the formulation of the annual State Budget Plan and indicative aggregate budget ceilings from the five-year MTBF based on the MTBF for the sectors at central and local levels.</p>	<p>MoF budget circular for FY18 was issued in June 2017, and for FY19 it was issued in May 2018.</p>
	<p><b>Revenue plans:</b> Revenue collecting departments at all levels formulate their own revenue plan detailing each type of income: regular income, technical revenue, and income from extrabudgetary fund, and ODA. ODA information is submitted in two parts: to the MoF (for aid funds and loans through country system) and to the MPI (for aid funds from direct assistance and off-budget)</p>	
	<p><b>Central ministries budget submission:</b> Government entities at the central level formulate their budget proposals in consultation with the National Assembly's committees and concerned sectors and send the draft budget proposals to the MoF Budget Department</p>	<p>No realistic ceilings are issued for the budgetary (spending) units leading to wish list budget proposals submitted by spending units to the MoF. Spending units prepare their budget proposal based on current costs and incremental increase (10–15%).  Budget plans are mostly submitted at chart of accounts two-digit level.</p>
	<p><b>Provincial budgets submission:</b> State organizations and concerned sectors at the local level formulate budget proposals and propose them to the provincial governors or capital city mayor for approval and submission to the local assemblies (Provincial People Assemblies). Approved draft budget proposals are sent to the MoF Budget Department for consolidation.</p>	<p>No ceilings are issued.  Budget proposals are consolidated after a bottom-up consultation process by sectors.</p>
<p><b>National Assembly first plenary session (April–July)</b></p>	<p>Aggregate budget plan (expenditure and revenue) is submitted to the National Assembly's review and approval during the <b>first plenary session</b> (3–4 weeks).</p>	<p>The calendar of the National Assembly first plenary session varies and can be conducted in April/May, giving the MoF limited lead time to prepare the aggregate budget plan.  The aggregate budget plan covers chart of accounts chapters 60–67 without ceilings or breakdown.</p>
<p><b>June–July</b></p>	<p><b>Ceilings to spending units and revision of the budget proposal:</b> Once the aggregate budget plan has been approved by the National Assembly, the MoF notifies the</p>	<p>Budget ceilings to the spending units are often not announced immediately after the approved aggregate budget plan and this delays the budget planning of the spending units.</p>

Deadline dates	Steps	Effective date (based on ministries and MoF feedback)
	<p>spending units regarding their allocations.</p>	
	<p>Spending units revise their budget plans based on the notified allocations and submit their revised budget plan to the GoL/MoF.</p>	<p>In practice, the spending units have around two weeks from the confirmation of the budget ceilings to submit their final submission.</p>
	<p><b>Capital budget:</b> The MPI then determines the allocations of the province capital budget ceilings for each of the 18 provinces, which are communicated to provinces as a preliminary indication and are loosely based on the criteria indicated in the Public Investment Law (PIL) (population, area, remoteness, and poverty levels), and also in view of different provincial investment plan targets and requirements.</p>	<p>There is no specific allocation formula although year-to-year capital allocations to individual provinces appear to be consistent in last three years.</p> <p>The PIL stipulates that within each province capital budget allocation, 35 percent is earmarked for type V investments that can be approved at the province level; the remaining 65 percent is for larger investments that require approval by the MPI and the National Assembly.</p>
<p><b>July–September</b></p>	<p><b>Consolidated State Budget Plan:</b> The MoF Budget Department reviews and consolidates the budget proposals into the State Budget Plan and submits the draft State Budget Plan to the government for consideration.</p>	<p>Analytical skills and detailed understanding of the sectors are limited resulting in uninformed budget adjustments or cuts</p>
<p><b>By October</b></p>	<p><b>PIP submission:</b> The MPI submits the proposed PIP allocations into the overall State Budget proposal to the National Assembly.</p>	
<p><b>November–December</b></p>	<p><b>State Budget Approval:</b> The government reviews and officially submits the draft State Budget Plan to the National Assembly for consideration and approval, 15 to 20 days before the <b>second plenary session</b> of the National Assembly (3–4 weeks).</p>	<p>The budget submission is aggregate and includes no details of the district and department budgets and no comparison with previous years’ projections.</p>
	<p>The Minister of Finance notifies the localities regarding the budget ceilings within 15 days after the National Assembly’s approval.</p>	
	<p>After National Assembly approval, the MPI communicates the approved investment budget ceiling to the provinces.</p>	
	<p>State and other concerned organizations at the local level in collaboration with concerned sectors make detailed allocations and propose them to the provincial governors or capital city mayor for further submission to the Local</p>	<p>The Local Assemblies’ session is often conducted after the start of the new fiscal year, resulting in delay in consolidating detailed provincial budget plan (including district and functional department budgets).</p>

Deadline dates	Steps	Effective date (based on ministries and MoF feedback)
	Assemblies' consideration and approval and then to the MoF for consolidation.	
<b>December onward</b>	Finally, the MoF consolidates and reports the State Budget Plan to the Government.	The consolidated budget plan with detailed allocation at the sectoral level can only be produced and circulated several months after the start of the fiscal year (FY18 Budget Plan was published in August 2018).

Source: SBL, Budget Department, 2018 State Budget circular 2168/17, dated June 27, 2017, interviews with MoE, MoH and MoPW Finance Departments.

252. **The SBL established a broad budget calendar with steps that are generally adhered to.** However, in practice, spending units have around two weeks to prepare their budget proposals and estimates after receipt of the budget instructions and respective ceilings: Score C.

### 17.2 Guidance on budget preparation

253. **The circular for the 2018 State Budget was sent to all government entities and provided a clear framework for the budget preparation.** However, there were no quantitative targets or ceilings below the aggregate budget ceilings approved by the National Assembly. There is a general description of the macroeconomic context underlying the GDP growth target but no specific assumptions for the individual budget calculations. The circular provides specific instructions for each expenditure category for revenue collection for all relevant spending units at central and local levels. Subsequently, only after the initial budget submission to National Assembly has been approved with proposed aggregate expenditure and revenue plans, each ministry receives an individual notification from the MoF Budget Department and MPI with indicative ceilings to guide completion of budget proposals. The ceilings are specified by main economic categories for current expenditure and by project categories for capital expenditure.

254. **The budget circular sent to spending units after the approval of the aggregate ceilings by the National Assembly does not contain information specific to any sector.** Also, it does not include individual detailed ceilings and only provides general instructions for the budget preparation by expenditure categories. Score D.

### 17.3 Budget submission to the legislature

255. **The budget proposal is the result of multiple discussions and consultations between the government and the National Assembly before the final endorsement and resolution.** The exact dates of the submission of the budget proposals are shown in Table 3-17.3. As the fiscal cycle changed in 2016, the submission and approval dates have shifted from the first National Assembly session to the second session of the calendar year.

**Table 3-17.3: Timeline for government budget submission to and approval by National Assembly**

Budget year	Timeliness (time before start of new FY)	Budget submission to National Assembly	Resolution issued by the National Assembly
2013/14	2.5 months	1st week of June 2013	July 13, 2013
2014/15	2 months	4th week of June 2014	July 29, 2014
2015/16	2 months 1 week	4th week of June 2015	July 25, 2015
3 months in 2016	6 months	2nd week of April 2016	April 22, 2016
2017	2 months 1 week	3rd week of October 2016	November 18, 2016
2018	2 months	1st week of October 2017	November 17, 2017

Source: Budget statements by the Minister of Finance and dates of the annual resolutions on budget approval of the National Assembly.

256. **The Minister of Finance has presented—in each of the last three years—the annual budget proposals to the National Assembly at least 8 weeks before the start of the fiscal year:** Score A.

## PI-18. Legislative scrutiny of budgets

257. **This indicator assesses the nature and extent of legislative scrutiny of the annual budget.** It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature’s procedures for scrutiny are well established and adhered to. The period is the last completed fiscal year (2017) for dimensions 18.1, 18.2, and 18.4 and the last three completed fiscal years (2014/15, 2015/16, and 2017) for dimension 18.3. The coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-18 Legislative scrutiny of budgets	D+	Dimensions combined by Method M1 (weakest link).
18.1 Scope of budget scrutiny	D	The National Assembly reviews fiscal policies and aggregate fiscal forecasts but not the details of revenue and expenditure plans.
18.2 Legislative procedures for budget scrutiny	B	The National Assembly has well-established procedures for scrutiny of the budget, which are adhered to. The procedures include negotiation procedures, technical support to committees, consultations with civil society, and access for the media to attend consultations.
18.3 Timing of budget approval	A	The National Assembly has—in each of the last three years—approved the annual budget before the start of the fiscal year.
18.4 Rules for budget adjustments by the executive	B	Clear rules for in-year budget reallocations by the executive are set out in the SBL and mostly adhered to. A revised budget is presented to the National Assembly during the first session of the year and the SBL provides the executive with substantial powers of reallocation within the overall aggregate of original and adjusted appropriations.

### 18.1 Scope of budget scrutiny

258. **The role of the National Assembly in relation to the budget process is mandated under Article 53 of the Constitution of Lao PDR.** This role is reiterated in the 2016 SBL and the 2015 National Assembly Law. These laws grant the National Assembly the following rights and duties:

- To consider and adopt strategic plans, socioeconomic development plans, State Budget Plans, and amendment procedure
- To consider and adopt fundamental financial policy, monetary, budget deficit percentage, national debts percentage, and public debts percentage
- To consider and adopt the determination, amendment, or abrogation of taxes and duties

259. **The package received and endorsed by the National Assembly through its resolution on the Annual State Budget Plan includes the report on the execution and revised estimates for the current budget and macroeconomic and fiscal targets for the submitted budget plans.** This includes

GDP forecasts, aggregate fiscal forecasts, MTBF, and general orientations for revenue mobilization, but no detailed estimates. As an example, the debate in the Assembly in 2017 focused mainly on the fiscal policy measures proposed by the government to tighten the fiscal discipline such as consolidating all technical revenues or financing the capital expenditures projects and stock of arrears. Debates on expenditure policy cover priority allocation for education and health sectors or wage bill increase. After the deliberations, the National Assembly adopts the resolution on the State Budget Plan with general recommendations to the government in the same session and the budget is passed.

260. **The National Assembly reviews and endorses the fiscal policies and aggregate fiscal forecasts presented by the MoF but not the specific details of the revenue and expenditure estimates:** Score D.

## 18.2 Legislative procedures for budget scrutiny

261. **The National Assembly has well-established procedures for the budget scrutiny process, set out in the Constitution and the 2015 National Assembly Law, which are adhered to.** The PFAC of the National Assembly is the committee in charge of overseeing the planning and budget proposals submitted by the government and the financial and compliance audit report submitted by the SAO. Its ToRs are approved by the National Assembly and include the preparatory discussions with all relevant parties to provide comments on overall vision, strategies, socioeconomic plans, State Budget Plans, PIP, and other documents that are to be discussed during the formal National Assembly sessions. It is one of the largest committees composed of 5 divisions with 28 assembly members supported by 19 technical staff.

262. **The PFAC usually consults with the MoF and relevant ministries before the formal budget proposal hearings.** It also coordinates the pre-consultation and consolidates the final reporting on the sectoral budget plans with other specialized committees such as the Committees for Culture, Social Affairs, or Technology and Science to secure a consensus before the National Assembly receives the complete package of budget documents from the MoF (PI-5, elements1–5) 2 weeks to 10 days before the annual National Assembly session for scrutiny, debate, and 6-month revised estimates.

263. **The MoF defends its budget proposal with the PFAC.** Sector ministries defend their budgets in front of the sector committees. These then report their findings and proposals to the PFAC, which consolidates the reports into one report. This report is sent to the plenary National Assembly for final discussion and approval.

264. **Negotiation procedures can take place, which, in principle, give powers to the Assembly to approve or refuse the government proposal.** However, in reality, the National Assembly cannot impose any changes to the submitted revenue or expenditure estimates at this late stage of the budget formulation cycle and after the budget framework and revenue targets have been agreed. The National Assembly does not review the detailed breakdown of the State Budget Plan subsequently to the National Assembly resolution on the aggregate figures.

265. **The participation of civil society in the review of budget proposals is limited to possible consultations of representatives of various sector specific civil society organizations during the planning process.** All other meetings and discussion are held without the media or the public, and minutes of the meetings are kept internally by the National Assembly Secretariat.

266. **The National Assembly has well-established procedures for scrutiny of the budget, which are adhered to.** The procedures include negotiation procedures before the National Assembly session, technical support to committees in charge of the prior review, and consultations with relevant stakeholders including the ministries. Specific and formal rules for the review committees and

negotiations procedures are included in the ToRs and there are no public consultation arrangements. Score B

### 18.3 Timing of budget approval

267. **The National Assembly has adopted the resolution on the State Budget Plan systematically before the start of the new fiscal year for the last three fiscal years, as shown in the Table 3-18.3 above:** Score A.

### 18.4 Rules for budget adjustments by the executive

268. **In-year budget allocations are clearly defined.** Based on the adjustments in 2015/16 and 2017, there is adherence to the rules in the period of the assessment. The SBL defines authorized budget adjustment as “the upward (or downward) revisions of the State Budget in case of higher (or lower) than target revenue collection, policy change or unexpected events impacting the annual state revenues and expenditures.” Article 70 stipulates the rules for the reallocation of State Budget Expenditures shall take place as follows:

- The transfer of budget expenditures from one line to another within the same chapter of the annual budget plan is decided by the spending units.
- The transfer of budget expenditures from one chapter to another of the annual budget plan is decided by the MoF.
- The transfer of budget expenditures from one organization to another, or from one locality to another in the annual budget plan is decided by the Prime Minister and then reported to the National Assembly and Local Assemblies.

269. **In the last three fiscal years in-year budget implementation reports (four-month and six-month) were submitted to the National Assembly in its two sessions in July and October with a proposal for a revised budget which was formally approved.** The National Assembly usually endorses the State Budget Implementation Report at the aggregate level; there is little focus or need for further justification. Such transfers are usually not referred to in subsequent reports on budget implementation, and SAO reports reviewed for the period do not raise budget reallocation as an issue. In practice, this provision gives significant powers to the executive to change the in-year budget allocations without prior approval of the National Assembly, as long as the overall amount of expenditure stays within the aggregate of approved appropriations.

270. **An exceptional adjustment to the revised budget took place in 2016.** This was due to under execution of the capital expenditure budget and was endorsed by the National Assembly.

271. **Clear rules for in-year budget reallocations by the executive are set out in the SBL and are adhered to.** The rules provide the executive with substantial powers of reallocation within the overall aggregate of original appropriations: Score B.

## PILLAR FIVE: Predictability and control in budget execution

### PI-19. Revenue administration

272. **This indicator relates to the entities that administer central government revenues.** These may include tax administration, customs administration, social security contribution administration, and agencies administering revenues from other significant sources such as natural resources extraction. This may include public enterprises that operate as regulators and holding companies for government interests, in which case the assessment will require information to be collected from entities outside the government sector. The indicator assesses the procedures used to collect and monitor central government revenues. The assessment period for dimensions 19.1 and 19.2 is at time of the assessment and for dimensions 19.3 and 19.4 is the last completed fiscal year, 2017.

273. **Domestic revenue collection accounted for 15.2 percent of GDP for tax revenue and 2.7 percent of GDP for nontax revenue in 2015/16.** Responsibility for domestic revenue collection is consolidated under the MoF and shared between the TD (50 percent), the Customs Department (34.5 percent), the State Assets Department (9.5 percent excluding revenue from sales and state assets), and the SOEs Department (5.7 percent excluding incomes from capital return and sale of state assets).

274. **For the assessment, the relative importance of each revenue type in 2015/16 is presented in Table 3-19.** The revenue from the NSSF is not included in government statistics.<sup>37</sup>

**Table 3-19: Total revenue 2015/16 (LAK, millions)**

Revenue type	Actual	% total revenue
<b>Tax revenue</b>	<b>16,481,349</b>	<b>81.0</b>
1. Profit tax	1,753,050	8.6
2. Income tax	1,592,690	7.8
3. Land tax	104,750	0.5
4. Business licenses	—	0.0
5. Minimum tax	—	0.0
6. Turnover tax	0	0.0
7. VAT	4,915,630	24.1
8. Excise taxes	3,734,380	18.3
9. Import duties	1,825,780	9.0
10. Export duties	68,696	0.3
11. Registration fees	74,261	0.4
12. Other fees	1,400,872	6.9
13. Natural resources taxes	507,112	2.5
14. Timber royalties	135,492	0.7
15. Hydropower royalties	368,636	1.8
<b>Nontax revenues</b>	<b>2,914,691</b>	<b>14.3</b>
1. Leasing fees	69,751	0.3
2. Concessions	85,367	0.4
3. Fines	188,301	0.9
4. Administration fees	854,420	4.2

<sup>37</sup> The total amount collected by the NSSF in the assessment period was not available from the government data but has been estimated at LAK 505 billion based on average salary and estimated employed workforce in 2017 (based on figures from the LAO PDR labor force survey, MPI, and Lao Statistics Bureau, June 2018).



Revenue type	Actual	% total revenue
5. Dividends	679,862	3.3
6. Interest	423,604	2.1
7. Overflight rights	586,068	2.9
8. Forest preservation funds	6,800	0.0
9. Other	20,519	0.1
<b>Total tax and nontax revenues</b>	<b>19,396,041</b>	<b>95.2</b>
Asset sale	223,910	1.1
Capital return	747,098	3.7
Pump amortization	—	0.0
<b>Total revenue with asset sale</b>	<b>20,367,048</b>	<b>100.0</b>

Source: MoF Published Government Financial Statistics Annual Report 2015-2016.

275. **This assessment takes place at a time when multiple reform efforts have been launched on a number of fronts.** The Tax Strategic Development Plan (TSDP) 2018–2020, a three-year reform plan for the TD, was formally signed by the Minister of Finance in June 2018. The supporting annual action plan, the Development Plan for Tax Administration (DPTA), was developed with assistance from the IMF and sets out reforms in the areas of strengthening legislation, improving revenue collection, modernizing tax administration, and building staff and institutional capacity. This plan, which was approved by the Minister of Finance on June 13, 2018, fits within the six areas of reform under the PFDS that have been determined as priorities through 2020: policy; legislation; revenue (tax, customs, and state assets); budget and treasury (expenditure); modernization; and organization and human resources. However, at this initial stage of the reform, there is no measurable impact on the performance yet.

276. **At the regulatory level, the GoL is reviewing and updating its tax laws.** The Tax Law was revised in 2015 and a new VAT law was approved by the National Assembly on June 20, 2018. Plans are under way to replace the General Tax Law with five separate laws over the next two years: Tax Administration Law, Income Tax Law for individuals and legal entities, Excise, Environment, and Property Tax Laws.

277. **From an administration perspective, the TD has updated its organizational structure following Ministerial Decree 2834.** It established a project implementation team, which is responsible for implementing the DPTA, as well as coordinating with donors and international organizations. The reform efforts contained within the TD DPTA focus on strengthening the organization to meet the demands of the extensive reform effort, as well as improving the core functions of registration, filing, payment, and reporting compliance. On the customs front, a strategic plan is being updated that is aligned with the TD DPTA.

278. **As a multiple range of reform actions are currently under way across government agencies, to some degree they appear to be uncoordinated.** The cross-impacts to other government agencies or reform objectives appear not to be fully identified. For instance, the recently enacted VAT legislation potentially increases the administrative burden on the TD and taxpayers without an apparent full assessment of the additional revenue that may be generated.

279. The last IMF mission report<sup>38</sup> highlights the need for governance processes and management requirements to be put in place to support the implementation of the reforms.<sup>39</sup>

280. On the customs side, the Customs Department accounts for an increasing 30–35 percent of total revenue collection. The 2011 Customs Law provides the principles and rules for the revenue collection on movement of goods within Lao PDR and the basis for the operations of the Customs Department under the MoF. When Lao PDR became the 157th member of the WTO in February 2013, it adopted customs valuation practices in line with WTO and World Customs Organization (WCO) international good practices and standards. Lao PDR signed a WTO Trade Facilitation Agreement in September 2015 and ratified officially the WCO’s Revised Kyoto Convention on Simplification and Harmonization of Customs procedures in June 2016. Key customs reforms were supported by the World Bank<sup>40</sup> in the areas of valuation, introductory risk management, advance ruling, and automated customs declaration. A total of 24 customs checkpoints are now in place with live operations of ASYCUDA World, covering 98 percent of the formal trade and serving approximately 300,000 transactions annually.

Indicator/Dimension	Score	Brief explanation
PI-19 Revenue Administration	D	Dimensions combined by Method M2 (average),
19.1 Rights and obligation for revenue measures	D	General information is available on the TD and Customs Department websites and some taxpayer education activities are taking place to promote and update information on tax obligations to the general public, but there is significant scope for improving the access to information on the tax regulatory framework. The regime of tax exemptions described in the legal framework is extensive and creates scope and opportunities for discretionary decisions.
19.2 Revenue risk management	D	There is a Tax Identification Number system in place. The TD, collecting more than 50% of revenues, does not yet have a system in place to prioritize and assesses compliance risks by revenue categories. It does track some 500 large taxpayers to improve collection rate for registered taxpayers. There is no comprehensive risk management approach to compliance linking all the tax components (registration, filing, payment, and refund) and no data available to measure or assess tax compliance. The Customs Department recently carried out physical inspection of all imports. There are legal sanctions for noncompliance.
19.3 Revenue audit and investigation	C	While the audit process at both the TD and Customs Department is currently being modernized to incorporate a focused risk-based selection process, there is an audit process in place that is based on a plan and these are implemented fully.
19.4 Revenue arrears monitoring	D	According to the TD, the stock of revenue arrears recorded as of December 10, 2018, was 1% of the total revenue collection, 99% of which had been outstanding for more than 12 months.

<sup>38</sup> Lao People’s Democratic Republic Implementing Tax Administration Reforms and Developing a Medium-Term Revenue Strategy (MTRS).

<sup>39</sup> “Currently no governance arrangements have been adopted, nor have the risks associated with implementing a reform program of this scale been identified. Furthermore, a functioning headquarters forms an essential component of the overall management arrangements” (IMF 2018).

<sup>40</sup> The Lao PDR Customs and Trade Facilitation Project supported the modernization of the customs administration from 2009 to 2017.

## 19.1 Rights and obligations for revenue measures

281. **Information on taxpayers' obligations regarding income tax, VAT, profit tax, and excise taxes are managed throughout the country with the headquarters in the capital and offices in the 16 provinces with 142 district tax units.** The official TD's website at [www.tax.gov.la](http://www.tax.gov.la) gives access to the laws and published legal documentation describing all basic taxpayers' obligations.

282. **The Tax Revenue Service Division is responsible for uploading on the website and circulating the information.** This covers carrying out the registration process, filing and submitting revenue returns, tax updates, and changes in legislation as a result of promulgation of new tax laws and measures. Tax payer education services provide the same information and are disseminated via broadcast media such as national radio stations and television and through workshops and dissemination events at the provincial level. Users are also supposed to be able to access a specific website created with the recent launch of TaxRIS in November 2018 and available at [www.taxservice.la](http://www.taxservice.la) with more information classified according to various taxes, but the link could not be accessed at the time of the assessment. Press releases published by the authority in various newspapers are also uploaded on the website and on a TD Facebook page to help taxpayers and would-be taxpayers with tax information. Dissemination activities for new regulation filing and payment in June 2018 were coordinated with the Lao Chamber of Commerce and Industry in English and Lao, and outreach events are currently being held to inform the business sector about new provisions on VAT refund and exemptions. These outreach activities and the dissemination of informational content in general are the responsibility of different divisions within the TD. However, given the available but limited resources, there are few channels to provide information available to the public to address specific issues and questions. The TD has only limited services in place to offer general assistance and guidance or customer support, such as a dedicated services support or call center hotline to answer queries, or tutorials about taxes on social network. Tax offices at the provincial level are also responsible for providing information and assistance to taxpayers within their nearest localities, but there is no evidence of systematic and coordinated activities at that level.

304. **Complaints, claims, and appeals are governed by Articles 72 and 73 of the Tax Law.** These stipulate that complains and claims are received and processed directly by the Tax Revenue Services Division. Appeals can be received by the tax administration at a higher level. Failing a resolution at these two levels of appeal, proceedings can be initiated through the courts. In practice, taxpayers do not lodge formal complaints or appeal and resolve all tax issues through negotiations with the TD. The sensitive large taxpayers' cases related to foreign investment and mining companies, for example, are discussed and settled after agreement at the minister level.

305. **During 2015–2018, only a limited number of claims and exceptions were recorded by the TD as shown in Table 3-19.1.**

Table 3-19.1. Tax complaints

Fiscal year	Public sector		Private sector	
	Queries <sup>a</sup>	Exceptions <sup>b</sup>	Queries	Exceptions
2015		6		123
2016	30	4	45	181
2017	29	21	26	30
2018	45	70	42	1
<b>Total</b>	<b>104</b>	<b>101</b>	<b>113</b>	<b>335</b>

Source: TD data received in December 2018.

Note: a. Queries defined as cases when companies have formally questioned their tax obligations with the TD.

b. Exceptions defined as adjustments agreed between the taxpayers and the tax administration.

306. **As a reference, Lao PDR ranks 155<sup>41</sup> for ‘paying taxes’ on Doing Business 2019 and 77 in ‘trading across borders’, with an overall rank of 154 behind all its neighbours (Thailand and Vietnam).**

307. **On the customs side, the Customs Department recognizes the need to improve the internal communication and establish a website with updated information.** At present, most information is disseminated through the Lao Trade portal at <https://www.laotradeportal.gov.la> with all relevant laws and regulations in English and Lao.

308. **For other nontax revenues, the State Asset Management Department is responsible for collecting revenue on behalf of other ministries, particularly on natural resources (mining concessions, minerals, wood, and so on).** This arrangement is based on regulations and contracts established by the MoNRE or Ministry of Industry and Commerce (MoIC). Royalties are established on a case-by-case basis under the responsibilities of the specific line ministry collecting the fees with the endorsement of the MPI (at the time of signing the contract).

309. **General information is available on the TD and Customs Department-related websites.** Some taxpayer education activities are taking place to promote and update information on tax obligations to the general public, but there is significant scope for improving the access to information on the tax regulatory framework. The regime of tax exemptions described in the legal framework is extensive and creates scope and opportunities for discretionary decisions. Score is D.

## 19.2 Revenue risk management

310. **Individual and business taxpayers in Lao PDR are identified with a unique Tax Identification Number.** This is issued by the tax administration at the time of the company registration.

311. **The Post-filing Division (PFD) within the TD addresses some compliance risks with registered business companies.** It evaluates noncompliance risks on an ongoing basis based on the filing and payment information within the fiscal year. The e-tax system available since 2017 in seven provinces for filing and payment is starting to allow the TD to establish an integrated approach to compliance based on accurate and comprehensive taxpayers’ information.

312. **The TD is establishing criteria to identify large taxpayers, to develop a more systematic approach to taxpayers profiling, as a first step toward a basic risk-based approach.** Currently, the TD does not have a systematic approach for the segmentation of taxpayers to fully identify all large taxpayers. It does, however, treat around 500 companies that are considered as large taxpayers. Risk is assessed based on available single taxpayer’s data collected from filing and payments, and there is a systematic follow-up on the issues identified.

313. **The critical issue for the tax administration is data availability and quality and access to historical data.** Several data sets exist, such as audit results, VAT return data, tax payment data, income tax, and Excise return data are available in electronic format, and financial reporting data such as balance sheet and profit/loss statements are filed in hardcopy, but there is no comprehensive electronic filing and database system to record taxpayers’ information. For domestic taxes, the TD has a classification system of the tax base by sector, taxes, and tracks compliance by company on the basis of the financial information available with a categorization for high risk (for example, mining companies often not accessible), average risk, and low risk of noncompliance. For example, at the central level, the TD reported that out of the approximately 500 companies that are registered, 200 are considered fully and systematically compliant, 200 are less compliant, and 100 are considered as systematically problematic. The TD assesses its compliance rate against recorded tax at 90 percent.

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<sup>41</sup> <http://www.doingbusiness.org/content/dam/doingBusiness/country/l/lao-pdr/LAO.pdf>

314. **The Customs Department is progressively adopting a basic risk management approach in customs control and trade facilitation, moving away from the 100 percent physical inspection.** A risk management committee has been established to review and update risk profiles and operationalize the selectivity module and start implementing an introductory risk management system, based on UNCTAD’s ASYCUDA World. At present, the valuation and risk modules are still work in progress and only the manifest module is activated and piloted at the Vientiane Wattay airport. Additionally, the Customs Department has finalized the assessment and is preparing guidelines to pilot the authorized economic operator with four companies (including Lao Tobacco and Beer Lao). An important priority is to increase the ICT capacity to update the risk profiles and remove the manual processes in vetting customs declarations.

315. **The laws stipulate the application of penalties and sanctions relating to payment of tax arrears.** This is covered in Article 74 on Penalties and Sanctions and Article 80 on Rights of Tax authority staff, including the right to seize assets and bank accounts of taxpayers.

316. **There is a Tax Identification Number system in place.** The TD, which collects more than 50 percent of revenues, does not yet have a system in place to prioritize and assesses compliance risks by revenue categories. It does track some 500 large taxpayers to improve collection rate for registered taxpayers. There is no comprehensive risk management approach to compliance linking all the tax components (registration, filing, payment, and refund), and data are not available to measure or assess tax compliance. The Customs Department recently carried out physical inspection of all imports. There are legal sanctions for noncompliance: Score D.

### 19.3 Revenue audit and investigation

317. **There is no formal prioritization of activities and taxpayers’ audit plan based on the risk assessment results.** Article 91 of the 2015 Tax Law defines the rights and duties of the tax inspection authority and the development of audit plans. As the division is not yet in place and ToRs have just been developed, the PFD within the TD is still responsible for carrying out inspection visits during the fiscal year to identify and collect tax due.

318. **Investigations by the PFD are carried throughout the year.** Most of the investigations are completed in the year they are carried out but with retroactive adjustment (up to three years). The PFD will take proactive actions to contact the companies to review and settle on the tax obligations and sign Memoranda of Understanding (MoUs) to settle a tax payment schedule. The division has 46 staff at the central level and 244 staff distributed at the provincial level and responsible for the investigations at their level. Post-clearance audits are planned—after filing of tax returns—according to the number of companies and identified cases but mostly driven by the cases identified during the year, and the technical capacity and resources are limited.

319. **At the end of the fiscal year, follow-up is transferred to the Tax Revenue Service Division for further recovery of tax debt.** An Internal Inspection Division has also been established in 2017 to strengthen the internal control framework in the TD and carry out internal audits within the TD. Each division in the TD receives a plan and performance targets each year, and the PFD receives targets for the number of inspections and tax amount to collect. Article 97 of the Tax Law specifies all the measures to be undertaken against violation of tax obligations by taxpayers.

320. **The inspection summary for 2013–2017 on follow-up activities undertaken by the PFD is presented in Table 3-19.3.**

Table 3-19.3: TD revenue post-clearance audits (LAK, millions)

Audit type	Number of audits
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	2013/14	2014/15	2015/16	2017
Planned inspection visits	191	156	137	133
Completed	260	189	176	155
Percentage completed	136%	121%	128%	116%
Tax amount collected through signed MoU	138,782	188,042	235,706	302,112
Number of companies fined	4	13	35	38
Penalty to be collected	326	222.8	16,677.6	17,277.9

Source: PFD data as of December 2018.

321. **With respect to the Customs Department, the development of ASYCUDA with its risk assessment module will allow segmentation of importers into channels.** These will cover Red (physical and documentation check), Green (no check), Yellow (documentation check), and Blue (post clearance check) Channels. At present, all imports are subject to physical inspection which is a time-consuming and non-risk approach to customs audit.

322. **While the audit process at both the TD and Customs Department is currently being modernized to incorporate a focused risk-based selection process, there is an audit process in place that is based on a plan and these are implemented fully:** Score C.

#### 19.4 Revenue arrears monitoring

323. **Tax arrears<sup>42</sup> recorded by the TD cover the tax debts for the public and private sectors.** Customs arrears are not an issue with the current inspection system. Tax arrears from SOEs and from the construction companies are cleared under the government's triangle-debt-diversion disbursement initiative, whereby all suppliers with a debt to be paid by the government should not have outstanding tax obligations, failure of which a portion of the contract payments would be withheld.

324. **This stock of arrears represents the amounts of taxes identified and recognized as due by taxpayers.** Information provided by the PFD on total stock of arrears as at December 10, 2018, is as shown in Table 3-19.4.

Table 3-19.4: Revenue arrears as of December 2018 (LAK, millions)

Domestic tax arrears per fiscal ear	Total arrears	Arrears (>12 months old)
2011/12	61,986.9	61,986
2012/13	5,698.8	5,698.8
2013/14	8,226.7	8,226.7
2014/15	36,357.2	36,357.2
2015/16	94,049.1	94,049.1
2017	1,068.2	—
Total arrears from the TD	207,387.1	206,318.9
Total revenue 2015/16 <sup>a</sup>	20,367,047.0	
Arrears as % of total revenue collected	1%	99%

Source: PFD data received in December 2018.

Note: a. The official 2017 revenue data is not yet available from the FPD.

325. **Article 71 of the Tax Law covers the Writing-Off of Uncollectable Tax.** It stipulates that: "If the taxpayer has been disappeared or died without any remaining assets, [the tax administration] shall coordinate with local administration and other relevant sectors to find a consensus before reporting to the Minister of Finance for consideration to issue a decision on writing-off such taxes."

<sup>42</sup> The Tax Law does not provide a specific definition of tax arrears.

326. **However, there is at present no clear definition of collectability or any criteria for write-off by the TD.** The amount of tax debts which are more than 12 months old and still outstanding as at December 2018 is estimated as 99 percent of the recorded tax debts, with more than half of those arrears being for the fiscal years 2014/15 and 2015/16. It mainly corresponds to the identification of outstanding debts and settlement of debt with construction companies, but no detailed information was available on the activities undertaken to collect or balance these outstanding amounts against the repayment of state debts.

327. **The total stock of revenue arrears as of December 2018 was 1 percent of the total revenue collection, and 99 percent has been outstanding for more than 12 months:** Score D.

328. **Over the past year with IMF assistance, the TD developed a DPTA.** The DPTA is aimed at improving revenues through strengthening the legislative framework, strengthening compliance, improving the use of technology, and building staff and institutional capacity. Action plans were developed to support the 11 objectives contained in the DPTA. At the same time the TD is embarking on its reform efforts, the government has requested IMF assistance in developing an MTRS for the 2021–2025 planning period. Reform is under way in the area of legislative amendments to reflect desired policy changes, as well as tax and customs administration improvements. The government has requested the MTRS be completed by March 2019 to allow time for MoF approval before undertaking broader stakeholder consultation on the MTRS and to inform the development of the 9th NSEDP 2021–2025, which will be submitted to the National Assembly in 2020. A technical assistance program has been approved to support elements of the reform plan. Approval has been received from the Government of Japan to continue assistance.

329. **The TaxRIS, an integrated tax administration system, has recently been launched with support from the Korean government in November 2018.** It has the goal to integrate all components of the tax administration at central and provincial levels into one covering taxpayer information, tax filing, tax collection, tax audit, assessment data, and taxpayer services.

## PI-20. Accounting for revenue

330. **This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling the tax revenue accounts.** It covers both tax revenues and nontax revenues collected by the central government. The assessment period is at the time of the assessment.

Indicator/Dimension	Score	Brief explanation
PI-20 Accounting for revenues	B	Dimensions combined by Method M1 (weakest link).
20.1 Information on revenue collections	B	Monthly consolidated reports on all of the central government revenues are prepared by the National Treasury showing revenue breakdown by type and submitted to the MoF.
20.2 Transfer of revenue collections	A	Revenue collections for more than 75% of total revenue are transferred daily (from Tax and Customs Departments, SOE and other revenue collecting departments into the Treasury Accounts with commercial banks)
20.3 Revenue accounts reconciliation	C	At the central level, the reconciliation process is done for assessments/charges, collections, arrears, and transfers to the Treasury on a monthly basis, and corresponding monthly reports are prepared. However, the information on reconciliation is limited by the lack of integration of the

		data systems and manual processes involved in the recording and reporting of the revenue transactions for revenues outside the TD and Customs Department and at the provincial level, although the amounts processed at that latter level are assessed as less significant.
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## 20.1 Information on revenue collections

331. **In line with the 2017 Decision on Organization and Operations of the National Treasury, the National Treasury is responsible for centralizing and monitoring the collection and deposit of all domestic tax and nontax revenue.** This is carried out by its three divisions, namely, the Treasury's Operations Division, Accounting Unit, Planning and Cash Management Division. At the central government level, domestic revenue collection covers the revenue from the main collecting agencies, Tax, Customs, SOE, and State Assets Management Departments, all centralized under the MoF. It also consolidates the revenue from provinces and technical revenue from the line ministries.

332. **The National Treasury collects revenue data from various sources.** Several systems provide support to the revenue management processes, either automatically through interface links and web services or manually, as follows:

- The Customs Department provides information in real time through an interface link with the ASYCUDA module used for customs duties management and has been implemented at 24 border crossings.
- The TD have been using several systems, the Lao Tax Information System (LAOTIS), the TMIS interfaced with the GFIS, and parts of GENTax (tax collection module) that had been acquired in 2016. The recently launched TaxRIS, a new integrated tax system based on a Korean software, is piloting a filing and payment modules and is intended to replace all other systems.
- The State Assets Management and SOE Departments have no systems interfaced with the GFIS and send their reports manually to the National Treasury on a weekly basis.
- Line ministries also generate own technical revenue, revenue from extrabudgetary funds, and donor funds. Since 2016, as most extrabudgetary funds have been consolidated into the state Budget, their accounts have been transferred to the BoL, or if funds are still received on commercial banks, they are also automatically transferred to the BoL and have to be channeled and transactions recorded through Treasury before payments can be authorized. Revenue data are available from the commercial banks on a weekly basis.
- Provinces have accounts with commercial banks, and information on revenue collected for the central government and cash balances is available to the National Treasury on a daily basis, but districts revenue data have to be consolidated manually and are reported with a delay, on a monthly basis. The reporting of district treasury offices at the provincial level has significantly improved but still relies on Excel consolidation of reports and manual reconciliation. Consequently, data for some provinces are not always up-to-date for the past reporting period.

333. **Based on this, the National Treasury produces internal weekly reports based on the main collecting agencies' reporting and partial reconciliation of accounts.** Monthly reports are produced with all available information manually reported and reconciled and by revenue type. Collection reports are also consolidated on a quarterly, six-monthly, and annual basis and circulated to the FPD and Budget Department for fiscal and budget monitoring.



334. **The National Treasury obtains revenue data from agencies collecting more than 75 percent of central government revenue and the Treasury Accounts Division produces a monthly report available to the MoF:** Score B.

## 20.2 Transfer of revenue collections

335. **The National Treasury has made considerable progress on centralizing cash management toward the implementation of a TSA.** The National Treasury maintains an account with the BoL into which internal transfers of revenue collected by central government agencies and commercial banks are made. Memorandum agreements have been signed with four commercial banks: private Lao Viet Bank and public BCEL, LDB, and Agriculture Promotion Bank. On a daily basis, revenue is paid by some taxpayers and trading companies into collection accounts with authorized commercial depository banks, which were given the mandate to receive revenues on behalf of the National Treasury. The commercial banks transfer daily revenues received to the National Treasury's account held at the BoL. These funds are included in the MoF's cash flow forecast. Others are transferred weekly.

336. **Revenue collected by the National Treasury representing more than 75 percent of total central government revenue is transferred daily into Treasury Accounts with commercial banks:** Score A.

## 20.3 Revenue accounts reconciliation

337. **Starting from 2017, the National Treasury carries out daily reconciliation of cash movements with the bank accounts and the transaction data available from the GFIS.** At the end of the month, reconciliation is carried out at different levels with the National Treasury on actual collections. Revenue-collecting agencies report and reconcile based on the receipts from taxpayers and trading companies at the transaction level.

338. **For the TD, systems have been put in place to improve the recording and matching of tax receipts in the GFIS simultaneously as it is paid into the bank by the taxpayer.** Previous reconciliation issues have been resolved as the transaction document used for receipt deposits identifies all account and tax type codes that are necessary to ensure correct posting of the transaction.

339. **For the Customs Department, ASYCUDA allows traders to exchange data electronically and prepay their customs duty while awaiting assessment to be carried out on their consignment.** Shortfalls and overpayments are reconciled on actual billing and settled accordingly.

340. **For the State Assets Management Department, reporting is still Excel based.** Reconciliation is the responsibility of the department with the managing agencies (for example, the Ministry of Public Works for the overflight rights or the MoNRE for the land taxes). The SOE Department receives the information and reports on dividends payment paid directly into the TD account, and there is no reconciliation at the transaction level. The provinces report transactions at mid and end of the month with only partial coverage at the district level.

341. **Reconciliation is carried out by revenue line items of all collected revenue and consolidated into the monthly report.** Suspense accounts (used when tax is not allocated to the correct file) are normally reconciled on a monthly basis and during the annual closure of accounts. The National Treasury did not report any unreconciled amount in the suspense account to the assessment team (see PI-27.2). The delay in the reporting, no reconciliation of the district transactions, and absence of automation at the level of the district Treasury offices considerably affect the completeness of the reconciliation process. The absence of integration of recording systems and manual processes are still preventing the collecting agencies, such as the TD, from keeping track at the individual account level and identifying all assessments, collections, arrears, and transfers for each individual account.

342. **At the central level, the reconciliation process is done for assessments, collections, arrears, and transfers to the Treasury on a monthly basis, and corresponding monthly reports are prepared.** However, the information on reconciliation is limited as there is no integration of the data systems and manual processes involved in the recording and reporting of the revenue transactions outside the Tax and Customs Departments at the provincial level, although the amount processed at that level is assessed as insignificant. The reconciliation takes place within two months of the end of the year: Score C.

## PI-21. Predictability of in-year resource allocation

343. **This indicator assesses the extent to which the central MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.** The period is at the time of the assessment for dimension PI-21.1 and the last completed fiscal year for dimensions PI-21.2 to PI-21.4. The coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-21 Predictability of in-year resource allocation	D+	Dimensions combined by Method M2 (average).
21.1 Consolidation of cash balances	C	All cash balances are now consolidated on a weekly basis including the accounts held by commercial banks on behalf of the National Treasury. However, incomplete coverage of accounting and transaction data in GFIS at the provincial level has an impact on the consolidation of cash balances in real time and undermines the accuracy of information reported on cash position.
21.2 Cash flow forecasting and monitoring	C	Cash flow forecasts are produced for the fiscal year and updated weekly and monthly on the basis of actual revenue collections by the main revenue collecting agencies and expenditure plans, but expenditure projections do not cover expenditure commitments beyond budget execution plans and actual payments.
21.3 Information on commitment ceilings	D	Reliable information on funds available for commitment is based on the quarterly spending plans aligned to the approved State Budget but is constrained by cash availability, which means that information is not reliable even on a monthly basis.
21.4 Significance of in-year budget adjustments	C	Significant and systematic in-year budget adjustments to allocations take place and are predictable but not based on clear policy decisions and priorities involving the budgetary units concerned and therefore only partially transparent.

### 21.1 Consolidation of cash balances

344. **Article 6 of the SBL establishes the first fundamental principles of the State Budget.** This covers “centralization and comprehensiveness: All budget revenues and expenditures shall be fully centralized and accounted for in the State Budget through the National Treasury Single Account on the basis of unified laws and regulations nationwide. No revenues may be retained outside the budget system and no funds may be established without proper authorization.”

345. **Since 2016 with the establishment of the Planning and Cash Management Division within the National Treasury, significant progress has been achieved.** This has been in the consolidation of the state cash position and the initial steps toward the implementation of a TSA.

346. **At present, the National Treasury holds its main collection accounts in Lao kips, U.S. dollar, and Thai bahts in six banks including the BoL (18 government accounts).** All budgetary central government cash operations are managed through the main BoL collection account and subaccounts at the BoL and accounts in commercial banks with an agreement with the MoF to function as agent banks for facilitating receipt and management of government funds in the Treasury Account-consolidated fund. Spending entities have operating accounts with the BoL into which they receive transfers for their other recurrent transactions, budget allocations for all operations funded by the government. Both the National Treasury at the central level and Treasury offices at the provincial level use the GFIS for entering budgets, cash releases, and transaction recording and controlling. Management reports representing budget performance managed through the Treasury-controlled accounts are provided to the MoF weekly based on GFIS data and monthly after reconciliation with provincial data. The daily and weekly reconciliation of State Budget deposits and account payables is carried out based on online access to all statements at the central government level. All cash balances are still consolidated manually.

347. **Operations outside GFIS coverage remain an issue.** These relate to the transaction processing and accounting of district operations, reported manually; the tracking of the cash position at the local Treasury offices; and the processing of payments by provincial treasuries without prior application of the GFIS budget and accounting controls. The case of provinces processing transactions manually and entering data in the GFIS ex post, instead of doing online ex ante transaction entry, is still an issue relating to connectivity of the server system or lack of training and discipline, even if less and less significant. All delayed entries in the accounting system undermine the GFIS's position a full reflection of all transactions and consolidation of real cash balances and increase the risk of arrears.

348. **The bank accounts of the extrabudgetary funds and service delivery units (schools, health centers) are reconciled every year with their respective line ministry.** The transactions processed for donors' loans and grant disbursements are recorded in the DMFAS and not into the GFIS, but 129 ODA accounts are captured by the National Treasury from subaccounts at commercial banks through specific agreements with donors.

349. **From the information received from Treasury, more than 75 percent of all bank and cash balances at the central government level are consolidated on a weekly basis.** However, provincial accounts cannot ensure control and reporting on all individual transactions through the GFIS and timely consolidation of cash balances, and bank accounts of extrabudgetary funds and service delivery units are reconciled annually: Score C.

350. **The Treasury is currently planning the introduction of an automated clearing house (ACH) facility to achieve e-payments and establish an effective TSA.** This has been a long-term objective. Unlike bilateral payment systems, ACH would allow payment processing to and receiving from any commercial bank of Lao DPR included in the interbank payment system and provide an appropriate solution for most outgoing payment processing and incoming receipt automation.

351. **Further progress toward the TSA remains a priority.** This is to be based on the development of electronic payment settlement with banks on a multilateral and bilateral basis to ensure full centralization of the payment processing within the National Treasury.

## 21.2 Cash flow forecasting and monitoring

352. **A consolidated cash flow forecast is produced annually based on the submission of budget plans by all budgetary units for the fiscal year.** The forecast is adjusted on a weekly and monthly basis based on actual receipts compared to budget plans and actual expenditure obligations at hand (based on payment vouchers received). Revenue cash flow forecasts are updated with actual cash inflows

prepared and submitted by the main revenue collecting agencies (Tax, Customs, SOE, and State Assets Management Departments) on a weekly basis and show the revenue breakdown by revenue type for all the revenues included in the state revenue budget. Similarly, expenditure forecasts are updated based on the actual budget execution performance on a week-to-week basis. The template used for cash flow forecast is consolidated by the National Treasury, and cash management meetings are held by the senior management at the MoF on a weekly and monthly basis to determine how much of the expenditure obligations and plans can be covered based on the actual revenue collection and cash at hand.

353. **However, the information supporting the cash flow forecast is still insufficient and the analytical support for cash management remains limited.** The decision making of the MoF management covers about one week of the current payment needs, based on the requests carried over from the previous week and the ones received for the week through the consolidation of payment vouchers recorded for ex ante expenditure authorization by the National Treasury. The forecasts are prepared by the National Treasury but do not include the payment obligations beyond one month based on monthly expenditure projections by the Budget Department. As a result, consultation with management and decision on financing needs cover a short-term outlook. In the absence of a commitment system, there is no systematized information to include large-value debt payments or other scheduled government payment obligations into the payment schedules and improve the information on cash balances and anticipate cash shortages.

354. **Moreover, the cash forecasting framework to support the cash management function is still limited.** The absence of a comprehensive information source on the actual cash flows makes it difficult to monitor the cash flows and verify cash forecasts. It is also difficult to build historical data to understand trends and improve the cash management plans and monitor the budget execution to anticipate the borrowing requirements and strengthen capacity for cash forecasting analysis. The cash management staff mostly relies on the analysis of bank statements received from the key counterpart banks. As noted under PI-21.1, the bank account statements are not adequately aligned with the accounting records. Meanwhile, insufficient data coverage in the GFIS does not allow a detailed analysis of the government cash flows and comparison of actual cash flows with plans as well as the estimated changes by which the actual flows will affect future cash needs.

355. **Cash shortage caused by the distinct fluctuations of inflow and outflow cycles is usually covered through domestic short-term borrowing from the BoL to be repaid within the year.** For example, a short-term credit line was negotiated with the BoL at the beginning of 2017 when cash entries were still low compared to payments requests.

356. **A comprehensive cash flow forecast is produced for the fiscal year and updated weekly based on actual revenue collections by main revenue-collecting agencies that take into account actual payments.** However, Treasury cash management plans do not rely on a projection of expenditure commitments and comprehensive analysis of upcoming cash outflows beyond the budget plans and recorded payment requests: Score C.

### 21.3 Information on commitment ceilings

357. **Budget allotments from the approved State Budget are allocated quarterly.** These are based on spending plans submitted by the budgetary units. The expenditure transaction processing in the GFIS requires compliance with the expenditure controls and depends on the ceilings established by the annual budget and subsequent quarterly allocations.

358. **Cash availability may mean that these are not fixed.** The Budget Department prepares quarterly allocations of the annual budget without consideration of the actual expenditure trends and

cash needs from the budgetary units and will be able in theory to use the funds accordingly. The Budget Department inputs the amount for quarterly allotments into the GFIS so that budgetary units cannot spend beyond these quarterly commitment ceilings. Effectively, payments will be confined by cash availability as payments requests are submitted to the MoF and on the weekly plans by the National Treasury aligning cash availability to actual requests.

359. **Commitments and payments by the budgetary units depend wholly on the cash availability at the central government level.** Only priority expenditures can be secured in a timely manner: salaries and repayment of debt service (principal and interest). For the other expenditure categories, including capital expenditure, the rule is mostly on a first come, first served basis.

360. **Line ministries have indicated that due to occasional resource scarcity and cash shortfall throughout the year, payments can be delayed and affect the predictability of payments.** Even if expenditures are planned based on annual budget estimates and cash management has improved significantly, critical expenditures such as the transfers of annual allocation of SBGs to schools can still be delayed. As a result, fee-charging options by service delivery units (mostly in education and health) continue to collect technical revenues (tuition fees, patient fees, and so on), which can be retained to cover certain operating costs of those establishments<sup>43</sup> (rather than reverting to the general government account in the Treasury system); these are reported as especially important for financing the costs of province and central hospitals.

361. **Transition efforts toward the implementation of the TSA include the piloting of an electronic payment system and mobile banking through the introduction of the SmartCash facility.** The current arrangement for SmartCash with BCEL and LDB for cash withdrawals and payments of goods and services below LAK 5 million has been well integrated with the GFIS and has reasonable security features. Its functionality currently serves 20 ministries at the central government level with the plan to roll out to all ministries and agencies but for the moment does not support payment processing from provincial and district treasuries.

362. **Reliable information on funds available for commitment is based on the quarterly spending plans aligned to the approved State Budget.** This is constrained by cash availability, which means that information is not reliable even on a monthly basis: Score D.

#### 21.4 Significance of in-year budget adjustments

363. **Article 51 of SBL on the revision of the budget refers to “measures to handle the failure to meet revenue collection targets” as “in the event that budget implementation has been taking place for more than 6 months, and the annual revenue collection is projected to be 5% lower than the set annual targets.”** In this situation, the MoF shall study sources of financing or reduce the expenditures proportional to projected revenue shortfall to request for the government’s approval and then report the National Assembly for information. If the collection of revenue is less than the target plan by 5 percent or more, the MoF shall request the government to propose an adjustment of the State Budget Plan to the National Assembly for consideration. Article 59 authorizes amendment of the State Budget Plan that may take place only once in a fiscal year as a result of revenue under or overcollection, any modification to policies, or unexpected circumstances that affect annual budget revenues and expenditures. Since 2013/14, a revised budget has been systematically presented to the National Assembly and most of the changes are guided by the shortfall of the resource envelope and not policy decisions or priorities. Additionally, after in-year budget revisions have been implemented,

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<sup>43</sup> Based on provision under Prime Minister Decree 0003 (updated in 2012) for ‘technical revenues’ to be managed by different types of budget unit and under Prime Minister Decree 349 (2013) for public service fees.

amendments can still be presented to the National Assembly for approval during the presentation of the following State Budget Plan.

364. **Following the revision of fiscal forecasts for 2015/16 based on the initial four-month revenue outturn and projections for six months, the original budget was revised.** This involved a decrease by 8 percent with a LAK 500 billion budget cut affecting the capital budget. As a result, budgetary units received revised expenditure ceilings in September only three months before the end of the fiscal year. The decision was endorsed by the National Assembly.

365. **All budget revisions with an impact on the aggregate ceilings are approved by National Assembly.** However, as National Assembly approval covers the revision of the aggregate macroeconomic and fiscal forecasts and adjustments of aggregate expenditure and revenue ceilings, its input on the decisions made at the level of each budgetary unit is left to the MoF. There is no specific debate on clarification and explanations with regards to the detailed amendments proposed to the original budget. As a result, the transparency of the adjustment process, including to the National Assembly members, is limited. Furthermore, if line ministries are informed by the MoF Budget Department on proposed budget adjustments, they have limited influence in the final decision on the adjustments and have to realign their plans with the new envelope.

366. **Significant in-year budget adjustments to allocations take place every year due to revenue shortfall and are systematically submitted to National Assembly for approval.** The transparency and fairness of the overall process are limited by the absence of clear and transparent policy and prioritization decisions involving the line ministries concerned: Score C.

## PI-22. Expenditure arrears

367. **This indicator measures the extent to which there is a stock of arrears and the extent to which a systemic problem in this regard is being addressed and brought under control.** For dimension 22.1, the assessment period is the last three completed fiscal years (2014/15, 2015/16, and 2017) and for dimension 22.2 at the time of the assessment. The coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-22 Expenditure arrears	D	Dimensions combined by Method M1 (weakest link).
22.1 Stock of expenditure arrears	D*	Although data on the stock of identified and recorded expenditure arrears are not up to date, the evidence is that in 2013/14, excluding significant arrears on the capital account, it was more than 10% of total expenditure just on recurrent arrears alone. The situation has not changed markedly to date.
22.2 Expenditure arrears monitoring	D	There is no effective system in place for monitoring expenditure arrears at the level of the line ministries, and consolidation of annual arrears by the MoF is done manually, resulting in Treasury being unable to report arrears at the aggregate level.

### 22.1 Stock of expenditure arrears

368. **The issue of expenditure arrears has been identified as one of the major weaknesses of the PFM system performance.** The government has made arrears a key priority since 2015/16 to track

existing arrears systematically and to prevent further accumulation of arrears. Reasons for expenditure arrears are multiple and there is no integrated system to track and consolidate the arrears at the MoF level.

**369. At the National Treasury level, arrears are recorded when the payments requests received at the end of the fiscal year cannot be covered due to cash restrictions and have to be carried forward into the following period.** The calculation of the stock of debt payable is based on the unpaid obligations for goods and services received to satisfaction as of December 31, when payments were due. In such cases, the expenditures are checked against the expenditure plans and the amount is recorded as accounts payables and cleared in the following quarter period, covered by short-term borrowing, if needed. The amount for 2015/16 was not available, but the 2014/15 National Treasury report states an amount equivalent to 10 percent of the annual expenditure at central and provincial levels.

**370. There are also arrears accumulated on capital expenditures that have resulted in the government's triangle-debt-diversion disbursement initiative.** The amount recorded at the end of 2017, LAK 22.5 trillion, led the government to establish a repayment schedule and an annual allocation from the State Budget of LAK 3.3 trillion over 10 years. Efforts by the authorities to stop off-budget projects appear to have had some success; however, the stock of arrears on these projects is sizeable and will require many years to clear. Settlement of the arrears verified and certified is made through conversion of arrears to government bonds with maturity up to three years. The unverified balance of arrears is not available and it is unclear if they have been written off or are still pending a decision. No information on developments in the stock during 2017 and 2018 was available.

**371. At the budgetary unit level, including the provinces, constant fiscal adjustment and budget cuts for already unfunded activities often result in further accumulation or arrears.** On the one hand, the lack of already allocated funds poses clear challenges to service delivery ministries. The MoES reported that as a consequence of 2017 budget cuts, activities are suspended (for example, provision of pedagogical advisory services and immunizations), teaching aides and supplies are in shortage, and arrears on nonpriority expenditures such as public utilities are accumulating. On the other hand, the resources are not enough to cover priority operations and in the absence of prioritization of expenditure allocations, budgetary units 'negotiate' the conditions of emergency supply with their contractors. The MoH reported a critical mismatch between drug demand and drug supply in 2017 driving hospitals to incur debts with pharmaceutical companies and carry over expenditures to 2018. Allocations for utilities fall significantly short of needs and were reported by all ministries. This is, to a significant degree, due to the budget preparation practices stemming from too low budget norms, but it seems to be common practice to give low priority to the payment of utility (electricity and water) bills and simply allow the arrears to accumulate from year to year.

**372. Capital expenditure could also be easily underreported due to the existence of off-budget projects and the need to clean up the existing arrears.** The backlog of ongoing projects and the need to honor commitments to local contractors for the off-budget debt projects reduce the capital resources available for new and routine activities. MPI instruction to budgetary units in 2017 to allocate up to 45 percent of their PIP allocation to clear arrears and 55 percent to ongoing projects means that only up to 10 percent of the PIP can be used for new projects, clearly insufficient to address the numerous priorities. In the case of the MoPW, the envelope available for road maintenance in 2017 represented only 30 percent of the budget plan prepared by the Road Fund Committee and submitted to the National Assembly. As a result, the rollover of arrears becomes systemic and pushes budgetary units to generate and underreport their own resources. More agreements are made with revenue-generating budgetary units to declare and keep a defined percentage of their collected revenue to cover their own operational needs.

373. **VAT refunds have also been mentioned as a source of unpaid obligations under the jurisdiction of the National Treasury since 2017 and monitored by the Budget Department.** According to the VAT Law, VAT refunds have to be cleared within three months, but actual reimbursements have been delayed and complaints have been lodged by multiple companies.

374. **The stock of expenditure arrears to suppliers of goods and services is said to be submitted to the SAO for verification.** This documentation was not available to the assessment team.

375. **Although data on the stock of identified and recorded expenditure arrears are not up to date, the evidence is that in 2014/15, it was more than 10 percent of total expenditure just on recurrent arrears alone.** This figure excludes significant arrears on the capital account. The situation has not changed markedly to date. Score D\*, given due to data unavailability.

## 22.2 Expenditure arrears monitoring

376. **There is no systematic mechanism for monitoring expenditure arrears in place at the Treasury and ministry levels.** The absence of a comprehensive accounting system and a clear obligation for budgetary units to report on commitments until the end of the fiscal year makes the monitoring of pending commitments and later expenditure arrears challenging. As a result, the National Treasury cannot report arrears beyond the unpaid obligations as of December 31, and consolidated data on stock arrears from all possible sources were not available at the end of 2017.

377. **Consolidated and comprehensive data on stock and composition of expenditure arrears are not available and are not timely generated.** There were no data provided at the time of the assessment: Score D.

## PI-23. Payroll controls

378. **This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved.** Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. The period for dimensions 23.1, 23.2, and 23.3 is at the time of the assessment and for dimension 23.4 is the last three completed fiscal years (2014/15, 2015/16, and 2017). The coverage is the central government.

Indicator/Dimension	Score	Brief explanation
PI-23 Payroll controls	D+	Dimensions combined by Method M1 (weakest link).
23.1 Integration of payroll and personnel records	C	Approved staff list, personnel database, and payroll are not directly linked. Delays up to 3 months (from one to the following quarterly payroll) can occur for budget control, data consistency, and personnel records reconciliation to take place. Appointments and promotions are controlled against approved staff quotas by the MoHA and budget allocations by the MoF.
23.2 Management of payroll changes	C	Payroll data are updated quarterly and processed by Treasury at the end of each quarter. Retroactive adjustments are limited.
23.3 Internal control of payroll	D	Segregation of roles and responsibilities and payroll controls are well defined and restricted to user-defined access levels, ensuring data integrity in the Personnel Information Management System (PIMS) database and MoF payroll system. Changes to the payroll and PIMS database are well documented with readily available audit trail. However, the coverage of the MoHA and MoF controls does not include



		the significant part represented by the police and armed forces managed separately.
23.4 Payroll audit	D	No comprehensive or partial payroll audit by the SAO has been completed within the last 3 years.

379. **In 2017, 2.8 percent of the Lao PDR population was employed in the civilian public service.** The development agenda of the GoL over the past decade has put a special emphasis on modernizing the public sector institutions and policies and strengthening its human resource systems as presented in the ‘Civil Service Strategy Plan up to 2020’ and Decree No. 471/PM, dated December 13, 2011. The increase in the wage bill—almost doubling in 2012/13 due to new wage policy and employment increase—raised significant fiscal stress, leading to macroeconomic vulnerability. Ever since, managing the wage bill has become a key priority and the government is currently considering the main directions and policies regarding the size, composition, and deployment of the public service, which will be implemented as a part of the next NSEDP 2021–2025.

380. **The MoHA holds the responsibility for the policy and oversight of the human resource management and records of the civil service composed of 183,000 staff at central and local government levels.** The MoHA also serves as an oversight body responsible for reviewing the requests from line ministries and provinces and setting the staffing ceilings. In 2007, the MoHA launched and started piloting the PIMS program. The PIMS is an automated web-based application accessible for update of personnel information and payroll information with restricted access to classified levels of authority as a control mechanism. The pilot was applied in seven government agencies including the MoPW and MoH. The design of the PIMS was revised in 2015 to address issues regarding the connectivity, data accuracy, and legal basis to determine eligibility and calculation of benefits and rollout a provincial level. In 2018, the implementation of instruction No. 01/MOHA dated January 27, 2015, on civil service database management (PIMS) was rolled out to cover all line ministries at the central level and centrally deployed civil servants (30,467 staff) with relevant and accurate personnel information.

381. **The database only covers 16.7 percent of the public sector workforce<sup>44</sup> and does not include some large public sectors such as the police and armed forces, contracted workers, and casual and voluntary labor employees working in government institutions.** According to the 2015 government census, around 347,000 responded as being employed by the government. A substantial number of employees work at the subnational level, with education and health making up the major bulk of subnational public employment. The MoES maintains a database of employees in the education sector (including 75,000 teachers), but it is not linked to the PIMS. The MoH has already started using the PIMS application and extending it to health sector staff at the subnational level. The MoHA plans to roll out the PIMS application to provinces in 2019.

382. **Retirement benefits and pensions are managed by the Ministry of Social Welfare.** First, the MoHA transmits the paperwork for the transfer of the data and records.

### 23.1 Integration of payroll and personnel records

383. **The PIMS payroll management system within the MoHA is integrated into those ministries covered by it.** For personnel records and payroll data that are managed within the PIMS, there is secure reconciliation and data integrity between the two modules. The actual payroll payments by the

<sup>44</sup> Policy Note on Public sector wage-bill and workforce management, WB, April 2018.

MoF are consistent with MoHA authorizations as line agencies in the PIMS prepare wage payment calculations by accessing the PIMS database for processing the payroll.

384. **However, the coverage of government personnel within the PIMS is limited.** First, the MoHA manages only part of the central government workforce through the PIMS deconcentrated personnel management system. The MoHA keeps a central database of all central public servants (including those working in health and education but excluding police and armed forces). Second, differences still exist in the wage calculation as not all benefits and allowances—and particularly promotion information—are not covered by the system at the ministry level and the MoHA still controls a number of benefits and entitlements, as well as terminations and transfers. For civil servants at the central level, these data are stored in the PIMS, which provides consistency checks for them. At the provincial level, delays can occur as the line ministries have to submit information to the MoHA and the MoF Budget Department for review and authorization. Finally, the PIMS is not yet directly interfaced or linked to the MoF payroll database and the GFIS in the National Treasury. This causes issues of reconciliation even for payroll data. The MoHA is currently adding a wage calculation module to its system. The link is planned for 2018 and piloted in three ministries to test the direct access to the PIMS by Treasury.

385. **Reconciliation of the personnel records and the payroll operations throughout the government work force is carried out every six months.** Payroll changes are not updated on time. The MoF and the Finance Department in each ministry/province have their own Excel-based database of the payroll (police and armed forces excluded). Twice annually, as of January 1 and July 1, the MoHA issues letters of authorization of approved staff numbers, grades, and incremental steps for each ministry and province payroll and notifies recorded changes to these authorizations. Processing for the changes can therefore be implemented at the line ministry level within Q1 and Q3. However, actual approval of changes to the payroll individual records can be made only during the following quarters, Q2 and Q4, when the subsequent payroll is submitted to the MoHA and the MoF for review and approval. Given that the salary entitlement is effective from the date of change processed at the line ministry level, this practice results in frequent retroactive payments that can take up to three months to be adjusted in the system and paid.

386. **The approved staff list, personnel database, and payroll are not directly linked.** Delays up to three months (from one to the following quarterly payroll) can occur for budget control, data consistency, and personnel records reconciliation to take place. Appointments and promotions are controlled against approved staff quotas by the MoHA and budget allocations by the MoF: Score C.

## 23.2 Management of payroll changes

387. **Ministries are responsible for updating their personnel records.** This includes submitting personnel data and documentation that are adequate for audit purposes. Processing of payroll including changes is prepared by the respective Finance Departments of line ministries. A payment request in the form of a payment voucher with the list of staff and payroll amounts is submitted to the MoHA and MoF. This process is strictly implemented. Once the MoHA has validated the HR information, the MoF is informed and the payroll is processed manually with all payments made through commercial banks.

388. **Changes relating to new appointments and introduction of new posts on the payroll are first authorized by the MoHA and then entered into the PIMS.** Retroactive adjustments at the central level are normally not delayed further than the quarterly cycle of payroll submission. Payment adjustments are more frequent for staff managed at the local level such as schools and health facilities, particularly in connection with new recruitment and promotions for which update of the payroll can take up to two to three months to become effective. There were no statistics available on retroactive

adjustments, but the government estimates the overall frequency to be less than 1 percent of payments.

389. **Adjustments to payroll take place twice a year.** Payroll data is updated and processed by Treasury on a quarterly basis in the period after the adjustment has taken place. Some retroactive adjustments can take place: Score C.

### 23.3 Internal control of payroll

390. **Clear separation of duties exists between the line ministries, the MoHA, and the MoF throughout the different steps involved in the payroll activities.** The MoHA must notify the MoF of authorized pay grade and levels to ensure that any changes in wages are a result of approved HR actions. This controls all quarterly payroll calculations. Review and authority to recruit new employees is the responsibility of the MoHA and MoF. Payroll changes are done by line ministries, but the MoHA has access rights to validate the changes.

391. **Hierarchical supervision of changes to both personnel and payroll records is strong.** However, the process also results in relatively prolonged periods to clear payrolls as these are checked and reviewed at multiple stages. Payroll reconciliations are done on a quarterly basis and significant changes are explained and documented. The centralized requirement for MoHA notification for all promotions, salary advancements, benefit changes, and terminations ensures the existence of an audit trail. Whenever changes are made in personnel and payroll records, there is systematic approval requirement for authorization of the changes. Responsible officers who have access rights to the PIMS are provided with unique individual passwords based on their authorized level of access.

392. **However, the police and armed forces, which account for up to 50 percent of the total government payroll, are excluded from these arrangements.** No information is available about any aspect of this large area of expenditure.

393. **Changes to the payroll and PIMS database are well documented with readily available audit trail.** Payroll controls are well segregated and restricted to user-defined access levels. Segregation of roles and responsibilities and system access rights are well defined, thus ensuring full data integrity. However, the coverage of these systems is limited, and no information is available on the police and armed forces representing a significant part of the total payroll: Score D.

### 23.4 Payroll audit

394. **The SAO has not yet carried out a payroll audit of government payroll.** The SAO may have performed some test on the PIMS on a sample basis to assess whether data provided can be relied upon, but there has been no report on payroll issue in the SAO report since 2013/14. No issue of ghost workers has been raised with the MoHA and MoF in the period. Issues raised relate to the payment of salaries in different locations due to lack of updated data and the manual processing of the payroll at the local level.

395. **The MoHA has arranged for censuses involving physical verification of all civil employees and for partial inspections covering education and health sectors.** The latest census took place in 2007. In this process, cases of salaries still being drawn for teachers who had left their posts were identified. In 2017, the line agencies—at the national as well as subnational levels—were also asked to report to the MoHA about the number of civil servants. The only comprehensive control over the reliability of employee information relates to the confidential employment census undertaken every 10 years, but no further information could be made available for the assessment.

396. **No comprehensive or partial payroll audit by the SAO has been completed within the last three years:** Score D.

397. **Apart from rolling out the PIMS at the provincial level, the MoHA is also planning to roll out the ‘SmartCard’ to process salary payments to all civil servants by end-2019.** The smartcard process will merge a number of HR processes, including electronic wage payment, personnel management, social security, and possible tax management. As the rollout will require physical verification before issuance of the ‘SmartCard’, the MoHA expects that this will improve the accuracy of data employment in the PIMS. Moving to electronic payment of wages will help streamline payment processes, reduce wage arrears, and lower potential for fraud.

## PI-24. Procurement Management

398. **This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.** The period is the last fiscal year. The coverage is the central government.

Indicator/Dimension	Score	Brief explanation
PI-24 Procurement management	D	Dimension scores combined by Method M2 (Average).
24.1 Procurement monitoring	D	No comprehensive databases are available to provide consolidated information on procurement operations by government entities. The procurement function is fully decentralized at the ministry department level. Records are maintained for contracts by each implementing entity and there is neither a system nor database to track data available on procurement and contract management.
24.2 Procurement methods	D*	There are no reliable and available data on the application of the various procurement methods for award of contracts. The limited information from the MoES suggests that the existing rules are not applied.
24.3 Public access to procurement information	D	Key procurement information is not made available to the public beyond legislation and competitive bidding opportunities.
24.4 Procurement complaints management	D	The procurement complaint system does not meet criterion (1) relating to an independent complaints body, and it only meets one of the other criteria (not charging fees).

399. **Until the end of 2017, Lao PDR had no procurement law.** PM Decree No. 03/PM, issued in 1995 and amended in 2004, was the only legal framework governing procurement. This decree was supported by Implementing Rules and Regulations (IRR) on Government Procurement of Goods, Works, Maintenance, and Services issued by the Minister of Finance.<sup>45</sup> The decree provided insufficient to enforce transparent and accountable procurement and a Public Procurement Law was prepared and endorsed by the National Assembly in October 2017. The World Bank is currently providing technical assistance to the MoF in drafting the secondary legislation for the effective enforcement of the new Public Procurement Law.

400. **The Procurement Monitoring Office was first established in 1997.** This was under executive order 0855/MoF of the Minister of Finance as “an independent and permanent Office within the Ministry of Finance.” Its role and responsibilities were never formally established, and it was

<sup>45</sup> First issued in 1996, amended in 1998, and the current edition 0063/MOF was issued in March 2004 with additional amendments introduced through 0861/MOF on 05-May-09, applying to procurement in all sectors.

reclassified as a Division of the Budget Department in the MoF in 2011. Currently, it still has significant hands-on powers on paper, including the creation and maintenance of a reference list of companies permitted to bid for GoL contracts, approving of extension of bid validity periods, monitoring of each stage of “important and high value procurement (International Competitive Bidding and Public Bidding) financed by the national budget,” and the right to amend recommendations by line ministry bidding committees for all contract awards above LAK 10 billion (approximately US\$1.2 million). However, its human and financial resources are insufficient and effectively limit its impact on government procurement operations.

401. **There are deficiencies and gaps in the legal, regulatory, and institutional framework, before the enactment of the Public Procurement Law.** These have led to the procurement risk at the country level being assessed by donors such as the ADB<sup>46</sup> as high.

402. **This assessment was based on the examination of data available from the major line ministries identified from their budget allocation.** This is due to the absence of any procurement data within the MoF, so a sample has been used for the MoPW, MoES, and MoH, representing 32 percent of total estimated procurement or 41 percent of procurement at the central level (based on respective allocation for expenditure categories 62, 66, and 67 of current and capital expenditure in the 2017 budget).

403. **The procurement cycle at the ministerial level reported by the MoES and MoPW as an example is broadly reported and summarized as follows:**

- **Budget:** The Finance Department confirms the annual budget allocation.
- **Procurement planning:** Upon approval of the budget, the relevant department is responsible for the formulation of a procurement work plan to order, in the case of the MoES, the printing of textbooks and education materials according to the proposals from various schools or the roadworks based on the road management system in the case of the MoPW. Prioritization of needs will be made within the department under the responsibility of each Director General. Estimation of each unit cost is based on the previous year’s purchasing and proposed to the Finance Department for consideration. The bid evaluation committee will be established chaired by the Deputy Director General of the implementing department.
- **Procurement procedure:** After the approval of the detailed procurement work plan, the specifications will be prepared by the implementing department. Based on the MoF instruction dated 2001, the MoES will use direct purchasing with the MoE SOEs for the supply of textbooks with the State Education Printing House and purchasing of equipment/science experiment with the Education Equipment Factory. Supply of chalk is contracted through the four government factories based on the MoF’s notice and approval of the MoES. Hardware purchasing, such as computers and IT equipment, will go through a competitive bidding submission in compliance with the MoF regulation for tendering procedure above LAK 500 million.
- **Tendering procedures:** Instructions from the internal bidding committee will stipulate procedures to be applied in the case of open bidding procurement (price comparison), with publication in Vientiane Mai Newspaper and Education Newspapers. In the case of direct negotiations with state enterprises, a notice explaining to them quantities and specifications/standards of textbooks/chalks/materials will be issued so they can prepare a quotation. In the case of National Competitive Bidding, the MoF and MPI will be involved. International Competitive Bidding is applied to donor-funded purchases and follows the respective donors’ agreed procurement procedures.

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<sup>46</sup> As per ADB country procurement risk assessment final report, April 2016.

- **Contract award:** The MoES bidding committee will evaluate all bidding submissions, and the bidding committee will submit the selected bid for approval by the minister. For direct negotiations, consultation meetings will take place among assigned committee members to review prices and conduct negotiation. The minister will then endorse the results of evaluation and sign the contract.

## 24.1 Procurement monitoring

404. **There is an absence of a solid legal and regulatory framework and institutional basis to monitor and oversee government procurement.** Responsibilities are decentralized to all implementing entities, even different departments within a ministry such as the MoPW. No databases or records are comprehensively maintained for contracts in procuring entities, including data on what has been procured, value of procurement, and who has been awarded contracts. Procurement planning and record keeping are scattered across departments or integrated in the contracting and financial paper work without specific record trail for procurement information. The absence of systematic procurement record keeping leads to almost complete absence of procurement tracking and inability to substantiate contracting decisions. As a result, the Finance Departments in the MoES and MoPW do not have a proper system/mechanism to collect data or manage procurement contracts of all entities under their jurisdiction. The usual practice is for Finance Departments to review and attach the contracts to record payment transaction. In the case of the MoES, for example, each department/finance unit of the MoES entities reports on the use of State Budget on procurement to the Budget Division of the Finance Department at the end of the annual procurement implementation. The Finance Department subsequently organizes an annual meeting to review, evaluate, and define lessons learned the implementation of its financial performance with the presence of all finance units, including from the provincial level.

405. **The SAO, by means of its mandate, is responsible for procurement audits.** However, the SAO has not been exercising this function mostly because of limited capacity and resources.

406. **No comprehensive databases are available to provide consolidated information on procurement operations by government entities.** The procurement function is fully decentralized at the ministry department level. Records are maintained for contracts by each implementing entity, and there is neither system nor database to track data available on procurement and contract management: Score D.

## 24.2 Procurement methods

407. **There are no data available for publication as no databases on procurement operations are maintained.** The ministries could not retrieve data on procurement methods applied from the filing records of transactions.

408. **Procurement methods are defined in the new Public Procurement Law in line with the previous decree.** These are as follows:

- Open bidding
- Limited bidding
- Request for quotations
- Direct contracting

409. **There is no definition of thresholds or criteria for the application of the different methods in the law.** Procedures and implementation guidelines for each procurement methods are set out in

separate regulations. Within the MoES, based on the Decree 03/PM, tendering procedures below LAK 500 million can be implemented directly by the competent department with ex ante submission of the procurement plan and ex post reporting to the MoES Finance Department, but the procedure is not systematically followed. Procedures above LAK 500 million involve the Finance Department directly. According to the MoPW, the government procurement and method applied at the MoPW mirror the procurement procedures from the World Bank and ADB loans and apply the same criteria to the government procurement. Adequate data on this were not available at the time of the assessment.

410. **There are no reliable and available data on the application of the various procurement methods for award of contracts.** The limited information from the MoES suggests that the existing rules are not applied: Score D\*.

### 24.3 Public access to procurement information

411. **The government does not have a functional system to generate substantial and reliable coverage of key procurement information.** It does not systematically make key procurement information available to the public. There is no requirement to publish the names of companies and amounts of awarded contracts, and apart from the tendering publication process for competitive procedure, little, if any, information is publicized. With respect to key elements for PEFA scoring, the situations is as follows:

- **Element (1) fulfilled:** The Decree 03/PM and corresponding IRR are not accessible on any government website. The Government Gazette that published these is also not available on the Internet.
- **Element (2) not fulfilled:** Government procurement plans are internally prepared by procuring entities as part of budget proposals but are not published as this is not required by the current legislation.
- **Element (3) fulfilled:** Procuring entities publicize all tenders themselves. Bidding opportunities are routinely published in the newspapers but not systematically on procuring ministry's or entity's websites. The decree states that an invitation to tender, or an invitation to prequalify, shall be published in two national widely circulated newspapers and, in the case of international tendering, shall also be published in internationally recognized papers in the English language and in other media of wide international circulation.
- **Element (4) not fulfilled:** Information on contract awards is not published as it is not required by any legal provision.
- **Element (5) not fulfilled:** No information is published on complaints and their resolution.
- **Element (6) not fulfilled:** No procurement statistics are available to the public, and none are being produced even internally.

412. **Key procurement information is not made available to the public beyond legislation and competitive bidding opportunities:** Score D.

### 24.4 Procurement complaints management

413. **No clear specification for the procurement complaints management is in place.** Different practices apply in different ministries. The MoES does not report any complaints mechanism or procedure. The MoPW reports that complaints received for big infrastructure projects are received by the MoPW Inspection Department for review and recommendations to the minister. Such procedure will concern donor-funded projects only. There is no provision for judicial or external review of decisions made by implementing bodies in the procuring entity's bidding evaluation committee or

prescription of a time limit to review and take a final decision on the complaint cases. With respect to the PEFA scoring criteria, full adherence to the indicator requires that complaints are reviewed by a body as follows:

- **Element (1)** “not involved in any capacity in procurement transactions or in the process leading to contract award decisions” is not fulfilled. In the case of the MoPW, the Inspection Department is independent of the awarding and reports directly to the minister, but its review and recommendations are not published and not binding, reducing the effectiveness of its role. However, this is still not independent of the institution itself.
- **Element (2)** “does not charge fees that prohibit access by concerned parties” appears fulfilled. There is no provision for payment of fees to lodge complaints in procurement processes. The MoPW reports the existence of a hotline and a box to receive and handle complaints information.
- **Element (3)** “follows processes for submission and resolution of complaints that are clearly defined and publicly available” is not fulfilled. Processes for submission and resolution of complaints are not clearly defined and publicly available, and in the MoPW case, no transparency regarding the review and decision process by the Inspection Department reporting directly to the minister.
- **Element (4)** “exercises the authority to suspend the procurement process” is not fulfilled.
- **Element (5)** “issues decisions within the timeframe specified in the rules/regulations” is not fulfilled. There are no data available about the timeframe for the resolution of complaints.
- **Element (6)** “issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)” is not fulfilled: There are no data available on the final decision and resolution taken after the internal review of complaints.

414. **The absence of complaints registered or reported by any of the selected ministries tends to reflect the absence of checks and balances on the government procurement decisions.** This contributes to a consequent lack of trust by the private sector that has no incentive to appeal a decision by the procuring entity as the complaints will not be handled according to clear rules and the outcome of the appeal proceeding will not be published.

415. The procurement complaint system does not meet criterion (1) relating to an independent complaints body and it only meets one of the other criteria (not charging fees): Score D.

## PI-25. Internal controls on non-salary expenditure

416. **This indicator measures the effectiveness of general internal controls for non-salary expenditures.** Specific expenditure controls on public service salaries are considered in PI-23. The period is the time of assessment. The coverage is the central government.

Indicator/Dimension	Score	Brief explanation
PI-25 Internal control on non-salary expenditure	C+	Dimension scores combined by Method M2 (Average).
25.1 Segregation of duties	C	Segregation of duties is prescribed throughout the expenditure process with responsibilities laid down for most key steps. Systematic and consistent definition of rules, regulations, and responsibilities is still needed.
25.2 Effectiveness of expenditure commitment control	C	Expenditure commitment control procedures exist as part of the GFIS for recurrent expenditures. However, the effectiveness of the control system is undermined by



Indicator/Dimension	Score	Brief explanation
		the uncertainty and lack of information on cash availability for payments and contracting obligations that can incur outside the GFIS. Additionally, only the central government operations can be fully captured by the GFIS and are limited to single-year commitments.
25.3 Compliance with payment rules and procedures	B	Stricter procedures for expenditure authorization by the National Treasury have been enforced since 2017. Evidence shows that basic controls relating to payments are usually complied with, and exceptions are duly justified. SAO reports for the past period concluded unauthorized expenditures not fully compliant with the regular payment procedures.

## 25.1 Segregation of duties

417. **There is no specific law governing the government internal control framework.** Provisions stipulating the key duties and responsibilities among institutions as well as functions at various hierarchical levels are defined in various laws, secondary legislation, instructions, and ToRs. The development of the primary legislation is still the main focus of the reform so systematic drafting of manuals and guidelines has been limited. They will take place after the core PFM systems that are to define the overall regulatory framework have been established. Presently, internal controls are not defined as standards across the government entities, and as a result, internal controls over management of funds within government are specifically prescribed by internal ToRs at ministry and departmental levels and can vary from one ministry to another.

418. **At the Treasury level, internal controls include those for expenditure authorization, posting, payment, recording of assets, and audit.** These internal controls are included in the Treasury internal instructions and various MoF instructions, as required by the need for clarification or decision by senior management. The GFIS-related segregation of responsibilities is outlined in the GFIS Manual and access rights to the system modules and applications are based on levels of authorization for each user's profile.

419. **At the ministry level, the definition of rules, regulations, and guidelines is not fully in place.** If it is, it needs updating, but in the general context of the Lao public administration, where hierarchical lines of powers define the whole decision-making process, the delineation of a vertical authority and corresponding controls below the minister as main 'ordonator' at the ministry level, and DG and DDG at the department level, tends to be strong and respected. Within the existing rules, the budget execution process includes mechanisms for the segregation of incompatible functions such as registration and request for payment, and allocation of responsibilities for authorization, registration, safe-keeping of assets, and inspection of departments.

420. **The main challenge is the integration and harmonization of the legal provisions throughout the government regulatory framework.** This is particularly when unclear reporting obligations between institutions create a gap as seen under previous indicators (for example, PI-11, PI-12). Enforcement of existing provisions will remain problematic when instructions are not binding and comprehensive and in the absence of systematic sanctions in case of noncompliance. The existence of multiple ad hoc committees to share information and facilitate consensus-based decision-making processes is a consequence of the 'silo' approach of each ministry within its competence.

421. **The SAO reports mention the need for a better defined and enforced internal control framework.** They do not point to any specific issue in segregation of duties in their reports in the period. Individual violations of legal provisions are clearly denounced when identified and the

government has recently shown its commitment toward transparency and integrity when publicizing the cases of non-enforcement of the rules by senior officials, for example, in the case of use of luxury goods and cars.

422. **Segregation of duties is prescribed throughout the expenditure process with responsibilities laid down for most key steps.** Systematic and consistent definition of rules, regulations, and responsibilities are still needed: Score C.

## 25.2 Effectiveness of expenditure commitment controls

423. **Payment processing in the GFIS is tied to budget allocations and authorized spending plans updated on a quarterly basis and updated after the revision of the budget by the National Assembly.** These budget allocations are locked into the GFIS once approved with 6-month allotment for recurrent expenditures and 3-month allotment for salaries and constitute cash ceilings commitment.

424. **However, while these commitments on recurrent expenditures are captured for ministries and government entities within the GFIS, other categories of commitments are created outside the GFIS.** These are captured when the expenditure is not in the spending plan and is subsequently negotiated or if the cash availability by Treasury does not allow them to be covered adequately. As the GFIS operates at the budget level but not the availability of funds, these expenditure commitments, submitted in the form of payment vouchers to the National Treasury, can end up as arrears and be carried forward to the next financial year. The National Treasury reviews these expenditure commitments at the end of the financial year and establishes whether they can be cleared in the post-closing period of three months after December 31 and charged to the available budget of the year when they were incurred. According to the National Treasury, all payment requests duly submitted by December 31 within the expenditure plans should be covered in the subsequent three months. However, both the National Treasury and line ministries have mentioned the cases of carry-forward obligations and payment vouchers due to lack of cash availability (see PI-22).

425. **Commitments related to contracts spanning over more than a year are more problematic than in-year commitments on recurrent expenditure.** The GFIS does not handle multiyear contracts, and as a result these are handled manually to define the multiyear obligations for payment. These manual transactions, based on Excel records, are also linked to the absence of integration of the procurement processes that take place outside the GFIS. These are only captured when the payment request is submitted in the system or to the National Treasury.

426. **Expenditure commitment control procedures exist as part of the GFIS for recurrent expenditures.** However, the effectiveness of the control system is undermined by the uncertainty and lack of information on cash availability for payments and contracting obligations that can incur outside the GFIS. Additionally, only the central government operations can be fully captured by the GFIS and are limited to single-year commitments: Score C.

## 25.3 Compliance with payment rules and procedures

427. **The payment function is centralized for all levels of government, by the National Treasury, and includes strong internal controls.** Payment processing involves the Budget Expenditure Division responsible for the review of budget expenditure documents submitted by budgetary units before processing the payment, for posting into the GFIS and producing the relevant forms (withdrawal request, disbursement instruction) signed by the senior management level of the National Treasury. These are sent to the Operation Division of the National Treasury, which is responsible for processing expenditure request documents and creating payment vouchers from the Treasury's deposit accounts with the BoL and commercial banks.

428. **External audit reports produced by the SAO for 2014/15 and 2015/156 can be used as primary sources of assessment of whether payment rules and procedures are compliant.** These reports include several audit observations pointing to unauthorized expenditures that could indicate partial compliance with payment controls procedures. Most of such findings relate to payment procedures being violated: without supporting documentation, goods/services not supplied, or no justification given. No information was available regarding the SAO report for 2015/16 to validate the compliance during the more recent period. The National Treasury has indicated that strict payment procedures and authorizations are now in place since the restructuring of the Treasury function in 2017. A sample of a few payment requests selected randomly from the daily ledger demonstrated effective compliance with procedures. Recent MPI instructions regarding procedures for capital payment requests and the checklist of documentation required for verification also signal the commitment from the government toward expenditure control.

429. **Stricter procedures for expenditure authorization by the National Treasury have been enforced since 2017.** Although there is no automatic commitment management and control system in GFIS, evidence shows that basic controls relating to payments are usually complied with, and exceptions are duly justified. The SAO reports for the past period concluded to some unauthorized expenditures not fully compliant with the regular payment procedures but most payments are compliant with regular payment procedures: Score B.

## PI-26. Internal audit

430. **This indicator assesses the standards and procedures applied in internal audit.** The period for dimensions 26.1 and 26.2 is at the time of the assessment; for dimension 26.3 is the last completed fiscal year; and for dimension 26.4, audit reports used for the assessment should have been issued in the last three fiscal years. The coverage is the central government.

Indicator/Dimension	Score	Brief Explanation
PI-26 Internal audit	D	Dimension scores combined by Method M1 (weakest link)
26.1 Coverage of internal audit	D	The Inspection Departments in all government entities carry out ex post controls activities relating to the budget execution including some features of an operational audit function. These activities cover organizational independence, access to information, and power to report to the head of the ministry or entity. They do not operate based on recognized international standards and professional audit techniques.
26.2 Nature of audits and standards applied	D	Internal audit activities largely focus on compliance. A quality assurance system is not in place and there are no established government standards for the inspection planning and reporting.
26.3 Implementation of internal audits and reporting	D*	The Inspection Departments' work plans are implemented under the authority of their respective management and no information was accessible on the percentage of coverage of the planned activities and investigations effectively undertaken.
26.4 Response to internal audits	D*	Follow-up and response to the Inspection Departments' recommendations depends on the management decision and no tracking of follow-up or resolution rate is available.

431. **There is no formally established government internal audit function.** The duties and responsibilities for the internal control environment are distributed across the Finance Departments within the implementing entities and the MoF. Ex ante controls on financial compliance are the responsibility of Inspection Departments within the entities and the MoF manages ex post control activities and investigations of reported noncompliance. Originally, the Inspection Departments were responsible for ensuring compliance with party guidelines, but their role is now focused more on compliance with all government regulations concerning the State Budget implementation. Following the adoption of the Anti-corruption Law, the budgetary auditing and inspection roles were expanded, and in 2001 the SIAA was established, answering directly to the PM, with full powers to investigate any reported cases of corruption. Jurisdiction covers all financial activities at central and provincial levels. The focus of the assessment has been on the role and responsibilities assigned to the Ministerial Inspection Departments.

### 26.1 Coverage of the internal audit

432. **Inspection Departments are, in principle, formally established and operational in all central government entities.** These carry out an ex post control function on all the concerned entity operations. The DG of the department reports directly to the minister's internal audit units and nonfunctional audit committees. With reference to specific international control framework and international internal audit standards, all the characteristics of an effective internal audit function are not currently fulfilled. The capacity to cover the mandate is constrained by the absence of a formal legal framework to define an internal audit function. However, the lack of formal standards does not preclude the effective role of the Inspection Department to ensure compliance to the rules and regulations applicable within the ministry, the preparation of inspection work plans, and filing of inspection reports for the decision of the senior management. However, these functions are effectively constrained by available human and financial resources as well as the technical capacity of each ministry.

433. **The Inspection Departments in all government entities carry out ex post controls activities relating to the budget execution including some features of an operational audit function.** These activities cover organizational independence, access to information, and power to report to the head of the ministry or entity. They do not operate based on recognized international standards and professional audit techniques: Score D.

### 26.2 Nature of audits and standards applied

434. **The role and responsibilities of the Inspection Department are clearly defined in ToRs and operational manuals that cover the compliance with the party guidelines.** This is based on the line ministries selected for the assessment, namely, the MoES, MoH, MoPW, and MoF. These roles and responsibilities cover the plan and budget execution, monitoring, follow-up on the SAO recommendations, and any other tasks assigned by the senior management. As an illustration, the MoF's Inspection Department is composed of four divisions: party inspection, State Budget inspection, anti-corruption, and follow-up and resolution. Article 3 (paragraphs 7 to 10) of the ToRs defines its duties and responsibilities as follows:

- Covers all state agencies and liaise with all State Budget Inspection Departments of line ministries, finance offices of the provinces and districts in relation to the budget execution
- Covers all staff and carry out inspection of all civil servants in the finance sector, Finance Departments of provinces and districts that violate the instructions and rules
- Has the mandate to investigate anti-corruption cases based on Article 41 of the Anti-corruption Law

- Carries out preventive activities for anti-corruption, investigations of the individuals, agencies, and so on
- Maintains the records and register of declaration of assets

435. **In practice, the Inspection Departments' activities primarily focus on financial compliance and ex post controls and investigations.** They do not relate directly to the adequacy and effectiveness of internal controls in place. The focus of the government is to reinforce compliance with financial regulatory framework to strengthen fiscal discipline. For instance, there is no reference to a specific internal control environment or framework in the SBL. There is no reference to a risk-based approach or risk assessment methodology in the Inspection Departments' description of scope of work.

436. **Internal audit activities largely focus on compliance.** There is no quality assurance system in place as the Inspection Departments do not operate on defined audit standards and report exclusively to the head of their respective entity: Score D.

### 26.3 Implementation of internal audits and reporting

437. **Each Inspection Department in the line ministry prepares an annual work plan approved by the minister or head of the agency who guides its work during the financial year.** There are no internal audit committees or equivalent. The inspection reports produced for each case or activity are submitted to the minister or head of the agency for review and decision. Additional activities are directly assigned by the minister or head of the agency during the financial year. The MoF Inspection Department mentioned that actual implementation of the approved annual work plan is limited by the lack of resources and the insufficient staffing levels. The MoF Inspection Department has 40 inspectors to cover 15 departments in the MoF and all 18 provinces and capital. Data were not available at the time of the assessment on the work plan and planned assignments and actual activities undertaken. The departments themselves do not track systematically or report on the coverage of their respective annual plans.

438. **Although inspection annual work plans are formally prepared and approved, no evidence was provided to confirm the actual implementation of the work plan in the line ministries selected for the assessment:** Score D\*.

### 26.4 Response to internal audits

439. **The follow-up on inspection reports and findings by the senior management generally involves the hearing of the auditee and presentation of the case to the disciplinary committee.** This is chaired by the Vice-Minister of Finance and decides on sanctions as required. Further data was not available at the time of the assessment to report on the specific actions or sanctions decided based upon findings by the Inspection Department.

440. **Follow-up response to the Inspection Department's recommendations is decided by the management, and appropriate sanctions or decisions can involve a disciplinary committee hearing.** There are no tracking records on the resolution of the Inspection Department's findings: Score D\*.

## PILLAR SIX: Accounting and reporting

### PI-27. Financial data integrity

441. This indicator assesses the extent to which Treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions and uses the M2 (average) method for aggregating dimension scores. The period for dimensions 27.1, 27.2, and 27.3 is at the time of the assessment covering the preceding fiscal year and for dimension 27.4 is at the time of the assessment. The coverage for dimension 27.1 is the central government and for dimensions 27.2, 27.3 and 27.4 is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-27 Financial data integrity	C+	Dimension scores combined by Method M2 (average)
27.1 Bank account reconciliation	D	The National Treasury is progressively taking steps toward the TSA implementation, but for the moment, reconciliations are done based on available GFIS records supported by manual processes for all other transactions not captured by the GFIS. The main Treasury accounts at the central level are reconciled daily for expenditures transactions and weekly for revenue collection. Other transactions from technical revenue or bank receipts can take up to one month. ODA accounts are progressively integrated into the treasury consolidation but are still mostly reconciled annually.
27.2 Suspense accounts	B	Suspense accounts are reconciled regularly on a daily, weekly, and monthly basis. Reconciliation processes including the provincial accounts are completed within two months after the end of each quarter and are systematically cleared at the end of the fiscal year.
27.3 Advance accounts	B	Advance accounts and records are correctly maintained, reconciliations take place at least quarterly and most advances are cleared on time.
27.4 Financial data integrity processes	C	Financial data are kept in an electronic system in which access and changes to records and data are restricted and recorded through segregation of access in line with duties through controlled passwords. Issues with the system security that could affect the data integrity have yet to be addressed.

442. The National Treasury is moving progressively toward the introduction of a TSA and Zero-Balance Account system of cash management. Under this structure, domestic funds would be consolidated into a single account at the BoL and used for all revenue deposits and payments by all ministries and agencies. All operational subaccounts with commercial banks would be cleared through their headquarters on a daily basis to the Treasury account with the BoL (zero balance).

443. The main priority to achieve this goal is to continue rationalizing the number of bank accounts still held at commercial banks. There are still a total of 154 bank accounts operated at the national, provincial, and district levels, at the end of 2017. Additionally, 129 project accounts (one account per project) are also operated under specific authorization pursuant MoF Decision 0734 dated April 2010. A list of all bank accounts is maintained by the National Treasury.

444. **As of 2017, the BoL still holds 44 accounts at the central level.** In addition, line ministries maintain bank accounts, including, in Lao kip, Thai baht, and U.S. dollar, a budget account, and deposit account for technical revenue, for the current and previous years. The BoL only has four branches nationwide, which justifies the need for commercial bank accounts. The National Treasury uses five commercial banks.<sup>47</sup> Budget accounts are held at each of the five main banks and are used for central tax receipts and subsequent creditor payments. Each provincial Treasury office also maintains a budget account for crediting tax receipts. In addition, BCEL customs accounts are maintained at all the main customs checkpoints.

445. **In terms of current cash and liquidity management, the summary balances of all bank accounts are emailed daily by the commercial banks to the National Treasury while hard copies are sent to the Treasury offices at the provincial level.** The Planning and Cash Management Division of the National Treasury uses these balances to compile a report of cash flow availability at the national and provincial levels. This cash flow report, together with forecasts of tax, customs, and other revenue from collecting agencies, is used in weekly expenditure and disbursement planning (see PI-21).

446. **External debt principle and interest payments are made from a central Treasury budget account.** This account is managed by the External Finance Department based on the DMFAS application outside the GFIS. Payment vouchers are raised in Lao kip and the BoL purchases forex to make payments.

447. **The National Treasury at the central level also monitors provincial salary payments, which are made through specific provincial salary accounts.** Some salaries are paid in cash, drawn through the district Treasury offices by the district sector departments (education, health, and so on).

448. **Provincial and district Treasury offices operate bank accounts, but 38 districts have no access to the banking system as of the end of 2017.** Implementing agencies are no longer authorized to hold bank accounts and must withdraw cash from the relevant Treasury office, and all technical revenue must be deposited in the local Treasury office account.

### 27.1 Bank account reconciliation

449. **Under the MoF decision<sup>48</sup> on Treasury organization and operations, the responsibility to reconcile all government bank accounts and closing balances is assigned to the General Accounting Division.** These are carried out on a daily, weekly, monthly (as additional data become available), and annual basis. The newly established Planning and Cash Management Division prepares the consolidated reports. The National Treasury receives daily consolidated bank statements from five main commercial banks operating the Treasury bank accounts and from BoL, together with all bank transfer advices, usually a few days later. The GFIS is used to record payments and receipts and bank statement data, but the reconciliation process is manual. Around seven staff work on bank reconciliations, and while bank reconciliations are increasingly becoming automated and reconciled transactions are directly updated in the GFIS, there is still significant manual intervention required to reconcile all receipts from over-the-counter bank deposits, mainly from revenue collection. Deposit receipts and SmartCash transactions are posted into the GFIS manually. Payments that are still outside the GFIS are all accounted for and reconciled manually.

450. **Bank reconciliations are effectively carried out daily based on GFIS cash balances, on the expenditure side based on the ledger of payment vouchers authorized by the MoF.** On the revenue side, reconciliations are based on collection information received directly from the bank accounts held

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<sup>47</sup> BCEL, LDB, Lao Viet Bank, Agriculture Promotion Bank (APB), and Vietin Bank.

<sup>48</sup> Dated August 2017.

by the Treasury with commercial banks and BoL accounts and uploaded manually into the GFIS the following day.

451. **All other bank accounts held by line ministries used for budget implementation as well as the ODA-funded project accounts at the central level have to be authorized by the National Treasury and are subject to the same regulations.** All funds such as technical funds, fees collected from the line ministries, and extrabudgetary funds in commercial banks are now channeled back to the BoL and consolidated into the GFIS so that expenditures can be authorized from these funds (see PI-20). A total of 129 ODA-funded project accounts have also now been captured under the BoL consolidated fund. Bank reconciliations on the bank accounts held by line ministries for ODA projects and service delivery units—outside the State Budget and representing more than 30 percent of the government spending—are reconciled separately and at least annually as part of the account closing procedures.

452. **Revenue receipts from collecting departments are reconciled on a weekly basis.** Previously the information from the GFIS relating to tax receipts was incomplete and created reconciliation issues, but the situation is reported to have been largely corrected by the National Treasury. Systems have been put in place to record the receipt in the GFIS simultaneously as it is paid into the bank by the tax payer. Further, the transaction document used for receipts deposit has now incorporated all account and tax type codes that are necessary to ensure correct posting of the transaction.

453. **Line ministries and agencies with GFIS access are supposed to carry out their own reconciliations at least on a monthly basis for their own technical revenues based on their own bank statements.** At the local level, around 8,000 schools bank accounts operating on the SBG, representing less than 1 percent of the government budget, are reconciled annually with the MoE Central Finance Department.<sup>49</sup>

454. **At the central level, items for reconciliation or additional information required to fully process the transactions into the cash ledger in the GFIS is resolved directly between the relevant line ministries' Finance Department, the National Treasury, and the bank.** The process is reported to take place on a monthly basis. All transactions are reported as reconciled in the GFIS after the three-month closing period.

455. **Bank accounts for key treasury expenditure and receipt accounts are reconciled on a daily and weekly basis at the central government level.** For some tax receipts and technical revenue from line ministries the reconciliation process can be delayed but there are no longer major reconciliation issues reported at the central level: Score D.

## 27.2 Suspense accounts

456. **Suspense accounts with line ministries are cleared within 90 days and systematically reconciled at the end of the fiscal year during the three-month closing period.** Revenue suspense accounts had been more frequent and had been reported by the TD as problematic as amounts and references of taxpayers could not be tracked in the GFIS. However, the issue has been resolved by adjusting the GFIS features to identify receipts by revenue and taxpayer. Suspense accounts are maintained in the temporary account after the daily reconciliation until they are cleared and the TD sends the correcting tax invoice to the National Treasury to make the correction in the GFIS. No formal or automatic procedure is in place, but the improvement of Treasury processes since 2017 has made possible the clearing of these amounts in a more satisfactory manner since 2017.

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<sup>49</sup> In 2017, the domestically financed MoES allocation for SBGs was LAK 98.5 billion (US\$11.6 million) or around 50 percent of the ESDP's SBG budget projections of LAK 187 billion for the same year.



457. **Unauthorized expenditures that cannot be matched with the budget plans and need a special authorization from the Budget Department to be posted in the GFIS are recorded either as an expenditure in the period or as an accounts payable.** Such expenditures are carried forward to the next fiscal year and not kept as a suspense account. Additionally, these expenditures are systematically captured by the audit reports.

458. **Suspense accounts are reconciled during the successive daily, weekly, and monthly bank accounts reconciliation process.** They are cleared on time within two months of the end of each quarter and systematically cleared at the end of the fiscal year: Score B.

### 27.3 Advance accounts

459. **Advance accounts can arise from payroll advances or from business travel activities.** There are no advances on contract payments as payments are authorized and processed upon progress. Advances to suppliers on goods and services delivery contracts are recorded as expenditure on the cash accounting basis.

460. **Guidelines on budget expenditures stipulate that advance payments should be cleared within 30 days (MoF Decree 206).** Advances for business travel and salary advances are managed by their respective employing agency and are either cleared upon submission of receipts or repaid by staff through deductions to their payroll payments, usually on a monthly basis.

461. **Advance accounts and records are correctly maintained, reconciliations take place at least quarterly, and most advances are timely cleared:** Score B.

### 27.4 Financial data integrity process

462. **There is currently no overall risk management framework or policy in place to assess and manage risk in government financial operations and in the security of government financial information relating to the budget, Treasury, and accounting information.** The MoF ICT Department was restructured in early 2018, and ICT procedures for MoF departments are yet to be drafted. Since March 2018, the SAO is able to access the GFIS.

463. **The GFIS is a basic locally developed application that helps process government payment and receipt transactions.** The system operates under a centralized architecture on a central server operating under Linux (Redhat-5) at Vientiane. The enhanced application software operates on an Oracle 10g database management system and is built with Power Builder (11). The system uses a client server architecture.<sup>50</sup>

464. **At present, the total number of users connected to the system across the network is about 850–900.** All line ministries at the center and the provinces have access to the GFIS for transaction processing. About 60 line ministries and central agencies are directly connected to the system at the central level and all 17 provinces including Vientiane City and all 9 districts of the Vientiane Province. The Treasury and Budget Departments and end users in line ministries and provinces carry out financial transactions on the GFIS on a day-to-day basis. Connectivity issues at the provincial level have been reported as reduced after the setting up of a backup access based on telecom connectivity. Staff of the ICT Department who have developed the system and are responsible for its operation and maintenance are also more closely engaged with the end users in the National Treasury and the Budget Department.

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<sup>50</sup> Technical note on the status of the government's current FMIS and the way forward toward strengthening it to provide better support for Treasury management and budget execution, World Bank, October 2016.

465. **The GFIS has automated controls that help ensure that there is multilevel access and changes to records are restricted.** Appropriate user access levels are given. Upon setting up of users in the GFIS platform, the authorization forms clearly define the user roles that are to be given and the functions that the user is to perform in the accounting system. For decentralized processing at the line ministry level or at provincial and district levels, specific responsibilities and rights are defined with limited rights and access to modifications in the system. This enables them to capture only certain information. A user authorization template has been created, which captures the user biodata and the specific roles to be assigned. The form is authorized at the appropriate level in the user department before it is sent to the ICT Department to create the user profile with the specifications requested from the user department. Certain restricted entries in the system can only be carried out by authorized personnel in departments such as the Treasury and Budget Departments.

466. **A review performed by the World Bank on the GFIS in October 2016 reported the following issues:**

- **System administration functions:** Staff performing the system administration functions such as opening new users' accounts have total control of the application software GFIS and all the security and access rights. This situation does not meet the normal test of separation of duties required by audit, internal control, and international good practice.
- **System documentation:** Documentation for the GFIS user manual is not available and as the system knowledge is vested with a small group of people, key personnel risk is high.
- **Network reliability:** This was a major problem earlier, but the situation is stated to have improved due to the development of backup connectivity through leased lines.
- **ICT security:** It had been reported earlier that the ICT environment did not protect the ICT network from hacking from its weak point beyond the point-to-point VPN security. It is not clear whether or not this issue has been addressed. The MoF mentioned the existence of a disaster recovery center and daily backups made by MoF ICT Department.

467. **Financial data are kept in an electronic system in which access and changes to records and data are restricted and recorded through segregation of access in line with duties through controlled passwords:** Score C.

468. **Plans are under way to acquire an FMIS platform that should—in the medium term—integrate all the government entities with comprehensive treasury functions.** The government is moving toward the introduction of electronic payment systems and expanding the use of SmartCards, which will simplify bank reconciliation processes.

## PI-28. In-year budget reports

469. **This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution.** The period is the last completed fiscal year. The coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-28 In-year budget reports	D+	Dimension scores combined by Method M1 (weakest link)
28.1 Coverage and comparability of reports	D	In-year budget execution reports are produced monthly for Budgetary Central Government and data classification allows comparison to the original budget at the aggregate

		economic classification level but no breakdown at the administrative level is available.
28.2 Timing of in-year budget reports	B	In year-budget execution reports are produced monthly and issued internally within (in average) a period of one month after the end of the monthly reporting period. An overall narrative statement on budget execution at aggregate levels is provided only for midyear and annual State Budget execution reports presented to the National Assembly.
28.3 Accuracy of in-year budget reports	D	Monthly budget execution reports include expenditure at the payment stage with some concern regarding comprehensiveness due to the number of 'system transactions' recorded manually at the provincial level. The data provided are too aggregate to allow for a basic budget execution analysis.

470. **The SBL Article 82, para. 10 stipulates the budget execution reporting obligations for the MoF.** These are as follows: “To summarize and report the execution of the State Budget to the Government on a regular basis,” and Article 36 requires all budgetary units “To collaborate with the National Treasury in reconciling the revenue and expenditure execution data and reporting on the budget execution in a complete, proper and timely manner.”

### 28.1 Coverage and comparability of reports

471. **MoF in-year budget reports are produced jointly by the National Treasury and Budget Departments.** They are circulated as follows:

- Weekly reports prepared jointly by the two departments have been produced since 2017 based on the GFIS data and manual consolidation of the revenue collection from all revenue collecting agencies. This weekly reporting started in 2017 and is produced internally for the MoF and Prime Minister.
- Monthly reports are prepared with the manual consolidation of district execution data through the provincial Treasury offices. These reports are produced within one month of the end of the reporting date and submitted to the Minister of Finance and Prime Minister with restricted circulation within the MoF. The in-year monthly reports are prepared in Excel format and compare actual expenditure for the month (and cumulative) to the original and revised budget estimates for all revenue by type and expenditure by economic categories (two-digit level) and no breakdown at the administrative level. The report for Q4 is the basis for the annual financial statements submitted for audit to the SAO. None of these reports are published.
- A midyear budget execution report based on four-month execution is submitted to the National Assembly at the time of the presentation of annual State Budget execution report for the previous fiscal year during the June session. It shows the outturns for the first four months by main economic categories compared to the original approved budget but not at the administrative level. The report for 2017 included projections for the second half of the fiscal year and proposed reallocations for a revised budget.
- Finally, the MoF has developed the Annual Government Financial Statistics Report. This report consolidates the State Budget revenue and expenditures since 2014/15 and is prepared by the FPD. It is published and posted online and gives an overview of the full annual outturns of revenue and expenditure by economic classification and detailed tables by revenue types with a comprehensive narrative on fiscal aggregates and budgetary execution and trends. The

report does not directly compare to the original or revised budget estimates, which may be extracted from the previous year's report for comparison. The report is issued in Lao and English about 24 months after the end of the fiscal year, and the 2015/16 report published in November 2018 has yet to be made available online.

472. **In-year budget execution reports are produced on a monthly basis based on the consolidation of records from all budgetary units at the central government level.** They show comparison to the original budget at an aggregated level: Score D.

## 28.2 Timing of in-year budget reports

473. **The monthly budget reports are produced in the month following the month under review.** The midyear State Budget execution report has to be submitted to the National Assembly at least 15 days before the June–July session. This timetable was followed in 2017 and 2018. The annual State Budget execution report is not available for submission to the National Assembly until 10 months after the end of the year. In the meantime, the draft annual financial statements are submitted for audit (ref. PI-29).

474. **In year-budget execution reports are produced monthly and issued internally within (in average) a period of one month after the end of the monthly reporting period, but no specific commentary narrative is provided for these internal reports.** The midyear budget report submitted to the National Assembly includes a general comment on revenue trends and for the first four months of budget execution and next six months projection: Score B.

## 28.3 Accuracy of in-year budget reports

475. **All the budget execution reports show expenditures at the payment stage only.** There are some concerns regarding comprehensiveness due to manual recording of the budget data at the provincial level. A narrative statement on budget execution at aggregate levels is provided only for midyear and annual State Budget execution reports presented to the National Assembly and data provided are too aggregate and do not allow for an analysis of the budget execution: Score D.

## PI-29. Annual financial reports

476. **This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards.** The period assessed for dimension 29.1 is the last completed fiscal year, 2017, for dimension 29.2 it covers the last fiscal year's annual financial report submitted for audit (2015/16), and for dimension 29.3 the last three fiscal years' financial reports (for 2014/2015, 2015/16, 2016/17, and 2018 if available). The coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief explanation
PI-29 Annual financial reports	D+	Dimensions combined by Method M1 (weakest link)
29.1 Completeness of annual financial reports	C	Annual financial reports are prepared covering items of income, expenditure, and cash balances with some and partial information on financial assets and liabilities. They are comparable to the approved budget.
29.2 Submission of reports for external audit	C	The financial reports for 2017 were submitted for external audit to the SAO within 9 months of the end of the fiscal year.

29.3 Accounting standards	D	The accounting standards used in preparing the financial reports are not fully consistent with the applicable legal framework and not disclosed.
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477. **The preparation of financial statements is governed by Article 31 of the Amended Accounting Law 47/2013.** This requires that the minimum content of financial statements should include a statement of State Budget receipts and payments, a statement of cash flow, and explanatory notes to the financial statements with the accounting policy. Additionally, SBL Article 76 establishes the schedule for the final statement of the State Budget as follows:

- Submission of all State Budget reports by budgetary units to the MoF by April 30.
- Submission of the consolidated annual State Budget report by MoF to the government for consideration and approval before June 30.
- The government reviews and considers the draft annual budget execution report and officially submits it to the National Assembly fifteen days prior to the opening of the 2nd session of the National Assembly following the audit and certification by SAO.
- The SAO report on the annual financial statements is presented to the same National Assembly session.
- The National Assembly issues a resolution to endorse the financial statements and the recommendations of the SAO.

478. **Different departments play a key role in the collection of data for the preparation of final financial statements.** These include the National Treasury for the aggregated data on receipts and payments and cash balances, the Budget Department for the information on budget outturn and comparison to the revised budget, the FPD for the narrative on fiscal trends and forecasts, the External Finance Department for the information regarding external debt and external assistance, and the SAO for the report and recommendations on the financial statements of the government (but does not deliver a formal audit opinion).

### 29.1 Completeness of annual financial reports

479. **The annual financial statement that is submitted to the SAO consolidates detailed information.** This information is on expenditure, revenue, cash balances, accounts payable and receivable, and settlement of expenditure arrears (to be cleared as per schedule [see PI-13]), together with a fiscal policy report and budget report covering all budgetary entities. There are accompanying notes that explain the basis of preparation of the financial statements. The commitments that have been made and not yet settled are also reported in the financial statements. The financial statements are comparable to the approved budget for the year that is being reported for both revenue and expenditure line items by economic and administrative classification at the four-digit level. Some explanatory notes are also provided with the financial statements.

480. **Annual financial reports are prepared covering items of income, expenditure, and cash balances with some, though incomplete, information on financial assets and liabilities.** They are comparable to the approved budget: Score C.

### 29.2 Submission of reports for external audit

481. **For the financial year ended December 31, 2017, the financial statements and supporting notes were submitted to the SAO in July 2018.** This constitutes a significant improvement from previous years. The exact date of submission by the MoF was available from the MoF and SAO. The SAO uses a receipt date stamp to confirm receipt of the financial statements and the MoF provides a covering letter.

482. **The financial reports for 2017 were submitted for external audit within nine months of the end of the fiscal year:** Score C.

### 29.3 Accounting standards

483. **Ministerial Order No. 529 of 2016 provides the legal framework for the implementation of IPSAS.** This was issued by the Finance Ministry on February 24, 2016. This is explicitly linked to the Accounting Law No. 47/2013, the PM Order No. 80/2007, and Proposal No. 81 of the Accounting Department dated December 7, 2015.

484. **The Amended Accounting Law 47/2013 Article 13 states that “implementing government agencies shall apply the cash basis International Public Sector Accounting Standards in order to be prepared to move toward the accrual basis International Public Sector Accounting Standards.”** Article 3, para. 18 of the law states that the cash basis “means the basis of accounting that recognizes financial transactions when cash is received or paid,” which is fully consistent with the definition in the IPSAS cash standard.

485. **Nevertheless, the legal framework is not fully consistent with the IPSAS cash standards.** There are provisions of the IPSAS cash that are not stipulated in the law or need further specification, such as the format for balance sheets, cash flow statements and revenue expenditure report, a statement of cash receipts and payments for all consolidated entities (not just the State Budget), the inclusion of all ‘off-budget’ transactions, and a statement of comparison of budget to actual (as the approved budget is published).<sup>51</sup>

486. **The ministerial order requires the adoption of IPSAS for budget entities, administrative entities, and government funds effectively as of 2017.** It empowers the Accounting Department to be responsible for issuing guidance on IPSAS and allocates roles in supporting, monitoring, and auditing the progress of implementation to the Treasury and Budget Departments. It also requires the financial reporting to be consolidated by the National Treasury within two months of the end of the fiscal year.

487. **At present, the financial statements are not fully compliant with the country’s accounting system as defined by the Accounting Law, which also requires the collation of information on assets and liabilities.** The newly adopted Debt Management Law also specifies the debt reporting requirements. However, these related sets of information are only partially included in the current financial statements.

488. **There is no disclosure or note on differences and gaps between IPSAS and the actual accounting standards used.** As a result, the annual financial statements are in principle prepared according to IPSAS (Stage 1 cash basis), but effectively some provisions are still missing for the government financial reports to be fully compliant with the provisions of the existing legal framework.

489. **The accounting standards used in preparing the financial reports are not fully consistent with the current applicable legal framework on public sector accounting and not disclosed in the financial reports:** Score D.

490. The steps identified<sup>52</sup> to develop accounting practices compliant with the IPSAS cash are listed in Table 3-29.3.

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<sup>51</sup> Adopting cash basis IPSAS: gap analysis, IMF, April 2017.

<sup>52</sup> Adopting cash basis IPSAS: gap analysis, IMF, April 2017.

**Table 3-29.3: IPSAS Cash Basis Compliance**

Identified gap and main steps for alignment to IPSAS Cash I	Action to be implemented
Step1 - Clarity of entities to be consolidated	Ensure comprehensive list of all entities to be included in the financial statements (proposing that at this stage will not include SOEs)
Step 2- Inclusion of all relevant transactions, third-party payments, and all bank accounts	<ul style="list-style-type: none"> <li>- All receipts, including on-budget, off-budget, and external assistance</li> <li>- All payments, including advances and prepayments and funds by external assistance</li> <li>- All third-party payments made on behalf of the GoL, for example, through external assistance</li> <li>- All bank balances including commercial and project bank account</li> </ul>
Step 3 - Clarification of budget disclosures	Provide original and final budget amounts in a format that is compatible with the classification structure chosen: develop disclosure notes that analyze significant differences between original and final budgets and all major variances
Step 4 - Need for policy clarification	Develop and publish specific policies on the classification structure to be used in the financial statements; any additional disclosures to be added to those mandatorily required; the treatment of TA in the financial statements
Step 5 - Need for a mechanism to ensure all relevant disclosures are included	Develop comprehensive disclosure checklist
Step 6 - Inclusion of all relevant transactions	Develop data collection templates in 'IPSAS Cash' format for subnational levels

## PILLAR SEVEN: External scrutiny and audit

### PI-30. External audit

491. **Reliable and extensive external audit is an essential requirement for ensuring accountability and creating transparency in the use of public funds.** This indicator examines the characteristics of external audit focusing on independence of external audit function and on the audit of government's annual financial reports. The institutional coverage includes constitutional provisions, other legal provisions, and audit reports on the financial reports of all central government entities for the last three fiscal years, that is, audit reports for the fiscal years 2014/2015, 2015/16, 2016/17 and 18 (if available), except for dimension 30.4, which is assessed at the time of the assessment (August 2018).

Indicator/Dimension	Score	Brief explanation
PI-30 External audit	D+	Dimension scores combined by Method M1 (weakest link)
30.1 Audit coverage and standards	D	Financial reports of the central government are audited by the SAO, but standards are still not aligned with international auditing standards for SAIs (ISSAIs). Material risks and internal control issues are not taken into account and no opinion is delivered on financial standards. Although the SAO audit coverage can be estimated to be covering the majority of total expenditures (including provincial and 'other institutions'), the systematic follow-up on the materiality of the audits is not in place.
30.2 Submission of audit reports to the legislature	D	SAO reports were submitted to the legislature with a delay in 2013/14 and 2014/15 and within six months from receipt of the financial reports for the last two completed fiscal years.
30.3 External audit follow-up	C	Formal responses were formulated by the audited entities to the SAO observations and findings in the last three years. MoUs are signed between the SAO and line ministries on follow up, although responses are not always comprehensive and capacity to effectively implement follow-up actions is weak
30.4 Supreme Audit Institution (SAI) independence	C	The SAO operates independently from the executive with respect to the procedures for appointment as well as execution of the SAO budget. The SAO has unrestricted and timely access to the majority of the requested records, documentation and information.

#### 30.1 Audit coverage and standards

492. **The role of the SAO is defined within the Lao PDR Constitution under Article 104.** This role is specified as: "activities perform on the state organisations for the supervision on budgetary control, financial control, and assets utilisation of the state," and activities under Article 107 are as follows:

- "To perform independent auditing activities in accordance to the law and to certify true and correctness of the financial reports, and in line with the regulations and laws;
- To prepare auditing reports and summaries on the implementation of state budgetary plans to the National Assembly session; and



- To propose to the related authorities to implement counter measures on entities who disobey the law mainly in the area of budgetary, financial, and assets upon the finding of the audit.”

493. **Furthermore, the State Audit Law (amended in 2016) defines the scope of the SAO mandate.** This is to “conduct audit and examine economy, efficiency, effectiveness of operation and functioning of the government budget agencies, public sector enterprises and those funded from grants and loans and manage and use public funds.”

494. **The SAO has made significant progress in the implementation of its Action Plan 2009–2020, establishing its organizational structure and institutional capacity.**<sup>53</sup> With the support of the World Bank, GIZ and other donors, it has built a solid training program for its 305 staff across the central and 3 regional offices. It has developed a professional culture and managerial systems that translates into the formulation of audit priorities and annual auditing plan formally discussed and approved with the National Assembly. Its current focus is on ‘strengthening professionalism’ in the audit activities, specifically on the adoption of auditing standards, manuals, and methodologies; extending the scope of financial audit activities to areas such as procurement audit; using of computerized auditing tools; and setting up an internal quality assurance function and capacity to carry out performance audit. The SAO’s 2014–2015 report on the State Budget implementation is published online, but the 2015–2016 report endorsed by the National Assembly in November 2017 is still pending authorization from the National Assembly.

495. **The coverage of its financial audit plan and activities relates to the State Budget.** This includes all first-tier budget entities including the Ministry of Defense, Ministry of Security, and all provinces and extrabudgetary funds such as the Road Management Fund and the Social Security Fund for the State Budget contribution. Its annual plans usually cover approximately 100 entities, companies, or ministry departments, defined as targets, with half the coverage at the central level and the rest at the level of the Northern, Central, and Southern regional SAO offices. It also covers the ODA projects carried out by its Loans and Grants Department and the SOE sector divided between two departments for the bank and enterprises.

496. **As an illustration, Table 3-30.1a presents the implementation of the 2015–2016 audit plan.**

**Table 3-30.1a: Audit implementation 2015–2016**

SAO department	Number of entities planned	Number of planned entities covered	Number of unplanned entities covered
State audit	29	25	6
Loans and grants	20	19	0
Bank (SOE) audit	5	5	3
SOE	12	12	3
Total central	66	61	12
Northern region	17	15	1
Central region	15	14	6
Southern region	12	12	0
Total regions	44	41	7
Total	110	102	19

Source: SAO for 2014–2015.

497. **The information was also provided for 2017 but before the final submission of the report to the National Assembly.** It is difficult to estimate the coverage of the audits in the absence of the detailed budget for all audited entities (such as the Ministry of Defense and provincial entities) but based on the available data from the SAO report published for 2014/15 and the data provided by the

<sup>53</sup> Preliminary Review and Self-assessment of Progress under SAO Action Plan 2009–2020, World Bank, May 2016.

SAO for 2015/16 and 2017, the majority of total State Budget expenditures are covered by the SAO financial audit. These data are confirmed by the 2016 World Bank report on the Self-assessment of Progress under SAO Action Plan 2009–2020.

498. **The SAO has started the process of introducing the ISSAIs into its auditing methodology.** However, its capacity to carry out, and report on, audits in full accordance with the ISSAI framework remains limited. The SAO regulatory framework does not include any definition of standards that can be considered acceptable (see Article 6 of the State Audit Law). At present, it has limited coverage and limited to Levels 2 and 3 of the ISSAI standards. Manuals, standards, and methodologies in place are old and are in being updated. Audit reports are comprehensive, with findings and recommendations, including management letters, but the SAI issues only a limited number of audit reports complying with the Level 4 ISSAI reporting standards. Quality control systems and procedures are in place supporting the audit work. It is established within the SAO structure, in all departments but with limited staff.

499. **The SAO is a member of INTOSAI, ASOSAI, and ASEANSAI.** It participates extensively in cooperation and capacity development activities.

500. **The SAO recognizes that its capacity and resources are still too limited to carry out annual financial audits of all entities in accordance with its legal responsibilities.** An increasing number of Certified Public Accountant (CPA) qualified auditors are involved in performing financial audits, but capacity to apply a consistent and documented risk-based approach and undertake performance audit is still absent, except in the context of the support provided by the international cooperation.

501. **The coverage of the SAO audits for the last completed fiscal years has been reported and calculated as shown in Table 3-30.1b.**

**Table 3-30.1b: Audit Coverage**

Audit period (covering previous FY)	Number of entities planned	Number of entities covered	Total expenditure coverage planned	Estimated total expenditure actually covered (%) <sup>54</sup>
2014/15	89	93	14,395,271	51
2015/16	108	118	17,174,782	54
2017	110	121	9,624,289	30

Source: Budget data reported by the MoF (allocation per entities) and SAO list of entities covered by SAO audit plans 2014/15, 2015/16, and 2017.

502. **Financial reports of the central government are audited by the SAO representing the majority of the total expenditures and revenues, and SAO reports identify significant issues reported and endorsed by the National Assembly.** The implementation of national standards in line with ISSAIs is at a very initial stage: Score D.

### 30.2 Submission of audit reports to the legislature

503. **According to the State Audit Law 2016, the MoF Treasury is to prepare, sign, and submit the state financial report to the SAO within two months of the final closing of the accounts of each financial year.** This should be no later than May 31 so that the SAO report is submitted to the National Assembly for the second session in October–November. The exact dates for the submission of the financial reports to the SAO were not available but could be estimated from the formal presentation

<sup>54</sup> As the budget data cannot be identified for number of audited entities such as Ministry of Defense, Security, and the percentage calculated is underestimated for the three fiscal years, the actual coverage could be expected to be significantly higher.

of the financial reports and SAO reports to the National Assembly. Based on the information available and presented in Table 3-30.2, it has taken on average six to seven months for the SAO to receive the State Budget Implementation Report from the government, SAO reports to the National Assembly were delayed by more than nine months until 2014/15 and it took approximately four months to undertake audit and issue a report to the National Assembly in the last two years. The Auditor General’s report on the accounts for the fiscal year 2017 has not yet been endorsed by the National Assembly and the issuance of the National Assembly resolution is in the process.

**Table 3-30.2: Timeliness of the submission of the SAO reports to National Assembly**

Fiscal year covered by audit <sup>a</sup>	Date of receipt of draft financial statements (estimated)	Date of SAO report to National Assembly	Number of months
2013/14	March 2015	November 2016	18 months
2014/15	March 2016	November 2016	9 months
2015/16 <sup>b</sup>	July 2017	November 2017	About. 4 months
2017	July 2018	November 16, 2018	About 4 months

Note: a. The calendar for the fiscal year was changed from October 1–September 20 to January 1–December 31 as of 2017.  
b. Including the last three months of the 2016 transition period.

504. **SAO reports were submitted to the National Assembly 12 months from receipt of the State Budget Implementation Report in 2013/14 and 2014/15 and within six months from receipt in the following years:** Score D.

### 30.3 External audit follow-up

505. **The SAO has developed a formal system for monitoring and follow-up of audit recommendations.** It reports on the follow-up in the report of the following fiscal year. All audited entities are formally responding to the SAO observations, and Inspection Departments of respective ministries are in charge of coordinating the responses with the relevant departments. A consistent tracking system is in place at the SAO central level to report on each recommendation by the SAO as evidenced by the information received from the SAO and presented in Table 3-30.3.

**Table 30.3: Follow-up on SAO reports in 2015/16 (latest available)**

Inspection from ministry	Number of financial recommendations		Number of systemic/internal control recommendations		Number of findings/recommendations		
	Issued	Follow-up	Issued	Follow-up	Issued	Follow-up	%
MoF	29	29	15	15	44	44	100
MoE	8	8	3	3	11	11	100
MoH	3	3	2	2	5	5	100
MoPW	6	6	2	2	8	8	100

Source: SAO data.

506. **Article 46 of the State Audit Law instructs each audited entity to follow up and report on implementation of external audit observations in the subsequent year.** The SAO has a manually maintained system to follow up on the audit observations in the subsequent years’ audit engagements. The final conclusions of each audit are formally included in an MoU signed between the SAO and the audited entity, and a summary of the major findings is consolidated in the SAO report to the National Assembly. The system is established comprehensively across all departments and agencies.

507. **However, the system still lacks effectiveness.** It does not produce comprehensive and reliable information on actual implementation of follow-up actions by the audited agencies, due to inconsistency and quality in the responses received from the audited entities and the lack of effective means by the SAO to verify the implementation of follow-up actions in response to each audit

recommendations. The SAO had received the statements in hard copy format until 2017 but has been granted access to the GFIS in March 2018.

508. **As evidenced by the recurring findings related to control weaknesses as well as the statements by the SAO reports, the overall capacity for follow-up actions is weak.** There is no clear system in place where unresolved audit observations in prior years are repeatedly reported until satisfactorily resolved. The government does not have the obligation to report on the implementation of the SAO findings to the National Assembly.

509. **Formal responses were formulated by the audited entities to the SAO observations and findings in the last three years.** Responses are not comprehensive, and capacity to effectively implement follow-up actions is weak: Score C.

### 30.4 Supreme audit institution (SAI) independence

510. **Article 53 of the Lao PDR Constitution grants to the National Assembly certain powers.** These include “to elect or remove the President of the People's Supreme Court, the Supreme Public Prosecutor, and the President of the SAO based on the recommendation of the President of the State,” and Article 106 establishes that “The President of the State Audit Organisation reports directly to the National Assembly and to the President of the State, the Prime Minister, and National Assembly Standing Committee on all auditing activities.”

511. **A comprehensive assessment of the SAO’s independence (with reference to the Mexico Declaration on SAI Independence) has not yet been undertaken in the framework of the assistance provided to the SAO.** The State Audit Law authorizes the SAO to work closely with all the National Assembly members and share the audit information to prepare for the formal submission at the ordinary session. The National Assembly’s PFAC works with the SAO on a regular basis to identify the major issues in the budget implementation and prioritize the annual audit plan. Effectively, when the SAO report is submitted to the president of the National Assembly 15 days before the opening of the second ordinary National Assembly session in November, all the issues have already been discussed.

512. **The State Audit Law requires the SAO to prepare a budget and business plan for its operations.** The SAO budget is prepared based on the work plan approved by the National Assembly and as part of the overall State Budget and is submitted to the National Assembly for approval. In 2018, the 2017 SAO work plan was approved as part of the National Assembly resolution on the approval of the SAO report for 2017. There is no specific status for the SAO auditors and salaries of employees of the SAO are considered together with the civil service. The law also empowers the Auditor General to publish any audit report in the gazette and SAO website upon agreement with the audited entity.

513. **The SAI operates independently from the executive with respect to the procedures for appointment as well as execution of the SAO budget.** The SAO has unrestricted and timely access to the majority of the requested records, documentation and information: Score C.

### PI-31. Legislative scrutiny of audit reports

514. **This indicator focuses on legislative scrutiny of the audited financial reports of the central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf.** The period is the last three completed fiscal years. The coverage is the central government.

Indicator/Dimension	Score	Brief explanation
PI-31 Legislative scrutiny of audit reports	C	Dimension scores combined by Method M2 (average)
31.1 Timing of audit report scrutiny	A	Scrutiny of audit reports on annual financial reports is completed within three months from receipt of reports.
31.2 Hearings on audit findings	D	The National Assembly's PFAC analyzes the findings of the SAO before issuing its final resolution on the annual State Budget implementation. However, the information scrutinized by the National Assembly is based on the summary of findings reports by the SAO, and there is no systematic process to summon the audited agencies to clarify or discuss the remedy actions to the SAO findings.
31.3 Recommendations on audit by the legislature	C	The legislature issues recommendations on actions to be implemented by the executive but there is no systematic follow-up or only limited follow-up on the implementation of actions by the MoF and audited agencies.
31.4 Transparency of legislative scrutiny of audit reports	D	The annual SAO reporting on the State Budget implementation is conducted in public through live TV broadcasts. Committee reports are debated in the full chamber of the National Assembly but are not published on its official website and not available for public access.

### 31.1 Timing of audit report scrutiny

515. **Scrutiny of the SAO reports was completed within three months of the formal submission of the final SAO reports to the National Assembly.** The scrutiny process includes discussion between the executive and the SAO with the National Assembly before submission of reports, which allows a consensus to be formulated based on responses. The dates on which the Annual SAO reports on the State Budget implementation from the Auditor General were received by the National Assembly and the dates of completion of National Assembly scrutiny are provided in Table 3-31.1. After the SAO works with the National Assembly's PFAC to analyze the findings, the SAO report is formally submitted 15 days before the second plenary session. The chairman of the committee then prepares a consolidated report on the committee's response to the SAO report, which is formally submitted to the president of the National Assembly jointly with the SAO report three to five days before the opening of the session.

**Table 3-31.1: Timeliness of National Assembly scrutiny of SAO reports on the central government**

Fiscal year covered by audit	Date of formal submission of SAO report to National Assembly	Completion date of scrutiny by National Assembly <sup>a</sup>	Months taken from receipt to completion
2013/14	November 2016	November 2016	Less than 1 month
2014/15	November 2016	November 2016	Less than 1 month
2015/16	November 2017	November 2017	Less than 1 month
2017	November 2018	Resolution not yet issued	

Note: a. measured as the date of the National Assembly resolution on the SAO report.

516. **As scrutiny of the SAO reports was completed within three months of the formal submission of the final SAO reports to the National Assembly,** the score is A.

### 31.2 Hearings on audit findings

517. **The State Budget draft financial report are available to the National Assembly before they are audited.** The National Assembly analyzes and discusses with the audited agencies of the SAO findings before the formal hearing on the government State Budget Implementation Report in plenary session. The PFAC routinely monitors budget proposals, discusses, and provides recommendations to the MoF (see PI-18). Meetings also take place with the SAO, as the SAO works with the National Assembly before submitting its final consolidated report.

518. **After the SAO report has been submitted, the president of the SAO makes a formal presentation of the main conclusions and recommendations.** This is broadcast and extensively disseminated. However, there are no in-depth hearings of the SAO findings by the National Assembly as such, and when the SAO report is presented, the National Assembly does not summon the representative of the audited agencies whose findings have been highlighted in the SAO report. However, the National Assembly resolution on the SAO report does request the GIAA to investigate further and conduct a more in-depth comprehensive review based on the SAO observations. The scope of this work includes the extrabudgetary funds. The assessment team had no access to the GIA work plan in the period.

519. **The National Assembly's PFAC analyzes the findings of the SAO with the MoF and the audited entities before issuing its final resolution on the annual State Budget implementation.** However, the information scrutinized by the National Assembly is based on the summary of findings reports by the SAO, and there is no systematic process to summon the audited agencies to clarify or discuss the remedy actions to the SAO findings: Score D.

### 31.3 Recommendations on audit by the legislature

520. **The review and hearings conducted by the National Assembly culminate in a summary report that contains all unresolved issues with corresponding recommendations.** This summary report is discussed with the other sector committees. A consolidated report is prepared and submitted to the president of the National Assembly and translated into a National Assembly resolution issued after the plenary session. The last National Assembly resolution available after the National Assembly session in November 2017 endorses both the SAO audit report on State Budget implementation and the SAO annual implementation report, together with the SAO and GIA work plan for the next year. It includes follow-up recommendations for the MoF to be implemented and a general statement for the government to strengthen effectiveness of its systems for a better State Budget implementation.

521. **The PFAC is tasked with monitoring follow-up of the resolution of the findings and implementation of the recommendations by the MoF.** However, the MoF follow-up is not always consistent. The discrepancies identified in the audit report are not systematically addressed by the MoF or corrected in the final State Budget Implementation Reports issued by the MoF after the SAO and National Assembly review nor does the PFAC have a systematic system in place to track and verify the implementation (or non-implementation) of the recommendations by the MoF. There can be significant delays in following up the implementation of the recommendations. The limitations in the follow-up by the SAO on its own recommendations and limited information available on the subsequent SAO report on the actual implementation by the MoF also has an impact on the follow-up information available to the National Assembly. Both the National Assembly and the Secretariat of the PFAC have insufficient resources and capacity to perform their duties.

522. **The legislature issues recommendations on actions to be implemented by the executive, but there is no systematic follow-up or only limited follow-up on the effective implementation of actions by the MoF and audited agencies:** Score C.

### 31.4 Transparency of legislative scrutiny of audit reports

523. **The only public hearing is the presentation of the SAO report and subsequent discussion during the National Assembly plenary session.** The debate is broadcast live on TV and largely followed by the public on social media and in the newspapers. Other National Assembly debates and discussions are not open to the public and the public does not contribute to the discussions. Committee reports are debated in the full chamber of the National Assembly. Neither minutes nor reports maintained by the National Assembly Secretariat are published on National Assembly official website. They are not available to the public upon request.

524. **The annual SAO reporting on the State Budget implementation is conducted in public through live TV broadcasts.** Committee reports are debated in the full chamber of the National Assembly. However, none of the reports are published on its official website and are not available for public access: Score D.

## 4. Conclusions of the analysis of PFM systems

### 4.1 Integrated assessment of PFM performance

525. **The findings of the 2018 PEFA assessment report are summarized below for each of the seven pillars of PFM performance that structure the PEFA framework.** Attention is given to the strengths and weaknesses that affect the achievement of the expected budgetary outcomes.

#### Budget reliability

526. **Budget reliability performance is fragile.** The extent to which the government's budget is realistic and implemented as intended, and therefore useful for policy implementation, is formally measured by comparing actual revenues and expenditures with the original budget. The performance assessment reflects the ability of the government to forecast revenue outturns and match expenditures to revenue, maintaining aggregate fiscal discipline driven by the critical need to limit public sector debt. The scores for predictability of in-year resource allocation (D+) and arrears (D) indicate weaknesses in crucial management areas. Moreover, the credibility of the budget is undermined by the limited information on the budget allocation and execution for defense and police and 'other institutions' and on the execution at the provincial level, for which deviations from original budget composition cannot be estimated.

527. **However, budget execution is still relying on overly optimistic revenue forecasts.** Unreliable forecasting assumptions are leading to systematic overestimation of the tax revenue (Score C). It leads to frequent budget adjustment to the spending level to the actual revenue collection and imposes related spending policy decisions throughout the execution, aligning to actual fiscal outturn (Score C).

#### Transparency of public finances

528. **Transparency is a critical feature of the government's willingness to facilitate scrutiny of government policies and programs by citizens.** Performance on comprehensiveness of budget classification is average (Score C) but information on spending by function is absent. Disclosure of budgetary information to the public is limited (Score D) as is fiscal information (Score D). Despite visible efforts by the MoF to produce and publish fiscal reports, key information is still not accessible to the public in a comprehensive and timely manner and budget documentation is far from comprehensive.

529. **Financial reporting captures all central government revenue and expenditure in the budgetary system.** However, extrabudgetary funds are managed separately (Score D). From the available evidence, intergovernmental transfers from the central government and provinces to the districts are not allocated through any sharing formulae and there is no subnational government structure in place (Score NA). Information does not adequately capture performance at the planning or implementation stages (Score D).

#### Management of assets and liabilities

530. **Arrangements for the effective management of assets and liabilities are generally weak.** Weak management systems and controls over fiscal reporting (Score D) and over public investment (Score D) have generated significant fiscal risks and unbalance to the central government budget. Apart from infrastructure works in progress, the government owns a vast range of financial assets and physical (nonfinancial) assets, but the overall management is weak (Score D+). Debt records are accurate and monitored by the IMF and the World Bank based on the DMFAS records, but all decisions



and reports or records on issue of domestic debt or granting of guarantees are kept internal (Score D+).

### Policy-based fiscal strategy and budgeting

531. **There is limited institutional capacity to perform sound macroeconomic and fiscal forecasts and adopt instruments and fiscal rules that would support a sustainable fiscal strategy.** Macroeconomic and fiscal forecasting capacity remains weak (Score D+), and there is no effective fiscal strategy (Score D+). The medium-term fiscal planning instrument and the work initiated in the MTEF with donors' assistance are yet to produce ceilings for the line ministries, but there is no clear obligation or indicative ceiling for the line ministries or provinces (Score D+). The missing link between the capital budget and the projections from the PIP and the current expenditure plans is also an issue as the recurrent operational and maintenance costs are not systematically factored into the financial envelope. Budget plans tend to be consistent on a year-to-year basis and aligned to the same strategic plans. There is little policy change from year to year, apart from restriction on capital investment and political decisions on the mega infrastructure projects (Score D).

532. **The annual MoF instruction and annual cycle of budget submission to the National Assembly provides a clear time frame for the budget calendar and it is adhered to.** Line ministries and provinces have limited time to prepare their detailed budget proposal (Score C). The formal submission of the budget documentation (Score A) ensures that the budget is approved before the beginning of the fiscal year (Score A). The role of the PFAC is critical in the adoption of the budget by National Assembly to provide advice during the budget review process, but the coverage does not extend to detailed expenditure and revenue reviews (Score D).

### Predictability and control in budget execution

533. **Predictable and controlled budget execution ensures that revenue due and payable is collected, and resources are allocated and used as intended by the government and approved by the National Assembly.** Revenue has benefited from the Taxpayer Identification Number system that has been established. Though tax information is improving, there is still too much discretionary powers in the administration that causes weaknesses (Score D) and the risk-based approach to applying administrative resources is still nascent (Score D). Tax audit procedures are developing (Score C) as a targeted compliance risk management plan has recently been built around a Large Taxpayer Unit. The monitoring and the ageing of arrears is complex due to the definition of collectability of tax obligations and penalties open to negotiations between companies and the tax administration. Formal alignment to international standards in the customs administration has started with the implementation of ASYCUDA World.

534. **Accounting and reporting for revenue are still hampered due to the absence of an integrated treasury cash and expenditure management function.** The TSA system centralizes most of the resources collected by the central government and supports daily and weekly consolidation of cash positions, including all revenue collections (Score B) but does not cover all government operations. The National Treasury manages all payments against the ceilings defined from the approved State Budget (Score D+). Control over expenditure arrears is at the time of the closure of the accounts, when unpaid obligations have to be authorized (Score D), and requires much improved commitment control (Score D) to be effective. The general weakness in reporting on budget execution due to the limited GFIS coverage and inconsistent classification framework makes it difficult to establish the extent of the in-year budget reallocation, but in general mid-year budget revisions have been required to adjust to overestimated revenue forecasts (Score C) and are transparently administered.

535. **Payroll and procurement functions, and related internal controls, are fully decentralized to the line ministries and provinces and suffer from missing integration and consolidation of information systems.** Payroll management (overall Score D+) has limited coverage—it is not rolled out at the provincial level yet—and integration of MoHA’s PIMS with the MoF GFIS. Salaries and wages to employees are disbursed through GFIS, with the personnel records held by each line ministry and controlled through the MoHA database. Data reliability is a main issue as reconciliation between the systems is undertaken manually and depends on each line ministry (Score C). Payroll audits are the mandate of the SAO, but a systematic and or comprehensive payroll audit has yet to take place (Score D).

536. **Procurement systems have limited central monitoring and reporting.** All procurement operations are managed directly by implementing departments of each line ministry and provinces. The Procurement Division within the MoF Budget Department is responsible for the integration of data and the consolidation of reliable and useful information on procurement processes but has no effective access to data (Score D). There is no reliable way to estimate the enforcement of procurement legal provisions and use of competitive procurement methods (Score D). The new Public Procurement Law enacted in October 2017 is broadly aligned to international standards and practices but requires detailed implementation regulations to become effective and fully compliant. The lack of available data on procurement operations at all levels, including provinces (Score D), and absence of an independent administrative complaint mechanism or appeals process for the resolution of complaints affects the performance of the indicator (Score D).

537. **The internal control framework is defined with segregation of duties and authorization levels assigned to the top management level.** Compliance with existing rules and procedures is effective (Score B). The internal audit function, through the Inspectorate Departments is effectively in place in all spending agencies under the authority of the respective minister, with a mandate covering 100 percent of government expenditures and revenues, but resources and capacity are not sufficient and systems in place are weak (Score D). The absence of standards and training reduces the effectiveness of the internal audit function, mostly devoted to compliance-related checks. Internal audit plans and reports are implemented, but findings are not followed up in a consistent and effective manner.

### Accounting and reporting

538. **Overall access and adjustments to the records related to the budget, budget execution, accounting, and payment information under the central government are restricted.** Access to GFIS database is fully controlled and traceable (Score C). Bank reconciliation mechanisms are in place for all the accounts managed by the National Treasury and commercial banks with public accounts, but a number of ODA funds are still managed and reconciled separately (Score D). Reconciliation of suspense accounts (Score B) and advance accounts (Score B) is performed monthly and cleared at the end of the fiscal year. Quarterly reports are prepared with information comparable to the budget plans usually one month after the end of the period but are not detailed sufficiently for meaningful analysis (Score D). Financial data integrity and accounts reconciliation are manual and are not reconciled timely (Score D). However, because of the limited number of transactions and number of accounts they can be considered reliable. Financial accounts are timely but are limited in coverage (Score C). Accounting standards are not yet consistent with the international IPSAS cash, and no disclosure of alignment and variations is available (Score D).

### External scrutiny and audit

539. **The effectiveness of scrutiny by the SAO and National Assembly is hampered by limited resources and alignment to international standards for the SAO and comprehensive, transparent**

**and effective follow-up on external audit reports by the National Assembly.** The SAO has constitutional independence and enjoys operational independence which is limited by its budget being subjected to the government budget process as if a line agency (Score C). Its mandate is to audit the budget execution and conduct financial audits of a sample of central government entities as well as provinces, but due to its resources its audit coverage is limited (Score D) as is its adherence to international INTOSAI standards. Its annual audit report to the National Assembly on the budget execution is presented in a plenary session of the National Assembly during which consolidated findings and recommendations uncover a wide range of findings and highlight issues with off-budget expenditures, unreported revenues and procurement (Score A), and benefits from broad media coverage but its reports are not published (Score D). The National Assembly procedures in relation to the ex post review of the budget execution by the government are formally established and every year a National Assembly resolution is issued on the SAO report for follow-up by the government. However, the response rate by the government to audit recommendations—which takes place with each audited institution (Score D) —is not formally monitored or reported.

## 4.2 Effectiveness of the internal control framework

540. **Despite the existence of a solid and hierarchical line of authority and commitment to control in the public institutions, the internal control framework is weak.** This weakness is due to the high degree of decentralization of core PFM systems (procurement, payroll, public investment and assets management, revenue collection, and so on) at central and provincial levels and the absence of comprehensive and integrated information management systems. Furthermore, the alignment with the five components of internal control from the COSO framework (control environment, risks assessment, control activities, communication and information, and monitoring) is considerably reduced by the absence of a structured and systematic approach to risk management.

541. **The commitment from the top management at the Prime Minister level and at the MoF, as the national custodian of public funds, and from the oversight institutions, the SAO and the National Assembly to build a strong internal control system in the use of public funds is strong.** The issuance of laws and regulations covering all aspects of public management has helped frame the PFM systems and ensure effective monitoring and reporting on the use of public resources. The integration of financial systems under a new FMIS for an integrated budget and treasury management was recently approved. Detailed findings concerning the main elements of the five internal control components are summarized in Annex 2, which also highlights any gaps in the coverage of the control components by the assessed internal control system.

542. **The control environment component is not embedded in a specific set of laws or regulations or defined by a clear organizational structure.** Low scores relating to audit standards for the internal audit and external audit imply that the potential for the internal audit departments requires further capacity-building and certification efforts to support effectively internal control over budget execution. The internal control function is only partially defined and carried out by the Inspection Departments across all government agencies. As a result, enforcement of clear and consistent rules and compliance in the public administration is missing or tends to follow the vertical approach to authority and hierarchy from the political party. Most of the responsibility to ‘set the tone at the top’ and display the professional integrity and ethical values lies in the hands of senior management and depends upon their authority and leadership within the party. Overall, there is no harmonized or consistent approach on competence and culture of public service delivery and there is little collaboration between institutions on the matter. As a result, each institution depends largely on its management’s understanding and attitude toward internal control, commitment to competence, and accountability. The concept of human resource management policies is at an early stage of development and lacks the institutional and legal framework to operate and achieve the

transformative change required. The decision and mechanisms to penalize misbehavior depend highly on a decision 'at the top'.

543. **PFM systems are at an early stage of developing their national standards and aligning to international practices.** The concept of risk assessment has not yet been integrated into its regulations and procedures. The risk assessment component refers to risk-based approaches and the use of risk management methods to improve the effectiveness of internal control, for example, the definition and implementation of controls in budget spending through Treasury payment systems and public procurement or audits in tax, internal and external audit. In all central government institutions, departments are in principle responsible for assessing the strengths of the internal control systems and procedures. In theory, Inspection Departments in each ministry and institution define an annual audit plan using a risk-based approach, but in reality, they perform mostly operational compliance checks focusing on the compliance of transactions and activities with applicable laws, regulations, and procedures. The Inspection Department's reports are confidential and could not be reviewed but from the discussion with the MoF Inspection Department, they do not cover internal controls and performance audit. In addition, the score on the dimension relating to the screening of public investment proposals reveals that risks involved in the implementation of capital investment projects are not systematically evaluated before they are selected. Furthermore, the tax administration is establishing a Large Taxpayers Unit but has not fully implemented a structured and systematic risk assessment process for assessing, ranking, and quantifying taxpayers' compliance risks. The application of risk criteria is conditioned by the access to reliable and comprehensive data from internal and external sources through a proper tax information management system, which has yet to be developed.

544. **Control activities exist and have improved through the consolidation of cash management and payments systems under the National Treasury.** Overall, they lack effective assignment of clear roles and responsibilities to employees with reference to formal rules and regulations to ensure that segregation of duties is enforced throughout the whole expenditure process. Control activities are assessed through specific indicators measuring the effectiveness of internal controls over payroll, procurement, and non-salary expenditures. Inside public entities, the function can be characterized as vertically centralized along the line of authority and seniority and political influence. In a context of absence or limited access to integrated, reliable, and timely information, director generals and deputy director generals act as custodians of the integrity of the systems, procedures, and transactions within their respective entities. The National Treasury ultimately plays a critical role as in the decisions over payments issued when there is clear assurance of the legality of commitments and payments, and exceptions are properly authorized in advance and justified.

545. **Reporting on operations below the central level is problematic.** Information on resources received by service delivery units illustrates that there is no consistent and regular upward flow of complete information on the aggregate and utilization of resources to accountable ministries, even if the MoE has comprehensive data at the level of public schools. The monitoring of SOEs is not comprehensive and timely and reporting on contingent liabilities is not always comprehensive and published. Information on implementation of major investment projects is not systematically published. Public asset management is assessed as inadequate as a complete and current register of nonfinancial assets is not available. Expenditure arrears monitoring is less of an issue now than it has been in the past but strong control and monitoring procedures are still pending the rollout of an FMIS.

546. **The level of internal control monitoring is adequate to the extent that transactions are authorized and executed by the relevant individuals within the scope of their authority but is not when coverage of the SAO external audit is limited.** Inspection Departments' single focus on compliance reduces their possible impact on the enforcement of control mechanisms, and the

absence of clear sanctions and penalties in case of deviation acts as a deterrent for strong internal control procedures to ensure public resources are managed in an effective and efficient manner.

### 4.3 PFM Strengths and Weaknesses

547. **Sound PFM performance is a prerequisite for achieving the government's objectives.** The impact of the PFM performance as described earlier on the overall achievement of the three main fiscal and budgetary outcomes is as follows:

- **Aggregate fiscal discipline.** This is normally supported by the capability to prepare robust projections of macroeconomic and fiscal performance, proper budget reporting of revenue and expenditure operations within and outside the budget, and sufficient control over fiscal risks and commitments to maintain expenditures during budget execution and deliver the budget aggregates as planned.
- **The government currently has a limited solid macro-fiscal framework, and the definition of strict fiscal rules is limited in the absence of a consistent and sustainable fiscal strategy.** The simple modeling instruments in place based on realistic revenue forecasting and aligned with international practices are undermined by political decisions inherited from the centrally planned systems (based on GDP targets). The platform established by the FPD as a MTFP provides a medium-term approach with forward estimates and fiscal outcomes. The fiscal rules on the total annual budget deficit, set at a maximum of 5 percent of GDP and the outstanding (foreign and domestic) debt at not more than 60 percent of GDP, are not strictly obeyed.
- **Cash management and payments of the main expenditures are controlled through the National Treasury and set against the constraints of the quarterly and monthly plans from the approved State Budget.** Payroll is centralized and has been strictly controlled since the last overruns in 2015. Expenditure arrears are not authorized and fiscal risks to the central government budget are identified. However, control over the provincial and municipal budgets is limited to cash rationing, even if it has not formally been the case in the recent years. Operations outside the government's financial reporting at the subnational level and SOEs still comprise significant amounts that are neither consolidated nor disclosed and therefore fiscal risks related to SOEs operations cannot be consistently monitored. The revenues and expenditures of the extrabudgetary funds have their own financial reporting and benefit from spending flexibility. The main problem concerning the budget carryovers at the end of each fiscal year has been addressed and payments allowed after the end of the closing date are based on liabilities recorded and authorized at the end of the fiscal year. Therefore, if it delays the closing of accounts, it does not undermine the meaning of annual budgets. ODA funding is in the process of being progressively consolidated into Treasury systems but is still managed and reported separately.
- **The revenue administration has not yet defined plans to improve tax compliance and collect tax arrears.** The absence—at present—of a well-formulated risk-based administration of revenue is a constraint, as there is no structured and systematic process for assessing, ranking, and quantifying taxpayers' compliance risks. The application of risk criteria and monitoring of the ageing and collectability of arrears is conditioned by the access to reliable and comprehensive data from internal and external sources through a proper tax information management system, which has yet to be developed and depends upon the enforcement capacity from the tax administration. At present, the tax legislation offers interpretation loopholes and many options for tax exemptions, and a significant amount of tax debts are being negotiated between tax collectors and taxpayers.

- **Delays in reconciliations and accounting systems are inadequate to monitor and facilitate budget delivery.** At the same time, fiscal discipline is undermined by limited public transparency in the administrative classification in budget and accounts and public and timely disclosure of budget information which would inform and facilitate public demand for accountability. It is also reflected in the limited economic appraisal of investment projects proposed in the budget and the social and economic costs and benefits are therefore not exposed to any scrutiny outside the legislature.
- **Contingent liabilities are identified and analyzed but cannot be disclosed.** The comprehensive overview of the exposure to significant risks from explicit contingent liabilities within the infrastructure sector has been consolidated at the high level of government and led to a concrete debt restructuring effort over the last two years but has not been made public. In addition, data on the quantification of, and provision for, implicit contingent liabilities, some of which may be considerable, are unavailable, for example, the potential need to bail out large SOEs with non-guaranteed debts. Additionally, the unavailability information pertaining to explicit contingencies relating to health and social security schemes, with no data available on these, is also a concern.
- **The oversight from the external audit (SAO) and the formal scrutiny by the national assembly is improving the accountability over government operations.** There is limited capacity to assess the result of fiscal management and debate government's fiscal policy choices which undermines the impact of the legislative exercise.
- **Strategic allocation of resources.** This should be led by the existence of budget rules and circulars that assign predictable budget ceilings for the annual budget formulation; the bottom-up and top-down budget formulation process and adoption of a five-year national strategic plan defining priorities; the submission of timely, complete, and relevant information in the draft budget submission for consideration by the National Assembly; and the regular and timely approval of the annual budget law before the effective date of the corresponding fiscal year.
- **As a strength, the solid and politically driven planning process producing the five-year Socioeconomic Development Plan, and its annual version, and the orderly and timely annual budget preparation process ensure that all the budget entities know their priorities and budget allocation before the start of the fiscal year.** The arrangements for revenue sharing with provinces are based on fixed expenditure and revenue ceilings, including the equalization transfers to poorer provinces and the distribution of provincial allocation by functions. The budget circular is a result of a due consultation between National Assembly, MPI, and MoF on investment priorities and portfolio and on the expenditure allocation. Although there are no budget ceilings as such, the budget instructions provide the budgetary units with the necessary information to set their priorities through their own budgeting processes.
- **On the other hand, the limited reliability of resource flows—and the budget adjustments driven by lower-than-expected revenue outturns—affects the capacity to deliver the plans.** Systematic in-year budget revisions ultimately affect the quality of spending. The general issue stems from the significant overestimation of revenue forecasts. Furthermore, the existing MTFF and MTEF—established with donor support—are not consistent with resource availability, and the link between capital and recurrent expenditure managed through distinct processes is weak. As a result, they are not used as a basis to focus on priorities in the allocation of funds among institutions and sectors, and strategic sector planning remains weak. The limited budget classification does not provide sufficient information on budget execution to enable effective monitoring of budget allocations by function and informed policy decisions. Externally funded projects are monitored separately, and there are no systems to track allocations received by service delivery units. Parliamentary scrutiny over

budget formulation and execution is based on aggregate comprehensive information, with no detailed revenue and expenditure estimates. The absence of performance information in the budget execution reports, weak investment project costing, and missing clarity in the monitoring performed on the external control recommendations weaken the overall budgeting process. Improvements are required to facilitate accountability on the outputs of financial execution through the delivery of public services. Evaluation reports on line ministries' performance—as produced for Education and Health—are motivated by external financing requirements and are not driven by the desire of the government to understand how government performs.

- **Competitive tendering procedures for procurement can be improved to strengthen the way resources are allocated.** The recently approved new Public Procurement Law will have new instructions concerning the principles and operation of capital construction budgeting, including regulations on appropriations, fund allocation, payment, and final accounting for capital construction projects to bring it in line with good international practices.
- **Efficient service delivery.** This is normally supported by strong public investment management and procurement systems that can ensure value for money in the provision of public services. The existence of a performance measurement framework and public availability of reports on budget scrutiny and audit acts as a tool for cost control and accountability.
- **Weaknesses in public investment projects starts in the upstream phase, where the planning capacity is limited, and pre-feasibility and selection criteria are not systematically applied.** This weakness continues into the downstream phase, where the consolidated monitoring of decentralized implementation is missing and processes for the costing, quality assurance, and reporting on value for money and fiduciary integrity are not harmonized. Detailed technical and costing guidelines are available at the central government level (prepared with support of JICA) but the management of public investments is decentralized to the line ministries and provinces, with no standardized quality assurance for socioeconomic and environmental evaluations and pre-feasibility studies.
- **Procurement systems suffer from the absence of centralized monitoring and reporting.** The use of competitive procurement methods could not be fully estimated. Data on single-source procurement operations, the resolution of complaints, and procurement statistics are not compiled, neither at the ministry nor the provincial level.
- **Weak monitoring of provincial government spending undermines the quality of local spending and hampers efficient service delivery.** The intergovernmental fiscal transfer system is not fully transparent, and budget execution reports have limited reliability as consolidation of the district level is entered manually into the GFIS.
- **Weaknesses in wage bill management and capacity constraints limit the effectiveness of the public sector.** Lao PDR has a large public sector; however, the level of access, quality, and efficiency of government services suggest that human resource management has room for improvement. Both wage bill spending and the number of staff employed in the public sector are high compared to neighboring countries.
- **Ex post budget scrutiny reveals a mixed oversight performance between the external audit function and the National Assembly.** The low capacity and absence of effective internal control and internal audit function in line ministries and SNGs has resulted in fragmented, suboptimal use of resources. The role of the SAO in the oversight over government spending is essential and all central agencies and line ministries' budget execution are audited but there is no audit opinion and SAO reports are not published. The response by the government to audit recommendations is not monitored on an annual basis and there is no comprehensive,

transparent, and effective follow-up on external audit and budget reports by the National Assembly. Scrutiny and reviews of public investment expenditures should contribute to better service delivery, but insufficient qualifications and skills available hamper the actual capacity of the government institutions and promote nepotism and collusion.

- **Transparency in public finances needs to be seriously improved as well as timely access to data and performance information.** As Lao PDR is committed to improve PFM systems and adopt good governance principles, it has to improve accountability, transparency and efficiency in all aspects of the public sector performance. Inadequate information management systems based on cash transactions, manual reconciliations, and cumbersome procedures have to be upgraded to allow for effective management of public expenditures.



## 5. The government's PFM reform process

### 5.1 Approach to PFM reforms

548. **Over the past 15 years, PFM in Lao PDR has improved both in coverage and effectiveness.** Important lessons have been learned and achieving a credible PFM system is now central to the government and Central Party governance agenda. The Central Party Politburo and the government have considered PFM reform as a crucial instrument for the implementation of macroeconomic management policy and the policy orientations at the VII to IX Congresses of the Central Party Committee and in the V to VII five-year NSEDP

549. **Following the Asian Financial Crisis in the 1990s, the GoL launched in 2000/01 its five-year plan and a Poverty Reduction Strategy Paper.** These were the start of the 'first-generation reforms' and lasted for about 12 years up to 2013. The early PFM reforms sought to tackle structural problems in budget formulation and execution with the goal of increasing efficiency of public spending and reducing fiscal imbalances. These structural reforms were aimed at supporting the implementation of the government's national development strategies as Lao PDR moved toward a market-oriented economy and increasing the efficiency of the public sector through policies and actions toward transparent and efficient PFM.

550. **The Public Financial Management Strengthening Program (PFMSP) adopted in 2005 was one of the important components of the long-term framework for public finance reform.** Under its umbrella, the government intended to implement its main policies and strategies, the 2004 National Growth and Poverty Eradication Strategy (NGPES), and the 6th NSEDP (2006–2010). The PFMSP was meant to improve consistency, efficiency, transparency, and accountability in public expenditure policy and management, as well as revenue collection. Its objectives were to strengthen the PFM legal and institutional framework and support the implementation of the 2007 revised Budget Law, strengthen the GFIS, build capacity through training and pilots at the provincial and sector levels, and operationalize the hydropower NT2 Revenue Management Arrangements.

551. **The achievements of this first-generation reform can be summarized as follows:**

- **Budget revenue management improved,** and revenue collection targets approved by the National Assembly in the period 2006–2010, on average, were exceeded (102.3 percent of the planned targets). The MoF put in place revenue policies to promote private investment and business operations with the aim to expand revenue sources and increase tax collection. At the same time, tax management and related procedures were simplified to be faster and more transparent. Aligning to customs international practices such as ASYCUDA, X-ray screening at international border checkpoints, and faster tax payments through banking systems (Smart Tax, Easy Tax, and others) provided incentives for taxpayers to fully comply with their obligations and act in accordance with laws and regulations.
- **Budget preparation.** Reform activities initially concentrated on the adoption and adherence to a budget calendar, implementation of regulations and procedures to facilitate a proper budget planning process and led to the approval of a new Budget Law in 2006 and its implementing legislation in 2008, and the adoption of new budget nomenclatures and a CoA, although not fully adopted by all ministries. Similarly, adherence to the new budget calendar remained weak, and ceilings were not introduced. The Budget Law was revised again in 2015 but has not yet been fully implemented.
- **Budget execution.** The first-generation reforms brought significant progress for the country's treasury function by centralizing the National Treasury and introducing the TSA. Zero-Balance Account arrangements were implemented in the BoL and some commercial banks. Payment

processes improved, specifically in the payments of the central government's payroll, which was moved from cash transactions to direct deposits on bank accounts. The most important achievement was arguably the rollout of a locally developed GFIS in 2006, and its expansion to provinces in 2008. The implementation of the GFIS connected the whole country and financial statements were generated for the first time, while reporting, timeliness, and disclosure of the State Budget was improved. However, the upgrade of the National Treasury's business processes and the envisaged enhancements to the system's functionality—initially agreed to be replaced by a commercial off-the-shelf (COTS) system—was never implemented, and at present the government is planning a new FMIS development. The external DMFAS was introduced to manage and analyze public debt.

- **Public accounting and auditing.** Improvements to public accounting and audit functions also progressed. Implementing legislation for the Accounting Law and a new Audit Law was approved by the National Assembly, granting autonomy to the SAO. So far there has been no progress on setting up internal control functions within the ministries, resulting in a continued weak control environment. The SAO had initially made progress in establishing its mandated role, gradually being recognized by the public, and had made some early contributions to the government objective of transparency and public accountability in the management of public resources (it published a summary of audit findings for the FY2008/09 in the public media). However, the SAO continues to suffer from low capacity (both financially and on human resources), and in recent years, no audits have been disclosed. Plans to strengthen the auditing profession have been slow, resulting in a continued shortage of qualified accountants in the country.
- **Initial PFM legal framework.** This was developed to translate party and government guidance and policies into laws and regulations making public finance entities more transparent, addressing irregularities, and moving toward modern PFM practices. New fiscal legislation aimed at addressing revenue leakages and misuse of expenditures, introducing at the same time, an MTEF and an MTEF. Existing legislation was revised and translated into a basic package of core PFM laws: the Tax Law, VAT Law, Customs Law, SBL, State Assets Law, Accounting Law, Independent Audit Law, and the Insurance Law; and secondary legislation was approved, including the Prime Minister's Decree on Economization and Anti-Extravagant Spending; the Decree on State Reserves; the Unification of the Chart of Accounts and the Budget Nomenclature; Instructions on Administrative Costing Norms; Decree on the National Treasury; and the Presidential Ordinance on Excise Tax on Vehicles.

552. **The MoF became the government's PFM reform champion.** This was driven mostly through the Directorate General for Fiscal Policy at the technical level, with the mandate to coordinate, monitor, and oversee the public finance reform agenda. It has the responsibility to consolidate and prioritize the detailed MoF action plans and draft new legislation to be presented by the government to the National Assembly. The current restructuring of the MoF functions is endorsed at the level of the Minister of Finance. Other technical departments including the Budget and Tax Departments, Financial Information Technology Center (FITC) and the National Treasury within the MoF, and the SAO have also been actively involved.

553. **An organizational restructuring was initiated at the MoF to align with new political mandates, and guidance and roles and responsibilities of its departments and personnel were adjusted accordingly.** Two new departments were created (the State Reserves Department and the International Cooperation Department); the Customs Department, TD, and the National Treasury were centralized; and the organization of central and local level departments was improved. The Sam Sang pilot was initiated to delegate responsibilities of ministry-level departments to local-level finance departments and offices. Accounting, financial inspection, and auditing functions have been further regulated to support financial management. The Law on Independent (External) Audit was enacted to

regulate auditing. The Manual on Public Sector Accounting was also developed, and inspections of accounting systems used by private sector entities were introduced. Regular inspection of government entities that address irregularities in fiscal discipline has led to the recovery of a number of state assets. The sensitive and critical issue of debt repayments based on IOUs and promissory notes issued to construction contractors at the provinces level was investigated and strict measures were imposed on those violating laws and fiscal discipline.

554. **The donor community played an instrumental role in supporting the government’s public finance reform efforts.** This first PFM reform design phase received US\$21.3 million support from several donors through bilateral support and bundled support in MDTF: World Bank, ADB, EU, and various bilateral donors. The World Bank provided direct support and implemented several multi-donor initiatives through the Financial Management Capacity Building Project (FMCBP), and from 2009–2013 through the PFMSP financed through an MDTF. A series of Poverty Reduction Support Operations (PRSO) took place from 2005 onward and provided a total of US\$118 million to the GoL. Among other sectors, it supported PFM reforms with the objective “to ensure efficient management of public sector resources and increasing the poverty reduction impact of public spending.” Technical assistance was also provided through the preparation of the NT2 Hydropower Project (see Box 5.1).

555. **While progress was made on some key PFM reforms, various aspects have remained work in progress.** Changes in the MoF’s senior management and implementing arrangement affected the pace of the PFM reform agenda, which slowed down significantly after 2013 as the leadership’s engagement and coordination with the donors’ community dwindled.

556. **A turning point came in 2016 with the appointment of a new government with a reinvigorated commitment for PFM reforms, initiating the preparation of the ‘second-generation reforms.** The 10th Party Congress of the LPRP took place in January 2016 with notable changes in the Politburo, followed by the appointment of a new government under a reform-oriented Prime Minister. The new Minister of Finance, the Deputy Prime Minister, and his management team engaged in a new dialogue with the donor community.

### Box 5.1. The Nam Theun 2 Hydropower Project

The NT2 Hydropower Project commenced in 2005 played a significant role in the design of the PFM reforms as it included a Revenue Management Program (RMP) component that specified arrangements for budget preparation, execution, and reporting of the NT2 revenues received by the government arising from the NT2 Hydropower operation.

Net revenues from the NT2 come from royalties, dividends, profit taxes, and dividend taxes. Eligible programs and projects are identified by the GoL in the national budget, complying with the RMP criteria (poverty alleviation or environmental management) for budget allocation. The RMP seeks to ensure and monitor compliance of this requirement by tracking revenue sources and the allocation and disbursement to eligible projects and programs, including audits.

Eligible projects are public investment projects selected by the MPI and implemented by sector-specific ministries, such as Education, Health, and Energy and Mining. Examples include reforestation, school and dormitory construction, supply of medical equipment to health centers, and rural access road construction. Eligible programs include poverty programs such as School Block Grants, Free Maternal and Child Health Scheme, Poverty Reduction Fund, and Health Equity Fund, which are under the oversight of the MoF, MoH, and MoES.

Figure 5.1 shows the breakdown of disbursement of NT2 net revenues by sector, which is determined as part of the GoL's annual budget process.

**Figure 5.1: Disbursement of NT2 revenues to sectors (2009/10–2014/15)**



Source: SAO Audits FY 2009/10–2014/15

As of the end of December 2016, the government has received over US\$153 million in net revenues from the project since the start of commercial operations in 2010. Net revenues of around US\$28 million are estimated in 2017. On average, NT2 revenues have accounted for about 1 percent of the national budget during this period.

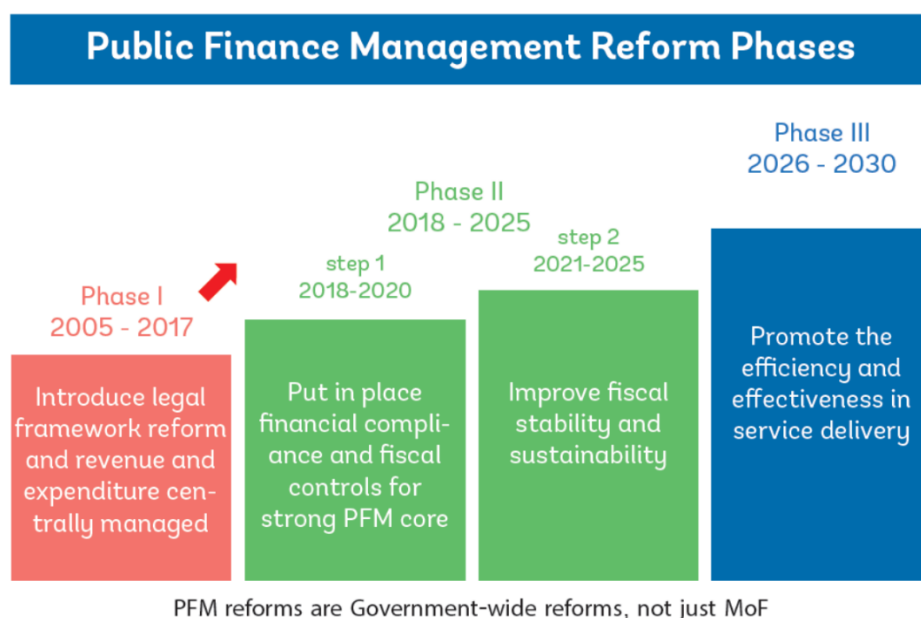
At the time, it was envisaged that as part of the broader PFM reforms, the RMP framework would be rolled out to the broader budget process. However, results were mixed and led to misconceptions on what constituted success and demonstrable reform and ended up straining relations between the government and the institutions financing the project.

## 5.2 Recent and Ongoing Reform Actions

557. The approval of the PFDS 2025 and Vision 2030 by the Prime Minister in July 2017 made PFM reforms the government's priority and initiated the second-generation PFM reforms (2018–2025). The main objective of the PFDS 2025 is to strengthen public finances to contribute to sustaining dynamic and stable economic growth and a graduation from LDC status by 2020. The strategy provides the framework for the medium- and long-term reform envisaged by the government. Emphasis is on regional and international integration of Lao PDR, while at the same time focusing on protecting the environment, creating prosperity, and enhancing the livelihoods of all ethnic groups. The PFM agenda has benefited greatly from the new enabling environment created by government's emphasis on

openness and regional integration, allowing for Lao PDR finance officials to engage more fully in regional PFM events and networks, including the Public Expenditure Management Network in Asia. The envisaged ‘second generation’ reforms and related strategy have high-level political support, including from the Prime Minister, Minister of Finance/Deputy Prime Minister, and the Vice Ministers, and is assisted by various champions at the technical level. The wider donor community renewed its commitment to support those reforms through funding and technical assistance. The vision has been developed in three phases and the current Phase II is divided into two steps, as shown in Figure 5.2.

Figure 5.2. PFM Reform Phases



558. The PFDS aims at shifting the government’s PFM reform trajectory to a higher level and address major PFM challenges for the successful implementation of the NSEDP. Embedded in the country’s broader development path defined by the Party guidelines, the NSEDP, Sam Sang, and the global and regional integration, the PFDS is articulated around the following:

- **Macro targets to 2020**
  - Annual GDP growth at least 7.2 percent (per year)
  - GDP/capita doubled since 2016 rates
  - Inflation rate below economic growth rate
  - U.S. dollar exchange rate fluctuation within  $\pm 5$  percent per year
  - Public revenue between 17 and 18 percent of GDP
  - Public debt below 65 percent of GDP
- **Targets to 2025**
  - SBL strictly applied
  - Approved State Budget Plan implemented
  - Civil servants have adequate technical capacity
  - Comprehensive modern legal framework in place
  - State Budget revenue and expenditures managed effectively (limited leakages)

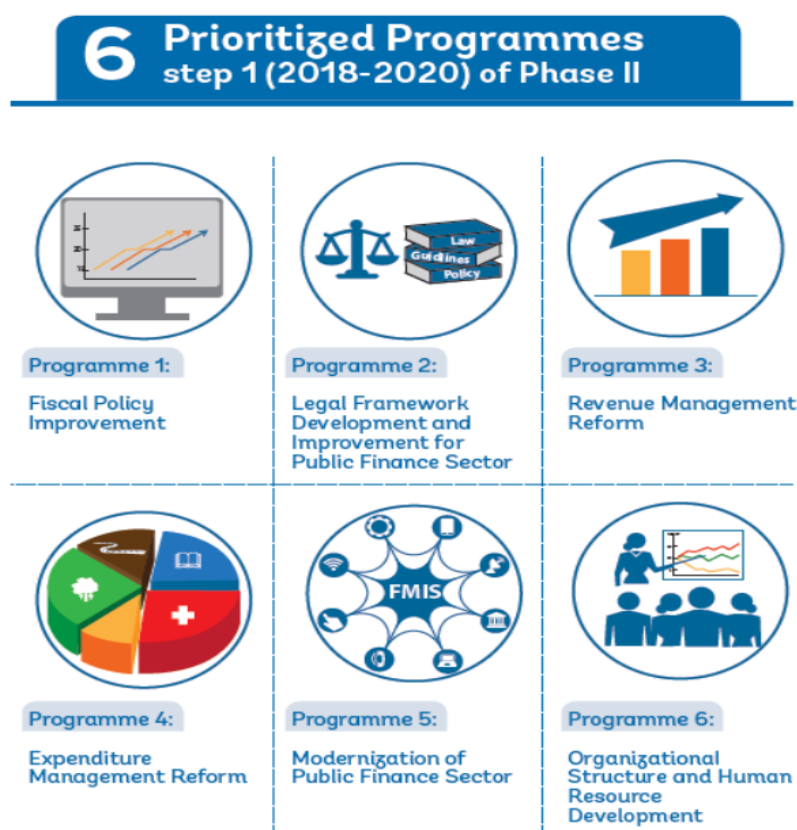
- Modern systems in line with international standards
- Public debt managed and in line with international standards
- **10 strategies with their respective goals and priorities**

Figure 5.3. PFDS Sub- Strategies



559. **Six prioritized programs for step 1 (2018–2020) of Phase II have been translated into action plans.** These have been assigned to the MoF departments with the relevant source of funds and expected outcomes. It is therefore expected that the MoF can monitor and report on progress in the implementation of this initial road map, defined as shown in Figure 5.4.

Figure 5.4. Priority Programs 2018 -2020



560. **The PEFA assessment confirmed the need for strong commitment and delivery of key PFM reforms in several areas.** As explained in the context of the discussion of each performance indicator in Section 3, much work is already in progress to address many of the difficulties identified. The key weaknesses from the PEFA assessment as identified in Section 4 are addressed in the Public Finance Management Reform Implementation Plan, step 1 (2018–2020) of Phase II (2018–2025) as follows:

- **Program 1: Fiscal Policy Improvement**

- Revise the tax administration structure (PI-19).
- Develop an MTFF and MTEF and define annual budget ceilings (PI-15 and PI-16).
- Following the enactment of the Debt Management Law in June 2018, develop Public Debt Management Strategy and regulations to manage domestic and external debt and produce Public Debt Status Report (PI-13).
- Pilot budget allocation for priority sectors and district block grants in support of Sam Sang policy and implementation of 8th NSEDP and SDGs at the local level and strengthen the central-local fiscal transfers and districts' service delivery capacity.
- Establish and institutionalize a ministerial ceiling setting process that allows spending entities to allocate their resources within the ceilings early in the budget formulation process.

- **Program 2: Legal Framework Development**

- Revise existing laws to align them to international practices and standards: VAT Law (June 2018), Tax, Insurance, Customs, Accounting, and External Audit Laws.
- Develop new Excise, Income, Land and Assets, Administration and Environment Tax Laws to enhance revenue mobilization (PI-19).

- Develop and enforce secondary legislation for the key core PFM laws in line with MoF role: SBL and Tax, Customs Laws (overall budget and revenue collection process).
- Develop public and private sector accounting and external audit standards (Pillars 6 and 7).
- **Program 3: Revenue Management Reform**
  - Implement tax development plan: define Large Taxpayer Unit criteria, internal control, services to taxpayers, and so on; and implement customs development plan: develop a Harmonized Commodity Description and Coding Systems, prepare for Authorized Economic Operator (AEO) implementation, develop the National Single Window scheme at international border crossings, seeking to speed up customs clearance (PI-19).
  - Develop reform plan for SOEs including a decree on SOEs (PI-10).
  - Develop State Assets Management Strategy and reporting system (PI-11).
  - Improve revenue management: prepare detailed revenue plans for all type of revenues and related reports from National Treasury for revenue collected at the central and provincial levels (PI-3, PI-6, and PI-20).
- **Program 4: Expenditure Management Reform**
  - Enforce the SBL that lays the foundations for an orderly and coherent budgeting process: Fiscal Policy Statement presented to the National Assembly (Article 55 of SBL) (PI-9), three-year MTEF developed providing expenditure ceilings to spending units (PI-16), baseline budgeting piloted in ministries/sectors/provinces (PI-17).
  - Link capital investment and current budget expenditure plans (PI-11 and PI-17).
  - Strengthen treasury and cash management: develop commitment control, revise budget nomenclature for second tier budget units (districts, and so on), implement the ACH with the BoL, web-based portal for transaction recording and reconciliation, technical revenue management system (PI-20 and PI-25).
  - Develop procurement monitoring system (PI-24).
- **Program 5: Modernization of Public Finance Sector**
  - Develop an integrated ICT strategy for the PFM sector (PI-27).
  - Improve and expand GFIS functions: based on the accounting reform and development of a budget classification and CoA aligned to GFS 2014, web-based access for second-tier budget units (PI-4 and PI-6).
  - Implement modules of an FMIS based on seven modules including payroll and procurement to improve treasury management, accounting and reporting systems (PI-23, PI-24, and PI-29).
  - Establish the TaxRIS system: taxpayers' management system at the provincial level and the ASYCUDA and smart tax, easy tax systems at the district and spending units level (PI-19 and PI-20).
  - Upgrade DMFAS coverage and reporting (PI-13).
  - Develop a State Assets Management system (PI-12).
  - Improve the TSA system as the unified tool for budget execution and treasury management.
  - Improve the payroll system and salary bank transfers at the central level.
- **Program 6: Organizational Structure and Human Resource Development**



- Revise MoF organizational structure and ToRs of centralized departments, National Treasury, Tax, and Customs Departments, for revenue collection management from central to local levels and responsibilities between Budget and National Treasury (PI-19 and PI-20).
- Develop legislation for civil service management and job descriptions for MoF staff (permanent and service contracts).
- Evaluate capacity, develop a PFM curriculum including change management training for MoF technical and management staff, and set up a staff performance evaluation system.
- Carry out functional analysis and human resource development at the local level and adjust the organizational structure for provincial and district finance divisions.

### 5.3 Institutional Considerations

561. **Lessons from the first-generation reform have been integrated into the new Vision to 2030 and Public Finance Strategy to 2025.** The current PFM Reform Implementation Plans offer a new opportunity to (a) review and complete the legal framework; (b) develop the core systems (particularly the treasury, accounting, and reporting systems); (c) integrate progressively all parallel information management systems into an FMIS architecture; and (d) support the effective enforcement of the PFM regulatory framework. In addition to the implementation of the SBL (and the various implementing regulations underpinning its operation), work is already in progress on integrating medium-term fiscal planning into the budgetary process, improving tax administration, establishing more effective supervision over SOEs, making public procurement more efficient and transparent, reconsidering the standards used in the government’s financial statements, and developing the work and resource plans of the State Audit Agency.

#### Government Leadership and Ownership

562. **The PFM Reform Implementation Plan is still financed by donors but fully owned and led by the GoL.** The PFM reform enjoys a strong political support from the leadership and the Central Party and has identified specific enabling factors for successful reform process:

- **Leadership** of Party Committees at all levels should provide close guidance on the performance of the duties of public finance personnel and ensure strict fiscal discipline.
- **People are key in all tasks.** Civil servants should receive political, behavioral, and technical training. Human resources are the cornerstone of effective and efficient performance. Moving forward, focus for the finance sector should be on institutional improvement, staff recruitment, and assigning staff to positions that match their technical knowledge and skills.
- **PFM-related legislation should be developed** and improved, consistent with the needs of dynamic socioeconomic growth and should serve as an effective instrument for managing public finances. In this regard, monitoring of budget expenditure execution and the complete cycle of public investment projects is key, as these efforts are geared toward enhancing discipline in planning and PFM.
- **Adequate budget allocations should be made for the education, health, and social sectors,** and should aim at poverty reduction and improvement of people’s livelihoods. A medium- and long-term fiscal Sam Sang policy is key in all tasks policy formulation and in implementation focus on exploiting potential revenue sources to education, health, and social sectors to improve people’s livelihoods.
- **Budget management should be carried out in line with the delegation of responsibility between the central and the local level to increase local authorities’ ownership over PFM.**

Central level focuses on policy making, while local levels focus on execution: a clear division of responsibilities in revenue and expenditure management between the central and local government should be established to ensure unity in policy formulation and implementation, with consideration of the current financial context.

### **Coordination across government**

563. **The PFM reform agenda is driven and owned by the GoL, with the MoF in the leading role.** The MoF, on behalf of the government, is directly responsible for PFM. It has developed the PFDS and is mainly responsible for its implementation. The MoF is mandated to develop and modernize required PFM tools to increase annual revenues, finance socioeconomic development, and address liquidity shortfalls by adhering to budget deficit targets and maintain overall macroeconomic stability. Within the MoF, all departments have a critical role to play in the reform, but most of the technical responsibilities are centralized in the Fiscal Policy, National Treasury, and Budget Departments.

564. **Collecting more tax and strengthening tax administration are critical to raising government revenue and a top priority for the government.** The performance of tax administration remains critical if the government is to meet its ambitious tax collection goals. The government has also set out an ambitious tax policy reform agenda. In 2018, the MoF revised the VAT Law, which has just been approved by the National Assembly.

### **A Sustainable Reform Process**

565. **Sustainability of PFM reforms across government is critically dependent on several factors, such as strong ownership, the capacity to internalize reforms, the institutional setup, and stakeholders' understanding of the benefit of changes.** Although there is strong government commitment to sustain reforms, the ownership of the reform process is still largely limited to the MoF and a number of MoF departments responsible for broad-based institutional change management. Other key institutions such as the MPI, MoHA, and key line ministries are not fully integrated in the PFDS planning. Insufficient availability of skilled human resources is a key obstacle. While there is no evidence of significant resistance from middle management or civil servants to reform, inadequate human capital at the technical level also prevented a more rapid implementation of the reforms. The risk to rely on scarce capacity concentrated on specific reform areas or spread thin over a range of activities is high. It is key that the reforms extend to the other line ministries to ensure the institutionalization of new processes and rule, and eventually to SNGs, where capacity constraints are particularly acute. In general, the key to sustainable reform requires the effort to strengthen the capacity to internalize reforms, particularly from an institutional perspective, and to ensure that the main stakeholders recognize that the benefits of change are to their own advantage and will enable them to function and perform better in the future.

566. **Recognizing the main constraints to improving public sector's rigid, hierarchical, institutional, and bureaucratic structures, the government has to follow the Central Party guidelines defined as the Policy of the Four Breakthroughs.**

- First, the obligation to embark on a breakthrough in thinking by liberating and addressing the characteristics of dogma, stereotyping, complacency, and extremism; to promote creativity and the attributes of having the courage to think, to do, and to be responsible, with the aim of successfully implementing the party's resolution.
- Second, breakthroughs in human resource development, especially in training and improving knowledge and techniques in various fields, so that a qualified workforce is available to meet the demands of development.

- Third, a breakthrough in completely removing administrative and managerial orders and methods that impede business production and services.
- Fourth, a breakthrough in addressing poverty by seeking funding sources and introducing special promotion policies and by creating a focused social and economic infrastructure that will become a driving force for development in other areas.

567. **Development partner engagement will continue to play an important role in keeping the momentum for the reform and support the change management process.** Donor commitment and continued engagement, paired with the provision of funding resources and technical assistance, is an important enabling factor. While the government's restricted financial situation does not allow for major investments, technical assistance and guidance in the reform process is probably the most important contribution from the donor community. Long-term engagements such as the PRSO series and the NT2 Hydropower Project in the past provided a platform for not only continuous dialogue but also facilitated transitions toward international practice on reporting standards.

568. **Finally, the dynamic development of enhanced ICT tools is envisioned to support Lao PDR PFM reforms by providing the foundation on which advanced planning, budgeting, and resource management reforms can be anchored and progressed.** The government's decision to embark upon the FMIS development program is a game changer and will potentially help the MoF articulate different parts of the reform together from an early stage.

#### **Transparency of the PFM Program**

569. **The PFDS is the result of a broad and extensive consultation and consensus-building exercise within the government for PFM reform.** It reflects the decision from the high level of the Central Party and the leadership of the government. At the early stage of its implementation, it is expected that more dissemination and activities are carried out to gain the interest and understanding of all stakeholders within and outside the MoF. The mechanisms for evaluating and reporting on the implementation have to be defined so that quick wins and future achievements can maintain the political support and the required traction at the decision-making level and promote the overall accountability of the government.

#### **Conclusion**

570. **During the past 15 years, PFM in Lao PDR has definitely improved.** Central and local public finance entities have been strengthened in many ways, including in their political mandate, institutional setup, and human resources. The development of public finance has been supported by a stronger public finance legal framework, resulting in the gradual modernization and transparency of revenue and expenditure management and the reduction of misappropriation of public resources, loopholes, leakages, and budget irregularities. The second-generation reform agenda is an ambitious, well-articulated, and challenging program aiming at taking the country systems to the next level, and it is of paramount importance that the reform message and future achievements be communicated with clarity and implemented with consistency throughout the govern.

## Annex 1: Performance indicator summary

Indicator/Dimension	Score	Explanation
<b>PI-1 Aggregate expenditure outturn</b>		
1.1 Aggregate expenditure outturn	A	At 102.0% for 2014/15, 95.7% for 2015/16, and 100% (estimates), aggregate expenditure outturn deviated less than 5% from the approved budget in all three fiscal years.
<b>PI-2 Expenditure composition outturn</b>	D+	Dimension scores combined by Method M1 (weakest link)
2.1 Expenditure composition outturn by function	D*	Variance in expenditure composition by administrative classification was 4.8%, 24.2%, and 14.6% for the fiscal years 2014/15, 2015/16, and 2017, respectively, which would justify a C. However, the limited consistency in the presentation of budget data and the magnitude of aggregated budget under categories 'others' and 'other institutions' does not allow to score adequately and the score is D* for limited availability of information.
2.2 Expenditure composition outturn by economic type	C	Variance in expenditure composition by economic classification was 13.7%, 12.1%, and 2.1%, respectively, in the three years under consideration and less than 15% in two of the last three years.
2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the contingency vote was less than 1% in each year.
<b>PI-3 Revenue outturn</b>	C	Dimension scores combined by Method M2 (average)
3.1 Aggregate revenue outturn	B	At 96.9%, 86.2%, and 96.3% in the fiscal years 2014/2015, 2015/2016, and 2017, respectively, aggregate revenue outturn was between 94% and 112% of the originally approved revenue budget in two of the last three completed fiscal years.
3.2 Revenue composition outturn	D	At 20.7%, 26.3%, and 19.6% in the fiscal years 2014/2015, 2015/2016 and 2017, respectively, revenue composition variance was above 15% in the last three completed fiscal years.
<b>PI-4 Budget classification</b>		
4.1 Budget classification	C	Since 2016, the budget classification is based on administrative, economic classification that is GFS compatible. It produces documentation consistent with the GFS standard at a two-digit level. These classifications are also embedded in the chart of accounts and can produce a broad functional classification but not COFOG compliant.
<b>PI-5 Budget documentation</b>		
5.1 Budget documentation	D	Budget documentation for 2018 fulfilled 2 basic elements and 2 additional elements, that is, in 4 of the 12 key elements.
<b>PI-6 Central government operations outside financial reports</b>	D+	Dimension scores combined by Method M2 (average)
6.1 Expenditure outside financial reports	D	The amount of extrabudgetary expenditure that remains off-budget and not on government financial records but reported separately is related to externally financed projects, and the expenditures from the statutory extrabudgetary funds. For 2016 and 2017, the amount of unreported expenditures cannot be fully estimated but is likely to be more than 10% of total government budget expenditure.

Indicator/Dimension	Score	Explanation
6.2 Revenue outside financial reports	D	Government financial reports concerning revenue from grants and loans from development partners have not been produced systematically and timely and the amount involved is likely to be in the order of 25% of total Budgetary Central Government revenue. The technical revenue generated by service fees and charges from budgetary entities is consolidated at the ministry level.
6.3 Financial reports of extrabudgetary units	C	The two main extrabudgetary funds representing over 50% but less than 75% of the extrabudgetary funds combined annual expenditure (from the government fiscal transfers and own resources) have submitted financial reports within 9 months of the end of the financial year in 2018.
<b>PI-7 Transfers to subnational governments</b>	NA	Dimension scores combined by Method M2 (average)
7.1 Systems for allocating transfers	NA	
7.2 Timeliness of information on transfers	NA	
<b>PI-8 Performance information for service delivery</b>	D+	Dimension scores combined by Method M2 (average)
8.1 Performance plans for service delivery	C	Sector strategic plans and reports are published online for the two major service delivery ministries: Education (ESSDP 2016–2020) and Health (HSRSF till 2025) with key performance targets and outputs for key service delivery functions as defined in the sector strategic plans and a broad link with the annual NSEDP at the outcome level. While links exist between the budget and the forecasts targets for each budget year, the targets are not part of the budget documentation and annual reports on sector performance report only aggregate allocation of state and ODA resources to the plan.
8.2 Performance achieved for service delivery	C	Annual information on achievement of targets is prepared by both the MoES and MoH and published in their annual strategic plans available online describing the targets and estimated achievement for the current year, using the same format and activity-based presentation as their annual plan, with limited financial information at the aggregate level.
8.3 Resources received by service delivery units	D	Budget classification and chart of accounts do not include cost center codes at the level of government service delivery units. Ad hoc reports can be produced at the ministry level on actual government transfers to or expenditure by service delivery units, but do not include the substantial off-budget funding of service delivery through technical revenues or donors' funding. All fragmented sources of financing in major service functions such as health and education are not consolidated.
8.4 Performance evaluation for service delivery units	D	Several performance evaluations of service delivery in Lao PDR have been carried out in the last three years, mostly through development partners' assistance but not necessarily published and do not systematically include evaluation of efficiency. Evaluations of effectiveness and efficiency have been carried out for a few donor-funded programs during the past three years in terms of performance audits and published, but not covering more

Indicator/Dimension	Score	Explanation
		than 25% of the total of service delivery ministry in the last three years.
<b>PI-9 Public access to fiscal information</b>	D	
9.1 Public access to fiscal information	D	The government makes available only two of the five basic elements but not on time so none of the elements meet the scoring criteria.
<b>PI-10 Fiscal risk management</b>	D	Dimension scores combined by Method M2 (average)
10.1 Monitoring of public corporations	D	Approximately 70 percent (in turnover) of SOEs had submitted 2017 annual financial statements and financial information to the MoF within 9 months of end of the financial year, but no information is available on their audit status or their publication. Only five listed SOEs had published audited financial statements within six months of the end of financial year as legally required. There is no overall consolidated report.
10.2 Monitoring of subnational government	NA	
10.3 Contingent liabilities and other fiscal risks	D	No reporting takes place on contingent liabilities and other fiscal risks from the central government's operations.
<b>PI-11 Public investment management</b>	D	Dimension scores combined by Method M2 (average)
11.1 Economic analysis of investment proposals	C	Economic analysis has been conducted for the 10 major projects selected from the PIP 2017. It should in principle be also included in the investment proposals submitted to the MPI for review and inclusion in the State Budget. But it is only conducted for major investment projects and joint investments with external financing. These represent at least 25 percent of the pipeline and are not published.
11.2 Investment project selection	C	Before their inclusion in the budget, major investment projects representing at least 25 percent of the pipeline are prioritized by the spending agencies and MPI PDPI Department for inclusion in the PIP and the annual budgets for National Assembly approval.
11.3 Investment project costing	D	Projections of the total capital cost of some of the major investment projects, together with the capital costs for the forthcoming budget year, are included in the PIP attached to the budget documentation. They do not comprehensively cover the capital and recurrent costs over the whole life of the investment.
11.4 Investment project monitoring	D*	Full capital project costs to date can only be collected manually during the year from the implementing entities. On-site visits are carried out jointly between the implementing entity and the MPI Monitoring and Evaluation Department to check on physical progress, but this is only done on a sample basis. There is no database on the integrated system to report and monitor in the PIP implementation and calculate deviations from the original budget envelope.
<b>PI-12 Public asset management</b>	D+	Dimension scores combined by Method M2
12.1 Financial asset monitoring	C	Responsibility for state financial assets management including the register, monitoring, and preparation of internal reports on the government portfolio is shared between the External Finance and the SOE Departments, and the National Treasury. Financial assets are mainly estimated at their acquisition value and in the case of market

Indicator/Dimension	Score	Explanation
		instruments at fair market value. There are neither consolidated records nor publication of the information but government holdings in major categories of financial assets are covered by some government internal reporting.
12.2 Nonfinancial asset monitoring	D	Nonfinancial assets management is decentralized to each government entity using the assets. Major ministries (Education, Health, Public Works) maintain a manual registry with records of entries of mobile fixed assets and carry out periodic inventories, but there is no consistent methodology for the valuation of all assets. Other records of nonfinancial assets are fragmented and incomplete at different levels and there is neither consolidation nor publication of comprehensive information on holdings of any type of nonfinancial assets.
12.3 Transparency of asset disposal	D	Transfers and disposal of nonfinancial assets is covered by standing rules on asset disposal, but the provisions are yet to be enforced. There is no consolidated information available on such disposals, including the information of both acquisition and disposal values.
<b>PI-13 Debt management</b>	D+	<b>Dimensions combined by Method M2</b>
13.1 Recording and reporting of debt and guarantees	C	External debt reports are produced on a monthly and quarterly basis and shared with the FPD providing information on composition of external debt and interest rate. Domestic debt records and guarantees have been maintained and the information on obligations and repayments is only partial. Aggregate information on debt stock and service is included in the in-year and annual budget reports to the National Assembly.
13.2 Approval of debt and guarantees	D	The Constitution and the SBL require contracting and reporting on all government debt and guarantees through the Minister for Finance subject to approval by the National Assembly. At present all the debt-related transactions and issuance of guarantees are still under consolidation between the MoF, MPI, and all relevant stakeholders at central and provincial levels. Once the new Public Debt Law becomes fully operational, the score for this dimension should improve.
13.3 Debt management strategy	D	There are regular Debt Sustainability Analysis reports performed jointly with the IMF-World Bank. The Public Debt Law requires the preparation of a medium-term debt management strategy and a report is available in draft form as an internal document.
<b>PI-14 Macroeconomic and fiscal forecasting</b>	D+	<b>Dimensions combined by Method M2 (average)</b>
14.1 Macroeconomic forecasts	C	Macroeconomic forecasts are prepared annually.
14.2 Fiscal forecasts	D	The government prepared forecasts of the aggregate revenue, expenditure, budget balance and financing for the budget year and the following two years for the first time in 2016 and partially presented with the budget documentation submitted to the National Assembly. Explanation of the underlying assumptions is incomplete and there is no comparison to the previous year's forecasts.
14.3 Macro-fiscal sensitivity analysis	D	No macro-fiscal sensitivity analysis takes place and no fiscal scenarios are available covering external risk factors. A debt

Indicator/Dimension	Score	Explanation
		sustainability analysis is prepared with IMF-World Bank assistance but only for external use.
<b>PI-15 Fiscal strategy</b>	D+	Dimensions combined by Method M2
15.1 Fiscal impact of policy proposals	D	Fiscal impact of proposed revenue measures and expenditure policy is not fully costed or estimated in the budget submitted to the legislature.
15.2 Fiscal strategy adoption	C	The government presents a fiscal strategy of qualitative objectives for the forthcoming budget year, which is presented to the National Assembly. Quantitative fiscal targets were adopted by the government internally as part of the PFDS but are neither set in law nor submitted to the National Assembly.
15.3. Reporting on fiscal outcomes	D	The government prepares an internal report on progress made toward broad fiscal targets but there is no systematic reporting against quantitative and qualitative targets based on implementation of specific fiscal policies.
<b>PI-16 Medium-term perspective in expenditure budgeting</b>	D+	Dimensions combined by Method M2 (average)
16.1 Medium-term expenditure estimates	C	While detailed estimates by economic classification at a four-digit level are available within the State Budget Plan for the current budget year, aggregate estimates of expenditure are presented for the two following years at a two-digit level.
16.2 Medium-term expenditure ceilings	C	The 2018 budget circular from the MoF indicates the aggregate expenditure ceiling prepared based on the MTBF prepared by the government (or five-year budget plan revised every year) and endorsed by the National Assembly.
16.3 Alignment of strategic plans and medium-term budgets	D	Medium-term strategic plans are prepared for each sector of the NSEDP at least for ministries representing at least more than 75 percent of budgeted expenditure. However, the costing is not systematic across all ministries, and medium-term budget projections from the MoF are not drawing directly on expenditure policy proposals from these sector plans.
16.4 Consistency of budgets with previous year's estimates	D	Budget documents do not provide any explanations of changes to the updated medium-term expenditure estimates compared to the previous year's estimates.
<b>PI-17 Budget preparation process</b>	C+	Dimensions combined by Method M2 (average)
17.1 Budget calendar	C	A formal budget calendar exists with steps that are generally adhered to. However, in practice spending units have around two weeks to prepare their budget proposals and estimates after receipt of the budget instructions and respective ceiling.
17.2 Guidance on budget preparation	D	A general budget circular (MoF) and set of instructions (MPI) are circulated to all spending units with general description of the budget formulation context and instructions for specific expenditure categories, including capital and current expenditures. Individual notifications with final ceilings to each ministry are circulated only after the initial budget submission to the National Assembly with proposed aggregate expenditure and revenue plans, as approved by the Minister for Finance.
17.3 Budget submission to the legislature	A	The MoF has, on behalf of the government—in each of the last three years—presented the annual budget proposals to



Indicator/Dimension	Score	Explanation
		the National Assembly at least 8 weeks before the start of the fiscal year.
<b>PI-18 Legislative scrutiny of budgets</b>	<b>D+</b>	Dimensions combined by Method M1 (weakest link)
18.1 Scope of budget scrutiny	D	The National Assembly reviews but not fiscal policies and aggregate fiscal forecasts but not the details of revenue and expenditure plans.
18.2 Legislative procedures for budget scrutiny	B	The National Assembly has well-established procedures for scrutiny of the budget, which are adhered to. The procedures include (limited) negotiation procedures, technical support to committees, consultations with civil society, and access for the media to attend consultations.
18.3 Timing of budget approval	A	The National Assembly has—in each of the last three years—approved the annual budget before the start of the fiscal year.
18.4 Rules for budget adjustments by the executive	B	Clear rules for in-year budget reallocations by the executive are set out in the SBL and mostly adhered to. A revised budget is presented to the National Assembly during the first session of the year and the SBL provides the executive with substantial powers of reallocation within the overall aggregate of original and adjusted appropriations.
<b>PI-19 Revenue Administration</b>	<b>D</b>	Dimensions combined by Method M2 (average)
19.1 Rights and obligation for revenue measures	D	General information is available on the TD and Customs Department websites and some taxpayer education activities are taking place to promote and update information on tax obligations to the general public, but there is significant scope for improving the access to information on the tax regulatory framework. The regime of tax exemptions described in the legal framework is extensive and creates scope and opportunities for discretionary decisions.
19.2 Revenue risk management	D	There is a Tax Identification Number system in place. The TD, collecting more than 50% of revenues, does not yet have a system in place to prioritize and assesses compliance risks by revenue categories. It does track some 500 large taxpayers to improve collection rate for registered taxpayers. There is no comprehensive risk management approach to compliance linking all the tax components (registration, filing, payment, and refund) and no data available to measure or assess tax compliance. The Customs Department recently carried out physical inspection of all imports. There are legal sanctions for noncompliance.
19.3 Revenue audit and investigation	C	While the audit process at both the TD and Customs Department is currently being modernized to incorporate a focused risk based selection process, there is an audit process in place that is based on a plan and these are implemented fully.
19.4 Revenue arrears monitoring	D	According to the TD, the stock of revenue arrears recorded as of December 10, 2018, was 1% of the total revenue collection, 99% of which had been outstanding for more than 12 months.
<b>PI-20 Accounting for revenues</b>	<b>B</b>	Dimensions combined by Method M1 (weakest link)
20.1 Information on revenue collections	B	Monthly consolidated reports on all of the central government revenues are prepared by the National Treasury showing revenue breakdown by type, and submitted to the MoF.

Indicator/Dimension	Score	Explanation
20.2 Transfer of revenue collections	A	Revenue collections for more than 75% of total revenue are transferred daily (from Tax and Customs Departments, SOE and other revenue collecting departments into the Treasury Accounts with commercial banks).
20.3 Revenue accounts reconciliation	C	At the central level, the reconciliation process is done for assessments/charges, collections, arrears and transfers to the National Treasury on a monthly basis, and corresponding monthly reports are prepared. However, the information on reconciliation is limited by the lack of integration of the data systems and manual processes involved in the recording and reporting of the revenue transactions for revenues outside the Tax and Customs departments and at the provincial level, although the amounts processed at that latter level are assessed as less significant.
<b>PI-21 Predictability of in-year resource allocation</b>	D+	Dimensions combined by Method M2 (average)
21.1 Consolidation of cash balances	C	All cash balances are now consolidated on a weekly basis including the accounts held by commercial banks on behalf of the National Treasury. However, incomplete coverage of accounting and transaction data in GFIS at the provincial level has an impact on the consolidation of cash balances in real time and undermines the accuracy of information reported on cash position.
21.2 Cash forecasting and monitoring	C	Cash flow forecasts are produced for the fiscal year and updated weekly and monthly on the basis of actual revenue collections by the main revenue collecting agencies but expenditure projections do not cover expenditure commitments beyond budget execution plans and actual payments.
21.3 Information on commitment ceilings	D	Reliable information on funds available for commitment is based on the quarterly spending plans aligned to the approved State Budget but is constrained by cash availability which means that information is not reliable even on a monthly basis.
21.4 Significance of in-year budget adjustments	C	Significant and systematic in-year budget adjustments to allocations take place and are predictable but not based on clear policy decisions and priorities involving the budgetary units concerned and therefore only partially transparent.
<b>PI-22 Expenditure arrears</b>	D	Dimensions combined by Method M1 (weakest link)
22.1 Stock of expenditure arrears	D*	Although data on the stock of identified and recorded expenditure arrears are not up to date, the evidence is that in 2013/14, excluding significant arrears on the capital account, it was more than 10% of total expenditure just on recurrent arrears alone. The situation has not changed markedly to date.
22.2 Expenditure arrears monitoring	D	There is no effective system in place for monitoring expenditure arrears at the level of the line ministries, and consolidation of annual arrears by the MoF is done manually, resulting in the National Treasury being unable to report arrears at the aggregate level.
<b>PI-23 Payroll controls</b>	D+	Dimensions combined by Method M1 (weakest link)
23.1 Integration of payroll and personnel records	C	Approved staff list, personnel database, and payroll are not directly linked. Delays up to 3 months (from one to the following quarterly payroll) can occur for budget control, data consistency, and personnel records reconciliation to

Indicator/Dimension	Score	Explanation
		take place. Appointments and promotions are controlled against approved staff quotas by the MoHA and budget allocations by the MoF.
23.2 Management of payroll changes	C	Payroll data are updated quarterly and processed by National Treasury at the end of each quarter. Retroactive adjustments are limited.
23.3 Internal control of payroll	D	Segregation of roles and responsibilities and payroll controls are well defined and restricted to user-defined access levels, ensuring data integrity in the PIMS database and MoF payroll system. Changes to the payroll and PIMS database are well documented with readily available audit trail. However, the coverage of the MoHA and MoF controls does not include the significant part represented by the police and armed forces managed separately.
23.4 Payroll audit	D	No comprehensive or partial payroll audit by the SAO has been completed within the last 3 years.
<b>PI-24 Procurement management</b>	D	Dimension scores combined by Method M2 (average)
24.1 Procurement monitoring	D	No comprehensive databases are available to provide consolidated information on procurement operations by government entities. The procurement function is fully decentralized at the ministry department level. Records are maintained for contracts by each implementing entity and there is neither a system nor database to track data available on procurement and contract management.
24.2 Procurement methods	D*	There are no reliable and available data on the application of the various procurement methods for award of contracts. The limited information from the MoES suggests that the existing rules are not applied.
24.3 Public access to procurement information	D	Key procurement information is not made available to the public beyond legislation and competitive bidding opportunities.
24.4 Procurement complaints management	D	The procurement complaint system does not meet criterion (1) relating to an independent complaints body, and it only meets one of the other criteria (not charging fees).
<b>PI-25 Internal controls on non-salary expenditure</b>	C+	Dimension scores combined by Method M2 (average)
25.1 Segregation of duties	C	Segregation of duties is prescribed throughout the expenditure process with responsibilities laid down for most key steps. Systematic and consistent definition of rules, regulations, and responsibilities is still needed.
25.2 Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist as part of the GFIS for recurrent expenditures. However, the effectiveness of the control system is undermined by the uncertainty and lack of information on cash availability for payments and contracting obligations that can incur outside the GFIS. Additionally, only the central government operations can be fully captured by the GFIS and are limited to single-year commitments.
25.3 Compliance with payment rules and procedures	B	Stricter procedures for expenditure authorization by the National Treasury have been enforced since 2017. Evidence shows that basic controls relating to payments are usually complied with, and exceptions are duly justified. SAO reports for the past period concluded unauthorized expenditures not fully compliant with the regular payment procedures.

Indicator/Dimension	Score	Explanation
<b>PI-26 Internal audit</b>	D	Dimension scores combined by Method M1 (weakest link)
26.1 Coverage of internal audit	D	The Inspection Departments in all government entities carry out ex post controls activities relating to the budget execution including some features of an operational audit function. These activities cover organizational independence, access to information, and power to report to the head of the ministry or entity. They do not operate based on recognized international standards and professional audit techniques.
26.2 Nature of audits and standards applied	D	Internal audit activities largely focus on compliance. A quality assurance system is not in place and there are no established government standards for the inspection planning and reporting.
26.3 Implementation of internal audits and reporting	D*	The Inspection Departments' work plans are implemented under the authority of their respective management and no information was accessible on the percentage of coverage of the planned activities and investigations effectively undertaken.
26.4 Response to internal audits	D*	Follow-up and response to the Inspection Departments' recommendations depends on the management decision and no tracking of follow-up or resolution rate is available.
<b>PI-27 Financial data integrity</b>	C+	Dimension scores combined by Method M2 (average)
27.1 Bank account reconciliation	D	The National Treasury is progressively taking steps toward the TSA implementation, but for the moment, reconciliations are done based on available GFIS records supported by manual processes for all other transactions not captured by the GFIS. The main Treasury accounts at the central level are reconciled daily for expenditures transactions and weekly for revenue collection. Other transactions from technical revenue or bank receipts can take up to one month. ODA accounts are progressively integrated into the treasury consolidation but are still mostly reconciled annually.
27.2 Suspense accounts	B	Suspense accounts are reconciled regularly on a daily, weekly, and monthly basis. Reconciliation processes including the provincial accounts are completed within two months after the end of each quarter and are systematically cleared at the end of the fiscal year.
27.3 Advance accounts	B	Advance accounts and records are correctly maintained, reconciliations take place at least quarterly and most advances are cleared on time.
27.4 Financial data integrity processes	C	Financial data are kept in an electronic system in which access and changes to records and data are restricted and recorded through segregation of access in line with duties through controlled passwords. Issues with the system security that could affect the data integrity have yet to be addressed.
<b>PI-28 In-year budget reports</b>	D+	Dimension scores combined by Method M1 (weakest link)
28.1 Coverage and comparability of reports	D	In-year budget execution reports are produced monthly for Budgetary Central Government and data classification allows comparison to the original budget at the aggregate economic classification level but no breakdown at the administrative level is available.
28.2 Timing of in-year budget reports	B	In year-budget execution reports are produced monthly and issued internally within (in average) a period of one month after the end of the monthly reporting period. An overall narrative statement on budget execution at aggregate levels

Indicator/Dimension	Score	Explanation
		is provided only for midyear and annual State Budget execution reports presented to the National Assembly.
28.3 Accuracy of in-year budget reports	D	Monthly budget execution reports include expenditure at the payment stage with some concern regarding comprehensiveness due to the number of 'system transactions' recorded manually at the provincial level. The data provided are too aggregate to allow for a basic budget execution analysis.
<b>PI-29 Annual financial reports</b>	D+	<b>Dimensions combined by Method M1 (weakest link)</b>
29.1 Completeness of annual financial reports	C	Annual financial reports are prepared covering items of income, expenditure, and cash balances with some and partial information on financial assets and liabilities. They are comparable to the approved budget.
29.2 Submission of reports for external audit	C	The financial reports for 2017 were submitted for external audit to the SAO within 9 months of the end of the fiscal year.
29.3 Accounting standards	D	The accounting standards used in preparing the financial reports are not fully consistent with the applicable legal framework and not disclosed.
<b>PI-30 External audit</b>	D+	<b>Dimension scores combined by Method M1 (weakest link)</b>
30.1 Audit coverage and standards	D	Financial reports of the central government are audited by the SAO, but standards are still not aligned with ISSAIs. Material risks and internal control issues are not taken into account and no opinion is delivered on financial standards. Although the SAO audit coverage can be estimated to be covering the majority of total expenditures (including provincial and 'other institutions'), the systematic follow-up on the materiality of the audits is not in place.
30.2 Submission of audit reports to the legislature	D	SAO reports were submitted to the legislature with a delay in FY2013/14 and FY2014/2015 and within 6 months from receipt of the financial reports for the last two completed fiscal years.
30.3 External audit follow-up	C	Formal responses were formulated by the audited entities to the SAO observations and findings in the last three years. MoUs are signed between the SAO and line ministries on follow up, although responses are not always comprehensive and capacity to effectively implement follow-up actions is weak.
30.4 Supreme Audit Institution (SAI) independence	C	The SAO operates independently from the executive with respect to the procedures for appointment as well as execution of the SAO budget. The SAO has unrestricted and timely access to the majority of the requested records, documentation and information.
<b>PI-31 Legislative scrutiny of audit reports</b>	C	<b>Dimension scores combined by Method M2 (average)</b>
31.1 Timing of audit report scrutiny	A	Scrutiny of audit reports on annual financial reports is completed within three months from receipt of reports.
31.2 Hearings on audit findings	D	The National Assembly Committee on Planning Finance and Audit analyzes the findings of the SAO prior to issuing its final resolution on the annual State Budget implementation. However, the information scrutinized by the National Assembly is based on the summary of findings reports by the SAO and there is no systematic process to summon the audited agencies to clarify or discuss the remedy actions to the SAO findings.

Indicator/Dimension	Score	Explanation
31.3 Recommendations on audit by the legislature	C	The legislature issues recommendations on actions to be implemented by the executive but there is no systematic or only limited follow up on the implementation of actions by the MoF and audited agencies.
31.4 Transparency of legislative scrutiny of audit reports	D	The annual SAO reporting on the State Budget implementation is conducted in public through live TV broadcasts. Committee reports are debated in the full chamber of the National Assembly but are not published on its official website and not available for public access.

## Annex 2: Summary of observations on the internal control framework

Internal Control Components and Elements	Summary of Observations
<b>1. Control environment</b>	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	The legal basis for the control environment is the Anti-Corruption Law and the ToRs for the Inspection Units within ministries. There is no reference to a specific internal control environment or framework in the SBL.
1.2 Commitment to competence	There is no reference to a risk-based approach or risk assessment methodology in the Inspection Departments' description of scope of work.
1.3 The 'tone at the top' (that is management's philosophy and operating style)	Control activities largely focus on compliance. There is no quality assurance system in place as the Inspection Departments do not operate on defined audit standards and report exclusively to the head of their respective entity
1.4 Organizational structure	Each Inspection Department in the line ministry prepares an annual work plan approved by the minister or head of agency which guides its work during the financial year. There are no internal audit committees or equivalent. The inspection reports produced for each case or activity are submitted to the minister or head of the agency for review and decision. Additional activities are directly assigned by the minister or head of agency during the financial year.
1.5 Human resource policies and practices	The MoF Inspection Department mentioned that actual implementation of the approved annual work plan is limited by the lack of availability of resources and the insufficient staffing levels.
<b>2. Risk assessment</b>	
2.1 Risk identification	Several performance indicators are related to the extent to which risks are identified, notably: <b>Economic analysis of investment proposals is rated 'C' in 11.1.</b> Economic analyses are conducted to assess some major investment projects. <b>Debt management strategy is rated 'D' in 13.3.</b> <b>Macro-fiscal sensitivity analysis is rated 'D' in 14.3.</b> <b>Revenue risk management is rated "D" in 19.2.</b> <b>Cash flow forecasting and monitoring is rated 'C' in 21.2.</b>
2.2 Risk assessment (significance and likelihood)	<b>See risk identification (2.1 above)</b>
2.3 Risk evaluation	The approach to risk is more ex post than ex ante.
2.4 Risk appetite assessment	The development and implementation of identification and assessment of risk is currently being assessed with consideration of developing internal audit.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	The emphasis is on disciplinary procedures for those caught bypassing the system.
<b>3. Control activities</b>	

Internal Control Components and Elements	Summary of Observations
3.1 Authorization and approval procedures	<p><b>Financial data integrity processes are rated 'C' in 27.4.</b> Access and changes to records is restricted and recorded and results in audit trail but there are issues with system security.</p> <p><b>Recording and reporting of debt and guarantees are rated 'C' in 13.1.</b> Domestic debt records and guarantees have been maintained and the information on obligations and repayments is only partial. Reporting is monthly.</p> <p><b>Approval of debt and guarantees is rated 'D' in 13.2.</b></p> <p><b>Effectiveness of expenditure commitment controls is rated 'C' in 25.2.</b> Expenditure commitment control procedures exist as part of the GFIS for recurrent expenditures. However, the effectiveness of the control system is undermined by the uncertainty and lack of information on cash availability for payments and contracting obligations that can incur outside the GFIS.</p> <p><b>Integration of payroll and personal records is rated 'C' in 23.1.</b> Approved staff list, personnel database, and payroll are not directly linked. Delays up to three months (from one to the following quarterly payroll) can occur for budget control, data consistency, and personnel records reconciliation to take place. Appointments and promotions are controlled against approved staff quotas.</p> <p><b>Management of payroll changes is rated 'C' in 23.2.</b></p> <p><b>Compliance with payroll payment rules and procedures is rated 'D' in 23.3.</b> Segregation of roles and responsibilities and payroll controls are well defined and restricted to user-defined access levels ensuring data integrity in the PIMS database and MoF payroll system. Changes to the payroll and PIMS database are well documented with readily available audit trail. However, the coverage does not include the significant part represented by the police and armed forces managed separately.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p><b>Segregation of duties is rated 'C' in 25.1.</b> Segregation of duties is prescribed throughout the expenditure process with responsibilities laid down for most key steps. Systematic and consistent definition of rules, regulations and responsibilities is still needed.</p>
3.3 Controls over the access to resources and records	<p><b>Compliance with payment rules and procedures is rated 'D' in 25.3.</b> Stricter procedures for expenditure authorization by the National Treasury have been enforced since 2017. Evidence shows that basic controls relating to payments are usually complied with, and exceptions are duly justified. SAO reports for the past period concluded</p>



Internal Control Components and Elements	Summary of Observations
	<p>unauthorized expenditures are not fully compliant with the regular payment procedures.</p> <p><b>Financial data integrity processes are rated 'C' in 27.4.</b> Financial data is kept in an electronic system in which access and changes to records and data is restricted and recorded through segregation of access in line with duties through controlled passwords. Issues with the system security that could affect the data integrity have yet to be addressed.</p>
3.4 Verifications	<p><b>Accuracy of in-year budget reports is rated 'D' in 28.3.</b> Monthly budget execution reports include expenditure at the payment stage with some concern regarding comprehensiveness due to the number of 'system transactions' recorded manually at the provincial level. An overall narrative statement on budget execution at aggregate levels is provided only for mid-year and annual state budget execution reports.</p>
3.5 Reconciliations	<p><b>Bank account reconciliations are rated 'D' in 27.1.</b> The National Treasury is progressively taking steps toward the TSA implementation, but for the moment, reconciliations are done based on available GFIS records supported by manual processes for all other transactions not captured by GFIS. Main Treasury Accounts at the central level are reconciled daily for expenditures transactions and weekly for revenue collection. Other transactions from technical revenue or bank receipts can take up to one month.</p> <p><b>Suspense account reconciliations are rated 'B' in 27.2.</b> Suspense accounts are reconciled during the successive weekly and monthly reconciliation processes and are systematically cleared at the end of the fiscal year.</p>
3.6 Reviews of operating performance	<p><b>Revenue audit and investigations are rated 'C' in 19.3.</b></p>
3.7 Reviews of operations, processes, and activities	<p><b>Procurement monitoring is rated 'D' in 24.1.</b></p>
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	<p>The audit trail in place indicates that there is a supervisory focus. Personnel development through mentoring and training is in place.</p>
<b>4. Information and communication</b>	<p><b>Budget documentation PI-5 and Public access to fiscal information PI-9 both score D</b></p>
<b>5. Monitoring</b>	
5.1 Ongoing monitoring	<p>The assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p><b>Resources received by service delivery units is rated 'D' in 8.3.</b></p> <p><b>Monitoring of public corporations is rated 'D' in 10.1.</b></p> <p><b>Monitoring of subnational governments is rated 'NA' in 10.2.</b></p>

Internal Control Components and Elements	Summary of Observations
	<p>Contingent liabilities and other fiscal risks is rated 'D' in 10.3</p> <p>Investment project monitoring is rated 'D*' in 11.4. .</p> <p>Financial asset monitoring is rated 'C' in 12.1.</p> <p>Nonfinancial asset monitoring is rated 'D' in 12.2.</p> <p>Revenue arrears monitoring is rated 'D' in 19.4.</p> <p>Expenditure arrears monitoring is rated 'D' in 22.2.</p> <p>Procurement monitoring is rated 'D' in 24.1.</p> <p>Implementation of internal audits and reporting is rated 'D*' in 26.3.</p>
5.2 Evaluations	<p>Performance evaluation for service delivery is rated 'D' in 8.4.</p> <p>Investment project selection is rated 'C' in 11.2.</p>
5.3 Management responses	<p>Response to internal audits is rated 'D*' in 26.4.</p> <p>External audit follow-up is rated 'C' in 30.3.</p>

## Annex 3. Sources

### Annex 3A: List of persons interviewed or consulted

Name of institutions		Name	Title
World Bank	PFM Team	Sylvie Zaitra	PEFA Consultant
		Brandon Lundberg	PEFA Consultant
		Saysanith Vongviengkham	Public Sector Management Specialist
		Fanny Weiner	Sr Public Sector Management Specialist
		Siriphone Vanitsaveth	Finance Management Specialist
		Duangpanya Volavong	Consultant
		Konesawang Nghardsaysone	Economist
		Viengmala Phomsengsavanh	Consultant
		Maxwell Bruku Dapaah	Sr Financial Management Specialist, GGOES
EU		Mr. Bryan Fornari	Head of Cooperation
		Ms. Julianna Hayjek	Attaché
ADB		Mr. Rattanatay Luanglatbandith	Public Management Specialist
		Mr. Soulinthone Leuangkhamsing	Senior Economic Officer
MoF	Top Management	Dr. Atsaphangthong Siphandone	Vice Minister
	Fiscal Policy and Law Department	Dr. Bounleua Sinxayvoravong	Director General
		Ms. Sifong Oumavong	Director of Macroeconomic and Fiscal Policy Division
		Mr. Sinxay Phetsavong	Deputy Director of Macroeconomic and Fiscal Policy Division
		Ms. Choummaly Khammouny	Director of Revenue and Expenditure Policy Division
		Ms. Soulitham Keopaseuth	Deputy Director of Legal Division
		Mr. KeoAloun Duangphachan	Deputy Director of Revenue and Expenditure Division

Name of institutions		Name	Title
		Mr. Duangchay Keomixay	Deputy Director of Fiscal Statistic Division
		Mr. Phongsack Phonboun	Technical Officer
		Mr. Vithanom Keokhousy	Technical Officer
		Mr. Somphone Chandabout	Technical Officer
	Budget Department	Mr. Soulivath Souvannachoumklam	Deputy Director General
		Mr. Souphavanh Phanthavilay	Deputy Director of Planning and Consolidation Division
		Mr. Phimpha Phommavong	Deputy Director of Public Procurement Monitoring Division
		Mr. Thone Phonephachanh	Director of Local BuDirector Generalaleting Division
		Mr. Sanitphong Singkhaopphet	Technical Officer
		Mr. Ekkasay Phouthonesy	Technical Officer
		Mr. Vannasone Thammavong	Technical Officer
	Budget Division, VTE Capital	Ms. Chanthavone Pathammavong	Director General
	National Treasury	Ms. Vanphone Phommasone	Director General
		Ms. Yort Phaengsombat	Deputy Director General
		Mr. Nouseuy Phomsyчанh	Deputy Director General
		Mr. Douangpaseth Thiphommachanh	Director of Payment Inspection Division
		Mr. Chanthasin Phengsombath	Technical Officer of Planning and Cash Management Division
		Ms. Vathsana Khamphanith	Technical Officer of Planning and Cash Management Division
		Mr. Souksavanh Keosouvanh	Technical Officer
	National Treasury Division, VTE Capital	Mr. Amphone Souphida	Deputy Director General
	Inspection Department	Mr Thoum Khamphanith	Director General
		Mr Bounthong ManAnong	Deputy Director General
		Mr. Thammavongsa Vilaysack	Director of Division

Name of institutions		Name	Title
		Mr. Pavath Philavong	Deputy Director of Division
		Mr. Onechan Phimmaseng	Director of Division
		Mr. Bounma Vorasarn	Deputy Director of Division
		Mr. Thongvone Leuangphimna	Deputy Director of Division
		Mr. Soulinphone Phetxay	Deputy Director of Division
		Mr. Vanhnakhone Tommay	Technical Officer
	Institute for Financial Information Development	Mr. Bountkeurt Inthavongsone	Deputy Director General
		Mr. Chanmina Pamanivong	Head of Database and Application Division
		Ms. Obsone Boupha	Director of Division
	Tax Department	Mrs. Khonemany Phimasack	Deputy Director General
		Mrs. Bounsavanh Vilaysone	Head of Operation Division
		Ms. Avina Luang A math	Deputy Director of ICT Division
		Mr. Phouthasack Phommachack	Deputy Director of Revenue Collection Division
		Mr. Vaxeng Her	Deputy Director of IT Division
		Mr. Anouvong Bouaphan	Deputy Director of Tax Revenue Service Division
		Mr. Vileth Kinnavong	Director of Planning and International Corporation Division
		Mr. Souphanh Vilavong	Deputy Director of Post Filing Division
		Ms. Phaypany Choummaly	Technical Officer of Planning and International Corporation Division
		Ms. Dalaphone Zamountry	Technical Officer of Planning and International Corporation Division
		Tax Division VTE Capital	Mr. Vongthong Khamkikeo
	Ms. Lattana Vanya		Deputy Head of Personnel, Administration and Finance Division
Accounting Department	Dr. Somsanouk Sinamountry	Deputy Director General	

Name of institutions		Name	Title
		Mr. Chintanakone Soysithat tha	Technical Officer of State Accounting Division
		Mr. Anouluck Onkhamtai	Technical Officer of State Accounting Division
		Mr. Thiphavong Vongsengdeuan	Technical Officer of State Accounting Division
	State Assets Department	Mr. Phouthasinh Heuanthavong	Deputy Director General
		Mr. Vongphasith Silavong	Deputy Director Division
		Mr. Namseng Xathousinh	Deputy Director of Human Resource and Administration
		Mr. Anousone Khotpathip	Technical Officer
		Mr. Phetsouvanh Keovongsack	Technical Officer
		SOEs and Insurance Department	Mr. Somxay Keovandy
	Customs Department	Mr. Somphavanh Sihapanya	Deputy Chief Division
		Ms. SoySouaykham Phannouvong	Deputy Director Division
		Ms. Bouasingkham Soulaxay	Deputy Director Section
		Mr. Sanya Khamson	Deputy Director of International Corporation Division
	External Finance and Debt Management Department	Ms. Anisara Somboukhan	Deputy Director of Personnel, Admin, Finance Division
		Ms. Soumiva Viengkeo	Technical Officer
Personnel Department	Ms. Soudalath Vithaxay	Deputy Director of Personnel Management Division	
Personnel Division, VTE Capital	Ms. Chanthavy Yoysaikhram		
Finance Division, VTE Capital	Ms. Phouangsy Phaolavanh		
SAO	Audit Results Quality Assurance Department	Mr. Anousith Soukhathammavong	Deputy Director General
		Mr. Xayyo Heangnimoon	Deputy Director General
		Mr. Senyphet Syhavong	Deputy Director General of Audit Division
		Mr. Soutsavanh Manachit	Deputy Director of Evaluation Division

Name of institutions		Name	Title
		Ms. Chanphayvanh Khounsackda	Deputy Director Division
		Mr. Sohanith Xaykhouson	Technical Officer
<b>National Assembly</b>	Banking, Finance, and Auditing Department	Mr. Khamphounh Phengthireth	Director General
		Ms. Souksakhone Sitthibandith	Director of Banking, Finance, and Auditing Division
		Mr. Anousone Phommaxay	Technical Officer of Statistic Division
		Mr. Vannasone Lamxai	Technical Officer
		Ms. Simphan Luengmixay	Technical Officer
		Mr. Vilath Sihabout	Technical Officer
		Mr. Tingmai Vilaythong	Technical Officer
<b>Ministry of Public Works and Transport</b>	Finance Department	Mr. Sisomthong Phomthavixay	Deputy Director General
		Ms. Keoviengsavanh Khamkhosy	Deputy Director General
		Mr. Thongdeun Khammany	Deputy Director General
		Mr Vannasone K Thepvongsa	Director of Finance Division
		Mr. Oun Xayavongkaisone	Director of Accounting Division
		Mr. Souksavanh Mahaxay	Technical Officer
<b>BCEL</b>		Mr. Lachay Khanpravong	Deputy Managing Director
<b>MoES</b>	Finance Department	Mrs. Dara Prakonekham	Acting Director General
		Mrs Xeunchith Selinokham	Director of Accounting Division
		Ms. Chanthone Thammathevo	Director of Asset Management Division
		Mr. Sengthong Davong	Technical Officer of Accounting Division
	Education Division VTE Capital	Mr. Phetchandavone Inthalaphone	
<b>MoH</b>	Finance Department	Dr. Khoutxaytoon Phimmasone	Deputy Director General
		Dr. Souphab Panyakeo	Deputy Director General

Name of institutions		Name	Title
		Ms. Manisone Phetsomphone	Director of Finance Division
		Mr. Viengxay Vilavong	Deputy Head of Finance Division
		Mr. Anouluck Khamphilom	
		Mr. Phouvieng Khammany	Deputy Director of ODA
		Mr. Bountiem Phitmassenh	Director of Finance Division
		Mr. Phoxay Xayalath	
		Mr. Bounmy Sibounheung	Deputy Director Division
		Mr. Phouthasone Vongsavath	Technical Officer
		Mr. Sanithphong Singkaophet	Technical Officer
<b>MoHA</b>	Planning and Cooperation Department	Mr. Nisith Keopanya	Director General
		Mr. Souvanny Lattanavong	Director General of civil servant Management
		Mr. Nanthaphan Livathana	Deputy Head of Civil Servant Division
		Mr. Oulayphong Phommachak	Technical Officer
		Mr. Pabou Southemany	Technical Officer
		Ms. Souksan Thavikham	Project Staff
		Mr. Bounlieng Bounyakhet	Project Staff
<b>MPI</b>	Planning Department	Mr. Oula Somchanmavong	Deputy Director General
		Mr. Boupavanh Keomixay	Deputy Director of Macro-Economics Management Division
		Mr Xayphone Chanpasith	Deputy Director of Public Investment Division
		Mr. Bounketh Philavong	Deputy Director of Planning and Development Division
		Ms. Souphatta Naphayvong	Technical Officer
<b>MoNRE</b>	Land Department	Mr. Vongdeuan Vongsiharath	Director General
		Mr. Anongsone Phommachanh	Deputy Director General
		Ms. Dalaykham Bayyavong	Technical Officer
		Mr. Oukham	Deputy Director General



Name of institutions		Name	Title
Ministry of Agriculture and Forestry	Planning and Fiscal Policy Department	Mr. Phoutthanousone Meuansitthida	Deputy Division of Department of Planning and Finance
		Mr. Soukthavin Sangsomsak	Deputy Division of Department of Planning and Finance
		Mr. Ketsana Loungnam	Deputy Division of Department of Planning and Finance
		Mr. Somchit	Director Division of Finance
Saysetha District	Finance Division	Mr. Somvang Phannavong	

### Annex 3B: Sources of information consulted to extract evidence for scoring each indicator

Indicator/dimension	Data Sources
<b>Budget reliability</b>	
<b>PI-1. Aggregate expenditure outturn</b>	State Budget Law 2016
1.1. Aggregate expenditure outturn	State Budget Plan for the Fiscal year 2013-2014, As adopted by the 5th Ordinary Session of the National Assembly, Legislature VII, Date July 21, 2013.
<b>PI-2. Expenditure composition outturn</b>	State Budget Plan for the Fiscal year 2014-2015, As adopted by the 7th Ordinary Session of the National Assembly, Legislature VII, Date July 21, 2014
2.1. Expenditure composition outturn by function	State Budget Revenue & Expenditure Plan for 2017 (MoF website)
2.2. Expenditure composition outturn by economic type	State Budget Revenue & Expenditure Plan for 2018 (MoF website)
2.3. Expenditure from contingency reserves	State Budget implementation reports produced by MoF from 2014-15 to 2017 and data received from MoF Budget department
<b>PI-3. Revenue outturn</b>	Fiscal data from Government Annual Finance Statistics Annual Report for 2013-14, 2014-15 and 2015-2016 and MoF Budget department data.
3.1. Aggregate revenue outturn	State Budget Expenditure Plan for Local level 2018 (in MoF website)
3.2. Revenue composition outturn	
<b>Transparency of public finances</b>	

Indicator/dimension	Data Sources
<b>PI-4. Budget classification</b>	GFIS documentation from National Treasury
4.1 Budget classification	WYG reports: Transition Planning for Upgrade of GFIS and COTS based FMIS Acquisition, September 2017 and Transition Planning for Upgrade of GFIS and COTS based FMIS Acquisition, October 2017, Updated Business Process Maps and Proposed Changes 2017, October 2017 and Business Process Maps, Proposed Changes and Requirements for Treasury Information Management System (TIMS). November 2012. Foreign Aid Implementation Report (FAIR) "2017 Semi-Annual Progress and 2018 Estimation", International Cooperation department, MPI Guideline for Public Accounting 2015-2016, MoF Amended Accounting Law, December 2013, 47/NA
<b>PI-5. Budget documentation</b>	State budget plans and reports from MOF
5.1 Budget documentation	NA Resolution on the approval of NSEDP implementation report and state budget plan and revised state budget plan for FY2013-14 and Plans for FY2014-15, No. 06 /NA NA Resolution on the approvals of the reports by the government on the implementation of NSEDP, budget execution, monetary plan FY14/15 and the directions for FY15/16, no. 07/NA, July 21, 2015 NA Resolutions on the approval of budget executions report by the government for FY15/16 and directions for 2017. No. 015/NA, November 24, 2016 Minister's Instruction on Report on NSEDP 6 months implementation, prioritized areas for the last 6 months of 2017 and 2018 Planning preparation. No. 1489/MPI1, July 19, 2017 State-Budget Proposal for FY2019, (Report to the General Government Meeting on September 17–18, 2018)
<b>PI-6. Central government operations outside financial reports</b>	Data from National Treasury
6.1. Expenditure outside financial reports	Decree on National Health Insurance, No. 470/GoL, dated October 17, 2012 Heritage Fund Decree No. 326/GoL, Date: October 7, 2014
6.2. Revenue outside financial reports	Decree on Environment Protection Fund, No. 94/GoL, dated March 8, 2017
6.3. Financial reports of extrabudgetary units	PM's Decree on National Road Maintenance Fund, No 09, January 15, 2001 Decree by the PM on Poverty Reduction Fund. No 10-PM January 10, 2012 Social Security Law, No. 34/NA, dated July 26, 2013 Foreign Aid Implementation Report (FAIR) Fiscal Year 2015-16 and 2017 MoH Decree 470 Articles 55 and 56 of the Social Security Law (No. 34/NA dated July 26, 2013) Ministry of Labour and Social Welfare Decision No. 1740/MOLSW dated April 25, 2016
<b>PI-7. Transfers to subnational governments</b>	State budget plans and reports from Budget department MoF
7.1. System for allocating transfers	Constitution revised in 2015, 63/NA, December 8, 2015
7.2. Timeliness of information on transfers	Law on local administration, 68/NA, November 14, 2015 SamSang report, no. 01/MoHA, January 26, 2018

Indicator/dimension	Data Sources
	Report on Budget Revenue-Expenditure execution 2017 and 2018 work plan, Luang Prabang province Support for governance and capacity development - Decentralization-Inception Report March 18 2018-2, ADB Position paper on transfer mechanism, ADB, 2017 (draft)
<b>PI-8. Performance information for service delivery</b>	Data collected from MoES, MoH and MoPWT
8.1. Performance plans for service delivery	8th Five year National Socio- Economic Development plan (2016-2020) approved at the VII NA Inaugural session, April 20–23, 2016, MPI
8.2. Performance achieved for service delivery	Policy Brief: Education and Health Sectors - Public Expenditure Arrangements, World Bank, June 2018 (draft)
8.3. Resources received by service delivery units	Education and Sports Sector Performance Annual Report 2015-2016 and Development Plan for 2016- 2017, MoES, July 2016.
8.4. Performance evaluation for service delivery	Laos Education and Sports Management Information System (LES MIS), Situation Analysis, June 2017 and Strategic Development Plan 2018 to 2022 (5 years), September 2017, MoES Strategy and Reform Plan for Health Sector to 2025 Reform Plan for Health Sector (2013-2025) Report on 5-year Development Plan for Health sector (2011-2015) implementation and Economic Development Plan FY2016-2020 Annual 2017 Report, MoH Lao Economic Monitor, April 2017, thematic section: financing the Health sector in Lao PDR. PFM in the Health Sector in Lao PDR – Service Delivery Challenges and Opportunities, World Bank draft, October 2018 Nutrition in Lao PDR, Causes, Determinants and Bottlenecks, World Bank, June 2016 Government expenditure on health, Overall Trends and Findings from A Health Center Survey, World Bank, May 2016 Managing transition, Reaching the Vulnerable while Pursuing Universal Health Coverage, Health Financing System Assessment in Lao PDR, World Bank, December 2017
<b>PI- 9. Public access to fiscal information</b>	MoF and MPI website
9.1. Public access to fiscal information	NA Resolution on the approvals on the macro-adjustment for 2017-2020 of the NSEDP, the state budget plan and the 8th 5-year monetary plan. No. 014/ NA November 24, 2016 National socio - Economic Development plan 2017, MPI Data collected from FPD, MoF and NA resolutions in 2017 and 2018
<b>Management of assets and liabilities</b>	
<b>PI-10. Fiscal risk reporting</b>	Decree on Public Investment on SOEs, No. 54/GoL, dated May 9, 2002
10.1. Monitoring of public corporations	Consolidated table for SOEs reporting 2017 and 2018, SOE department, MOF
10.2. Monitoring of subnational government	Lao Economic Monitor, April 2017, December 2017 and April 2018.
10.3. Contingent liabilities and other fiscal risks	Data collected from National Treasury and External Finance Department MoF

Indicator/dimension	Data Sources
<b>PI-11. Public investment management</b>	Investment Promotion Law amended 2016 Unofficial translated English, 14/NA, May 2016
11.1. Economic analysis of investment proposals	Resolution by the MPI Minister on the ToRs of MPI Planning Department, No 2706, November 9, 2017
11.2. Investment project selection	Public Investment Plan 2015 -2016 of Vientiane Capital and provinces, promulgated by 9th ordinary session of
11.3. Investment project costing	the 7th legislation, July 21, 2015.
11.4. Investment project monitoring	Public Investment Plan FY2017 - Ministries - Economic Sectors, promulgated by 2nd ordinary session of the 8th legislation November 24, 2016 Public Investment Plan 2017) Data on PIP 2017 and 2018 collected from MPI (consolidation by categories and NT2 projects)
<b>PI-12. Public asset management</b>	Law on State Assets (Amended) 2013
12.1. Financial asset monitoring	ToRs State Assets department, MoF
12.2. Nonfinancial asset monitoring	Guideline for State Assets Management and the Usage in Education Sector
12.3. Transparency of asset disposal.	Prime Minister's Decree No 15 on the allocation and management of position cars for leaders and the Prime Minister's Order No 40 on the nationwide resurvey of state revenue sources. Data collected from MoES and MoPW
<b>PI-13. Debt management</b>	Decree on Government Bonds, No. 101/GoL, March 20, 2017
13.1. Recording and reporting of debt and guarantees	Staff Report for the 2016 and 2017 Article IV consultation – Debt sustainability Analysis, IMF Draft Law on Public Debt, September 2017 version submitted to NA
13.2. Approval of debt and guarantees	
13.3. Debt management strategy	
<b>Policy-based fiscal strategy and budgeting</b>	
<b>PI-14. Macroeconomic and fiscal forecasting</b>	WB Technical Note on Method and Institutional Arrangements for Revenue Forecasting: Functions,
14.1. Macroeconomic forecasts	Methodologies, and proposal for Lao PDR, June 2018
14.2. Fiscal forecasts	Lao PDR, Public Expenditure Analysis, Synthesis Note, World Bank, June 2018
14.3. Macro-fiscal sensitivity analysis	Lao PDR Systematic Country Diagnostic, Priorities for Ending Poverty and Boosting Shared Prosperity, World Bank, March 9, 2017 Data from FPD for 2018 (internal)
<b>PI-15. Fiscal strategy</b>	Minister's Instruction on Report on NSEDP 6 months implementation, prioritized areas for the last 6 months of
15.1. Fiscal impact of policy proposals	2018 and 2019 Planning preparation. No. 1559/MPI, dated July 6, 2018
15.2. Fiscal strategy adoption	
15.3. Reporting on fiscal outcomes	
<b>PI-16. Medium-term perspective in expenditure budgeting</b>	Instruction by MPI on NSEDP implementation for FY17, December 19, 2016 4 year Budget Plan Framework approved by the NA, November 2016.
16.1. Medium-term expenditure estimates	

Indicator/dimension	Data Sources
16.2. Medium-term expenditure ceilings	NA Resolution on its 1st Ordinary session of the 8th Legislature On endorsement of revised state budget plan 2015-2016 and state budget plan for the last 3 months of 2016 transition period, no. 07/NA, dated April 22, 2016
16.3. Alignment of strategic plans and medium-term budgets	
16.4 Consistency of budgets with previous year's estimates	
<b>PI-17. Budget preparation process</b>	Prime Minister's Order on Report on NSEDP and State budget 6 months implementation, prioritized areas for the last 6 months of 2018 and 2019 NSDEP and state budget preparation. No. 07/PM, dated June 22, 2018 Specific instruction by MoF on the budget plan preparations for 2017. June 23, 2016 Decree on NSEDP, state budget and monetary plan for 2017, No. 445/PM, dated December 19, 2016 . MoF instruction on budget execution for 2017, 2018 and 2019, MoF Budget department (Budget circulars)
17.1. Budget calendar	
17.2. Guidance on budget preparation	
17.3. Budget submission to the legislature	
<b>PI-18. Legislative scrutiny of budgets</b>	Draft Report by MoF to the cabinets on the state budget execution FY15/16 and budget allocation for the last 3 months transitional period at the end of FY2016, as well as the directions for 4 years the state budget from FY2017 – 2020, 2nd Ordinary session, 8th legislation, October 24 to 18 Nov 2016. Report by MoF on budget execution for the first 6 months of FY2017 as well as the directions of the state budget for FY2018. to 4th ordinary session of the 8th legislation October 16, – November 17, 2017. No 3525-1/MOF, October 16, 2017. Budget data from FPD on budget revision from 2013-14 to 2017.
18.1. Scope of budget scrutiny	
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
<b>Predictability and control in budget execution</b>	
<b>PI-19. Revenue administration</b>	Revised Tax Law 2015 Customs Law 2011 VAT Law 2016 Ministerial Instruction on Tax Revenue Collection Management, MoF 3281, October 2014 Specific data from Tax Department on Complaints and questions from Public and Private sectors, staffing tables and inspection findings. Revision VAT Law, towards international practices, ppt presentation, World Bank December 2017 Tax reform for growth and revenue mobilization, WB ppt presentation, December 2017 A comparative Analysis in Tax administration in Asia and the Pacific, ADB, July 2018 Simplifying the Tax System to Enhance Revenue and Efficiency technical Assistance Report, FAD, IMF June 2017 Technical assistance report (draft) implementing Tax administration reform and developing a Medium Term Revenue Strategy, FAD, IMF June 2018 Mission Report: Tax Administration Support to the Large Tax Payer Unit, World Bank, October 2017 Technical Note: Implementation of a Risk Based Audits System for the Large Tax Payers, World Bank. 20 June 2018 Data collected from Tax department, post-filing division on tax audits and claims.
19.1. Rights and obligations for revenue measures	
19.2. Revenue risk management	
19.3. Revenue audit and investigation	
19.4. Revenue arrears monitoring	

Indicator/dimension	Data Sources
<b>PI-20. Accounting for revenues</b>	Prime Minister's Decree on National Treasury, No. 259, June 2010
20.1. Information on revenue collections	ToRs National Treasury, MoF 2017
20.2. Transfer of revenue collections	Technical Note on Next Steps to Improve Cash Management and Fiscal Reporting, World Bank, June 2017
20.3. Revenue accounts reconciliation	GFIS Technical Note, World Bank, September 2016 Technical Specifications for the introduction of GFIS e-payment gateway and Provincial interfaces to GFIS, WYG Sept 2017 Technical Note on Transition Planning for Upgrade of GFIS and COTS based FMIS Acquisition, WYG Sept 2017 Treasury Payment Systems Report, World Bank June 2017 World Bank Lao TIMS 2017 Updated Business Process Maps and Proposed Changes 2017, June 2017 National Treasury reporting for 2014-15 and 2015-16 (internal)
<b>PI-21. Predictability of in-year resource allocation</b>	See PI-20
21.1. Consolidation of cash balances	
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
<b>PI-22. Expenditure arrears</b>	Data from Treasury and External Finance department and MoF budget reports to NA and NA resolutions for 2016, 2017 and 2018.
22.1. Stock of expenditure arrears	
22.2. Expenditure arrears monitoring	
<b>PI-23. Payroll controls</b>	Prime Minister's Order No 55 on the measures on the management and payment of salary and supporting allowance
23.1. Integration of payroll and personnel records	Aide Memoire Preparation and Capacity Development for Wage-bill Modelling, WB Mission, Lao PDR, September 20-28, 2017
23.2. Management of payroll changes	World Bank Policy Brief: Towards Better Management of the Public Sector Wage Bill and Work Force, April 2018
23.3. Internal control of payroll	PIMS ppt presentation, September 2017
23.4. Payroll audit	Lao PDR Labour Force Survey 2017, Survey Finding report, Lao Statistics Bureau and MPI, June 2018
	PIMS data
<b>PI-24. Procurement management</b>	PM Decree on government procurement of goods, works and services, 03/PM dated January 9, 2004
24.1. Procurement monitoring	Implementing rules and regulations on Decree 03/PM, no. 0063/MoF, March 2004 and amendment in May 2009
24.2. Procurement methods	Public Procurement Law presented to NA, October 2017
24.3. Public access to procurement information	Technical Note Finalization of Procurement Law and Drafting of Secondary Legislation, World Bank, June 3, 2018
24.4. Procurement complaints management	Procurement Risk Assessment Final report, ADB, April 25, 2016

Indicator/dimension	Data Sources
	Lao PDR case study, Ministry of Public Works and Transport, World Bank, August 2014. Report on Bottlenecks in the Procurement in Lao PDR, World Bank June 23, 2014
<b>PI-25. Internal controls on non-salary expenditure</b>	See Pi-20 and PI-21 and specific data collected from National Treasury and questionnaires to Inspection department MoF.
25.1. Segregation of duties	
25.2. Effectiveness of expenditure commitment controls	
25.3. Compliance with payment rules and procedures	
<b>PI-26. Internal audit</b>	Prime Minister's Decree on National Inspection, No. 160 dated August 26, 1996 Law on National Inspection, No 41/NA, 2008
26.1. Coverage of internal audit	
26.2. Nature of audits and standards applied	
26.3. Implementation of internal audits and reporting	
26.4. Response to internal audits	
<b>Accounting and reporting</b>	
<b>PI-27. Financial data integrity</b>	Technical Note: Political Economy Analysis for PFM Modernization Program in Support of FMIS Implementation, World Bank, May 31, 2018 Decision on organizational structure and roles of the National Treasury, MoF, No. 2833/MoF, August 22, 2017 All references under PI-20
27.1. Bank account reconciliation	
27.2. Suspense accounts	
27.3. Advance accounts	
27.4. Financial data integrity processes	
<b>PI-28. In-year budget reports</b>	Draft report by MoF on budget execution for the first 6 months of FY14/15 and all the measures in order to execute the last 6 months as well as the directions of the state budget for FY15/16. Draft to 9th ordinary session of the 7th legislation July 1–21, 2015, Report by MoF to the cabinets on the first 6-months of state budget execution FY14/15 and measures to reach the targets of the last 6 months as well as the directions for the state budget for FY15/16. April 22–24, 2015, Prime Minister's Order on Report on NSEDP and State budget 6 months implementation, prioritized areas for the last 6 months of 2018 and 2019 NSEDP and state budget preparation. No. 07/PM, dated June 22, 2018 Q1 of 2018 Financial Statistic Report, MOF
28.1. Coverage and comparability of reports	
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
<b>PI-29. Annual financial reports</b>	Expansion of the Chart of Accounts, ppt presentation, Workshop, MoF, September 5, 2018 Lao PDR, Adopting Cash Basis IPSAS: gap analysis and action plan, technical assistance reports , FAD, IMF, April 2017 Treasury and Budget reports submitted to SAO for 2014-15, 2015-16 and 2017.
29.1. Completeness of annual financial reports	
29.2. Submission of the reports for external audit	
29.3. Accounting standards	
<b>External scrutiny and audit</b>	

Indicator/dimension	Data Sources
<b>PI-30. External audit</b>	Lao PDR Preliminary Review and Self-assessment of Progress under SAO Action Plan 2009-2020 Audit, World Bank draft May 2016
30.1. Audit coverage and standards	Law on Independent Audit, No 51/NA, July 22, 2014 and Law on State Audit, ref. 16/NA, July 6, 2012
30.2. Submission of audit reports to the legislature	Report by SAO President on state budget execution FY2014-15 (published).
30.3. External audit follow-up	Report by SAO on yearly audit Finding FY2017 and as well as the direction of auditing plan for 2018 and the result on budget execution for the year 2015 - 2016. No 1399/SAO, October 16, 2017.
30.4. Supreme Audit Institution independence	SAO data on audit plans 2017 and 2018 and list of SAO reports published on SAO website Instruction on Standardization of State Audit, No. 1142/SAO, Date: September 15, 2016 ToRs for State Audit Department, Enterprises Audit Department, Banks Audit Department, Quality Assurance of Audit results Unit Aide Memoire Budget Oversight function mission, World Bank, August 2–7, 2017
<b>PI-31. Legislative scrutiny of audit reports</b>	NA Law 2015
31.1. Timing of audit report scrutiny	ToRs of the Planning, Finance and Audit Committee
31.2. Hearings on audit findings	NA Resolution on the approval of the 7th NSEDP mid-term implementation report, NSEDP implementation and state budget implementation report for FY2012-13 and Plans for FY2013-14, No. 02 /NA, dated July 26, 2013
31.3. Recommendations on audit by the legislature	Resolution by NA on the approval on Audit result on Budget Execution FY2013 - 2014 the 10th ordinary, 7th Legislation No, 026/NA, December 5, 2015.
31.4. Transparency of legislative scrutiny of audit reports	NA Resolution on the approval of revised SAO Audit Finding FY2013-14, Report on Audit result on Budget execution for FY2014-15 and yearly report for FY2015-16 and as well as the direction for 2017. No. 012 /NA, dated October 31, 2016. NA Resolution at the 4th ordinary, 8th Legislation on the approval of SAO Audit result on Budget Execution FY2015 - 2016, SAO Annual implementation Report 2017 and 2018 work plan, report from Government Inspection Authority on the inspection of the SAO audit report on state budget implementation 2013-2014 and 2014-2015, No. 074/NA, dated November 17, 2017



## Annex 3C: Source of information from analytical studies and reports

### General Document

1. WYG reports: Transition Planning for Upgrade of GFIS and COTS based FMIS Acquisition, September 2017 and Transition Planning for Upgrade of GFIS and COTS based FMIS Acquisition, October 2017, Updated Business Process Maps and Proposed Changes 2017, October 2017 and Business Process Maps, Proposed Changes and Requirements for Treasury Information Management System (TIMS). November 2012.
2. Foreign Aid Implementation Report (FAIR)
3. Foreign Aid Implementation Report (FAIR) Fiscal Year 2015-16 and 2017
4. Position paper on transfer mechanism, ADB, 2017 (draft)
5. Support for governance and capacity development - Decentralization-Inception Report March 18 2018-2, ADB
6. Policy Brief: Education and Health Sectors - Public Expenditure Arrangements, World Bank, June 2018 (draft)
7. Lao Economic Monitor, April 2017, thematic section: financing the Health sector in Lao PDR, World Bank Lao PDR
8. PFM in the Health Sector in Lao PDR – Service Delivery Challenges and Opportunities, World Bank draft, October 2018
9. Nutrition in Lao PDR, Causes, Determinants and Bottlenecks, World Bank, June 2016
10. Government expenditure on health, Overall Trends And Findings From A Health Center Survey, World Bank, May 2016
11. Managing transition, Reaching the Vulnerable while Pursuing Universal Health Coverage, Health Financing System Assessment in Lao PDR, World Bank, Dec 2017
12. Lao Economic Monitor, April 2017, December 2017 and April 2018.
13. Staff Report for the 2016 and 2017 Article IV consultation – Debt sustainability Analysis, IMF
14. WB Technical Note on Method and Institutional Arrangements for Revenue Forecasting: Functions, Methodologies, and proposal for Lao PDR, June 2018
15. Lao PDR, Public Expenditure Analysis, Synthesis Note, World Bank, June 2018
16. Lao PDR Systematic Country Diagnostic, Priorities for Ending Poverty and Boosting Shared Prosperity, World Bank, March 9, 2017
17. Revision VAT Law, towards international practices, ppt presentation, World Bank December 2017
18. Tax reform for growth and revenue mobilization, World Bank PowerPoint presentation, December 2017
19. A comparative Analysis in Tax administration in Asia and the Pacific, ADB, July 2018
20. Simplifying the Tax System to Enhance Revenue and Efficiency technical Assistance Report, FAD, IMF June 2017
21. Technical assistance report (draft) implementing Tax administration reform and developing a Medium Term Revenue Strategy, FAD, IMF June 2018
22. Mission Report: Tax Administration Support to the Large Tax Payer Unit, World Bank, October 2017
23. Technical Note: Implementation of a Risk Based Audits System for the Large Tax Payers, World Bank June 20, 2018
24. Technical Note on Next Steps to Improve Cash Management and Fiscal Reporting, World Bank, June 2017
25. GFIS Technical Note, World Bank, September 2016
26. Technical Specifications for the introduction of GFIS e-payment gateway and Provincial interfaces to GFIS, WYG Sept 2017
27. Technical Note on Transition Planning for Upgrade of GFIS and COTS based FMIS Acquisition, WYG Sept 2017
28. Treasury Payment Systems Report, World Bank, June 2017
29. WB Lao TIMS 2017 Updated Business Process Maps and Proposed Changes 2017, June 2017
30. Aide Memoire Preparation and Capacity Development for Wage-bill Modelling, World Bank Mission, Lao PDR, September 20–28, 2017

31. World Bank Policy Brief: Towards Better Management of the Public Sector Wage Bill and Work Force, April 2018
32. PIMS PowerPoint presentation, Sept. 2017
33. Technical Note Finalization of Procurement Law and Drafting of Secondary Legislation, World Bank, June 3, 2018
34. Procurement Risk Assessment Final report, ADB, April 25, 2016
35. Lao PDR case study, Ministry of Public Works and Transport, World Bank, August 2014.
36. Report on Bottlenecks in the Procurement in Lao PDR, World Bank, June 23, 2014
37. Technical Note: Political Economy Analysis for PFM Modernization Program in Support of FMIS Implementation, World Bank, May 31, 2018
38. Expansion of the Chart of Accounts, PowerPoint presentation, Workshop, MoF, September 5, 2018
39. Lao PDR, Adopting Cash Basis IPSAS: gap analysis and action plan, technical assistance reports , FAD, IMF, April 2017
40. Lao PDR Preliminary Review and Self-assessment of Progress under SAO Action Plan 2009-2020 Audit, World Bank draft May 2016
41. Aide Memoire Budget Oversight function mission, World Bank, August 2–7, 2017

## Websites

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[www.na.gov.la](http://www.na.gov.la)

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[www.taxservice.mof.gov.la](http://www.taxservice.mof.gov.la)

## Annex 4: Calculation sheets for PI-1, PI-2, and PI-3

Table 1: 2014/15 Aggregate Expenditure Variance Calculation for PI-1

Administrative or functional head	LAK, millions					
	2014/15 budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Finance	754,882	765,001	742,210.4	10,119	10,119	1
Planning and investment	32,094	32,593	31,555.3	499	499	2
Agriculture and forestry	570,634	571,210	561,055.2	576	576	0
Public works and transport	2,279,415	2,290,188	2,241,152.7	10,773	10,773	0
Energy and mining	197,230	196,547	193,919.3	-683	683	0
Industry and commerce	34,612	36,087	34,031.0	1,475	1,475	4
Foreign affairs	65,571	237,186	64,470.3	171,615	171,615	266
Justice	44,698	44,184	43,947.7	-514	514	1
Information and culture	140,997	140,434	138,630.2	-563	563	0
Labor and social welfare	807,790	786,787	794,230.3	-21,003	21,003	3
Education and sports	1,018,685	1,045,281	1,001,584.9	26,596	26,596	3
Public health	1,083,193	1,153,224	1,065,009.8	70,031	70,031	7
Supreme people's court	61,339	64,051	60,309.4	2,712	2,712	4
Public prosecutor general	58,327	60,090	57,347.9	1,763	1,763	3
Audit agency	21,338	24,829	20,979.9	3,491	3,491	17
Science and technology	63,084	66,070	62,025.1	2,986	2,986	5
Water resource and environment	142,830	168,660	140,432.3	25,830	25,830	18
Other organization	5,009,909	4,546,468	4,925,811.3	-463,441	463,441	9
Other	10,336,765	10,288,040	10,163,250.3	-48,725	48,725	0
<b>Provinces</b>						
Vientiane capital city	732,079.09	589,869.49	605,945.83	-142,210	142,210	23
Phongsaly	302,445.00	305,485.17	315,598.95	3,040	3,040	1
Luang Namtha	354,186.37	320,950.11	333,329.35	-33,236	33,236	10
Oudomxay	484,603.22	459,731.03	463,067.54	-24,872	24,872	5
Bokeo	280,988.00	265,268.41	276,657.02	-15,720	15,720	6
Luang Prabang	572,932.90	572,633.52	588,727.04	-299	299	0
Huaphan	441,122.29	439,021.85	451,304.02	-2,100	2,100	0
Sayabouly	446,313.00	464,060.08	478,117.74	17,747	17,747	4
Xiengkhouang	467,454.18	450,299.72	450,741.60	-17,154	17,154	4
Vientiane province	518,040.00	571,409.55	580,658.96	53,370	53,370	9
Xaysomboun	141,958.00	132,618.67	170,172.17	-9,339	9,339	5
Bolikhamsay	438,405.02	442,118.53	454,307.75	3,714	3,714	1
Khammouane	504,886.00	467,083.15	499,572.12	-37,803	37,803	8
Savannakhet	748,177.57	733,508.17	764,763.67	-14,669	14,669	2
Saravane	369,973.00	435,806.50	440,270.94	65,834	65,834	15
Sekong	384,701.30	341,237.21	353,593.41	-43,464	43,464	12
Champasack	787,632.31	664,043.66	682,020.14	-123,589	123,589	18
Attapue	300,710.00	307,552.46	314,909.38	6,842	6,842	2
Allocated expenditure	31,000,000	30,479,627	30,565,711	-520,373	1,478,399	5
Interests		1,125,647				
Contingency		95				
Total expenditure	31,000,000	31,605,370				
Aggregate outturn (PI-1)						<b>102.0</b>
Composition (PI-2) variance						<b>4.8</b>
Contingency share of budget						<b>0.0</b>

Table 2. 2015/16 Aggregate Expenditure Variance Calculation for PI-1

Administrative or functional head	LAK, millions					
	2015/16 budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Finance	807,507	799,208	772,293	(8,299)	8,299	1
Planning and investment	33,929	30,616	32,449	(3,313)	3,313	10
Agriculture and forestry	460,862	440,274	440,764	(20,588)	20,588	4
Public works and transport	2,363,224	2,269,236	2,260,166	(93,988)	93,988	4
Energy and mining	215,835	193,240	206,423	(22,595)	22,595	10
Industry and commerce	37,864	39,361	36,213	1,497	1,497	4
Foreign affairs	75,026	243,054	71,754	168,028	168,028	224
Justice	47,470	45,588	45,400	(1,882)	1,882	4
Information and culture	121,584	112,882	116,282	(8,702)	8,702	7
Labor and social welfare	867,981	859,340	830,129	(8,641)	8,641	1
Education and sports	1,204,470	1,298,635	1,151,944	94,165	94,165	8
Public health	1,063,101	1,024,873	1,016,740	(38,228)	38,228	4
Home affairs	n.a.	27,123	—	—	—	n.a.
Supreme people's court	72,145	n.a.	68,999	—	—	n.a.
Public prosecutor general	63,787	n.a.	61,005	—	—	n.a.
Audit agency	23,896	n.a.	22,854	—	—	n.a.
Science and technology	37,158	33,144	35,538	(4,014)	4,014	11
Water resource and environment	170,366	165,300	162,937	(5,066)	5,066	3
Post and telecommunication	n.a.	88,827	—	—	—	n.a.
Statistics	n.a.	41,887	—	—	—	n.a.
Other organization	5,463,968	n.a.	5,225,690	—	—	n.a.
Other (reserves)	8,819,095	14,411,118	8,434,502	5,592,023	5,592,023	63
<b>Provinces</b>						
Vientiane capital city	1,354,880	587,004	601,861	(767,876)	767,876	57
Phongsaly	325,689	324,111	337,912	(1,578)	1,578	0
Luang Namtha	336,577	322,155	334,270	(14,422)	14,422	4
Oudomxay	535,124	463,290	465,560	(71,834)	71,834	13
Bokeo	362,462	277,264	280,503	(85,198)	85,198	24
Luang Prabang	619,774	601,428	615,972	(18,346)	18,346	3
Huaphan	832,097	499,964	508,594	(332,133)	332,133	40
Sayabouly	502,415	479,182	503,042	(23,233)	23,233	5
Xiengkhouang	498,907	495,591	506,530	(3,316)	3,316	1
Vientiane province	576,110	592,813	606,830	16,703	16,703	3
Xaysomboun	222,922	199,556	225,346	(23,366)	23,366	10
Bolikhamxay	482,375	449,774	468,193	(32,601)	32,601	7
Khammouane	556,676	521,608	512,059	(35,068)	35,068	6
Savannakhet	822,031	781,031	773,289	(41,000)	41,000	5
Saravane	404,411	426,597	436,451	22,186	22,186	5
Sekong	460,653	380,348	398,897	(80,305)	80,305	17
Champasack	773,104	702,571	716,729	(70,533)	70,533	9
Attapue	330,522	324,871	333,218	(5,651)	5,651	2
Allocated expenditure	31,946,000	30,552,864	29,617,337	4,072,824	7,716,380	24
Interests	1,389,000	1,382,519				
Contingency	70,000	48,823				
Total expenditure	33,405,000	31,984,206				
Aggregate outturn (PI-1)						<b>95.7</b>
Composition (PI-2) variance						<b>24.2</b>
Contingency share of budget						<b>0.2</b>

Table 3. 2017 Aggregate Expenditure Variance Calculation for PI-1

Administrative or functional head	2017 Budget	LAK, millions				
		Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Finance	202,592.00	276,613.00	276,632	74,021.00	74,021	37
Planning and investment	24,851.00	49,461.00	49,464	24,610.00	24,610	99
Agriculture and forestry	99,775.00	264,446.00	264,464	164,671.00	164,671	165
Public works and transport	132,999.00	1,412,360.00	1,412,458	1,279,361.00	1,279,361	962
Energy and mining	22,413.00	175,605.00	175,617	153,192.00	153,192	683
Industry and commerce	26,458.00	38,910.00	38,913	12,452.00	12,452	47
Foreign affairs	73,820.00	269,327.00	269,346	195,507.00	195,507	265
Justice	38,672.00	57,933.00	57,937	19,261.00	19,261	50
Information and culture	87,269.00	112,963.00	112,971	25,694.00	25,694	29
Labor and social welfare	842,794.00	860,740.00	860,800	17,946.00	17,946	2
Education and sports	459,601.00	762,524.00	762,577	302,923.00	302,923	66
Public health	505,496.00	552,874.00	552,912	47,378.00	47,378	9
Supreme people's court	61,916.00	—	—	-61,916.00	61,916	100
Public prosecutor general	59,173.00	—	—	-59,173.00	59,173	100
Audit agency	17,308.00	—	—	-17,308.00	17,308	100
Science and technology	27,201.00	37,574.00	37,577	10,373.00	10,373	38
Water resource & environment	49,456.00		—	-49,456.00	49,456	100
Other organization	20,571,167.74	18,272,378.00	18,273,648	-2,298,789.74	2,298,790	11
Other (reserves)				—	—	
<b>Provinces</b>						
Vientiane capital city	639,399.95	654,787.00	654,832	15,387.05	15,387	2
Phongsaly	345,988.21	343,824.00	343,848	-2,164.21	2,164	1
Luang Namtha	359,096.68	342,130.00	342,154	-16,966.68	16,967	5
Oudomxay	446,620.58	444,763.00	444,794	-1,857.58	1,858	0
Bokeo	303,755.37	293,891.00	293,911	-9,864.37	9,864	3
Luang Prabang	683,225.26	638,757.00	638,801	-44,468.26	44,468	7
Huaphan	520,577.74	642,811.00	642,856	122,233.26	122,233	23
Sayabouly	534,343.32	537,127.00	537,164	2,783.68	2,784	1
Xiengkhouang	511,632.62	584,598.00	584,639	72,965.38	72,965	14
Vientiane province	625,614.62	230,031.00	230,047	-395,583.62	395,584	63
Xaysomboun	268,886.11	591,437.00	591,478	322,550.89	322,551	120
Bolikhamxay	488,357.32	474,258.00	474,291	-14,099.32	14,099	3
Khammouane	522,096.53	559,164.00	559,203	37,067.47	37,067	7
Savannakhet	866,041.22	885,963.00	886,025	19,921.78	19,922	2
Saravane	435,525.58	430,074.00	430,104	-5,451.58	5,452	1
Sekong	402,918.21	771,116.00	771,170	368,197.79	368,198	91
Champasack	767,307.26	383,787.00	383,814	-383,520.26	383,520	50
Attapue	347,624.68	449,756.00	449,787	102,131.32	102,131	29
Allocated expenditure	32,371,973	32,401,982	32,404,234	-233,274.7	4,740,010.7	<b>14.6</b>
Interests	1,389,000	1,382,519	1,382,519			
Contingency	70,000	48,823	48,823			
Total expenditure	<b>33,830,973</b>	33,833,324	33,835,575			
Aggregate outturn (PI-1)					100.1%	
Composition (PI-2) variance					14.6%	
Contingency share of budget					<b>0.21%</b>	

**Table 4: 2014/15 Compositional Variance Calculation for PI-2**

Economic Head	2014/15 budget	LAK, millions				
		Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Salary and employee allowance	9,300,000	8,764,787	9,615,697	(535,213)	535,213	5.6
Compensation and policy allowances	1,400,000	1,269,366	1,447,524	(130,634)	130,634	9.0
Operation expenditure	2,100,151	2,767,143	2,171,443	666,992	666,992	30.7
Technical activities and subsidies	1,605,668	1,287,755	1,660,174	(317,913)	317,913	19.1
Financial expenditure	—	1,125,747	—	1,125,747	1,125,747	#DIV/0!
Other expenditures	400,000	223,833	413,578	(176,167)	176,167	42.6
New purchase for operation	100,000	149,832	103,395	49,832	49,832	48.2
Capital - external expenditure	7,234,320	7,911,170	7,479,896	676,850	676,850	9.0
Capital - local expenditure	3,300,000	3,494,241	3,412,022	194,241	194,241	5.7
External debt	2,561,554	2,053,099	2,648,508	(508,455)	508,455	19.2
Domestic debt	2,998,307	3,005,349	3,100,087	7,042	7,042	0.2
<b>Total expenditure</b>	<b>31,000,000</b>	<b>32,052,324</b>	<b>32,052,324</b>	<b>1,052,324</b>	<b>4,389,087</b>	
Composition variance						<b>13.7</b>

**Table 5 2015/16 Compositional Variance Calculation for PI-2**

Economic head	2015/16 budget	LAK, million				
		Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Salary and employee allowance	9,800,000	8,942,015	9,370,255	(857,985)	857,985	9.2
Compensation and policy allowances	1,611,000	1,334,548	1,540,355	(276,452)	276,452	17.9
Operation expenditure	2,574,000	2,458,346	2,461,126	(115,654)	115,654	4.7
Technical activities and subsidies	1,792,000	1,781,538	1,713,418	(10,462)	10,462	0.6
Financial expenditure			—	—	—	#DIV/0!
Other expenditures	400,000	178,272	382,459	(221,728)	221,728	58.0
New purchase for operation	200,000	177,576	191,230	(22,424)	22,424	11.7
Capital - external expenditure	5,560,000	6,314,903	5,316,186	754,903	754,903	14.2
Capital - local expenditure	3,800,000	3,317,019	3,633,364	(482,981)	482,981	13.3
External debt	3,052,000	3,448,879	2,918,165	396,879	396,879	13.6
Domestic debt	3,157,000	2,592,024	3,018,561	(564,976)	564,976	18.7
<b>Total expenditure</b>	<b>31,946,000</b>	<b>30,545,119</b>	<b>30,545,119</b>	<b>(1,400,881)</b>	<b>3,704,445</b>	
Composition variance						<b>12.1</b>

**Table 6: 2017 Compositional Variance Calculation for PI-2**

Data for year =2017 (estimated)						
Economic Head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Salary and employee allowance	10,500,000	10,070,809	10,039,559	(429,191)	429,191	4.3
Compensation and policy allowances	1,700,000	1,700,000	1,625,452	—	—	0.0
Operation expenditure	2,800,000	2,990,463	2,677,216	190,463	190,463	7.1
Technical activities and subsidies	1,580,000	1,574,127	1,510,715	(5,873)	5,873	0.4
Financial expenditure	1,881,000	2,125,601	1,798,515	244,601	244,601	13.6
Other expenditures	400,000	400,000	382,459	—	—	0.0
New purchase for operation			—	—	—	
Capital - external expenditure	8,078,000	8,078,000	7,723,767	—	—	0.0
Capital - local expenditure	5,463,000	5,463,000	5,223,439	—	—	0.0
External debt			—	—	—	
Domestic debt			—	—	—	
<b>Total expenditure</b>	<b>32,402,000</b>	<b>32,402,000</b>	<b>30,981,123</b>	<b>—</b>	<b>870,128</b>	
Composition variance						<b>2.8</b>

**Table 7. Results matrix**

<b>Composition variance</b>
16.2%
13.7%
2.8 (estimated)%

**Table 8. Lao PDR: government revenue 2014–15 (LAK millions)**

Revenue type and collecting agency	Total plan 2014/15	Actual 2014/15	Deviation	Absolute deviation	Absolute deviation %
Tax revenue	16,688,781	15,818,886	(869,895)	2,375,447	14.1
1. Profit tax	2,240,573	2,129,155	(111,417)	111,417	5.0
2. Income tax	1,123,420	1,099,810	(23,610)	23,610	2.1
3. Land tax	182,000	130,777	(51,223)	51,223	28.1
4. Business licences	—	—	—	—	—
5. Minimum tax	2,711	3,082	371	371	13.7
6. Turnover tax	536,825	247,669	(289,156)	289,156	53.9
7. VAT	4,384,074	4,480,683	96,608	96,608	2.2
8. Excise duties	3,753,110	3,363,018	(390,092)	390,092	10.4
9. Import duties	1,902,200	1,356,531	(545,669)	545,669	28.7
10. Export duties	348,600	229,843	(118,757)	118,757	34.1
11. Registration fees	75,000	61,701	(13,299)	13,299	17.7
12. Other fees	1,050,819	1,234,536	183,717	183,717	15.2
13. Natural resources taxes	666,509	587,061	(79,449)	79,449	11.9
14. Timber royalties	184,294	540,069	355,775	355,775	193.0
15. Hydropower royalties	238,646	354,951	116,305	116,305	48.7
Non-tax revenues	2,111,384	2,715,501	604,117	604,117	25.9
1. Leasing fees	64,928	113,863	48,934	48,934	75.4
2. Concessions	65,196	93,306	28,110	28,110	43.1
3. Fines	111,477	124,189	12,712	12,712	11.4
4. Administration fees	604,246	608,414	4,168	4,168	0.5
5. Depreciation and dividends	853,196	946,052	92,856	92,856	10.1
6. Interest	105,215	289,230	184,016	184,016	174.9
7. Overflight rights	302,427	525,795	223,369	223,369	73.9
8. Forest preservation funds	4,700	5,644	944	944	20.1
9. Other	—	9,007	9,007	9,007	
Total tax and nontax revenues	18,800,165	18,534,386	(265,778)	2,979,564	15.5
Sale of state assets	1,470,535	623,309	(847,225)	847,225	60.4
Capital return	265,330	748,103	482,773	482,773	182.0
Pump amortization	—	—	—	—	
Total revenue with assets sale + capital return	20,536,030	19,905,799	(630,231)	4,309,562	20.7
96.9% of budgeted revenue					

**Table 9. Lao PDR: Government Revenue 2015/16 (LAK, millions)**

Revenue type and collecting agency	Total plan 2015/16	Actual 2015/16	Deviation	Absolute deviation	Absolute deviation %
Tax revenue	19,494,119	16,481,349	(3,012,770)	3,986,755	20
1. Profit tax	2,417,263	1,753,050	(664,213)	664,213	27
2. Income tax	1,289,879	1,592,690	302,811	302,811	23
3. Land tax	113,723	104,750	(8,972)	8,972	8
4. Business licences	—	—	—	—	—
5. Minimum tax	2,021	(0)	(2,021)	2,021	100
6. Turnover tax	31,343	0	(31,343)	31,343	100
7. VAT	6,777,264	4,915,630	(1,861,634)	1,861,634	27
8. Excise taxes	4,023,142	3,734,380	(288,762)	288,762	7
9. Import duties	2,030,322	1,825,780	(204,542)	204,542	10
10. Export duties	20,007	68,696	48,689	48,689	243
11. Registration fees	76,900	74,261	(2,639)	2,639	3
12. Other fees	1,633,305	1,400,872	(232,432)	232,432	14
13. Natural resources taxes	703,372	507,112	(196,260)	196,260	28
14. Timber royalties	—	135,492	135,492	135,492	
15. Royalties	375,579	368,636	(6,944)	6,944	2
Nontax revenues	2,795,644	2,914,691	119,048	827,454	30
1. Leasing fees	87,171	69,751	(17,420)	17,420	20
2. Concessions	88,420	85,367	(3,052)	3,052	3
3. Fines	84,405	188,301	103,897	103,897	123
4. Administration fees	892,962	854,420	(38,542)	38,542	4
5. Dividends	968,050	679,862	(288,188)	288,188	30
6. Interest	106,000	423,604	317,604	317,604	300
7. Overflight rights	535,056	586,068	51,012	51,012	10
8. Forest preservation funds	13,800	6,800	(7,000)	7,000	51
9. Other	19,780	20,519	739	739	4
Total Tax and nontax revenues	22,289,763	19,396,040	(2,893,723)	4,814,209	22
Asset sale	1,108,917	223,910	(885,007)	885,007	80
Capital return	234,100	747,098	512,998	512,998	219
Pump amortization	—	—	—	—	—
Total revenue with assets sale + capital return	23,632,780	20,367,047	(3,265,733)	6,212,214	26.3
86.2% of budgeted revenue					



Table 10. Lao PDR: Government Revenue 2017 (LAK, millions)

Revenue type and collecting agency	Total plan 2017	Actual 2017	Deviation	Absolute deviation	Absolute deviation %
<b>Tax revenue</b>	<b>17,605,140</b>	<b>16,918,437</b>	<b>-686,702</b>	<b>2,679,823</b>	<b>15</b>
1. Profit tax	2,000,893	1,979,660	-21,233	21,233	1
2. Income tax	1,296,000	1,602,583	306,583	306,583	24
3. Land tax	145,000	113,149	-31,851	31,851	22
4. Business licences	—	—	0	0	—
5. Minimum tax	—	—	0	0	—
6. Turnover tax	—	—	0	0	—
7. VAT	5,696,796	4,934,302	-762,494	762,494	13
8. Excise taxes	4,457,700	4,233,963	-223,737	223,737	5
9. Import duties	1,358,831	970,574	-388,257	388,257	29
10. Export duties	45,000	28,989	-16,011	16,011	36
11. Registration fees	70,000	74,463	4,463	4,463	6
12. Other fees	1,033,000	1,664,715	631,715	631,715	61
13. Natural resources taxes	644,959	609,709	-35,249	35,249	5
14. Timber royalties	539,880	335,451	-204,429	204,429	38
15. Royalties	317,081	370,880	53,799	53,799	17
<b>Nontax revenues</b>	<b>3,615,695</b>	<b>3,560,692</b>	<b>-55,003</b>	<b>1,441,877</b>	<b>40</b>
1. Leasing fees	64,944	69,965	5,021	5,021	8
2. Concessions	92,621	61,248	-31,373	31,373	34
3. Fines	66,874	83,302	16,428	16,428	25
4. Administration fees	1,596,000	881,451	-714,549	714,549	45
5. Dividends	442,043	861,737	419,694	419,694	95
6. Interest	754,743	810,883	56,140	56,140	7
7. Overflight rights	583,200	656,950	73,750	73,750	13
8. Forest preservation funds	6,800	4,282	-2,518	2,518	37
9. Other	8,470	130,875	122,405	122,405	1445
<b>Total tax and nontax revenues</b>	<b>21,220,834</b>	<b>20,479,129</b>	<b>-741,705</b>	<b>4,121,700</b>	<b>19</b>
Asset sale	114,617	77,435	-37,182	37,182	32
Capital return	127,549	109,394	-18,155	18,155	14
Pump amortization	—	—	—	—	—
<b>Total revenue with assets sale + capital return</b>	<b>21,463,000</b>	<b>20,665,958</b>	<b>-797,042</b>	<b>4,177,037</b>	<b>19.46</b>
96.2% of budgeted revenue					

# Annex 5: Data on SOEs financial reporting

LAO PEOPLE'S DEMOCRATIC REPUBLIC  
 Peace Independence Democracy Unity and Prosperity  
 ສາທາລະນະລັດ ປະຊາທິປະໄຕ ປະຊາຊົນລາວ  
 ສັນຕິພາບ ເອກະລາດ ປະຊາທິປະໄຕ ເອກະພາບ ວັດທະນາຖາວອນ

ຕາຕະລາງສັງລວມຂໍ້ມູນຂອງ ວິສາຫະກິດລັດລົງທຶນປີ 2017  
 Consolidation of Enterprises 2017 (LAK, millions)

ວ/ດ No.	ຊື່ວິສາຫະກິດ Name of enterprises	Gov. share	Capital		Annual Turnover	ສົ່ງເອກະສານລາຍງານການເງິນ Report submission	ລາຍຈ່າຍ (ສະເພາະຜູ້ທີ່ສົ່ງລາຍງານການເງິນ) Expenditure (of submitted enterprises)	ກຳໄລ Profit	ຂາດທຶນ Loss	ໝາຍເຫດ Remarks
			Total	Registered Capital						
01	ບໍລິສັດລັດວິສາຫະກິດຫວຍພັດທະນາ Lao Lottery State Owned Enterprise	100%	177,695,758,893	48,899,117,574	129,839,477,133	√		√		
02	ບໍລິສັດລັດວິສາຫະກິດໂຮງພິມແຫ່ງລັດ State Printing Enterprise	100%	8,634,026,718	5,347,627,338	18,450,247,728	√		√		
03	ລັດວິສາຫະກິດວິສະວະກຳຄົມມະນາຄົມ State Enterprise for Communication Engineering	100%	21,445,265,158	14,379,165,586	30,394,624,690	√		√		

ລ/ດ No.	ຊື່ວິສາຫະກິດ Name of enterprises	Gov. share	Capital		Annual Turnover	ສົ່ງເອກະສານລາຍງານການເງິນ Report submission	ລາຍຈ່າຍ (ສະເພາະຜູ້ທີ່ສົ່ງລາຍງານການເງິນ) Expenditure (of submitted enterprises)	ກຳໄລ Profit	ຂາດທຶນ Loss	ໝາຍເຫດ Remarks
			Total	Registered Capital						
04	ບໍລິສັດ ລັດວິສາຫະກິດລາວ ເດີນອາກາດ Lao Skyway Company	100%	39,909,376,082	26,087,990,000	133,351,757,848	√		√		
05	ລັດວິສາຫະກິດລາວບໍລິການ ສິນຄ້າຜ່ານແດນ Lao Goods Transportation Services Enterprise	100%	51,202,918,730	33,012,504,399	35,546,831,863	√		√		Before was named as SOE of Thanaleng Warehouse
06	ລັດວິສາຫະກິດໂຮງງານຜະລິດ ອຸປະກອນການສຶກສາ Education Equipments Factory	100%	3,479,518,358	2,443,919,833	24,609,433,091	√		√		
07	ລັດວິສາຫະກິດຖືຮຸ້ນລາວ Lao Shareholding State Enterprise	100%	48,271,144,404	160,000,000,000	231,014,907,189	√		√		
08	ລັດວິສາຫະກິດກໍ່ສ້າງທາງລວກ 8 State Enterprise for Bridges & Roads Construction No. 8	100%	232,318,699,946	4,107,492,444	1,831,213,774	√		√		
09	ລັດວິສາຫະກິດ ນໍ້າປະປານະຄອນຫຼວງ Vientiane Capital Water Supply Company (Nampapa)	100%	436,879,098,126	128,143,373,995	170,839,312,560	√		√		
10	ບໍລິສັດລັດວິສາຫະກິດ ໂຮງງານ ຜະລິດຢາເລກ 2 Medecine Factory No.2	100%	1,236,999,360	1,236,999,360	1,069,877,248	√		√		

ລ/ດ No.	ຊື່ວິສາຫະກິດ Name of enterprises	Gov. share	Capital		Annual Turnover	ສົ່ງເອກະສານລາຍງານການເງິນ Report submission	ລາຍຈ່າຍ (ສະເພາະຜູ້ທີ່ສົ່ງລາຍງານການເງິນ) Expenditure (of submitted enterprises)	ກຳໄລ Profit	ຂາດທຶນ Loss	ໝາຍເຫດ Remarks
			Total	Registered Capital						
11	ບໍລິສັດ ລັດວິສາຫະກິດ ສ້າງຫຼວດ ອອກແບບ ແລະ ວິໄຈວັດຖຸກໍ່ສ້າງ State Enterprise for Construction Materials Survey, Design and Analysis	100%	2,031,992,865	2,031,992,865	100,812,355	√		√		
12	ລັດວິສາຫະກິດ ພັດທະນາ ກະສິກໍາ, ອຸດສາຫະກໍາ ແລະ ບໍລິການ ຂາອອກ-ຂາເຂົ້າ State Enterprise for Agriculture, Industry and Exports & Imports Service Development	100%	126,094,622,982	88,008,917,268	79,845,662,069	√		√		
13	ລັດວິສາຫະກິດ ນໍ້າມັນເຊື້ອ ໄຟລາວ Lao Fuel Company	100%	308,543,358,153	99,573,475,341	1,259,737,715,982	√		√		
14	ບໍລິສັດ ລັດວິສາຫະກິດ ກໍ່ສ້າງ ຄົມມະນາຄົມ Communication Construction Enterprise	100%	15,494,366,488	15,494,366,488	94,583,546	√		√		
15	ລັດວິສາຫະກິດ ລ້ານຊ້າງ ພັດທະນາ ແລະ ບໍລິການ ຂາອອກ-ຂາເຂົ້າ Lane Xang Development and Imports and Exports Service	100%	1,221,209,097	1,221,209,097	71,883,495	√		√		

ລ/ດ No.	ຊື່ວິສາຫະກິດ Name of enterprises	Gov. share	Capital		Annual Turnover	ສົ່ງເອກະສານລາຍງານການເງິນ Report submission	ລາຍຈ່າຍ (ສະເພາະຜູ້ທີ່ສົ່ງລາຍງານການເງິນ) Expenditure (of submitted enterprises)	ກຳໄລ Profit	ຂາດທຶນ Loss	ໝາຍເຫດ Remarks
			Total	Registered Capital						
16	ລັດວິສາຫະກິດ ບໍລິການຄວາມ ບອດໄພ Security Service State Owned Enterprise	100%	1,205,107,600	1,205,107,600	290,798,200	√		√		
17	ບໍລິສັດລັດວິສາຫະກິດໂຮງ ພິມ ສຶກສາ Education Printing House	100%	27,172,948,339	673,566,000	43,677,683,316	√		√		
18	ບໍລິສັດ ລັດວິສາຫະກິດ ການຄ້າສາກົນ- ລາວບໍລິການ Lao Service for International Trade	100%	2,303,662,339	1,500,000,000	18,454,545,454	√		√		
19	ລັດວິສາຫະກິດ ໂຮງງານຜະລິດ ຢາລວກ 3 Medecine Factory No.3	100%	32,354,137,635	4,662,844,633	401,532,645	√		√		
20	ລັດວິສາຫະກິດ ໄປສະນີລາວ Lao Post State Enterprise	100%	9,971,359,056	3,026,450,296	78,867,519	√		√		
21	ລັດວິສາຫະກິດ ທາງລົດໄຟແຫ່ງ ຊາດລາວ (ບ.ສ ທາງລົດໄປລາວ-ຈີນ ຈຳກັດ) Lao National Railway Enterprise (Lao-China Railway Ltd., Company)	100%	—	—	—	√		√		Newly established in 2016–2017

ລ/ດ No.	ຊື່ວິສາຫະກິດ Name of enterprises	Gov. share	Capital		Annual Turnover	ສົ່ງເອກະສານລາຍງານການເງິນ Report submission	ລາຍຈ່າຍ (ສະເພາະຜູ້ທີ່ສົ່ງລາຍງານການເງິນ) Expenditure (of submitted enterprises)	ກຳໄລ Profit	ຂາດທຶນ Loss	ໝາຍເຫດ Remarks
			Total	Registered Capital						
22	ທະນາຄານ ພັດທະນາລາວ Lao Development Bank	100%	-1,105,689,443,821	227,867,000,000	1,520,407,289,816	√			√	
23	ທະນາຄານ ສົ່ງເສີມກະສິກຳ Agriculture Promotion Bank	100%	-2,466,251,020,000	168,689,000,000	691,754,450,000	√			√	
24	ລັດວິສາຫະກິດ ການບິນລາວ Lao Aviation State Owned Enterprise	100%	-586,658.220,525	182,124,396,974	853,860,220,245	√			√	
25	ບໍລິສັດ ລັດວິສາຫະກິດ ຂົນສົ່ງນໍ້າ ມັນເຊື້ອໄຟ Lao Fuel Transport Company	100%	18,422,433,975	20,842,820,939	20,138,679,327	√			√	
26	ລັດວິສາຫະກິດ ກໍ່ສ້າງ ແລະ ຕິດຕັ້ງໄຟຟ້າ Electrical Construction and Installation Enterprise	100%	53,115,503,837	53,115,503,837	-37,667,518,273	√			√	
27	ລັດວິສາຫະກິດ ລາວຂາອອກ-ຂາເຂົ້າ Exports and Imports State Enterprise	100%	270,794,801	1,613,390,021	317,415,478	√			√	
28	ທະນາຄານ ນະໂຍບາຍ Policy Bank	100%	-630,977,049,704	250,864,254,011	315,991,715,821	√			√	

ລ/ດ No.	ຊື່ວິສາຫະກິດ Name of enterprises	Gov. share	Capital		Annual Turnover	ສົ່ງເອກະສານລາຍງານການເງິນ Report submission	ລາຍຈ່າຍ (ສະເພາະຜູ້ທີ່ສົ່ງລາຍງານການເງິນ) Expenditure (of submitted enterprises)	ກຳໄລ Profit	ຂາດທຶນ Loss	ໝາຍເຫດ Remarks
			Total	Registered Capital						
29	ລັດວິສາຫະກິດ ໄຟຟ້າລາວ Electricité du Laos	100%	38,043,654,192,152	735,975,532,006	5,463,700,047,111	√			√	
30	ລັດວິສາຫະກິດ ດາວທຽມລາວ Lao Satellite State Enterprise	100%	-	-	-	√			√	Newly established in 2016–2017
31	ວິສາຫະກິດ ບໍລິການສະຖານທູດ Enterprise for Diplomatic Services	100%	-	-	-	x				ຫັນເປັນລັດບໍລິຫານ
32	ກອງທຶນປົກປ້ອງຜູ້ຜາກເງິນ Depositors Protection Fund	100%	-	-	-	x				ຫັນເປັນລັດບໍລິຫານ
33	ລັດວິສາຫະກິດພັດທະນາກະສິກຳ Agriculture Development Enterprise	100%	-	-	-	x				Newly established in 2017–2018
34	ລັດວິສາຫະກິດ ສຳຫລວດ, ອອກແບບ ແລະ ກໍ່ສ້າງທາງນ້ຳ Waterways Survey, Design and Construction Company	100%	-	-	-	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
35	ລັດວິສາຫະກິດສະໜອງວັດຖຸ ເຕັກນິກ	100%	-	-	-	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no

ລ/ດ No.	ຊື່ວິສາຫະກິດ Name of enterprises	Gov. share	Capital		Annual Turnover	ສົ່ງເອກະສານລາຍງານການເງິນ Report submission	ລາຍຈ່າຍ (ສະເພາະຜູ້ທີ່ສົ່ງລາຍງານການເງິນ) Expenditure (of submitted enterprises)	ກຳໄລ Profit	ຂາດທຶນ Loss	ໝາຍເຫດ Remarks
			Total	Registered Capital						
	Lao Technical Materials Supply Company									information whether profit/loss
36	ລັດວິສາຫະກິດໂຮງພິມຫນຸ່ມລາວ Noumlao Printing House Company	100%	2,058,046,254	2,333,956,781	3,324,371,006	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
37	ລັດວິສາຫະກິດຂົນສົ່ງທາງບົກ-ທາງນ້ຳ State Owned Enterprise for Inland and Waterway Transport	100%	28,044,905,926	2,274,915,975	4,976,618,636	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
38	ລັດວິສາຫະກິດ ນຳມັນເຊືອໄຟດາຟີ Dafi fuel Enterprise	100%				x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
39	ລັດວິສາຫະກິດໂຮງງານຜຸ່ນຊີວະພາບດົງຊຽງດີ Dong Xiengdy Organic Fertilizer Enterprise	100%	-100,987,740	2,291,673,340	310,537,000	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
40	ລັດວິສາຫະກິດ ຝ້າຍລາວ Lao Cotton Enterprise	100%	5,757,217,498	4,542,813,768	2,703,897,628	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
41	ບໍລິສັດ ລັດວິສາຫະກິດລາວໂທລະຄົມມະນາຄົມ Lao Telecommunication Enterprise	51%	1,920,155,212,860	119,788,063,875	1,529,313,972,081	v		v		



ລ/ດ No.	ຊື່ວິສາຫະກິດ Name of enterprises	Gov. share	Capital		Annual Turnover	ສົ່ງເອກະສານລາຍງານການເງິນ Report submission	ລາຍຈ່າຍ (ສະເພາະຜູ້ທີ່ສົ່ງລາຍງານການເງິນ) Expenditure (of submitted enterprises)	ກຳໄລ Profit	ຂາດທຶນ Loss	ໝາຍເຫດ Remarks
			Total	Registered Capital						
42	ບໍລິສັດບໍລິການອາຄານສະໜາມ ບິນ ຈຳກັດ Airport Terminal Building Service Company	51%	48,979,592,000	48,979,592,000	1,787,047,367	√		√		
43	ບໍລິສັດ ລາວ-ຍີ່ປຸ່ນບໍລິການ ອາຄານສະໜາມບິນຈຳກັດ Lao-Japan Company for Terminal Building and Airport Service	70%	12,225,000,000	8,150,000,000	47,277,563,346	√		√		
44	ທະນາຄານການຄ້າຕ່າງປະເທດ ລາວ ມະຫາຊົນ Public Banque pour le Commerce Extérieur Lao	51%	1,475,428,560,000	682,888,000,000	9,639,161,065,666	√		√		
45	ບໍລິສັດ ສະຕາໂທລະຄົມ ຈຳກັດ Star Telecommunication Company	51%	1,092,286,516,175	504,688,801,019	1,227,967,322,423	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
46	ບໍລິສັດ ອີເທີເອລ ມະຫາຊົນ Public ETL Company	49%	230,765,349,336	637,763,000,000	291,352,992,358	√			√	
47	ບໍລິສັດ ເບຍລາວ ຈຳກັດ Lao Brewery Company Ltd.	29%	1,371,887,590,447	16,848,000,000	3,833,524,194,400	√		√		
48	ບໍລິສັດ ຢາສູບລາວ ຈຳກັດ Lao Cigarettes Company Ltd.	47%	417,881,635,553	100,156,770,000	610,823,825,775	√		√		

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			Total	Registered Capital						
49	ບໍລິສັດ ເຄຫາ ການຄ້າ ແມ່ຂອງ ຈຳກັດ Mekong Housings Trading Company Ltd	30%	17,405,501,140	972,000,000	13,096,375,888	√		√		
50	ບໍລິສັດ ໄທລະພາບໃຊ້ສາຍລາວ ຈຳກັດ Lao Cable TV Company Ltd.	15%	33,975,623,132	16,143,996,620	2,073,077,890	√		√		
51	ບໍລິສັດ ອາລີອັນສ ປະກັນໄພລາວ ຈຳກັດ Lao Insurance Co. Ltd.	49%	476,491,264,616	1,813,040,000	589,429,292,168	√		√		
52	ບໍລິສັດ ພັດທະນາ ຫີນປະເສີດ ລາວ-ຈີນ ຈຳກັດ Lao-China Stone Development Company Ltd.,	40%	52,764,941,275	80,000,000,000	621,000	√		√		Newly established in 2016–2017
53	ບໍລິສັດ ເອັມເອັສໄອຈີ ປະກັນໄພ ລາວ ຈຳກັດ MSIG Insurance Company (Laos)	49%	6,428,003,023	10,325,056,000	31,041,372,623	√		√		
54	ບໍລິສັດ ລ້ານຊ້າງມິນິໂລນ ຈຳກັດ Lanexang Minerals Company Ltd.	10%	4,850,571,600,000	40,000,000,000	3,286,956,729,597	√			√	
55	ບໍລິສັດ ທອງທຽວລາວ-ອິນເຕີ ຈຳກັດ	49%	-	-	-	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no)

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			Total	Registered Capital						
	Lao-Inter Tourism Company Ltd									information whether profit/loss)
56	ບໍລິສັດ ເປໂຕຣລາວ ຈຳກັດ Lao Petro Company	20%	-	-	-	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
57	ບໍລິສັດ ພູເປັຍ ມາຍນິງ ຈຳກັດ Phoubia Mining Company	10%	2,703,237,300,000	2,703,237,300,000	5,016,790,800,000	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
58	ບໍລິສັດ ໂອຈິລາວບູກຕົນໄມ້ ຈຳກັດ Oji-Lao Reforestation Company	15%	132,865,767,361	38,368,989,063	3,923,006,142	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
59	ບໍລິສັດ ວິມເປອຄອມລາວ ຈຳກັດ Lao Wim Pel Com Company Ltd.	22%				x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
60	ບໍລິສັດ ລາວ-ເອເຊຍ ປາຊີຟິກ ບີເວີຣີ ຈຳກັດ (ເບຍໄຮນິເກັນ) Lao Asia Pacific Brewery Company (Henigen)	25%	-16,111,166,542	240,750,000,000	205,072,543,897	x				ຍັງບໍ່ທັນຮູ້ກຳໄລຫຼືຂາດທຶນ (no information whether profit/loss)
	<b>Total turnover of SOEs reporting to MoF in 2018</b>		<b>35,145,434,734,307</b>	<b>1,759,368,249,755</b>	<b>17,084,265,356,819</b>					

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			Total	Registered Capital						
	ສົ່ງເອກະສານລາຍງານດ້ານການເງິນ ຈຳນວນ 43 ຫົວໜ່ວຍ Total submission of financial report: 43		43 out of 60 SOEs have submitted their financial reports to MoF, representing approximately 70% of the government share in the SOEs declared capital in 2017							