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Public Expenditure and Financial Accountability (PEFA) Assessment

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List of acronyms

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
AT	Lao PEFA Assessment Team
BCEL	Banque pour le Commerce Extérieur Lao
BoL	Bank of Lao PDR
BoP	Balance of Payments
CN	Concept Note
CPI	Consumer Price Index
EDL	Electricité du Lao
EU	European Union
FDI	Foreign Direct Investment
FFRDF	Forest and Forest Resources Development Fund
EPF	Environment Protection Fund
FICT	Financial Information Technology Center
FMCBP	Financial Management Capacity Building Program
FMIS	Financial Management Information System
FY	Fiscal Year
GDP	Gross Domestic Product
GFIS	Government Financial Information System
GGP	Governance Global Practice
GIZ	Gesellschaft für Internationale Zusammenarbeit
GNI	Gross National Income
GoL	Government of Lao PDR
HDI	Human Development Index
ICT	Information, Communications and Technology
IMF	International Monetary Fund
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
LSFC	Lao State Fuel Company
LSX	Lao Securities Exchange
LTC	Lao Telecom Company
MAF	Ministry of Agriculture and Forestry
MEM	Ministry of Energy and Mines
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
MPI	Ministry of Planning and Investment
MPWT	Ministry of Public Works and Transport
MTFF	Medium Term Fiscal Framework
NA	National Assembly
NGPES	National Growth and Poverty Eradication Strategy
NPNL	Nam Papa Nakhone Luang (Vientiane Capital Water Supply State Enterprise)
NSEDP	National Socio-Economic Development Plan
NSSF	National Social Security Fund
NT2	Nam Theun 2 Hydropower Project
OT	Oversight Team (Lao PEFA Assessment Steering Committee)
PDR	Lao People's Democratic Republic
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFMMP	Public Finance Management Modernization Program
PFMSP	Public Finance Management Strengthening Program
PIM	Public Investment Management
PPG	Public and Publicly Guaranteed
PRF	Poverty Reduction Fund
PRSO	Poverty Reduction Support Operations
RMF	Road Maintenance Fund
SAO	State Audit Organization
SDC	Swiss Agency for Development Cooperation
SDG	Sustainable Development Goals
SDTF	Single-Donor Trust Fund
SME	Small and Medium Enterprise
SOCB	State-Owned Commercial Bank
SOE	State-Owned Enterprise
TSA	Treasury Single Account
UN	United Nations
VAT	Value-Added Tax
WB	World Bank
WTO	World Trade Organization

Executive Summary

Introduction

1. **Since 2005, the economy of Lao PDR has grown at a rate above 7 percent, one of the fastest rates of the region, accompanied by a 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 have to be carefully assessed. 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 UN’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 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 needed to address the country’s development challenges.

3. **The government faces serious PFM challenges.** Weak and inefficient public sector management coupled with 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 ASEAN region, particularly in terms of accountability, government effectiveness, regulatory quality, rule of Law and corruption. The importance of the overall public financial management (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 Lao Government’s long-term framework for public finance reform and supported the “first-generation of reforms” (2000-13),** such as the centralization of the National Treasury, customs and tax functions and the introduction of a Treasury Single Account (TSA) in 2006 and the upgrade and roll-out of the 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 new Minister of Finance - who is also Deputy Prime Minister - and his management team, the dialogue with the donor

community has been revitalized and the pace of reform has taken off again.

5. **Plans to improve governance of public resources are unlikely to yield immediate dividends unless major changes are made to strengthen government institutions to 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 VAT law in 2018 represent progress. But in order to reduce debt vulnerabilities and maintain a pattern of expenditure that will support graduation from LDC status, Lao PDR's reform implementation need 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 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 GoL prioritize reform actions in the Public Finance Development Strategy 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 WB) 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 cut-off date as of August 2018).** It should be noted that three-year fiscal 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 very 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 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 Bank of Lao P.D.R.'s direct lending 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 improve the

quality of financial reporting and oversight. However, these initiatives have still to impact fully on the PEFA scores in the relevant indicators.

10. **Weaknesses are linked to the lack of credibility of the budget as an instrument to achieve high level policy objectives and the absence of a medium-term expenditure framework fully developed and integrated into the budgeting process.** Links between the multi-year 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 lack of systems to track resources available at service delivery level. The lack of a unified chart of accounts to track expenditures by economic functional and programmatic classification hinders informed-decision making. Fiscal data consolidated by Treasury relies on manual processes that may impact its reliability. Government systems rely mostly on the Government Financial Information System (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 lack of interface between the Automated System for Customs Data (ASYCUDA) under the Customs Department, and the Tax Management Information System (TMIS) currently under development by the Tax Department, with GFIS does not allow for a comprehensiveness and accuracy of revenue and expenditures records. The internal and external audit functions are not sufficiently resourced and skilled to mitigate the control weaknesses identified.

11. The results of the 2018 LAO PDR PEFA Assessment for each of the 31 performance indicators are summarized below:

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			2	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			2		6	8
Accounting, Recording and Reporting	PI-27 to PI-29				1	2	3
External Scrutiny and Audit	PI-31 to PI-31				1	1	2
Total		1	1	2	5	23	31

12. **The assessment shows that only 3 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”. This table shows that the reform program that the government is now undertaking is timely and apposite for strengthening PFM practices. The

scores for the 31 indicators and 94 dimensions are summarized in Table 2 where some dimensions exhibit A and B scores.

Impact on the Main Objectives of Public Finances

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

- **Aggregate Fiscal Discipline is affected by the lack of 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 deliver the budget aggregates as planned is still insufficient.
- **The government currently lacks 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 FPD 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, and operations outside the government's financial reporting by 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 extra budgetary funds have their own financial reporting and benefit from spending flexibility. The main problem concerning the budget carry-overs at the end of each fiscal year have 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 tax payers.

- **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 2 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 lack 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 lack of 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 medium-term fiscal framework and medium-term expenditure framework 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.
- **Procurement competitive tendering procedures can be improved to strengthen the way resources are allocated.** The recently approved 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 so as to bring it into line with good international practices.
- **Public investment management remains weak due to limited planning capacity and lack of systematic application of pre-feasibility and selection criteria.** These weaknesses continue into the downstream phase, where the consolidated monitoring of decentralized implementation is lacking 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 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.
- **Weak monitoring of provincial government spending undermines the quality of local spending.** The budget execution reports lack reliability as consolidation of the district level is entered manually into the GFIS system.
- **Ex-post budget scrutiny reveals a mixed oversight performance between the external audit function and parliament.** The low capacity and lack of effective

internal control and internal audit function in line ministries and sub-national governments has resulted in fragmented, sub-optimal use of resources. The role of 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 NA.

- **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.

The Ongoing and Planned Reform Agenda

20. **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 have high level political support. The main objectives of the Public Finance Development Strategy to 2025 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 of Lao PDR, while at the same time, focusing on protecting the environment, creating prosperity, and enhancing the livelihoods of all ethnic groups.

21. **Fiscal consolidation and revenue mobilization have been defined as 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 Public Finance Development Strategy includes 10 Strategies and action plans to support reform priorities in core PFM systems.

22. **The wider donor community has renewed its commitment to support those reforms through funding and technical assistance.** The WB will continue to support this process through the ongoing Public Finance Management Modernization Program (PFMMP) funded by the EU. Other donors are also providing assistance in the PFM area.

Summary of Results

23. **The PEFA performance assessment based on the 2016 PEFA methodology presents scores for the indicator and for each dimension, as follows:**

Table 2: Performance Status at-a-Glance

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

1. Introduction

1.1 Rationale and purpose

26. **Efficient utilization of overall resources through sound public financial management (PFM)**, good governance and oversight are priorities in the Lao PDR government's reform agenda. 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 since 2010 in strengthening the quality of PFM systems and processes and there has also been a pause in the PFM reform agenda since 2013.

27. **This Public Expenditure and Financial Accountability (PEFA) Lao PDR 2018 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 reveal severe PFM performance gaps. The Government expects that the narrative will also highlight the area of ongoing or planned reform action in order 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.

28. **Two previous PEFA assessments have been carried out place:** in 2006 a partial assessment by external reviewers, and in 2010 a WB-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 however, pointed at reforms remaining "work in progress".

29. **There has not been further comprehensive PFM diagnostic conducted since the last PEFA assessment in 2010.** However, numerous analytical reviews in form of technical notes on specific components of the PFM system have been carried out as part of the WB's engagement, including through the ongoing implementation of the EU-financed Public Finance Management Modernization Program (PFMMP). These analyses cover the past and ongoing technical support provided to 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.

30. **Development partners have actively supported those reforms through funding and technical assistance.** The WB will continue supporting this process through the ongoing Public Finance Management Modernization Program (PFMMP) funded by the EU. Other donors are also providing assistance in the PFM area. The IMF provides technical assistance on tax policy and fiscal reporting and were previously engaged in updating the chart of accounts. JICA finances two resident technical advisors, working with the tax department and the fiscal policy department respectively. JICA has also funded a series of technical assistance program 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 IT system. The ADB, through its Governance and Capacity Development in

Public Sector Management Program supports MoF in the formulation of a Medium Term Fiscal Framework (MTFF). Finally, the GIZ and the Swiss Agency for Development Cooperation (SDC) with further EU funding is initiating a program to provide capacity building to the SAO, the NA and the Ministry of Justice (MoJ).

31. 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 the relevant experts in order 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, GIZ on parliamentary scrutiny).

Purpose of the Assessment

32. In this context, the GoL agreed at the end of 2016 to carry out a PEFA self-assessment managed by the WB and financed by the EU, to establish a diagnostic study of the PFM system using the PEFA 2016 methodology¹. It is expected that the PEFA exercise gives 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.

33. 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.

34. The specific objectives of the 2018 PEFA assessment are:

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

35. For development partners, the PEFA Lao PDR 2018 is an opportunity to define a common diagnostic as a basis to dialogue with the Government on its future PFM reform needs, the priority areas for reform in the short to mid-term and to plan their program of support accordingly. For the WB and the EU, the report will provide an input to confirm the

¹ The PEFA Program is a partnership of the WB, the European Commission (EC), the United Kingdom (UK) 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 WB in Washington, DC. The new PEFA Framework 2016 was launched in February 2016.

appropriateness of their ongoing budget support operations and their ongoing and future technical assistance 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 uses the finalization of the PEFA assessment 2017-18, as well as a number of indicators to monitor the progress of this Program. The EU's ongoing (2013-18) budget support operation in Lao PDR amounts to EUR14 million and a new budget support program for the education sector is planned for 2018 of EUR55 million.

36. The PFMMP Single-Donor Trust Fund (SDTF) funded by EU and managed by the WB 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 the Phase 2 of the Program, which is planned to run from October 2018 – September 2021.

1.2 Assessment management and quality assurance

37. The PEFA assessment has been carried out jointly by the GoL the WB team and consultants.

38. The Government set up the PEFA assessment governance structure as per 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 on the Lao PEFA Assessment Steering Committee, other institutions, such as MPI, MoH, MoES, SAO and the NA contributed to the PEFA assessment through their representation on the Lao PEFA Assessment Team. Similarly, organizations and officials not represented on 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 the correct data is used for the scoring of indicators (see Annex 3 B). 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, PI-26). The main revenue collecting extra-budgetary Funds have been covered as well as one province (Luang Prabang), as representative of the provincial government.

39. The WB 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 WB 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 WB team has been closely involved and responsible for the overall dialogue with the GoL counterparts throughout the assessment process, providing technical guidance and mobilizing WB 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, draft 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 prior to the peer review process.

40. **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 MDTF program, and other development partners.

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

42. **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 the Box 1.

Box 1: Assessment Management and Quality Assurance Arrangements

PEFA assessment management organization

Oversight Team/Steering Committee

Chair and Members:

- Mr. Atsaphangthong Siphandone, Deputy Minister of Finance Ministry of Finance (Head)
- Dr. Bounleua Sinxayvoravong, Director General Fiscal Policy Department (Deputy Head)
- Madame Yord Phengsombath, Deputy Director General, National Treasury
- Madame 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, Ministry of Finance, Director General Fiscal Policy and Law Department
- Deputy Head: Mr. Soulivath Souvannachoumklam, Ministry of Finance, Deputy Director General Budget Department
- Manager: Ms Sifong Oumavong, Ministry of Finance, Director of Economics and Fiscal Policy Division, Fiscal Policy and Law Department
- Dr. Vilaithong Southavilay, Ministry of Finance, Deputy Director General of the FITC
- Mr. Bounthong Munanong, Ministry of Finance, Deputy Director General
- Dr. Kotxaythoun Phimmasone, Ministry of Health, Deputy Director General
- Mrs. Dara Phrakonekham, Ministry of Education and Sports, Deputy Director General
- Mr. Oula Somchanhmvong, Ministry of Planning and Investment, Deputy Director General
- Mr. Xayoh Huerngnimit, State Audit Organization, Deputy Director General
- Ms. Choummaly Khammounty, Ministry of Finance, Division Director
- Mr. Chanmina Pamanivong, Ministry of Finance, Division Director
- Mrs. Souksakhone Sithitbandith, National Assembly, Acting Director
- Mr. Bounmi Sibounhuerng, Ministry of Health, Deputy Director
- Mr. Duangchai Keomixay, Ministry of Finance, Deputy Director
- Mr. Souphavanh Phanthavyxay, Ministry of Finance, Deputy Director
- Mr. Souksavath Manachit, State Audit Organization, Deputy Director
- Mrs. Boupavanh Keomixay, Ministry of Planning and Investment
-

PEFA Secretariat, MOF

- Mrs Sifong Oumavong, Head

- Mrs. Soulitha Keopaseuth, Deputy Director, Deputy Head
- Mr. Keoloun Duangphachanh, Deputy Director
- Mr. Chintanakone Soisithattha, Sector Head
- Mr. Anulack Onkhamtay, Sector Head
- Mr. Vithanom Keokhounsi, Technical Staff

The 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

Date of reviewed draft concept note: November 9, 2017

Invited reviewers and Reviewers who provided comments:

Ms Sifong Oumavong, Ministry of Finance GoL

Mr. Eric Deschoenmaeker, the EU

Mr. Guillaume Brule, PEFA Secretariat

Mr. Pierre Messali, the World Bank

Date(s) of final concept note: January 23, 2018

Review of the assessment report

Dates of reviewed draft reports: tbc

Invited reviewers and Reviewers who provided comments:

Government of Lao PDR

Mr. Eric Deschoenmaeker, the EU

Mr. Guillaume Brule, PEFA Secretariat

Mr. Pierre Messali, the World Bank

Date of final report: March 2019

Date of PEFA Check: 21 March 2019

Date of publication on PEFA secretariat website: tbc

Quality Assurance

43. **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 are all the relevant

GoL technical departments. The WB's internal review includes at least one representative from the WB's Governance Global Practice (GGP). External peer reviewers have included the PEFA Secretariat, EU as the PFMMP donor representative, and another development partner who will be invited to comment on the draft CN and draft report (IMF/ or ADB). The quality assurance process will be articulated through the Lao PEFA Assessment Team and the Lao PEFA Assessment Steering Committee.

44. The Lao PEFA Assessment Team held periodic meetings and debriefings, including development partners, to serve as check-points for reviewing progress and adjusting timelines as needed. The final decision on ratings will come after confirmation by the PEFA Secretariat – through the PEFA review and PEFA CHECK process (see 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

45. 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). The assessment team worked closely with the PEFA Secretariat to seek guidance and clarifications when required.

46. 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 other 6 semi- or fully extra-budgetary funds and 183 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 have been left outside the scope of the samples for reasons of national security – with a focus on service delivery sectors.

47. The list of government entities assessed as part of the PEFA exercise is presented in Annex 3. Extra-budgetary funds with budget allocation and donors' grants toward specific purposes (such as poverty reduction, road maintenance, reforestation, social security benefits) are managed by ministries or agencies and are wholly or partially financed by specific revenues (such as taxes on road transport, social security contributions). Both revenue and expenditure of these extra-budgetary 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).

48. The 183 SOEs providing most of the utilities' 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 Ministry of Finance (MoF) and the ministry concerned. The Government has recently embarked upon the restructuring and privatization of SOEs under the restructured SOE Department within 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

49. **In the Lao PDR context, the development of a subnational governmental arrangement is at an early stage. The 18 provinces/city remain part of the Central Government as first-tier budgetary units (State Budget Law).** There are also 148 Districts that are considered second-tier spending entities. Although the Districts that 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 of 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 provincial level are budgeted for, any shortfall of cash and deficit have to be covered by the Central Government, affecting its fiscal performance. The lower district level of Government and 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 as yet not developed.

When performance is assessed

50. **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 3 months of calendar year 2016, the new 2017 fiscal year started as of 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 2.1 below:

Table 2.1 – Periods of analysis for the 2018 PEFA Lao PDR assessment

Period covered for the analysis	Fiscal years in reference
Last three year' financial report	2014/2015-2015/2016-2017
Last Budget submitted to the legislature (with cut-off 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
Cut-off date	August 31, 2018

51. **The cut-off date to update the evidence and change the scores has been defined as of 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, WB and EU) has been updated.

52. **The Lao PDR government and WB 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 using the latest PEFA methodology.

53. **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. This can be found in Annex 3B, which 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.

54. **Capacity-building and PFM training was provided to the Government counterparts throughout the assessment and 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. The purpose of 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.

55. The final timetable for the 2018 PEFA Lao activities is presented in the Box 2 below:

Box 2: Timetable of the 2018 PEFA Lao PDR milestones and deliverables

<i>Milestones and deliverables</i>	<i>Dates</i>
PEFA 2016 methodology training (with PEFA secretariat) Establishment of the 2018 Lao PEFA Assessment Steering Committee (Oversight Team) by GoL	May 2-5, 2017 July 25, 2017
First mission consultants (September 4 to 29, 2017) <ul style="list-style-type: none"> • Refresher workshop with Lao PEFA Assessment Team • 1st Draft Concept Note • Official launch workshop with by GoL with PFM stakeholders • Initial data stocktaking requests submitted to the Government counterpart team 	September 2017

Second mission consultants (November 20 to December 8, 2017) <ul style="list-style-type: none"> • Finalization CN • Data collection by focal points in GoL 	November-December 2017
Third mission Lead consultant (March 1 to 8, 2018) <ul style="list-style-type: none"> • Follow up Data Collection 	March 2018
Fourth mission Lead consultant (June 21 to 30, 2018) <ul style="list-style-type: none"> • Follow up Data Collection • Retreat for validation at technical level with Lao PEFA Assessment Team • GoL's feedback and completion of the PEFA report 	June 2018
Fifth mission Lead consultant (July 31st to August 10) <ul style="list-style-type: none"> • Follow up Data Collection • Retreat for validation at technical level with Lao PEFA Assessment Team • Data gap analysis and final scores' validation 	August 2018
Issue of draft PEFA report for peer review process <ul style="list-style-type: none"> • Peer review comments submitted • Issue of final draft PEFA report with review matrix • Feedback from PEFA Secretariat Official endorsement of the final PEFA report by GoL	January to March 2019
PEFA dissemination <ul style="list-style-type: none"> • Final dissemination workshop and publication on websites (MoF, PEFA Secretariat, donors) • Presentation of PEFA country experiences (Nepal, Cambodia, Vietnam, Philippines tentatively) Updating of PFM reform action plans <ul style="list-style-type: none"> • PEFA performance matrix and recommendations for the Public Finance Strategy action plan 	March 2019 onward

PEFA assessment findings and PFM reform

56. **The report includes a description of the ongoing reform agenda to ensure 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 to enhance 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 linkage 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 will be organized on 26th March in Luang Prabang towards 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

57. **Lao PDR Government 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 ASEAN and amongst the top 13 in the world and managed to emerge as 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.

58. **The transition from a centrally planned to a market-oriented economy 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.

59. **Since 2005, the economy of Lao PDR has grown at a rate above 7 percent annually, one of the fastest rates of the region.** Economic prospects remain favorable. Nominal GDP was estimated at Kip119,731 billion or US\$14,5 billion in 2017, with a per capita income of US\$2,150 in FY2016². 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 FDI (mainly hydropower)³ 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 percent⁴. 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 foreign direct investment projects, including the Kunming-Vientiane railway project, which is part of China’s Belt and Road Initiative.⁵

60. **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 via the service industry, wholesale and retail trade, as well as tourism and transport. Air traffic increased notably in 2016 after the liberalization of air transport, which helped boost tourism (mainly from China and Korea).

61. **However, high growth has been accompanied by increased vulnerabilities,**

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

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

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

⁵ Article IV Consultation with Lao P.D.R. published in March 2018.

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 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 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 1 month of prospective imports.

62. Private economic activity in the Lao PDR is growing, including through the recently established Special Economic Zones, but the sector remains small and dominated by State-Owned Enterprises (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 State-Owned Enterprises. Although there is no publicly available list of Lao SOEs, the GoL reports that there are 183 SOEs in Laos with more than US\$5 billion in assets⁶. 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).

63. The financial sector is slowly developing but the Lao capital market is still small. The Lao Securities Exchange (LSX) began operations in 2011 with two stocks listed, both state-run⁷. In 2012, the GoL increased the proportion of shares that foreigners can hold on the LSX from 10 to 20 percent. As of April 2017, there are only five companies listed on the LSX: Banque pour le Commerce Extérieur 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 lack of long-term credit options in the domestic market hampers the development of the domestic private sector.

64. 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 and the banking sector, as the domestic financial structure remain weak. Capital inflows and outflows in multiple currencies other than the Kip, principally in Thai Baht and US 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 remains at about 52 percent⁸ in 2016. The last IMF Article IV reports 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 non-performing loans and exposing weaknesses in the

⁶ Source: IMF Article IV for Lao PDR dated February 2017.

⁷ The Banque Pour le Commerce Extérieur Lao (BCEL), and the power generation arm of the electrical utility, Electricité du Laos - Generation (EDL-Gen).

⁸ LAO PDR Accelerating structural transformation for inclusive growth Country Diagnostic Study, 2017.

solvency of the domestic bank system.

65. 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 (NSEDP) 2016-2020, is to: (1) strengthen the non-resource sector, focusing on tourism, small and medium enterprises (SMEs) and agro-processing; (2) strengthen environmental and social safeguards on hydropower and mining; (3) enhance the rule of law; and (4) improve access to safety net systems, health, and education. Nearly half of the proposed indicators for monitoring and evaluating development outcomes in the NSEDP are linked to the UN's 17 Sustainable Development Goals (SDGs). The Government projects that through the 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.

66. Poverty has fallen, and Lao P.D.R. has made progress towards its goal of graduation from Least Developed Country (LDC) status. Lao PDR has for the first time, met the criteria for Least Developed Country (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 2012/13⁹, 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 UN'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 (percent ages 15 and older) is 79.9.

67. 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 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.

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

Table 2.1. Key macroeconomic indicators and outlook

	2014	2015	2016	2017 (pr.)	2018 (pr.)	2019 (pr.)	2020 (pr.)
Real Economy	Annual percentage change, unless otherwise indicated						
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
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				
Fiscal Accounts	Percent of GDP						
Revenues	24,1	22,9	19,6	19,5	20,1	20,8	21,5
Taxes	15,6	15,8	15,1	15,0	15,5	16,2	16,8
Non-tax	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
Expenditures	28,0	26,6	25,2	25,7	25,0	24,3	24,0
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
Balance of Payment	Percent of GDP, unless otherwise indicated						
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
Services, net	3,6	3,6	3,3	2,1	1,6	1,1	0,9
Foreign Direct Investment	12,1	12,4	8,7	10,8	12,5	12,7	10,7
Gross Reserves (in US\$ million)	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
Other items							
GDP (nominal, billion KIP)	94	101	109	120	131	144	158
GDP nominal in US\$ billion	11,8	12,4	13,4	14,5	15,7	17,0	18,5

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

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

68. **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. 82 percent of workers were in agriculture or self-employed in 2015¹⁰. Other significant sectors of employment include: trade (11 percent), manufacturing (7 percent), and public services (6

¹⁰ Lao PDR Systematic Country Diagnostic, March 2017.

percent) as of 2013.

2.2. Fiscal and budgetary trends

Fiscal Performance

69. **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 IMF/WB 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 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 public investment management division in the MoF to monitor planning and disbursements of investment funds.

70. **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 are 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 in strengthening non-resource taxation, reviewing exemptions and improving public finance management. The macroeconomic policy dialogue under the Vision to 2030 and the National Socio-Economic Development Plan (NSED) 2025 include measures that would facilitate a stronger fiscal adjustment to reduce the deficit by around 1 percentage point of GDP on average per year and lowering public debt ratio to 65 percent of GDP by 2020 and 55 percent of GDP by 2022. A National 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 2018–19. 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 establishing an official medium-term target.

71. **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 FY2015/16 due to revenues falling short of target. The revenue to GDP ratio is estimated to have declined to 19 percent in FY2015/16 (about 20.4 trillion KIP or US\$2.5 billion) from 23 percent of GDP in FY2014/15. Revenue collection increased slightly through improved 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 2016¹¹. 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.

72. **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 FY2015/16 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 FY2015/16 (above 8 percent of GDP), and their share was particularly high in these sectors. There are also significant funds from development partners which are implemented directly and thus are not included in the budget.

73. **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 public investment management. Stronger controls, renegotiation of the terms of existing liabilities, as well as the requirement to allocate 30 percent of capital spending to clearance of arrears, is expected to gradually resolve the arrears issue.

74. **Public Expenditure reform is needed to improve the efficiency and transparency of public expenditure and reorient spending towards better social sector outcomes.** Over the past decade overall public spending has increased more rapidly in Lao PDR compared to 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.

75. **Table 2.2 presents aggregate fiscal data.** This shows that there was an overall fiscal deficit greater than 10 percent of GDP in 2014/15 but this fell to 7.7 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.

¹¹ Source: WB internal note on PFM reform.

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 on-lending	9.7	7.5	9
Aggregate Deficit (incl. grants)	-4.4	-4.7	-5.3
Aggregate Deficit (excl. grants)	-6.9	-5.8	-7.0
Net Financing			
- external	4.8	4.7	n.a
- domestic	0.4	1.2	n.a
Note: Totals may not add up due to rounding			
Source World Bank data			

76. **Given the structure of the chart of account, 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 as follows:

Table 2.3 Budget allocations by government sectors			
No.	Description	Total 2017	Total 2018
	Total Expenditure	<u>32,402,000</u>	<u>32,809,412</u>
I	<u>Economic sector</u>	<u>1,910,847</u>	<u>6,100,193</u>
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
II	<u>Social and Cultural sector</u>	<u>5,597,200</u>	<u>8,690,859</u>
1	Foreign Affairs	73,820	94,386
2	Justice	80,893	95,033
3	Information, Culture and Tourism	187,206	229,778
4	Labour 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
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	<u>Other Administration</u>	<u>24,893,954</u>	<u>18,018,360</u>

Source Ministry of Finance

77. Spending by central government is broken down by economic categories in Table 2.3. Salaries and other compensation and capital expenditure account for over 30% in similar share with debt repayment amounting to below 20 percent of the total. Operational expenditures have grown from 2013/14 to over 8 percent.

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 Ministry of Finance

Legal and Regulatory Arrangements for PFM

78. **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 timeframe. 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 5-year National Socio-Economic Development Plan¹². The second generation of PFM reforms, taking place since 2016, is designed to put the country on a new, steadier and more sustainable path.¹³

79. **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 tax functions and the introduction of a Treasury Single Account (TSA), ASYCUDA and the upgrade and roll-out of the 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 Sam Sang policy) was piloted to delegate clear responsibilities from central department level to local finance departments at provincial and district level. The Party 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.

80. **The revised legislation includes: Tax, VAT and State Budget Laws, and the 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 towards the introduction of a new tax collection IT through the banking system (Smart Tax, Easy Tax).

81. **Despite strong political and technical commitment to the Ministry of Finance 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 as the implementation lacked sufficient qualified human capital within and outside 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 to the wider donor community on PFM reform entered into a hiatus. PFM reforms progress was haphazard during 2013-16 and many

¹² Vision to 2030 and Public Finance Development Strategy to 2025, MoF 2018.

¹³ From Alternative path to Public Financial Management and Public Sector Reform, World Bank 2018.

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.

82. **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 2015 State Budget Law 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 Law¹⁴: clear assignment of roles and responsibilities of key budgetary institutions and officials from National Assembly, Ministry of Finance, Ministry of Planning and Investment, 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 the public financial management in Lao PDR,

83. **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); requirement for the medium term fiscal documentation and basis for 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, linkage of the annual State Budget with and timing of the medium term fiscal policy documents presented to the NA, coverage and obligations of the State-Owned Enterprises (SOEs) and various extra-budgetary funds, in-year reporting obligations, assets and liabilities management, flexibility and authority given to the executive to change the budget using 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)¹⁵.

84. **Other core PFM Laws are in place.** Some of these have been recently promulgated but overall, secondary legislation and accompanying detailed instructions are still lacking to 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 Ministry of Planning (MPI) for the preparation of the 5-year National Socio-Economic Development Plan (NSED) and the annual NSED** and implementation measures, outlining the main strategic orientations, targets, goals and tasks for the preparation of line ministries' plans and budgets. MPI is responsible for the economic forecasting and capital expenditure planning through the Public Investment Plan (PIP) submitted to the NA approval with the annual budget. MPI oversees the implementation of the Public Investment Law 2015 regulates the types of public investment projects according to budget thresholds, and the responsibilities at central and local level for the implementation of the Public Investment Plan: MPI, the NA, provincial administration and People's provincial assemblies based on the categorization of the projects.
- **Budgeting, accounting and reporting: MoF is the main ministry responsible – on**

¹⁴ Ref. PFM Technical Guidance Note No. 2 Reforming Budget System Laws Prepared by Ian Lienert and Israel Fainboim October 2007.

¹⁵ Technical Note Review of the State Budget Law 2015, Dr Lynne McKenzie, February 2017

behalf of the government – for public finance management. 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 State Budget Law 2015 and recently enacted Debt Management Law are the legal foundations for this. MoF is also responsible to develop and modernize PFM tools with the aim at increasing revenues and financing socio-economic development.

- **Internal Audit: responsibility for the internal audit lies with the Inspection departments at every level of government in MoF, line ministries and provinces.** They report to the minister' 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 more 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 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 host a GIAA office independent from the organization in which it is housed. The regional SIAA offices feed into the SIAA's central system in the application of the relevant anti-corruption laws. In September 2009, Laos 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 Laos at 123rd of 176 countries worldwide in its 2016 report. According to the state inspection authority, the government has prosecuted some individuals for corruption, but public knowledge of the prosecution and allegations is limited. Nevertheless, the Party and government have been taking serious action against 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 assets¹⁶.
- **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), and the SAO reports to the NA as well as to the Prime Minister and its scope of work covers all government expenditures at central and provincial level, including SOEs, extra-budgetary funds and capital projects. Its reports are produced on an annual basis but with delays (last one available covers the 2016 State budget implementation and was submitted to NA 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 NA is largely broadcasted on TV and in the media

¹⁶ Vientiane Times, January 18, 2017.

and is followed by and NA resolution that obliges the government to follow up on the SAO report.

2.4. Institutional Arrangements for PFM

85. **Over the last forty years, 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 Lao government began decentralizing control and encouraging private enterprise and the country began opening up to the world in the 1990s.

86. **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 Lao People's Revolutionary Party (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.

87. **The National Assembly (NA) 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 5-year term. The NA 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 NA meets twice a year for three-week period when proposed legislation is scrutinized. The Planning, Finance and Audit Committee was established as a permanent entity of the Assembly to interact with the MoF on the budget and review audit results of state financial reports prepared by SAO.

88. **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 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 NA. Although the LPRP remains the supreme authority, legislation, the budget must be approved by the NA, which exercises oversight over the GoL.

The mandate of the State Audit Organization (SAO) is founded on the 2007 Audit Law and audit reports are made to the NA as well as to the Prime Minister.

89. **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.

90. **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 provincial level. Each province is divided into districts (an average of 8) made up of towns and villages. Provincial governors and are appointed by the Central Government and appoint the heads of districts while the village heads are appointed by the villagers.

91. **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.

92. **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.** The Party Congress, which convenes every 5 years, adopted in 2015 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 reaching its goals.

93. **The prime responsibility for managing the public finances rests with the Ministry of Finance.** Under Decree on the Organization and Activities of the Ministry of Finance (No. 80/PM, 28 February 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.

94. **The current organization of the Ministry of Finance defines the main responsibilities.** These are allocated to different departments: budget preparation, procurement to the Budget department including allocation of expenditure provision to ministries and provinces; budget execution, cash management and accounting to the Treasury department including cash flow forecasting, receipts and payments and domestic borrowing. The coordination of the overall fiscal policy and fiscal forecasting and liaison with Ministry of Planning and Investment (MPI) on macroeconomic modeling is the responsibility of the Fiscal Policy Department. External borrowing (and the servicing of external debt) is the responsibility of the External Finance Department of MoF. The Department of International Cooperation (DIC) of MPI coordinates the receipt of external grants.

95. **Revenue is mainly the responsibility of the Tax Department and the Customs Department.** Profit tax, income tax, turnover taxes, VAT, and excise taxes are administered by the Tax Department and (customs duties, and VAT, excise and turnover taxes collected on

imports by the Customs Department. The State-Owned Enterprise (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 and Treasury Departments).

96. **The Ministry of Planning and Investment, also plays an important role in the preparation of the capital budget.** It has the responsibility to prepare the macro-economic forecasts that provide the context for the budget preparation. Its Planning Department collects and prioritizes the investment projects to be approved by the NA in the budget. In carrying out these functions, MPI takes into account the scope for external borrowing (determined by MoF External Finance Department in accordance with debt sustainability criteria), and the revenue forecasts from 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 established guidelines.

97. **Based on Decree 253/PM dated August 19th, 2011, the Ministry of Home Affairs (MOHA) has the role of Secretariat to the Government at macro level, regarding governance reform at 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”; 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.”

98. **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 a more 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 government and for national institutions such as universities and specialist hospitals.

99. **Most public services are delivered to the citizens by provincial and district administrations. Provincial budgets are allocated directly by 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 province/district level. The provinces have also been in charge of the collection of most revenues and of Treasury operations in their areas but 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.

100. **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 parliament semi-annually 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 adoption of 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 plays a major role in the budget scrutiny and effective parliamentary scrutiny. It receives external support.

Table 2.4: Structure of the Public Sector (number of entities)

	Public Sector				
	Government Subsector		Social Security Funds	Public Corporation Subsector	
	Budgetary Unit	Extra-budgetary Unit		Non-financial Public Corporations	Financial Public Corporations
Central	35 of which: 17 ministries and 18 Provinces	8	1	180	3
Ist Tier subnational	148 Districts	0			
Lower Level of subnational	0	0			

Table 2.5: Financial Structure of Central Government – Actual Expenditure

2017: Budget Estimates	Central Government (Kip million)			
	Budgetary operations	Extra-budgetary operations	Social security funds	Total aggregated
Revenue	31,463,000	458,699	Unavailable ¹⁷	21,216,847
Expenditure	32,402,000	458,659	Unavailable	32,834,206
Transfers to (-) and from (+) other units of general gov't	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

¹⁷ Estimated at 505 billion Kip (c.f. PI-19)

101. **The 8th National Socio-Economic Development Plan (NSED) 2016-2020 acknowledged the link between greater devolution and local governance to achieving 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 Government of Lao PDR policies; decentralized public 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.

102. **Subsequent guidance from the National Assembly, Prime Minister and the Guiding Committee for Sam Sang Pilot Projects has provided greater direction.** Sam Sang comprises three elements: (1) a political manifesto; (2) an approach to decentralized administration; and (3) a national targeted development program. 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, then its early implementation evaluated and reported to Leaders before decisions are 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 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 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 has 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.

103. **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 two to three-fold, with the management of public expenditure reported as more efficient by government officials. The Budget Law 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 better public administration and service delivery. With capital investment grants, various projects have been implemented in 53 of the country's 148 districts.

104. **Local government budgets account for a stable share of approximately 30 percent of total general government spending over the 4-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.¹⁸

105. **MoF is currently engaged in a process to formulate a new decree to define an agenda to serve as a practical "roadmap" for strategic direction and implementation**

¹⁸ Support for Governance and Capacity-development, Draft Inception Report, 5 March 2018, Jonathan G Dunn, ADB Fiscal Decentralization Advisor

arrangements for decentralization reform over coming years. This is concerned particularly about:

- sector-specific expenditure assignments, focusing on “priority sectors” (especially health and education);
- revenue assignments: clarifying responsibility for revenue administration and which level (tier) of 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 Provincial Administration Law 2015 and Provincial National Assembly Law 2015.

106. The main budgetary provisions of State Budget Law to be addressed relate to:

- Articles 46 and 47: explicitly referring to “fiscal gap” transfers and how that impacts GoL intentions to move to system of formula-based transfers determined on basis of “expenditure drivers” relevant to well-defined set of functional expenditure assignments, together with appropriate indicator(s) of revenue capacity.¹⁹
- Article 48: authorization for use of “specific” transfers to address national policy priorities provides legal basis for formula-based conditional transfer mechanisms.

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

Government Budget process

108. In principle, the budget process is determined by the revised 2015 Budget Law, which prescribes the procedures and the calendar to be followed in preparing the budget for submission to the NA. The law envisages the issue of a 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 NA and other stakeholders before submissions are made to MoF in March. MoF then consolidates submissions into a draft budget to be submitted to the GOL in April. Once approved collectively by ministers, the budget should be submitted to the NA 15 days before the opening of its June/July session.

109. 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 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 MoF to guide line ministries in the preparation of their budget proposal.

¹⁹ Idem.

110. Various channels are in place for 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 (NA), to the approved Party mass organisations (Lao Youth Union (LYU) and Lao Women's Union (LWU)) and formal business associations (LFTU: Lao Federation of Trade Unions). Over the past five years, the NA 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 (NPA) as partners in development. These organisations 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 the sub-national and national levels; NPA's participation in the Governance Sector Working Group (GSWG) and Round Table Meetings is seen as movement in a positive direction²⁰.

111. The National Social Security Fund is governed by the Social Security Law (No. 34/NA dated 26 July 2013) and managed by the Ministry of Labour and Social Welfare. Articles 55 and 56 of the Act requires all employers to contribute 6% of an employee's monthly salary to the NSSF, with a further 5.5% to be contributed by insured employees which is deducted from salaries and 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 25 April 2016, adjusts and raises the maximum ceiling of insurable earning established at five times the minimum wage set by the Government of Lao PDR, from Kip2 million to Kip4.5 million as of 1 January 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 (Kip900,000) i.e. Kip450,000.

112. 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.²¹ In particular, the Revenue Management Program (RMP) associated to its operations was set to assist the Government of Lao PDR to implement priority poverty reduction and environmental programs using revenues from the Nam Theun 2 Hydroelectric Power 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 Ministry of Planning and Investment 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, among others. 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

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

²¹ From WB internal note on RMP summary, September 2017

oversight of the Ministry of Finance, Ministry of Health, and Ministry of Education and Sports. 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 \$153 million in net revenues from the project since the start of commercial operations in 2010. Net revenues of around \$28 million are estimated in 2017. On average, NT2 revenues have accounted for about 1% 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.

3. Assessment of PFM Performance

PILLAR ONE: Budget Reliability

PI-1. Aggregate expenditure outturn

113. **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.** Coverage is Budgetary Central Government. The assessment is based on the budget and actual expenditure for the fiscal years 2013/14, 2014/15 and 2015/16.

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 respectively, aggregate expenditure outturn deviated less than 5% from the approved budget in all of the three fiscal years.

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

Table 3-1: Aggregate Expenditure Outturn and Approved Budget²²

Fiscal Year	Original Approved Budget (Kip million)	Aggregate Expenditure Outturn (Kip million)	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 Fiscal Policy Department data estimates for 2017

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

PI-2. Expenditure composition outturn

116. **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. Coverage is Budgetary Central Government.

²² 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 NA. 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 and the Environment Protection Fund.

Indicator/Dimension	Score	Brief Explanation
PI-2 Expenditure composition outturn	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, due to the lack of 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 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 ²³ % 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

117. **Due to lack of consistency 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 lack 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.

118. **The variance calculated on this basis is presented in Table 3-2.1.** This assumes that the figures for original budget and budget out-turn 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

Year	Composition variance by Administrative classification
2014/15	4.8%
2015/16	24.2%
2017	14.6%

Source: MoF published Official Gazette and Fiscal Policy department data estimates for 2017

119. **Based on these assumptions, the composition deviations amount to 4.8% and 24.2% for the fiscal years 2014/15 and 2015/16 but the breakdown respectively i.e. less than 15% 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 lack of consistency in the presentation of the budget data, the score is a D* which reflects the lack of availability of consistent data.

²³ This calculation is based on temporary and non official 2017 budget execution data provided by FPD as of March 8th, 2019.

2.2 Expenditure composition outturn by economic type

120. **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.

Table 3-2.2: Calculation of Variance by Economic Classification

Year	Composition variance by Economic classification
2014/15	13.7%
2015/16	12.1%
2017	2.1%

Source: MoF published Official Gazette and Fiscal Policy department data

121. **The data for each economic category shows some consistency from one year to another.** The main expenditure category “Salaries and allowances” is under-spent 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 the external financing from donor loans and grants as the information on the realization of donors’ commitment is only partially available at the time of the budget planning. The classification by economic categories is not fully GFS compliant: there are recurrent expenditures included in capital expenditures funded externally.

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

2.3 Expenditure from contingency reserves

123. **Article 3: Government and Local Reserve Funds in the State Budget Law 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 information for 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

Year	% of the original budget
2014/15	0.0%
2015/16	0.2%
2017	0.21%
Average period 2014-2017	0.14%

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

PI-3. Revenue outturn

125. **This indicator measures the change in revenue between the original approved budget and end of year out-turn.** The assessment is based on the budget and actual revenue from fiscal years 2014/15, 2015/16 and 2017. 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% 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 % in 2014/2015, 2015/2016 and 19.6% 2017 respectively, revenue composition variance was above 15% in the last three completed fiscal years.

3.1 Revenue outturn

126. **Revenue outturns during the fiscal years 2013/14 and 2014/15 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, etc.) which have a strong impact on production and exports. Moreover, a slowdown of GDP growth from 7.5 percent in 2014/2015 to 6.9 percent in 2015/2016 from mining, vehicle, construction, fuel and others generated a decline in revenue collection.

Table 3-3.1: Total Revenue Outturn (million Kip)

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 Fiscal Policy Department data for 2017 estimates

127. **At 96.9%, 86.2 percent and 96.3% 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

128. **Tax revenues increased from 66.3% in 2014/15 to 82%% of total revenue in 2017.** VAT, excise tax, profit tax, income tax and import duties generating 81% of all tax revenue. The compositional variance of revenue is generally high but deteriorated in 2015/2016 as shown in Table 3.3.2. 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. Non tax revenues – equivalent to 2.7% of GDP, increased significantly in 2015/206 (35%) and cover administration fees, dividends, over-flight 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% in 2014/15 to less than 2% in 2017 resulting from a decrease in non-project aid as shown in Annex 4.

Table 3-3.2: Revenue Compositional Variance (million Kip)

Fiscal Year	Composition Variance
2014/15	20.7%
2015/16	26.3%
2017	19.46%

Source: MoF Published Official Gazette and Fiscal Policy Department data

129. **At 20.7%, 26.3% and 19.46% in 2014/2015, 2015/2016 and 2017 respectively, revenue composition variance was above 15% in the last three completed fiscal years, score is a D.**

PILLAR TWO: Transparency of Public Finances

130. **This indicator evaluates whether the classification of the Public Budget and reports state budget and the reports are in line with internationally recognized standards.** Time period is at time of 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 2-digit level. These classifications are also embedded in the chart of accounts and can produce a broad functional classification, but not COFOG compliant.

131. **The GFIS budget classification used by the Budget and Treasury departments uses a 4-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 COA used for accounting purposes with that used for budgeting. With the harmonisation of the budget nomenclature and accounting codes, mapping tables between the two sets of codes is no longer required in Government Financial Information System (GFIS) for economic and administrative classification.

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

133. **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 ten main functions). Detailed functional classification GFIS 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.

The State Budget of Lao PDR - GFIS Chart of Accounts, Coding Structure			
Organization	Project	Fund	Economic (GL)
Primary ordanotor (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/loan (1+4)	Detail (6+2)
Legend			
Controls are established and applied at this level	Transactions are processed at this level		

Source: WB presentation on CoA, 5th September 2018

134. **The 2018 government budget was prepared using the two classifications:** One is an administrative classification, representing spending units at central government and provincial levels and a second covers an economic classification at an aggregate level, produced by the Fiscal Policy and Law Department (FPLD). 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) reduces significantly 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.

135. **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.

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

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

138. **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 double entry system and to International Public Sector Accounting Standards (IPSAS) cash basis financial reporting. The roll out of the GFIS to the second-tier spending entities at the provinces level will likely take place when 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

139. **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.** Time period is the last budget submitted to the legislature (Budget 2018) and the coverage is Budgetary Central Government.

5.1. Budget documentation

Indicator/Dimension	Score	Brief Explanation
PI-5 Budget documentation	D	Budget documentation for 2018 fulfilled 2 basic elements and 2 additional elements i.e. in total 4 of the 12 key elements.

140. **The 2018 budget documentation package submitted to the National Assembly in 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 aggregate level and by collecting agencies,
- Expenditures estimates against State Annual Plan,
- Deficit forecast and projected external and domestic financing,
- General statement on measures to deliver the estimates and enhance execution.

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

142. **The objective, content and structure of the budget process are described under Article 29 of the State Budget Law (government responsibilities) but most provisions are still to be fully implemented.** Description of the 12 key elements of budget documentation is summarized in table 3-5.1 along the criteria for assessment.

Table 3-5.1: Summary of Information formally included in the State Budget implementation documentation submitted to the NA)

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. ODA financing is included for the

		part recorded by MPI on capital investment but 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 aggregate level of administrative classification disaggregated at 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 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 are shown at the aggregate level but there is no breakdown or comparison with previous year's outturn and provides no breakdown at administrative level.
Additional Elements		
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, macro balance) and domestic instrument
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 MPI and MoF and discussed with the NA's Planning Finance and Audit Committee prior to the session of the budget submission. Exchange rate to the US dollar and interest rate assumptions are explicitly stated in the macroeconomic document prepared by MPI and 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 presented according to 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 the IMF assistance (article IV) but not distributed outside MoF senior management (see PI-13).

8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	No information on the government's holdings of financial assets is provided in the budget documents.
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, and so on.	No	No information is provided on guarantees issued, public-private partnerships which may incorporate indirect guarantees, or any other contingent liabilities,
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.	No	The budget statement by 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.
11. Documentation on the medium-term fiscal forecasts	No	The budget proposal provides indicative budgets for the next two years and medium term projections of revenue and expenditure, budget balance and financing i.e. 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 level (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 nor the MTEF projections.
12. Quantification of tax expenditures	No	Tax expenditures are not presented in the budget documentation, neither in detailed nor in aggregate format.

143. **Budget documentation for 2018 fulfilled two basic elements and two additional elements i.e. in total 4 of the 12 key elements: Score D.**

144. **The SBL 2015 specifies the content of the State Budget that should be presented to NA and includes elements 2), 4) and 7) of the elements required for this indicator.** The Budget department is working on developing the documents accordingly.

PI-6. Central government operations outside financial reports

145. **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 year 2017 and 2018. The coverage is central government.

146. **In the Lao PDR context, expenditures and revenue not included in the financial reports fall into three categories:** 1) operations of the central government carried out by extrabudgetary entities carrying out government functions and receiving a state budget allocation; 2) technical fees charged by budgetary entities; and 3) 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 are 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 ministry level.
6.3 Financial reports of extra budgetary unit	C	The main 2 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 end of the financial year in 2018.

6.1 Expenditure outside financial reports

147. **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 then should be consolidated. However, the annual State Budget Plan reports only the main extrabudgetary funds that have submitted information to MoF on time for the budget planning (see below)²⁴:

- **Ministry of Education:** provincial universities and school fees collected
- **Ministry of Health:** Health Fund, originally covering the activities of the Health Equity Funds (HEFs), community health and pro-poor health insurance and free maternal and child health services in selected provinces. The new integrated National Health Insurance scheme which has been launched and piloted since September 2017 in

²⁴ The decrees for the 5 main extrabudgetary funds include provisions to report to government, but without a clear specification of the MoF and timeline.

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 1 June 2016 financed through levies on fuel prices integrated to the budget revenue (0.5% of GDP).
- **Ministry of Agriculture and Forestry:** covering the Forestry Development Fund and more recently the Poverty Reduction Fund, financed by the donors, governed by the Decree on Poverty Reduction Fund dated 3 August 2017.
- **The Ministry of Energy and Mining:** Renewable Energy Fund.
- **Ministry of Labour:** covering the Social Security Fund established through Decree dated 17 October 2012.

148. **Other major extrabudgetary funds operate under their respective decree.** These are financed directly through own resources from private sector or DPs, and established as:

- **Environmental Protection Fund** governed by the Decree on Environment Protection dated 8 March 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 21 May 2013), the SME Fund, the Tourism Fund, etc.

149. **Table 6.1 below summarizes additional information available on the MoF website on extrabudgetary funds for 2017 and 2018**, and reports an amount corresponding to approximately 2.5% of the estimated expenditure for 2017 as follows:

Table 6.1 - 2017 and 2018 Budget Expenditure of Extrabudgetary Funds
In million kip

No.	Description	2017		2018	
		Plan	Expenditure	Plan	Expenditure
II	Revenue-Expenditure Funds	849,800	849,800	767,637	703,637
1	Road maintenance Fund	660,000	660,000	724,000	660,000
2	Forestry Development Fund	6,800	6,800	4,000	4,000
3	Environmental Protection Fund			33,035	33,035
4	Renewable Energy Fund (MOEM)			700	700
5	SME Fund			1,902	1,902
6	Tourism Fund			2,000	2,000
7	Health Fund	183,000	183,000	2,000	2,000
		850,000	850,000	767,637	703,637

Source: Official Gazette and MOF website

150. **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

151. **Expenditure from external financing in the form of grants and loans funded by development partners (DP) is only partly covered in government financial reports.** DP 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 DP 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 dataset from the ODA management system of the Ministry of Finance, and from the Ministry of Planning and Investment, Department of International Cooperation (DIC). The total amount pledged by 324 active bilateral and multilateral donors for 2017 totals USD 980 million, composed of USD 215.3 million on grants and USD 764.5 million on loans, i.e. approximately 25% of total government budget expenditure from 2017 State Budget.

152. **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 are 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: Score D.

6.2 Revenue outside financial reports

153. **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, etc.) sectors.

154. **Technical revenue and administrative fees are collected on separate bank accounts at the service delivery collecting point.** Technical revenues are accounted for in the budget with a provision for carry-over 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, district and provincial hospitals and the fees collected from the drug revolving fund for the Ministry of Health. The figures reported in the State Budget amount to less than 2% of the aggregate reported expenditure.

155. **At present, data on off-budget revenue from grants and loans from DP are produced at least once a year but technical revenue collected 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% of total government budget revenue: Score D.

6.3 Financial reports of extrabudgetary units

156. **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 to the MoF, there is no clear reporting system and follow up process for tracking such or 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 above, extrabudgetary funding includes funds from external sources, from additional revenue sources, and from 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 NA annually. However, as these funds are not covered by the GFIS accounting system, financial information can be reported with substantial delays.

157. **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 NA. In the absence of a designated department with the authority and responsibility to collect from the responsible line Ministry, prepare and submit financial reports to be consolidated in the State Budget Implementation report presented to the NA 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.

158. **The main six extrabudgetary funds (out of approximately 15 extrabudgetary funds), representing 2.5% of government annual planned expenditure in 2017 have obligations to submit their financial reports to their respective supervising ministry.²⁵** The two main funds, namely the Road maintenance fund and the Health Insurance Fund, have submitted their reports to their respective line ministries in 2017. Score C as over 50%²⁶ in value of extrabudgetary funds are submitted to government within nine months of the end of the year.

159. **MoF has made a priority to include the reporting of the statutory bodies in the government reports.** It is in the process of 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 MoF.

160. **Data requirements on receipts and implementation of aid management are currently being developed by MPI to collect information from ministries and DPs 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 Official Development Assistance (ODA), MPI is now developing an online database for ODA Management Information System (www.ODA-mis.gov.la) that will ease and streamline the

²⁵ 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 MoPW confirmed the date of submission of the Road Maintenance Fund report.

²⁶ These two funds are estimated to represent at least 50% of all allocations to extra-budgetary funds in 2017 (source MoF).

tracking, monitoring and tracking of ODA project implementation. Once fully operational, ODA data will be more accurate as well as timely available. It will also facilitate and expedite the production of the FAIR report by MPI.

PI-7. Transfers to subnational governments

161. **This indicator assesses the transparency and timeliness of transfers from central government to sub-national governments with direct financial relationships to it.** It considers the basis for transfers from central government and whether sub-national 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 Central Government and the sub-national governments who have direct financial relationship with Central Government.

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

163. **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.”

164. **The review of the actual mechanisms established between central government and provinces established that the provincial governments are:** 1) headed by a governor or mayor appointed by the Prime Minister after the provincial assembly is elected, 2) exercise some of the functions of government at a level below that of central government, 3) have the fiscal authority to levy taxes and 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 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.

165. **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 DRP.

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

7.1 Systems for allocating transfers

7.2 Timeliness of information on transfers

PI-8. Performance information for service delivery

166. **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 time period covered: 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 and last three completed fiscal years. The coverage is Central Government Services managed and financed by other tiers of government 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.

167. **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, as follows:**

Ministry/Agency	Budget Allocation (Kip Million)	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)
Ministry of 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					

%age of SD ministries compliant	16% of total budget		77%	0%	77%	77%	Less than 77%
Coverage			All SD ministries (i.e. > 90% by value of SD ministries)	All SD ministries (i.e. > 90%)	All (>90%)	Most (>75%)	Majority (>50%)

168. Overall sector spending (planned) targets have been set in the 8th NSEDP endorsed by NA for education and health at respectively 17 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 NA resolution stipulate that the sectors should receive respectively 17 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, however, 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 SD 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 linkages 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 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 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 and 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 DPs' 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 3 years in terms of performance audits and published, but not covering more than 25% of the total of service delivery ministry in the last three years.

8.1 Performance plans for service delivery

Education sector

169. **The Government's strategic priorities for the education sector are guided by the Education Sector Development Plan (ESDP) for 2016-20.** The ESDP sets the strategic framework as well as spending targets aimed at adjusting sub-sector delivery to changes in the student population structure, and also improving classroom education quality. However, the key performance indicators for 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 which is defined as an activity or input.

Health sector

170. **The health sector is governed by the Health Sector Reform Strategy by 2020 and by PM Decree 029 of 2013, and the successive Health Sector Reform Strategy and Framework to 2025 (issued in 2016).** The 8th National Health Sector Development Plan strives for an acceleration of the health sector reform, in 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 Government of Lao PDR 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 (UHC) 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.

171. **In order to achieve the policy objectives, the Government has introduced financial protection mechanisms for the poor.** These include health equity funds (HEFs) and free care for maternal and child health (MCH) to improve financial protection for the poor and the targeted groups such as pregnant women, mothers and children under 5-year-old 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.

172. **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 to 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.

173. Information on activities to be performed by programs is available for MoES and MoH, which represent 77% 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

174. **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 NA 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.

175. **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 aggregate level. The annual reports are systematically published. Score C.

8.3 Resources received by service delivery units

176. **In the education sector, the School Block Grant (SBG) transfers, covering the (non-staff) school operating costs for all schools from pre-primary up to upper secondary level and financed through based on PM Decree No. 136 (2010)²⁷ 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 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'

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

funding and 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

177. **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 outcome level or activity-based and is not SMART and thus not verifiable. DPs 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.

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

179. **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.

180. **Several performance evaluations of service delivery in Lao PDR have been carried out in the last three years, mostly through DPs' 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 3 years in terms of performance audits and published, but not covering more than 25% of the total of service delivery ministry in the last three years: Score D.

PI-9. Public access to fiscal information

181. **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 its easy access, without restrictions (registration and fee). The time period is 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 two of the five basic elements only but not in a timely manner so none of the elements meet the scoring criteria.

182. **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
Basic elements		
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 NA is broadcasted on TV on the day of the session to NA but not published
2. Enacted budget. The annual budget law approved by the legislature is publicized within 2 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 up to 6 months. It is also usually posted on 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 MoF are internal, not presented to the NA and not publicly available.
4 Annual budget execution report. The report is made available to the public within 6 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 delay up to one year. It is also usually posted on MoF website. A government Finance Statistics Annual Report for 2011-2015 and 2015-2016 have been prepared and circulated in hardcopies and posted on MoF website but with 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 2015/2016 was broadcasted on TV in November 2017 but the report is not available to the public.
Additional elements		
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 4 months before the start of the fiscal year.	No	The government statement on the economic and fiscal policy assumptions is presented to the NA but not available to the public.
7. Other external audit reports. All non-confidential reports on central government-consolidated operations are made available to the public within 6 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 2 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.

Elements of Information for Public Access	Public Availability	Assessment
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 MoF on a medium-term, annual, six-monthly and quarterly basis discussed within the government and presented to NA (except the quarterly ones) but not published.

183. The government makes available only two of the five basic elements only but not in a timely manner so none of the elements meet the scoring criteria: Score D.

PILLAR THREE: Management of Assets and Liabilities

PI-10. Fiscal risk reporting

184. **This indicator measures the extent to which fiscal risks to central government are reported.** Fiscal risks can arise from adverse macro-economic situations, financial positions of sub-national governments (SNG), public corporations, and contingent liabilities from central government's own programs and activities, including extra budgetary 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 2016/17. 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 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 percent of SOEs turnover, had submitted 2017 annual financial statements and financial information to 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 governments	NA	
10.3 Contingent liabilities and other fiscal risks	D	No reporting takes place on contingent liabilities and other fiscal risks from central government's operations.

10.1 Monitoring of public corporations

185. **Data on MoF-recorded State-Owned Enterprises show that of the 183 SOEs registered with state participation, 60 are publicly owned (more than 50% owned by the state) and report at CG level.** Data on SOEs is 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 9 months of the end of their financial year, and of these, five listed companies²⁸ - have published their audited financial reports in the same period. These 43 SOEs represent approximately 70%²⁹ of the total turnover of the

²⁸ Listed companies are BCEL, Lao Development Bank, Agriculture Development Bank, Lao Airlines, EDL-GEN with financial reports audited by audit firms and SAO.

²⁹ Due to lacking information on some unreported SOEs the total turnover cannot be assessed accurately. 67% represent an approximate figure based on the available data from the SOE department.

SOEs registered by the MoF. The publication and timeliness of financial reports for the rest of the SOEs could not be assessed.

186. **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 reporting within 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 etc. 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 Tax department 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.

187. **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 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 2014/2015 report.

188. **The 43 SOEs that had submitted 2017 annual financial statements and financial information to MoF within 9 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 government (SNG)

189. Not Applicable.

10.3 Contingent liabilities and other fiscal risks

190. **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: (i) financial reports are prepared on the basis of cash accounting - i.e. with no reporting obligations on actual liabilities or contingent liabilities; and (ii) extra-budgetary funds do not report to MoF or with substantial delays (ref. 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.

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

192. **Fiscal discipline and reporting on contingent explicit and implicit liabilities has 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 MoF, with the consolidation of the domestic and external debt, 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

193. **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 2016/17 and covers 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 have been conducted for the 10 major projects selected from the Public Investment Plan 2017, They should in principle be also included in the investment proposals submitted to MPI for review and inclusion in the State Budget. but are only conducted for major investment projects and joint investments with external financing, representing at least 25 percent of the pipeline, and are not published
11.2 Investment project selection	C	Prior to 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 NA 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. Onsite visits are carried out jointly between the implementing entity and MPI Monitoring and Evaluation department to check on physical progress, but this is only done on a sample basis. There is no database on integrated system to report and monitor in the PIP implementation and calculate deviations from the original budget envelope.

194. **For the purpose of the assessment, the sample of 10 major projects identified by the assessment team from the 2017 PIP are as below.** The total investment cost of the 10

mega – projects identified does not necessarily meet the requirement to represent 1% or more of the annual budget expenditure but has been extracted from the 2017 Public Investment Plan endorsed by the NA and submitted by MPI for the inclusion on the budget.

2017 public investment mega projects plans

Unit: in million kip

No	Name of: - Ministry - Project name and location	Project duration	Total project cost	Implemented costs up to 31/12/2016	Estimated payment up to 31/12/2016	Plan 2017 starts 1/1/2017		
						Payment (using 500 billions portion) FY 2015-2016	Plan 2017	Total
A	Central level							
1	Ministry of Energy and Mines							
	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	Ministry of Public Works and Transport							
	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	Ministry of Education and Sports							
	Infrastructure project: - Infrastructure of Savannakhet University (in Savannakhet province)	2012-20	250,000	50,866	44,000	4,000	30,000	34,000
4	Ministry of Defense							
	Infrastructure project: - Construction of borders (throughout the country)	2011-2015	284,000	99,400	44,790	-	6,000	6,000
B	Provincial level							
5	Huaphan							
	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	Vientiane							
	Infrastructure project: - Road & bridge construction (Nanokphoum, Thoulakhom District-Naxay, Thaphabard)	2012-2022	404,772	254,983	70,163	3,837	20,000	23,837
7	Vientiane Capital							
	tbc (missing info)							
8	Savannakhet							
	Infrastructure project: - 2 layers of national road construction, including bridge no. 9 to Savane province border	2013-2022	406,000	93,542	17,000	-	7,000	7,000
9	Champasack							
	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	2013-2023	879,000	236,301	31,000	-	12,000	12,000
10	Sekong							
	Infrastructure project: - Road construction (Kaluem new village) (Lao-Vietnam border), long 118.50 km	2012-2019	399,300	231,594	87,000	-	12,000	12,000

Source; Public Investment Plan 2017, MPI.

11.1 Economic analysis of investment proposals

195. **Public investment projects that have been included in the PIP have been prioritized by the government entities and included in their respective 5-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.

196. **The guidelines for ministry 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.”

197. **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 indicates 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.

198. **Investment proposals are reviewed by 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.

199. **Economic analysis should in principle be included in the investment proposals submitted to MPI for review and inclusion in the State Budget.** They are 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

200. **Improving public investment selection has been a major focus government.** Since 2017 after the guidelines were revised, screening (with letters A to F) prior to selection is in place under a new and well-defined system. All projects identified by the ministries and provinces have first - as a pre-condition - to have been included in the relevant PIP which contains detailed project lists for each of the 5 years. five year- NESDP to qualify and be included in the stock of projects to be undertaken by the government with State budget funding.

201. **Investment proposals are prepared based on the templates and provisions from the “JICA guidelines”.** The PIP contains a very detailed list of all projects already pre-approved 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 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 in order to identify the list of potential projects that can be prioritized projects and be included in the State budget.

202. **The identification and selection process at 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 Public Investment Plan and the NESDP. The investment proposals are submitted to the provincial assembly to be included within the investment ceiling to be defined by MPI for the year,

- Once the capital budget ceiling is defined, 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 PCAP.
- The planning department will start its appraisal process and validate technical details, costs, etc. with the following key criteria for screening and prioritizing:
 - Consistency with the NSEDP, and sector and province plans;
 - The relative priority given by the proposing department, and
 - 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 from 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 NA-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 MPI. If approved by MPI it will then be included in the budget proposal to the NA

211. **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 which 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 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 under-served areas. Then, PDPI ranks proposals based both on priorities assigned by the originating department and then by project status/commitment criteria.

212. **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 central government level.

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

inclusion in the PIP and the annual budgets for NA approval but information could be obtained from MPI for only some of the 10 mega projects identified from PIP 2017: Score C.

11.3 Investment project costing

214. **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.

215. **For government-sponsored projects, the total capital costs for the past period and the next for budget period is included in the PIP and submitted to NA 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 provinces. Given limited capacity and budget constraints, there is a strong incentive to get the project in the pipeline to ensure availability of 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 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 MoF. The parallel budget process is a constraint and the lack of integrated management information system is an issue to capture projects and their total costs.

216. **Total estimated capital cost 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 lack of an integrated project management system between MPI and 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

217. **The project implementing entity has responsibility 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 prior to the final and often only payment to the contractor. For ongoing projects such monitoring is provides information for the capital budget submission. For the physical monitoring, the implementing department and the MPI Monitoring and Evaluation department jointly carries out onsite visits to the projects to evaluate the physical progress on the ground. A report is produced as formal attachment for payment by the Treasury department. However, given the number of projects that are concurrently being carried out (more than 300), and the limited resources available at CG level, physical verification is carried out on a sample basis. Coverage during the year could not be calculated directly but is estimated at 40 to 50 percent of the projects under implementation (corresponding to the number of projects receiving payments in one year).

218. **Full capital project costs to date can only be collected manually during the year from the implementing entities.** Onsite visits are carried out jointly between the implementing entity and MPI Monitoring and Evaluation department to check on physical progress, but this is only done on a sample basis. There is no database on integrated system to report and monitor in the PIP implementation and calculate deviations from the original budget envelope: Score D*.

219. **Improvement of the public investment management 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 Ministry of Planning and Investment has been instructed to take an active role in this area and to set up a centralized, robust public investment management 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

220. **This indicator assesses the management and monitoring of government assets and transparency of asset disposals.** The assessment is based on the fiscal year 2016/17. Coverage for dimension 12.2 is Budgetary Central Government and dimension 12.3: 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, monitoring and preparation of internal reports on the government portfolio is shared between the External Finance, the SOE and Treasury departments. 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	Non-financial 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 non-financial assets are fragmented and incomplete at different level and there is neither consolidation nor publication of comprehensive information on holdings of any type of non-financial 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 have yet to be enforced and there is no consolidated information available on such disposals, including the information of both acquisition and disposal values.
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12.1 Financial asset monitoring

221. **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 Treasury department consolidates cash balances held in various commercial banks and produces on a monthly basis a consolidated monitoring report (see PI-21.1).

222. **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, 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 reported 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 Treasury department do report 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.

223. **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, the SOE and Treasury departments.** 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 Non-financial asset monitoring

224. **The monitoring of non-financial 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, etc.). 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 projects.

225. **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 sub-soils is a shared responsibility between the Ministry of Energy and Mines responsible for the mapping of resources, the State Assets Department responsible for the collection of concessions fees granted under MPI's authority, and the Ministry of Natural Resources and Environment which is 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.

226. **The State Assets Department at 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 Public Works, Ministry of Education or Ministry of Health maintain registers updated annually and keeps track of equipment items through inventory-based controls but record-keeping in many other government entities is only partial or even non-existent.

227. **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.

228. **Non-financial 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 non-financial assets are fragmented and incomplete at different level and there is neither consolidation nor publication of comprehensive information on holdings of any type of non-financial assets: Score D.

12.3 Transparency of asset disposal

229. **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 level.** However, the full enforcement of the Law has yet to be implemented and the legal provisions on disposal of public assets needs to be aligned with other laws such as the new Law on public procurement.

230. **Transfers and disposals of assets are managed at the decentralized level.** In light of the absence of systematic registers and valuation for most of the non-financial 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 PM 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 Ministry of Labor and Ministry of Finance

(under Decree 272 and 343). Land transfers represent a major part of the non-financial asset sales recorded in the state budget for a total of 5 percent of total revenue in 2015/2016. In general, information on transfers and disposals is not included in budget documents, financial reports or other reports.

231. **Transfers and disposal of nonfinancial assets is covered by standing rules on asset disposal.** The provisions have 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

232. **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 time of assessment. For dimension 13.2, it is based on the last completed fiscal year, 2016/17 and for dimension 13.3, at 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 NA.
13.2 Approval of debt and guarantees	D	The Constitution and the SBL requires contracting and reporting on all government debt and guarantees through the Minister for Finance subject to approval by Parliament. At present the all debt-related transactions and issuance of guarantees are still under consolidation between MoF, MPI and all relevant stakeholders at central and provincial levels: Once the new Public Debt Law becomes fully operation the score for this dimension should improve.
13.3 Debt management strategy	D	There are regular DSA reports performed jointly with IMF-WB. 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.

233. **The public debt level is high and the joint International Monetary Fund – 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

234. **The responsibility for public debt management and reporting for both external and domestic debts has recently been consolidated under the External Finance Department at MoF.** Public debt management is now governed by the Public Debt Law adopted during the last NA session on 23rd November 2018. Up to then, EFD 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 Treasury department for the records of domestic debt. Foreign loans are systematically recorded and reporting on the external public debt is prepared on a monthly basis, taking into account new and ongoing debt, and reported to the FPD to be used as an input to the MTFF.

235. **Foreign debt records are managed by the EFD back office using the UNCTAD's Debt Management and Financial Analysis System (DMFAS).** 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 NA 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.

236. **Domestic debt reports are produced but kept confidential.** The backlog of infrastructure projects and liabilities inherited from the previous government and lack 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 a systematic system to keep track of contingent liabilities as government issues consent letters and guarantees to third parties and SOEs.

237. **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 NA: Score C.

13.2 Approval of debt and guarantees

238. **The 2015 Constitution of Lao PDR Article 53 grants the NA the authority to “consider and adopt fundamental financial policy, monetary, budget deficit percentage, national debts percentage, and public debts percentage”.** The MoF is mandated³⁰ to monitor and manage both domestic and foreign public debt contracted by the government and, under

³⁰ Article 3 from Decree 144 / PM dated 8th May 2017 on Organization and Function of 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.”

Article 55 of the State Budget Law it is responsible to submit to NA “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”.

239. 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 level. Unauthorized projects were carried out by private companies who paid the cost of construction upfront, 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 via the so-called government’s triangle-debt-diversion disbursement initiative.

240. A new Public Debt Law was promulgated and adopted during the last NA session on 23rd November 2018 as a result of this situation. Under Article 16 para.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 on-lending 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 National Assembly.

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

13.3 Debt management strategy

242. The IMF-World Bank Debt Sustainability Analysis Framework (DSF) is currently the main tool used to evaluate the sustainability of public debt. The report on Lao PDR Debt Sustainability Analysis (DSA)³¹ is 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 International Monetary Fund – World Bank Debt Sustainability Analysis has moved Lao PDR to high risk of debt distress.

243. The government has endorsed the need to minimize debt on commercial terms and maintain borrowing on concessionary terms where the loan proceeds are directed towards 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, had not yet been made publicly available: Score D.

244. 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 be developed for the preparation of (i) a 5-year plan (Strategy for Public Debt Management in Lao PDR) that provides broad guidelines for public

³¹ <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>

debt management, and (ii) a rolling 3-year plan (Medium-term Borrowing Plan) that provides targets for the debt structure and risk exposure and iii) the tool to perform regular debt sustainability analysis to inform borrowing decisions. The EFD has also requested assistance from donors to replace the DMFAS version used since 2011 and migrate to the CS-DRMS (Commonwealth Secretariat – Debt Recording and Management System).

PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

PI-14. Macroeconomic and fiscal forecasting

245. **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 time period is the last three completed fiscal years. The coverage is for dimension 14.1: Whole Economy and for Dimensions 14.2 and 14.3: 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	Macro-economic 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-WB assistance but only for external use.

14.1: Macroeconomic forecasts

246. **The macroeconomic planning process has two strands.** One is part of the formal national planning process, the National Socio-Economic Development Plan (NSED) and there is also a cross-agency effort to develop a macroeconomic framework. The formal planning process is led by MPI which is responsible for the formulation of the 5-year and annual NSED, the country's developments strategy. The NSED is approved by the National Assembly (NA) and include 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 MPI, inflation decided between MPI and 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 (7 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 NA. These are limited to the upcoming budget year and the first six months of the following year.

247. **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 estimates uses a consistent framework based on growth rate indicators and data from 4 sectors of the economy (agriculture, mines and energy, commerce and transport), and is given to 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 and 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 dedicated unit for macroeconomic analysis is supported by IMF assistance but does not appear to be fully functional and or empowered.

248. NA does not receive detailed information on the macroeconomic scenario apart from the oil price, and exchange rate. Once approved by the NA, the NSEDPs provide guidance for sectoral plans, including the annual Budget. Plans are rarely revisited and only mid-term reviews are undertaken to take account new developments.

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

250. 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 a MTFF, there is still a need to formally establish the linkage with the underlying policy framework and the formal planning process though the production of NSEDP. Macro-economic forecasts are prepared annually: Score C.

14.2 Fiscal forecasts

251. Revenue forecasting in Lao PDR takes place as part of the Budget preparation process, part of the broader planning process. MoF’s Fiscal Policy Department (FPD) coordinates the process with inputs from revenue collecting departments (Tax Department, Customs Department, State Asset Department, SOEs etc.). Forecasts are typically done at individual tax / non-tax instrument level and are based on macroeconomic assumptions (growth, inflation etc.) provided by external agencies. In 2016 MoF produced for the first time a 5-year fiscal plan, called the Medium Term Fiscal Framework document. The midterm forecasting is however largely the result of FPD internal calculations, mostly on the incremental basis with unsupported adjustments on specific revenue outturns. MoF’s FPD has been developing its own GDP-based model for revenue forecasting, with support from IMF and WB. MoF reported that the model has been used in the actual budgeting process in combination with inputs from revenue collection departments.

252. The data constraints and limited technical capacity environment have an impact on the MoF’s ability to produce reliable forecasts. The data that is produced is 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 Fiscal Year (FY) 2015/16 were 10.5 percent below the mid-

year revised estimates and a full 19 percent below the projections made in the initial FY2015/16 Budget. Early indications for 2017 suggest that revenues are likely to underperform by similar magnitude.

253. **The underlying macro-economic assumptions for the forecasts are based on the forecasts and are not linked to other forecasts such as the GDP targets from the NSEDP.** There are outlined in PI-14.1. Other assumptions (e.g. 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 annual update and the corresponding forecasts made in the previous year is not provided.

254. **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

255. **Alternative fiscal scenarios (e.g. 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, etc., 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

256. **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 time period for dimension 15.1 is the last three completed fiscal years and for dimensions 15.2 and 15.3: the last completed fiscal year. 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 towards 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

257. **The Fiscal Policy Division (FPD) of MoF is responsible for preparing revenue policy proposals and for revenue estimates of tax and non-tax revenue.** It prepares a consolidation of the fiscal forecasts based on information from collecting departments for each tax and non tax revenue to estimate a medium term fiscal framework for the definition of aggregate expenditure ceilings. However, the revenue impact of tax measures such as the new amended Value Added Tax Law as of July 2015 was not estimated or quantified.

258. **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 multi-year costing for each targets 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).

259. **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

260. **The State Budget Law Article 55 requires that the MoF presents its fiscal policy, budget policy and medium-term budget framework and medium-term budgets to the National Assembly.** At present, MoF consolidated the Public Finance Development Strategy to 2025 and Vision to 2030 endorsed by the PM and including macro targets to 2020 as follows:

- GDP growth above 7.2% and GDP per capita USD 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 +/- 5% per year;
- total state revenue between 17-18% of GDP, of which domestic revenue between 15-16% of GDP;
- budget expenditure between 22-24% of GDP;
- salary expenditure not exceeding 45% of domestic revenue;
- public debt maintained below 65% of GDP and
- a budget deficit below 5% of GDP per annum.”

261. **FPD also prepared in 2017 for the 2018 budget submission to the NA a 3-page fiscal policy document.** This was based on the MTFP with revenue and expenditure projections for 3 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 NA refers to general fiscal principles and fiscal objectives based on quantitative targets.

262. **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 government fiscal policy, but is not necessarily complied with. Furthermore, there are no detailed multi-year projections on the debt limit, and the linkage with the projections of expenditure and revenue that are presented in the State budget plan is missing.

263. **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 results

264. **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 NA and the 5-year medium term fiscal framework adopted from 2016-2020.** Several reports issued by MoF discuss fiscal policy issues and underlying macro-economic developments, including during 2018, the annual 2017 report, and

2018 4-month report (June 2018), and the 6-month report (October 2018), which are all submitted to the National Assembly. Since fiscal policy targets are defined only at a broad level, however, 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 towards fiscal targets, but the report is only circulated almost 2 years after the end of the fiscal year.

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

266. The provisions from State Budget Law 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 MTFP and MTEF are being introduced with WB and ADB support.

PI-16. Medium-term perspective in expenditure budgeting

267. 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. Assessment is based on, for dimensions 16.1, 16.2 and 16.3, last budget submitted to the legislature, 2017. For dimension 16.4, 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 4-digit level are available within the State Budget Plan for the current budget year, aggregate estimates at a 2-digit of expenditure are presented for the two following years.
16.2 Medium-term expenditure ceilings	C	The 2018 Budget circular from MoF indicates the aggregate expenditure ceiling prepared based on the MTBF prepared by the government (or 5-year budget plan revised every year) and endorsed by the NA.
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 MoF are not drawing directly on expenditure policy proposals from these sector plans.

16.4 Consistency of budgets with previous 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.
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16.1 Medium-term expenditure estimates

268. **The MoF introduced a medium-term approach to budgeting in 2016 through the formulation and presentation of a 5-year budget framework to the NA.** A Medium Term Fiscal Framework 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, MoF formulated a 5-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 the period 2017 -2020 to the National Assembly during the submission of the 2017 budget in November 2016.

269. **The 5-year budget framework presents aggregate level of revenue and expenditure and macroeconomic assumptions used for the projections.** At present, detailed estimates by economic classification at 4-digit level are only available within the State Budget Plan for the current budget year. The planning process in place at 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 detailed item level but cannot link the sector policy directly with the annual budget process.

270. **While detailed estimates by economic classification at 4-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 2-digit level:** Score C.

16.2 Medium-term expenditure ceilings

271. **The 2018 Budget circular from MoF indicates the aggregate expenditure ceiling prepared based on the Medium Term Budget Framework.** Expenditure ceilings are endorsed at the aggregate level only and include a projection for the following two 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 NA approval of the aggregate budget ceilings, as per budget calendar (ref. PI-17.1).

272. **The government and NA 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 budgets

273. **SBL Article 55 requires the development of a medium-term budget framework.** The Lao PDR strategic planning process is well-structured and translates into a 5-year plan NESDP 2016-2020 which is revised in 2018 after 2 years. The MPI provides overall strategic guidance on national development planning under the NESDP formulation process and line ministries receive instructions to align their sectoral plans, activities, and budgets during the 5-

year NSED implementation period and during the annual planning process supporting the annual budget formulation.

274. The NESDP has no costing information for the 3 main sector strategies and outcome (Inclusive Economic Growth, Enhanced Human Development and Improved Environmental Protection). The sector strategies that underpin the NESDP prepared by main ministries covering all the major economic, social and strategic sectors (Education, Health, Public Works and Agriculture represent more than 75 % of the total budgeted expenditure in 2015/2016. 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).

275. 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. NSED, 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 non-government funding) – much of which is off-budget³². Furthermore, the dual planning processes between the capital budget allocations based on identification of capital projects by MPI and the current budget allocations by MoF, results in a fragmented process and lack of consistency between the policy priorities and allocations assigned.

276. Medium-term strategic plans are prepared for each sector of the NSED 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 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

277. 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. Reasons for changes to the expenditure projections include mostly overambitious revenue forecast but are also caused by natural disasters, major project cost overruns or adjustment of new priorities in the NESDP. 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 reported to the NA³³, and budget outturns vary significantly from the approved estimates (ref. PI-2).

278. 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

³² From the FAIR report for 2017, estimated ODA funding accounts for approximately 30% of total government budget and from the ESSP annual report for 2015/2016, ODA represents more than twice the government contribution for capital budget (CoA chapter 67).

³³ For instance, 2018 budget was estimated at 34.9 trillion kip in the 5-year budget framework, revised to 33.3 trillion kip in the revised 4-year budget framework one year later, was submitted to and approved by NA for 32.8 trillion kip.

and 2017/18 respectively in the 2018/19 budget documentation) except for a few deviations at 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.

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

280. **MoF has already planned to develop further the fiscal management provisions of the SBL.** This will also develop a roadmap for medium term budgeting for 4 main ministries (Education, Health, Public Works and Transport and Agriculture and Forestry).

PI-17. Budget preparation process

281. **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 time period for dimensions 17.1 and 17.2 is last budget submitted to the legislature and for 17.3 the last three completed fiscal years. Coverage is budgetary central government.

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 NA with proposed aggregate expenditure and revenue plans, as approved by the Minister for Finance.
17.3 Budget submission to the legislature	A	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 8 weeks before the start of the fiscal year.

17.1. Budget calendar

282. **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 17.1 below.** The substantial delays and usual shortfalls reported by MoF

and the consulted ministries have been summarized in the table to highlight the weaknesses in the overall process.

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

Table 17.1 - Calendar for State Budget Plan Formulation³⁴

Deadline dates	Steps	Effective date (based on ministries and MoF feedback)
By March	Annual Socio-Economic Plan: Prime Minister issues an instruction for the drafting of the annual socio-economic development plan and the budget plan by sector.	PM Decree is often issued with some delay or sometimes not issued at all. Policy decisions can be made late, e.g. salary increase in are not announced in the beginning of the fiscal year making it difficult to work out the fiscal envelop
By May	Aggregate Budget ceilings: MoF estimates aggregate budget ceilings for the following year, MoF indicates to MPI the overall capital investment budget ceiling and the breakdown between central government and the provinces ³⁵ .	
By 30 June	Annual MoF Budget circular: Minister of Finance issues an instruction, Budget circular on the formulation of the annual State budget plan and indicative aggregate budget ceilings from the 5-year medium-term budget framework based on the medium-term budget framework for the sectors at the central and local levels.	MoF budget circular for FY 18 was issued in June 2017, and for FY19 was issued in May 2018
	Revenue plans: Revenue collecting departments at all levels formulate their own revenue plan detailing each type of income: regular income, technical revenue and income from extra-budgetary fund, ODA. ODA information is submitted to the Ministry of Finance in two parts: (for aid funds and loans through country system) and to the Ministry of Planning and Investment (for aid funds from direct assistance, off budget)	

³⁴ based on SBL Article 56 and actual 2018 State Budget submission

³⁵ The PIL (Article 24) indicates that the Province share shall not be less than 50 percent of the total state capital budget

	Central ministries budget submission: Government entities at central level formulate their budget proposals in consultation with the National Assembly's Committees and concerned sectors and send the draft budget proposals to MoF Budget department	No realistic ceilings are issued for the budgetary (spending) units leading to wish list budget proposals submitted spending units to MoF Spending units prepare their budget proposal based on current costs and incremental increase (10 to 15%). Budget plans are mostly submitted at CoA two-digit level.
	Provincial budgets submission: 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 MoF Budget department for consolidation.	No ceilings are issued Budget proposals are consolidated after a bottom up consultation process by sectors.
NA First plenary session (April-July)	Aggregate budget plan (expenditure and revenue) is submitted to the National Assembly's review and approval during the first plenary session (3-4 weeks).	The calendar of the NA first plenary session varies and can be conducted in April/May, giving MoF limited lead time to prepare the aggregate budget plan. The aggregate budget plan covers CoA chapters 60 – 67 without ceilings or breakdown.
June- July	Ceilings to spending units and revision of the budget proposal: Once the aggregate budget plan has been approved by the NA, MoF notifies their allocations to the spending units.	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.
	Spending units revise their budget plans based on the notified allocations and submit their revised budget plan to the GoL/MoF.	In practice the spending units have around two weeks from the confirmation of the budget ceilings to submit their final submission.
	Capital budget: 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 loosely based on the criteria indicated in the PIL (population, area, remoteness, and poverty levels), but also in view of different provincial investment plan targets and requirements.	There is no specific allocation formula although year-to-year capital allocations to individual provinces appear to be consistent in last three years. PIL stipulates that within each province capital budget allocation, 35 percent is earmarked for type V investments which can be approved at province level; the remaining 65 percent is for larger investments which require approval by MPI and the NA.
July - September	Consolidated State Budget Plan: 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.	Analytical skills and detailed understanding of the sectors are limited resulting in uninformed budget adjustments or cuts
By October	PIP submission: MPI submits the proposed PIP allocations into the overall State Budget proposal to the NA.	

November - December	State Budget Approval: The Government reviews and officially submits the draft State budget plan to the National Assembly for consideration and approval, twenty to fifteen days prior to the second plenary session of the National Assembly (3-4 weeks).	The budget submission is very aggregate and includes no details of the district, department budgets and no comparison with previous years or projections.
	The Minister of Finance notifies the localities the budget ceilings within fifteen days after the National Assembly's approval.	
	After NA approval, MPI communicates the approved investment budget ceiling to the provinces.	
	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 Assemblies' consideration and approval and then to the ministry of finance for consolidation.	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).
December onward	Finally, the Ministry of Finance consolidates and reports the State budget plan to the Government.	The consolidated budget plan with detailed allocation at 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 27 June 2017, interviews with MoE, MoH and MoPW Finance departments.

284. **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

285. **The Budget circular for the 2018 State Budget was circulated 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 NA. There is a general description of the macro-economic context underlying the GDP growth target but no specific assumptions for the individual budget calculations. The circular provides specific instructions on each expenditure category and for revenue collection for all relevant spending units at central and local level. Subsequently, only after the initial budget submission to NA 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.

286. **The Budget circular sent to spending units after the approval of the aggregate ceilings by NA does not contain information specific to any sector.** It also 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

287. **The budget proposal is the result of multiple discussions and consultations between the government and the NA prior to the final endorsement and resolution.** The exact dates of the submission of the budget proposals are shown in table 17.3 below. As the fiscal cycle changed in 2016, the submission and approval dates have shifted from the first NA session to the second session of the calendar year.

Table 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 Parliament	Resolution issued by the National Assembly
2013/14	2.5 months	1 st week of June 2013	13 th July 2013
2014/15	2 months	4 th week of June 2014	29 th July 2014
2015/16	2 months 1 week	4 th week of June 2015	25 th July 2015
3 months 2016	6 months	2 nd week of April 2016	22 nd April 2016
2017	2 months 1 week	3 rd week of October 2016	18 th November 2016
2018	2 months	1 st week of October 2017	17 th November 2017

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

288. **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

289. **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. Time period: Last completed fiscal year (2016/17) for 18.1, 18.2 and 18.4. For 18.3 last three completed fiscal years (2014/15, 2015/16 and 2016/17) Coverage: 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 State Budget Law and mostly adhered to. A revised budget is presented to the NA during the first session of the year and the SBL grants the executive with substantial powers of reallocation within the overall aggregate of original and adjusted appropriations.
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18.1. Scope of budget scrutiny

290. **The role of the National Assembly vis-à-vis 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 NA the following rights and duties:

- to consider and adopt strategic plans, socio-economic 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.

291. **The package received and endorsed by the NA through the NA 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, medium-term budget framework 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 NA adopts the resolution on the State Budget Plan with general recommendations to the government in the same session and the budget is passed.

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

18.2. Legislative procedures for budget scrutiny

293. **The NA 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 Planning, Finance and Audit Committee (PFAC) of the NA 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 NA and include the preparatory discussions with all relevant parties to provide comments on overall vision, strategies, social-economic plans, state budget plans, PIP and other documents that are to be discussed during the formal NA sessions. It is one of the largest committees composed of 5 divisions with 28 assembly members supported by 19 technical staff.

294. **The PFAC usually holds consultations with MoF and relevant ministries prior to 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 NA receives the complete package of budget documents from MoF (PI-5, elements1-5) 2 weeks to 10 days before the annual NA session for scrutiny, debate and 6-month revised estimates.

295. **The MoF defends its budget proposal with the Planning, Finance and Audit Committee.** 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 NA for final discussion and approval.

296. **Negotiation procedures can take place which, in principle, give powers to the Assembly to approve or refuse the government proposal.** However, in reality, the NA 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 NA does not review the detailed breakdown of the State Budget Plan subsequently to the NA resolution on the aggregate figures.

297. **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 NA Secretariat.

298. **The National Assembly has well established procedures for scrutiny of the budget, which are adhered to.** The procedures include negotiation procedures prior to the NA session, technical support to committees in charge of the prior review, consultations with relevant stakeholders including the ministries, but 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

299. **The NA 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 17.3 above:** Score A.

18.4. Rules for budget adjustments by the executive

300. **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.

301. **In the last three fiscal years in-year budget implementation reports (4-month and 6-month) were submitted to the NA in its two sessions in July and October with a proposal for a revised budget which was formally approved.** The NA usually endorses the State Budget Implementation report at 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 budget allocations in-year without prior approval of the National Assembly, as long as the overall amount of expenditure stays within the aggregate of approved appropriations.

302. **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 NA.

303. **Clear rules for in-year budget reallocations by the executive are set out in the State Budget Law 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

304. **This indicator relates to the entities that administer central government revenues.** These may include tax administration, customs administration, social security contribution administration, as well as agencies administering revenues from other significant sources such as natural resources extraction: which 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 dimension 19.1 and 19.2: At time of assessment. For dimension 19.3 and 19.4: Last completed fiscal year, 2016/17.

305. **Domestic revenue collection accounted for 15.2% of GDP for Tax revenue and 2.7% of GDP for non-tax revenue in 2015/16.** Responsibility for domestic revenue collection is consolidated under MoF and shared between the Tax Department (50%), the Customs Department (34.5%), the State Assets Department (9.5% excluding revenue from sales and state assets) and the department for State Owned Enterprises (5.7% excluding incomes from capital return and sale of state assets).

306. **For the assessment, the relative importance of each revenue type in 2015/16 is presented in Table 3.19.** The revenue from the National Social Security Fund is not included in government statistics³⁶.

Table 3.19.1: Total Revenue 2015/2016 (million Kip)

Revenue type	Actual	% total revenue
Tax Revenue	16,481,349	81%
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. Hydro-Power Royalties	368,636	1.8%

³⁶ The total amount collected by the NSSF in the assessment period was not available from the government data but has been estimated at 505 billion Kip based on average salary and estimated employed workforce in 2017 (Based on figures from LAO PDR Labor force survey, MPI and Lao Statistics Bureau, June 2018).

Non Tax Revenues	2,914,691	14.3%
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%
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%
Total Tax and Non Tax Revenues	19,396,041	95.2%
Asset Sale	223,910	1.1%
Capital Return	747,098	3.7%
Pump Amortization	-	0.0%
Total Revenue with Asset sale	20,367,048	100%

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

307. **This assessment takes place at a time when multiple reform efforts have been launched on a number of fronts.** The Tax Department (TD) has recently completed a reform plan for the period 2018-2020, the Tax Strategic Development Plan 2018-20 (TSDP), three-year reform plan for the TD was formally signed by the Minister of Finance in June 2018. The supporting annual action plan, 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 very initial stage of the reform, there is not yet measurable impact on the performance.

308. **At the regulatory level, the Lao PDR government is in the process of 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 underway 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.

309. **From an administration perspective, the Tax Department has updated its organizational structure following Ministerial decree 2834.** It established a project implementation team, whose responsibility it is to implement the DPTA, as well as coordinate 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.

310. **As a multiple range of reform actions are currently underway 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.

311. **The last IMF mission report³⁷ highlights the need for governance processes and management requirements to be put in place to support the implementation of the reforms³⁸.**

312. **On the Customs side, the Customs Department (CD) accounts for an increasing 30-35% 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 MoF. When Lao PDR became the 157th member of the WTO in February 2013, it adopted customs valuation practices in line with WTO and 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 WB³⁹ 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 very 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 Tax Department, 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. Customs Department currently carried out physical inspection of all imports. There are legal sanctions for Non compliance.
19.3 Revenue Audit investigation	C	While the audit process at both the Tax Department 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.

³⁷ Lao People's Democratic Republic Implementing Tax Administration Reforms and Developing a Medium-Term Revenue Strategy (MTRS)

³⁸ "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).

³⁹ The Lao PDR Customs and Trade Facilitation Project supported the modernization of the Customs administration from 2009 to 2017.

19.4 Revenue arrears monitoring	D	According to the TD, the stock of revenue arrears recorded as of 10 December 2018 was 1% of the total revenue collection, 99% of which had been outstanding for more than 12 months.
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19.1 Rights and obligations for revenue measures

313. **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 Tax department's website at www.tax.gov.la gives access to the laws and published legal documentation describing all basic taxpayers' obligations.

314. **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 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 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 Tax Department (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 is the responsibility of different divisions within 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 provincial level are also responsible to provide information and assistance to taxpayers within their nearest localities, but there is no evidence of systematic and coordinated activities at that level.

315. **Complaints and 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 though the Courts. In practice, taxpayers do not lodge formal complaints or appeal and resolve all tax issues through negotiations with the Tax administration department. The sensitive large taxpayers' cases related to foreign investment and mining companies for example, are discussed and settled after agreement at Minister's level.

316. In the period 2015/2018, only a limited number of claims and exceptions were recorded by the TD as follows:

Table 3.19.1 Tax Complaints

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

Source: TD data received in December 2018.

*Queries defined as cases when companies have formally questioned their tax obligations with the Tax administration department.

**Exceptions defined as adjustments agreed between the Taxpayers and the Tax administration.

317. As a reference Lao PDR ranks 155⁴⁰ for “paying taxes” on the Doing Business 2019 and 77 in “trading across borders”, with an overall rank of 154 behind all its neighbours (Thailand, Vietnam).

318. 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.

319. For other non tax revenues, the State Asset Management department is responsible to collect revenue on behalf of other ministries, particularly on natural resources (mining concessions, minerals, wood, etc.). This arrangement is based on regulations and contracts established by the MONRE or Ministry of Industry and Commerce. 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).

320. 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 very extensive and creates scope and opportunities for discretionary decisions. Score is a D.

19.2 Revenue risk management

321. 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.

322. The Post-filing division within TD addresses some compliance risks with registered business companies. It evaluates non-compliance risks on an ongoing basis based on the filing and payment information within the fiscal year. The e-tax system available since

⁴⁰ <http://www.doingbusiness.org/content/dam/doingBusiness/country/l/lao-pdr/LAO.pdf>

2017 in 7 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.

323. **The TD is in the process of 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 as large taxpayers but this is not a fully systemized into a Large Taxpayers Unit for administrative purposes. 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.

324. **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, 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 non-compliance. For example, at the central level, 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%.

325. **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 Automated System for Customs Data (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 CD 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.

326. **The Laws stipulates 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.

327. **There is a Tax Identification Number system in place.** The TD which collects 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. Customs Department currently carried out physical inspection of all imports. There are legal sanctions for Non compliance: Score D.

19.3 Revenue audit and investigation

328. **There is no formal prioritization of activities and taxpayers' audit plan based on the risk assessment results.**

329. **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 Post-Filing Division (PFD) within TD is still responsible to carry out inspection visits during the fiscal year to identify and collect tax due.

330. **Investigations by the Post-Filing Division 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 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.

331. **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.

332. **The inspection summary for the period 2013 to 2017 on follow up activities undertaken by the Post-Filing Division is as follows:**

Table 3.19.3: TD Revenue Post-Clearance Audits (million Kip)

Audit type	Number of Audits			
	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

333. **With respect to 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.

334. **While the audit process at both the Tax Department 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

335. **Tax arrears⁴¹ recorded by the TD cover the tax debts for the public and private sector.** 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 portion of the contract payments would be withheld.

336. **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 10 December 2018 is as follows:

Table 3.19.4: Revenue arrears as of December 2018 (million kip)

Domestic tax arrears per FY	Total Arrears	Arrears (>12 months old)
2011/12	61,986.9	61,986
2012/2013	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 Tax Department	207,387.1	206,318.9
Total revenue FY2015/16 ⁴²	20,367,047	
Arrears as % of total revenue collected	1%	99%

Source: PFD data received in December 2018

337. **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."

338. **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 were for the fiscal year 2014/15 and 2015/2016. 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.

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

340. **Over the past year with IMF assistance, the TD developed a Development Plan for Tax Administration (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 eleven 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

⁴¹ The Tax Law does not provide a specific definition of tax arrears.

⁴² The official 2017 revenue data is not yet available from FPD.

the 2021-2025 planning period. Reform is underway 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 prior to undertaking broader stakeholder consultation on the MTRS and to inform the development of the 9th National Socio-Economic Development Plan (NSED) 2021-2025, which will be submitted to the National Assembly in 2020. A technical assistance (TA) program has been approved to support elements of the reform plan. Approval has been received from the Government of Japan to continue assistance.

341. **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 level into one covering taxpayer information, tax filing, tax collection, tax audit, assessment data and taxpayer services.

PI-20. Accounting for revenue

342. **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 non-tax revenues collected by the central government. The assessment period is at 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 Treasury Department showing revenue breakdown by type, and submitted to 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 Tax and Customs departments and at the provincial level, although the amounts processed at that latter level are assessed as less significant.

20.1 Information on revenue collections

343. **In line with the 2017 Decision on Organization and Operations of the National Treasury, the Treasury Department is responsible for centralizing and monitoring the**

collection and deposit of all domestic tax and non-tax revenue. This is carried out by its three divisions namely, the Treasury's Operations division, Accounting Unit, Planning and Cash management division. At 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 MOF. It also consolidates the revenue from provinces and technical revenue from the line ministries.

344. **The Treasury Department 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 provide 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 Tax Department have been using several systems, the Lao Tax Information System (LAOTIS), the Tax Management Information System (TMIS) interfaced with 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 Treasury Department on a weekly basis.
- line ministries also generate own technical revenue, revenue from extra-budgetary funds, and Donor funds. Since 2016, as most extra-budgetary funds have been consolidated into the State Budget, their accounts have been transferred to the Central Bank of Lao or if funds are still received on commercial banks, they are also automatically transferred to BoL and have to be channeled and transactions recorded through Treasury before payments can be authorized. Revenue data is 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 are available to Treasury Department on a daily basis, but districts revenue data has to be consolidated manually and is reported with delay, on a monthly basis. The reporting of district treasury offices at provincial level has significantly improved but still relies on Excel consolidation of reports and manual reconciliation. Consequently, data for some provinces is not always up-to-date for the past reporting period.

345. **Based on this, the Treasury Department 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 FPD and BD for fiscal and budget monitoring.

346. **The Treasury Department 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 MoF: Score B.**

20.2 Transfer of revenue collections

347. **The Treasury Department has made considerable progress on centralizing cash management towards the implementation of a Treasury Single Account (TSA).** Treasury Department 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 4 commercial banks, private Lao Viet Bank and public Banque du Commerce Extérieur du Laos, Lao Development Bank 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 Treasury Department. The commercial banks transfer daily revenues received to the Treasury Department's account held at BoL. These funds are included in MoF's cash flow forecast. Others are transferred weekly.

348. **Revenue collected by the Treasury Department representing more than 75% of total central government revenue is transferred daily into Treasury Accounts with commercial banks.** Score A.

20.3 Revenue accounts reconciliation

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

350. **For the Tax Department, systems have been put in place to improve the recording and matching of tax receipts in 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.

351. **For the CD, 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.

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

353. **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 Treasury Department did not report any unreconciled amount in suspense account to the assessment team (ref. PI-27.2). The delay in the reporting and lack of reconciliation of the district transactions and lack of automation at the level of the district Treasury offices. These considerably delays relating to the whole reporting process raises issues with the completeness of the reconciliation process. The lack of integration of recording

systems and manual processes are still preventing the collecting agencies, such as the Tax Department to keep track at the individual account level, and identify all assessments, collections, arrears and transfers for each individual account.

354. **At the central level, the reconciliation process is done for assessments/charges, collections and transfers to the Treasury on a monthly basis, and corresponding monthly reports are prepared.** However, the information on reconciliation is limited, in particular for arrears, by the lack of integration of the data systems and manual processes involved in the recording and reporting of the revenue transactions outside the Tax and Customs departments and at the provincial level, although the amount of the amounts processed at that level is assessed as not significant. The reconciliation is taking place within 2 months of the end of the year: Score C.

PI-21. Predictability of in-year resource allocation

355. **This indicator assesses the extent to which the central Ministry of Finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.** Time period: at time of assessment for PI-21.1 and for PI-21.2 to 4 the last completed fiscal year and Coverage: 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 Treasury Department, however incomplete coverage of accounting and transaction data in GFIS at 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 (outflows) 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

356. **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.”

357. **Since 2016 with the establishment of the Planning and Cash Management division within the Treasury department, 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 Treasury Single Account.

358. **At present, the Treasury Department holds its main collection accounts in Kips, USD and Thai Bahts in 6 banks including BoL (18 government accounts).** All budgetary central government cash operations are managed through the main BoL collection account and sub-accounts at BoL and accounts in commercial banks with an agreement with 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 BoL into which they receive transfers for their other recurrent transactions, budget allocations for all operations funded by the government. Both the Treasury department at central level and Treasury offices at provincial level use 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 are carried out based on online access to all statements at central government level. All cash balances are still consolidated manually.

359. **Operations outside GFIS coverage remain an issue.** These relate to 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 system 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 GFIS’s position a full reflection of all transactions and consolidation of real cash balances and increase the risk of arrears.

360. **The bank accounts of the extra-budgetary 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 Debt Management and Financial Analysis System (DMFAS) and not into GFIS but 129 ODA accounts are captured by the Treasury department from subaccounts at commercial banks through specific agreements with donors.

361. **From the information received from Treasury, more than 75% of all bank and cash balances at 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 extra-

budgetary funds and service delivery units are therefore also reconciled monthly and annually:
Score C.

362. **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.

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

21.2. Cash forecasting and monitoring

364. **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 PVs 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 Treasury department and cash management meetings are held by the senior management at 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.

365. **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 Treasury department. The forecasts are prepared by the Treasury department but do not include the payment obligations beyond one month based on monthly expenditure projections by the Budget department and as a result consultation with management and decision on financing needs covers 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

366. **Moreover, the cash forecasting framework to support the cash management function is still limited.** The lack of a comprehensive information source on the actual cash flows makes it difficult to monitor the actual cash flows and to verify the performance of the cash forecasts or 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 GFIS does not provide the necessary scope to perform a detailed analysis of the government cash flows, and regularly compare actual cash flows with plans as well as the estimated changes that the actual flows will impact on future cash needs.

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

368. **A comprehensive cash flow forecast is produced for the fiscal year based on revenue forecasts and authorized expenditure plans and updated weekly based on actual revenue collections by main revenue collecting agencies which 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

369. **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 GFIS requires compliance with the expenditure controls and depends on the ceilings established by the annual budget and subsequent quarterly allocations.

370. **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 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 MoF and on the weekly plans by Treasury Department aligning cash availability to actual requests.

371. **Commitments and payments by the budgetary units depend wholly on the cash availability at 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 first-come first served basis.

372. **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 school block grants 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, etc.), which can be retained to cover certain operating costs of those establishments⁴³ (rather than reverting to the general government account in the

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

Treasury system); these are reported as especially important for financing the costs of province and central hospitals.

373. **Transition efforts towards 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 5 million kip and has been well integrated with 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.

374. **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

375. **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 Ministry of Finance shall study sources of financing or reduce the expenditures proportional to projected revenue shortfall in order to request for the Government’s approval and then report the National Assembly for information. In the event that the collection of revenue is less than the target plan by five percent or more, the Ministry of Finance 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 over-collection, 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 NA 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, amendments can still be presented to the NA for approval during the presentation of the following state budget plan.

376. **Following the revision of fiscal forecasts for 2015/2016 based on the initial 4-month revenue outturn and projections for 6-months, the original budget was revised.** This involved a decrease by 8 percent with a 500 billion kip 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 NA.

377. **All budget revisions with an impact on the aggregate ceilings are approved by NA.** However, as NA 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 NA 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.

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

PI-22. Expenditure arrears

379. **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 22.1 the time period: is the last three completed fiscal year (2014/15, 2015/16 and 2016/17) and for 22.2 at the time of 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 systematic system in place for monitoring expenditure arrears at the level of the line ministries and consolidation of annual arrears by MoF is done manually resulting in Treasury being unable to report arrears at the aggregate level.

22.1. Stock of expenditure arrears

380. **The issue of expenditure arrears has been identified as one of the major weaknesses of the PFM systems performance.** The government has made arrears a key priority since 2015/16 so as 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 MoF level.

381. **At the Treasury department level, arrears are recorded when the payments requests received at the end of the FY cannot be covered due to cash restrictions and have to 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. Such case, 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 2015/2016 was not available but the 2013/2014 Treasury department report states an amount equivalent to 10% of the annual expenditure at central and provincial level.

382. **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, for 22.5 trillion kip led the government to establish a repayment schedule and an annual allocation from the State budget of 3.3 trillion kip over a 10-year period. 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 has 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.

383. **At the budgetary unit level, including the provinces, the context of constant fiscal adjustment and budget cuts for already unfunded activities often result in further accumulation or arrears.** On the one hand, the lack of availability 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 non-priority expenditures like public utilities are accumulating. In 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.

384. **Capital expenditure could also be easily underreported due to the existence of off-budget projects and 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 reduces 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 NA. As a result, the rollover of arrears become 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.

385. **VAT refunds have also been mentioned as a source of unpaid obligations under the jurisdiction of the Treasury department since 2017 and monitored by the Budget department.** According to the VAT Law, Vat refunds have to be cleared within 3 months but actual reimbursements have been delayed and complaints have been lodged by multiple companies.

386. **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.

387. **Although data on the stock of identified and recorded expenditure arrears are not up to date, the evidence is that in 2013/14, it was more than 10% 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 data unavailability.

22.2. Expenditure arrears monitoring

388. **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 Treasury department cannot report arrears beyond the unpaid obligations as of 31 December and there is no consolidated available data on stock arrears from all possible sources at the end of 2017.

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

PI-23. Payroll controls

390. **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 time period for 23.1, 23.2 and 23.3 is at the time of assessment and for 23.4 is for the last three completed fiscal year (2014/15, 2015/16 and 2016/17) and coverage is central government.

Indicator/Dimension	Score	Brief Explanation
PI-23 Payroll	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 the 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 MoHA and budget allocations by MoF.
23.2 Management of payroll changes	C	Payroll data is 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 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 SAO has been completed within the last three years.

391. **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, 13/12/2011. The increase in the wage-bill – almost doubling in 2012/2013 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 National Socio-Economic Development Plan (NSED) 2021-2025.

392. **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 level.** MoHA also serves as an oversight body responsible for reviewing the requests from line ministries and provinces and setting the staffing ceilings. In 2007 MoHA launched and started piloting the Personnel Information Management System (PIMS) program. The PIMS is 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 7 government agencies including 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 roll-out a provincial level. In 2018, the implementation of instruction no.01/MOHA 27/01/2015 on civil service database management, (PIMS) was rolled out to cover all line ministries at central level and centrally deployed civil servants (30,467 staff) with relevant and accurate personnel information.

393. **The database only covers 16.7 percent of the public sector workforce⁴⁴ and does not include some large public sectors such as the police and armed forces, contracted workers, 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 sub-national level, with education and health making up the major bulk of sub-national public employment. The Ministry of Education and Sports (MoES) maintains a database of employees in the education sector (including 75,000 teachers) but it is not linked to PIMS. The Ministry of Health (MoH) has already started using the PIMS application and extending it to health sector staff at the sub-national level. MoHA plans to roll out the PIMS application to provinces in 2019.

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

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

23.1. Integration of payroll and personnel records

395. **The PIMS payroll management system within MoHA is integrated for those ministries covered by it.** For personnel records and payroll data that are managed within PIMS, there is secure reconciliation and data integrity between the two modules. The actual payroll payments by MoF is consistent with MoHA authorizations as line agencies that are in PIMS prepare wage payment calculations by accessing the PIMS database for processing the payroll.

396. **However, the coverage of government personnel within PIMS is limited.** Firstly, MoHA manages only part of the central government workforce through the PIMS de-concentrated personnel management system. The Ministry of Home Affairs keeps a central database of all central public servants (including those working in health and education but excluding police and armed forces). Secondly, differences still exist in the wage calculation as not all benefits and allowances – and particularly promotion information - are not covered by the system at ministries' level and MoHA still controls a number of benefits and entitlements, as well as terminations, and transfers. For civil servants at the central level, this data is stored in PIMS, which provides consistency checks for them. At the provincial level, delays can occur as the line ministries have to submit information to MOHA and the MoF Budget department for review and authorization. Finally, PIMS is not yet directly interfaced or linked to the MoF payroll database and GFIS in the Treasury department. This causes issues of reconciliation even for payroll data. MoHA is currently adding a wage calculation module to its system. The link is planned for 2018 and piloted in 3 ministries to test the direct access to PIMS by Treasury.

397. **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 in a timely manner. 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 1st January and 1st July, 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 MoHA and 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.

398. **Approved staff list, personnel database, and payroll are not directly linked.** Delays up to 3 months (from one to the following quarterly payroll the 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 MoHA and budget allocations by MoF: Score C.

23.2. Management of payroll changes

399. **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 MoHA has validated the HR information, MoF is informed and the payroll is processed manually with all payments made through commercial banks.

400. **Changes relating to new appointments and introduction of new posts on the payroll are first authorized by MoHA and then entered into PIMS.** Retroactive adjustments at central level are normally not delayed further than the quarterly cycle of payroll submission. Payment adjustments are more frequent for staff managed at 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 2-3 months to become effective. There were no statistics available on retroactive adjustments, but government estimates the overall frequency to be less than 1% of payments.

401. **Adjustments to payroll take place twice a year. Payroll data is updated** 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

402. **Clear separation of duties exists between the line ministries, MoHA and MoF throughout the different steps involved in the payroll activities.** MoHA must notify 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 MoHA and MoF. Payroll changes are done by line ministries but MoHA has access rights to validate the changes.

403. **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 any significant changes 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.

404. **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.

405. **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 together with 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 force representing a significant part of the total payroll: Score D.

23.4. Payroll audit

406. **State Audit Organization (SAO) has not yet carried out a payroll audit of government payroll.** The SAO may have performed some test on the PMIS 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 2013/2014. No issue of ghost workers has been raised with 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.

407. **MoHA has arranged for censuses involving physical verification of all civil employees and, for partial inspections covering education and health sectors.** The latest one 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 sub-national level – were also asked to report to 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.

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

409. **Apart from rolling out PIMS at the provincial level, 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 roll-out will require physical verification before issuance of the “SmartCard”, MoHA expects that this will improve the accuracy of data employment in PIMS. Moving to electronic payment of wages will help streamline payment processes, reduce wage arrears and lower potential for fraud.

PI-24. Procurement

410. **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.** Time period: Last fiscal year and Coverage: Central Government.

Indicator/Dimension	Score	Brief Explanation
PI-24 Procurement	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 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 is no reliable and available data on the application of the various procurement methods for award of contracts. The limited information from 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 only one of the other criteria (not charging fees).

411. **Until the end of 2017, Lao PDR had no procurement law.** Prime Ministerial 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 Finance⁴⁵. The Decree provided insufficient to enforce transparent and accountable procurement and a Procurement Law was prepared and endorsed by NA in October 2017. The World Bank is currently providing technical assistance to MoF in the drafting of the secondary legislation for the effective enforcement of the new Procurement Law.

412. **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 reclassified as a Division of the Budget Department in the Ministry of Finance 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 extension of bid validity periods, monitoring each stage of “important and high value procurement (ICB and Public Bidding) financed by the national budget” and the right to amend recommendations by line ministry Bidding Committees (BC) for all contract awards above 10 billion kip (approximately \$1.2 million). However, its human and financial resources are insufficient and effectively limit its impact on government procurement operations.

413. **There are deficiencies and gaps in the legal, regulatory and institutional framework, prior to the enactment of the Procurement Law.** These have led to the procurement risk at country level being assessed by donors such as ADB⁴⁶ as high.

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

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

- Budget: Finance Dept. confirms the annual budget allocation;

⁴⁵ 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.

⁴⁶ As per ADB Country procurement risk assessment final report, April 2016.

- **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 MoES the printing of text books, education materials according to the proposals from various schools; or the road works based on the Road management system in the case of MoPW. Prioritization of needs will be made within the department under the responsibility of each DG. Estimation of each unit cost is based on the previous year's purchasing and proposed to the finance department for consideration. Bid Evaluation Committee will be established chaired by the DDG of the implementing department.
- **Procurement procedure:** after the approval of the detailed procurement work plan, the specifications will be prepared by the implementing department. Upon MoF instruction dated 2001, MoES will use direct purchasing with the MoE SOEs for the supply of printing textbooks with State Education Printing House and purchasing equipment/science experiment with 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, IT equipment will go through a competitive bidding submission in compliance with the MoF regulation for tendering procedure above 500 million kip.
- **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 NCB, the MoF and MPI will be involved. International Competitive Bidding is applied to donor funded purchases and follows the respective donors' agreement procurement procedures.
- **Contract award:** MoES bidding committee will evaluate all bidding submissions, the Bidding Committee will submit the selected bid for approval by the Minister. For Direct negotiations, consultation meetings will take place amongst assigned committee members to review prices and conduct negotiation. The Minister will then endorse the results of evaluation, and signs the contract.

24.1. Procurement monitoring

416. **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 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 is scattered across departments or integrated in the contracting and financial paper work without specific record trail for procurement information. The lack of systematic procurement record keeping leads to almost complete absence of procurement tracking and inability to substantiate contracting decisions. As the result, the finance departments in 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 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 provincial level.

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

418. **No comprehensive databases are available to provide consolidated information on procurement operations by government entities.** The procurement function is fully decentralized at 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

419. **There is 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.

420. **Procurement methods are defined in the new Procurement Law in line with the previous Decree.** These are as follows:

1. Open bidding;
2. Limited bidding;
3. Request for quotations;
4. Direct contracting.

421. **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 MoES, based on the Decree 03/PM, tendering procedures below 500 million kip 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 500 million kip involve the finance department directly. According to MoPW, the government procurement and method applied at MoPW mirror the procurement procedures from the WB and ADB loans and apply the same criteria to the government procurement. Adequate data to evidence this was not available at the time of assessment.

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

24.3. Public access to information about procurement

423. **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:

- Element (1) fulfilled: The Decree 03/PM and corresponding IRR is not accessible on any government website. The Government Gazette which 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 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.

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

24.4. Procurement complaints management

425. **No clear specification for the procurement complaints management is in place.** Different practices apply in different ministries. MoES does not report any complaints mechanism or procedure. MoPW reports that complaints received for big infrastructure projects are received by 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 that:

- 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 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” not fulfilled.
- Element (5) “issues decisions within the timeframe specified in the rules/regulations” not fulfilled: There is 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)” not fulfilled: There is no data available on the final decision and resolution taken after the internal review of complaints.

426. **The absence of complaints registered and 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 being published.

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

PI-25. Internal controls on non-salary expenditure

428. **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. Time period: At time of assessment and Coverage: 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 are still needed.
25.2 Effectiveness of expenditure commitment control	C	Expenditure commitment control procedures exist as part of 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 system. Additionally,

		only the central government operations can be fully captured by GFIS and are limited to single-year commitments.
25.3 Compliance with payment rules and procedures	B	Stricter procedures for expenditure authorization by the Treasury department have been enforced since 2017. Evidence shows that basic controls relating to payments are usually complied with, and exceptions duly justified. SAO reports for the past period concluded unauthorized expenditures not fully compliant with the regular payment procedures.

25.1. Segregation of duties

429. **There is no specific law governing the government internal control framework.** Provisions stipulating the key duties and responsibilities among institutions, and 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 standard 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 level and can vary from one Ministry to another.

430. **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.

431. **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 ministry level, and DG and DDG at 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.

432. **The main challenge lies in the lack of 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 (e.g. PI-11, 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 non-compliance. 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.

433. **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 lack of enforcement of the rules by senior officials, e.g. in the case of use of luxury goods and cars.

434. **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

435. **Payment processing in 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 NA.** These budget allocations are locked into the GFIS system once approved with 6-month allotment for recurrent expenditures and 3-month for salaries and constitutes cash ceilings commitment.

436. **However, while these commitments on recurrent expenditures are captured in GFIS for ministries and government entities within GFIS, other categories of commitments are created outside 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 GFIS operates at the budget level but not the availability of funds, these expenditure commitments, submitted in the form of Payment Vouchers to Treasury department, can end up as arrears and carried forward to the next financial year. Treasury department 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 31 December and charged to the available budget of the year when they were incurred. According to the Treasury department, all payment requests duly submitted by 31 December within the expenditure plans should be covered in the subsequent 3-month period. However, both the Treasury department and line ministries have mentioned the cases of carry-forward obligations and Payment Vouchers due to lack of cash availability (see PI-22).

437. **Commitments related to contracts spanning over more than a year are more problematic than in-year commitments on recurrent expenditure.** The GFIS system does not handle multi-year contracts, and as a result these are handled manually to define the multi-year 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 GFIS. These are only captured when the payment request is submitted in the system or to the Treasury department.

438. **Expenditure commitment control procedures exist as part of 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 system. Additionally, only the central government operations can be fully captured by GFIS and are limited to single-year commitments: Score C.

25.3. Degree of compliance with payment rules and procedures

439. **The payment function is centralized for all government level, by the Treasury Department 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 accounting system and producing the relevant forms (withdrawal request, disbursement instruction) signed by the senior management level of the Treasury department. These are sent to the Operation Division of the Treasury department who is responsible for processing expenditure request documents and creating payment vouchers from the Treasury's deposit accounts with the Bank of Lao PDR and commercial banks.

440. **External audit reports produced by SAO for 2013/2014 and 2014/2015, 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 which could indicate partial compliance as regards payments 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 2015/2016 to validate the compliance during the more recent period. The Treasury department 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.

441. **Stricter procedures for expenditure authorization by the Treasury department 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 duly justified. 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

442. **This indicator assesses the standards and procedures applied in internal audit.** The time period for dimensions 26.1 and 26.2 is at time of assessment; for 26.3 the last completed fiscal year and for 26.4 audit reports used for the assessment should have been issued in last 3 fiscal years. Coverage is 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 plan 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.

443. **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 MoF. Ex ante controls on financial compliance is the responsibility of Inspection departments within the entities and MoF manages ex post control activities and investigations of reported non-compliance. Originally the Inspection departments were responsible to ensure compliance with Party guidelines but their role is now more and more focused 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 State Inspection and Anti-Corruption Authority was established, answering directly to the Prime Minister, with full powers to investigate any reported cases of corruption. Jurisdiction covers all financial activities at central and provincial level. 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

444. **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 non-functional 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, and the preparation of inspection work plans, 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 and their effective and operational coverage of the budgeted revenue and expenditures is limited.

445. **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

446. **The role and responsibilities of the Inspection department are clearly defined in ToRs and operational manuals that cover both 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, MoF Inspection department is composed of 4 divisions defined as: party inspection, state budget inspection, anti-corruption, follow up and resolution. Article 3. para.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 who violate the instructions and rules,
- has the mandate to investigate anti-corruption cases based on article 41 of the Anti-corruption Law,
- carry-out preventive activities for anti-corruption, investigations of the individuals, agencies, etc.
- maintain the records and register of declaration of assets.

447. **In practice, the Inspection departments' activities primarily focused 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 as a way to strengthen fiscal discipline. For instance, there is no reference to a specific internal control environment or framework in the State Budget Law. There is no reference to a risk-based approach or risk assessment methodology in the Inspection departments' description of scope of work.

448. **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 audit and reporting

449. **Each Inspection department in 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. 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. The MoF inspection department has 40 inspectors to cover 15

departments in MoF and all 18 provinces and capital. Data was not available at the time of 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.

450. **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

451. **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 assessment to report on the specific actions or sanctions decided based upon findings by the Inspection.

452. **Follow up response to the Inspection 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 Inspection department's findings: Score D*

PILLAR SIX: Accounting and reporting

PI-27. Financial data integrity

453. **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 (AV) method for aggregating dimension scores. The time period for dimensions 27.1, 27.2 and 27.3 is at time of assessment covering the preceding fiscal year and for 27.4 at time of assessment. Coverage for 27.1 is Central Government and Budgetary Central Government for 27.2, 27.3 and 27.4.

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 Treasury department 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 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 2 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 in a timely manner.
27.4 Financial data integrity processes	C	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.

454. **The Treasury department is moving progressively towards the introduction of a Treasury Single Account (TSA) and Zero Balance Account (ZBA) 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 sub-accounts with commercial banks would be cleared through their headquarters on a daily basis to the treasury account with BoL (zero balance).

455. **The main priorities to achieve this goal it to continue rationalizing the number of bank accounts still held at commercial banks.** There are still banks accounts operated at the national, provincial and district levels, a total of 154 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 Treasury department.

456. **As of 2017, the BoL still holds 44 accounts at the central level.** In addition, line ministries maintain bank accounts - these include, in Kip, THB and USD a budget account and deposit account for technical revenue, for the current and previous years. The BoL only has 4 branches nationwide which justifies the need of commercial bank accounts. The Treasury department uses five commercial banks⁴⁷. 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.

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

458. **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 GFIS. Payment vouchers are raised in KIP and the BoL purchases forex to make payments.

459. **The Treasury department at 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 etc.).

460. **Provincial and district Treasury offices operate bank accounts but 38 districts have no access to the banking system as of 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 NT office account.

27.1. Bank account reconciliation

461. **Under the MoF decision⁴⁸ 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 Treasury department receives

⁴⁷ Banque pour le Commerce Exterieur Lao Public (BCEL), Lao Development Bank (LDB), Lao Viet Bank, Agriculture Promotion Bank (APB) and Vietin Bank

⁴⁸ dated August 2017

daily consolidated bank statements from 5 main commercial banks operating the Treasury bank accounts and 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 whilst bank reconciliations are increasingly becoming automated and reconciled transactions are directly updated in 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 Smart Cash transactions are posted into GFIS manually. Payments that are still outside GFIS are all accounted for and reconciled manually.

462. **Bank reconciliations are effectively carried out daily based on GFIS cash balances, on the expenditure side based on the ledger of PVs authorized by MoF.** On the revenue side reconciliations are based on collection information received directly from the bank accounts held by Treasury with commercial banks and BoL accounts and uploaded manually into GFIS on the following day.

463. **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 Treasury department and are subject to the same regulations.** All funds such as technical funds, fees collected from the line ministries and extra-budgetary funds in commercial banks are now channeled back to BoL and consolidated into GFIS so that expenditures can be authorized from these funds (ref. PI-20). 129 ODA funded project accounts have also now been captured under 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% of the government spending - are reconciled separately and at least annually as part of the account closing procedures.

464. **Revenue receipts from collecting departments are reconciled on a weekly basis.** Previously the information from GFIS relating to tax receipts was incomplete and created reconciliation issues but the situation is reported by the Treasury department to have been largely corrected. Systems have been put in place to record the receipt in 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.

465. **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 local level, around 8,000 schools bank accounts operating on the School Block Grant, representing less than 1% of the government budget are reconciled annually with the MoE central Finance department⁴⁹.

466. **At central level, items for reconciliation or additional information required in order to fully process the transactions into the Cash ledger in GFIS, is resolved directly between the relevant line ministries Finance department, the Treasury department and**

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

the bank. The process is reported to take place on a monthly basis. All transactions are reported as reconciled in the GFIS after the 3-month closing period.

467. **Bank accounts for key treasury expenditure and receipt accounts are reconciled on a daily and weekly basis at 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 central level: Score C.

27.2 Suspense accounts

468. **Suspense accounts with line ministries are cleared regularly and systematically reconciled at the end of the fiscal year during the 3 months closing period after the end of the fiscal year.** Revenue suspense accounts had been more frequent and had been reported by the Tax department as problematic as amounts and references of taxpayers could not be tracked in the GFIS system. However, but 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 Tax Department sends the correcting tax invoice to the Treasury department to make the correction in the GFIS system. 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.

469. **Unauthorized expenditures that cannot be matched with the budget plans and need a special authorization from the Budget department to be posted in 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.

470. **Suspense accounts are reconciled during the successive daily, weekly and monthly bank and accounts reconciliation process.** They are cleared on a timely manner within 2 months of the end of each quarter and systematically cleared at the end of the fiscal year: Score B.

27.3. Advance accounts

471. **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.

472. **Guidelines on budget expenditures regulate 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.

473. **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

474. **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 recently restructured in early 2018 and ICT procedures for MoF departments have yet to be drafted. Since March 2018, the SAO is able to access the GFIS system

475. **The GFIS is a basic locally developed application to assist it in the processing of 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 10 g data base management system and is built with Power Builder (11). The system uses a client-server architecture⁵⁰.

476. **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 GFIS for transaction processing. A total of 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 Treasury and Budget departments.

477. **GFIS has automated controls which help to ensure that there is multi-level access and changes to records are restricted.** Appropriate user access levels are given. Upon setting up of users in the GFIS system platform the authorization forms clearly define the user roles which are to be given and the functions which the user is to perform in the accounting system. For decentralized processing at line ministry or provincial and district level, specific responsibilities and rights are defined with limited rights and access to modifications in the system. This enables them only to capture certain information. A user authorization template has been created which captures the user bio-data and also 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 a Treasury and Budget.

478. **A review performed by the WB on the GFIS system in October 2016 reported the following issues:**

- System administration functions: staff performing the system administration functions such as opening new users' accounts has 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 system user manual is not available and as the system knowledge is vested with a small group of people, key

⁵⁰ Technical note on Status of the Government's current Financial Management Information System (FMIS) and the way forward towards strengthening it to provide better support for Treasury management and budget execution, WB, October 2016

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 provided by NAST. 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.

479. **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:** Score C.

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

PI-28. In-year budget reports

481. **This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution.** The time period is last completed fiscal year. 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 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 very aggregate levels is provided only for mid-year and annual state budget execution reports presented to the NA.
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 provincial level. The data provided is too aggregate to allow for a basic budget execution analysis.

482. **The SBL Article 82, para.10 stipulates the budget execution reporting obligations for the Ministry of Finance.** These are as follows: “To summarize and report the execution of the State budget to the Government on a regular basis”; and Article 36 for 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

483. **MoF in-year budget reports are produced jointly by the 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 MoF and Prime Minister.
- Monthly reports 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 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 administrative level. The report for the 4th quarter is the basis for the Annual Financial Statements submitted for audit to the SAO. None of these reports are published.
- A mid-year budget execution report based on 4-month execution is submitted to the NA 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 4 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 2014/2015 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 2015/2016 report published in November 2018 has yet to be made available online.

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

28.2. Timing of in-year budget reports

485. **The monthly budget reports are produced in the month following the month under review.** The mid-year state budget execution report has to be submitted to the NA at least 15 days before the June-July session. This timetable has been followed in 2017 and 2018.

The annual state budget execution report is not available for submission to the NA until 10 months after the end of the year. In the meantime, the draft annual Financial Statements are submitted for audit (ref. PI-29).

486. **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 mid-year budget report submitted to the NA includes a general comment on revenue trends and for the first 4 months of budget execution and next 6-months projection: Score B.

28.3. Accuracy of in-year budget reports

487. **All of 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 provincial level. A narrative statement on budget execution at aggregate levels is provided only for mid-year and annual state budget execution reports presented to the NA and data provided is too aggregate and does not allow for an analysis of the budget execution: Score D.

PI-29. Annual financial reports

488. **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 which is 2015/2016 (or 2017 if available), whereas for dimension 29.2 it covers the last annual financial report submitted for audit (2015/2016) and for dimension 29.3 the last three years' financial reports (for 2013/2014, 2014/15, 2015/16 and 2017 if available). 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 SAO within nine 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.

489. **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 Ministry of Finance by April 30;
- Submission of the consolidated annual state budget report by MoF to the government for consideration and approval prior to 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 NA session;
- The NA issues a resolution to endorse the financial statements and the recommendations of the SAO.

490. **Different departments play a key part in the collection of data for the preparation of final financial statements.** These include: the Treasury Department 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 Fiscal Policy Department, for the narrative on fiscal trends and forecasts, the External Finance Department, for the information regarding external debt and external assistance, 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 the annual financial reports

491. **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, settlement of expenditure arrears (to be cleared as per schedule ref. 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 four-digit level. Some explanatory notes are also provided with the financial statements.

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

29.2 Submission of reports for external audit

493. **For the financial year ended 31 December 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 MoF was available from MoF and SAO. SAO uses a receipt date stamp to confirm receipt of the financial statements and MoF's provides a covering letter.

494. **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

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

496. **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.

497. **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)⁵¹.

498. **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 Treasury Department within 2 months of the end of the fiscal year.

499. **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.

500. **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.

501. **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.**

502. The steps identified⁵² to develop accounting practices compliant with the IPSAS cash are the following:

⁵¹ Adopting Cash Basis IPSAS: gap analysis, IMF April 2017.

⁵² Ditto.

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 this will not include SOEs)
Step 2- Inclusion of all relevant transactions, third-party payments, inclusion of all bank accounts	<ul style="list-style-type: none"> - All receipts, including on budget, off budget and external assistance - All payments, including advances and prepayments and any funded by external assistance - All third-party payments made on behalf of the government of Lao PDR e.g. via external assistance - All bank balances including commercial and project bank account
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 Technical Assistance 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 sub-national levels

PILLAR SEVEN: External Scrutiny and Audit

PI-30. External audit

503. **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 i.e. audit reports for the years 2013/2014, 2014/15, 2015/16 and 17 (if available), except for dimension 30.4 which is assessed at the time of 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 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 FS. 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 2013/2014 and 2014/2015 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 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

504. **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 as:

1. “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;
2. To prepare auditing reports and summaries on the implementation of state budgetary plans to the National Assembly session;
3. 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.”

504. **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”.

505. **The SAO has made significant progress in the implementation of its Action Plan 2009-2020, establishing its organizational structure and institutional capacity⁵³.** With the support of WB, 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; use of computerized auditing tools and setting up an internal quality assurance function and capacity to carry out performance audit. The SAO 2014-2015 report on the State Budget implementation is published online but the 2015-2016 report endorsed by the NA in November 2017 is still pending authorization from the NA.

506. **The coverage of its financial audit plan and activities relate to the State Budget.** This includes all first-tier budget entities including Ministry of Defense and Ministry of Security and all provinces and extra-budgetary 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 2 departments for the Bank and enterprises.

507. **As an illustration, the implementation of the 2015-2016 audit plan was as follows:**

Table 30.1 Audit Implementation 2015-16

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

⁵³ Preliminary Review and Self-assessment of Progress under SAO Action Plan 2009-2020, WB May 2016

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

508. **The information was also provided for 2017 but before the final submission of the report to the NA.** It is difficult to estimate the coverage of the audits in the absence of the detailed budget for all audited entities (such as Ministry of Defense and provincial entities) but based on the available data from the SAO report published for 2014/2015 and the data provided by SAO for 2015/16 and 2017, the majority of total state budget expenditures is covered by the SAO financial audit. This data is confirmed by the 2016 WB report on Self-assessment of Progress under SAO Action Plan 2009-2020.

509. **The SAO has started the process of introducing the international auditing standards for SAIs (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 (ref. article 6 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 the process of 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.

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

511. **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 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 lacking, except in the context of the support provided by the international cooperation.

512. **The coverage of the SAO audits for the last completed fiscal years has been reported and calculated as follows:**

Audit period (covering previous FY)	Number of entities Planned	Number of entities covered	Total expenditure coverage planned	Estimated total expenditure actually covered ⁵⁴
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 MoF (allocation per entities) and SAO list of entities covered by SAO audit plans 2014-15, 2015-16 and 2017.

513. Financial reports of 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 NA. 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

513. According to the State Audit Law 2016 the MoF Treasury is to prepare, sign and submit the State financial report to the SAO within a period of two months of the final closing of the accounts of each financial year. This should be no later than 31st May so that the SAO report is submitted to the NA 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 of the financial reports and SAO reports to the NA. Based on the information available and presented in the table below, it has taken on average 6 to 7 months for the SAO to receive the State Budget implementation report from the government, SAO reports to the NA were delayed by more than 9 months until 2014/2015 and it took approximately 4 months to undertake audit and issue a report to the NA in the last two years. The Auditor General's report on the accounts for the fiscal year 17 has just yet been endorsed by the NA and the issuance of the NA resolution is in the process.

Table 30.2 - Timeliness of the submission of the SAO reports to NA

Year covered by Audit*	Date of Receipt of draft financial statements (estimated)	Date of SAO Report to NA	No. of months
2013/14	March 2015	November 2016	18 months
2014/15	March 2016	November 2016	9 months
2015/16**	July 2017	November 2017	Approx. 4 months
2017	July 2018 (tbc)	16 th November 2018	Approx. 4 months

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

*the calendar for the fiscal year was changed from 1st October to 20th September to 1st January to 32nd December as of 2017.

**including the 3 last months of 2016 transition period

514. **SAO reports were submitted to the NA twelve months from receipt of the State Budget Implementation report in 2013/2014 and 2014/2015 and within six months from receipt in the following years: Score D.**

30.3. External audit follow-up

515. **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 SAO central level to report on each recommendation by the SAO as evidenced from the information received from SAO and presented below.

Table 30.3: Follow up on SAO reports in 2015/2016 (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

516. **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 a Memorandum of Understanding signed between the SAO and the audited entity, and a summary of the major findings is consolidated in the SAO report to the NA. The system is established comprehensively across all departments and agencies.

517. **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 the lack of consistency and quality in the responses received from the audited entities, and the lack of effective means by SAO to verify the implementation of follow up actions in response to each audit recommendations. The SAO had received the statements in hardcopy format until 2017 but has been granted access to GFIS in March 2018.

518. **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 NA.

519. **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 independence

520. **Article 53 of the Lao PDR Constitution grants to the NA 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 State Audit Organisation 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.”

521. **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 very closely with all the NA members and share the audit information to prepare for the formal submission at the ordinary session. The NA Committee for Planning, Finance and Audit 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 NA 15 days before the opening of the second ordinary NA session in November, all the issues have already been discussed.

522. **The State Audit Law requires the SAO to prepare a budget and business plan for its operations.** SAO budget is prepared based on the work plan approved by the NA and as part of the overall State Budget and is submitted to the NA for approval. In 2018, the 2017 SAO work plan was approved as part of the NA resolution on the approval of the SAO report for 2017. There is no specific status for the SAO auditors and salaries of employees of 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.

523. **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

524. **This indicator focuses on legislative scrutiny of the audited financial reports of 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 time period is for the last three completed fiscal years. Coverage is 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 NA 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 NA 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 or only limited follow up on the implementation of actions by the MoF and audited agencies
31.4 Transparency on 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 NA but are not published on its official website and not available for public access

31.1. Timing of audit report scrutiny

525. **Scrutiny of the SAO reports was completed within three months of the formal submission of the final SAO reports to the NA.** The scrutiny process includes discussion between the executive and the SAO with the NA prior to 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 NA and the dates of completion of NA scrutiny are provided in Table 30.1. After the SAO works with the NA Committee on Planning, Finance and Audit 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 NA jointly with the SAO report three to five days before the opening of the session.

Table 30.1 – Timeliness of NA scrutiny of SAO Reports on Central Government

Year Covered by Audit	Date of formal submission of SA report to NA	Completion Date of Scrutiny by NA*	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	

*measured as the date of the NA resolution on the SAO report

526. **Scrutiny of the SAO reports was completed within three months of the formal submission of the final SAO reports to the NA: score A.**

31.2. Hearing on audit findings

527. **The state budget draft financial report, are available to the NA before they are audited.** The NA analyses and discusses with the audited agencies of the SAO findings prior to 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 (ref. PI-18). Meetings also take place with the SAO, as the SAO works with the NA prior to submitting its final consolidated report.

528. **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 NA as such, and at the time when the SAO report is presented, the NA does not summon the representative of the audited agencies whose findings have been highlighted in the SAO report. However, the NA resolution on the SAO report does request the Government Inspection Authority (GIA) to investigate further and conduct a more in-depth comprehensive review based on the SAO observations. The scope of this work includes the extra-budgetary funds. The assessment team had no access to the GIA work plan in the period.

529. **The NA Committee on Planning Finance and Audit analyzes the findings of the SAO with MOF and the audited entities prior to issuing its final resolution on the annual state budget implementation.** However, the information scrutinized by the NA 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

530. **The review and hearings conducted by the NA culminate into a summary report which 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 NA and translated into a NA resolution issued after the plenary session. The last NA resolution available after the NA 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.

531. **The PFAC is tasked to monitor follow up of the resolution of the findings and implementation of the recommendations by 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 MoF after the SAO and NA reviews. Neither does 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 MoF also has an impact on the follow up information available to the NA. Both the NA and the Secretariat of the PFAC have insufficient resources and capacity to perform their duties.

532. **The legislature issues recommendations on actions to be implemented by the executive but there is no systematic 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

533. **The only public hearing is the presentation of the SAO report and subsequent discussion during the NA plenary session.** The debate is broadcast live on TV and largely followed by the public on social media and in the newspapers. Other NA 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 NA. Neither minutes nor reports maintained by the NA Secretariat are published on NA official website. They are not available to the public upon request.

534. **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 NA. 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

535. **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

536. **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.

537. **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 spending level to the actual revenue collection and impose related spending policy decisions throughout the execution, aligning to actual fiscal outturn (Score C).

Transparency of Public Finances

538. **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 very limited (Score D) as well as fiscal information (Score D), despite visible efforts by 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.

539. **Financial reporting captures all central government revenue and expenditure in the budgetary system.** However, extra-budgetary funds are managed separately (Score D). From the available evidence, intergovernmental transfers from 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

540. **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) and 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 (non financial) assets but the overall management is weak (Score D+). Debt records are accurate and monitored by IMF and WB 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

541. **The government lack 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 a lack of an effective fiscal strategy (Score D+). The medium term fiscal planning instrument and the work initiated in the MTEF with donors' assistance has 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 lack of linkage 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).

542. **The annual MoF instruction and annual cycle of budget submission to the NA provides a clear timeframe 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 Planning Finance and Audit Committee is critical in the adoption of the budget by NA 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

543. **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 parliament.** Revenue has benefited from the Taxpayer Identification Number system that has been established. However, though tax information is improving there is still too much discretionary powers in the administration that causes weaknesses (Score D) and risk-based approach to applying administrative resources are 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 Units. 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.

544. **Accounting and reporting for revenue are still hampered by the lack 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 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 re-allocation but in general mid-year budget revisions have been required to adjust to overestimated revenue forecasts (Score C) but these are transparently administered.

545. Payroll and procurement functions, and related internal controls, are fully decentralized to the line ministries and provinces and suffer from a lack of integration and consolidation of information systems. Payroll management (overall Score D+) suffers from a lack of coverage – it is not rolled out at the provincial level yet - and integration of MOHA's Personnel Information Management System (PIMS) with MOF GFIS. Salaries and wages to employees are disbursed through, with the personnel records held by each line ministry and controlled through 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).

546. Procurement systems suffer from a lack of 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 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 impacts the performance of the indicator (Score D).

547. The internal control framework is defined with segregation of duties and authorization levels assigned to 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 lack 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

548. 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 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) are 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. Due to the limited number of transactions and number of accounts they can be considered reliable. However, they record at the payment stage (Score D). 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

549. **The effectiveness of scrutiny by SAO and NA is hampered by the lack of resources and alignment to international standards for SAO; and comprehensive, transparent and effective follow-up on external audit reports by the NA.** SAO has constitutional independence and enjoys operational independence which is limited by its budget being subjected to 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 its resources means its audit coverage is limited (Score D) as well as its adherence to international INTOSAI standards. Its annual audit report to NA on the budget execution is presented in a plenary session of the NA during which consolidated findings and recommendations uncover a wide range of findings and highlights 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 NA procedures in relation to the ex post review of the budget execution by the government is formally established and every year an NA 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

550. **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, etc.) at central and provincial level and the lack 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.

551. **The commitment from the top management at PM level and at MOF, as the national custodian of public funds, and from the oversight institutions SAO and NA 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 to 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. The table also highlights any gaps in the coverage of the control components by the assessed internal control system.

552. 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 respective authority and leadership within the party. Overall, there is no harmonized or consistent approach on competence and culture of public service delivery and little collaboration between institutions on the matter. As a result, each institution depends largely upon its management’s understanding and attitude toward internal control, commitment to competence and accountability. The concept of human resource management policies is at a very early stage of development and lack the institutional and legal framework to operate and achieve the transformative change required. The decision and mechanisms to penalize misbehavior depend highly from a decision “at the top”.

553. PFM systems are at an early stage of development of its national standards and alignment 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, such as for example in 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 defines an annual audit plans 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 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 in the process of 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.

554. Control activities exist and have improved through the consolidation of cash management and payments systems under the Treasury department. 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 Treasury department play ultimately a critical role as in the decisions over payments are issued when there is clear assurance of the legality of commitments and payments, and exceptions are properly authorized in advance and justified.

555. 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 non-financial 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 roll out of an FMIS.

556. 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 then coverage of the SAO external audit is limited and 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 cases of deviations act 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

557. Sound PFM performance is a prerequisite for achieving the government's objectives. The impact of the PFM performance as described above 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 lacks 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 FPD 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 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, and operations outside the government's financial reporting by 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 extra budgetary funds have their own financial reporting and benefit from spending flexibility. The main problem concerning the budget carry-overs at the end of each fiscal year have 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 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 tax payers.
- **Delays in reconciliations and accounting systems are inadequate to monitor and facilitate budget delivery.** At the same time, fiscal discipline is undermined by a clear lack of 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 is 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 2 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 lack of 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 parliament; 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 5-year Socio Economic 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 NA, 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 lack of 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 over-estimation of revenue forecasts. Furthermore, the existing medium-term fiscal framework and medium term expenditure framework 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 lack of 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 and published 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.
- **Procurement competitive tendering procedures can be improved to strengthen the way resources are allocated.** The recently approved new 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 so as to bring it into 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 lacking 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 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 a lack 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 ministry nor provincial level.
- **Weak monitoring of provincial government spending undermines the quality of local spending and hampers efficient service delivery.** The inter-governmental fiscal transfer system is not fully transparent, and budget execution reports lack reliability as consolidation of the district level is entered manually into the GFIS system.
- **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 parliament.** The low capacity and lack of effective internal control and internal audit function in line ministries and sub-national governments has resulted in fragmented, sub-optimal use of resources. The role of 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 NA. 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 still allow 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

558. **Over the past 15 years, Public Financial Management (PFM) in Lao PDR has improved both in coverage and effectiveness.** Important lessons have been learnt 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 Public Finance Management 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 5-year National Socio-Economic Development Plan (NSEDP).

559. **Following the Asian financial crisis in the 1990's, the Lao Government launched in 2000/01 its five-year plan and a Poverty Reduction Strategy Paper.** These were the start of the “first-generation of 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 towards a market-oriented economy and increase the efficiency of the public sector through policies and actions towards transparent and efficient public financial management.

560. **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 (2006-10). 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, to strengthen the Government Financial Management Information System (GFIS), build capacity through training and pilots at the provincial and sector levels, and to operationalize the hydropower Nam Theun 2 (NT2) Revenue Management Arrangements.

561. **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 of 2006-2010, on average, were exceeded (102,3% of the planned targets). 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 check points, 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 chart of accounts, 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 the introduction of the TSA. Zero-balance account arrangements were implemented in 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 roll-out of a locally developed Government Financial Information System (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, the 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 Debt Management and Financial Analysis System (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. 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, 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 to 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 towards modern PFM practices. New fiscal legislation aimed at addressing revenue leakages and misuse of expenditures, introducing at the same time, a medium-term fiscal framework, a medium-term expenditure framework. Existing legislation was revised and translated into a basic package of core PFM laws: the Tax Law, VAT Law, Customs Law, State Budget Law, 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.

562. **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 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 State Audit Organization (SAO) have also been actively involved.

563. **An organizational restructuring was initiated at 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) and the Customs Department, Tax Department 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 have 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 provinces level was investigated and strict measures were imposed on those violating laws and fiscal discipline.

564. **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 Multi-Donor Trust Fund (MDTF): WB, ADB, EU and various bilateral donors. The WB provided direct support and implemented several multi-donor initiatives through the Financial Management Capacity Building Project (FMCBP), and from 2009-13 through the Public Financial Management Strengthening Program (PFMSP) financed through a MDTF. A series of Poverty Reduction Support Operations (PRSO) took place from 2005 onward and provided a total of USD118 million to Lao PDR government. Among other sectors it supported PFM reforms with the objective to "ensure efficient management of public sector resources and increase the poverty reduction impact of public spending". Technical assistance was also provided through the preparation of the NT2 Hydropower Project (see Box below).

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 which 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 Nam Theun 2 project come from royalties, dividends, profit taxes, and dividend taxes. Eligible programs and projects are identified by the Government of Lao PDR 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 Ministry of Planning and Investment 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, among others. 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 Ministry of Finance, Ministry of Health, and Ministry of Education and Sports.

Figure 1 shows the breakdown of disbursement of NT2 net revenues by sector, which is determined as part of the Government of Lao PDR's annual budget process.

Figure 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 \$153 million in net revenues from the project since the start of commercial operations in 2010. Net revenues of around \$28 million are estimated in 2017. On average, NT2 revenues have accounted for about 1% 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.

565. While progress advanced on some key PFM reforms, various aspects have remained work in progress. Changes in MOF's senior management and implementing arrangement affected the pace on the PFM reform agenda, which slowed down significantly after 2013 as the leadership' engagement and coordination with the donors' community dwindled.

566. **A turning point came in 2016 with the appointment of a new government with a re-invigorated commitment for PFM reforms, initiating the preparation of the “second-generation reforms.”** The 10th Party Congress of the People’s Revolutionary Party 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, also Deputy Prime Minister, and his management team, engaged in a new dialogue with the donor community.

5.2 Recent and Ongoing Reform Actions

567. **The approval of the Public Finance Development Strategy (PFDS) 2025 and Vision 2030 by the Prime Minister in July 2017 placed PFM reforms as the government’s priority and initiated the second-generation PFM reforms (2018-2025).** The main objective of the Public Finance Development Strategy for 2025 is to strengthen public finances to contribute to sustaining dynamic and stable economic growth and a graduation from least developed country (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 (PEMNA). The envisaged “second generation” reforms and related strategy have high level political support, including from the Prime Minister, Minister of Finance/Deputy PM 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 in 2 steps, as follows:

Public Finance Management Reform Phases

PFM reforms are Government-wide reforms, not just MoF

568. **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 and Sam Sang and the global and regional integration, the PFDS is articulated around:

- **Macro Targets to 2020:**
 - Annual GDP growth at least 7.2% (per year)
 - GDP/capita doubled since 2016 rates
 - Inflation rate below economic growth rate
 - USD Exchange rate fluctuation within +/- 5% per year
 - Public revenue between 17-18% of GDP
 - Public debt below 65% of GDP
- **Targets to 2025:**
 - State Budget Law 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**

10 Strategies

1 Maintain macro-economic stability

2 Revenue policy and resource mobilization to maximize revenue collection

3 Expenditure policy and rational spending to finance effective development

4 Efficient and prudent public debt management

5 Sound political ideology and sufficient technical capacity

6 Strengthening accounting, audit and financial controls

7 Modernization of the public financial sector to align with regional and international standards

8 Strengthening of the PFM-related legal framework and alignment with the current context

9 International integration and cooperation

10 Management and development of state-owned enterprises

569. **Six prioritized programs for Step1 (2018-2020) of Phase II have been translated into Action Plans.** These have been assigned to MoF departments with the relevant source of funds and expected outcomes. It is therefore expected that MoF can monitor and report on progress in the implementation of this initial roadmap, defined as follows:

6 Prioritized Programmes step 1 (2018-2020) of Phase II

570. **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 the Section 3 above, 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 above 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 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 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

- Revision of 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: State Budget Law 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: definition of LTU criteria, internal control, services to taxpayers, etc.; and Customs development plan: develop a Harmonized Commodity Description and Coding Systems (HS), prepare for AEO implementation, develop the National Single Window scheme at international border crossings, seeking to speed up customs clearance (PI-19)
- Reform plan for SOEs including a Decree on SOEs (PI-10)
- Develop State Assets Management Strategy and reporting system (PI-11)
- Revenue management: prepare detailed revenue plans for all type of revenues and relating reports from Treasury for revenue collected at central and provincial level (PI-3, PI-6, PI-20)

Program 4: Expenditure Management Reform

- Enforce the State Budget Law lays the foundations for an orderly and coherent budgeting process: Fiscal Policy Statement presented to NA (art.55 of SBL) (PI-9), 3 year MTEF developed providing expenditure ceilings to spending units (PI-16), pilot baseline budgeting in ministries/sectors/provinces (PI-17)
- Link capital investment and current budget expenditure plans (PI-11, PI-17)
- Strengthening Treasury and cash management: develop commitment control, revise budget nomenclature for second tier budget units (districts, etc.), implement the automated Clearing House (ACH) with Bank of Lao and 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 and integrated ICT strategy for the public finance management sector (PI-27)
- Improve and expand GFIS functions: based on the accounting reform and development of a budget classification and Chart of Accounts aligned to GFS 2014, web-based access for second-tier budget units (PI-4, PI-6)

- Modules Implementation of an FMIS based on 7 modules including payroll and procurement to improve treasury management, accounting and reporting systems (PI-23, PI-24, PI-29)
- Establish the TaxRIS system: taxpayers' management system at provincial level and the ASYCUDA and smart tax, Easy tax systems at district and spending units level (PI-19, PI-20)
- Upgrade DMFAS coverage and reporting (PI-13)
- Develop a State Assets Management system (PI-12)
- Improve the Treasury Single Account system as the unified tool for budget execution and treasury management
- Improve the payroll system and salary bank transfers at central level

Program 6: Organizational structure and Human Resource Development

- Revise MoF organizational structure and ToRs of centralized departments Treasury, Tax and Customs for revenue collection management from central to local levels, and responsibilities between Budget and Treasury departments (PI-19, 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 local level and adjust the organizational structure for Provincial and district finance divisions.

5.3. Institutional Considerations

571. 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: 1) review and complete the legal framework; 2) develop the core systems (particularly the treasury, accounting and reporting systems); 3) integrate progressively all parallel Information Management systems into an FMIS architecture and 4) support the effective enforcement of the PFM regulatory framework. In addition to the implementation of the State Budget law (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 State-Owned Enterprises, 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

572. The PFM Reform Implementation Plan is still financed by donors but fully owned and led by the Government of Lao PDR. 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 finance sector should be put 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 in consistency with the needs of dynamic socio-economic 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 towards 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 are 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 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 to the current financial context.

Coordination across government

573. **The PFM reform agenda is driven and owned by the Government of Lao PDR, with the MoF in the main leading role.** The Ministry of Finance, on behalf of the Government, is directly responsible for public finance management, 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 MoF all departments have a critical role to play in the reform but most of the technical responsibilities are centralized in the Fiscal Policy, Treasury and Budget Departments.

574. **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, MoF revised the VAT law, which has just been approved by NA.

A sustainable reform process

575. **Sustainability of PFM reforms across government is critically dependent on several factors, such as strong ownership, the capacity to internalize reforms, the institutional set-up 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 Ministry of Planning and Investment, 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.

576. 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:

- Firstly, 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.
- Secondly, 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.
- Thirdly, a breakthrough in completely removing administrative and managerial orders and methods that impede business production and services.
- Fourthly, 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.

577. 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 do 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 towards international practice on reporting standards.

578. 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 MoF articulate different parts of the reform together from early stage.

Transparency of the PFM Program

579. **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 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 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

580. **During the past 15 years, public finance management in Lao PDR has definitely improved.** Central and local public finance entities have been strengthened in many ways, including in their political mandate, institutional set-up 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
PI-1 Aggregate expenditure out-turn		
1.1 Aggregate expenditure out-turn	A	At 102.0% for 2014/15, 95.7% for 2015/16 and 100% (estimates) respectively, aggregate expenditure outturn deviated less than 5% from the approved budget in all of the three fiscal years. .
PI-2 Expenditure composition out-turn	D+	Dimension scores combined by Method M1 (weakest link)
2.1 Expenditure composition out-turn 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, due to the lack of 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 score is D* for lack of information.
2.2 Expenditure composition out-turn 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
PI-3 Revenue out-turn	C	Dimension scores combined by Method M2 (average)
3.1 Aggregate revenue out-turn	B	At 96.9%, 86.2% and 96.3% 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 out-turn	D	At 20.7%, 26.3% and % in 2014/2015, 2015/2016 and 19.6% 2017 respectively, revenue composition variance was above 15% in the last three completed fiscal years.
PI-4 Budget classification		
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 2-digit level. These classifications are also embedded in the chart of accounts and can produce a broad functional classification, but not COFOG compliant.
PI-5 Budget documentation		
5.1 Budget documentation	D	Budget documentation for 2018 fulfilled 2 basic elements and 2 additional elements i.e. in total 4 of the 12 key elements.
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 are 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 ministry level.
6.3 Financial reports of extra-budgetary units	C	The main 6 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 end of the financial year in 2018.

Indicator/Dimension	Score	Explanation
PI-7 Transfers to sub-national governments	NA	Dimension scores combined by M2 (average)
7.1 Systems for allocating transfers	NA	
7.2 Timeliness of information on transfers	NA	
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: 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 linkages 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 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 and all fragmented sources of financing in major service functions such as health and education are not consolidated.
8.4 Performance evaluation for service delivery	D	Several performance evaluations of service delivery in Lao PDR have been carried out in the last three years, mostly through DPs' 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 3 years in terms of performance audits and published, but not covering more than 25% of the total of service delivery ministry in the last three years.
PI-9 Public access to fiscal information	D	
9.1 Public access to fiscal information	D	The government makes available two of the five basic elements only but not in a timely manner so none of the elements meet the scoring criteria.
PI-10 Fiscal risk management	D	Dimension scores combined by Method M2 (average)
10.1 Monitoring of public corporations	D	Approximately seventy percent (in turnover) of SOEs had submitted 2017 annual financial statements and financial information to 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 sub-national government (SNG)	NA	.
10.3 Contingent liabilities and other fiscal risks	D	No reporting takes place on contingent liabilities and other fiscal risks from central government's operations.
PI-11 Public investment management	D	Dimension scores combined by Method M2 (average)
11.1 Economic analysis of investment proposals	C	Economic analysis should in principle be included in the investment proposals submitted to MPI for review and inclusion in

Indicator/Dimension	Score	Explanation
		the State Budget but are only conducted for some major investment projects and joint investments with external financing representing at least 25 percent of the pipeline, and are not published
11.2 Investment project selection	C	Prior to their inclusion in the budget some major investment projects are prioritized by the spending agencies and MPI PDPI Department for inclusion in the PIP and the annual budgets for NA 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. Onsite visits are carried out jointly between the implementing entity and MPI Monitoring and Evaluation department to check on physical progress but this is only done on a sample basis. There is no database on integrated system to report and monitor in the PIP implementation and calculate deviations from the original budget envelope.
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, monitoring and preparation of internal reports on the government portfolio is shared between the External Finance, the SOE and Treasury departments. 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.
12.2 Non-financial asset monitoring	D	Non-financial 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 non-financial assets are fragmented and incomplete at different level and there is neither consolidation nor publication of comprehensive information on holdings of any type of non-financial 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 have yet to be enforced and there is no consolidated information is available on such disposals, including the information of both acquisition and disposal values.
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 NA.
13.2 Approval of debt and guarantees	D	The Constitution and the SBL requires contracting and reporting on all government debt and guarantees through the Minister for Finance subject to approval by Parliament. At present the all debt-related transactions and issuance of guarantees are still under consolidation between MoF, MPI and all relevant stakeholders at central and provincial levels: Once the new Public Debt Law becomes fully operation the score for this dimension should improve.

Indicator/Dimension	Score	Explanation
13.3 Debt management strategy	D	There are regular DSA reports performed jointly with IMF-WB. 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.
PI-14 Macroeconomic and fiscal forecasting	D+	Dimensions combined by Method M2 (average)
14.1 Macroeconomic forecasts	C	Macro-economic 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-WB assistance but only for external use.
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 towards broad fiscal targets but there is no systematic reporting against quantitative and qualitative targets based on implementation of specific fiscal policies.
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 4-digit level are available within the State Budget Plan for the current budget year, aggregate estimates of expenditure are presented for the two following year at the 2 digit levels.
16.2 Medium-term expenditure ceilings	C	The 2018 Budget circular from MoF indicates the aggregate expenditure ceiling prepared based on the MTBF prepared by the government (or 5-year budget plan revised every year) and endorsed by the NA.
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 MoF are not drawing directly on expenditure policy proposals from these sector plans.
16.4 Consistency of budgets with previous year 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.
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.

Indicator/Dimension	Score	Explanation
		Individual notifications with final ceilings to each ministry are circulated only after the initial budget submission to NA with proposed aggregate expenditure and revenue plans, as approved by the Minister for Finance.
17.3 Budget submission to the legislature	A	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 8 weeks before the start of the fiscal year.
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 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 State Budget Law and mostly adhered to. A revised budget is presented to the NA during the first session of the year and the SBL grants the executive with substantial powers of reallocation within the overall aggregate of original and adjusted appropriations.
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 very 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 Tax Department, 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. Customs Department currently carried out physical inspection of all imports. There are legal sanctions for Non compliance.
19.3 Revenue audit and investigation	C	While the audit process at both the Tax Department 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 10 December 2018 was 1% of the total revenue collection, 99% of which had been outstanding for more than 12 months.
PI-20 Accounting for revenue	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 Treasury Department showing revenue breakdown by type, and submitted to 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

Indicator/Dimension	Score	Explanation
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 Tax and Customs departments and at the provincial level, although the amounts processed at that latter level are assessed as less significant.
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 Treasury Department, however incomplete coverage of accounting and transaction data in GFIS at 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.
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 systematic system in place for monitoring expenditure arrears at the level of the line ministries and consolidation of annual arrears by MoF is done manually resulting in Treasury being unable to report arrears at the aggregate level.
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 the 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 MoHA and budget allocations by MoF.
23.2 Management of payroll changes	C	Payroll data is 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 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 SAO has been completed within the last three years.
PI-24 Procurement management	D	Dimension scores combined by method M2 (Average)

Indicator/Dimension	Score	Explanation
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 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 is no reliable and available data on the application of the various procurement methods for award of contracts. The limited information from 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 only one of the other criteria (not charging fees).
PI-25 Internal controls 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 are still needed.
25.2 Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist as part of 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 system. Additionally, only the central government operations can be fully captured by GFIS and are limited to single-year commitments.
25.3 Compliance with payment rules and procedures	B	Stricter procedures for expenditure authorization by the Treasury department have been enforced since 2017. Evidence shows that basic controls relating to payments are usually complied with, and exceptions duly justified. SAO reports for the past period concluded unauthorized expenditures not fully compliant with the regular payment procedures.
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 plan 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.
PI-27 Financial data integrity	C+	Dimension scores combined by Method M2 (average)
27.1 Bank account reconciliation	D	The Treasury department 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 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.

Indicator/Dimension	Score	Explanation
27.2 Suspense accounts	B	Suspense accounts are reconciled in a timely manner during the successive daily, weekly and monthly reconciliation processes and are systematically cleared during the closing period after 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 in a timely manner.
27.4 Financial data integrity processes	C	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.
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 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 very aggregate levels is provided only for mid-year and annual state budget execution reports presented to the NA.
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 provincial level. The data provided is too aggregate to allow for a basic budget execution analysis.
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 SAO within nine 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.
PI-30 External audit	D+	Dimension scores combined by Method M1 (weakest link)
30.1 Audit coverage and standards	D	Financial reports of 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 FS.
30.2 Submission of audit reports to the legislature	D	SAO reports were submitted to the legislature with a delay in 2013/2014 and 2014/2015 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 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.
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.

Indicator/Dimension	Score	Explanation
31.2 Hearings on audit findings	D	The NA 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 NA 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 or only limited follow up on the implementation of actions by the MoF and audited agencies
31.4 Transparency on 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 NA 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
1. Control Environment	
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 State Budget Law.
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' (i.e. 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 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.
2. Risk assessment	
2.1 Risk identification	Several PIs are related to the extent to which risks are identified, notably: Economic Analysis of Investment Proposals is rated 'C' in 11.1 – Economic analyses are conducted to assess some major investment projects. Debt Management Strategy is rated 'D' in 13.3 – Macro-fiscal sensitivity analysis is rated 'D' in 14.3 Revenue Risk Management is rated 'C' in 19.2 – Cash Flow Forecasting and Monitoring is rated 'C' in 21.2 -
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above)
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 by-passing the system.
3 Control activities	
3.1 Authorization and approval procedures	Financial data integrity processes are rated 'C' in 27.4. Access and changes to records is restricted and recorded, and results in audit trail but there are issues with system security.

Internal control components and elements	Summary of observations
	<p>Recording and reporting of debt and guarantees are rated ‘C’ in 13.1. Domestic debt records and guarantees have been maintained and the information on obligations and repayments is only partial. Reporting is monthly.</p> <p>Approval of debt and guarantees are rated ‘D’ in 13.2.</p> <p>Effectiveness of expenditure commitment controls is rated ‘C’ in 25.2. Expenditure commitment control procedures exist as part of 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 system.</p> <p>Integration of payroll and personal records is rated ‘C’ in 23.1. Approved staff list, personnel database, and payroll are not directly linked. Delays up to 3 months (from one to the following quarterly payroll the 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>Management of payroll changes is rated ‘C’ in 23.2.</p> <p>Compliance with payroll payment rules and procedures is rated ‘D’ in 23.3. 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>Segregation of duties is rated ‘C’ in 25.1. 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.</p>
3.3 Controls over the access to resources and records	<p>Compliance with payment rules and procedures is rated ‘C’ in 25.3. Stricter procedures for expenditure authorization by the Treasury department have been enforced since 2017. Evidence shows that basic controls relating to payments are usually complied with, and exceptions duly justified. SAO reports for the past period concluded unauthorized expenditures not fully compliant with the regular payment procedures.</p> <p>Financial data integrity processes are rated ‘C’ in 27.4. 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>

Internal control components and elements	Summary of observations
3.4 Verifications	Accuracy of in-year budget reports which is rated ‘D’ in 28.3. 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 provincial level. An overall narrative statement on budget execution at aggregate levels is provided only for mid-year and annual state budget execution reports.
3.5 Reconciliations	Banks account reconciliations are rated ‘D’ in 27.1. The Treasury department 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 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. Suspense account reconciliations are rated ‘B’ in 27.2. Suspense accounts are reconciled during the successive weekly and monthly reconciliation processes and are systematically cleared at the end of the fiscal year.
3.6 Reviews of operating performance	Revenue audit and investigations are rated ‘C’ in 19.3.
3.7 Reviews of operations, processes and activities	Procurement monitoring is rated ‘D’ in 24.1.
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	The audit trail in place indicates that there is a supervisory focus. Personnel development though mentoring and training is in place.
4. Information and communication	Budget Documentation PI-5 and Public access to fiscal information PI-9 both score D
5. Monitoring	
5.1 Ongoing monitoring	The Assessment highlighted a number of areas related to ongoing monitoring activities: Resources received by service delivery units is rated ‘D’ in 8.3. Monitoring of public corporations is rated ‘D’ in 10.1. Monitoring of subnational governments is rated ‘NA’ in 10.2. Contingent liabilities and other fiscal risks is rated ‘D’ in 10.3 Investment project monitoring is rated ‘D*’ in 11.4. Quality of central government financial asset monitoring is rated ‘C’ in 12.1. Quality of central government non-financial asset monitoring is rated ‘D’ in 12.2. Revenue arrears monitoring is rated ‘D’ in 19.4. Expenditure arrears monitoring is rated ‘D’ in 22.2. Procurement monitoring is rated ‘D’ in 24.1.

Internal control components and elements	Summary of observations
	Implementation of internal audits and reporting is rated ‘D*’ in 26.3.
5.2 Evaluations	Performance evaluation for service delivery is rated ‘D’ in 8.4. Investment project selection is rated ‘C’ in 11.2.
5.3 Management responses	Response to internal audits is rated ‘D*’ in 26.4. External audit follow-up is rated ‘C’ in 30.3.

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Annex 3B: Sources of information consulted to extract evidence for scoring each indicator

Indicator/dimension	Data Sources
Budget reliability	
PI-1. Aggregate expenditure outturn	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.
PI-2. Expenditure composition outturn	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	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn	State Budget Revenue & Expenditure Plan for 2017 (MoF website)
3.1. Aggregate revenue outturn	State Budget Revenue & Expenditure Plan for 2018 (MoF website)
3.2. Revenue composition outturn	State Budget implementation reports produced by MoF from 2014-15 to 2017 and data received from MoF Budget department Fiscal data from Government Annual Finance Statistics Annual Report for 2013-14, 2014-15 and 2015-2016 and MoF Budget department data. State Budget Expenditure Plan for Local level 2018 (in MoF website)
Transparency of public finances	
PI-4. Budget classification	GFIS documentation from Treasury dept 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
4.1 Budget classification	State Budget plans and reports from MOF NA Resolution on the approval of NSEDP implementation report and State Budget plan and revised State Budget Plan for FY 2013-14 and Plans for FY 2014-15, 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, Nov 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/MPII, July 19, 2017 State-Budget Proposal for FY 2019,(Report to the General Government Meeting on 17-18 September 2018
PI-5. Budget documentation	
5.1 Budget documentation	Data from Treasury department Decree on National Health Insurance, No. 470/GoL, dated 17/10/2012 Heritage Fund Decree No. 326/GoL, Date: 7/10/2014 Decree on Environment Protection Fund, No. 94/GoL, dated 8/3/2017
PI-6. Central government operations outside financial reports	
6.1. Expenditure outside financial reports	
6.2. Revenue outside financial reports	
6.3. Financial reports of extra-budgetary units	

	<p>PM's Decree on National Road Maintenance Fund, No 09, 15/1/2001</p> <p>Decree by the PM on Poverty Reduction Fund. No 10-PM Jan 10, 2012</p> <p>Social Security Law, No. 34/NA, dated July 26, 2013</p> <p>Foreign Aid Implementation Report (FAIR) Fiscal Year 2015-16 and 2017</p> <p>MoH Decree 470</p> <p>Articles 55 and 56 of the Social Security Law (No. 34/NA dated 26 July 2013)</p> <p>Ministry of Labour and Social Welfare Decision No. 1740/MOLSW dated 25 April 2016</p>
PI-7. Transfers to subnational governments	State budget plans and reports from Budget department MoF
7.1. System for allocating transfers	
7.2. Timeliness of information on transfers	<p>Constitution revised in 2015, 63/NA, Dec 8, 2015</p> <p>Law on local administration, 68/NA, Nov 14, 2015</p> <p>SamSang report, no. 01/MOHA, January 26, 2018</p> <p>Report on Budget Revenue-Expenditure execution 2017 and 2018 work plan, Luang Prabang province</p> <p>Support for governance and capacity development - Decentralization-Inception Report March 18 2018-2, ADB</p> <p>Position paper on transfer mechanism, ADB, 2017 (draft)</p>
PI-8. Performance information for service delivery	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, 20-23 April 2016, MPI
8.2. Performance achieved for service delivery	Policy Brief: Education and Health Sectors - Public Expenditure Arrangements, WB, 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	<p>Laos Education and Sports Management Information System (LESMSIS), Situation Analysis, June 2017 and Strategic Development Plan 2018 to 2022 (5 years), September 2017, MoES</p> <p>Strategy and Reform Plan for Health Sector to 2025</p> <p>Reform Plan for Health Sector (2013-2025)</p> <p>Report on 5 year Development Plan for Health sector (2011-2015) implementation and Economic Development Plan FY 2016-2020</p> <p>Annual 2017 Report, MoH</p> <p>Lao Economic Monitor, April 2017, thematic section: financing the Health sector in Lao PDR.</p> <p>PFM in the Health Sector in Lao PDR – Service Delivery Challenges and Opportunities, WB draft, October 2018</p> <p>Nutrition in Lao PDR, Causes, Determinants and Bottlenecks, WB, June 2016</p> <p>Government expenditure on health, Overall Trends And Findings From A Health Center Survey, WB, May 2016</p> <p>Managing transition, Reaching the Vulnerable while Pursuing Universal Health Coverage, Health Financing System Assessment in Lao PDR, WB, Dec 2017</p>
PI- 9. Public access to fiscal information	MoF and MPI website
9.1. Public access to fiscal information	<p>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</p> <p>National socio - Economic Development plan 2017, MPI</p> <p>Data collected from FPD, MoF and NA resolutions in 2017 and 2018</p>
Management of assets and liabilities	
PI-10. Fiscal risk reporting	Decree on Public Investment on SOEs, No. 54/GoL, dated 9/5/2002
10.1. Monitoring of public corporations	
10.2. Monitoring of sub-national government	Consolidated table for SOEs reporting 2017 and 2018, SOE department, MOF
10.3. Contingent liabilities and other fiscal risks	

	Lao Economic Monitor, April 2017, December 2017 and April 2018. Data collected from Treasury and External Finance departments MoF
PI- 11. Public investment management	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, Nov 9, 2017
11.2. Investment project selection	Public Investment Plan 2015 -2016 of Vientiane Capital and provinces, promulgated by 9th ordinary session of the 7th legislation, July 21, 2015.
11.3. Investment project costing	Public Investment Plan FY 2017 - Ministries - Economic Sectors, promulgated by 2nd ordinary session of the 8th legislation Nov 24, 2016
11.4. Investment project monitoring	Public Investment Plan 2017) Data on PIP 2017 and 2018 collected from MPI (consolidation by categories and NT2 projects)
PI-12. Public asset management	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
PI-13. Debt management	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
13.2. Approval of debt and guarantees	Draft Law on Public Debt, September 2017 version submitted to NA
13.3. Debt management strategy	
Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	WB Technical Note on Method and Institutional Arrangements for Revenue Forecasting: Functions, Methodologies, and proposal for Lao PDR, June 2018
14.1. Macroeconomic forecasts	Lao PDR, Public Expenditure Analysis, Synthesis Note, WB, June 2018
14.2. Fiscal forecasts	Lao PDR Systematic Country Diagnostic, Priorities for Ending Poverty and Boosting Shared Prosperity, WB, March 9, 2017
14.3. Macro-fiscal sensitivity analysis	Data from FPD for 2018 (internal)
PI-15. Fiscal strategy	Minister's Instruction on Report on NSEDP 6 months implementation, prioritized areas for the last 6 months of 2018 and 2019 Planning preparation. No. 1559/MPI, dated July 6, 2018
15.1. Fiscal impact of policy proposals	
15.2. Fiscal strategy adoption	
15.3. Reporting on fiscal outcomes	
PI-16. Medium-term perspective in expenditure budgeting	Instruction by MPI on NSEDP implementation for FY17, Dec 19, 2016
16.1. Medium-term expenditure estimates	4 year Budget Plan Framework approved by the NA, November 2016.
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 22/4/2016
16.3. Alignment of strategic plans and medium-term budgets	NA Resolution on the approvals on the vision to 2030 vision, 10 years (2016 to 2025) NSED Strategy and NSEDP 5 years, the 8th legislation; no 9/NA, dated 22/4/2016
16.4 Consistency of budgets with previous year's estimates	
PI-17. Budget preparation process	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 22/6/2018
17.1. Budget calendar	Specific instruction by MoF on the budget plan preparations for 2017. June 23, 2016
17.2. Guidance on budget preparation	
17.3. Budget submission to the legislature	

	Decree on NSED, State Budget and Monetary plan for 2017, No. 445/PM, dated 19/12/201 MoF instruction on budget execution for 2017, 2018 and 2019, MoF Budget department (Budget circulars)
PI-18. Legislative scrutiny of budgets	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 FY 2016, as well as the directions for 4 years the state budget from FY2017 – 2020, 2nd Ordinary session, 8th legislation, Oct 24 to 18 Nov 2016.
18.1. Scope of budget scrutiny	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 July 16 Oct -17 Nov, 2017. No 3525-1/ MOF, 16 Oct 2017.
18.2. Legislative procedures for budget scrutiny	Budget data from FPD on budget revision from 2013-14 to 2017.
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
Predictability and control in budget execution	
PI-19. Revenue administration	Revised Tax Law 2015
19.1. Rights and obligations for revenue measures	Customs Law 2011
19.2. Revenue risk management	VAT Law 2016
19.3. Revenue audit and investigation	Ministerial Instruction On Tax Revenue Collection Management, MoF 3281, October 2014
19.4. Revenue arrears monitoring	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, WB 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, WB, October 2017 Technical Note: Implementation of a Risk Based Audits System for the Large Tax Payers, WB. 20 June 2018 Data collected from Tax department, post-filing division on tax audits and claims.
PI-20. Accounting for revenues	Prime Minister's Decree on National Treasury, No. 259, June 2010
20.1. Information on revenue collections	ToRs National Treasury department, MoF 2017
20.2. Transfer of revenue collections	Technical Note on Next Steps to Improve Cash Management and Fiscal Reporting, WB June 2017
20.3. Revenue accounts reconciliation	GFIS Technical Note, WB 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, WB June 2017 WB Lao TMS 2017 Updated Business Process Maps and Proposed Changes 2017, June 2017 Treasury department reporting for 2014-15 and 2015-16 (internal)
PI-21. Predictability of in-year resource allocation	
21.1. Consolidation of cash balances	See PI-20
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
PI-22. Expenditure arrears	

22.1. Stock of expenditure arrears	Data from Treasury and External Finance department and MoF budget reports to NA and NA resolutions for 2016, 2017 and 2018.
22.2. Expenditure arrears monitoring	
PI-23. Payroll controls	Prime Minister’s Order No 55 on the measures on the management and payment of salary and supporting allowance Aide Memoire Preparation and Capacity Development for Wage-bill Modelling, WB Mission, Lao PDR, September 20-28, 2017 WB Policy Brief: Towards Better Management of the Public Sector Wage Bill and Work Force, April 2018 PIMS ppt presentation, Sept. 2017 Lao PDR Labour Force Survey 2017, Survey Finding report, Lao Statistics Bureau and MPI, June 2018 PIMS data
23.1. Integration of payroll and personnel records	
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	
PI-24. Procurement	PM Decree on government procurement of goods, works and services, 03/PM dated January 9, 2004 Implementing rules and regulations on Decree 03/PM, no. 0063/MoF, March 2004 and amendment in May 2009 Public Procurement Law presented to NA, Oct. 2017 Technical Note Finalization of Procurement Law and Drafting of Secondary Legislation, WB June 3, 2018 Procurement Risk Assessment Final report, ADB April 25, 2016 Lao PDR case study, Ministry of Public Works and Transport, WB, Aug 2014. Report on Bottlenecks in the Procurement in Lao PDR, WB June 23, 2014
24.1. Procurement monitoring	
24.2. Procurement methods	
24.3. Public access to procurement information	
24.4. Procurement complaints management	
PI-25. Internal controls on non-salary expenditure	See Pi-20 and PI-21 and specific data collected from Treasury department 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	
PI-26. Internal audit	Prime Minister's Decree on National Inspection, No. 160 dated 26/8/1996 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	
Accounting and reporting	
PI-27. Financial data integrity	Technical Note: Political Economy Analysis for PFM Modernization Program in Support of FMIS Implementation, WB, 31 May 2018 Decision on organizational structure and roles of the National Treasury, MoF, No. 2833/MoF, Aug 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	
PI-28. In-year budget reports	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 NSDEP and State Budget preparation. No. 07/PM, dated 22/6/2018 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	
PI-29. Annual financial reports	Expansion of the Chart of Accounts, ppt presentation, Workshop, MoF, 5 Sept. 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	

External scrutiny and audit	
PI-30. External audit	Lao PDR Preliminary Review and Self-assessment of Progress under SAO Action Plan 2009-2020 Audit, WB draft May 2016
30.1. Audit coverage and standards	Law on Independent Audit, No 51/NA, 22 July 2014 and Law on State Audit, ref. 16/NA, 6 July 2012
30.2. Submission of audit reports to the legislature	Report by SAO President on State Budget execution FY 2014-15 (published).
30.3. External audit follow up	Report by SAO on yearly audit Finding FY 2017 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, Oct 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: 15/9/2016 ToRs for State Audit Department, Enterprises Audit Department, Banks Audit Department, Quality Assurance of Audit results Unit Aide Memoire Budget Oversight function mission, WB Aug. 2-7, 2017
PI-31. Legislative scrutiny of audit reports	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 FY 2012-13 and Plans for FY 2013-14, 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 FY 2013 - 2014 the 10th ordinary, 7th Legislation No, 026/NA, Dec 5 2015.
31.4. Transparency of legislative scrutiny of audit reports	NA Resolution on the approval of revised SAO Audit Finding FY 2013-14, Report on Audit result on Budget execution for FY 2014-15 and yearly report for FY 2015-16 and as well as the direction for 2017. No. 012 /NA, dated Oct 31, 2016. NA Resolution at the 4th ordinary, 8th Legislation on the approval of SAO Audit result on Budget Execution FY 2015 - 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)
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6. Policy Brief: Education and Health Sectors - Public Expenditure Arrangements, WB, June 2018 (draft)
7. Lao Economic Monitor, April 2017, thematic section: financing the Health sector in Lao PDR, WB Lao PDR
8. PFM in the Health Sector in Lao PDR – Service Delivery Challenges and Opportunities, WB draft, October 2018
9. Nutrition in Lao PDR, Causes, Determinants and Bottlenecks, WB, June 2016
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13. Staff Report for the 2016 and 2017 Article IV consultation – Debt sustainability Analysis, IMF
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16. Lao PDR Systematic Country Diagnostic, Priorities for Ending Poverty and Boosting Shared Prosperity, WB, March 9, 2017
17. Revision VAT Law, towards international practices, ppt presentation, WB December 2017
18. Tax reform for growth and revenue mobilization, WB ppt 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, WB, October 2017
23. Technical Note: Implementation of a Risk Based Audits System for the Large Tax Payers, WB. 20 June 2018
24. Technical Note on Next Steps to Improve Cash Management and Fiscal Reporting, WB June 2017
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26. Technical Specifications for the introduction of GFIS e-payment gateway and Provincial interfaces to GFIS, WYG Sept 2017
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30. Aide Memoire Preparation and Capacity Development for Wage-bill Modelling, WB Mission, Lao PDR, September 20-28, 2017
31. WB Policy Brief: Towards Better Management of the Public Sector Wage Bill and Work Force, April 2018
32. PIMS ppt presentation, Sept. 2017
33. Technical Note Finalization of Procurement Law and Drafting of Secondary Legislation, WB June 3, 2018
34. Procurement Risk Assessment Final report, ADB April 25, 2016
35. Lao PDR case study, Ministry of Public Works and Transport, WB, Aug 2014.

36. Report on Bottlenecks in the Procurement in Lao PDR, WB June 23, 2014
37. Technical Note: Political Economy Analysis for PFM Modernization Program in Support of FMIS Implementation, WB, 31 May 2018
38. Expansion of the Chart of Accounts, ppt presentation, Workshop, MoF, 5 Sept. 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, WB draft May 2016
41. Aide Memoire Budget Oversight function mission, WB Aug. 2-7, 2017

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Annex 4: Calculation Sheets for PI-1, PI-2 and PI-3

Table 1 - Line Ministries

	2014/15	Million Kip				
administrative or functional head	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%
Provinces						
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)						102.0%
composition (PI-2) variance						4.8%
contingency share of budget						0.0%

Table 2 - Line Ministries

	2015/2016	Million Kip				
administrative or functional head	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 (reserve)	8,819,095	14,411,118	8,434,502	5,592,023	5,592,023	63%
Provinces						
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)						95.7%
composition (PI-2) variance						24.2%
contingency share of budget						0.2%

Table 3 - Line Ministries						
Data for year =	2017					
administrative or functional head	budget	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 and 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 (reserve)				-	-	
Provinces					-	
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	14.6%
interests	1,389,000	1,382,519	1,382,519			
contingency	70,000	48,823	48,823			
total expenditure	33,830,973	33,833,324	33,835,575			
aggregate outturn (PI-1)					100.1%	
composition (PI-2) variance					14.6%	
contingency share of budget					0.21%	

Table 4

2014/15 Million Kip						
Economic head	budget	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%
Total expenditure	31,000,000	32,052,324	32,052,324	1,052,324	4,389,087	
composition variance						13.7%

Table 5

2015/2016 Million Kip						
Economic head	budget	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%
Total expenditure	31,946,000	30,545,119	30,545,119	(1,400,881)	3,704,445	
composition variance						12.1%

Table 6

Data for year =	2017 (est.)					
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			-	-	-	
Total expenditure	32,402,000	32,402,000	30,981,123	-	870,128	
composition variance						2.8%

Table 7 - Results Matrix

composition variance
16.2%
13.7%
2.8 (est.)%

Table 8 Lao PDR: Government Revenue (2014-15) million kip					
Revenue type and collecting agency	Total Plan 2014/2015	Actual 2014/2015	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. Hydro-power 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 million kip					
Revenue type and collecting agency	Total Plan 2015/2016	Actual 2015/2016	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 million kip					
Revenue type and collecting agency	Total Plan 2017	Actual 2017	Deviation	Absolute Deviation	Absolute Deviation %
Tax Revenue	17,605,140	16,918,437	-686,702	2,679,823	15%
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%
Nontax Revenues	3,615,695	3,560,692	-55,003	1,441,877	40%
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%
Total Tax and NonTax Revenues	21,220,834	20,479,129	-741,705	4,121,700	19%
Asset Sale	114,617	77,435	-37,182	37,182	32%
Capital Return	127,549	109,394	-18,155	18,155	14%
Pump Amortization	-	-	-	-	
Total Revenue with Assets sale+Capital Return	21,463,000	20,665,958	-797,042	4,177,037	19.46%
96.2% of budgeted revenue					

Annex 5: Data on State Owned Enterprises financial reporting

ສາທາລະນະລັດ ປະຊາທິປະໄຕ ປະຊາຊົນລາວ
ສັນຕິພາບ ເອກະລາດ ປະຊາທິປະໄຕ ເອກະພາບ ວັດທະນາຖາວອນ

ຕາຕະລາງສັງລວມຂໍ້ມູນຂອງ ວິສາຫະກິດລັດລົງທຶນປີ 2017
Consolidation of Enterprises 2017

in million kip

ລ/ດ No.	ຊື່ວິສາຫະກິດ Name of Enterprises	Gov · sha re	Capital		Annual Turnover	ສົ່ງ ອາ ນລ ຍງ ານ ກ ນ ເງິ ນ Rep ort sub mis sion	ລາຍຈ່າຍ (ສະເພາະ ຜູ້ທີ່ສົ່ງລ າຍງານກ ານເງິນ) Expendi ture (of submitte d Enterpri ses)	ກຳໄລ Profit	ຂາ ດທຶ ນ Los s	ຫມາ ຍເຫ ດ Remarks
			Total	Registered Capital						
01	ບໍລິສັດ ລັດວິສາຫະກິດ ຫວຍພັດທະນາ Lao Lottery State Owned Enterprise	100 %	177,695,758,893	48,899,117,574	129,839,477,133	√		√		
02	ບໍລິສັດ ລັດວິສາຫະກິດ ໂຮງພິມແຫ່ງລັດ State Printing Enterprise	100 %	8,634,026,718	5,347,627,338	18,450,247,728	√		√		
03	ລັດວິສາຫະກິດ ວິສະວະກຳຄົມມະນາ ຄົມ State Enterprise for Communication Engineering	100 %	21,445,265,158	14,379,165,586	30,394,624,690	√		√		
04	ບໍລິສັດ ລັດວິສາຫະກິດ ລາວເດີນອາກາດ Lao Skyway Company	100 %	39,909,376,082	26,087,990,000	133,351,757,848	√		√		

05	ລັດວິສາຫະກິດ ລາວບໍລິການສິນຄ້າ ຜ່ານແດນ Lao Goods Transportation Services Enterprise	100 %	51,202,918,730	33,012,504,399	35,546,831,863	√		√		before was named as SOE of Thanale ng Wareho use
06	ລັດວິສາຫະກິດ ໂຮງງານຜະລິດອຸປະ ກອນການສຶກສາ Education Equipments Factory	100 %	3,479,518,358	2,443,919,833	24,609,433,091	√		√		
07	ລັດວິສາຫະກິດ ຖືຮຸ້ນລາວ Lao Shareholding State Enterprise	100 %	48,271,144,404	160,000,000,000	231,014,907,189	√		√		
08	ລັດວິສາຫະກິດ ກໍ່ສ້າງທາງເລກ 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 ໂຮງງານຜະລິດຢາ ເລກ 2 Medecine Factory No.2	100 %	1,236,999,360	1,236,999,360	1,069,877,248	√		√		
11	ບໍລິສັດ ລັດວິສາຫະກິດ ສໍາຫຼວດອອກແບບ 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 ພັດທະນາກະສິກໍາ, ອຸດສາຫະກໍາ ແລະ ບໍລິການ ຂາອອກ- ຂາເຂົ້າ State Enterprise for Agriculture, Industry	100 %	126,094,622,982	88,008,917,268	79,845,662,069	√		√		

	and Exports & Imports Service Development									
13	ລັດວິສາຫະກິດ ນໍ້າມັນເຊື້ອໄຟລາວ Lao Fuel Company	100 %	308,543,358,153	99,573,475,341	1,259,737,715,982	√		√		
14	ບໍລິສັດ ລັດວິສາຫະກິດ ກໍ່ສ້າງຄົມມະນາຄົມ Communication Construction Enterprise	100 %	15,494,366,488	15,494,366,488	94,583,546	√		√		
15	ລັດວິສາຫະກິດ ລ້ານຊ້າງພັດທະນາ ແລະ ບໍລິການຂາອອກ- ຂ້າ Lane Xang Development and Imports and Exports Service	100 %	1,221,209,097	1,221,209,097	71,883,495	√		√		
16	ລັດວິສາຫະກິດ ບໍລິການຄວາມປອດ ໄພ Security Service State Owned Enterprise	100 %	1,205,107,600	1,205,107,600	290,798,200	√		√		
17	ບໍລິສັດ ລັດວິສາຫະກິດໂຮງ ພິມສຶກສາ 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 ໂຮງງານຜະລິດຢາ ລກ 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 ທາງລົດໄຟແຫ່ງຊາດ ລາວ (ບ.ສ ທາງລົດໄປລາວ-ຈີນ ຈຳກັດ) Lao National Railway Enterprise (Lao-China Railway Ltd., Company)	100 %	-	-	-	√		√		newly established in 2016- 2017
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 ຂົນສົ່ງນໍ້າມັນເຊື້ອໄຟ 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	√			√	
29	ລັດວິສາຫະກິດ ໄຟຟ້າລາວ Electricité du Laos	100 %	38,043,654,192,152	735,975,532,006	5,463,700,047,111	√			√	
30	ລັດວິສາຫະກິດ ດາວທຽມລາວ	100 %	-	-	-	√			√	newly established in

	Lao Satellite State Enterprise									2016-2017
31	ວິສາຫະກິດ ບໍລິການ ສະຖານທູດ Enterprise for Diplomatic Services	100 %	-	-	-	x				ຫັນເປັນ ລັດບໍລິ ຫານ
32	ກອງທຶນປົກປ້ອງຜູ້ ຜາກເງິນ Depositors Protection Fund	100 %	-	-	-	x				ຫັນເປັນ ລັດບໍລິ ຫານ
33	ລັດວິສາຫະກິດ ພັດທະນາກະສິກຳ Agriculture Development Enterprise	100 %	-	-	-	x				newly establish ed in 2017- 2018
34	ລັດວິສາຫະກິດ ສຳຫລວດ, ອອກແບບ ແລະ ກໍ່ສ້າງທາງນໍ້າ Waterways Survey, Design and Construction Company	100 %	-	-	-	x				ຍັງບໍ່ທັນ ຮູ້ກຳໄລ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
35	ລັດວິສາຫະກິດ ສະຫນອງວັດຖຸດັກ ນິກ Lao Technical Materials Supply Company	100 %	-	-	-	x				ຍັງບໍ່ທັນ ຮູ້ກຳໄລ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
36	ລັດວິສາຫະກິດ ໂຮງພິມຫນຸ່ມລາວ Noumlao Printing House Company	100 %	2,058,046,254	2,333,956,781	3,324,371,006	x				ຍັງບໍ່ທັນ ຮູ້ກຳໄລ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
37	ລັດວິສາຫະກິດ ຂົນສົ່ງທາງບົກ- ທາງນໍ້າ State Owned Enterprise for Inland and Waterway Transport	100 %	28,044,905,926	2,274,915,975	4,976,618,636	x				ຍັງບໍ່ທັນ ຮູ້ກຳໄລ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
38	ລັດວິສາຫະກິດ ນໍ້າມັນເຊື້ອໄຟດາຟີ Dafi fuel Enterprise	100 %				x				ຍັງບໍ່ທັນ ຮູ້ກຳໄລ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)

39	ລັດວິສາຫະກິດ ໂຮງງານຜຸ່ນຊີວະພາ ບດົງຊຽງດີ Dong Xiengdy Organic Fertilizer Enterprise	100 %	(100,987,740)	2,291,673,340	310,537,000	x				ຍັງບໍ່ທັນ ຮູ້ກ່າວ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
40	ລັດວິສາຫະກິດ ຝ້າຍລາວ Lao Cotton Enterprise	100 %	5,757,217,498	4,542,813,768	2,703,897,628	x				ຍັງບໍ່ທັນ ຮູ້ກ່າວ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
41	ບໍລິສັດ ລັດວິສາຫະກິດລາວ ໂທລະຄົມມະນາຄົມ Lao Telecommunication Enterprise	51%	1,920,155,212,8 60	119,788,063,87 5	1,529,313,972,081	√		√		
42	ບໍລິສັດ ບໍລິການອາຄານສະ ຫມາມບິນ ຈຳກັດ Airport Terminal Building Service Company	51%	48,979,592,000	48,979,592,000	1,787,047,367	√		√		
43	ບໍລິສັດ ລາວ- ອີ່ປຸ່ນບໍລິການອາຄາ ນສະໜາມບິນຈຳກັ ດ Lao-Japan Company for Terminal Buildding and Airport Service	70%	12,225,000,000	8,150,000,000	47,277,563,346	√		√		
44	ທະນາຄານ ການຄ້າຕ່າງປະເທດ ລາວ ມະຫາຊົນ Public Banque pour le Commerce Extérieur Lao	51%	,475,428,560,00 0	682,888,000,00 0	9,639,161,065,666	√		√		
45	ບໍລິສັດ ສະຕາໂທລະຄົມ ຈຳກັດ Star Telecommunication Company	51%	1,092,286,516,1 75	504,688,801,01 9	,227,967,322,423 ¹	x				ຍັງບໍ່ທັນ ຮູ້ກ່າວ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
46	ບໍລິສັດ ອີທີແອລ ມະຫາຊົນ Public ETL Company	49%	230,765,349,336	637,763,000,00 0	291,352,992,358	√			√	

47	ບໍລິສັດ ເບຍລາວ ຈຳກັດ Lao Brewery Company Ltd.	29%	1,371,887,590,4 47	16,848,000,000	3,833,524,194,400	√		√		
48	ບໍລິສັດ ຢາສຸບລາວ ຈຳກັດ Lao Cigarettes Company Ltd.	47%	417,881,635,553	100,156,770,00 0	610,823,825,775	√		√		
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 ໂທລະພາບໃຊ້ສາຍລ າວ 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 ຫີນປະເສີດລາວ-ຈີນ ຈຳກັດ Lao-China Stone Development Company Ltd.,	40%	52,764,941,275	80,000,000,000	621,000	√		√		newly establish ed 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%	4,850,571,600,0 00	40,000,000,000	3,286,956,729,597	√			√	
55	ບໍລິສັດ ທ່ອງທ່ຽວລາວ- ອິນເຕີ ຈຳກັດ Lao-Inter Tourism Company Ltd	49%	-	-	-	x				ຍັງບໍ່ທັນ ຮູ້ກ່າວ ຫຼືຂາດທິ ນ (no info. whether profit/lo ss)

56	ບໍລິສັດ ເປໂຕຣລາວ ຈຳກັດ Lao Petro Company	20%	-	-	-	x				ຍັງບໍ່ທັນ ຮູ້ກ່າວ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
57	ບໍລິສັດ ພູເບ້ຍ ມາຍນົງ ຈຳກັດ Phoubia Mining Company	10%	2,703,237,300,0 00	2,703,237,300, 000	5,016,790,800,000	x				ຍັງບໍ່ທັນ ຮູ້ກ່າວ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
58	ບໍລິສັດ ໂອຈິລາວບູກຕົ້ນໄມ້ ຈຳກັດ Oji-Lao Reforestration Company	15%	132,865,767,361	38,368,989,063	3,923,006,142	x				ຍັງບໍ່ທັນ ຮູ້ກ່າວ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
59	ບໍລິສັດ ວິມເປວຄອມລາວ ຈຳກັດ Lao Wim Pel Com Company Ltd.	22%				x				ຍັງບໍ່ທັນ ຮູ້ກ່າວ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
60	ບໍລິສັດ ລາວ-ເອເຊຍ ບາຊີຟິກບີເວີຣີ ຈຳກັດ (ເບຍໄຮນີເກັນ) Lao Asia Pacific Brewery Company (Henigen)	25%	(16,111,166,542)	240,750,000,00 0	205,072,543,897	x				ຍັງບໍ່ທັນ ຮູ້ກ່າວ ຫຼືຂາດທຶ ນ (no info. whether profit/lo ss)
	Total turnover of SOEs reporting to MoF in 2018		35,145,434,734, 307	1,759,368,249, 755	17,084,265,356,81 9					

ສົງເອກະສານລາຍງ
ານດ້ານການເງິນ

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