



# Lao PDR Country Partnership Framework FY23-26

Vientiane, March 2, 2023

# Foundations

## CPF 2023-206

- 9<sup>th</sup> NSEDP 2021-25 & the National Agenda for Addressing Economic and Financial Difficulties
- FY23-25 financing envelope of \$231.5mil equivalent (IDA20)
- Backed by core analytics
  - 2021 Systematic Country Diagnostic update and previous CPF lessons
  - 2022 Country Gender Action Plan, 2022 Country Economic Memorandum, and Debt Sustainability Analysis
- Applied selectivity principles - prioritization, government demand and WBG comparative advantage

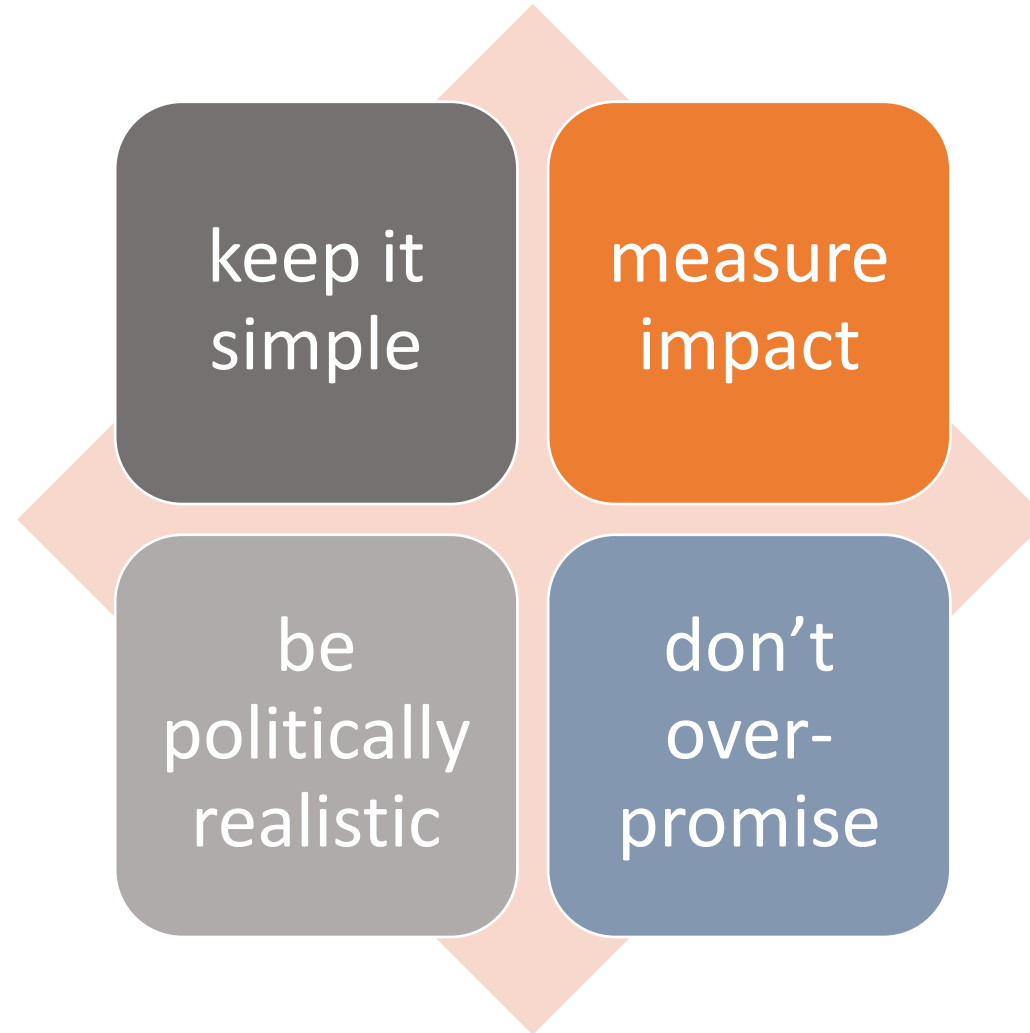


# Key Findings

## **Core analytics confirmed key risks to Laos' development:**

- Increasing macroeconomic instability, aggravated by unsustainable debt levels
- Jobless growth with rising inequality
- Vulnerability to climate change, environmental degradation, and shocks

# Lessons from CPF 2017-21



# Intensifies engagement on sustainable debt management and structural reforms

- A joint WB-ADB comprehensive Reform Roadmap supports the NAAEFD → 37 recommendations - **6 urgent priorities.**
- TA in debt-related fields → debt management and accounting, tax and customs administration, corporate governance and financial management for SOEs.
- IDA's Sustainable Development Financing Policy (SDFP) around debt transparency → publication of annual debt bulletins and the reporting of SOE debts and contingent liabilities.

# The Vital Five

## Reforms to Secure Macroeconomic Stability in the Lao PDR

**1: CUT COSTLY TAX EXEMPTIONS TO RAISE PUBLIC REVENUE, PROTECT SOCIAL SPENDING**



Tax exemptions deprive the budget of much revenue every year, so less can be invested in human capital or used to service debt. Without investment in knowledge, skills and health, Laos will fall further behind.

**2: IMPROVE THE GOVERNANCE OF PUBLIC AND PUBLIC PRIVATE INVESTMENT**



Inefficient public investment is costly and public-private partnerships often create liabilities for the government.

**3: RESTRUCTURE PUBLIC DEBT THROUGH ONGOING NEGOTIATIONS**



High public debt levels undermine macroeconomic stability by constraining fiscal space, exerting pressure on the exchange rate, and jeopardizing banking sector stability.

**4: STRENGTHEN FINANCIAL SECTOR STABILITY THROUGH LEGAL AND REGULATORY TOOLS**



Vulnerabilities in state-owned banks may hamper private sector credit growth. This exposure to risk can have widespread impacts on the rest of the economy.

**5: ENHANCE THE BUSINESS ENVIRONMENT VIA EFFECTIVE REGULATORY REFORMS**



Burdensome processes and regulations raise business costs and reduce productivity, undermining investment and exports.

# WBG support towards the “Stabilize, Share, Sustain” pathways

**Stabilize**

the economy (macro-financial risks)

**Share**

growth benefits equitably through better jobs

**Sustain**

progress by protecting the environment and mitigating shocks

# CPF Objectives – Stabilize Pathway

## *CPF Objective 1*

Improved expenditure management and revenue mobilization



Improvements in expenditure and revenue management:

- Enhance timeliness and transparency of financial reporting
- Improve the capacity of the tax administration
- Support revenue mobilization, SOEs, addressing PFM bottlenecks in the education sector
- IFC dry port facility and logistics park in Vientiane.

## *CPF Objective 2*

Improved institutional capacity and power network efficiency of EDL



Improvements in EDL's institutional capacity and the efficiency of Laos' power sector:

- Reduce losses in rehabilitated substations and increase the power flow of the system
- Analysis on energy trade with regional partners as well as increased domestic demand
- Identification of measures to enhance the operational and financial sustainability of EDL and to improve governance in the energy sector.



# CPF Objectives – Share Pathway

## *CPF Objective 3*

Enhanced firm-level competitiveness and access to finance

## *CPF Objective 4*

Increased connectivity through climate-resilient infrastructure

## *CPF Objective 5*

Expanded use among women and children of practices and services beneficial to nutrition

## *CPF Objective 6*

Improved learning outcomes for primary grade students and improved acquisition of market-relevant skills

## *CPF Objective 7*

Improved inclusive access to quality health services



Enhancing firm competitiveness and connectivity:

- Access to finance for SMEs (IFC and WB), agricultural competitiveness, investment climate reforms.
- Access to markets and trade facilitation
- Improved climate resilience and safety of prioritized roads
- Policy, institution, and capacity building (i.e. development of a multi-modal transport framework under the SEARECC project)

Building human capital:

- Continued work on nutrition and stunting
- Support towards improved learning outcomes in primary grades
- Better alignment of skills with market demand
- Expanding access to quality health services to vulnerable groups including women and children
- Delivery of quality reproductive, maternal and child health and nutrition services at the decentralized levels,

# CPF Objectives – Sustain Pathway

## *CPF Objective 8*

Improved and climate-adaptive management of forests, biodiversity and protected areas.



Improve management of natural resources:

- Support for land use planning, forestry livelihoods, resilient village-scale infrastructure, development of ecotourism, enhance land registration, law enforcement against illegal wildlife trade and natural resource extraction.
- Complementary analytical work (Country Climate Development Report)
- IFC - clean/renewable energy generation capacity, wind and solar energy opportunities, sustainable forestry and agroforestry (IFC and MIGA).

## *CPF Objective 9*

More productive and climate adapted agriculture



Improve agricultural productivity and resilience:

- Focus on smallholder farmers, especially women and youth (smallholder value chains)
- Support application of good agricultural practices
- Support measures to better link farmers, including female heads of households, to markets.

# CPF Objectives – Strengthened governance and institutions

- Enhancing governance and institutions through IPFs and ASA activities, and by ***mainstreaming institutional strengthening activities***
- ***Building government capacity, systems and processes, addressing pervasive data constraints***
- Improving the effectiveness of the public sector through interventions aimed at ***strengthening policy formulation, coordination and implementation at the center, in line ministries and in SOEs.***

# Lending Pipeline Programs FY23-25

FY 23

- Lao STAT2 – **Approved**
- Lao PDR Power Distribution Improvement Project
- Lao Pollution and Waste Management Project

FY 24

- Community Livelihood Enhancement And Resilience (CLEAR)
- Scale up for Health and Nutrition Services Access Project (HANSA)
- 2<sup>nd</sup> Reducing Rural Poverty and Malnutrition Project (RRPM II)

FY 25

- Smallholder Green Agriculture Competitiveness
- Climate Resilient Road Connectivity
- Strengthening Revenue and Expenditure Management

# Complemented by robust analytical and technical assistance

**Reform Roadmap**

**Macroeconomic,  
Trade, and  
Business  
Environment**

**Support Government  
on Policy and  
Performance Actions  
(IDA SDPF)**

**Power Sector  
Sustainable  
Development**

**Corporate  
governance  
assessment of EDL**

**Public Financial  
Management  
Reform**

**Upgrade Debt Mgt  
Financial Analysis  
System (DAMFAS 6)**

**Public Expenditure  
Review (+PEIR in  
Education sector)**

**Financial Sector  
Development**

**Country Climate  
Development  
Report (CCDR)**

**Climate change  
and growth**

**Better Skills  
Development and  
Job Matching**

**Social Protection**

**Health Sector  
Reform and  
Resilience**

**Human Capital  
Expenditure and  
Institutional  
Review**

## CPF also focuses on bridging gender gaps

- *The Country Gender Action Plan is aligned with five-year National Plan on Promoting Gender Equality and 9th NSEDP.*
- CPF focuses on addressing gender gaps in four key areas:

1. Early marriage, adolescent pregnancy & high maternal mortality
2. Skills gap between women and men, with a focus on technical and vocational education
3. Equal opportunities in livelihood activities and wage jobs
4. Participation of women in local planning and decision making



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Thank you