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This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2018 in favour of Lao PDR

Action Document for EU Action in Support of Economic Governance in Lao PDR

1. Title/basic act/ CRIS number	EU Action in Support of Economic Governance in Lao PDR CRIS number: ACA/2018/039-159 financed under Development Cooperation Instrument			
2. Zone benefiting from the action/location	Lao People's Democratic Republic (Lao PDR) The action will be carried out at the following location: Lao PDR, mainly Vientiane			
3. Programming document	European Joint Indicative Programming Document for Lao People's Democratic Republic (2016-2020)			
4. Sector of concentration/ thematic area	Governance and Administration	DEV. Aid: YES ¹		
5. Amounts concerned	Total estimated cost: EUR 5 000 000 Total amount of EU budget contribution EUR 5 000 000			
6. Aid modality(ies) and implementation modality(ies)	Project Modality Indirect management with World Bank			
7 a) DAC code(s)	15111, 15114			
b) Main Delivery Channel	The World Bank – 44001			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	X
	Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including	X	<input type="checkbox"/>	<input type="checkbox"/>

¹ Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

	Women In Development)			
	Trade Development	X	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	Not applicable			
10. SDGs	SDG 16: Promote peace, justice and strong institutions Secondary SDG Goal(s): Goal 8 “decent work and economic growth” and Goal 10 “reduced inequalities”			

SUMMARY	
<p>Lao PDR has one of the fastest growing economies in South East Asia and the ambition to graduate from Least Developed Country (LDC) status by 2020. The country also has one of the lowest scores on all Worldwide Governance Indicators in South East Asia. With the change in political leadership in 2016, the Government began to take action to address corruption, further its decentralisation agenda, and modernise Public Financial Management with renewed impetus.</p> <p>The proposed programme aims to combine support to Public Financial Management (PFM) and Public Administration Reform (PAR). It responds to the requests for assistance from the Government of Lao PDR. It is aligned to the priority of public service effectiveness and to the implementing measures on revenue and expenditure management of Lao PDR’s 8th National Socio-Economic Development Plan (NSEDP) 2016-2020².</p> <p>The programme fits under the priority of peace of the European Consensus on Development (2017)³ which refers to the Sustainable Development Goal (SDG) objective on “supporting accountable and transparent institutions” and which emphasises support for domestic revenue mobilisation. It also corresponds to the objectives of the governance sector response plan of the European Joint Indicative Programme for Lao PDR 2016-2020.</p> <p>The specific objective of the programme is to strengthen PFM systems and their enabling governance environment to improve the use of public resources for better service delivery at central and sub-national level.</p>	

² Education and Sports Sector Development Plan (2016-2020), Ministry of Education and Sports, Vientiane, December 2015

³ Joint statement by the The New European Consensus on Development "Our World, Our Dignity, Our Future", Brussels, Official Journal of the European Union C210, Volume 60, 30 June 2017

There are four expected results as follows:

Result 1: Improved domestic revenue mobilisation.

Result 2: Enhanced budget credibility and transparency.

Result 3: Strengthened public procurement.

Result 4: Effective PFM reform coordination

The programme will be implemented in indirect management with the World Bank, given its country-specific competence in the sector, and its well established and good ongoing cooperation with the EU and the Government of Lao PDR on PFM.

1 CONTEXT

1.1 Sector/Country Context

Lao PDR has seen strong economic growth during the past decade, driven by the exploitation of natural resources and closer regional integration. The economy grew between 2011 and 2015 at an annual average of 8% of GDP moving the country from low-income to lower-middle income status. Although growth has moderated to 7% in 2016, the country continues to be one of the fastest growing economies in Asia and has the ambition to graduate from Least Developed Country (LDC) status by 2020.

Lao PDR is a one party state with power remaining firmly in the hands of the party, which determines all policy matters and the legislative programme. The Government is divided into four levels of administration. Provinces and districts are ruled by governors, cities are governed by mayors, and municipalities and villages by chiefs. Provincial governors – who have ministerial rank – have considerable influence over the public sector in their province, and are able to control most of their province finances. Decentralisation/de-concentration policy has for many years constituted a central part of Lao PDR's attempts to reform the public sector. The country is not yet truly decentralised because no effective autonomy has been devolved to the communities.

Impressive poverty reduction was achieved in Lao PDR over the past decade. The country met its Millennium Development Goal (MDG) target of reducing poverty to below 24% by 2015. At the same time inequalities grew, and social indicators did not improve as expected in the National Socio-Economic Development Plan (NSED) 2011-2015.

As regards macro-fiscal performance, in 2017 the fiscal deficit is expected to remain at around 5%. According to the last International Monetary Fund (IMF) Debt Sustainability Assessment published in 2017, public debt has reached approximately 70% of GDP. A failure to consolidate the fiscal position in the medium term and bring down public debt could undermine confidence in the government's macro policy framework, raise public debt further and worsen the external position.

The country scores low on all indicators of the Worldwide Governance Indicators. In the 2016 Transparency International Index, Lao PDR had a score of 30 out of 100 (with 0 being very corrupt and 100 being very clean), improving by 5 points since the score of 25 in 2015. This improvement corresponds to the strong anti-corruption rhetoric of the Government since the change in political leadership in April 2016.

1.1.1 Public Policy Assessment and EU Policy Framework

The proposed programme is consistent with the Lao PDR's 8th NSEDP 2016-2020 and the recently approved (July 2017) "Public Finance Development Strategy 2025 Vision 2030" which outlines ten priorities to improve Public Financial Management (PFM).

These priorities are: (i) Macro-economic stability; (ii) Revenue mobilisation; (iii) Rationalisation of expenditure policy; (iv) Debt management; (v) Human capacity and skills development; (vi) Accounting, audit and inspection; (vii) Modernisation and IT systems; (viii) Legal framework; (ix) International coordination; (x) Management of state-owned enterprises. There is strong ownership of the Strategy by the Ministry of Finance (MOF), although the capacity to implement it across Ministries and sub-national levels is limited. Yet, the strategy provides a realistic look at the weaknesses and indicates commitment to a range of reforms.

The Government has scheduled to prepare an Action Plan for the implementation of the Strategy before the end of 2017. It has also agreed to conduct a Public Expenditure and Financial Accountability (PEFA) Self-Assessment in 2017.⁴

The Government has revised the State Budget Law of 2006 in December 2015. Amendments include enhancing the authority of the National Assembly, providing greater responsibilities to local assemblies and enhancing the authority of the MOF (stronger in implementing fiscal measures vis-a-vis the Government) and in defining the responsibilities of the Ministry of Planning and Investment (MPI). Transparency of the draft annual state budget information is made reference to ("state budget information of budgeting, budget execution and assessment shall be accurate, transparent, open, made accessible to the public and inspected, audited and certified by the State Audit Organisation") but there is no calendar/stated date during which budget publication should happen. The approval of the revised State Budget Law by the National Assembly (NA) in December 2015 is an important milestone for the improvement of PFM and follows a lengthy drafting and negotiation process. Although the revised Law was approved end-2015, the Government has agreed with the NA that the requirement in the revised State Budget Law to deliver a medium term fiscal strategy and budgeting document (Fiscal and Budget Policy Statement) can be postponed to 2018.

As to EU policies, the efforts for strengthening PFM and improving service delivery are consistent with the *European Consensus on Development* (2017). The focus of the proposed programme is aligned to the priority of peace which includes "supporting accountable and transparent institutions" (paragraph 49) and to the emphasis on supporting domestic revenue mobilisation (paragraph 82).

The programme reflects the priorities of the European Joint Indicative Programme for Lao PDR 2016-2020⁵, which outlines the plan of EU Member States and Switzerland as regards development assistance to Lao PDR and which is based on the GoL's 8th NSEDP 2016-2020. It corresponds to specific objective 1 on "supporting improvements in government services" of the governance sector response plan. It will fully complement the planned budget support

⁴ The last PEFA assessment was undertaken in 2010 and out of the 23 indicators deemed relevant to Lao PDR, 20 scored C+ or less. (The Lao Peoples' Democratic Republic Public Expenditure And Financial Accountability Public Financial Management Assessment, June 2010)

⁵ C(2016)3802

operations in the education and nutrition sectors expected to start in 2018 and 2019 respectively.

The Government has a long-established flagship Governance and Public Administration Reform (N-GPAR) programme, partly supported by UNDP with EU and Swiss Agency for Development (SDC) funding. It combines elements of de-concentration, decentralisation and capacity development, to strengthen Public Administration Reform (PAR). N-GPAR is implemented by the Ministry of Home Affairs (MOHA) which also acts as the secretariat for the Government's "Sam Sang". The "Sam Sang" is a governmental devolution policy to accelerate local development through dissemination of Party resolutions and government policies, deconcentrated public administration and development of targeted villages. A good linkage and integration of the PFM and PAR policies is a key to the future challenges for the country in its process to graduate from LDC status.

1.1.2 Stakeholder analysis

The institutional framework of the public finance management sectors is multi-layered. Reforms potentially directly impact every administration. The main stakeholders include the MOF, MPI, MOHA, the State Audit Organisation (SAO), the NA⁶, the Provincial People's Assemblies and the Local Authorities. Under the present action, line ministries and especially ministries in charge of EU focal sectors education and nutrition (Ministry of Education and Sports, Ministry of Health and Ministry of Agriculture) are also involved.

The MOF is the main ministry managing public finance. The Ministry formulates economic and financial policies, designs the medium term fiscal framework, defines fiscal policy and prepares the national budget. Relevant departments for this Programme are the Fiscal Policy Department, Taxation Department, National Treasury, Budget Department (including its Procurement Monitoring Division) and the Institute for Finance and Information. The MOF will be the main beneficiary of the proposed programme. The different departments of the MOF will be direct targets of the present action.

The MOHA is in charge of recruiting civil servants and managing civil servant salaries. MOHA is also in the lead for PAR and the Sam Sang decentralisation process. MOHA focuses on the competencies of sub-national government units and on supporting the effectiveness of service delivery. The Department of Civil Servant Management, the Department of Public Administration Development and the Department of Local Administration will be the direct targets of the present action.

The SAO is the oversight body which is mandated to undertake external audit and to scrutinize expenditure. The work of the SAO is limited to an examination of budget execution from a sample of ministries and provinces. Funding, number of staff, and capacity of staff hinder SAO's ability to perform its full mandate. Reporting to the National Assembly on the government budget is also weak and does not allow NA to ensure its oversight role.

The NA's Planning, Finance and Audit Committee is in charge of financial oversight and the review of the state budget plan. The newly established Provincial People's Assemblies (PPAs) will have an oversight role in the provincial budgeting and planning and are expected

⁶ Although SAO and National Assembly and MPI are important stakeholder in PFM in general and domestic accountability in particular, they will not be directly supported under the present action.

to play an important role in defining and in overseeing provincial and district budgets. NA and PPAs can potentially play an important role in ensuring that the Government allocates resources in line with national objectives, in particular to social sectors, although their capacities require external support.

The MPI, responsible for economic and social policy and the execution of capital investment, is a key stakeholder in the public finance sector.

Responsibility for public policies in the EU focal sectors (education and nutrition) is assigned to different government levels. As a result, public services are often provided and funded through a combination of 'vertical' or intergovernmental mechanisms at the same time. Most provincial income takes the form of transfers from central government and a substantial part of public expenditure is de-concentrated to sub-national government. Spending by central government agencies represents approximately 70% of all government spending, while provincial agencies make 20% of spending, and district authorities the remaining 10% of spending. A significant and increasing proportion of sub-national investment decisions are made at the central level with line ministries at central level managing all investment projects that have a total cost of more than five billion LAK.⁷ Local authorities can implement (on behalf of the national Government) the specific functions that have been transferred to them by the sector ministries, and they can implement their own local development plans.

1.1.3 Priority areas for support/problem analysis

There are a number of challenges⁸ that Lao PDR has to tackle to improve service delivery and PFM/PAR systems. The most important priorities that have been identified for the present action are the following:

1. Improvement of domestic revenue mobilisation and increasing fiscal space: The country's low levels of revenue are constraining public resources particularly in the education and health sectors.⁹ Increasing tax revenue is a priority for the Government. Future reforms to the taxation system in Lao PDR should take into account issues of equity to address the growing inequalities.

2. Enhancing budget credibility and budget transparency: The issue is about ensuring that domestic public resources are efficiently and effectively spent through the budget. A key priority should be to improve the use of domestic public revenues by continuing to strengthen systems of fiscal planning, budget preparation, and budget execution and monitoring. At this stage, the Medium Term Expenditure Framework has not moved yet beyond multi-annual incremental budgeting. In addition, although the establishment of a Fiscal Transfer mechanism for local level is being developed, no legal basis and regulation are in place. There is a the lack of coordination among line ministries and provinces The MOF and MOHA do not yet have an adequate wage bill forecasting and MOHA personnel and MOF payroll systems are not linked. The efficiency of the budget execution is hampered by the limitations in treasury management resulting in lack of predictability of available resources

⁷ This is reflected in the amended Budget Law (December 2015) and the amended Public Investment Law (December 2015).

⁸ The PEFA Self-Assessment will aid confirming focal areas of support.

⁹ IMF Article IV Consultation 2017 points to a decrease of public revenues and grants from 24% of GDP in 2015 to 18.5% projected for 2016 and 19.4% for 2017. This is largely due to a decrease in grants, resources and mining.

(especially at district level). Although a regulatory and technical framework for a Treasury Single Account is in place, the more endowed provinces do not deposit their revenues into the regional treasury account at the Bank of Lao. Addressing transparency and accountability of the public sector is also a priority that should be addressed. In the absence of an effective Financial Information System there is a lack of timely monitoring and reporting which results in a level of payment and commitment above approved budgetary ceilings. There is limited fiscal transparency which hampers oversight.

3. Improvement of public procurement: There are weak commitment controls to ensure proper recording and implementation of key investments projects. Public procurement is regulated by a Government Decree and compliance is weak. Recognizing the importance of transparent and effective procurement procedures, the Government is upgrading the Decree to a Law on Public Procurement (expected to be submitted to the National Assembly end-2017).

4. Strengthening coordination among ministries: Coordination between MOF, MoHA and other sectoral ministries pertaining to the public financial and public administration remains weak at the ministerial (central), provincial and district levels and is a key concern toward improved economic governance in the country. Within MOF, different departments are working separately from each other without a broader strategy for reform. A division of labour amongst donors working in the sector is important to avoid placing too much burden on the already stretched staff working at MOF.

2 RISKS AND ASSUMPTIONS

There are a number of country, sector and project risks associated with working in the public finance and public administration areas. Even though the mitigation measures outlined below will help to lower overall project risks, they will not be able to eliminate the risks entirely.

Risks	Risk level (H/M/L)	Mitigating measures
Weak institutional capacity of targeted institutions to implement reforms	H	The programme will adapt a step by step progressive approach based on the specific needs and requests made by the government. Before undertaking the detailed programme design, a political economy analysis/change management study will be conducted.
Insufficient cooperation between MOF and MOHA	M	The collaboration of MOF and MOHA with line ministries will be stimulated through the conduct of joint trainings and activities (e.g. wage bill forecasting involving MOF and MOHA).
Need to improve transparency in public procurement	M	The programme will support improved procurement and procurement transparency as a specific result.
Limited capacities of civil servants at sub-national level	M	While the main support of the programme is at central level by nature, it will seek to strengthen the links between national and sub-national levels, providing capacity building for civil servants at sub-national level where this is possible and relevant.
No commitment to the PFM reform	M	The programme will support the MOF in coordinating the PFM reform agenda with other line ministries and

strategy beyond the MOF		will promote the establishment of a broad PFM Steering Committee.
Assumptions		
<ol style="list-style-type: none"> 1. The Public Finance Development Strategy is elaborated with a sequenced Action Plan for PFM reform. 2. A PEFA (or PEFA Self-Assessment) is completed (including approval) prior to project implementation and provides an indication of the areas of weakness that the government needs to address. 3. Public administration reforms will be timely to allow for adequate staffing of the financial management function across line ministries and sub-national administrations, with adequate staff retention. 4. The Government will provide the necessary funds to ensure the availability of the basic equipment needs of the beneficiary institutions allowing effective project implementation. 5. The country does not show any risks of facing major external shocks that could adversely affect its macroeconomic stability framework. 6. Coordination among donors and between government organisations (line ministries with the MOF and MoHA) will stimulate both improved PFM and PAR. 		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The importance of strengthening the country's PFM systems has been recognized by the Government of Lao PDR, with the launch of the Public Financial Management Strengthening Programme (PFMSP) in 2008. The PFM sector was strongly supported by development partners until the closing date of the PFMSP programme in 2013. In 2013, a number of decisions taken by the Ministry of Finance (MOF) impacted progress and caused development partners to pause and review their relationship with the Government in the PFM reform area. In mid-2015, a renewed interest in PFM reform re-emerged from the Government and was accompanied by requests for assistance from development partners.

Useful lessons were captured from the PFMSP, which are still relevant for today:

- The weak point of the design of the PFMSP was serious under-estimation of both local capacity and reform commitment needed to implement the broad and very ambitious programme of institutional strengthening. Accurate assessment of the recipient's capacity and more generally, of the broader institutional environment is crucial.
- An adequate result framework should be formulated early on and be matched to the standard PEFA indicators to allow for tracking changes in performance.
- In cases where there are serious implementation and commitment (on behalf of MOF) issues, implementing international partners need to be more proactive in pushing for a satisfactory resolution, including indicating to the authorities a readiness to cancel the programme. Any extensions should be made conditional to the commitment and performance of the government in line with the agreements made.
- It is imperative to take into account the complexity of the governance system when formulating the interventions aimed at strengthening the capacity of public officials at all levels as well as the information system and coordination among actors.
- There is a need for ownership, vision and sequencing of the actions by the Government.

Currently there is only one PFM support programme in place amounting to EUR 2 000 000 funded entirely by the EU and managed by the World Bank¹⁰, The Public Financial Management Modernization Programme, which began in June 2016. It is still too early to draw conclusions on lessons learnt. Nonetheless, the implementation is smooth, with a fast pace of activities and an active involvement of the MOF. The Steering Committee of the Programme is chaired by the Vice-Minister of Finance and allows for the MOF to have ownership of the activities implemented and analysis conducted.

3.2 Complementarity, synergy and donor coordination

The EU and the World Bank are the only development partners jointly working on a comprehensive PFM support programme. The proposed action will be a long-term, large-scale programme covering a broad spectrum of PFM reform in the scope of the Government's Public Finance Development Strategy. The value added of the action lies in its comprehensiveness. Other development partners provide only focused support in confined areas:

- The IMF provides diagnostic and advisory support on fiscal reporting and taxation to MOF through IMF Headquarters and the Technical Assistance Office for Lao PDR and Myanmar (TAOLAM).
- JICA finances a long term technical advisor to MOF in the field of statistical data, supports the MOF Tax Department with a long term adviser and is planning to have two more long term advisors at MOF and to extend a project supporting the MPI in public investment management.
- Korea funds a large IT investment for tax administrative purposes.
- GIZ provides technical assistance to SAO through a regional programme. A trilateral project including the State Audit Institution of Thailand is part of the programme and has allowed capacity building to the staff of SAO by their peers from Thailand. The programme ends in 2017, and future support to SAO is envisaged under the new Citizen Engagement Good Governance and Accountability (CEGGA), which is co-funded by the EU.
- ADB funds the Governance and Capacity Development in Public Sector Management Programme which supports MOF in the formulation of a Medium Term Fiscal Framework (MTEF) and has supported MOHA in the framework of the GPAR.
- The CEGGA Programme will support different areas of work of the National Assembly (EU is providing EUR 5 500 000, SDC EUR 5 000 000, and Germany EUR 3 500 000). The support to SAO and NA is foreseen under CEGGA, and therefore this action will not focus on such support but will ensure coordination and complementarity with CEGGA.
- The World Bank supports the new debt management and public procurement laws and provides advice to MOHA on pay and compensation reforms.

For the near future (2019), the World Bank is considering preparing a new loan to Lao PDR (indicatively USD 20 000 000) to support the development of the Financial Information Management Systems (which will include procurement of hardware, software licences, training of staff). The loan would be fully implemented by the Government of Lao PDR. Therefore, the proposed action would complement the World Bank loan, rather than overlapping with it, and cover a broader spectrum of PFM reform. The EU will build upon

¹⁰ C(2012)9247

the good practice of policy dialogue on PFM matters with the Government which currently takes place under the on-going EU-World Bank Single Donor Trust Fund. The EU will retain the lead in the PFM policy dialogue.

Complementarity and donor coordination is ensured through informal PFM development partner meetings called jointly by the EU Delegation and the World Bank and the formal Governance Sector Coordination Group. These working groups are attended by development partners and the government.

The proposed programme interlinks with EU budget support operations planned in the education and nutrition sectors.

It will complement the EU funded CEGGA programme. The programme will also seek complementarity with the Governance and Public Administration (N-GPAR) programme to be funded by Switzerland expected to start early 2018.

3.3 Cross-cutting issues

The proposed programme will contribute to increased efficiency and transparency in the use of Government and external resources. Good governance is the essence of this project: better internal controls, internal audits and budgetary oversight. By improving the management of public funds, the programme is expected to positively impact the Government's capacity to deliver public services to vulnerable communities. It will also improve service delivery with a focus on education and nutrition, sectors in which the gender aspect is crucial and incorporated in related EU interventions. The proposed action will also contribute to improved access to financial information, through which the right to accurate (financial) information of the government is promoted.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

The **overall objective** of the programme is sustainable and inclusive economic growth, social development and good governance in Lao PDR.

The **specific objective** is to strengthen PFM systems and their enabling governance environment to improve the use of public resources for better service delivery at central and sub-national level.

The **expected results** are as follows:

Result 1: Improved domestic revenue mobilisation. Improved efficiency, equity and sustainability of public revenue collection at central and local levels (Addresses Strategy 2 of the Public Finance Development Strategy on "Revenue policy and resource mobilization to maximise revenue collection")

Result 2: Enhanced budget credibility and transparency. Improved budget preparation, wage bill management, information and control in budget execution and budgetary transparency (Addresses Strategy 3 of the Public Finance Development Strategy on "Expenditure policy and rational spending for effective development").

Result 3: Strengthened public procurement. Strengthened legislative framework for public procurement, introduction of advanced tools for procurement, capacity building, and

improved monitoring of compliance (Addresses Strategy 4 of the Public Finance Development Strategy on "Efficient and prudent public debt management" on specific priority for all public investments to follow strictly the public procurement procedures and Strategy 3 on "Expenditure policy and rational spending for effective development").

Result 4: Effective PFM reform coordination. Improved coordination on PFM reform implementation, monitoring progress in PFM reform (Addresses Part III of the Public Finance Development Strategy on "Implementation mechanism, M&E, and reporting).

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG Goal 16 “promote just, peaceful and inclusive societies”, but also promotes progress towards Goal 8 “decent work and economic growth” and goal 10 “reduced inequalities”. This does not imply a commitment by Lao PDR benefiting from this programme.

4.2 Main activities

All of the main activities listed below are based on the Public Finance Development Strategy and the experience from the ongoing EU-funded PFM Modernization Programme.

Result 1: Improved domestic revenue mobilisation

- a. Support tax policy development: Assess and propose new taxes (such as asset tax, land tax, income tax, housing tax, environment tax, and others) to widen the revenue base while promoting investment and commercial production in alignment with green growth and sustainable development.
- b. Enhance the effectiveness of revenue management collection: Create modern tools and systems in revenue collection management to cover the entire revenue base and to maximize collection by fully applying the current legal framework. Priorities are functioning of the large taxpayers unit, VAT collection and awareness campaigns on taxation/dissemination of taxation regulation.
- c. Non-tax revenues: Create management and monitoring mechanism for the revenue collection by line ministries and their service delivery units. Focus on the sectors supported by budget support (nutrition and education).
- d. Capacity building on forecasting/trends of collection on revenue generated from taxes.

Result 2: Enhanced budget credibility and transparency

- a. Support the implementation, including design and roll out of training at central level and provinces, of a modern Financial Management Information System. This will not include the purchase of any IT software or hardware.
- b. Enhance the controls in the expenditures on wages and salaries. This will include establishing an automated link between the nominal roll (personnel records in MOHA) and the payroll (executed by MOF). Specific attention is given to payroll management by the Ministry of Health, Ministry of Agriculture and Forestry and Ministry of Education and Sports (of relevance to EU's budget support operations).
- c. Improve budget preparation by the MOF as coordinating ministry, the line ministries and the subnational government levels. Enhance the capacity of line ministries to prepare a ‘policy-based budget’ that is based on the legal entitlements and sectoral strategies by sector ministries. Improve the mechanisms at central government to make the budget preparation orderly and timely.

- d. Enhance budgetary transparency by raising awareness on transparency and accountability amongst government officials; facilitate data aggregation, data compilation and reporting in line with the revised State Budget Law.

Result 3: Strengthened public procurement

- a. Develop secondary legislation to increase the coverage of procurement through competitive process.
- b. Functional review of the Government capacity to implement the procurement legislation at central and provincial level.
- c. Setting up a training and certification programme for procurement staff.
- d. Institutional strengthening of the Procurement Monitoring Division.
- e. Establishment of an accessible online procurement system website, with bidding and results being published and an operational complaint mechanism.
- f. Introduce advanced forms of procurement including centralised procurement, framework contracts and e-procurement.
- g. Conduct analysis on review processes on strategic allocation of public resources.

Result 4: Effective PFM reform coordination

- a. In line with Part III of the Public Finance Development Strategy which highlights that all concerned entities must take ownership of, contribute to and coordinate their respective responsibilities under the Strategy, coordination within MOF between the different departments and between the MOF and other stakeholders in PFM will be supported.
- b. Monitoring progress including data collection on applicable indicators and preparing progress reports using the Public Finance Development Strategy Action Plans and Strategy M&E Framework.
- c. Support coordination between the MOF and development partners working in the domain of PFM reform.
- d. Increase communications within the GoL and to the public about the reasons and benefits of funding PFM and its impact on improved service delivery.

4.3 Intervention logic

The intervention is based on the “collect more and spend better” initiative. It envisages a range of activities under each component contributing to this objective. The components concern basic aspects of a proper public finance management system and the logic of the link between the activities and the objective is straightforward. Because of the specialised and centrally assured nature of the services to be supported under the action, it is anticipated that the largest share of resources will be directed to the central level civil service. Nonetheless, the action will seek the maximum decentralisation of support to the provincial level.

A key issue for the success of the action is country ownership and government commitment. In the context of the Lao PDR, this is challenging given the low level of inter-ministerial cooperation and low levels of capacity. These issues are considered in the design of the action, as follows:

- A component on PFM reform coordination is added to ensure high level government commitment to the implementation of the Public Finance Development Strategy and to ensure inter-ministerial coordination.
- While the components are mutually reinforcing, none are pre-conditions for the others. In this way, delays or obstacles encountered with one or more of the activities

will not cause an overall delay or compromise implementation of each component and the action as a whole.

- Country ownership will be maximized through the close alignment to the government's capacity development and governance objectives, and particularly to those of the Ministry of Finance and Ministry of Home Affairs. The programme will allow for a demand-based approach and will be able to respond to specific requests and needs of the government as long as these are aligned to the EU programme's specific objective.
- Synergies with ASEAN-level regional support and encouragement to further consolidate good governance and human rights will be pursued. Peer learning through regional exchanges will be encouraged.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

Both in indirect and direct management, the Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures affecting the respective countries of operation¹¹.

5.3.1 Indirect management with an international organisation

This action may be implemented in indirect management with the World Bank in accordance with Article 58(1) (c) of Regulation (EU, Euratom) No 966/2012. This implementation entails capacity building activities, including trainings, technical assistance, peer to peer learning, participation in regional exchanges and seminars and other activities described in section 4.2. It is possible that the entity will provide grants to recipient(s) to implement certain activities.

This implementation is justified because the World Bank is one of the key development partners in Lao PDR and the leading partner in the PFM sector, with good collaboration with the EU and long-term experience of working on PFM reforms with the Government. The World Bank is currently implementing the EU funded PFM Modernization Strategy Programme (through the

¹¹ https://eeas.europa.eu/sites/eeas/files/restrictive_measures-2017-04-26-clean.pdf

EU-World Bank Single Donor Trust Fund) and it has previously (2008-2013) implemented the PFM Strengthening Programme PFMSPP (Multi-Donor Trust Fund). The World Bank Office in Lao PDR is able to mobilize high quality experts and to ensure that the technical assistance delivered to the Government is of high quality and relevance. As the World Bank has a long record of working in PFM in Lao PDR, many of the experts it mobilizes have prior experience working in the country and a good understanding of country context. In addition to its work on PFM, the World Bank has programmes in the focal EU sectors, nutrition and education, and is funding the Government's Poverty Reduction Fund. The Ministry of Finance has repeatedly expressed its interest to continue working on PFM Reforms with the World Bank.

For the budget-implementation tasks not yet assessed, the World Bank is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisation can be entrusted with budget-implementation tasks under indirect management.

The entrusted entity would carry out the following budget-implementation tasks: procurement and grant award procedures, signing and executing the resulting procurement and grant contracts, notably accepting deliverables, carrying out payments and recovering funds unduly paid.

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
5.3.1 Indirect Management with the World Bank, including communication and visibility	4 900 000	
5.8 Evaluation and 5.9 Audit	100 000	
Total	5 000 000	

5.6 Organisational set-up and responsibilities

A Programme Steering Committee will be established. It will be chaired by the Ministry of Finance and will include the participation of (at minimum) the MOHA, and will be open to other relevant line ministries, the National Assembly and the SAO. The World Bank will provide secretariat support. The EU will also participate in the Steering Committee. The meetings will take place regularly, and indicatively twice a year.

For the operational implementation, the World Bank will work in close collaboration with the Ministry of Finance with operational staff located in Vientiane overseeing the management of the project.

5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the importance of the action, a mid-term evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. It will be carried out to assess progress in the different result areas and will inform of any necessary adjustments to the action.

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components via the World Bank. The World Bank has a policy to conduct a Final Evaluation for all its projects and programmes. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the programme contributes to capacity building in key areas of reform of the Government of Lao PDR.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and *inter alia* provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded under a framework contract in the second half of 2019.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded under a framework contract in the second half of 2019.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5. above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

APPENDIX - INDICATIVE LOGFRAME MATRIX

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective	Sustainable and inclusive economic growth, social development and good governance in Lao PDR.	1. Rate of income poverty reduced **EURF L1 I1	23.2% in 2012/3 (LECS V)	Poverty rate 15% by 2020	<ul style="list-style-type: none"> Lao PDR Statistics Bureau NSEDP Mid Term and End Term Review poverty data 	
		2. Real GDP growth rate (in %) **EURF L1 I3	2017: Average annual real growth rate of 7%	Real GDP Growth not less than 7.0% by 2020	<ul style="list-style-type: none"> IMF Article IV Report 2021 Lao Economic Monitor (World Bank) 	
		3. Country development status measured according to Criteria 2: Human Assets (%)	92% of the graduation threshold of the second criteria HAI: 60.8%	66% by 2020	<ul style="list-style-type: none"> NSEDP Report 	
Specific objective	The specific objective is to strengthen PFM systems and their enabling governance environment to improve the use of public resources for better service delivery at central and sub-national level.	1. Budget Deficit as a percentage of GDP	2016: -5.9 %	2021: 3.0 %	<ul style="list-style-type: none"> IMF Article IV Report 2021 	Lao PDR is not affected by any regional or global economic crisis
		2. Aggregate expenditure outturn (PEFA indicator 1)	2007/08: 13.8% (derived from PEFA 2010)	Average 2019 - 2021: < 5.0 %	<ul style="list-style-type: none"> Audited annual budget execution report 	
		3. Projections on public debt as a percentage of GDP	2017: 70.3 %	2021: < 65 %	<ul style="list-style-type: none"> IMF Article IV Report 2021 	
		4. Overall functioning of PFM system	2017: Number of C ratings 2017: Number of D ratings (baseline to be established in PEFA 2017)	2021: reduction of 25 % 2021: reduction of 50 %	PEFA 2021	
		Note: Indicators are based on GoL draft 8 th NSEDP -targets are still be confirmed. Targets for 2021 and 2022 would be based on the 9 th NSEDP 2021-2025				
Outputs	Results Area 1: Improved Domestic Revenue Mobilisation	1. Domestic tax revenue as percentage of GDP (excluding revenues from natural resources, fees and grants	2015/16: 14.3 (IMF Article IV Staff Report 2016)	2021: 16% of GDP	<ul style="list-style-type: none"> Audited annual budget execution report IMF Country report 	

		2. % of VAT payers that confirm that they need to make informal payments to tax officials	Baseline: 81% (Source: Tax perception study, 2016)	Reduction by 75% in 2021	<ul style="list-style-type: none"> MoF/World Bank Tax Perception Study 	There will be no major economic slowdown in the economy of Laos' major trading partners: Thailand, China and Vietnam, who import the vast majority of Laos' generated hydropower.
		3. Status of the publication of revenue from fees collected by MoH and MoE in the Budget Execution Report	Baseline : no information included in the budget execution report on fee revenues	Revenue reported in the budget execution report and signals an increasing trend on annual basis	<ul style="list-style-type: none"> MoF: MOF'S Information System reports 	
		4. Level for PEFA indicator 3: Revenue outturn	Baseline: tbc in PEFA 2017 (Lao scores an A in PEFA 2010, but the 2010 PEFA methodology did not score down for the systematic underestimated of revenues in the budget).	Precise target to be defined when the baseline becomes known in PEFA 2017. Annual improvement in accuracy of forecasting	<ul style="list-style-type: none"> PEFA2017 2021 	
	Results Area 2: Enhanced budget credibility and transparency	1. Budget planning calendar is adhered to State Budget Law (PEFA indicator 17)	2017: TBC with PEFA 2017 results	2021: TBC with PEFA 2017 Results	<ul style="list-style-type: none"> PEFA 2017 and next PEFA (date to be determined) 	
		2. The State Budget Plan includes gender balance and gender aspects (as stated in Article 6 of the revised State Budget Law of 2015)_	2017: Zero references, No incorporation of gender specific budget allocations	2021: State Budget Plan contains gender specific allocations	<ul style="list-style-type: none"> Annual State Budget Plans Budget Execution Reports 	
		3. Number of of audited annual budget execution statements published within 2 years after the end of the fiscal year	2017: Last published statement is 2013	2021: Audited budget execution statements are published within two year after the end of the fiscal year	<ul style="list-style-type: none"> Audited Annual Budget Execution Report 	
		4. Size of the wage bill as measured by salary compensation of employees as a % of GDP	Baseline: 2015/16: 8.6% (IMF Article IV, 2016)	2021: < 8.0%	<ul style="list-style-type: none"> Audited Annual Budget Execution Report IMF country reports 	
		5. Status of payroll audits in health and education	2017: zero, this has not been done	2021: payroll audits in health and education are carried out	<ul style="list-style-type: none"> Payroll audit reports 	

	Results Area 3 Strengthened public procurement	1. Number of functional reviews of procurement management systems in central and provincial government	2017: zero, this has not been done	2018: one review done at central level	<ul style="list-style-type: none"> • Functional review reports 	The functional review findings are used by the government to improve procurement management processes
		2. Status of reports on implementation of procurement legislation in education and nutrition/health sectors.	2017: Functional review reports on procurement legislation are not available for either the education or nutrition/health sectors	2018: Review reports on procurement legislation in the education and health sectors are published	<ul style="list-style-type: none"> • Internal reports from the MoE and MoH 	Resources are made available by the GoL to publish the functional review reports and to implement the recommendations in the health and education sectors
		3. Assessment of compliance with procurement legislation in education and nutrition	2017: zero, as no compliance audit reports available	2020: Compliance with procurement procedures is assessed and audited in education, an EU budget support sector	<ul style="list-style-type: none"> • WB and GIZ documentation • SAO reports • NA minutes 	
		4. Number of training participants at provincial level (disaggregated by sex) and number of participants who pass the knowledge and comprehension tests prepared by trainers during and at the end of training sessions	2017: zero as the action has not yet started	2021: 50% of procurement staff in all provinces have been trained including female officials working on procurement as relevant; 75% of training participants pass training tests demonstrating understanding of topics covered	<ul style="list-style-type: none"> • Internal reports from the Procurement Monitoring Unit of the MoF 	Participants will have an opportunity to use the new skills and knowledge gained at the training in their jobs.
	Results Area 4 Effective PFM reform coordination	1. Status of the key milestones of PFM Reform Programme	2018: zero, there are no key milestones as the Action Plan for the PFM Strategy has not been adopted by the Government	2019 – 2021: TBC, based on identified milestones in the Action Plan and the Action Plan monitoring framework	<ul style="list-style-type: none"> • Public Finance Development Strategy Monitoring reports 	