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ANNEX III

to the Commission Implementing Decision on the financing of the annual action plan in favour of
Lao People's Democratic Republic for 2022

Action Document for “Partnership to support Public Finance Management Reforms in Lao PDR (PPFM)”

ANNUAL PLAN

This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, and an action plan within the meaning of Article 23(2) of the NDICI-Global Europe Regulation.

1 SYNOPSIS

1.1 Action Summary Table

1. Title CRIS/OPSYS business reference Basic Act	Partnership to support Public Financial Management Reform in Lao PDR (PPFM) OPSYS reference: ACT - 60746 Financed under the Neighbourhood, Development and International Cooperation Instrument (<u>NDICI-Global Europe</u>)
2. Team Europe Initiative	Yes Partial contribution to the Green TEI for Lao PDR, through supporting “green” budgeting
3. Zone benefiting from the action	The action shall be carried out in Lao People's Democratic Republic (Lao PDR)
4. Programming document	European Joint Programming Strategy (EJPS) in the Lao PDR 2021-2025 2021-2027 Multiannual Indicative Programme (MIP) for Lao PDR
5. Link with relevant MIP(s) objectives / expected results	MIP Specific Objective 6: Contribute to good governance, the rule of law and human rights in Lao PDR MIP Expected Result 6.2 Improved Public Finance
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	Priority Area 3 - Good Governance (DAC 151)
7. Sustainable Development Goals (SDGs)	Main SDG: SDG 16 – Promote just, peaceful and inclusive societies Other significant SDGs: SDG 5 – Gender equality SDG 8 – Decent work and economic growth SDG 10 – Reduced inequalities
8 a) DAC code(s)	15111 – Public Finance Management (40%)

	15114 – Domestic Resource Mobilisation (30%) 15125 – Public Procurement (30%)			
8 b) Main Delivery Channel	World Bank – 44001			
9. Targets	<input type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective
Digitalisation @		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
digital connectivity		YES <input type="checkbox"/>	NO <input type="checkbox"/>	/
digital governance		<input checked="" type="checkbox"/>	<input type="checkbox"/>	
digital entrepreneurship		<input type="checkbox"/>	<input type="checkbox"/>	
digital skills/literacy		<input type="checkbox"/>	<input type="checkbox"/>	
digital services	<input type="checkbox"/>	<input type="checkbox"/>		
Connectivity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
	Migration @ (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @ (methodology for marker and tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): 14.020131 South and East Asia Total estimated cost: EUR 11 412 723 Total amount of EU budget contribution EUR 5 000 000 This action is co-financed in joint co-financing by: - Australian Department of Foreign Affairs and Trade (DFAT) for an amount of AUD 10 000 000 (EUR 6 412 723 ¹ equivalent)			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	Indirect management with the World Bank			

1.2 Summary of the Action

Laos' **rapid economic growth** over the last three decades (annual average of over 7%) propelled the country from a low-income to a lower middle-income status, and it is expected to **graduate from LDC status in 2026**. Nevertheless, rapidly rising debt and the COVID-19 pandemic are creating important **macroeconomic and fiscal challenges**, which require more efficient public finance management. Although Lao PDR managed to avoid the spread of the COVID-19 pandemic in 2020, its economy was severely impacted (estimated GDP growth of only 0.5% in 2020 and 2% in 2021). The Government has embarked on the **9th National Socio-Economic Development Plan (NSED) 2021-2025**, which has fully embraced the Agenda 2030, and seeks to foster **sustainable, green and inclusive growth**. In a context of reduced revenues and rising debt, the need for PFM reforms have become very high on the agenda of the new Lao Government and National Assembly. The new Prime Minister has expressed very strong commitments to macroeconomic and fiscal policy actions, and to improve the efficiency and transparency of public administration, including fighting corruption.

In this context, the proposed action seeks to support the Government of Lao PDR to improve the management of its public finances and human resources, as a key pillar for pursuing sustainable and inclusive growth. **The Specific Objectives** are to contribute to: 1. enhanced budget credibility and transparency; 2. Improved domestic revenue mobilization; 3. Strengthened public procurement; 4. modernizing human resources management; and 5. Ensuring effective project implementation, analytical and just-in-time support. The proposed activities are fully aligned with the GoL's PFM Strategy and the 2021-2025 Action Plan and will contribute to the SDG16 related to good governance.

¹ Monthly exchange rate (InfEuro) of January 2022: 1 AUD = 0.64127 EUR

This Action with a EUR 5 M contribution from the EU and AUD 10 M co-financing from Australia, builds on the strong foundations laid by the successful ongoing EU-funded PFM reform programme implemented by the World Bank. It will continue supporting PFM reforms. In this new phase, the Action will reinforce our policy dialogue on PFM, in partnership with Australia (through a WB PFM Umbrella Trust Fund), and it will place emphasis on reinforcing line Ministries' PFM, piloting gender and green budgeting, improving the governance of State enterprises, and strengthening the National Assembly's financial oversight role. The action thus remains closely interlinked with our budget support and planning/ budgeting technical assistance in education, and with the new EU-funded governance project, as all these operations are mutually reinforcing.

2 RATIONALE

2.1 Context

Laos' **rapid economic growth** over the last three decades (annual average of over 7%) propelled the country from a low-income to a lower middle-income status, and it is expected to **graduate from LDC status in 2026**. Laos' GDP per capita of USD 2,570 in 2019 (according to the WB) is more than ten times the figure in 1990, and the poverty rate more than halved between 1993 and 2019, falling from 46% to 18%. The strong growth potential, rich natural resources, the establishment of several Special Economic Zones, and recent massive infrastructure investments to improve its trade links with the ASEAN, China and beyond, opens **important opportunities for private investment and job creation**. Improving the business environment and continued investment in infrastructure and logistics will be key for unleashing this high potential, while ensuring environment, social and governance (ESG) responsible business approaches, bearing in mind the do-not harm principles and leaving no one behind. EU trade with Laos is very modest in comparison to our trade with neighbouring ASEAN countries (EU Member States together represent the 4th largest trading partner to Laos). According to the International Trade Centre (ITC), and considering **European partners' interest to increase trade and investment with Laos**, there is significant potential for inclusive growth.

Rapidly rising debt and the COVID-19 pandemic are creating important **macroeconomic and fiscal challenges**, which require more efficient public finance management. Although Lao PDR managed to avoid the spread of the COVID-19 pandemic in 2020, its economy was severely impacted (estimated GDP growth of only 0.5% in 2020 and 2% in 2021). The surge in cases in mid-2021 (up to about 35,000 in October 2021) and the strict lockdown measures are having a direct impact on Lao PDR's socio-economic development.

The Government has embarked on the **9th National Socio-Economic Development Plan (NSED) 2021-2025**, which has fully embraced the Agenda 2030, and seeks to foster **sustainable, green and inclusive growth**. The overall objective of the 9th NSED is *"to focus on the socio-economic development based on the country full potentials in order to strongly graduate from the Least Development Countries (LDC) with quality, well-balanced and green growth and to achieve the sustainable development goals in 2030"* focusing on six main pillars including Sustainable and Diverse Economy, Human Asset Development, Livelihood Improvement, Environment Protection; Climate resilience and Governance. In a context of reduced revenues and rapidly-rising debt, PFM reforms have become very high on the agenda of the new Lao Government and National Assembly. The new Prime Minister has expressed very strong commitments to macroeconomic and fiscal consolidation, and to improve the efficiency and transparency of public administration, including fighting corruption.

The Government acknowledged the role of social protection in reducing poverty, inequality, and vulnerabilities and in promoting socio-economic development and social cohesion. In 2018 Lao PDR participated in constructive dialogue with treaty bodies on the basis of its initial report on the International Covenant on Civil and Political Rights, the combined third to the sixth Child Rights Convention reports, and the combined eighth and ninth reports on the Convention on the Elimination of all Forms of Discrimination against Women.

The **new PFM action plan (2021-2025)** expected to be approved in February 2022 outlines priority activities aimed at addressing the weaknesses identified in the 2019 Public Expenditure and Financial Accountability Assessment (PEFA) Report. These activities include (i) improving fiscal policy, (ii) developing and revising legislations, (iii) improving revenue management reform; (iv) improving expenditure management reform; (v)

modernizing public finance sector; (vi) strengthening accounting and auditing/inspection; and (vii) developing human and institutional capacity.

In the above-mentioned context, the **European Joint Programming Strategy (EJPS) for Laos in 2021-2025** aligns with the Lao PDR's 9th NSEDP 2021-2025 and with the European Partners' strategic priorities for external action, which aim at fostering sustainable, green and inclusive growth through strengthened trade and investment. The EJPS focuses on **three priority areas**: green and inclusive economy (PA 1); human capital (PA 2); and good governance (PA 3). A large share of these funds will support the **Green Team Europe Initiative**², which seeks to foster sustainable investments, in line with the green objectives shared by the EU Partners and Laos. Within this framework, the EU proposes a **transformational approach** in its cooperation with Laos, by supporting an **increase in trade and investment**, especially in green sectors, supported by **enhanced education and skills**, and **improved governance**. The EU MIP 2021-2024 for Lao PDR received an allocation of **EUR 83M** and it focuses on: agriculture and forestry, trade and PSD (under PA 1), education/TVET (under PA 2), and good governance, including public finance management (under PA 3). The EU programming priorities fully take into account the external aspects of the EU policy priorities (Green Deal; sustainable growth and jobs; science, technologies and digitalisation; migration Partnership; and education) as well as the opportunities to work with the EU Member States on co-financed programmes and the use of the EFSD+ blending and guarantee facility.

This **proposed PFM Action with a EUR 5M contribution from the EU and AUD 10M co-financing from Australia, builds on the strong foundations laid by the successful ongoing EU-funded PFM reform programme implemented by the WB**. This new programme will continue supporting PFM reforms, by strengthening budget formulation and execution (targeting line ministries including education & agriculture)) and domestic revenue mobilisation. In this new phase, the Action will reinforce EU policy dialogue on PFM, in partnership with Australia and the World Bank. It will place emphasis on piloting gender and green budgeting, improving the governance of State enterprises, and strengthening the National Assembly's financial oversight role. As such, the proposed Action will better complement other EU's action to be implemented as part of the EJPS.

2.2 Problem Analysis

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

The budget preparation process is characterised by weak links between budget allocations and the country's development priorities and sector strategies. This is mainly due to the absence of effective planning and forecasting mechanisms. While a medium-term expenditure framework exists, the introduction of multiyear spending ceilings remains challenging. The PFM capacity of line ministries varies and can be strengthened.

Lao's tax revenue collection has been volatile and trending down. The tax revenue to GDP ratio has decreased from 13% in 2011 to 11.1% in 2019. Major contributors to the decline of the tax revenue include profit tax, natural resources tax, and trade tax. With regards to the profit tax, while the standard rate reduced about 14%, from 28% in 2012 to 24% in 2018, the profit tax to GDP ratio was reduced by 48%. Since there were no major changes in the tax administration, it could be argued that the reduction in profit tax to GDP ratio was due to the extensive use of profit tax exemptions.

Tax administration capacity is generally weak. There is no strategic planning at the headquarters level, and there is no comprehensive risk management framework in place to guide the tax administration's operation. The revenue target setting is still not fully based on the real capacity and actual information. Staff capacity in conducting audits remains limited. There is no taxpayer services function. Taxpayer data and information are limited and are not centralized.

Procurement capacity and resources in Lao PDR are limited, compounded by frequent staff rotation. Procurement is not yet fully recognized as a key PFM function. There is limited institutional coordination, supporting infrastructure and a lack of professionally recognized staff. The capacities for data collection and management are poor. E-procurement is not being implemented.

² The following European partners are part of the TEI as of March 2022: France, Netherlands, Switzerland, Hungary, Luxembourg, Germany, Finland, EIB and the EU

The Lao PDR civil service is considered large but not very effective. Public employment and the associated wage bill are high compared to regional peers and countries with similar income levels. According to the Worldwide Governance Indicators, government effectiveness is below the average for upper-middle-income countries and the EAP average. There is limited data available to inform decision-making related to human resources and personnel issues, with most HR processes, including performance appraisal, still performed manually. While the Ministry of Home Affairs (MOHA) has rolled out an automated Personnel Information Management System (PIMS) at central and provincial levels, the system is not yet available at the district level.

Lao PDR has a Gender Inequality Index (GII) value of 0.463, ranking it 110 out of 162 countries in the 2018 index. 27.5% of parliamentary seats are held by women. The political representation of women in the National Assembly has grown by nearly 20% since 1990. It is among the highest in the region (27.5% in 2016). However, women continue to struggle to participate in equal numbers. Women are still under-represented in senior government positions (10% in 2018).

Official corruption is widespread and found at all levels of government, and it is acknowledged by government-controlled media. Transparency International's Corruption Perception Index ranked Lao PDR at 130th (index score 29/100 unchanged in 2020) out of 198 in its 2020 report. The country has ratified international conventions such as the United Nations Convention against Corruption and highly publicized anti-corruption activities are regularly taking place. As of September 2020, the country completed two cycles of its United Nations Convention Against Corruption (UNCAC) Review, both on criminalization/law enforcement and on prevention/ asset recovery. Nonetheless, The influx of foreign investment, the development of public-private initiatives and the implementation of mega-projects pose major corruption risks.

The main stakeholders of the Lao PDR PFM Reform Program Trust Fund are staff from the participating government entities. The direct stakeholders are the Ministry of Finance (MOF), the Ministry of Planning and Investment (MPI), the Ministry of Home Affairs (MOHA), the State Audit Organization (SAO), the Bank of the Lao PDR (BOL), the National Assembly (NA), 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 and Forestry) are also involved. These beneficiaries are benefitting from on-the-job training and participation in capacity-building activities. The beneficiaries are expected to increase their knowledge and implementation capacity of core PFM topics and on specific PFM subtopics.

The MOF is the main ministry managing public finances and it will be the main beneficiary of the proposed programme. The different departments of the MOF will be direct targets of the present action. 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: Fiscal Policy and Law, National Treasury, State Budget Department, the Institute for Finance and Information, the Tax Department, State Asset Department (including its Procurement Monitoring Division), Accounting Department, Organization and Personnel.

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

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 BOL, in charge of monetary policy and supervision of commercial banks, is also an important stakeholder, given MOF's plans for a Treasury Single Account at the BOL and for connecting its financial management system to the interbank payment system of the BOL.

The NA's Planning, Finance and Audit Committee (PFAC) 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 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.

Activities will be closely coordinated with the main development partners active in PFM, including the International Monetary Fund (IMF), Asian Development Bank (ADB), Japan International Cooperation Agency (JICA) and others. The civil society organizations (CSO) as representatives of the rights holders will also be engaged.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to support the Government of Lao PDR to improve the management of its public finances and human resources, as a key pillar for pursuing sustainable and inclusive growth.

The Specific Objectives (outcomes) of this action are to:	The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:
1. SO1: Enhanced budget credibility and transparency (Addresses Strategy 3 of the Public Finance Development Strategy on "Expenditure policy and rational spending for effective development")	Output 1.1: Strengthened capacities for budget planning and preparation, including gender budgeting Output 1.2: Strengthened public expenditure management in sectors Output 1.3: Strengthened capacity of National Assembly (NA) and State Audit Organization (SAO) Output 1.4: Strengthened capacities for cash expenditure and debt management Output 1.5: Improved understanding of SOE reform needs and strengthened capacity to comply with IFRS
2. SO2: Improved domestic revenue mobilization (Addresses PFDS Strategy 2 on "Revenue policy and resource mobilization to maximise revenue collection")	Output 2.1: Established solid formulation for reforms in different areas, such as transfer pricing and taxation of the digital economy Output 2.2: Improved risk management in Tax Department
3. SO3: Strengthened public procurement (Addresses PFDS Strategy 4 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").	Output 3.1: Availability of tools, training and analysis to implement the Public Procurement Law Output 3.2: E-procurement
4. SO4: Modernizing human resources management (Addresses PFDS Strategy 3 on "Expenditure policy and rational spending for effective development").	Output 4.1: Roll out PIMS and design new HRMIS Output 4.2 Civil Service Strategy implementation Output 4.3 Implementation of the Code of Ethics

SO5: Ensuring effective project implementation, analytics and just-in-time support (<i>Addresses Part III of the Public Finance Development Strategy on "Implementation mechanism, M&E, and reporting</i>). Flexibility for just-in-time support in emerging areas.	Output 5.1: Support to PFM Reform Secretariat Output 5.2: Availability of analytics and just-in-time support Output 5.3: Project management training delivered
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3.2 Indicative Activities

Activities related to Output 1.1

This output builds on activities started under the current Trust Fund and will support, inter alia: i) implementation of the State Budget Law provisions on budget planning and preparation, in particular those related to the implementation of State Budget and Policy Statement (SBPS) and the Medium-term Budget Plan (MTBP); ii) development and implementation of secondary legislation for prioritized areas of SBL and/or support to revisions of the SBL; iii) implementation of the Prime Ministerial Decree on budget formulation; and v) capacity building and piloting of gender budgeting.

Activities related to Output 1.2

This output will focus on, inter alia: i) identifying PFM bottlenecks in selected sectors, such as health, education and agriculture. In the education sector, this will include a Public Expenditure and Institutional Review (PEIR), analysis of FPM challenges and preparation of a financial management roadmap and provision of technical assistance; ii) capacity building and piloting of green budgeting; and iii) capacity building for the implementation of budget ceilings in line ministries.

Activities related to Output 1.3

This output will focus on, inter alia: i) preparing and publishing a citizens' budget and involving, to the extent possible, citizens in the budget cycle; ii) capacity building for the NA Planning, Finance and Audit Committee to strengthen their ability to review budget proposals and monitor budget implementation; iii) capacity building for the SAO for improved oversight of government expenditures; and iv) capacity building for MOF on auditing standards.

Activities related to Output 1.4

This output will provide capacity building for the implementation of the new integrated financial management information system (IFMIS), which is expected to go live nationwide in Q1 of 2024. As the IFMIS will be new to both the central and provincial levels, there will be a need for a lot of continuous training on using the system, next to awareness raising and refining the business processes introduced by the new system. Additional support for the implementation of the new chart of accounts in the FMIS will also be needed, at central and provincial level, but also in line ministries, as well as support for the transition towards using accrual- based accounting in line with the International Public Sector Accounting Standards (IPSAS) and technical assistance for the planned revision of the accounting law and its implementation

This output will also provide TA to the National Treasury (NT) and the BoL to further optimize the management of government revenues and cash balances through a unified structure of government bank accounts via a treasury single account (TSA) system. The GoL has established a TSA Committee to oversee this work and is reviewing a Technical Note prepared by the WB with a suggested renewed approach towards the TSA. Last but not least, this subcomponent will provide capacity building to the Debt Management Department of MoF. The objective will be to strengthen the capacities of MoF's debt management officers to use the upgraded DMFAS 6 system, which will be integrated with the IFMIS, by offering them capacity building on basic finance which will assist them in better executing their daily tasks. Topics will include: financial markets, financial instruments, debt securities, role of the yield curve, etc, as well as use of excel and practical exercises. This training will complement capacity building provided by UNCTAD in the context of the upgrade of the debt management system financed by the World Bank, as well as support by other donors.

Activities related to Output 1.5

This output will focus on: i) *Analytical work*: this will include the corporate governance and fiscal risk assessment of Lao Airlines, a horizontal review of SOEs using the integrated State-Owned Enterprises Framework (iSOEF),

as well as assessments of other SOEs, based on demand; and ii) *Technical assistance* to: a) implement the recommendations of the assessments of Lao Airlines and Electricite du Laos, which was supported by the previous PFM Program, and b) build capacity for the transition to International Financial Reporting Standards (IFRS).

Activities related to Output 2.1

i) Review of tax laws and secondary legislation and recommendations for improvement. This will include, inter alia: a) review of current tax legislation (e.g. general tax law, asset tax, land tax, income tax, VAT, excise tax) and related implementing instructions, with a view to updating them in line with international good practices; b) review of current tax legislation to establish a legal framework for transfer pricing that aligns with good international practices; c) review current tax legislation in view of introducing policy, legislation and administrative measures to allow Lao PDR to collect VAT on sales of services, digital products and intangibles provided by foreign online vendors, as well as on imports of low-value goods from online sales; d) tax expenditure estimation to quantify the foregone revenue to understand the magnitude of the impact on revenue and concentration of tax expenditure, and support the rationalization of tax incentives, including providing recommendations on tax incentives for green investment drawing on international experience.

ii) Capacity building: this will include delivery of training on, inter alia, good international practices in the implementation of VAT, income tax, transfer pricing concepts and methods, as well as international study visits.

Activities related to Output 2.2

This output will focus on the following:

i) Comprehensive risk management (CRM): support the tax department (TD) to adopt and implement a CRM, which will build on the implementation of existing elements such as risk-based audit (RBA) and large taxpayer management to cover other core functions of tax administration, such as registration, filing, payment, and debt management;

ii) Data management and analysis: build capacity in TD to conduct revenue forecasting and analysis to support compliance risk management;

iii) Capacity building for the roll-out of the new tax revenue management information system TAXRIS at the district level.

iv) Taxpayer outreach and services: this will include support for the implementation of the Taxpayer Strategy and Communication Plan, which is part of the Tax Strategy (2021-2025).

Activities related to Output 3.1

This output will support: i) implementation of a competency framework to support sustainable national training for a professional procurement cadre; ii) development of a capacity building strategy and training and capacity strengthening for staff of PPD, procuring entities and other public (control) bodies involved in procurement, at national and sub-national level; iii) implementation of the Public Procurement Law; iii) operationalization of Framework Agreements for procurement of commonly used goods and services in high spending ministries (namely MoF, Ministry of Foreign Affairs, Ministry of Health and Ministry of Education and Sports), in order to rationalize procurement and reduce costs; iv) development of rapid procurement protocols to respond to emergencies such as COVID- 19; v) operationalization of complaint and dispute settlement mechanisms; vi) development of legislation, guidelines, manuals; and vii) introducing green procurement approaches.

Activities related to Output 3.2

This output will support, inter alia: i) an e-procurement readiness assessment and the development of a roadmap for introduction of e-procurement in the medium term; ii) design and procurement of a commercial off-the-shelf e-procurement system with modules for electronic publication and submission of bids; iii) support for preparing the regulatory framework for e-procurement and capacity building; and iv) development of an online data collection and analysis tool to collect, collate, analyze and report on procurement information from all procuring agencies scattered across the country, with a view to improving the availability of information for monitoring, including through citizen engagement, evidence-based decision making and system improvement. The information produced will help the GoL improve procurement policies affecting the participation of small and medium-sized enterprises, identify opportunities for promoting green procurement and analyze gender aspects of public procurement contracting.

Activities related to Output 4.1

Activities will build on work undertaken under the current Trust Fund and will focus on: capacity building for the roll out of PIMS to the district level and its upgrade; preparation for the design and implementation of a new human resources management information system (HRMIS); development of contemporary, data-informed human resource policies; capacity building of MoHA staff to perform HRM analytics and improve HRM technical expertise in topics such as organizational design, wage bill analysis, merit-based recruitment, performance management and workforce/talent management

Activities related to Output 4.2

This output will support the preparation and implementation of an action plan of the civil service strategy, which is being developed through EU technical assistance support. Activities will include awareness raising and capacity building.

Activities related to Output 4.3

This output builds upon support provided under the current TF for the first ever civil service code of ethics which has now been approved. Support will be provided for: i) implementation a diversified national dissemination and media campaign to promote the code of ethics across the wider civil service and develop public awareness of code and the responsibility of civil servants; ii) training to civil servants at central and provincial level on the code of ethics; iii) development of ethics and integrity- related training programs for civil servants; iv) development of ethics and integrity expertise of civil servants from MoHA and other line ministries to support the delivery of ethics and integrity training; v) development of civil service codes of ethics in professional and service delivery sectors, such as education and health.

Activities related to Output 5.1

This output will provide support to MoF's PFM Reform Secretariat to implement the PFM Reform Action Plan, strengthen its capacity to monitor and report on progress both on the PFM Action Plan and the present donor-funded programme, strengthen internal coordination within MOF and between the MOF and other line ministries, particularly MOHA, MOES and MOH and between MoF development partners working in the domain of PFM reform, and enhance communication and outreach within the GoL and to the public about the importance of PFM and its impact on improved service delivery. This will include support for the preparation of a communications strategy and outreach materials, workshops and dissemination events at national and local levels, as well as international study visits to exchange knowledge with other countries. Last but not least, this subcomponent will support change management activities aimed at ensuring that key stakeholders are well informed and on board with the reforms supported by the program. This may include study visits and virtual exchanges with other countries.

Activities related to Output 5.2

This output will support different analytical reports such as a repeat of the PEFA assessment, as well as support for emerging needs and just-in-time support based on government demand.

Activities related to Output 5.3

This output will cover part of the operating costs of the MoF's Project Implementation Unit (PIU) which provides the fiduciary management of the program and employs consultants working on procurement, financial management, etc.

The commitment of the EU's contribution to the Team Europe Initiative foreseen under this action plan will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise the EU action may continue outside a TEI framework.

3.3 Mainstreaming

Environmental Protection & Climate Change

Climate change considerations will be fully taken into account in this action, for example through tagging of climate expenditure in the chart of accounts, promoting green procurement, capacity building for climate and disaster screening of sectoral interventions, and inclusion of climate in the next PEFA.

Outcomes of the SEA screening: The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

Outcomes of the EIA (Environmental Impact Assessment) screening: (relevant for projects and/or specific interventions within a project)

The EIA (Environment Impact Assessment) screening classified the action as Category C (no need for further assessment).

Outcome of the CRA (Climate Risk Assessment) screening (relevant for projects and/or specific interventions within a project)

The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment).

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1.

Gender will be mainstreamed to the extent possible in all programme components. A specific subcomponent will support gender budgeting. Gender responsive budgeting (GRB) is a tool that helps align gender policies and strategies with sectoral strategies, policies, expenditures, and revenues. As a result, GRB ensures that the public finance system and other objectives such as macroeconomic stability or provision of public services contributes to the closure of gender gaps and improvements of gender equality to benefit men, women, boys, and girls and improve the quality of life in Lao PDR. Complementary activities are already being implemented by MOF and the PIU through DFAT support. While the gender budgeting concept does not yet exist in Laos, the revised state budget Law approved by NA (December 2015) included elements of gender responsive budgeting. The objective is to promote gender responsive budgeting as part of the fiscal policy and financial management process. One possible way is to integrate specific gender budgeting into the Midterm Budget Forecast (MTBF) and into the budget circular instruction, process and to promote the use of gender indicators in sectors that have a gender objective. A short-term gender adviser might be hired by the PIU to elaborate a strategy for mainstreaming gender in all programme activities. It is also proposed to add the Gender responsive PFM framework to the planned PEFA assessment in 2023 to support further integration of gender budgeting in the project plans and results framework.

Human Rights

The situation regarding the human rights in Laos is discussed in the annual Laos-EU Human Rights dialogue that allows the EU delegation to voice concerns about the human rights abuses and to mutually agree on concrete opportunities for assistance to tackle the challenges, including through the project "Citizen Engagement, Good Governance and Rule of Law (CEGGA)" co-financed with Germany and Switzerland. The last dialogue took place in July 2021 (online). Additionally, individual topics or cases of concern are raised bilaterally with the Lao authorities, for example, in a biennial demarche on the support to the UN resolution on death penalty. Close cooperation and exchange of information is also ensured between EUD, relevant DPs and UN, including UNRCO, UNDP and OHCHR based in Bangkok. In addition to the annual Human Rights dialogue, the upcoming Lao Action Plan for the implementation of the UPR recommendations – amongst which some are related to political and civil rights as well – will offer a valuable entry point for practical cooperation and assistance, primarily through the phase 2 of the CEGGA programme.

The action will apply a human rights based approach. The action will reinforce the duty bearers (public institutions) to comply with their responsibilities to improve the management of its public finances and human resources, as a key pillar for pursuing sustainable and inclusive growth. Right holders will participate through the participation of civil society.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0.

Democracy

Lao PDR is a single-party state with limited political and civil freedoms. While the Constitution guarantees the freedoms of expression and of the press (article 44), restrictions remain omnipresent and are characterized by an

atmosphere of self-censorship. A Cyber Law and a Decree on Information Management on the Internet (2015) prohibits citizens from 'disseminating or circulating untrue information for negative purposes. Civil society organizations (CSO) cannot efficiently exercise their role to promote pluralism, oversight and accountability. Their operations are strictly controlled and limited to service delivery projects, which follow a very long approval process. Yet, it is gradually improving; CSOs' role was recognised in the final version of 9th NSEDP.

Since 2018, the EU-CH-DE CEGGA project, complemented by policy dialogue together with European Partners, and other projects implemented by NGOs in partnership with local authorities and Provincial People's Assemblies (PPA), are gradually bearing fruits. The National Assembly sessions have seen a continuation of the trend of more lively debate and engagement. The valuable contribution of NGOs in Laos' socio-economic development is increasingly being recognised, not least by local authorities and PPAs given their value-added in provided services and capacity building in marginalised populations and remote areas.

Conflict sensitivity, peace and resilience

Overall, the internal situation is firmly under control. The risk of a violent conflict with neighbouring countries or due to international or domestic terrorism in the next 12-24 months seems minimal. A series of potential sources of tensions might generate some conflict in the medium to long term. However, none of them is currently expected to lead to open or violent conflict or create a risk in a foreseeable near future. Most importantly, this concerns growing inequalities which often manifest themselves around land and/or resettlement issues, as well as more recently – in relation to the economic difficulties due to Covid-19 restrictions. The Government is aware of this source of tension and tries to address it through a (partial) moratorium on large land concessions and increased efforts to put in place adequate compensation schemes and mechanisms. Endemic corruption is another possible cause of prospective frictions. The National Land Policy has been revised, with great concern from the civil society as some articles related to expropriation for business/private purposes (forced land acquisition) undermine the farmer's rights.

Disaster Risk Reduction

The Lao PDR is being increasingly exposed to the impact of climate change and climate variability which, amongst others, puts agriculture productivity and food security at severe risk. All these challenges have shown that, in order to support sustainable growth in Lao PDR, there is a need to invest in resilient infrastructure and effectively manage the environmental and social impacts of these investments, as well as to strengthen disaster preparedness and risk reduction. The programme will contribute to this objective by increasing revenue which can help the Government to face unexpected disasters and by strengthening procurement processes in relation to building resilient infrastructure.

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
Risks related to the external environment	Political and governance: The GoL's commitment to public sector reforms and collaboration with the traditional (western) donors has been volatile in the past 15 years. However, Lao PDR provides an overall stable political context and, currently, there is high-level government commitment to the PFM reforms. Personnel changes in the	Medium	Medium	Regular dialogue with the GoL will be crucial to ensure continued Government's commitment and priorities in the PFM and civil service policies. EU's provision of budget support encourages the Government to continue implementing PFM reforms.

	Government, specifically in the MOF and MOHA leadership, could diminish the current commitment and the reform decisions that were previously taken could be reversed.			
	Macroeconomic stability: Lao PDR's macroeconomic situation is challenging, with high fiscal and current account deficits and debt levels, keeping the macroeconomic risk high. Increased public spending in an effort to address the country's infrastructure gap and public investment participation in the power sector coupled with revenue shortfalls has kept the fiscal deficit and public debt high.	Medium	Medium	These risks are partly mitigated by the government's announced fiscal consolidation through stronger revenue collection and continued control over spending. Additionally, the ongoing reforms to strengthen public financial management, the approval of the public debt management law and the planned technical assistance by donor partners, will help strengthen MOF's role and capacity to improve public
Risks related to people and the organisaiton	Institutional capacity for implementation: While the GoL has some in-house capacity on project implementation, the overall capacity is inadequate and external consultants will play a crucial role in the implementation. Due to regular staff rotations at the MOF and line ministries, there is a risk of losing built capacity and institutional memory.	High	High	The proposed programme will contribute to strengthening MOF and line ministries' capacities overall and for implementation, through continuous support for the project implementation unit, which has by now gathered substantial experience and its functioning has improved.
	Corruption/ Lack of independent oversight and accountability: Corruption, policy and regulatory ambiguity, and the uneven application of laws remain disincentives to further foreign investment in the country. The new Prime Minister has expressed strong commitments to macroeconomic and fiscal consolidation, and to improve the efficiency and transparency of public administration, including fighting corruption. The current administration remains active in firing or disciplining corrupt officials, with the government and National Assembly in 2019 and 2020 disciplining more than hundreds of officials for corruption-related offenses. In 2021, the Lao State Inspection Authority identified 183 state-	High	High	Continued implementation of the Public Finance Management project with the WB particularly the e-payment of taxes, strengthened procurement framework and improved budget transparency. - Policy dialogue to encourage a partnership between the Laos' State Audit Organisation and French Audit Court, and for Laos to join the Open Budget Initiative. - Continued implementation of the CEGGA governance programme to strengthen the legal and regulatory framework and law enforcement.

	<p>funded projects that had been overpriced. While the regulatory framework has seen improvements, the law enforcement and the judicial system remain weak, thus setting the conditions for impunity and corruption. The economic and social impact of COVID-19 pandemic could actually see a heightened risk of corruption and criminal phenomena in the medium term. Since September 2021, Laos is the only Southeast Asian country to officially permit and participate in crypto mining. This drive towards crypto might end up providing an outlet for illegal payments and unmonitored transactions, running against pledges by the authorities to stamp down on money laundering activities. Delayed due to COVID, Laos will undergo in Q1-2022 a mutual evaluation under the aegis of the Asia-Pacific Financial Action Task Force (FATF), which might lead ultimately to a poss</p>			
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Lessons Learnt:

The importance of strengthening the country's PFM systems has been recognised 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 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 from the design of the PFMSP was a serious under-estimation of both local capacity and reform commitment needed to implement a 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.

The mid-term evaluation of the current PFM SDTF II conducted in 2021 recommended that the EU continues supporting the Lao PDR PFM reform process building on the current momentum, and that channelling assistance through indirect management with an entity selected using criteria outline in 4.3.1 would be a logical option provided that a proper follow-up arrangement is ensured. At the same time, Lao authorities are expected to show renewed commitment to, and step-up the pace of implementation of PFM reforms so that maximum benefit is derived from the SDTF-II programme and future assistance.

3.5 The Intervention Logic

The underlying intervention logic for this action is still based on the “collect more and spend better” 2015 initiative. The components of the action focus on basic aspects of a proper public finance management system. The logic of the link between the activities to implement and the objectives of the action is straightforward. The COVID-19 pandemic’s impact on growth and government revenues, coupled with rapidly growing debt, has put domestic revenue mobilisation, and more broadly the PFM reform agenda, very high on the political agenda of the new Prime Minister and National Assembly. EU continued support to PFM reforms is thus highly welcome. As part of this Action, there will be further emphasis on implementing PFM reforms in line Ministries (especially in education, agriculture, and health), budget oversight (support to the Assembly’s Budget & Finance Committee), governance of State enterprises, and green and gender budgeting. As such, the action will better complement EU support to education, and it will support other EU objectives of a more political nature (green/gender budgeting, strengthened Assembly’s role in PFM/budgeting). This action remains also closely interlinked with our budget support and education planning/budgeting TA, as all these operations are mutually reinforcing.

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:

- Output 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 maximised 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 objectives.
- 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.
- 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.

3.6 Logical Framework Matrix

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.

On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest.

New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.

The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

Results	Results chain (a): Main expected results (maximum 10)	Indicators (a): (at least one indicator per expected result)	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
Impact	OO: To support the Government of Lao PDR to improve the management of its public finances and human resources, as a key pillar for pursuing sustainable and inclusive growth	1 WGI on Government Effectiveness 2 SDG 16 3 Overall performance of PEFA indicators	Percentile rank: 22.60 (2020) SDG Baseline PEFA 2018 results	TBD	WGI Data on Government Effectiveness NSED P Mid Term and End Term Review 2023 PEFA Assessment	Not applicable
Outcome 1	SO1: Enhanced budget credibility and transparency	Status of PEFA Indicator P16 (Medium-term perspective in expenditure budgeting) and P17 (Budget preparation process)	1.1 PEFA 2018 Indicator 16 rating D+ 1.2 PEFA 2018 Indicator 17 rating C+	Improved PEFA Indicator 16 and 17 in 2023/24 PEFA	PEFA Assessments 2018 and 2022/3	Improved PFM capacity and structures applied in support of effective implementation of PFM reform agenda. PEFA 2023/4 will be undertaken and made public.
Outcome 2	SO2: Improved domestic revenue mobilization	Status of PEFA scores for Indicator P19 (Revenue administration)	PEFA 2018 Indicator 19 rating D	Improved PEFA Indicator 19 in 2022/23 PEFA		
Outcome 3	SO3: Strengthened public procurement	Status of PEFA Indicator 24 (Procurement management)	PEFA 2018 Indicator 24 rating D	Improved PEFA Indicator 24 in 2022/23 PEFA		
Outcome 4	SO4: Modernized human resources management	Level of availability of personnel data	Accurate data on civil service personnel and national and local	Accurate data on civil service personnel and national and local level exists	Personnel information management system (PIMS)	PIMS successfully upgraded and rolled out in all districts

			level does not exist			
Outcome 5	SO5: Ensured effective project implementation, analytics and just-in-time support	Satisfaction with PIU by program beneficiaries	NA	Improved PFM reform coordination, M&E, communications and change management		
Output 1.1 related to Outcome 1	1.1 Strengthened capacities for budget planning and preparation	I.1.1.1 Availability of SBPS and MTBP	No SBPS and MTBP	SBPS and MTBP prepared annually from 2022 onwards	MoF records	MoF endorses SBPS and MTBP guidelines and templates;
Output 1.2 related to Outcome 1	1.2 Strengthened public expenditure management in sectors	I.1.2.1 State-owned Enterprises (SOEs) reviews	No SOEs reviews	At least 2 reviews of SOEs conducted		SOEs agree to be reviewed
Output 1.3 related to Outcome 1	1.3 Strengthened capacity of National Assembly and State Audit Organization	I.1.3.1 Publication of a citizen's budget I.1.3.2 Number of NA members trained, disaggregated by sex I.1.3.3 Number of SAO staff trained, disaggregated by sex	0 0 0	Annually from 2023 onward 50 50		
Output 1.4 related to Outcome 1	Strengthened capacities for cash, expenditure and debt management	I.1.4.1 Number of MOF staff at central, provincial and district level trained in using IFMIS, disaggregated by sex	0	1		

		I.1.4.2 Action Plan/Roadmap for Treasury Single Account Prepared	0	15		
Output 1.5 related to Outcome 1	Improved understanding of SOE reform needs and strengthened capacity to comply with IFRS	I.1.5.1 Reports on SOE governance I.1.5.2 Number of SOE staff trained, disaggregated by sex I.1.5.3 Curriculum and training materials on IFRS developed	0 0 0	2 50 1		
Output 2.1 related to Outcome 2	Established solid formulation for reforms in different areas, such as transfer pricing and taxation of the digital economy	I.2.1.1 Number of tax laws/regulations/instructions reviewed I.2.1.2 Number of Tax Department staff trained in revised legal basis, disaggregated by sex	3 0	6 201.2 TBD	Tax Department records; tax system	TD endorses the risk management frame; Tax officials are trained in good international practices in the implementation of VAT, income tax, transfer pricing concepts and methods, disaggregated by gender
Output 2.2 related to Outcome 2	Improved risk management in Tax Department	I.2.2.1 Comprehensive risk management framework developed I.2.2.2 Number of Tax Department trained in risk management, disaggregated by sex	0 0	1 50		

Output 3.1 related to Outcome 3	Availability of tools, training and analysis to implement the Public Procurement Law	I.3.1.1 Public procurement competency framework	0	1	PPD records; procurement entities records	Public procurement competency framework accepted by key stakeholdersData collection tool is being used by procurement entities
		I.3.1.2 Number of PPD staff trained, at central, provincial and district level, disaggregated by sex	0	200		
		I.3.1.3 Number of procurement entities using framework agreements	0	4		
Output 3.2 related to Outcome 3	E-procurement	I.3.2.1 E-procurement readiness assessment	0	1		Data is available to prepare E-procurement readiness assessment
		I.3.1.3 Number of procurement staff trained in e-procurement, disaggregated by sex	0	200		
Output 4.1 related to Outcome 4	Roll out PIMS and design new HRMIS	I.4.1.1 Number of PIMS users trained	0	200	PIMS; MOHA records	PIMS successfully upgraded and rolled out in all districts
		I.4.1.2 Design of new human resources management information system (HRMIS)	0	1		e-PAS successfully updated; 3

						ministries interested in using e-PAS
Output 4.2 related to Outcome 4	Civil Service Strategy implementation	I.4.2.1 Action Plan for the Civil Service Strategy	0	1		
Output 4.3 related to Outcome 4	Implementation of the code of ethics	I.4.3.1 Number of civil servants at central and provincial level trained on the code of ethics, disaggregated by sex I.4.3.2 Number of dissemination events, at central and local level	0 0	200 10		
Output 5.1 related to Outcome 5	Support to PFM Reform Secretariat	I.5.1.1 Updated M&E framework I.5.1.2 Number of change management communications and M&E roadmaps developed	0 0	1 3	Survey of PIU effectiveness by key stakeholders	Endorsement of survey
Output 5.2 related to Outcome 5	Availability of analytics and just-in-time support	PEFA Assessment in 2023/2024	2	3		Request for just-in time support
Output 5.3 related to Outcome 5	Project management training delivered	Number of Project management workshops	0	5		

4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the Government of the Lao PDR.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation Modalities

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 measures³.

4.3.1 Indirect Management with a pillar assessed entity

This action may be implemented in indirect management with the World Bank. This implementation entails contribution to the achievement of all five objectives specified in section 3.1.

The envisaged entity has been selected using the following criteria:

- Specific sector/thematic expertise
- Logistical and/or management capacities
- Specific mandate for the local context in question
- Strategic relevance for EU multilateral engagement

World Bank has been selected as 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 EU-World Bank Single Donor Trust Fund) and it has previously (2008-2013) implemented the PFM Strengthening Programme PFMS (Multi-Donor Trust Fund). The World Bank Office in Lao PDR is able to mobilise 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 mobilises 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.

In case the envisaged entity would need to be replaced, the Commission's services may select another replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

³ www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.4. 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, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.5 Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	Third-party contribution (amount in EUR)
Indirect management with World Bank – cf. section 4.3.1	5 000 000	6 412 723
Audit – cf. section 5.3	May be covered by another decision	N.A.
Contingencies	N.A	N.A.
Totals	5 000 000	6 412 723

4.6 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 opened 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 as a co-chair. 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.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5 PERFORMANCE MEASUREMENT

5.1 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. Indicators shall be disaggregated at least by sex. All monitoring and reporting shall assess how the action is taking into account the human rights-based approach and gender equality.

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).

Roles and responsibilities for data collection, analysis and monitoring: the Project Implementing Unit (PIU) and its M&E officer will have primary responsibility for data collection, analysis and monitoring. The PIU will share this data with the World Bank through its regular reports. The World Bank will also be collecting data and sharing it with the PIU. The data will be analyzed and presented at the annual progress reports.

5.2 Evaluation

Having regard to the nature of the action, a mid-term evaluation may be carried out for this action or its components via independent consultants contracted by the Commission, and a final evaluation will be carried out for this action or its components via implementing partner.

A mid-term evaluation may be carried out for problem solving and learning purposes, in particular with respect to progress against each programme component.

A final evaluation will be carried out for accountability and learning purposes at various levels, including for policy revision, and to help finalise the design of a potential second phase of the action. The implementing partner shall inform the Commission and the Partner country for upcoming evaluations in advance.

The Commission shall inform the implementing partner at least three months in advance of the dates envisaged 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.

All evaluation shall assess to what extent the action is taking into account the human rights-based approach as well as how it contributes to gender equality and women's empowerment. Expertise on human rights and gender equality will be ensured in the evaluation teams.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and where appropriate, apply the necessary adjustments.

The financing of the mid-term evaluation may be covered by another measure constituting a Financing Decision.

5.3 Audit and Verifications

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 audit or verification assignments for one or several contracts or agreements.

6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.