



# Technical Assistance Concept Paper

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Project Number: 55068-001  
Knowledge and Support Technical Assistance (KSTA)  
April 2021

## Lao People's Democratic Republic: Strengthening Public Debt Management and Promoting Debt Transparency

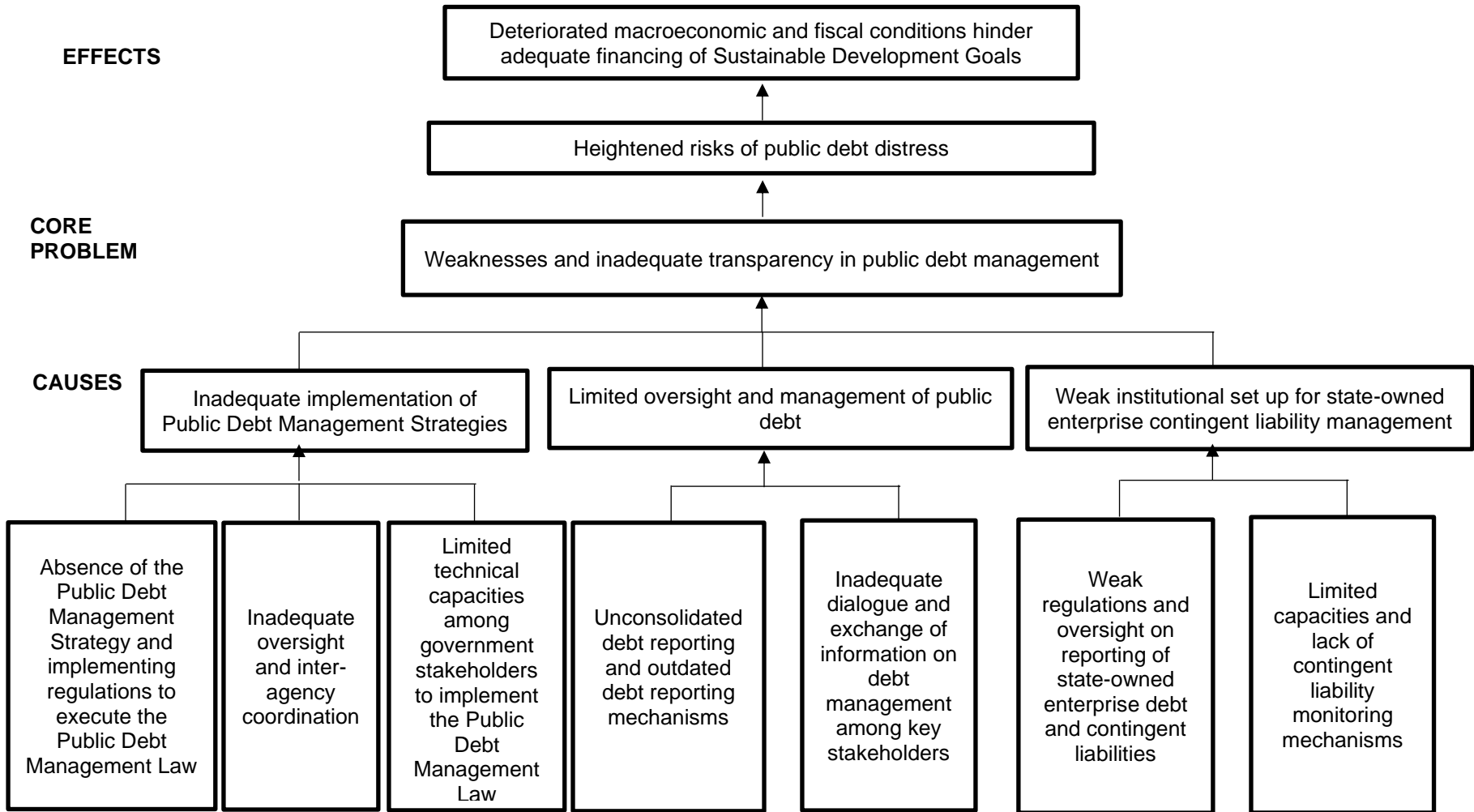
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## KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 55068-001
<b>Project Name</b>	Strengthening Public Debt Management and Promoting Debt Transparency	<b>Department/Division</b> SERD/SEPF
<b>Nature of Activity Modality</b>	Capacity Development Regular	<b>Executing Agency</b> Ministry of Finance
<b>Country</b>	Lao People's Democratic Republic	
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>
✓ Public sector management	Public expenditure and fiscal management	1.50
	<b>Total</b>	<b>1.50</b>
<b>3. Operational Priorities</b>	<b>Climate Change Information</b>	
✓ Strengthening governance and institutional capacity	GHG Reductions (tons per annum)	0.000
	Climate Change impact on the Project	Low
	<b>ADB Financing</b>	
	Adaptation (\$ million)	0.00
	Mitigation (\$ million)	0.00
	<b>Cofinancing</b>	
	Adaptation (\$ million)	0.00
	Mitigation (\$ million)	0.00
<b>Sustainable Development Goals</b>	<b>Gender Equity and Mainstreaming</b>	
SDG 1.a	No gender elements (NGE)	✓
SDG 17.4	<b>Poverty Targeting</b>	
	General Intervention on Poverty	✓
<b>4. Risk Categorization</b>	Low	
<b>5. Safeguard Categorization</b>	Safeguard Policy Statement does not apply	
<b>6. Financing</b>		
<b>Modality and Sources</b>	<b>Amount (\$ million)</b>	
<b>ADB</b>	<b>1.50</b>	
Knowledge and Support technical assistance: Technical Assistance Special Fund	1.50	
<b>Cofinancing</b>	<b>0.00</b>	
None	0.00	
<b>Counterpart</b>	<b>0.00</b>	
None	0.00	
<b>Total</b>	<b>1.50</b>	
<b>Currency of ADB Financing:</b> US Dollar		

## PROBLEM ANALYSIS DIAGRAM



Source: Asian Development Bank.

## I. KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE

1. The proposed technical assistance (TA) will help the Government of the Lao People's Democratic Republic (Lao PDR), through the Ministry of Finance (MOF), strengthen public debt management and promote debt transparency. In January 2021, the government requested TA from the Asian Development Bank (ADB) to address public debt sustainability concerns and to enhance public debt management practices and systems in compliance with the 2018 Public Debt Management Law.<sup>1</sup> The proposed TA contributes to ADB's Strategy 2030 by strengthening governance and institutional capacity (operational priority 6) and is aligned with the government's Vision to 2030 and Public Finance Development Strategy to 2025.<sup>2,3</sup> It is aligned with ADB's new concessional assistance policy for the Asian Development Fund (ADF) 13 and Sustainable Development Finance Policy of the International Development Association (IDA). The TA will enhance debt sustainability for sustainable development financing. The TA is not included in the Country Operations Business Plan (2020–2022) for the Lao PDR, a management-approved workplan, or the endorsements of a corporate priority framework meeting.

### A. Rationale

2. **More targeted support for public debt management.** ADB has been a key long-term partner in support of public financial management reforms in the Lao PDR since 2005.<sup>4</sup> ADB's initial engagement, with focus on budget framework and expenditures reforms, built the foundation for medium-term fiscal planning and has evolved into support for public debt management in 2018, including implementation of the Public Debt Management Law.<sup>5</sup> Since 2017, development partner engagement has pivoted around debt management functions of the MOF. The World Bank helped the MOF establish the Debt Management and Financial Analysis System (DMFAS), an automated tool for public debt recording. The International Monetary Fund (IMF) has regularly conducted debt sustainability assessments under its Article IV Consultations. However, interventions in the areas of contingent liability and debt transparency have been limited. The proposed TA offers a more targeted support to address these lagging areas, building upon the existing interventions.

3. **Development challenges.** Prior to the coronavirus disease (COVID-19) pandemic, the Lao PDR was one of the fastest-growing economies in Southeast Asia with gross domestic product (GDP) growing by an average of above 7.0% in 2000–2019. However, the Lao PDR is increasingly vulnerable to revenue volatility from its high dependence on natural resources, coupled with weak tax administration. This has led to growing fiscal deficit and rising public debt levels, which have exposed the economy to macroeconomic shocks. This could undermine fiscal

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<sup>1</sup> The Memorandum of Understanding (MOU) between the government and ADB was signed on 28 January 2021. The MOU signifies the government's commitment to working with ADB to strengthen public debt management and promote public debt transparency through a TA.

<sup>2</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila. The TA will support operational priority 6 under ADB's Strategy 2030 by addressing reform priorities in public debt management and governance and transparency of public debt management.

<sup>3</sup> Government of the Lao PDR. 2018. [Vision to 2030 and Public Finance Development Strategy to 2025](#). Vientiane.

<sup>4</sup> ADB. 2005. [Technical Assistance to the Lao People's Democratic Republic for Public Expenditure Planning for National Growth and Poverty Eradication Strategy](#). Manila; ADB. 2012. [Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan and Grant, and Grant Assistance for Subprogram 1 to the Lao People's Democratic Republic for the Governance and Capacity Development in Public Sector Management Program](#). Manila.

<sup>5</sup> ADB. 2019. [Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Lao People's Democratic Republic for the Strengthening Public Finance Management Program](#). Manila.

sustainability and derail the progress towards poverty reduction and development goals under the National Socio-Economic Development Plan, 2021–2025 (NSEDP).<sup>6</sup> The 2019 debt sustainability analysis of the IMF assessed the Lao PDR at high risk for debt distress.<sup>7</sup> It underlined high contingent liability risks, especially those related to state-owned enterprises (SOEs) in the power sector and led ADB to classify the country as a fragile and conflict-affected situation.

4. **Macroeconomic and fiscal developments.** The COVID-19 pandemic, coupled with the existing macroeconomic and fiscal vulnerabilities, pose unprecedented challenges to the Lao PDR. The economy is estimated to have contracted by 0.5% in 2020 as domestic demand was hard hit by the pandemic.<sup>8</sup> Due to significant shortfalls in revenue, the fiscal deficit widened from 4.9% of GDP in 2019 to an estimated 5.0%–6.0% of GDP in 2020. Financing the deficit has led to increased borrowing and increased public debt, including external debt. External public and publicly guaranteed (PPG) debt stood at \$10.3 billion in 2019 or 56.7% of GDP, up from 54% of GDP in 2018 and 49.6% in 2017, thereby exacerbating an already high risk of external debt distress. The government's external and domestic public debt service obligations are estimated at \$1.2 billion for 2020, while gross official reserves amounted to \$1.3 billion at the end of 2020, equivalent to only 2.4 months of imports coverage. As a result, Moody's and Fitch downgraded the sovereign credit rating in August and September 2020, respectively.

5. **Large exposure to contingent liability risks.** Contingent liabilities continue to pose substantial fiscal risks, largely driven by the significant and sustained large scale investments in the hydropower sector. Around one third of total PPG debt (around \$3.5 billion) was onlent to SOEs as of December 2018. The government's participation in large power exporting independent power producers (IPPs) consists of equity financing through SOEs, ranging between 15% and 60% of project costs. In some cases, the government has allowed a security interest over assets to collateralize commercial loans to IPP projects. Moreover, investment projects have been granted large tax exemptions. Such practices erode future revenue and raise questions on the adequacy of diligence in the use of public funds to support infrastructure investments.

6. **Government reform agenda.** In June 2018, the government adopted the Public Debt Management Law. The law aims to gradually reduce the debt burden to 50% of GDP by 2025, guide prudent spending decisions in the medium-term, and usher in an effective public debt management and monitoring system. The law sets out provisions on the strategic plan, direct borrowing procedures, the criteria for government borrowing, and responsibilities and reporting. The government has made some tangible progress by establishing the Public Debt Management Office (PDMO) and developing the capacity of its staff with support from ADB.<sup>9</sup> However, the Ministerial Instructions for implementing the law are yet to be finalized. It is essential that these regulations are informed by international best practice and issued expeditiously. Upgrading of institutional capacity, in terms of financial and human resources, is also required to ensure effective enforcement of the law.

7. **Need for improved public debt management and transparency.** Particular attention must be paid to contingent liability risk management and compliance with the Public Debt Management Law. First, the MOF has no systematic monitoring and reporting of contingent liabilities and SOE debt data. A robust reporting and coordination mechanism has not yet been

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<sup>6</sup> Government of the Lao PDR. 2020. *The National Socio-Economic Development Plan 2021–2025*. Vientiane.

<sup>7</sup> IMF. 2019. [Lao People's Democratic Republic: the 2019 Article IV Consultation—Debt Sustainability Analysis](#). Washington, D.C.

<sup>8</sup> ADB. 2020. [Asian Development Outlook \(ADO\) 2020 Update: Wellness in Worrying Times](#). Manila.

<sup>9</sup> ADB. 2019. [Technical Assistance for Debt Analytics and Technical Capacity Building](#). Manila.

established.<sup>10</sup> Only a few SOEs regularly provided their audited financial statements to the SOE Management and Insurance Department of the MOF, and often with significant delays. Second, Article 52 of the law mandates the MOF to provide and disclose PPG debt data and share such data with the public and international communities. However, the implementing regulations pursuant to the law, which incorporates the criteria, requirements, and responsibilities are still pending. Third, there are no systematic disclosures and exchange of information on PPG with development partners, stakeholders, and the public. Finally, pursuant to Article 34 of the law, SOEs are required to inform the MOF about business plans, financial positions, and debt servicing plans including pledging of assets. They are also required to report to the MOF in the event they are not able to service the debt as planned. However, SOEs have not complied with the law.

8. **ADB experience and value addition.** During preparation of the Public Debt Management Law, the MOF consulted and shared the draft law with ADB to ensure its alignment with the Vision to 2030 and Public Finance Development Strategy to 2025 (footnote 3). This allowed ADB to identify areas to support under its Strengthening Public Finance Management Program (footnote 5). ADB encouraged the MOF to incorporate contingent liabilities, especially onlending and guarantees to SOEs as required by the law, into the reporting and monitoring mechanisms. Moreover, ADB is working with the External Finance and Debt Management Department to design and carry out the public debt management training programs for the MOF technical staff. ADB is supporting the MOF to embrace bilateral and multilateral creditors and donors and development partner communities for coordinated public debt and contingent liability management.<sup>11</sup>

9. **Development partner coordination.** ADB has consulted with development partners including the IMF, Japan International Cooperation Agency (JICA), and the World Bank, to complement their roles in public debt management. The IMF focuses its support on the debt management regulatory framework. The World Bank continues to enhance the DMFAS to provide more comprehensive public debt data recording and reporting. JICA is working with the MOF to provide policy advice on regulations of public debt management. The MOF is leading the preparation of the Action Plan on Public Debt Management and Transparency and the development partner coordination to ensure coordinated support among development partners. ADB coordinated with the IMF to assess the fiscal outlook and risks and continued to monitor the public debt situation. The TA is aligned with the IMF's 2019 Article IV Consultation assessment and recommendations for the Lao PDR (footnote 7).

## B. Proposed Solutions

10. The TA will be aligned with the following impact: sustainable financing of public services for achieving the NSEDP goals (footnote 6). The outcome will be public debt management capacity and transparency enhanced. The TA will have four outputs: (i) implementation of the Public Debt Management Law supported; (ii) governance and transparency of public debt improved; (iii) external debt and contingent liability monitoring, reporting, and management system established; and (iv) capacity in public debt management developed.<sup>12</sup>

11. **Output 1: Implementation of the Public Debt Management Law supported.** The TA will support adoption of regulations to implement the Public Debt Management Law, and provide technical advice to support the public debt management strategies on the government's borrowing

<sup>10</sup> The SOE Management and Insurance Department of the MOF is responsible for audits and financial management of SOEs and, therefore, has mandates for monitoring and tracking of contingent liabilities associated with SOEs.

<sup>11</sup> ADB. 2019. [Technical Assistance for Southeast Asia Public Management, Financial Sector, and Trade Policy Facility](#). Manila.

<sup>12</sup> The preliminary design and monitoring framework is in Appendix.

programs, debt issuance, risk management, and debt servicing, to enable it to fulfill its mandates and functions. It will assist in improving public debt analytics and reporting. The TA will also support improvements in the existing debt management system, including linking it with the proposed contingent liability management system and medium-term expenditure framework.

12. **Output 2: Governance and transparency of public debt improved.** The TA will increase the disclosure of information on public debt and support the publication of public debt information, including contingent liabilities, subject to confidentiality provisions. This output will strengthen coverage and timeliness of public debt reporting under IDA's Debt Sustainability Enhancement Program. The TA will also support the engagement of independent debt management advisors, as well as the Lao PDR's participation in regional debt transparency initiatives. Dialogue and activities on debt transparency will be conducted in cooperation with other development partners to ensure neutrality. The government will lead development partner coordination and convene quarterly development partner meetings to discuss and share progress on public finance management reforms and the public debt situation.

13. **Output 3: External debt and contingent liability monitoring, reporting, and management system established.** The TA will help the SOE Management and Insurance Department of the MOF to establish a contingent liability monitoring and reporting system. The system will record, among others, guaranteed and non-guaranteed borrowings of SOEs and related special project vehicles (SPVs), public-private partnerships used to develop infrastructure, and subnational governments. The system will monitor arrears of SOEs and support assessments relating to fiscal risks from, and financial exposure to, contingent liabilities and SOEs. The system will also record assets and securities pledged against borrowings by SOEs and related SPVs, including their potential implication on existing loan commitments. Reporting of contingent liabilities will be done on a biannual basis. The TA will build upon the existing systems developed by other development partners, such as the DMFAS.

14. **Output 4: Capacity in public debt management developed.** The TA will support capacity development programs on public debt management, including the management of contingent liabilities for relevant staff in the MOF and key SOEs. The TA will likewise help the government explore possible mechanisms for equivalent liens to secure the non-recourse financing of SOEs and/or related project SPVs and provide the necessary capacity-building support. The TA will also support training and workshops for learning and establishing good practices on public debt management, involving other countries and development partners.

### C. Indicative Technical Assistance Budget and Financing Sources

15. The proposed TA budget is \$1.5 million which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7).<sup>13</sup>

### D. Implementation Arrangements

16. The TA will be implemented over 44 months from May 2021 to December 2024. The MOF will be the executing and implementing agency. It will provide office space and support services for consultants. ADB will administer the TA through the Public Management, Financial Sector, and Trade Division of the Southeast Asia Department. ADB will engage the consultants and carry out procurement following the ADB Procurement Policy (2017, as amended from time to time) and its associated staff instructions. The TA will require 70 person-months in total (40 international

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<sup>13</sup> Financing of the TA will be sought from the TASF 7 Public Debt Management Set-aside.



and 30 national) of individual consultants' inputs. Indicative implementation arrangements are summarized in Table 1.

**Table 1: Indicative Implementation Arrangements**

Aspects	Arrangements		
Indicative implementation period	May 2021–December 2024		
Executing agency	Ministry of Finance		
Implementing agency	Ministry of Finance		
Consultants	Package title	Selection method	Engaged by
	Individual: International (40 person-months)	Individual consultant selection	ADB
	Individual: National (30 person-months)	Individual consultant selection	ADB
Procurement	Procurement of goods and services will follow the ADB Procurement Policy (2017, as amended from time to time) and its associated staff instructions.		
Disbursement	Disbursement of TA resources will follow ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		

ADB = Asian Development Bank, TA = technical assistance.

Source: Asian Development Bank.

## II. DELIBERATIVE AND DECISION-MAKING ITEMS

### A. Risk Categorization

17. The TA is categorized as *low risk* since ADB financing does not exceed \$1,500,000, as outlined in the staff instruction on business processes for knowledge and support TA.

### B. Scope of Due Diligence

18. The following items will be prepared and appended to the ensuing TA paper: (i) detailed implementation arrangements and budget; and (ii) terms of reference of consultants.

### C. Processing Schedule

19. The processing schedule by milestone is in Table 2.

**Table 2: Processing Schedule by Milestone**

Milestones	Expected Completion Date
1. Memorandum of understanding on Strengthening Debt Management and Promoting Debt Transparency signed	January 2021
2. TA concept paper approved	April 2021
3. Fact-finding completed	April 2021
4. TA approved	May 2021
5. TA letter signed	May 2021

TA = technical assistance.

Source: Asian Development Bank.



Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
3. External debt and contingent liability monitoring, reporting, and management system established	<p>coordination meetings on public debts convened by the MOF (2020 baseline: no annual development partner coordination meetings on public debt management convened)</p> <p>3a. At least 7 biannual reports on contingent liabilities prepared and disseminated by the MOF (2020 baseline: no contingent liability reports prepared and disseminated) (OP 6.1.1, 6.1.4)</p>	<p>proceedings</p> <p>3a. MOF Reports</p>	
4. Capacity in public debt management developed	<p>4a. At least 50 technical staff of MOF trained on public debt management and contingent liability risk management (2020 baseline: no technical staff of the MOF trained) (OP 6.1.1, 6.1.4)</p>	<p>4a. MOF Training Reports</p>	

### Key Activities with Milestones

#### 1. Implementation of the Public Debt Management Law supported

- 1.1 Identify the regulatory gaps for implementing the Public Debt Management Law and support development of the medium-term public debt management strategies (June 2021)
- 1.2 Engage international and national consultants (July 2021)
- 1.3 Prepare implementing regulations of the Public Debt Management Law and the medium-term public debt management strategies, including strengthening the existing public debt management systems (September–December 2021)

#### 2. Governance and transparency of public debt improved

- 2.1 Consult with the MOF and relevant development partners on the contents and structures of quarterly public debt reports and development partner coordination meetings (June 2021)
- 2.2 Engage a team of consultants to support the MOF for the secretariat functions (July 2021)
- 2.3 Publish and disseminate annual public debt reports and annual development partner coordination meetings on public debt management convened by the MOF (September 2021–December 2024)

#### 3. External debt and contingent liability monitoring, reporting, and management system established

- 3.1 Identify the requirements for enhancement of public debt management systems for contingent liability monitoring and reporting in consultation with the MOF (August 2021)
- 3.2 Engage international and national consultants (September 2021)
- 3.3 Prepare and disseminate biannual reports on contingent liabilities (September 2021–December 2024)

#### 4. Capacity in public debt management developed

- 4.1 Identify policy and capacity gaps of the MOF and relevant government agencies in public debt management (June–August 2021)
- 4.2 Engage international and national consultants (September 2021)
- 4.3 Design and carry out training courses and workshops for technical staff of the MOF (September 2021–December 2024)

**Inputs**

ADB: \$1,500,000 (TASF 7)

Note: The government will provide counterpart support in the form of counterpart staff, office supplies, and other in-kind contributions.

ADB = Asian Development Bank, FPBS = Fiscal Policy and Budget Statement, GDP = gross domestic product, IMF = International Monetary Fund, MOF = Ministry of Finance, OP = operational priority, R = risk, TA = technical assistance, TASF = Technical Assistance Special Fund.

<sup>a</sup> Government of the Lao PDR. 2020. The National Socio-Economic Development Plan (NSED) 2020–2025. Vientiane.

Note: Contribution to Strategy 2030 Operational Priorities: In the Technical Assistance Report, the expected values and methodological details for all OP indicators to which this TA will contribute results will be provided in the Contribution to Strategy 2030 Operational Priorities linked document.

Source: Asian Development Bank.