

# **Improving the Efficiency of Government Expenditure in Lao PDR**

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# Outline

- I. Introduction
- II. Literature Reviews
- III. The Lao Economy
- IV. Empirical Findings and Assessment of the Efficiency of Government  
Expenditure in Lao PDR
- V. Policy Recommendations
- VI. Conclusion

# I. Introduction

- **Purpose of this study**

To find ways to improve the efficiency of government expenditure in Lao PDR in order to contribute to achieving the goals to be set by the 9<sup>th</sup> Five-Year National Socio-Economic Development Plan.

- **Motivation**

- Limited fiscal resources available for Lao government.
- Fiscal consolidation.
- Little study in developing countries as well as Lao PDR.

## **II. Literature Reviews**

### **1. Concept of the efficiency and effectiveness of government expenditure**

- Ulrike Mandl, Adriaan Dierx, Fabienne Ilzkovitz, 2008.

### **2. How to measure the efficiency and effectiveness**

- Ulrike Mandl, Adriaan Dierx, Fabienne Ilzkovitz, 2008.

### **3. The environmental factors (exogenous factors)**

- Ulrike Mandl, Adriaan Dierx, Fabienne Ilzkovitz, 2008.
- M. St. Aubyn, 2007

## **II. Literature Reviews**

### **4. The public finance management**

- Berkeley Hirsch, 2017

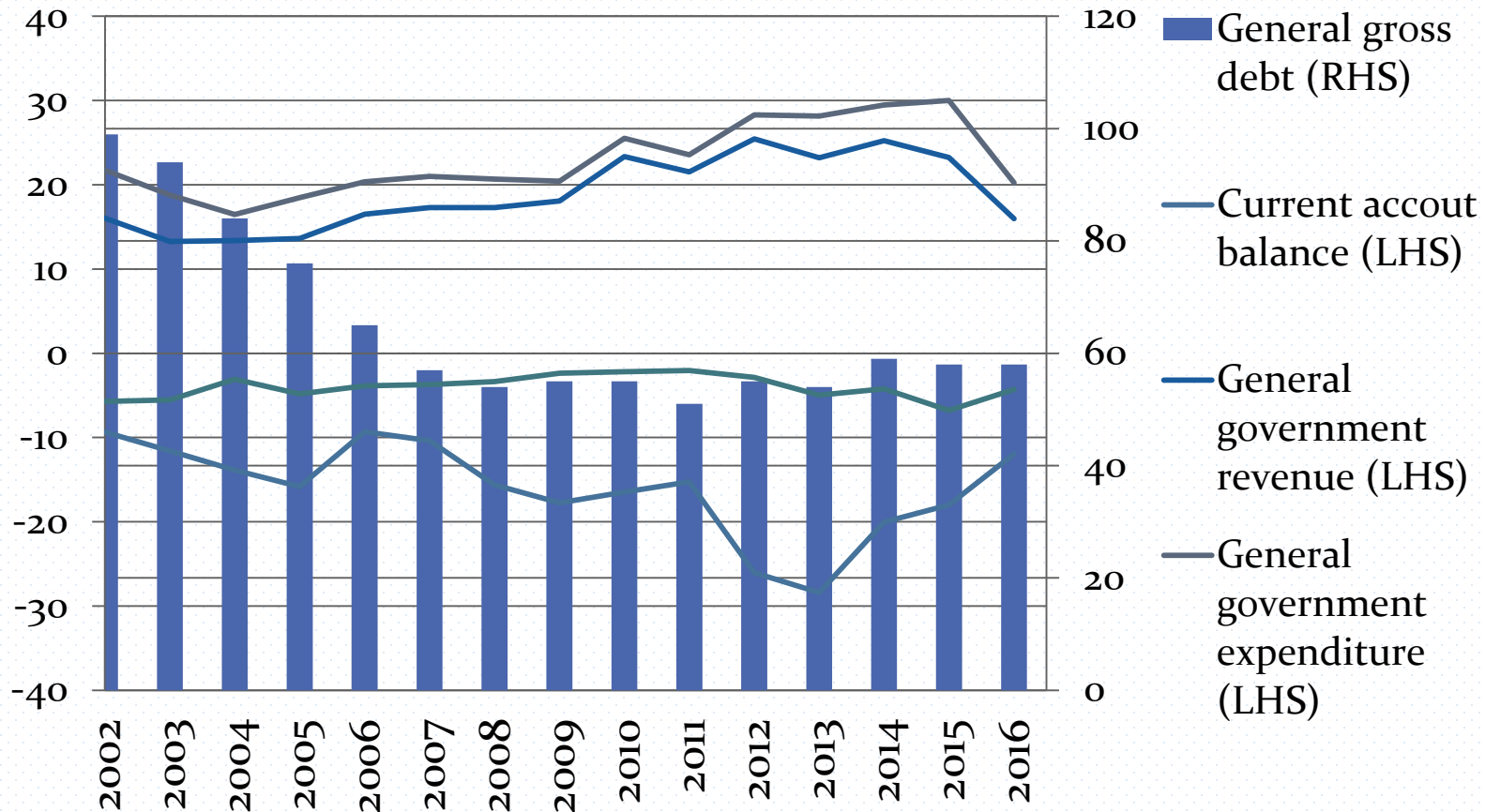
### **5. The composition of government expenditure**

- Gemmell et al. (2014)

### **6. The human capital expenditure**

# III. The Lao Economy

Lao PDR: General Government Operation

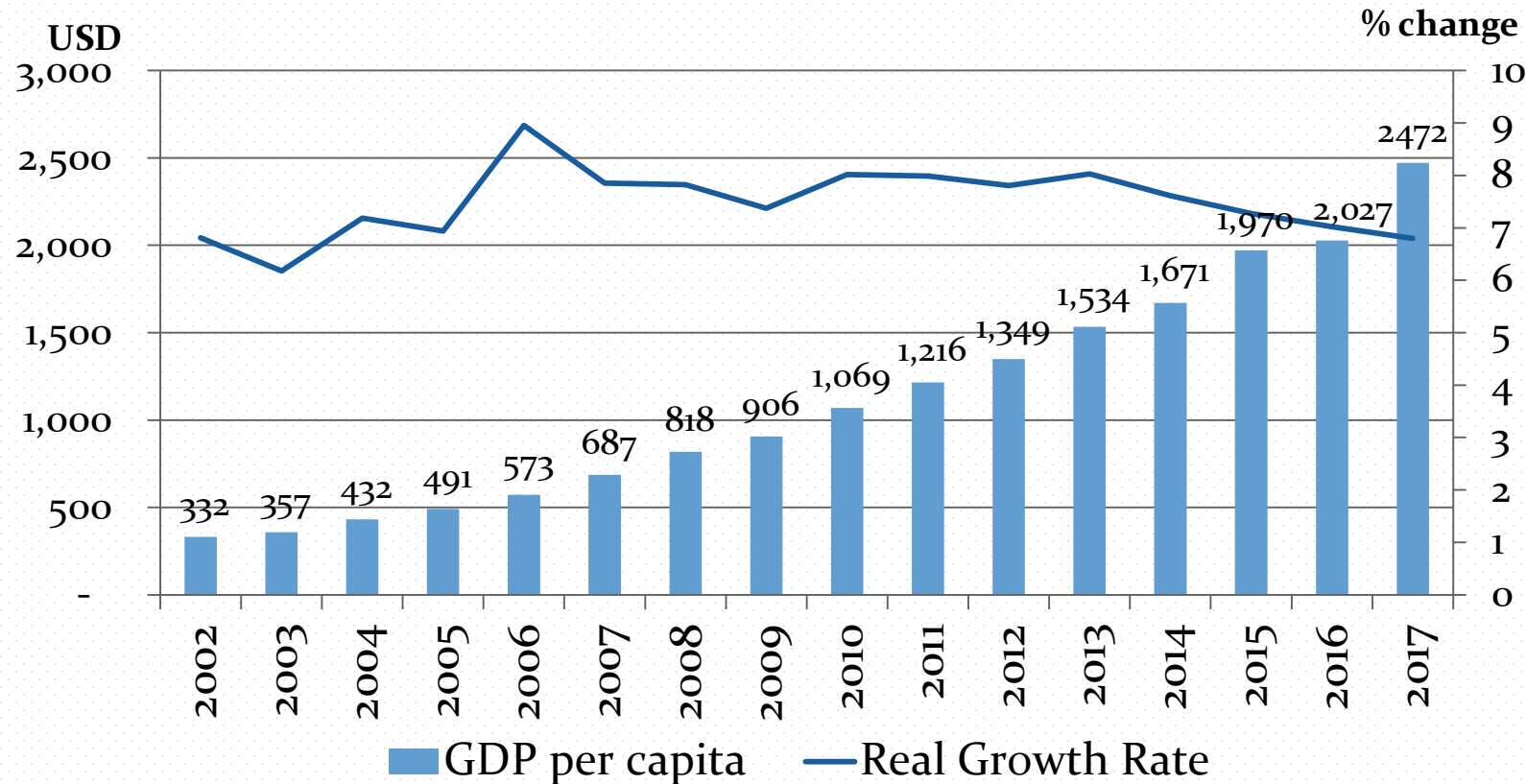


Source: IMF: WEO Database.

- Lao economy constrained by a negative saving-investment gap, which leads to twin fiscal and external current account deficit over past years.
- Current account deficit was driven by the deficit in the trade balance, which needs to be financed by capital flows.
- Expected productivity gains could lead to a current account surplus.

### III. The Lao Economy (cont.)

Lao PDR: Real Growth Rate and GDP per capita



- GDP growth has increased continuously over the past ten years due to external factors.
- 2008-2012 growth has slightly declined due to the global economic crisis.
- From 2013 GDP growth has shown a slowdown trend due to the impact of external and internal factors.
- GDP per capita has continuously increased over the past years.

Source: Ministry of Planning and Investment, Laos and IMF:WEO Database.

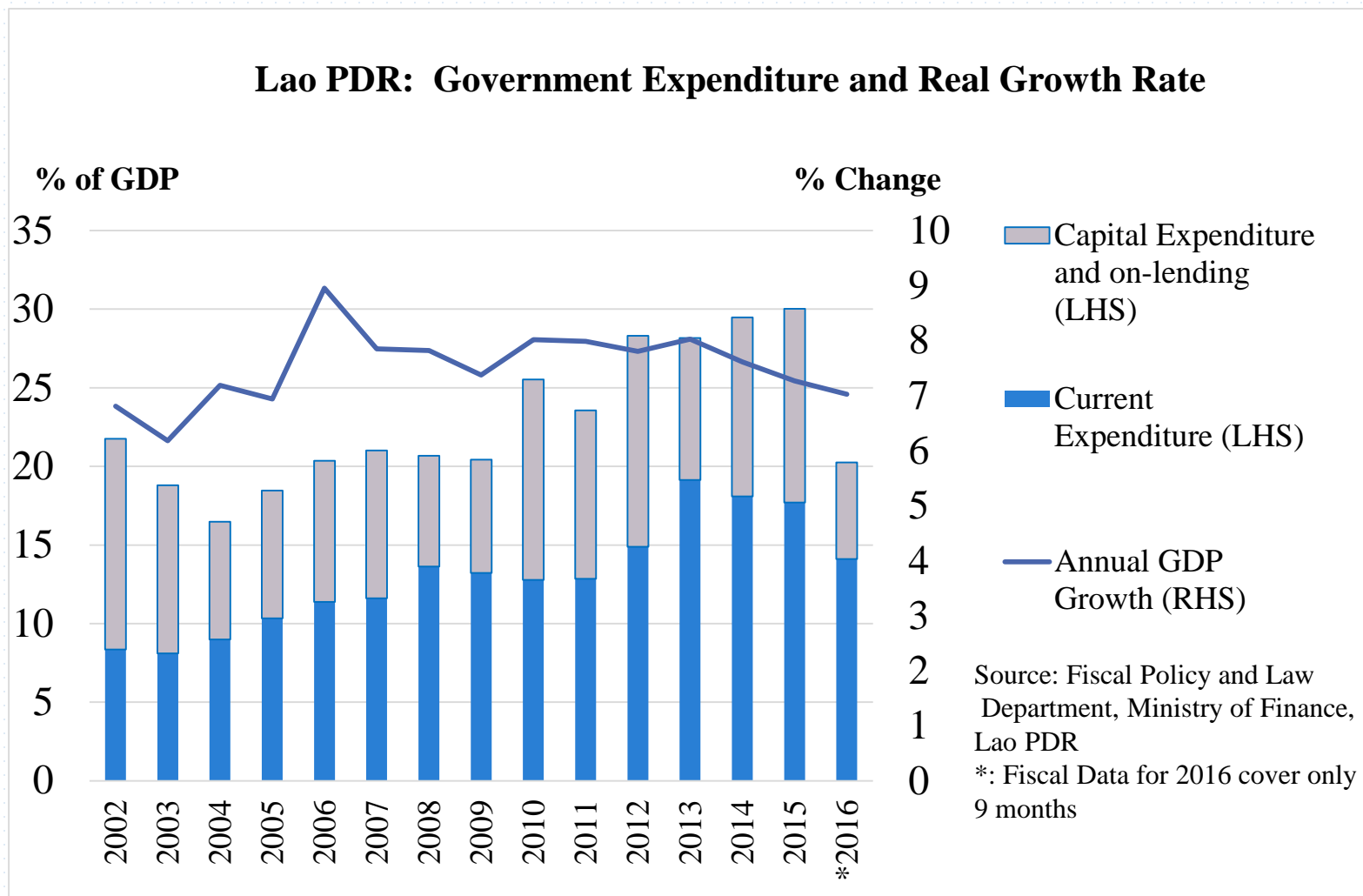
## **IV. Empirical Findings and Assessment of the Efficiency of Government Expenditures in Lao PDR**

By using the historical fiscal data, this paper analyzes and assesses how government expenditure contributes to economic growth via three approaches:

1. The government expenditure and economic growth;
2. The government expenditure components and economic growth;
3. The government debt cost and economic growth.



# 1. The Government Expenditure and Economic Growth



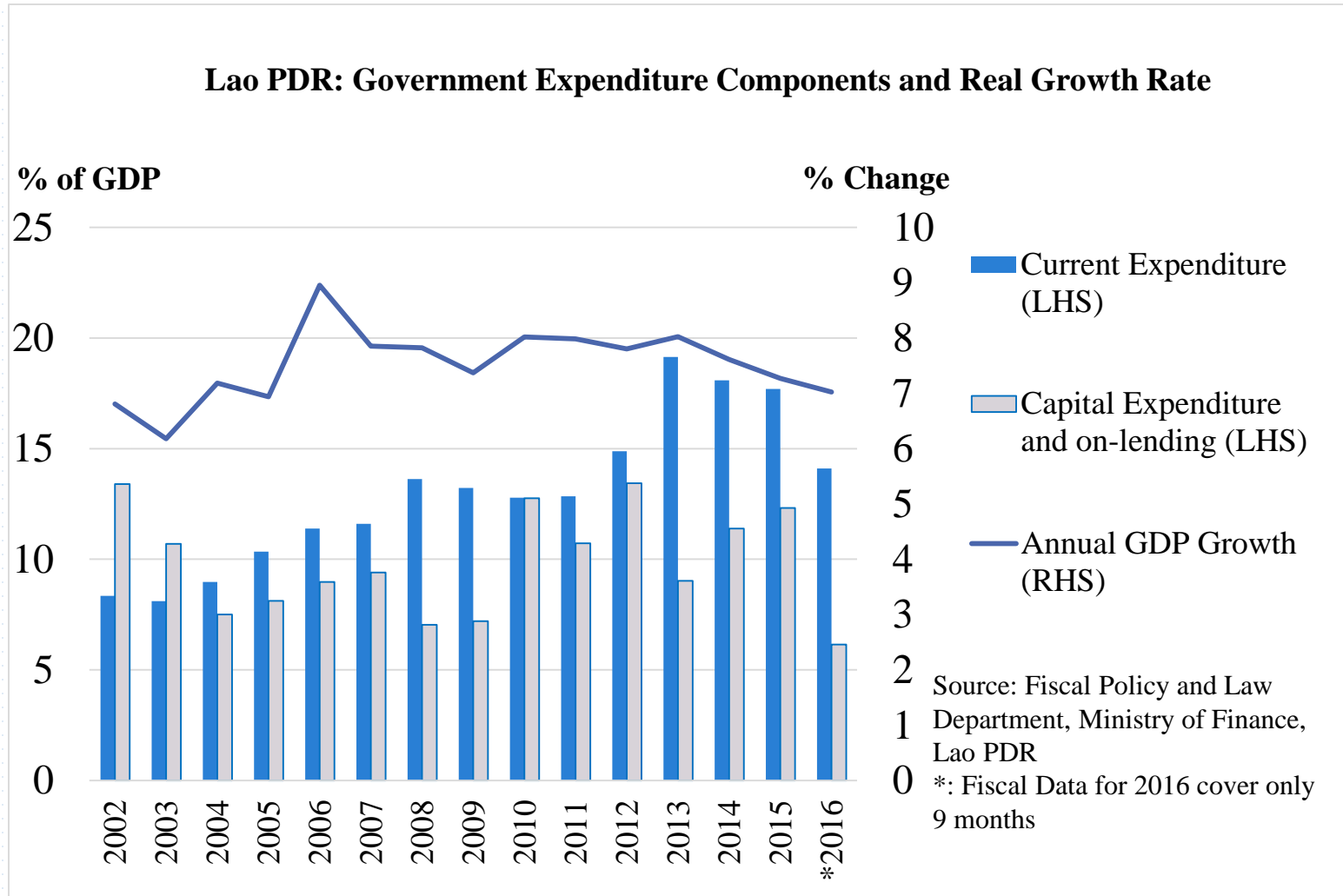
- During 2005-2007, government expenditure showed an increasing trend in line with the jump in the growth rate.
- During 2008-2012, government expenditure has continuously increased while the growth rate has slightly declined due to the impact of the global economic crisis.
- The rapid increase in government expenditure in 2012-2013 caused fiscal trouble in the following years.

## 1. The Government Expenditure and Economic Growth (cont.)

### Key findings:

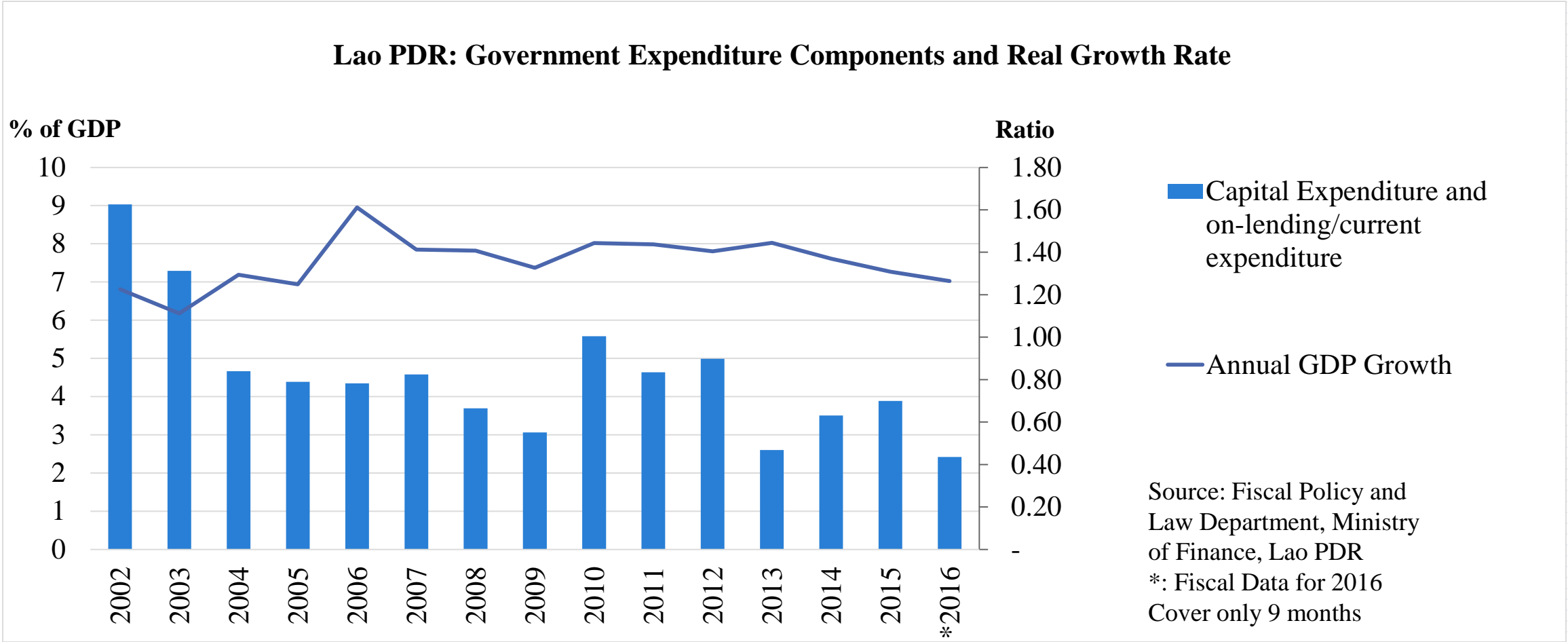
- The share of government expenditure to the real growth rate was assessed widely in order to find in-depth correlation.
- The growth rate was affected by various factors.
- This approach could not provide a definitive answer.

## 2. The Government Expenditure Components (%) and Economic Growth

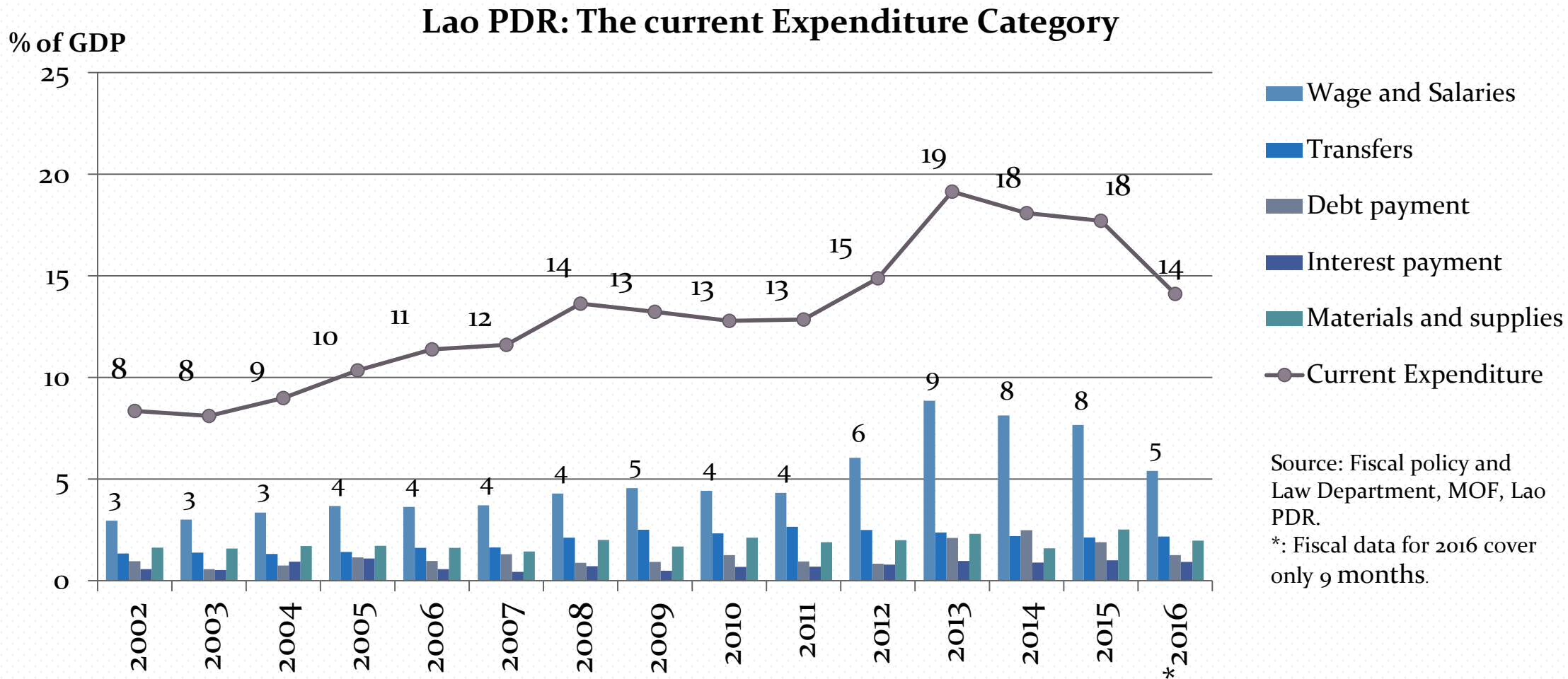


- Government expenditure was driven by current expenditure rather than capital expenditure over the past 10 years.
- As a share of total expenditure, current expenditure increased from 38% in 2002 to 70% in 2016, while capital expenditure decreased from 62% in 2002 to 30% in 2016.

## 2. The Government Expenditure Components (Ratio) and Economic Growth

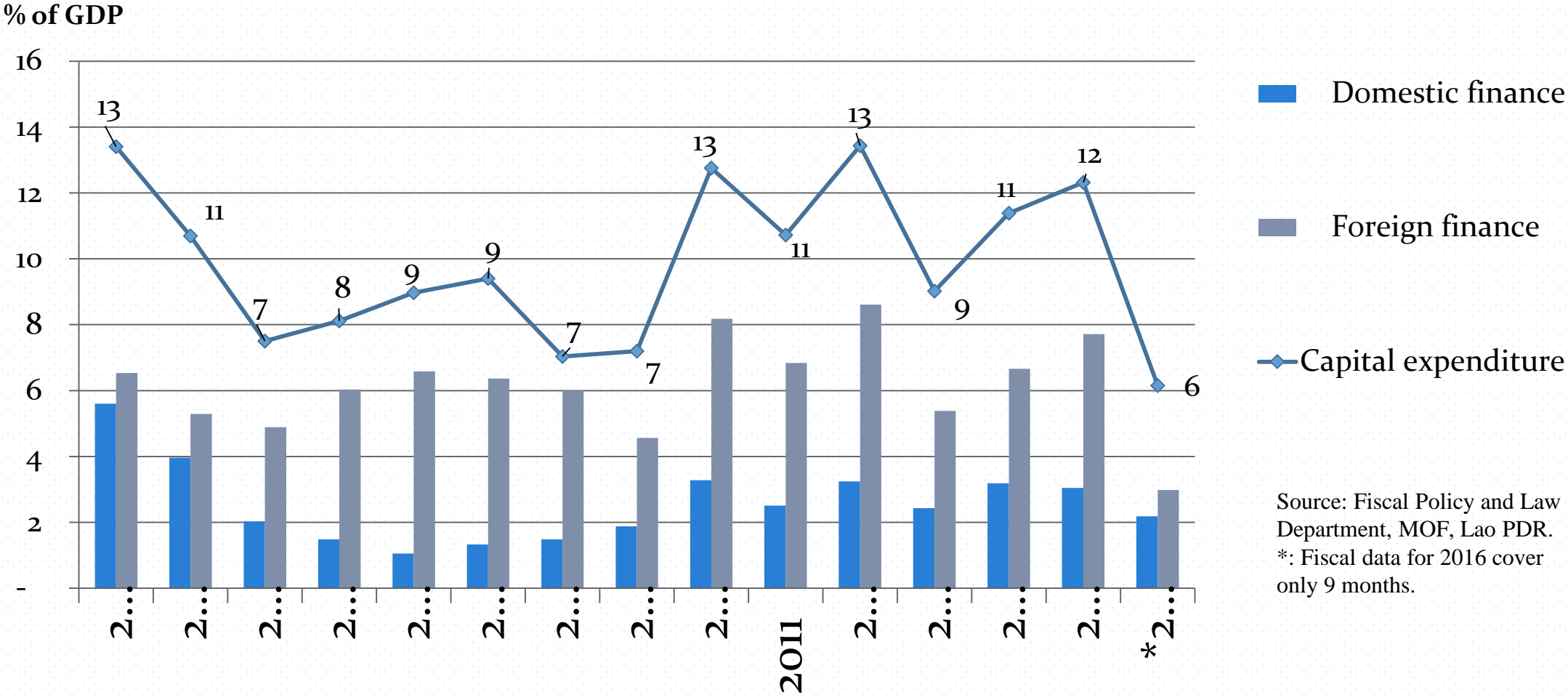


## 2.1. The Current Expenditure Category



# 2.2. The Capital Expenditure Category

Lao PDR: The Capital Expenditure Category

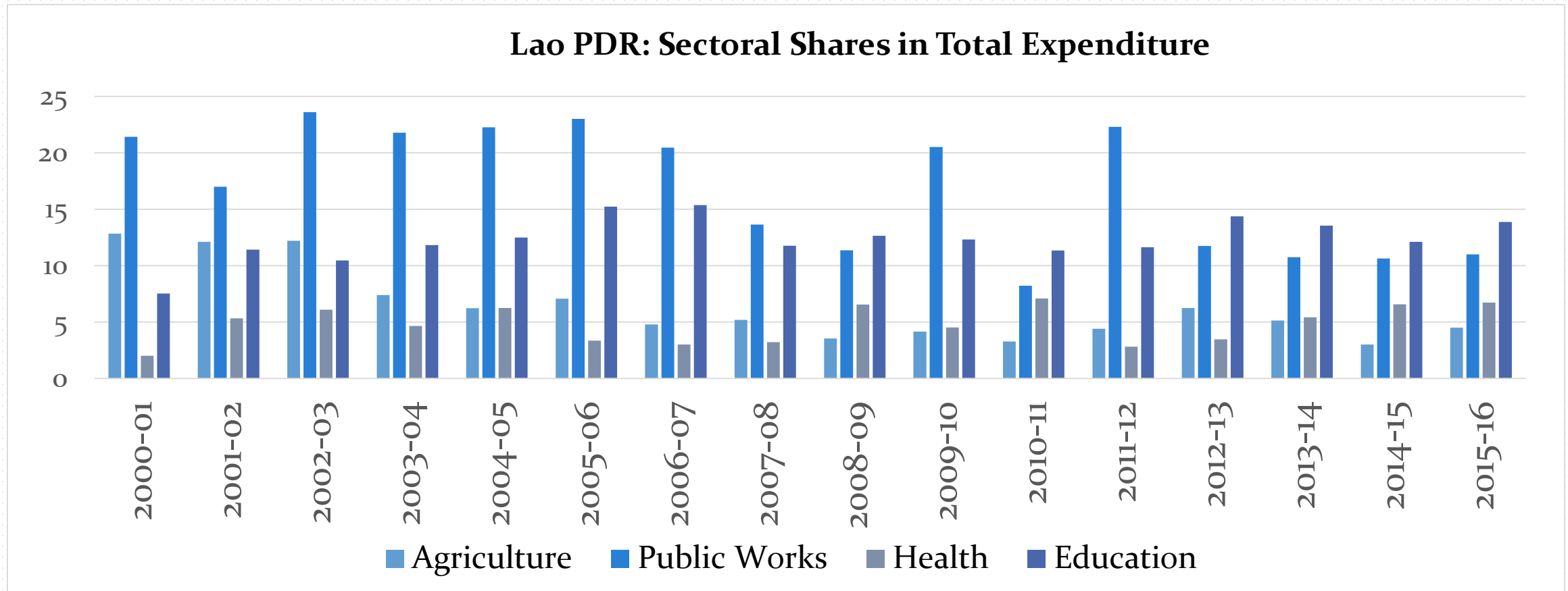


# The Government Expenditure Components and Economic Growth

## Key findings:

- The data could not identify any in-depth causality in the level to which the two components contributed to economic growth.
- In theory, both components have different impacts on growth.
- To develop the country by achieving productivity gains in the future, the country needs to allocate resources for investment (capital expenditure).
- Maintaining the same level of current expenditure and allocating more on capital expenditure might be considered.

## 2.3. Key Sectoral Shares in Total Expenditure

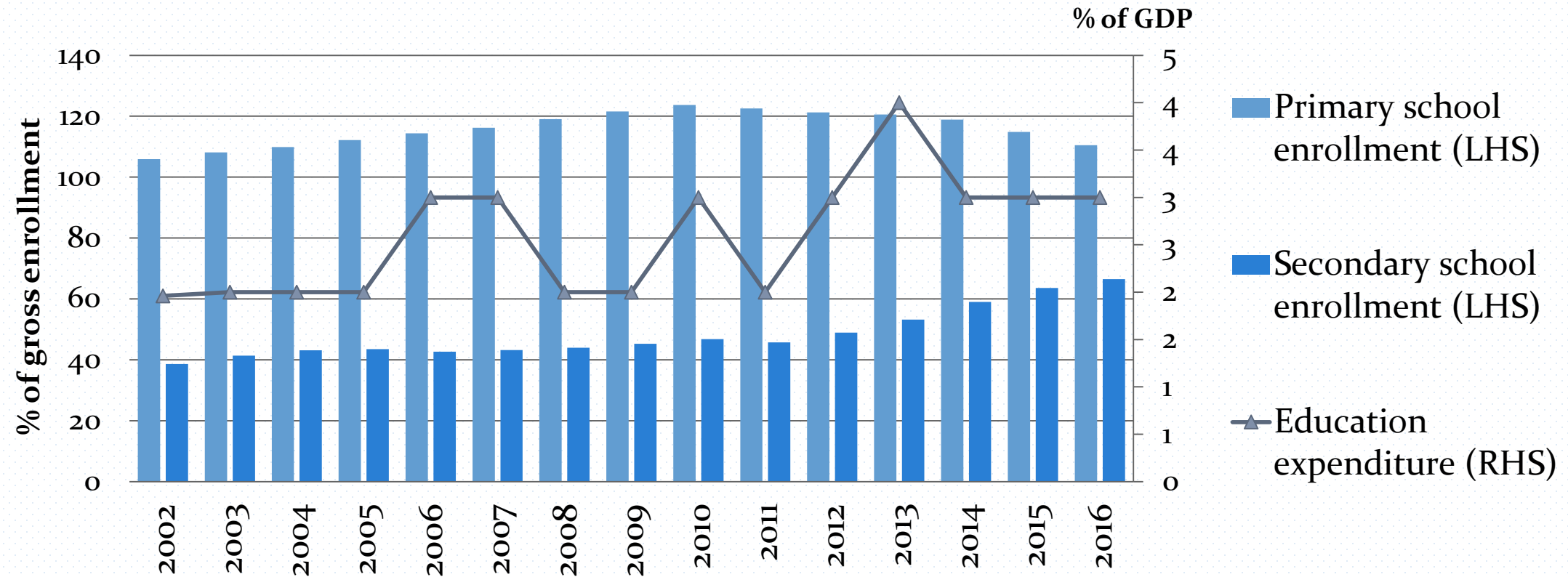


*Source: Lao Official Gazette, Ministry of Finance*



## 2.4. Government Expenditure on Education and Primary and Secondary School Enrollment by Gross Enrollment Ratio

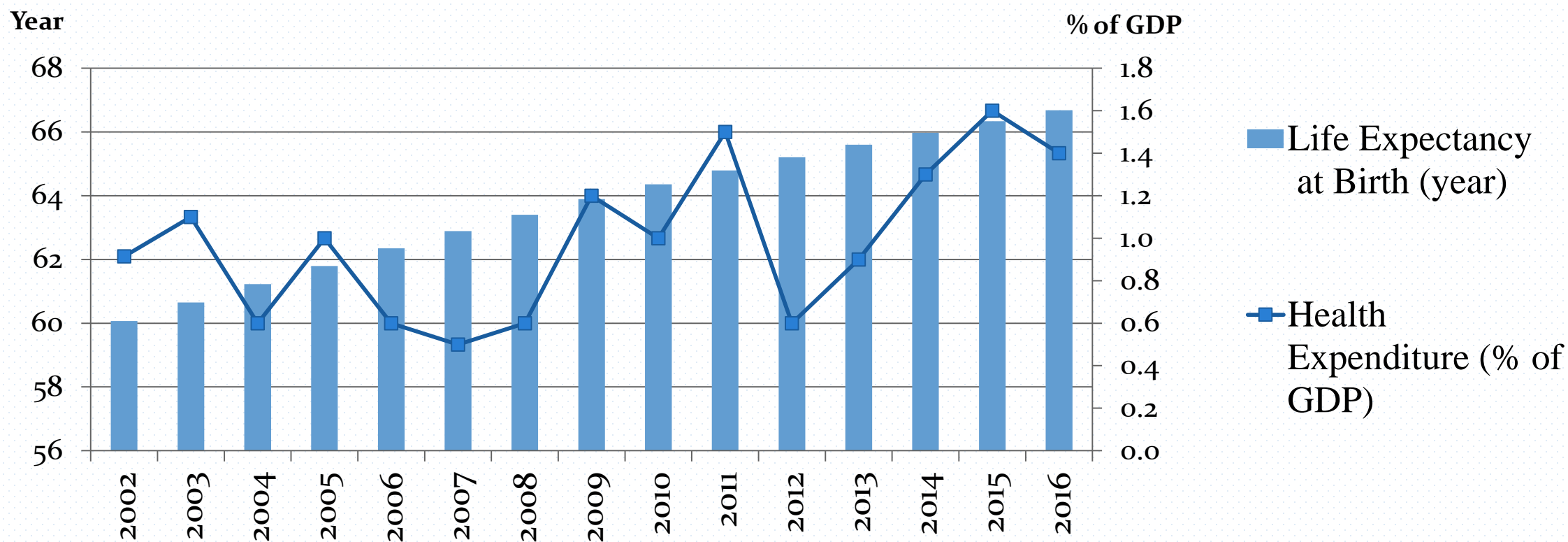
Lao PDR: Primary and Secondary School Enrollment of Gross Enrollment Ratio



Source: Lao Official Gazette, Ministry of Finance and IMF:WEO Database.

## 2.5. Government Expenditure on Health and Life Expectancy at Birth and Health Expenditure

### Lao PDR: Life Expectancy at Birth and Health Expenditure



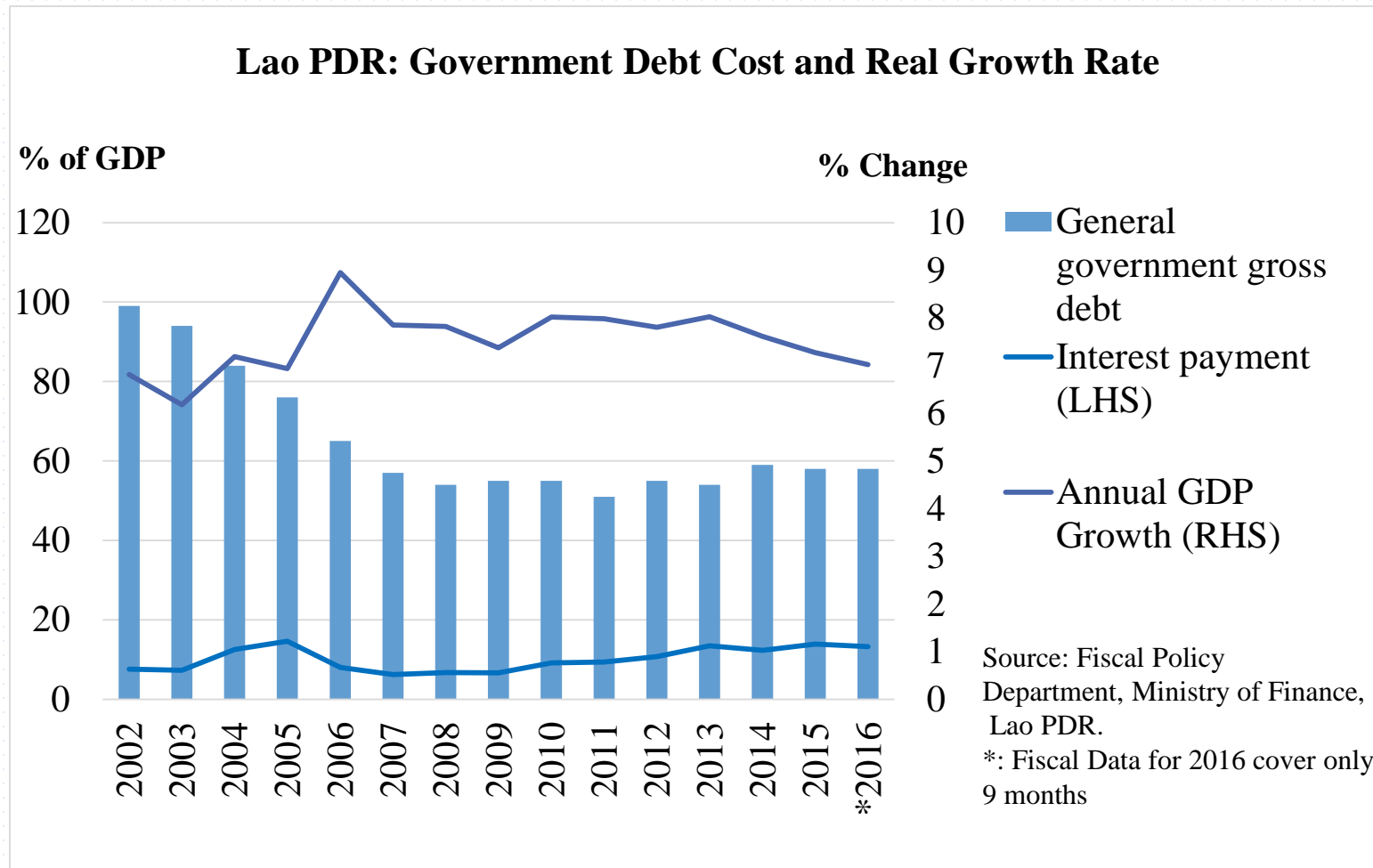
Source: Lao Official Gazette, Ministry of Finance and IMF:WEO Database.

# Key Sectoral Shares in Total Expenditure

## Key finding:

- The trend of government expenditure in the education and health sectors in the share of GDP and their outputs shows a broad relationship.
- The output of the education and health sectors could not be said to relate only to the size/level of government expenditure on both sectors.
- They might be influenced by exogenous factors.

### 3. Government Debt Cost and Economic Growth



- Government gross debt was about 58% of GDP at the end of 2016.
- High debt implies higher cost for the government.
- Interest rate started to slightly increase due to repayment of both domestic and external debt.

# Overall Findings

- Laos has a negative saving-investment gap.
- An increase in investment (capital expenditure) leads to an increase in borrowing.
- High debt implies higher cost for government (interest payment), which will lead to rising government current expenditure, then rising total government expenditure.

At this stage, while Laos still has limited resources and relies on external borrowing, the borrowed funds must be used for productive investment, whereby the government can gain returns that exceed the cost or the highest return for social and economic benefit.

## **V. Policy Recommendations**

### **1. Strengthened project selection process**

- Emphasis on borrowed funds used productively with returns exceeding the costs.
- Development of a comprehensive financial management system.
- Strict project inspection and effective assessment.
- Enhancing all government investment project procedures under the Public Procurement Law.

## V. Policy Recommendations (cont.)

### 2. Improvement of the priority exogenous factors

- **Government institution:**

- tax administration and expenditure management must be developed with the help of a higher level of technology and staff skills and of overall governance system with greater accountability and transparency.

## V. Policy Recommendations (cont.)

- **Public finance management:**
  - Development of the Medium-Term Fiscal Framework;
  - Development of the Medium-Term Expenditure Framework;
  - Development of a public debt management strategy and secondary legislation;
  - Having clear responsibilities between the Ministry of Finance and the budgetary units (line ministries) in terms of budget execution;
  - Consideration to reform the budget structure between current and capital expenditure more appropriately.



## V. Policy Recommendations (cont.)

- **Human resource management:**
  - Human capacity building is of key importance.
  - Prepare the job description and criteria of each position.
  - Conduct training for specific sectors particularly in the tax administration sector and the budgetary sector.

## **V. Policy Recommendations (cont.)**

### **3. Improvement of efficiency measurement of government expenditure**

- Development and improvement of reliable measurements of input, output and outcomes of the government expenditure.
- Development of the quality database.

## VI. Conclusion

- This paper finds that the assessment of the efficiency of government expenditure by looking only at the contribution of government expenditure to real growth rate could not provide a definitive answer.
- The fiscal constraints of Lao PDR might be an obvious finding that is linked to the efficiency of government expenditure on how we can allocate limited fiscal resources and spending more efficiently.

## VI. Conclusion (cont.)

- The borrowed funds must be used for productive investment, whereby the government can gain returns that exceed the cost or obtain the highest returns for social and economic benefits.
- Strengthened project selection process, improvement of priority exogenous factors and improvement of reliable efficiency measurements of government expenditure are the possible policy recommendations for the medium to long-term.

**Thank You**  
**Q and A**