

Improving Domestic Revenue Mobilization in Lao PDR

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Presentation Outline

- 1. Introduction**
- 2. Literature Reviews and Case Studies**
- 3. Lao Economy and Public Finance**
- 4. Assessment of Domestic Revenue Mobilization in Lao PDR**
- 5. Conclusion and Recommendation**

1. Introduction

- **Objectives of this study**

- To assess what **has** been done and what needs to be enhanced related to domestic revenue mobilization in Lao PDR to fund the National Socio-Economic Development Plan and graduate from the Least Developed Country status

- **Motivation**

- Enhancing tax reform is essential to ensure the needs for improvement in the future of tax administration and **to** ensure that tax revenue collection increases to GDP
- Domestic revenue collection was in downward trend compared to GDP in recent years in Lao PDR
- Uncertain prospects for Official Development Assistance (ODA)
- Currently rising trend of public debt in Lao PDR

2. Literature Reviews and Case Studies

- **Concept of domestic revenue mobilization**

- European Commission

- What is domestic revenue/resource mobilization (DRM)?

- DRM refers to the generation of government revenue from domestic sources, from tax or non-tax sources (royalties, licenses, levies or other income)

- Domestic revenue creates additional space for sustainable budget expenditures, **fostering** ownership and **reducing** dependency on external assistance

- United Nations, 2015.

- Addis-Ababa Action Plan

- Akitoby, Bernardin, Anja Baum, Clay Hackney, Olamide Harrison, Kerya, Primus, and Veronique Salins, 2018.

- Junquera-Varela, Raul Felix, Marijn Verhoeven, Gangadhar P. Shukla, Bernard Haven, Rajul Awasthi, and Blanca Moreno-Dodson 2017,

- World Bank, 2017.

2. Literature Reviews and Case Studies (cont.)

- **Case Studies**

- Akitoby, Bernardin, Jiro Honda, Hiroaki Miyamoto, Keyra Primus, and Mouhamadou Sy, 2019.
 - 7 low-income countries: Burkina Faso, The Gambia, Maldives, Mauritania, Rwanda, Senegal, and Uganda.
- United States Agency International Development (USAID), 2018.
 - 5 developing countries: Afghanistan, Bosnia and Herzegovina, Nepal, the Philippines, and Rwanda.

2. Literature Reviews and Case Studies (cont.)

- **Analytical Tools and Techniques**

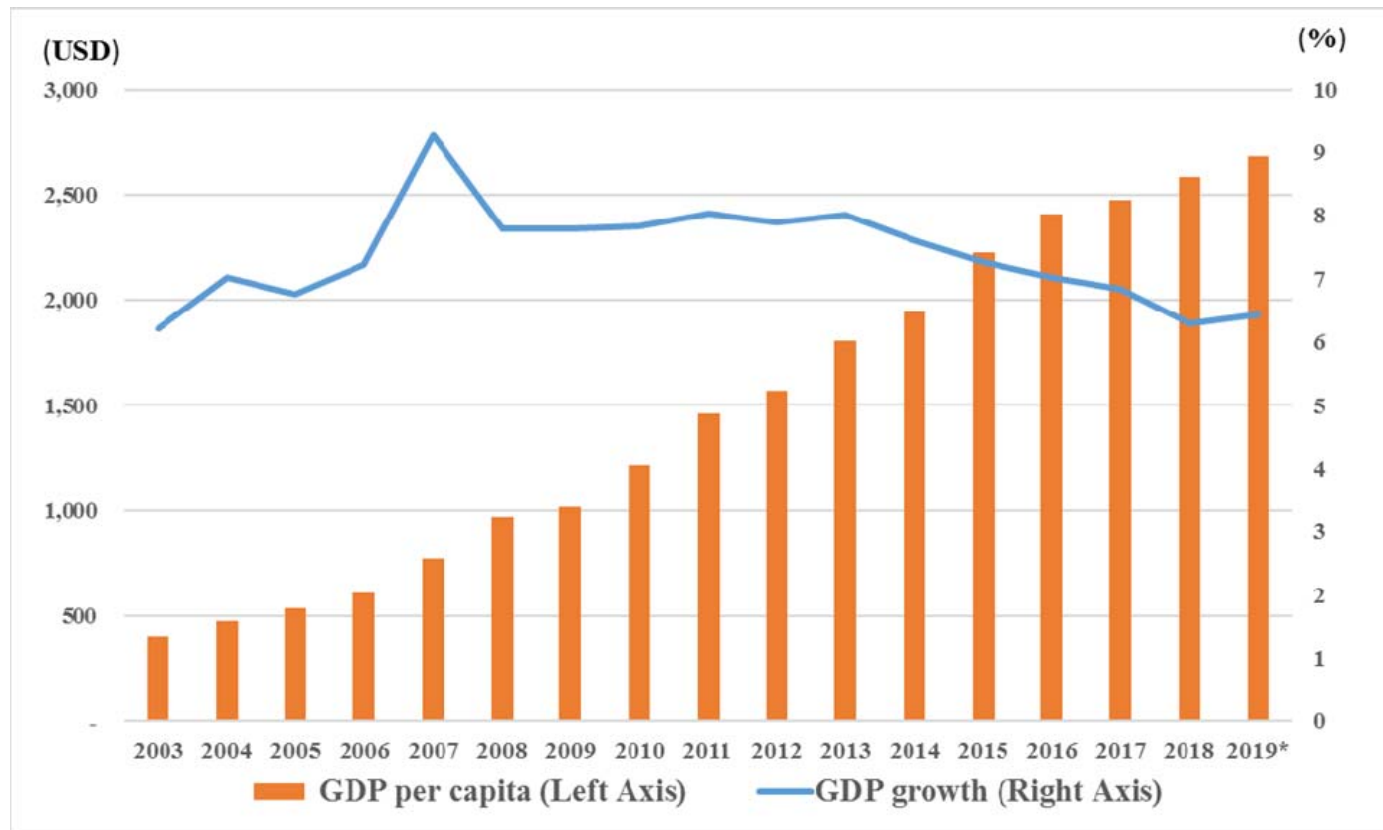
- Le, Tuan Minh, Leif Jensen, G.P. Shukla, and Nataliya Biletska, 2016.

- ❑ Five types of tools and techniques for assessing DRM in developing countries
 - ✓ Profile analysis
 - ✓ Trend analysis
 - ✓ Composition analysis
 - ✓ Tax revenue deviation analysis
 - ✓ Efficiency and incidence analysis
 - Also, taxes/revenues analysis if levying at central government level and their share in total revenue is significant
 - ❑ Revenue performance and forecasting of revenues serve three **related** budgetary purposes:
 - ✓ Short-term cash management within a financial year
 - ✓ Medium-term budgeting
 - ✓ Tax expenditure forecasting

3. Lao Economy and Public Finance

3.1 Lao economy

- Real growth rate and GDP per capita

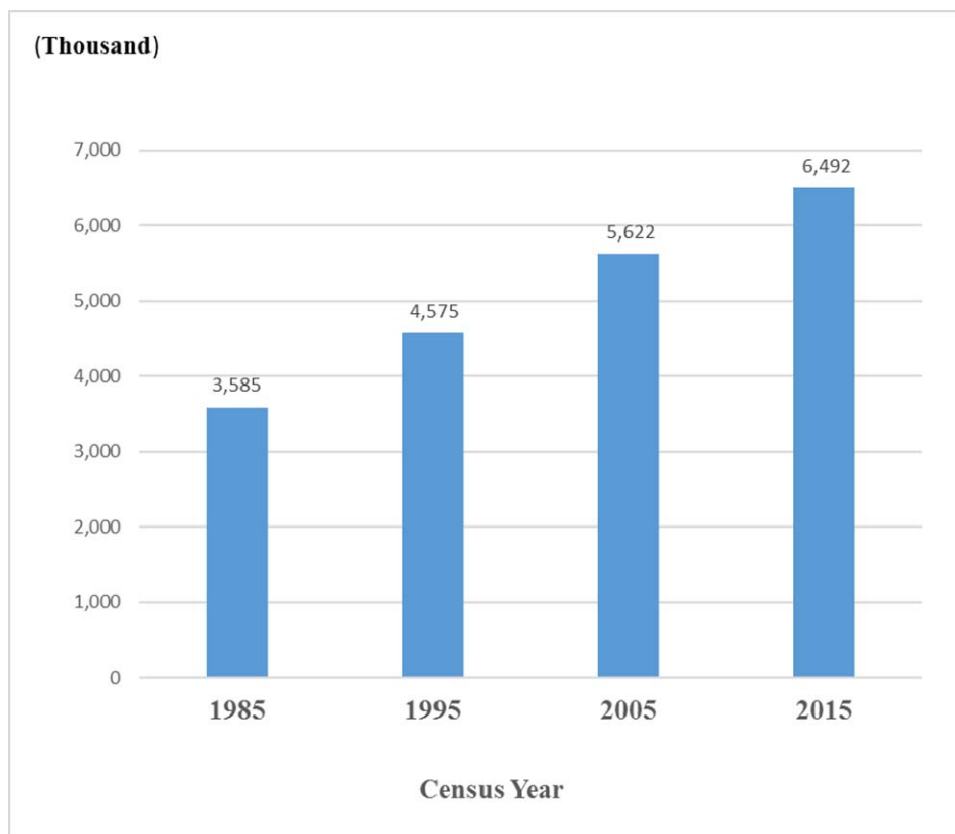


- Lao economy started the economic reform process in 1986 under the New Economic Mechanism.
- GDP growth has continuously increased, due to external capital inflow and mining product exports
- From 2008 growth has slightly decreased, due to global economic crisis, external and internal factors
- The real GDP growth per capita has continuously increased year by year.

Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR, and IMF (WEO, April 2019)

3.1 Lao Economy (cont.)

• Population Growth



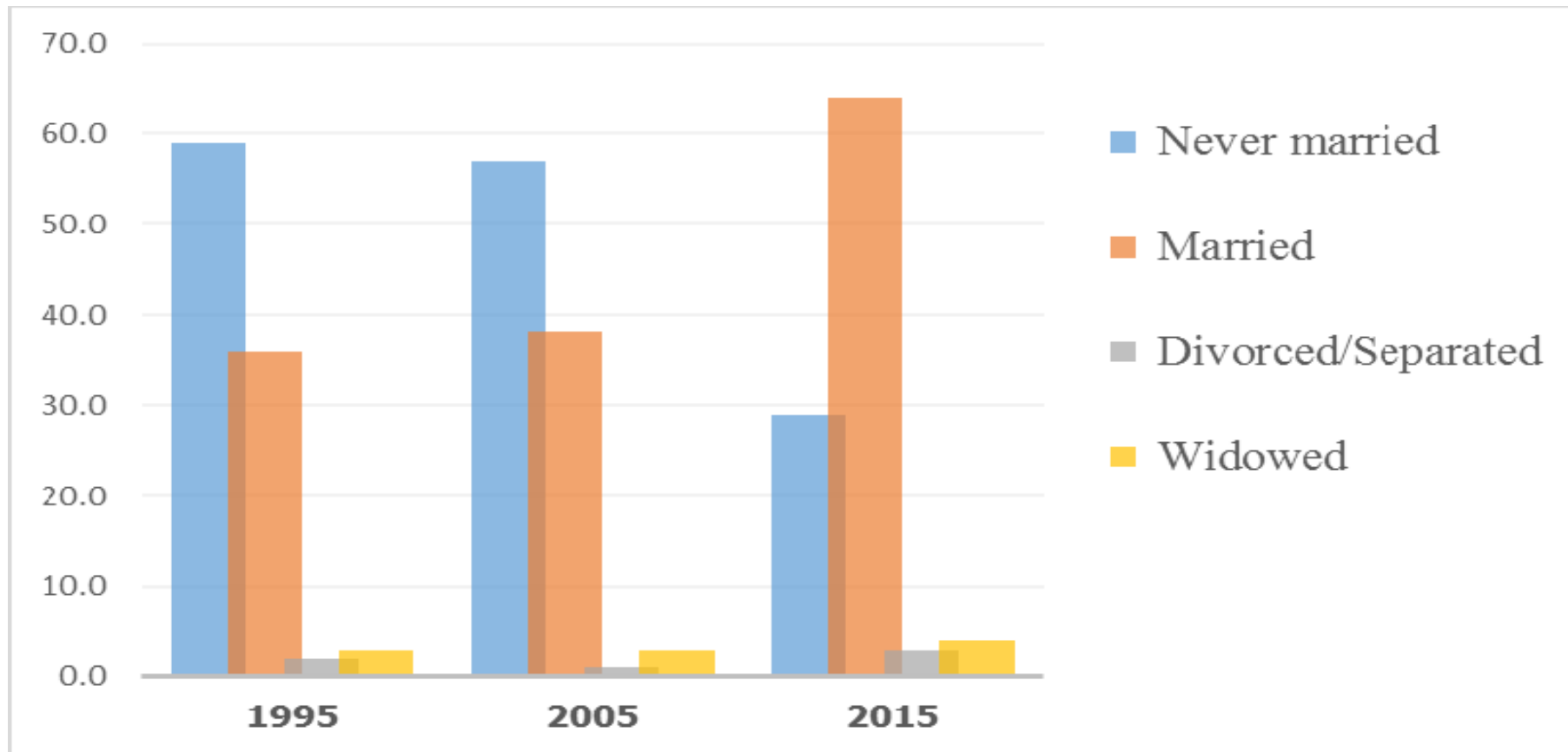
Census Year	Enumerated Population	Average Annual Growth Rate Between PHCs (%)
1985	3,584,803	2.47
1995	4,574,848	2.08
2005	5,621,982	1.45
2015	6,492,228	

- The population growth has continuously increased over past thirty years
- Population and Housing Census (PHC)

Source: Report Census and Survey, Lao Statistics Bureau, 2015

3.1 Lao Economy (cont.)

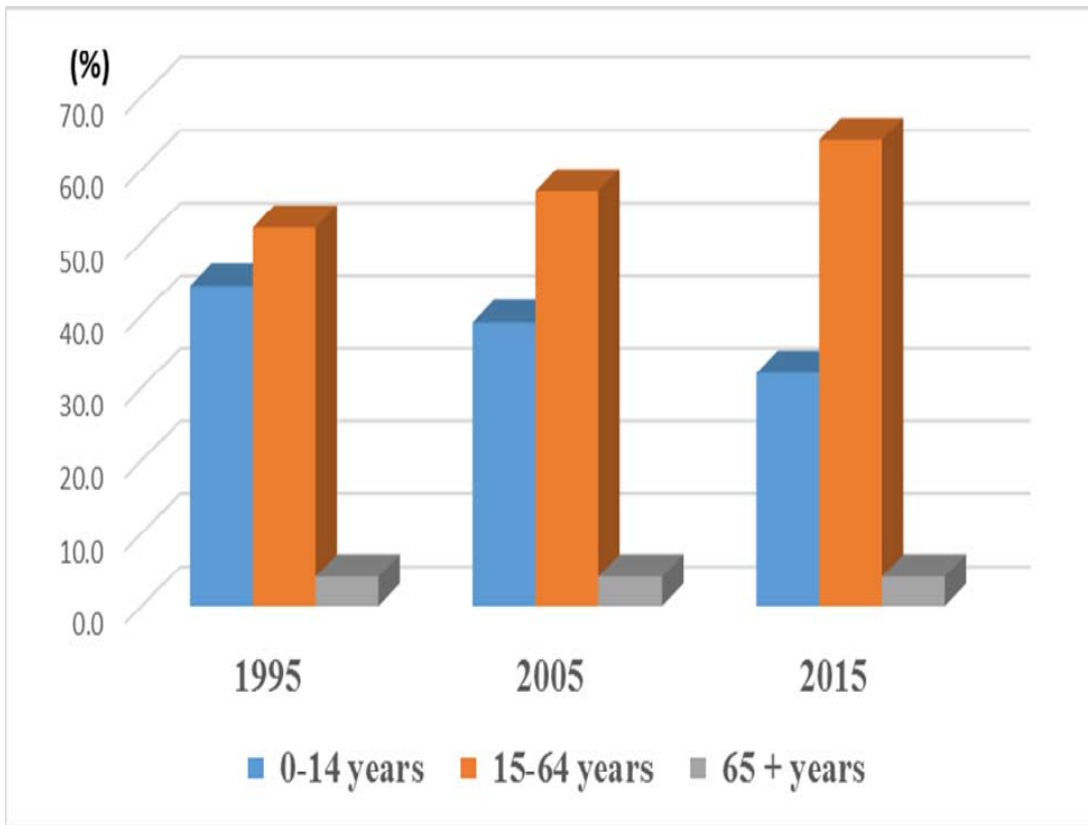
- Married Status percent of the Population



Source: Report Census and Survey, Lao Statistics Bureau, 2015

3.1 Lao Economy (cont.)

• Age composition and pyramid of the Population



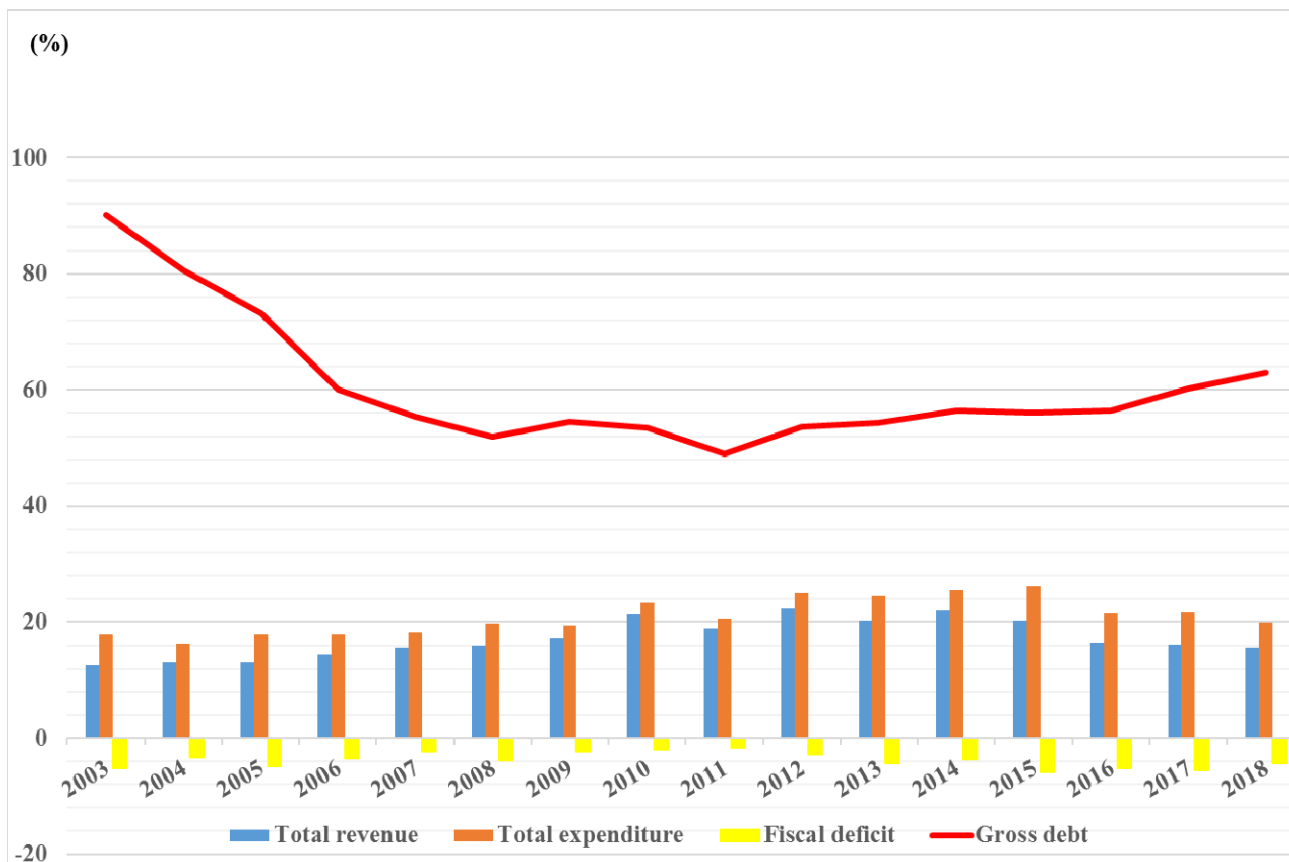
- ❑ The sex ratio between **males** and **females** is almost equal
- ❑ The nation's population is defined as being relatively young
- ❑ Out of the total population aged 10 and above (68% employed, 1.4 unemployed)



Source: Report Census and Survey, Lao Statistics Bureau, 2015

3.2 Public Finance

• General budgetary operation

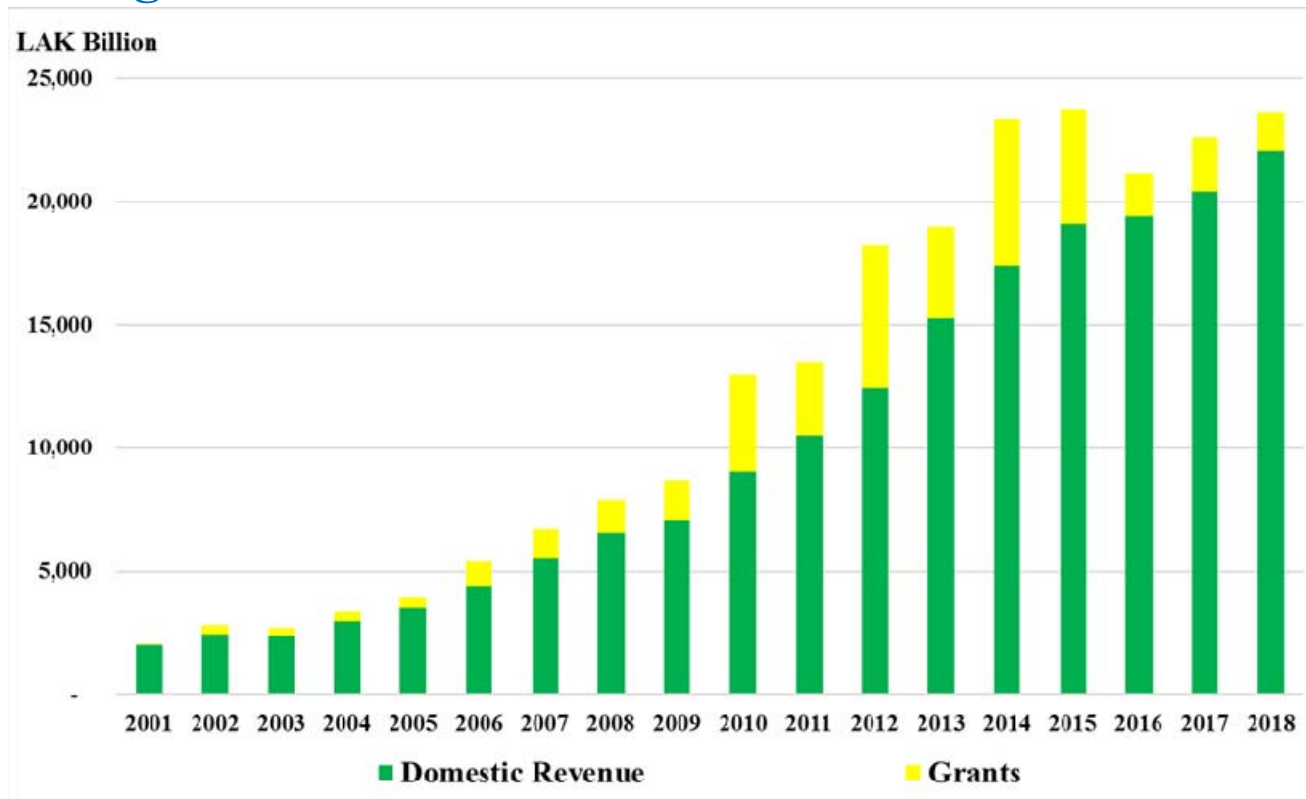


Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR, and IMF (WEO, April 2019)

- Total revenue increased over the past ten years with strong economic growth, then after 2012 slightly declined, mainly decreasing in **grants**.
- Total expenditure also increased over the past fifteen years. The rapid increase in 2012-2013 caused fiscal trouble in the following years **resulting in the fiscal deficit-to-GDP widening**.
- Huge general gross debt, resulting in fiscal risk

3. 2 Public Finance (cont.)

• Budget revenue



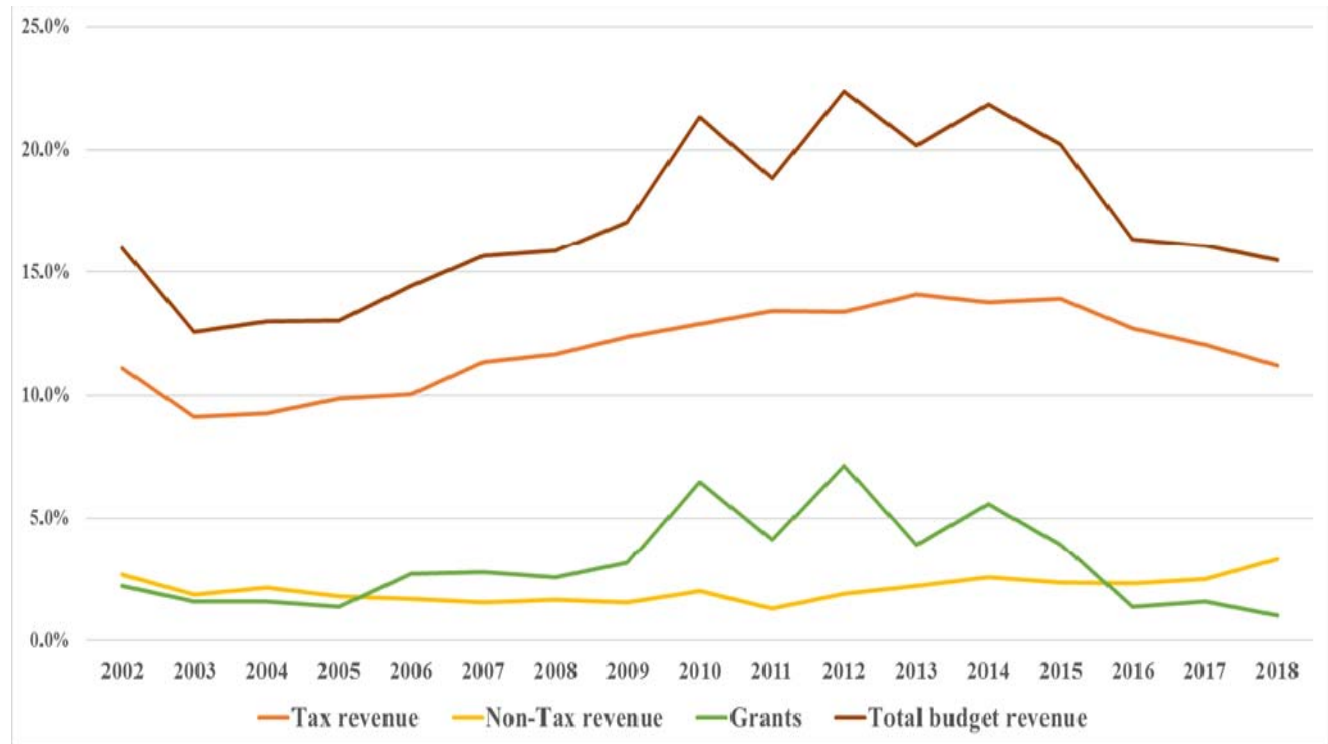
- Budget revenue (domestic revenue and grants) has steadily improved in the past 15 years.
- From 2016, total budget revenue decreased (8.4%) due to the decrease of the grants (62%).
- However, domestic revenue continuously increased (2%), equivalent to around 17.8 % of GDP in 2016 and continues to rise.

Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

3. 2 Public Finance (cont.)

• Budget revenue

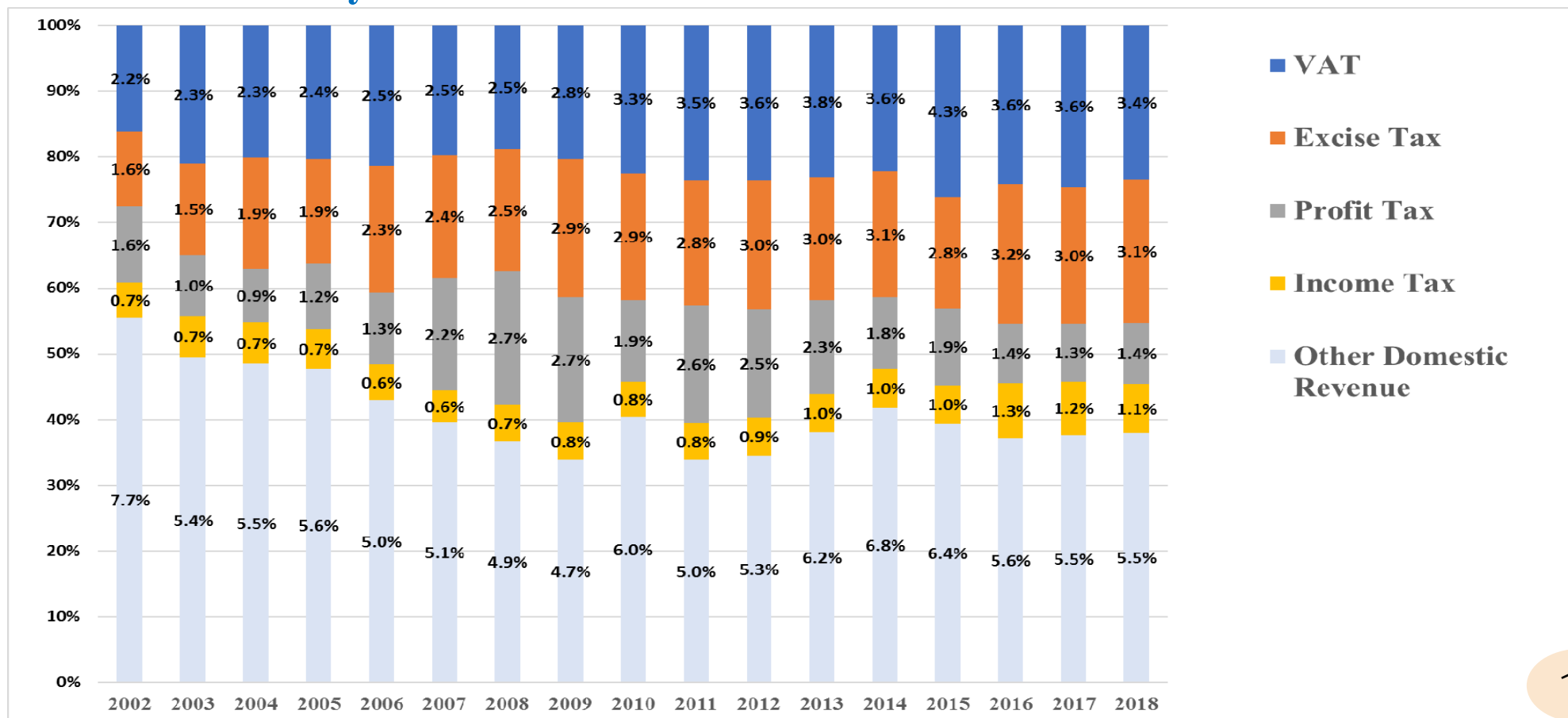
- Tax revenue performed well in past 15 years and then slightly declined from 2015, caused by stagnant economy in global and regional economies.
- Non-tax revenue slightly increased year by year.
- **Grants** steadily increased in the past 10 years, then fluctuated and sharply declined from 2014. **The main** reasons for the grant decrease was a large decrease in non-project **grants** and donors' policy changes.



Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

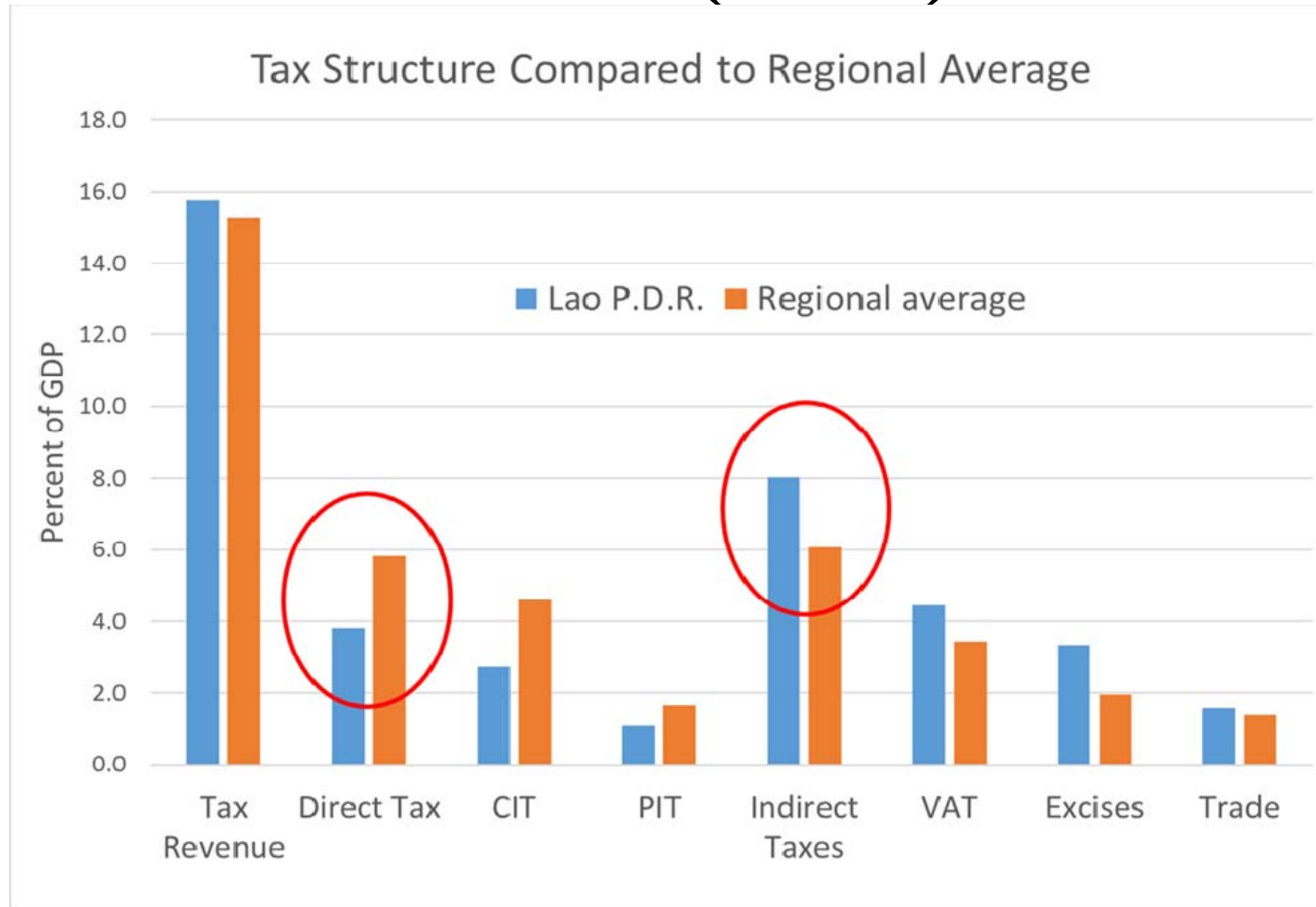
3.2 Public Finance (cont.)

• Tax revenue by main items



Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

3. 2 Public Finance (cont.)

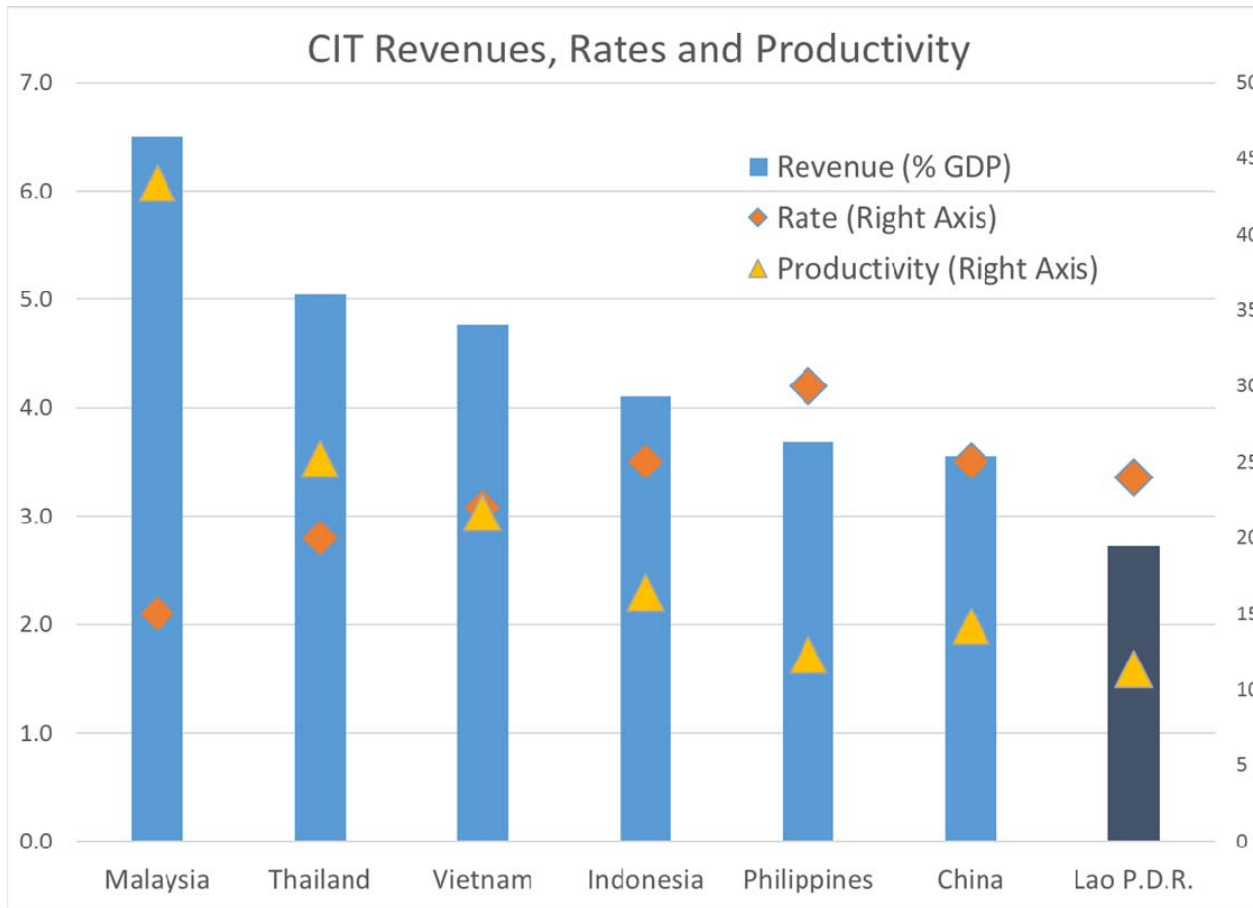


Regional countries:

1. China
2. Indonesia
3. Malaysia
4. Philippines
5. Vietnam
6. Thailand

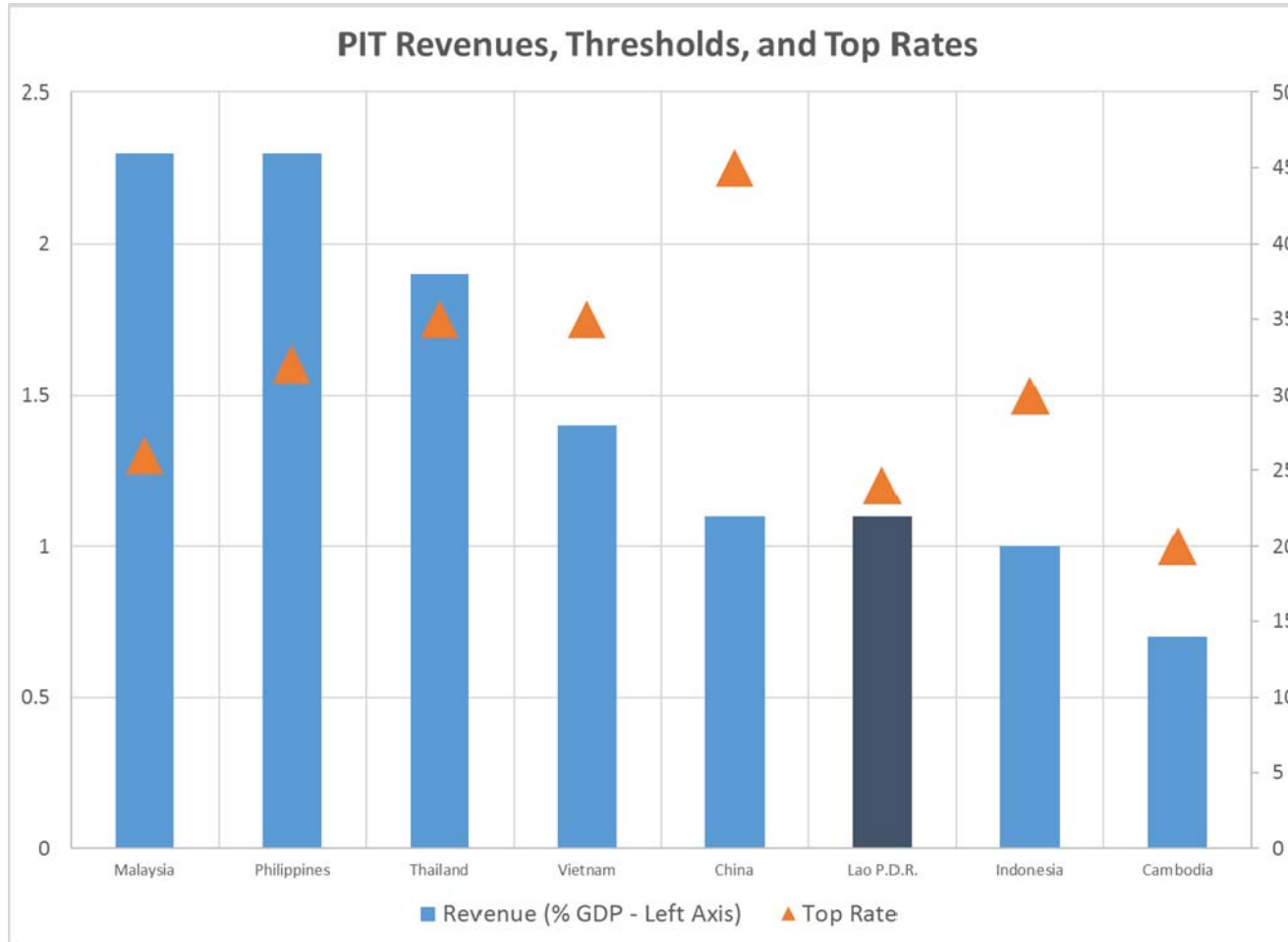
Source: IMF, Technical Assistant Report for Lao PDR, 2017

3. 2 Public Finance (cont.)



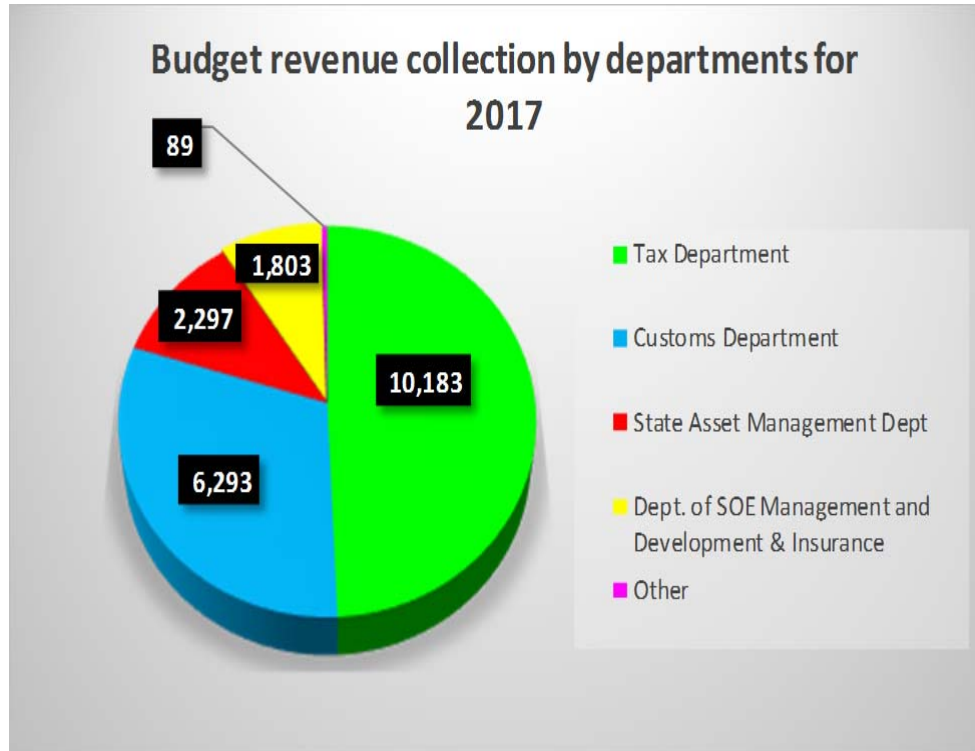
Source: IMF, Technical Assistant Report for Lao PDR, 2017

3.2 Public Finance (cont.)



Source: IMF, Technical Assistant Report for Lao PDR, 2017

3.2 Public Finance (cont.)



Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

UC781 Lao PDR: Government revenue January-Dec 2017 (EST)

	Customs	Tax	State asset	SOEs	Other	Total	% to Plan
Tax Revenue	6,261,954	9,265,981	1,390,503	0	0	16,918,437	96.1%
1. Profit Tax	30,771	1,948,890	0	0	0	1,979,660	98.9%
2. Income Tax	0	1,602,583	0	0	0	1,602,583	123.7%
3. Land Tax	0	113,149	0	0	0	113,149	78.0%
4. Business Licences	0	0	0	0	0	0	
5. Minimum Tax	0	0	0	0	0	0	#DIV/0!
6. Turnover Tax	0	0	0	0	0	0	#DIV/0!
7. VAT	1,898,929	3,035,372	0	0	0	4,934,302	86.6%
8. Excise Taxes	2,513,761	1,720,202	0	0	0	4,233,963	95.0%
9. Import Duties	970,574	0	0	0	0	970,574	71.4%
10. Export Duties	28,989	0	0	0	0	28,989	64.4%
11. Registration Fees	0	0	74,463	0	0	74,463	106.4%
12. Other Fees	818,931	845,785	0	0	0	1,664,715	161.2%
13. Natural Resources Taxes	0	0	609,709	0	0	609,709	94.5%
14. Timber Royalties	0	0	335,451	0	0	335,451	
15. Hydro-Power Royalties	0	0	370,880	0	0	370,880	117.0%
Non-tax Revenue	31,305	916,917	847,152	1,776,816	88,853	3,661,043	101.3%
1. Leasing Fees	0	0	66,483	3,482	0	69,965	107.7%
2. Concessions	0	0	61,248	0	0	61,248	66.1%
3. Fines	31,305	35,728	16,167	101	0	83,302	124.6%
4. Administration Fees	0	881,189	0	262	0	881,451	55.2%
5. Dividends	0	0	0	934,000	0	934,000	211.3%
6. Interest	0	0	0	838,883	0	838,883	111.1%
7. Overflight Rights	0	0	656,950	0	0	656,950	112.6%
8. Forest Preservation and SME Funds	0	0	4,282	0	0	4,282	63.0%
9. Other (Microwave fee for State asset)	0	0	42,022	0	88,853	130,875	
Total Tax and Non Tax Revenues	6,293,259	10,182,898	2,237,654	1,776,816	88,853	20,579,480	97.0%
Asset Sale	0	0	59,459	954	0	60,413	52.7%
Capital Return	0	0	0	26,065	0	26,065	20.4%
Total Revenue with Asset sale	6,293,259	10,182,898	2,297,113	1,803,834	88,853	20,665,958	96.3%

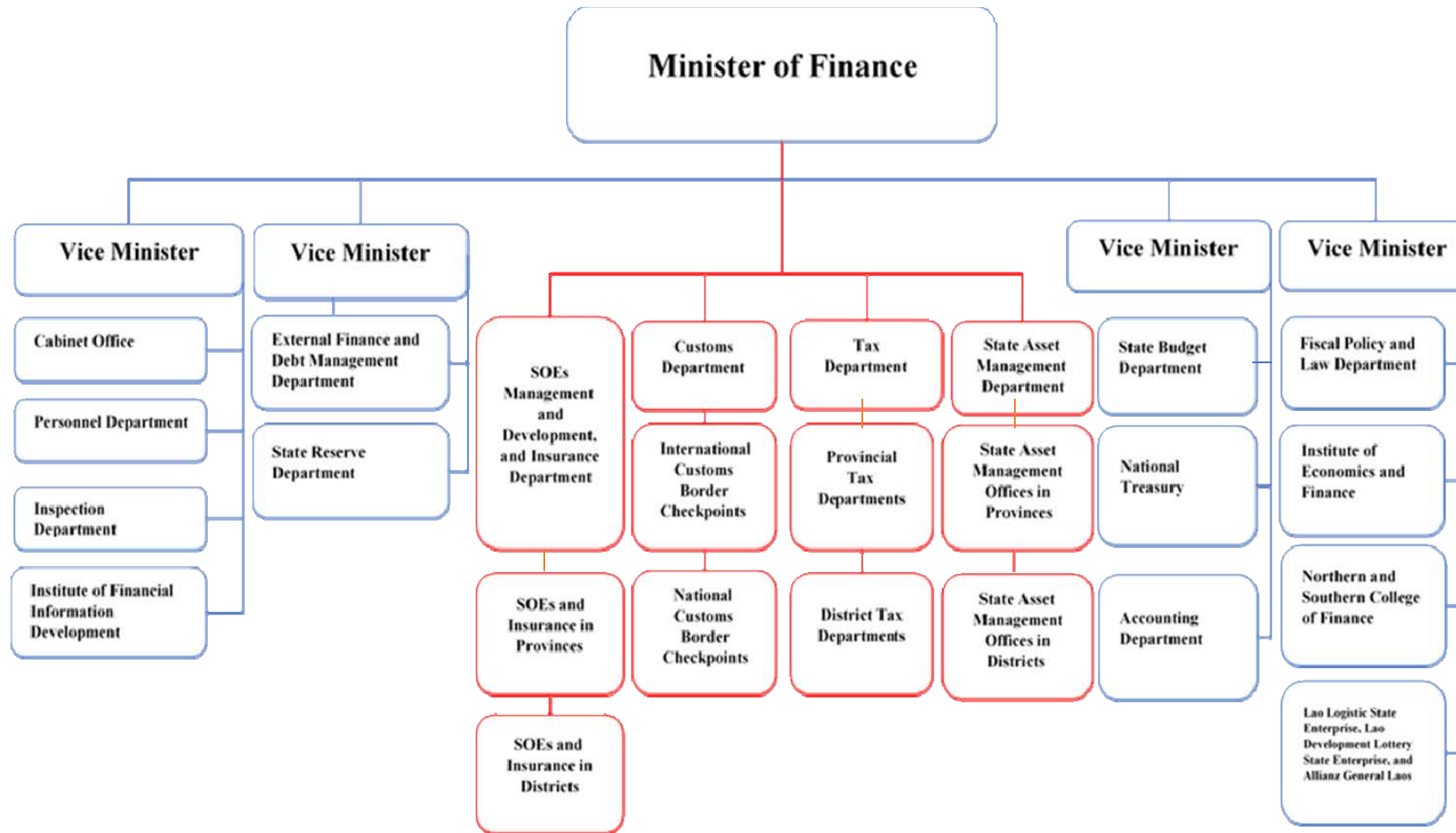
UC782

スライド 18

UC781 "Dept" and "Dept." should be made consistent
Urban Connections 78, 2019/12/10

UC782 "Nontax" and "NonTax" should be "Non-tax"
Urban Connections 78, 2019/12/11

3. 2 Public Finance (cont.)



Source: Ministry of Finance of Lao PDR

3. 2 Public Finance (cont.)

□ In 2019

- Tax Department (**headquarters**) **at** central level
 - Number of officials: 130
 - Number of taxpayers: 408 (around 60% of total tax revenue)
- Provinces (17), one Vientiane Capital
- Districts (139)
 - Number of officials: 2,362 (Provinces, Vientiane Capital, and Districts)
 - Number of tax officials **at** the district level is almost double **in** comparison with those **at** the provincial level.
 - Number of taxpayers (Provinces, Vientiane Capital, and Districts): 103,366 (around 39% of total tax revenue)
- There are 103,774 taxpayers across the country
 - 8,303 taxpayers are **using** bookkeeping properly (8% of total taxpayers)
 - Large number of taxpayers pay as lump-sum tax (62,275), almost 60 % of total number of taxpayers
 - Only around 6.5 percent of the total tax bases is registered to VAT system (6,674)

3. 2 Public Finance (cont.)

□ Current situation of tax policy and administration

- Vision to 2030 and Public Finance Management Development Strategy to 2025 (approved 2017)
- Revenue Strategic Development Plan 2018-2020 (approved 2017)
- Revised and new tax laws (approved 2018, 2019)

4. ASSESSMENT OF DOMESTIC REVENUE MOBILIZATION

4.1 Assessment of tax revenue development from the reform measures

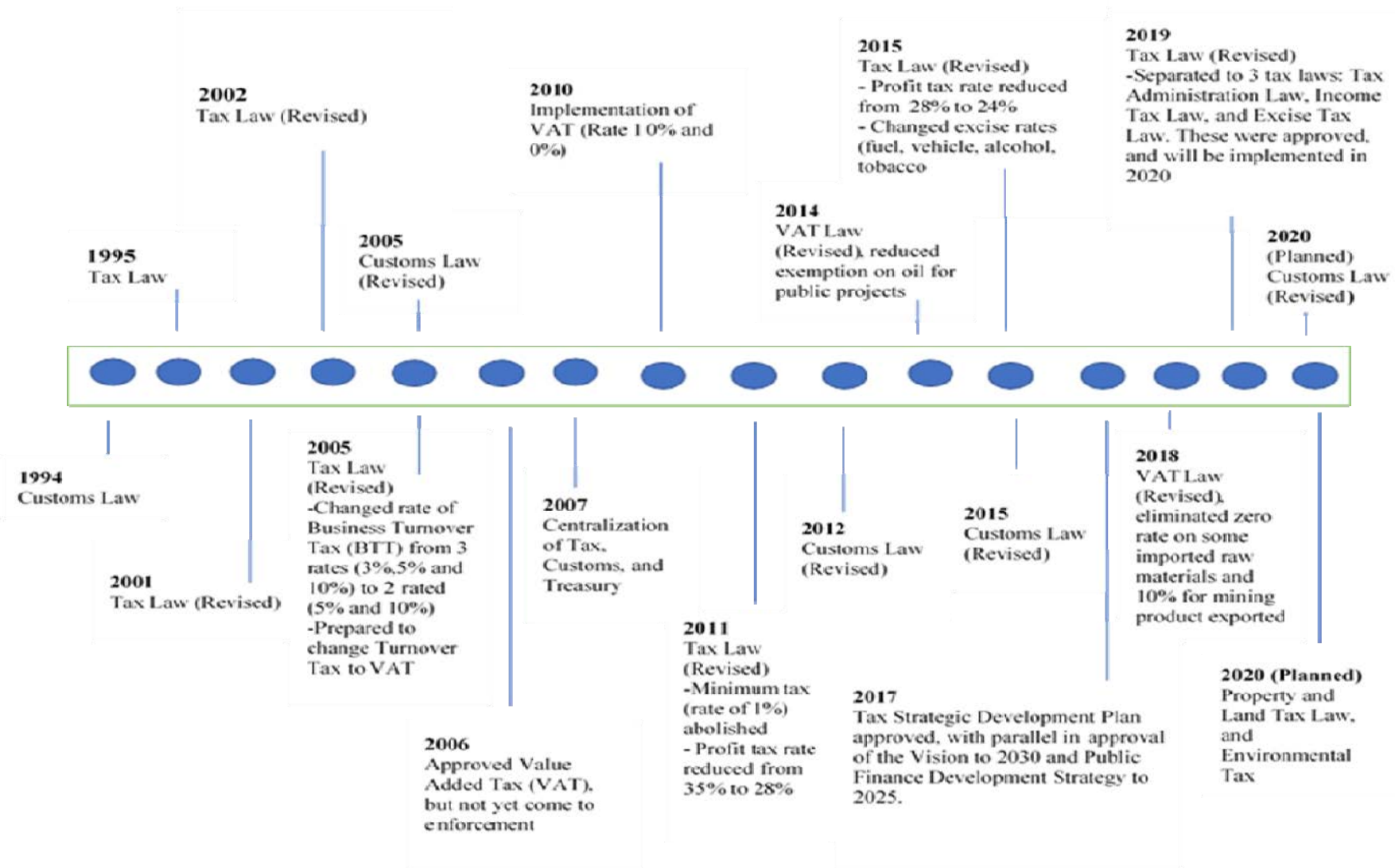
4.2 Public Finance Development Strategy

4.3 Tax policies

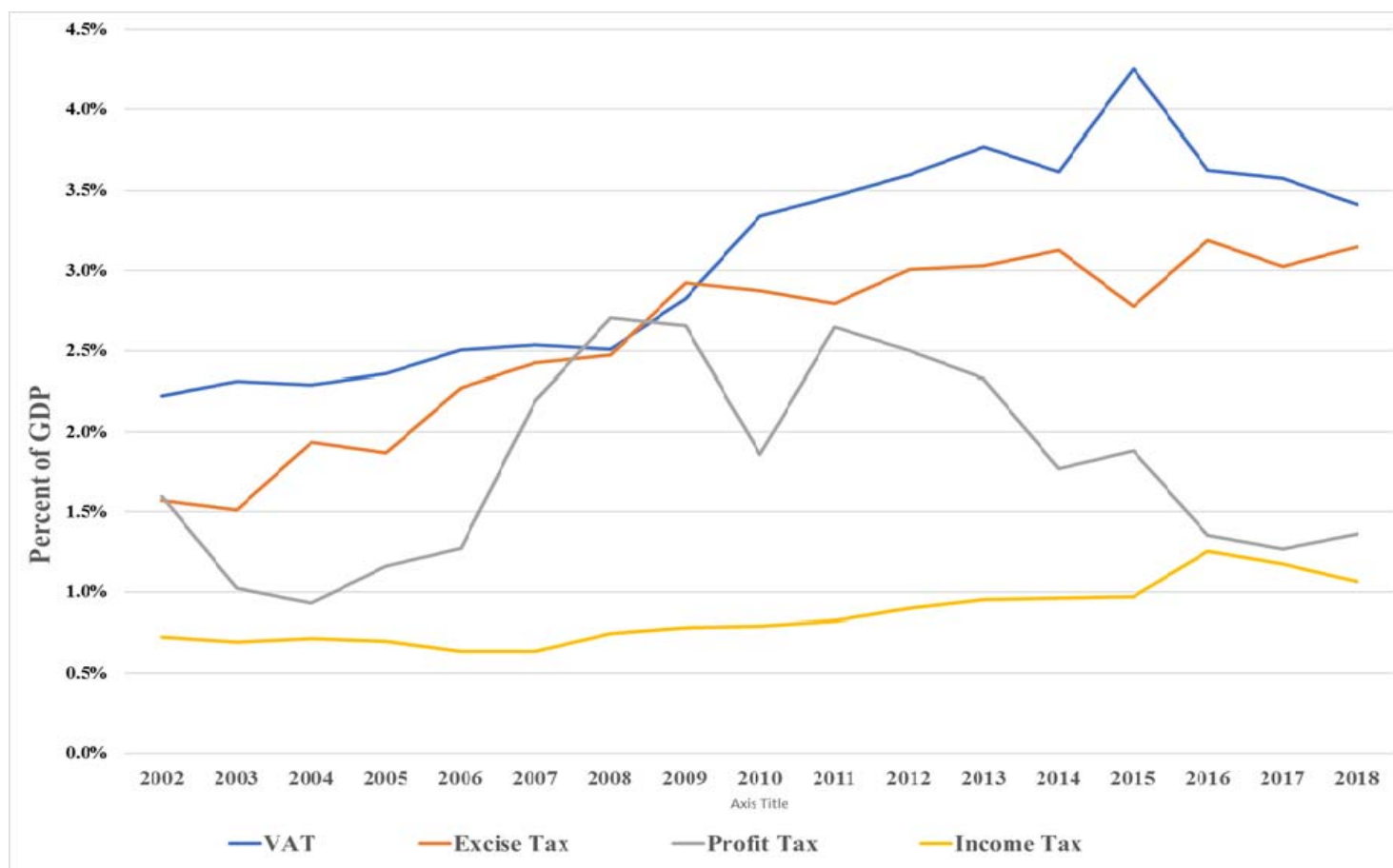
4.4 Tax administration

4.5 Donor support

4.1 Assessment of tax revenue development from the previous reform measures



4.1 Assessment of tax revenue development from the previous reform measures (cont.)



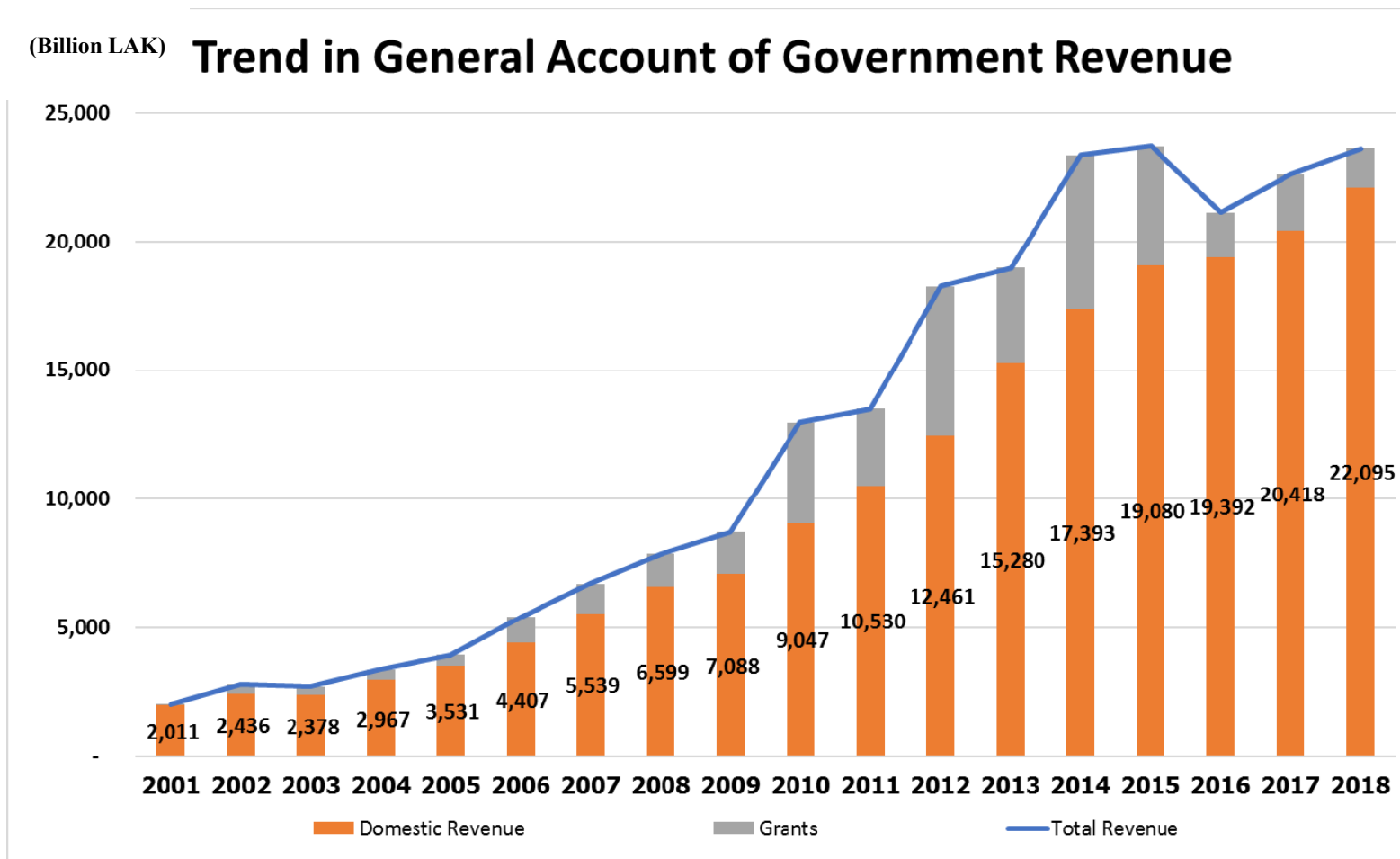
UC784

- 2001, 2002 Revised Tax Law
- Revised tax and customs laws (2005)
- Centralization of Tax and Customs (2007)
- Introduction of VAT (2010)
 - VAT increased around 0.5% of GDP
- Revised Tax Law (2011), Customs (2012)
- Revised VAT (2014)
 - VAT increased around 0.7% of GDP
- Revised Tax Law (2015)
- Revised VAT (2017)
- Revised Tax Law, new Income and Excise Tax Laws (2019)

Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

UC784 Delete "Axis Title"
Urban Connections 78, 2019/12/11

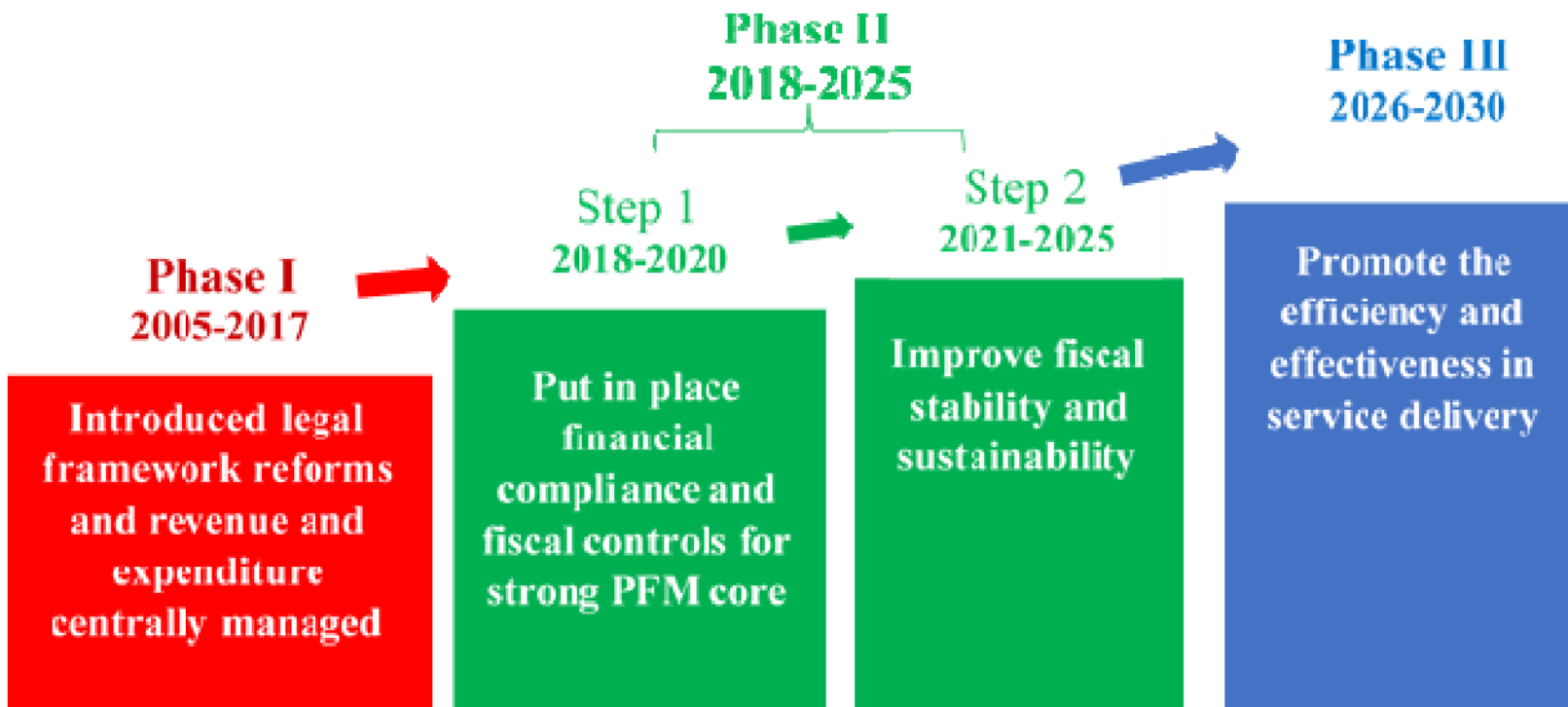
4.1 Assessment of tax revenue development from the previous reform measures (cont.)



Source: Fiscal Policy and Law Department, Ministry of Finance of Lao PDR

4.2 Public Finance Development Strategy

Public Finance Management Reform Phases



PFM Reforms are Government-wide reform, not just MoF

Sources: Ministry of Finance of Lao PDR

Implementing Phases

Phase I (2018-2020)

- **The main objective is to develop a complete set of public finance management infrastructure such as policies, legislation, organizational structure, personnel and management tools**

Phase II (2021-2025)

- **The objective is to develop fiscal stability and step up to international standards**

Strategies 1-3

Strategy	Goal
1. Macro-economic stability	<ul style="list-style-type: none">• Dynamic, stable, balanced economic growth• Strong PFM foundation to control budget deficit and reduce public debt• Development of stable government reserve funds
2. Revenue policy and collection	<ul style="list-style-type: none">• Maximize revenue collection• Setting fair tax and customs policies• Efficient revenue collection• Effective ODA management• Use of proceeds from natural resources for sustainable development
3. Expenditure policy and rational spending	<ul style="list-style-type: none">• Enhanced efficiency of budget expenditure management and transparency• modern and systematic expenditure management• Delegation of responsibilities to the local level

Strategies 4-7

Strategy	Goal
4. Public debt management	<ul style="list-style-type: none"> • Centralized management of external and domestic borrowings • Effective debt management and minimization of costs
5. Personnel strengthening	<ul style="list-style-type: none"> • Effective delegation of responsibilities to the local level • Capacity building of the civil sector • Development of training and educational institutions
6. Strong accounting, audit and financial control	<ul style="list-style-type: none"> • Alignment of public/private accounting systems, audit and reporting to international standards • Enhance financial control and anti-corruption measures • Impose measures for violators of fiscal disciplines
7. Modernization of public finance entities	<ul style="list-style-type: none"> • Alignment to regional and global practices • Development and application of technology for revenue collection and expenditure management

Strategies 8-10

Strategy	Goal
8. Legal Framework	<ul style="list-style-type: none">• Improvement of the fiscal regime according to the Party and Government guidance• Revision of public financial framework• Improve Investment Promotion Laws
9. International Integration and Cooperation	<ul style="list-style-type: none">• Implementation of international agreements• Increase regional and global economic financial cooperation
10. Management and Development of State-Owned Enterprises	<ul style="list-style-type: none">• Manage government investments for sustainable economic revenues• Strengthening of SOEs Joint Ventures• Development of financial services

4.3 Tax policies

Key findings:

1. Legal Framework Development (Review tax policies to contribute to **amending** existing and draft new legislatives)
2. Broaden tax bases

4.3.1 Legal Framework Development

1. Review and revise tax policies

- Revised VAT was approved in 2018
- Revised Tax Administration Law, new Income Tax Law, and new Excise Tax Law were approved in last June, 2019 and will be implemented in January 2020.

2. Further tax policy development

- Land and Property Tax Law, and Environment Tax Law (Plan for 2020)
- Secondary legislations

4.3.2 Broaden tax bases

1. Tax exemption

- Over 80% of the profit tax base estimated to be exempted (IMF Country Report, 2019).
- VAT implementation has highlighted that the VAT system is not operating at an optimal level and compliance with VAT obligations represents a significant risk.
- VAT registration for **those** whose annual turnovers are LAK 400 million or more and the **account** keeping and the use of tax invoices are not properly organized.
- In 2018, introduction of a pilot project has **begun in order to** explore opportunities to identify the taxpayers who should be registered for VAT.

4.4 Tax Administration

Key findings:

1. Revenue collection improvement
2. Modernization of tax administration system
3. Staff and institutional capacity development

4.4.1 Revenue collection improvement

1. Improve taxpayer compliance

- Role of the tax administration in a self-assessment environment is to help taxpayers to understand their obligations and to take action against non-compliers in **particular** those exhibiting the highest revenue risks **were** not **properly** managed.
- Recently, **there were** not relatively high levels of filing compliance and limited audit coverage of the largest taxpayers under the central level control.

2. Consolidate management of large taxpayers

- Revenue Collection Division (RCD), Tax Department responds the compliance monitoring of large taxpayers (currently oversees more than 500 companies). In 2017, analysis indicates that:
 - Top 10 taxpayers were responsible for 66% of total large business tax collection
 - Top 50 taxpayers represent almost 90% of total large taxpayer collection.
 - This percentage increases to almost 95% for the top 100 businesses in the RCD, and to 97% for the top 200 businesses.
- So the collection performance of the RCD would not be negatively affected by reducing the number of businesses administered by the RCD by half.
- **Setting** criteria for determining the large taxpayer segment is essential

4.4.1 Revenue collection improvement (cont.)

3. Improving taxpayer services / public awareness / self-assessment and filing

- Taxpayer service to ensure that taxpayers are aware of their responsibilities and obligations as well as their rights and entitlements under law was not well-managed.
- Not well-developed procedures and guidelines focusing on registration, payment and filing obligations and **need to** develop materials to assist taxpayers which will be available through **the** Tax Department's website, in the media and through effective aids to remind taxpayers of their obligations

4.4.2 Modernization of tax administration system

1. Improve information and communication technology

- TaxRIS has launched in early 2019 to deploy into the Tax Department and 5 provincial tax departments (Vientiane Capital, Viengchan, Luang Prabang, Savannakhet, and Champassak).
- Extending TaxRIS progressively across provinces
- Reviewing the pilot of the Computer Reservation System (CRS-POS technology)
- Determine further explanation of this technology to support reporting compliance, and monitoring the implementation of the Road Fee Payment and Collection System (developed by the commercial bank-BCEL) and identify opportunities for enhancements.

4.4.2 Modernization of tax administration system (cont.)

2. Strengthen Tax Department (headquarters)

- Daily operations of collection revenue was **overwhelmed** (Tax Department)
- Changes are needed to the organization and government arrangements to **realize** a fully functioning headquarters.
- Improving headquarter roles for a small number of staff and functions and then increase the numbers and focus over the life of the strategic plan.

4.4.2 Modernization of tax administration system (cont.)

3. International cooperation

- Enhance the efficiency and effectiveness of tax administration
- Dialogue at international forums to identify and discuss global trends, understand regional developments in tax laws and administration
- Sharing of best practices in taxpayer service and enforcement, capacity building initiatives and attendance at training programs.

4.4.2 Modernization of tax administration system (cont.)

4. Strengthen internal control and integrity

- Need to develop internal inspection guidelines which ensure compliance with Tax Department policies and procedures to ensure integrity of tax administration
- Reviewing adequacy of existing internal control to mitigate risks related to fraudulent actions and ensure that TaxRIS complies with internal control framework

3.4.3 Staff and institutional capacity development

1. Grow the capacity, skills of tax staff and staff rotation

- Capability building requires a systematic management approach to learning and development in short, medium, and long-term
- Training and staff rotation **needed** to provide the right people with right skills
- **Building** staff and institutional capacity **needed** to align with the organization and activities of the Tax Department's status, roles, duties, and working principle of the Tax Department.

4.5 Donor Support

- Donor support is vital for implementation of strategies and plans in the past years
- Further support in the future still **needed** to achieve the goals.

5. Conclusion and Recommendation

- The paper identifies and **makes** an overall assessment of reform measures highlighted by describing the main public finance development strategy, tax policy and tax administration measures undertaken, beyond inferring causality and may provide a general answer with the sound scope of tax reforms to increase government revenue to GDP, and to ensuring sustainable financing for development **plans** in the medium and long terms.
- However, deeper analysis by gathering clearer data and using appropriate tools and techniques may be needed to find definitive solutions.
- **For** DRM in Lao PDR, despite the challenges that some reform strategies have in enhancing tax performance, gradual increases in tax revenue are achievable and, in some reform measures, within reach over relatively short periods of time, and some of those measures need more time to **be achieved**.

5. Conclusion and Recommendation (cont.)

- **In the** experience of improving domestic resource mobilization, some common **observations** emerge from the reform strategy from the good practice to sustain and gain large **revenues which** are often accompanied by comprehensive strategy that interlinks tax policy reforms and tax administration reforms.
- Overall findings of domestic revenue mobilization in Lao PDR in the past fifteen years resulted both from GDP growth and economic development and tax reform measures.
- High management commitment and involving key stakeholders, enhancement of the ongoing reform strategy and development of the Medium **Term** Revenue Strategy are **of** vital importance for further achievement of larger revenue gains in Lao PDR.

5. Conclusion and Recommendation (cont.)

1. High-level management commitment and social dialogue with stakeholders should be continuously deepened further

- High level management commitment should continuously **facilitate** and **encourage** implementation of strategy and taxation reforms to further improve tax and revenue performance
- Involving from all relevant key stakeholders is key to implement reform in **a** timely manner
- Effective communication with stakeholders that focuses the intended benefits of reforms can help mitigate resistance to reforms

5. Conclusion and Recommendation (cont.)

2. Tax policy reforms

- **Reviewing** tax exemption by starting to gather information and data to assess tax expenditure will help to improve tax policy, revenue performance, and transparency of the tax system and better inform decision making
- Simplify **the** tax system by developing simple procedures and guidelines
- Development of Property and Land Tax, and Environment Tax

5. Conclusion and Recommendation (cont.)

3. Tax administration reforms

- Successful revenue mobilization in Lao PDR, tax administration should align and translate tax policy in a simple and understandable manner
- Measures to improve tax administration in Laos need to be continued to enhance an ongoing rollout of activities are highlighted in the Tax Strategic Development Plan:
 - Revenue collection improvement
 - Modernization of tax administration system
 - Staff and institutional capacity development

5. Conclusion and Recommendation (cont.)

4. Development of medium **term** revenue strategy

- Development of medium-term revenue strategy 2021-2025 (MTRS) is **of** vital importance
 - Help to identify the areas of reform needs, harmonize reforms among three system components (tax policy, administration, and legal **frameworks**), properly sequence reform measures, and facilitate implementation

5. Conclusion and Recommendation (cont.)

5. Donor support

- Donors play **an** essential role in providing financial and technical assistance and economic policy advice to support the implementation of **the** National Socio-Economic Development Plan
- Further implementation of PFM reforms and **the** tax revenue reform agenda to achieve goals



Thank you for your attention

ありがとうございました

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