



LAO PDR – TAX EXPENDITURES AND SDGS

Revenue Policy Division

**Fiscal Policy Department, Ministry of Finance, Government of
Lao PDR**

REGIONAL WORKSHOP ON TAX EXPENDITURES

1-3 MARCH 2023

MANILA, THE PHILIPPINES

OUTLINE

- **SDG AND NATIONAL DEVELOPMENT CONTEXT OF LAO PDR**
- **SDG AND NATIONAL DEVELOPMENT FINANCING CHALLENGES**
- **TAX EXPENDITURES IN LAO PDR**
- **LINKING SDG AND TAX EXPENDITURES – CASE STUDY OF TOBACCO TAXATION IN LAO PDR**
- **NEXT STEPS**

SDG AND NATIONAL DEVELOPMENT CONTEXT

VISION 2030 9TH NSEDP

OUTCOME 1 ECONOMIC GROWTH

OUTCOME 2 IMPROVED HUMAN RESOURCES

OUTCOME 3 WELL-BEING OF THE PEOPLE;

OUTCOME 4 ENVIRONMENTAL PROTECTION

OUTCOME 5 REGIONAL AND INTERNATIONAL COOPERATION

OUTCOME 6 PUBLIC GOVERNANCE AND ADMINISTRATION IS IMPROVED

PROGRESS (VNR 2018)

- SDG 1 ABSOLUTE POVERTY HAS DECLINED
- SDG 2 FOOD AND NUTRITION SECURITY HAVE IMPROVED BUT REMAIN A SERIOUS CONCERN
- SDG 3 SIGNIFICANT PROGRESS IN IMPROVING HEALTH INDICATORS
- SDG 4 IMPROVED ACCESS TO PRIMARY EDUCATION
- SDG 5 ON GENDER EQUALITY, A MIXED PICTURE
- SDG 6 ELECTRICITY SURPLUS COUNTRY AND EXPORTS MOST OF ITS POWER
- SDG 7 DESPITE IMPRESSIVE GDP GROWTH RATES, JOB CREATION HAS NOT BEEN COMMENSURATE

SDG & NATIONAL DEVELOPMENT FINANCING CHALLENGES – PUBLIC FINANCE

DOMESTIC PUBLIC FINANCE (STATE BUDGET)

- TAX REVENUE MOBILIZATION
- EXPENDITURE MANAGEMENT
- DEBT MANAGEMENT
- SOE REFORM

INTERNATIONAL PUBLIC FINANCE (ODA)

- EFFECTIVENESS OF AID-COORDINATION MECHANISMS (SWGS)
- LOW ABSORPTIVE CAPACITY AND CUMBERSOME AID MANAGEMENT PROCEDURES
- IMPACT OF LDC GRADUATION

SDG & NATIONAL DEVELOPMENT FINANCING CHALLENGES – PRIVATE FINANCE

DOMESTIC PRIVATE FINANCE

- ACCESS TO CREDIT AND THE STABILITY OF THE BANKING SECTOR
- BUSINESS ENVIRONMENT
- CONSTRAINTS FACING MSMES AND START-UPS

INTERNATIONAL PRIVATE FINANCE (FDI)

- INCENTIVE REGIME AND BUSINESS ENVIRONMENT
- PUBLIC PRIVATE DIALOGUE
- ESG AND QUALITY FDI
- ILLICIT FLOWS

TAX EXPENDITURES – LAO PDR

KEY TRENDS

TAX EXEMPTIONS – LARGE MINING,
ENERGY AND TRANSPORT
PROJECTS

LICENSES ISSUED BY

- MINISTRY OF PLANNING AND INVESTMENT
- SPECIAL ECONOMIC ZONES
- PROVINCIAL GOVERNMENTS

KEY IMPACTS

CORPORATE INCOME TAX (CIT) GAP: 90%

FISCAL REVENUE – CIT COLLECTION
AMOUNTED TO AROUND 1 PERCENT OF GDP
BEFORE COVID-19. IF THIS AMOUNT IS
DOUBLED, IT COULD GENERATE AN
ADDITIONAL \$180-\$200 MILLION A YEAR
FOREIGN EXCHANGE

SDGS AND TES – A CASE STUDY

TOBACCO TAXATION

- 25-YEAR AGREEMENT WITH LAO TOBACCO COMPANY (JV)
- SELLS 90 PERCENT OF ALL TOBACCO PRODUCTS
- RESTRICTS THE GOVERNMENT FROM RAISING TAXES ON ITS PRODUCTS
- PREVENTS TAX COLLECTION FROM OTHER TOBACCO COMPANIES

KEY IMPACTS

LAO PDR HAS LOST NEARLY US\$ 144 MILLION DUE TO THE INVESTMENT LICENSE AGREEMENT SINCE 2001

HYPOTHETICAL SCENARIO

LAK 354 BILLION ANNUALLY CAN BE RAISED, WHICH IS EQUIVALENT TO OVER ONE-FIFTH (22 PERCENT) OF THE GOVERNMENT'S 2018 TOTAL HEALTHCARE EXPENDITURES

NEXT STEPS

NPFID PROJECT WITH UNDP

- RELIABLE TAX DATA
- INTER-MINISTERIAL DATA COORDINATION (MOF, MPI, MOEM, MONRE)
- TRACKING EXEMPTIONS

OTHER PROJECTS

- WB - TRUST FUND PFM AND REVENUE REFORMS

THANK YOU