

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.