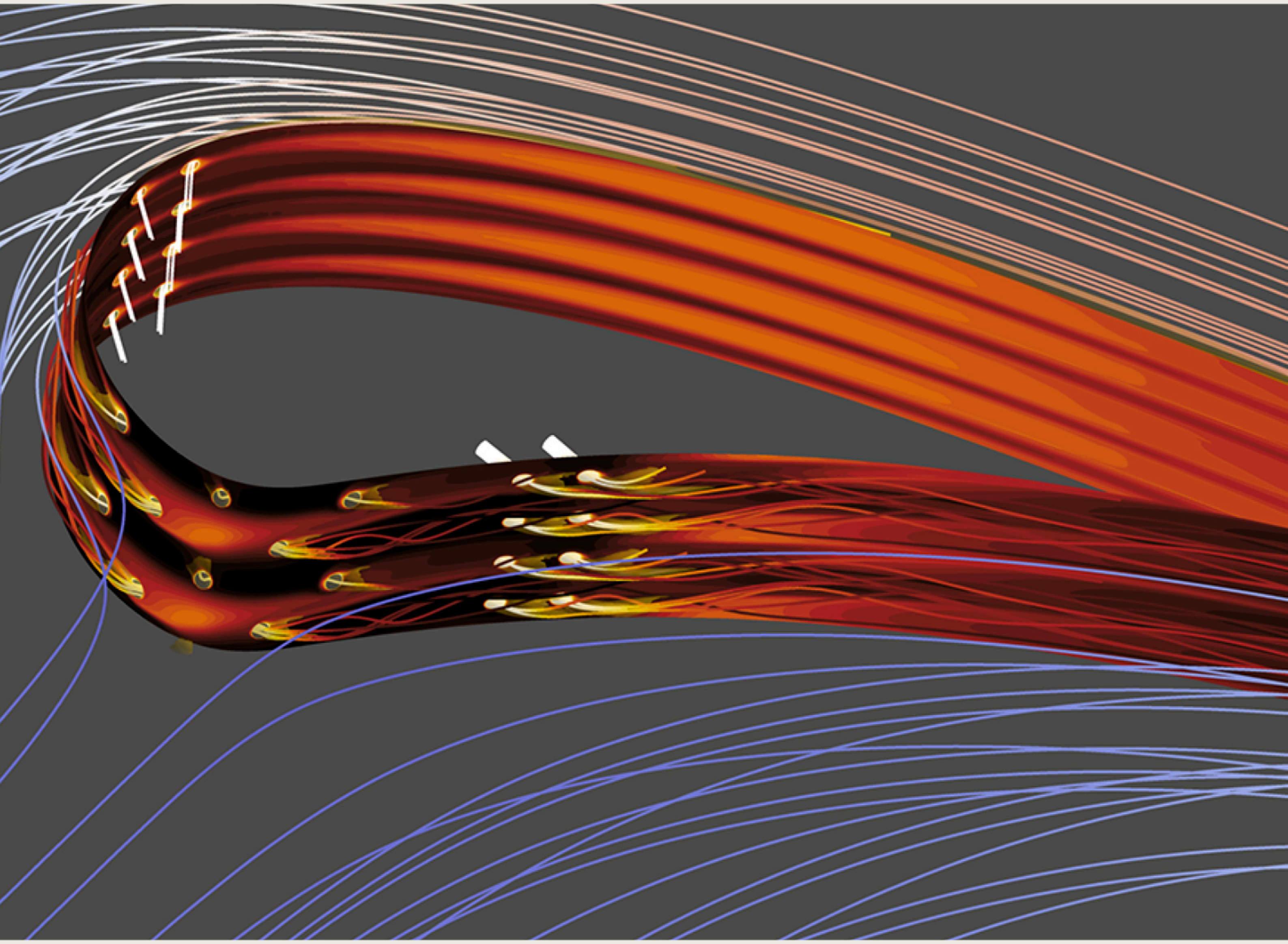

Photo: UK Fluids Network

SDG Financing in Lao PDR

A Synthesis Report - Complimentary to the 2021 Development Finance Assessment

JOINT SDG FUND

UNCDF
Unlocking Public and Private Finance for the Poor

The Joint Sustainable Development Goals (SDG) Fund is an innovative instrument to incentivize the transformative policy shifts and stimulate the strategic investments required to get the world back on track to meet the SDGs. The UN Secretary-General sees the Joint SDG Fund as a key part of the reform of the UN's development work by providing the "muscle" for a new generation of Resident Coordinators (RCs) and UN Country Teams (UNCTs) to really accelerate SDG implementation.

To date it has funded 101 joint programs focused on integrated social protection or SDG finance, it has stimulated over 1,000+ partnerships working together alongside the UN to support the SDGs and it has tested over 200 innovative solutions to accelerate the 2030 Agenda.

The Joint SDG Fund is a multi-partner trust fund. This means contributions it receives are not entity-specific, but aim to support broader UN system-level functions. In this way, it differs from restrictive earmarked funding which can fuel competition and hamper cooperation among UN entities. This type of pooled funding used by multi-partners trust funds, like the Joint SDG Fund is widely considered 'multilateralism-friendly' – and is much more suitable for the integrated support at scale essential for achieving the 2030 Agenda. Flexibility in reallocating funds has also proven critical for rapid responses to the COVID-19 pandemic.

The UN Capital Development Fund makes public and private finance work for the poor in the world's 47 least developed countries (LDCs).

UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic non financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization

Integrated National Financing Frameworks (INFFs) provide a framework for financing national sustainable development priorities and the SDGs at the country level.

Integrated National Financing Frameworks (INFF)

Mobilizing resources, both domestic and global, to support sustainable development remains a key challenge for many developing countries.
In 2015, world leaders met in Addis Ababa, Ethiopia to agree upon a new global framework for financing the 2030 Agenda and the 17 Sustainable Development Goals (SDGs). At the heart of the Addis Ababa Action Agenda are national sustainable development plans and strategies supported by integrated national financing frameworks — or INFFs.

A country's sustainable development strategy lays out what needs to be financed. INFFs spell out how the national strategy will be financed and implemented, relying on the full range of public and private financing sources. INFFs are a planning and delivery tool to help countries strengthen planning processes and overcome obstacles to financing sustainable development and the SDGs at the national level. https://inff.org .

Integrated National Financing Frameworks (INFF)

This report has been developed by UNCDF within the framework of the UN SDG Funded Project "Efficiency and optimisation of Lao PDR's public budget to finance the SDGs through the National Plan".

The project brings together UNDP and UNCDF and UNFPA to support the Government of Lao PDR to develop their Integrated National Financing Framework (INFF) that will be used to support the countries SDG commitments. INFFs provide a framework for financing national sustainable development priorities and the SDGs at the country level.

This research paper has been drafted as a complementary to the Development Finance Analysis (DFA 2021) that is being developed by UNDP. This body of work extends the DFA, analysing the financial flows towards the SDGs inclusive of all forms of external finance, FDI, ODA and the public sector budget.

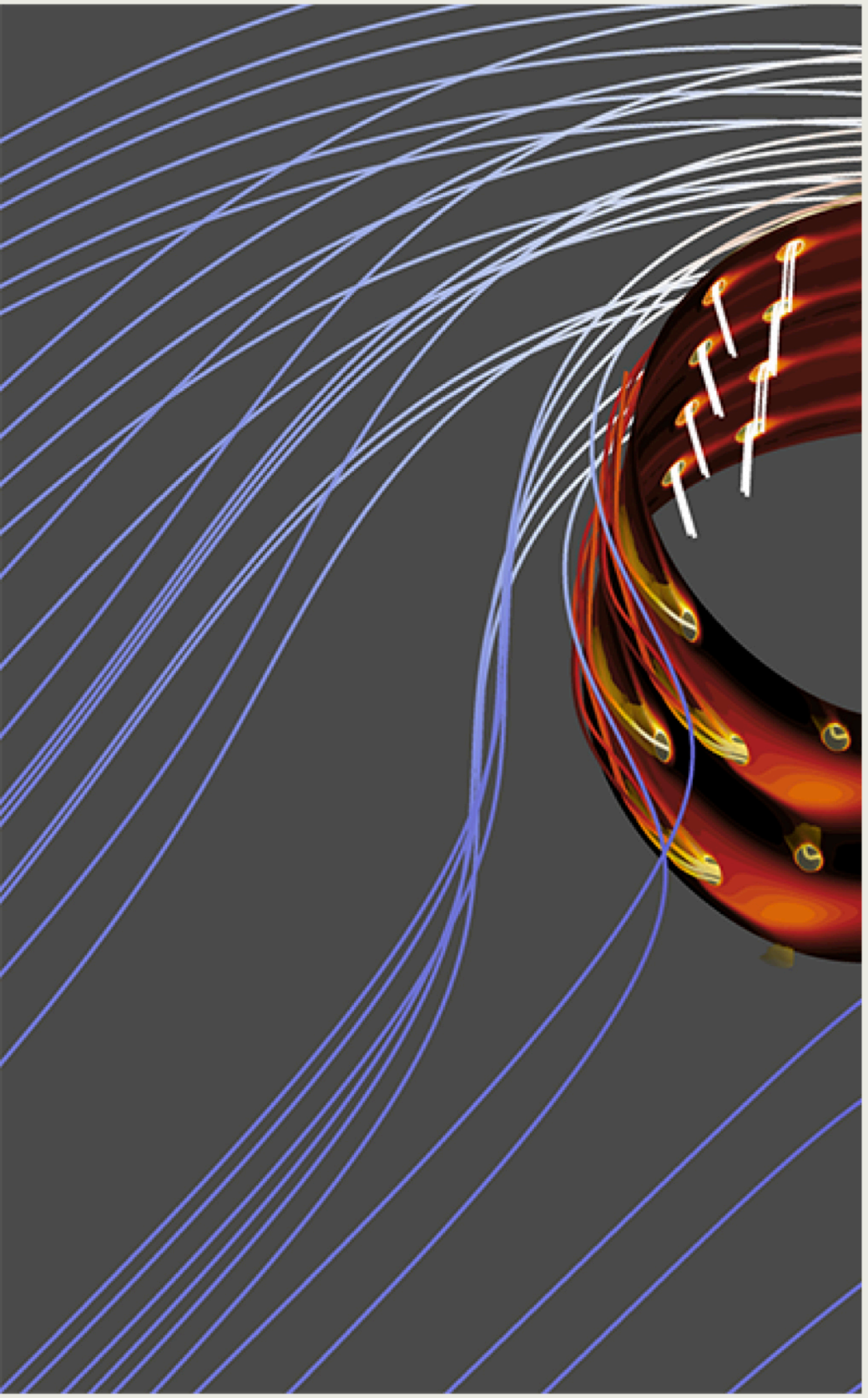

Photo: UK Fluids Network

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Photo: Lao PDR Dam (Asia News)

Photo: Physics World 2017

Introduction

As in most countries, SDG financing flows in Lao PDR are insufficient. It is estimated that in Low and Middle Low-Income Countries (LMICs), SDG financing in health, education, roads, electricity and water would require additional private and public annual spending of $528 billion (for all 49 countries)[1].

In Lao PDR, the financing effort needs to be deployed above of all in the infrastructures of the country, which is landlocked and needs an efficient transportation system to increase productivity and trade[2]. It is estimated that investment in SDG related infrastructures alone would represent about 7% of the GDP of Low and Middle Low Income Countries.

SDG financing is constituted by countries' financial inflows. This includes, for the public sector, both tax/non-tax revenues, grants and debt and, for the private sector, external debt (bonds, loans), foreign investments in the form of equity or direct investments in domestic companies (FDI and FPI), as well as domestic (commercial) debt and remittances. Capital markets investments in the Lao Securities Exchange (LSX) also participate to this general effort to meet SDGs.

Whilst all flows can be assumed to contribute to SDGs in some form, some of these flows purposefully attempt to reach SDGs by taking into consideration all dimensions of sustainable development, i.e., social, economic and environmental dimensions. Other flows also may have an impact on one or more of these dimensions even though not purposefully designed with this intent.

This present study provides an overview of the SDG financing flows and how they meet Lao PDR's SDGs. This is done through a performance review of the country's financing inflows.

Essential features of the performance review

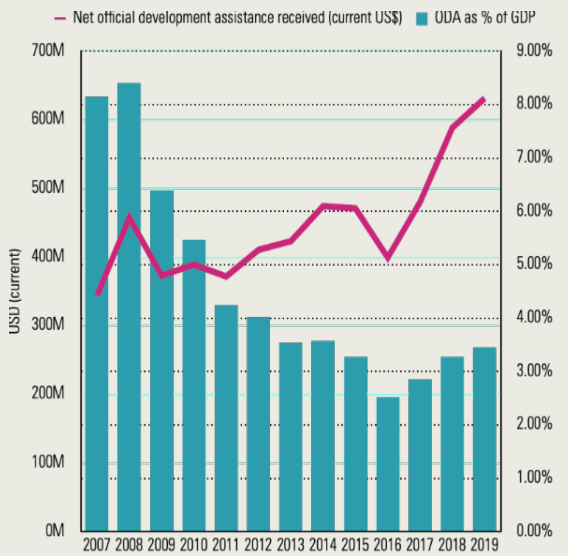
Lao PDR public expenditures constitute the main channel of development financing openly targeting SDGs achievement. Through the approved 5 year National Socio-Economic Development Plans (NSEDP), which integrate all of the SDGs, Lao PDR's government makes a commitment to allocate its budget to projects and expenditures that contribute to attaining the SDGs. In particular, the government has set priorities including education, health and infrastructures in key economic sectors such as transports among others. This is reflected, in part, in its budget distribution by economic sectors which prioritises (1) education and sports, (2) public works and transport (3) public health.

The year-on-year increasing budget is complemented by the intervention of official development assistance (ODA), which actively promotes the same development areas such as health and education but also finances and supports the enhancement and development of socio-economic infrastructures and production sectors. Together, Official Assistance and Other Official Flows represented approximately between 18% and 22% of GDP from 2017 to 2019.[3]

[1] IFC, EM Compass "Closing the SDG Financing Gap—Trends and Data", 2019
[2] UNDP, DFA Snapshot, 2018
[3] Data Extracted from the OECD, Credit Reporting System database. Data available until 2019

When considering concessional development assistance, bilateral SDG financing clearly comes ahead with, on average, Official Development Assistance (ODA) accounting for as much as 2/3 of the total financing. ODA financing generally increased during the period 2015-2020 reaching 3,7% of GDP in 2019 (about USD 708,000 million). The origins of bilateral financing are very diverse but Chinese and Thai aid are prominent. In 2017, Chinese bilateral aid totalled close to 48% of bilateral aid to Lao PDR, followed by Thai aid (6%)[4].

Exhibit 1 - ODA Flows



Over the period 2015-2020, multilateral financing in the form of Other Official Flows (OOF) represented over 60% of total development assistance. OOF excluding export credit flows are led by multilateral donors which finance, on average, 80% of OOF. Such flows represent 18% of Lao PDR's GDP in 2019, making a good progression since 2016 when it represented 4% of the GDP. This progression is in line with the current infrastructure projects in Lao PDR, notably in the fields of energy and transport.

Although public expenditures have been slowly increasing until 2019, recently, Lao PDR is facing unprecedented fiscal deficit due to the COVID 19 crisis. This deficit is being financed through foreign borrowing and will necessarily have a negative impact on SDG performance in 2021[5].

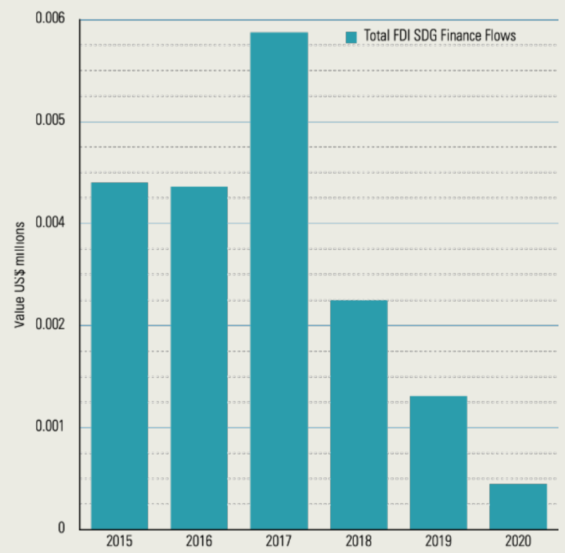
Whilst development assistance and government expenditures are designed to achieve the SDGs, private investments, which primarily target economic returns, also promote SDGs. **Given the current global trends, which demand greater concern for sustainability issues in the financial sector as well as in enterprises, private investments need be considered**, equally as a form of finance for achieving SDGs as extensively as public investments.

In Lao PDR, unfortunately, the reporting requirements in the financial sector and for enterprises for sustainability purposes are not yet sufficiently developed so as to create a measure of sustainability for the private sector. However, the sectors that are targeted by private financing flows already constitute a good indicator of sustainability.

Indeed, private sector financing flows are primarily targeting (in order of importance) energy, the industry, the construction and commerce sectors. The energy sector tends to attract the largest share of financing, with 97,7% of total private external debt in 2019. However, even in the energy sector, private flows are dropping due to the moratorium on mining and hydropower projects' financing coming to an end. More specifically, FDI flows have been dropping in the past few years. This is also the case for the capitalisation of firms listed on the Lao Securities Exchange (LSX), which are principally active in the energy and construction sectors.

[4] Ministry of Planning and Investment of Lao PDR, Foreign Aid Implementation Report (FAIR), 2018
[5] World Bank, Lao PDR Economic Monitor, 2021

Exhibit 2 - FDI targeting SDG Flows



For SDG financing purposes, the private sector's focus on the energy and construction sectors is not ideal as these sectors are amongst the riskiest sectors in terms of non-positive environmental and social impact[6]. Nevertheless, these financing flows still go towards the achievement of a number of SDGs such as SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure) with indirect potential consequences on poverty relief.

Other sectors such as agriculture, retail and wholesale also receive some private foreign financing but these are areas that are mostly the object of private domestic lending (which represented on average 15% of GDP), including micro-finance institutions (MFIs). Indeed, domestic credit distribution shows that agriculture received, on average about 8%, commerce about 17% and industry about 24% of total credits. MFIs have also been lending extensively in the agriculture sector and the wholesale and retail sectors with, on average, respectively about 20% and 32% of total credits.

The observed trends for Lao PDR imply that **there is a strong need to improve the monitoring of SDG financing flows both in the public and the private sectors**. This effort bears implications for data collection and the public budgeting process. Evaluators and policy makers would have to make an effort to create a monitoring system at the project or sub-sector level with sustainability markers/indicators that can be adopted by the private sector. For this effort to carry success, it would be important to work hand in hand with all concerned stakeholders in Lao PDR.

Naturally, simply reporting on existing financing flows will not increase the amounts necessary to finance the attainment of SDGs by 2030. The distribution of current financing flows in Lao PDR show that the **private sector could diversify their investment opportunities** to target sectors with a strong social and environmental dimension. Also, economic sectors, with high social and environmental risks such as energy and construction can work towards transforming their industry in order to lower these risks and comply with international standards in line with the Paris Agreement (among others).

Finally, increasing sustainable financing entails increasing economic opportunities to generate financing through, for instance: developing new markets, developing the capital market infrastructure, making finance more accessible to small and medium enterprises and start-ups, developing digital finance for migrants to ease the process of sending remittances, etc. Such an endeavour, given the economic downturns linked to the COVID 19 crisis, will not be without challenges.

[6] See S&P risk atlas 2019 (available ttps://www.spglobal.com/en/research-insights/articles/the-esg-risk-atlas-sector-and-regional-rationales-and-scores)

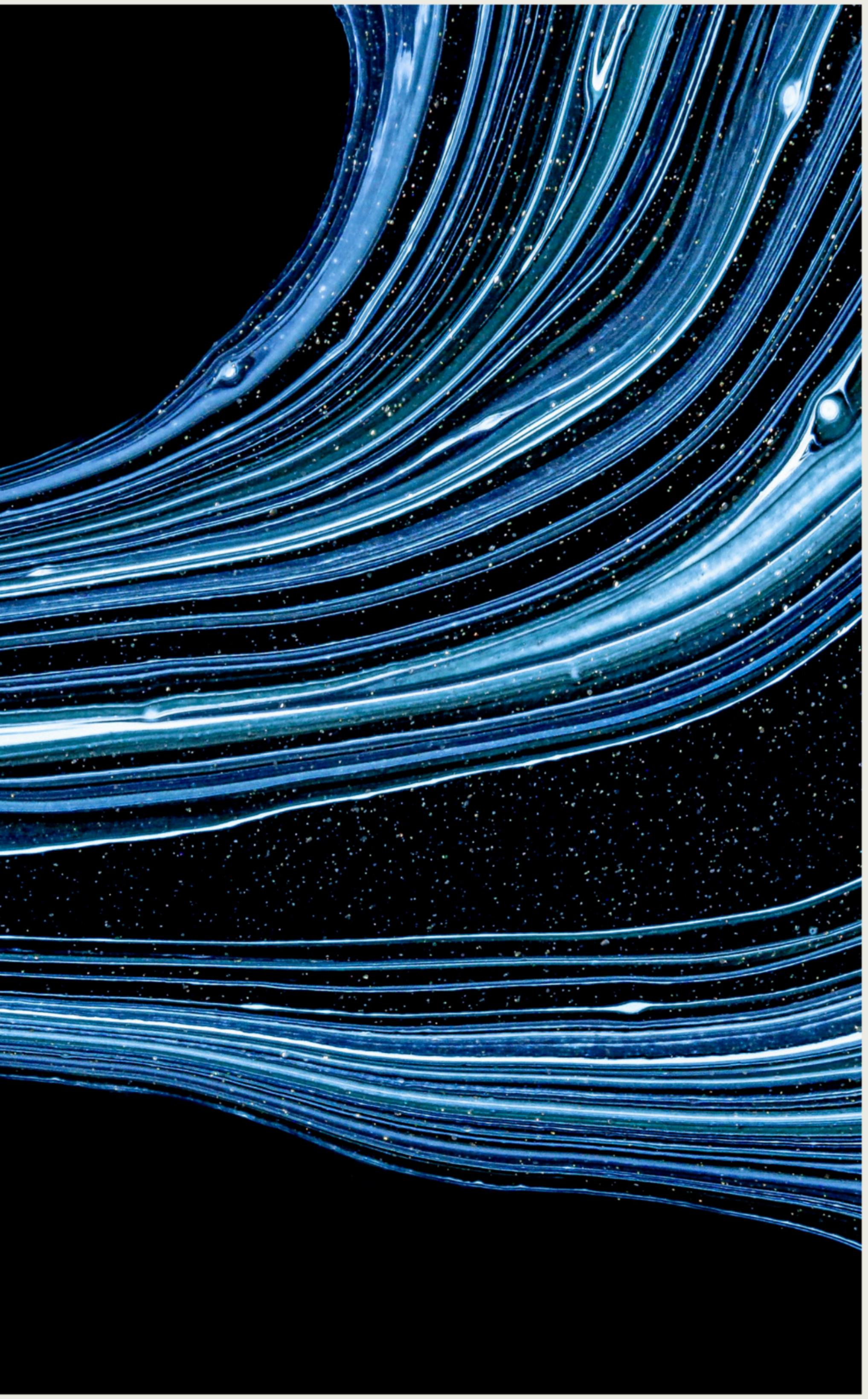


Photo Solen Feyissa, unsplash

Research Overview

Objective

The objective of the performance review carried out in this study is to gain a perspective on SDG financing flows in Lao PDR and understand how these behave over the period 2015-2020. For this, the review looked into how actual financial flows are directed. It did not, however, look into financing gaps.

The performance review analyses the following items:

- The evolution of the size of investments (to assess the effort towards bridging the SDGs financing gap).
- The origins of investments (public/ private ratios and diversification of financing flows).
- Whether the investments are broadly feeding the sectors prioritized in the national socio-economic development plans of Lao PDR.

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This review provides a supplementary study that expands the findings of the Development Finance Assessment (DFA) through the tracking finical flows from all sources towards the SDG goals

Scope

The performance review mainly relies on macroeconomic indicators generated through the desk review carried out to compile the associated Compendium that was developed to provide a succinct set of data resources for tracking SDG finance. These indicators were agreed upon at the inception stage and then refined during the process of the formulation of this project

To assure coherence, the study kept the sources of these indicators to a minimum. The main sources being IMF art. IV reports in Lao PDR as well as the DFA 2018.

In regard to sectoral breakdowns, the study used information coming from

- Lao PDR State budget plan for public expenditure distribution
- The OECD Credit Reporting System (CRSCRS Credit Reporting System) database for ODA and OOF distribution
- The Lao gov Investment Promotion Department (MoF) project data for foreign private creditor flows
- Bank of Lao (BoL) PDR data for Foreign Direct Investments and Foreign Portfolio Investments
- World Bank Lao PDR Poverty Profile and Assessment 2020 for household expenditures (in relation to remittances)
- Asian Development Bank - Lao PDR SMEs Monitor 2021 for Microfinance - Table 4 Non-Bank Finance LAO ASM 2021
- Lao Securities Exchange annual reports for LSX Capitalization

Assumptions

While all investments are assumed to be relevant for the purpose of attaining the SDGs, the purpose of the performance review is to give more nuance to the types of financing flows that participate to the achievement of SDGs. The study is set up in such a way as to capture information as to whether:

- the flows are specific to the attainment of one or several SDGs, or whether they cover a wide range of SDGs;
- the flows go towards a balanced set of SDGs including all three dimensions of sustainable development i.e., economic, social and environmental dimensions;
- the flows have inherent development objectives (e.g., ODA);
- the flows are directed towards sectors that come as a governmental priority for SDG attainment.

The performance review thus identifies the flows that are clearly SDG fostering and those that could be improved.

The set of assumptions on which the performance is based is as follows:

a. Financing flows that are directed towards sectors that foster more than 5 SDGs are deemed to be performing adequately;

b. Financing flows that, in addition to being directed towards over 5 SDGs fostering sectors also achieve a balance between social, environmental and economic dimensions of SDGs are deemed to be performing well;

c. Financing flows (complying with a.) that reach government priorities in SDG related sectors that include social and environmental dimensions are deemed to be performing well;

d. Financing flows that reach government priorities in SDG related sectors that do not include social and environmental dimensions are deemed to be performing adequately;

e. Social and environmental dimensions are present when there is evidence of social and environmental project risks assessments and monitoring (e.g., for hydropower) or when there is a CSR and ESG policy or a framework in place;

f. Social and environmental dimensions are at risk when the sectors are known to contain risks according to the S&P ESG risk atlas tool and when there is clear evidence of social and environmental damages in such sectors in Lao PDR.

Such assumptions are reflected in the scoring methodology developed for this report

Data Sources

During this study, although the data gathering process was quite smooth, the data was often not available especially for 2020. In such case, the database was left blank.

Sectoral breakdown information was sometimes difficult to find. For instance, household consumption sectoral breakdown was only available in 2018 and 2019. This sectoral breakdown was itself used as a proxy for paid remittances financing flows. For private external debt, the foreign share of investments recorded by the Investment Promotion Department (IPD) was used. Such sectoral breakdown does not represent private external debt in its entirety, but it is deemed representative of how foreign private financing flows behave in sectoral terms.

Although the study attempted to be as coherent as possible by using the same sources to a maximum extent for the financing flows, it has not been possible to do so for the sectoral breakdowns. This means that, for the purpose of consistency, the study had to reorganise the sectors with the same labels across all financing flows. To do this, the labelling categories have been selected on the basis of the government expenditure economic sectors categories. This is a choice made to help the current effort to understand how to track financing flows for the purpose of SDG progress monitoring in Lao PDR.

Furthermore, the study used financing flows which sometimes overlap. For instance, private external debt normally includes FDI and FPI (but not only). This choice of financing flows was meant to give a comprehensive overview of Lao PDR's financing flows.

Score Rationale

The performance review has been carried out according to a scoring system that is detailed below. Two scoring categories were used: (1) the SDG fostering score and (2) the government priority score. The first category captures the number of SDGs attained by each financing flow and its composition in terms of social, environmental and economic dimensions. The second category captures whether financing flows are in line with government priorities or with development social and environmental priorities. Both scoring categories ranged 1 to 3.

The scores were then allocated following the criteria set in the table below (also see scoring sheet in annex 5.3). The final score of each flow was computed by multiplying the two categories together, and it therefore ranged 1 to 9. The final score was used to compute weighted percentages starting from the crude financing flows as GDP percentages. As a result, the higher scores left the financing flows' amount unaltered while the lower scores reduced the amount of financing proportionally to the value of the score.

One of the methodological findings of this exercise has been that it was difficult to use information relating to Environmental, Social and Governance standards (ESGs) and Corporate Social Responsibility (CSR) or corporate sustainability policies because Lao PDR does not really have these policies in place.

In the absence of sustainability reporting, we had to assume that private flows did not meet social and environmental criteria in the riskiest sectors. This is not the case of public flows because they have an inherent development focus and through oversight of development assistance (very present in the case of Lao PDR), they are being monitored.

Another methodological finding emerging from the performance review was that the EU taxonomy could not be used to classify sectors into more or less sustainable sectors because these sectors are too aggregated to offer such possibility. It would thus have been useful to have a more disaggregated level of sectoral breakdown to be even more specific about SDG financing performance.

SDG Fostering Score Government Prioritisation Score	
High Scoring - 3 given when the following conditions are gathered;	
• The number of SDGs targeted by the investment is equal to or above 5 (ie 1/3 of the SDGs • The SDGs that are targeted represent a balance of environment, social and economic goals • The financial flows are subject to ESG reporting or there is a significant or there is a clear development orientation / label to the flow (i.e. ODA)	• High gov priority is assigned if investment sectors are identified within the NSEDP (8th and 9th) or reported within the SDG - VNR combining high social / employment and income returns (sectors commonly include, agriculture, education, connectivity health) • Or the investment sectors identified combine low social and environmental risks (as shown in the S&P Sector Risk Atlas or as listed in the EU taxonomy)
Medium Scoring - 2 given when the following conditions are gathered;	
• The number of SDGs targeted by the investment is equal to or above 5 (ie 1/3 of the SDGs • The SDGs that are targeted do not represent a balance of environment, social and economic goals • Or Vis-versa (number of targeted SDG is lower than 5 but are balanced (environment, social and economic goals	• Medium gov priority is identified as the investment sectors offer high economic return but low social and environmental returns (ie tourism, mining, and extractive industries - inc hydro power dams) • Or the sectors identified combine medium social and environmental risks (as shown in the S&P Sector Risk Atlas or as listed in the EU taxonomy)
Low Scoring - 1 given when the following conditions are gathered;	
• The number of SDGs targeted by the investment is equal to or above 1 but below 5 (ie less than 1/3 of the SDGs)	• Low gov priority is identified as the investments offer low economic return and low social and environmental returns (ie nascent industry / high non positive environmental impact • Or the sectors identified combine high social and environmental risks (as shown in the S&P Sector Risk Atlas or as listed in the EU taxonomy)
Zero Score - Not Considered	
Zero Score Assumption - it is assumed that all financial flows into the economy have some type of positive impact (direct and non direct) influence on the attainment of the countries SDG commitments	

Findings

The study gives an overview of SDG financing flows' performance in Lao PDR. It has taken a selected sample of financing flows embedded in macroeconomic indicators such as external debt or FDI to see how such flows are invested in the economy and whether they capture a fair and balanced number of SDGs. The next paragraphs express the main findings extracted from the performance review.

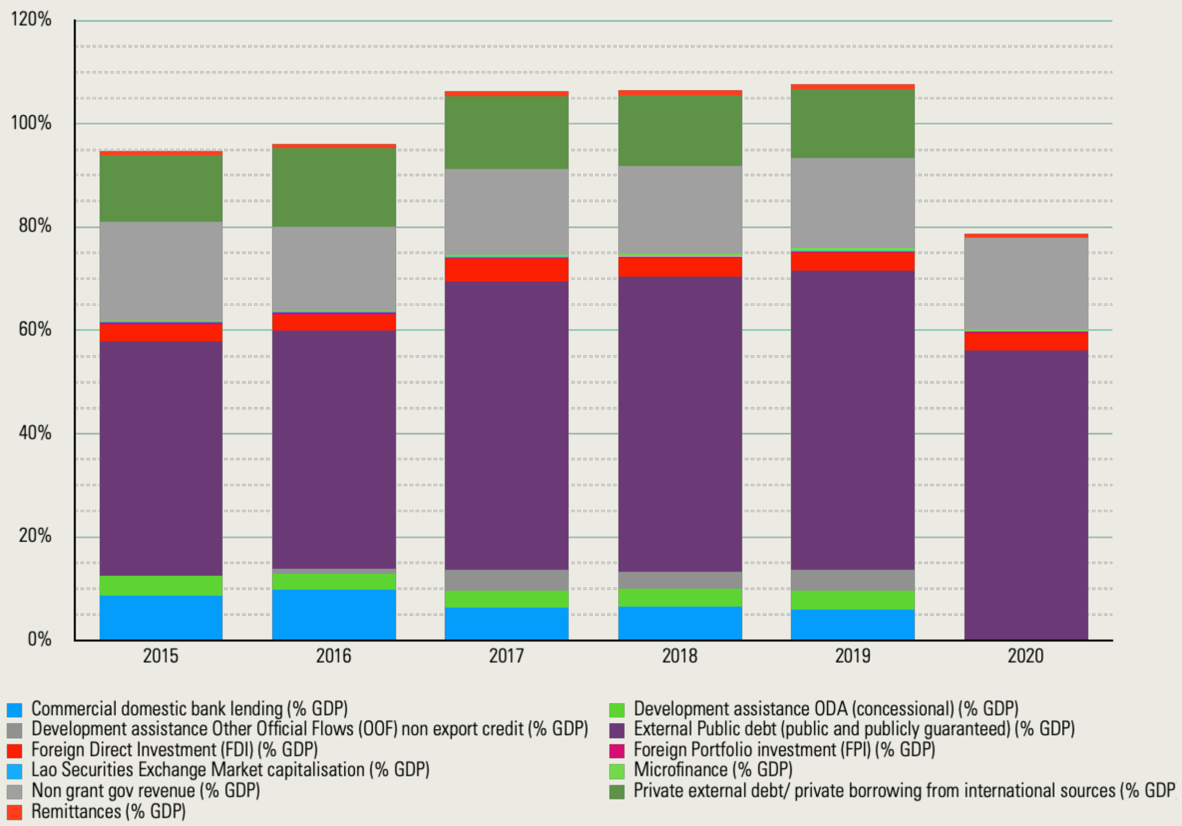
Weighed vs performance crude

Compared to crude SDGs financing flows (expressed in % GDP), the weighed flows – which take into account the balance of SDG dimensions (economic, social and environmental) across sectors, government priorities, the flows' development orientation and the environmental and social risks associated to the sectors that are the object of financing (see section 2.2) –

perform well for public flows while for private flows they tend to take a smaller share of GDP, thereby implying a poorer performance.

Such observation primarily means that most private flows going to Lao PDR's economy could improve their sustainable finance strategy. Indeed, these flows need to show for how they target sectors respecting social and environmental dimensions (as well as economic returns) in order to be considered as performing adequately. To this end, complying with ESG and CSR reporting practices is of the utmost importance.

Exhibit 3 - Selected SDG Financing Flows Performance 2015-2020 (Weighed GDP %)



In relation to the financing amounts, in the public sector, non-grant revenues and development assistance form the biggest share of financing available to spend for SDGs attainment. These flows each represented (in the period 2015-2020), between 0,1% and 18% of the GDP for development assistance and between 16% and 19% of the GDP for non-grant revenue. In Lao PDR, development assistance (ODA and OOF) represents an important part of public financing as most of it is centralised through the government[7]

The public external debt flow, which represents the stock of debt accumulating over time, is also important to give an idea of the amounts of public financing available through external debt contracted in the form of loans but also through bonds. In the past years the government of Lao PDR has issued a significant number of bonds to finance the energy[8] and transport sectors (e.g., large projects like the Belt and Road initiative)[9]. More recently, (September 2020) the MoF Ministry of Finance issued domestic bonds of 1,500 billion kip and USD 50 million[10].

While public expenditures have remained fairly stable over the past 5 years, the private sector net inflows have sloped in 2019. Both FDI and FPI have significantly decreased. This seems to be partly due to the moratorium on mining imposed by the government and the hydropower project financing coming to an end and the beginning of COVID-19 crisis in 2020. FDI is currently mainly driven by construction of the Laos-China railway, the Vientiane-Vang Vieng highway and several small and medium-sized power projects. For similar reasons, foreign portfolio investments (FPI) are currently negative (-0,72 in 2019 coming from 2,8% of the GDP in 2018 (USD 538.6 million).

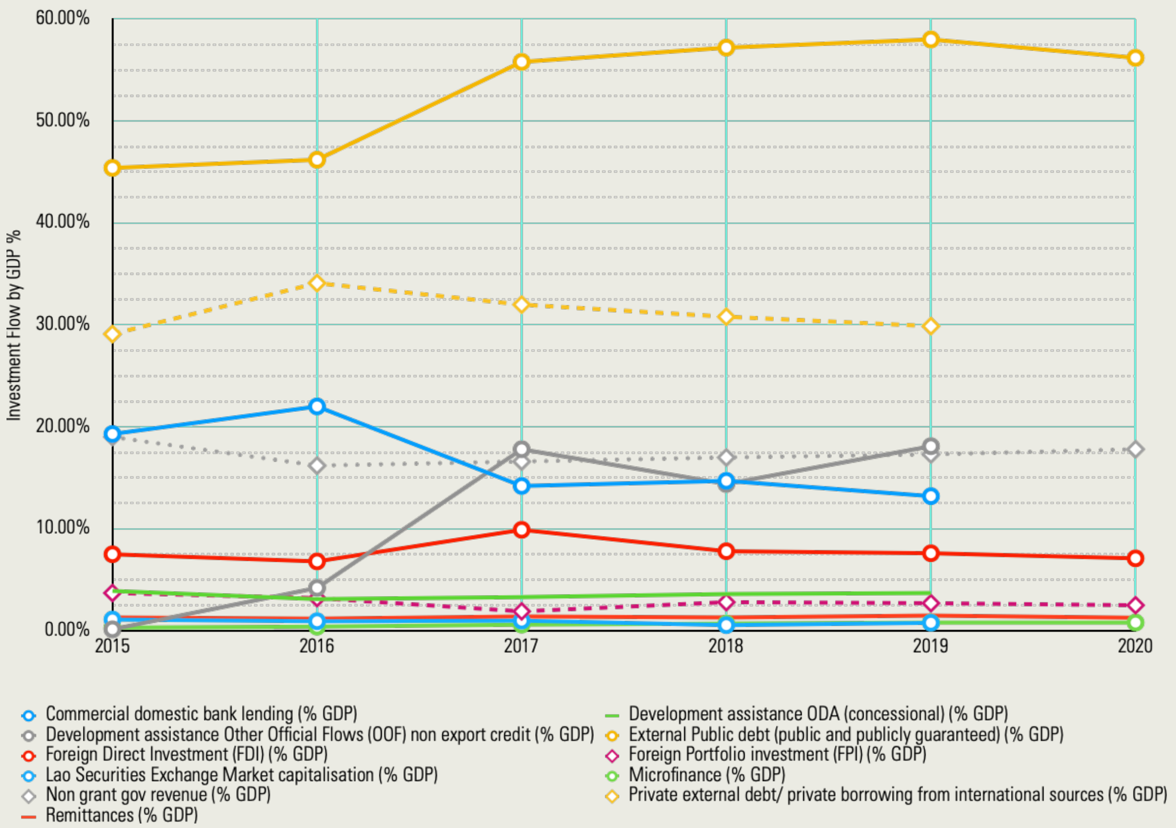
[7] Lao PDR DFA Snapshot 2018

[8] A large share of the PPG debt in Lao PDR comes from Electricité du Laos (EDL), which has been borrowing large amounts making the debt rise from USD 400 million in 2019 to USD 802 million in 2023. China holds 85% of this debt.

[9] http://www.lsx.com.la/market/bond/list.do

[10] The previous US dollar bond of $500 million issued by the central bank was heavily undersubscribed, with only $31 million taken up. This could be attributed to uncertainty associated with the government's credit worthiness, coupled with the marginal difference between the interest rates offered by these bonds and commercial bank US dollar deposit rates. World Bank Lao PDR Economic Monitor 2020

Exhibit 4 - Selected SDG Financing Flows Performance 2015-2020 (GDP %)



Remittances, which officially represent between 1 % and 1,5% of the GDP in the period 2015-2020, are also sloping due to the COVID-19 thereby causing the main source of livelihood to disappear for many families. This is a critical financing flow for the purpose of SDGs attainment as it targets the most urgent national development priorities, i.e., no poverty, zero hunger, education etc.

Microfinance flows, which are also quite important to create employment among micro-entrepreneurs or the self-employed, have been increasing throughout the period 2015-2020, representing 0,3% of the GDP in 2015 and 0,8% in 2020. In actual amounts, these financial flows however remain quite low.

In regard to the sources of external public financing (included in Public and Publicly Guaranteed debt (PPG) , official financiers take the lead. Among official creditors, in 2018, multilateral debt accounted for 15.1% of total PPG debt and bilateral debt amounted to 43% of total PPG debt. Majority of external PPG debts are concessional (65%) and denominated in US dollar (55%)[11]. In terms of the composition of creditors, in mid-2020 China accounted for nearly half (47%) of Laos' total external public debt, with the remainder consisting of multilateral concessionary loans (split between the Asian Development Bank and the World Bank, 17%), 17% through the commercial bond market, ex-China bilateral loans (11%) and other non-concessional loans (8%)[12].

Exhibit 5 - Remittance Flows

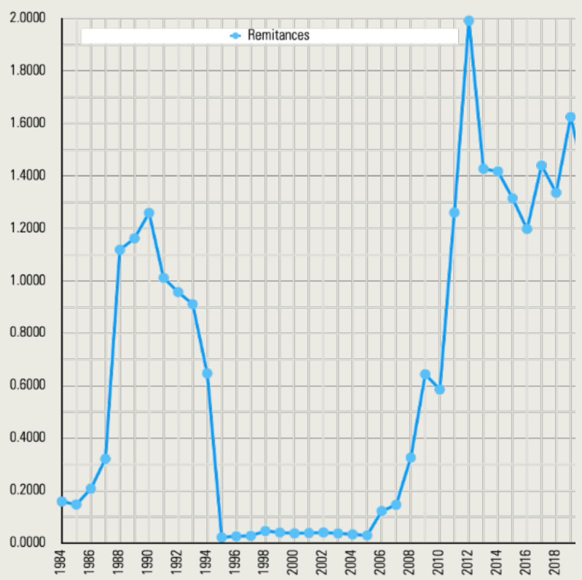
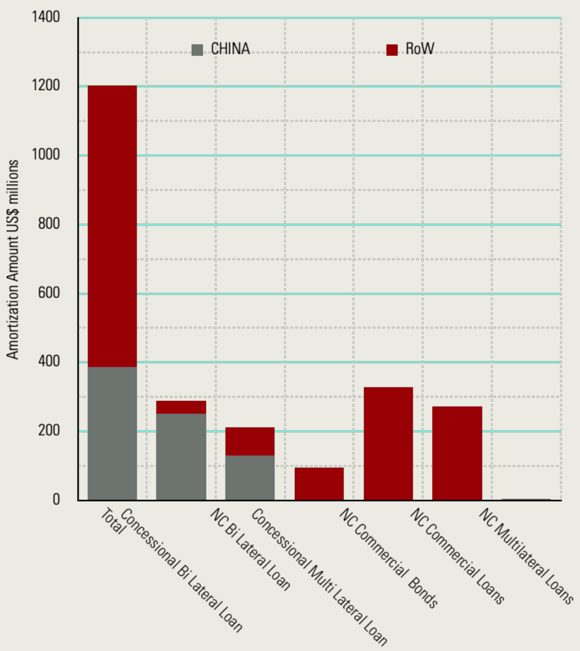


Exhibit 6- External; Debt Stock by Source



SDG Finance Flow Origins

The stakeholders who are financing SDGs in Lao PDR are quite diverse. They include, inter-alia, bilateral donors, multilateral banks, foreign and domestic commercial banks, micro-finance institutions, philanthropists, private individuals (through remittances) and foreign and domestic capital market investors.

Non-guaranteed private external debt (PNG) attracts primarily commercial banks and bondholders. Foreign equity holders and investment funds are present but, aside from 2018 (1,29 USD million), the flows have been negative.

[11] ADB. (Dec. 2019) Country Operations Business Plan, Lao People's Democratic Republic 2020–2022 (available at https://www.adb.org/sites/default/files/linked-documents/cobp-lao-2020-2022-sd-01.pdf)

[12] World Bank. (2020d). Lao PDR Economic Monitor. June 2020. World Bank.

Finance By Type

Exhibit 8 illustrates the estimate SDG financing by financier that, overall, the main financiers based on authors calculations using multiple sources. It is verified that the mix has been stable; there are no major variations in the composition of financing stakeholders in the period 2015-2020.

There is, however, a slightly decreasing share of private foreign and domestic banks in 2019 compared to 2015. On the other hand, official creditors contributing to Public and Publicly Guaranteed debt have been increasing their contributions from 30 % to 37% of the selected financing flows

Exhibit 7 - 2015 SDG Financiers

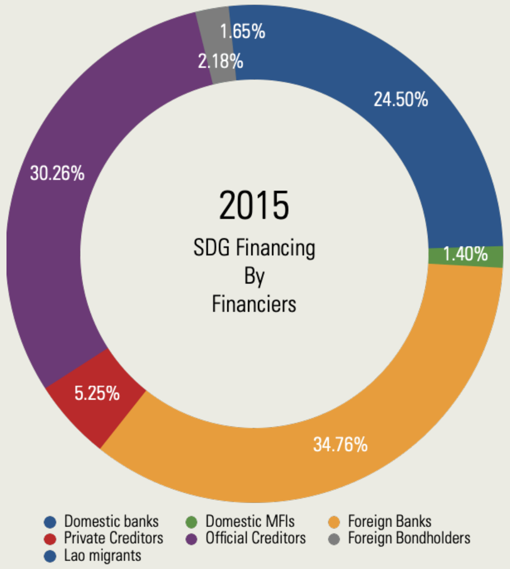
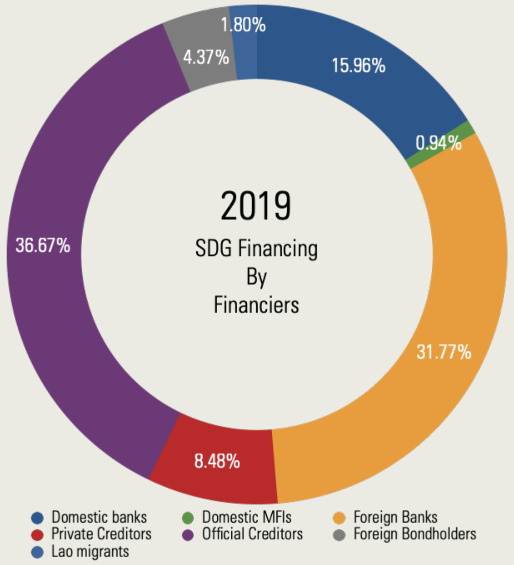


Exhibit 8 - 2019 SDG Financiers



	2015		2019			
	Value US$ m	Value % GDP	Value US$ m	Value % GDP	Change% GDP Value	
Domestic Banks	2,772.059	19.30	2524.76	13.20	-31.61	▼
Domestic MFIs	157.993	1.10	149.19	0.78	-29.09	▼
Foreign Banks	3933.035	27.83	5026.98	26.28	-4.02	▼
Private Creditors	593.393	4.13	1342.33	7.02	68.87	▲
Official Creditors	3,423.421	28.84	5801.98	30.33	27.27	▲
Foreign Bondholders	246.598	1.72	691.99	3.62	110.72	▲
Lao Migrants	186.719	1.30	284.99	1.49	14.62	▲

SDG Finance Sectorial Flows

Lao PDR public expenditures constitute the main channel of financing openly targeting SDGs achievement. Thanks to its National Socio-Economic Development Plans (NSEDP), which integrate SDGs, Lao PDR intends to allocate its budget to projects that contribute to attaining the SDGs. In particular, the government has set priorities including education, health and infrastructures in key economic sectors such as transports among others. This is reflected, in part, in its budget distribution by economic sectors. Indeed, on average over the period 2015-2020 the 5 top economic sectors covered by the public budget were the following:

Sector	% Budget
Education and Sports	8.33 %
Public Works and Transport	6.66 %
Public Health	4.70 %
Energy and Mines	2.44 %
Finance	2.22 %

With regard to public health and education expenditures, the main sources of financing come from the international cooperation. Official Development Assistance (ODA) in Lao PDR is mainly disbursed through the government's budget. On average ODA represents about 15% of the state budget in social fields. In 2016, the portion of foreign funding (mostly ODA) in the education and health expenditures (capital spending) was up to 70,6% and 82,4% respectively[13].

The main items of expenditures for bilateral and multilateral donors are economic infrastructures and services, which represent, on average, about 20% of the total ODA to Lao PDR. This is followed by expenditures in production sectors (about 15% of ODA), education (15% of ODA) and multi-sector (about 13% of ODA).

Environmental concerns are present at the government level. The Voluntary National Review (VNR) 2021 illustrates that efforts are being made to align with international agreements, for instance, in regard to the mining industry under moratorium. However, it is difficult to see how this is reflected in public investment at the moment due to the lack of clear sustainable markers.

To-date, the most important investment projects in Lao PDR have been hydropower which have to comply with strict sustainability criteria and undergo regular monitoring (e.g., by IFC). Another very important investment project is the high-speed railway connecting Kunming, the capital of China's Yunnan province, to Bangkok in Thailand and passing through Laos. Here, while the environmental and social costs are not clear yet, the WWF has already reported on serious damage to biodiversity in regard to the forestry land lost in Lao PDR[14]. This entails that despite their clear development orientation, even the projects supported by the government can have unsustainable outcomes. In such cases, mitigation strategies must be found in order to find a socio economic and environmental balance.

Whilst ODA and government expenditures are designed to achieve the SDGs, private investments, which primarily target economic returns, also promote SDGs. Given the current global trends, which demand greater concern for sustainability issues in the financial sector as well as in enterprises, private investment can even be considered, sometimes, as achieving SDGs as extensively as public investments.

[13] Lao PDR Ministry of Planning and Investment, Foreign Aid Implementation Report (FAIR), 2018
[14] https://www.wwf.org.hk/en/?19680/Feature-Story-WWF-and-Greening-the-Belt-and-Road-Initiative
also see https://www.iai.it/en/pubblicazioni/how-green-chinas-belt-and-road-initiative

In Lao PDR, unfortunately, the reporting requirements (ESGs and CSR) in the financial sector and in enterprises for sustainability purposes are not yet sufficiently developed so as to create a measure of sustainability for the private sector.

However, the sectors that are targeted by private financing flows already constitute a good indicator of sustainability.

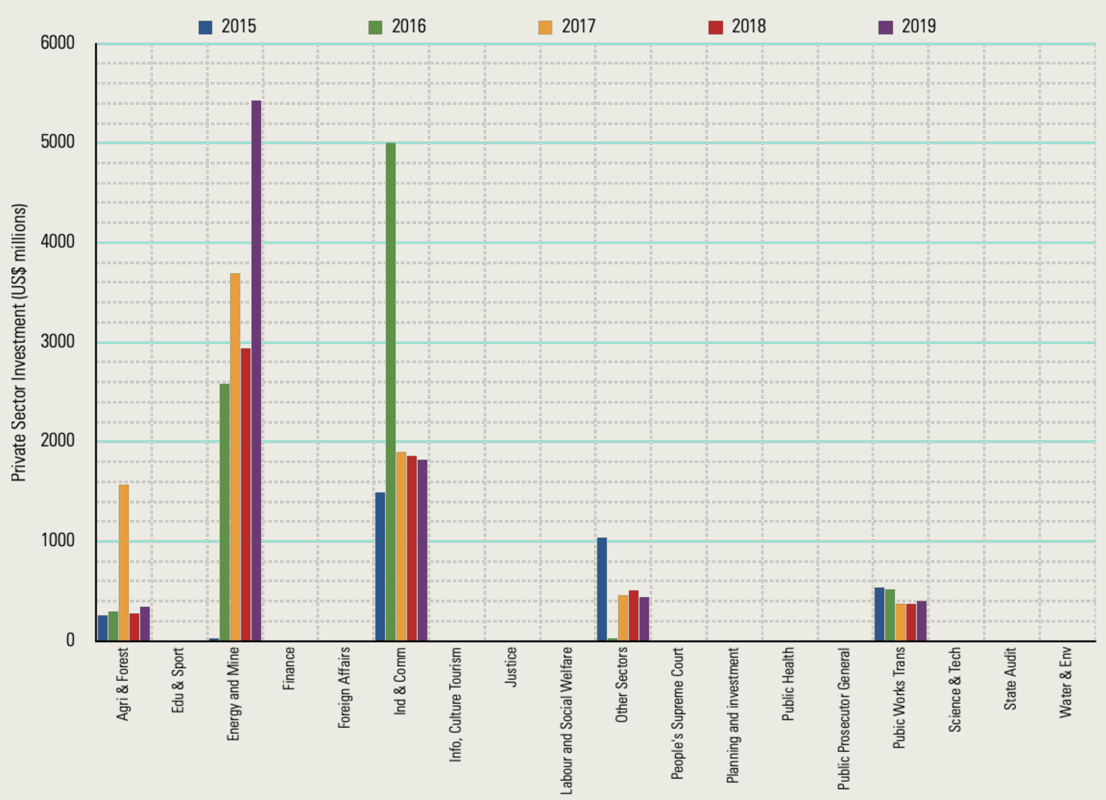
Private sector external debt[15], which broadly represents under 30% of the GDP, tends to be narrowly directed towards energy, construction and the industry/commerce sectors.

The energy sector tends to dominate private investments with a foreign debt component. In 2019, the energy sector represented 94,7% of the total private external debt (its lowest being 47% in 2016).

The industry and commerce sector also gathered significant foreign investments in 2016 (52%) although, in the last years, these sectors have seen investments representing a share of 0,02% of the total external debt. Hence, aside from 2017, when there has been 24,5% of total private external debt allocated to the agriculture sector, the debt contracted by private entities in the country has been primarily focused on developing economic returns from "*high generating*" sectors.

The agriculture sector is not deprived of economic returns itself, however, it also contributes to food security and, thus to SDG 2 (Zero hunger), SDG 3 (good health and well-being) and other related social impacts.

Exhibit 9- Private Sector Investments by Sector



[15] This sectoral breakdown is based on the data produced by the Investment Promotion Department (IPD) of the Government of Lao PDR. This data gathers the share of foreign investment by sector in Lao PDR. It is unclear whether these are foreign direct investments (inter-enterprises) or foreign bank loans. It is also possible that this data does not capture all the external debt contracted by national private entities, however, it gives a good indication of the sectoral distribution of foreign investments in the most prominent projects of the country.

This is partially confirmed by FDI flows, which also clearly targeted the energy sector in 2015/16 with percentages of total FDI over 50% but ending with only 7,5 % in 2020. The industry and commerce sector also saw a decline with a peak in 2017 (30% of total FDI) to reach 6,5% in 2020. The construction sector, on the other hand, began attracting more FDI with 0,9% in 2015 reaching 46,6% of total FDI in 2020. The finance sector also has seen some decline with over 20% in 2015/16 and 14% of total FDI in 2020.

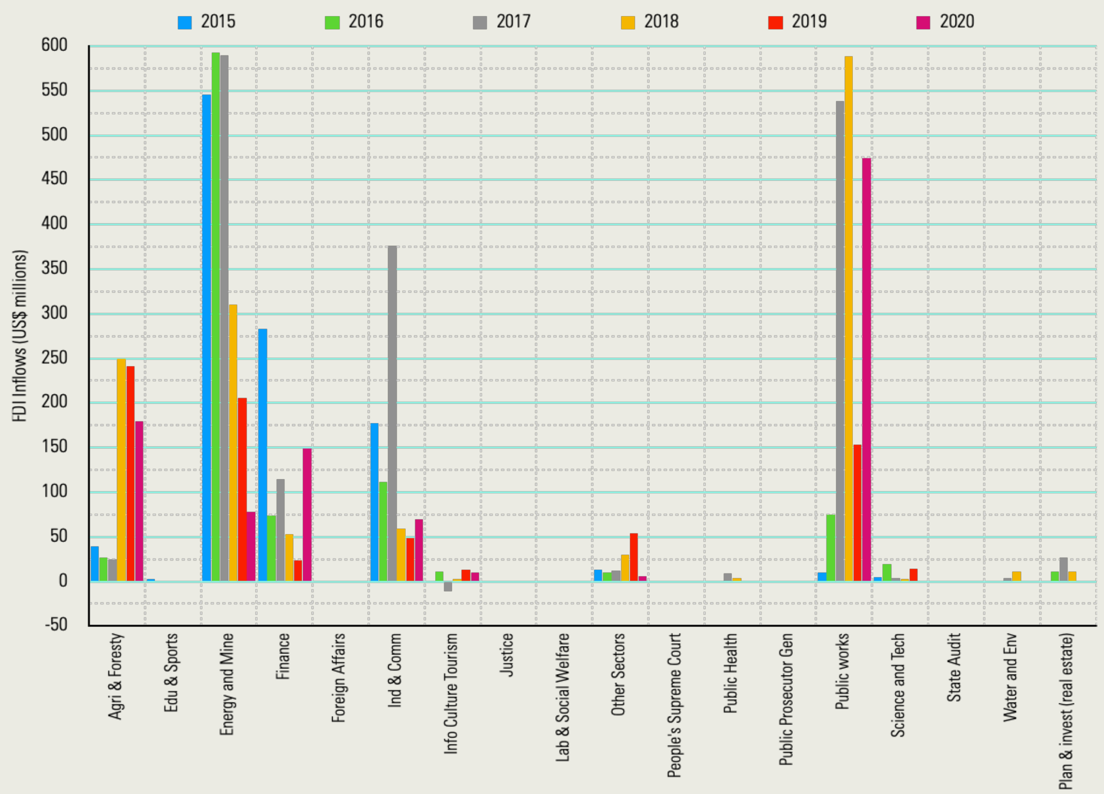
Composition of the economic sectors of Lao PDR (cited by World Bank, Lao PDR Economic Monitor, 2019)

Agriculture: rice, vegetables, rubber, and banana.

Industry: Power sector (hydropower projects)[16]; Construction sector (Lao section of the Kunming- Singapore railway, several hydropower projects, commercial and residential buildings, and repair and some reconstruction of infrastructure affected by the floods in 2017); Mining sector (copper, gold).

Services: Wholesale and retail trade coming from the construction and tourism sectors.

Exhibit 10 - FDI Investments by Sector



[16] https://www.ifc.org/wps/wcm/connect/36fc593f-66e6-4411-bf67-c78a66934b05/Sustainability+Matters+Brochure+-+Web.pdf?MOD=AJPERES&CVID=lXN-RQD

The investments made in companies listed on the Lao Securities Exchange (LSX), also principally go towards the sectors of energy and construction with a capitalisation representing at least 60% of the market in the energy and mining sector albeit declining since 2015 when it was up to over 87%.

The Construction and Finance sectors are also capitalised but lag far behind the energy and mining sector in terms of value and trade. However there are positive trends with increasing values up to 18% of the market for construction in 2019. Given the operationalisation of the new Kunming - Vientiane slated for early 2022 higher investment in retail, housing and hotels can be anticipated. Currently, although there are more domestic investors than foreign ones (about twice as much), the trading value of foreign trade represents about 50% of the total trading value on LSX since 2017.[17]

On a cautious note, the rapid development of retail and housing in neighbouring Cambodia through FDI emanating from China and Korea has not resulted in the rapid expansion of the Cambodian Securities Exchange (CSX) for various reasons. This ideally needs be reflected upon by the Laos authorities so that FDI also results in the development and expansion of the LSX.

Remittances and micro-finance flows are both fundamental in terms of SDG attainment as they specifically target the most vulnerable portions of society. This translates, for remittances, into the household item expenditures and, for micro-finance, into the economic sectors financed.

It can be assumed that in Lao PDR, the most important part of remittances tends to go to feed families with close to 63% for the years 2018 and 2019. Transport/ communication and education come after that with, respectively 7,4% and 4,7% of total household expenditures.[18]

As to micro-finance financing flows, they primarily are directed towards the wholesale and retail services (35% of total micro-finance on average), which in Lao PDR mainly consist of services related to tourism and construction. In 2019, however, the share of micro-finance directed to this sector has dropped to 25%. The next sector that is considered as being highly financed (about 20% on average) is the agriculture, forestry and fisheries sector, which is one of the national development priorities. However, this sector has also seen its share decrease to 13% in 2019. "*Other services*" as classified by the Asia Economic Monitor 2021, take large portions of these flows (between 36% and 53% in 2019), however, it is unclear as to what sectors are linked to these services.

Aside from remittances and micro-finance (which represent very low GDP shares), private financing flows in Lao PDR thus mainly go to feed sectors that are captured in SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure).

All of these goals having potential effects on poverty (SDG 2 No Poverty) and inequalities (SDG 10 Reducing Inequality). Of course, it is difficult to say, just by looking at these flows, to what extent energy is affordable and clean and whether the work generated is indeed decent.

[17] Data extracted from LSX Annual reports

[18] World Bank, Lao Poverty Profile and Assessment, 2020 (available at https://www.worldbank.org/en/country/lao/publication/lao-pdr-poverty-profile-and-poverty-assessment-2020)

Indeed, in terms of social and environmental concerns, the portion of these financing flows complying with sustainable standards in currently unknown. This is explained by the lack of transparent reporting system on Corporate Social Responsibility (CSR)[19] and Environmental, Social and Governance Standards (ESGs) in Lao PDR. According to the IFC's Sustainable Banking Network (SBN) progress report 2019, Lao PDR is currently in the commitment formulating stage and has no policies in place.[20] Lao PDR thus still has quite a long way before it actually implements an efficient sustainable financing framework.

Future Trends

Due to the COVID 19 pandemic, private investments of all types have been significantly reduced in 2020 and SDG performance is declining. The World Bank estimated that Lao PDR's growth declined in 2020 by –0.6 percent.[21]

The main sector suffering due to the crisis is the hospitality sector (Tourism), a sector of great economic importance to Lao PDR. The lack of foreign and domestic demand in the other sectors such as tourism, construction and manufacturing have generated job losses and, without adequate social protection, this greatly affects SDGs in terms of poverty, hunger, decent jobs, inequalities and so on. As a matter of fact, as food prices are rising, many households, especially those who are not living off farming, are now in a dire situation. With lacking remittances, these households' coping strategy has now disappeared. The urban population is the most affected until now. Other factors, such as bad weather circumstances, have also affected rural households in the past 5 years.

This crisis has immense repercussions on revenue mobilisation for the government and on its capacity to direct financing towards SDGs attainment. The World Bank projects that in 2021, Lao PDR's GDP will rise to 4,9 % with a growth rate of 2,8%. This will be helped, in part, by the restoration of export activities with China and its offering of the Generalised System of Preferences (GSP) for 97 percent of Lao export products and by the signing of the Regional Comprehensive Economic Partnership (RCEP).22

[19] OECD Investment Policy Reviews, chap 6 Promoting and enabling responsible business conduct in Lao PDR, 2017

[20] https://www.ifc.org/wps/wcm/connect/

[21] World Bank, Lao PDR Economic Monitor 2020

[22] World Bank, Lao PDR Economic Monitor 2020

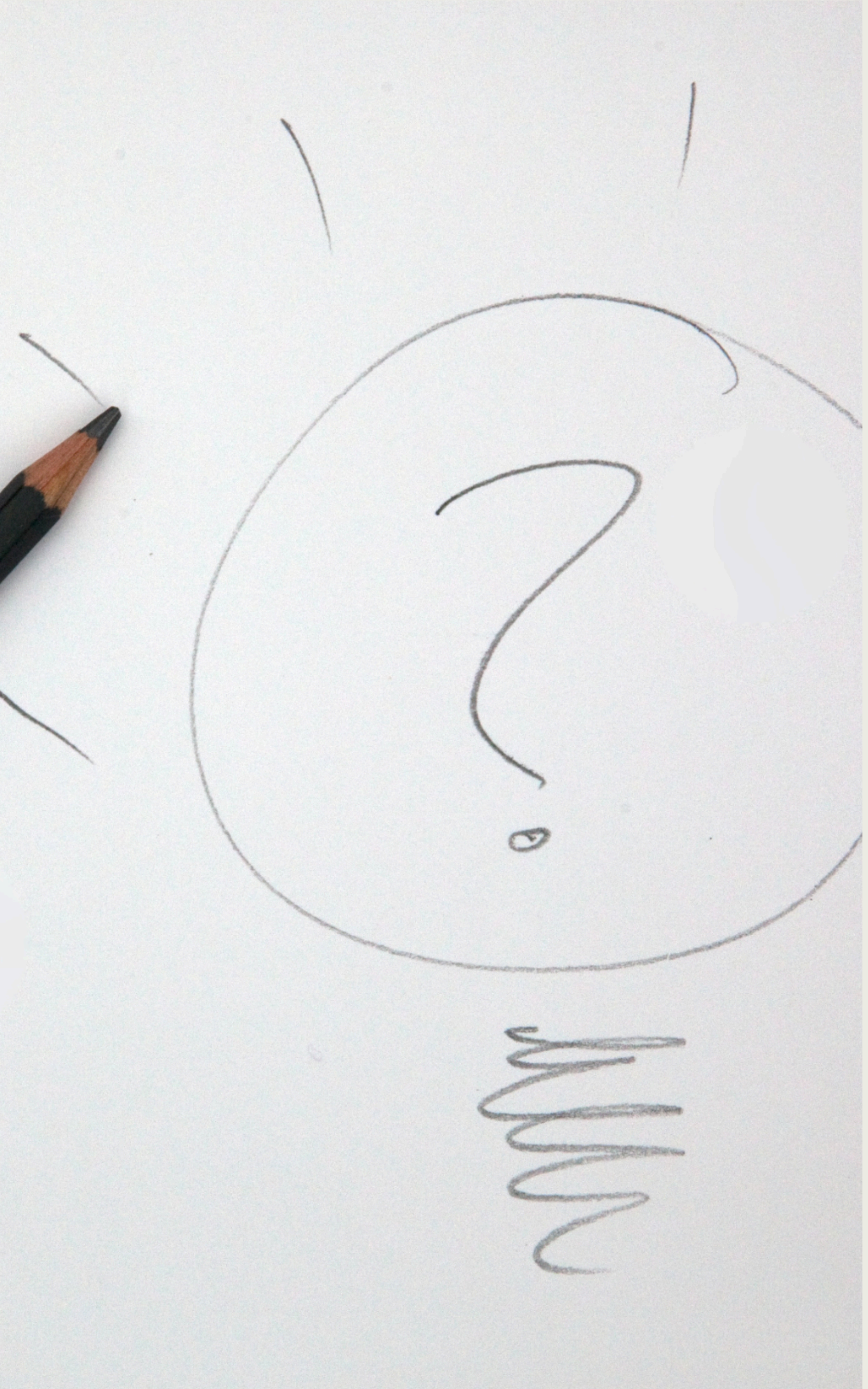


Photo Mark Fletcher Brown unsplash

Concluding Remarks

Further to the performance review of SDGs financing flows, we have learnt that SDGs financing performance could benefit from a higher implication of the private sector on several fronts in Lao PDR.

First, the private sector needs to start reporting on its social and environmental activities, both in the financial sector and at company levels. This will allow two things: (1) a full consideration of private sector financing flows for SDG performance purposes and (2) the re-orientation of private financial flows towards sectors with low environmental and social risks (albeit with high economic returns). Such reporting would be helped by the creation of sustainability markers linked to sectors and sub-sectors that would be reported on by banks and companies and considered for public budgeting purposes.

Public financing should also make a conscious effort to report on public (or Public -Private Partnerships) projects' sustainability, especially in the public work and construction sector as this is a sector containing high environmental and social risks. Such reporting should set the example for the private sector.

Secondly, Lao PDR's GDP must grow. SDGs performance levels is inherently linked with the size of financing flows. As we know, more financial resources are need to attain the SDG targets by 2030, especially in the field of infrastructures. This can be helped by a better investment promotion, but most of all, it depends on markets development and their appeal to investors. Creating new market is a strategic endeavour, which needs to be developed through policy making.

Thirdly, Lao PDRs' financiers could diversify. SDG financing in Lao PDR, is very much dependent on external sources, be they official or private sources. Despite the current limited capacity of the domestic banking system, diversifying these sources so as to include more domestic financing could be a good idea. Increasing capitalisation and the number of listed companies on the capital markets could provide for one of these diversification channels provided both the market and the financial architecture are ready for it.

The Lao PDR government has the potential to go a long way in shaping the path towards greater SDG financing performance. This is through continuing to improve the foreign investment climate (along the lines of "open mind", "open doors", "open barriers") but also through creating the conditions for the private sector to invest in socially and environmentally sustainable sectors. One of the main barriers to sustainable investments is the lack of clarity on sustainability issues at sub-sectoral levels. The government could thus have a great role in providing more clarity in this respect and facilitating data collection to trace SDG financing by create a harmonised list of sub-sectors with sustainability markers

Photo Stephen Dawson unsplash

SDG Performance Dashboards

The dashboard, which is available in the annex 5.1. of this report, consists in a visual display instrument, which can be easily be updated on the corresponding excel databases.

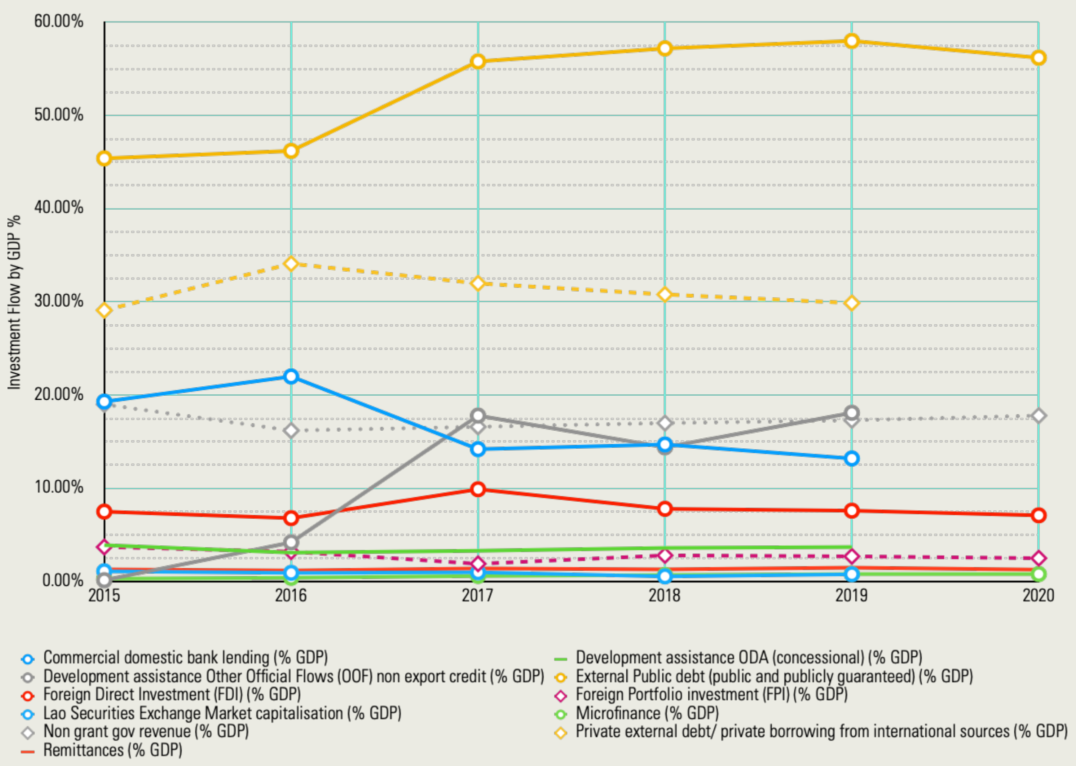
The dashboard displays the following elements:

- Main SDG financing indicators for international private and public financial flows showing evolution in the period 2015-2020.
- How these financing flows are distributed:
- In terms of size of financial flows;
- In terms of financing sources;
- The financing flows as a % of GDP crude and weighed (to consider the number of SDGs covered by each flow, the government priorities reached, the development nature of the flows, the environmental and social risks associated with the sectors of investment)

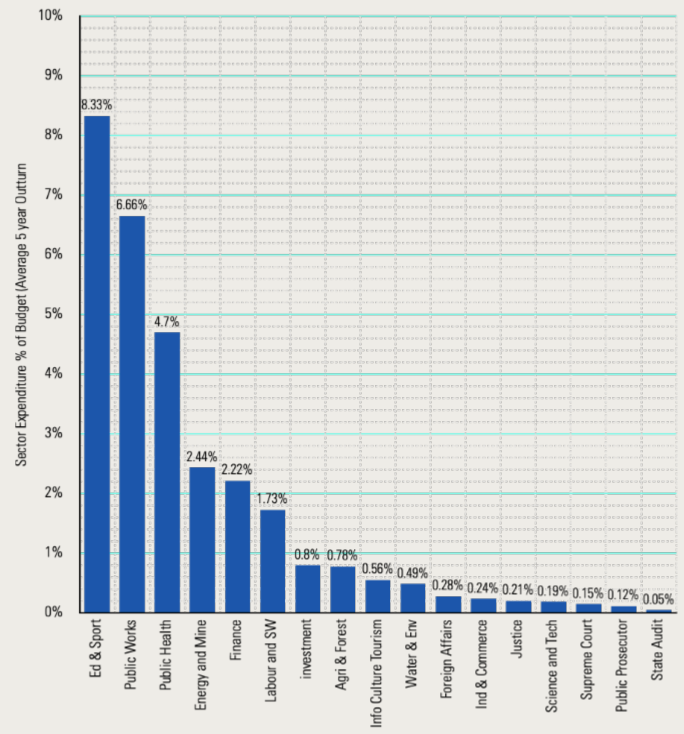
Exhibit 11 - SDG Dashboard Content

Dash 1		Dash 2	
SDG Financing Flows Crude Performance	*Investment Flow (% GDP)*	Remittance Flows	*% GDP*
Sector Expenditures (5 year avg. outturn)	*Budget Allocation (%)*	SDG Financing by Financiers	*Percentage share*
SDG Financing Flows Weighted Performance	*Investment Flow (% GDP)*	External Debt Stocks	*By Country*
Private Sector SDG Flows	*Investment Flow (%GDP)*	Non Grant Government Revenues	*% GDP*
ODA Inflows	*US$ (current)*	ODA / OFF Distribution	*By Development Partner Type*
FDI SDG Expenditure Flows	*Investment Flow (%GDP)*	FDI - SDG Finance Inflows (Direct)	*US$ (current)*

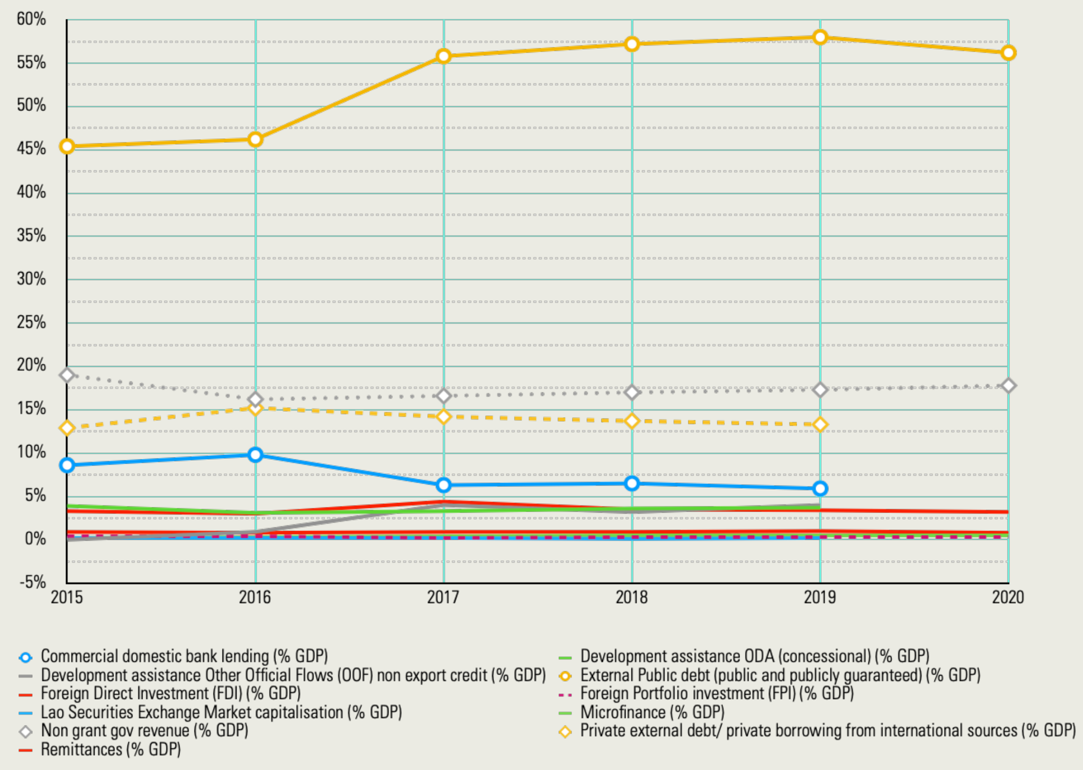
SDG Financing Flows - Crude Performance



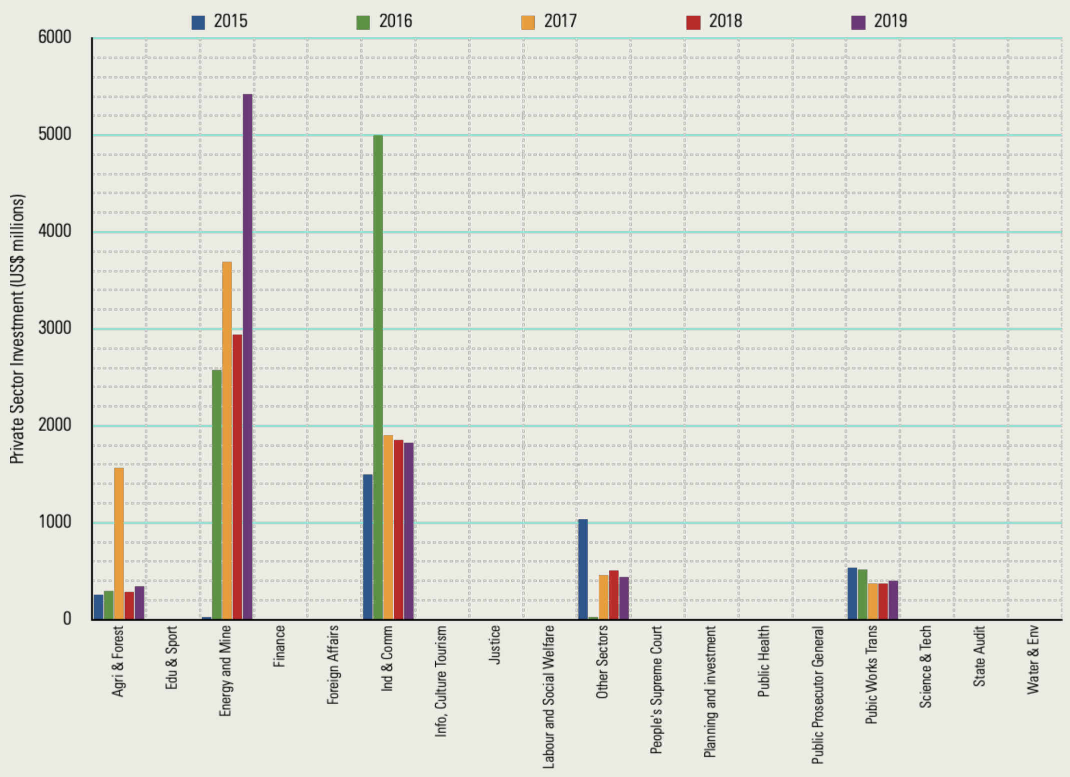
Sector Expenditures % Budget (5yr Outturn avg.)



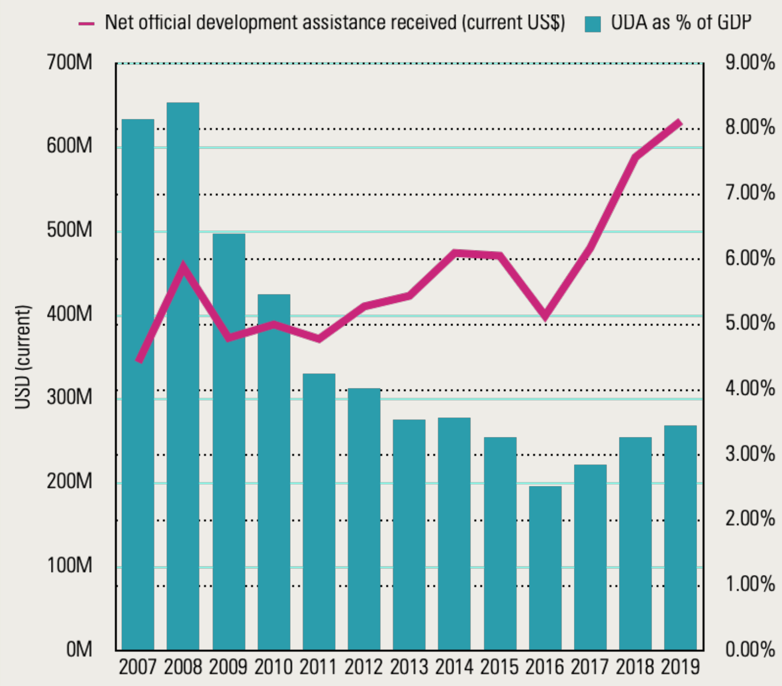
SDG Financing Flows - Weighted Performance



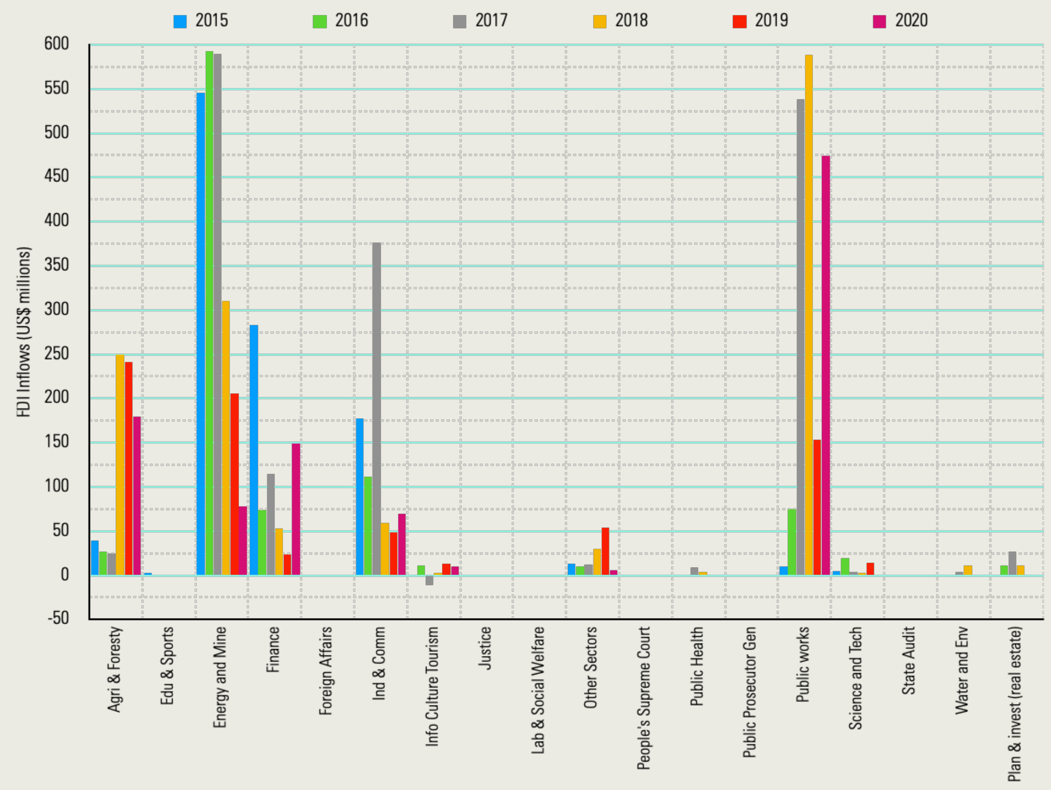
Private Sector SDG Flows



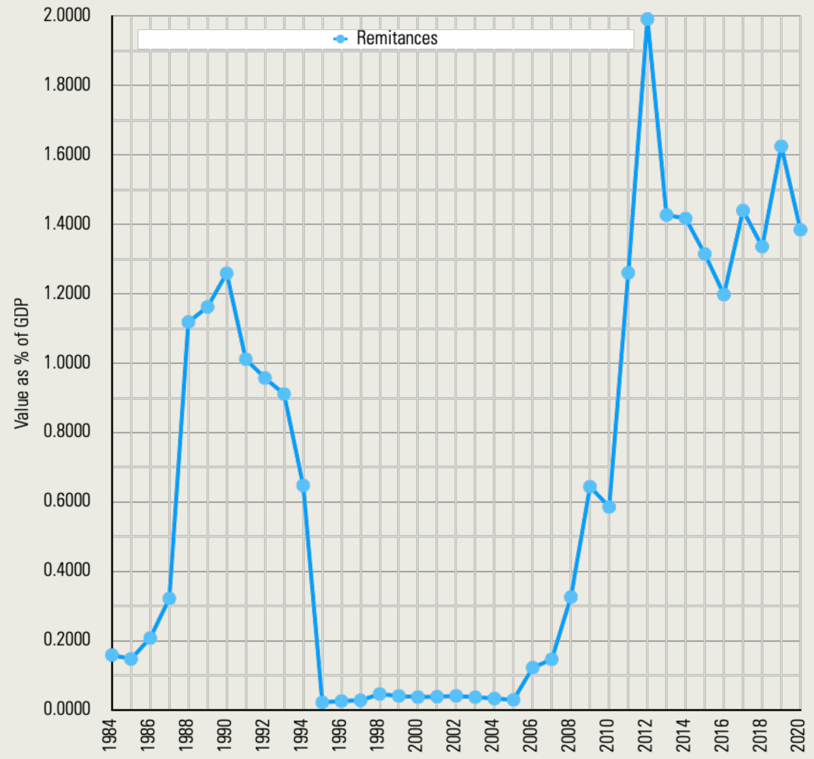
ODA by US$ (current) & % of GDP



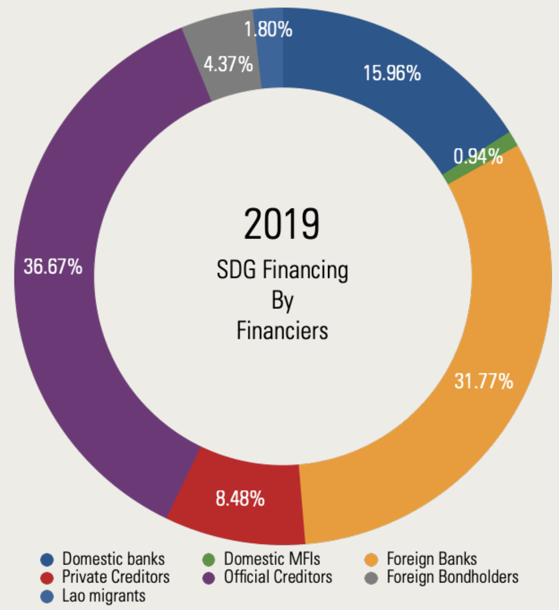
FDI SDG Flows



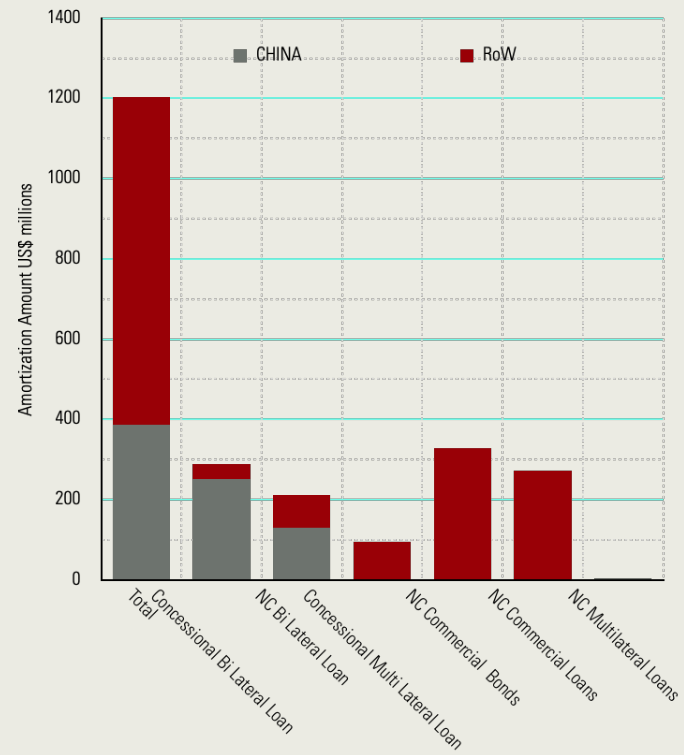
Remittance Flows (% of GDP)



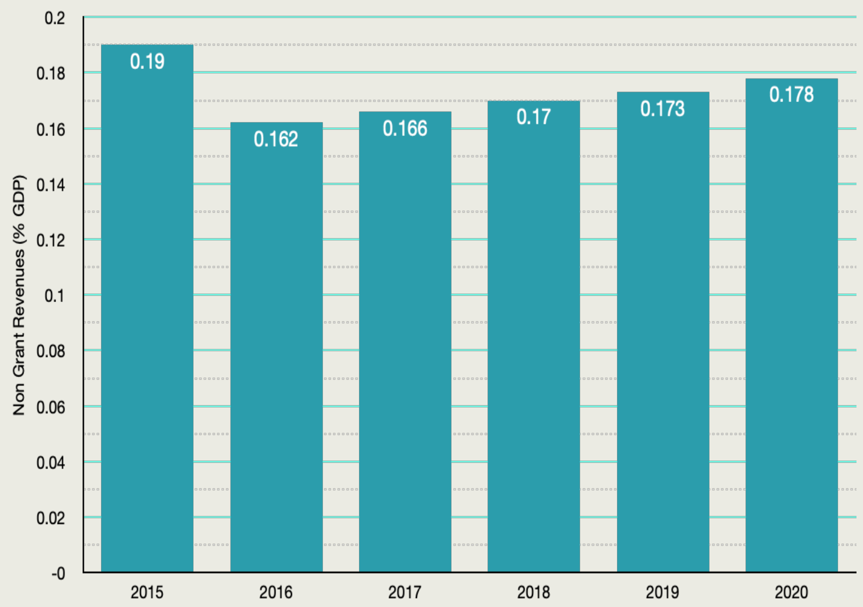
SDG Financing by Financiers



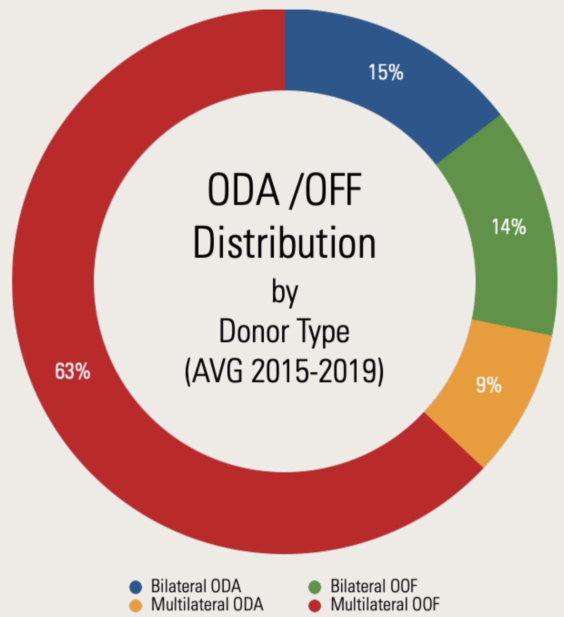
External Debt Stock by Source



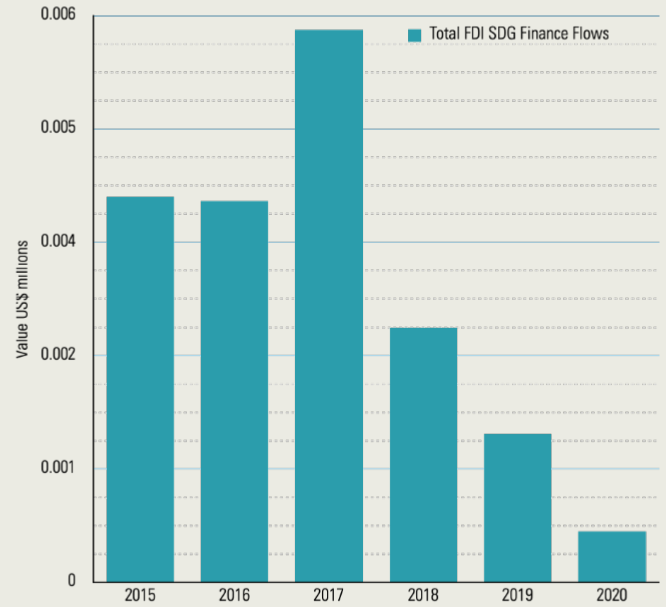
Non Grant Government Revenues (% GDP)



ODA / OFF Distribution by Donor Type 2015-20



FDI SDG Finance Flows



Unlocking Public and Private Finance for the Poor

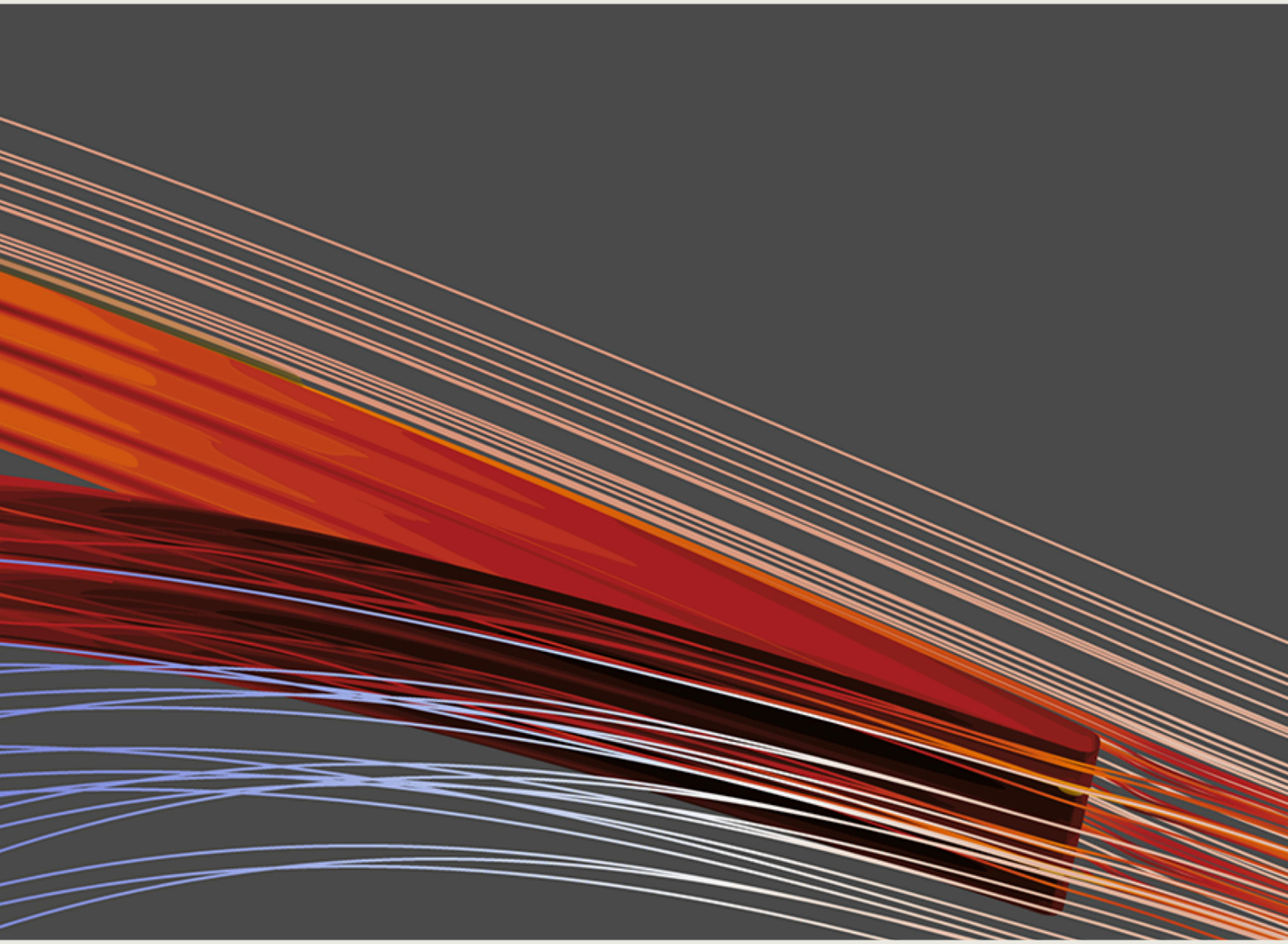


Photo: UK Fluids Network

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