

**MINISTRY OF EDUCATION AND TRAINING MINISTRY OF FINANCE  
ACADEMY OF FINANCE**

**THANOUXAY SIVANNALIT**

**STATE BUDGET EXPENDITURE STRUCTURE PROMOTES  
SUSTAINABLE ECONOMIC DEVELOPMENT IN THE LAO  
PEOPLE'S DEMOCRATIC REPUBLIC**

**Major : Finance – Banking  
Code : 9.34.02.01**

**SUMMARY OF DOCTORAL THESIS**

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**The thesis was completed in Academy of Finance**

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## INTRODUCTION

### 1. The necessity of the thesis

In the market economy, state budget expenditure (SBE) is used as an effective tool to perform the functions and tasks of the State. Through SBE, the State regulates the macro economy, stimulates production and business activities, promotes economic growth and ensures social security.

In the Lao People's Democratic Republic (Laos), in recent years, along with the increasing trend of the SBE scale, the spending structure has also been adjusted and innovated in order to stimulate economic growth. However, the global financial and economic crisis in 2008 brought the global financial economy into a severe and prolonged recession, leading to a decline in the overall economic growth rate of Laos. The transition to a sustainable and effective economic market model is an inevitable and objective trend of the economic development process of Laos. In the process of transforming the growth model to establish a new growth model, the State's role in regulating the economy is implemented through various economic tools, in which the reform of the state budget expenditure structure (SBES) is maintained important role.

The practice of state budget management in Laos in recent years still has many shortcomings, such as: SBES has not contributed to more effective allocation of public financial resources among types of expenditure, between sectors and fields; has not yet ensured a fair distribution and is more oriented towards the poor. On the other hand, due to the impact of the global financial crisis affecting the implementation of the SBES, as a result, some expenditures had to be cut, leading to the failure to achieve the set economic growth target. Aware of that, in the process of national development in order to achieve the goals and solve the problems posed, the State must have guidelines, policies and active solutions to gradually improve the quality of the regulation. state budget expenditures, including solutions to renovate the SBES.

In order to effectively use the SBE tool, the State needs to innovate not only the state budget spending policies, but also the spending structure to promote effective economic growth and development. growth model in the current period.

Stemming from the above theoretical and practical basis, the PhD thesis topic of economics "*State budget expenditure structure to PSED in Laos*" is made with scientific significance both in theory and in nature current practice in Laos

### 2. Overview of studies related to the thesis topic

It can be seen that most of the research works related to the SBES to promote sustainable economic development focus on the following three contents: i) Studies on the SBES; ii) Studies on sustainable economic development; iii) Studies on the structure of SBE to promote sustainable

economic development (PSED). The research works according to the above contents are aimed at setting orientations and solutions to perfect the SBES to PSED of the State.

### **2.1. The studies on the structure of state budget spending**

The thesis has briefly introduced the research results of 11 scientific research works on the structure of SBE that have been published in the form of reports, articles in international journals, scientific conference articles, etc. international study.

### **2.2. The studies on sustainable economic development**

The thesis has introduced 7 research works that are directly related to the thesis topic or related to the research contents of the published thesis topic, which are doctoral theses and scientific articles published by the University, published by publishers, higher education institutions, published in scientific journals.

### **2.3. The studies on the SBES to promote sustainable economic development**

The thesis has briefly introduced the research results of 6 scientific studies on the SBES to PSED that have been published in the form of research reports, articles in journals. international scientific journals, international scientific conference articles

### **2.4. The achieved results that the thesis will inherit**

Research works have provided the thesis with basic theories on state budget expenditures, concepts, characteristics and classification of budget expenditures. A number of research works have analyzed and given theoretical issues about the SBES for sustainable economic development or the tendency to establish the budget expenditure structure of groups of countries corresponding to their educational level. different developments in the world for sustainable economic development.

### **2.5. The research gaps**

Recently, there have been many research projects on SBE and SBES to promote sustainable economic development. Besides the research results related to the thesis topic, there are still some "gaps" that have not been researched and clarified:

Firstly, there has not been any comprehensive research on the SBES and the renovation of the SBES to PSED in Laos in the new situation, suitable to the current context.

Second, research on SBE in general and SBES in particular is a very complex and elaborate issue, requiring consideration from many different angles.

### **2.6. The research orientation of the thesis**

- Studying the structure of state budget spending to PSED in Laos in the

period 2017-2021.

- Synthesize data, analyze and evaluate the current state of the SBES in Laos in the 2017-2021 period, including the structure of SBE according to economic content (investment, recurrent, interest payment), basic expenditure structure according to the functions of the Government.

- Develop a system of solutions to improve the SBES suitable to the actual situation of Laos, with reference to international experiences.

### **3. Purpose and tasks of the thesis research**

#### **3.1. Research purpose**

Proposing a synchronous solution to improve the SBES to PSED in Laos in the period of 2025-2030.

#### **3.2. Research tasks**

Systematize, analyze and clarify a number of theoretical issues on state budget expenditure, SBES to promote sustainable economic development.

Summarizing experiences on reforming the SBES to PSED in other countries and in Vietnam, thereby drawing lessons for Laos.

Synthesize, analyze and draw comments and conclusions on the achieved results, limitations and causes leading to the limitations of the current SBES to PSED of Laos in the period 2017– 2021.

Develop viewpoints and propose synchronous solutions to improve the SBES to PSED in Laos for the period 2025-2030 with a scientific basis in theory and practice, in line with good practices. In the world.

### **4. Research subjects and scope of doctoral thesis**

#### **4.1. Research subjects of the doctoral thesis**

The research object of the thesis is the theoretical and practical issues of the SBES to promote sustainable economic development.

#### **4.2. Research scope of the doctoral thesis**

- *Scope of content*: There are many ways to classify the SBES, but the thesis focuses on researching the most relevant and influential SBES in order to promote sustainable economic development, including : (i) Structure of SBE according to economic content; (ii) SBES according to the functions of the Government; Approaching according to the economic content of budget expenditures, the thesis focuses on studying the basis of development investment and recurrent expenditures of the state budget.

- *Scope of space and time*: The thesis studies the structure of Laos' state budget expenditure, the current situation in the period of 2017 - 2021 and the viewpoints and proposed solutions for the period to 2025, with a vision to 2030. Experience of a some localities in Vietnam and Laos studied in the last 15 years.

### **5. Research questions**

To achieve the research objectives, the thesis needs to answer the following questions:

- What are the core theoretical issues about the SBES?: What are the theoretical issues about the SBES that need to be clarified, supplemented and further developed as a basis for assessing the current state of the SBES? PSED in countries?

- What is the status of the SBES to promote sustainable economic development, the results achieved, limitations and causes of such limitations in Laos?

- What needs to be done to improve the SBES to PSED in Laos in the coming time?

## **6. Research methods**

**Methodology:** The thesis uses *dialectical materialism method* and *historical materialism method* of Marxism-Leninism to clarify the nature of the research problems. In there, dialectical materialist method will interpret the relationship between SBES with socio-economic development of locality. Historical materialist method will explain the issue of SBES in Laos in the past, in the present and in the future.

**Specific Methods:** Based on the dialectical materialist method and historical materialism method, the thesis also uses the following specific research methods:

- **Documentary, Statistical, Statistical, Analysis and synthesis and Comparison study method to:** (i) ,Used to collect information through primary documents and secondary documents related to thesis from: doctoral dissertations, master theses, books, newspapers, journals, proceedings of scientific conferences, internet, etc; (ii). Statistics of data, material, events related to research problems. To solve the research problems, we need approach from many different perspectives. Using analysis and synthesis methods to link problems in an event or sequence of different events to clarify the research problems. To Compare and contrast the situation of SBES between Laos with other countries.

## **7 .The new contributions of the thesis**

### **- Theoretically**

Firstly, the thesis has clarified the theoretical issues about the SBES to promote sustainable economic development, built a system of evaluation criteria and clarified the factors affecting the SBE in promoting sustainable economic development. sustainable economic development.

Secondly, consult and summarize the reforms of the SBES to PSED in countries around the world and the lessons learned for Laos;

Third, the thesis has contributed to a rather profound and comprehensive assessment of the current state of the SBES to PSED in Laos in the 2017-2021 period; In particular, the thesis has pointed out the limitations and causes of limitations in the SBES to PSED in Laos.

### **- Practically**

Firstly, the thesis has proposed a group of solutions to reform the SBES to

PSED in Laos in the period of 2022 - 2030. In which, a number of solutions are explained thoroughly and have opportunities. theoretical and practical basis, are new proposals with practical value such as: perfecting institutions and policies on management and use of the state budget, renovating the SBES according to economic content; renovating the SBES according to the functions of the Government and solutions to conditions.

Secondly, the thesis is also a reference for managers, serving research and teaching

## **8. The thesis structure**

In the introduction, the thesis presented the significance of the research, research objectives and research tasks, research object and research scope, research methods, key research questions and the new contributions of the thesis. The main contents of the thesis are expressed in 3 chapters, namely:

Chapter 1: Basic theory and international experience on the SBES to promote sustainable economic development

Chapter 2: Current status of SBES to PSED in Laos.

Chapter 3: Improving the SBES to PSED in Laos

## **CHAPTER 1**

### **BASIC THEORY AND INTERNATIONAL EXPERIENCE ON THE SBES TO PROMOTE SUSTAINABLE ECONOMIC DEVELOPMENT**

#### **1.1. STATE BUDGET EXPENDITURES AND SUSTAINABLE ECONOMIC DEVELOPMENT**

##### ***1.1.1. Concept, characteristics, classification of state budget expenditures***

###### ***1.1.1.1. The concept of SBE***

According to the form of expression, state budget expenditures are all expenditures of the State which are estimated and implemented within a certain period of time decided by competent state agencies to ensure the performance of the following functions: powers and duties of the State.

According to the state budget cycle, SBE is the process of allocating and using financial resources that are concentrated in the state budget fund from state revenues to meet expenditure needs for implementation. functions and tasks of the State in each period.

###### ***1.1.1.2. Characteristics of State budget spending***

First, the SBE is the national public expenditure.

Second, SBE has a large and wide scope, diversity and complexity, associated with the state apparatus and the political, socio-economic tasks of the State in each period.

Third, state budget expenditures are not directly reimbursed.

Fourth, the efficiency of SBE is the macro-economic efficiency.

###### ***1.1.1.3. The role of state budget spending***

Firstly, the SBE is to maintain its activities as well as to perform the functions of the State in each period, certain period.

Second, SBE is a financial tool of the State to promote economic restructuring, ensure economic growth and stable development.

Third, SBE is a financial tool that contributes to compensate for the shortcomings of the market, ensure social justice and protect the ecological environment.

#### ***1.1.1.4. Classification of state budget expenditure***

(i). Classification of state budget expenditures according to economic content

First, spending on development investment from the state budget.

Second, regular spending of the state budget.

Third, spending on national reserves is the state budget's expenditure on purchasing goods and supplies for reserve in order to proactively meet unexpected and urgent requirements, etc.

Fourth, other expenditures of the state budget such as payment of due debts

(ii) Classification of state budget expenditures according to national programs, goals and projects.

(iii) Classification of state budget expenditures according to state budget sources.

(iv) Classification of state budget expenditures by budget level

#### ***1.1.2. Sustainable economic development***

##### ***1.1.2.1. The concept of economic development***

According to Assoc. Prof. Dr. Ngo Thang Loi, economic development is a progressive, comprehensive process and in all economic, political and social aspects of a country. Economic development is seen as a process of transformation both qualitatively and quantitatively of the economy.

##### ***1.1.2.2. Sustainable economic development***

In economic terms, the goal of sustainable development implies that the economy must have a high growth rate, but must be associated with effective and especially stable development, to avoid causing major shocks to the economy economic.

The concept of "sustainable development" emphasizes the possibility of long-term continuous economic development, without causing harmful consequences that are difficult to recover in other areas, especially nature.

##### ***1.1.2.3. Features of sustainable economic development***

Firstly, sustainable economic development is maintaining a state of continuous development for a long time.

Secondly, sustainable economic development includes the content of economic restructuring towards progress, in line with the general movement



trend of the world economy, the region and the world.

Third, ensure fairness in enjoying the fruits of development

Fourth, the engine of economic growth is based on productivity, efficiency and creativity, inclusive growth harmoniously combined with social and environmental improvement.

## **1.2. STRUCTURE OF STATE BUDGET PROCESSING SUSTAINABLE ECONOMIC DEVELOPMENT**

### ***1.2.1. The concept, and the role of the SBES in promoting sustainable economic development***

#### ***1.2.1.1 The concept of SBES***

Structure is expressed as a set of organic interconnected relationships, different elements of a given system.

Considering the above concept of structure, the SBES is understood as the way to organize and arrange expenditure items in the overall state budget expenditure, with distinction of priority order, high or low proportion, absolute number. more or less, in certain times and circumstances, in order to contribute to the performance of the State's functions and tasks.

#### ***1.2.1.2. The role of the SBES in promoting sustainable economic development***

(i). SBES contributes to promoting rapid economic growth

Firstly, the structure of SBE affects the capital factor for economic development

Second, the structure of SBE affects the labor factor:

Third, the structure of SBE affects the development of science and technology:

(ii). SBES contributes to regulating and maintaining macroeconomic stability, creating a driving force for sustainable economic development.

Firstly, the structure of SBE affects total social demand and production activities of the economy.

Second, the structure of SBE affects the economic growth of each sector, as well as the economy as a whole.

(iii). SBES contributes to maintaining social justice, ensuring social security, protecting the environment, creating a foundation for sustainable economic development

Firstly, the structure of SBE contributes to the realization of social justice, ensuring social security.

Second, the SBES contributes to environmental protection and green economic development.

Specific program, with strict control mechanism.

#### ***1.2.2. Contents of SBES to promote sustainable economic development***

- SBES according to the functions of the Government:

The SBES according to the functions of the Government allows analysis and assessment of the priority of the State for specific sectors and fields (such as: education, health care, national defense, security, administrative management, government, agriculture, transportation, irrigation, etc.), the situation and quality of management and use of the country's public financial resources over time, as well as allowing comparisons between countries together.

- Structure of SBE according to economic content:

The SBES according to economic content is based on the classification of budget expenditures based on the nature or economic content of the budget expenditures.

### ***1.2.3. Evaluation criteria and factors affecting the structure of SBE to promote sustainable economic development***

#### ***1.2.3.1. Criteria for evaluating the structure of state budget spending***

(i) Balance of SBES:

(ii) Sustainability of SBES.

(iii) Efficiency of SBES:

#### ***1.2.3.2 Factors affecting the structure of SBE to PSED***

Firstly, the task of socio-economic development:

Second, state budget revenue:

Third, the state budget spending policy:

Fourth, the state budget deficit:

Fifth, international economic integration:

## **1.3. INTERNATIONAL EXPERIENCE IN FINISHING THE STRUCTURE OF STRUCTURE OF SUSTAINABLE ECONOMIC DEVELOPMENT AND LEARNINGS FOR LAOS**

Firstly, continue to restructure state budget expenditure, determine budget expenditure needs in line with budget capacity.

Second, there must be a system of synchronous regulations on management of state budget expenditures.

Third, state budget estimates need to be prepared carefully and over a long period of time (usually 12 months).

Fourth, in the implementation of state budget expenditure, it is necessary to ensure a strict inspection and control mechanism on the basis of clearly defining responsibilities and powers of each organization and individual.

Fifth, attach importance to and properly appreciate the role of economic analysis and forecast for the planning of macroeconomic policies and SBE policies.

## **CONCLUSION CHAPTER 1**

Chapter 1 of the thesis has focused on solving some of the following basic problems:

First, systematize and analyze to enrich and clarify some basic theoretical issues about the SBES such as the concept, content and role of the SBES in promoting sustainable economic development. . The SBES should be fully aware of the criteria for classifying budget expenditures in accordance with the specific objectives of the SBES; at the same time, recognizing the characteristics of the SBES as the basis for building mechanisms, policies, tools and management methods suitable to the SBES in general and the nature and characteristics of each basic item. SBES in particular.

Second, systematization and analysis contribute to enriching and clarifying some basic theoretical issues about the SBES such as concepts, characteristics, principles, methods, contents, and evaluation criteria. prices and factors affecting the structure of state budget expenditure. However, the goal of state budget management in general and SBES is to ensure fiscal discipline, allocation efficiency and operational efficiency. Reviewing the SBES regularly and periodically is the best way for the Government and budget-using units to recognize the results achieved and the areas that need further improvement to achieve the basic objectives SBES.

Thirdly, summarizing and studying experiences on the budget expenditure structure of some countries in the world and in Vietnam, the thesis draws some valuable lessons for reference for perfecting the SBES for Laos;

## **CHAPTER 2**

### **CURRENT SITUATION OF STRUCTURE OF STATE BUSINESS PSEDIN LAOS**

#### **2.1. THE SITUATION OF SOCIAL ECONOMIC DEVELOPMENT AND STATE BUDGET COLLECTION OF LAOS**

##### **2.1.2. Socio-economic situation of Laos in the period 2017 - 2021**

The results of the implementation of the 5-year socio-economic development plan for 2017-2021 have exceeded many planned targets, although many difficulties and challenges have arisen. positive as expected.

In the period 2017-2021, the macro-economy is basically stable, GDP growth is quite high, of which, 2017 reached 7.0%, 2018 reached 6.9%, 2019 reached 6.3% , in 2020 reached 5.5%; in 2021 alone, the growth will only reach 3.3%. Total social investment compared to GDP TFP contributes to the average growth of the five years 2017-2021, reaching about 3.3% (average in the period 2011-2015. increase by 6.9%/year).

**Table 2.1 Social investment and GDP growth in the period 2017 – 2021**

<b>Order</b>	<b>Indicators</b>	<b>Units</b>	<b>Years</b>				
			<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
1	Total social investment	% GDP	38.4	38.4	38.5	39.5	40.5
2	GDP growth rate	% GDP	7.02	7.90	8.10	7.70	7.50

(Source: Center for Macroeconomic Policy and Economic Restructuring in Laos)

Laos's economy grew by 4.9% in 2020, down from 6.3% in 2019, partly due to drought caused as a result, electricity production, an important export commodity, decreased, while inflation rate is at 3.3%. increased from 2.0% in the previous year as a result of the floods that occurred in July-August and the swine flu epidemic in late 2020 causing a supply shock.

### 2.1.2. State budget of Laos

- Regarding state budget revenue:

The 5-year financial plan for the period 2017-2021 sets a target of collecting about 22,252 billion kip from the state budget, an increase of 4.06 times compared to the 2011-2015 period; the implementation rate is about 2.3%-5.9% of GDP, only incentives from taxes and fees are about 21% of GDP. In 2020, the budget deficit is 5.2% of GDP.

The 5-year financial plan for the 2021-2025 period sets a target of about 32,152 million billion kip in state budget revenue, 4.06 times higher than that of the 2017-2021 period; The implementation rate is expected to reach about 2.3%-5.9% of GDP, only incentives from taxes and fees are about 21% of GDP.

- Regarding state budget expenditure:

SBEfor the period 2017 - 2021 of Laos is summarized in Table 2.3.

**Table 2.3. SBEfor the period 2017 - 2021**

*Unit: Billion Kip , percentage %*

Or	Content spending	Years									
		Setlemented 2017		Setlemented 2018		Setlemented 2019		Setlemented 2020		Setlemented 2021	
		Total SBE	Per./ Total GDP	Total SBE	Per./ Total GDP	Total SBE	Per./ Total GDP	Total SBE	Per./ Total GDP	Total SBE	Per./ Total GDP
	<b>Total SBE</b>	<b>30.736.000</b>	<b>21,80</b>	<b>31.865.000</b>	<b>20,91</b>	<b>30.624.000</b>	<b>18,50</b>	<b>30.858.000</b>	<b>17,90</b>	<b>31.583.000</b>	<b>20,30</b>
1	Development investment spending	13.073.860	9,27	12.803.168	8,4	10.076.372	6,09	11.112.555	6,45	11.277.630	7,25
2	Regular spending	15.751.347	11,17	16.465.801	10,8	17.678.986	10,68	17.122.959	9,93	17.435.500	11,21
3	Spending on national reserves	784.276	0,56	1.060.642	0,7	1.474.931	0,89	1.792.022	1,04	1.433.584	0,92
4	Interest payment	910.795	0,65	596.765	0,39	868.323	0,52	609.480	0,35	804.610	0,52
5	Aid spending	215.373	0,15	938.063	0,62	524.961	0,32	220.263	0,13	440.138	0,28
6	Other expenses	349	0	561	0	427	0	721	0	191538	0,12

(Source: Department of Policy and Law, Ministry of Finance of Laos. Financial statistics report 2017; 2018; 2019; 2020; 2021 and calculation results of PD candidate).

As a result of implementation in the period 2017-2021, SBEs estimated at 155,666 trillion kip, equal to about 95% of the 5-year plan, equal to 27.9% of GDP (the planned target is 25% of GDP); in which development investment expenditure reached nearly 58,343/585 million kip; recurrent expenditure reached 84,454,593 billion kip.

## **2.2.THE SITUATION OF STRUCTURE OF STATE BUSINESS PROMOTING SUSTAINABLE ECONOMIC DEVELOPMENT IN LAOS**

### **2.2.1. Current status of mechanisms and policies on SBES to promote economic development**

#### **2.2.1.1. SBE mechanism, including: State budget allocation, state budget management organization**

a. Regulations on the subject of implementing the law on the use of the state budget

(i) The group of subjects managing and using the state budget includes agencies representing the state to exercise their powers related to the release of state budget funds for approved purposes.

ii) The group of subjects using the state budget is very diverse

The group of subjects using the state budget is defined by law

b. Regulations on the method of implementing the law on the use of state budget

Firstly, the use of the budget must follow a specific and clear process

Second, the central budget and the budget of each level of local government are assigned specific revenue sources and spending tasks

Third, the task of spending budget at any level is guaranteed by the budget of that level.

c. Regulations on ensuring efficiency in the implementation of the law on the use of state budget

Using the state budget in accordance with the law but not associated with effective use of the budget cannot be said to be a good implementation of the law on budget use.

#### **2.2.1.2. Structural policy for the state budget**

- Structure of SBE according to economic content

- Structure of SBE according to the functions of the Government

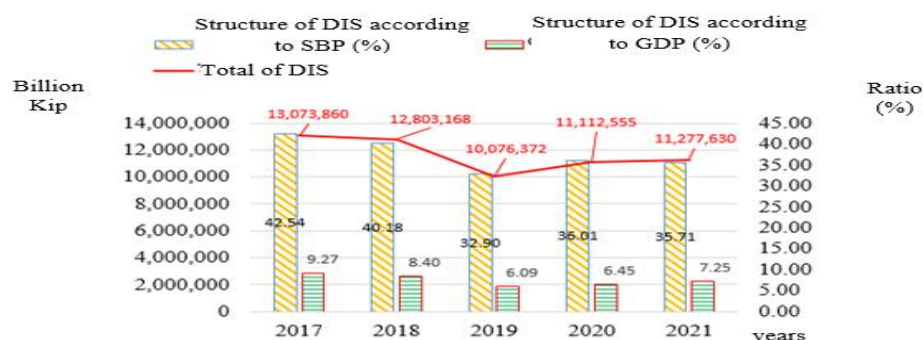
- Structure of SBE according to budget decentralization

### **2.2.2 Actual situation of SBES according to economic content**

Total SBE in Laos in the period from 2017 to 2021 tends to increase and decrease year by year. Therefore, the expenditure structure according to each economic content has certain fluctuations between years, showing an irregular increase and decrease according to the actual situation of the Lao economy every year. The structure and extent of spending fluctuations by economic content are detailed below for each spending content.

#### **2.2.2.1 Development investment spending**

Finalization and implementation of Laos' development investment spending period 2017 - 2021 is shown in chart 2.1.



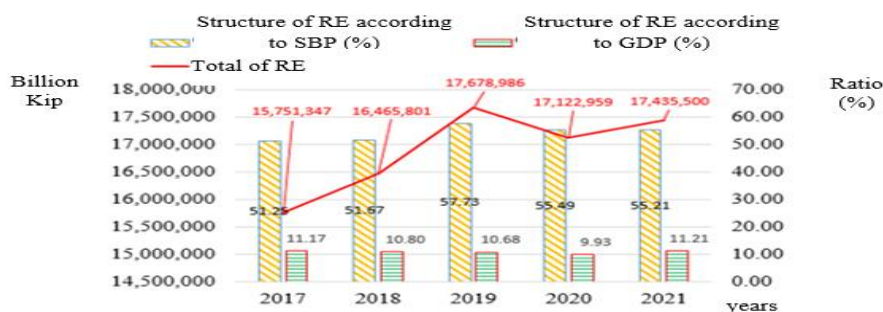
(Source: Department of Policy and Law, Ministry of Finance of Laos. Financial statistics report 2017; 2018; 2019; 2020; 2021 and calculation results of PD candidate).

**Chart 2.1. Development investment spending and ratio of development investment spending in the period 2017 - 2021**

Expenditure on development investment in 5 years from 2017 to 2021 reached 58343585.00 billion kip. The proportion of development investment spending in the total SBE in 2017 reached 42.54%, in 2021 reached 35.71%, an average of 37.47%, within the set target (35-45%). The proportion of expenditure in total GDP in 2017 reached 9.27%, in 2021 reached 7.25%, the average period reached 7.49% of GDP. In general, the proportion of expenditure on development investment is still lower than the period 2011-2015 (about 39% and 8.25% of GDP).

### 2.2.2.2 Regarding recurrent expenses

Finalization and implementation of Laos' provincial expenditures for the period 2017 - 2021 is shown on chart 2.3



(Source: Department of Policy and Law, Ministry of Finance of Laos. Financial statistics report 2017... and calculation results of PD candidate).

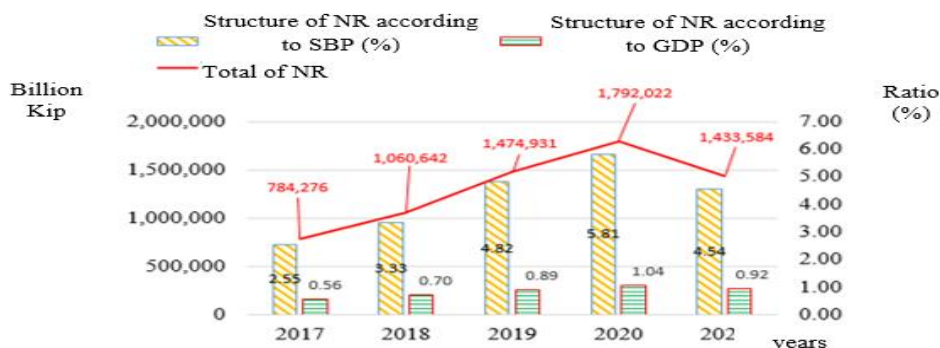
**Chart 2.3. Recurring expenses and percentage of expenditures for the period 2017 – 2021**

Recurring expenses and percentage The results shown in the figure show that: the total SBE for TX by year, from 2017 to 2021 in absolute value and relative value tends to increase gradually, the strongest decrease in the period is 5 years. 2019. The proportion/total SBE in 2017 reached 52.25%, in 2021 reached 55.22%, an average

of 54.27%. The proportion of total GDP in 2017 is 11.17%, in 2021 is 11.21, the average is 10.76%.of expenditures for the period 2017 – 2021.

### 2.2.2.3. Spending on National Reserve

Finalization and implementation of national budget expenditure for the period 2017 - 2021 of Laos is shown on chart 2.4



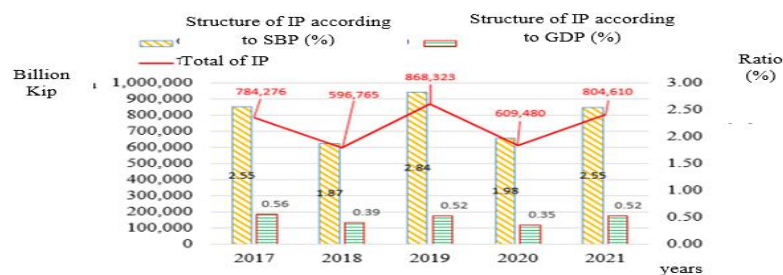
(Source: Department of Policy and Law, Ministry of Finance of Laos. Financial statistics report 2017.. and calculation results of PD candidate).

**Chart 2.4. Reserve expenditure and percentage of reserve expenditure in the period 2017 - 2021**

Reserve expenditure in absolute number continuously increased and decreased every year in the period 2017-2021, the total expenditure in 5 years was about 6,545,455.00 billion kip, the average in the whole period was 4.21% of the total state budget expenditure. and equal to 0.82% of GDP.

### 2.2.2.4. About interest payment

Final settlement and interest payment for the period 2017 - 2021 of Laos is shown on chart 2.5.



(Source: Department of Policy and Law, Ministry of Finance of Laos. Financial statistics report 2017; 2018; 2019; 2020; 2021 and calculation results of PD candidate).

**Chart 2.5. Interest payment and percentage of interest payment for the period 2017 - 2021**

Interest payment in absolute terms continuously increased and decreased every year in the period 2017-2021, the total expenditure in 5 years was about 3663454.00 billion kip, the average expenditure in the whole period was 2.84% of the total SBE and equal to 0.47% of GDP.

### **2.2.3. The current situation of the SBES according to the functions of the government**

#### ***2.2.3.1. Structure of development investment spending according to the functions of the Government***

(i). For the transport sector, other areas have achieved many achievements: the road network increased from 39,584.50 km in 2010 to 51,597.03 km in 2014, of which asphalt paved increased from 5,426.67 km in 2010. to 8,272 km in 2014.

(ii). For the industrial sector, Processing industry: Overall, it is highly successful, especially in creating added value and rapidly growing jobs. In the period 2017 - 2020, the total production value reaches 25,159 billion kip, the average growth rate is 13%/year.

(iii). For the medical field, 3 new hospitals have been completed, especially the Xaysettha Laos-Japan cooperation hospital and the last line Mahoxot hospital in the Vientiane capital.

(iv). For the social sector, investment capital has been arranged to build and upgrade nursing and care centers for people with meritorious services of the Labor, War Invalids and Social Affairs sector, adding 1,500 nursing beds.

(v). For the fields of education, training and sports, science and technology, environmental protection, Education and human resource development

(vi) For the fields of security and defense, capital has been allocated to invest in building and developing defense industry, border protection program, etc.

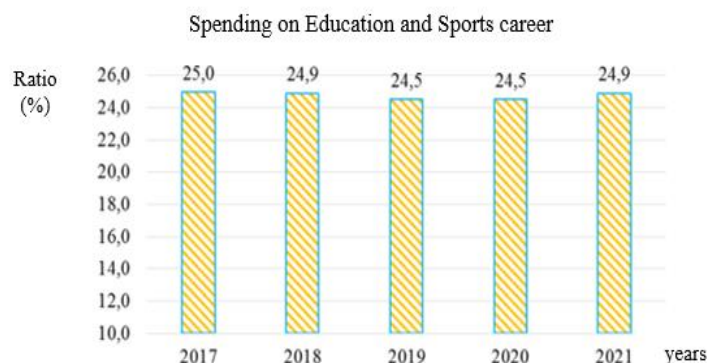
#### **2.2.3.2. Structure of recurrent expenditure by function of the Government**

The total recurrent expenditure of the Lao State budget according to the functions of the Government in the period 2017 - 2021 tends to increase gradually, the next year will increase more than the previous year. In 2017, total expenditure reached 15,751,347.00 billion kip, accounting for 51.25% of total state budget expenditure. In 2021, total expenditure will reach 17,345,500.00 billion kip, accounting for 55.21% of total state budget expenditure. The proportion of state budget expenditures by government function for each sector is detailed below.

(i). For spending on Education and Sports career.

Finalization and implementation of expenditures for Education and Sports in Laos for the period 2017 - 2021 are shown in chart 2.6.





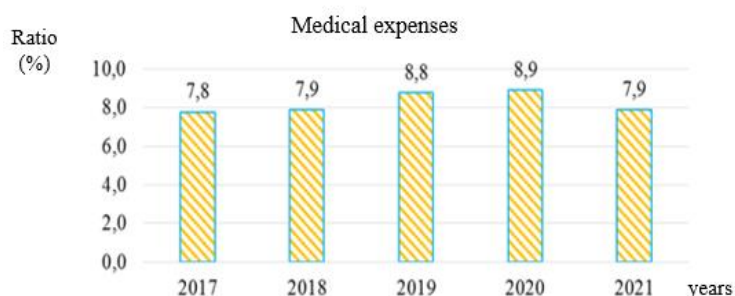
*(Source: Department of Policy and Law, Ministry of Finance of Laos. Financial statistics report 2017; 2018; 2019; 2020; 2021 and calculation results of PD candidate).*

**Chart 2.6. Structure of TX expenditure for the cause of Education and Sports in the period of 2017 -2021**

In general, the ratio in the relative expenditure between the years is quite stable, the above level is not worth it. In 2017 it was 25.0%, in 2018 it was 24.9%; 24.5% in 2019, 24.5% in 2020 and about 24.9% in 2021, meeting the annual expenditure requirements for education, training and sports (including development investment spending), reaching 10% of the total SBE according to the Government's Resolution.

(ii).For medical expenses

Finalization and implementation of expenditures for health care in the period of 2017 - 2021 of Laos are shown on chart 2.7



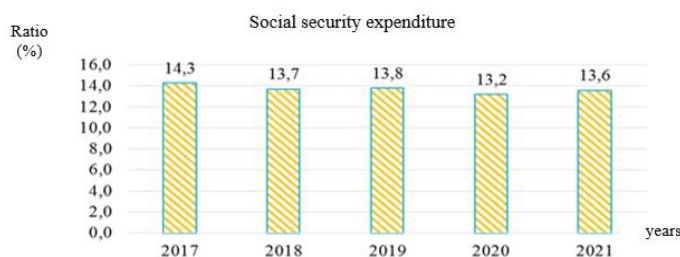
*(Source: Department of Policy and Law, Ministry of Finance of Laos. Financial statistics report 2017; 2018; 2019; 2020; 2021 and calculation results of PD candidate).*

**Chart 2.7. Structure of spending for the medical career in the period of 2017 - 2021**

The coverage rate of essential medical services has increased gradually over the years (in 2017 reached 70%, in 2019 increased to 75%). Currently, over 85% of the Lao population has health insurance, of which 100% of the poor, near-poor and 100% of children under 5 years old are given free health insurance cards, ensuring coverage of care services. health care for people, especially those in disadvantaged groups who have difficulty in paying for medical services.

(iii) For social security expenditure

Finalization and implementation of social security expenditures for the period 2017 - 2021 of Laos is shown on chart 2.8.



*(Source: Department of Policy and Law, Ministry of Finance of Laos. Financial statistics report 2017; 2018; 2019; 2020; 2021 and calculation results of PD candidate).*

**Chart 2.8. Structure of recurrent expenditure for social security in the period of 2017 - 2021**

Recurrent expenditure on social security in the period 2017-2021 accounts for an average of 13.2-14.3% of the total recurrent expenditure, in absolute terms still increasing every year, but the proportion is decreasing. At 2017 it was 14.3%; in 2018 was 13.7%; in 2019 is 13.8%; in 2020 is 13.3% and in 2021 it is 13.6%).

(iv.) For Science and Technology career expenses

Finalization and implementation of spending on social security for the period 2017 - 2021 of

Recurrent spending on science and technology accounts for an average of 1.6-1.9% of total recurrent expenditures and tends to increase in recent years. At 2017 it was 1.6%; in 2018 was 1.7%; in 2019 is 1.8%; 2020 is 1.9% and implementation in 2021 is about 1.6%.

(v). For economic target, environmental protection

Recurring expenditures on economic and environmental protection account for an average of 8.6-10.5% of total recurrent expenditure. During the period, 2017 was 8.8%; in 2018 is 10.3%; in 2019 is 10.5%; in 2020 is 8.8% and in 2021 is about 8.6%, with the proportion of spending basically meeting the requirement of increasing expenditure

2.2.4 Impact of SBES on sustainable economic development in Laos

2.2.4.1 Assessment of the current state of SBES to promote sustainable economic development

(i) Results achieved

a) Sustainability in the structure of SBEof Laos in the period of 2017 – 2021

The sustainability in the structure of development investment spending helps Laos to implement many large investment projects in many fields such as transportation, energy and mineral exploitation, construction of agricultural product processing factories, investment in urban development, etc. markets,

building special economic zones, investing in development to improve management capacity and providing transit and freight services at international border gates.

b) The balance of SBES

The proportion of recurrent expenditure gradually decreases; ensure the concentration of resources for the fields of education and training, health care, science and technology, environmental protection, increase spending on people, implementation of social security policies.

Many social security policies have continued to be increased and newly issued.

c) The effectiveness of the SBES

In management, overspending has been strictly controlled, combined with solutions to strive to increase revenue and save state budget expenditures. As a result, in the period 2017-2021, the state budget deficit will be around 5.2% of GDP, ensuring the target set out in the Resolution of the Politburo and the Resolution of the National Assembly.

d) The comprehensiveness and structure of SBE for economic sectors have changed in the direction of stimulating economic growth of economic sectors of Laos.

The structure of SBE for 3 groups of industries has changed according to the trend: spending on agriculture, forestry and construction industry decreased, spending on services increased. That change led to a significant increase in the growth rate of the service sector and its contribution to GDP: if it was only 34.5% in 2017, it has increased to 43.74% in 2021.

(ii) Limitations

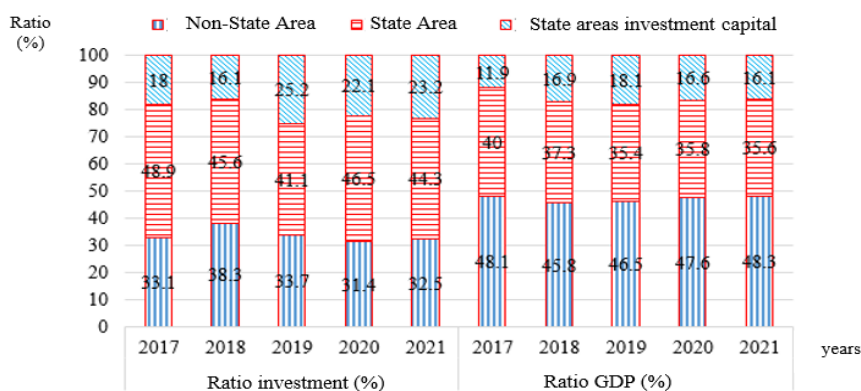
a) The general SBE tends to decrease, so it has not yet created the necessary capital resources for socio-economic development and promoting sustainable economic development.

(1) Ratio of SBE to GDP increases: Total SBE to GDP in the period 2017-2021 tends to decrease over the years (table 2.6). In 2017, the proportion of SBE to total GDP reached 21.8%, in 2018 reached 20.91%, in 2019 reached 18.50%, in 2020 reached 17.90 and in 2021 reached 20.30%.

(2) Unstable investment expenditure: The proportion of investment expenditure of the state budget tends to increase and is a factor that directly affects the increase in the growth rate over the years.

b) The SBE is high but the investment efficiency is low, so the economic market is not sustainable:

In the period of 2017 - 2021, the economic growth of Laos will follow the growth model in width, rapidly increasing capital and number of employees to reach the growth target. In the total social investment capital, the investment capital structure of the state budget usually accounts for the main proportion (about 25-42%).



(Source: Department of Policy and Law, Ministry of Finance of Laos. Financial statistics report 2017; 2018; 2019; 2020; 2021 and calculation results of PD candidate).

### Chart 2.10. Investment structure and GDP structure by economic sectors

The above data and analysis all show that, if the investment efficiency is not guaranteed, no matter how high the amount of investment capital increases, the economic concentration efficiency will not be as high as expected.

c) The structure of SBE for factors creating a sustainable economic market such as science and technology, TFP, and labor quality has not been given much attention.

(1) Spending on science and technology development investment to increase the contribution of TFP factor in economic growth value is not high

(i) Low technology content in product value

(ii) Low technological level of economic sectors

(iii) Domestic technology research and development is still inefficient.

(2) Investment in education and training from the state budget is high, but the investment efficiency is not commensurate, so the quality of labor is low.

(3) Not focusing on investment in TFP factor. The contribution of TFP to the economic growth of Laos in the period of 2017 - 2021 accounts for a low rate and tends to decrease rapidly.

d) The structure of SBE for economic sectors has been adjusted, but the contribution rate of sectors to the economic growth is not commensurate.

(1) The structure of the agricultural and forestry sectors: State budget investment in the past years in the agriculture and forestry sectors has tended to decrease in absolute terms and increase in relative numbers following the trend. gradually reduce the proportion of spending on agriculture and increase the proportion of spending on forestry.

(2) Structure of industry and construction groups: In the period of 2017 - 2021, investment from the state budget for industry and construction will bring the highest efficiency, with the highest growth rate among industry groups.

(3) Service sector structure: The service sector is the industry group that accounts for the largest proportion of SBE among the three groups of industries: agriculture and forestry; Industry and construction; services, but this is not the

industry group with the highest growth rate as well as the largest contributor to the economic market.

e) State budget deficit affects the structure of SBE and economic concentration:

Laos' state budget deficit in the years from 2017 to 2021 has become a burden on the state budget, causing difficulties in allocating resources for the next fiscal year.

#### **2.2.4.2. Limitation Cause**

##### **(i) Objective reasons**

Firstly, in the domestic and international context, there are many new problems that need to be adjusted in terms of goals and solutions.

Second, the need to increase state budget spending is large for development investment, salary reform, and implementation of issued social security policies.

Third, the process of international integration is deepening and comprehensive, besides the advantages, it also has a direct impact on reducing the central budget revenue.

##### **(ii) Subjective causes**

Firstly, the promulgation of some policies is still slow, not synchronized, and has not caught up with practical requirements.

Second, mechanisms and policies in the field of finance and SBE are not synchronized and incomplete;

Third, the facilities used for the organization of forecasting and making estimates have not been given adequate attention.

Fourth, a number of regulations of the current capital control and payment regime have revealed limitations that reduce the effectiveness and controllability of the National Treasury.

Fifth, administrative procedures are cumbersome, legal documents of the State overlap between levels and branches.

Sixth, the inspection and control work has not been focused.

Seventh, the analysis and forecast has not been focused, the forecast data is mainly qualitative, there is no quantitative forecast, along with the planning level of the expenditures of the unit. limited.

Eighthly, Although at present, the responsibilities of local authorities at all levels, heads of subordinate state budget-using units are assigned.

Ninthly, the level of staff of State agencies is not high and many people are not trained in depth.

## **CONCLUSION CHAPTER 2**

With the goal of analyzing the current state of Laos' SBES to find out the limitations and causes of limitations in the SBES, the study has achieved the following results:

(1) Outline the process of formation and development of the State of Laos.

(2) General assessment of socio-economic indicators, state of budget revenue and expenditure in the period 2017 - 2021.

(3) Analyzing the current situation of Laos' state budget spending in the period 2017 - 2021 on two contents: (i) Budget expenditure management apparatus and budget decentralization; and (ii) Local budget expenditure management. (i) The current state of the SBES according to economic content; (ii) Actual situation of SBES for economic sectors.

(4) Clearly identify the main limitations of the Lao SBES

(5) Indicate 3 objective causes and 9 subjective causes of restriction.

## **CHAPTER 3**

### **IMPROVING THE STRUCTURE OF SUSTAINABLE ECONOMIC DEVELOPMENT PROMOTING SUSTAINABLE ECONOMIC DEVELOPMENT IN LAOS**

#### **3.1. BACKGROUND AND CHALLENGES FOR SUSTAINABLE ECONOMIC DEVELOPMENT AND VIEWPOINTS, ORIENTATIONS FOR PERFECTING STRUCTURE OF STRUCTURE OF SUSTAINABLE ECONOMIC DEVELOPMENT IN LAOS 2030**

##### **3.1.1. Background and challenges for sustainable economic development in Laos to 2030**

###### ***3.1.1.1 Background***

(i) International. The fourth industrial revolution (4.0) is taking place very quickly, with breakthroughs, far-reaching and multi-dimensional impacts on the global political, social and economic system. Science, technology, and innovation are increasingly becoming decisive factors for the competitiveness of each country. Digital technology will change state management methods, production and business models.

(ii) In the Lao People's Democratic Republic. In recent years, the Lao economy has continuously grown and developed stably, with an average GDP growth of 5.6%; per capita income reached nearly 35 million kip in the period 2017-2021. These achievements create favorable conditions for the Lao Government to successfully implement. In addition, the world economic crisis also negatively affected Laos' exports, and then the impact of natural disasters and global epidemics.

###### ***3.1.1.2. Challenges to perfecting the structure of Lao SBE in the coming time***

Firstly, Laos needs to make great efforts in economic recovery and development after the Covid-19 epidemic, stabilizing the macroeconomy, and ensuring great balances of the economy.

Second, the good settlement of conflicts between ensuring public investment resources for rapid economic development and ensuring national

financial security; handle the relationship between investment of the State and the private sector.

Third, the sharp reduction of recurrent expenditure faces difficulties and challenges from the pressure to increase spending on the implementation of the wage policy, while the state budget still plays a large role in meeting the salary payment requirements for the state apparatus.

Fourth, the limitations of the SBES to PSED in Laos over the past time remain, the efficiency of SBEs is still inadequate, especially the efficiency of public investment due to the lack of careful consideration. In terms of socio-economic efficiency, investment is scattered, lack of synchronization, disbursement is slow on schedule, there is no connection between investment and regular expenditures for maintenance, which has reduced the life of the project, project investment projects, causing waste.

3.1.2. Viewpoints and orientations to improve the SBES to PSED in Laos until 2030

3.1.2.1. Opinion

(i). About perfecting the SBES to ensure the relative sustainability of the state budget spending structure

Perfecting the Lao state budget structure must be included in the overall economic restructuring, associated with the renewal of the growth model, ensuring efficiency, comprehensiveness, fairness, sustainability, and reasonable encouragement of power. Thoroughly practice thrift and fight waste; identified thrift as the top national policy.

(ii). On perfecting the SBES to ensure structural balance

Harmonious combination between solving important and urgent issues with basic, long-term issues, towards the goal of sustainable development

(iii). About perfecting the SBES to ensure the efficiency of state budget spending

The effectiveness of budget management and use is reflected in the aspects of saving, work and the macro impact of state budget expenditure.

(iv). About perfecting the SBES to ensure the comprehensiveness of state budget spending

Renovating state budget-financial management in line with international practices and standards, effectively supporting the process of international economic integration

3.1.2.2. Orientation for sustainable economic development

Strive for economic growth with faster speed, high quality and sustainability, associated with human development; people-centered; implement social progress and justice right in each step and each development policy; economic growth goes hand in hand with cultural development, health care, education, etc.,

The socio-economic development targets are mainly set for the period 2021-2025. Average annual economic growth in Laos is expected to reach 4% and per capita income to reach \$2,887 by 2025. The average annual growth in the agricultural sector is expected to account for 2.5%. Gross domestic product (GDP), the industrial sector contributes 4.1% and the service sector contributes 6%. By 2025, agriculture and forestry will contribute 15.3% of GDP, industry 33.3% and service sector 41.3%.

## **3.2. SOLUTIONS TO COMPLETE THE STRUCTURE OF STRUCTURE OF STRUCTURE TO PSEDIN LAOS PDR**

### **3.3.1 Group of solutions and conditions for implementing complete solutions on institutions and policies for management and use of state budget**

#### **(i) Basis for proposed solution**

As a result of the assessment of the actual status of institutions and policies on management and use of the SBES, the organization and administration of the Lao SBES between ministries/sectors and central and local levels, a number of laws have shown to be ineffective. The results in the period 2017-2021 and orientation 2021-2025 show that: institutions and policies for the management and use of the SBES still have many shortcomings, clear institutions but have not kept pace with the world context and domestic. Some content in the institution, some policies are outdated (Public Investment Law 2019).

(ii) Contents of solutions: Perfecting institutions and policies on management and use of the SBES

#### **(iii) Implementation measures**

Firstly, continue to promote the development and improvement of financial institutions and policies, allocation and use of state budget resources, management of state budget expenditures, and state budget management.

Second, improve the role of state financial resource orientation in socio-economic development, strongly attract resources in society, better serve the goal of sustainable economic development.

Third, review, amend and supplement the SBEPolicies to ensure social security and reduce poverty.

Fourth, on the state budget spending policy to support public non-business units

Fifth, on the policy of state budget spending to support non-budget state financial funds.

#### **(iv) Control and organize the implementation of solutions**

(1) Amendments to the Law on State Budget 2006

(2) For Laws other than the State Budget Law

### **3.3.2. Group of solutions and conditions for implementing solutions on completing the SBES according to economic content**



(i) Basis for proposed solution

The SBES according to economic content is still inadequate, has not really created a motivation for sustainable economic development (the quality has not really been changed), GDP growth is still slow, lower than Vietnam due to the The SBES is not stable, the expenditure ratio is not focused and the expenditure items that really need to be spent are high to drive sustainable economic development, etc.

(ii) Content of solution: perfecting the structure of SBE according to economic content

(iii) Measures to implement the solution

Firstly, for development expenditures:

Second, for debt payment:

Third, for recurrent expenditure:

### 3.3.3 Group of solutions to improve the SBES according to the functions of the Government

(i) Basis for proposed solution

SBES according to functions Lao government still has many shortcomings, has not really created a driving force for sustainable economic development, GDP growth is still slow, lower than Vietnam due to the structure of SBE according to government functions. The government's macro-regulatory role has not yet been brought into play, thus creating a driving force for sustainable economic development, etc.

(ii) Contents of solutions: perfecting the SBES according to the functions of the Government

(iii) Measures to implement the solution

Firstly, spending on education and training:

Second, spending on medical career:

Third, administrative expenses:

Fourth, spending science and technology

Fifth, spending on environmental protection:

Sixth, spending economic career:

### **3.3.4 Group of solutions and conditions for implementation of solutions to strengthen management and improve the efficiency of state budget spending**

(i) Basis for proposed solution

Based on the content to be implemented of the Resolution as a basis for the thesis to propose solutions to strengthen the management and improve the efficiency of Laos SBE for the next stages.

(ii) Content of solutions: Strengthening management, improving the efficiency of state budget spending.

(iii) Measures to implement the solution

Firstly, increase the authority and responsibility in estimating, managing and using the state budget at all levels

Second, effectively implement the medium-term financial plan

Third, manage SBE closely, within the estimate, thoroughly thriftily and effectively.

(iv) Conditions for implementing the solution

a) Enhance innovation in the state management of investment.

b) Improve the quality of estimates, standardize the stages of the state budget management cycle from making estimates, executing and finalizing state budget estimates.

c) Improve the efficiency of allocation, management and use of public financial resources in association with the economic restructuring process.

d) Towards budget management according to outputs; renovating the financial mechanism for public non-business units.

e) Strengthening the effectiveness of financial supervision, inspection and inspection; Anti-corruption; practice thrift, fight waste; promote publicity and transparency of budgets and increase accountability.

### **3.3. RECOMMENDATIONS**

#### **3.3.1. Recommendations to the Lao Revolutionary Party**

Organizational system of the Lao Revolutionary Party (provincial committees, municipal committees, party committees, party personnel committees, party unions, party committees under the central government, party committees of central non-business units, etc.) thoroughly grasp, develop action plans and programs to implement the Resolution of Central Vietnam on restructuring expenditures in accordance with the functions, tasks and practical situation of the branches, localities, agencies and units.

#### **3.3.2. Recommendations to the Government of Laos**

The Lao Government leads the review, amendment and improvement of the law on management of state budget revenue and expenditure, public debt and public property; administrative sector, public non-business; on price management, finance, investment, accounting, auditing

## **CONCLUSION CHAPTER 3**

Firstly, the group of measures to improve institutions and policies on management and use of the state budget.

Second, the group of solutions to structure state budget expenditures according to economic content.

Third, the group of solutions to structure SBE by field.

Fourth, the group of solutions to strengthen management and improve the efficiency of state budget spending.

## **CONCLUSION**

Firstly, the thesis overviews the studies related to the thesis topic; analyze and clarify the discussion issues of related studies that the thesis of the PhD student can inherit, the specific research gaps and orientations of the thesis topic.

Second, the thesis systematizes and analyzes to enrich some basic theoretical issues about the SBES to PSEDs such as concepts, characteristics, roles and classifications. state budget expenditure; sustainable economic development; concepts, contents and criteria for assessing the SBES; influencing factors and the role of the SBES in promoting sustainable economic development.

Third, the thesis summarizes experiences on the SBES in OECD countries and Vietnam; 5 lessons learned with practical value for reference for Laos.

Fourth, the thesis overviews the socio-economic context and the state budget; synthesize, analyze, demonstrate and draw some conclusions about the achieved results, limitations and causes of the SBES to PSED in the 2017-2021 period in Laos.

Fifth, the thesis outlines the context, orientation for sustainable economic development and the goal of reforming the SBES; propose 04 groups of solutions with many specific solutions and recommendations to reform the structure of SBE in Laos by 2030. The proposed solutions are systematic, have a scientific basis in theory and practice. practical, highly feasible solution.

## **LIST OF PUBLISHED SCIENTIFIC RESEARCH RELATED TO THE THESIS TOPIC**

1. **SIVANNALIT Thanouxay**, The state budget management: experience of some countries and recommendations for Laos, *REVIEW of FINANCE - Issue 3, 2020*.
2. **SIVANNALIT Thanouxay** State budget management of several countries and recommendations for Laos, *International Finance, Issue 06 (203) - 2020*