

# PEI Lao PDR

# Theory of Change

# 2014-2017



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## Context and Problem Statement

Since the 1980s, Lao PDR has experienced significant economic expansion with the introduction of the New Economic Mechanism Policy and subsequent accession to the ASEAN Free Trade Area and WTO. This in turn attracted the interest of investors with foreign direct investment (FDI) substantially increasing over the last decade, from 1.01 per cent (net inflows as a percentage of GDP) in 2005 to 8.75 percent in 2015 and contributing to economic growth of over 6 per cent annually. This rapid economic expansion is mostly attributed to inflows of FDI generally targeting natural resource sectors, or more specifically, mining, hydropower and agriculture sub-sectors. While FDI is a key driver of growth and has contributed Laos PDR's HDI increase from 0.345 in 1980 to 0.575 in 2015 (an increase of 66.7 percent or an average annual increase of about 1.51 percent), this significant economic expansion has come with numerous negative environmental and social impacts. PEI Lao PDR works to minimise these impacts, by enabling the Government through increased capacity to sustainably manage FDI investments.

## Barriers Analysis

1. Weak governmental institutional capacity for policy design and implementation implemented across government entities.
2. Lack of policy coherence and coordination mechanisms between government institutions responsible for pro-poor ENR management.
3. Insufficient regulation and incentives to direct private investment toward supporting pro-poor ENR use.

## Project Objective and Assumption

### Objective

Strengthening institutional capacity (integrated systems, tools and strategies) for managing and regulating investments at national and sub-national level for equitable and sustainable development.

### Assumptions

Awareness of the objectives of mainstreaming poverty and environment into the national development agenda and political will is in place to develop, internalize and use tools and integrated transparent systems/processes to manage the quality of investments as key driver of the resource-driven economic growth of Lao PDR.

## PEI Interventions

In response to identified challenges, PEI focuses efforts in five key areas at the national and municipal levels:

Establishing and strengthening the investment management system of the Ministry of Planning and Investment (MPI).

## Progress

MPI developed the National Investment Strategy; established an integrated framework for inter-departmental investment monitoring; and developed an Investment Compliance Database to monitor compliance with safeguards.

## Remaining Interventions

Connect Investment Promotion Department's (IPD) investment compliance database to other important investment related authorities such as the department of tax and the special economic zones committee; to make non-commercially sensitive data publically available to stakeholders' to promote transparency and allow the public to become more active during the review of investment applications and investment compliance.

Finalize the National Investment Strategy for official adoption and implementation.

Uptake of Corporate Social Responsibility Reporting: Develop a customised CSR reporting template that will clearly demonstrate how a company is contributing to Lao's sustainable development.

Improving effectiveness of the Environment Social Impact Assessment system, particularly for agriculture and forestry plantation sector, as a safeguard for sustainable and climate-resilient development.

Ministry of Natural Resources and Environment (MONRE) developed the Standard Environmental Social Obligations for Agriculture and Forestry Sectors to ensure obligations consistent with relevant legislation; guidelines for reviewing environmental and social impact assessment reports and put in place a financial management regulations manual for a sustainable financing of the impact assessment system.

Building national capacity in environmental-economic research to inform critical investment and development decisions.

National Economic Research Institute (NERI) completed a series of environmental economic research to inform key investment decisions and economic policies (e.g. land policy, mining, rubber).

Including outcomes promoting equitable, sustainable and climate-resilient development included in the implementation and monitoring of the National Socio-Economic Development Plan (NSEDP).

Poverty-Environment linkages were integrated in the national mid-term development plan (7th and 8th NSEDP) and its monitoring and evaluation framework.

Disseminate the findings of economic research including contract farming and impact of mining investment on local development.

Capacity development of National Assembly members to support quality and equitable growth that sustains the natural resource base.

Conducted two third-party investment monitoring missions as part of the National Assembly oversight function.

Support implementation of provincial field monitoring of problematic investments and National Assembly oversight monitoring missions.

## Annex: ToC Diagram

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