

Nam Theun 2 Hydropower Project Update: Revenue Management

September 2017

This note explains recent updates on the Project's Revenue Management Program, one of the five key areas of the Nam Theun 2 Social and Environment Project. Notes about the Resettlement Implementation Period were previously posted [here](#). Notes about the other three areas (Hydropower Operations, the Nakai Nam Theun watershed and the Downstream program) will be forthcoming over the coming months. The notes provide additional detail to the World Bank's Implementation Status and Results Report that can be found [here](#). Questions may be posted to laos@worldbank.org.

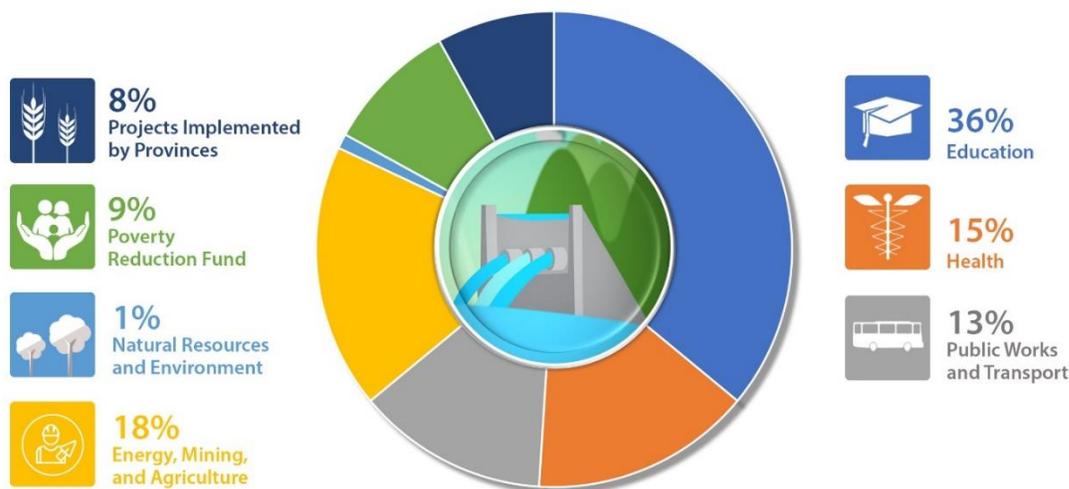
The Revenue Management Program (RMP) is a key dimension of the Nam Theun 2 Hydropower Project (NT2), the objective of which is to assist the Government of Lao PDR to implement priority poverty reduction and environmental programs using revenues from the Nam Theun 2 Hydroelectric Power facility.

Net revenues from the Nam Theun 2 project come from royalties, dividends, profit taxes, and dividend taxes. The Government of Lao PDR then identifies eligible programs and projects in the national budget, which comply with the RMP criteria (poverty alleviation or environmental management) for budget allocation. The RMP seeks to ensure and monitor compliance of this requirement by tracking revenue sources and the allocation and disbursement to eligible projects and programs, including audits.

Eligible projects are public investment projects selected by the Ministry of Planning and Investment and implemented by sector specific ministries, such as Education, Health, and Energy and Mining. Examples include reforestation, school and dormitory construction, supply of medical equipment to health centers, and rural access road construction, among others. Eligible programs include poverty programs such as School Block Grants, Free Maternal and Child Health Scheme, Poverty Reduction Fund, and Health Equity Fund, which are under the oversight of the Ministry of Finance, Ministry of Health, and Ministry of Education and Sports.

Figure 1 shows the breakdown of disbursement of NT2 net revenues by sector, which is determined as part of the Government of Lao PDR's annual budget process.

Figure 1: Disbursement of NT2 Revenues to Sectors (2009/10-2014/15)



Source: SAO Audits FY 2009/10-2014/15

As of the end of December 2016, the Government has received over \$153 million in net revenues from the project since the start of commercial operations in 2010. Net revenues of around \$28 million are estimated in 2017. On average, NT2 revenues have accounted for about 1% of the national budget during this period. While it is not possible to make any direct link between NT2 revenues and the simultaneous improvement in development indicators occurring throughout the country, Lao PDR has made significant progress over this period as shown in Table 1 below.

Table 1: Selected World Development Indicators Lao PDR 2010 and 2016

	2010	2015
Under 5 mortality rate (per 1,000 live births)	79.7	66.7
Maternal mortality rate (per 100,000 live births)	294	197
Measles Immunization (children 12-23 months)	64%	88%
Adult literacy rate	72.7%*	79.8%
Youth literacy rate (15-24 year olds)	84%*	90%
Primary completion rate	85%	100%
Access to electricity	68%	90%

Sources: World Development Indicators, UNICEF, UNFP

** data from 2005 as 2010 data is unavailable*

The Revenue Management Program arrangements state that the Government should make publicly available the Financial Audits and the Audit Reports of Eligible Programs by the State Audit Organization (SAO). After initial delays, all Financial Audit Reports, from FY2009/10-2014/15, and Audits on the Eligible Programs from FY2009/10 – FY2012/13 have been received. Currently, only the Audit Reports of Eligible programs from 2013-2016 are outstanding, however they are expected soon. In September 2017, the SAO published the audit reports on the NT2 revenues from FY2009/10 to FY2014/15 [on their website](#). This marks not only an important compliance under the RMP, but on a broader scale demonstrates a step towards more transparency, as these audits are among the first of any to have been made publicly available by the SAO. Over the time of project implementation, SAO participated in a peer assessment with the Auditor General of New Zealand on workforce development and audit methodology, as well as a self-assessment on progress under the SAO action plan.

Since its inception, the RMP has played an important role in overall public finance reforms in Lao PDR. The RMP requirements have encouraged moves toward international good practice in budget execution and reporting and nudged the implementation of those practices within the country's public finance management (PFM) framework. Lao PDR has shown promising signs of PFM improvement during the period of project implementation. The Prime Minister has declared public finance management reforms as a government priority, and the Ministry of Finance's new Public Finance Development Strategy to 2025 has been recently approved.

As outlined in the Development Grant Agreement between IDA and the Government of Lao PDR, NT2 revenues will continue to support eligible programs and projects into the future. After the end of the Concession Period, all assets and revenues will revert to the ownership of the Government of Lao PDR.