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Lao PDR: How to Attract More Investment in Small-Scale Renewable Energy?

Roman Vakulchuk[a], Hoy-Yen Chan[b], Muhammad Rizki Kresnawan[b], Monika Merdekawati[b], Indra Overland[a], Haakon Fossum Sagbakken[a], Beni Suryadi[b], Nuki Agya Utama[b], Zulfikar Yurnaidi[b]*

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Action plan to attract investment in renewable energy in Lao PDR

- *Establish an autonomous government agency for renewables*
- *Join IRENA and build capacity for renewable energy governance*
- *Adopt a feed-in tariff and build a robust regulatory framework*
- *Develop a roadmap for small-scale renewable energy*
- *Facilitate market entry for investors*

Lao PDR adopted the Renewable Energy Development Strategy in 2011 and set a target of 30% small-scale renewables in the energy mix by 2025 [1]. The country relies heavily on large hydropower in electricity production and is an attractive investment destination for hydropower. At the same time, Lao PDR has also significant small-scale hydro and solar power potential. Given the mountainous landscape, small-scale renewable energy is viewed as a more appropriate and cost-efficient solution than large-scale deployment [2]. To fulfil the 30% target, Lao PDR needs to compete successfully for renewable energy investment. As of 2020, the country has not adopted feed-in tariff or auction policies and, excluding hydropower, has attracted only limited investment in the renewable energy sector.

Lao PDR has significant capacity gaps in renewable energy governance. It is ranked no 120 out of 156 countries in the Index of Geopolitical Gains and Losses after energy transition (GeGaLo Index) and thus needs to build stronger institutions for governing renewable energy [3].

Bearing in mind these points, we propose five actions that can improve the investment climate in Lao PDR for small-scale hydropower, solar and wind energy.

Action 1: Establish an autonomous government agency for renewables

Lao PDR could benefit from carrying out selected reform measures in the energy governance system. Currently, the Department of Energy Planning and the Department of Energy Business under the Ministry of Energy and Mines have limited capacity to govern the renewable energy sector effectively (see Figure 1). There is no autonomous regulatory authority that formulates electricity tariffs and monitors the enforcement of power sector operations; every power purchase agreement is negotiated on a case-by-case basis by the ministry and power producers [2]. To streamline the process, the government could set up an autonomous body responsible for renewables and give it regulatory and controlling powers. The experience of Malaysia could be relevant to consider. In 2011, Malaysia established the Sustainable Energy Development Authority (SEDA), which was given independent regulatory and enforcement responsibilities. This helped simplify the regulatory framework, improve enforcement mechanisms and decrease transaction costs for power producers. The establishment of such an institution by Lao PDR could help give renewables greater weight in the energy governance system and attract foreign direct investment [4].

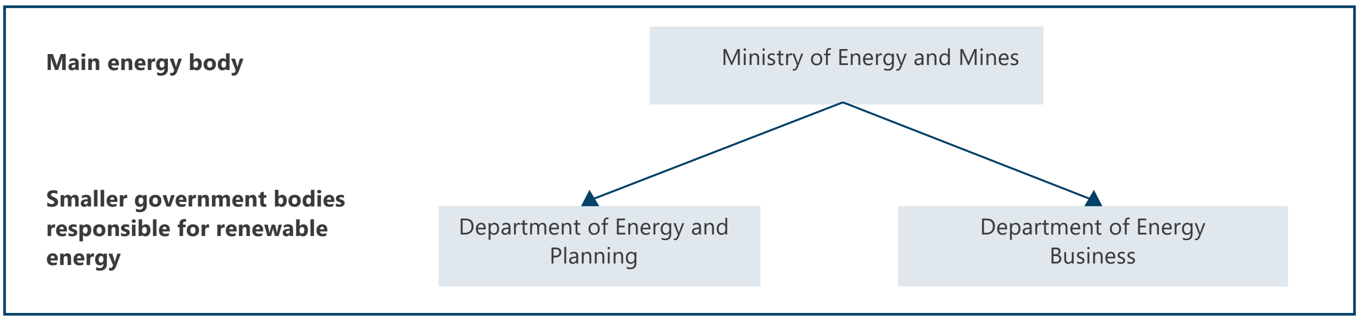

Figure 1. Current energy governance in Lao PDR

[a]Norwegian Institute of International Affairs (NUPI), Oslo, Norway.
[b]ASEAN Centre for Energy (ACE), Jakarta, Indonesia.
*Email: rva@nupi.no

Table 1. Lao PDR's regulatory framework compared to other ASEAN countries (2020)

Type of policy		Philippines	Vietnam	Indonesia	Malaysia	Thailand	Singapore	Myanmar	**Lao PDR**	Cambodia	Brunei Darussalam
Regulatory policies	Renewable energy in INDC or NDC	●	●	●	●	●	●	●	●	●	●
	Renewable energy targets	●	●	●	●	●	●	●	●		●
	Feed-in tariff/auctions/premium payment	●	●	●	●	●				●	
	Net metering/billing/direct consumption-supply	●	●	●	●		●				
	Biofuel blend obligation/mandate/target	●	●	●	●	●					
	Electric utility quota obligation/RPS	●	●	●	●						
	Tradable REC		●								
	Renewable heat obligation/mandate										
Fiscal incentives and public financing	Tax incentives	●	●	●	●	●		●	●	●	
	Public investment/loans/grants/subsidies/rebates	●	●	●	●	●	●		●		
	Reductions in sales, CO_2, VAT or taxes	●	●	●	●	●		●			
	Tendering	●		●	●		●				
	Investment or production tax credits	●	●	●							
	Energy production payment	●				●					

Sources: [6,7].

Action 2: Join IRENA and build capacity for renewable energy governance

Lao PDR is one of the very few countries in the world that has not joined the International Renewable Energy Agency (IRENA), the main international organisation for building renewable energy governance capacity and adopting enabling policies for renewable energy investment. Given current capacity gaps in Lao PDR, it would be beneficial for the country to join IRENA and receive more technical assistance and support to establish a dedicated government institution for renewables (Action 1), designing and adopting a comprehensive regulatory framework including feed-in tariff policies and tax incentives (Action 3) and creating a roadmap for the development of small-scale renewable energy (Action 4). Lao PDR could also deepen cooperation with the Asian Development Bank, the International Energy Agency, the World Bank and other donor organisations.

Action 3: Adopt a feed-in tariff and build a robust regulatory framework

Renewable energy is part of the Nationally Determined Contribution (NDC) of Lao PDR under the Paris Agreement [5]. However, compared to many ASEAN countries, the country has a weak regulatory framework for renewables (see Table 1). No pricing mechanism has been established yet, but a feed-in tariff mechanism appears to be Lao PDR's preferred option [2]. The country could prioritise the adoption of such a pricing mechanism, along with further developing more attractive tax and other fiscal incentives for investors.

Action 4: Develop a roadmap for small-scale renewable energy

To successfully realise the 2011 Renewable Energy Development Strategy, Lao PDR could focus on creating a roadmap for the development of small-scale renewable energy that would include overall targets, regional allocation of targets, a timeline, investment measures and policies and a description of the role of the provincial authorities in the uptake of small-scale renewable energy projects. The roadmap could also outline plans for including renewables in the long-term electrification strategy for rural communities in remote areas with no or limited access to electricity. Without such a roadmap, it is difficult for the government, investors and other stakeholders to develop long-term investment plans.

Action 5: Facilitate market entry for investors

The government could improve the investment climate by simplifying market entry procedures and building effective communication channels with foreign investors. Currently, there is no single market entry point for investors. They need to pass through the Ministry of Industry and Commerce and Ministry of Planning and Investment for company registration and obtaining investment licences. State-owned Electricité du Laos acts as an off-taker. One way to simplify the requirements would be to organise priority market entry for renewable energy companies.

It is also important to make all the relevant information easily available and keep it constantly updated. Data on investment opportunities is not easily available. The overall business environment could also be improved. Lao PDR was ranked 154 out of 190 countries in the World Bank's Ease of Doing Business Index in 2019. 'High costs of doing business and the absence of a transparent, dynamic, and streamlined business environment' are viewed to be the major barriers by investors [8].

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ASEAN Centre for Energy
Soemantri Brodjonegoro II Building
Jl. H.R. Rasuna Said Block X-02, Kav. 07-08,
RT.10/RW.4, Kuningan Timur, Kecamatan
Setiabudi, Daerah Khusus Ibukota Jakarta 12950

+62 21 527 9332

aseanenergy.org