

## TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEGF

TA No., Country and Name			Amount Approved: \$700,000	
TA 4627 (LAO): Public Expenditure Planning for National Growth and Poverty Eradication Strategy			Revised Amount:	
Executing Agency The Department of Fiscal Policy of the Ministry of Finance		Source of Funding Cooperation Fund in support of the Formulation and Implementation of National Poverty Reduction Strategies, administered by ADB	Amount Undisbursed: 75,327.15	Amount Utilized: 624,672.85
TA Approval Date:  2 August 2005	TA Signing Date:  20 September 2005	Fielding of First Consultant(s):  4 February 2006 - Date of NTP letter	TA Completion Date Original: 30 September 2007 Actual: 31 December 2007 Account Closing Date Original: 30 September 2007, revised to 31 December 2007	Actual: 30 April 2008
<p><b>Description:</b> Public Expenditure Planning for National Growth and Poverty Eradication Strategy was designed to contribute to the realization of the Public Expenditure Management Strengthening Program (PEMSP), a comprehensive public financial management strategy approved by the Government of Lao PDR in November 2005. The PEMSP addressed weaknesses in: i) fiscal planning and budget preparation; ii) budget execution, accounting, and financial reporting; iii) local government financial management; iv) financial legislation and regulatory frameworks; and v) technical capacity. The TA supported the first component of the PEMSP and the development of the government's Medium-Term Fiscal Framework (MTFF) and Medium-Term Expenditure Framework (MTEF). The TA also aimed to assist in the capacity improvement of relevant departments of the Ministry of Finance (MOF) and government agencies involved in the fiscal planning process.</p> <p><b>Expected Impact, Outcome and Outputs:</b> The underlying objective of the TA was to strengthen public expenditure management to enable the Government in successfully integrating national poverty reduction strategies into budgetary priorities and implementation, linking what is desirable with what is affordable and most likely to deliver results for the Government's National Growth and Poverty Eradication Strategy (NGPES), which is a sub-set of its Sixth Socio-Economic Development Plan. The Project's planned key output/activity areas, as identified in the Inception Report were: i) Preparation of methodology for Medium Term Fiscal Framework (MTFF); ii) Preparation of methodology for Medium Term Expenditure Framework; iii) Preparation of recommendations for strengthening budget management processes, including the intergovernmental fiscal relations framework; iv) Support for IT development, both hardware and software; and v) Capacity building through workshops and training. Major deviations from the work plan outlined in the Inception Report and later interim reports were: i) Reduced focus on MTEF development due to the increase in Project inputs in support of preparing the new Budget Law and associated Implementing Decree, and in support of strengthening the intergovernmental fiscal relations framework; ii) Reduction in inputs to most of the activities related to strengthening of budget preparation processes due to both the increased emphases mentioned above and the delays by Government in operationalising the PEMSP Task Force on fiscal planning and budgeting. The Task Force was to govern the Project's planned activities in this area.</p> <p><b>Delivery of Inputs and Conduct of Activities:</b> The TA was extended from 30 September 2007 to 31 December 2007 on request by the Government to allow more training activities. A team of two international consultants (fiscal planning specialist and budget management specialist) engaged for a duration of 14 person-months, and two domestic consultants (fiscal management specialist and software development specialist) engaged for a duration of 44 person-months were fielded. The Terms of Reference were adequate and the performances of international consultants were outstanding. This was reiterated by the recipient departments. The Project successfully completed its planned activities. The major achievements of the Project have been preparation and training of MOF staff on i)</p>				

Medium Term Fiscal Framework (MTFF) and accompanying notes; ii) government-wide draft MTEF and accompanying manual in both Excel and Access, which was explained to staff at workshops in June 2006, February and August 2007; and iii) drafting education and health sector-specific MTEFs. However, it has not been possible to schedule training on MTEF for MOF, Ministry of Planning and Investment, Ministry of Health and Ministry of Education. The Project developed a methodology for improving the fiscal transfers system. The MOF has used this methodology as an input in drafting of the Implementing Decree for the new Budget Law. The Project provided useful advice on the i) revisions to the draft Budget Law, ii) draft Implementation Decree, iii) budget nomenclature system and chart of accounts, and on iv) revisions to budget preparation procedures. The Project successfully supported the regional workshops on the new Budget Law and draft Implementation Decree and procured useful equipment for Fiscal Policy Department (FPD) and Budget Department (BD) and provided substantial training to MOF staff in computer business software programs/applications.

**Evaluation of Outputs and Achievement of Outcome:** The TA 4627-Lao project document includes a Design and Monitoring Matrix, which consists of three main sections: Impacts, Outcomes and Outputs. The planned outputs shown in the TA document were modified somewhat in the Inception Report of the Project, though they remained substantially the same. The desired impacts and outcomes in terms of strengthened fiscal planning and budgeting have yet to be felt. This is because the outputs of the Project would, in any case, translate into improved fiscal planning and budgeting only over the medium term (in terms of stronger alignment of spending with SEDP objectives and greater cost effectiveness of spending) and because, it was only possible for the Project to provide the methodological foundations for strengthened fiscal planning and budgeting. Although the methodological frameworks and processes prepared by the TA have yet to be operationalised by Government, the Ministry of Finance now has a very useful base on which it can build upon in terms of operationalising the reforms in planning and budgeting processes advocated by the TA.

**Overall Assessment and Rating:** The TA was highly successful in providing the methodological foundation for the MTFF and MTEF aimed at strengthening LAO PDR's budget management processes, (and the subsequent adoption of the MTEF). This was viewed as a positive response to the weaknesses in expenditure planning. The flexibility in TA implementation enabled having the budget basics in place to facilitate future implementation of an MTEF as a basic tool for fiscal planning. TA's efforts culminated in encapsulating MTEF in the Implementing Decree of the Budget Law, the legal framework for the strategic management of the Budget. The TA also contributed to the drafting of the associated implementing decree and the study of policy options to reform the fiscal transfers system.

**Major Lessons:** One of the key lessons learned in the implementation approach and progress in Lao regarding the introduction of MTEF is to be flexible and respond to government's requirements during implementation. The pace of implementation of a project needs to take into account the institutional environment. In Lao PDR, the institutional environment mitigates against a rapid pace of project implementation. Basic skills building should ideally precede implementation of projects such as this one, and an assessment of existing institutions and their capacity is a crucial first step. In the absence of an experienced national fiscal management specialist, a full-time international consultant should be on site. To conclude, the potential for implementing planning and budgeting reforms is there, but the implementation process is likely to remain slow and must take into account progress in reforms in other elements of public finance management, institutional constraints and the need for basic skills development.

**Recommendations and Follow-Up Actions** The design of the follow-up TA, included in the Country Strategy and Program for 2007-2011, will emphasize training and capacity building in planning and budgeting (including MTEFs) at province and district level to ensure the sustainability of planning and budgeting reforms (\$1.1mn ADTA is programmed in 2008 to extend the work of TA4627 across more ministries and provincial offices). The background knowledge provided by TA 4627 will be vital inputs that will inform the design of the next phase of the TA. Substantial upgrading of basic skills is required if planning and budgeting reforms are to succeed.