

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: COSO/COPP

TA No. and Name TA 3626 – LAO: Capacity Building in Project Financial Management		Amount Approved: \$400,000	
		Revised Amount: \$400,000	
Executing Agency Ministry of Finance Fiscal Policy Department	Source of Funding: JSF	TA Amount Undisbursed \$5,878	TA Amount Utilized \$394,122
Date		Completion Date	
Approval	Signing	Fielding of Consultants	Original Actual
25 Jan 2001	9 Mar 2001	1 April 2001	30 Sept 2002 31 July 2004
		Closing Date	
		Original	Actual
		30 Sep 2002	22 Mar 2005

Description

Official Development Assistance (ODA) accounts for around 70-80% of Lao PDR's annual capital expenditure. The government has embarked on a series of reforms to enhance efficiency and effectiveness in implementing official development assistance. These include clarifying the roles and responsibilities of central agencies, strengthening aid monitoring and public investment planning, improving procurement procedures, strengthening the national audit office, improving accounting systems and controls and internal audit. However project implementation, particularly project financial management remains an area where there is considerable scope for improvement. The ADB therefore provided this TA as a basis for strengthening ODA project implementation. The Fiscal Policy Department in the Ministry of Finance was appointed as the executing agency for this TA.

Objectives and Scope

The objectives of the TA were to enhance project financial management with respect to ODA funds, by improving the national budget process and fund flow mechanism, and strengthening institutional capacity to manage financial activities relating to ODA funded projects. Firstly, the TA sought to improve the procedures for annual budget planning and execution of development expenditures. A unified approach to budget planning and execution was previously lacking with very little coordination and information sharing between the various stakeholders. The budgeting systems were mainly manually operated in each project and were not standardized. The TA sought to address these shortcomings by streamlining the arrangements for budget formulation and reporting to enable better monitoring. Secondly, the TA also focused on improving the disbursement function relating to settlement of suppliers and contractors progress claims and invoices. Delays of over 35 days were being experienced in the settlement of claims due to a lack of an effective, well controlled and uniform approach in processing these payments. The TA focused on improving the disbursement process by establishing clear, easy to follow rules for the payment process by eliminating unnecessary procedural steps but at the same time increasing the effectiveness of the internal control environment. And thirdly, the TA was to improve the skills and capacity of financial management staff.

Evaluation of Inputs

The TA was financed by a grant from the ADB amounting to \$400,000. The major input of the TA was consulting services. The TA provided for 29 months of international consulting and 34 months of domestic consulting. Apart from the consulting services, the TA provided for some office equipment. The Fiscal Policy Department provided one full time counterpart staff to the project and office accommodation. The TA commenced in April 2001 as planned. All activities of the TA were completed by September 2002 in accordance with the planned TA activities schedule. During the TA Completion Review Mission, the Government requested ADB to extend the TA by another 12 months to provide further assistance to effectively implementing the new regulations and applying the new software prepared under the TA. ADB approved the extension. The scope, terms of references (TORs), and implementation arrangements and schedule of the TA were considered relevant and appropriate. All tasks in the terms of reference of the consultants were satisfactorily completed. The consultants developed good working relationships with the counterpart staff, the project director and the senior management of the Ministry of Finance (MOF), Ministry of Education (MOE), Ministry of Communications, Transport, Posts and Construction (MCTPC) and Ministry of Health (MOH). The ADB missions closely monitored the progress and issues of the TA, reviewed reports and relevant documents and provided timely and valuable feedback and decisions on technical and management problems. ADB fielded missions to discuss the inception, mid term and final report with the senior government officers involved in this TA. The performance of the EA and ADB is considered satisfactory.

Evaluation of Outputs

The TA had four key components and outputs. (i) *Development of a Simple, Standard National Budget Cycle and Procedures*: This component focused on analyzing the existing arrangements for budget preparation of ODA projects to determine how the budget cycle could be improved and resulted in the promulgation of a new budget regulation and budgeting procedures which were approved by the Minister of Finance on the 12th September 2002. New budget accounting software in the Lao language was developed and installed in four ministries. New budget reports are being produced for monitoring budget progress. A user manual was prepared and is being used for maintaining the budget accounting system. Information on counterpart funding is also now available from the budget reports. Budget expenditure is now integrated in the government's fiscal budget reporting system. This TA focused on developing software for individual ODA projects that are being managed by each ministry, showing the budget and actual expenditure of each development project. In contrast, software developed under TA 3309-LAO: Enhancing Government Accounting Regulations and Procedures¹ captured all transactions relating to the recurrent budget of each ministry and province. (ii) *Establishment of a Streamlined Fund Flow Mechanism and Procedures*: The existing processes for disbursing funds were analyzed for nine loan projects. A new set of disbursement regulations and an accounting procedures manual were prepared which led to the issuance of a new disbursement regulation and procedures which were approved by the Minister of Finance on the 12th September 2002. Accounting software in the Lao language was developed for recording disbursements on both ODA and counterpart funds. (iii) *Development of a Master Plan for and Training in Project Financial Management Training*: The master plan was developed and training materials prepared. Ten workshops for central and provincially based project accounting staff were held. Around 390 staff attended the workshops. On the job training was also provided to 15 project management units. A training manual was developed for use by the train-the-trainers group of thirty staff that was established during the TA and also distributed to all the projects. (iv) *Preparation of a Risk Assessment of all Active ODA Projects*: A risk assessment of all active ODA projects was completed. A methodology for conducting the risk assessments was developed and project staff trained in using it for future assessments. The risk assessment revealed that some agencies were not adequately staffed, had inadequate internal control systems and did not have the capacity to manage bank accounts. The risk assessment will enable the government in prioritizing the transfer of bank accounts to the executing agencies at some future date when the projects have the necessary capacity to manage these accounts.

Overall Assessment and Rating

The TA is rated as successful. The standardization of procedures and the training provided will assist in further developing the skills and capacity in project financial management. The turnaround time for payments, as a result of this TA was reduced from over thirty days to less than 15 days. Another success factor was the knowledge transferred to a group comprising thirty project accountants who form the train-the-trainers group that continues to provide assistance to project accountants.

Major Lessons Learned

A key success factor in this TA was the development of software in the Lao language which was widely accepted by the users. Also the development of simple, easy to understand budget and disbursement regulations and procedures made the task of training more effective. The close dialogue that was established between the Government and the TA project team/consultants facilitated getting the new regulations approved without delays.

Follow Up Actions and Recommendations

While new software, systems and procedures have now been established, the new procedures are not always being followed and the software has not been installed in all project management units. Also, some of the Government's project management units are not familiar with how internal controls systems need to be designed and built into the budget and disbursement processes. The management of bank accounts is an important activity that has been introduced in the new regulations. However, the project management units need more training in this area. To sustain implementation of the newly established regulations and the capacity building and training activities introduced under this TA, a follow up TA may be desirable. However, the government will need to commit itself to decentralizing ODA bank accounts in the future and to an action plan for strengthening capacity in the executing agencies as a prerequisite for further technical assistance.

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¹ TA 3309-LAO: Enhancing Government Accounting Regulations and Procedures, approved on 25 November 1999, for \$700,000.