

## RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<b>Governance risks</b>		
<p>Staff capacity and coordination pose risk to reforms. The staff qualified for PFM is limited. Coordination in implementing budget reforms is weak within the MOF's departments and between the MOF, MPI and sector ministries. Budget execution is weak, and accounting and reporting arrangements are deficient.</p>	Medium	<p>The government is committed to strengthening public expenditure management and civil service capacity through PFM reforms. The MOF continues to strengthen coordination with the MPI in formulating the annual budget to effectively support implementation of NSEDP for 2011–2015. The MOF is finalizing a long-term public finance development strategy for the period to 2020 and a vision document for the period to 2030. These will aim to provide improved coordination across economic agencies by linking policy, planning, and budgeting in a consistent framework that would address fiscal and resource issues over the medium and long terms. Given capacity constraints and the long-term nature of the governance and PFM reform processes, reforms in these areas will remain prominent in the remainder of the seventh NSEDP for 2011–2015 and through the eighth NSEDP for 2016–2020.</p>
<p>Weak SAO capacity is a significant constraint and this can undermine the independence and effectiveness of public financial accountability framework.</p>	Medium	<p>An ADB-funded project is supporting the MOF and other line ministries in budget planning and in improving the intergovernmental fiscal transfer systems.<sup>1</sup> The IMF is supporting reforms and capacity building in accounting and reporting. In addition, ADB is supporting the MOF by providing policy advice and building capacity aimed at clarifying functional assignments, as well as streamlining the revenue-sharing norms and budget norms. In addition, the MOF has benefited from sustained technical support in all aspects of PFM systems under the PFMSP led by the World Bank.</p> <p>Since 2007, significant progress has been made in strengthening the SAO. An action plan for 2009–2020 on building the capacity of the SAO is being implemented. Intensive training was provided to a core group of 30 SAO staff in procurement audit under an ADB-supported TA.<sup>2</sup> Training was supported by guidance notes and a draft manual that covered the related areas of code of ethics, auditing standards, and audit quality management. On-site audit technical support was provided during the pilot and model audits undertaken under the program. Overall, significant progress has been made in strengthening the public procurement system in the SAO through a series of training courses on ISSAI standards and two pilot audits to put into practice the professional knowledge acquired in the training. These have improved the skills of the audit staff,</p>

<sup>1</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan and Grant, and Grant Assistance to the Lao People's Democratic Republic for Governance and Capacity Development in Public Sector Management Program, Subprogram 1*. Manila.

<sup>2</sup> ADB. 2011. *Technical Assistance to the Lao People's Democratic Republic for Strengthening the Capacity of the State Audit Organization*. Manila.

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		proficiency in risk assessment, and knowledge of the entire life cycle of procurement.
Institutional framework and capacity in public procurement is weak and lacks appropriate regulations, documentation, and tools for implementation.	Medium	Under the World Bank supported PFMS, a new procurement decree, implementing rules and regulations, standard procurement manual, and standard bidding documents have been developed that helped improve procurement practice over the years. <sup>3</sup>
Anecdotal evidence suggests patronage and corruption remain problematic, and this could undermine program reforms. A lack of a public opinion or enterprise survey has hampered meaningful assessment of this phenomenon. Several anticorruption measures have had little impact, including the ratification by Lao PDR of the UN Convention against Corruption in September 2009. The media and civil society organizations are unable to hold the government accountable. Civil society lacks empowerment.	Medium	<p>Initiatives aimed at strengthening the public's representation and participation in public affairs have been sustained. Despite challenges, the capacity of the National Assembly as the highest representative organ of the state has increased, and it now has a more proactive role in rule making and government oversight. The media has expanded, and the foundation for developing an enabling environment for civil society organizations is being developed. There are now 118 newspapers and magazines in the country, while radio and TV reaches about 80% of the country's population. Since 2011, the number of registered nonprofit associations has increased to 116.</p> <p>The government has adopted and promulgated many fundamental laws for governing the state and strengthening the rule of law. It has also ratified a number of international treaties and has incorporated many into the legal framework. Improvements to organizational arrangements and capacity in the judiciary and the people's prosecutors have contributed to improved handling and settlement of court cases involving criminal, civil, trade-related, and other types of cases. However, the legal system is not yet comprehensive, and the system of laws needs to be further developed.</p> <p>Following the country's accession to the WTO in 2013, several reforms to improve trade and industry and to create greater openness in investment policies have been undertaken. Efforts are under way to strengthen regulation and supervision and to improve the investment climate and ease of doing business and enforcing contracts.</p>

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<sup>3</sup> ADB. 2007. *Technical Assistance to the Lao People's Democratic Republic for Improved Public Financial Management Systems*. Manila (TA 4954-LAO); ADB. 2008. *Technical Assistance to the Lao People's Democratic Republic for Strengthening Public Financial Management*. Manila (TA 7077-LAO).

<b>Implementation Risks</b>		
The civil service is patronage-based, underperforms and is hampered by low salaries, a fragmented administrative structure, and overlapping responsibilities. This undermines the implementation of public administration reforms.	Medium	<p>Steady progress has been made in public administration reforms through adoption of new legislation and implementation of the laws on government and local administration. In the areas of civil service, improvement is sought through a proposed Civil Service Law and the introduction of an Instruction on Civil Service Examination and other regulations to develop a more merit-based civil service.</p> <p>Political consensus to strengthen district administration through the Sam Sang pilot initiative has gained momentum. The ongoing pilot implementation will result in a revised civil service law and a revised law on local administration to strengthen subnational administration for better service delivery. The post-program partnership framework will enhance the dialogue on civil service management and capacity building reform.</p>
<b>External risk</b>		
Potential external risks may arise from macroeconomic imbalances, particularly due to an escalating fiscal deficit since FY2013. This is largely due to a large increase in public sector wages and benefits. The country also has an elevated level of external public and publicly guaranteed debt, which has been rising since 2012 mainly due to a rapid increase in bilateral borrowing	Medium	The government remains committed to reduce reliance on the mining and hydropower sectors as highlighted in successive national socioeconomic development plans. The MOF is committed to ensuring fiscal consolidation and macroeconomic stability through a series of expenditure cuts, halt of civil service wage and benefit increases, and the strengthening of administrative measures for better revenue collection.

**Overall****Medium**

ADB = Asian Development Bank, IMF = International Monetary Fund, ISSAI = International Standards of Supreme Audit Institutions, Lao PDR = Lao People's Democratic Republic, MOF = Ministry of Finance, MPI = Ministry of Planning and Investment, NGPARP = national governance and public administration reform program, NSEDP = National Socio-Economic Development Plan, PFM = public financial management, PFMSP = Public Financial Management Strengthening Program, SAO = State Audit Organization, TA = technical assistance, UN = United Nations, WTO = World Trade Organization.

Source: ADB.