



Technical Assistance Report

Project Number: 46059-004
Capacity Development Technical Assistance (CDTA)
December 2015

Lao People's Democratic Republic: Support for Governance and Capacity Development

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 December 2015)

Currency unit	–	kip (KN)
KN1.00	=	\$0.0001
\$1.00	=	KN8,168

ABBREVIATIONS

ADB	–	Asian Development Bank
EPFC	–	Economics, Planning and Finance Committee
IT	–	Information technology
Lao PDR	–	Lao People's Democratic Republic
MTEF	–	medium-term expenditure framework
MOF	–	Ministry of Finance
NSED	–	national socioeconomic development plan
PFM	–	public financial management
TA	–	technical assistance

In this report, "\$" refers to US dollars.

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CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 46059-004	
Project Name	Support for Governance and Capacity Development	Department /Division	SERD/SEPF
Country	Lao People's Democratic Republic	Executing Agency	Ministry of Finance
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		1.00
		Total	1.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Public financial governance	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Rural	Medium
		Urban	Medium
6. TA Category:	B		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		1.00	
Capacity development technical assistance: Technical Assistance Special Fund		1.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.10	
Government		0.10	
Total		1.10	
9. Effective Development Cooperation			
Use of country procurement systems	No		
Use of country public financial management systems	No		

I. INTRODUCTION

1. The proposed technical assistance (TA) aims to support the Government of the Lao People's Democratic Republic (Lao PDR) in (i) implementing budget reforms with a focus on medium-term budgeting, (ii) adopting and implementing formula-based intergovernment fiscal transfers, and (iii) strengthening the role of the National Assembly in fulfilling its oversight functions through policy advice and technical support.¹ The TA is aligned with the country operations business plan for the Lao PDR, 2015–2017 of the Asian Development Bank (ADB), which identifies public sector management reforms and capacity development as a key crosscutting theme under ADB's country partnership strategy for the Lao PDR, 2012–2016.² ADB conducted a fact-finding mission on 13–19 August 2015, during which agreement was reached with the government on the TA project's objectives, scope, implementation arrangements, and financing plan. The design and monitoring framework is in Appendix 1.³

II. ISSUES

2. **Development challenges.** The Lao PDR has experienced robust economic growth from 2005–2014, averaging 8% of gross domestic product annually. Growth has been driven by an unprecedented resources boom and been boosted by large-scale foreign direct investments in hydropower and mining, accounting for about one-third of the country's gross domestic product. As a result of this sustained growth, the country has witnessed a significant reduction in the poverty rate, from 27.6% in 2007–2008 to 23.2% in 2012–2013. While overall poverty has declined, the country is faced by a number of structural and policy challenges. The Lao PDR's inequality gap (as measured by the Gini coefficient) is expanding to 36.17 in 2013, especially between the urban population and the bulk of the country's rural population. The country is not on track to meet a number of its Millennium Development Goals, including reducing the rates of child mortality and increasing school enrollments. In addition, the country's infrastructure needs, especially in rural areas, remain unmet, and rural poor people have limited access to basic services. The government recognizes these challenges and is focusing on broad-based, sustainable, and inclusive growth for poverty alleviation in its development agenda, articulated in successive national socioeconomic development plans (NSEDPs).

3. **Binding constraints.** In the Lao PDR, significant resource constraints and lack of capacity of government agencies undermine the effectiveness of public sector management, at both the central and subnational levels. Public financial management (PFM) is weak. The absence of a medium-term fiscal strategy continues to undermine budget predictability and limits the strategic allocation of resources. Despite recent progress, resource inadequacy is acutely experienced at the subnational level, which is mandated to deliver key education and health services. Further, intergovernment fiscal arrangements continue to be challenging. Currently, provincial budgets are determined by ad hoc negotiations between central government and the provinces. More transparent and technically sound budget allocation mechanisms are needed to strengthen the predictability of provincial budgets, to enable improved service delivery, especially for the poor. Legislative scrutiny of the government budget lacks substance, and the National Assembly approves only broad expenditure allocations and a line item budget that provides little information on the purpose of spending. Overall, these

¹ The TA first appeared in the business opportunities section of ADB's website on 9 September 2015.

² ADB. 2014. *Country Operations Business Plan: Lao People's Democratic Republic, 2015–2017*.

³ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan and Grant, and Grant Assistance for Subprogram 1 to the Lao People's Democratic Republic for the Governance and Capacity Development in Public Sector Management Program*. Manila (Grant 0309-LAO).

weaknesses in PFM entail high costs in terms of allocative and operational efficiency in the Lao PDR.

4. **Government reform agenda.** The government is aware of the centrality of PFM reforms to the national efforts toward poverty reduction. Implementation of the 2005 PFM strengthening program helped the government revamp the legislative framework governing public finances through enacting the revised Budget Law (2006) and the Audit Law (2007); establishing a National Treasury and strengthening Treasury controls; and improving revenue policy and administration (through the introduction of a value-added tax). The Ministry of Finance (MOF) is currently finalizing a long-term public finance development strategy for the period to 2020 and a vision document for the period to 2030 aimed at linking policy, planning, and budgeting efficiently. The revised Budget Law is currently under revision and is expected to be submitted to the National Assembly in December 2015. The MOF is putting greater emphasis on having in place a multiyear perspective on expenditure policy and budgeting to strengthen the overall allocative efficiency with regard to PFM institutions and processes in the Lao PDR.

5. **Improving transparency in intergovernment fiscal relations is high on the government's policy agenda.** The Sam Sang initiative has been driving this policy agenda since 2012. The Sam Sang vision is to delegate a range of authority and responsibilities from central ministries to province, district and village levels to enable local socio-economic development and eradicate poverty. Initially implemented as a pilot, Sam Sang seeks to strengthen districts and villages as primary agencies for service delivery and has evolved from a pilot to a comprehensive state policy, the implementation of which requires key reforms. Lessons from the pilot implementation have underscored the urgency to adopt objective criteria (i.e., expenditure norms) to establish resource needs at subnational levels. The revised Budget Law is expected to strengthen the legal basis and pave the way for formula-based budgetary transfer arrangements among different levels of government, to redistribute resources for more equitable distribution, based on transparent and technically sound norms.

6. **Enhancing legislative scrutiny of the budget and oversight of its execution.** As the key legislative committee of the National Assembly, the Economics, Planning and Finance Committee (EPFC) is at the center of a number of crosscutting PFM policy initiatives. The EPFC faces significant institutional and organizational challenges arising from the priorities of the draft eighth NSEDP, and the Sam Sang implementation. The EPFC will require new administrative procedures to define the financial relationships and oversight procedures between the provincial assemblies and the provincial administration, as well as the relationship between the National Assembly and the provincial assemblies. The EPFC will also require technical advice and support to establish appropriate mechanisms and deal with implementation issues as they arise.

7. **ADB's past interventions.** From 2005 to 2014, ADB has supported the Lao PDR through a cluster of TA projects on PFM issues and targeted financial assistance to reforms. ADB sector work in the Lao PDR has contributed to strengthening (i) budget planning and budget formulation process, reporting, and accounting systems for budget execution; and (ii) the institutions of state audit. Component 1 of the ongoing Governance and Capacity Development in Public Sector Management Program has strengthened the government's capacity and preparedness to adopt a medium-term budget framework, though significant capacity challenges and lack of political buy-in remain.⁴ The design of the TA will build upon the experiences of this sustained support to reforms.

⁴ Initially, support was to assist in the development of methodological frameworks for a medium-term fiscal framework and an MTEF process for the MOF (ADB. 2005. *Technical Assistance to the Lao People's Democratic*

8. **Value added from the technical assistance.** The TA will sustain policy dialogue and ongoing reforms under the Governance and Capacity Development in Public Sector Management Program in areas such as budget reform and intergovernmental fiscal relations, and will build a platform for the next phase of ADB's support for public sector management reforms.⁵ Recent expansionary macroeconomic policies have put the Lao PDR under increasing fiscal strain that needs to be carefully managed in the long run, and adequate legislative oversight is required. Expenditure decisions must be made in a multiyear context to not only account for the volatile nature and uncertainties associated with resource revenues, but also to align expenditures to the priorities of the NSEDP and ensure that natural resources wealth is transformed into investments in public infrastructure and services. Further, given government commitments to Sam Sang reforms that entail devolution of functions and resources to subnational administrations, transparent and formula-based fiscal transfers will enhance redistributive gains. Finally, support to the National Assembly (specifically the EPFC) will strengthen legislative oversight and improve accountability for resource use.

9. **Lessons learned and donor coordination.** An important lesson learned from past interventions is that reforms demand flexibility in implementation to respond to changes in priorities. This need is compounded in the case of the Lao PDR by the country's particular political and government institutional framework, rising fiscal pressures, and the low capacity in the government agencies at all levels. Given the weak enabling environment and lack of efficient managerial structures and capacity for institutions to succeed at an anticipated pace, it is critical that ADB stays engaged and is able to respond promptly to TA needs. Public administration and PFM reforms require effective coordination across several ministries. It is equally important to understand the political economy of reforms, including the overall environment, and the formal and informal rules that govern the public sector management reform process in the country. These lessons have been taken into account in the design of the TA. ADB will collaborate closely with other development partners in the implementation of the TA, especially with the World Bank.

III. THE CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

A. Impacts and Outcome

10. The impacts will be enhanced effectiveness of public governance and administration in the Lao PDR, as envisaged under the NSEDP, 2016–2020, and improved service delivery. The outcome will be a strengthened policy-based budgeting system. The MTEF, anchored in a medium-term fiscal framework providing realistic fiscal plans for achieving the government's policy and development objectives, will strengthen the policy orientation of the budget by linking NSEDP priorities to the annual budget preparation process and also ensure that sector projects

Republic for Public Expenditure Planning for National Growth and Poverty Eradication Strategy. Manila [TA 4627-LAO]. ADB. 2008. *Technical Assistance to the Lao People's Democratic Republic for Strengthening Public Financial Management.* Manila (TA 7077-LAO) further supported the MOF and selected line ministries with the development of an MTEF as a pilot. Under the TA, contribution was made to the development of a medium-term fiscal framework, fiscal strategy techniques and methodologies. A recently concluded project (ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan and Grant, and Grant Assistance for Subprogram 1 to the Lao People's Democratic Republic for the Governance and Capacity Development in Public Sector Management Program.* Manila) further strengthened the capacity within the MOF to develop and improve the budget process from a multiyear perspective.

⁵ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to the Lao People's Democratic Republic for the Governance and Capacity Development in Public Sector Management Program.* Manila (Loan 3205-LAO).

and programs are realistically costed and delivered efficiently. Indicators and performance targets in relation to the three outputs are in Appendix 1.

B. Methodology and Key Activities

11. The TA will have three outputs.

(i) Output 1: Improved budget management capacity of the MOF and key line ministries. The TA will further develop the capacity of staff of the MOF and selected line ministries in budget preparation by using the MTEF methodology together with advanced macroeconomic tools for the preparation of a medium-term fiscal framework. Technical support will be provided to prepare medium-term budget projections and the overall set of macroeconomic and fiscal assumptions required to arrive at the overall resource envelope and budget expenditure ceilings, using the medium-term budget framework developed with ADB support.⁶ The TA will develop an implementation strategy to institutionalize the MTEF and help establish an appropriate institutional and coordination mechanism for project implementation and technical guidance. In addition, the TA will provide support to the MOF to draft guidance notes and implementing regulations that are needed to deliver some of the key requirements of the revised Budget Law.

(ii) Output 2: Formula based fiscal transfer arrangement gradually adopted and implemented. The TA will support internalization of a nondiscretionary transfer mechanism developed with ADB support by the MOF and all stakeholders and ensure gradual transition to an effective formula-based system in the budgets for 2016–2017 and 2017–2018. The TA will also provide hands-on training on application of a formula-based transfer system and support the MOF in evaluating options for annual review of the transfer system.

(iii) Output 3: Legislative oversight of public finance strengthened. The TA will support the EPFC members with technical advice, prepare policy papers, and organize training and workshops relating to the mandate of the EPFC. In addition, the TA will strengthen the EPFC's role in financial oversight and capacity of EPFC members and staff in dealing with public finance issues (including assessment of budget proposals and scrutiny of budget execution, including the audit reports produced by the State Audit Organization). Implementation risks from capacity constraints and resistance to change will be outweighed by strong and sustainable commitment of the government to public sector reforms.

C. Cost and Financing

12. The TA is estimated to cost \$1,100,000, of which \$1,000,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (\$735,000 from TASF-V, and \$265,000 from TASF-Others). The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, remuneration, per diem and domestic transportation of counterpart staff, and other in-kind contributions.

D. Implementation Arrangements

13. The Fiscal Policy Department of the MOF will be the executing agency for outputs 1 and 2. Implementing agencies for output 1 will be the Ministry of Education and Sports, the Ministry

⁶ The medium-term budget framework developed gives a resource envelope projection at general government level over a 5-year horizon. The Microsoft Excel model follows a practical approach and allows flexibility to change assumptions based on changed circumstances.

of Health, the Ministry of Public Works and Transport, the Ministry of Agriculture and Forestry, the Ministry of Natural Resources and Environment, and the Ministry of Planning and Investment. Implementing agencies for output 2 will be the Department of Budget (MOF) and the Department of Local Finance and Sam Sang Secretariat (MOF). Given its independent status, the EPFC of the National Assembly will be the second executing agency for activities falling within the scope of its mandate and authority (output 3). A project management committee, under the responsibility of the director general of Fiscal Policy Department, will be established in the MOF to monitor activities under the TA. The director general of the EPFC will undertake project management functions for activities concerning the EPFC.

14. The TA will be implemented over a period of 35 months from February 2016 to December 2018. The TA will provide a total of 26.5 person-months of international consulting services in areas of budget management, fiscal planning (macroeconomics), intergovernment financial arrangements, capacity development and training, and institution strengthening (EPFC expert). Two consultants (macroeconomic expert and training expert) will be engaged on a lump-sum basis. There will also be one national expert (estimated at 12 person-months) to support the international team of experts. All consultants will work on an intermittent basis and will be engaged by ADB individually in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time). Engagement will be on an individual basis as the terms of reference require specialized knowledge and distinct professional experience. Similarly, based on past experience of support in the Lao PDR, and aside from flexibility of schedule and given that there are two executing agencies, it will be more effective and efficient to monitor outputs of individual experts. Also, individual experts are preferred over firms because of budget considerations. The terms of reference for consultants are in Appendix 3.

15. While consultants will support and conduct training workshops and seminars, including logistical arrangements, an advance payment facility will be used, as and when needed, by the executing agencies, which have significant experience in implementing ADB projects. For training activities, the MOF (for outputs 1 and 2) and EPFC (for output 3) will manage and administer the activity costs, including the liquidation of advances. The training workshops will be for technical staff from the MOF, implementing agencies, EPFC, and the Institute of Economics and Finance. Resource persons will likewise be engaged on a need basis. The proceeds of this TA will be disbursed in line with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Equipment will be procured in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Upon project completion, all equipment purchased under the TA will be handed over to the executing agency in accordance with ADB guidelines.

16. The overall evaluation of the TA will be based on actual results compared with the performance targets detailed in Appendix 1. TA inception and completion reports will be supplemented with periodic progress reports. TA review missions will be scheduled frequently to ensure TA implementation is consistent with the government's emerging priorities. Findings and lessons learned from the TA will be disseminated through seminars and workshops, and through regular consultation with—and reporting to—the relevant partners.

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1,000,000 on a grant basis to the Government of the Lao People's Democratic Republic for the Support for Governance and Capacity Development, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Impacts of the Technical Assistance Project is aligned with the National Socioeconomic Development Plan, 2016–2020 for enhanced effectiveness of public governance and administration in the Lao People’s Democratic Republic and improved service delivery

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outcome Policy-based budgeting system strengthened ^a</p>	<p>By 2019:</p> <p>a. Annual budget developed and approved using the multiyear perspective in fiscal planning, expenditure policy, and budgeting from FY2018–FY2019 (2015 baseline: No multiyear projections of revenue and expenditure)</p> <p>b. Financial management systems for health services (accounting for all sources and application of funds) established (2015 baseline: System not established)</p>	<p>a. Approved budget document of the government, medium-term fiscal strategy, MTBF and MTEF spreadsheets</p> <p>b. Reports from Finance Department of the Ministry of Health</p>	<p>Lack of political will and commitment to abide by stipulated rules and budget guidelines</p>
<p>Outputs 1. Improved budget management capacity of MOF and key line ministries</p>	<p>By 2018:</p> <p>1a. Budget ceilings for priority sectors (health and education), based on MTBF indicated within the overall resource envelope by MOF for FY2018–FY2019 (2015 baseline: MOF does not indicate budget ceiling for key sectors)</p> <p>1b. Budget submission by line ministries (agriculture, transport, education, and health) in a multiyear horizon from FY2017–FY2018 budget cycle (2015 baseline: Multiyear submission not included in the</p>	<p>1a. Projections carried under the MTBF, MOF budget circular</p> <p>1b. Budget submission by line ministries, government budget approved by the National Assembly</p>	<p>Technical inability to use the MTBF to produce the overall budget ceiling and the sector ceiling during budget preparation</p> <p>National Assembly may be unable to enforce implementation of committee’s recommendations because of political economy reasons</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>2. Formula-based fiscal transfer arrangements gradually adopted and implemented</p> <p>3. Legislative oversight of public finance strengthened</p>	<p>annual budget call circular)</p> <p>By 2018:</p> <p>2a. Legal and regulatory framework for institutionalization of formula-based intergovernment transfer mechanism fully developed (2015 baseline: System not developed)</p> <p>2b. 200 staff from MOF, line ministries, provinces, and districts trained on methodology and application of fiscal transfer arrangements (2015 baseline: 82 staff trained)</p> <p>By 2018:</p> <p>3a. At least 15 recommendations by EPFC implemented by the government and monitored regularly (Baseline: 10 recommendations in 2014, implemented in 2015)</p> <p>b. At least two SAO audit reports scrutinized by EPFC of the National Assembly annually (Baseline: Two reports in 2015)</p>	<p>2a. Revised Budget Law and implementing regulations issued by MOF, prime ministerial decree</p> <p>2b. MOF decisions, budget documents for the relevant financial years</p> <p>3a. EPFC reports, relevant reports by the National Assembly</p> <p>3b. EPFC recommendations on the SAO budget execution report for four financial years</p>	

Key Activities with Milestones

1. **Improve budget management capacity of MOF and key line ministries**
 - 1.1 Support MOF in the implementation of MTBF and MTEF for MOF and selected ministries (agriculture, education, health, and transport), together with budget submissions in a multiyear framework (February 2016–July 2018)
 - 1.2 Support MOF in the determination of budget ceiling for key sectors (health and education) over two budget cycles (February 2016–July 2018)
 - 1.3 Update manuals and guidelines for implementation of MTBF and MTEF, and the associated Microsoft Excel model (February 2016–July 2018)
 - 1.4 Strengthen further institutionalization of the Lao Integrated Macroeconomic Coordination Framework, and lead efforts to update the government's fiscal strategy (February 2016–July 2018)

Key Activities with Milestones	
1.5	Support MOF in the implementation of the revised Budget Law and prepare important implementing regulations (February 2016–July 2018)
1.6	Develop structured modules, and lead training and capacity development efforts (February 2016–July 2018)
2.	Formula-based fiscal transfer arrangements gradually adopted and implemented
2.1	Support MOF efforts to institutionalize intergovernment fiscal framework, and to improve understanding (February 2016–July 2018)
2.2	Review options for use of incentives and sanctions, and prepare analytical background papers (February 2016–July 2018)
2.3	Provide inputs to recommendations, guidelines, and decrees on various aspects of fiscal arrangements (February 2016–July 2018)
2.4	Support annual review and examine options for the institutionalization of an advisory and review mechanism (February 2016–July 2018)
2.5	Develop structured modules and provide theoretical and practical training to relevant staff at the national and subnational levels (February 2016–July 2018)
3.	Legislative oversight of public finance strengthened
3.1	Provide policy and technical advice as requested by the director general, EPFC, and committee members on issues within the EPFC mandate (February 2016–July 2018)
3.2	Develop detailed guidelines on audit in the EPFC, scrutiny of state budget proposal and major public investment projects, and oversight of national resources (February 2016–July 2018).
3.3	Support EPFC staff capacity in areas such as preparing written briefings for EPFC members, suggesting questions, using evidence, improving quality of audit recommendations, and ensuring proper communications; and develop a good-practice manual on these aspects that result in an increase in the number of SAO reports examined by the EPFC (February 2016–July 2018)
3.4	Support roundtable discussions, seminars, training, and workshops for EPFC within the scope of the technical assistance (February 2016–July 2018)
3.5	Assist EPFC in improving institutional coordination between EPFC and key economic ministries across all levels (February 2016–July 2018)
3.6	Support EPFC capacity to monitor the actions taken on EPFC recommendations by the relevant agencies (February 2016–July 2018)
Inputs	
Asian Development Bank: \$1,000,000 Technical Assistance Special Fund (\$735,000 from TASF-V; \$265,000 from TASF-Others)	
Note: The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, remuneration, per diem and domestic transportation of counterpart staff, and other in-kind contributions.	
Assumptions for Partner Financing	
Not applicable.	

EPFC = Economics, Planning and Finance Committee; FY = fiscal year; MOF = Ministry of Finance; MTBF = medium-term budget framework; MTEF = medium-term expenditure framework; SAO = State Audit Organization.

^a Policy-based budgeting is one of the key areas assessed under the public financial accountability assessment performance measurement framework.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	502,874.00
ii. National consultants	36,600.00
b. International and local travel	43,800.00
2. Equipment ^b	50,000.00
3. Training/workshop ^c	
a. Ministry of Finance	160,000.00
b. Economics, Planning, and Financial Committee	60,000.00
4. Study tour ^d	50,000.00
5. Contingencies	96,726.00
Total	1,000,000.00

Note: The technical assistance (TA) is estimated to cost \$1,000,000, of which contributions from the Asian Development Bank (ADB) are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, remuneration, per diem and domestic transportation of counterpart staff, and other in-kind contributions. The value of government contribution is estimated to account for 10% of the total technical assistance cost.

^a Financed by ADB's Technical Assistance Special Fund (\$735,000 from TASF-V, and \$265,000 from TASF-Others).

^b Includes desktop computer, laptop computer, printer, scanner, photocopier, and liquid crystal display projector, along with software and associated license. All equipment certified by the consultants will be turned over to the Fiscal Policy Department of the Ministry of Finance (MOF), the executing agency, following ADB procedures.

^c Includes training program for the MOF and Economics, Planning and Finance Committee, including facilitator, resource persons, and exchange programs; venue and workshop facilities; administrative, logistics, transportation, and other training costs; translation and interpretation costs; printing costs, including printing of the budget and training manuals; and contingency expenditure relating to training and workshops. This also includes travel on economy class for ADB staff participating as resource persons and/or facilitators in the workshop, and training in the English language for relevant staff. Such costs will be incurred in ADB member countries.

^d For selected staff from the MOF and relevant agencies.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants

1. **Budget expert** (10 person-months, intermittent). The expert will have a postgraduate degree in finance, accounting, economics, or equivalent and will have preferably 15 years of professional experience and knowledge of budget systems in developing countries with substantive experience in implementation of medium-term budgets. Specific experience of the budget systems in Asia and developing member countries, including the Lao People's Democratic Republic (Lao PDR), is preferable. A strong background in forecasting and quantitative analysis of the government budget is essential. The expert will be familiar with the use of information technology (IT) applications in budgeting. The expert will report to the Ministry of Finance (MOF) and perform the role of chief technical advisor to the Fiscal Policy Department and Budget Department, and provide relevant policy and technical advice, and mentoring.

2. The core objective of the consultancy will be support to the MOF and selected line ministries in improving their budget management capacity. Specific tasks will include the following:

- (i) Review previous technical assistance (TA) reports, government reform strategy, and other reports relating to overall public financial management (PFM), and become familiar with recently completed studies undertaken by the consultants under the recently concluded grant project and continue the initiative building on past achievement in this area.¹
- (ii) Assist in the implementation of the medium-term budget framework developed under the grant project and support the MOF in using the Microsoft Excel model for budget preparation.²
- (iii) Over two budget cycles, coinciding with the preparation of budgets for two financial years, support the MOF in adopting a medium-term expenditure framework (MTEF) for the MOF and in key line ministries, and undertake all the preparatory works along with the MOF. Major responsibilities include (a) assisting in preparing a detailed plan, manuals, and a Microsoft Excel model for introducing MTEFs in the selected line ministries; (b) identifying and supporting finance and budget departments to prepare all important documents that are necessary to finalize the MTEFs; (c) providing assistance to selected line ministries in submitting medium-term budgets, in coordination with the MOF; (d) helping counterpart staff input into the planning and budget cycle through on-the-job mentoring; and (e) adopting a structured approach in developing capacity of core staff.
- (iv) Support the MOF in coordination with the international macroeconomist to update the government's fiscal strategy and finalize a medium-term fiscal framework, preparing, as needed, all necessary analysis.

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

² The medium-term budget framework developed gives a resource envelope projection at general government level over a 5-year horizon. The Microsoft Excel model follows a practical approach and allows flexibility to change assumptions based on changed circumstances. Multiple hand holding and training sessions were carried out by the consultant team with the Fiscal Policy Department staff, and the model is already being used by Fiscal Policy Department staff for budget projection.

- (v) Strengthen further institutionalization of the Lao Integrated Macroeconomic Coordination Framework to support the MOF in determining the overall resource ceiling, together with the ceiling for key ministries and the baseline expenditure for the medium-term budget framework.³
- (vi) Advise the MOF on current and best practices in MTEF approach to budgeting, and assist in the preparation of relevant forms for MTEF submissions.
- (vii) Advise the MOF on establishing measures towards greater integration of recurrent and investment budgets and strengthen coordination with the Ministry of Planning and Investment, especially in financing public investment projects.
- (viii) Draft formats for the evaluation and monitoring of progress under the action plan of the MOF (Fiscal Policy Department and Budget Department).
- (ix) Provide advice on the implementation of the revised Budget Law and help draft implementing regulations.
- (x) Draft a budget manual that will serve as an operational guide to the staff of the MOF and line ministries involved in the budget-making process.
- (xi) Prepare materials and lead the PFM training effort in coordination with the MOF (Institute of Economic and Finance) and the international budget training expert, and support the development of a curriculum on public financial management training with focus on medium-term budgeting and fiscal transfer system.
- (xii) Perform any other tasks required in implementing the project, including assisting Asian Development Bank (ADB) missions, to help achieve the objectives of the project.

3. **Macroeconomist (fiscal)** (1.5 person-months, intermittent; timing of the engagement will be determined during the TA implementation). The macroeconomist will have an advanced degree in economics with specialization in macroeconomics and will possess well-developed analytical, quantitative, and empirical skills, and skills in applying this method to policy analysis in a resource-dependent country. The expert will preferably have 10 years of experience in the relevant field. The expert will possess the ability to impart knowledge and skills to counterpart staff. Specific tasks will include the following:

- (i) Provide analytical support to the MOF, in coordination with the international budget expert, to update the government's fiscal strategy, and finalize an MTEF.
- (ii) Provide analytical inputs relevant to the medium-term budget framework, medium-term fiscal framework, and MTEF process.
- (iii) Draft background papers, training modules, handouts, and presentations, and train staff on application of macroeconomic principles of public finance, teaching of macroeconomic accounts, and understanding of the links between them, and the use of a macroeconomic consistency framework such as financial programming.
- (iv) Conduct training to include a module on macroeconomic forecasting, together with tools to help monitor and report on the economy and develop the capacity within the MOF (Fiscal Policy Department) for forecasts in revenue and expenditure.⁴

4. **Budget training expert** (3 person-months, intermittent; timing of the engagement will be determined during the TA implementation). The expert will have a degree in economics or other

³ A simplified framework known as the Lao Integrated Macroeconomic Coordination Framework, which includes macroeconomic, fiscal, and public and external debt sustainability analyses and forecasts, and is more practical and user friendly, was developed under component 1 under subprogram 1 of the Governance and Capacity Development in Public Sector Management Program (footnote 1).

⁴ Detailed tasks will be determined during TA implementation.

related subjects such as a postgraduate degree in management, finance, accounting, or human resources, as appropriate. The expert will have 5 years of professional experience in training, capacity building, and training of trainers, and preferably 10 years of experience in PFM, especially with working knowledge in areas of MTEF reform and budgeting. Previous working experience in Southeast Asia, particularly the Lao PDR, will be an advantage. The expert will undertake specific tasks including the following:

- (i) Develop curricula for PFM training, together with case studies, background materials, training modules, presentations, and handouts for training courses in consultation with the MOF and the Institute of Economics and Finance.⁵
- (ii) Deliver targeted training for the staff of the Budget Unit and other key stakeholders in line ministries for the preparation of the 2016–2017 and 2018 budget for public financial management, with a special focus on an MTEF training program, in coordination with the MOF and the Institute of Economics and Finance.
- (iii) Train and develop a core group of trainers in each ministry to take the MTEF process forward and support the budget expert.
- (iv) Develop and pilot web-based approaches to supplement the current classroom approaches.

5. **Fiscal decentralization advisor** (6 person-months, intermittent). The advisor will have appropriate postgraduate qualifications in economics, finance, or public administration, and will have preferably 10 years of experience in the relevant field, preferably in the Lao PDR and other developing member countries. Significant experience is required in policy aspects of fiscal and administrative decentralization, including decentralization policy, fiscal policy aspects of decentralization, intergovernment financial arrangements, and local tax and nontax revenue sources. A good understanding of the overall decentralization reform agenda in the Lao PDR will be an advantage. Specific tasks will include the following:

- (i) Review and provide advisory assistance to the MOF on the gradual adoption of the principles and methodology of formula-based fiscal transfers in the Lao PDR, consistent with the revised Budget Law and the government's Sam Sang initiative, and deepen policy dialogue.⁶
- (ii) In relation to (i), review the formula and provide advisory assistance to institutionalize intergovernment fiscal frameworks, and support the government's current efforts in this regard, as included in the road map for adopting a formula-based transfer system (details will be available on request).
- (iii) Provide technical support to the Sam Sang Secretariat and the finance and budget departments of key sector ministries for improved understanding of the fiscal transfer system.
- (iv) Draft options for use of incentives and sanctions and prepare analytical background papers as a basis for assessment and consideration of performance-based incentives in the Lao PDR's intergovernment transfer system in the medium term.
- (v) Support the MOF to draft recommendations and/or guidelines and provide inputs to decrees on fiscal arrangements.
- (vi) Support the annual review of and examine options for the institutionalization of an advisory and review mechanism, based on good practices.

⁵ To include budget formulation with focus on an MTEF; budget execution, including procurement; accounting (including Treasury single account); and internal audit, external audit, and legislative oversight.

⁶ Developed under component 1 of the ADB-supported Governance and Capacity Development in Public Sector Management Project approved in 2012, along with subprogram 1 of the Governance and Capacity Development in Public Sector Management Program (footnote 1).

- (vii) Develop training modules around a structured curriculum and provide training on relevant topics (to be determined during TA implementation) and provide practical training on application of the formula (a minimum of 30 days of theoretical and practical training should be set aside from the consultancy person-months).⁷ In relation to this, the expert should coordinate effectively with the Institute of Economics and Finance.
- (viii) Develop curricula, case studies, background materials, and handouts for training courses in consultation with the MOF and the Institute of Economics and Finance.
- (ix) At the initial phase of project implementation, organize a workshop for sharing information and experience on fiscal decentralization between the MOF and Viet Nam budget counterparts.
- (x) Perform any other tasks required in implementing the project, including assisting ADB missions.

6. **Technical advisor to the Economics, Planning and Finance Committee** (6 person-months, intermittent). The advisor will have a postgraduate degree in social and political sciences, law, public administration, or institutional development or related field, and will have preferably 15 years of working experience in the area of parliamentary affairs, legislative assistance, and audit and/or governance programs and projects. The advisor will have good representational, liaison, and interpersonal skills, and have a high degree of cultural competence. The advisor will have the following specific responsibilities:

- (i) Provide advice, assistance, and/or briefings on demand to the Economics, Planning and Finance Committee (EPFC) chair, director general of the EPFC, and members as appropriate. The EPFC supports the National Assembly of the Lao PDR in ensuring legislative oversight of national expenditure.
- (ii) Support capacity development of EPFC technical staff to scrutinize various reports such as audit reports from the State Audit Organization, the MOF, and relevant economic ministries, and formulate recommendations for the National Assembly.
- (iii) Develop (a) detailed guidelines on conducting public hearings; (b) roles and responsibilities of the Audit Division in the EPFC, monitoring mechanisms for follow-up on action plans put in place by audited public entities to address audit recommendations, and track progress made toward their implementation; (c) guidelines on examination of state budget proposals by the EPFC; (d) guidelines for approval of major public investment projects; and (e) guidelines on oversight of natural resources.
- (iv) Support EPFC staff in and develop a good-practice manual on (a) preparing written briefings for EPFC members; (b) preparing suggested questions; (c) making the best use of the evidence; (d) seeking nongovernment experts' advice, as required; (e) improving the quality of reports and recommendations; and (f) ensuring proper communications.
- (v) Administer training and workshops for the EPFC relating to the subject matter covered by the EPFC within the scope of the TA and contribute to roundtable discussions and seminars.
- (vi) Support the EPFC to strengthen institutional coordination with key economic ministries at the national and provincial levels in the areas of planning and budgeting.
- (vii) Perform any other tasks required in implementing the project, including assisting ADB missions.

⁷ Training topics are only indicative and will be finalized during TA implementation.

B. National Consultant

7. **Budget training expert and project coordinator** (12 person-months, intermittent). The expert and coordinator will assist the international budget expert, macroeconomist, international budget training expert, and the fiscal decentralization advisor. The expert will have some background in finance, especially public sector financial management, and will have a university degree in either economics or public finance, or relevant subject. The expert should be proficient in English, and be familiar with government structures, particularly the functions of the Ministry of Economy and Finance. In addition, the expert will possess a background in IT, and have the required experience and qualifications in database management systems. Working experience with international consultants and/or the government is an advantage. Specific tasks will be undertaken as follows:

- (i) Assist the international specialists in all aspects of their tasks within the terms of reference, together with project coordination and IT support.
- (ii) Under the guidance of the international budget expert, collect and analyze information and make it available in English in an organized, readable form.
- (iii) Help the international team make available to the government all reports and conduct research on specific topics as required by the international specialists.
- (iv) Arrange and organize discussions and workshops and help the international specialists prepare materials for them, including translations of documents (if necessary) and interpretation of the discussions; act as an interpreter in meetings and training sessions, as needed; and help translate documents and also coordinate translation works to be contracted to others, as required.
- (v) Prepare copies of training materials, reserve venues for training, and liaise with training participants and other resource persons.
- (vi) Perform any other tasks that may be required in the implementation of the project, including assisting the ADB mission.

C. Reporting and Monitoring Arrangements

8. The budget expert, fiscal decentralization advisor, and the technical advisor for the EPFC will provide written reports in English, as follows: (i) an inception report to include a comprehensive implementation plan to be submitted within 2 weeks after the project starts, including a log frame outlining the implementation schedule; (ii) progress reports every quarter as needed; (iii) a draft final report (to be submitted 2 weeks before the end of consulting services); and (v) a final report reflecting comments by the executing agency and ADB, to be submitted at the end of consulting services. The reports will be discussed with the executing and implementing agencies and also with ADB.