

Manual for PIP Project Management

Section II PIP Budget Management Method

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Section II PIP Budget Management Method

1. Overview of PIP Budget Allocation and Financial Management Method

1.1. Objectives

The main objective of Section II “PIP budget allocation and financial management method” is to show how to achieve NSEDP goals without deteriorating financial stability in PIP.

Implementing PIP projects is one of the most necessary means to the achievement of NSEDP goals. Meanwhile, a number of “inappropriate, inefficient and ineffective PIP projects” that makes minimal contributions o

n the achievement of NSEDP can be seen nationwide. Such projects include;

- ✓ PIP projects whose scopes are not appropriate, efficient or effective, and
- ✓ PIP projects that are facing increase in additional costs and delays in completion because of delays in disbursement of the budget for payments.

In order to eliminate such projects, 1) budget formulation process, including timing and contents of guidelines or assessments, has to be streamlined, and 2) budget formulation and implementation process has to focus on minimizing payment problems.

Details are explained in the following sub-chapters.

1.2 Definition of “PIP budget Management”

PIP budget management is an annual cyclic process, which includes 1) planning, 2) implementation, and 3) reporting of the PIP budget. Internal and external audit is conducted by auditing institutions. The process supports planning and implementation of the NSEDP and PIP projects from budgetary side.

In other words, PIP budget management process has to ensure that any budgetary and payment problems, which jeopardize efficient implementations of PIP projects and achievement of NSEDP goals, would not arise. Therefore, the main target of PIP budget management is to allocate enough budgets to PIP projects and at the same time to avoid any payments delays.

1.3 Overview of PIP budget management process

In the cycle of PIP budget management, budget formulation process is crucial to ensure budget

allocation to an approved project and to avoid financial deterioration. This manual focuses on annual PIP budget formulation. The formulation process at the provincial level is divided into ten processes as follows;

(1) Announcement of PIP formulation guideline for next fiscal year

MPI announces “Guideline for Preparing a Report on Implementation of First Half Plan for the Present Fiscal Year and Preparing a Future Plan for the Next Fiscal Year”. This is the first step of whole PIP budget formulation processes. The guidelines show (a) main targets of sectors, (b) overall directions of budget plan, and (c) approaches and timeframe of implementation.

The guideline includes the timeframe of budget formulation, so that each party can schedule their process. The targets set in the guidelines indicate economic and social targets, together with targets on PIP financial stability. Such targets will be set on “payment durations” and “due amounts”, explained in “**3. PIP financial management method**”.

Provinces start formulating provincial/ sectoral annual PIP after receiving the guideline from MPI.

(2) Formulation of provincial mid-term PIP expenditure outlook

As a leading department in provincial PIP budget management, DPIs conduct PIP financial analysis by filling the financial analysis sheet developed under PCAP2. DPIs set targets on “payment durations” and “due amounts” of their province.

By following the financial analysis, DPIs formulate mid-term PIP expenditure outlook, which will be explained in Chapter 3 “**PIP financial management method**”. DPIs will be able to estimate future improvement in financial status, especially payment status. This will be a useful tool to recognize positive impacts of improving financial status in the province.

MPI receives results of the financial analysis and provincial PIP expenditure outlook from the Provinces to monitor the PIP financial situation at the provincial level.

(3) Preparation of project proposals

When guidelines are announced by MPI, DPIs request Project Owners (POs) and districts to start preparing project proposals, including payment schedule for new projects and financial progress report for ongoing projects. Submission deadlines are announced by DPIs to POs and district.

(4) Project collection

In order to apply for PIP budget for any kind of project, the POs must submit appropriate project proposals for new projects and project reports for ongoing projects by the deadline. After submission, DPIs check whether contents of the proposals and reports are appropriate or not.

(5) Absolute assessment

After project proposals are submitted from POs to DPIs, DPIs conduct absolute assessment using “Simplified Project Assessment Sheet (SPAS)” formats.

(6) Comparative assessment

Project proposals go through comparative assessment (CompAss), conducted by DPIs and POs, where priorities among projects are compared and determined.

(7) Compilation of provincial PIP list and financial outlook

DPIs compile project information in the PIP list. DPIs and POs have negotiations on how to meet the targets on financial stability, including targets on payment duration and due amounts.

DPIs take initiative in revising the compiled PSIP list. In the revision process, projects are selected based on priorities determined in absolute assessment and comparative assessment, while avoiding any deterioration in financial status.

(8) Budget negotiation between MPI and provinces

MPI negotiates PIP budget allocation amounts for next fiscal year with the Ministry of Finance (MOF). Based on agreed budget allocation with MOF, MPI announces annual budget allocation amounts of each province. MPI also requests DPI to modify the provincial Mid-term PIP Expenditure Outlook and the targets on “payment durations” and “due amounts”.

(9) Budget negotiation between DPIs and POs

DPIs negotiate the PIP list with the POs according to the budget allocation amount from MPI. DPIs need to limit the number of projects to meet the provincial targets on payment duration and due amounts.

(10) Approval by National Assembly

When revised budget proposals are submitted by provinces, MPI checks through them to examine whether the revisions are appropriately made and all the targets are met. It is then

submitted to the Prime Minister for consideration in Government and Party Meetings where final instruction are made, and finally to the National Assembly for final approval.

2. Guidelines on PIP budget formulation

2.1 Overview and objectives of guidelines on PIP budget formulation

The guidelines on PIP formulation are announced to realize harmonized implementation of the annual socio-economic development plan and the annual budget. The guidelines ask all ministries, equivalent agencies, provinces, and Vientiane Capital to make assessments for the implementation of SEDP for the first half of the present fiscal year with the projection for the second half of the fiscal year. The guidelines also ask them to prepare annual SEDP for next fiscal year. All stakeholders follow the overall direction and investment priority indicated by the guideline when they prepare annual SEDP for next fiscal year.

2.2 Contents of budget guidelines

The guideline consists of two major components; 1) achievements of the last six months, and 2) formulation of the next annual SEDP. From the financial management point of view, the following topics should be included in the second component of the guideline.

(1) Investment priorities

Investment priorities are clarified in the guideline. As total request amount of PIP projects usually exceeds available amount of PIP budget, MPI needs to indicate the investment priorities among ongoing projects, national contribution for ODA projects, debt projects and new projects in the guideline. Payment for debt project is to be the most prioritized, while new projects are going to be introduced within the targets of due amounts and payment duration of each province (Please see “3. PIP financial management method”).

Priority	Type of project	Remarks
1	Debt project	To pay to the contractors as planned.
2	ODA project	To pay by following the agreement with the development partners.
3	Ongoing project	To complete a project within project period.
4	New project	To limit number of new projects within the provincial finance targets.

(2) Indicative PIP budget allocation

MPI informs indicative PIP budget to DPIs in December. The objective of the indicative PIP budget is to prevent provinces to submit too many project proposals. The indicative PIP budget shows DPIs roughly how many new projects could be introduced in next fiscal year.

By following the figures announced by MPI, DPIs explain the indicative budgets to POs. It is expected that POs limit the numbers of proposals voluntarily, as they realize it is useless to requests more than budget limits.

MPI decides the indicative PIP budget figure as follows. Firstly, MPI estimates total provincial PIP budget for next fiscal year. Then, MPI calculates a budget allocation amount to each province.

Indicative total PIP budget for next fiscal year $P(t)$ is estimated by the following formula.

Provincial PIP budget for the present fiscal year: $P(t-1)$

Economic growth forecast¹: $e\%$

$$P(t) = P(t-1) * (1 + e/100)$$

PIP budget allocation among the provinces is decided according to the PIP budget allocation norm.

$$P(t) * (\text{provincial score} / \text{total score})$$

(3) Sector allocation

MPI indicates allocation percentage of PIP budget for economic and social sectors in the guideline. MPI also clarifies which sector belongs to economic/social sector.

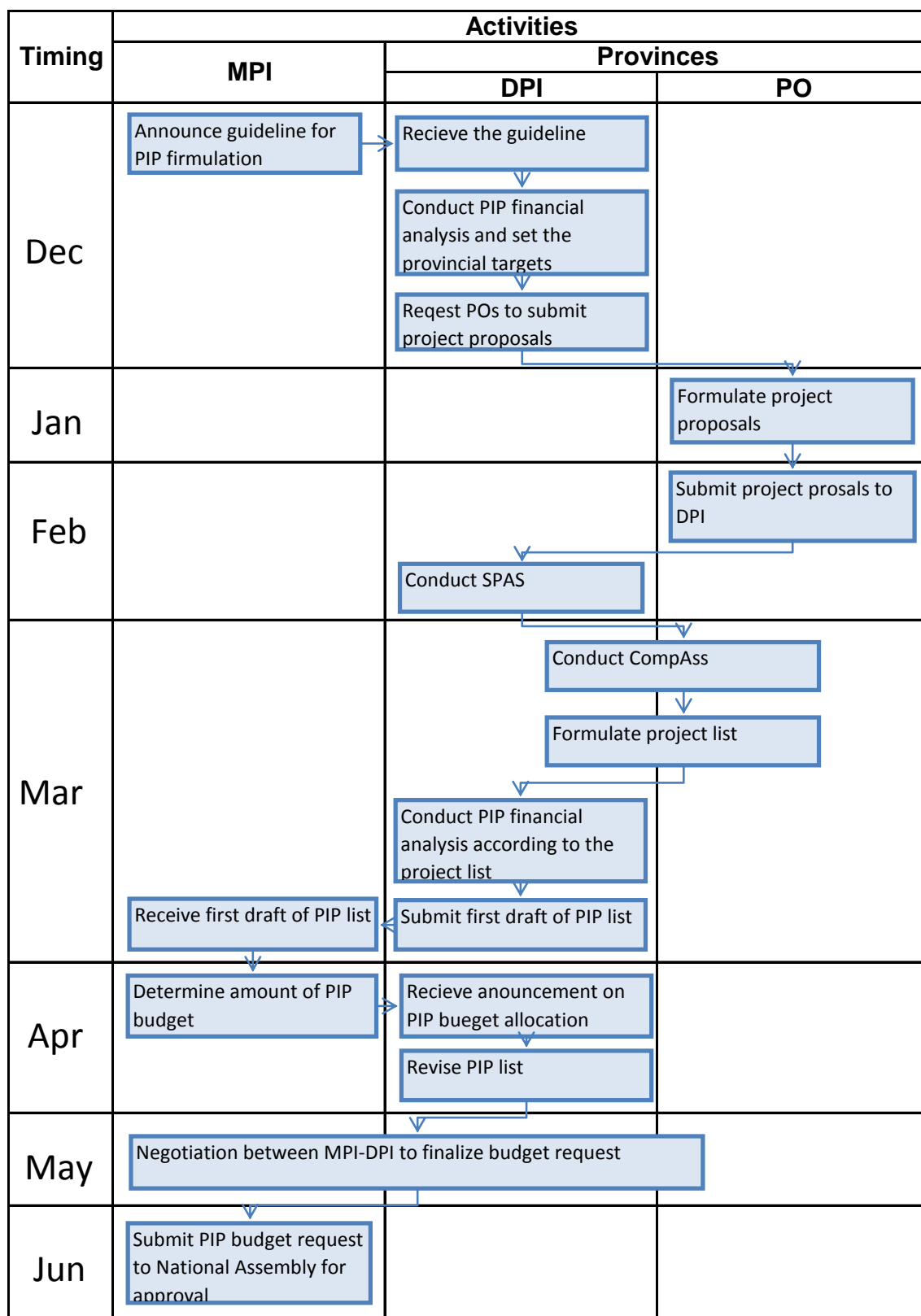
(4) Instruction on financial analysis

MPI includes the instruction on financial analysis in the guideline. MPI requests DPIs to conduct financial analysis to set the provincial targets on due amounts and payment durations of next fiscal year. Please see “3. PIP financial management method”.

(5) PIP budget formulation flow

MPI shows the workflows of the PIP budget formulation in the guideline. The workflows would explain how budget formulation process proceeds at MPI and provincial sides, indicating action and timing of each step. This will help all stakeholders understand budget formulation process to work in the coordinated manner. The flowchart below is the proposed workflow including timing of each step.

¹ 8% is applied by referring to NSEDP 2011-2016.



2.3 Timing of announcement

MPI announces the guideline in December, so that DPIs can secure time for project assessment. This timing is estimated based on the required time for SPASS and CompAss; estimated to take one and half month to complete both assessments.

MPI also indicates the deadline of project proposal submission from POs to DPIs in the guideline. Deadline of proposal submission from POs to DPIs is set one and half month before DPI submits the PIP project list to MPI. Thus, DPIs can spend one and half month to conduct SPASS and CompAss. Proposed schedule is shown below.

December 1	Announcement of MPI guideline on PIP budget formulation
December ~ January (2.0 month)	Proposal preparation by districts and POs
February 5	PO submits the proposals to DPI
February ~ March (1.0 month)	SPASS by DPIs
March (0.5 month)	CompAss by DPIs and POs Formulation of the first PIP list
March 20	DPI submits the first PIP list

3. PIP financial management method

3.1. Overview of PIP financial management method

(1) Objectives of PIP financial management

The ultimate goal of PIP financial management is to avoid “inappropriate, inefficient and ineffective PIP projects” which makes minimal contributions to the achievement of NSEDP goals.

The most typical examples of such PIP projects are those with delayed payments. Provinces tend to implement more projects than its budgetary capacity for the achievement of NSEDP goals. However, because of the limited budget, provinces are facing serious payment problems. Projects with delayed payment cause problems such as;

- Increased additional costs,
- Delays in project completions, and
- Deteriorations in projects qualities.

Therefore, rather than implementing more projects than the budgetary capacity, implementing projects within controlled budgetary capacity would contribute to the efficient achievement of NSEDP goals in the long run. In other words, PIP financial stability and NSEDP goals can and should be achieved in a balanced manner.

This Chapter explains **PIP financial management**, focusing on how to **enhance PIP financial stability**.

(2) PIP financial analysis by payment duration

1) Current problems in PIP financial management

PIP financial management starts from PIP financial analysis, by which nationwide and provincial financial status are reviewed. Understanding financial status is particularly necessary to set the directions on enhancing PIP financial stability.

Payment problems do not occur only in debt projects, but also in new and ongoing projects. New and ongoing projects are not regarded as “debt projects” but there are many new and on-going projects facing serious payment delays. Therefore, PIP financial analysis has to reveal the overall PIP financial status of provinces, covering all types of projects.

PIP financial analysis is conducted using a key indicator, called “**Payment Duration**”. The

payment duration is an indicator which indicates the depth of payment problems by showing **how many years it takes for a province to complete payments** to all PIP projects by the current budget allocation. The payment duration is a useful indicator that can compare the financial status of provinces. This can be also used to see the yearly changes in provincial financial status.

Due amounts and payment durations as of 2009-10 are shown in the table below. This shows that it takes very long time for provinces to complete payments to projects.

Table: Due amounts and payment durations as of 2009-10

	Project cost	Amount paid before 30 Sep 08	Amount to be paid in 2008-09	Due amounts	Annual budget	Payment duration
	A	Ba	Bb	C=A-B	D	E=C/D
Total	5,996,892	422,318	188,914	5,385,659	408,870	13.17
North	1,717,130	161,134	69,667	1,486,329	158,820	9.36
Central	3,127,497	189,142	72,646	2,865,710	166,620	17.20
South	1,748,629	110,760	56,092	1,581,778	105,560	14.98

Unit: million LAK

It is pointed out that when payments take one year longer than project implementations, the project costs are 10% higher per year than actual costs². This is going to be additional costs for the government, and will make it difficult for the government to achieve NSEDP goals efficiently.

2) Definition of payment duration

Payment duration of a province is calculated as follows;

$$\begin{aligned}
 \text{[Payment Duration]} &= \frac{\text{[Project costs in total]} - \text{[Amount paid]}}{\text{[Annual budget allocation]}} \\
 &= \frac{\text{[Due amount]}}{\text{[Annual budget allocation]}}
 \end{aligned}$$

Note that the amounts of items in the formula are the total amounts in a province. For example “Project Costs” is the total project costs of all the PIP projects in the province. Also note that the items cover only domestic funds, and any ODA funds are excluded.

² This seems to be because of the interest costs of contractors paid to banks.

“Due amount” is the amount that a province has to pay to PIP projects in the current fiscal year and in coming years, which is derived as follows;

$[\text{Due amount}] = [\text{Project costs in total}] - [\text{Amount paid}]$
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This is different from “Unpaid amount” which is derived as “implementation value” minus “payments”. While “unpaid amount” shows the amount that a province owes to contractors at present, “due amount” indicates the total amount that the province has to pay in the future.

“Payment Duration” shows how many years it takes to complete “due amounts”. Decreased payment duration suggests that payment problems of all types of projects are resolving.

An example of calculation of “Payment Duration” is as follows;

Table: Example of Payment Duration Calculation

	Total project cost (Billion LAK)	Amount paid (Billion Kip)	Due amount (Billion Kip)	Budget allocation (Billion Kip)	Payment duration (Years)
	A	B	C=A-B	D	E=C / D
ODA national contribution budget	21.0	15.0	6.0	2.0	3.0
Ongoing projects	105.0	5.0	100.0	10.0	10.0
New projects	25.0		25.0	2.0	12.5
Debt projects	40.0	10.0	30.0	6.0	5.0
Total	191.0	30.0	161.0	20.0	8.1

Due amount of this province is LAK 161.0 billion, and the payment duration is 8.1 years. It therefore suggests that this province can complete the payment to the current due amount in 8.1 years. The payment durations of ongoing projects, new projects and debt projects are 10.0 years, 12.5 years, and 5.0 years respectively. Thus, it is estimated that payment problems are occurring not only in debt projects, but also in ongoing and new projects.

3) Categorization of provinces

Provinces with long payment durations are facing more serious problems than provinces with short payment durations. Payment durations can be also used to compare PIP financial status of provinces.

Provinces can be classified into three categories, namely Green, Yellow and Red, depending on

the level of payment durations. The criteria of financial classifications are as follows;

Table: Financial classification criteria

Average Payment Duration	Status
Shorter than 4 years	Green
4-7 years	Yellow
Longer than 7 years	Red

Provinces that are classified as “Red” and “Yellow” are obviously facing more serious payment problems than provinces classified as “Green”. Thus provinces with Red and Yellow classification have to reduce payment problems through reducing payment durations.

The following parts explain the roles and responsibilities of MPI-DOP and DPI in enhancing PIP financial stability through the PIP budget formulation process.

(3) Main features of PIP financial management methods

1) Set targets on payment durations and due amounts

As mentioned above, “Payment Duration” is the key indicator to monitor PIP financial sustainability, because a decrease in payment duration means an improvement in payments in provinces.

Then, the issue is how to decrease the payment duration, which is given in the following formula.

$$[\text{Payment Duration}] = \frac{[\text{Due amount}]}{[\text{Annual budget allocation}]}$$

Canceling “due amount” and doubling “annual budget allocation” may appear to be the solutions to this, but they are not realistic options.

A more realistic approach to reduce payment duration is to avoid increasing due amounts beyond the current level. When due amounts do not increase from current level and annual budget allocations increase as GDP grows and price hikes, the payment durations gradually decrease.

An example of decreased payment duration by fixing due amounts is as follows;

Table: Example of decrease in payment duration under fixed due amount

	Due amount (Billion Kip)	Budget allocation (Billion Kip)	Payment duration (Years)
Year 1	200.0	20.0	<u>10.0</u>
Year 2	200.0	22.0	<u>9.1</u>
Year 3	200.0	24.2	<u>8.3</u>
Year 4	200.0	26.6	<u>7.5</u>
Year 5	200.0	29.3	<u>6.8</u>

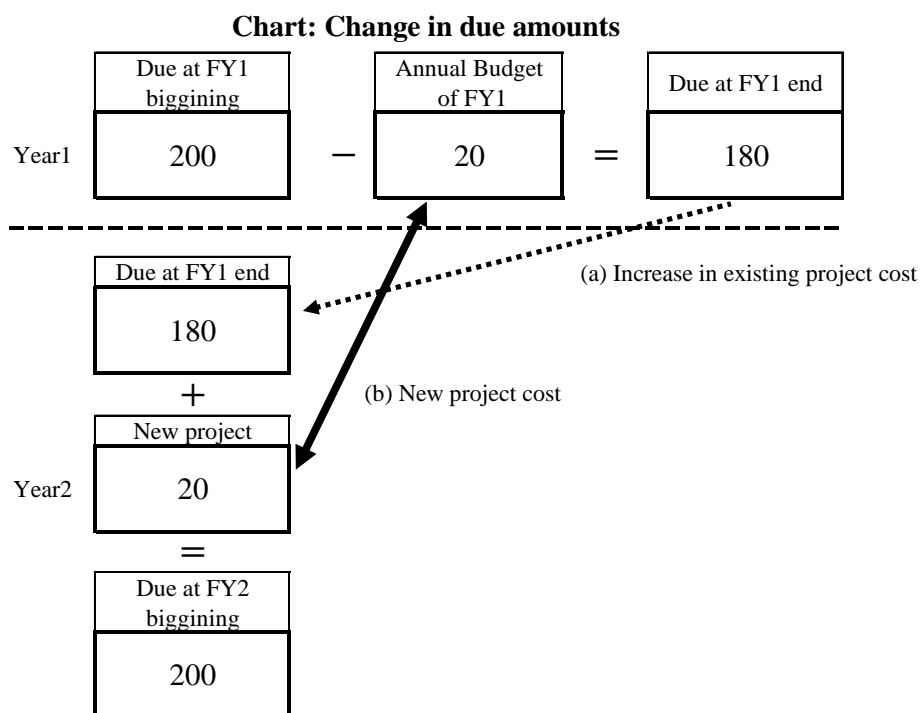
In the PIP budget formulation process, MPI-DOP has the role to take initiative in setting upper limits on the due amounts of the provinces, and DPI must plan their PIP budget avoiding increase in due amounts.

2) Understand the drivers to increase due amounts

In order to avoid the increase in due amounts, the drivers to increase due amounts have to be addressed. The two main drivers to increase due amounts are;

- (a) Increase in costs of existing projects, including ongoing projects and debt projects, and
- (b) Total costs of new projects.

This can be explained in the following example.

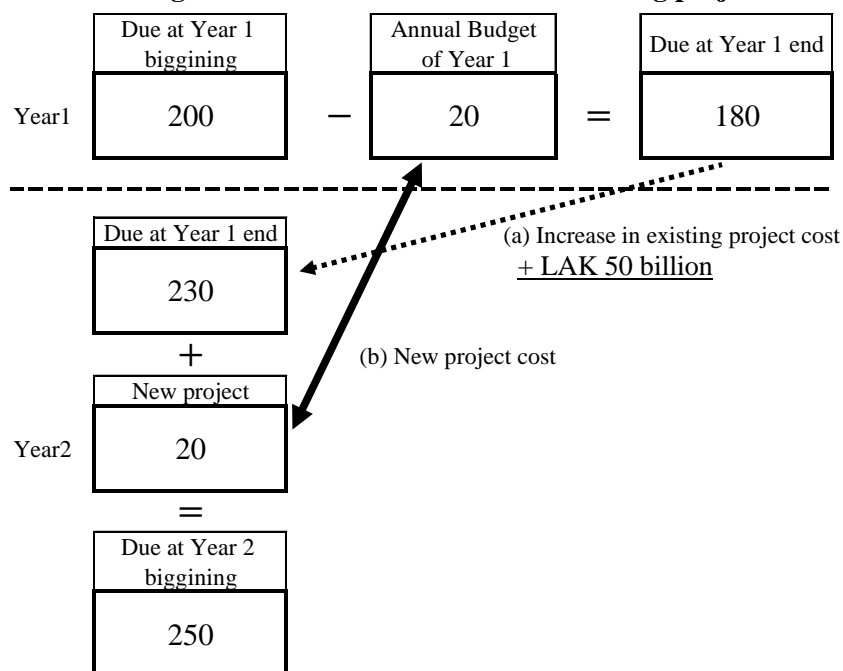


This example shows that the balance of the due amount at the beginning of the current first fiscal year (Year 1) is LAK 200 billion, and the annual budget for this year is LAK 20 billion. This suggests that this province needs 10 years to complete the payment by the current budget allocation. At the end of Year 1, the due amount is going to be LAK180 billion after payments, which will transferred to next year (Year 2). In order to avoid due amount being more than LAK 200 billion, new project costs in Year 2 cannot be more than LAK 20 billion. By limiting the amount of new project cost in Year 2, the increase in due amounts can be avoided.

(a) Increase in costs of existing projects, including ongoing projects and debt projects

When (a) increase in existing project costs and (b) new project costs are within budgetary capacity, due amounts and payment durations do not increase. However, in many cases, the costs of existing project tend to increase for many reasons. The following chart shows how the increase in the costs of existing projects affects to the total due amounts.

Chart: Change in due amounts – Increase in existing project costs

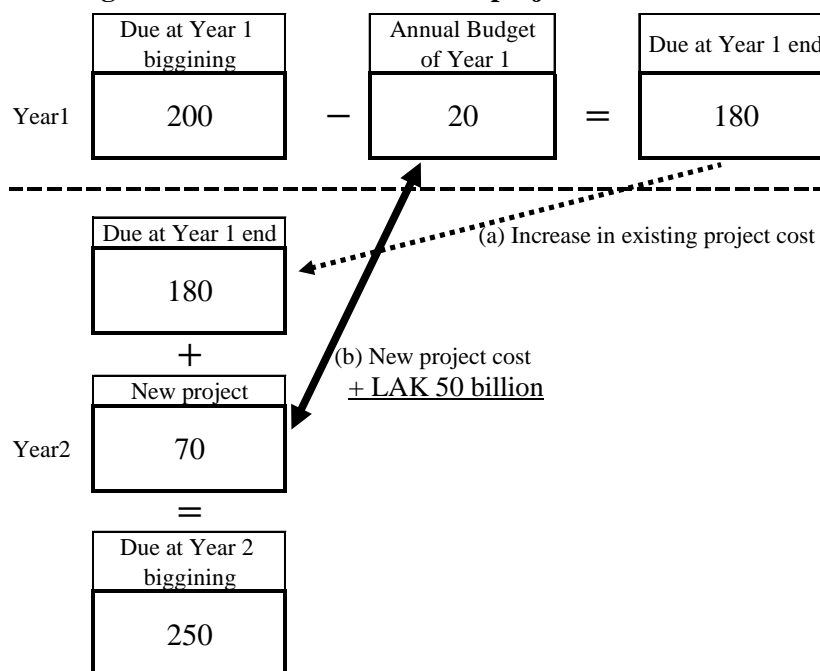


This shows that due amount of existing project increased from LAK 180 billion at the end of Year 1 (30th September) to LAK 230 billion at the beginning of Year 2 (1st October). Although project costs increase due to the price hike of raw materials are allowed by the government, the reasons for the increase in project costs should be carefully examined, especially when the cost increases are too sharp.

(b) Total costs of new projects

Another driver that increase the total due amounts is “**(b) new projects costs**”. In the following example, the new project cost is LAK 70 billion, which is LAK 50 billion more than annual budget of Year 1.

Chart: Change in due amounts – More new project costs than annual budget



Although due amounts or costs of existing projects do not show any increases from Year 1 to Year 2, because of the new project costs, total due amount increased from LAK 200 billion to LAK 250 billion. In order to avoid the increase in due amounts, new project costs should be decreased.

As seen from the example above, it is essential to (a) monitor ongoing and debt project costs, and to (b) avoid putting too many new projects into PIP list. The next section introduces the PIP financial management method, by which MPI and DPIs can manage due amounts. Using the PIP financial management tool, targets on due amounts are set, requested PIP list is compared to the targets, and over-requests are cut until they meet targets.

3.2. Nationwide PIP financial analysis and budget planning by MPI-DOP

(1) Overview of the PIP financial analysis and budget planning at MPI-DOP

MPI's role in financial analysis is to set clear directions on improving nationwide financial status, and to instruct and support provinces to build financial stability.

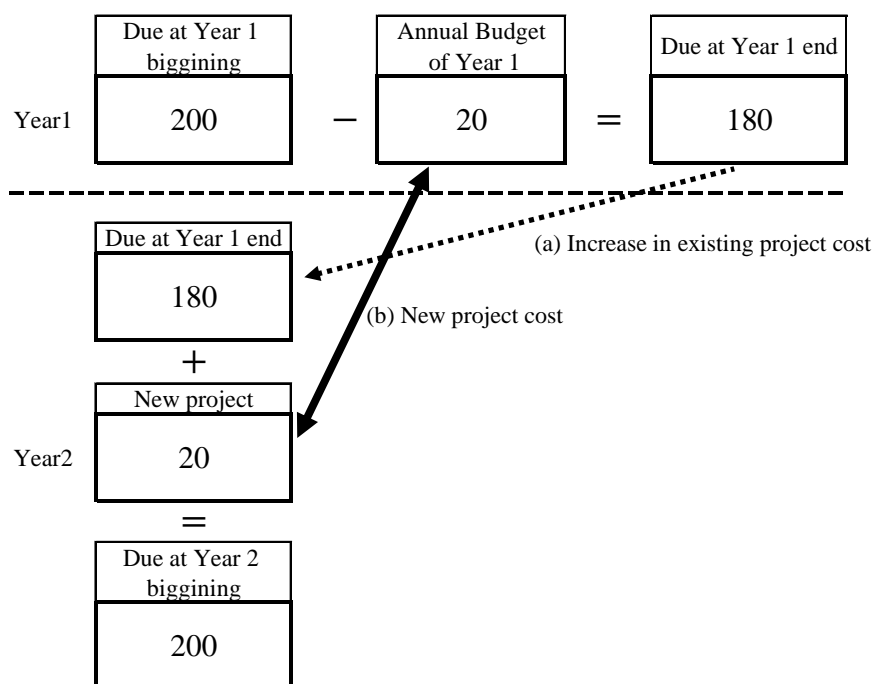
Therefore, MPI-DOP has to conduct nationwide financial analysis to set targets on due amounts and payment durations of provinces, and also negotiate with provinces to revise proposed PIP list to match the targets, so that provinces can improve their PIP financial status.

As explained earlier, the increase in due amounts beyond the current level should be avoided, so that payment durations gradually decrease. In order to avoid increase in due amounts, the following two items must be controlled to be within budgetary capacity of provinces.

- (a) Increase in costs of existing projects, including ongoing projects and debt projects, and
- (b) Total costs of new projects.

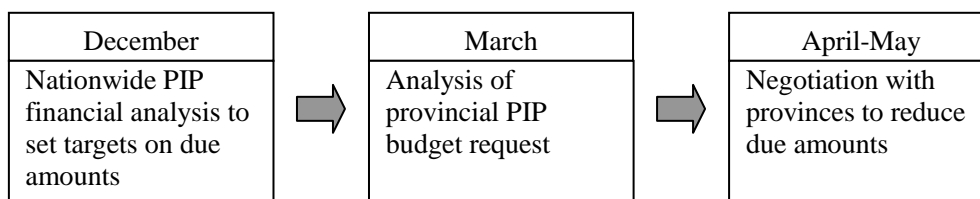
This can be depicted in the following chart.

Chart: Change in due amounts



MPI-DOP has to set targets on due amounts and negotiate with provinces to reduce due amounts until they match targets, during the PIP budget formulation process. This will be done through the following three stages;

Chart: Stages to manage due amounts



In each stage of PIP budget formulation shown above, MPI takes lead in avoiding increase in due amounts, using PIP financial management tools as follows;

- Nationwide PIP Financial Analysis Sheet, and
- Provincial PIP Financial Analysis sheet.

“**Nationwide PIP Financial Analysis Sheet**” covers all provinces, and it shows the targets and requested due amounts of each province. This is going to be used to oversee the PIP financial situations of all provinces.

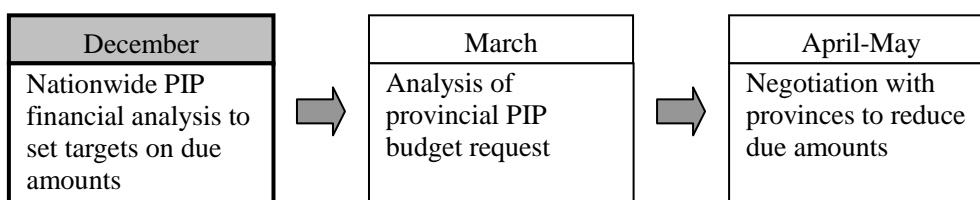
“**Provincial PIP Financial Analysis Sheet**” is used for an analysis of a province. One sheet covers all sectors of one province. This is going to be the tool used in the negotiations with provinces.

The most important stage of PIP budget formulation is “negotiation with provinces to reduce due amounts” in which MPI compare the targeted and requested due amounts of provinces, and ask provinces to reduce due amounts.

The next section sets out the actions by MPI-DOP in PIP budget formulation process.

(2) MPI-DOP’s action in PIP financial analysis and budget planning

1) Nationwide PIP financial analysis to set targets on due amounts of provinces (December)



Before the PIP budget formulation processes start, MPI-DOP must understand the current PIP financial statuses of provinces and then set targets on payment durations and due amounts.

When MPI-DOP has done the PIP financial analysis and set the directions to improve the PIP financial statuses of provinces, they should be included in the guideline issued by MPI and then announced to provinces.

The format used here is “Nationwide PIP Financial Analysis Sheet”. Using this sheet, MPI-DOP examines the due amounts and payment durations of provinces, and set the targets on due amounts and payment durations for the next fiscal year. The format is shown as follows;

Table: Nationwide financial analysis sheet

	Current fiscal year (Year 1) -Approved							Next fiscal year (Year 2) - Requested					Due amount	Targeted due amounts	Requested due amounts	Over-requested due amount			
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	Project cost	Amount paid before Year 1	Amount paid in Year 1	Due amount	Annual budget for year 2	for Current fiscal year (year 1)	for next fiscal year (Year 2)	for next fiscal year (Year 2)				
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	A'	Ba'	Bb'	C'=A'-Ba'-Bb'	D'	C	C*=C	C'	C'-C*			
Province A	226,000	14,000	7,500	204,500	20,700	9.88	183,800	252,000	40,800	6,300	204,900	22,900	C	204,500	C	204,500	C'	204,900	400
[1] ODA Counterpart fund	21,000	1,000	2,000	18,000	3,300	5.45	14,700	34,000	3,300	1,800	28,900	3,600	C(1)	18,000			C(1)	28,900	
[2] On-going PIP project	110,000	13,000	5,500	91,500	3,400	26.91	88,100	75,000	7,500	4,500	63,000	3,800	C(2)	91,500			C(2)	63,000	
[3] New PIP's Funds	25,000	0	0	25,000	10,000	2.50	15,000	78,000	0	0	78,000	11,000	C(3)	25,000			C(3)	78,000	
[4] Debt project's fund	70,000	0	0	70,000	4,000	17.50	66,000	65,000	30,000	0	35,000	4,500	C(4)	70,000			C(4)	35,000	
Province B	217,000	1,000	5,000	211,000	18,400	11.47	192,600	490,000	1,500	7,000	481,500	192,745	C	211,000	C	211,000	C'	481,500	270,500
[1] ODA Counterpart fund	2,000	0	500	1,500	600	2.50	900	0	0	0	0	0	C(1)	1,500			C(1)	0	
[2] On-going PIP project	55,000	1,000	4,500	49,500	5,800	8.53	43,700	88,000	1,500	7,000	79,500	59,763	C(2)	49,500			C(2)	79,500	
[3] New PIP's Funds	110,000	0	0	110,000	8,000	13.75	102,000	150,000	0	0	150,000	73,540	C(3)	110,000			C(3)	150,000	
[4] Debt project's fund	50,000	0	0	50,000	4,000	12.50	46,000	252,000	0	0	252,000	59,442	C(4)	50,000			C(4)	252,000	
Province C	365,000	30,000	335,000	20,200	16.58	314,800	488,000	79,000	19,500	389,500	51,000	51,000	C	335,000	C	335,000	C'	389,500	54,500
[1] ODA Counterpart fund	15,000	3,000	1,000	12,000	700	17.14	11,300	18,000	4,000	1,000	13,000	2,500	C(1)	12,000			C(1)	13,000	
[2] On-going PIP project	180,000	27,000	10,000	153,000	9,000	17.00	144,000	280,000	35,000	15,000	230,000	25,000	C(2)	153,000			C(2)	230,000	
[3] New PIP's Funds	100,000	0	0	100,000	6,000	16.67	94,000	130,000	0	0	130,000	20,000	C(3)	100,000			C(3)	130,000	
[4] Debt project's fund	70,000	0	0	70,000	4,500	15.56	65,500	60,000	40,000	3,500	16,500	3,500	C(4)	70,000			C(4)	16,500	

Data input and calculation ← → Analysis of due amounts

This sheet covers PIP lists for two years, current fiscal year (Year 1) and next fiscal year (Year2). In December, the items in the frame for Year1 are filled to set targets for Year 2. Items for Year 2 will be filled in March, when draft PIP lists are submitted by provinces.

Items in the right hand side of the sheet are used to analyse the gap between targeted and requested due amounts. At this stage, targets for next fiscal year are set, based on the due amount in current fiscal year (Year 1).

There is another format used in financial analysis, called “Provincial PIP Financial Analysis Sheet”. The “Provincial PIP Financial Analysis Sheet” is as shown in the following table.

Table: Provincial PIP financial analysis sheet

	Current fiscal year (Year 1) - Approved							Next fiscal year (Year 2) - Requested					Due amount		Requested due amounts for next fiscal year (Year 2)	Over- requested due amount	
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	Project cost	Amount paid before Year 1	Amount paid in Year 1	Due amount	Annual budget for year 2	for Current fiscal year (year 1)	for next fiscal year (Year 2)			
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	A'	Ba'	Bb'	C'=A'-Ba'-Bb'	D'	C	C* = C	C'	C'-C*	
Province A	226,000	14,000	7,500	204,500	20,700	9.88	183,800	252,000	40,800	6,300	204,900	22,900	C	204,500	C	204,500	400
[1] ODA Counterpart fund	21,000	1,000	2,000	18,000	3,300	5.45	14,700	34,000	3,300	1,800	28,900	3,600	C(1)	18,000	C(1)	28,900	
[2] On-going PIP project	110,000	13,000	5,500	91,500	3,400	26.91	88,100	75,000	7,500	4,500	63,000	3,800	C(2)	91,500	C(2)	63,000	
[3] New PIP's Funds	25,000	0	0	25,000	10,000	2.50	15,000	78,000	0	0	78,000	11,000	C(3)	25,000	C(3)	78,000	
[4] Debt project's fund	70,000	0	0	70,000	4,000	17.50	66,000	65,000	30,000	0	35,000	4,500	C(4)	70,000	C(4)	35,000	
Province B	217,000	1,000	5,000	211,000	18,400	11.47	192,600	490,000	1,500	7,000	481,500	192,745	C	211,000	C	211,000	270,500
[1] ODA Counterpart fund	2,000	0	500	1,500	600	2.50	900	0	0	0	0	0	C(1)	1,500	C(1)	0	
[2] On-going PIP project	55,000	1,000	4,500	49,500	5,800	8.53	43,700	88,000	1,500	7,000	79,500	59,763	C(2)	49,500	C(2)	79,500	
[3] New PIP's Funds	110,000	0	0	110,000	8,000	13.75	102,000	150,000	0	0	150,000	73,540	C(3)	110,000	C(3)	150,000	
[4] Debt project's fund	50,000	0	0	50,000	4,000	12.50	46,000	252,000	0	0	252,000	59,442	C(4)	50,000	C(4)	252,000	
Province C	365,000	30,000	0	335,000	20,200	16.58	314,800	488,000	79,000	19,500	389,500	51,000	C	335,000	C	335,000	54,500
[1] ODA Counterpart fund	15,000	3,000	1,000	12,000	700	17.14	11,300	18,000	4,000	1,000	13,000	2,500	C(1)	12,000	C(1)	13,000	
[2] On-going PIP project	180,000	27,000	10,000	153,000	9,000	17.00	144,000	280,000	35,000	15,000	230,000	25,000	C(2)	153,000	C(2)	230,000	
[3] New PIP's Funds	100,000	0	0	100,000	6,000	16.67	94,000	130,000	0	0	130,000	20,000	C(3)	100,000	C(3)	130,000	
[4] Debt project's fund	70,000	0	0	70,000	4,500	15.56	65,500	60,000	40,000	3,500	16,500	3,500	C(4)	70,000	C(4)	16,500	

Data input and calculation ← → Analysis of due amounts

As can be seen above, “**Provincial PIP Financial Analysis Sheet**” basically is the same format as “**Nationwide PIP Financial Analysis Sheet**”. Using this sheet, MPI-DOP conducts more detailed PIP financial analysis of one province, looking at the due amounts of sectors too. The provincial sheet is going to be used when MPI negotiates with provinces.

Instructions on filling the format

As mentioned above, items in the double-line frame are filled in December. Steps to fill the format to set targets on due amounts are explained in this section.

Table: Nationwide Financial Analysis Sheet – Area to be filled in December

	Current fiscal year (Year 1) - Approved							Due amount		Targeted due amounts	
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	for Current fiscal year (year 1)	for next fiscal year (Year 2)		
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	C	C* = C		
Province A	226,000	14,000	7,500	204,500	20,700	9.88	183,800	C	204,500	C	204,500
[1] ODA Counterpart fund	21,000	1,000	2,000	18,000	3,300	5.45	14,700	C(1)	18,000		
[2] On-going PIP project	110,000	13,000	5,500	91,500	3,400	26.91	88,100	C(2)	91,500		
[3] New PIP's Funds	25,000	0	0	25,000	10,000	2.50	15,000	C(3)	25,000		
[4] Debt project's fund	70,000	0	0	70,000	4,000	17.50	66,000	C(4)	70,000		
Province B	217,000	1,000	5,000	211,000	18,400	11.47	192,600	C	211,000	C	211,000
[1] ODA Counterpart fund	2,000	0	500	1,500	600	2.50	900	C(1)	1,500		
[2] On-going PIP project	55,000	1,000	4,500	49,500	5,800	8.53	43,700	C(2)	49,500		
[3] New PIP's Funds	110,000	0	0	110,000	8,000	13.75	102,000	C(3)	110,000		
[4] Debt project's fund	50,000	0	0	50,000	4,000	12.50	46,000	C(4)	50,000		
Province C	365,000	30,000	0	335,000	20,200	16.58	314,800	C	335,000	C	335,000
[1] ODA Counterpart fund	15,000	3,000	1,000	12,000	700	17.14	11,300	C(1)	12,000		
[2] On-going PIP project	180,000	27,000	10,000	153,000	9,000	17.00	144,000	C(2)	153,000		
[3] New PIP's Funds	100,000	0	0	100,000	6,000	16.67	94,000	C(3)	100,000		
[4] Debt project's fund	70,000	0	0	70,000	4,500	15.56	65,500	C(4)	70,000		

Step 1: Enter items of current fiscal year (Year 1)

Most of the information necessary for this format is taken from PIP list of current fiscal year (Year 1). Please note that amounts of all the items filled in this format are “Domestic funds”, and they do not include ODA funds.

Following items are filled using the information mentioned on PIP list.

- [Project cost in total (A)]
- [Amount paid before Year 0 (Ba)]
- [Amount paid in Year 0 (Bb)]
- [Annual budget (D)]

Step2: Calculation of due amounts and payment durations

When items mentioned above are filled based on PIP list, [Due amount (C)] and [Payment duration (E)] are calculated.

Due amount, or the remaining amounts of project cost to be paid to contractors, are derived as follows;

[Due amount (C)]	= [Project cost (A)]
	– [Amount paid before Year 0 (Ba)]
	– [Amount paid in Year 0 (Bb)]

[Due at the end of fiscal year (F)]	= [Due amount (C)]
	– [Annual budget (D)]

[Due amount (C)] is the balance at the “beginning” of fiscal year, while [Due at the end of fiscal year (F)] shows the balance at the “end” of fiscal year.

Then, payment durations are calculated by due amounts and annual budgets, as follows;

[Payment duration (E)]	= [Due amount (C)] / [Annual budget (D)]
-------------------------	--

When payment durations are compared among provinces, it is possible to point out provinces that have severe payment problems. However, long payment durations do not necessarily mean that the provinces with long payment durations should have more budget allocations. What MPI has to do is to set targets on “Due amount” of each province to avoid further deteriorations in payment problems.

Step 3: Setting targets of due amounts for next fiscal year

When data inputs and calculations mentioned above are done, targets on the due amounts are set

using the right hand side of the sheet.

At first, [Due amount for current fiscal year (Year 1)] is filled using the figures calculated in Step 2. This item simply shows the calculated due amounts in [Due amount (C=A-B)]

Table: Nationwide Financial Analysis Sheet – Input due amount (Year 1)

	Current fiscal year (Year 1) - Approved							Due amount for Current fiscal year (year 1)	Targeted due amounts for next fiscal year (Year 2)
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end		
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	C	C* = C
Province A	226,000	14,000	7,500	204,500	20,700	9.88	183,800	C	204,500
[1] ODA Counterpart fund	21,000	1,000	2,000	18,000	3,300	5.45	14,700	C(1)	18,000
[2] On-going PIP project	110,000	13,000	5,500	91,500	3,400	26.91	88,100	C(2)	91,500
[3] New PIP's Funds	25,000	0	0	25,000	10,000	2.50	15,000	C(3)	25,000
[4] Debt project's fund	70,000	0	0	70,000				C(4)	70,000
Province B	217,000	1,000	5,000	211,000	18,400	11.47	192,600	C	211,000
[1] ODA Counterpart fund	2,000	0	500	1,500	600	2.50	900	C(1)	1,500
[2] On-going PIP project	55,000	1,000	4,500	49,500	5,800	8.53	43,700	C(2)	49,500
[3] New PIP's Funds	110,000	0	0	110,000	8,000	13.75	102,000	C(3)	110,000
[4] Debt project's fund	50,000	0	0	50,000	4,000	12.50	46,000	C(4)	50,000
Province C	365,000	30,000	1,000	335,000	20,200	16.58	314,800	C	335,000
[1] ODA Counterpart fund	15,000	3,000	1,000	12,000	700	17.14	11,300	C(1)	12,000
[2] On-going PIP project	180,000	27,000	10,000	153,000	9,000	17.00	144,000	C(2)	153,000
[3] New PIP's Funds	100,000	0	0	100,000	6,000	16.67	94,000	C(3)	100,000
[4] Debt project's fund	70,000	0	0	70,000	4,500	15.56	65,500	C(4)	70,000

Data input and calculation ← → Analysis of due amounts

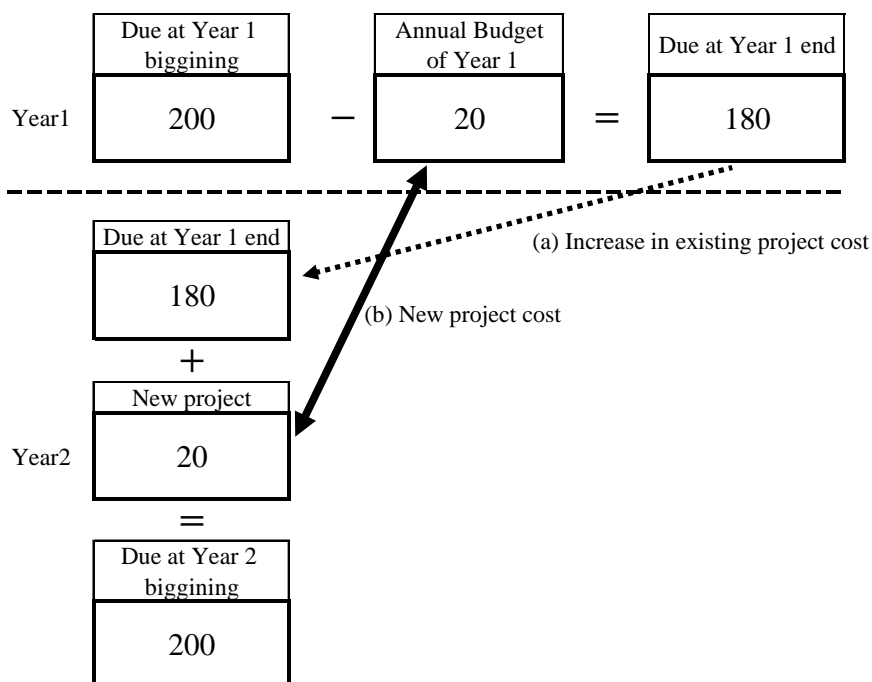
Next step is to set targets on [Due amount (C*)] for the next fiscal year. Note that Star mark "*" shows that the item is target. As due amounts in total for Year 2 are always set at the level of Year 1, the targeted [Due amount (C*)] for Year 2 is also determined at the same level of [Due amount (C)] of Year 1 in this sheet.

When the target on total due amount for Year 2 is determined, targeted due amounts of each category, such as on-going, new and debt projects, are set. As is already explained above, in order to avoid the increase in due amounts, it is important to;

- (a) Avoid the increase in costs of existing projects, and
- (b) Make the new project costs of Year 2 smaller than the annual budget of Year 1.

This can be clearly depicted by the following chart.

Chart: Change in due amounts



Existing projects, or the projects included in “Due at Year 1 end” are ODA, on-going and debt projects, supposing that there are not any new ODA projects. Then, due amounts of these projects are targeted not to increase from the end of Year 1 to the beginning of Year 2³. Targeted due amounts of ODA, on-going and debt projects are determined as shown in the table below.

³ Increase in due amounts of on-going and debt projects increase from the Year 1 end to Year 2 beginning means that costs of such projects increased during or after implementations. This increase should be avoided, and the reasons should be strictly examined.

Table: Nationwide Financial Analysis Sheet – Set targets on due amounts (Year 2)

	Current fiscal year (Year 1) - Approved							Due amount for Current fiscal year (year 1)	Targeted due amounts		
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end		for next fiscal year (Year 2)		
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	C	C* = C		
Province A	226,000	14,000	7,500	204,500	20,700	9.88	183,800	C	204,500	C	204,500
[1] ODA Counterpart fund	21,000	1,000	2,000	18,000	3,300	5.45	14,700	C(1)	18,000		
[2] On-going PIP project	110,000	13,000	5,500	91,500	3,400	26.91	88,100	C(2)	91,500		
[3] New PIP's Funds	25,000	0	0	25,000	10,000	2.50	15,000	C(3)	25,000		
[4] Debt project's fund	70,000	0	0	70,000	4,000	17.50	66,000	C(4)	70,000		
Province B	217,000	1,000	5,000	211,000	18,400	11.47	192,600	C	211,000	C	211,000
[1] ODA Counterpart fund	2,000	0	500	1,500	600	2.50	900	C(1)	1,500		
[2] On-going PIP project	55,000	1,000	4,500	49,500	5,800	8.53	43,700	C(2)	49,500		
[3] New PIP's Funds	110,000	0	0	110,000	8,000	13.75	102,000	C(3)	110,000		
[4] Debt project's fund	50,000	0	0	50,000	4,000	12.50	46,000	C(4)	50,000		
Province C	365,000	30,000	335,000	20,200	16.58	314,800	C	335,000	C	335,000	
[1] ODA Counterpart fund	15,000	3,000	1,000	12,000	700	17.14	11,300	C(1)	12,000		
[2] On-going PIP project	180,000	27,000	10,000	153,000	9,000	17.00	144,000	C(2)	153,000		
[3] New PIP's Funds	100,000	0	0	100,000	6,000	16.67	94,000	C(3)	100,000		
[4] Debt project's fund	70,000	0	0	70,000	4,500	15.56	65,500	C(4)	70,000		

Targets on the total due amounts, and also targets on due amounts of ODA, on-going and debt projects are determined as explained above, the target on new project costs for Year 2 is determined as residual. The new project cost is same as the budget allocation amount of Year 1.

“Provincial PIP Financial Analysis Sheet” is also formulated using PIP list for the current fiscal year (Year 1). Data entry is same as “Nationwide PIP Financial Analysis Sheet”. Targets on [Due amount (C*)] of each sector in the provincial sheet are also determined at the level of [Due amount (C)] of respective sectors in current fiscal year.

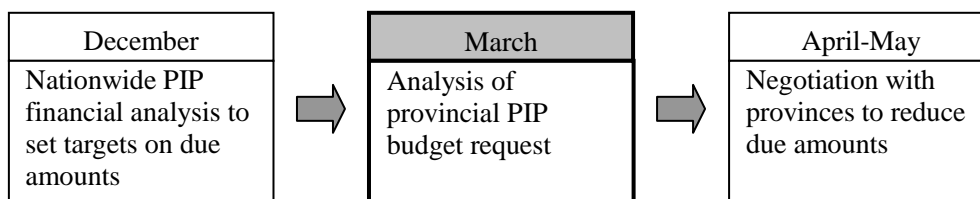
Announcement to provinces by guidelines

When PIP financial analysis is conducted by “Nationwide PIP Financial Analysis Sheet” and “Provincial PIP Financial Analysis Sheet” explained above, the results are reflected into PIP budget guidelines. The guideline for the next fiscal year is going to include;

- PIP financial status, including national and regional Average Payment Duration, and financial category (e.g. red, yellow and green),
- Targets on due amounts of provinces, and
- Backgrounds on setting targets on due amounts and payment durations.

The guideline should also explain that the targets on due amounts for the next fiscal year (Year 2) in all provinces are set at the same level as the beginning of current fiscal year (Year 1). MPI-DOP also explains that the criterion on targets is same for all provinces.

2) Analysis of provincial PIP budget request on payment duration (March)



Provinces tend to implement as many projects as possible, and request more new projects than budgetary capacity. Then, due amounts of provinces for next fiscal year also tend to exceed targets.

MPI then compares the targeted due amounts set in December and requested due amounts, using “Nationwide Provincial PIP Financial Analysis Sheet” and “Provincial PIP Financial Analysis Sheet”. MPI negotiates with provinces, to reduce the requested due amounts until they meet targets.

In March, MPI fills the items in the double line frame of the “Nationwide PIP Financial Analysis Sheet”, shown below, to compare the targeted and requested due amounts of provinces.

Table: Nationwide Provincial Financial Analysis Sheet – Area to be filled in March

	Current fiscal year (Year 1) - Approved							Next fiscal year (Year 2) - Requested					Due amount for Current fiscal year (year 1)	Targeted due amounts for next fiscal year (Year 2)	Requested due amounts for next fiscal year (Year 2)	Over- requeste due amount	
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	Project cost	Amount paid before Year 1	Amount paid in Year 1	Due amount	Annual budget for year 2					C
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	A'	Ba'	Bb'	C'=A'- Ba'-Bb'	D'	C	C* = C	C'	C'-C*	
Province A	226,000	14,000	7,500	204,500	20,700	9.88	183,800	252,000	40,800	6,300	204,900	22,900	C	204,500	C'	204,900	400
[1] ODA Counterpart fund	21,000	1,000	2,000	18,000	3,300	5.45	14,700	34,000	3,300	1,800	28,900	3,600	C(1)	18,000	C'(1)	28,900	
[2] On-going PIP project	110,000	13,000	5,500	91,500	3,400	26.91	88,100	75,000	7,500	4,500	63,000	3,800	C(2)	91,500	C'(2)	63,000	
[3] New PIP's Funds	25,000	0	0	25,000	10,000	2.50	15,000	78,000	0	0	78,000	11,000	C(3)	25,000	C'(3)	78,000	
[4] Debt project's fund	70,000	0	0	70,000	4,000	17.50	66,000	65,000	30,000	0	35,000	4,500	C(4)	70,000	C'(4)	35,000	
Province B	217,000	1,000	5,000	211,000	18,400	11.47	192,600	490,000	1,500	7,000	481,500	192,745	C	211,000	C'	481,500	270,500
[1] ODA Counterpart fund	2,000	0	500	1,500	600	2.50	900	0	0	0	0	0	C(1)	1,500	C'(1)	0	
[2] On-going PIP project	55,000	1,000	4,500	49,500	5,800	8.53	43,700	88,000	1,500	7,000	79,500	59,763	C(2)	49,500	C'(2)	79,500	
[3] New PIP's Funds	110,000	0	0	110,000	8,000	13.75	102,000	150,000	0	0	150,000	73,540	C(3)	110,000	C'(3)	150,000	
[4] Debt project's fund	50,000	0	0	50,000	4,000	12.50	46,000	252,000	0	0	252,000	59,442	C(4)	50,000	C'(4)	252,000	
Province C	365,000	30,000	10,000	335,000	20,200	16.58	314,800	488,000	79,000	19,500	389,500	51,000	C	335,000	C'	389,500	54,500
[1] ODA Counterpart fund	15,000	3,000	1,000	12,000	700	17.14	11,300	18,000	4,000	1,000	13,000	2,500	C(1)	12,000	C'(1)	13,000	
[2] On-going PIP project	180,000	27,000	10,000	153,000	9,000	17.00	144,000	280,000	35,000	15,000	230,000	25,000	C(2)	153,000	C'(2)	230,000	
[3] New PIP's Funds	100,000	0	0	100,000	6,000	16.67	94,000	130,000	0	0	130,000	20,000	C(3)	100,000	C'(3)	130,000	
[4] Debt project's fund	70,000	0	0	70,000	4,500	15.56	65,500	60,000	40,000	3,500	16,500	3,500	C(4)	70,000	C'(4)	16,500	

Data input and calculation ← → Analysis of due amounts

MPI also fill the same items of “Provincial PIP Financial Analysis Sheet “ for more detailed analysis.

a) Instructions on filling “Nationwide PIP Financial Analysis Sheet” and “Provincial PIP Financial Analysis Sheet”

In March, when draft PIP list is compiled, necessary information is going to be filled in PIP

Financial Analysis Sheets. Steps to fill the formats are explained in this section. Because the data entries and calculations are same between the nationwide sheet and the provincial sheet, this part only explains the nationwide sheet.

Step 1: Enter items based on draft PIP list for next fiscal year

“Next fiscal year (Year 2) – Requested” are taken from the PIP list submitted by provinces.

Following items are filled using the information mentioned on PIP list.

- [Project cost in total (A’)]
- [Amount paid before Year 1 (Ba’)]
- [Amount paid in Year 1 (Bb’)]
- [Annual budget (D’)]

Note that dash mark or < ‘> indicates that items are requested values for next fiscal year. Also note that the amounts of project costs, amount paid and annual budget include only domestic costs, and do not include any ODA funds.

Step2: Calculation of due amounts and payment durations

When items mentioned above are filled based on PIP list, [Due amount (C’)] is calculated.

Due amount, or the remaining amounts of project cost to be paid to contractors, are derived as follows;

[Due amounts (C’)]	=	[Project cost in total (A’)]
		– [Amount paid before Year 1 (Ba’)]
		– [Amount paid in Year 1 (Bb’)]

Step 3: Compare the targeted and requested due amounts

As mentioned above, the right hand side of the sheet is used to analyze the due amounts. In this area, requested due amounts are compared to the targeted due amounts.

Requested due amounts (C’) in this area are filled using the requested “due amounts (C’)” calculated in the former step.

Table: Nationwide Financial Analysis Sheet – Input requested due amount (Year 2)

	Current fiscal year (Year 1) - Approved							Next fiscal year (Year 2) - Requested					Due amount		Targeted due amounts	Requested due amounts	Over-requested due amount
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	Project cost	Amount paid before Year 1	Amount paid in Year 1	Due amount	Annual budget for year 2	for Current fiscal year (year 1)	for next fiscal year (Year 2)	for next fiscal year (Year 2)		
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	A'	Ba'	Bb'	C'=A'-Ba'-Bb'	D'	C	C*=C	C'	C'-C*	
Province A	226,000	14,000	7,500	204,500	20,700	9.88	183,800	252,000	40,800	6,300	204,900	22,900	C	204,500	C'	204,900	400
[1] ODA Counterpart fund	21,000	1,000	2,000	18,000	3,300	5.45	14,700	34,000	3,300	1,800	28,900	3,600	C(1)	18,000	C(1)	28,900	
[2] On-going PIP project	110,000	13,000	5,500	91,500	3,400	26.91	88,100	75,000	7,500	4,500	63,000	3,800	C(2)	91,500	C(2)	63,000	
[3] New PIPs Funds	25,000	0	0	25,000	10,000	2.50	15,000	78,000	0	0	78,000	11,000	C(3)	25,000	C(3)	78,000	
[4] Debt project's fund	70,000	0	0	70,000	4,000	17.50	66,000	65,000	30,000	0	35,000	4,500	C(4)	70,000	C(4)	35,000	
Province B	217,000	1,000	5,000	211,000	18,400	11.47	192,600	490,000	1,500	7,000	481,500	192,745	C	211,000	C'	481,500	270,500
[1] ODA Counterpart fund	2,000	0	500	1,500	600	2.50	900	0	0	0	0	0	C(1)	1,500	C(1)	0	
[2] On-going PIP project	55,000	1,000	4,500	49,500	5,800	8.53	43,700	88,000	1,500	7,000	79,500	59,763	C(2)	49,500	C(2)	79,500	
[3] New PIPs Funds	110,000	0	0	110,000	8,000	13.75	102,000	150,000	0	0	150,000	73,540	C(3)	110,000	C(3)	150,000	
[4] Debt project's fund	50,000	0	0	50,000	4,000	12.50	46,000	252,000	0	0	252,000	59,442	C(4)	50,000	C(4)	252,000	
Province C	365,000	30,000	3,000	335,000	20,200	16.58	314,800	488,000	79,000	19,500	389,500	51,000	C	335,000	C'	389,500	54,500
[1] ODA Counterpart fund	15,000	3,000	1,000	12,000	700	17.14	11,300	18,000	4,000	1,000	13,000	2,500	C(1)	12,000	C(1)	13,000	
[2] On-going PIP project	180,000	27,000	10,000	153,000	9,000	17.00	144,000	280,000	35,000	15,000	230,000	25,000	C(2)	153,000	C(2)	230,000	
[3] New PIPs Funds	100,000	0	0	100,000	6,000	16.67	94,000	130,000	0	0	130,000	20,000	C(3)	100,000	C(3)	130,000	
[4] Debt project's fund	70,000	0	0	70,000	4,500	15.56	65,500	60,000	40,000	3,500	16,500	3,500	C(4)	70,000	C(4)	16,500	

Data input and calculation ← → Analysis of due amounts

The gap between the targeted and requested due amounts are calculated as “over-requested due amount (C' - C*)”. This shows how much the due amount of the province is going to increase if all the requested projects are approved.

Over-requested amount is then derived as follows;

$$\text{“Over requested” amount} = \text{Requested [Due amount (C')] - targeted [Due amount (C*)]}$$

Then MPI can point out how much due amounts are going to increase, and which categories of projects, especially new projects, increase due amounts.

Table: Nationwide Financial Analysis Sheet – Over-requested due amount (Year 2)

	Current fiscal year (Year 1) - Approved							Next fiscal year (Year 2) - Requested					Due amount		Targeted due amounts	Requested due amounts	Over-requested due amount
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	Project cost	Amount paid before Year 1	Amount paid in Year 1	Due amount	Annual budget for year 2	for Current fiscal year (year 1)	for next fiscal year (Year 2)	for next fiscal year (Year 2)		
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	A'	Ba'	Bb'	C'=A'-Ba'-Bb'	D'	C	C*=C	C'	C'-C*	
Province A	226,000	14,000	7,500	204,500	20,700	9.88	183,800	252,000	40,800	6,300	204,900	22,900	C	204,500	C'	204,900	400
[1] ODA Counterpart fund	21,000	1,000	2,000	18,000	3,300	5.45	14,700	34,000	3,300	1,800	28,900	3,600	C(1)	18,000	C(1)	28,900	
[2] On-going PIP project	110,000	13,000	5,500	91,500	3,400	26.91	88,100	75,000	7,500	4,500	63,000	3,800	C(2)	91,500	C(2)	63,000	
[3] New PIPs Funds	25,000	0	0	25,000	10,000	2.50	15,000	78,000	0	0	78,000	11,000	C(3)	25,000	C(3)	78,000	
[4] Debt project's fund	70,000	0	0	70,000	4,000	17.50	66,000	65,000	30,000	0	35,000	4,500	C(4)	70,000	C(4)	35,000	
Province B	217,000	1,000	5,000	211,000	18,400	11.47	192,600	490,000	1,500	7,000	481,500	192,745	C	211,000	C'	481,500	270,500
[1] ODA Counterpart fund	2,000	0	500	1,500	600	2.50	900	0	0	0	0	0	C(1)	1,500	C(1)	0	
[2] On-going PIP project	55,000	1,000	4,500	49,500	5,800	8.53	43,700	88,000	1,500	7,000	79,500	59,763	C(2)	49,500	C(2)	79,500	
[3] New PIPs Funds	110,000	0	0	110,000	8,000	13.75	102,000	150,000	0	0	150,000	73,540	C(3)	110,000	C(3)	150,000	
[4] Debt project's fund	50,000	0	0	50,000	4,000	12.50	46,000	252,000	0	0	252,000	59,442	C(4)	50,000	C(4)	252,000	
Province C	365,000	30,000	3,000	335,000	20,200	16.58	314,800	488,000	79,000	19,500	389,500	51,000	C	335,000	C'	389,500	54,500
[1] ODA Counterpart fund	15,000	3,000	1,000	12,000	700	17.14	11,300	18,000	4,000	1,000	13,000	2,500	C(1)	12,000	C(1)	13,000	
[2] On-going PIP project	180,000	27,000	10,000	153,000	9,000	17.00	144,000	280,000	35,000	15,000	230,000	25,000	C(2)	153,000	C(2)	230,000	
[3] New PIPs Funds	100,000	0	0	100,000	6,000	16.67	94,000	130,000	0	0	130,000	20,000	C(3)	100,000	C(3)	130,000	
[4] Debt project's fund	70,000	0	0	70,000	4,500	15.56	65,500	60,000	40,000	3,500	16,500	3,500	C(4)	70,000	C(4)	16,500	

Target Request Over-Request

“Provincial PIP Financial Analysis Sheet” shows the over-requested due amounts of categories and sectors of a province. Then, by analyzing where over-requests are from, MPI can point out

which categories and sectors are the main reasons for the increase in due amounts in provinces.

b) Analysis of over-request

In PIP budget formulation process, the increase in due amount have to be avoided, and thus minimizing or deleting “over-requested” due amounts of each sector is the key role of MPI.

Therefore, MPI has to analyze why the due amounts of sector departments are beyond targets. Main drivers to increase due amounts are;

- Increase in the cost of ongoing projects and debt projects, and
- Cost of new projects for next fiscal year.

When [Targeted due amount (C*)] and [Requested due amount (C’)] are compared, the main factor which increase due amounts are obvious.

Table: Comparison of targeted and requested due amounts

	Due amount		Targeted due amounts	Requested due amounts		Over-requested due amount	
	for Current fiscal year (year 1)		for next fiscal year (Year 2)	for next fiscal year (Year 2)			
	C		C* = C	C'		C'-C*	
Province A	C	204,500	C	204,500	C'	204,900	400
[1] ODA Counterpart fund	C(1)	18,000	/	C(1)	28,900	/	
[2] On-going PIP project	C(2)	91,500		C(2)	63,000		
[3] New PIP's Funds	C(3)	25,000		C(3)	78,000		
[4] Debt project's fund	C(4)	70,000		C(4)	35,000		
Province B	C	211,000	C	211,000	C'	481,500	270,500
[1] ODA Counterpart fund	C(1)	1,500	/	C(1)	0	/	
[2] On-going PIP project	C(2)	49,500		C(2)	79,500		
[3] New PIP's Funds	C(3)	110,000		C(3)	150,000		
[4] Debt project's fund	C(4)	50,000		C(4)	252,000		
Province C	C	335,000	C	335,000	C'	389,500	54,500
[1] ODA Counterpart fund	C(1)	12,000	/	C(1)	13,000	/	
[2] On-going PIP project	C(2)	153,000		C(2)	230,000		
[3] New PIP's Funds	C(3)	100,000		C(3)	130,000		
[4] Debt project's fund	C(4)	70,000		C(4)	16,500		

The table above shows the comparison of the targeted due amounts and requested due amounts of provinces.

When requested due amounts are more than target, the drivers of over-request have to be

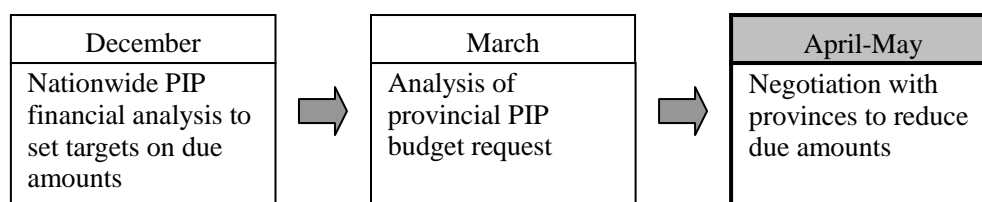
analyzed. The candidates of the drivers are as follows;

- Increase in the due amounts of ODA national contribution budget
- Increase in the due amounts of ongoing projects
- Excessive costs of new projects
- Increase in the due amounts of debt projects

When over-requested due amounts are examined, the key drivers can be indentified (see the example above).

Same analysis should be done by “Provincial PIP Financial Analysis Sheet” so that MPI can point out which sector increased the due amounts in provinces.

3) Negotiation with provinces to reduce due amounts (April – May)



After provinces submit draft PIP list to MPI, MPI conducts PIP financial analysis by comparing targeted and requested due amounts of provinces. MPI uses “Nationwide PIP Financial Analysis Sheet” to oversee the over-requested due amounts of provinces. MPI also uses “Provincial PIP Financial Analysis Sheet” to conduct the detailed analysis and to point out which categories and sectors increase due amounts.

Based on the analysis and PIP budget allocation amounts, MPI, which is supposed to take initiative in PIP budget formulation, request provinces to revise proposals so that due amounts of provinces can meet targets. MPI should also indicate how much due amounts each province has to decrease and what are the main drivers that increased due amounts of sectors (such as increase in costs of ongoing projects). MPI and provinces should have discussions to come to conclusions on how to decrease due amounts and project costs.

When provinces submitted revised PIP lists to MPI, MPI should again input the information in both “Nationwide PIP Financial Analysis Sheet” and “Provincial PIP Financial Analysis Sheet”, so that revised PIP lists have met the targeted due amounts. Until the targets are met, MPI has to negotiate with provinces. When MPI and provinces came to conclusions, the PIP lists are submitted to National Assembly for approval.

3.3. Provincial PIP financial analysis and budget planning by DPI

(1) Overview of budget planning at DPI

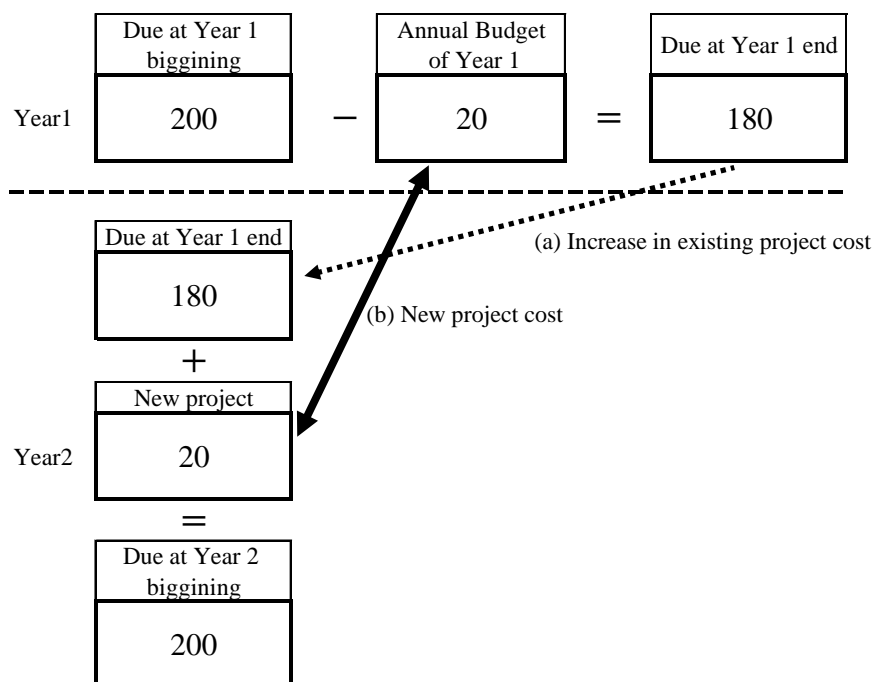
The main role of Provincial DPIs in PIP budget planning is to take initiative in achieving both SEDP goals and PIP financial sustainability. In other words, DPIs have to take leadership in selecting the limited number of most prioritized projects, avoiding any new payment problems.

The most important items in measuring PIP financial status are “Due amount” and “Payment duration”. “Due amount” is the total remaining amount of project costs that a province has to pay now and future. This is derived as [Project cost] – [Amount paid]. Payment duration shows how many years it takes for a province to complete payment to projects, and this is calculated by [Due amount] divided by [Annual PIP budget].

As mentioned above, it is necessary to set upper limit on the due amount of a province to reduce its payment problems and payment durations. Then, the province cannot formulate too many new projects.

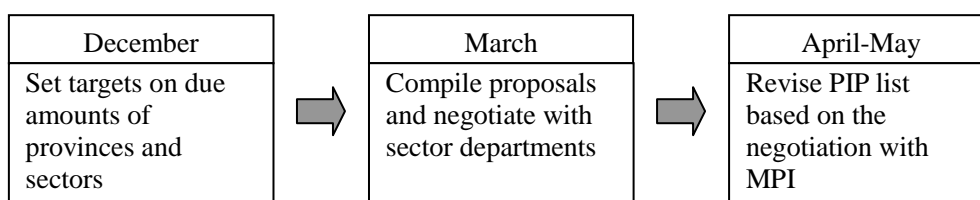
The example below shows that the balance of due amount at the beginning of the current fiscal year (Year 1) is LAK 200 billion, and the annual budget for this year is LAK 20 billion. This suggests that this province needs 10 years to complete the payments of projects by current annual budget. At the end of Year 1, the due amount is going to be LAK180 billion after payments, which will be transferred to next year (Year 2). In order to avoid due amount being more than LAK 200 billion, the new project costs in Year 2 cannot be more than LAK 20 billion.

Chart: Change in due amounts



As mentioned above, it is necessary to avoid the increase in due amounts in order to address payment problems. Therefore, DPIs have to go through the following three steps to manage due amounts;

Chart: Stages to manage due amounts



In each stage of PIP budget formulation shown above, DPIs take lead in avoiding increase in due amounts. In these stages, DPIs will set clear targets on due amounts, compare the targets and requested due amounts, and then negotiate with sector department to reduce due amounts.

Tasks and responsibilities of DPIs in these stages are;

- Conducting provincial PIP financial analysis of a province as a whole, and of sectors to understand current PIP financial status,
- Taking initiative in enhancing PIP financial stability by avoiding the increase in due amount through
 - Selecting priority new projects and canceling non-priority projects, and

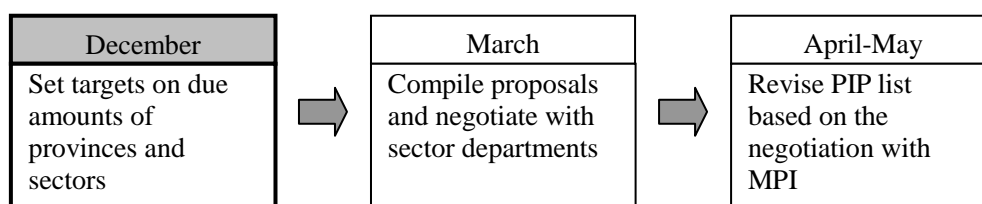
- Monitoring the increase in due amounts of ongoing projects.
- Giving feedback to decision makers on the overall directions of PIP budget planning, including establishment of PIP financial stability.

(2) DPI’s actions in PIP budget formulation

Enhancing PIP financial stability in provinces is to ease payment problems. Therefore, the PIP budget formulation process have to focus on reducing payment durations through avoiding increase in due amounts.

As mentioned above, DPIs set targets on due amounts of provinces, compare the targeted and requested due amounts, and negotiate with sector departments to reduce due amounts. The following section explains actions to conduct these processes.

1) Set targets on due amounts of provinces and sectors for next fiscal year (December)



In December, Provincial DPI conducts PIP financial analysis to **set targets on payment durations and due amounts** of a province as a whole and of sector departments for the next fiscal year. This is done **by December**, before sector departments and districts start formulating proposals for next fiscal year.

The format used for analyzing PIP financial status and setting targets on due amounts is “**Provincial PIP Financial Analysis Sheet**”, which is shown as follows;

Table: Provincial Financial Analysis Sheet

	Current fiscal year (Year 1) - Approved							Next fiscal year (Year 2) - Requested					Due amount		Targeted due amounts		Requested due amounts		Over-requested due amount
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	Project cost	Amount paid before Year 1	Amount paid in Year 1	Due amount	Annual budget for year 2	for Current fiscal year (year 1)	for next fiscal year (Year 2)	for next fiscal year (Year 2)				
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	A'	Ba'	Bb'	C'=A'-Ba'-Bb'	D'	C	C* = C	C'	C'-C*			
Total	363,400	7,400	3,050	356,000	19,200	18.54	336,800	546,400	21,560	19,220	505,620	23,000	C	356,000	C	356,000	C'	505,620	149,620
[1] ODA Counterpart fund	11,700	800	100	10,900	2,750	3.96	8,150	13,050	1,720	2,010	9,320	1,570	C(1)	10,900	F(1)	8,150	C'(1)	9,320	1,170
[2] On-going PIP project	125,550	6,600	2,950	118,950	7,310	16.27	111,640	315,400	19,840	15,550	280,010	13,370	C(2)	118,950	F(2)+F(3)	240,350	C'(2)	280,010	39,660
[3] New PIP's Funds	136,150	0	0	136,150	7,440	18.30	128,710	87,600	0	0	87,600	2,878	C(3)	136,150	D	19,200	C'(3)	87,600	68,400
[4] Debt project's fund	90,000	0	0	90,000	1,700	52.94	88,300	130,350	0	1,660	128,690	5,170	C(4)	90,000	F(4)	88,300	C'(4)	128,690	40,390
AGRI & FORESTRY	22,000	1,200	300	20,800	1,000	20.80	19,800	26,400	2,600	1,070	22,730	800	C	20,800	C	20,800	C'	22,730	1,930
[1] ODA Counterpart fund	2,500	800	100	1,700	180	9.44	1,520	3,900	1,500	190	2,210	300	C(1)	1,700			C'(1)	2,210	
[2] On-going PIP project	4,500	400	200	4,100	350	11.71	3,750	6,500	1,100	580	4,820	100	C(2)	4,100			C'(2)	4,820	
[3] New PIP's Funds	2,000	0	0	2,000	170	11.76	1,830	0	0	0	0	0	C(3)	2,000			C'(3)	0	
[4] Debt project's fund	13,000	0	0	13,000	300	43.33	12,700	16,000	0	200	15,700	400	C(4)	13,000			C'(4)	15,700	
[2] On-going PIP project	250	100	50	150	90	1.67	60	2,200	200	360	1,640	200	C(2)	150			C'(2)	1,640	
[3] New PIP's Funds	1,700	0	0	1,700	270	6.30	1,430	0	0	0	0	0	C(3)	1,700			C'(3)	0	
[4] Debt project's fund	900	0	0	900	20	45.00	880	950	0	20	930	0	C(4)	900			C'(4)	930	
PUBLIC WORKS & TRANSPORT	234,000	0	0	234,000	6,900	33.91	227,100	367,000	5,100	6,900	355,000	11,900	C	234,000	C	234,000	C'	355,000	121,000
[1] ODA Counterpart fund	9,000	0	0	9,000	2,500	3.60	6,500	2,000	200	1,750	500	0	C(1)	9,000			C'(1)	50	
[2] On-going PIP project	80,000	0	0	80,000	1,400	57.14	78,600	200,000	4,900	4,750	190,350	8,500	C(2)	80,000			C'(2)	190,350	
[3] New PIP's Funds	75,000	0	0	75,000	2,600	28.85	72,400	65,000	0	0	65,000	500	C(3)	75,000			C'(3)	65,000	
[4] Debt project's fund	70,000	0	0	70,000	400	175.00	69,600	100,000	0	400	99,600	2,900	C(4)	70,000			C'(4)	99,600	

Data input and calculation ← → Analysis of due amounts

This sheet covers PIP lists for two years, the current fiscal year (Year 1) and the next fiscal year (Year2). In December, the items in the double-lined frame for Year1 are filled to set targets for Year 2. Items for Year 2 will be filled in February – March, when draft PIP lists are compiled based on the proposals by sector departments.

Items in the right hand side of the sheet are used to analyse the gap between targeted and requested due amounts. At this stage, targets for next fiscal year are set based on the due amounts in the current fiscal year.

Instructions on filling the format

As mentioned above, the items in the double line frame are filled in December. Steps to fill the format to set targets on due amounts are explained in this section.

Table: Provincial Financial Analysis Sheet – Area to be filled in December

	Current fiscal year (Year 1) -Approved							Due amount		Targeted due amounts	
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	for Current fiscal year (year 1)	for next fiscal year (Year 2)		
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	C	C* = C		
Total	363,400	7,400	3,050	356,000	19,200	18.54	336,800	C	356,000	C	356,000
[1] ODA Counterpart fund	11,700	800	100	10,900	2,750	3.96	8,150	C(1)	10,900	F(1)	8,150
[2] On-going PIP project	125,550	6,600	2,950	118,950	7,310	16.27	111,640	C(2)	118,950	F(2) + F(3)	240,350
[3] New PIP's Funds	136,150	0	0	136,150	7,440	18.30	128,710	C(3)	136,150	D	19,200
[4] Debt project's fund	90,000	0	0	90,000	1,700	52.94	88,300	C(4)	90,000	F(4)	88,300
AGRI & FORESTRY	22,000	1,200	300	20,800	1,000	20.80	19,800	C	20,800	C	20,800
[1] ODA Counterpart fund	2,500	800	100	1,700	180	9.44	1,520	C(1)	1,700		
[2] On-going PIP project	4,500	400	200	4,100	350	11.71	3,750	C(2)	4,100		
[3] New PIP's Funds	2,000	0	0	2,000	170	11.76	1,830	C(3)	2,000		
[1] ODA Counterpart fund											
[2] On-going PIP project	250	100	50	150	90	1.67	60	C(2)	150		
[3] New PIP's Funds	1,700	0	0	1,700	270	6.30	1,430	C(3)	1,700		
[4] Debt project's fund	900	0	0	900	20	45.00	880	C(4)	900		

Step 1: Enter items of current fiscal year (Year 1)

Most of the information necessary for this format is taken from PIP list of the current fiscal year (Year 1). Please note that the amounts of all the items filled in this format are “Domestic funds”, and they do not include ODA funds.

The following items are filled using the information mentioned on PIP list.

- [Project cost (A)]
- [Amount paid before Year 0 (Ba)]
- [Amount paid in Year 0 (Bb)]
- [Annual budget (D)]

Step2: Calculation of due amounts and payment durations

When the items mentioned above are filled based on PIP list, [Due amount (C)] and [Payment duration (E)] are calculated.

Due amounts, or the remaining amounts of project costs to be paid to contractors, are derived as follows;

[Due amounts (C)]	= [Project cost (A)] – [Amount paid before Year 0 (Ba)] – [Amount paid in Year 0 (Bb)]
[Due at the end of fiscal year (F)]	= [(C) Due amount] – [(D) Annual budget]

[Due amounts (C)] are the balance at the “beginning” of fiscal year, while [Due at the end of fiscal year (F)] shows the balance at the “end” of fiscal year.

Then, payment durations are calculated by due amounts and annual budgets, as follows;

[Payment duration (E)]	= [Due amounts (C)] / [Annual budget (D)]
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When payment durations are compared among sectors, it is possible to point out sectors that have severe payment problems. However, long payment durations do not necessarily mean that the sectors with long payment durations should have more budget allocations. What DPI has to do is to set targets on “Due amount” of each sector to avoid further deteriorations in payment problems.

Step 3: Setting targets of due amounts for next fiscal year

When data inputs and calculations mentioned above are done, targets on the due amounts are going to be set. Targets are set using the right hand side of the sheet.

At first, [Due amount for current fiscal year (Year 1)] is filled using the figures calculated in Step 2. This item is simply shows the calculated due amount figures in [Due amount (C=A-B)]

Table: Provincial Financial Analysis Sheet – Input due amount (Year 1)

	Current fiscal year (Year 1) -Approved								Due amount		Targeted due amounts	
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end		for Current fiscal year (year 1)	for next fiscal year (Year 2)		
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D		C	C* = C		
Total	363,400	7,400	3,050	356,000	19,200	18.54	336,800	C	356,000	C	356,000	
[1] ODA Counterpart fund	11,700	800	100	10,900	2,750	3.96	8,150	C(1)	10,900	F(1)	8,150	
[2] On-going PIP project	125,550	6,600	2,950	118,950	7,310	16.27	111,640	C(2)	118,950	F(2) + F(3)	240,350	
[3] New PIP's Funds	136,150	0	0	136,150	7,440	18.30	128,710	C(3)	136,150	D	19,200	
[4] Debt project's fund	90,000	0	0	90,000				C(4)	90,000	F(4)	88,300	
AGRI & FORESTRY	22,000	1,200	300	20,800	1,000	20.80	19,800	C	20,800	C	20,800	
[1] ODA Counterpart fund	2,500	800	100	1,700	180	9.44	1,520	C(1)	1,700			
[2] On-going PIP project	4,500	400	200	4,100	350	11.71	3,750	C(2)	4,100			
[3] New PIP's Funds	2,000	0	0	2,000	170	11.76	1,830	C(3)	2,000			
[1] ODA Counterpart fund												
[2] On-going PIP project	250	100	50	150	90	1.67	60	C(2)	150			
[3] New PIP's Funds	1,700	0	0	1,700	270	6.30	1,430	C(3)	1,700			
[4] Debt project's fund	900	0	0	900	20	45.00	880	C(4)	900			

Data input and calculation ← → Analysis of due amounts

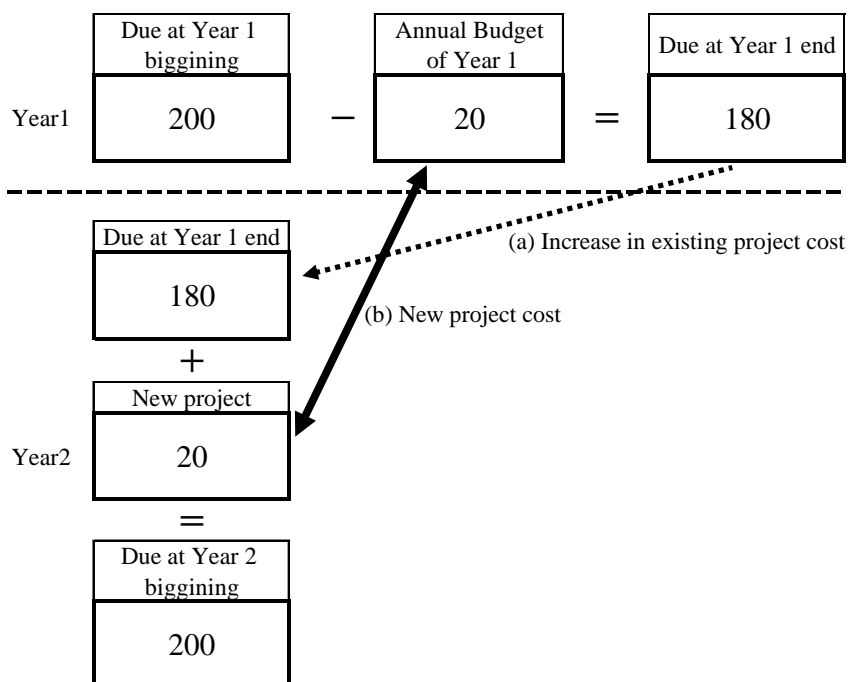
Next step is to set targets on [Due amount (C*)] for the next fiscal year. Note that Star mark “*” shows that the item is target. As due amounts in total for Year 2 are always set at the level of Year 1, the targeted [Due amount (C*)] for Year 2 is also determined at the same level of [Due amount (C)] of Year 1 in this sheet.

When the targets on total due amounts for Year 2 is determined, the targeted due amounts of each category, such as on-going, new and debt projects, are set. As is already explained above, in order to avoid the increase in due amounts, it is important to;

- (a) Avoid the increase in costs of existing projects, and
- (b) Make the new project costs of Year 2 smaller than the annual budget of Year 1.

This can be clearly depicted by the following chart.

Chart: Change in due amounts



Existing projects, or the projects included in “Due at Year 1 end” are ODA, on-going and debt projects, supposing that there are not any new ODA projects. Then, due amounts of these projects are targeted not to increase from the end of Year 1 to the beginning of Year 2⁵. Targeted due amounts of ODA, on-going and debt projects are determined as shown in the table below.

⁵ The increase in due amounts of on-going and debt projects increase from the Year 1 end to Year 2 beginning means that costs of such projects increased during or after implementations. This increase should be avoided, and the reasons should be strictly examined.

Table: Provincial Financial Analysis Sheet – Set targets on due amounts (Year 2)

	Current fiscal year (Year 1) -Approved							Due amount for Current fiscal year (year 1)	Targeted due amounts for next fiscal year (Year 2)
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end		
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	C	C* = C
Total	363,400	7,400	3,050	356,000	19,200	18.54	336,800	C	356,000
[1] ODA Counterpart fund	11,700	800	100	10,900	2,750	3.96	8,150	C(1)	10,900
[2] On-going PIP project	125,550	6,600	2,950	118,950	7,310	16.27	111,640	C(2)	118,950
[3] New PIP's Funds	136,150	0	0	136,150	7,440	18.30	128,710	C(3)	136,150
[4] Debt project's fund	90,000	0	0	90,000	1,700	52.94	88,300	C(4)	90,000
AGRI & FORESTRY	22,000	1,200	300	20,800	1,000	20.80	19,800	C	20,800
[1] ODA Counterpart fund	2,500	800	100	1,700	180	9.44	1,520	C(1)	1,700
[2] On-going PIP project	4,500	400	200	4,100	350	11.71	3,750	C(2)	4,100
[3] New PIP's Funds	2,000	0	0	2,000	170	11.76	1,830	C(3)	2,000

[1] ODA Counterpart fund									
[2] On-going PIP project	250	100	50	150	90	1.67	60	C(2)	150
[3] New PIP's Funds	1,700	0	0	1,700	270	6.30	1,430	C(3)	1,700
[4] Debt project's fund	900	0	0	900	20	45.00	880	C(4)	900

Targets on the total due amount, and also targets on due amounts of ODA, on-going and debt projects are determined as explained above, the target on new project costs for Year 2 is determined as residual. This amount is same as the budget allocation amount of Year 1.

Targets on [Due amount (C*)] of each sector are also determined at the level of [Due amount (C)] of respective sectors in current fiscal year.

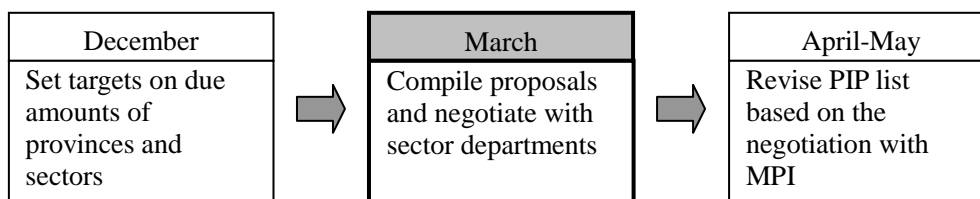
Announcement to sectors

When targets on due amounts are set, they are announced to sectors. When DPIs explain the target on due amount of each sector for next fiscal year, DPIs should also explain the directions in PIP budget formulation as follows;

- Deterioration in payment problems has to be avoided by reducing payment duration
- Avoiding increase in due amount is essential for reducing payment durations, and
- Therefore, increase in existing project costs has to be avoided, and new project cost has to be within budgetary capacity.

Based on the targets announced by DPIs, sectors are expected to prepare project proposals without increasing due amounts. When sectors request more projects than targets, then they are discussed between DPIs and sector departments. Organizing a workshop, inviting sector departments would be one of the possible opportunities to share the directions.

2) Compile proposals and negotiate with sector department (February – March)



In February - March, project proposals and progress reports are submitted by sector departments to DPIs. Then, DPIs assess proposals and reports, compile them to submit the PIP list to MPI-DOP. In this process, it is important for DPIs to reflect the directions for achieving SEDP goals and building PIP financial stability. In other words, DPIs have to

- Monitor the increase in due amounts of ongoing and debt projects, and
- Select new projects to avoid the increase in debt amounts.

Sector departments wish to implement as many projects as possible, therefore tend to prepare more project proposals than budgetary capacity. Then, due amounts of sectors for next fiscal year far more exceeds than the targets. DPIs then have to take initiative in selecting priority projects and canceling non-priority projects to avoid increase in due amounts.

DPIs then compare the targeted due amounts set in December and requested due amounts, using **“Provincial PIP Financial Analysis Sheet”**. DPIs will negotiate with sector departments, to reduce the requested due amounts until they meet targets.

In February - March, the items in the double-line frame will be filled to compare the targeted and requested due amounts.

Table: Provincial Financial Analysis Sheet – Area to be filled in February - March

	Current fiscal year (Year 1) -Approved							Next fiscal year (Year 2) - Requested					Due amount for Current fiscal year (year 1)	Targeted due amounts for next fiscal year (Year 2)	Requested due amounts for next fiscal year (Year 2)	Over- requested due amount			
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	Project cost	Amount paid before Year 1	Amount paid in Year 1	Due amount	Annual budget for year 2							
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-I	A'	Ba'	Bb'	C'=A'- Ba'-Bb'	D'	C	C* = C	C'	C'-C*			
Total	363,400	7,400	3,050	356,000	19,200	18.54	336,800	546,400	21,560	19,220	505,620	23,000	C	356,000	C	505,620	149,620		
[1] ODA Counterpart fund	11,700	800	100	10,900	2,750	3.96	8,150	13,050	1,720	2,010	9,320	1,570	C(1)	10,900	F(1)	8,150	C(1)	9,320	1,170
[2] On-going PIP project	125,550	6,600	2,950	118,950	7,310	16.27	111,640	315,400	19,840	15,550	280,010	13,375	C(2)	118,950	F(2) + F(3)	240,350	C(2)	280,010	39,660
[3] New PIP's Funds	136,150	0	0	136,150	7,440	18.30	128,710	87,600	0	0	87,600	2,878	C(3)	136,150	D	19,200	C(3)	87,600	68,400
[4] Debt project's fund	90,000	0	0	90,000	1,700	52.94	88,300	130,350	0	1,660	128,690	5,177	C(4)	90,000	F(4)	88,300	C(4)	128,690	40,390
AGRI & FORESTRY	22,000	1,200	300	20,800	1,000	20.80	19,800	26,400	2,600	1,070	22,730	800	C	20,800	C	20,800	C'	22,730	1,930
[1] ODA Counterpart fund	2,500	800	100	1,700	180	9.44	1,520	3,900	1,500	190	2,210	300	C(1)	1,700			C(1)	2,210	
[2] On-going PIP project	4,500	400	200	4,100	350	11.71	3,750	6,500	1,100	580	4,820	100	C(2)	4,100			C(2)	4,820	
[3] New PIP's Funds	2,000	0	0	2,000	170	11.76	1,830	0	0	0	0	0	C(3)	2,000			C(3)	0	
[4] Debt project's fund	13,000	0	0	13,000	300	43.33	12,700	16,000	0	200	15,700	400	C(4)	13,000			C(4)	15,700	
[2] On-going PIP project	250	100	50	150	90	1.67	60	2,200	200	360	1,640	200	C(2)	150			C(2)	1,640	
[3] New PIP's Funds	1,700	0	0	1,700	270	6.30	1,430	0	0	0	0	0	C(3)	1,700			C(3)	0	
[4] Debt project's fund	900	0	0	900	20	45.00	880	950	0	20	930	0	C(4)	900			C(4)	930	
PUBLIC WORKS & TRANSPOR	234,000	0	0	234,000	6,900	33.91	227,100	367,000	5,100	6,900	355,000	11,900	C	234,000	C	234,000	C'	355,000	121,000
[1] ODA Counterpart fund	9,000	0	0	9,000	2,500	3.60	6,500	2,000	200	1,750	50	0	C(1)	9,000			C(1)	50	
[2] On-going PIP project	80,000	0	0	80,000	1,400	57.14	78,600	200,000	4,900	4,750	190,350	8,500	C(2)	80,000			C(2)	190,350	
[3] New PIP's Funds	75,000	0	0	75,000	2,600	28.85	72,400	65,000	0	0	65,000	500	C(3)	75,000			C(3)	65,000	
[4] Debt project's fund	70,000	0	0	70,000	400	175.00	69,600	100,000	0	400	99,600	2,900	C(4)	70,000			C(4)	99,600	

Data input and calculation ← → Analysis of due amounts

a) Instructions on filling the format

In February – March, when draft PIP list is compiled, necessary information is going to be filled in the sheet. Steps to fill the format are explained in this section.

Step 1: Enter items based on draft PIP list for next fiscal year

Most of the information necessary for this format are taken from draft PIP list of next fiscal year (Year 2).

“Next fiscal year (Year 2) – Requested” are taken from the PIP list by compiling PIP project proposals and progress reports submitted by sector departments.

Following items are filled using the information mentioned on PIP list.

- [Project cost in total (A’)]
- [Amount paid before Year 1(Ba’)]
- [Amount paid in Year 1 (Bb’)]
- [Annual budget (D’)]

Note that dash mark or < ‘> indicates that items are requested values for next fiscal year.

Also note that the amounts of project costs, the amounts paid and the annual budgets include only domestic costs, and do not include any ODA funds.

Step2: Calculation of due amounts and payment durations

When the items mentioned above are filled based on PIP list, [Due amount (C’)] and [Payment duration (E)] are calculated.

Due amounts, or the remaining amounts of project costs to be paid to contractors, are derived as follows;

$$\begin{aligned}
 \text{[Due amounts (C’)]} &= \text{[Project cost (A’)]} \\
 &\quad - \text{[Amount paid before Year 1(Ba’)]} \\
 &\quad - \text{[Amount paid in Year 1 (Bb’)]}
 \end{aligned}$$

Step 3: Compare the targeted and requested due amounts

As mentioned above, the right hand side of the sheet is used to analyze the due amounts. In this area, requested due amounts are compared to the targeted due amounts.

Requested due amount (C’) in this area are filled using the requested “due amount (C’)” calculated in the former step.

Table: Provincial Financial Analysis Sheet – Input requested due amount (Year 2)

	Current fiscal year (Year 1) - Approved							Next fiscal year (Year 2) - Requested					Due amount for Current fiscal year (year 1)	Targeted due amounts for next fiscal year (Year 2)	Requested due amounts for next fiscal year (Year 2)	Over-requested due amount			
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	Project cost	Amount paid before Year 1	Amount paid in Year 1	Due amount	Annual budget for year 2							
	A	Ba	Bb	C=A-B	D	E=C/D	F=C*E	A'	Ba'	Bb'	C'=A'-Ba'-Bb'	D'					C	C*=C	C'
Total	363,400	7,400	3,050	356,000	19,200	18.54	336,800	546,400	21,560	19,220	505,620	23,000	C	356,000	C	356,000	C'	505,620	149,620
[1] ODA Counterpart fund	11,700	800	100	10,900	2,750	3.96	8,150	13,050	1,720	2,010	9,320	1,570	C(1)	10,900	F(1)	8,150	C'(1)	9,320	1,170
[2] On-going PIP project	125,550	6,600	2,950	118,950	7,310	16.27	111,640	315,400	19,840	15,550	280,010	13,375	C(2)	118,950	F(2) + F(3)	240,000	C'(2)	280,010	39,660
[3] New PIP's Funds	136,150	0	0	136,150	7,440	18.30	128,710	87,600	0	0	87,600	2,878	C(3)	136,150	D	19,220	C'(3)	87,600	68,400
[4] Debt project's fund	90,000	0	0	90,000	1,700	52.94	88,300	130,350	0	1,660	128,690	5,177	C(4)	90,000	F(4)	88,300	C'(4)	128,690	40,390
AGRI & FORESTRY	22,000	1,200	300	20,800	1,000	20.80	19,800	26,400	2,600	1,070	22,730	800	C	20,800	C	20,800	C'	22,730	1,930
[1] ODA Counterpart fund	2,500	800	100	1,700	180	9.44	1,520	3,900	1,500	190	2,210	0	C(1)	1,700		0	C'(1)	2,210	510
[2] On-going PIP project	4,500	400	200	4,100	350	11.71	3,750	6,500	1,100	580	4,820	100	C(2)	4,100		0	C'(2)	4,820	720
[3] New PIP's Funds	2,000	0	0	2,000	170	11.76	1,830	0	0	0	0	0	C(3)	2,000		0	C'(3)	0	0
[4] Debt project's fund	13,000	0	0	13,000	300	43.33	12,700	16,000	0	200	14,700	400	C(4)	13,000		0	C'(4)	15,700	2,700
PUBLIC WORKS & TRANSPOR	234,000	0	0	234,000	6,900	33.91	227,100	367,000	5,100	2,900	355,000	11,900	C	234,000	C	234,000	C'	355,000	121,000
[1] ODA Counterpart fund	9,000	0	0	9,000	2,500	3.60	6,500	2,000	200	1,750	500	0	C(1)	9,000		0	C'(1)	500	500
[2] On-going PIP project	80,000	0	0	80,000	1,400	57.14	78,600	200,000	4,900	4,750	190,350	8,500	C(2)	80,000		0	C'(2)	190,350	110,350
[3] New PIP's Funds	75,000	0	0	75,000	2,600	28.85	72,400	65,000	0	0	65,000	500	C(3)	75,000		0	C'(3)	65,000	0
[4] Debt project's fund	70,000	0	0	70,000	400	175.00	69,600	100,000	0	400	99,600	2,900	C(4)	70,000		0	C'(4)	99,600	29,600

Data input and calculation ← Analysis of due amounts

The gap between the targeted and requested due amounts are calculated as “over-requested due amount (C’ - C*)”. This shows how much the due amounts of the province are going to increase if all the requested projects are approved.

Over-requested amount is then derived as follows;

$$\text{“Over requested” amount} = \text{Requested [Due amount (C’)]} - \text{targeted [Due amount (C*)]}$$

This calculation also shows the over-requested due amounts of categories and sectors. Then, by analyzing where over-requests are from, DPIs can point out which categories and sectors are the main reasons for the increase in due amounts in provinces.

Table: Provincial Financial Analysis Sheet – Over-requested due amount (Year 2)

	Current fiscal year (Year 1) -Approved							Next fiscal year (Year 2) - Requested					Due amount for Current fiscal year (year 1)	Targeted due amounts for next fiscal year (Year 2)		Requested due amounts for next fiscal year (Year 2)		Over- requested due amount	
	Project cost	Amount paid before Year 0	Amount paid in Year 0	Due amount	Annual budget	Payment duration	Due at FY end	Project cost	Amount paid before Year 1	Amount paid in Year 1	Due amount	Annual budget for year 2		C	C* = C	C'	C'-C*		
	A	Ba	Bb	C=A-B	D	E=C/D	F=C-D	A'	Ba'	Bb'	C'=A'- Ba'-Bb'	D'	C	C* = C	C'	C'-C*			
Total	363,400	7,400	3,050	356,000	19,200	18.54	336,800	546,400	21,560	19,220	505,620	23,000	C	356,000	C	356,000	505,620	149,620	
[1] ODA Counterpart fund	11,700	800	100	10,900	2,750	3.96	8,150	13,050	1,720	2,010	9,320	1,570	C(1)	10,900	F(1)	8,150	C(1)	9,320	1,170
[2] On-going PIP project	125,550	6,600	2,950	118,950	7,310	16.27	111,640	315,400	19,840	15,550	280,010	13,375	C(2)	118,950	F(2) + F(3)	240,350	C(2)	280,010	39,660
[3] New PIP's Funds	136,150	0	0	136,150	7,440	18.30	128,710	87,600	0	0	87,600	2,878	C(3)	136,150	D	19,200	C(3)	87,600	68,400
[4] Debt project's fund	90,000	0	0	90,000	1,700	52.94	88,300	130,350	0	1,660	128,690	5,177	C(4)	90,000	F(4)	88,300	C(4)	128,690	40,390
AGRI & FORESTRY	22,000	1,200	300	20,800	1,000	20.80	19,800	26,400	2,600	1,070	22,730	800	C	20,800	C	20,800	C'	22,730	1,930
[1] ODA Counterpart fund	2,500	800	100	1,700	180	9.44	1,520	3,900	1,500	190	2,210	300	C(1)	1,700			C(1)	2,210	510
[2] On-going PIP project	4,500	400	200	4,100	350	11.71	3,750	6,500	1,100	580	4,820	100	C(2)	4,100			C(2)	4,820	720
[3] New PIP's Funds	2,000	0	0	2,000	170	11.76	1,830	0	0	0	0	0	C(3)	2,000			C(3)	0	0
[4] Debt project's fund	13,000	0	0	13,000	300	43.33	12,700	16,000	0	200	15,700	400	C(4)	13,000			C(4)	15,700	2,700
[2] On-going PIP project	250	100	50	150	90	1.67	60	2,200	200	360	1,640	200	C(2)	150			C(2)	1,640	1,490
[3] New PIP's Funds	1,700	0	0	1,700	270	6.30	1,430	0	0	0	0	0	C(3)	1,700			C(3)	0	0
[4] Debt project's fund	900	0	0	900	20	45.00	880	950	0	20	930	0	C(4)	900			C(4)	930	30
PUBLIC WORKS & TRANSPOR	234,000	0	0	234,000	6,900	33.91	227,100	367,000	5,100	6,900	355,000	11,900	C	234,000	C	234,000	C'	355,000	121,000
[1] ODA Counterpart fund	9,000	0	0	9,000	2,500	3.60	6,500	2,000	200	1,750	50	0	C(1)	9,000			C(1)	0	0
[2] On-going PIP project	80,000	0	0	80,000	1,400	57.14	78,600	200,000	4,900	4,750	190,350	8,500	C(2)	80,000			C(2)	190,350	110,350
[3] New PIP's Funds	75,000	0	0	75,000	2,600	28.85	72,400	65,000	0	0	65,000	500	C(3)	75,000			C(3)	65,000	10,000
[4] Debt project's fund	70,000	0	0	70,000	400	175.00	69,600	100,000	0	400	99,600	2,900	C(4)	70,000			C(4)	99,600	29,600

b) Analysis of over-request

In the PIP budget formulation process, the increase in due amounts has to be avoided, and thus minimizing or deleting “over-requested” due amounts of each sector is the key role of DPIs.

Therefore, DPIs have to analyze why the due amounts of sector departments are beyond targets. Main drivers to increase due amounts are;

- Increase in the cost of ongoing projects and debt projects, and
- Costs of new projects for next fiscal year.

When [Targeted due amount (C*)] and [Requested due amount (C’)] are compared, the main factors which increase due amounts are obvious.

Table: Comparison of targeted and requested due amounts

	Due amount		Targeted due amounts		Requested due amounts		Over-requested due amount
		for year 1		for next fiscal year (Year 2)		for next fiscal year (Year 2)	
	C		C* = C		C'		C'-C*
Total	C	353,200	C	353,200	C'	505,620	152,420
[1] ODA Counterpart fund	C(1)	10,800	F[1]	8,050	C'(1)	9,320	1,270
[2] On-going PIP project	C(2)	116,250	F[2] + F[3]	237,650	C'(2)	280,010	42,360
[3] New PIP's Funds	C(3)	136,150	D	19,200	C'(3)	87,600	68,400
[4] Debt project's fund	C(4)	90,000	F[4]	88,300	C'(4)	128,690	40,390
AGRI & FORESTRY	C	20,500	C	20,500	C'	22,730	2,230
[1] ODA Counterpart fund	C(1)	1,600	/	/	C'(1)	2,210	/
[2] On-going PIP project	C(2)	3,900			C'(2)	4,820	
[3] New PIP's Funds	C(3)	2,000			C'(3)	0	
[4] Debt project's fund	C(4)	13,000			C'(4)	15,700	
INDUSTRY & COMMERCE	C	2,690	C	2,690	C'	2,570	-120
[1] ODA Counterpart fund	C(1)	0	/	/	C'(1)	0	/
[2] On-going PIP project	C(2)	90			C'(2)	1,640	
[3] New PIP's Funds	C(3)	1,700			C'(3)	0	
[4] Debt project's fund	C(4)	900			C'(4)	930	
PUBLIC WORKS & TRANSPOR	C	234,000	C	234,000	C'	355,000	121,000
[1] ODA Counterpart fund	C(1)	9,000	/	/	C'(1)	50	/
[2] On-going PIP project	C(2)	80,000			C'(2)	190,350	
[3] New PIP's Funds	C(3)	75,000			C'(3)	65,000	
[4] Debt project's fund	C(4)	70,000			C'(4)	99,600	

The table above shows the comparison of the targeted due amounts and the requested due amounts of a province (supposing there are only three sectors).

When the requested due amounts are more than targets, the drivers of over-request have to be analyzed. The candidates of the drivers are as follows;

- Increase in the due amounts of ODA national contribution budget
- Increase in the due amounts of ongoing projects
- Excessive costs of new projects
- Increase in the due amounts of debt projects

When the over-requested due amounts are examined, the key drivers can be identified (see the example above).

Application to sector targets is same as above. Over-requested due amounts, which is calculated as requested [Due amounts (C')] subtracted by targeted [Due amounts (C*)], show which

sectors increase total due amounts.

Analysis of the example above by category and by sector as follows;

By categories

- Total due amounts increases by LAK 152,420billion, and this is mainly coming from new projects LAK 68,400 billion. Therefore, DPI will have to communicate with sector departments to discuss how to reduce new projects.
- At the same time, the due amounts of on-going and debt projects are increasing. This is due to the increase in the costs of such projects. The reasons of the increase in the costs should be examined in detail, and DPI should communicate with the sector department which caused the increase in project costs to strictly avoid the increase.

By sectors

- The total amount of the increase in due amounts is from Department Public Works and Transport.
- All project categories show sharp increases in due amounts, especially on-going projects. Therefore DPI should carefully examine the reasons for the increase in on-going project costs.
- DPI should also discuss with this department on how to reduce the costs of new projects to avoid the increase in due amounts and deterioration in payment situation.

c) Negotiation with sectors

DPI, which is supposed to take initiative in PIP budget formulation, request sector departments to revise proposals so that due amounts can meet targets. DPI should also indicate how much due amounts each sector has to decrease and what are the main drivers that increased due amounts of sectors (such as increase in costs of ongoing projects). DPIs and sector departments should have discussions to come to the conclusions on how to decrease due amounts and project costs.

When revised PIP budget proposals are submitted by sector departments, PIP lists are revised compiling revised project proposals.

d) Report to decision makers

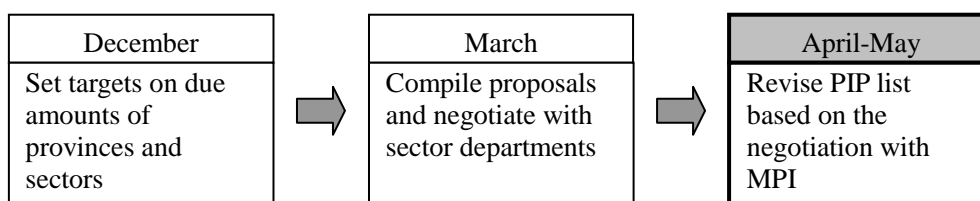
Before the PIP list is submitted to MPI-DOP, the list has to go through the approval of decision makers. Then, DPI should explain the main points of the PIP list, formulated above.

The main points that DPI has to explain to decision makers are as follows;

- PIP financial stability can be enhanced by reducing payment duration, and thus due amounts have to avoid any increases.
- Requested due amounts are reduced to meet targets, and therefore only priority projects are included in PIP lists, rejecting non-priority new projects, and
- Priority projects that are excluded from PIP list for next fiscal year are considered to be listed in the future.

3) Budget negotiation with MPI and revisions on budget proposals (April-May)

(a) Revision of budget proposal



When DPIs submit the draft PIP list to MPI-DOP, MPI starts examining the list, and budget allocation amounts for next fiscal year are then announced by MPI-DOP to DPIs. Then, MPI and DPIs have further discussions on budget amounts.

If proposed due amounts of provinces are **more than target amounts**, MPI will request DPIs to reduce both due amounts and annual budgets. Then DPIs have to revise PIP budget proposal, in coordination with sector departments, so that proposed due amounts are within the targets.

When PIP list is revised, the increases in the costs of debt and ongoing projects are again examined, and new projects with less priority are excluded from PIP list.

(b) Report to decision makers

When PIP lists are revised, DPI would have to report to decision makers, explaining how and why PIP lists are revised.

If the due amounts are revised to meet targets, then the main points that DPIs report to decision makers would be as follows;

- The revised due amounts in comparison with target amounts,
- Annual budget allocation amounts announced by MPI-DOP, and
- The change (improvement) in payment duration from current fiscal year to next year

3.4. Formulation of Mid-term PIP Financial Outlook

(1) Overview of Mid-term PIP Financial Outlook

Mid-Term PIP Financial Outlook, which is a forecast of payment durations and due amounts of a province in the future, is prepared by DPIs to recognize the positive effects by fixing due amounts.

The Outlook compares the changes in payment durations and due amounts in the future, under two different scenarios. In one scenario, the due amount is fixed at current level, payment durations are gradually decreased. In the second scenario, many projects are implemented and thus due amounts and payment durations increase. The first scenario is based on the targets mentioned above, while the second scenario is based on the current situations.

The Outlook is a useful tool to explain the overall directions of enhancing PIP financial stability from provincial DPIs to decision makers and sector departments.

The format used here is **Mid-Term PIP Financial Outlook Sheet**, shown as below;

Simulation 1: Due amounts are fixed												
	Year1	Year2	Year3	Year4	Year5	Year6	Year7	Year8	Year9	Year10	Year11	Year12
Due amount (at the end of fiscal year)	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0
Total costs of New projects	90.0	20.0	22.4	25.1	28.1	31.5	35.2	39.5	44.2	49.5	55.5	62.1
Annual budget	20.0	22.4	25.1	28.1	31.5	35.2	39.5	44.2	49.5	55.5	62.1	69.6
Due amount (at the end of fiscal year)	480.0	477.6	474.9	471.9	468.5	464.8	460.5	455.8	450.5	444.5	437.9	430.4
Payment duration	25.0	22.3	19.9	17.8	15.9	14.2	12.7	11.3	10.1	9.0	8.0	7.2
Additional costs (as % of actual new projects costs)	250%	223%	199%	178%	159%	142%	127%	113%	101%	90%	80%	72%
Simulation 2: Due amounts increase, as new project costs increase												
	Year1	Year2	Year3	Year4	Year5	Year6	Year7	Year8	Year9	Year10	Year11	Year12
Due amount	500.0	580.8	671.3	772.7	886.2	1,013.3	1,155.7	1,315.2	1,493.8	1,693.9	1,917.9	2,168.9
Total costs of New projects	90.0	100.8	112.9	126.4	141.6	158.6	177.6	199.0	222.8	249.6	279.5	313.1
Annual budget	20.0	22.4	25.1	28.1	31.5	35.2	39.5	44.2	49.5	55.5	62.1	69.6
Due amount (at the end of fiscal year)	480.0	558.4	646.2	744.6	854.7	978.1	1,116.2	1,271.0	1,444.3	1,638.4	1,855.8	2,099.3
Payment duration	25.0	25.9	26.8	27.5	28.2	28.7	29.3	29.7	30.2	30.5	30.9	31.2
Additional costs	250%	259%	268%	275%	282%	287%	293%	297%	302%	305%	309%	312%
Estimated growth rate in annual budget		12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Estimated growth rate in new projects		12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%

(2) Instructions on filling the format

The items in “**Mid-Term PIP Financial Outlook Sheet**” can be taken from “**Provincial PIP Financial Analysis Sheet**”, mentioned above. [Due amount], [Total costs of new projects] and [Annual budget] of current fiscal year (Year) is taken from “**Provincial PIP Financial Analysis Sheet**” and input in Year 1 of simulation 1 and simulation 2.

1) Simulation 1: Estimation based on targets

Simulation 1 is based on targets. Then in the simulation 1, due amount is fixed at the current level (Year 1), new project costs is the only item that increase due amounts, and thus new project costs of next fiscal year (Year2) is same as annual budget allocation of current fiscal year. Therefore, simulation 1 can be formulated as follows;

Step 1: Fill Year 1 items in the Outlook from “Provincial PIP Financial Analysis” items

Fill [Due amount], [Total costs of new projects], [Annual budget] and [Due amount at FY end] of Year 1, taking from relevant items in **Provincial PIP Financial Analysis Sheet**. The following items in the dotted line are filled in this step.

Table: Mid-term outlook – Fill Year 1 items

	Year1	Year2	Year3
Due amount (at the end of fiscal year)	500.0	500.0	500.0
Total costs of New projects	90.0	20.0	22.4
Annual budget	20.0	22.4	25.1
Due amount (at the end of fiscal year)	480.0	477.6	474.9
Payment duration	25.0	22.3	19.9

Step 2: Estimate new project costs after Year 2

Next step is to estimate new project costs in Year 2 and onward. In this scenario, due amounts do not increase. Then, as explained in the former sections, new project costs in Year 2 is determined at the same level as the amount of annual budget in Year 1. New project costs of the following years are also determined at the same level as the budget allocation of previous year.

Table: Mid-term outlook – Fill Year 1 items

	Year1	Year2	Year3
Due amount (at the end of fiscal year)	500.0	500.0	500.0
Total costs of New projects	90.0	20.0	22.4
Annual budget	20.0	22.4	25.1
Due amount (at the end of fiscal year)	480.0	477.6	474.9
Payment duration	25.0	22.3	19.9

Step 3: Estimate due amounts after Year 2

Then, due amounts are calculated. Because this scenario is based on targets, due amounts do not increase. Due amounts can be also estimated by [Due amounts at FY end] of previous year plus [Total cost of new projects] of current year. This is because due amounts increase from the end of the current fiscal year to next fiscal year by the amount of new project costs for next year. Existing project costs are not expected to increase.

Table: Mid-term outlook – Estimate due amount

	Year1	Year2	Year3
Due amount (at the end of fiscal year)	500.0	500.0	500.0
Total costs of New projects	90.0	20.0	22.4
Annual budget	20.0	22.4	25.1
Due amount (at the end of fiscal year)	480.0	477.6	474.9
Payment duration	25.0	22.3	19.9

Step 4: Estimate annual budget after Year 2

Annual budget is estimated to increase according to GDP growth and inflation rate. For example, when estimated GDP growth rate is 7.0% per year, and inflation rate is 5.0%, the annual budget is estimated to increase by 12%. Estimated GDP growth rate plus inflation rate have to be taken

from official sources, such as economic forecasts announced by the government.

Table: Mid-term outlook – Estimate annual budget

	Year1	Year2	Year3
Due amount (at the end of fiscal year)	500.0	500.0	500.0
Total costs of New projects	90.0	20.0	22.4
Annual budget	20.0	22.4	25.1
Due amount (at the end of fiscal year)	480.0	477.6	474.9
Payment duration	25.0	22.3	19.9

Step 5: Calculate due amounts at the end of fiscal year after Year 2, an

Then due amounts at the end of fiscal year are calculated. This is simply derived as [Due amount] minus [Annual budget].

Step 6: Calculate payment durations

When all the inputs are done, payment duration of each year is calculated. This is derived as [Due amount] divided by [Annual budget].

2) Simulation 2: Estimation based on current situation

Simulation 2 is an estimation based on the current situation. Therefore, unlike simulation 1, due amount increases at a certain speed, thus payment duration also increases. Simulation 2 is formulated following the steps below.

Step 1: Fill Year 1 items in the Outlook from “Provincial PIP Financial Analysis” items

This step is same as Simulation 1. [Due amount], [Total costs of new projects], [Annual budget] and [Due amount at FY end] of Year 1 are taken from relevant items in **Provincial PIP Financial Analysis Sheet**. Fill [Due amount], [Total costs of new projects] and [Annual budget] of Year 1, taking from **Provincial PIP Financial Analysis Sheet**. Follow the instructions mentioned above for simulation 1.

Step 2: Estimate new project costs after Year 2

Estimate [Total costs of new projects], based on the [Estimated growth rate in new project]. Unlike Simulation 1, [Total costs of new projects] increase every year at certain speed. For simplicity, new project cost can be estimated at the same level as [Estimated growth rate in annual budget].

Table: Mid-term outlook – Estimate new project costs

	Year1	Year2	Year3
Due amount	500.0	580.8	671.3
Total costs of New projects	90.0	100.8	112.9
Annual budget	20.0	22.4	25.1
Due amount (at the end of fiscal year)	480.0	558.4	646.2
Payment duration	25.0	25.9	26.8
Additional costs	250%	259%	268%
Estimated growth rate in annual budget		12%	12%
Estimated growth rate in new projects		12%	12%

Step 3: Estimate due amounts after Year 2

Then, the next step is estimating due amounts. This can be estimated by [Due amounts at FY end] of previous year plus [Total cost of new projects] of current year.

Table : Mid-term outlook – Estimate due amount

	Year1	Year2	Year3
Due amount	500.0	580.8	671.3
Total costs of New projects	90.0	100.8	112.9
Annual budget	20.0	22.4	25.1
Due amount (at the end of fiscal year)	480.0	558.4	646.2
Payment duration	25.0	25.9	26.8
Additional costs	250%	259%	268%
Estimated growth rate in annual budget		12%	12%
Estimated growth rate in new projects		12%	12%

Step 4: Estimate annual budget after Year 2

Next step is to estimate the annual budget for Year 2 and onward, based on the [Estimated growth rate in annual budget].

Table: Mid-term outlook – Estimate annual budget

	Year1	Year2	Year3
Due amount	500.0	580.8	671.3
Total costs of New projects	90.0	100.8	112.9
Annual budget	20.0	22.4	25.1
Due amount (at the end of fiscal year)	480.0	558.4	646.2
Payment duration	25.0	25.9	26.8
Additional costs	250%	259%	268%
Estimated growth rate in annual budget		12%	12%
Estimated growth rate in new projects		12%	12%

Step 5: Calculate due amounts at the end of fiscal year after Year 2, an

Then due amount at the end of fiscal year is calculated. This is simply derived as [Due amount] subtracted by [Annual budget].

Step 6: Calculate payment durations

When all the inputs are done, payment duration of each year is calculated. This is derived as [Due amount] divided by [Annual budget].

Step 7: Estimate additional costs

When payments delay, project costs are estimated to increase 10% per year. Then, in this scenario, additional costs due to the delays in payment are estimated by payment durations. This is derived by [Payment duration (year)] x 10%.

(3) Application to NSEDP/ Five year plans

Mid-term PIP Financial Outlook can be applied to SEDP or Five year development plans of

provinces. Using the costs of provincial SEDPs, it is possible to estimate the financial status of provinces.

This is necessary because provinces will face more serious payment problems when they implement PIP projects planned in SEDPs. This is because the amounts mentioned in SEDPs are far more than the budgetary capacities of provinces. Therefore, it would be useful for provinces to estimating the PIP financial status in five year and compare it to the target case.

Simulation 1 is going to be same as explained above. Under this scenario, due amounts are fixed at current level, new project costs are determined at the same level as the annual budget of previous year, and annual budget gradually increase according to GDP growth rate and price hikes.

Simulation 2 estimates the PIP financial status in the future using the costs determined in provincial SEDPs. Suppose a province sets up SEDP, and the project costs are planed as follows,

Table: An example of SEDP cost of a province

	Year 2	Year 3	Year 4	Year 5	Year 6
Project costs	120.0	130.0	140.0	150.0	120.0

Note: Current year is Year 1 and SEDP covers Year 2-6.

The costs of SEDP can be input into Mid-term PIP financial outlook to estimate the financial impacts.

Table: Mid-term PIP Financial Outlook – Application to SEDP

	Year1	Year2	Year3	Year4	Year5	Year6
Due amount	500.0	600.0	707.6	822.5	944.4	1,032.9
Total costs of New projects	90.0	120.0	130.0	140.0	150.0	120.0
Annual budget	20.0	22.4	25.1	28.1	31.5	35.2
Due amount (at the end of fiscal year)	480.0	577.6	682.5	794.4	912.9	997.7
Payment duration	25.0	26.8	28.2	29.3	30.0	29.3
Additional costs	250%	268%	282%	293%	300%	293%

As can be seen from the example above, the impacts on the payment situation are obvious. The payment duration of this province is going to increase from 25 years to 29.3 years when the SEDP is completed. Then the province will have to consider how to make a balance between achievement of SEDP and enhancement of PIP financial stability.

(4) Analysis of the simulation results and reports to decision makers

1) Analysis of the simulation results

Mid-Term PIP Financial Outlook shows the changes in payment duration in two different scenarios. In simulation 1, improvement in payment duration is obvious. When a province is classified as “Red” or “Yellow”, the province can estimate when the province can improve its financial category.

The improvement is most obvious if simulation 1 and 2 are compared. Since simulation 2 is based on the current status, it estimates the future payment durations, which is longer than the current level, in many cases. Then it clearly shows that payment problems are not minimized, if they do not avoid increase in due amounts.

2) Report to decision makers

In December, directions on PIP budget for next fiscal year and mid-term planning for PIP financial stability are formulated. Then they are reported by DPI to decision makers, including provincial governors and vice governors.

Since the PIP budget planning methods explained above have significant influence on the SEDP achievement and PIP financial stability of the province, backgrounds, main points and effects of conducting the methods should be clearly explained to decision makers, including the provincial governor. The following points should be explained throughout budget formulation processes.

Backgrounds

- Payment problems, or delays in payment can lead to
 - Increase in additional costs
 - Delays in project completion, and
 - Deterioration in project quality.
- Therefore, payment problems should be avoided, and available budgets have to be allocated only to priority projects, so that SEDP goals and PIP financial stability can be both achieved.

Payment problems can most clearly be explained by payment duration of the province as explained above. The category of the province (green, yellow or red) should be also explained (see **Table: Financial classification criteria** for details).

Main points of the method

- PIP financial stability can be enhanced by reducing payment duration.
- When due amounts are fixed at current level and annual PIP budget increase year by year, payment duration would gradually decrease.
- In order to fix due amounts at the current level, increase in project costs of ongoing and debt projects must be avoided, and project costs of new projects also have to be within certain limitations.

It is particularly necessary to explain that payment durations and due amounts are the targets in PIP financial stability, rather than budget allocation amounts or debt amounts.

Effects by the methods are explained by “**Mid-Term PIP Financial Outlook Sheet**”. The positive impacts by the methods are obvious by comparing two scenarios. Under simulation 1, due amounts are fixed at current level and annual budget is estimated to increase, then decrease in payment durations and also in additional costs are obvious. In the simulation 2, total costs of new projects are estimated to increase year by year at the same rate as annual budget, thus due amounts and payment durations continue increasing. If two simulations are compared, the difference in future payment durations, thus explaining negative impacts by implementing too many projects, are obvious.

It should be also explained that decrease in new project costs may lead to increase in project quality, which will also contribute to the achievement of NSEDP. This is because of the following reasons;

- Non-priority projects are omitted from PIP lists,
- Sector department can concentrate on monitoring of smaller number of projects under their control, and
- Payment periods can be committed to contractors and then more constructions companies are coming into biddings.