

JICA Technical Cooperation
Lao PDR Project for Enhancing Capacity in PIP Management (PCAP2)
Progress Report for the Second Year

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Abbreviations

DOF	Provincial Department of Finance
DPI	Provincial Department for Planning and Investment
GPAR	Governance and Public Administration Reform
JCC	Joint Coordinating Committee
JICA	Japan International Cooperation Agency
MPI	Ministry of Planning and Investment
MPI-DIC	Department of International Cooperation, MPI
MPI-DOE	Department of Evaluation, MPI
MPI-DOP	Department of Planning, MPI
NSEDP	National Socio-Economic Development Plan
ODA	Official Development Assistance
OJT	On-the-Job Training
PCAP	Project for Capacity Building in PIP Management
PCAP2	Project for Enhancing Capacity in PIP Management
PIP	Public Investment Program
PO	Project Owner
SOP	Standard Operating Procedure
SPAS	Simplified Project Assessment Sheet
UNDP	United Nations Development Programme

1. Project Outline

1.1 Project Overview

Here is the outline of project activities conducted between October 2008 and January 2009.

Items	Activities in the First Half of the Second Year
[Output 3] Activities on PIP Management Law Advisory Support	3) Continuous advisory on drafting the current PIP Management Law 5) Advisory on issuance of application decrees/regulations
[Output 1] Activities for Training and OJT	4) Developing the next year's training curriculum 5) Training of Trainers (TOT) 6) Implementing the Training PART I for ministries and provinces 7) OJT towards MPI, provinces, and ministries 22) Discussion on institutionalization of training sessions
[Output 2] Activities for PIP Budget and Financial Management	
[Output 2-1] PIP Budget Allocation	2) Analysis of current issues in PIP budget allocation 3) Developing revised standards and reflecting them on manuals/handbooks
[Output 2-2] PIP Project Budget Disbursement and Financial Management	2) Analysis of current issues in PIP budget disbursement 3) Developing revised standards and reflecting them on manuals/handbooks
[Output 4] Activities for Improvement of PIP Management Methods	
[Output 4-1] ODA Counterpart Fund Management	1) Studies on ODA current project management 2) Analysis of current issues in ODA counterpart fund
[Output 4-2] District-Level PIP Management	1) Study on workflow and capacity levels in District Planning and Statistics Office
[Output 4-3] Program Management	1) Review of Action Plan and development plans 2) Preparation for pilot program drafting
Other Matters	Coordination with other donors and projects

Note: The activity numbers and order above are based on the terms of reference and the revised activity plan.

1.2 Outline of the Report

Here is the outline of this Progress Report.

1. Project Outline
The outline of the project activities in the first half of the second year and the one of the current report are presented.
2. Progress of Project Implementation
Progress of the project activities conducted in the first half of the second year is presented. [Output 3] Activities on <u>PIP Management Law Advisory Support</u> are ongoing. Technical support on the formulation of PIP law was provided while maintaining the consistency between project outputs and actual procedures. [Output 1] <u>Training sessions and OJT seminars</u> were conducted in 14 provinces. This activity accomplished a number of substantial results, such as improvement in training skills of MPI staff and understanding of provincial staff members. [Output 2] Detailed information collection on <u>budget formulation and financial management</u> and problem analysis were conducted. Recommendations and plans for improvement on budget management and financial management were presented to MPI. [Output 4] Progress on <u>PIP program management</u> is on schedule, as issues on ODA management were identified through workshops and review study on sector program action plans.
3. Progress towards Project Purpose Achievement
Current progress and estimates achievement on project goals are explained. At the end of the first half of the second year, progress is on schedule.
4. Impact
The baseline survey showed that it is difficult to obtain the indicators for overarching goals, and thus it is also difficult to measure the impact of the project. Therefore, employing alternative indicators is considered.
5. Outstanding Issues
The implementation of the project faces no issues in particular. The commitment by the counterpart agency, which is essential for project implementation, is sound. The collaboration between the project and counterpart agencies (MPI-DOE, DOP and DIC) is explained.
6. Main Tasks to Be Accomplished in the Second Half of the Second Year
The main tasks planned in the second half of the second year, including points that require attention, are described.
7. Other Matters
Other activities, including collaboration with other donor projects, are explained.

2. Progress of Project Implementation

2.1 [Output 3] Activities on PIP Management Law Advisory Support

The following activities were conducted between October 2008 and January 2009.

- | |
|---|
| 3) Continuous advisory on drafting the current PIP Management Law |
| 5) Advisory on issuance of application decrees/regulations |

Note: Activity numbers are the same as those specified in the Plan of Operation.

The PIP Management Law was proposed in the Ordinary Session of the National Assembly in December 2008 to upgrade the current Prime Minister Decree 58. The upgrading was originally instructed by the Prime Minister due to the needs of a firm legal framework for PIP management in the country. However, the proposal was rejected due to ambiguity in it and lack of consensus among the National Assembly members on the status of the Law.

Details of the activities conducted during this period are as follows.

3) Continuous advisory on drafting the current PIP Management Law

The Project provided technical advice during the process of formulating the proposed Law. The proposal indicates the roles and responsibilities of the MPI and other relevant organizations in PIP management. It also states that the standard formats for the management of PIP projects are those provided by the MPI. Since the clauses of the proposed Law are highly relevant to the expected outputs of the Project, the Project paid close attention to the consistency between the clauses and the expected outputs. The Project confirmed the schedules toward modification and proposal of the Law to the next National Assembly.

5) Advisory on issuance of application decrees/regulations

After the Law is approved, the MPI prepares to issue Prime Minister Decrees and MPI Minister Regulations for the application of the Law. Since these application Decrees and Regulations are highly relevant to the Project outputs, the Project and MPI agreed to continue discussions with the Project on the formulation process of the Decrees and Regulations.

2.2 [Output 1] Activities for Training and OJT

The following activities for this output were conducted during this period.

- | |
|---|
| 4) Developing the next year's training curriculum |
|---|

- 5) Training of Trainers (TOT)
- 6) Implementing the Training PART I for ministries and provinces
- 7) OJT towards MPI, provinces, and ministries
- 22) Discussion on institutionalization of training sessions

Note: Activity numbers are the same as those specified in Plan of Operation”.

Details of the activities conducted during this period are as follows.

4) Developing the next year's training curriculum

At the beginning of the second year, the MPI training task team finalized the training program and schedule. The team also modified training materials such as the PIP Management Handbook for DPI, the PIP Management Handbook for Project Owners, PIP project proposal formats, and project assessment sheets (SPAS).

5) Training of Trainers (TOT)

Additional TOT was conducted for those MPI trainers who are Level 1 to Level 2 to strengthen their capacity.

6) Implementing the Training PART I for ministries and provinces

Here are details of the training.

- i) Implementation of PIP Management Training towards 13 provinces
- (a) Implementation of Training

Objectives of the training

- 476 personnel in total from provincial DPI and sector departments will learn how to write PIP project proposals and absolute/comparative assessment methods developed by MPI/PCAP.
- MPI personnel will enhance their capacity as trainers in PIP management through the training course.
- Two officials each from the three PCAP monitor provinces will enhance their capacity as core trainers in their regions through the training course.
- To share PIP management methods with decision makers in each province in the seminar on the last day of the training.

Training program and its methods

The training program was developed by the MPI training task team based on results of impact and

needs assessment in the previous year. The program consists of the following two main topics.

- To learn how to write a PIP project proposal
- To learn how to conduct absolute/comparative assessment by using methods and formats developed by MPI/PCAP

The five-day training program had three parts: theoretical part on the first day; working group from the second to fourth day; and a seminar on the last day. In the seminar, provincial governor and vice governor, DPI director and vice director, and sector departments director and vice director were invited from each organization. By having those decision makers understand the PIP budget request and assessment methods developed by MPI and the Project, the Project tried to make the PIP management process more efficient.

Training course schedule and MPI team composition

The training course took place from the beginning of November to the end of December 2008 with a one-week program in each province. Four MPI training teams conducted the training in three to four provinces each as shown in the following table. Each team, consisting of senior and young officials, had a senior one serve as team leader so that the senior officials could transfer their skills to the young ones.

Table 1: MPI Training Teams and Trainees

MPI Training Teams	Trainees
MPI Team1 (includes DPI Oudomxay officials)	North-north (Pongsarly, Buakeo, Luangnamtha)
MPI Team 2	North (Xiengkhuang, Huaphanh, Luangprabang, Xayabouly)
MPI Team3 (includes DPI Khammouane officials)	Central (Vientiane capital, Savannakhet, Bolikhamxay, Vientiane)
MPI Team 4 (includes DPI Saravan officials)	South (Attapeu, Xekong, Champasak)

Mr. Douangchay, a PCAP2 local consultant, joined the MPI team 2 to evaluate the process of the training program itself and capacity development of the team. Meanwhile, Ms. Taira, a Japanese PCAP2 expert, took part in the training sessions by all the four teams to discuss training methods and tools with the MPI trainers and participants, and manage training as a whole.

MPI trainers and DPI core trainers

15 officials in total (in which 14 are DOE officials and one is a DOP official) joined the training as trainers. Seven of the 15 officials were senior ones who taught younger officials throughout the training course. Based on one of the training objectives above, six DPI officials in total, two each from the three PCAP monitor provinces of Oudomxay, Khammouane, and Saravan, joined the training course as core trainers. This was meant to develop capacity of the DPI officials so that they

can serve as core trainers in their respective regions. As a result of the training, all the six core trainers became able to cover all the training topics by themselves.

Trainees

516 officials in total, in which 178, 20, and 318 were from DPI, district DPI, and sector departments respectively, participated in the training. Through the training they learned how to write PIP project proposals and how to conduct absolute/comparative assessment by using methods and formats developed by MPI/PCAP. Besides the 516 participants, 129 high officials including provincial governors/vice governors, DPI directors/vice directors, and sector department directors/vice directors, participated in the seminar.

(b) Issues regarding PIP project proposal and budget request (Opinions from the participants)

Project formulation and project proposal

- It is difficult to understand the difference between the Overall Goal and the Project Purpose.
- It is difficult to understand the Overall Goal, the Project Purpose, and their indicators.
- It is difficult to weigh each program when conducting comparative assessment.

Work procedure and demarcation

- It is unclear which projects require social and environmental analysis and procedures and where the demarcation of social and environmental analysis lies.
- Among technical projects (TP), it is unclear which projects are classified as investment budget or ordinal budget.

Regarding project formulation and project proposals, many participants said it is very difficult to understand the Overall Goal, the Project Purpose and their indicators since many projects without clear indicators have been requested. In response, MPI trainers are going to improve training materials to enhance participants' understanding.

Regarding how to weigh each program for comparative assessment, comparative assessment case studies in the model sectors will be developed with Mr. Osada who is now working on sector program analysis.

As for work procedure and demarcation, further discussion and research will be done with MPI.

(c) Output of training

The outputs of training are follows.

- Exceeding the expected number of 476, 516 officials in total in which 178, 20, and 318 officials are from DPI, district DPI, and sector departments respectively successfully completed the training on how to write PIP project proposals and how to conduct absolute/comparative assessment by using methods and formats developed by MPI/PCAP.
- MPI trainers became able to manage the training on their own. Moreover, MPI officials enhanced their capacity as trainers in PIP management through the training course.
- Six DPI officials in total from the three PCAP monitor provinces enhanced their capacity as core trainers in PIP management through the training course.
- Besides the 516 trainees, 129 high officials in total participated in the seminar to share the PIP management tools and methods developed by MPI and the Project.

ii) Training towards ministries and other government entities

At the end of January 2009, training for ministries and other government entities was conducted by utilizing the above mentioned training package to provinces. 69 officials in total successfully completed the training course on how to write PIP project proposals and conduct absolute/comparative assessment. The 69 participants were from eight ministries in the economic and social sectors and 26 ministries and government entities in other sectors. 31 officials in total including 24 Director Generals and Deputy Director Generals of departments took part in the seminar on the last day of the training course as well.

7) OJT towards MPI, provinces, and ministries

MPI and the Project developed an OJT plan by incorporating MPI trainers' opinions gained through the above-mentioned training. The main topics of the OJT are as follows.

- To share the PIP budget request schedule of fiscal year 2009/2010 with all the provincial DPIs, ministries, and other government entities
- To help DPIs, ministries, and other government entities conduct assessment and compile the fiscal year 2009/2010 budget request.
- To conduct Intensive Technical Training (ITT) towards DPI and sector departments in provinces to help their budget request procedure

22) Discussion on institutionalization of training sessions

Discussion with MPI will be continuously conducted to institutionalize training as a system. The current status of training sustainability is as follows.

Sustainability of knowledge/skills

MPI-DOE became able to manage a training package of project proposal writing and absolute/comparative assessment by themselves because they have been conducting this package since the project phase 1. Moreover, MPI-DOE became able to revise training materials and conduct additional TOT on their own. Therefore, it is fair to say that sustainability in terms of knowledge and skills in PIP management is high.

Financial sustainability

The Project and Mr. Vixay, the project manager/director of MPI-DOE, agreed to make a training budget plan which determines budget sharing between MPI and JICA to ensure financial sustainability of the training. MPI has experience in conducting training nationwide with a budget of its own and DPI's budget after the project phase 1. Thus it is quite possible to ensure financial sustainability by scaling down the design and budget of the Project.

Institutional sustainability

Institutional sustainability has not been ensured since demarcation and responsibility of management of the PIP training is unclear.

2.3 [Output 2] Activities for PIP Budget and Financial Management

(1) [Output 2-1] PIP Budget Allocation

The following activities were conducted for this output.

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|--|
| 2) Analysis of current issues in PIP budget allocation
3) Developing revised standards and reflecting them in manuals/handbooks |
|--|

Note: Activity numbers are the same as those specified in the project plan.

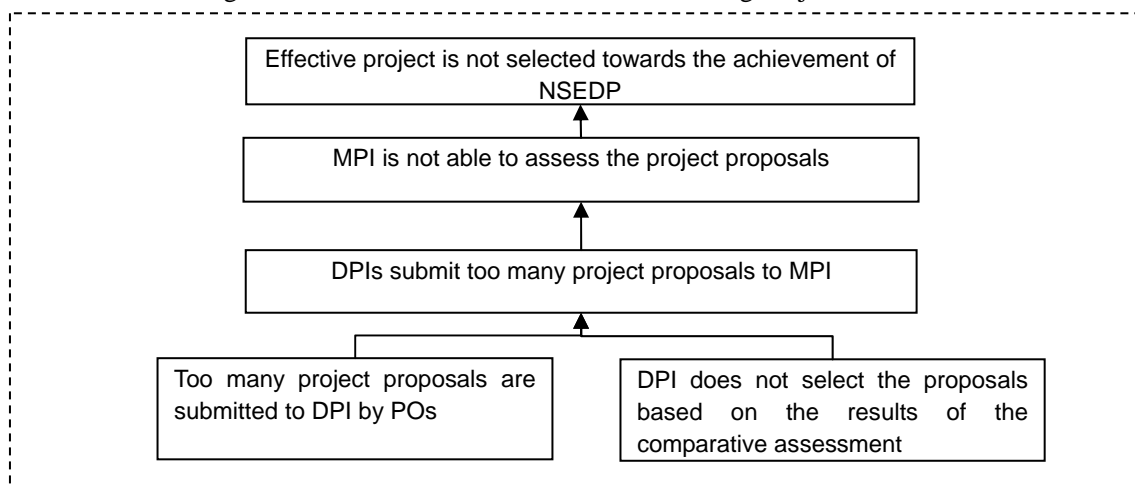
Details of the activities conducted during this period are as follows.

2) Analysis of current issues in PIP budget allocation

Problem analysis in July 2008 shows major issues in PIP budget management including the following: budget allocation to the projects which are indispensable to achieve NSEDP is not secured; PIP budget is not disbursed as planned; and adequate financial monitoring is not conducted. After further analysis in Japan and Laos, the following hypothesis was proposed: the core problem is that the number of the project proposals submitted by the Provinces to MPI greatly exceeds the capacity of MPI. Thus MPI is unable to assess those proposals carefully and some projects which are not very relevant to NSEDP are selected for implementation. The figure below shows the cause and

effect of the issues.

Figure 1: Cause-and-Effect Link of Issues Facing Project Selection



During the first dispatch of the second year of the project, this core problem was shared among the staff members of MPI including the Project Manager. Then, measures to streamline the PIP budget formulation process were discussed.

During the 2008-2009 PIP budget formulation process, 3,413 project proposals in total were submitted to MPI from the provinces and the line-ministries. This number is an increase of 187% compared to the number of the projects conducted in the previous year. In terms of amount of money, the sum of proposed project budgets in 2008-2009 is 334% more than that of the projects implemented in the previous year. Domestic public investment projects in particular saw a 205% increase in the number of the projects and a 655% increase in the sum of project budgets.

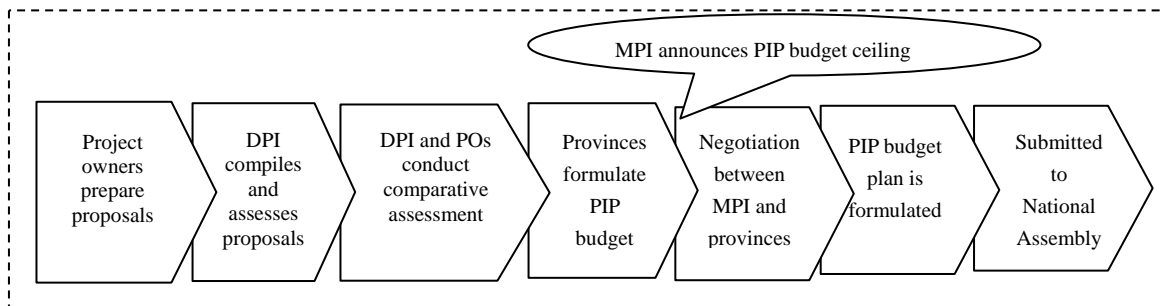
Table 2: Project Proposal for 2008-2009

	Budget for FY 2007-2008				Request for FY 2008-2009			
	Number of projects implemented	Domestic public investment implemented (Kip)	ODA projects implemented (Kip)	Total	Number of Project proposals	Domestic public investment proposed (Kip)	ODA project proposed (Kip)	Total
Total	1829	303,417.93	673,844.04	977,261.97	3413	1,987,850.87	1,276,981.75	3,264,832.62
ODA projects	297	60,615.09	673,844.04	734,459.13	272	179,547.67	1,276,981.75	1,456,529.42
On-going projects	382	83,055.18	0.00	83,055.18	770	507,468.52	0.00	507,468.52
New projects	814	95,916.12	0.00	95,916.12	1799	871,032.62	0.00	871,032.62
Debt projects	336	63,831.54	0.00	63,831.54	572	429,802.06	0.00	429,802.06

Note: ODA projects include both new and ongoing projects.

Currently, MPI does not announce the budget request ceiling before the provinces start preparing project proposals. This is why the provinces forward so many projects to MPI. MPI does announce the budget ceiling in March, but this is far too late. By then the provinces will have already sent the proposals to MPI and negotiation between MPI and the provinces is about to start. MPI is unable to announce the budget ceiling earlier because it has to wait for an instruction on PIP budget from the Ministry of Finance (MOF).

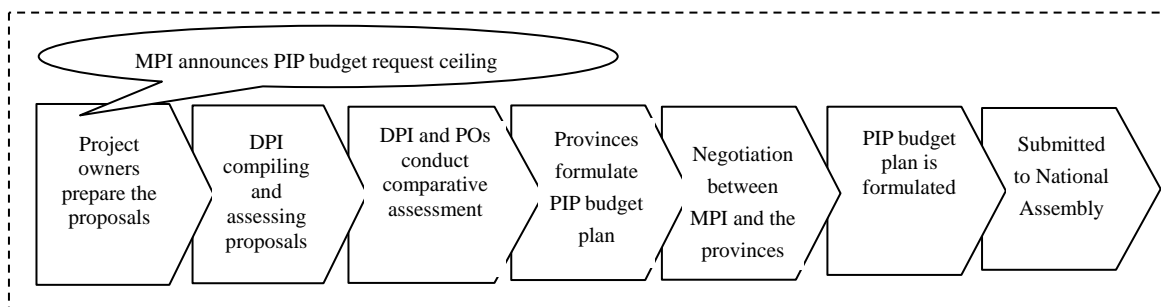
Figure 2: Present PIP Budget Formulation Process



3) Developing revised standards and reflecting them in manuals/handbooks

If MPI announced the budget request ceiling before the provinces prepare their project proposals, the provinces would select the proposals and submit them to MPI within the ceiling amount. It is also expected that the provinces are required to assess the proposals more carefully. Then the number of proposals would decrease, and MPI would be able to assess the proposals more adequately.

Figure 3: Proposed New PIP Budget Formulation Process



A major issue is how to estimate the figure for the budget request ceiling. The figure is going to be only indicative, as MoF is unable to announce the PIP budget ceiling for the next fiscal year before March. However, the figure should be estimated logically to obtain the consent of the stakeholders.

At the moment, the following formula is proposed.

Figure 4: Proposed Formula for Estimating Budget Request Ceiling

$$A = ((B + C) * D * F) / G$$

Next fiscal year's PIP budget request ceiling (%) = A

Mandatory expenses (ODA C/P fund + Ongoing projects cost + Debt payment) = B

Total budget amount for new projects this fiscal year = C

Estimated government revenue next fiscal year/this fiscal year = D

Inflation rate = F

Total PIP budget amount this fiscal year = G

(2) [Output 2-2] PIP Project Budget Disbursement and Financial Management

The following activities were conducted for this output.

2) Analysis of current issues in PIP budget disbursement

3) Developing revised standards and reflecting them in manuals/handbooks

Note: The action numbers above are the same as those in the project plan.

Details of the activities conducted during this period are as follows.

2) Analysis of current issues in PIP budget disbursement

The following issues on PIP financial management were identified during field trips.

- Completion of construction projects is delayed, because annual budget allocation to a project is smaller than planned
- Project costs increase or additional costs arise, because payment periods of projects are set longer than construction periods.
- Quality of works might deteriorate because project owners cannot control contractors, and construction works are suspended from time to time because of delays in payments.

The fundamental issue of PIP financial management is that many projects are approved and annual budget allocation to each project is much smaller than the annual implementation amount. Provinces tend to do this, because even when budget allocation is not enough, they can start projects, requesting contractors to implement projects first and paying them later. As contractors finance their working capitals by bank loans, they add interest costs to contract prices. Thus the payment to contractors increases when payment periods are longer than contract periods.

Finding good practices and examples is useful in trying to improve a mechanism or framework such as budget formulation processes. The goods practices found in the field trip to Luangnamtha are as follows.

(a) Sharing the direction in revising budget proposals through “Open Discussion”

In Luangnamtha province, the “Open Discussion” is chaired by DPI. The forum is where sector departments and DPI decide which projects to select or cancel, and revision of their budget proposals to meet the budget allocation amount indicated by MPI.

In the discussion, DPI recommends sector departments to concentrate budgets on a smaller number of priority projects. DPI also clearly indicates that (1) the number of projects should be small enough and (2) more than one large project cannot be implemented simultaneously¹. Based on the instructions by DPI and their own priorities, sector departments select projects. By so doing, Luangnamtha province has succeeded in focusing on a smaller number of priority projects, and reducing debt projects and deferred payments for ongoing projects. Thus the province will succeed in increasing the amount of new projects and the number of completed projects.

The most remarkable fact is that DPI of Luangnamtha province clearly set the directions above and shared them with sector departments truly at its own initiative. This is because DPI recognizes that increasing the available budget for new projects is beneficial to PIP management in the province.

(b) Project prioritization by sector departments

Sector departments prepare for the Open Discussion by prioritizing projects within sectors, including those working at the district level. In the discussion, the departments choose projects, based on their priorities.

The departments explain the results of the revisions in budget proposals to districts so that the districts understand the reasons and details of the revisions.

(c) Collaboration between DPI and DOF

DOF pays contractors in about two weeks after it receives requests for payment, which is much quicker than other provinces. One of the reasons is that the outstanding balance of debts is smaller than other provinces. The other reason is that frequent communication between DPI and DOF is established. Because DPI informs DOF of the approved PIP list after the National Assembly

¹ However, there seem to be no clear definitions of “large scale project” and the “number of projects.”

approval and the quarterly PIP expenditure report, DOF has a sound expenditure forecast.

3) Developing revised standards and reflecting them in manuals/handbooks

As mentioned above, the main issue in PIP financial management is that many projects are approved and annual budget allocation to each project is much smaller than the implementation amount.

The following measures are recommended to address the issues above.

- Focusing on priority projects and concentrating budget allocation to such projects
- Increasing the number of completed projects in the medium- and long term
- Decreasing the outstanding debt amount and avoiding the deferred payment practice by reducing the gap between the implementation period and the payment period

To implement the actions mentioned above, it will be important that the provinces implement them at their own initiative and recognize improvement in PIP management. That will lead to efficient achievement of NSEDP goals.

The recommended actions were presented to MPI in January 2009. MPI accepted the overall direction of the recommended actions, and the Project is preparing details of the actions. MPI expressed an interest in PIP financial management analysis and its details such as PIP financial management indicators that the Project proposed, and requested the Project team to provide analysis method manuals and seminars to MPI staff members.

The Project plans to visit several provinces to present the PIP financial management tools and collect comments on them.

2.4 [Output 4] Activities for Improvement of PIP Management Methods

(1) [Output 4-1] ODA Counterpart Fund Management

The following activities were conducted for this output.

- | |
|--|
| <ol style="list-style-type: none">1) Studies on ODA current project management2) Analysis of current issues in ODA counterpart fund |
|--|

Note: Activity numbers are the same as those specified in the project plan.

Details of the activities conducted during this period are as follows.

1) Studies on ODA counterpart fund management

i) Research on the ODA and PIP projects

The roles and responsibilities of the Department of International Cooperation (DIC) are stipulated in an official agreement based on the Prime Minister's Decree, No. 374/PM dated 22nd October 2008. They are as follows: to coordinate round table meetings; to be a key actor in official agreements on ODA projects; to publish official reports on foreign aid; and to handle other matters related to agreement and coordination of ODA projects. DIC is currently preparing the Annual Plan of Operation for the fiscal year 2009 that will clarify its concrete activities. Then the roles and responsibilities of the International Cooperation Unit (ICU) of DPI in each province will be stipulated. ICU currently corrects information relevant to ODA projects under DIC.

ii) Budget proposal process of PIP and ODA projects

The Project prepared a prototype workflow chart of the PIP/ODA budget proposal process and then confirmed its relevance through a series of workshops in Oudomxay and Saravane provinces. So far no document has ever spelled out the process. However, this activity by the Project team established a consensus on the process among the officials in MPI, DPI and line departments in the above two provinces. The consensus will be the basis for improvement of the process.

iii) Workshop to analyze PIP/ODA budget proposal process

The team held workshops in Oudomxay and Saravane provinces on 26th November and 16th December 2008, respectively. The workshops specified problems that face the PIP/ODA budget process in each province and then established a consensus of the direction to improve the process by PCAP2. The following are details of the consensus.

- It is necessary to implement measures that enable a timely official announcement of budget ceiling with enough information to each province.
- It is essential to put priority among listed PIP projects from the viewpoints of both appropriate financial management and efficient task management.
- Project evaluation tools to set priorities should be developed.
- A countermeasure shall be developed to prevent obstacles to disbursement that are caused by missing a timely and proper budget proposal of the ODA counterpart fund.

iv) Related projects assisted by other development partners

SOP Project of the World Bank

The following three projects involve DIC as their target group: the SOP Project of the World Bank; the Round Table Project of UNDP; and the NEX Project of UNDP. The JICA Experts and a DIC counterpart official for PCAP2 met on 11th December 2008 with a consultant for the SOP Project as

the SOP Project has common aims with PCAP2: capacity development in organizational and personnel aspects of MPI. The agenda of the meeting are in the memorandum of Appendix 3. The two sides recognized that the SOP Project and PCAP2 had no overlapping activities, and agreed to keep sharing relevant information.

UNDP-GPAR

A mid-term evaluation team of GPAR Saravane from UNDP visited the PCAP office on 12th December 2008. One of the UNDP project's outputs aims for capacity development for preparing a district development plan by a bottom-up approach. The UNDP team visited the PCAP office to collect background information on PCAP2 whose project evaluation tools are actually used by the UNDP-GPAR (Governance and Public Administration Reform) Project. The JICA Experts explained to the UNDP team the major challenges of PCAP2 in the three levels of capacity development. The two sides then agreed that both projects were designed on the same framework on capacity development. In addition, the UNDP Project suggested that a UNDP official in charge of the GPAR Project share its outputs with PCAP2. This action would provide information on the human resources management system of civil servants in the Lao PDR and help PCAP2 improve the PIP process.

2) Analysis of current issues in ODA counterpart fund

Analysis on the issues in ODA counterpart fund management is as follows.

i) Prerequisites for solving problems in PIP management

The research on the Project has so far revealed essential conditions in the following three aspects for effective countermeasures against problems in PIP management. Countermeasures that do not meet the conditions will not be effective.

- a) Technical rationality: rationality on technical viewpoints such as finance, economy, and ethics.
- b) Rationality for users in the field: rationality to motivate key actors of countermeasures such as incentive, pressure, and organizational politics. This condition will eventually affect human resources management issues.
- c) Political rationality: rationality to have the stakeholders reach a political consensus by prioritizing PIP projects.

A few tools developed in the past were abandoned because they failed to meet b) and c). A countermeasure will not work if it meets a) but not b) and/or c).

ii) Approach to develop a solution

Although the above three aspects are essential for a solution, it is a policy of PCAP2 not to interfere with c). Therefore, it is necessary to take the following steps to establish a solution.

- List problems that the officials face in the process and come up with possible countermeasures through workshops and discussions. This step will reveal a general direction of the solution, because a discussion and consensus by stakeholders usually reveal what the stakeholders regard as politically essential.
- Analyze countermeasures and make them more concrete with additional information collected through such means as key informant interviews. Moreover, verify technical rationality by case studies of good practice.
- PCAP2 regards the c) above as criterion for the Lao government to decide. Thus PCAP2 will make no analysis or recommendation on this matter.

iii) Basic concept of the method to be developed

The Project team has come up with the following concept through the steps above.

- The method is to support improvement of the PIP/ODA budget work cycle from proposal to monitoring from the viewpoint of financial management. Therefore the outputs in (1) financial management, (2) program management and (3) ODA counterpart fund management will be incorporated into the method.
- The essential function of the method is to enable the following: (1) rational and efficient prioritization of the PIP project in financial management and policy implementation; (2) mutual prioritization among ODA/PIP projects; (3) mutual prioritization between ODA and domestic PIP projects; (4) arranging PIP projects along the policy framework in the development plans; (5) visualizing and managing indicators necessary for PIP budget monitoring; (6) reorganizing and sharing necessary information to apply the ODA counterpart fund among the stakeholders; and (7) providing necessary information to apply the PIP budget at the right time for the key stakeholders.
- The tools that meet the criteria above will be categorized into the following three types: (1) budget proposal form; (2) priority analysis tool; and (3) information sharing tool.

(2) [Output 4-2] District-Level PIP Management

For this output, PIP management tools would be those suitable for districts. Specifically, the tools would help the Project understand the current capacity level of districts on PIP management and information collection. The Project is considering adopting a new format that is simpler than the existing one but covers enough information for project assessment.

The following activity was conducted for this output.

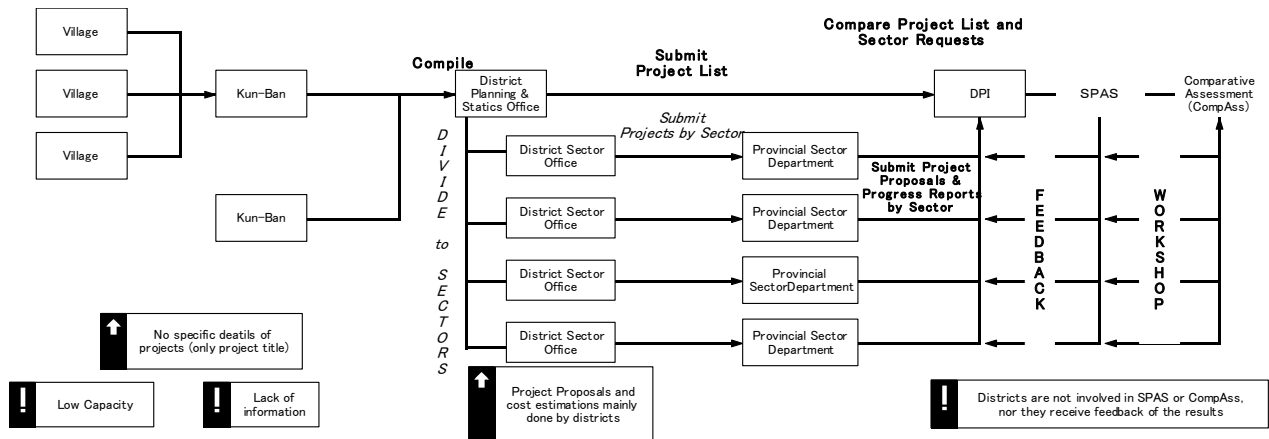
1) Study on workflow and capacity levels in District Planning and Statistics Office

Note: Activity numbers are the same as those specified in the project plan.

A field trip was conducted in three districts in Saravane province, namely Saravane, Vapi and Laongam districts, to collect information on the project request process from districts to the province to identify the issues in the process.

The project request process, identified in the field trip is as follows.

Figure 5: Project Request Process



PIP project proposals submitted by villages through Kum Ban² are collected at District Planning and Statistic Offices (DPSOs) and then transferred to district sector offices. Proposals by villages often do not provide enough information on projects and have no cost estimates. Therefore, district sector offices examine project details and cost estimates and then include such information in project proposal formats. The project proposal formats are submitted from district sector offices to provincial sector departments, and then to provincial DPIs.

DPSO submits a compiled project list to DPI, while project proposals and progress reports of individual projects are submitted from district sector offices through provincial sectors offices, then to DPI. District levels are seldom involved in the assessment process. Furthermore, the districts acknowledge whether the applied PIP projects are granted with budget only after the financial year

² Kum Ban is a cluster of five to seven villages that provide administrative support to one another. PIP Budget proposals prepared by villages are compiled at Kum Ban, and then submitted to districts.

begins. These indicate the lack of participation opportunities for district-levels in the assessment process.

The UNDP-GPAR project, which is piloted in several provinces including Saravane province, is trying to enhance the capacity on project planning at the village level by developing manuals and project management formats for application of the District Development Fund (DDF). According to the GPAR Saravane project, the GPAR manuals and formats follow PCAP tools. Therefore, PCAP2 will collect information to see if it can use GPAR-DDF methodology in PCAP2's district PIP management.

Based on the collected information, PIP management tools for districts and improvement plans on the project proposal process are developed. After examining the effectiveness of the tools and plans, the contents are reflected into PIP manuals and handbooks.

(3) [Output 4-3] Sector Program Management

The following activities were conducted for this output.

- | |
|--|
| 1) Review of Action Plan and development plans |
| 2) Preparation for pilot program drafting |

Note: Activity numbers are the same as those specified in the project plan.

Details of the activities conducted during this period are as follows.

1) Review of Action Plan and development plans

The Project team has been collecting and analyzing the National Action Plan and the national development plans in candidate sectors for model sector and provincial development plans in Monitor Provinces of PCAP2. The findings so far are as follows.

- The key principle in building up development plans is to accumulate plans step by step from (1) district plans, then (2) provincial plans to (3) national plans. In addition, the plans are to be updated in the following intervals: [Mid-term strategy] every 20 years; [Development plan] every five years; [Mid-term review of the plan] every 2.5 years; and [Annual implementation plan] every year.
- Some plans lack the following elements: development scenario; causality between objectives and means; and structural relationship between different administrative levels of plans.
- Very few provincial plans have a development scenario and a project list. Thus it is

practically impossible to prepare a rolling plan for implementation years.

2) Preparation of program in pilot sector

The Project has just started preparing the program using the results of the above analysis. Here are the basic conditions of the program.

Basic elements of required performance

- To synchronize the sector development plan in a province with the framework of the budget proposal form, enabling efficient financial management by the development program.
- To make performance in the program easy to grasp by setting simple and objective indicators such achieved value and aimed value.

Tools to be developed

- Policy Logic Model
- Indicators inventory
- Chronology chart
- Budget proposal format for PIP projects with the framework of a five-year program in Monitor Provinces
- Criteria and materials for comparative assessment with performance indicators.
- Mapping tools

3. Progress towards Project Purpose Achievement

As mentioned in Chapter 2, activities related to the Project outputs are proceeding as planned in the Plan of Operation.

To achieve the Project Purpose, i.e., “MPI and DPI process PIP projects through a new assessment procedure introduced by the Project within strict budget ceiling, and conduct monitoring and evaluation,” the Project intends to develop the tools, methods and standard procedures as planned, and reflect them in the manuals and handbooks by August 2009. In addition, the Project will establish the training and OJT system that is capable of providing nationwide coverage within the same period.

Meanwhile, it is difficult at this point to judge whether the Project Purpose will be achieved.

[Objectively Verifiable Indicators for the Project Purpose]

- ✧ The percentage of domestically funded PIP projects and the counterpart fund portion of ODA projects, which are assessed, monitored, and evaluated within the annual budget ceiling with specific budget execution schedule, increases to 100% by the end of PCAP2.
- ✧ Reports of every domestically funded PIP project at each stage (planning/appraisal, monitoring, evaluation) are improved.
- ✧ MPI and DPI set and implement budget ceiling at both the central and provincial levels with MOF and DOF.
- ✧ The amount and ratio of debts in annual PIP budgets decrease.
- ✧ MPI and sector ministries develop sector programs with specific annual and regional targets and the distribution of domestically funded PIP projects and ODA projects.

4. Impact

Through the baseline studies, the Project has discovered difficulties in obtaining the baseline indicators for the Overall Goal that were raised in the original plan. Some indicators are also unsuitable for measuring a positive impact of the Project after its completion.

Therefore, the Project will propose alternative indicators and baseline figures at the second Joint Coordination Committee (JCC) Meeting at the end of February 2009. The Project will also seek advice from the Mid-Term Evaluation Study Mission in August 2009.

The current indicators for the Overall Goal and issues on them are as follows.

Table 3: Overall Goal Indicators and Issues

Indicators	Issues on the Indicators
Decreased number and ratio of domestically funded PIP projects and ODA projects that are discontinued or suspended due to budget reasons.	Baseline studies show that no PIP projects were discontinued or suspended in an official manner. Since PIP project management methods and procedure are still not clarified to all projects, status of some projects remains unclear. Thus it is difficult to judge whether these projects are considered ongoing, suspended, or discontinued. Through the achievement of the Project Purpose, the status of these PIP projects would become clear. Some projects could be additionally categorized as suspended or discontinued. Therefore, the positive impact of the Project may not necessarily decrease the numbers of suspended or discontinued PIP projects; it might even increase them. Therefore, this indicator is not suitable for measuring the positive impact of the Project.
Decreased number and ratio of domestically funded PIP projects and ODA projects that are poorly maintained, or not maintained after completion.	The Project strongly recommends that PIP Project Owners submit the Operation and Maintenance Plan of the completed results during the planning stages to ensure the Plan's proper usage after completion. The Project also confirms the updated operation and maintenance plan at the terminal evaluation. Through the establishment of these approaches, the indicator can be considered relevant to measuring the impact of the Project. However, since the ratio of these projects is difficult to measure, it is recommended that only the number of projects be measured.
Decreased number and ratio of domestically funded PIP projects and ODA projects that are underutilized.	The Project strongly recommends that PIP Project Owners identify the beneficiaries in the project planning stage so that an appropriate impact can be expected through the completed results. However, since the current PIP projects do not specify details of the beneficiaries and their benefit levels, it is difficult to identify the

	baseline of projects that are “underutilized.” Therefore, the indicators should be measured in positive terms as “Increased number of domestically-funded PIP projects that are utilized by beneficiaries.”
Decreased number and ratio of domestically funded PIP projects and ODA projects that experience unexpected changes in contracted companies.	Since external factors such as the management situation of the contracted companies and limited budget allocation of PIP budget greatly affect this indicator, the Project considers this indicator unsuitable for measuring its impact.
Target indicators in each sector program will improve.	Sector programs and their target indicators are set through methods and tools that the Project develops. Therefore, no indicators will be set as a baseline. The Project also considers whether SEDP indicators could be utilized as alternative indicators.

5. Outstanding Issues

No major issues occurred in this period.

Close cooperation with the counterpart organizations is essential during the implementation of the Project. DOE, DOP and DIC, the three counterpart organizations, maintain a good working relationship with the Project. The Project will maintain this close cooperation with the three organizations, and work to strengthen the cooperation among them.

Details of the cooperation with each counterpart organization are as follows.

Department of Evaluation (DOE)

During this period, DOE concentrated on the training activities related to Output 1, from the preparation stage to training implementation. The training team composed mainly of DOE members effectively conducted training nationwide that received high marks from the participants. Two staff members from DOE served as full-time training coordinators, and managed training logistics during a difficult period when four training sessions were conducted simultaneously. It is fair to say that DOE's commitment to disseminate the PIP management standard is very high.

Department of Planning (DOP)

The main area of cooperation during this period was the development of PIP budget and financial management methods, which were related to Output 2. DOP understood the importance of the Project activities. Furthermore, DOP staff members joined study trips to Luang Nam Tha and Saravan provinces, and worked closely with the Project members to acquire and exchange information on PIP budget allocation and financial management.

DOP's high commitment is also seen through its useful inputs and comments on the proposals by the Project. The Project will continue to work with DOP to develop improved methods and tools on PIP budget allocation and financial management, and reflect them in the manuals and handbooks.

Department of International Cooperation (DIC)

During this period, the Project and DIC worked together to develop ODA counterpart fund management process and methodology, which were relevant to Output 4. DIC understood the importance of the Project activities, and its staff members actively took part in study trips to Oudomxay and Saravan Provinces. They also shared information on their Aid Effectiveness Project and its draft SOP Manual with PCAP2.

6. Main Tasks to Be Accomplished in the Second Half of the Second Year

6.1 [Output 3] Activities on PIP Management Law Advisory Support

The following are the project activities for this output in the second half of the second year.

- 3) Continuous advisory on drafting the current PIP Management Law
- 5) Advisory on issuance of application decrees/regulations

Here are details on the planned support activities for PIP Management Law, which are continued from the first half of the second year.

3) Continuous advisory on drafting the current PIP Management Law

The modified draft of the PIP Management Law will be submitted to the Ordinary Session of the National Assembly in June 2009. The Project will keep providing support on the proposal procedure through technical advice and coordination of workshops for National Assembly members. When the Law is approved, the Project will also help disseminate the Law nationwide through PIP management training sessions from October 2009.

5) Advisory on issuance of application decrees/regulations

After the Law is approved, MPI prepares to issue Prime Minister Decrees and MPI Minister Regulations for the application of the Law. Since such Decrees and Regulations are highly relevant to details of the Project outputs, the Project and MPI agreed that close discussions be continued in their formulation process.

6.2 [Output 1] Activities for Training and OJT

The following are the project activities for this output during the second half of second year.

- 7) OJT towards MPI, provinces, and ministries
- 8) Evaluation of individual PIP project assessment, monitoring and evaluation results
- 9) Feeding back OJT evaluation results to the ministries and provinces
- 10) Developing the next year's training curriculum
- 11) Training of Trainers (TOT)
- 22) Discussion on institutionalization of training sessions

Note: Activity numbers are the same as those specified in the Plan of Operation.

For the activity 9) "Feeding back OJT evaluation results to the ministries and provinces," MPI and

the Project will analyze the quality and quantity of the 2009/2010 budget request and assessment results to determine effectiveness of the Project and OJT conducted by MPI and the Project. Analysis results will be incorporated in the training next year.

For the activities 10) “Developing the next year's training curriculum,” and 22) “Discussion on institutionalization of training sessions,” the following issues need to be considered.

Knowledge/skills for training

When developing next year’s training curriculum, it is necessary to incorporate new contents such as financial and budget management, program management, and ODA management in the training. Therefore, more frequent discussion with counterpart members and the other Japanese experts is needed to develop appropriate tools and methods to disseminate newly developed topics of PIP management.

Financial sustainability of training

The training budget plan will be discussed in the JCC meeting in February 2009 before being submitted to the MOF in March 2009. It may be necessary to adjust the budget shares between MPI and JICA and/or to modify the design of training depending on the amount of the budget approved by MOF.

Institutionalization of training

Based on the results of training already conducted, MPI, the MPI training center, JICA, and the Project will continuously discuss how to ensure institutional sustainability of the training.

6.3 [Output 2] Activities for PIP Budget and Financial Management

(1) [Output 2-1] PIP Budget Allocation

The following are the project activities for this item during the second half of the second year.

- | |
|--|
| <ul style="list-style-type: none">3) Developing revised standards and reflecting them in manuals/handbooks4) Developing training contents5) Training of Trainers (TOT) |
|--|

Note: Activity numbers are the same as those specified in the Plan of Operation.

Plans and issues to be considered for these activities are as follows.

Presentation of the recommendations to provinces

The Project team plans to undertake field trips to provinces and present the improvement plans to them. The team also plans to collect comments on the improvement plans and reflect them in the plans.

Information collection on proposed 2009/10 budget request and revisions

The Project team is going to collect information of the number and budget amounts of the projects requested by provinces. The team will examine the following in the budget formulation process.

- Issues identified by provinces
- Issues identified by MPI
- Effectiveness of the improvement plans to solve the issues

Formulation of first draft of the PIP budget formulation tools

The first draft of the PIP budget management tools that covers the following is formulated.

- Guidelines on budget formulation
- Manuals on the budget formulation process
- Rules and formula of the budget request framework

MPI and MOF must agree to any newly developed budget formulation framework prior to implementation. Therefore, the Project team must understand what needs to be done to obtain the consent of MPI and MOF.

It must also be noted that the framework above is to be enforced on provinces and line ministries with the backup of implementing decrees.

(2) [Output 2-2] PIP Project Budget Disbursement and Financial Management

The following are the project activities for this output during the second half of the second year.

- 3) Developing revised standards and reflecting them in manuals/handbooks
- 4) Developing training contents
- 5) Training of Trainers (TOT)

Note: Activity numbers are the same as those specified in Plan of Operation.

Plans and issues to be considered for these activities are as follows.

Piloting of the introduction of PIP financial management indicators

The Project plans to introduce PIP financial management indicators to pilot provinces. The team will examine how provincial governments formulate their budget after the introduction of the indicators. Specifically, the team plans to review the budget formulation process and provincial government behaviors from April to May 2009, when provincial governments and MPI negotiate on revisions on PIP budget proposals.

The following matters need to be considered in this action.

- PIP financial management indicators can be easily calculated by provincial DPI and MPI.
- PIP financial management indicators are useful for decision making in provincial budget planning.
- PIP financial management indicators are useful tools for budget negotiation between provincial government and MPI.

Information collection on proposed 2009/10 budget request and revisions

The Project team is going to collect information of the number and budget amounts of the projects requested by provinces. The PIP financial management indicators are revised based on the revised budget proposal. The team is going to prepare updated indicators and provide technical support to MPI and provincial DPIs.

Formulation of first draft of the PIP financial management tools

The first draft of the PIP financial management tools is formulated. The draft includes the following.

- Rules on formulation of PIP financial management indicators
- Handbooks and manuals for PIP financial management indicators

It will be important to have MPI-DOP staff members participate in tools development so that the tools are based on actual budget formulation processes, and useful and easy enough for MPI and DPIs staff members.

6.4 [Output 4] Activities for Improvement of PIP Management Methods

(1) [Output 4-1] ODA Counterpart Fund Management

The following are the project activities for this output during the second half of the second year.

- 2) Analysis of current issues in ODA counterpart fund
- 3) Developing management methods and reflecting them in manuals and handbooks
- 4) Developing training contents
- 5) Training of Trainers (TOT)

Note: Activity numbers are the same as those specified in the Plan of Operation.

Based on the past analysis, the Project team will develop management methods and tools, which will be finalized in Manuals and Handbooks. The following are important lessons learned through the past activities.

Collaboration with DIC

DIC is going to assume new roles and responsibilities in MPI and is looking for ways to contribute to the PIP management process. In addition, DIC has unique information, human, and intellectual resources. Thus the Project should consider using such advantages of DIC as much as possible and to harmonize its implementation method with DIC's new mandate. This should be done in close communication and collaboration with DOP, DOE, and DIC.

Justification in project cycle management

DIC is currently implementing the SOP Project with the assistance of the World Bank. This project aims to enhance knowledge about project cycle management, i.e., planning, implementation, monitoring and evaluation, and feedback. Effective and structured understanding is expected to be promoted by justification of the PIP/ODA counterpart fund budget application process in the project cycle. Thus the Project team should be aware of consistency with terminology and context in SOP manuals.

(2) [Output 4-2] District-Level PIP Management

The following are the project activities for this output during the second half of the second year.

- 2) Analysis on appropriate division of labor between DPI and DPSO
- 3) Development of the DPSO Staff Handbook, and reflection of methods, tools and procedures in the manuals and other handbooks.
- 4) Development of training package and TOT contents
- 5) Training of Trainers (TOT) in DOE

Note: Activity numbers are the same as those specified in the Plan of Operation.

Details of the activities are as follows.

2) Analysis on appropriate division of labor between DPI and DPSO

Studies on the appropriate division of labor between provinces and districts will continue. Study results will be shared and discussed among MPI, the Provincial Governor Office, DPI, the District

Governor Office and DPSO.

3) Development of the DPSO Staff Handbook, and reflection of methods, tools and procedures in the manuals and other handbooks.

Develop PIP management methods that work at the district level, and reflect them in the DPSO staff Handbook along with the procedures agreed in the above-mentioned activity 2). Also reflect necessary items and formats in the revised versions of the Project Manual, the DPI Handbook and the PO Handbook.

4) Development of training package and TOT contents

Develop the training curriculum, contents and guidelines for district-level PIP management. This training will be designed so that DPI staff members are able to train DPSO. Thus the Training-of-Trainers curriculum and contents should also be developed.

5) Training of Trainers (TOT) in DOE

Based on the above-mentioned activity 4), TOT sessions are conducted for DOE staff.

(3) [Output 4-3] Program Management

The following are the project activities for this output during the second half of the second year.

- | |
|--|
| <ul style="list-style-type: none">3) Drafting of pilot program4) Revision of the Program Manual5) Developing training contents6) Training of Trainers (TOT) |
|--|

Note: Activity numbers are the same as those specified in the Plan of Operation.

Based on the past activities and results, the Project team will develop program management tools, which will be finalized in the Manuals and Handbooks. The following are important lessons learned through the past activities.

Harmonization on the future NSEDP 2011-2015

Although the sector program by PCAP2 will be based on the current national plan, i.e., NSEDP 2006-2010, preparation of NSEDP 2011-2015 will begin during the program term. Therefore the program should focus on introducing the concept of program management and training methods to prepare a program. In addition, PCAP2 should consider contributing to the preparation of the next NSEDP through feedback of lessons to MPI learned from analysis of the current development plans.

7. Other Matters

(1) Workshop on Standard Operating Procedure (SOP)

A workshop with donor agencies on Standard Operating Procedure (SOP) was held by MPI-DIC in December 2008. SOP, which is meant to map out operating procedures on ODA management, was developed by a consultant to the World Bank. The PCAP2 team participated in the workshop to understand how PCAP2 should work with SOP activities. The team also met Mr. Gerald Moore, the SOP consultant.

In the meeting, the Project team explained the overview of PCAP2 activities and collected detailed information on the SOP activities. The parties confirmed that there was no duplication in activities, and agreed to stay in touch to provide project activity information.

(2) UNDP – GPAR mission

A mission of UNDP-GPAR (Governance and Public Administration Reform) visited the Project. Because GPAR is trying to enhance the capacity in formulation of district development plans through a bottom-up approach in which PCAP project assessment tools are partly used, GPAR tried to understand the overviews and background of the PCAP2 activities.

The Project explained the project activities on capacity development. GPAR and the Project agreed that they share the same viewpoints on capacity development.

(3) PRSO Mission

A mission of the Poverty Reduction Support Operation (PRSO) visited the Project. PRSO is a framework of the government's policy reform effort and general budget support by donor agencies including the World Bank, the European Commission, New Zealand, and Japan. In the PRSO framework, policy reform activities are determined beforehand, and the progress of the reforms is reviewed annually. The reform activities cover several areas such as public financial management, social sectors, private sector development, and trade reform.

The PRSO mission visited the Project to review the progress of the PIP management reform and its directions in the future. Because PRSO is monitoring the reforms in PIP budget management, the Project will also communicate with donors including the World Bank.

(4) UNDP's NSEDP Monitoring Project Mid-Term Review Meeting

The Project members attended the Mid-term Review Meeting of UNDP's NSEDP Monitoring Project in January 2009. This project has the following three components: a) Monitoring the NSEDP to confirm whether poverty reduction measures and MDG related activities are incorporated; b) Improvement of planning skills in monitored ministries and three monitor provinces (Luang Prabang, Khammuan and Attapeu); and c) Improvement of nationwide statistics and its collection.

The NSEDP Project is seeking collaboration with the Project, especially in the area of planning related to the component b), which was mentioned in the meeting. PCAP2 will work closely with the NSEDP Project, especially in developing the district-level PIP management cycle.

Progress Report of PIP Workshop in Oudomxay and Saravane Province by PCAP-2

JICA PCAP-2 Team, Vientiane

1. Background

PCAP-2 Project by MPI conducted a series of Meta-evaluation Study in May, 2008. The Study aimed to verify effectiveness of methodology developed in previous PCAP-1 and to assess its modification needs for PCAP-2. According to the Meta-evaluation results, methods and tools recommended by PCAP1 were widely used and their quality has improved significantly compared to the year before. However, in the actual PIP budget formulation process these outputs were not fully utilized in the way they were intended, thus having small effect to the conclusion of the PIP budget than what was expected. It was recommended that further studies are needed to link these outputs to the actual PIP budget procedures, and in addition develop methods and tools to cope with projects that need special attention, such as ODA projects.

Based on the above recommendations, PCAP-2 Project dispatched a team for conducting Workshops that would shape up the direction more concretely on the subjects of PIP budget management and ODA counterpart fund management. The above subjects had been already agreed as 2 main outputs of PCAP-2 in the Minutes of Meetings between both governments, LAO PDR and Japan at October 19th, 2007.

2. Purpose of the Workshops

The purpose is;

- to confirm PIP budget management procedure that is actually operated in the Provinces,
- to discuss key problems in each procedure of ODA/PIP and domestic PIP and
- to identify key concept of methodology to be developed in PCAP-2.

3. Implementation schedule

The Workshops would be conducted in trips to Monitor Provinces of PCAP-2, namely Oudomxay from November 27 to 28 and Saravane from December 16 to 17, 2008 respectively. General schedule of the trips is as follows;

General schedule of the trips

Time		Topic
1 st day		• Courtesy visit to invited departments
2 nd day	Morning	Opening Remarks

		Briefing of PCAP2 outline
		Explanation of the Workshop
		PIP Budget Analysis Report of 2008/2009
		Session 1: Plenary Discussion about; <ul style="list-style-type: none"> • Confirmation of the PIP budget request process and • Identification of key problems
	Afternoon	Session 2: Group Discussions about; <ul style="list-style-type: none"> • ODA/PIP projects • Domestic PIP projects
		Presentation of the Group Works
		Review of the Workshop
		Closing Remarks

4. Participants and observers

Participants of the Workshops were key members in charge for annual budget proposal of the PIP projects from;

- 1) DPI and DOF as proposal coordinators,
- 2) major sector departments, DAF, DOH, DOE and DPWT as Project Owners,
- 3) Division of International Cooperation in the Province under DIC of MPI and
- 4) DOE, DOP and DIC as observers of the Workshop.

Detailed participants are mentioned in ANNEX-1

5. Result of Workshop in Oudomxay and Saravane

5.1 Confirmation of actual workflow of the PIP budget preparation process.

In the morning session, the participants confirmed actual PIP budget process using a draft workflow prepared by the PCAP-2 team, and finalized into actual workflow with some part of amendments. The finalized workflow is mentioned in ANNEX-2.

5.2 Obstacles that provincial officials are actually facing.

Based on the finalized workflow in the morning session, the participants had a group work session divided into 2 groups, for domestic PIP and for ODA/PIP. Each group presented the following conclusion in a presentation of the discussion.

Problems and Discussed Issues

- (1) Numbers and amounts are too different between proposed projects and accepted projects.
- (2) Final amount of budget ceiling and allocation for each sector is always announced at not

- appropriate time for provincial level, e.g. after submitting budget proposal from DIP to MPI.
- (3) Priority of counterpart funds for ODA/PIP projects are analyzed in the same criteria as common PIP projects.
 - (4) Even for some ODA/PIP projects that are considered high priority, counterpart funds are often rejected from the PIP budget.
 - (5) The first year's counterpart fund was not disbursed in some ODA projects because the budget proposal procedure could not get in time to due date of the fund.

Negative Effects

Above mentioned problems seem to cause the following negative effects in PIP management at provincial level;

- 1) Waste of labor and opportunity cost of the officials to prepare the budget by inefficient way.
- 2) Confusion at establishing project implementation order with technical and administrative strategy.
- 3) Inconsistency on the priority between ODA /PIP and domestic PIP.
- 4) Expansion of accumulated debt and of total amount to be paid on postponed projects.
- 5) Delay of the PIP list submission and disbursement.

Regarding to above the problem (3), an observer, Mr. Buasavath Inthavanh, deputy Director General of DIC in MPI commented that ODA/PIP projects has individual factor than domestic PIP project, namely counterpart fund preparation and coordination with the Development Partners. In addition, the ODA/PIP projects are considered as government's priority among all PIP projects. Therefore the priority among the ODA/PIP must be put in the individual framework with different criteria from the domestic PIP. Responding to the comment, the participants mentioned that the point has been always recognized but they have actually no other criteria to use. This capacity gap implies one of the needs to improve ODA counterpart fund management on PCAP-2.

5.3 Other remarks

- (1) Role of Division of International Cooperation in the province on PIP process

At the workshop, Mr. Mr. Buasavath from DIC and the participants from Division of International Cooperation (hereinafter referred to as DVIC) in Oudomxay and Saravane Provinces explained role and responsibility of the DVIC as follows;

- 1) DIC has just rejoined from the Ministry of Foreign Affairs to MPI and its role and responsibility is stipulated in Agreement on Organization and Activities of Department

of International Cooperation, March 11th, 2008 based on the Prime Minister's Decree, No. 374/PM dated 22nd Oct. 2007.

- 2) DIC has been allocating staffs of DVIC to every Province since it joined MPI this year from the Ministry of Foreign Affairs, but the staff allocation has not been completed yet in some Provinces. Fortunately DVIC in Oudomxay and Saravane have already been allocated all of planned 3 staffs.
- 3) The role and responsibility of DVIC is now underway of preparation into an official statute by DIC. Therefore DVIC Oudomxay and Saravane are working for collecting data about the ODA projects there as its first step.
- 4) DIC is imaging that DVIC would manage ODA projects among the PIP projects.

(2) The participants concluded additional statements as follows;

- 1) Comparative Assessment Workshops are conducted by each sector. However, due to limited number of capable staff, they could not always conduct them at the appropriate time in the process,
- 2) SPAS for Type 1 and Type 2 were not conducted. Project information of these projects were not submitted to MPI-DOE at the right timing, therefore left (and approved) without assessment.
- 3) Although it is ideal to announce the budget ceiling beforehand, both DPI and PO have to be careful so that dialogue and negotiations on the PIP project selection process do not concentrate only on the budget amount. The discussions should always be based on the physical conditions of the projects (Mr. Hounpeng, DG of DPI).
- 4) Development of capacity for district level staff related to writing project proposals progress reports is necessary. Oudomxay and Saravane Provinces are sending DPI staff to districts to conduct training and instructions.
- 5) It is important for the DPI staffs to be allowed visiting project sites so that they can conduct accurate project assessment.

6. Analysis of the result

6.1 Structure of the problems

The problems imply actual needs to provide solution by PCAP-2. They can be structured in the following tables. In the table, Key concepts of the countermeasures come to solve reasons of the problems and indicate purpose of the tools that will be developed in PCAP-2.

Identified problems	Negative effect caused by the problems	The reason of problems	Key concept of the countermeasures
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Identified problems	Negative effect caused by the problems	The reason of problems	Key concept of the countermeasures
Numbers and amounts between proposed projects and accepted projects are too different	<ul style="list-style-type: none"> ✓ Waste of labor and opportunity cost of the officials to prepare budget for many projects that would not be adopted. 	<ul style="list-style-type: none"> ➤ Amount of budget ceiling and allocation for each sector is not announced at appropriate time, e.g. after submitting budget proposal from DIP to MPI. 	<ul style="list-style-type: none"> ◇ To promote opportune sharing information about the budget ceiling and allocation.
	<ul style="list-style-type: none"> ✓ Difficult to establish project implementation order at provincial level with technical and administrative strategy. 	<ul style="list-style-type: none"> ➤ Criteria of final selection of the projects are not shared among PIP stakeholders, especially between Provincial P.O. and MPI Central. 	<ul style="list-style-type: none"> ◇ To promote sharing information among the stakeholders about the criteria. ◇
	<ul style="list-style-type: none"> ✓ Total payment including accumulated interest is increased eventually. 	<ul style="list-style-type: none"> ➤ Priority does not work among the PIP projects ➤ Numbers of projects exceeding annual budget capacity are approved and operated. 	<ul style="list-style-type: none"> ◇ To enable to prioritize PIP projects. ◇ To enable to observe current debt and to forecast future debt.
ODA/PIP projects are analyzed priority in the same criteria as common PIP projects.	<ul style="list-style-type: none"> ✓ Priority between ODA and common PIP projects is confused. ✓ Difficult to 	<ul style="list-style-type: none"> ➤ DPI has no other criteria and tools than for common PIP projects provided by 	<ul style="list-style-type: none"> ◇ To establish criteria : 1) among ODA/PIP projects. 2) between ODA/PIP

Identified problems	Negative effect caused by the problems	The reason of problems	Key concept of the countermeasures
	<p>identify priority among the ODA/PIP projects.</p> <p>✓ Difficult to recognize allocated budget capacity of both types of projects.</p>	PCAP-1.	<p>projects and common PIP projects.</p>
Disbursement is not done sometimes	<p>✓ Difficult to match needs of donors at the appropriate timing.</p>	<p>➤ Necessary information related to difference in project cycles is not shared by donors and domestic actors.</p>	<p>✧ To promote sharing information with the donors on the domestic procedure and adjusting implementation schedule. (Vientiane Harmonization)</p>

6.2 Technical verification of the result

The following facts analyzed by the JICA Experts provide complementary information in technical aspect to verify the result of the Workshop.

(1) Numbers and amounts between proposed projects and accepted projects

Below table shows number and budget amount in fiscal year 2008/2009 between PIP projects submitted from DPI in Oudomxay to MPI and approved by the National Assembly. 116 projects with amount of 45,104 Mil. Kip had been submitted to MPI, whereas 23 projects with 11,989 Mil. Kip were approved by MPI. The approved value means 19.8% in number and 26.6% in amount of the submitted projects respectively. This implies that provincial officials prepared PIP budget to submit for 5 times of the approved projects.

PIP Budget 2008/2009 in Oudomxay (before and after MPI submission)

	Submitted to MPI (April'08)	Approved by NA (Aug'08)	Difference	
			by amount	by %

Number of Projects	116	23	-93	19.8%
Budget Amount (Million Kip)	45,104	11,989	-33,115	26.6%

(2) Budget Ceiling

As mentioned above, because the ceiling is not announced before provinces prepare budget proposals, provinces spend a lot of time and effort for the preparation. A number of staffs in the 2 provinces pointed out that prioritization would be easier when ceiling is announced.

In addition to this, some provincial departments are not satisfied with the approved final budget, because they did not expect that some of their budget proposals are canceled. This seems to be mainly because DPI and provincial departments did not share a clear understanding of the budget negotiation and selection processes.

Budget ceiling, or the maximum amount of budget that provinces or line ministries request, is announced by a ministry in charge of budget allocation (e.g. MOF and MPI) before provinces or line ministries prepare budget proposals. Based on macroeconomic forecast, tax revenue and other factors, budget allocation amount, which is smaller than budget ceiling, is determined. Thus, provinces and MPI have to have negotiations on the budget allocation amount, rather than budget ceiling.

Announcement of guidelines with ceiling before preparation of budget proposals is necessary. In addition to this, it is also recommended to specify processes and schedule of budget preparation and negotiation in the guidelines.

(3) Prioritization of the PIP project

There might be some projects with less priority, even after the prioritization of projects. Because area of sector priorities are not clear, it might be difficult to decide which projects to cancel and approve when approved budget is smaller than proposed budget.

In this case, some projects are approved, but annual budget for a project might be smaller than implementation amount (e.g. construction costs). Eventually the number of on-going projects which are completed would increase and the gap between implemented amount and disbursement amount will increase too.

When payment period is longer than construction period, contractors tend to increase the contract

cost in order to cover its interest payment to banks. This would have a negative impact on the implementation of the province, because the available budget of the province will decrease because of the increase in the costs.

7. Concept of tools to be developed by PCAP-2

Based on the above analysis, fundamental elements required on the tools that will be developed by PCAP 2 shall be as follows.

(1) Tools for PIP budget management

Required elements;

- a) To promote opportune sharing information about the budget ceiling and allocation.
- b) To promote sharing information among the stakeholders about the criteria.
- c) To enable to prioritize PIP projects.
- d) To enable to observe current debt and to forecast future debt.

(2) Tools for ODA counterpart fund management

Required elements;

- a) To establish criteria among ODA/PIP projects.
- b) To establish criteria between ODA/PIP projects and common PIP projects.
- c) To harmonize and integrate both criteria for domestic and ODA.
- d) To promote sharing information with the donors on the domestic procedure and adjusting implementation schedule.

Summary of the Report on PIP Management Training for Provinces

Course / Module	Training Course and Seminar on Public Investment Program (PIP) Management.
Date/Duration	<p>17-21 November 2008: Phongsaly and Xiengkhuang Province.</p> <p>24-28 November 2008: Borkeo and Huaphanh Province.</p> <p>1; 3-5 December 2008: Luangnamtha, Luangprabang Province and Vientiane Capital.</p> <p>8-12 December 2008: Xayabouly, Savannakhet and Attapeu Province.</p> <p>15-19 December 2008: Borlikhamxay and Xekong Province.</p> <p>22-26 December 2008: Vientiane Province.</p> <p>23-27 December 2008: Champasak Province.</p>
<p>I. Objectives of the Training Course and Seminar:</p> <ol style="list-style-type: none"> 1. 476 personnel in total from provincial DPI and sector departments will learn how to write PIP project proposals and absolute/comparative assessment methods developed by MPI/PCAP. 2. MPI personnel will enhance their capacity as trainers in PIP management through the training course. 3. Two officials each from the three PCAP monitor provinces will enhance their capacity as core trainers in their regions through the training course. 4. To share PIP management methods with decision makers in each province in the seminar on the last day of the training. 	
<p>II. Methodology:</p> <ol style="list-style-type: none"> 1. Lecturing General Theories by Trainers. 2. Working group on Project Proposal Writing, SPAS and Comparative Assessment. 3. Presentation by Representative of Each Group. 4. Question and Answer Session. 5. Summary of Each Day and Review of the Last Day. 6. Training Evaluation. 7. Seminar (Summary Presentation on Training Results). 	
<p>III. General Information</p> <p>The team members and participants are described as table below.</p>	

Training Team Members

MPI		DPI			JICA	PCAP2's Member	
DOE	DOP	Salavan	Khammuan	Oudomxay		Expert	Local Consultant
1. Mr. Phetamphon 2. Ms. Oudalon 3. Mr. Sonphetvongsy 4. Ms. Malivan 5. Mr. Vilaphan 6. Ms. Somphat 7. Mr. Xengher 8. Mr. Viengkham 9. Mr. Buakeo 10. Mr. Lamphan 11. Ms. Vilavan 12. Mr. Keopaseurth 13. Ms. Bounmy 14. Mr. Banlousith	1. Mr. Chantanaphon	1. Mr. Soulisack 2. Mr. Buathong	1. Mr. Viliem 2. Mr. Ann	1. Mr. Kongthanou 2. Mr. Chanthay 3. Mr. Souliyadeth 4. Mr. Chanthabuly	1. Mr. Masanori ABE	1. Tomoe TAIRA	1. Mr. Douangchay

Participants (Number of Participants)

1. Participants of Training Course + Seminar

No.	Province	Provincial DPI					District DPI	Line Sectors									Total
		DG/DDG	DoE	DoP	DIC	Other		Economic Sectors			Social Sectors			Other Sectors			
								DG/DDG	DoP	Other	DG/DDG	DoP	Other	DG/DDG	DoP	Other	
1	PSL	1	1	1	1	3	0	0	3	6	1	5	1	0	6	7	36
2	BK	0	3	7	2	5	0	0	2	2	0	2	1	0	4	6	34
3	LNT	0	6	3	2	1	0	0	4	2	0	4	3	0	10	4	39
4	XK	1	3	2	2	1	0	0	2	0	0	3	2	0	6	3	25
5	HP	1	2	4	0	2	0	0	3	2	0	1	4	0	4	5	28
6	LPB	0	1	5	1	5	0	0	2	1	0	1	2	0	2	4	24
7	XYBL	0	3	6	0	4	0	0	1	4	0	1	3	0	4	9	35
8	ATP	0	3	5	1	0	8	0	3	4	0	0	5	0	3	6	38
9	Xekong	1	3	11	1	9	0	0	2	2	0	1	2	0	7	11	50
10	CPS	0	4	5	1	4	0	0	3	1	0	3	1	0	8	5	35
11	VTE Cap.	0	7	6	0	4	0	0	3	3	0	2	2	0	10	20	57
12	SNK	0	4	5	0	1	0	0	4	9	0	5	2	0	3	9	42
13	BLKX	0	4	3	0	7	7	0	3	3	0	2	2	0	4	5	40
14	VTE Pro.	0	4	3	0	3	5	0	3	1	0	2	2	0	4	6	33
Sub Total		4	48	66	11	49	20	0	38	40	1	32	32	0	75	100	516
Total				178			20		78	40		65			175		516

2. Participants of Seminar only

No.	Province	Governor/ Vice governor	Pro. DPI's DG/DDG	District Governor	Line Sectors' DG/DDG			Total
					Economic	Social	Other	
1	PSL	1	0	0	2	2	7	12
2	BK	1	1	0	1	1	3	7
3	LNT	1	1	0	3	2	2	9
4	XK	0	0	0	2	2	6	10
5	HP	1	0	0	2	4	2	9
6	LPB	1	1	0	2	3	3	10
7	XYBL	0	1	0	3	3	6	13
8	ATP	0	1	0	2	2	2	7
9	Xekong	0	0	0	0	0	0	0
10	CPS	0	1	0	2	2	2	7
11	VTE Cap.	0	1	0	1	1	9	12
12	SNK	0	1	0	1	4	6	12
13	BLKX	1	0	2	2	2	6	13
14	VTE Pro.	1	0	0	2	1	4	8
Total		7	8	2	25	29	58	129

Grand Total (1+2) 645

DG: Director General, DDG: Deputy Director General, DoE: Division of Evaluation, DoP: Division of Planning, DIC: Division of International Cooperation, Other: Other divisions,

IV. Outputs of Training/Seminar

IV-1. Outputs of Training/Seminar in general

- Exceeding the expected number of 476, 516 officials in total in which 178, 20, and 318 officials are from DPI, district DPI, and sector departments respectively successfully completed the training on how to write PIP project proposals and how to conduct absolute/comparative assessment by using methods and formats developed by MPI/PCAP.

2. MPI trainers became able to manage the training on their own. Moreover, MPI officials enhanced their capacity as trainers in PIP management through the training course.
3. Six DPI officials in total from the three PCAP monitor provinces enhanced their capacity as core trainers in PIP management through the training course.
4. Besides the 516 trainees, 129 high officials in total participated in the seminar to share the PIP management tools and methods developed by MPI and the Project.

IV-2. Outputs of Working Group in the Training (Example of Huaphanh province)

1. Project Proposal Writing:

During working groups, 5 project proposals have been completed as table below.

Group1:

Format	Project's Name	PO
I-1	Construction of building for Huaphanh Provincial Department of Planning and Investment	DPI

Group2:

Format	Project's Name	PO
I-4	Namor Irrigation Construction	PAFO

Group3:

Format	Project's Name	PO
I-3	Saving Group Promotion at 21 Villages	Lao Women's Union

Group4:

Format	Project's Name	PO
I-6	Sanitary Construction at Thamla	Dept. of Public Health

Group5:

Format	Project's Name	PO
I-6	Secondary School Construction at Muang Et	Dept. of Education

Main Discussion Points During Presentation of Project Proposal:

- The indicators of the overall goal should be based on the provincial program.
- The indicators of the project purpose should be identified before and after projects' implementation.
- The environmental certificate should be attached to all the project proposals before submitting to DPI and MPI.

2. Absolute Assessment by SPAS:

Above mentioned 5 project proposals written by each group have been assessed by a different group as table below:

Group1:

SPAS	Project's Name	PO	Total	Rating
I-6	Secondary School Construction at Muang Et	Dept. of Education	197	A

Group2:

SPAS	Project's Name	PO	Total	Rating
I-6	Sanitary Construction at Thamla	Dept. of Public Health	165	B

Group3:

SPAS	Project's Name	PO	Total	Rating
I-4	Namor Irrigation Construction	PAFO	190	C

Group 4:

SPAS	Project's Name	PO	Total	Rating
I-1	Construction of building for Huaphanh Provincial Department of Planning and Investment	DPI	172	B

Group5:

SPAS	Project's Name	PO	Total	Rating
I-3	Saving Group Promotion at 21 Villages	Lao Women's Union	135	B

Main Discussion Points During Presentation of SPAS:

- The assessment by SPAS will focus on 5 criteria as relevance, effectiveness, efficiency, impact and sustainability.
- Scores and comments provided to each criterion should be appropriate and specific.
- For improving a project to be A-scored project, specific and clear recommendations should be given, such as recommendations on which criteria or topic in the project proposal needs to be improved.
- Documents related with the project should be attached with the project proposal submitted.

3. Comparative Assessment

During working group, all members of Group 1 joined the other four groups to conduct comparative assessment. Group 2, group 3, group 4, and group 5 conducted comparative assessment on projects in the Agriculture Sector, Public Works and Transportation Sector, Education Sector and Health Sector respectively. The output of the comparative assessment is described as tables below:

Group 2: Provincial Agriculture and Forestry Office

SPAS	No.	Project's Name	x 4	x 3	x 2	x 1	Scores	Rating	Comparative Assessment
			Shifting Cultivation Eradication and Poverty Reduction	Commercial Production	Food Production	Sustainable Forest Management			
A	1	Irrigation Construction at Namor Ban Phiengkham, Hua Muang District	(3) 12	(2) 6	(2) 4	(2) 2	24	A	AA
B	2	Commercial Pig Production at 4 Villages in Samtay District	(2) 8	(3) 9	(2) 4	(1) 1	22	B	BB
C	3	Surveying-Designing of Irrigation at Namhom, Ban Muangham	(1) 4	(2) 6	(2) 4	(2) 2	16	C	CC
B	4	Area Allocation for Commercial Production and Food Production to All People in the Province	(2) 8	(2) 6	(1) 2	(3) 3	19	B	BB
B	5	Upland Agricultural Development (ODA Fund with Hongkong) at Viengxay and Xiengkhor District	(2) 8	(1) 3	(3) 6	(2) 2	19	B	BB

Group 3: Public Works and Transportation Department

SPAS	No.	Project's Name	x 3	x 2	x 1	x 2	Scores	Rating	Comparative Assessment
			National Road Rehabilitation	Rural Road Rehabilitation	Transportation- Navigation and Air Services	Improvement of Basic Infrastructure for Provincial Urban			
A	1	Road Rehabilitation from Ban Haoikho to Ban Nathan with the Length of 9 KM	(2) 6	(2) 4	(3) 3	(2) 4	17	B	BA
B	2	Road Rehabilitation from Nasala to Phouxangkom	(2) 6	(3) 6	(2) 2	(2) 4	18	B	BB
B	3	Opening of Road for Xiengkhor District	(3) 9	(2) 4	(2) 2	(1) 2	17	B	BB
C	4	Namsam Bridge Construction at Tonneua (Theory School)	(2) 6	(2) 4	(2) 2	(3) 6	18	A	AC
A	5	Surveying-Disigning of Public Park at Sam River Side and Provincial Park	(1) 3	(1) 2	(1) 1	(2) 4	10	C	CA

Group 4: Department of Educaiton

SPAS	No.	Project's Name	x 3	x 2	x 1	Scores	Rating	Comparative Assessment
			Improving of Quality for Educational Administration and Management	Create More Opportunity for School Entrance	Educational Quality Improvement			
B	1	Muang Aet Secondary School Construction	(2) 6	(3) 6	(2) 2	14	A	AB
C	2	Repairing of Ethnic School	(1) 3	(2) 4	(2) 2	9	C	CC
B	3	Illiteracy Eradication & Enhancing Knowledge	(2) 6	(2) 4	(3) 3	13	B	BB
A	4	Project for Training Course on Educational Planning	(3) 9	(1) 2	(1) 1	12	B	BA

Group 5: Department of Public Health

SPAS	No.	Project's Name	x 2,5	x 1	x 1	x 2	Scores	Rating	Comparative Assessment
			Diseases Prevention and Health Promotion	Caring and Treatment	Food and Medicine	Consumption Management			
A	1	Tamla Sanitary Construction	(2) 5	(2) 2	(2) 2	(3) 6	15	B	BA
B	2	Muangdong Gravity Construction	(2) 5	(1) 1	(1) 1	(1) 2	9	C	CB
B	3	Healthy Village Construction	(3) 7,5	(2) 2	(2) 2	(2) 4	15,5	A	AB
C	4	Muangseum Sanitary Construction	(1) 2,5	(2) 2	(3) 3	(2) 4	11,5	B	BC
A	5	Nalae Gravity Construction	(2) 5	(3) 3	(2) 2	(2) 4	14	B	BA

Main Discussion Points During Presentation of Comparative Assessment

- Group 2: Out of all projects in this Department, the Irrigation Construction at Namor Ban Phiengkham, Hua Muang District strongly supports to the Shifting Cultivation Eradication and Poverty Reduction program when comparing with remaining projects so that it gets the highest scores.
- Group 3: The rating of comparative assessment is placed in front of the rating of SPAS because the rating of comparative assessment shows importance of each project to the prioritized program of the sector.
- Group 4: Providing weight to each program shall be done based on the agreement in the comparative assessment workshop. The most prioritized program shall get the highest score when comparing with the other programs in the sector.
- Group 5: In the Department of Public Health, why only one program gets the highest score when compared with the other programs in this department. Because, the Diseases Prevention and Health Promotion Program is a most prioritized program when compared with the remaining program in this

department.

V. Strengths

1. The Training Course and Seminar was implemented as planned.
2. Consensus was made between Project Owners and MPI/DPI on using PIP management tools created by MPI/PCAP.
3. Leadership of the provinces including Project Owners Officials was shown.
4. Provincial authorities provided good cooperation.
5. This training course was focused on two ways communication in order to exchange knowledge, information, lessons learned and experiences such as Project Proposal Writing, absolute assessment by SPAS and comparative assessment. Most participants got to know how to compare projects with the prioritized programs within their organization.
6. MPI high officials, either Vice Minister of MPI, Director General, or Deputy Director General of Department of Evaluation, MPI participated to all the provinces to inform participants including decision makers of the provinces about the importance of assessment before including the projects into PIP Plan.
7. Trainers were able to control the training course as scheduled.
8. PCAP2's members closely paid attention to the curriculum of the training course.
9. PCAP2 coordinators provided good coordination and arrangement within the very limited time.
10. DPI officials from Oudomxay, Khammuan and Salavan paid attention in their tasks and became able to present all the training contents at the last province.
11. It was good when participants asked questions, MPI teams discussed well in the team, then answered back to the participants well.

VI. Problems, Difficulties, and Lesson Learned

1. Some participants were still confused about a difference between overall goal, project purpose and the outputs of the project. From the next time, it may help to provide participants with some examples on overall goal, project purpose and the outputs of the projects.
2. Procedure on the social and environmental certificate was difficult for some participants to understand. From the next time, it may help to explain its procedure more in details, such as the time and place to get the social and environmental certificate.
3. It is difficult for some participants to understand the weight coefficient in putting score to programs for making comparative assessment. From the next time, it may help to explain and give more examples on how to select the comparison criteria to compare and score projects based on the importance of programs.
4. It is difficult for some participants to set up to indicators of overall goal and project purpose for technical promotion projects. It may help from the next time to create some examples on project proposal formats for technical promotion projects including indicators of overall goal and project purpose.
5. There were a few misprints in the training materials therefore the misprinted parts shall be modified based on the participants' comments.

**Participants of PIP Management Training for Ministries and Other Government Entities
(Number of participants)**

1. Training Course and Seminar

No.	Sector	Ministries/ equivalent entities*	DoP	Other	Total
			Technical	Technical	
1	Economic	MAF	2	1	3
2		MPWT	3	0	3
3		MEM	1	1	2
4		MIC	0	2	2
5	Social	MOE	1	2	3
6		MOH	2	1	3
7		MOIC	2	0	2
8		MLSW	1	1	2
9	Other	Min. of Justice	0	2	2
10		NUOL (University)	1	1	2
11		Public Inspection	0	1	1
12		Supreme Court	0	3	3
13		NPAO	0	1	1
14		Prime Minister's Office	0	3	3
15		Lao Federation of Trade Union	0	1	1
16		Central Cabinet Office	0	1	1
17		Lao National Front	0	1	1
18		National President Administration	0	1	1
19		National Tourism Authorities	1	1	2
20		Min. of Finance	0	2	2
21		Science and Technoloty Authority	0	1	1
22		National Assembly	1	0	1
23		Central Committee Control	0	1	1
24		Old Military Union	0	2	2
25		Prosecutor Office	0	2	2
26		Central Youth Office	0	2	2

27	WREA	0	1	1
28	LWU	1	1	2
29	Propaganda Training Committee	0	1	1
30	PACSA	0	1	1
31	Rural Development Committee	1	1	2
32	Min. of Foreign Affair	0	2	2
33	Min. of Calm Protection	1	1	2
34	MPI-DOI (inspection)	0	1	1
35	MPI-DOIP (promotion)	0	1	1
36	MPI-DOOP (personnel)	0	1	1
37	MPI-DOP/Poverty Eradication	0	2	2
38	MPI-DOA	0	1	1
39	MPI-NSC	0	1	1
40	MPI-DIC	0	1	1
41	MPI-NERI	0	1	1
Sub Total		18	51	69
Total				69

2. Seminar Only

No.	Sector	Ministries/ equivalent entities*	DoP		Other Dept.		Total
			DG/DDG	Technical	DG/DDG	Technical	
1	Economic	MAF	0	0	0	0	0
2		MPWT	0	0	1	0	1
3		MEM	0	0	0	1	1
4		MIC	0	0	1	0	1
5	Social	MOE	1	0	0	0	1
6		MOH	0	0	0	0	0
7		MOIC	0	0	1	0	1
8		MLSW	0	0	1	0	1
9	Other	WREA	0	0	1	0	1
10		Public Inspection	0	0	1	0	1
11		Min. of Finance	0	0	1	0	1
12		Prime Minister's Office	0	0	0	3	3
13		Min. of Calm Protection	0	0	1	0	1

14	Central Committee Control	0	0	2	0	2
15	Science and Technology	0	0	1	0	1
16	Min. of Justice	0	0	1	0	1
17	NOUL (University)	0	0	1	0	1
18	Supreme Court	0	0	1	0	1
19	LWU	0	0	1	0	1
20	Lao National Front	0	0	1	0	1
21	Central Committee Control	0	0	1	0	1
22	Old Military Union	0	0	1	0	1
23	National President Administration	0	0	1	0	1
24	PACSA	0	0	0	1	1
25	Prosecutor Office	0	0	1	0	1
26	MPI-NERI	0	0	0	2	2
27	MPI-DOOP (Personnel)	0	0	1	0	1
28	MPI-DOI (Inspection)	0	0	1	0	1
29	MPI-DOS (statistic)	0	0	1	0	1
Sub Total		1	0	23	7	31
Total						31

Gland Total (1+2)	100 officials
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DoP: Department of planning, Other: Other departments, Technical: Technical officers, DG: Director General, DDG: Deputy Director General

Proposal: New Procedures of PIP Budget Formulation

PCAP2

I. Proposed PIP Budget Formulation Process

Step 1: MPI announces the budget guideline including budget request ceiling

- Clarifying priority areas; necessary to discuss whether or not the priority of 2007-2008¹ should be revised under the current economic situation. Projects which can effectively contribute to economic growth should have priority?
- Indicating budget request ceiling, or the upper limits of budgetary request that provinces can submit to MPI. Its aim is to reduce the number of project proposals and avoid wasting time for making and assessing proposals. MPI is going to decide the figure of budget request ceiling based on the following formula.

<Proposal: Budget request ceiling formula>

Next fiscal year PIP budget request ceiling (%) = A

Mandatory expenses (ODA C/P fund + On-going projects cost + Debt payment) = B

Total budget amount for new projects this fiscal year = C

Estimated government revenue next fiscal year/this fiscal year = D

Inflation rate = E

Total PIP budget amount this fiscal year = F

$$A = ((B + C) * D * E) / F$$

Step 2: Provinces prepare project proposals

- DPI estimates the necessary budget for on-going projects, debt projects and ODA projects for the next fiscal year and onward. On-going and debt projects are priority to allocate budget. Then, DPI estimates the amount of budget for a new project².
- DPI issues the budget request ceiling for new projects and announce to sector departments and the Districts.
- The sector departments prepare project proposals by following the budget ceiling. It is expected for the sector departments to prepare the proposals selectively.
- DPI conducts SPAS. Then, DPI and the sector departments conduct comparative assessment to determine priority projects. DPI and sector departments could determine the proportion of budgetary request ceiling of each sector through open discussion.
- DPI submits the project lists with the results of assessments to DOE, MPI.
- DOE assesses the results of assessments and forwards the project lists to DOP, MPI.

¹ ODA projects, Debt repayment, On-going projects, Poverty eradication projects

² (Budget request ceiling) minus (Budget for on-going) minus (Budget for debt project)

<Good practice in Luangnamtha province>

DPI and sector departments share the direction to revise budget proposals through “open discussion”. DPI takes lead in concentrating budgets on priority projects. Before the “open discussion”, sector departments prepare for the meeting by prioritizing projects within sectors.

Step 3: MPI announces budget allocation amount for the next fiscal year

- MPI and the Ministry of Finance agree on the total amount of the PIP budget.
- MPI calculates the allocation amount of PIP budget to each province based on the newly introduced principles of state budget allocation.
- MPI announces the allocation amount of PIP budget to each province.

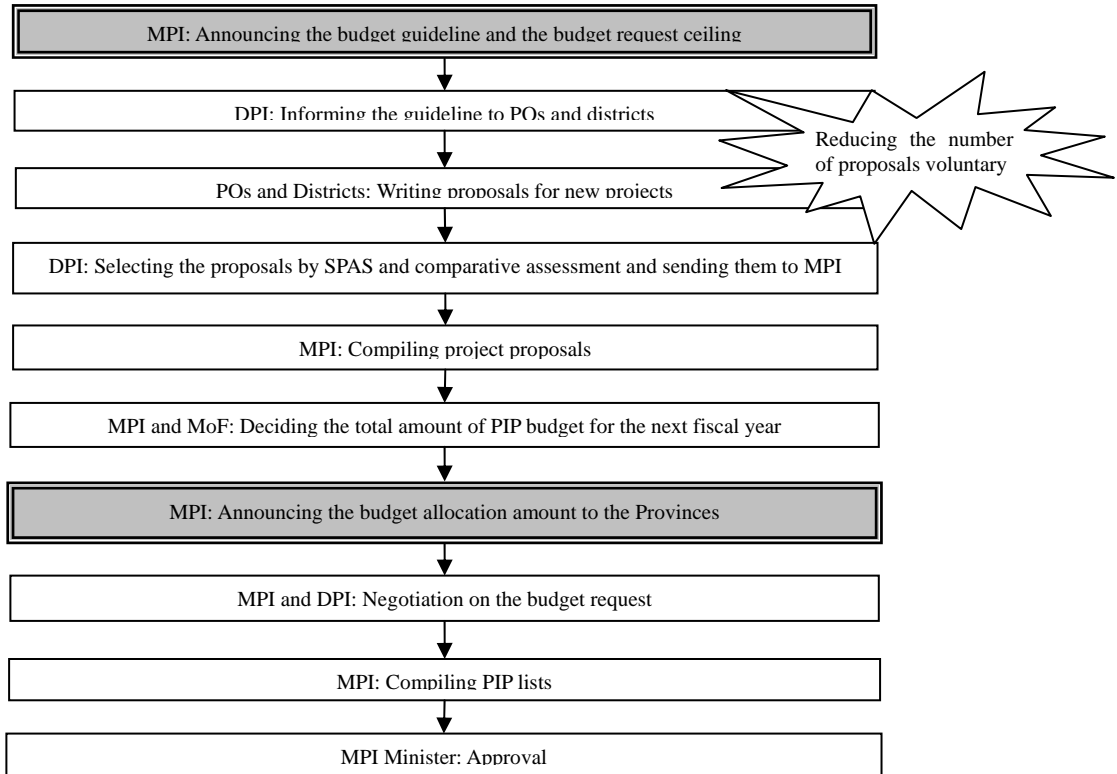
Step 4: MPI and provinces negotiate and agree on the project list and the budget allocation amount

- MPI and DPI negotiate the project list within the limit of budget allocation amount to each province.
- DPI also formulates the mid-term PIP expenditure plans and forwards them to MPI.
- MPI and DPIs finalize the project list and the mid-term PIP expenditure plans.
- MPI compile PIP lists and submit to National Assembly.

II. Issue

Is it possible for MPI to announce the budget request ceiling in advance technically?

Outline of the proposed PIP budget formulation process



Field Trip Record on Budget formulation and Financial Management

1. Overview of the field trip

1) Schedule

9-10 Dec 2008	Saravanh province
10-12 Dec 2008	Champasack province
15-17 Dec 2008	Luangnamtha province

2) Participants

The study team was composed of

- Mrs. Chanthone Sonevixay, Economic Sector Division, Department of Planning, MPI
- Dr. Viengsan Chantha, Regional Development Division Department of Planning,
- Mr. Hirofumi Azeta, JICA Expert, PCAP, and
- Mr. Sunnti Duangtavanh, Local consultant, PCAP

3) Interviewees

The study team conducted interviews to the following counterparts in the provinces.

- Saravane province: DPI (Department of Planning and investment), DPWT (Department of Public Works and Transport), DAF (Department of Agriculture and Forestry), a construction company, GPAR project
- Champasack province, DPI, DAF, DPWT, a construction company
- Luangnamtha province: DPI, DOF, DAF, DPWT, and a construction company

4) Objectives

The objectives of the field trip were as follows;

- To identify issues in budget formulation process at provincial level,
- To find good examples of budget formulation and revision process at provincial level, and
- To make recommendation on streamlining budget formulation process.

2. Findings by the field trip

(1) Issues

The main issue that was found in the field trips is that “Current budget formulation has rooms for

improvement to more efficient achievement of targets set in NSEDP". This is depicted by the three points below.

1) Delays in the completion of construction projects

When annual budget allocation to a project is smaller than planned, completion of projects tend to delay and some components of projects are omitted.

The negative impacts by this are as follows.

- Completions of projects delay, and thus benefits generated by the projects also delay, and
- Delayed projects might not meet the needs of the beneficiaries when they are completed.

2) Increase in project costs

Increase in project costs happens when raw material prices increase and exchange rates fluctuate. It also happens when payment periods of projects are set longer than construction periods. Such additional costs due to deferred payments arise possibly because of interest payments from contractor to banks increase¹.

Therefore, although the government tries to complete constructions prior to the payment to contractors, this would probably lead to increase in project costs and reduce the available budgets for new projects.

3) Deterioration in the quality of works

A number of project owners point out that quality of constructions work would decrease, when construction period and payment period become longer, although clear evidences are not found. One of the reasons would be that when payment is delayed, it would be difficult for project owners and site engineers to strictly control contractors. Other reason would be that suspended constructions due to the delays in payments are not as efficient as un-suspended constructions.

(2) Good practices in Luangnamtha Province

Finding good practices or good examples are useful when trying to address issues in improve a mechanism or framework, including budget formulation processes. Such good practices would also

¹ When contractors implement construction projects, they need to finance their working capital (such as for purchasing construction materials) by bank loans. When payment periods are longer than construction periods, interest payments from contractors to banks would increase.

indicate how to address issues, such as those mentioned above.

The goods practices found in the field trip to Luangnamtha are as follows;

(a) Sharing the direction to revise budget proposals through “Open Discussion”

In Luangnamtha province, “Open discussion” which is chaired by DPI takes place, in which sector departments and DPI discuss which projects to select or cancel, in order to revise its budget proposals to meet the budget allocation amount indicated by MPI.

In the discussion, DPI recommends sector departments to concentrate budgets on smaller number of priority projects. DPI also clearly indicates that (1) the number of projects should be small enough and (2) more than one large project cannot be implemented simultaneously². Sector department, following the instructions by DPI, selects projects, based on their priority. By doing this, Luangnamtha province has succeeded in focusing on smaller number of priority projects and reducing debt projects and deferred payments of on-going projects. Thus the province would achieve in increasing the amount of new projects and the number of completed projects.

The most remarkable fact is that the DPI of Luangnamtha province clearly set the directions above and shared them with sector departments “spontaneously”. This is because the DPI recognizes that increasing the available budget for new projects by doing this is beneficial to the PIP management in the province.

(b) Project prioritization by sector departments

Before the “open discussion”, sector departments prepares for the meeting by prioritizing projects within sectors, including those working at the district level. In the open discussion, sector departments decide which projects to take, based on the priorities.

Sector departments explain the results of the revisions in budget proposals to districts so that districts can understand the reasons and details of the revisions.

(c) Collaboration between DPI and DOF

² However, there does not seem to be clear definitions in “large scale project” and “the number of projects”.

DOF makes payments to contractors within about two weeks after it received requests for payments, which is much quicker than other provinces. One of the reasons would be that the outstanding balance of debts is smaller than other provinces. The other reason would be that a frequent communication between DPI and DOF established. Because DPI informs the approved PIP list after the NA approval and quarterly PIP expenditure report, DOF could have a sound expenditure forecast.

3. Recommendations on the issues

Based on the issues and good practices that the team found during the field trip, recommendations are made as follows;

(1) Overall directions of the recommendations

The main points of the recommendations are as follows;

- Focusing on prioritizing projects and concentrating budget allocation to such projects
- Increasing the number of completed projects in the medium-long term
- Decreasing the outstanding debt amount and avoiding “deferred payment” practices by reducing the gap between implementation period and payment period

Note: Deferred payment is an account payable to contractors, which arise when payment period of a project is shorter than implementation period, e.g. payment period is 5 years and implementation period is 2 years.

(2) Motivation of provinces

In order to successfully implement the recommendations mentioned above, it will be important that the provinces implement them “spontaneously”. Therefore it will be also important that provinces are motivated to implement them by recognizing the improvement in PIP management, which will lead to the efficient achievement of NSEDP goals.

Introduction of “provincial indicators” will be therefore necessary for provinces to recognize the improvements. Exact definition of the indicators are to be determined, but the indicators will measure the following improvements arose from introducing the recommendations;

- 1) Increase in the available budget in the medium – long term and decrease in debt
- 2) Increase in the number of completed projects, and

3) Work load of provinces decrease and quality of works might improve

(3) How to achieve the recommendations

In order to successfully implement the recommendations above, MPI together with PCAP2 team, will have to:

- Determine and develop provincial performance indicators to let provinces fully understand the benefits they will gain and thus have motivation to focus on increasing the number of completed projects by decreasing the number of projects
- Set up guidelines, manuals and formats that will support the planning of provinces to improve the performance indicators, and
- Prepare technical supports by MPI and PCAP2 team to provinces

It is also important to provide a measure or tool, by which provinces focus on priority projects and concentrate budget allocation to such projects. The measure should also help provinces to build consensus on PIP budget planning policies among DPI, sector departments, and districts.

(4) Actions

Next actions to move to the direction mentioned above are as follows,

1) Directions of the tools to be discussed between MPI and PCAP

Staffs from DOP of MPI and PCAP2 team will share the viewpoints and discuss to agree on the directions of the tools to be developed. Official assignment of DOP staff for this task will be desirable.

2) Development of prototype tools by PCAP2 team

The prototype of tools is going to be developed by PCAP2 team. In the mean time, information collection, which will be necessary for developing tools are going to be conducted. For the development of tools and conducting survey, supports by DOP, including providing information of PIP budget execution and information others, are essential.

The prototype will be presented to MPI. Outlines will be agreed and details are going to be discussed. Comments from MPI are necessary to revise the tools.

3) Pilot of the tools

After the approval by MPI, piloting will be conducted to revise tools and to make them detailed.

Piloting will focus on

- Introducing provincial performance indicators, and
- Support pilot provinces to make plans to improve the provincial performance indicators

Memorandum of Coordination Meeting between SOP Project and PCAP2

December 11, 2009 at PCAP2 office

Discussed theme

1. Participants:

SOP Project

1)Mr. Gerald Moore: international consultant, 2)a national consultant of SOP Project, 3)Mr. Chanmy Keodala: staff of DIC, 3)Mr. Visone Oudomsouk: staff of DIC.

PCAP2 Project

1)Mr. Ichiro Okumura: Chief Advisor, 2)Mr. Hiromi OSADA: Expert for ODA Counterpart Fund/Program Management.

2. Outline of PCAP2

Brief explanation of PCAP2 by Mr. Okumura:

- Target Group,
- Target process to be improved,
- Project Purpose and
- Major outputs.
- Implementation schedule: PCAP 2 has just started March, 2008 for coming 3 years and a half, and it is underway of collecting information to improve the PIP budget process including ODA counterpart fund management.

3. Explanation of outline of SOP project

Question from PCAP2

- Who are SOP's target group? e.g. which department of the Ministries, Provinces and Districts? Who will be trained by the training?
(Answer by SOP) : SOP is targeting all those concerned with ODA affairs, however target groups of the training course are not yet specified.
- Do we have any overlapping on the above items?
(Answer by SOP) : Although a part of target group of the trainings by the both might be shared, the subjects are different. It is sure for us to keep complementary standings each other. About financial management, DIC has another portion of SOP Project related to the subject. Its contents should be confirmed directly to Ms. Unsala in DIC, person in charge of the project.

4. Confirmation of targets of the both Projects

Understanding by both sides

- SOP Project is supporting standardization of tasks in all the Project Cycle of ODA.
- PCAP 2 is focusing on PIP budget process in Project Implementation Stage including ODA counterpart fund. This is specified field.

5. Potential for collaboration

Agreement between both sides

- We have no overlapping in the targets within each TOR.
- However, we should be mutually consistent and shall be aware of each other's outputs and activities.
- So, we shall continuously exchange information and share outputs to assure consistency.
- Currently we cannot find any specified room to collaborate yet, but once we find any opportunity to collaborate and harmonize, we have no obstacle to do that.