



### Better Institutional Capacity Is Key to Structural Reforms in Lao PDR

## Overview

This initiative supported the Government's efforts to enhance its institutional capacity in guiding the implementation of its structural reform program in selected sectors such as banking and finance, public financial management, and state-owned enterprises (SOEs). International Development Association (IDA) financing and Bank expertise have supported Lao reform efforts to enhance fiscal transparency by supporting publishing of audit reports and budget reports, eliminate arrears on salaries by installing an electronic salary payment system, improve management of SOEs by designing restructuring plans and conducting financial audits, and improve fiduciary controls by supporting establishment of the centralized National Treasury.

## Challenge

Based on lessons learned from experience with previous policy lending operations in Lao PDR, building capacity was a priority for the Government as it pursued the transition from a command to a market-oriented economy. Lack of institutional capacity was one of the difficulties the Government encountered while managing its structural reform program, adversely affecting its reform agenda and causing delays and shortcomings during the first decade of reforms in the 1990s. Technical assistance was needed to enhance and build up the skills in public financial management for staff of the Ministry of Finance, the Bank of Lao PDR, and the State Audit Organization, to manage reform activities, ranging from budgeting, treasury accounting, monitoring and auditing of government finances.

## Approach

The Financial Management Capacity Building Project (FMCBP), as an intervention instrument, would provide the means for the Government to strengthen its institutional capacity for implementing its reforms. In some cases, it addressed inadequate staffing in many ministries and agencies concerned, led by the Ministry of Finance and the Bank of Lao PDR. As the project progressed, it was instrumental in assisting the Government in improving public finance management (PFM), given the coming on-stream of its hydroelectric power revenues and the required

More Results



# 2010

the year the Government Financial Information System was rolled out to all provinces, with better connectivity quality, stability, and on-line availability

### MORE INFORMATION

- » Financial Management Capacity Building Credit
- » Country Website
- » Country Overview
- » Country Assistance Strategy
- » Data and Statistics

management of these earnings. With the Government's adoption of the Public Finance Management Strengthening Program (PFMSP) to improve policy consistency, efficiency, transparency and accountability in public finance management, the FMCBP assisted in strengthening institutional systems and capacity with the aim of moving towards appropriate international finance management standards. Among other interventions, the project addressed the absence of a functional classification of the budget, the lack of an effective budget monitoring and execution system, and the inadequate audit capacity of the State Audit Organization, the weak monitoring of external debts, and the preparation of an SOE strategy and action plan.

## Results

- The FMCBP contributed to laying the groundwork for strengthening the institutional capacity of the government to manage the country's Public Financial Management Strengthening Program at the Ministry of Finance (2005-2011);
- The Government Financial Information System was rolled out to all provinces with better connectivity quality, stability, and on-line availability (2010);
- Timely budget execution reports (2009 – 2011);
- The State Audit Organization was strengthened and its institutional capacity enhanced with better and more timely reporting to the National Assembly (2008-2011);
- Summaries of audit reports on the budget were made public (2010);
- A Procurement Monitoring Office was established (2007);
- Better and comprehensive curriculum for training officials at the Ministry of Finance was developed (2008);
- Approximately 93,000 women received subsidies for prenatal care and hospital delivery and 536,000 women received free or subsidized health exams between 1997 and 2006;
- The value-added tax was established and implemented successfully (2010).

## Beneficiaries

FMCBP beneficiaries are various the Government ministries and agencies: Ministry of Finance and its selected departments, Bank of Lao PDR, Ministry of Planning and Investment, various state-owned enterprises, and Ministry of Public Works and Transport, Ministry of Justice, Committee for Business Development, three state-owned commercial banks, the National Assembly, and State Audit Organization. Building a stronger capacity for these institutions for policy formulation, implementation and oversight has contributed to better reform program management and a better outcome in poverty reduction by ensuring sustained long-term growth.

## Bank Contribution

An IDA credit of US\$8.5 million equivalent was provided and later augmented with a grant of US\$3 million for project restructuring.

## Partners

Other partners that contributed to implementation and results were:

- The Australian Agency for International Development (AusAID);
- The European Union (EU);
- Japan;

- The Swedish International Development Cooperation Agency (Sida); and
- The Swiss Agency for Development and Cooperation.

## Toward the Future

In order to continue supporting the Government of Lao PDR in implementation of the Public Finance Management Strengthening Program and supporting institutions for external accountability, the Bank is preparing a follow-up public finance management project, building on the lessons learned from the FMCBP. In the meantime, interventions are continuing through the multi-donor trust fund for the Public Finance Management Strengthening Program.