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IDA/R2019-0033/1

February 25, 2019

**Closing Date: Thursday, March 14, 2019 at 6:00 p.m.**

FROM: Vice President and Corporate Secretary

**Lao People's Democratic - Enhancing Public Finance Management through Information and Communication Technology and Skills (E-FITS) Project**

**Project Appraisal Document**

Attached is the Program Appraisal Document regarding a proposed credit to Lao People's Democratic Republic for the Enhancing Public Finance Management through Information and Communication Technology and Skills (E-FITS) Project (IDA/R2019-0033), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC, and MIGA

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Report No: PAD2949

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 14.3 MILLION
(US$20 MILLION EQUIVALENT)

TO THE

LAO PEOPLE'S DEMOCRATIC REPUBLIC

FOR AN

# ENHANCING PUBLIC FINANCE MANAGEMENT THROUGH INFORMATION AND COMMUNICATION TECHNOLOGY AND SKILLS (E-FITS) PROJECT

February 21, 2019

Governance Global Practice
East Asia and Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2019)

| | |
|---|---|
| Currency Unit = | Lao Kip (LAK) |
| LAK 8,560 = | US$1 |
| SDR 0.7139 = | US$1 |

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| ACH | Automated Clearing House |
| ASYCUDA | Automated System for Customs Data |
| BCM | Business Continuity Management |
| BoL | Bank of Lao PDR |
| CoA | Chart of Accounts |
| CPF | Country Partnership Framework |
| DMFAS | Debt Management and Financial Analysis System |
| DRS | Disaster Recovery Site |
| EFA | Economic Finance Academy |
| E-FITS | Enhancing Public Finance Management through Information and Communication Technology and Skills |
| EU | European Union |
| FM | Financial Management |
| FMIS | Financial Management Information System |
| FPLD | Fiscal Policy and Law Department |
| GDP | Gross Domestic Product |
| GFIS | Government Financial Information System |
| GFSM | Government Finance Statistics Manual |
| GIZ | *Deutsche Gesellschaft für Internationale Zusammenarbeit* (German Development Agency) |
| GoL | Government of Lao PDR |
| GRS | Grievance Redress Service |
| ICR | Implementation Completion and Results Report |
| ICT | Information and Communication Technology |
| IFID | Institute for Financial Information Development |
| IFR | Interim Financial Report |
| IMF | International Monetary Fund |
| IPF | Investment Project Financing |
| IPSAS | International Public Sector Accounting Standards |

| | |
|---|---|
| ISR | Implementation Status and Results Report |
| LDC | Least-Developed Country |
| LMIC | Low- and Middle-Income Country |
| LMS | Learning Management System |
| M&E | Monitoring and Evaluation |
| MoF | Ministry of Finance |
| MoHA | Ministry of Home Affairs |
| NSC | National Steering Committee |
| NSEDP | National Socio-Economic Development Plan |
| NT | National Treasury |
| ODA | Official Development Assistance |
| OPD | Organization and Personnel Department |
| PDO | Project Development Objective |
| PEFA | Public Expenditure and Financial Accountability |
| PFM | Public Financial Management |
| PIMS | Personnel Management Information System |
| PIU | Project Implementation Unit |
| POM | Project Operations Manual |
| PPSD | Project Procurement Strategy for Development |
| SDC | Swiss Agency for Development and Cooperation |
| SDG | Sustainable Development Goal |
| SDTF | Single-Donor Trust Fund |
| SOE | Statement of Expenditure |
| SOP | Standard Operating Procedure |
| TA | Technical Assistance |
| TAXRIS | Tax Revenue Information System |
| TSA | Treasury Single Account |
| TWC | Technical Working Group |
| UMIC | Upper-Middle-Income Country |
| UNCTAD | United Nations Conference on Trade and Development |

| | |
|---|---|
| Regional Vice President: | Victoria Kwakwa |
| Country Director: | Ellen A. Goldstein |
| Senior Global Practice Director: | Deborah L. Wetzel |
| Practice Manager: | Fily Sissoko |
| Task Team Leader(s): | Fanny Weiner |

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DATASHEET

## BASIC INFORMATION

| Country(ies) | Project Name | |
|---|---|---|
| Lao People's Democratic Republic | Enhancing Public Finance Management through Information and Communication Technology and Skills (E-FITS) Project | |
| Project ID | Financing Instrument | Environmental Assessment Category |
| P167534 | Investment Project Financing | C-Not Required |

### Financing & Implementation Modalities

| | |
|---|---|
| [ ] Multiphase Programmatic Approach (MPA) | [ ] Contingent Emergency Response Component (CERC) |
| [ ] Series of Projects (SOP) | [ ] Fragile State(s) |
| [ ] Disbursement-linked Indicators (DLIs) | [ ] Small State(s) |
| [ ] Financial Intermediaries (FI) | [ ] Fragile within a non-fragile Country |
| [ ] Project-Based Guarantee | [ ] Conflict |
| [ ] Deferred Drawdown | [ ] Responding to Natural or Man-made Disaster |
| [ ] Alternate Procurement Arrangements (APA) | |

| Expected Approval Date | Expected Closing Date |
|---|---|
| 14-Mar-2019 | 31-Aug-2025 |

| Bank/IFC Collaboration |
|---|
| No |

### Proposed Development Objective(s)

The PDO is to contribute to the coverage, timeliness, and transparency of financial reporting and to enhance public financial management skills.

### Components

| Component Name | Cost (US$, millions) |
| --- | --- |
| Component 1: Foundations for a Core Public Financial Management System | 15.00 |
| Component 2: Public Finance Management Skills Program and Change Management | 4.00 |
| Component 3: Project Implementation | 1.00 |

### Organizations

| | |
| --- | --- |
| Borrower: | Lao People's Democratic Republic |
| Implementing Agency: | Ministry of Finance of Lao PDR |

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

| | |
| --- | --- |
| **Total Project Cost** | 20.00 |
| **Total Financing** | 20.00 |
| **of which IBRD/IDA** | 20.00 |
| **Financing Gap** | 0.00 |

### DETAILS

**World Bank Group Financing**

| | |
| --- | --- |
| International Development Association (IDA) | 20.00 |
| IDA Credit | 20.00 |

### IDA Resources (in US$, Millions)

| | Credit Amount | Grant Amount | Guarantee Amount | Total Amount |
| --- | --- | --- | --- | --- |
| National PBA | 20.00 | 0.00 | 0.00 | 20.00 |
| **Total** | **20.00** | **0.00** | **0.00** | **20.00** |

**Expected Disbursements (in US$, Millions)**

| WB Fiscal Year | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| Annual | 0.50 | 1.00 | 7.00 | 8.00 | 2.00 | 1.00 | 0.50 |
| Cumulative | 0.50 | 1.50 | 8.50 | 16.50 | 18.50 | 19.50 | 20.00 |

## INSTITUTIONAL DATA

**Practice Area (Lead)**

Governance

**Contributing Practice Areas**

Finance, Competitiveness and Innovation, Macroeconomics, Trade and Investment

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**Gender Tag**

| Does the project plan to undertake any of the following? | |
|---|---|
| a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF | Yes |
| b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment | Yes |
| c. Include Indicators in results framework to monitor outcomes from actions identified in (b) | Yes |

## SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

| Risk Category | Rating |
|---|---|
| 1. Political and Governance | Substantial |
| 2. Macroeconomic | Substantial |
| 3. Sector Strategies and Policies | Moderate |
| 4. Technical Design of Project or Program | Substantial |
| 5. Institutional Capacity for Implementation and Sustainability | Substantial |

| | |
|---|---|
| 6. Fiduciary | Substantial |
| 7. Environment and Social | Low |
| 8. Stakeholders | Moderate |
| 9. Other | |
| 10. Overall | Substantial |

## COMPLIANCE

### Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [√] No

Does the project require any waivers of Bank policies?

[ ] Yes [√] No

| Safeguard Policies Triggered by the Project | Yes | No |
|---|---|---|
| Environmental Assessment OP/BP 4.01 | | ✔ |
| Performance Standards for Private Sector Activities OP/BP 4.03 | | ✔ |
| Natural Habitats OP/BP 4.04 | | ✔ |
| Forests OP/BP 4.36 | | ✔ |
| Pest Management OP 4.09 | | ✔ |
| Physical Cultural Resources OP/BP 4.11 | | ✔ |
| Indigenous Peoples OP/BP 4.10 | | ✔ |
| Involuntary Resettlement OP/BP 4.12 | | ✔ |
| Safety of Dams OP/BP 4.37 | | ✔ |
| Projects on International Waterways OP/BP 7.50 | | ✔ |
| Projects in Disputed Areas OP/BP 7.60 | | ✔ |

### Legal Covenants

Sections and Description
Institutional Arrangements (Section I.A.1 of Schedule 2 of the Financing Agreement):
The Recipient shall maintain, throughout the Project implementation period, a Public Finance Management Reform Secretariat/E-FITS Implementation Committee within MoF to providing technical guidance for the Project implementation with terms of reference satisfactory to the Association.

Sections and Description
Institutional Arrangements (Section I.A.2 of Schedule 2 of the Financing Agreement):
The Recipient shall maintain throughout the Project implementation, the Project Implementation Unit established within MoF with mandate, composition and resources satisfactory to the Association, which shall be responsible for providing day-to- day management of Project implementation in accordance with the provisions of this Agreement and the Project Operations Manual.

Sections and Description
Other Undertakings (Section I.D of Schedule 2 of the Financing Agreement):
The Recipient through MoF shall provide annual funding in the State budget for the costs of continuous internet connectivity to all government agencies at the state, provincial, and local levels to enable them to be connected to the FMIS established under the Project and /or a web portal to upload relevant financial information for their budget execution.

Sections and Description
Institutional Arrangements (Section I.C. of Schedule 2 of the Financing Agreement):
The Recipient shall: (a) prepare, not later than January of each year, an annual work plan and budget ("Annual Work Plan and Budget") for the Project for the following Fiscal Year, in a manner and substance satisfactory to the Association, covering the activities and expenditures proposed for the subsequent year of Project implementation, and the source(s) of financing of such activities and expenditures; which plan and budget shall be of such scope and detail as the Association shall have reasonably requested; and (b) thereafter implement the activities under the Project during the relevant Fiscal Year in accordance with such plan and budget as agreed with the Association.

## Conditions

## I. STRATEGIC CONTEXT

### A. Country Context

1. **The Lao People's Democratic Republic (Lao PDR) has experienced rapid economic growth over the past decade, albeit without proportional gains in poverty reduction.** A landlocked country of 6.9 million, its Gross Domestic Product (GDP) growth averaged 7.6 percent per year over the past decade and poverty declined from 33.5 percent to 23.2 percent between 2002/03 and 2012/13, making it the 13th fastest-growing economy globally. However, growth has not been particularly inclusive and was driven largely by mega projects in the natural resource sector, which have created limited employment. The pace of poverty reduction was modest compared to some of Lao PDR's neighbors (a 1.0 percent increase in GDP in Cambodia translated to 1.2 percent poverty reduction, whereas in Lao PDR it was only 0.4 percent). Inequality widened over the last decade and the Gini coefficient increased from 32.4 (2002) to 36.2 (2012). Inequality in Lao PDR is characterized by rising disparities within urban areas and between rural and urban areas.

2. **The country has been struggling to address fiscal deficits posing pressing challenges for economic management.** Efforts to improve fiscal sustainability have been made through moderating wage increases and staff recruitment and by introducing spending cuts. While these measures initially helped tackle the deficit in 2015 and 2016, they were countered by low commodity prices, resulting in lower-than-expected revenue income.[1] In 2017, the deficit stood at 5.5 percent of GDP and is expected to decline to 4.9 percent of GDP in 2018. Public debt is substantial at around 60 percent of GDP in 2017 and is expected to further increase to 62.6 percent of GDP in 2018. The public debt is exposed to significant exchange rate risk, nontrivial interest rate risk, and a relatively modest refinancing risk. While current debt management risks are not very high, overall, the environment for public debt management in Lao PDR is expected to change over the coming years, with a gradual move from access to concessional funding toward market terms.

3. **Fiscal challenges have been affecting availability and quality of service delivery.** The large fiscal deficits have limited the ability of the public sector to allocate budget to social sectors and infrastructure maintenance needed to address the country's development challenges. Critical sectors remain underfunded and contribute to poor learning outcomes, significant losses from preventable health issues, poor productivity of farmers, and high incidence of malnutrition.

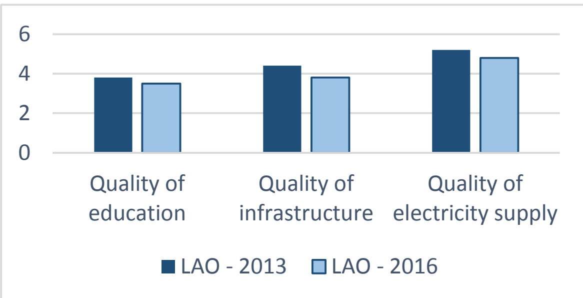
4. **Recent increases in spending have improved the availability of public services.** However, many indicators related to access to and quality of basic public services for Lao PDR remain closer to the average for low- and middle-income countries (LMICs) rather than upper-middle-income countries (UMICs). Immunization[2] is at about 80 percent, similar to the LMIC average, but still behind the UMIC average of about 97 percent. Although the country increased net enrollment in primary education to almost 100 percent in recent years, dropout rates are high with only 77 percent of pupils starting in Grade 1 reaching the last grade of primary school. Consequently, the transition to secondary education is low, because only

[1] The tax/GDP ratio fell from 16.1 in 2014/15 to 15.1 in 2017.

[2] World Development Indicators 2016. Immunization refers to the simple average of rates for Diphtheria, Pertussis, Tetanus, Hepatitis B3, and measles immunization.

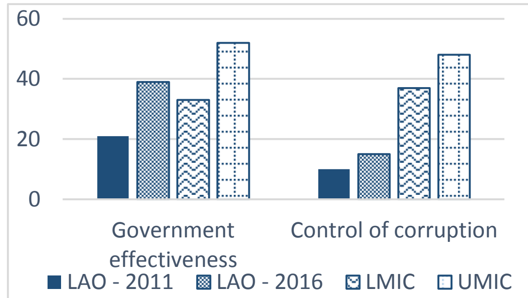
45 percent of children enroll in secondary education, compared to an average of 77 percent in the East Asia and Pacific region. Overall, the quality of education, infrastructure, and access to electricity has slightly decreased over the past years (see figure 1). While government effectiveness and control of corruption have increased, a significant gap to the UMIC average persists. While Lao PDR made notable progress on the Government's effectiveness indicator, surpassing the LMIC average, it scores in the lowest 10 percentiles for control of corruption, lagging far behind the LMIC average (see figure 2).

**Figure 1. Quality of Public Services**




*Source:* World Economic Forum, Global Competitiveness Report, various issues
*Note:* On a scale of 1 (worse) to 7 (best)

**Figure 2. Governance Indicators**




*Source:* Worldwide Governance Indicators
*Note:* Percentile rank (0 to 100)

5. **The political environment has been increasingly favorable to reforms reflected in ambitious development targets in the Government of Lao PDR (GoL) program.** Lao PDR is governed by a single party, the Lao People's Revolutionary Party. The 10th Party Congress in January 2016 made notable changes in the Politburo, followed by the appointment of a new Government. With the change in political leadership, the Government has announced a comprehensive reform program to address governance challenges, promote the rule of law, and improve economic management. With a development vision based on green growth, the objective of the Government's 2016–2020 8th National Socio-Economic Development Plan (NSEDP) is to reduce poverty and to prepare Lao PDR for least developed country (LDC) graduation by 2024 and progress toward the Sustainable Development Goals (SDGs). Achieving these goals will require an efficient and effective public financial management (PFM) system and public sector.

## B. Sectoral and Institutional Context

6. **Over the past 15 years, the GoL has undertaken reforms to strengthen the public sector and its PFM system**. Backed by broad donor support, a first generation of reforms during 2003–2012 focused on putting in place regulations, processes, and procedures required for a basic PFM framework. It was accompanied by capacity building to strengthen the human capital for the implementation of the reforms and significant progress was achieved, such as the centralization of the treasury, customs, and tax functions, the introduction of a Treasury Single Account (TSA), and the implementation, upgrade, and rollout of the basic Government Financial Information System (GFIS) up to the provincial level. In 2012, a shift in the Government's donor cooperation policy and the decision to turn away from a broad donor-funded PFM program led to a stalling of PFM reforms. A turning point came in 2016 with the appointment of the current Government, which reinvigorated the commitment for PFM reforms, reengaged with the donor community, and initiated the preparation of 'second generation reforms.'

7. **However, efficiency in public expenditures management is constrained by an outdated information system and procedures, poor cash and debt management, and inefficiencies in wage bill management.** In addition, there are still some inconsistencies in the legal and institutional framework governing PFM. The 2010 Public Expenditure and Financial Accountability (PEFA) Report had identified significant weaknesses[3] in oversight of aggregate fiscal risk, multiyear fiscal planning, transparency, and accountability of the budget process, and internal control mechanisms.[4] Analytical work[5] conducted between 2016 and 2018 took stock of current PFM practices and remaining challenges to set up a core PFM system.

8. **Lao PDR is a unitary system and its public administration system consists of the central and local levels which are considered part of the Government.** The central level includes the ministries and ministry-equivalent agencies while the local level is divided into provincial, district, and village levels. The 2015 State Budget Law defines the ministries and ministry-equivalent agencies and provinces as first tier budget units, while the ministry's departments, provincial functional departments, and districts are treated as second tier budget units. Progress has been made in updating the Chart of Accounts (CoA) to set the stage for producing financial statements compliant with the International Public Sector Accounting Standards (IPSAS). However, it does not yet support comprehensive transaction processing, budget management, controlling, and information requirements at all levels of government operations.

9. **The main issue, as identified in a 2017 World Bank Technical Note,[6] remains the absence of a comprehensive integrated organization classification, including district codes in the CoA.** As a result, budgets cannot be allocated to the various sector budget units at the district level and those expenditures cannot be checked against budgets before execution. This hinders the decentralization of transaction entry and budget controls to the district level, where they occur. Direct transaction entry at the district level would reduce time and effort for information generation and processing and would allow providing timely, reliable, and complete budget reports on expenditures incurred at the district level as a whole and by the various sector departments, such as education and health. Distinguishing sector budget units at the district level from those at the higher (provincial and central) levels would also provide information and input for policy and decision making at the service delivery level.

10. **Past reforms led by the National Treasury (NT) to introduce a TSA and improve cash management remain incomplete.** The 2017 WB Technical Note also noted that an earlier attempt in 2011/12 to consolidate government bank balances in the TSA at the Bank of Lao PDR (BoL) based on the zero-balance account mechanism was partially successful. While the BoL and commercial banks provide daily information on the balances and daily transactions of all accounts under the control of the NT, account balances are not being consolidated into a single account at the end of each day. In addition, some earmarked fund accounts, internally generated revenue accounts (which hold spending unit earnings, fees, and so on), and donor fund accounts are kept outside the BoL in commercial banks. Consequently, the NT is working on a weekly cash cycle, resulting in cash rationing (including delay in salary payments), and taking on expensive short-

[3] PEFA rating scores of D or D+.
[4] A new PEFA Assessment is expected to be finalized by February 2019. As limited reforms were undertaken since the 2010 PEFA Assessment, ratings and the overall status of the PFM system have not changed significantly from the 2010 assessment.
[5] This analytical work consisted of a series of technical papers prepared under the Lao PDR Public Finance Management Modernization Program (P158658), the first phase of a European Union (EU)-financed Single Donor Trust Fund (SDTF).
[6] Technical Note on Steps to Improve Cash Management and Fiscal Reporting; Janis Platais, June 2017; in project files. This review was undertaken as part of the EU SDTF Public Finance Management Modernization Program (P158658).

term borrowing. In the absence of commitment controls, government entities enter in commitments without confirmation of budget availability, which results in payment arrears.

11. **As a result, the NT is struggling to meet the increased demand for comprehensive and timely budget execution information, while effective management of public expenditures is constrained by outdated PFM information systems and procedures.** The existing information in the central system is not sufficient for the Ministry of Finance (MoF), line ministries, and donors, which has caused attempts to build parallel data collection and reporting systems not only for tracking budget management at the district level, but also at the line ministries. The MoF has initiated several information and communication technology (ICT) initiatives related to development and implementation of information systems to improve support to PFM business functions and service delivery to citizens and business. However, the current GFIS covers only a subset of functionalities required for a fully functioning budget execution system with bank reconciliation not yet in place and the district offices not being included in the GFIS coverage.

12. **The new Public Debt Law, approved in early 2018, paves the way to prepare the country's debt management function for a changing borrowing environment.** The new law provides the legal framework for improved debt management, including a debt management strategy. As noted in the recent Policy Note[7] on Debt Management, the MoF does not produce reports on overall debt and risks and is not able to generate complete cash flows that are essential inputs to the ongoing analysis of alternative borrowing plans that feed into the development of the debt management strategy. This is partly because the MoF is using an outdated and unserviced debt management system for debt recording.

13. **The absence of a job classification system and a structured training system limits the development of human resources for more effective PFM.** As noted in the recent Policy Note on Pay and Compensation,[8] there is currently no classification system describing different profiles (job purpose, responsibilities, and technical skills required for each position), which often results in staff of the MoF not having the relevant qualifications for PFM-related positions. This has created the need for capacity building to upgrade PFM skills. However, government budget for capacity building is limited and happens mostly on the job. Furthermore, staff rotations frequently cause knowledge drain and the continuous need for training new staff. Capacity building relies heavily on donor support, thus being externally driven in both content and frequency and limiting its coverage mostly to the central level. The absence of a structured system for skill requirements for different job profiles and training management impedes the identification of relevant training and progressive learning modules for different positions.

14. **To address the array of challenges mentioned, the MoF has undertaken major reform efforts on a broad level and developed the Public Finance Development Strategy 2025 and Vision 2030 (PFM Strategy)**. It serves as the blueprint for the second generation of PFM reforms, which aim to continue previous reforms undertaken during 2003–2012 and to finalize the development and implementation of core PFM systems. Capacity-building and skills enhancement are recognized as a crucial cross-cutting element. The strategy is accompanied by action plans for the first implementation phase 2018–2020. It foresees actions commonly recommended as minimum requirements of a core PFM system, such as (a) an adequate regulatory framework, (b) a sound accounting system and treasury-centric budget execution

[7] Prepared as part of the 2018 Public Expenditure Analysis (P158831).
[8] Prepared as part of the 2018 Public Expenditure Analysis (P158831).

processes, (c) a realistic budget preparation process, and (d) ultimately a core financial management information system (FMIS).

15. **The PFM Strategy emphasizes the cross-cutting element of ICT in the PFM reforms and the MoF has prepared an ICT Strategy to guide the use of ICT systems in the reform process.** The ICT Strategy 2018–2025, the first of its kind within the GoL, foresees a phased approach to replace existing and introduce new systems and applications, starting with a core FMIS, revenue management, and debt management systems, which then would be followed and expanded by modules, among other, on e-procurement, asset management, and additional tax collection applications. On the revenue side, a new tax revenue information system (TAXRIS) was launched in January 2019, while the Automated System for Customs Data (ASYCUDA) is in place. The ICT Strategy calls for the development of a complete set of interfaces with budget units, banks, and other relevant ministries/organizations, between government agencies and between the Government and the private sector to ensure data accuracy and integrity and to facilitate tax payments, electronic payments, and the application of modern tools such as smartphones, tablets, ATMs, and others. On the expenditure side, the ICT Strategy foresees the development of modern systems and tools to manage expenditure, linking the PFM system between the MoF, central entities, and local entities, and between the MoF and the banking sector. This would include modules on budget preparation, budget execution, fiscal reporting, auditing, and public debt.

16. **The Enhancing Public Finance Management through Information and Communication Technology (ICT) and Skills (E-FITS) Project will support the implementation of the MoF's PFM Reform Strategy and ICT Strategy through a new FMIS and by developing a PFM skills training program at the MoF**. The preparation and implementation of the proposed E-FITS project is supported by the Public Finance Management Reform Program (TF073110), an EU-funded Single-Donor Trust Fund (SDTF), which is providing technical assistance (TA) and capacity building to set up the policy and process needed for the implementation of a core PFM system.

### C. Relevance to Higher-Level Objectives

17. **The project is aligned with the World Bank Group's Country Partnership Framework (CPF) for Lao PDR for the period 2017–2021 (Report No. 110813-LA).** The CPF supports the global agenda adopted by Lao PDR through the SDGs, and the country's path to reduce poverty and promote shared prosperity in a sustainable manner, based on green growth principles. The CPF's cross-cutting theme 'Enhance effectiveness of public governance and administration' recognizes the need for effective public institutions and processes, including PFM systems to improve public financial flows on the revenue and the expenditure side, as a critical enabler for the efficient use of public resources. The horizontal link of PFM systems from the central to the sector level supports the improvement of public service delivery and consequently contributes to the twin goals for reducing poverty and promote shared prosperity. This is reflected in the implementation of the CPF. For example, the Green Resilient Growth Development Project Financing (P159956) had prior actions and triggers on tax administration, and PFM has been streamlined into sector activities, such as the Health Sector Programmatic Advisory Services and Analytics (ASA) (P164585).

18. **The project also contributes to the GoL's high-level development objectives.** The MoF's PFM Strategy has the objective to strengthen public finances to contribute to sustaining dynamic and stable economic growth and a graduation from LDC status, reflecting the objective of the 8th NSEDP for 2016–2020.

## II. PROJECT DESCRIPTION

### A. Project Development Objective (PDO)

**PDO Statement**

19. The PDO is to contribute to the coverage, timeliness, and transparency of financial reporting and to enhance public financial management skills. The main beneficiaries are MoF staff at the central, provincial, and district levels and civil servants of line ministries' Finance Departments, who will increase their knowledge and implementation capacity of PFM, and who will benefit from the reduction of manual processes and from the availability of more timely and reliable budget execution and other financial data, which will inform and improve their decision-making abilities.

**PDO Level Indicators**

20. Five key indicators will measure the achievement of the different dimensions of PDO. Definitions and intermediate indicators are presented in the detailed Results Framework in section VI.

(a) Coverage of annual financial statements and comparability with the approved budget;

(b) Coverage of in-year budget execution reports;

(c) Time lapse of public disclosure of annual financial statements after the end of the fiscal year;

(d) Time lapse of public disclosure of in-year budget execution reports after each quarter; and

(e) Percentage of MoF staff (disaggregated by gender and job profile) completing the PFM Skills Program.

### B. Project Components

21. **The project consists of three main components.** Component 1 will lay the foundations for a core Public Financial Management (PFM) System, by carrying out a program to implement a core Financial Management and Information System (FMIS), including, *inter alia*, the purchase, customization and installation of the application system software for the core FMIS. Component 1 will also provide for an upgrade of the current debt management system. Component 2 provides a Public Finance Management Skills Program and Change Management. Component 3 will support Project Implementation, including operational support to the Project Implementation Unit (PIU) in overall project coordination across Ministry of Finance (MoF) departments. The E-FITS project embraces innovations in emerging technologies, which would fundamentally change the way budget execution and staff learning would be done in Lao PDR as shown in box 1.

22. **Technical Assistance (TA) provided under the Lao PDR Public Finance Management Reform Program Single-Donor Trust Fund (TF073110)[9] (PFM SDTF) is complementing the proposed E-FITS project.** The objective of the PFM SDTF is to support the GoL to implement its PFM reform aiming to improve revenue management, budget preparation and execution, and public procurement. The PFM

[9] This SDTF is financed by the European Union

SDTF is leveraging the World Bank's technical and international expertise to provide TA and advisory services for the necessary policy and process changes. It also supports the strengthening of the GoL's implementation capacity through local implementation support and the organization of capacity-building and dissemination events, and the setup of the PIU and other preparation activities, such as the preparation of procurement processes.

**Box 1. Introducing 'Disruptive' Technologies to Improve PFM Systems and Skills in Lao PDR**

Lao PDR has started catching up in the use of technology, both in the public and the private sectors. The MoF is a frontrunner within the GoL with the MoF's PFM and ICT Strategies advocating the use of technologies as a driver to transform the modus operandi of government operations. Tools such as a web portal, e-signature, and e-learning platform would be used for the first time at the GoL, and jointly with the new FMIS, these technologies are expected to have a positive disruptive effect with the potential to drastically reduce processing times, use of hard copies, and manual steps. For example, through the adoption of the digital signature, paying suppliers could be reduced from about 21 steps to 9 steps, cutting the processing time in half. The new FMIS will provide the stepping stone toward a fully integrated management of public finances and interoperability with payroll management, tax payments, and e-procurement modules. Innovative tools such as the expansions of the use of 'smart cash' debit cards for petty cash management have the potential to reduce misuse of funds, while eliminating manual documentation and processing steps. Similarly, the e-learning platform constitutes a completely new approach and concept to professional development in the GoL and will provide access to structured learning content to all levels of government. If successful, the introduction of these technologies in the MoF would have the potential for spillovers and replication at other government agencies and potential impacts on service delivery and accountability.

**Component 1: Foundations for a Core Public Financial Management System (US$15 million)**

23. **Component 1 will address the principal investment outlined in the MoF's PFM and ICT Strategies the implementation of a new FMIS.** The MoF's PFM and ICT Strategies and analytical underpinnings prepared under the Public Finance Management Modernization Program[10] (P158658) emphasize the need for a new FMIS system as a cross-cutting tool to enhance PFM, introduce adequate availability and credibility of financial flows, enhance controls over the budget, and expand the coverage to the district level. This component includes the implementation of a new core FMIS, including the establishment of a supporting platform to operate the MoF's software applications, the upgrade of the debt management system, and the establishment of links/interfaces to other government information systems.

24. **A 2016 review[11] of the current GFIS indicated that it covered only a subset of functionalities required for a fully functioning budget execution system.** The GFIS was updated and rolled out to the provincial level in the mid-2000s and currently is connected to the about 40 central-level government agencies, the 17 provincial treasuries, and the 9 districts of Vientiane Capital. The almost 160 remaining districts are not included in the GFIS coverage and their aggregate transactions are entered by the respective provincial treasuries. The GFIS is mainly used to record payment processing steps, while the actual approval and processing consists of manual steps involving hard copies and physical signatures that

[10] EU-financed World Bank-executed SDTF, which was implemented between March 2016 and August 2018.
[11] Technical Note: Status of the Government's current FMIS and the way forward toward strengthening it to provide better support for Treasury management and budget execution; Ali Hashim, October 2016; in project files. This review was undertaken as part of the EU SDTF Public Finance Management Modernization Program (P158658).

could take up to 21 steps, leading to payments taking an average of up to 10 days to complete. The GFIS has no commitment control function, and while at the central level, ex ante budget availability controls are generally undertaken, at the provincial level, many payment transactions are only recorded in the GFIS after the payment has been processed.

25. **The current GFIS is limited in its capability to provide the technological backbone of a core PFM system.** The technical ability of the GFIS for updates for full functionality is limited as the technology used for system development is becoming obsolete, and the technical architecture and documentation are poor, leading to challenges in timely and comprehensive budget execution reporting. At the same time, there are no interfaces for data exchange between the current GFIS and other existing government IT systems, such as ASYCUDA, the Debt Management and Financial Analysis System (DMFAS), TAXRIS, and the Personnel Information Management System (PIMS) housed in the Ministry of Home Affairs (MoHA).

**Box 2. Expected Benefits from the Implementation of a new FMIS**

- Provision of detailed, comprehensive, and timely budget data and reports with breakdowns by the central, provincial, district, and service provider (that is, hospital and school) for all sectors (that is, education, health, and infrastructure). The data can be used for planning, monitoring and policy and decision making.
- Faster, non-paper-based (electronic), and secure processing of payments (that is, payroll and payments to suppliers).
- More efficient planning and management of cash to prevent cash shortages and make smarter use of idle balances.
- Reduction of manual and paper-based processes allowing for faster transactions and shifting the focus of government staff to more analytical tasks.
- Parallel financial data collecting and reporting systems, which currently exist at the sector levels, will not be needed anymore.
- The interoperability with other government systems, such as the tax management system, payroll system, debt management system, and so on, will allow for sharing and cross-checking of information and integrating the government information flow.
- Institutionalization of the use of country systems because the FMIS will allow PIUs to record project transactions and produce IFRs for donor-financed project reporting.

26. **Embedded in a broader PFM reform process, an FMIS can result in notable benefits (see box 2).** Supported by broader PFM reforms, the FMIS can facilitate, among others, better cash management by providing up-to-date data on available financial resources, reduced routine workload through shifting transaction processing to the location of their origin, improved budget execution by ensuring that all expenditures are in accordance with budget appropriations, and real-time reporting for decision making and accountability through publication of user-friendly reports. The FMIS would also allow full integration of the approved budget and budget execution data; enable close monitoring of outstanding bills; cash in government bank accounts, arrears, and fiscal deficits; and, finally, improve the quality and availability of budget execution reports and baseline data.

27. **TA and capacity building (see table 1) for these necessary policy changes will be provided.** An expansion of the CoA to allow for the allocation of the budget to the lowest-level budget units and enhancement of proper budget classification is supported by a joint World Bank/International Monetary

Fund (IMF) TA. Those are necessary for the use of a new FMIS at the district level to record expenditures by the various sector departments, such as education and health. The expansion of the CoA will also facilitate the reporting in compliance with IPSAS and the IMF Government Finance Statistics Manual (GFSM) 2014 requirements. TA will also be provided to improve treasury management, including the enhancement of the TSA, cash forecasting, and cash planning. Similarly, TA to set-up a cyber security framework and for the introduction of e-signature at the MoF is provided and includes support to the preparation of necessary regulations for electronic payment processing and the establishment of formats and methods for electronic document management and electronic signature including encryption protocols. The e-signature will facilitate the reduction of manual and paper-based processes under the new FMIS.

**Table 1. Provision of TA for Component 1**

<table>
<tr><th>Topic</th><th>Activities Under E-FITS</th><th>Support through the PFM SDTF</th></tr>
<tr><td>Core FMIS</td><td rowspan="4">• Purchase, customization, and installation of the application system software for a core FMIS<br>• Training of end users<br>• Setup of a technology platform and facilitating the interoperability with other government systems<br>• Update of the public debt management system</td><td>• TA for expansion of COA (World Bank/IMF)<br>• TA for improvements of the TSA and cash management<br>• TA for adaption of e-signature<br>• TA on cyber security<br>• TA for the ACH (under the Financial Sector Development - P160715)<br>• TA for a BCM Plan<br>• Preparation of technical specifications and bidding documents</td></tr>
<tr><td>Interoperability with other GoL systems</td><td>• TA for rollout of the PIMS</td></tr>
<tr><td>Debt management</td><td>• TA for a debt management strategy and training for the new debt management system (under the Debt Management Practitioners Program - P152578)</td></tr>
<tr><td>Transparency and citizen engagement</td><td>• Revamp of the MoF website<br>• Preparation of a reader-friendly budget summary<br>• Dissemination of activities and stakeholders outreach</td></tr>
</table>

28. **The critical step to set the stage for FMIS implementation is to connect the NT to the national payment system through an Automated Clearing House (ACH).** The ACH[12]—housed in the BoL—has been currently set up with the support provided under Financial Sector Development (P160715).[13] The ACH will facilitate fast and secure payments, receipt processing, and consolidation of the NT payment requirements through a single channel, cater to the needs of maintaining virtual treasury accounts, and also reduce costs and eliminate routine manual operations.

29. **TA is also provided for the interoperability of the FMIS with other systems and business continuity management (BCM), as well as for transparency and citizen engagement.** Under the Debt Management Practitioners Program (P152578) advice and capacity building accompanying the proposed

[12] An ACH is an electronic funds-transfer (payment ) system that processes government and business transactions (including payroll, direct deposits, tax payments, consumer bills, and so on), with shown benefits of increased efficiency and timeliness of government and business transactions.
[13] Led by the Finance, Competitiveness, and Innovation Global Practice.

upgrade of the debt management system is provided, while the PFM SDTF provides support to the MoHA in the rollout of its PIMS, which will be connected to the FMIS. The PFM SDTF is also providing TA for a BCM plan, the implementation of which will be financed under the E-FITS project. Finally, the PFM SDTF also supports the upgrading of the MoF's website and the preparation of reader-friendly budget summaries, facilitating transparency and citizen engagement.

*Subcomponent 1.1: Implementation of a Core FMIS (approximately US$14.75 million)*

30. **The subcomponent will carry out a program to implement a core FMIS**[14]**, inter alia, the purchase, customization, and installation of the application system software for the core FMIS,** including, among others, hardware, end-user devices, operating software, database system, support and maintenance, training of FMIS end users, the setup of a technology platform, and facilitating the interoperability with other government systems. The application software of the core FMIS will replace the existing GFIS and facilitate the computerization of all functional processes associated with the budget execution process (see table 2). Spending units at the central and provincial levels, including line ministries, would access the core FMIS.

31. **The coverage would also be expanded to the district-level budget units through a web portal.** Access for data entry from district offices and other small budget units would be provided through a simple web portal tool to allow the entering of transaction data and report viewing through a standard web browser. The use of a web portal will not only reduce costs, but also speed up the deployment. The piloting of a web portal could be undertaken before the complete FMIS is implemented. For entering transactions into the FMIS at the lowest levels of the Government, it is important to ensure that appropriate Internet access is provided as part of the operational budget of the spending units.

**Table 2. Core PFM Functional Processes**

| Functional Process | Description |
|---|---|
| Budget management | Budget apportionment, allotment, releases, and transfers |
| Commitment management | Recording all commitments relating to intended government expenditures |
| Payment management | Processing of all government expenditures (procurement of goods and services; salary and pension, travel, petty payments; debt servicing and other payments) |
| Receipts management | Recording revenues and other receipts |
| Accounting | Double entry posting of all transactions in the general ledger as they occur with automated bank reconciliation |
| Cash management | Availability of up-to-date information on balances in government accounts and cash requirements over the short and medium term |
| Fiscal reporting | Use of IMF-GFSM2014-compliant multidimensional CoA to produce timely and accurate pre-defined and user-defined (using report writing tools) budget execution reports and statutory financial statements |
| Interfaces | Application program interfaces with DMFAS, ASYCUDA, TAXRIS systems, BoL core banking systems and ACH/Real Time Gross Settlement System, PIMS, and other related PFM applications. Data migration tools. Document attachment functionality |

[14] A 'core' FMIS refers to the Budget Execution/Treasury system only (see figure 1, with the options of later adding modules on budget preparation, e-procurement, asset management, and so on (out of the scope of this project).

32. **This subcomponent will also support the establishment of interoperability of the new FMIS with other government information systems**. Interfaces would be established with existing systems, such as TAXRIS, ASYCUDA, and forthcoming systems, such as the updated debt management system (see Subcomponent 1.2), the payroll module under the PIMS[15] (under preparation by MoHA), and the BoL's countrywide payment settlement system. These interfaces would allow for interoperability between the systems and integrating the government information flow. In the scope of the E-FITS project, links and interfaces with existing systems will be established to establish a full-fledged, end-to-end functional process. In subsequent phases (beyond the scope of this project), additional modules, such as budget preparation, e-procurement, and asset management, could be added to the core FMIS.

33. **This subcomponent would also support the setup of an adequate networking platform to enable the MoF's ICT environment to house and operate software applications and to facilitate interfaces to relevant software applications inside and outside of the MoF.** In addition, this subcomponent would provide the necessary ICT infrastructure for a disaster recovery site (DRS) and the adoption of a BCM[16] plan. This will include the purchase of additional hardware, systems software, security software including instruction /penetration detection, and network management and monitoring software and upgrade of data centers and equipment to set up the data recovery site.

34. **An upgrade of the MoF's technology platform, including data centers for a DRS and the implementation of BCM, is critical to accompany the planned expansion of software applications at the MoF**. A new data center, built to host the new TAXRIS, would serve as a Tier-4[17] Integrated Data Center that will host all MoF applications, including the new FMIS, and could eventually be used for a private cloud for Platform-as-a-Service. This data center consolidation will help maximize server and storage utilization and reduce the number of devices required, thus saving energy and costs. In addition, the upgrade of the DRS to a Tier-4 center would allow for the integration with the main data center.

35. **The current DRS, established for TAXRIS, cannot accommodate all of the MoF's software applications.** A more suitable DRS to host all of the MoF's applications will be identified and the MoF will prepare and adopt a BCM plan to establish BCM protocols and procedures. The EU PFM SDTF is providing TA for the BCM plan that will establish recovery point and recovery time objectives and identify a proper DRS site. The MoF is also coordinating with the Ministry of Science and Technology and the Ministry of Post and Telecommunications on the overall ICT policy and security framework.

*Subcomponent 1.2: Upgrade of the MoF's Debt Management System (approximately US$0.25 million)*

36. **This subcomponent will provide for an upgrade of the current debt management system to enable MoF to record external and domestic debt data, on-lending loans and contingent liabilities.** This

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[15] The setup of the payroll module under PIMS is supported under the PFM SDTF Program.

[16] BCM is a holistic management process, which identifies potential threats to the MoF (for example, cyber attack, fire, or flooding) and the impacts to business operations that those threats may cause (for example, loss of data and discontinuity of government financial operations). It provides a framework for building organizational resilience to safeguard the interests of its key stakeholders, reputation, and lines of business.

[17] A Tier-4 data center is considered as most robust and less prone to failures. It is designed to host mission critical servers and computer systems, with fully redundant subsystems (cooling, power, network links, storage, and so on) and compartmentalized security zones controlled by biometric access controls methods.

would include an update of the current system to the newest available version, which will allow a setup where the BoL will continue to act as fiscal agent for the MoF in the area of domestic borrowing, including debt recording, with the MoF having access to the domestic debt data. Given a changing debt structure, it is critical that the GoL has the tools to transition to a new environment for debt management.

37. **Currently, external debt is recorded by the MoF in DMFAS version 5.3.** This version of the system is no longer serviced by the system provider the United Nations Conference on Trade and Development (UNCTAD), which implies substantial operational risks, insofar as malfunctions are not corrected, and staff are not able to get advice from UNCTAD on system issues. In addition, version 5.3 is not capable of recording domestic debt, meaning that the current debt recording framework is fragmented. The upgrade of the debt management system is complemented by TA to the Debt Management Division in the MoF, provided by the Debt Management Practitioners Program (P152578) under the Macroeconomic, Trade, and Investment Global Practice.

**Component 2: Public Finance Management Skills Program and Change Management (US$4 million)**

38. **Component 2 will support the MoF in the implementation of its PFM Strategy by addressing PFM capacity constraints and by establishing a change management program.** The MoF's PFM Strategy identifies the need for upgrading PFM capacity as one of the cross-cutting requirements for successful PFM reforms and effective PFM. At the same time, PFM reforms, and specifically FMIS implementation, bring about significant transformation, for example, through the move from manual administrative to more analytics-focused tasks. This component will include the identification of a PFM competency framework, the delivery of PFM training, and a change management program.

39. **Building on the existing legal framework and in line with the PFM Strategy, the Human Resource Management Plan for Organizational and Human Resource Development for PFM Staff by 2025[18] (HRM Plan) was prepared.** The Law on Civil Servants 2016 and the 2017 Decree on Civil Service Training and Development provide guidelines for the implementation of a training system for civil servants, which is further defined in the HRM Plan, developed by the Organization and Personnel Department (OPD) within the MoF. This HRM Plan envisions the identification of PFM-related job profiles[19] and capacity-building needs, and the provision of a training program. The abovementioned decree on civil servants training identifies different capacity-building areas including training on the legislative framework, government structure and policies, international and regional integration policies, public administration, and foreign language, ICT, and technical skills.

40. **The Economic Finance Academy (EFA) hosts the MoF's training center and has the mandate to provide training to MoF staff.** The EFA provides training services to the MoF and also offers a bachelor's program on public finance for aspiring civil servants. EFA is expanding the curriculum for training to MoF staff, as currently its main focus is on the legislative framework and nontechnical trainings such as international and regional integration policies and government structure and policies. Technical contents

[18] Ministry of Finance. 2018. *Management Plan for Organizational and Human Resource Development for PFM Staff by 2025*.
[19] At the central level, MoF civil servants (1,074 staff -34.6 percent female) are distributed across 13 technical departments (70.6 percent), 4 financial institutes (22.8 percent) and Cabinet (6,5 percent). By level, this represent a distribution of 65 percent technical officers; 29.4 percent middle managers; 5.6 percent high management. Statistics on Human Resources of MoF staff from by the Organization and Personnel Department, Ministry of Finance. December 2018.

are primarily taught by MoF middle management staff on an ad hoc basis. The EFA has good facilities, including small classrooms and large lecture halls, which can cater to different training audiences.

41. **Currently, there is no structured training approach, with capacity-building happening mostly on the job and targeted training relying on donor support.** There is no structured capacity building system to assess training needs, identify skills needed for different positions, and assign progressive learning modules for civil servants' PFM capacity development. The contents and frequency of donor provided trainings are being externally driven instead of following internal demands and needs. These trainings reach only a limited number of MoF staff, who are mainly those holding positions at the central level.

42. **PFM reforms and especially FMIS implementation bring about significant transformations and changes to the organization as a whole as well as to individuals and their day-to-day activities, roles, and tasks.** Among the transformations through a PFM reform are (a) the move from silo to a more collaborative working culture due to system and data integration, (b) the move from administrative to more problem solving and strategic thinking due to the elimination of administrative steps, (c) the move from specialization to multitasking due to structure changes, and (d) the move from manual to automatic and more robust controls. It can be expected that reforms will have an impact on individuals within the Government and that they are likely to have different expectations, interests, views, and objectives, which will result in different attitudes and behaviors toward the reform process.

43. **Managing the ability and predisposition of staff and the MoF as an institution and a strong leadership are key to ensuring a successful FMIS implementation.** A World Bank publication reviewing the implementation of 55 FMIS projects concluded that failure in the implementation was due to institutional resistance in 23 cases and to lack of leadership commitment in 17 cases.[20] Introducing a new FMIS can create resistance among staff because they might feel that they have a lack of confidence to use the new system and that their relevance and role in the institution might change. These reactions were recorded in the implementation of a new FMIS in both Indonesia and Cambodia. Therefore, it is important that the transformation is managed as a people-oriented approach, which communicates the changes and benefits of the reform, shows support from leaders, and equips people with the skills to embrace their new roles. The investment in human capital is a crucial factor in the successful implementation of both FMIS and overall PFM reform**.** Capacity building to civil servants contributes to investing in the people who will manage the technological changes and the transformations in operations and structure of the MoF.

*Subcomponent 2.1: Establishment of a PFM Skills Program (approximately US$3 million)*

44. **This subcomponent will support the development of a competency framework, training needs analysis and preparation of a curriculum for the PFM Skills Program at MoF, and the implementation of a Learning Management System (LMS) at MoF.** The competency framework will identify a minimum set of skills for each PFM-related position, based on the job profiles (that is, treasury analyst, budget officer, tax auditor, and director general), reflecting the changes in job profiles as part of PFM reforms. Drawing upon the capacity-building areas identified in the civil servant training decree, the framework would comprise technical competencies, language and ICT, and managerial and other soft skills. The competency

[20] Dener, Cem, Joanna Watkins, and William Dorotinsky. 2011. "Financial Management Information Systems – 25 Years of World Bank Experience on What Works and What Does Not." A World Bank Study.

framework will ensure that job functions required for PFM reform and FMIS implementation are matched with the right set of profiles and skills for a successful transition. Aligned with the identified competencies, the PFM Skills Program would include modules on core PFM knowledge and other complementary skills to equip staff with both technical and job-specific competencies necessary to perform their roles. The training needs analysis will identify the key areas for training priorities, based on the competency framework and job profiles. The LMS will provide a structured training approach driven internally by the MoF and an online platform to enhance core knowledge of civil servants responsible for the successful implementation of FMIS and broader PFM reform.

45. **The development of training content for the PFM Skills Program, including the purchase and deployment of an LMS, and the provision of externally provided training courses will be supported.** As part of the curriculum, most of the technical training, including core PFM skills and training on competencies for the different job profiles, would be delivered with the support of the EFA. While basic content could be delivered through e-learning modules, it would be complemented by face-to-face training for more interactive and hands-on capacity building. Non-PFM technical skills, such as language courses, ICT, and leadership skills, will be provided through external providers. To address existing gender gaps in management positions, training on soft skills such as public speaking, and leadership skills, and ICT will be provided and targeted to female staff through the inclusion of “women-only” trainings in the PFM Skills Program. To capture the gender impact of the E-FITS project, the gender of participants of the PFM Skills Program will be tracked, and the perceived knowledge increase will be disaggregated by gender, including specifically for the leadership and ICT courses.

46. **The LMS includes an online training platform and will be at the core of the PFM Skills Program**. The LMS software application will provide a platform to create, import, and manage training content and to deliver online courses. The online learning platform will be a valuable tool to address the high internal rotation of government staff by providing relevant training to newly appointed staff, as well as to update and upgrade skills of current staff. Furthermore, the LMS platform can be expanded to integrate additional learning materials on any area relevant to different job functions, including an employee orientation and introduction to different departments and policies. The online interface will enable civil servants to learn at their own pace from any location with Internet connection, thus overcoming the barrier of shortage of funding for capacity-building initiatives at the provincial and district levels.

47. **The LMS software also allows for a more systematic management of human capital development within the MoF**. The OPD’s HRM Plan emphasizes the need to use modern tools for the management of capacity building. The LMS has integrated monitoring functions to register and authenticate users, check their online learning progress, and issue completion reports and performance statistics. Most importantly, the system offers personalized learning for each staff. This will enable the OPD to assign relevant training courses to different job profiles and for progressive learning of each staff according to job requirements and learning interests. As part of the LMS deployment, capacity building will be provided to administrators (possibly at the EFA) on the use and maintenance of the LMS and future development of the content, thus ensuring sustainability and a reach of the LMS across the country and disciplines.

48. **The development of training content for the PFM Skills Program will upgrade existing government training resources and develop new content**. Training contents existent at the EFA and MoF will be reviewed and strengthened by aligning it with the competency framework and utilizing instructional

designers to ensure that the training content is both engaging and effective. The development of teaching materials and manuals would also be supported. Content development could also draw on existing PFM courses from international organizations and other governments, which could be translated and adopted to the Lao context, and on materials from donor workshops, thus expanding their impact from one-time workshops to reusable modules and a wider audience. In addition to online learning, the program will strengthen face-to-face delivery of training content by the EFA through the provision of training on teaching methods and pedagogical approaches for faculty staff. In addition, a twinning arrangement can be established with the Lao Chamber of Professional Accountants and Auditors to provide certified PFM qualification.

*Subcomponent 2.2: Change Management (approximately US$1 million)*

49. **This subcomponent will support the development and implementation of a change management program, including change perception surveys, a communications campaign, and stakeholder engagement activities.** The change management program provides support to MoF staff during the transition process of PFM reforms and the introduction of a new FMIS. A change management team to lead the process has been established under the MoF's OPD and is receiving TA as part of the EU PFM SDTF (see table 3) in the preparation and implementation of a Change Management Strategy and Plan.

50. **Change perception surveys, a communications campaign, the creating of a change agent network and update of standard operating procedures (SOPs) will be supported under this subcomponent**. The initial change perception survey will provide baseline information on staff's perception of the organization and personal readiness for change and staff's assessment of the change itself and expected personal impact. Subsequently, a follow-up survey will be conducted toward the end of the project to assess the overall acceptance of the FMIS implementation process. The communications campaign will include, among others, the development of communication materials and dissemination to stakeholders to ensure a widespread awareness of the FMIS benefits and status and progress of the PFM reforms. The change management program will create a change agent network at all government levels (central, provincial and district) and conduct workshops to facilitate stakeholders' engagement. In addition, support will be provided in the modification of relevant regulations, adjustment of organizational structures, and strengthening of SOPs in areas affected by the FMIS to ensure that the system is formally used by end users.[21]

51. **The change management program is implemented hand in hand with the PFM Skills Program (Subcomponent 2.1) and the training of FMIS end user (Subcomponent 1.1).** The PFM Skills Program and the FMIS end-user training both will provide MoF staff with new skills needed to adapt effectively to their new roles and tasks resulting from the FMIS process. At the same time, the managerial and strategic leadership competencies foreseen under the PFM Skills Program will support middle and top management to lead and manage the PFM reform.

[21] The Change Management team of FMIS Cambodia assisted the improvement of SOPs for all stakeholders affected by the FMIS. In total, 74 SOPs were produced, which consist of 18 SOPs for the General Department of Budget, 8 SOPs for General Department of International Cooperation and Debt Management, 36 SOPs for General Department of National Treasury, 3 SOPs for the General Department of Public Procurement, and 9 SOPs for the General Department of Sub-National Administration and Finance. In FMIS SPAN Indonesia,199 SOPs are produced, which consist of 80 SOPs for Directorate General of Treasury, 4 SOPs for Treasury Regional Office, and 115 SOPs for Treasury Payment Office.

**Table 3: Provision of TA for Components 2 and 3**

<table>
<tr><th>Topic</th><th>Activities under E-FITS</th><th>Support through the PFM SDTF</th></tr>
<tr><td>Change management</td><td>Subcomponent 2.2: Change Management<br>• Change perception surveys<br>• Communications campaign<br>• Stakeholder engagement activities</td><td>• TA for Change Management Plan</td></tr>
<tr><td>PIU</td><td rowspan="2">Component 3: Project Implementation<br>• PIU operational and consultant cost starting 2020</td><td>• PIU operational and consultant cost until end 2019</td></tr>
<tr><td>Monitoring and evaluation (M&E)</td><td>• PEFA Assessment 2018 and 2021<br>• TA for M&E system</td></tr>
</table>

**Component 3: Project Implementation (US$1 million)**

52. **This component will provide operational support to the PIU at the MoF in overall project coordination across MoF departments, supporting and overseeing project implementation, undertaking procurement and fiduciary tasks, and monitoring implementation progress and achieving Project outcomes.** This will include the hiring of local consultants, for example, procurement, financial management (FM), M&E, and project management consultants; technical advisers, including international advisers to assist with the procurement process and the supervision of the FMIS contract implementation. This subcomponent will also provide funding for the PIU's operational costs and the annual external audit. It is foreseen that funding for the PIU consultants and operational costs until the end of the calendar year 2019 will be provided by the PFM SDTF and starting in calendar year 2020, the PIU activities would be financed under the E-FITS project.

## C. Project Beneficiaries

53. **The primary beneficiaries of the E-FITS project are staff and management from the participating government entities.** The main direct beneficiaries will be MoF staff at the central, provincial, and district levels and civil servants of line ministries' Finance Departments. Through the implementation of the FMIS and elimination of several manual processes, the productivity of administration staff is expected to increase allowing to move toward more analytics-focused work. Through the establishment of a PFM Skills Program, including an e-learning program, the beneficiaries are also expected to increase their knowledge and implementation capacity of core PFM topics and specific PFM sub-topics. The MoF management and other government entities will benefit from timely and reliable budget execution and other financial data, which will inform and improve their decision-making abilities. The beneficiary feedback will be measured through evaluations of capacity-building activities and change perception assessments.

54. **Lao PDR citizens and the broader public will benefit from more transparency and availability of information and ultimately from improved service delivery through enhanced use of public funds.** Timely and publicly available budget data will inform citizens and other stakeholders and increase the GoL's accountability. The publication and availability of budget reports will serve as a citizen engagement indicator and is included in one of the dimensions of the PDO indicator, and as a separate indicator. In the long run, the indirect beneficiaries are the citizens of Lao PDR, who through improved management and

more efficient use of public resources, will, ultimately benefit from improved service delivery.

55. **A change management program is facilitating the reform process for main beneficiaries.** As any institutional reform, the project is likely to generate a large number of beneficiaries or 'winners of reform' while some stakeholders currently exploiting positions of power due to nontransparent rules and regulations could potentially be net 'losers of reform', opening the possibility of such stakeholders advocating against and slowing down change. Hence, a change management program to accompany reforms has started during project preparation.

56. **An analysis to identify relevant gaps between male and female main beneficiaries has identified an underrepresentation of women among MoF staff**. MoF employment statistics[22] show that on an aggregate level for the central, provincial and district levels female representation in 2017 was at 31 percent (2,395 of a total of 7,660 staff), while at the central level women represented 34.6 percent[23] of the MoF's staff (372 of a total of 1,074). At the central level, at the technical, middle management and high management level, women are underrepresented with 38, 30 and 37 percent respectively (no subnational data is available on gender by positions). Consequently, it seems that while career and promotion opportunities at the MoF central level are similar for men and women, women are overall underrepresented at the MoF. The 2012 Lao PDR Country Gender Assessment[24] came to similar conclusions of a gender gap of women in the overall formal work force.

57. **However, the gender gap at the MoF has been decreasing.** Since 2011, the recruitment of women has been on the rise and in 2017, 76 percent more women worked at MoF than in 2011 (2,395 versus 1,363), against an increase of male staff of 40 percent (5,452 versus 7,660). The overall female representation at the MoF rose from 20 percent to 24 percent during the same period. A further narrowing of the gender gap would require attracting and recruiting more women for positions at the MoF, however recruitment policies are out of the scope of the E-FITS project. Data from OPD shows that women have an over-proportional representation at training activities, however, the Five Year (2016–2020) Strategy for Women Empowerment by the MoF's Women's Union Chapter at the MoF has identified the need for female-targeted capacity-building activities, including training on leadership and ICT. This need is addressed through the inclusion of such trainings in the PFM Skills Program. To capture the gender impact of the E-FITS project, the gender of participants of the PFM Skills Program will be tracked, and the perceived knowledge increase will be disaggregated by gender.

### D. Results Chain

58. **The Theory of Change for the E-FITS project identifies the five main activities, its outputs, and its expected outcomes as reflected in the PDO**. The main activity is the implementation of a new FMIS, which is complemented by training to end users on how to operate the new system, and the upgrade of the debt management system. Another set of activities is the setup of a PFM skills training program within MoF and a change management program. The main expected outputs are a new FMIS, a new debt

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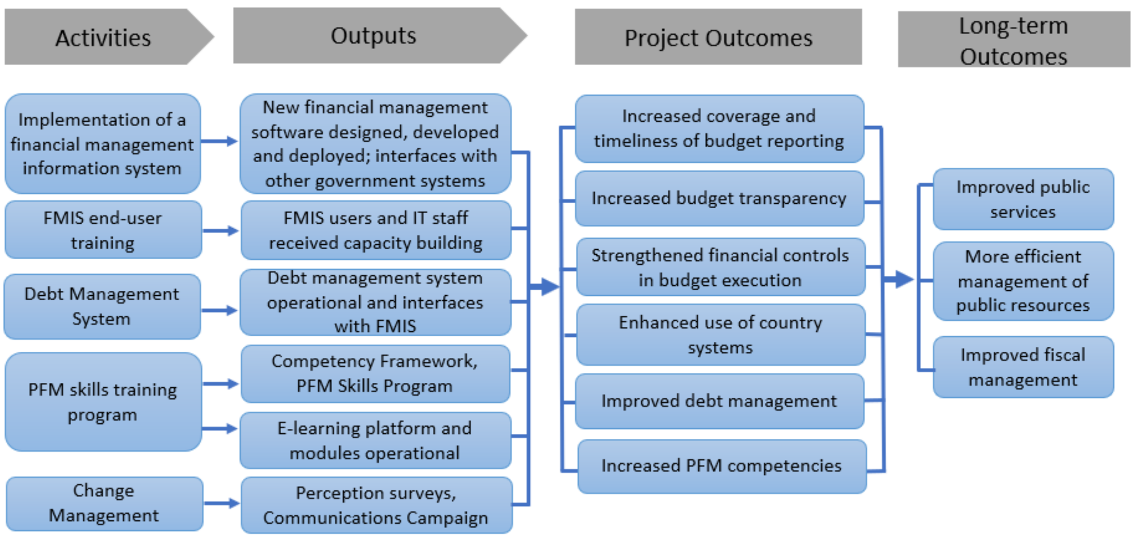
[22] Management Plan, Organizational Structure and Personnel in the Public Finance Sector by 2025. Ministry of Finance, 2018.
[23] 2018 data
[24] World Bank. 2012. *Lao PDR Country Gender Assessment* (Report No. 704909). This report was prepared by the World Bank and the Asian Development Bank, in consultation with the GoL as inputs to their respective country partnership strategies.

management system, a competency framework, an e-learning platform, perception surveys, and a communications campaign. As reflected in the PDO, the main outcomes from the FMIS, supported by the PFM skills training program are increased coverage, timeliness and transparency of financial reporting, and enhanced PFM skills. Other expected outcomes are an improvement in public debt management and the strengthening of country systems for donor-funded projects. Longer-term outcomes expected from the E-FITS project are reflected in its contribution to improved public services, more efficient management of public resources and improved fiscal management.

**Figure 3. Theory of Change**




## E. Rationale for Bank Involvement and Role of Partners

59. **PFM reforms are a cross-cutting enabler for development outcomes across sectors**. Improvement of PFM systems and its outcomes of more efficient management and use of public resources ultimately will benefit the broader development agenda in Lao PDR. This is especially true for the delivery of public basic services, among others, to contribute to the improvement of the country's human capital. In addition, improved PFM systems also support the use of country systems for the reporting requirement of the World Bank and other donor projects.

60. **The GoL's PFM reform agenda is supported by the broader donor community.** With the GoL's renewed engagement in PFM reforms and the formulation of its PFM Strategy, the donor community has increased its support. An informal donor coordination group on the PFM agenda, led by the World Bank and EU, has fostered dialogue to avoid overlaps and duplication in supporting the MoF's reform implementation. TA provided under the EU-financed PFM SDTF, and TA provided by the IMF also contributes to the E-FITS project. The Asian Development Bank is providing TA, among others, to the improvement of the MoF's Medium-Term Expenditure Framework and is considering a series of budget support operation linked to PFM. Other donors in Lao PDR that are active in the PFM arena are the Japan International Cooperation Agency, German Development Agency (*Deutsche Gesellschaft für Internationale Zusammenarbeit*, GIZ), the Swiss Agency for Development and Cooperation (SDC), and the

UN Capital Development Fund. GIZ, with support from SDC and EU is implementing a large program on citizen engagement and providing support to the National Assembly and the State Audit Organization.

### F. Lessons Learned and Reflected in the Project Design

61. **Reviews of experience from similar PFM reform projects have identified several lessons learned, which have been included into the design of the E-FITS project**. Over the past years, several World Bank studies have reflected on the factors for success and failure of PFM reforms. A 2018 Independent Evaluation Group (IEG)/Development Economics (DEC) Policy Research Paper[25] and a 2011 World Bank Study[26] focus on lessons learned, while in 2018, a Governance Global Practice Report[27] focused on the political economy of PFM reforms. Implementation Completion and Results Reports (ICRs), such as the one from the Cambodia FMIS project[28] also offer useful lessons learned. The following lessons are reflected in the E-FITS project design:

(a) **High political commitment to PFM reforms.** The importance of government commitment and ownership has been identified as one of the main factors of success or failure of PFM reform projects. In Lao PDR, the MoF's PFM Strategy and the implementation of a new FMIS as a key reform cornerstone PFM Strategy enjoys commitment both at the technical and high political levels.

(b) **The engagement with the MoF over the past two years was focused on analytical underpinnings for PFM reforms in Lao PDR.** Facilitated by an EU-financed SDTF, the engagement during the past two years was focused on the analytical underpinnings for the PFM reforms in Lao PDR, and many of those recommendations have been integrated in the action plans for the MoF's PFM Strategy. Reflecting on the lessons identified, the scope of the proposed operation is based on this previous diagnostic work.

(c) **Necessary policy and process changes are being put in place before FMIS implementation.** Leveraging the EU PFM SDTF, the implementation of those prerequisites has been initiated and will continue in parallel to project preparation and the FMIS preparation process to ensure that they are in place, in time for the new FMIS.

(d) **Staged approach and adequate sequencing instead of embarking on a series of parallel reforms**. One of the main lessons learned is to start with the basic 'core PFM' reforms and leave 'advanced reforms' such as program and results-based budgeting for a later phase. Following the MoF's action plan, a staged approach is being followed with a first phase focusing on establishing a strong core PFM system and putting in place financial compliance and fiscal controls. Building on a functioning FMIS, subsequent phases (beyond the scope and

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25 Hashim, Ali, and Moritz Piatti-Fünfkirchen. 2018. "Lessons from Reforming Financial Management Information Systems – A Review of the Evidence." Policy Research Working Paper 8312. World Bank, Washington, DC.

26 Dener, Cem, Joanna Watkins, and William Dorotinsky. 2011. *Financial Management Information Systems – 25 Years of World Bank Experience on What Works and What Does Not.* A World Bank Study.

27 Fritz, Verena, Marijn Verhoeven, and Ambra Avenia. 2018. *Political Economy of Public Finance Management Reforms – Experiences and Implications for Dialogue and Operational Engagement.* World Bank.

28 Implementation Completion and Results Report (ICR) of the Cambodia PFM Modernization Project (P143774).

time of this project) would focus on improving fiscal stability and sustainability and promoting efficiency and effectiveness of service delivery.

(e) **The preparation of a change management program in the MoF has already started.** Experience has shown that it is critical to start a change management program early in the process to secure commitment from all stakeholders and to help navigate political economy aspects and nontechnical drivers of reform. A change management team has already been set up and the preparation of a change management program has started.

(f) **The preparation of technical requirements and bidding documents for the FMIS has been initiated.** Another lesson is the need for precise technical specification and a preparation of the bidding documents during project preparation. As part of the diagnostic work, business processes and maps of the budget preparation and execution cycle have been prepared. This documentation serves as basis for the technical specifications and bidding documents.

(g) **The project foresees to build technical knowledge in-house to ensure the sustainability of the system and capacity for end users before the system goes live.** As part of the capacity-building and change management activities, special attention will be paid to properly build technical know-how and user capabilities and comfort to use the system.

## III. IMPLEMENTATION ARRANGEMENTS

### A. Institutional and Implementation Arrangements

62. **To oversee the implementation of the MoF's PFM Strategy, a National Steering Committee (NSC) on PFM reform was established**. The NSC chaired by the Deputy Prime Minister will ensure governmentwide coordination of the PFM reform progress. Within the MoF, a PFM Reform Technical Working Committee (TWC) has been established, supported by a PFM Reform Secretariat/E-FITS Implementation Committee to manage the implementation of the MoF's PFM Strategy.

63. **The PIU under the oversight of the MoF's PFM Reform Secretariat will be responsible for project implementation.** The PIU will be the central executing agency responsible for overall project implementation monitoring, fiduciary oversight, and providing technical, procurement, and FM support to implementing departments responsible for the technical implementation of project components. The PIU will consist of a team of government staff, local consultants, and international advisers, and will be supported by implementing technical departments.

64. **FM arrangements.** Funds will flow to a Designated Account (DA) opened at the BoL. Cash advance will be provided to implementing departments and agency for activities to be implemented. The PIU will be responsible for the accounting and reporting of the project expenditure. A biannual unaudited interim financial report (IFR) will be prepared by the PIU and submitted to the World Bank and project expenditure will be annually audited by an independent qualified auditor.

65. **Procurement arrangements.** The proposed project procurement will be carried out in accordance with World Bank's Procurement Regulations for IPF Borrowers, dated July 1, 2016, revised November 2017

and August 2018; and provisions stipulated in the Financing Agreement. To inform fit for purpose procurement arrangements, the MoF with support of the World Bank has prepared a draft Project Procurement Strategy for Development (PPSD). The PPSD presents how major procurement activities under the project will support the PDO and deliver the best value for money using a risk-based approach. In addition, the PPSD includes the rationales for procurement decisions including the selection of the approach to market and procurement methods. The PPSD may be updated, once the major contracts in the project have been identified, and the Procurement Plan of the project shall be regularly updated as appropriate throughout project implementation.

**Box 3. Contribution to Strengthening Country Systems and Disbursement Processes**

The financial recording of receipts and expenditure and the production of financial statements under World Bank-financed projects in Lao PDR are currently done through accounting software purchased by each project. They are either off-the-shelf or developed in-house. With the implementation of the FMIS, the various PIUs will be able to use the FMIS to record project transactions and to produce IFRs from the FMIS, thereby streamlining reporting to the World Bank (and other donors) and institutionalizing the use of country system. Further, it will ensure consistency in the use of CoA among projects and enable the reporting of receipts and expenditure from Official Development Assistance (ODA)-financed projects as part of the overall Government's financial statements. Once the FMIS is operational, the E-FITS project will be a pilot for the use of the FMIS to produce project-related reporting, which would then be rolled out to the rest of the World Bank portfolio. Similarly, the introduction of the e-signature in the MoF would pave the way for the use of the World Bank's e-disbursement, a requirement that Lao PDR has not yet met.

66. **The initial capacity and risk assessments undertaken by the World Bank rate the procurement risk as Substantial.** Besides the selection of a few consultants to support system design project implementation, the majority of the project funds under Component 1 will be used for a large IT procurement for the development and implementation of an FMIS. This IT package would likely be procured under single responsibility contract (including hardware, software, and training for end users) for which the procurement process is highly complex. Under Component 2 the majority of packages are for the selection of consultants. The capacity of the MoF to manage complex procurement is limited even though it has implemented several World Bank-financed projects. Limited capacity and lack of familiarity with the new procurement regulations for investment project financing (IPF) could contribute to major delays in the implementation of procurement activities. Mitigation measures for procurement risks are proposed in the detailed procurement arrangement section.

## B. Results Monitoring and Evaluation Arrangements

67. **Progress of project implementation, including beneficiary feedback, gender and citizen engagement will be monitored through the Results Framework attached in Section VI.** The PIU will have the primary responsibility for collecting, compiling, and reporting relevant data to the World Bank through biannual project reports. An M&E specialist in the PIU and TA under the EU PFM SDTF will support the establishment of an M&E system and to build capacity. Beneficiary feedback and gender impact will be measured through several indicators covering the participation the PFM skills program, perceived learning outcomes, and overall PFM reform progress. Citizen engagement and transparency will be measured through the public availability of budget information.

### C. Sustainability

68. **The GoL has a high ownership and commitment to its PFM Strategy**. The PFM Strategy and its action plans constitute the GoL's comprehensive sector strategy and enjoy high visibility and priority within the MoF. PFM reforms have emerged as a government priority, underscored by the participation of almost all line ministers in the NSC for PFM reform, which is chaired by the Deputy Prime Minister.

69. **While the project design integrates sustainability of its objectives, product and maintenance support and Internet availability are critical for the sustainability of the project beyond its time line.** The design of the project encompasses sustainability through a capacity-building component to embed a PFM skills training program within the MoF for continuous skills development beyond the time line of the project. The sustainability of the envisaged FMIS is supported by the PFM skills components and through a change management program. The annual product support and maintenance for the FMIS will be provided by the FMIS provider and funded during the life of project and thereafter, this cost should be borne by the Government. Internet availability is critical for both the use of the FMIS by all spending units (at all government levels) and for government staff to access the PFM e-learning platform. A sufficient annual operational budget to cover Internet costs is a legal covenant and counterpart funding.

## IV. PROJECT APPRAISAL SUMMARY

### A. Technical, Economic, and Financial Analysis

70. **Project development impact, rationale for public sector provisioning/financing, and value-added of the World Bank's support.** A core PFM system is a necessary ingredient to manage revenues in a financially sustainable way and to use them efficiently to support the country's development challenges through proper budget planning linked to development priorities and timely budget execution and reporting. The development impact of the project and its expected benefits are (a) improving the timeliness of budget execution and improved cash management by availability of up-to-date information on unspent/available financial resources, (b) enhancing the quality and increasing the coverage and publication of budget reporting to enhance transparency and accountability, and (c) strengthening financial controls in budget execution. Public sector financing is therefore justified as private sector funding is not applicable in this case. The value-added of World Bank support is its expertise and experience in the implementation of PFM reforms in general and the implementation of the FMIS in particular. The GoL is aware of the technical and procurement-related complexities and have deliberately chosen the World Bank as the most appropriate partner to support the reforms. The World Bank has also secured additional grant funding from the EU for TA to support the PFM reforms.

71. **The positive payback from improved PFM systems and FMIS projects in particular, which lead to enhanced public sector performance and aggregate net economic benefit are difficult to calculate in detail.** A Guidance Note[29] on economic analysis for PFM projects identified as one of the challenges on the calculation of net economic gains that PFM reform progress and impact are best being measured using

[29] PRMPS. 2013. "Economic Analysis Guidance for Governance and Public Sector Management Investment Lending Operations in Select Areas of Public Financial Management." 53 and 56.

efficiency indicators, such as PEFA ratings. While higher PEFA scores should give the capability or potential for improved net economic benefits, they do not provide estimates of any level or improvement of such benefits. In 2013, the World Bank's IFMIS Community of Practice produced a working paper,[30] which intended to measure the impact of FMIS projects in IDA countries. It found that difficulties in measuring the benefits from FMIS vary among projects and regions and concludes that a comprehensive quantification of costs and benefits is not possible for PFM projects.

72. **Therefore, in many cases, cost savings could not be quantified, however, a qualitative description of expected savings or gains is presented below**. Overall, costs savings and productivity increase are expected through (a) the transition from primarily manual to electronic payment processing with data entry made at the point of origin of the transaction and (b) the improvement in the management of cash balances. Data from 93 World Bank-financed FMIS projects showed that due to these operational savings, the typical payback period for most FMIS projects was usually less than 5 years.[31]

**(a) Revenues and/or cost savings from better management of cash balances**

73. **In a number of PFM projects, substantial improvements in cash management have been achieved by centralizing government cash balances in a TSA.** In many countries, PFM reforms included the establishment of a well-functioning Treasury/FMIS and the introduction of TSA to solve operational and technical issues, similar to the proposed activities under the E-FITS Project. By centralizing all cash balances into the TSA, short-term borrowings and hence interest payments would be reduced by using available government cash balances. At the same time, interest can be earned if temporarily idle cash balances can be invested. In 2014, the Indonesian Ministry of Finance reported[32] the overall positive benefits of the TSA introduction and identified gains of approximately IDR 3 trillion (US$300 million), about 4 percent of the Central Government financing costs that year. Similarly, the introduction of a TSA in the Russian Federation led to interest gained from deposits in commercial banks of about US$250 million in 2011.

74. **As information on government cash balances was not available at the time of project appraisal, publicly available information from the BoL's Annual Economic Report 2017 on government deposits and domestic interest payments were used**. Government deposits at end 2017 were LAK 5,056 billion in commercial banks and LAK 2,090 billion in BoL; with a ratio to GDP of 5.1 percent in 2017. While some of the funds might be trust funds or from statutory bodies, it can be assumed that a considerable amount of the funds deposited are currently idle and could be used for cash management purposes. Given the fact that not all government accounts have been consolidated and currently, no zero balancing of idle account balances is being conducted, it can be expected that a centralization of accounts and improved cash management would generate cost savings by reducing the over LAK 450 billion (US$50 million) that are currently spent on domestic interest, and which represents 5.8 percent of non-wage recurrent spending.

**(b) Productivity increase and cost savings through automation and rationalizing of payment processes**

[30] FMIS CoP (Community of Practice), 2013. "Measuring the Potential Impact of FMIS on PFM Improvements in IDA countries".
[31] Dener, Cem, Joanna Watkins, and William Dorotinsky. 2011. *Financial Management Information Systems – 25 Years of World Bank Experience on What Works and What Does Not*. A World Bank Study.
[32] Ministry of Finance of Indonesia. 2014. *Cash Management Reform in Indonesia: Making the State Money Work Harder*.

75. **Several benefits can be expected from automating the government payment processes**. Coupled with the introduction of an e-signature and the ACH, the new FMIS is expected to facilitate a sharp reduction in number of processing steps (data entry at the location of transaction origin) and overall processing time for government payments, as well as an increase in paperless transactions. This is expected to lead to increased productivity of government staff, reduction in supplier prices, and cost savings for stationary supplies. With a GoL State Budget of approximately US$3.5 billion a year, even a small increase in productivity can be expected to offset the US$20 million investment in this project.

76. **Reduction in processing time for payments**. Currently, all payments processes at the central level require a number of processing and approval steps, most of which are manual and involve the use of hard copies. At the central level, the process is made up of about 21 steps and based on estimates from the NT takes between five to ten days on average. It is estimated that with the introduction of the FMIS, processing steps would be reduced from 21 to 9, and the processing time cut in half to around 2–5 days. These reductions would free up staff time and increase productivity, especially at the NT, and in turn, staff could concentrate on more analytics-focused work, including compliance and quality reviews, forecasting, and other cash management tasks.

77. **If there is a significant reduction in the processing time, it can be expected that the supplier reduces its previous 'delayed payment or risk of nonpayment' margin**. While it was not possible to obtain data on the actual average prices that the Government pays for commonly used goods and services, anecdotal evidence suggests that those prices are about 20 percent above the market price. Over time, the Government might be able to establish a reputation of a reliable and in-time paying customer and might be in a position to negotiate lower prices, which would translate into savings in the government operational costs. These saving could be even higher if the Government enforces the new procurement framework, which also foresees the eventual introduction or modern procurement approaches such as framework agreements or similar.

78. **Savings in the purchase of payment voucher templates**. Currently, the standard template for payment vouchers used for payment transactions consists of four pages, and every payment transaction requires between two to four physical sets (copies) of the supporting documentation for payment processing. The printing of the standard template is done by an outside vendor and costs for purchasing the printed templates amount to about LAK 5 billion (US$588,000) per year. These templates are then used within the National and Provincial Treasuries to print out payment vouchers with the payment information. This additional cost of printing at the treasury offices cannot be estimated. Nevertheless, a transition to electronic processing of payments would eliminate the need for physical payment vouchers and incur in savings of the abovementioned printing costs.

## B. Fiduciary

### (i) Financial Management

79. **Summary of FM assessment.** An FM assessment was carried out in accordance with the World Bank's Directive on Investment Project Financing, Financial Management Manual for World Bank Investment Project Financing Operations and related guidance. The FM risk is "Substantial" based on overall are inadequate capacity, lack of experience, and inadequate FM systems. The implementing agency lacks

qualified FM staff, systems to timely record and report receipts and expenditure, detailed and documented controls and procedures to guide staff, and experience in implementing an ODA-financed project. Risk mitigation measures include (a) recruiting national FM consultants to support FM work: one senior and one junior consultant, (b) having in place acceptable FM chapter of the Project Operations Manual (POM), (c) putting in place acceptable accounting software to record and report on project receipt and expenditure until the new FMIS system is operational; (d) providing training on disbursement and FM requirements and processes to finance/accounting staff involved in the project implementation after project effectiveness; and (e) engaging qualified auditors with terms of reference acceptable to the World Bank to audit project expenditure on an annual basis until the project closes. The auditors shall be in place within 6 months of the project effectiveness.

80. **Project budget will be prepared covering all sources of financing and based on the approved annual work plan and budget.** The budget will cover the period of the Government's fiscal year, that is, January to December. The annual budget will also clearly identify the sources of financing to which each activity will be financed to ensure the eligibility of expenditure under each financing source. A pooled DA will be opened at the BoL to received funds from the IDA Credit. The DA will have a variable ceiling based on six months' expenditure forecast. Withdrawal and payments made from the DA will follow the documentation and approval requirements of the NT, the MoF. Funds will be provided to implementing departments and agencies on an activity basis and will be treated as advance. Accounting will be cash basis and accounting software will be used to record transactions and produce project financial statements. Accounting software will be used until the FMIS is fully operational. An unaudited IFR will be prepared every six months and submitted to the World Bank no later than 45 days after the semester end. The project will be subject to an annual audit by qualified auditors with terms of reference acceptable to the World Bank. The audit report together with a Management Letter will be submitted to the World Bank no later than six months of each fiscal year end. Audited financial statement and audit opinion will also be subject to public disclosure in accordance with World Bank Policy on Access to Information.

81. **The World Bank FM team will carry out implementation support mission biannually to review and confirm that agreed FM arrangement is still in place and that expenditure incurred is eligible for financing under the project.** The review of expenditure will as far as possible be integrated with procurement post review and include physical sighting or field visit, where applicable.

82. **Applicable disbursement methods will include (a) Advance, (b) Reimbursement, (c) Direct Payment, and (d) Special Commitment.** Minimum application value for direct payment and reimbursement will be US$100,000. Reporting of expenditure paid from the DA will initially be based on submission of a statement of expenditure (SOE) until capacity is assessed as adequate to report based on the IFR. Frequency of reporting of expenditure will be for a period no greater than 3 months. Eligible expenditure will be disbursed to the category shown in table 3.

**Table 3. Disbursement of Eligible Expenditure**

| Expenditure Category | Amount (US$) | Percentage of Expenditure to Be Financed (inclusive of taxes) |
|---|---|---|
| Goods, non-consulting services, consulting services, Training and Workshops and Operating Costs under the Project | 20 million | 100% |
| **Total** | **20 million** | |

### (ii) Procurement

83. **Procurement arrangements.** The project procurement will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers, dated July 1, 2016, revised November 2017 and August 2018 and provisions stipulated in the Financing Agreement. Procurement approaching the national market will be carried out in accordance with national regulations. Under the proposed project, the WB's planning and tracking system, Systematic Tracking of Exchanges in Procurement (STEP), will be used to prepare, clear, and update Procurement Plans and conduct all procurement transactions for the project.

84. **The procurement risk is considered Substantial.** Approximately, seventy five percent (75 percent) of the project funds will be used for the FMIS contract under component 1, which, will include the design and implementation of FMIS application software and associated hardware as well as the ancillary end user equipment that will be procured under a separate contract. Furthermore, services will be procured to ensure interoperability between systems and links with other government agencies; hardware and software for end users and the update of the debt management software will all be procured. Under component 2 there will be a number of consultancy services procured as well as an LMS system. Also, a significant part of the component (approx. US$0.5 million) will comprise external training for MoF staff and as such will be non-procurable and covered under annual training plans agreed with the Bank.

85. The PIU under FPLD will be responsible for the overall execution, supervision, and management of the project. In September 2018, the Bank carried out a procurement assessment of the implementing agencies. Based on the assessment, it was found that the FPLD has no experience with World Bank procurement procedures. As a result, the capacity of FPLD to manage procurement activities was found to be lacking and further strengthening is essential. This will be provided under the project through capacity building and enhanced implementation support. The following are the key procurement risks to project implementation: (a) setting up ICT and skills to design and maintain the FMIS system is limited in Lao PDR; (b) difficulty finding qualified individual consultants to support the PIU may also cause delays. The procurement risk under the project therefore is rated Substantial. The key mitigation measures in Table 4. were agreed with the PIU and will be implemented during project implementation to mitigate the identified risks and strengthen the procurement capacity of the FPLD.

**Table 4. Identified Procurement-Related Risks and Mitigation Measures**

| No. | Risk/Challenge | Proposed Risk Mitigation Measure | Responsibility | Deadline |
|---|---|---|---|---|
| 1. | Setting up ICT and skills to design and maintain such system is limited in Lao PDR | (a) In Addition to the Procurement Specialist (for the PIU) an International expert will be hired;<br>(b) World Bank supervision team will include an expert in information systems procurement who will support the project team and review all the relevant documents. | FPLD<br><br>World Bank | During project preparation and implementation |
| 2. | Difficulty finding qualified individual consultant | (a) International consultants shall be hired, if local individual consultants are not available.<br>(b) Procurement training shall be provided by the World Bank staff. | FPLD, MoF<br><br>World Bank<br><br>FPLD | During project implementation |

| No. | Risk/Challenge | Proposed Risk Mitigation Measure | Responsibility | Deadline |
|---|---|---|---|---|
| | | (c) Full-time staff shall be assigned by DRDC to work closely with a procurement consultant, with the aim to build capacity. | | |

86. **PPSD and Procurement Plan.** The PIU has prepared a PPSD to inform fit for purpose procurement arrangements in the Procurement Plan, this strategy has been reviewed by the Bank as is being finalized prior to negotiations. International competitive market approach will be used for major procurements and selection of consultants involving international competition will be carried out in accordance with the Procurement Regulations for IPF Borrowers. National market approaches (Requests for Bids and Quotations) will be carried out in accordance with the national regulations, including Procurement Decree No. 03, dated January 9, 2004, and Implementation Rule and Regulations (IRR) No. 0063 issued by the MoF on March 12, 2004, and No.0861/MoF, dated May 5, 2009 (amended version). Procurement Manual, dated May 2009, and conditions for use of such procedures will be stipulated in the Procurement Plan. Standard document for such procurement will be based on Request for Quotations and harmonized national competitive bidding (NCB) documents agreed with the World Bank.

87. **Based on the findings and recommendations of the PPSD currently under finalization by the PIU; the initial Procurement Plan for the first 18 months of the project has been prepared and agreed by the World Bank.** The Procurement Plan will be entered in STEP and updated annually (or as needed) by the FPLD to (a) reflect project implementation, (b) accommodate changes that should be made, and (c) add new packages as needed for the project. The Procurement Plan, any updates, or modifications shall be subject to World Bank's prior review and no objection. The World Bank will carry out procurement post reviews on an annual basis with an initial sampling rate of 20 percent, which will be adjusted periodically during project implementation based on the performance of the project. The detailed Procurement Plan is available in a separate project document.

### C. Safeguards

#### (i) Environmental Safeguards

88. **This project did not trigger any environmental safeguards and was rated Category C.** There are no adverse environmental impacts expected from this project, and based on environmental screening according to OP 4.01 (Environmental Assessment), the project is not anticipated to have any environmental safeguard issues and was rated Category C. No environmental assessment instrument needs to be prepared. However, as the project includes the replacement of ICT equipment, a plan for proper disposal or continued use of this equipment will be prepared.

#### (ii) Social Safeguards

89. **This project did not trigger any social safeguards and was rated Category C.** There are no adverse social impacts expected from this project and no social assessment instrument needs to be prepared.

#### (iii) Other Safeguards

90. No other safeguard policies are triggered for the project.

**(iv) Grievance Redress Mechanisms**

91. Communities and individuals who believe that they are adversely affected by a WB supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate GRS, please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

## V. KEY RISKS

92. **The overall risk rating for the E-FITS project is 'Substantial'.** This risk rating is based on the substantial fiduciary risk of the operation and the general complexity of PFM reforms, which might be affected by considerable capacity and implementation challenges and a weak macroeconomic context.

93. **Political and governance risk is rated 'Substantial'.** The Government's commitment to public sector reforms and collaboration with the traditional (western) donors has been volatile in the past 15 years. However, Lao PDR provides an overall stable political context and, currently, there is high-level government commitment to the PFM reforms. Personnel changes in the Government, specifically in the MoF leadership, could diminish the current commitment and the reform decisions that were previously taken could be reversed. Close and continuous dialogue with the GoL will be crucial to anticipate potential changes in the Government's commitment or priorities in the PFM policies.

94. **Macroeconomic risk is rated 'Substantial'.** Elevated fiscal deficits and public debt levels could negatively affect PDO achievements. The GoL has recently adopted a fiscal consolidation plan to reduce the budget deficit substantially by 2020 and contain rising public debt. However, implementation will be challenging, particularly with the impact of the recent floods and the uncertain external environment. The uncertainty in the global economy, especially ongoing trade tensions, the possible tightening of global the global financing conditions and the pace of interest rate normalization in the US could lead to a slowdown of capital inflows and disorderly financial market movements. These risks are likely to adversely impact global demand, commodity prices and the Lao economy by reducing foreign direct investment and its exports. This would put further pressure on the fiscal space and the country's foreign exchange reserves[33]. Overall, risks from domestic economic management policies, including public debt management and financial sector risks, are substantial. The GoL is undertaking a number of measures to ensure that fiscal sustainability is maintained. The revenue improvement is expected to come from strengthening both tax

[33] Country Partnership Framework for Lao People's Democratic Republic for the period FY2017-FY2021 World Bank, March 2, 2017; and Lao Economic Monitor, June 2018.

administration through the use of ICT, and the legal tax framework through the recently approved value-added tax law and upcoming laws on tax administration, and excise and income taxes under preparation for submission to the National Assembly in 2019. Public expenditure will be contained by limiting both the number of new recruits and wages. The new civil service quota will be further cut to 1,500 in 2019, and the public wage index increase will be postponed further. These measures, together with implementation of the Public Debt Management Law (passed in mid-2018), are supported by the WB's under the Lao PDR Green Resilient Growth Development Policy Operation 2 (P166839). As such, we expect that the fiscal framework will be on more sustainable path in the medium term and thereby mitigate the impact of any macro-fiscal shocks on the project.

95. **Technical design of project risk is rated 'Substantial'.** The design of the project was informed by extensive analytical work and its design is rather simple consisting of only three main activities: the implementation of an FMIS, the establishment of a PFM skills training program in the MoF, and a change management program. However, the risk lays in the implementation as FMIS implementation are complex. TA for the implementation of policy reforms and processes required prior FMIS implementation to manage this risk are provided with support of the EU PFM Trust Fund.

96. **Institutional capacity for implementation and sustainability risk is rated 'Substantial'.** While the GoL has some in-house capacity on project implementation, the overall capacity is inadequate and external consultants will play a crucial role in the implementation. ICT staff in the MoF have proven competence in implementing the GFIS and are, at present, working to resolve existing gaps in functionality; however, additional capacity for FMIS implementation and operation will need to be built. Due to regular staff rotations at the MoF, there is a risk of losing built capacity and institutional memory. For sustainability, the MoF will need to provide budget allocation for operating and maintenance costs, high-quality Internet services, user and license fees, ICT staff, and so on.

97. **Fiduciary risk is considered 'Substantial'.** Although the MoF has implemented several World Bank-financed projects in the past, the fiduciary capacity is limited and lack of familiarity with the new procurement regulations for IPF could delay implementation of procurement activities. The procurement process for an FMIS is highly complex and takes up 75 percent (budgeted for over US$10 million) of the total project cost. Coupled with limited fiduciary and technical capacity, the risk of procurement delay and not being able to manage/monitor the contract and deliverables is considered 'Substantial'. Limited FM capacity can also increase the risk of delay in payments to suppliers and contractors and potential misuse of funds. This risk will be mitigated by the selection of an FMIS specialist to advise the MoF and provide intensive implementation support and through close support and monitoring by the World Bank team.

98. **Climate change and disaster screening.** The project was screened at concept stage with the findings that the project may be assigned climate co-benefits. A final screening will take place at the Board stage.

## VI. RESULTS FRAMEWORK AND MONITORING

**Results Framework**
**COUNTRY: Lao People's Democratic Republic**
**Enhancing Public Finance Management through Information and Communication Technology and Skills (E-FITS) Project**

### Project Development Objectives(s)

The PDO is to contribute to the coverage, timeliness, and transparency of financial reporting and to enhance public financial management skills.

### Project Development Objective Indicators

| Indicator Name | DLI | Baseline | End Target |
|---|---|---|---|
| **Coverage of financial reporting** | | | |
| Coverage of annual financial statements and comparability with the approved budget (Text) | | Annual financial statements cover central and provincial level only. | Annual financial statements generated by the new FMIS cover central, provincial and district levels (excluding state-owned enterprises and other statutory entities) and are comparable with the approved budget. |
| Coverage of in-year budget execution reports. (Text) | | In-year budget execution reports are not readily available and do not cover district level | In-year budget execution reports generated by the new FMIS cover central, provincial and district levels (excluding state-owned enterprises and other statutory entities) |
| **Timliness and transparency of financial reporting** | | | |
| Time lapse of public disclosure of annual financial statements after the end of the fiscal year (Months) | | 20.00 | 6.00 |
| Time lapse of public disclosure of in-year budget execution reports after each quarter (Weeks) | | 0.00 | 4.00 |
| **Enhanced public financial management skills** | | | |

| Indicator Name | DLI | Baseline | End Target |
| --- | --- | --- | --- |
| Percentage of MoF staff (disaggregated by gender and job profile) completing the PFM Skills Program (Percentage) | | 0.00 | 60.00 |
| Percentage of staff having completed PFM Skills Program being female (Percentage) | | 0.00 | 35.00 |
| Break-down of PFM Skills Program graduates by job profile (Text) | | Job profiles not defined yet; PFM Skills Program not yet started. | Break-down of the percentages of PFM Skills Program graduates by job profile. |

## Intermediate Results Indicators by Components

| Indicator Name | DLI | Baseline | End Target |
| --- | --- | --- | --- |
| **Component 1: Foundations for a core public financial management system** | | | |
| Progress of the FMIS implementation and interoperability with other government systems (Text) | | GFIS in place | FMIS with the core functionality of budget execution implemented and interoperable with at least 3 other government systems. |
| Percentage of budget transactions processed through FMIS with ex ante commitment (Percentage) | | 58.00 | 80.00 |
| Time lapse after end of fiscal year for submission of Annual Financial Statements to the State Audit Organization (Months) | | 12.00 | 6.00 |
| Documented disaster recovery tests (Business Continuity Management) (Number) | | 0.00 | 2.00 |
| Bank reconciliation for active government bank accounts (Text) | | No Bank reconciliation within the scope of the TSA takes place | Bank reconciliation for all active central government bank accounts within the scope of the TSA takes place at least monthly, within 4 weeks from the end of each month. |
| Strengthening country systems for financial reporting under donor-funded projects (Text) | | Most donor-funded projects use a project-specific software for financial reporting. | The FMIS is used on a pilot basis to produce the required financial management reports for reporting purposes to the World Bank. |

| Indicator Name | DLI | Baseline | End Target |
|---|---|---|---|
| Recording of domestic debt (Text) | | Domestic debt is not recorded in the current DMFAS | Domestic debt is recorded in the updated debt management system |
| Number of public information dissemination activities (Number) | | 0.00 | 50.00 |
| **Component 2: Public Finance Management Skills Program and Change Management** | | | |
| PFM Competency Framework (skills requirements for PFM related job profiles) (Text) | | No PFM related job profiles and requirements | PFM Competency Framework approved by MoF management |
| E-learning modules launched in the learning management system (Number) | | 0.00 | 10.00 |
| Beneficiary Feedback: Average of reported perceived knowledge increase from PFM Skills Program, disaggregated by gender (Text) | | Results from beneficiary feedback after the first year of implementation (TBA) | Participants reported an average score of at least 4 out of 5 |
| Share of women in leadership and ITC training classes who have reported perceived knowledge increase (Percentage) | | 0.00 | 70.00 |
| Stakeholder and other outreach and dissemination activities carried out under the change management communication campaign (Number) | | 0.00 | 20.00 |
| Beneficary Feedback on reform implementation/change management (disaggregated by gender) (Text) | | Change management program under preparation | Results of change perception survey improved from first to second survey |

**Monitoring & Evaluation Plan: PDO Indicators**

| Indicator Name | Definition/Description | Frequency | Datasource | Methodology for Data Collection | Responsibility for Data Collection |
|---|---|---|---|---|---|
| Coverage of annual financial statements and comparability with the approved budget | This indicator is consistent with PEFA Indicator PI-29.1, which requires financial | Annually after the FMIS is in | FMIS: MoF Financial Statements, | PIU receives data from NT and verifies against indicator. | PIU/NT |

| | | | | | |
|---|---|---|---|---|---|
| | reports for budgetary central government (excluding state-owned enterprises and other statutory entities) to be prepared annually and to be comparable with the approved budget. As the expansion of the coverage of the financial reports is one of the main features of the new FMIS, this indicator will only be measured once the FMIS has gone live. | place and operational. | PEFA Reports | | |
| Coverage of in-year budget execution reports. | This indicator measures the expansions of coverage to the district level through a web portal, which will connect districts to the new FMIS. The in-year budget reports will then be produced by the new FMIS. As the expansion of the coverage of the budget reports is one of the main features of the new FMIS, this indicator will only be measured once the FMIS has gone live. | Semi-annually after the FMIS is in place and operational. | FMIS: MoF in-year budget execution reports | PIU receives data from NT and verifies against indicator. | PIU/NT |
| Time lapse of public disclosure of annual financial statements after the end of the fiscal year | This indicator is consistent with PEFA Indicator PI-9.1, which requires that annual | Annually | FMIS: MoF Financial Statements, | PIU verifies date of disclosure of annual financial statements on | PIU |

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|---|---|---|---|---|---|
| | budget execution reports (among other documents) is made available to the public within six months of the fiscal year's end. For the achievement on public disclosure, the annual financial statements need to be available on the MoF's public website, easily searchable and downloadable. The new FMIS will facilitate a quicker preparation of the annual financial statements, therefore a reduction of the time lapse between fiscal year and disclosure can be expected once the FMIS is in place and operational. | | MoF website; PEFA Reports | MoF website | |
| Time lapse of public disclosure of in-year budget execution reports after each quarter | This indicator is consistent with PEFA Indicator PI-28.2 which requires that budget execution reports are prepared quarterly and issued within 4 weeks from the end of each quarter. No baseline is available as in-year budget reports are not readily available. | Semi-annually | FMIS: MoF in-year budget execution reports, MoF website, PEFA Reports | PIU verifies date of disclosure of in-year budget execution reports on MoF website. The semi-annual reporting of this indicator will cover the two previous quarters, and consequently the two previous in-year budget reports. | PIU |

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|---|---|---|---|---|---|
| Percentage of MoF staff (disaggregated by gender and job profile) completing the PFM Skills Program | The PFM Skills Program will include curricula for each PFM job profile reflecting the required PFM skills as defined in the PFM competency framework. This indicator will measure the percentage of MoF staff (disaggregated by gender and job profile), who have completed the full curriculum for their position profiles, starting at the time of the launch of the PFM Skills Program. | Semi-annually after the PFM Skills Program is in place | LMS | PIU receives data from OPD and verifies the amount of staff who has completed the curriculum required for his/her job profile. | PIU/OPD |
| Percentage of staff having completed PFM Skills Program being female | This sub-indicator measures the gender dimension of the beneficiaries of the PFM Skills Program by measuring the percentage of females in the graduates of the PFM Skills Program. | Semi-annually after the PFM Skills Program is in place | LMS | PIU receives data from OPD and verifies the amount of female staff who has completed the curriculum required for her job profile. | PIU/OPD |
| Break-down of PFM Skills Program graduates by job profile | This sub indicator will show the disaggregation of PFM Skill Program graduates by job profiles. | Semi-annually after the PFM Skills Program is in place | LMS | PIU receives data from OPD and the breakdown of staff who has completed the curriculum by job profile. The job profiles will be defined as part of the competency framework. | PIU/OPD |

| Monitoring & Evaluation Plan: Intermediate Results Indicators | | | | | |
|---|---|---|---|---|---|
| **Indicator Name** | **Definition/Description** | **Frequency** | **Datasource** | **Methodology for Data Collection** | **Responsibility for Data Collection** |
| Progress of the FMIS implementation and interoperability with other government systems | Core functionality refers to the budget execution process through the FMIS; other government systems to be connected for interoperability with the FMIS include TAXRIS, ASYCUDA, DMFAS, PIMS (at MOHA) and ACH (at the BoL). | Semi-annually | Semi-annual Project Progress Reports | PIU receives status of FMIS implementation process from IFID and NT | PIU/IFID/NT |
| Percentage of budget transactions processed through FMIS with ex ante commitment | This indicator has two dimensions. First, it measures the share of the approved budget that is processed through the FMIS, and second it will track the introduction of ex ante commitment controls. The baseline of 58% refers to transactions being processed through the current GFIS without commitment controls. | Semi-annually after the FMIS is in place and operational | FMIS | NT provides FMIS Reports with data on budget transaction to PIU and PIU verifies and reports on indicator progress | PIU/NT |
| Time lapse after end of fiscal year for submission of Annual Financial Statements to the State Audit | This indicator is aligned with PEFA Indicator PI-29.2; which for a “B” score | Annually | Annual Financial Reports, | PIU verifies date of submission of annual reports to SAO | PIU/NT |

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| Organization | requires that financial reports for budgetary central government are submitted for external audit within 6 months of the end of the fiscal year. The baseline reflects the time lapse of the submission of the FY17 annual financial statements. | | PEFA Reports | | |
| Documented disaster recovery tests (Business Continuity Management) | At project start, there was no Business Continuity Management in place, a data recovery site was in planning. The preparation of the BCM Plan is supported under the EU PFM TF and will establish a protocol for the disaster recovery tests. At least one of the documented disaster recovery tests needs to be carried out before the FMIS goes live. | Semi-annually | Reports on disaster recovery tests | IFID provides dates and reports of disaster recovery tests to PIU. | PIU/IFID |
| Bank reconciliation for active government bank accounts | This indicator aligns with PEFA Indicator PI-27.1, which assesses the regularity of bank reconciliation. For a PEFA “B” score, there should be regular and timely comparisons between | Semi-annually | FMIS, PEFA Reports | FMIS, PEFA Reports | PIU/NT |

| | | | | | |
|---|---|---|---|---|---|
| | government bank account (central or commercial) transaction data and government cash books. Bank reconciliation for all active central government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month. | | | | |
| Strengthening country systems for financial reporting under donor-funded projects | Once the FMIS is launched, the E-FITS Project would start to use the FMIS to generate the reports required for financial reporting to the World Bank. This practice would then be rolled out to other WB-financed projects. | Semi-annually after the FMIS is in place and operational | Project Financial Management Reports | PIU verifies that Project FM Reports are generated by FMIS | PIU |
| Recording of domestic debt | This indicator has two dimensions. First, the installation of the upgraded debt management system; and second, the recording of domestic debt in the upgraded system. | Semi-annually | DMFAS | Debt Management Department provides PIU with the update of the installation of the new DMFAS and evidence that domestic debt is recorded. | PIU/Debt Management Department |
| Number of public information dissemination activities | This indicator will count dissemination activities through different channels including TV, website, newspaper, radio, social | Semi-annually | MoF website statistics; MoF media department, PIU | The PIU receives and collects data on the dissemination activities that are conducted. | PIU |

| | | | | | |
|---|---|---|---|---|---|
| | media, events and others. | | | | |
| PFM Competency Framework (skills requirements for PFM related job profiles) | This indicator will measure the progress of the preparation of the competency framework for different job profiles and their training needs. | Semi-annually | PFM Competency Framework Documents | OPD reports to PIU on the progress of the competency framework | PIU/OPD |
| E-learning modules launched in the learning management system | This indicator measures the number of e-learning modules launched and available under the new learning management system. The modules should be part of the curriculum of the PFM Skills Program. | Semi-annually | LMS | OPD reports to PIU on the number of learning modules launched in the LMS | PIU/OPD |
| Beneficiary Feedback: Average of reported perceived knowledge increase from PFM Skills Program, disaggregated by gender | This indicator measures the perceived increase in knowledge on the topic presented, on a scale of e.g. 1 (strongly disagree) to 5 (strongly agree). | Semi-annually after the PFM Skills Program is in place | PFM Skills Program participation evaluation/LMS | OPD tracks and reports feedback of PFM Skills Programs participants to PIU. To track the feedback of the main beneficiaries, an evaluation form will be provided to the participants of the PFM Skills Program (online through the LMS and on paper for face-to-face trainings). The aggregated results of all capacity building events will be used to monitor | PIU/OPD |

| | | | | | |
|---|---|---|---|---|---|
| | | | | and report on the perceived knowledge increase. | |
| Share of women in leadership and ITC training classes who have reported perceived knowledge increase | At least 70 percent of the women participating in leadership and ICT training under the PFM Skills Program are reporting a knowledge increase from those courses. | Semi-annually after the PFM Skills Program is in place | PFM Skills Program participation evaluation/LMS | OPD tracks and reports feedback of PFM Skills Programs participants disaggregated by gender to PIU. To track the feedback of the beneficiaries, an evaluation form will be provided to the participants of the PFM Skills Program (online through the LMS and on paper for face-to-face trainings). The aggregated results of female participants in the soft skills and ICT classes will be used to monitor and report on the perceived knowledge increase. | PIU/OPD |
| Stakeholder and other outreach and dissemination activities carried out under the change management communication campaign | Stakeholder and other outreach activities will be defined in the change management plan and ToRs of the communication campaign and may include | Semi-annually | Change Management Progress Reports | Change management team in OPD reports to PIU on the number of dissemination and outreach activities conducted under the | PIU/OPD |

| | | | | | |
|---|---|---|---|---|---|
| | workshops, events and dissemination of information regarding the FMIS implementation through different communication channels. | | | change management program | |
| Beneficary Feedback on reform implementation/change management (disaggregated by gender) | This indicator measured the feedback from main beneficiaries of the new FMIS system, collected through change perception surveys. | Semi-annually | Change Perception Survey/Semi-annual Project Progress Reports | As part of the change management program, surveys with MoF staff would be conducted. The first survey would be carried out before the FMIS launch to establish a baseline of the expectations and change attitude of beneficiaries, and a second survey would be conducted at the end of the project to obtain feedback after reform implementation. The results of the survey will be disaggregated by gender to capture gender dimension of the reform attitude and perception. Change management team in OPD reports to PIU on the outcomes of the change perception | PIU/OPD |

| | | | | | |
|---|---|---|---|---|---|
| | | | | surveys. | |

## ANNEX 1: Implementation Arrangements and Support Plan

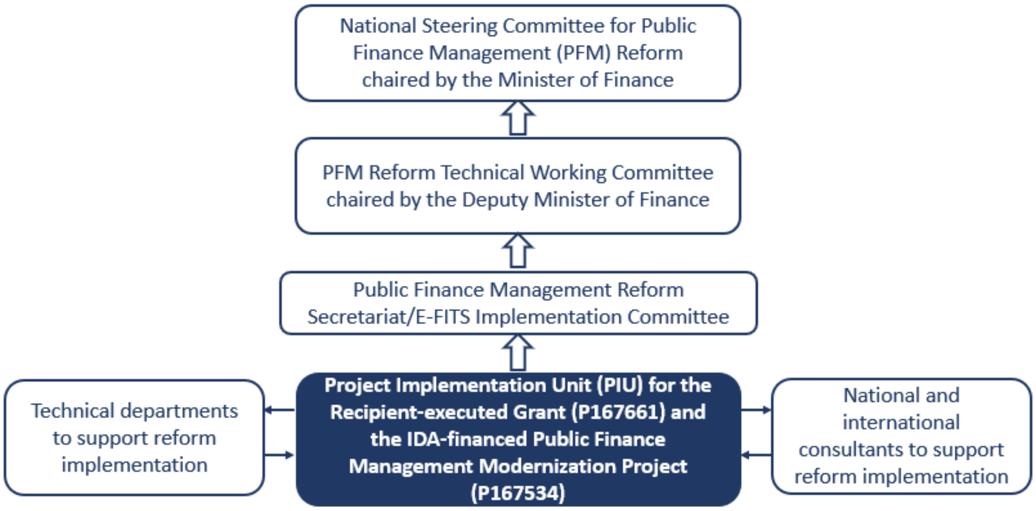
**COUNTRY: Lao People's Democratic Republic**
**Enhancing Public Finance Management through Information and Communication Technology (ICT) and Skills (E-FITS) Project (P167534)**

### Project Institutional and Implementation Arrangements

1. **To oversee the implementation of the MoF's PFM Strategy, an NSC on PFM reform and an implementation structure within the MoF were formed**. The NSC chaired by the Deputy Prime Minister comprises Vice Ministers of all line ministries (except public security and defense) and the Governor of the BoL and will ensure the governmentwide coordination of the PFM reform progress. The NSC will meet every six months to monitor and provide overall guidance on the PFM Reform progress and to approve the PFM reform annual work plan. Within the MoF, a PFM Reform TWC has been established. It is chaired by a Deputy Minister of Finance and comprises Director Generals of the MoF. It reports to the NSC and has the responsibilities to monitor the implementation of the MoF's PFM Strategy, to assign responsibilities for reform activities within MoF, to appoint working groups, and to appoint the PIU. The TWC is supported by a PFM Reform Secretariat/E-FITS Implementation Committee to manage the implementation of the MoF's PFM Strategy, including the cooperation, financial, and legal aspects with donors, and supervision of the PIU.

2. **Project implementation of the World Bank-financed operations is delegated to the PIU under the oversight of the PFM Reform Secretariat.** The PIU will be responsible for implementation of the PFM Modernization Project and the PFM Reform Project (P167661) and will be the central executing agency responsible for overall project implementation monitoring, fiduciary oversight, and providing technical, procurement, and FM support to implementing departments responsible for the technical implementation of project components. In close collaboration and agreement with implementing departments, the PIU will also be responsible for preparing the work plans that will be discussed at the TWC and the NSC will review and endorse. The PIU will report on the progress of the project to the PFM Reform Secretariat/E-FITS Implementation Committee.

**Figure 1.1. Overview Implementation Arrangements**




3. **The PIU will consist of a team of government staff, local consultants, and international advisers and will be supported by implementing technical departments.** The PIU will be headed by a project director and supported by, among others, a program coordinator, procurement specialist, procurement specialist, FM specialist, M&E specialist, ICT specialist, and a change management specialist. Implementing departments are MoF departments directly responsible for the technical implementation of project components and include the FPLD, NT, State Budget Department, Accounting Department, Institute for Information Development (IFID), the OPD, and the EFA. The PIU, in coordination with the relevant implementing departments, will allocate elements of project implementation to implementing departments depending on their responsibilities for reforms and TA outlined in the Project Document. Each designated implementing department will be responsible for providing inputs into work plans covering their activities, for the timely delivery of specific outputs, and for providing progress reporting to the PIU.

4. **Progress of project implementation will be monitored by the PIU through reporting on the Results Framework attached in section VI.** Monitoring of the Results Framework will inform project implementation by providing timely feedback and assisting the PIU in summarizing achievements. The PIU will have the primary responsibility for collecting, compiling, and reporting relevant data to the World Bank through biannual project reports. As M&E capacity is still low, the PIU will be supported by an M&E specialist to ensure effective and efficient implementation of M&E activities and to build general M&E capacity within the MoF.

5. **The Results Framework is aligned with the broader goals of the MoF's PFM Strategy and will allow for coordinated feedback on project progress and impact.** To implement the PFM Strategy, the MoF has developed a detailed work plan, stating clear deliverables and goals for the strategy. TA under the EU PFM SDTF will support the establishment of an M&E system to track the progress of the MoF's PFM Strategy and linking it to the findings of the forthcoming PEFA Report. The project's Results Framework will be aligned with new M&E framework and thus will allow for an integrated M&E system of the progress of the MoF's PFM Strategy and the E-FITS project and facilitate data collection and reporting. Data

collection responsibility is indicated in the Results Framework and with more detail in the PIU's Project Operations Manual.

6. **Beneficiary feedback and gender impact indicators.** To track feedback of the main beneficiaries on capacity building, participants of the PFM Skills Program will be asked to fill out an evaluation form, which will measure perceived knowledge increase on the topic presented, while the aggregated results will be used to monitor and report on the perceived knowledge increase. A second indicator will track feedback on the overall reform and FMIS implementation measured through change perception surveys. To measure gender impact, the beneficiary feedback indicators and the indicator measuring the number of staff completing training under the PFM Skills Program will be disaggregated by gender.

### Financial Management

7. **Summary of FM assessment.** An FM assessment was carried out in accordance with the World Bank's Directive on Investment Project Financing, FM Manual for World Bank Investment Project Financing Operations, and related guidance. The main FM risks identified overall are inadequate capacity, lack of experience, and inadequate FM systems. The implementing agency lacks qualified FM staff, systems to record and report receipts and expenditure on time, detailed and documented controls and procedures to guide staff, and experience in implementing an ODA-financed project. Risk mitigation measures include (a) recruiting national FM consultants to support FM work of the project: one senior and one junior consultant, the consultant shall be in place by project effectiveness; (b) having in place acceptable FM chapter of the POM; (c) putting in place acceptable accounting software to record and report on project receipt and expenditure until the new FMIS system is operational; (d) providing training on disbursement and FM requirements and processes to finance/accounting staff involved in the project implementation after project effectiveness; and (e) engaging qualified auditors with terms of reference acceptable to the World Bank to audit project expenditure annually until the project closes. The auditors shall be in place within 6 months of the project effectiveness. The World Bank FM team will carry out implementation support mission biannually to review and confirm that agreed FM arrangement is still in place and that expenditure incurred are eligible for financing under the project. The review of expenditure will as far as possible be integrated with procurement post review and include physical sighting or field visit, where applicable.

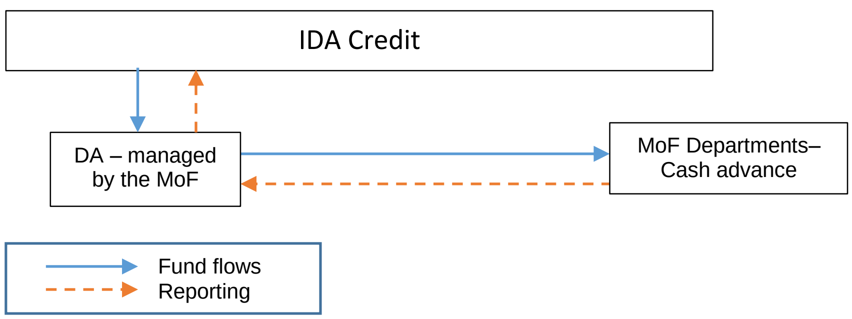
8. **Organization and staffing.** FM team is part of the PIU and will be responsible for the project's FM and disbursement. The same finance team will also oversee the implementation of the Public Finance Management Reform Project (P167661). To ensure capacity is built and sustained within the implementing agency, it is strongly recommended that a government staff be assigned to support the FM work of the project. An acceptable FM chapter of the POM shall be in place by negotiations. Staff involved in the project's FM will be trained in World Bank disbursement and project FM requirements according to the FM chapter of the POM once the financing becomes effective.

9. **Budgeting and planning.** Project budget will be prepared by departments and agencies involved in the implementation of activities of the project, covering all sources of financing and based on the approved annual work plan. The budget will cover the period of the Government's fiscal year, that is, January to December. The annual budget will also clearly identify the sources of financing to which each activity will be financed to ensure the eligibility of expenditure under each financing source. The budget

shall be reviewed by respective line of reporting before consolidation into the project budget by the PIU. The annual work plan and budget shall be reviewed, and no-objection provided by the World Bank. The quality of budgeting and forecasting will be strengthened as part of support provided by the FM consultant. This will facilitate the use of variable ceiling of the DA based on six-month cash forecast. The FM chapter of the POM will elaborate the process and timing for the preparation, review and approval of the annual work plan and budget.

10. **Funds flow.** A DA will be opened to receive funds. The DA will have a variable ceiling based on 6 months expenditure forecast. Withdrawal and payments made from the DA will follow the documentation and approval requirements of the Treasury, MoF. Funds will be provided to implementing departments and agency on an activity basis and will be treated as advance. Detailed requirements and procedures for requesting and reporting the use of funds will be elaborated in the FM chapter of the POM. Funds advance and reporting is depicted in figure 1.2.

**Figure 1.2. Funds Advance and Reporting**




11. **Accounting policies and procedures.** Cash basis of accounting will be used by the project. The project will follow generally accepted accounting principles generally applied to ODA-financed projects in the Lao PDR as there is no national standard and IPSAS cash is not fully implemented. The project will initially use these generally accepted accounting principles and later shift to IPSAS cash when the MoF fully implements the standard and FMIS is fully operational. Off-the-shelf computerized accounting software will also be used initially to record transactions and produce financial reports for the project. Once the FMIS becomes operational, project transactions will be recorded in and financial reports produced from the FMIS. FM policies and procedures to be used under this project will follow that mentioned in the FM chapter of the POM. Original supporting documents will be retained where transactions occur, during the life of the project or until at least the later part of (a) one year after IDA has received the audited financial statements covering the period during which the last withdrawal was made or (b) two years after the closing date.

12. **Financial reporting.** The project will follow the GoL fiscal year (January to December). Unaudited IFRs will be prepared by the PMD reporting on receipts and expenditure the whole project. Each IFR will cover the period of six months. The IFR will be submitted to the World Bank by the PIU no later than 45 days after the end of each 6 months. The IFR will report at minimum receipts, expenditure and fund balances and uses of funds by project components/activities. Variance analysis between actual and budgeted expenditure will be performed and reported as part of the IFR. Format of the IFR will be

discussed and agreed. At the end of each fiscal year, the PIU will prepare annual financial statements for the project audit.

13. **Audit arrangements.** The project will be subject to an annual audit by independent qualified auditors with terms of reference acceptable to the World Bank. The PIU will be responsible for arranging the audit for this project and the Public Financial Management Project (P167661). Separate audit reports will be issued for each project. The audit report together with a Management Letter will be submitted to the World Bank no later than 6 months of each fiscal year end. Audited financial statements and audit opinion will also be subject to public disclosure in accordance with World Bank Policy on Access to Information. Mechanism for disclosure will be through uploading on the MoF's website. The World Bank will also make the audit report available on the World Bank's website upon receipt.

### Disbursement

14. **Disbursement arrangements.** A DA will be opened at the BoL to receive funds. The DAs will have variable ceilings based on six-month cash forecast. Applicable disbursement methods will include (a) Advance, (b) Reimbursement, (c) Direct Payment, and (c) Special Commitment. Minimum application value for direct payment and reimbursement will be US$100,000. Reporting of expenditure paid from DA will be based on submission of the SOE. Frequency of reporting of expenditure will be monthly but not greater than three months. Eligible expenditure will be disbursed to the category shown in table 1.1.

**Table 1.1. Disbursement of Eligible Expenditure**

| Expenditure Category | Amount (US$) | Percentage of Expenditure to Be Financed (Inclusive of Taxes) |
|---|---|---|
| Goods, non-consulting services, consulting services, Training and Workshops and Operating Costs under the Project | 20 million | 100% |
| **Total** | **20 million** | |

15. Operating cost means reasonable expenditures directly related to the project, incurred by the recipient (which expenditure would not have been incurred in the absence of the project), including expenditure on travel, lodging and per diems, office supplies, publication services, translation services, operations and maintenance of office equipment, but excluding consulting fees, salaries, bonuses, fees, and honoraria or equivalent payments of members of the recipient's civil service.

16. The project will have a disbursement deadline date (final date on which the IDA will accept applications for withdrawal from the recipient or documentation on the use of Grant proceeds already advanced by the IDA) of four months after the closing date of the project. This 'grace period' is granted to permit the orderly project completion and closure of the Grant account through the submission of applications and supporting documentation for expenditures incurred on or before the closing date. Expenditures incurred between the closing date and the disbursement deadline date are not eligible for disbursement. All documentation for expenditure forwarded to IDA for disbursements will be retained and be made available to the external auditors for their annual audit, and to the IDA and its representatives if requested. In the event that auditors or the IDA implementation support missions find

that disbursements made were not justified by the supporting documentation or are ineligible, IDA may, at its discretion, require the recipient to (a) refund an equivalent amount to the IDA or (b) exceptionally, provide substitute documentation evidencing other eligible expenditures.

### Procurement

17. **Procurement arrangements.** Procurement under the project will be carried out in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing', dated July 1, 2016, revised November 2017 and August 2018. Procurement under national procurement procedures as agreed with the World Bank will be carried out in accordance with national regulations including Procurement Decree No. 03, dated January 9, 2004; Implementation Rule and Regulations (IRR) No. 0063 issued by the MoF on March 12, 2004, and No. 0861/MoF, dated May 5, 2009 (amended version); and the Procurement Manual dated May 2009, and conditions for use of such procedures will be stipulated in the Procurement Plan.

18. **The borrower has prepared a draft PPSD with the support from the World Bank team.** The PPSD presents how major procurement activities under the project will support the development objective of the project and deliver the best value for money under a risk-based approach. In addition, the PPSD includes the rationales for procurement decisions including the selection of the approach to market and procurement methods. The PPSD shall be updated, once the major contracts in the project have been identified; and the Procurement Plan of the project shall be regularly updated as appropriate during the project implementation.

19. **The PPSD shows that consulting services (under component 2) are considered of substantial risk because they are critical to the project as is the procurement of the FMIS.** The majority of the project funds will be used for one contract under component 1, which is the design and installation of the FMIS application software, including systems configuration and hardware to meet the GoL's needs, such as the purchase of the technology platform, including servers, connectivity to the telecommunication network, network management and security systems, the training of the users and information technology staff in the use and maintenance of the system, and implementation services.. The procurement of equipment such as computers, printers, would be part of a separate package including hardware, software necessary for end-users), while consulting services to establish interoperability (interfaces and links) with other government agencies will comprise a separate procurement. In addition, the update of the debt management software will also be procured. The procurement arrangements for the major packages are summarized in the table below.

**Table 1.2. Procurement Arrangement**

| Contract title, Description and Category | Estimated Cost US$ | Prior Review | Procurement Approach/ Competition | Selection Methods | Evaluation Method |
|---|---|---|---|---|---|
| Purchase and installation and of the application system software for a new financial management information system, including hard hardware such as servers, | US$10 million | Yes | International | RFP | Two-Envelope / evaluated Criteria |

| | | | | | |
|---|---|---|---|---|---|
| storage, network | | | | | |
| IT Equipment (desktops, laptops, scanner, printer, UPS) | US$2,000,000 | Yes | International | RFB | Single envelope / compliance |
| Software upgrade of the debt management system | US$200,000 | No | | Single Source | |
| Consulting services for the preparation of the technical specifications, bid evaluation and contract supervision | US$1,000,000 | Yes | International | QCBS | Advance Procurement |
| Consulting services for the preparation, selection and supervision of contracts for the establishment of PFM Skills Program | US$150,000 | No | International | CQ/ Individual Consultant | |
| Consulting services for the preparation of the implementation of a PFM skills training program, including the preparation of a competency framework, job profiles, training needs analysis, and curriculum | US$500,000 | No | International | QCBS | |
| Purchase of a learning management system (LMS) | US$300,000 | No | National Market Approach | RFB | Two Envelope / rated criteria |
| Consulting services for the instructional design of e-learning courses | US$300,000 | No | International | QCBS | |
| Externally-provided training courses (ICT, language, etc.) | US$500,000 | Yes | Direct Selection | N/A | N/A |
| Consulting services for conducting stakeholder surveys | US$400,000 | No | International | QCBS | |
| Consulting/Media services for a communications campaign | US$250,000 | No | National | CQ | |
| Consulting services for the update of standard operating procedures (SOP) | US$100,000 | No | National | CQ | |

### Strategy and Approach for Implementation Support

20. **Given the focus on this project on the implementation of new technologies, close support during the procurement phase and the IT system launching is required.** As IT procurements, especially the procurement of a FMIS, can be complex, and the PIU has limited experience of such procurement processes, increased World Bank support will be required. During the initial phase, which includes the three IT procurement packages (FMIS, debt management system, and an LMS), the World Bank team will be supported by an IT procurement expert, in addition to the locally based procurement specialist and

the regional procurement coordinator. Similarly, FM training and support will be provided to the PIU to support the setup of the required FM functions.

21. **As is good practice, two full implementation support missions per year are expected to take place, in additional to technical support missions and continuous support provided by the Vientiane-based task team.** Semiannual implementation support missions will be conducted to monitor overall project implementation, to gather input for the ISRs, and to discuss with the World Bank and GoL management any implementation bottlenecks that might arise. In addition, frequent day-to-day support will be provided by the team members based in Vientiane who will provide continuous support, including at short notice outside formal mission periods. TA for the implementation of policy and process reforms will be provided as part of a World Bank-Executed Trust Fund, financed by the EU. The activities of this trust fund are closely linked to the implementation of the project and will allow for an enhanced implementation support.

### Implementation Support Plan and Resource Requirements

22. It is expected that the core task team, including international and local co-TTLs, a procurement and FM specialist, and task team administrative and operational support, will be based in Vientiane. The team will be supported by experts for each of the components and activities.

**Table 1.3. Implementation Support Plan**

| Time | Focus | Skills Needed | Resource Estimate/year |
|---|---|---|---|
| First 18 months | Procurement for FMIS | IT procurement expert<br>FMIS expert | 4 weeks (US$30,000)<br>6 weeks (US$45,000) |
| | Procurement and rollout of DMFAS | Debt management expert | 2 weeks (US$15,000) |
| | Procurement of LMS | Learning/capacity building expert | 4 weeks (US$25,000) |
| | Change Management Program | Change management expert | 4 weeks (US25,000) |
| | Project implementation support | Governance specialists (TTL)<br>Procurement specialist<br>FM specialist<br>Operational Support | 15 weeks (US$60,000)<br>4 weeks (US$10,000)<br>2 weeks (US5,000)<br>10 weeks (US20,000) |
| 18-48 months | FMIS customization and rollout | FMIS expert | 10 weeks (US$60,000) |
| | Rollout of PFM Skills Program | Learning/Capacity building expert | 6 weeks US$35,000) |
| | Change Management Program | Change management expert | 4 weeks (US$25,000) |
| | Project implementation support | Governance specialists (TTL)<br>Procurement specialist<br>FM specialist<br>Operational support | 15 weeks (US$60,000)<br>4 weeks (US$10,000)<br>2 weeks (US5,000)<br>10 weeks (US20,000) |

*Note:* TTL = Task Team Leader