

# LAO PDR PUBLIC EXPENDITURE STUDY

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Public Expenditures for Pro-Poor Agricultural Growth  
DFID/World Bank (ARD) Partnership

Lao PDR Case Study

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## Preface/Acknowledgements

A joint DfID/World Bank partnership program “**Public Expenditures for Pro-Poor Agricultural Growth**” collects and disseminates evidence on public expenditure policies that stimulate pro-poor market-driven agricultural growth by implementing a number of country case studies on public expenditures. The program is currently being implemented in these six countries: Nigeria, Ethiopia, Uganda, Nepal, Lao PDR and Honduras. The lessons and experiences from the case studies will be consolidated into a comprehensive lessons learned report to inform Government departments and donor institutions of successful experiences and lessons of how public expenditures can be aligned more efficiently and effectively with stated public policy and program interventions. This report constitutes the Lao PDR study.

The in-country analysis was carried out under the guidance of Ulrich Schmitt (World Bank Task Team Leader) and Limin Wang (DFID Task Team Leader) and we thank them wholeheartedly for their support.

This report could not have been completed without the help of a great number of people. The team would particularly like to thank the staff of the Ministry of Agriculture and Forestry at its Vientiane headquarters and especially Mr. Somchith, staff at Vientiane Municipality, Vientiane and Bolikamxhay Provinces; the staff of other ministries including the Ministry of Finance and the Ministry of Planning and Investment; the staff of the World Bank; and the many members of staff of donor agencies, consultants, NGOs and others who shared their materials and/or points of view with us.

## Executive summary

This study of public expenditure in Lao agriculture in relation to expressed policy priorities seeks to build upon the findings of the 2006 Agriculture Background Paper for the PER. It aims, where possible, to identify and clarify disparities between articulated national policy and the application of public resources, although this task is significantly constrained by data limitations. More robustly, the study identifies gaps in data and weak points in budgetary process which hinder the collection of data in an appropriate form, and its subsequent analysis. Third, the study provides a practical and implementable proposal to build capacity in MAF in three key areas which are: (1) systematic data collection, including monitoring and tracking agriculture public spending (2) conducting agriculture public spending reviews, and (3) assessing the impact of spending in the agriculture sector. The methodology is indicated in section 1.1 of the report.

Poverty in Lao PDR is falling quite rapidly. Agricultural development has contributed greatly to this reduction in poverty and is expected to be a significant driver of future poverty reduction, since more than two-thirds of the population remain dependent on agriculture for their livelihoods. Poverty reduction has long been a key policy objective. Importantly, poverty reduction in Lao PDR goes beyond the vital work of alleviating immediate poverty, and seeks to finally “solve the country’s state of underdevelopment” through promotion and expansion of production forces through increasing employment of modern technology.

Agriculture is central to the Lao economy. It contributes 42% of GDP (2005/06); accounts for at least 15% of recorded exports; and accounts for 67% of the employed adult workforce.

National policy in agriculture has coalesced around 4 goals and 13 measures which are expected to deliver the goals of the 8th Party Congress and the NSEPD. The goals are (1) food production: increase the sector’s growth rate by 3.4% per annum (2) commodity production: supply agriculture and forestry products to the industrial sector (agro-processing) (3) slash-and-burn cultivation: end shifting cultivation, focussing on the 47 poorest districts, and (4) sustainable forestry management: increase forest cover to 53% of the land area by 2010 – from the current level of 41.5%.

In order to support these goals at sub-national levels, MAF deployed a 60-person outreach team to the PAFOs in late 2007. Sub-national agencies welcome the deployment of the outreach team. PAFOs strongly assert their commitment to the national agenda, but in practice implementation is compromised for logistical and budgetary reasons. The lack of recurrent budget means that actual activity can be determined by the direction of donor funding; also, recurrent-funded activity is driven by relatively inflexible staff allocations between sub-sectors and the limited availability of funds to support their mobilisation. Discussions with PAFOs indicated that logistical and budgetary constraints means that priority districts are not prioritised in practice, except possibly in the area of regulating shifting cultivation.

A review of public expenditure on agriculture reinforced many of the trends identified by the PER of 2007. Agricultural expenditure continues to fall as a proportion of total national GDP, and took only 6% of the national budget in 2004/05 compared with 12% in 2002/03. This is principally because of a sharp decline in capital spending. In spite of this decline capital spending continues to account for 83% of all spending, and donors account for the majority of this. Recurrent budgets continue to be inadequate, especially for operation and maintenance. Salaries now take 80% of recurrent.

Agricultural spending is still predominantly at sub-national level although this is less marked (66% in 2004/05 against 83% in 2002/03). Provinces allocate less of their budgets to agriculture: in 2001/02 they allocated 37% of their budgets to agriculture, but in 2004/05 this fell to only 11%.

Agriculture expenditure continues to favour the more well-off provinces, confirming the point made in the PER that considerations other than equity and immediate poverty reduction drive the allocation of funds. This allocative bias holds for both capital and recurrent budgets.

Data on agricultural performance and expenditure is poorly organised and incomplete, making it difficult for MAF to manage effectively. Agricultural expenditure is classified by type (salaries, office management) rather than by activity, so that it is impossible to say what is spent on extension, for instance. This is the case for national PAFO and DAFO levels, and for both capital and recurrent budgets.

Data management processes are often dysfunctional or unclear, causing difficulties for MAF. In particular: it is not clear how provinces are to allocate funds to take account of both provincial needs and NSEDP priorities; there is no standardisation in development of agriculture budgets amongst DAFOs and PAFOs, and budgets do not include even basic performance indicators; and reporting of information is fragmented (capital and recurrent follow different reporting channels) and often delayed. Donor funds are often separately reported and accounted for, often using PIUs.

Specific data gaps resulting from the above include: (1) general failure of reporting to MAF; (2) Absence of any programme based budgetary information; (3) No data on district expenditures; (4) no disaggregation of "foreign" expenditure; (5) no indication of the recurrent element of capital expenditures; (6) incomplete record of "foreign capital" projects; (7) not all development partners report project spending in good time; (8) MAF has no information of funds actually released to PAFOs and DAFOs; (9) MAF has no aggregate data on arrears; and (10) there is no performance information.

These issues are not peculiar to the agriculture sector. Reforms have been designed at national level to remedy many of them. Most such reforms are incorporated in the Public Expenditure Management Strengthening Programme (PEMSP). Nonetheless, many of the difficulties are deep-seated and will take time to resolve, and will require support at sector level and national level.

Effective management is strong argument for improving the availability of management information. However, in agriculture it is doubly important if MAF is to demonstrate to central government and donors that agricultural projects can be effective in achieving national goals. The recommendations are designed to make good information available. They assume the engagement of empathetic, hands-on, Technical Assistance with donor support, and are included in full at Section 4 of this report. They are summarised as:

1. MAF to carry out review of (1) capacity in its Finance and Planning Sections and (2) sub-national capacity and training needs, and to develop an Action Plan and Support Programme consistent with PEMSP.
2. MAF to work closely with PEMSP programme and to participate fully in PEMSP planning and development
3. MAF works closely with MOF, MPI and PEMSP to enable early strengthening of budget classification and development of simple financial systems ahead of GFIS
4. MAF amend key job descriptions to give staff specific responsibilities for supporting system developments at PAFO and DAFO level
5. MAF to consider carrying out a Public Expenditure Tracking Survey/Service Delivery Survey to better understand the operation of agriculture systems at sub-national levels.

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## Abbreviations

ADB	Asian Development Bank
AFD	<i>Agence Française de Développement</i>
BOL	Bank of the Lao PDR
bn	billion
CFAA	Country Financial Accountability Assessment
CPI	Committee for Planning and Investment
CPIA	Country Policy and Institutional Assessment
DFO	District Finance Office
DAFO	District Agriculture and Forestry Office
EC	European Commission
EPF	Environmental Protection Fund
EU	European Union
FM	Financial Management
FY	Fiscal Year
GDP	Gross Domestic Product
GFIS	Government Financial Information System
GFMIS	Government Financial Management Information System
GFS	Government Finance Statistics
GNI	Gross National Income
GNP	Gross National Product
GoL	Government of the Lao People's Democratic Republic
HDI	Human Development Index
IDA	International Development Association
IFA	Integrated Fiduciary Assessment
IFI	International finance institution
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
Kip	Lao PDR currency
Lao PDR	Lao People's Democratic Republic
LAK	Lao KIP
LECS	Lao Expenditure and Consumption Surveys
LRP	Lao Peoples' Revolutionary Party
LTU	Large Taxpayer Unit
MAF	Ministry of Agriculture and Forestry
MDG	Millennium Development Goal
M&E	Monitoring and evaluation
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health

MPI	Ministry for Planning and Investment
MTEF	Medium-term Expenditure Framework
MTEF	Medium-term Fiscal Framework
NAFES	National Agriculture and Forestry Extension Service
NAFRI	National Agriculture and Forestry Research Institute
NGO	Non-governmental Organization
NGPES	National Growth and Poverty Eradication Strategy
NRM	Natural Resources Management
NSEDP	National Socio-Economic Development Plan
NT2	Nam Theun 2 Project
ODA	Official Development Assistance
O&M	Operation and maintenance
PAFO	Provincial Agriculture and Forestry Office
PDR	People's Democratic Republic
PEM	Public Expenditure Management
PEMSP	Public Expenditure Management Strengthening Program
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PFO	Provincial Finance Office
PHO	Provincial Health Office
PIP	Public Investment Program
PIU	Project Implementation Unit
PRC	Policy Research Centre
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Analysis
Sida	Swedish International Development Agency
UNDP	United Nations Development Program
US\$	US dollar
WB	World Bank

# **1 Introduction**

## **1.1 Background and Objectives**

### **1.1.1 Background**

Agriculture in Lao PDR is rightly seen as a priority sector, but planning execution and management of public expenditures for the agricultural sector faces several challenges. The PER of 2007 (World Bank, 2007b) and the Agriculture Background Paper (World Bank, 2006a) that preceded it demonstrate that nearly 80 percent of public spending on agriculture occurs at the province and district level, while central authorities have inadequate information on actual expenditure levels, composition and activities financed. It is therefore difficult to assess whether national policies are being effectively implemented at sub-national levels. The Ministry of Agriculture and Forestry (MAF) has very limited administrative capacity to manage public expenditures in the sector effectively. Donor-funding is substantial but mostly off-budget. High levels of capital expenditure, especially on irrigation, exist side by side with recurrent budgets which are heavily biased to salaries and fail to provide sufficient funds for operations and maintenance of the investments made. High levels of accumulated debt in the provinces inhibit their ability to manage expanding investment responsibilities.

### **1.1.2 Objectives of the study**

This study of public expenditure in Lao agriculture in relation to expressed policy priorities seeks to build upon the findings of the 2006 Background Paper. It aims, where possible, to identify the causes and extent of any disparity between articulated national policy and the application of public resources, although the PER suggests that this objective will be significantly constrained by data limitations. A second objective is to identify gaps in data and weak points in the budgetary process which hinder the collection of data in an appropriate form, and its subsequent analysis. A third goal of the study is to provide a practical and implementable proposal to build capacity in MAF in three key areas: (1) systematic data collection, including monitoring and tracking agriculture public spending (2) conducting agriculture public spending reviews, and (3) assessing the impact of spending in the agriculture sector. This last requires an assessment of existing capacity within MAF at central, provincial and district levels.

It is expected that this study will contribute to a better understanding among Lao PDR decision makers and sector planners of the current patterns of national and sub-national sector expenditures against national and provincial sector priorities; stimulate discussion and exchange between MAF and sub-national line authorities on sector priorities and the associated fiscal implications; and support the building of basic government capacity in standard fiscal administration tools at the central level of MAF to allow for an assessment and evaluation of options for better alignment of national priorities with sub-national implementation plans and available budgets through creating the right incentives.

### **1.1.3 Outline and methodology**

#### **Outline**

The first part of the paper sets out the parameters of poverty in Lao PDR and poverty reduction policies; Part 2 examines key issues in the agricultural sector beginning with its role in the economy; it continues with a review of national agricultural policy and commentary on the implementation of this policy at sub-national levels; it concludes with an analysis of expenditures,

budgetary priorities, and budget composition and budget process. Part 3 looks at process shortcomings and data gaps and Part 4 presents conclusions and recommendations.

## **Methodology**

This report is the output of a three person team. It makes extensive use of secondary material on agricultural policy and priorities, public expenditure in Lao PDR agriculture and recent public financial management reforms. Additionally, it includes the findings of 2½ weeks of fieldwork in Lao PDR, including a four-day field trip to Vientiane Municipality, Vientiane Province and Bolikamxhay Province.

At central level meetings were held with MAF (Planning, Finance, and NAFRI), the Ministry of Planning and Information (MPI) and with the Ministry of Finance (MoF), key donors and technical assistance staff. The meetings were loosely structured to elicit information on agricultural policies and priorities, availability of budgetary data, budgetary process and reporting

Expenditure data for central and provincial levels were drawn from the Official Gazette, the most readily available source of financial information in English. Sub-national data obtained from the Official Gazette was supplemented by data collection and the information gathering visits to three provinces.

Although provincial visit plans required amendment at a late stage, key personnel in the selected provinces were available to meet with the team and readily responded to our enquiries. The visits consisted of a single half-day meeting at PAFOs in Vientiane Capital and Vientiane Province, a full day at Bolikamxhay PAFO and short visits to the DAFOs in that province at Pakading and Khamkeuth. These provinces are varied, but not necessarily representative. The first two are surplus provinces (raising more revenue than they spend) and the last was a surplus province until the current year.

At sub-national level the team met with staff of PAFOs and DAFOs, as well as with staff from the District Finance Office (DFO). The types and quality of data available at each location were variable, but the sample gave the study team a good sense of major issues in the local government environment and generated useful information on agricultural policy and budgets.

At the end of the study, the team ran a full day workshop on the topics of PFM in Agriculture and Patterns of Public Expenditure in Lao Agriculture. The seminar was supported by an interpreter and was focussed on the particular issues affecting Lao PDR. The discussions that took place at the seminar served to inform the study and the Action Plan proposed.

## **1.2 Poverty in Lao PDR**

### **Status**

Thirty-four per cent of the population were deemed to be living in poverty in 2002/03. This proportion had fallen significantly over the previous ten years, from 46 per cent in 1992/93. The same trend, of an almost one-third reduction in poverty over a decade, had been mirrored in the incidence of poverty in both the rural and urban areas, as can also be seen in Table 1.1. It is understood that this same, sustained downward trend has continued since 2002/03, with the national poverty rate provisionally estimated as being 31 per cent in 2005.

**Table 1.1 Evolution of poverty, 1992/93 to 2002/03 (in per cent)**

	1992/93	1997/98	2002/03
<b>Rural</b>	52	43	38
<b>Urban</b>	27	22	20
<b>National</b>	46	39	34

Source: World Bank, 2005; UNDP (2006).

The considerable success in reducing poverty during the period under review had a number of causes. An important one was undoubtedly the steady annual growth in agricultural production, averaging 5 per cent since 1992, which provided a key foundation for the growth of the national economy (which, itself, grew by more than 10 per cent per annum, in real terms, to 2004). Given that 73 per cent of the population still live in the rural areas and depend directly or indirectly on agriculture for the bulk of their livelihoods, growth in the sector contributed to the significant decline in rural poverty from the early-1990s.

Nevertheless, poverty remains a significant problem today. This is particularly so in the rural areas where the poverty rate is almost double that of the urban areas. The absolute number of the population classified as “poor” in the rural areas was estimated at approximately 1.60 million in 2002/03. A significant positive is that income inequality is lower than in most other countries in the region, with the Gini Coefficient being 32.6 per cent in 2002/03. It had changed little during the previous decade.

### **1.2.2 Factors contributing to poverty**

The following geographical, economic and social factors contribute to the large differences in poverty rates between provinces:

*Isolation and remoteness:* the population of the remote Northern Uplands and Central & Southern Highlands’ areas of the country are far poorer than the relatively more-urbanised central provinces, where the all-weather road network is far more extensive. Data from the Lao Expenditure and Consumption Surveys (LECS), show a strong correlation between poverty and the lack of wet-season road access. Limited road access results in poorer provision of services (such as agricultural extension, health and education) to the population and limited market integration in the case of both agricultural inputs and outputs;

*Limited access:* a number of other factors that influence rural poverty are linked to the “remoteness” factor. They include poor access to piped water for domestic use, electricity, irrigation infrastructure and agricultural inputs (improved seeds, fertilisers and insecticides, in particular); and

*Agro-ecological potential:* the potential of most mountainous areas is less than that of the lowlands, which means that the base on which much of the local rural economy operates is weak.

### 1.2.3 GoL policies to bring about poverty reduction

Poverty reduction policies have a long history in the Lao PDR. In 1996, the 6<sup>th</sup> LRP Congress set the ambitious government target of removing Lao PDR from the list of 'least-developed countries' by 2020. In 2001, the 7th Congress reinforced that position with quantified objectives and based the policy for eradicating poverty on three pillars: economic growth, socio-cultural development and environmental protection (GOL, 2003).

The GoL's current policy framework for reducing poverty is the 2004 National Growth and Poverty Eradication Strategy, (NGPES). The NGPES recognises the importance of agricultural and forestry development in poverty reduction and proposed priority areas for public investment including agricultural advisory services, improved rural infrastructure, irrigation and rural electrification. The strategy reasserts the long-term development objective of moving out of the ranks of least developed countries by 2020, when it is expected that the incidence of poverty will have been reduced significantly.

The Strategy builds upon the Prime Minister's Instruction 010 of 2001 which specified a poverty alleviation approach focussed on priority districts, and it uses LECS household data to identify the 47 least-developed ("very poor") districts in the country. These are earmarked to receive the highest priority in the allocation of public expenditure<sup>1</sup>. In the same exercise, a further twenty-five Districts were ranked as "poor" and were accorded a slightly lower priority in the allocation of public investment.

The sixth five-year National Socio-Economic Development Plan (NSED) covers the period 2006-2010<sup>2</sup>. It is aligned closely with the NGPES and details the Government's poverty reduction strategy and programmes. Its core "pillars" are: human development-driven growth; competitiveness, trade and regional integration; social development and focussed poverty-reducing interventions; and good governance. It reaffirms the commitment to the priority districts, observing that:

*The NGPES has identified 47 poorest and 25 poor districts. The Committee for Planning and Investment (CPI) together with the Ministries of Agriculture and Forestry, Education, Health and Communication, Transport, Post and Construction and jointly with the local communities and authorities has facilitated the preparation of focal area development plans for some 33 kum bans (groups of villages) in pilot districts among the 47 poorest districts identified in the NGPES. Most of the programmes are in the areas of agriculture and rural development (sustainable livelihoods), education, health and transport/infrastructure.*

However, the vision of poverty reduction in Lao PDR goes beyond the immediate relief of poverty and addresses what can be seen as the development of the poverty reducing state. The Political Report of the President to the 8<sup>th</sup> Party congress makes this clear while at the same time asserting the primacy of the poverty reduction agenda (President Khamtay Siphandone, 2007):

*"development in the immediate future will focus on addressing the most fundamental issue that is alleviating the poverty of the people and solving the country's state of underdevelopment. Concurrently there is a need to **promote and expand the production force by means of a gradual employment of modern technology for ensuring the continuous growth of the***

<sup>1</sup> There are 142 Districts in total (although figures of 141 and 143 are given in other reports: Anon, 2007; World Bank 2006[c]).

<sup>2</sup> The NSED is central to the development programme. However it should be read in conjunction with the Political Report of the 8<sup>th</sup> LRP Party Congress which amplifies some issues and clarifies the sentiment and emphasis of government.

***national economy***, to advance the country and improve quality of life for the people and ensuring a more just society” [authors’ emphasis].

This comprehensive approach to poverty reduction is essential for the understanding of Lao priorities in agriculture.

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## 2 Key issues in the agricultural sector<sup>3</sup>

### 2.1 The sector and sector policies

#### 2.1.1 The sector in the overall economy

The agricultural sector plays a key role in the national economy. It contributed more than two-fifths (42 per cent) of the country's Gross Domestic Product, GDP, in 2005/06, with the crop<sup>4</sup> sub-sector accounting for 58 per cent of total agricultural GDP. Livestock comprised a further 20 per cent of agricultural GDP, fisheries 15 per cent and forestry 7 per cent (Bank of the Lao PDR, n.d.).

**Figure 2.1 Proportion of GDP derived from Agriculture 1987 to 2005**

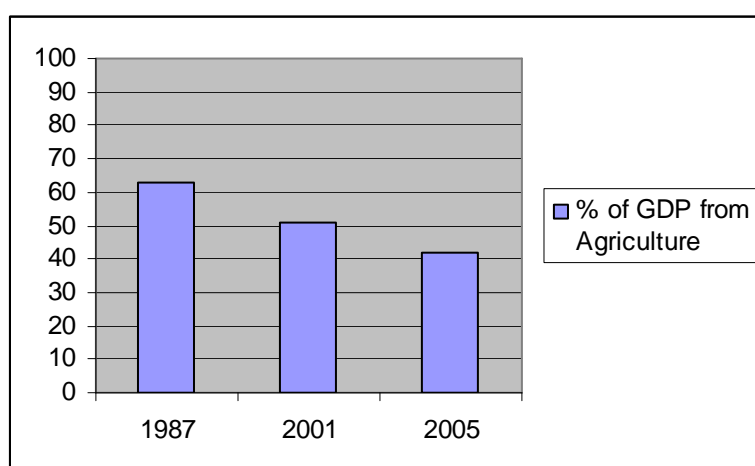


Figure 2.1 above shows how the proportion of total national output provided by the sector has been falling over time – the figure had been 51 per cent in 2001/02 and 63 per cent in 1987. By 2010, the agriculture sector is projected to account for only about 36% of GDP as other sectors expand (GoL, 2006b). This downward trend corresponds with the experience of most other countries. However, the agricultural sector is relatively more important in the Lao PDR economy than is the case for many of its neighbours – in China, for example, the sector accounts for only 15 per cent of GDP and for 22 per cent in Vietnam (World Bank, 2006a).

Another dimension of the importance of agriculture is that the sector accounts for 67 per cent of the employed adult workforce according to the most recent data. However, the situation is changing rapidly as the industrial and service sectors expand: the figure stood at 82 per cent as recently as 1992.

Agriculture is also important to international trade. Agriculture-based products make up approximately 15 per cent of total recorded exports, the principal commodities being timber, coffee and non-timber forest products. This proportion has declined rapidly in recent years (from 25 per cent in 2004) as a result of the increasing diversification of the export sector particularly the rapidly-increasing export revenues derived from minerals and energy.

<sup>3</sup> This term includes forestry – in other words, it covers the portfolio of MAF

<sup>4</sup> Rice, predominantly

Lastly, the sector provides large quantities of the raw materials used by the buoyant agro-industrial sector.

### 2.1.2 National priorities in agriculture

National priorities in agriculture derive from multiple sources and are constantly evolving. A useful list of relevant legislation, decrees and policy documents is presented in the 2006 PER Background Paper (World Bank, 2006a:4)<sup>5</sup>. Current agricultural policy is presented in the 6<sup>th</sup> National Socio-Economic Development Plan (2006-2010) whose objectives include (GoL, 6<sup>th</sup> NSEPD:134):

- (i) *the development of commodity production to meet local demand and to increase exports,*
- (ii) *increase the number of agricultural products for export, with the continued shift in the structure of the agriculture and rural economy towards promotion of commercial agriculture*
- (iii) *introduce and increase the application of new technology including IT in production, preservation and processing*
- (iv) *develop skills training in the rural areas on many aspects*
- (v) *diversify the rural economies, especially to increase the value-added through links to other sectors to improve the people's living standards, and*
- (vi) *build new agricultural development infrastructure.*

The agricultural policy as laid out in the 6<sup>th</sup> NSEPD does not highlight the needs of the 47 priority districts which are instead addressed under sections of the strategy relating to poverty reduction generally (p97) and rural development (pp143-144) which emphasises the importance of food security in these districts.

In order to execute the resolutions of the 8<sup>th</sup> Party Congress and achieve the goals and targets of the 6<sup>th</sup> NSEDP, MAF has identified four goals and thirteen "measures". These represent the core of the strategy for the agriculture and forestry sector. The four goals and their principal targets are:

- **food production:** increase the sector's growth rate by 3.4 per cent per annum;
- **commodity production:** supply agriculture and forestry products to the industrial sector (agro-processing);
- **slash-and-burn cultivation:** end shifting cultivation, focussing on the 47 poorest districts; and
- **sustainable forestry management:** increase forest cover to 53 per cent of the land area by 2010 – from the current level of 41.5 per cent.

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<sup>5</sup> *The recent key agricultural policies of the GOL include the: (a) Strategic Vision for the Agricultural Sector (1999); Prime Minister's Instruction 001 that redefines the relation between central and local authorities and identifies districts as the major focus for developing planning and villages as the main units for implementation (2000); Prime Minister's Instruction 010 that specifies a poverty alleviation approach focused on priority districts (2001); Prime Minister's Instruction 013 that gives responsibility to MAF to plan and coordinate the rural development process with other key ministries; establishment of Khets or village clusters (sub-authorities and identifies districts as the major focus for developing planning and villages as the main units for implementation (2000); Prime Minister's Instruction 010 that specifies a poverty alleviation approach focused on priority districts (2001); Prime Minister's Instruction 013 that gives responsibility to MAF to plan and coordinate the rural development process with other key ministries; establishment of Khets or village clusters (sub-districts) to allow development activities to move closer to local communities; National Growth and Poverty Eradication Strategy (NGPES) for 2002-2005 further defining the GOL strategy and policies; and most recently, the Sixth Five-Year Development Plan (2006-2010).*

The “measures” include: survey and allocate agricultural and forestry production zones, make available improved crop seed and livestock varieties, develop the capacity of DAFOs, promote development at the grassroots through village cluster development groups, make more-productive use of funds provided by development partners and undertake monitoring & evaluation<sup>6</sup>.

There is concern within GoL and MAF that national policies can be carried out more effectively at the local government level. Consequently, an outreach team of some 60 senior people, at the level of Deputy Director-General (from MAF, NAFRI, NAFES, etc), has been dispatched to the provinces from the centre in order to support the provinces in their development planning and monitoring efforts over a period of one year. They will also have a role in ensuring effective implementation of national policies at sub-national levels. The study team did not see terms of reference for this outreach group. MAF reports that it is closely monitoring the success of this initiative.

### 2.1.2.1 Sub-national experience with policy implementation

#### *Policy in practice*

Provincial visits suggest that in spite of a strongly asserted commitment to the national agenda and national agricultural policy, implementation can often be compromised for logistical and budgetary reasons. As expected, the provinces and districts visited affirmed that they are working within the framework of the 6<sup>th</sup> NSEDP and the four goals and thirteen measures laid out by MAF, and the team saw no evidence to suggest otherwise. However, there are three caveats. First, provincial autonomy enables provinces and districts to put forward their own project activities based upon local perceived local needs, but the final configuration is often determined by the availability of donor funding. In view of the dominance of capital (project) budgets over recurrent budgets discussed further at 2.2.5 below, the project patterns determine the sub-national emphasis to a significant degree. However, national policy can be accommodated since MPI and the Politburo approve the final selection of projects.

Second, regardless of policy intent, actual policy performance under recurrent or capital budgets is often determined by two staffing factors: the availability of staff in a particular activity area, and the availability of non-salary recurrent expenditure to support their mobilisation and activities (see the experience of the Extension Centre at Bolikamxhay at Box 2.1 below). In response to enquiries from the team it was discovered that staff allocation at two Bolikamxhay DAFOs was as follows:

**Table 2.1 Allocation of staff in two districts of Bolikamxhay**

	Pakading (lowland)		Khamkeuth (upland – priority district)	
	Staff numbers	% of total	Staff numbers	% of total
Office management & Planning	5	12.2	2	3.2
Agriculture	6	14.6	3	9.7
Livestock and Fisheries	3	7.3	6	19.3
Forestry	22	53.7	14	45.2
Irrigation	5	12.2	4	6.4
Meteorology	0	0.0	2	3.2
<b>Total</b>	<b>41</b>	<b>100.0</b>	<b>31</b>	<b>100.00</b>

<sup>6</sup> This summary of MAF Goals and Measures is taken from a forthcoming study by the World Bank (Upland Agriculture Policy Study, *forthcoming*). They are set out in more detail at Annex D.

The Table shows that approximately half of the staff in each district are engaged in forestry, and this suggests that it is also the policy emphasis in practice. In Pakading the team was advised that forestry people work in conservation, plantation and land allocation. When there is budget (and sometimes when there is not) they travel to villages to inform communities of regulations, and “tell them what they can and cannot do”. Only 2-3 people are used to supervise logging. On the other hand, the 6 people in agriculture are training people to plant legumes for marketing. All travel to the field in the production season to support farmers. All of this is consistent with national policy. The unanswered questions concern emphasis and effectiveness.

A third caveat concerns the alignment of national and sub-national incentives to support the national agenda. It is quite possible that different incentive sets at national, provincial and district levels may result in divergent agendas, but this is beyond the scope of this analysis.

#### *Other policy issues*

MAF policies on capital expenditure include the objective of allocating 40% of capital budgets to human resources development, particularly in support of agricultural research and extension services. However, the PER Background Paper of 2006 (World Bank, 2006a:15) notes that it is difficult to assess whether such a shift in investment has occurred owing to lack of information at the centre.

#### *Priority districts and policy*

In the provinces visited, PAFO and DAFO staff were aware of the policy on priority districts, but there was little evidence of its affecting sub-national agricultural practice. Vientiane Capital did have a newly established Food Security Unit. Vientiane Province has two priority districts, and although there was no preferential budgetary allocation, the team was advised that deficit districts (which spend more than the taxes they raise) do receive central funding three months in advance to ensure liquidity.

In Bolikamxhay the team was informed that priority districts are treated the same as other districts in the budgeting process, and that during budget shortages even priority district projects were cut. The PAFO supports priority districts when it can, but budget continues to be a problem: “an idea is not enough without money”. Officers in this province also explained that donors don’t want to go to some priority districts, for instance areas that cannot be accessed in the wet season. Of the 12 ongoing projects, only one was in a priority district - an irrigation project in Khamkeuth district.

The team formed the view that priority districts are not prioritised in practice, except perhaps in the area of regulating shifting cultivation. This is disappointing since the long term impact of this activity on poverty reduction is a matter of debate, and expert opinion suggests that the short term impact is negative (Ducourtieux, 2004).

In Khamkeuth district, on the other hand, the head of the DAFO was positive about his priority district status. He advised that Khamkeuth had been a priority district since 2005, making this a focal area for provincial strategy. Government has developed infrastructure and electric power has become available since his arrival in 2002.

#### *The outreach team*

The outreach team deployed in the second half of 2007 is seen by MAF as an important initiative to support the alignment of sub-national policy with national policy. All provinces confirmed the recent arrival of members of the outreach team. The Head of PAFO can decide how to use the team to meet provincial needs. The team’s skills vary – they include agriculture and extension specialists as well as finance people. However, province and district staff interviewed consistently reported that the outreach team’s main task was to monitor activity from the grass roots to higher levels of government, and that part of their function was to assist sub-national technical staff to

develop village groups. The study team enquired at provinces and districts whether outreach personnel had been deployed, and how many, and found generally positive reports of their arrival and activities<sup>7</sup>. However, their deployment was extremely recent, and it was too early to assess effectiveness.

### **Box 2.1      Extension activity in Bolikamxhay**

Bolikamxhay PAFO has an Extension Centre (PAFEC) whose function is to provide training activities and develop linkages down to district level. There are 5 people in the Extension Centre all based at this PAFO: 2 managers, and 3 trainers. At Thaphabath district in the province there is an extension unit with 3 people from LEAP.

PAFEC trainers are versatile, but when the PAFEC has specific funds it hires people in for training. Such people are available. However, PAFEC has no operational budget. It uses the budgets of others, and does training on irrigation or other things the PAFO needs. So, in practice PAFEC supports different divisions of PAFO which can meet the costs. The head of PAFEC sees his function as to support the technical divisions with their training activity. He can provide advice and technical support, but is not an expert in any particular field.

Each division in PAFO has extension as a main activity – for instance, Irrigation and Livestock people do their own extension. It is planned that extension will eventually reach down below village level, but it does not do so now.

LEAP provides a training fund, but it cannot help with capital or recurrent budget or inputs. The work they started didn't continue because there was no budget to sustain it. PAFEC is quite reliant on donor funds, and when there are none it is not so busy.

PAFEC trainers have work plans. The head of PAFEC reports that staff output is measured by monitoring changes in substantive output. Although the PAFEC recognizes the priority districts, its staff don't get there very often. The head reports that if he had budget he could go to priority districts and study their potential. He would need transport and per diem for staff. Possible training areas might include: upland crops; contour farming; small livestock production; and land allocation/land use planning.

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<sup>7</sup> Bolikamxhay PAFO advised that 3 months previously, 3 people had come from HQ to support agricultural planning and especially to monitor implementation of the 4 goals and 13 measures. The head of PAFO supports the arrangement, and finds the people flexible. At the priority district of Khamkeuth they hadn't seen any members of the outreach team, but had heard that there was someone in the neighbouring district of Viengthong.

## 2.2 Trends in national public expenditure on agriculture

### 2.2.1 Introduction

The study analysed the information contained in the Official Gazettes covering public expenditure incurred during the financial years from 2000/01 to 2004/05 (GoL, various)<sup>8</sup>. The Gazette contains aggregate budget and spending data analysed by Ministry, Department and by Province. It includes full data on budgets and spending for the centre and each province analysed by sector<sup>9</sup> and by line item (e.g. type of expenditure - salaries, allowances, repairs and maintenance, etc.). This is the best information currently available at the centre, but there are at least three caveats concerning data from this source. First, it is not very up-to-date and this is significant in a fast changing budget environment. The latest consolidated spending data (as opposed to budget allocations) is only for 2004/05 (the Gazette incorporating the 2006/07 budget year and 2005/06 expenditures is scheduled for release in early 2008); second, a number of development projects are reported to be “off budget”, and reporting of information on others is very patchy; and third, the team understands that the development of agriculture spending data for the Gazette is hindered by widespread poor or absent financial reporting from DAFOs to DFOs or PAFOs and from PAFOs to PFOs or to the centre (CPI (MPI)/MoF/MAF). It is therefore likely to contain several estimates and may be incomplete<sup>10</sup>.

### 2.2.2 General trends

#### *Central level*

Official Gazette data demonstrate that the decline in agricultural public expenditure recorded in the 2007 PER/IFA (World Bank, 2007b) continues, whether measured as a percentage of national or agricultural GDP, or in absolute amounts. Table 2.2 shows that between 2000/01 and 2004/05, public expenditure on agriculture averaged almost 4.5 per cent of agricultural Gross Domestic Product, GDP. However, the figure showed a near-consistent downward trend over the five years, from over 8 per cent at the start of the period, to one-third of this amount (2.6%) by the end of the analysis period.

As a proportion of total national GDP, agricultural expenditure fell from 4.3 per cent to 1.2 per cent which portrays a worrying decline in the amount of public resources being spent on agriculture relative to the value being added by it.

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<sup>8</sup> These are the only ones currently available in English

<sup>9</sup> The 13 sectors defined at provincial level in the latest Official Gazette are Justice, Planning, Finance, Agriculture and Forestry, CTPC, Industry, Commerce, Information and Culture, Labour, Education, Health, Defence and the Provincial Administration.

<sup>10</sup> The agricultural background paper (World Bank, 2006) for the 2007 PER (World Bank, 2007b) noted that the MAF estimate of agricultural expenditure from 2002-2004 was dramatically less than the amounts reported in the Official Gazette, and that these figures could not be satisfactorily reconciled.

**Table 2.2 Agriculture budget as a proportion of agricultural GDP, 2000/01 to 2004/05**

Year	Actual MAF expenditures	Agricultural GDP	Expenditure/ agricultural GDP	Agriculture contribution/ national GDP	Actual MAF expenditures/ national GDP
	<i>Kip million</i>	<i>Kip billion</i>	<i>per cent</i>	<i>per cent</i>	<i>per cent</i>
2000/01	589,018	7,127	8.3	52.1	4.3
2001/02	409,229	7,975	5.1	50.8	2.6
2002/03	509,115	9,174	5.5	49.9	2.7
2003/04	286,205	10,829	2.6	48.1	1.3
2004/05	323,139	12,378	2.6	46.8	1.2

Source: World Bank, *Vientiane pers. comm.*; Lao PDR, various; and UNDP, 2006

Table 2.2 shows that the volume of funds spent by the MAF fell sharply, both in nominal terms and as a proportion of total government expenditure (which includes the provinces and the centre), between 2000/01 and 2004/05. Thus, in the first year it accounted for 17 per cent of total public spending but had declined to only 6 per cent by 2004/05<sup>11</sup>, although this is believed to be still higher than the figures recorded in neighbouring countries (World Bank, 2006a). The steep decline occurred principally as a result of rapidly falling capital expenditures, particularly at provincial levels.

In nominal terms, expenditure on agriculture by 2004/05 was little more than one-half of the amount it had been four years earlier (Kip 323bn compared with Kip 589bn). However, the movement was not uniform for capital and recurrent expenditures. Capital expenditure declined sharply from Kip 567bn to Kip 268bn because of reduced expenditure on the investment-intensive irrigation sub-sector. By contrast recurrent expenditure *increased by 150%* over the same period, from Kip 22bn to Kip 55bn.

Unlike agriculture, expenditure in the priority sectors of health and education, showed annual rates of growth of approximately 25 per cent, while total expenditure on all sectors at the national level showed a 12 per cent annual increase over the same period. This confirms the finding of the work carried out for the 2006 PER that, "Domestic spending on agriculture...was cut much more deeply than education and health" (World Bank, 2007b)<sup>12</sup>.

<sup>11</sup> The earlier PER work shows how external debt service and expenditure on defence increased significantly between these years and how their combined share of total public expenditure rose to 36 per cent in 2004/05, compared with 18 per cent in 2000/01 (World Bank, 2007).

<sup>12</sup> It does, however, contradict another finding of the 2006 PER that the agricultural budget increased by nearly 25 per cent between 2001/02 and 2003/04 (*op. cit.*, p. 67).

**Table 2.3 Proportion of the national budget allocated to agriculture and other priority sectors<sup>13</sup> (%)**

Sector	2000/01	2002/03	2004/05
Agriculture	17	12	6
Education	7	10	12
Health	4	6	6
<b>TOTAL</b>	100	100	100

In real terms (removing the effect of inflation from the data) agricultural expenditure in both the provinces and at the centre fell significantly over the analysis period, while the national budget increased slightly. The fall was most dramatic in the provinces (whose budgets included the majority of domestically financed capital expenditures) where the annual rate of decline was more than 70 per cent. Table 2.4 shows that expenditure on agriculture by central government fell only slightly in real terms, and the proportion of expenditure accounted for by the agricultural sector remained relatively constant at between 3 and 4 per cent from 2000/01 to 2004/05.

**Table 2.4 Evolution of agricultural expenditure (in constant 2000/01 Kip bn)**

	2000/01		2002/03		2004/05	
	Constant 2000/01 Kip bn	%	Constant 2000/01 Kip bn	%	Constant 2000/01 Kip bn	%
<b>Provinces</b>	509.3	86.5	332.1	83.3	140.3	65.7
<b>Centre</b>	79.7	13.5	66.5	16.7	73.3	34.3
<b>Total</b>	<b>589.0</b>	<b>100.0</b>	<b>398.7</b>	<b>100.0</b>	<b>213.6</b>	<b>100.0</b>
[Total national expenditure]	3,547.8		3,453.1		3,714.0	

Source: Bank of the Lao PDR, *n.d.*; Lao PDR, various.

### 2.2.3 Sub-national expenditure trends

Sub-national agriculture expenditure movements can be viewed at two levels: first, the proportion of total agricultural expenditure accounted for by the provinces, and secondly the proportion of total provincial expenditures allocated to agriculture. In respect of the first, Table 2.4 above shows a significant fall in the proportion of total agricultural expenditure accounted for by the Provinces between 2000/01 (86.5 per cent) and 2004/05 (65.7 per cent). This can be explained almost totally by the precipitous drop in the funding of irrigation construction – from Kip 356 billion to Kip 28 billion between the two years.

Provinces have accounted for a greater proportion of total spending on the agriculture sector than has been the case for most other sectors of the economy: on average, almost four-fifths of agricultural expenditure has taken place over the analysis period in the provinces, compared to only 40 per cent of total national expenditure. This reflects the highly decentralised nature of agricultural public expenditure, and is amplified by the drive for capital investment in recent years which has been substantially financed by provinces and is now weakening.

<sup>13</sup> The NGPES identifies four main priority sectors for public expenditure to eliminate poverty; the fourth is infrastructure.

The second measure also shows a significant fall over the five-year period. The proportion of total provincial expenditures accounted for by agriculture also fell, from 37 per cent to 11 per cent from 2000/01 to 2004/05, again because of reduced levels of capital spending.

## 2.2.4 Allocation of agriculture budget by province

Using data from 2004/05 it is clear that the agriculture budget is not primarily allocated on the basis of poverty as defined by UNDP's Human Development Index (HDI). A comparison of the most recent 2002 HDI ranking for each province and agricultural expenditure per head of rural population also by province (using 2004/05 official data) shows a positive relationship, indicating that better-off provinces tend to receive larger per capita agriculture budgets. Table 2.5 below shows that 8 of the 10 most favoured provinces in terms of income, education and health indicators (the HDI components), were amongst the top 10 recipients of public expenditure funds for agriculture.

**Table 2.5 Provinces ranked by HDI and per capita agricultural expenditure<sup>14</sup>**

Human Development Index	Agricultural expenditure/capita-rural ( <i>in Kip</i> )
Champassak	Xaysomboune
Vientiane Province	Attapeu
Bolikhamxay	Champassak
Khammouane	Houaphanh
Sayaboury	Saravane
Xiengkouang	Khammouane
Attapeu	Vientiane Province
Savannakhet	Xiengkouang
Xaysomboune	Sekong
Sekong	Sayaboury

Source: Analysis of data contained in Lao PDR (*various*) and UNDP (2006)

Moreover, the provinces that showed the highest rates of per capita agricultural expenditure were also those that contained a lower average number of priority districts (an average of 4 per province, for the 10 top-ranked provinces; this compares with an average of 4.6 in the seven lowest-ranked provinces). This confirms the view of the 2006 PER that, "poverty headcount and level of per capita agriculture expenditure are negatively correlated" (World Bank, 2007b:71) and contradicts official statements<sup>15</sup> that these provinces will be those to which the Government's investment priorities are being targeted.

<sup>14</sup> The first-ranked appears at the top of the Table. Vientiane Capital province has been excluded from the analysis due to the urban/peri-urban nature of much of the area it occupies.

<sup>15</sup> Under the PIP there are 4 broad categories of projects and programmes being financed from the public purse. One of these is: "targeted interventions on *kum ban* (groups of villages) or focal areas development to deliver basic social and essential economic services to reduce poverty in the 47 poorest and 25 poor districts". (GoL, CPI, 2006) and the NGPES in which 72 Districts were identified as poor, 47 of them were considered very poor districts requiring immediate priority. Government therefore planned that investment priorities for 2003-2005 would be directed towards the 47 Districts in order to improve their situation. Investment priorities for 2006-2010 were to include the remaining districts.

These findings strongly suggest that equity considerations have not been the primary consideration in allocating agricultural expenditures. This might be considered surprising in light of the focus of national planning documentation on poverty alleviation, and the observation that "...strong agricultural growth over the last decade has been the most important driver in reducing rural poverty" (World Bank, 2006a). More equitable agricultural public expenditure could be expected to have a positive impact on poverty reduction in those provinces where poverty levels are currently the highest.

However, there are two points of clarification required. First, it might be expected that the figures would be distorted by the continuing predominance of expenditure on larger irrigation systems. This has the potential to cause the disparity because government's growth-oriented investment policy differentiates between the productive lowlands which are vectors of the country's economic development, and the uplands, where environmental protection prevails (Ducourtieux, 2004; 82, citing MAF, 1999:74). However, when the exercise is repeated with only recurrent expenditures, a similar pattern arises. Seven of ten high HDI provinces appear amongst top recipients of public spending on agriculture, with only Luang Namtha, Saravane and Bokeo, having high per capita recurrent agricultural spending but HDI scores outside the top ten.

Secondly, is that poverty reduction is an important national goal but it is regularly construed in GoL documents as an outcome of the primary national goals of economic growth and transformation, and it is not the only goal of agricultural development. Section 2.1.2 above notes that the primary objectives of the agriculture sector include prudent goals of increased food production (including promotion of national rice self-sufficiency) as well as increased availability of agricultural raw materials for processing and for export. It is likely that there have been trade-offs with poverty reduction goals.

### **2.2.5 Capital and recurrent expenditures**

The proportion of total agricultural spending accounted for by capital expenditure decreased from more than 95 per cent in 2000/01, to a more manageable (but still very high) 83 per cent by the end of the analysis period.

An average of 85 per cent of the capital development funds made available through the budget from the government's own resources were spent on developing irrigation infrastructure, although there was a significant reduction in the amount thus spent over the analysis period (from Kip 356bn to Kip 27.6bn), as mentioned earlier<sup>16</sup>. It is understood that the bulk of these funds represent counterpart contributions to projects supported by the development partners. The bulk of capital expenditure was used for the construction of irrigation schemes at the start of the analysis period, in order for the GoL's rice self-sufficiency policy to be realised.

Of the total capital figure, an average of one-third was provided by development partners over the analysis period, while the volume of "local capital"<sup>17</sup> funds spent showed a dramatic reduction. Thus, in nominal terms, the amount of local capital funds spent in 2004/05 was only 11 per cent of the amount spent in 2000/01.

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<sup>16</sup> This picture, provided by the national expenditure data, is confirmed by analysis of data from individual districts. In Bolikhamxay in 2006/07, for example, of the total "local" capital budget, some 70 per cent was earmarked for irrigation construction or rehabilitation.

<sup>17</sup> The terminology used in the Official Gazettes.

Donors (“foreign capital”) accounted for some 75 per cent of total capital expenditure in 2004/05, compared with only 18 per cent five years earlier. “Foreign capital” expenditure as a proportion of total capital expenditure increased over the analysis period. It stood at three-quarters of the total by 2004/05, up from less than 20 per cent five years earlier. This expenditure component also increased in nominal terms, with Kip134bn being spent in 2004/05 compared with Kip 87bn at the start of the analysis period. No disaggregation of the “foreign capital” figure is provided in the budget or expenditure documentation.

Almost all recurrent expenditure is met from the GoL’s own resources, and there was a significant increase in recurrent expenditure over the analysis period – in both nominal and real terms. As a result of this and the significant fall in capital expenditures, the recurrent proportion of total expenditure increased from just 3 per cent in 2000/01 to 16 per cent in the final year.

A common feature in many developing countries is the failure to provide sufficient recurrent funds to service the demands of capital spending (for example, to meet operations and maintenance), thus undermining the overall quality of investment in the sector. Although MAF recurrent expenditure in fact increased over the analysis period, operations and maintenance expenditure (O&M) still accounted for a worryingly-low proportion of total sector spending. It represented less than 2 per cent in each year and in real terms the volume of funding for O&M hardly altered during the analysis period. This is insufficient in view of the heavy investment made over the previous decade on irrigation which is relatively maintenance-intensive, as well as on other agricultural equipment, machinery and buildings.

A recent review of the operations of a sample of 20 publicly-funded irrigation schemes throughout the country shows that most are operating well below capacity (Community & Environmental Services Ltd, 2007). Much of this can be attributed to the limited funds that have been allocated to operation and maintenance. As a result, 40 per cent of the total energy bill is being subsidised by the Government while many of the schemes have accumulated large debts to the electricity supply company<sup>18</sup>. In addition, water distribution systems are badly deteriorated. Consequently, the study notes, that “investment in irrigation by the Government appears as an investment spike every 8 years or so as systems lacking from repairs and maintenance are rehabilitated”.

Funding for operations and maintenance in low income countries is often inadequate for two reasons. First, public employment pressures mean that wages tend to dominate the recurrent budget. Since wages are fixed in the short to medium term, the effect of any funding shortfall on non-wage recurrent expenditures (including O&M) is amplified. Within non-wage recurrent expenditures O&M is particularly vulnerable because in any one year it is a discretionary expenditure, that is to say, short of a crisis it can often be put off till the next year. Even where O&M expenditures are provided in the budget, they are vulnerable to reallocation in emergencies, until O&M itself is in crisis. Analysis of expenditure data over the period under review shows that this has also been true of Lao PDR. Salaries represented the largest element of the recurrent expenditure in each year. They grew inexorably over the analysis period – from approximately Kip 10 bn to Kip 28bn. As a proportion of the total recurrent they rose from less than two-thirds to 80 per cent over the five-year period.

The appropriate proportion of salaries in recurrent expenditure varies by sector and country. However, it is often considered that wage costs exceeding 60 per cent of recurrent budgets in agriculture threaten the effectiveness of service delivery. The MAF figure is thus worryingly high.

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<sup>18</sup> The current accumulated debt of 10 schemes using electric pumps amounts to approximately US\$ 1.50 million.

However, a more detailed look at provincial budget data shows that a significant proportion of the capital budget in any one year, involves the rehabilitation of past agricultural investments. Thus, for example, in Bolikhamxay Province, Kip 892 million were allocated to the capital budget in 2006/07; of this total, Kip 302.5 million (34 per cent) were earmarked for expenditure on “rehabilitation” or “maintenance” interventions of one form or another. This represents deferred operation and maintenance (i.e. recurrent) expenditures.

Funds used to meet arrears have made significant demands on the recurrent budget over the analysis period – accounting for an average of 14 per cent of the recurrent expenditure total, only slightly less than the amount expended on operations and maintenance. The arrears’ expenditure fell significantly over the five years, and it is believed that this results from the repayment of much of the debt incurred by MAF on large irrigation civil works contracts.

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### 3 Data collection and system strengthening

#### 3.1 Difficulties in data collection and analysis

##### Organisation of budgetary information

The primary difficulty with the organisation of budgetary data is that it is presented throughout on a line item basis. This extends from the central and provincial recurrent budgets presented in the Official Gazette to the district recurrent budgets.

At the district level recurrent budgets come from the MoF via the DFO and are split into the following line-item categories: salaries; welfare - this includes the various salary supplements received by employees which depend upon marital status, family size, etc.; bonus; office management - which covers the various expenses of running an office; and technical assistance - which covers the expenses of technical staff including transport and per diems. In the absence of a specific allocation amongst programmes and sub-programmes at PAFO or DAFO level, there is no more than this line-item analysis. An example of such budget at DAFO level is provided by the following information collected at Pakading DAFO in Bolikamxhay:

**Table 3.1 Pakading recurrent budget in Kip million**

Item	2007/08		2006/07	
	Kip million	% of total	Kip million	% of total
Salary	93.61	61.3	146.82	75.9
Welfare	14.00	9.2	11.64	6.0
Bonus	4.00	2.6	5.00	2.6
Office management	25.00	16.4	23.00	11.9
TA	16.00	10.5	7.00	3.6
<b>TOTAL</b>	<b>152.61</b>	<b>100.0</b>	<b>193.46</b>	<b>100.0</b>

By contrast, capital (project) expenditures are broken down by project only and then by line item within projects. Whilst they may be sub-divided into activities the study team saw no subsequent analysis of aggregate capital expenditure by programme type, function or commodity. However, capital projects can often be grouped by programme (most belong to the Irrigation programme) and it is therefore possible to draw some conclusions about the programmatic emphasis of projects more generally.

A second difficulty with the presentation of "capital" expenditures is that many include significant amounts of recurrent expenditure which are neither separately identified in reporting, nor grouped with other recurrent expenditures.

##### Process deficiencies

There are a number of areas where processes are inadequately designed, dysfunctional, or simply not clear. Taken together these mean that data may not be developed in a useable form, or may be available but not to all users. This causes difficulties for MAF and other agencies seeking to monitor agricultural expenditures and outcomes.

First, there is a need to clarify the process of allocating funds within provinces. In order to derive the benefits of decentralization, provinces themselves must have some autonomy in budgetary allocation. However, there is a need for clarity about how provinces should take account of directives in NSEDP, the four goals, and the thirteen measures outlined by MAF. It is hoped that the outreach teams will be able to provide guidance in this, but written guidelines will be useful. They may exist, but they were not seen by the study team.

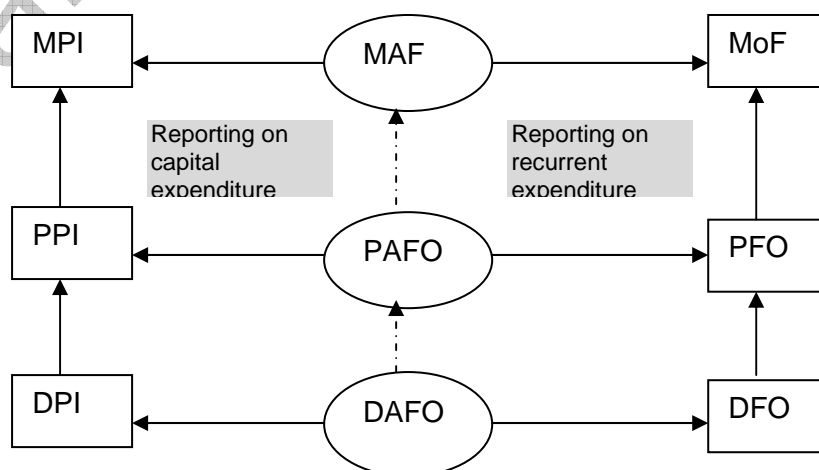
A second and related issue is the process of developing budgets at district and provincial level. The process varies from one province to another, and it would benefit from standardisation, including suggested participatory processes, standard formats, standard costings of common activities, and common arrangements for MAF involvement in budget review. This will enable the development of guidelines, the spread of good practice and facilitate standardised training. Budget seminar participants agreed that the process was time-consuming and complex, and that budgets from village level upwards are often ambitious and unrealistic: if they are not trimmed back sufficiently they result in cuts which make them difficult to implement. Pakading district reports that for capital budgets, they prepare a plan and cost it and submit to DFO, but they don't have a ceiling or other indication of what might be acceptable.

Effectiveness and performance assessments require budgets to be programme/activity based as indicated above, so that expenditures can be linked to activities. Performance budgeting also requires that activities are linked to outputs and outcomes. Budgets do not currently include any indicators to monitor expected outputs and outcomes, and thus performance cannot be measured against budget.

Third, reporting of information is a critical process which is itself fragmented and often delayed. Reporting lines for financial information conform to the pattern at Figure 3.1 below, with reporting on capital (project) expenditure passing through MPI channels and reporting on recurrent expenditure passing through MoF channels. These are the primary channels. Although reporting of financial information through MAF channels is possible, it was not the norm in the provinces visited.

For Vientiane Municipality MAF receives reports on capital and recurrent expenditure, but from other provinces it receives reports on an *ad hoc*, informal basis only. It receives nothing directly from other PAFOs and MAF personnel report that MoF does not always share reports in its possession. Neither MoF nor MAF has the full picture, so that neither is able to monitor sector expenditure at the sub-national level adequately (World Bank et al, 2007b).

**Figure 3.1 Reporting lines in Agriculture**



As a result of this poor data flow, and the absence in any event of budgets defined by programme or any routine performance indicators, MAF cannot assess or report progress against budget.

Until recently, the expenditure reporting practices of development partners under agricultural development programmes were poor and data are often still incomplete. This shortcoming is referred to in the 2006 PER (World Bank, 2007b) and other reports (World Bank, 2006a, for example). There are significant fluctuations from one year to the next in the proportion of total agricultural expenditure contributed by “foreign capital” (the figure varied between 2 and 64 per cent in one Province alone (Vientiane Capital)) although this may be a result of sporadic reporting. It may also be a reflection of the “lumpy” nature of the funding provided by the development partners at the provincial level.

Because most donor funds are held in donor-controlled accounts and monitored from MAF HQ, PAFOs often suffer from incomplete information on the expenditures within their respective provinces. This inevitably leads to overlaps and gaps in the agricultural services that are being received by farming communities.

### **Specific data gaps**

Data gaps in agriculture expenditure management can affect any of the agencies involved. Just as MAF HQ may not have information from PAFOs and DAFOs, MoF or MPI may not have information, for example, on commitments from development partners that may be available at MAF. Other data may be unreliable, incomplete or not available in any of the agencies involved. All data gaps reflect failings in systems and communications. In what follows, the focus is on the data that are unavailable at MAF HQ.

1. *General failure of reporting to MAF:* expenditure reports are simply not being received by MAF in spite of the fact that there is some reporting to MoF and CPI
2. *Absence of any programme-based budgetary information:* even where reports are submitted it is not possible to know with any accuracy either the capital or the recurrent funds spent on each of the individual programmes or functions of the Ministry, such as livestock and fisheries, crops, research or irrigation. Expenditure data that appear in the Official Gazette each year are broken down according to economic classification, such as salaries, office rental, telephone and stationery.
3. *No data on district by district expenditures* although there is information on budgets. As a result, data are not currently available to measure how much is spent on extension in the priority districts.
4. *No disaggregation of “foreign capital” expenditure:* as a result, it is not possible to assess with much objectivity whether agricultural spending of foreign funds – be it by the provinces, by the centre or by development partners – has been in line with national priorities or budgets. It is reported, however, that “provincial-level priorities are in line with the central government’s priority programmes” (World Bank, 2006[a]).
5. *No indication of the recurrent element of capital expenditures:* it is understood that a significant amount of the funds spent by projects listed under the capital budget is of a recurrent nature, much of which (salaries and training, for example) is expected to be taken on by MAF once the projects come to an end. Clearly, this has implications for the sustainability and replicability of many of the development projects in the sector. They may simply be unaffordable.

6. *Incomplete record of "foreign capital" projects*: the database kept by MAF is reportedly not up-to-date and the budgetary information in the Official Gazette is incomplete.
7. *Not all development partners report spending on projects to MAF in a timely manner*: MAF is consequently unable to engage effectively in dialogue on progress.
8. *No information in MAF on funds released to PAFOs and DAFOs*: sub-national budgets are funded by allocations from centre, province and district, as well as by donor funds. Cash flow difficulties or other factors may mean that these funds do not materialise, but MAF has no information on such funding shortfalls.
9. *No aggregate data on arrears at MAF*: although a number of provinces have data on arrears and MoF may have information.
10. *No performance information*: budgets are not issued with indicators, and given the incomplete data available on costs and the lack of any information on the quality of the services provided by the PAFOs and DAFOs (such as veterinary, input marketing, extension and research), it is impossible to estimate their efficiency and effectiveness. For instance, extension is a major activity of MAF at the sub-national level, but information is not available on how much time or money is spent on demand-responsive extension activities, compared with how much is spent on regulatory activities, which arguably can affect poor families adversely. We do know that the latter is significant and may be dominant in some areas.

### **3.2 Seminar observations on strengthening budget systems**

Many of the issues raised above were discussed at the one day seminar the team held with staff of MAF. The seminar included staff from MAF HQ, PAFOs and DAFOs as well as MPI. Three working groups were formed to comment on what they saw as the most important issues for strengthening budget formulation and execution in agriculture, at the centre (MAF), at provincial level and at district level. Each group was structured to include at least one person from each level. The results of their deliberations follow. In the nature of seminar observations, this list is not necessarily comprehensive, but gives a good sense of perceived areas for improvement:

#### **CENTRE – GROUP 1**

- Personnel structure in finance is not clear; staff from agricultural specialisms are posted to work in Finance
- Plans received from departments are always too ambitious
- Insufficient equipment at MAF HQ – Information Technology and Communications
- Implementation issues:
  - budget constraints; budgets are received late; this holds up implementation at the beginning of the year and MAF cannot catch up
  - money is insufficient and budget cuts are common
- Reporting:
  - centre has the capacity to report, but not enough information from local level or other sources
  - delayed reporting to MoF/MPI by PAFOs/DAFOs

The of capital projects database is not good enough to support effective planning and monitoring; cannot check implementation by PAFO/DAFO; NAFRI/NAFES.

## **PROVINCES – GROUP 2**

- Budget planning and implementation processes are both time-consuming and complex;
- Reporting: there is a problem in getting the reports of the districts due to poor communications;
- Shortages of facilities, equipment and computers; generally inadequate capacity.

## **DISTRICT – GROUP 3**

- Planning – village clusters develop high budgets. Budget to province is also high and people have high ambitions; because of the ambitious budgets a lot of changes (cuts) come from Province and Centre and the plans are hard to implement;
- Poor reporting and reporting delay because:
  - No qualified accounting staff (other technical disciplines); districts need training in financial management;
  - No standard planning and budgeting system; there is no system for management of the capital budget.
  - Many different accounting systems; it is important to co-ordinate planning and monitoring (needs standard accounting system in all Districts)
  - Facilities/equipment – insufficient; not always working;

Many of the issues raised here reflect the concerns of the consultative provincial meetings held at the outset of the PEMSP programme (Annex 4 to GoL, MoF, 2007) and proposals within PEMSP are designed to address them. This is addressed in the next section.

### **3.3 Existing PEM reforms**

The policy and budgetary issues observed in the foregoing analysis are not limited to agriculture but are repeated in other sectors. Consequently, they are best resolved by national reform programmes that are cooperatively designed, centrally driven and monitored at central and as well as sector level. Such programmes work best where commitment and technical support exist at sector level as well as at central level, providing a combined top-down and bottom-up effort.

The major current initiative for improvement of PEM in Lao PDR is the Public Expenditure Management Strengthening Program (PEMSP) which was approved by GoL in November 2005. The PEMSP provides a framework of activities designed to strengthen five key areas of PEM. These are: fiscal planning and budget preparation; budget execution, accounting, and financial reporting; sub-national financial management; financial legislation and regulatory frameworks; and technical capacity. Recognizing that building sound PFM systems requires sustained development over the medium-to-long term, GoL has encouraged external partner agencies to support MoF in the implementation of PEMSP.

At an early stage of the PEMSP, three provincial workshops were held to determine key PEM problems faced at sub-national level. The findings of that workshop are presented in the PEMSP Programme Document and Implementation Schedule (GoL, Ministry of Finance, 2007). They make a number of observations about sub-national expenditure management including:

*Budget preparation:* no indicative ceilings leading to “wish lists”; bottom up planning ineffective; budgets fail to reflect local priorities; and MOF too slow in budget process.

*Budget execution:* Centre does not transfer budgeted amounts → shortage of funds and arrears; poor expenditure recording; unauthorised expenditures; poor internal controls; no uniform formats; and late reporting.

*Capacity building:* strong need for staff training in revenue and expenditure management; management not familiar with expenditure management issues; and district level lacks staff and equipment.

With these and other issues in mind the PER/IFA recognized the need to strengthen public expenditure management and identified seven priorities for the PEMSP which are presented at Box 3.1 below.

**Box 3.1 PEMSP: seven priorities for public expenditure management**

1. strengthen the fiscal planning that underpins the annual budget process based on reliable forecasts
2. reassert the authority of the central Treasury over provincial treasuries
3. focus on public financial accountability and transparency
4. promote a high-level dialogue on central-local fiscal relations in Lao PDR
5. base budget allocations among provinces on more realistic revenue forecasts
6. support the ongoing revision of the Budget Law and Treasury Decree
7. accelerate capacity building

In 2007 the Integrated Fiduciary Assessment of the World Bank and other development agencies in partnership with GoL (World Bank, 2007b) reviewed five sectors (agriculture, roads, education, health and environment). It concluded that if it is to reach NSEDP objectives and improve service to poor and vulnerable groups, GoL must increase the effectiveness of its public expenditure. In particular, the report urged GoL to first, align expenditures more clearly with NSEDP priorities; and second, to rationalize allocations between and within sectors, taking into account the efficiency of public spending in priority sectors.

## 4 Conclusions and Recommendations

This report has identified a number of serious shortcomings in the management of agriculture expenditure including inadequate capacity and poor processes that cause data gaps at MAF HQ. These are exacerbated by fragmented budgets, dual budgeting responsibility through MoF and MPI, and poor communication between MPI, MoF and MAF at all levels. Inadequate and inaccurate budgetary information is the inevitable consequence. It is not sufficient to list the data that is not available and recommend that it be produced, since many of the difficulties are institutional and deep-seated. Lack of technical PFM knowledge is only part of the reason for the absence of data at MAF; consequently, development of PFM information for agriculture will be a long-term project with many separate strands.

The findings are fully consistent with those of the PER agricultural Background Paper of 2006 and its recommendations remain relevant as a starting point. They are reproduced in Box 4.1 below:

### Box 4.1 Recommendations from 2006 Agriculture Background Paper for PER

- MAF needs better information on and closer involvement in the procedures of MOF and CPI of developing the final sector budget allocation for recurrent and capital funds. ***Strengthen consultation, information exchange and data access between MOF, CPI and MAF.***
- MAF needs better information on what is being spent on agriculture and rural development by sub-national authorities and the private sector. MAF also needs better information on local debt levels: ***Strengthen the monitoring of locally generated revenues, local expenditures, and local debt accrual at the central level through introducing mandatory expenditure reporting by provincial and district level authorities, such as PAFOS and PFOs, based on actual revenue collection, disbursements, and arrears. Reporting should also attempt to record levels of private spending in agriculture.***
- MAF needs better information on how provincial level expenditure is aligned with national priority programs. ***Include priority programs and activities along functional categories into the budget plan and monitor against activities under the programs.***

All of these broad recommendations are important. They involve multiple players and the more detailed recommendations at the end of this section include separate recommendations for MAF and the donor community.

Lao PDR has articulated an agricultural policy with key pro-poor elements, including an emphasis on increased production. This policy requires both further elaboration and better classification of expenditures in order to translate into activities which are capable of measurement and costing. In this respect it will be important to (1) elaborate specific activities and develop budget norms where possible and (2) introduce a programme-based budget classification system. Both processes are already proposed under PEMSP and can be carried out in conjunction with that programme.

**Recommendation 1: that MAF HQ together with technical support and in consultation with PEMSP carries out the following reviews and develops a detailed Action Plan and Support Programme consistent with PEMSP:**

- **a review of HQ capacity in Finance and Planning, and subsequently develop a proposal for training of key staff, purchasing equipment (including computer equipment and software) and, if necessary, reassigning duties, and**
- **a review of sub-national capacity and training needs, especially in planning, budgeting and reporting. Ideally this review will include a full inventory of equipment and facilities as well as staffing and skills**

The development of a Support Programme consistent with current developments in PEMSP and elsewhere will require a scoping exercise of perhaps 60 person-days duration. Its objectives should be to determine: (1) equipment and infrastructure required at central, provincial and district levels (2) training needs (3) the nature of linkages with other PFM reforms (4) feasible procedural changes (5) any additional staff required to be appointed in MAF HQ and Districts and (6) the form and duration of any technical assistance. The individual/s selected as technical assistants should be national staff if possible, based in MAF, and tasked to assess the state of current systems in some detail and work with MAF, MoF and MPI at national and sub-national levels to develop a transitional capacity improvement plan. They should also propose a financial reporting system for agriculture, which (1) utilises existing systems as far as possible and (2) which is consistent with use of the Government Financial Information System (GFIS) in due course.

Although further consultation and analysis is required to develop a programme to which all parties (MAF, MoF and MPI) can commit, elements to consider in the Action Plan and Support Programme will include the following:

- In the long term more rapid and sustainable progress will be made with empathetic, supportive, Lao-speaking long-term technical assistants working side by side with MAF personnel, rather than in a separate Project Implementation Unit
- Long-term capacity development must be consistent with PEMSP<sup>19</sup> and address skills and equipment issues at central and sub-national levels. This will require:
  - an assessment of staffing levels, qualifications, skills and training needs in planning, budgeting and accounting
  - task-focussed training in specific systems, procedures and formats with active follow-up, as well as a commitment by MAF to retain any finance-trained staff in financial positions
  - a wider questionnaire-based survey of PAFOs and DAFOs to establish key capacity issues including: availability of computer equipment, e-mail/internet, and fax machines;, skills and training needs in IT and other areas
  - a PEMSP/GFIS-compatible manual for PAFOs and DAFOs covering planning, budgeting and reporting

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<sup>19</sup> The PEMSP envisages establishing a PFM Capacity Building Committee, conducting a needs assessment and capacity building strategy, and developing and implementing PFM capacity building plans. The PEMSP capacity building plan is a first step in strengthening coordination among donors. (World Bank, 2007b:11)

**Recommendation 2: that MAF works closely with the PEMSP programme and participates fully in PEMSP planning and programme development**

**Recommendation 3: that MAF works with MoF, PEMSP and available technical assistance to enable:**

- the early strengthening of budget classifications to enable the identification and costing of programme and sub-programme activities in the sector, and
- the development of simple financial systems for operation ahead of GFIS, perhaps using Excel or a budget level double-entry accounting package to strengthen accounting and computer skills and prepare staff for GFIS as soon as it is ready

**Recommendation 4: that MAF amend job descriptions of key staff to give them specific responsibilities for supporting systems' developments at PAFO and DAFO level, in particular:**

- designating an individual in all three sections of Finance (revenue, recurrent and external funds) as the sub-national liaison officer with particular responsibilities for data collection and review
- training and tasking the outreach team to work with Finance and Planning sections of MAF sections to support specific activities in connection with systems improvement

**Recommendation 5: that MAF consider carrying out a Public Expenditure Tracking Survey/ Service Delivery Survey (PETS/SDS) in 2009 as described at Annex E, supported by the outreach team. The PETS/SDS is highly customisable and would be able to answer key questions about resource use, record keeping, reporting and service delivery at sub-national levels.**

The case for a PETS in agriculture is made at Annex E. That Annex also presents the useful findings of a recent PETS carried out in the health and education sectors.

A key issue for the development and monitoring of agriculture in Lao PDR is to recognize that it is the responsibility of MAF to ensure that the national agricultural policy is implemented. To do this requires several capabilities consistent with a division between policy development and support (MAF) and service provision (sub-national entities). Accordingly, the Support Programme referred to at Recommendation 1 above should seek to develop the following capabilities:

- Capacities in planning and budget development:
  - to support provincial agriculture through the dissemination of guidelines that elaborate the 4 goals and 13 measures to create a practical, accessible and regularly-updated guide to the design and implementation of agricultural programmes and budgets, consistent with national goals, and
  - to review local government agricultural plans to ensure that they are consistent with national priorities and with the guidelines issued, and that they have been developed in a participatory manner
- Capacities in monitoring (including financial monitoring):

- implementation of plans at two levels: completion of agreed performance objectives (objectives and measures of performance to be indicated within the annual plan) and delivery of outputs; and monitoring of financial performance to ensure (1) that allocated funds have been made available in a timely manner (2) that appropriate accounting systems are in place to ensure accurate and reliable reports, and (3) that funds have been applied in appropriate amounts to agreed activities. In the medium term, monitoring by MAF must go beyond the control-focussed financial monitoring of aggregate expenditure against budget, to look at the efficiency of spending and value-for-money issues. However, a principle of sequencing reforms in PEM is to establish control over inputs before seeking to control outputs and it is proposed here<sup>20</sup>.
- capital (project) budgets, to ensure that they are being implemented effectively, within budget and in a timely manner

The capabilities described above will do much to create upward accountability by provinces for agricultural programmes and to challenge the present position where provinces are seen to have autonomy without accountability. The outreach team deployed in the second half of 2007 will be able to make a start with this, but their Terms of Reference must be well defined, and they in turn must be held accountable for their results. In addition, these capabilities are similar to the competencies required in other sectors. Consequently, they are in many cases scheduled to be addressed by national initiatives like the new Budget Law, the GFIS, and existing programmes, particularly PEMSP which seeks to strengthen fiscal planning, budgeting, budget execution and local government management. Consequently, MAF must work closely with these programmes to ensure that it profits from them to the maximum extent possible.

In agriculture, there is a particularly strong argument for strengthening MAF's knowledge of results deriving from public spending in agriculture and being able to demonstrate these results. Public spending on agriculture has fallen over recent years in Lao PDR, and this mirrors a worldwide trend. It has come about for several reasons which include changes in the role and scope of the state, a perception that many agricultural issues can be addressed outside the sector (for example, with spending on transport, better markets or revised trade regulations), increased attention to social sectors in order to realise the MDGs and, finally, a perception that there have been poor returns to earlier public spending in agriculture (Akroyd and Smith, 2006; Cabral, 2007).

These concerns are echoed in Lao PDR. Participants in the one-day seminar held by the study team observed that MAF had not made a "good case" for donor support vis-à-vis other ministries; that evaluations of past projects have shown a relatively poor performance by MAF and by the sector, which has deterred some donors from further involvement; and that, after a period in which agriculture found strong political support, new national priorities have arisen and agriculture must once again make its case for additional funds. By taking control of the agriculture agenda and developing the capacity to monitor its progress, MAF will be able in due course to demonstrate which agricultural interventions have positive outcomes, and make a more effective case for increased budgetary allocations.

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<sup>20</sup> The thinking behind this principle is twofold. First, it is often easier to control inputs because the necessary systems are easier to develop and maintain. Therefore, if capacity is insufficient for a system of input control it is unlikely to be sufficient for output control and reporting. Second, information on outputs is of limited usefulness if the associated cost information is not available. For instance, we might say that we have introduced a hybrid seed to 2,000 farmers, but if we do not know how much was spent in doing it we cannot comment on the financial viability of the activity nor compare performance of units against one another. In addition, we cannot cost future interventions nor develop budget norms.

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## **Annex A Terms of reference**

### **Public Expenditures for Pro-Poor Agricultural Growth DfID/World Bank (ARD) Partnership: Lao PDR Case Study**

**June 23, 2007**

#### **Background**

1. Agriculture is important for economic growth and poverty reduction. Empirical evidence suggests that spending on agriculture yields high returns, yet accessible evidence on which public expenditures work best for pro-poor agricultural growth is limited. Experiences suggest that there are often capacity constraints at the central and local levels that inhibit effective and efficient spending, coupled with fiscal and administrative management limitations. Public expenditures are often inefficiently allocated and poorly targeted. In the agriculture sector, investments primarily remain project-based that are often supported by donor funds that are not recorded in national budgets.

2. A joint DfID/World Bank partnership program "**Public Expenditures for Pro-Poor Agricultural Growth**" intends to collect and disseminate evidence on public expenditure policies that stimulate pro-poor market-driven agricultural growth by implementing a number of country case studies on public expenditures. The program is currently being implemented in six countries, including Nigeria, Ethiopia, Uganda, Nepal, Lao PDR and Honduras. The lessons and experiences from the case studies will be consolidated into a comprehensive lessons learned report to inform Government departments and donor institutions of successful experiences and lessons of how public expenditures can be aligned more efficiently and effectively with identified public policy and program interventions.

#### *Lao PDR Country Case Study*

3. Lao PDR has been selected as one country case study under the Partnership. The agricultural sector in Lao PDR is one of four priority sectors receiving special attention in the public expenditure agenda of Lao PDR. Broad reforms are currently underway to strengthen the basic fiscal management capacity through the recentralization of the currently fragmented and decentralized revenue management system. However, the planning, execution, and management of public expenditures for the agricultural sector face several challenges: Nearly 80 percent of public spending on agriculture occurs at the province and district level, with central authorities having only inadequate information on actual expenditure levels and composition. The Ministry of Agriculture and Forestry (MAF) has very limited administrative capacity to effectively manage public expenditures in the sector. Donor-funding is substantial but mostly off-budget. Recurrent budgets are inadequate in relation to investment levels to assure operations and maintenance of the investment. High levels of accumulated debt in the provinces inhibit their ability to effectively manage expanding investment responsibilities.

4. The Lao PDR country case study aims to: (a) contribute to a better understanding among Lao decision makers and sector planners of the current patterns of national and sub-national (provincial) sector expenditures along national and provincial sector priorities; (b) stimulate discussion and exchange between MAF and sub-national line authorities on sector priorities and the associated fiscal implications for implementation; and (c) build basic government capacity in standard fiscal administration tools at the central level to allow for an assessment and evaluation of options within the administration for better alignment of national priorities with sub-national implementation plans and available budgets through creating the right incentives (capacity building aspect).

### Scope of work

5. A team consisting of **2 international and 2 national experts** is needed to implement the Lao PDR country case study. The team should have excellent experience in the *analysis of public expenditure and investment policies and programs as well as in-depth understanding of fiscal administration tools and their application*. The specific tasks of the assignment include to:

Design and conceptualize scope, data formats and analytical framework for an agriculture public expenditure study in Lao PDR and implement the study;

Collect and analyze data on agriculture expenditure at the central level and in one selected pilot province in Northern Laos, including: (a) in absolute terms and relative to other sectors, overall budget and sector GDP; (b) broken down by type of expenditures (capital vs. recurrent; sub-sector using functions; etc.) along the standard chart of accounts of Lao PDR; (c) sub-sectoral allocations against core functions and by commodity (i.e., crop, livestock and fisheries), and (d) by funding source (government vs. external/donor, and external/donor financing by funding modality);

Develop an overview of the Ministry of Agriculture and Forestry's (MAF) national priorities for the agriculture sector and implementation plans for a number of priority sub-sectors and assess budget allocations against these policy priorities; identify major differences and gaps between central and provincial level sector priorities and their fiscal implications;

Lead a capacity building seminar in Lao PDR in 2007 (half-day) to introduce and share international expertise and experience with key decision makers within MAF and provinces to:

- develop an understanding of the principles and concepts of the budget process and standard fiscal administration tools and options for intra-governmental transfers for effective implementation of public sector programs and policies;
- introduce international experience with application of such concepts and tools in the agricultural sector;
- based on the collected data and information, contribute to a consultative assessment of implementation options of such fiscal administration tools relevant for MAF to improve capacity for the setting of sector priorities and fiscal needs as part of the budget process.

The capacity building objectives include two components, in addition to the planned seminar. Component one includes (1) providing an assessment of the current capacity in MAF for systematic monitoring and impact evaluation of public spending in the agricultural sector, and (2) identification of gaps in MAF in terms of staff skills and institutional arrangement.

Component 2 provides a practical and implemental **proposal** for MAF to build capacity in MAF in three key areas: (1) systematic data collection, including monitoring and tracking agriculture public spending, (2) conducting agriculture public spending review, and (3) assessing the impact of spending in the agriculture sector.

Prepare a final report, synthesizing the findings and outcomes of the seminar and outlining follow-up activities improving public expenditure management in the agriculture sector.

**Reporting arrangements**

6. The consultant will be appointed by DFID and report to the World Bank.

**Timeframe**

*Implementation period: October 1, 2007 to January 31, 2008.*

Field mission to Lao PDR: October-November 2007 (detailed timing for the PER mission will be decided by the World Bank Task Team Leader by August 10, 2007)

The international consultants will spend about 2 weeks in-country and will be supported by two national consultants. The assignment will involve a field trip (about one week to one province), data collection in Vientiane, participation in a seminar at the central level in Vientiane and report writing off-site.

*Final report by end of January 2008*

## Annex B Seminar Report

Issues in public financial management and agriculture: report of a training course held at the World Bank office, Vientiane on 10<sup>th</sup> December, 2007-12-11

### Participants

The participants were from the Districts and Provinces that had been visited by the consultancy team and from MAF HQ.

<b>Name</b>	<b>Job</b>	<b>Location</b>
Mr Khammouane	Planning	PAFO, Bolikhamxay
Ms Khanthla	Budget	PAFO, Bolikhamxay
Mr Maichom	Director	DAFO, Khamkeut
Mr Bounlouang	Management	DAFO, Khamkeut
Mr Ounheuan	Management	DAFO, Khamkeut
Mr Keoudone	Director	DAFO, Pakkading
Mr Ounkham	Management	DAFO, Pakkading
Mr Dalaphone	Management	DAFO, Bolikhan
Mr Younxay	Management	DAFO, Paksan
Mrs Dalouny	Technician	Dept. of Inspection, MAF
Mrs Soukanh	- " -	Personnel and Organisation Dept
Mr Inpeng Khounthep	Technician	Dept. of Planning, MAF
Mr Ketsana Louangnam	Technical finance	Dept. of Planning, MAF
Mr Somchith Phannouhath	Deputy Director	Finance, Dept. of Planning, MAF
Mr Nen Pongkhamsao	Deputy Chief	Administration & Planning, Meteo
Mr Bounhak Chanlamoy	Accounting	Dept. of Livestock and Forestry
Mr Boun Pheng	Accounting	DAFO, Vientiane Province
Mr Chanthanome	Accounting	DAFO, Vientiane City
Mr Kokham	Accounting	DAFO, Vientiane City
Mrs Phetsomphone	Accounting	Department of Forestry
Ms Phouangsouda	Accounting	Department of Forestry
Mr Khamphay Phiasakha		Department of Agriculture

### Proceedings

#### PFM in Agriculture

The morning was given over to a presentation on PFM in Agriculture. Following the first presentation, three working groups were formed to discuss the following topic as indicated on the final slide of the morning presentation:

*What are the most important issues for strengthening budget formulation and execution in agriculture?*

- *At the centre (MAF)?*
- *At provincial level?*
- *At district level?*

*Consider all levels, from the introduction of major reforms (comprehensive budget, programme budget, performance budget, medium term budget (MTEF)); to training or better equipment (but be specific); to increased availability of information; more time to prepare budget; closer working with other units; better banking systems, communications. etc*

Each group was structured to include at least one person from each level. The results of the deliberations of each of the groups were as follows:

#### **CENTRE – GROUP 1**

- Personnel structure in finance was not clear, with staff from agricultural specialisms posted to work in Finance
- Information from plans always too ambitious
- Insufficient equipment – ITC
- Implementation issues:
  - budget constraints; budget are received late;
  - cannot catch up with implementation after receipt of late budgets;
  - money not enough – budget cuts are spread around budget areas.
- Reporting:
  - Centre has the capacity to report, but not enough information from local level or other sources
  - delayed reporting to MoF/MPI
  - database of capital projects is not good enough to support effective planning (check PAFO/DAFO implementation; NAFRI/NAFES)

#### **PROVINCES – GROUP 2**

- Budget planning and implementation: the processes are both time-consuming and complex;
- Reporting: there is a problem in getting the reports of the Districts due to poor communications;
- Shortages of facilities, equipment and computers;
- Inadequate capacity.

#### **DISTRICT – GROUP 3**

- Planning – village clusters develop high budgets. Budget to province is also high and people have high ambitions; because of the ambitious budgets a lot of changes (cuts) come from Province and Centre and the plans are hard to implement;
- No qualified accounting staff (other technical disciplines) results in reporting delay;
- Disparate accounting systems; it is important to co-ordinate planning and monitoring (needs standard accounting system in all Districts);
- District needs training in financial management;
- Facilities/equipment – insufficient; not always working;
- Need planning and budgeting system; in its absence poor reporting is the norm; there is no system for management of the capital budget.

#### **Patterns of public spending in agriculture**

In the afternoon a presentation was given on public expenditure in agriculture in Lao PDR. Following this second presentation a number of issues were raised by the participants, including:

- it is important that the statistics on which the analysis is based be double-checked as sometimes the official figures are revised;
- one reason why other sectors are gaining a larger share of public expenditure is because they are growing faster and GoL wishes to support them to do even better;
- also, compared with other ministries, MAF has relatively limited experience in drafting “attractive” project proposals, that can be presented to the donors. They had not made a “good case” for donor support vis-à-vis other ministries. MAF was not good at advertising itself;

- the counterpart fund requirement means that the limited MAF budget can be used to support only a few donor-supported projects. A significant proportion of the GoL capital funds were spent on emergencies (floods, droughts and pests) leaving little balance for development projects;
- evaluations of past projects has show a relatively-poor performance by MAF and by the sector. This has put off some donors from further involvement in supporting agriculture;
- development of the agricultural sector was promoted strongly by the President some years ago and funds followed. However, new national priorities had arisen and public expenditure was altered accordingly (it was “time to move on”);
- local realities are inadequately understood by outsiders who design projects. For this reason, many projects had performed poorly and this had undermined attempts to canvas for further funds in support of the sector;
- the fact that high-ranked HDI provinces had spent more per capita on agriculture than other (poorer) areas, was because most of them were “surplus” provinces that had collected higher larger of taxes; they therefore spent more;
- nevertheless, GoL provides significant funding to the poorer provinces in order for their economies to grow;
- some 60 experienced officers at the level of Deputy Director-General (from MAF, NAFRI, NAFES, etc), have been sent to the Provinces from the centre in order to support the poorer provinces in their development planning (including monitoring) efforts over a period of one year. The success of this programme is being closely monitored<sup>21</sup>. It had led to a complete restructuring of the Ministry;
- villages in the 47 Priority Districts were receiving a grant of US\$1,000 for development activities – a poverty reduction fund (supported by several development partners), so this expenditure might change the ranking given in the presentation – the impact of this would not be seen for a couple of years as it had only just begun.

At the end of the afternoon an evaluation was conducted, with a specialist translating the questions on the evaluation form for the participants. The outcome of the evaluation was positive, with participants asking for more time to explore these issues and develop practical solutions.

Mr Somchith thanked the presenters and the participants for the valuable short training that had been received, and urged more similar training to be provided to help MAF in its work to overcome constraints to agricultural development. He expressed his sincere thanks the World Bank for its readiness to respond to the capacity development needs of the GoU in specific areas.

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<sup>21</sup> Comments were made by some that these people had been sent as a form of punishment!

## Annex C Field Trip Report

(partially in note form)

December 4, 2007, **Vientiane Capital City**

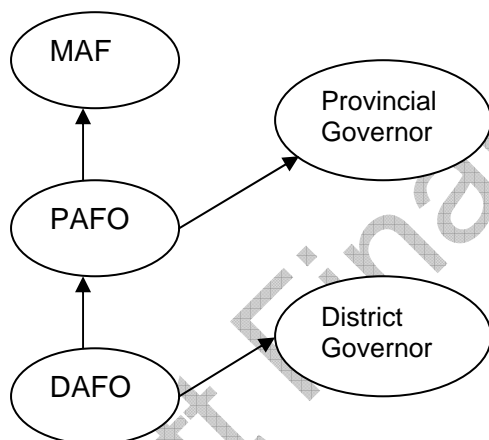
The team met with Mr Chantha Thipavongpanh. Deputy Director, PAFO

Introduction: Vientiane Capital has 9 districts; the PAFO employs 384 people with 22% at PAFO and 78% at district and project stations. There are 96 irrigation projects with electric pumps and 20,000 ha under irrigation.

The same structure exists at PAFO and DAFO – as follows:

- Administration
- Livestock and Fisheries
- Agriculture
- Irrigation
- Extension
- Forestry

There is a dual reporting system under which the PAFO and DAFOs report within the province and to MAF:



The priorities of Vientiane capital were reported to the team as:

- Food Security (new activity)
- Commercial Cropping
- Shifting Cultivation
- Forestry Management
- Poverty Reduction

They have members of the outreach team, and one new person started the morning we arrived. Their main activity is to monitor linkage from grass roots to the top. They also assist TA to develop village groups. They have been sent to projects and districts. Head of PAFO decides how to use the team to meet provincial needs. Outreach team skills include development agriculture – extension; and finance people. He cannot say what difference they have made because they only started in October 2007.

The PAFO advised that in developing budgets

- Central Government provides the budget framework;
- The province decides projects which are approved by the Provincial Planning Office (Provincial MPI) and approves budget, then
- Budget and Work Plan is agreed with CPI and MoF

It takes one month to prepare budgets – 5 Departments within PAFO submit budgets. Budget is submitted in April: Budget is prepared by month – multi column.

- Capital → CPI
- Recurrent → Department of Finance (Vientiane Capital) => MOF

Their budgets are not so closely controlled: there is closer control of budgets in poorer (deficit) provinces. Last years budget was an increase of 15% against the previous year. They put up a high budget anyway. 10 years ago they used to get budget from MAF.

The recurrent budget plan approved by National Assembly includes funds for:

- Salary (staff) and welfare
- Management
- Technical support
- Infrastructure
- Debt service (arrears)

PAFO recurrent budget for this year is 10.9 billion kip, but includes debt payment of 3 billion. Total province budget (recurrent) is 60 billion kip. The biggest headache for the Municipality is arrears. It has reduced amount available for recurrent – you can think of it as investment in advance.

In the Capital Budget they have development projects for extension and for livestock;

Vientiane Province reports weekly monthly and yearly to MAF. (MAF later informed the team that this is the only PAFO that reports to them).

Extension staff get research information from MAF. Plans run till 2020 [**Presumably refers to NSEPD? - Team**]; some things they do are not on the plan – like emergency activity, and some things are on the plan but there is no budget – so they don't get done.

Money is with Finance. PAFO prepares Payment Voucher and take it to Finance (at province?) “to tell the truth, government doesn't have money”. Foreign exchange is only with government. For construction work they make a contract and when work is complete central government inspects and pays. MoF or PFO pays the supplier direct – it doesn't come through PAFO.

Cash payments are made for many things: technical support; transportation; allowances for farmers; stationery; and field allowances.

ADB is based at the province; connections with MAF are limited: MAF provides training sessions; MAF did data collection on rice.

Why a big drop in irrigation budget after 2004? They were reducing shifting cultivation and were short of rice. Now there is enough irrigation - only maintenance budget is required now.

Finance capacity: there are three staff at PAFO and 2-3 at each DAFO. DAFOs request funding in accordance with their budgets. They are not well equipped – 1 computer for three people at PAFO. DAFO people should share a computer – they don't use Excel.

Finance people prepare

- Monthly expenditure summaries
- Cash proposals

Donor projects all come through MAF. MAF

- Cooperates with provincial level
- Agree proposal jointly
- Donors never give cash
- WB and ADB both have a PIU in the MAF (other donors include AFD, JICA, EU).

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December 5, 2007, **Vientiane Province**

Mr. Kongham Inphayalath – Deputy Director  
Mr Boupheng (and team) Head of PAFO Finance Division

566 staff. Arrears are very serious. They have 50 billion arrears for irrigation; province proposes 30% of budget – the rest must be paid to debt. 70% is for extension; they propose budget but many projects are cut. This has been a feature for several years.

*Recurrent budget:* mostly they add a bit more to what central government allocates – there is no point in asking for more because you won't get it.

*Capital budget:* 100 billion requested but got only 7.2 billion from government. Total 20 billion kip for province; 7.2 billion for agriculture. After constructions were finished, budget dropped from 2004/05 onward. Principal support of projects in Vientiane Province: ADB; AFD; NGO – Oxfam. Capital Investment in agriculture - mostly technical assistance in irrigation. Donors are supporting other areas of agricultural development besides irrigation; Oxfam first time come for irrigation (they support education and health too). HIV/AIDS. Gender. but in agriculture the focus is still on irrigation – also support people in remote areas to build a bridge.

Donor projects come from MAF, and all payments are made from MAF.

Total	58,821.82
Government	20,300.00
Donors	38,521.82

Identified projects: planning first; PAFO proposes plans to governor of province and to Planning Department. Provincial governor has a meeting to defend projects, but they get reduced by local government. MoF gives a ceiling. National Assembly approves the budget. Politburo has the final decision.

He makes reports 3 monthly, 6 monthly and annually to Provincial MPI. Annual report to 30/9/07 was sent on 1/10/07. But – Vientiane is a star performer and other provinces are not so good.

National Assembly has no overall budget till September – it used not to be approved until December. It would help to get a lot earlier indication of ceiling but NA doesn't decide aggregate amount till September.

Paying TAs in extension:

1<sup>st</sup> payment – Oct - December

2<sup>nd</sup> payment Jan – March

3<sup>rd</sup> payment April – June

4<sup>th</sup> payment July – September

There is no PAFO bank account. Project bank accounts are in the town with joint signatures (with head of PIU); they are all held with Lao Development Bank:

Reservoir	ADB
NCMI	
Irrigation	ADB
IDM	ADB
Smallholder Producer	ADB

Movement on these accounts is not included in the report to MAF.

Departments are same as Vientiane capital but not extension, rather Extension Centre, and also meteorology. Thus:

- Administration
- Livestock and Fisheries
- Agriculture
- Irrigation
- Extension (Centre)
- Forestry
- Meteorology

Some years ago they used to suffer delays in payment, but now payments are on time and in the right amounts. There may be payment delays in remote provinces (for instance, teachers) but this no longer happens in Vientiane province.

They estimate average bills for mobile phones; cash is kept in a safe.

Province collects tax and deducts current budget requirement; remits only the extra to the centre. The new budget law is clearer than the old one. It will be easier to prepare plans and budget, so it will improve the work system.

At districts: Finance staff are at the DAFO; 12 districts; Districts set up budgets and report spending every three months. They collect money once a month. Almost every day there is somebody coming from a district. Mr Bounpheng (Head of Finance) signs all payments. Deficit districts get 3 months money in advance.

There are 24 finance people in the province including project finance people- 4 are at PAFO. They have 1 computer and 1 motor bike. DAFO has one computer which is shared with projects and a printer. Computer was bought 10 years ago. Has asked for computer but never got it.

PAFO collects revenue in some circumstances. Fees for agricultural products; and must pay a fee for logging –technical support fee. Crops exported to province. Trader brings a declaration of what is being moved and PAFO must certify.

PAFO gets quarterly reports from Districts. They are always slow but come at year end. If they don't send reports there will be no money.

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December 6 2007: **Bolikamxhay**

Introduction: was part of Vientiane Province until 1986. 6 districts, 230,000 people. 3 forest districts in Highlands; Kamkeuth, Vienthong and Bolikhan are priority districts. They have 400 staff in PAFO and District. 50% are in PAFO. They have 6 Divisions:

- Research and Analysis Station
- Livestock and Fisheries
- Forestry
- Irrigation
- Agriculture
- Forestry Extension
- Office and management
- Meteorology – will become part of Environment and Water Resources

Province is producing 498 kilos of rice per head. Main activities are : rice; livestock and fisheries ; irrigation => rice; tree plantation and forestry. Problems: not much land, and especially not much flat land. Not enough technical support; for example, technical support is required for districts and then from districts to support villages. Province needs good irrigation management and seed varieties.

Outreach team: 3 people came from HQ to support agricultural planning; central level => local level - to support the 4 pillars and 13 regulations. He supports the arrangement – the people are flexible.

From beginning of century – contract irrigation. There is only maintenance now. O and M has remained static for several years. Budget constraints mean that PAFO cannot move forward.

This is the first year that Bolikamxhay has been a deficit province. They are in deficit on both capital and recurrent. They go month by month. They make a 3 month proposal to govt for the difference and each month has been short so far, but December funds were not yet received at time of visit. Perhaps December will make up for the shortfall in previous two months. In addition to not getting what they expect from PFO, their revenue collection is also not going well.

They have difficulty deciding how much is sent to central government. The centralization of finance affects their working system. [There was a lot of discussion around this, but it was not clear how much is remitted to the centre. At one point, they said that they remitted 100% of revenue to the centre, but this would be the new system already.]

If he submits a project, and it gets approved and he gets the money for it. However PAFO no longer makes new project proposals.

Arrears: Bolikamxhay has almost finished with arrears. Only 2 billion kip now owed for irrigation, and only 300 million kip for other arrears.

Donors include:

- Water Conservation Society \$1.6m
- DIDM (irrigation)
- FAO (food security; including livestock) Pays contractor directly
- NCMI (irrigation loan)

Livestock bank: province supports with 1 billion kip; – beneficiaries pay back with a calf and rural interest; this was 2-3 ago and had good results.

PAFO has a bank account – it was Department of Finance but new Budget Law changed that. They collect revenue into that account and pass it on.

There is never anything left from their allocation. Funding delays cause problems for extension programmes; they need capacity building at village level. Capital investment is not provided. Funding delays affect crop production because it is season-sensitive.

Districts submit budgets to PAFO and to DFO. DAFO's go direct to DFO for money and report to DFO. PAFO doesn't have the big picture.

Poorest districts come to PAFO for money, but others can come straight to PFO. The position is summarised at CPI. Sometimes they don't follow the rules. It would help if DAFO came to the PAFO when getting money. [There was an extended discussion within the meeting (in Lao) of what to do.]

Does DAFO have the capacity? Money? Yes, and some computers, but some are broken. No faxes. Deliver to them by truck – they come to PAFO by bus for salary. PAFO has 3 pick-ups in bad condition. There is no internet or e-mail at the PAFO. PAFO staff are not generally familiar with IT, internet, e-mail or computers. They don't have a computer in Finance.

*Budget preparation:*

DAFO budgets are summarised at PAFO. Some remote districts just send a paper to the budget meeting, others attend. There is a province meeting with all department heads. They don't generally cut here. All PAFO departments come up with a budget.

In 2007/08 they proposed 16 projects but were reduced to 12. In 2007/08 they proposed a total of 9 billion of projects, of which 6 billion donor-financed and 3 billion government-financed. They got approval for all donor-financed (6 billion) and 1 billion of government finance, making 7 billion in all.

2006/07 proposed 9.6 billion kip; approved 7.6 billion. Of which, donor 6.5 billion kip and other 1.1 billion kip. Extension gets more from LEAP and NAFES.

In the budgeting process, priority districts are treated the same. However, because of budget shortages, even priority district projects were cut. PAFO supports priority districts when it can, but budget is a problem: "an idea is not enough without money".

Donors don't want to go to some priority districts, for instance where you cannot get access in the wet season. What percentage of the 12 projects is in priority districts? - Only an irrigation project in Kamgar district – nothing else for priority districts. There is limited local demand for projects in priority districts.

After lunch there was a long discussion over budgets. There is a lot of confusion over capital and recurrent, proposed and approved items. It is clear that they are not deeply understood at the PAF except perhaps by one or two. [Team comment: the understanding of finance needs to be wider than the finance unit].

### **PAFEC Head - December 6<sup>th</sup> 2007**

Head of PAFEC (the extension Centre is PAFEC – it is attached to NAFES).

Agriculture and Forestry extension links with NAFES. Leave projects here; training activities – linkages down to district and training. There are 5 people in the Extension Unit all based in this office (PAFO): 2 managers, and 3 trainers. At district Level there is an Extension Unit with 3 people from LEAP – Taphabath.

Irrigation and Livestock people do their own extension. Each division in PAFO has extension as a main activity. They are at the beginning of training outreach. Extension will eventually reach down below village level.

When he has budget he hires people in for training. Such people are available. However, his 3 people can provide training work in different areas.

What are the main items in extension budget? He can only say if he knows the topic, equipment required and how many are to be trained. He did not produce a 2007/08 budget – he was not allowed.

Luxembourg did one off support through LEAP. LEAP provides a training fund, but cannot help with capital or recurrent budget or inputs. The work they started didn't continue because no budget. He has no budget. Without a budget he does training on irrigation or other things the PAFO needs. So in practice they work for different divisions of PAFO which meet any costs. He must get "hired". He sees his function as to support the technical divisions with their training activity.

He can provide advice and TA to the Head of Livestock division. He is not an expert in any particular field.

What kind of work are the 3 people involved in this month? They have work plans. He measures their output by watching for a change in substantive output. He reacts to requests. He prioritises the PDs, but he doesn't get there very often. No donors, so not very busy.

There are no research stations in the province because there are no donors!

If he had budget he would go to PDs and study potential. He has an idea of potential, but he would discuss needs and possibilities with local m[people]. He would need transport and per diem for staff.

- Upland crops
- Contour farming
- Small livestock production
- Land allocation/land use planning

- He last met someone from NAFRI in May – more than 6 months ago. He met someone from NAFES last week. NAFES people are in the PAFO.

## 7<sup>th</sup> December 2007: Pakading

Introduction by Mr. Kamwan from the PAFO.

Introduction from Director DAFO: Developing produce for commercial market; potential is very good with water and natural resources, but the difficulty is lack of budget. They produce tobacco but this is expected to reduce); legumes; banana; pineapple; in the long term rubber and acca wood; there are a few rice fields: 7,300 ha of rainfed rice and only 90 ha of irrigated rice.

District has 42,700 people and they are 100% farmers; there is little logging activity since it is by central permit only. There is a tree plantation industry (rubber and acca wood).

DAFO has 5 sections and a Director (total 42 people, but last year 47 people!):

- Office management & Planning 5
- Agriculture 6
- Livestock and Fisheries 3
- Forestry 22
- Irrigation 5

They have 3 computers but can only use 1. 2 are broken. No fax, no copier, no printer.

Forestry people work in conservation. Plantation; and land allocation. They go to village and meet with people; inform them of regulations, and tell them what they can and cannot do. 2-3 people only can be used to supervise logging – but the district doesn't collect logging fees. Documentation for logging is prepared at the PAFO and money is paid to the PAFO. District staff just mark trees.

They showed us a logging fee payment: Kip. 100,000 fee for license; 20,000 kilo of Soryan (for Sap) at 300/kilo; 100 kip/kilo reforestation charge = 20,000,000. Used for lacquer.

Only 5% travel to the field. They buy motorbikes and use own bikes. DAFO has no transport. Sometimes staff travel and stay overnight in a village. They don't always pay per diem to travelling staff because there is no budget. Villagers support extension officers instead.

6 people work in agriculture. They are training people to plant legumes for marketing. All 6 are in the field in the production season, supporting farmers. Livestock people are in the field this week.

They have links with the PAFO. PAFO people come not to supervise but to assist – once in a while. He is happy when PAFO come – happy to learn. The people from PAFO often have more knowledge, but the people from the district know the field better.

He doesn't have a functions document. He does what the PAFO says – they don't always agree. MAF document doesn't lay out the DAFO and PAFO roles. However something exists in the Law of Forestry 9/2006 that says DAFO must follow the orders of PAFO and PAFO must follow MAF.

Director refers us to this document: Agreement #1010 2005. 7/10/05 Agreement of Minister.

### *Budgeting at the DAFO:*

There is no Capital Budget at Pakading DAFO. They do a plan and cost it and submit to DFO. Process begins July/August. They don't have a ceiling. The Capital Budget simply consists of new project requests suitably costed. The recurrent budget comprises salary and non-salary items

and it really comes from the DFO. They say “that’s it – we don’t care if it’s enough or not enough – it’s what you get”.

PFO doesn’t look at level of activity but looks only at Provincial Budget and splits it up. Kip billion.

Item	2007/08	2006/07
Salary	93.61	146.82
Welfare	14.00	11.64
Bonus	4	5
Office management	25	23
TA	16	7

This is district funds only; they get more from the PAFO. There are errors in these documents. In one of them the revenue was added to the expenditure. Welfare payments are salary supplements calculated as Kip 10,000 salary supplement for all, Kip 5,000 for a wife and Kip 3,000 each for kids.

PAFO gets no money from license fees at this office. Only receives funds from DFO. They request funds each quarter and then get approval. They draw cash periodically and keep it in a safe. However, they tend to spend money soon after they get it. So far this year they have received the right amounts at the right time, but a few days late.

Donors/DAFO develop projects. Capital Investment is not provided to DAFO but only through a contractor. DAFO only has a responsibility to supervise. There are only donor projects in Pakading:

- Luxembourg small scale irrigation
- World Concern (little money) water/sanitation/fruit trees

They have 16 projects. Director advises that donors generally don’t come to Pakading because are not a priority district.

DAFO doesn’t meet NAFES directly but goes through the PAFO. It’s the system.

Can they give an example of research by NAFRI that is useful in Pakading? They couldn’t, but they brought out a full set of Extension books produced by NAFRI/NAFES, but they were clearly unopened. DAFO advised that they had potential to improve DAFO operations but not implemented yet. Only one set, but then, farmers probably can’t read.

**Khamkeuth** 7<sup>th</sup> December, 2007

Basic statistics: 69 Villages; 8,717 households; 55,175 people; 27,045 women; 5,362 ha paddy; 72 ha irrigated rice; 3,600 ha dry crop season.

There are 6 units in DAFO: 31 staff 4 women.

- Office management 2
- Agriculture 3
- Livestock and Fisheries 6
- Forestry 14
- Irrigation 4
- Meteorology 2

Director pulls in people from different agriculture divisions for office management. For finance he gets someone from forestry. There are two types of budget:

- Capital – from PAFO
- Recurrent - from DFO

Every year DAFO does annual planning for the budget and proposes to PAFO

2007/08 Recurrent 47m; 2006/07 Recurrent 36m. Increase is better than inflation.

Capital. There are no new projects but 68m kip from ongoing projects. – Irrigation repair – emergency fund to recover from typhoon or storm.

Recurrent budget is in kip million

Item	2007/08	
Salary	280	
Welfare	20	
Bonus	6	
Office management	30	
TA	21	

Extension around NT2 area – DAFO received some.

Money comes in good time and salaries are up-to-date.

Khamkeuth has been a Priority District since 2005, which makes the district a focal point of provincial strategy. Poor communications and little arable land – government has developed infrastructure.

He has been director here from 2002. There was no power then – the budget has also improved. He hasn't seen the outreach team of 60, but there is someone in Vienthong

Staff have graduated from livestock department; short of technical assistants; salaries are Kip 15000 – 25000. Not enough to support a family.

The computer and printer are very old; copier broken; fax works sometimes. They have a fixed telephone line but no e-mail.

## Annex D MAF – Four Goals and Thirteen Measures

*Summary from World Bank, Upland Agriculture Policy Study, forthcoming*

**Goal 1: Food Production:** The specific targets related to national food security have been defined as follows:

- Increase agriculture and forestry GDP growth rate by 3.4 percent annually.
- Maintain the level of food production at 400-500 kg per capita per year, which corresponds to 3.3 million tons of paddy rice by the end of 2010.
- Increase the quantity of food in the 47 poorest districts bringing it equivalent to the national level (350 kg per person per annum).
- Increase the production of meat, eggs, fish, and fresh milk by 5 percent annually, corresponding to an average consumption demand of 40-50 kg per capita per year.

**Goal 2: Commodity Production:**

- Supply raw materials and agriculture and forestry products to the industry and services sectors (processing industries).
- Increase the export share of agriculture and forestry products to 1/3 (approximately US\$1 billion) of the total export value of the commercial and services sectors (US\$3.48 billion) by 2010.

**Goal 3: Stop Slash-and-Burn Cultivation:**

- Total end of shifting cultivation practices.
- Actions under this goal focus particularly on the 47 poorest districts and are linked to initiatives for rural development, poverty reduction and environmental protection.

**Goal 4: Sustainable Forest Management and Balance between Exploitation, Utilization, and Protection / Conservation:**

- Increase forest cover from the current 41.5 percent to 53 percent (nine million hectares to 12 million hectares) of the total land area by 2010.

These goals will be achieved by implementing the following 13 measures:

**Measure 1: Agriculture and Forestry Sector Perspective**

- Execution and thorough understanding of the Resolution of the 8<sup>th</sup> Party Congress on the Agriculture and Forest Sector.
- Enhancing cooperation with all concerned bodies to support and better understand the responsibilities, ownership, and ways of implementing the agriculture sector's development priorities from now to 2010, particularly focusing on the process of establishing village and development groups.

## **Measure 2: Survey and Allocation of Agriculture and Forestry Production Zones**

- This includes zoning for rice production and increasing productivity in irrigated and non-irrigated areas (including food production areas in seven large and some small plains, and for agricultural production in lowland and mountainous areas); zoning for intensive agricultural production and development of a new cooperative system; review of the land / property lease policy; finalization of forest land allocation; formulation of detailed policy and measurements to strictly enforce and manage protected areas, watersheds/upstream/water sources and other areas.

## **Measure 3: Seed and Breed Availability**

- Improve seed varieties, emphasizing improved rice and coffee varieties.
- Improve animal breeding with the application of hybrid technology and improved grass seed for forage.
- Enhancement of investment, training and marketing.

## **Measure 4: Extension and Technical Services, and Human Resources Development**

- Promotion of high productivity and low cost investment production techniques and technologies.
- Capacity building of the district agriculture and forestry office (DAFO); development of technical staff and establishment of technical and information service centers for village development groups.

## **Measure 5: Establishment of Village Development Groups linked to Sector Development**

- Implementation of the Politburo Order on the establishment of village cluster development groups (*koum ban patthana*) with the objective of moving development will towards the local / grassroots level.

## **Measure 6: Organizing Production and Establishing Economic Structures from the Local / Grassroots Level (bottom up)**

- Strengthen production groups in pilot areas to enable formation of production cooperatives; development of cooperative services, marketing systems, processing services, communications, savings and credit.
- Formulate relevant procedures.

## **Measure 7: Irrigation and Prevention of Droughts and Floods**

- Allocation of irrigated areas for integrated agricultural development zones; implement integrated agriculture properly.
- Improve and expand reservoir systems to mitigate droughts and floods; maintenance of irrigation pumps; promote use of energy efficient pumps.

## **Measure 8: Increase Productivity (through the application of fertilizer, compost, improved seeds, advanced technology)**

- Support more intensive use of agricultural techniques to increase agricultural and forestry productivity.

**Measure 9: Quality Control (sanitary and phytosanitary standards [SPS]) and Disease Prevention**

- Aim to improve bio-safety of food for consumption and ensure compliance with ASEAN and WTO procedures and principles.

**Measure 10: Financial Mechanisms**

- Improve the use of assistance provided by development partners and internal and external public and private investment.

**Measure 11: Achieving Economies of Scale in Production** (lowering production costs)

- Doubling productivity by: expanding the production of goods with a comparative advantage; applying modern technology; using energy more efficiently; and, developing policies and quality control measures to support production.

**Measure 12: Implementation of Monitoring and Evaluation**

**Measure 13: Decentralization**

- Instituting a management hierarchy that supports collaboration among the Government, people and economic sectors.

## Annex E The case for a PETS in agriculture

The issues of resource provision, reporting and service delivery in agriculture are both diverse and complex, and a Public Expenditure Tracking Survey (PETS) is an appropriate tool to study the operation of systems and highlight needed changes. A PETS is a diagnostic tool which tracks the flow of resources through strata of government to determine how much of the originally allocated resources (human, financial, in-kind) reach each level, right up to the front-line service provider. This multi-level analysis can be used to estimate overall resource delivery, identify system weaknesses, and act as a catalyst for both the strengthening of systems (especially record-keeping) and for directing deeper enquiries into apparent losses or misapplication of funds.

PETS analysis is especially helpful in poor control environments, where institutions are underdeveloped, or where there is unreliable data and poor reporting on execution. Invariably, the effect of government spending or aid on development outcomes in these environments is uncertain.

PETS have already been conducted in health and education in Lao PDR, and have produced very useful information on the operation of those sectors. These are reproduced in the box below. A PETS in agriculture might have the following characteristics and components:

- involvement of the outreach team as supervisors and enumerators
- a bias towards deficit provinces, poorer provinces and districts
- PAFO/DAFO budget availability (from centre, province, donors and own revenues)
- PAFO/DAFO spending patterns
- an examination of staff allocations by sector and sub-sector, and availability of mobilisation funds
- an accompanying Service Delivery Survey (SDS) in extension activities and/or research dissemination

However, PETS is only a source of information, and effective change requires action from the institutions of government (and often its private sector contractors). Herein lies one of the dilemmas of PETS: it provides information that is both scarce and useful in poor control environments, yet it is precisely those environments which pose the greatest challenges in implementing the required changes.

A PETS/SDS would undoubtedly be useful, but it cannot be undertaken lightly. It requires sound planning and significant resources. If resources were available, the earliest realistic time for such a survey would be in 2009.

## **Box E.1 Issues arising from the health and education PETS**

- Insufficient funding allocated to the poor
- Weaknesses in management of expenditures
  - Budget preparation
    - Lack of realism – expenditures inflated
    - Compromised by off budget funds
    - Mismatch between capital and recurrent
    - Budget process does not reach down to facility level
    - Budget preparation timetable is compressed
  - Budget execution
    - Treasury offices at province and district lack authority
    - Poor budget reporting (factors include: lack of automation and lack of agreed report format)
- Facilities lack resources, technical capabilities and motivation
  - Salaries are delayed and low anyway
  - Little funding beyond salaries

The study recommended 3 principles and 10 policies:

- Sub-national spending programmes should be aligned closely with the national education and health goals articulated in the NSEDP, by decompressing budget cycle; and development of broad substantive guidelines or budget norms to support key priorities.
- Sub-national governments should have adequate resources for basic services across all localities. This to be achieved by more appropriate allocation; raising salaries for staff and paying more promptly; better management policy for staff including training and performance accountability; and developing community-based programmes in deprived areas to support service delivery.
- Budget process should ensure effective use of public resources, by reasserting authority of central treasury over provincial and district treasuries; standardizing report formats and payment procedures; strengthen management information systems at sub-national levels; and accelerate capacity building in financial management

## Annex F People met

### Ministry of Agriculture and Forestry (MAF)

Xaypladeth Choulamanay	Deputy Director General, Department of Planning
Dr Linkham Douangsavanh	Director, Policy Research Centre, National Agriculture & Forestry Research Institute
Ket Ketsana Louangnam	Technical Finance Officer, Dept. of Planning
Inpeng Khounthep	Technician, Finance Division, Dept. of Planning
Somchith Phannoulath	Deputy Director, Division of Finance

### Ministry of Finance (MoF)

Saysamone Xaysouliane	Deputy Director General, Budget Department
Bounleua Sinxayvoravong	Deputy Director General, External Finance Department

### Ministry of Planning & Investment

Ms Phoevenanh Outhavong	Deputy Director General, General Planning Department
Oula Somchanmanong	Deputy Director General, Economic Development

### Development Partners

Barbara Boni	Swiss Confederation
Mel Jones	Senior Programme Officer, European Commission
Zacharie Mechali	Charge d'etudes, secteur rural
William Rex	Lead Country Officer
Ulrich Schmitt	Natural Resources Economist, Rural Dev. & Natural Resources, East Asia and Pacific Region

### Vientiane Capital Province, PAFO<sup>22</sup>

Somchith Phannoulath	Deputy Director, Finance Division
Chantanome Songkham	Accounting
Chantha Thippavongphanh	Deputy Director, Agriculture & Forestry Office (MAF)
Kokkam Vongsayarith	Accounting

### Vientiane Province, PAFO

A. Boun Pheng	i/c Finance Unit, Agriculture & Forestry Division (MAF)
KongKham Inphayalath	Deputy Director, Division of Agriculture & Forestry

### Bolikhamxay Province, PAFO

Khammoune	Department of Planning
Khamphouvieng	Department of Finance
Ms Khanthla	Finance Officer
Nome	Agriculture Department
Pathachone	Head of PAFO
Somsagnouane	Deputy Head, Planning Department
Xaykham	Deputy Head of PAFO

### Pakkading District, DAFO

Keo Oudone	Head of DAFO
Mr Ounkham	Irrigation Extension
Mr Vanhtong	Forestry Extension

<sup>22</sup> PAFO = Provincial agriculture and forestry office; DAFO = District agriculture and forestry office .

**Khamkeuth District, DAFO**

Maichom Souvanasankham Head of DAFO

**Others**

Peter Fairman

Public finance consultant, ADB support project to MoF<sup>23</sup>

Saysanith Vongviengkham

Finance specialist, ADB support project to MoF<sup>24</sup>

Anthony Zola

Ag. livelihoods specialist, Uplands Ag. Policy Study

Damrong Phomdouangsy

Development strategy consultant

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<sup>23</sup> TA for the development and implementation (on a pilot basis) of medium-term fiscal and expenditure frameworks to improve fiscal planning.

<sup>24</sup> See Footnote 1.

**Annex G Annual MAF provincial expenditure by economic classification, 2000-01 to 2004-05 (in current Kip millions)**

	2000-01	2001-02	2002-03	2003-04	2004-05
- Wages & salaries	10,322.72	13,518.55	14,225.22	20,712.70	27,727.90
- O&M	3,172.44	4,383.43	3,900.78	4,120.08	4,892.04
- Subsidy & transfers	3,349.51	3,428.53	3,346.26	4,521.33	2,054.00
<b>Total recurrent:</b>	<b>16,934.66</b>	<b>21,330.51</b>	<b>21,472.26</b>	<b>30,817.53</b>	<b>34,755.94</b>
- Foreign capital	87,491.33	31,482.14	97,090.90	73,503.99	134,005.81
- Local capital	404,890.91	296,988.69	305,590.52	79,984.76	43,529.69
-irrigation	355,821.50	274,701.95	247,787.08	58,972.20	27,551.35
<b>Total capital:</b>	<b>492,382.24</b>	<b>328,470.83</b>	<b>402,681.42</b>	<b>153,488.75</b>	<b>177,535.50</b>
<b>TOTAL</b>	<b>509,316.90</b>	<b>349,801.34</b>	<b>424,153.68</b>	<b>184,306.28</b>	<b>212,291.44</b>

**Annex H Agricultural, education and health expenditure distributed between provinces and the centre, 2000-01 to 2004-05 (in nominal Kip millions)**

		2000-01	2001-02	2002-03	2003-04	2004-05
<b>Agriculture</b>	<i>Provinces</i>	509,316.90	349,801.34	424,153.48	184,306.28	212,291.44
	<i>Central</i>	79,701.00	59,427.86	84,962.00	101,898.96	110,847.94
	<i>Total</i>	589,017.90	409,229.20	509,115.48	286,205.24	323,139.38
<b>Education</b>	<i>Provinces</i>	151,759.06	240,589.69	244,132.45	283,675.92	330,202.76
	<i>Central</i>	109,202.00	145,536.76	192,185.00	173,805.87	318,888.55
	<i>Total</i>	260,961.06	386,126.45	436,317.45	457,481.79	649,091.31
<b>Health</b>	<i>Provinces</i>	105,226.49	115,018.04	173,099.46	114,832.09	141,057.64
	<i>Central</i>	26,171.00	65,025.76	81,527.00	65,576.65	183,033.81
	<i>Total</i>	131,397.49	180,043.80	254,626.46	180,408.74	324,091.45
<b>NATIONAL</b>	<i>Provinces</i>	1,376,955.35	1,731,741.74	1,971,435.00	1,553,262.92	1,938,665.80
	<i>Central</i>	2,170,805.00	1,867,012.95	2,438,140.00	2,619,055.08	3,680,590.12
	<i>Total</i>	3,547,760.35	3,598,754.69	4,409,575.00	4,172,318.00	5,619,255.92