
Commission by the United Nations Capital Development Fund (UNCDF), under the United Nations Development Programme (UNDP) Supported and Global Environment Facility (GEF) - Least Developed Countries Fund (LDCF) Funded Project on “Effective Governance for Small-scale Rural Infrastructure and Disaster Preparedness in a Changing Climate in Lao PDR” 2013-2017, of which implementing partner is the Government of Lao PDR – the Ministry of Natural Resources and Environment and responsible partner is UNCDF.
Final Report

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Acronyms

**BOL**  Bank of Laos  
**DAIP**  District Annual Investment Plan  
**DDF**  District Development Fund  
**DDF-BBG**  DDF Basic Block Grant  
**DDF-OEBG**  DDF Operational Expenditure Block Grant  
**DDSC**  District Development Support Committee  
**DDST**  District Development Support Team  
**DoAF**  District Office of Agriculture and Forestry  
**DoF**  District Office of Finance  
**DoHA**  District Office of Home Affairs  
**DoNRE**  District Office of Natural Resources and Environment  
**DoPI**  District Office of Planning and Investment  
**EU**  European Union  
**GCF**  Green Climate Fund  
**GDP**  Gross Domestic Product  
**GEF**  Global Environment Facility  
**GNI**  Gross National Income  
**GPAR-GID**  Governance and Public Administration Reform programme – Governance for Inclusive Development (2017-2021)  
**GPAR-SBSD**  Governance and Public Administration Reform programme - Support for Better Service Delivery (2008-2011)  
**GPAR-SCSD**  Governance and Public Administration Reform programme - Strengthening Capacity and Service Delivery of Local Administrations 2012-2016  
**LDC**  Least Developed Country  
**LDCF**  Least Developed Countries Fund  
**MoF**  Ministry of Finance  
**MoHA**  Ministry of Home Affairs  
**MoNRE**  Ministry of Natural Resources and Environment  
**MPI**  Ministry of Planning and Investment  
**NGPAR**  National Governance and Public Administration Reform Programme  
**NSEDP**  National Social Economic Development Plan  
**ODA**  Official Development Assistance  
**PEFA**  Public Expenditure and Financial Accountability  
**PEM**  Public Expenditure Management  
**PFM**  Public Financial Management  
**POHA**  Provincial Office of Home Affairs  
**PONRE**  Provincial Office of Natural Resources and Environment  
**PST**  Provincial Support Team  
**SAO**  State Audit Organization  
**SDGs**  Sustainable Development Goals  
**UNCDF**  United Nations Capital Development Fund  
**UNDP**  United Nations Development Programme
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Executive Summary

Background

The District Development Fund (DDF) – Climate Resilient Grants (DDF-CRG) has been implemented under the project on “Effective Governance for Small-scale Rural Infrastructure and Disaster Preparedness in a Changing Climate in Lao PDR 2013-2017”. The project is nationally implemented by the Ministry of Natural Resources and Environment (MoNRE) of the Government of Lao PDR as the executing entity/implementing partner, while being supported by the United Nations Development Programme (UNDP) and funded by the Global Environment Facility (GEF) – the Least Developed Countries Fund (LDCF). The United Nations Capital Development Fund (UNCDF) is a responsible partner to provide technical assistance to designing and implementing DDF-CRG. The DDF-CRG is designed as a mechanism to channel, monitor and report on the GEF-LDCF grant based climate finance through the inter-governmental fiscal transfer system, built on the existing DDF and following the model of local climate financing under the UNCDF Global Programme on Local Climate and Adaptive Living Facility (LoCAL). The scope of UNCDF technical assistance included monitoring and oversight to ensure effective fiduciary management, ranging between financial transfer of climate funds from the central to the local level, local climate related expenditure and reporting, and local planning process on budgeting and financial management and alignment of the DDF-CRG with the existing DDF.

This report codifies the lessons learnt from the implementation of the DDF-CRG mechanism and suggests options for optimization based on business process mappings and bottleneck analysis. The findings of this report are linked to and complement the project final evaluation taking place before end of 2017.

The mission also produced the following key deliverables:

1. A set of business process maps based on the DDF-CRG guideline packages showing the prescribed decision-making steps and approvals required for the fund flows and implementation of small scale projects (Maps 1 to 6 in Appendix 1);
2. A set of business process maps based on practice and clarifying the actual fund flows and approval requirements from initial requests to the payments of contractors, illustrating the process as it happened in Saravanh District (Saravanh Province) and Lamam District (Sekong Province) (Maps 7 to 12 in Appendix 2);
3. A set of business process maps suggesting options for optimizing future DDF interventions in Lao PDR (Maps 13 to 15 in Appendix 3).
Summary of Findings

National Level

Governance and Institutional Mechanism:

- **DDF-CRG set-up, including operational and financial arrangements is fragmented.** This is due to multiple MoUs and amendments signed at different times and by different parties over a period of three years. This resulted in blurred division of tasks and responsibilities between international and national stakeholders and the overall perception of DDF-CRG as a ‘separate project’.

- **The current mechanism integrating climate resilience appears to lack clear ownership.** On the one hand, MoNRE has the lead on climate resilience aspects and is the Implementing Partner for the UNDP-led Project. On the other hand, the Ministry of Home Affairs (MoHA) ‘owns’ the DDF mechanism and has overall responsibility for local authorities. While the MoU on the DDF-CRG was signed between MoNRE and UNCDF, witnessed/counter-signed by MoHA and UNDP (November 2013), MoNRE is not a signatory party to the MoU on the amended DDF-CRG guidelines packages signed between UNCDF, MoHA, Ministry of Finance (MoF) and Ministry of Planning and Investment (MPI) (November 2014). This resulted in limited interaction between the project components and limited understanding among national authorities on how climate resilience grants can benefit them to gain access to climate finance for local level resilience.

Financial Flows and Accountability:

- **The current DDF-CRG mechanism runs within a project specific setting in parallel to the national public financial management (PFM) system.** This reduces its sustainability and increases process time. At the national level, six international and national entities are involved in the fund flow to the sub-national level\(^1\), which increases the duration of funds transfer (on average it takes five to six months). At the sub-national level, it is difficult for national authorities to track expenditure as funds are managed from special accounts and not subject to national public expenditure management (PEM) rules.

- **DDF-CRG has not benefited from any performance-based assessments or independent audits.** These functions appear to have been performed to a limited extent by the Province Level and the MoNRE Project Staff (e.g. verification of financial reports) and were largely relying on self-assessment rather than independent evaluation.

Sub-National Level

- **DDF-CRG Guidelines:** The existing Guidelines are not entirely fit for purpose, as they are perceived as an ‘external’ set of rules developed by international consultants, written in a lengthy and often complex language, leaving room for interpretation and lacking templates and checklists for all stages of the PEM cycle.

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\(^1\) UNDP, UNCDF, MoNRE, MoHA, MoF, and the National Treasury / Bank of Laos.
**Planning and Allocation:** Following a local-driven bottom-up approach involving consultations with villages and kum-bans is the most appropriate way. In 2012, a team of external consultants for the project design identified 48 projects to be funded in the target provinces. The list of projects was reduced to 28 as a result of the mid-term review of the MoNRE Project conducted in 2016. In practice, the districts in both provinces used a mixed approach to planning and allocation. The first year, projects came from the pre-identified list, the second and third years the large majority of projects came from district annual development plans.

**Procurement and Implementation:** No major bottlenecks were reported at this stage. Overall the DDF-CRG procurement process follows national rules (even though the DDF-CRG Guidelines are a separate set of documents). One challenge refers to the lack of unified templates and procedures to be applied across all participating districts and provinces. Another difficulty relates to the lack of technical capacity at district and village level especially with regard to climate resilience aspects in infrastructure projects. The sub-national level largely depends on support received from the national level and external specialists (i.e. provided by the MoNRE project).

**Monitoring and Oversight:** This function is performed by the Districts and the MoNRE project. Unlike DDF, the current mechanism does not foresee a provincial budget for monitoring and oversight, therefore the participation of province authorities in monitoring and oversight activities is limited and irregular.

**Maintenance:** Upon completion of works, Districts hand over infrastructure to Villages. Many villages choose to set up community funds to collect contributions from users. High-cost repair works or maintenance requiring specific technical knowledge is handled by the District or Province level. The main challenge at this stage refers to the lack of know-how at the village level on how to manage and properly maintain the newly repaired or built infrastructure. For example, some villages do not know how to manage irrigation channels and tensions may arise among inhabitants during the dry season when water supply is limited and demand is high.
Key Suggestions for Optimized Process Options

Governance:

- Choose one national ministry to take the lead. One option is MoHA, who has overall responsibility for local governments and plays a leading role in the decentralization process. Another option is MoNRE, who co-ordinates environmental and climate resilience aspects. Both ministries have offices at province and district levels.
- Sign one single MoU including a clear division of tasks and responsibilities. DDF governance and institutional mechanism would benefit from a clear understanding of who does what (including among international agencies) from the start.

Fund Flow:

- Align DDF with the national fiscal transfer mechanism. Funds would follow the regular public expenditure cycles thereby strengthening national and local capacity. In the long term, this would improve confidence in the national system and help Lao government get access to global adaptation finance (Green Climate Fund).
- A full integration will not be possible overnight. One option is gradual integration into the system by combining DDF and national funding and by conditioning DDF disbursements on performance and results.

Planning and Allocation:

- Practice has shown that a local-driven bottom-up approach to determining development needs is the most optimal way forward. Districts and provinces should take full responsibility for prioritizing investments projects. Future DDF interventions should build on existing local planning processes and development plans.
- Roll out DDF nation-wide. One option is launching a national call for projects open to all provinces. If that is the retained option, information sessions should be envisaged in those provinces that never participated in the DDF mechanism so as to reduce the knowledge gap and ensure fair competition among districts.

Procurement and Implementation:

- The existing Guidelines and Manuals are not entirely fit for purpose. One option would be to revise the Guidelines by a team of mainly national experts involving representatives of the main stakeholders in the DDF mechanism such as MoHA, MoNRE, MoF, and the State Audit Organization (SAO). The language should be simplified and the contents should reflect local needs so that the Guidelines become a useful tool. Another option is fully adopting the national procurement rules and avoid separate DDF Guidelines.

Oversight and Maintenance:

- Develop and adapt functioning performance-based assessment and audit mechanisms. The optimal option is to develop these mechanisms in close co-
operation with the national agencies whose mandate include these tasks (e.g. the State Audit Organization etc.). At the sub-national level, an effective way of ensuring oversight is to have both province and district authorities perform regular monitoring and evaluation. One way of ensuring that is providing the sub-national level with adequate financial and human resources.
Lao PDR Administrative Map²

Introduction

This report contains a methods section and three parts. References to individual business process maps referring to specific stages in the PEM cycle of DDF-CRG are included directly in the text of the report. Figure 1 below provides an overview of all the business process maps for ease of reference.

The methods section outlines the scope and objectives of the mission as stipulated in the consultants’ Terms of Reference and provides details on the methodological tools used for collecting evidence and data informing the findings of this report.

The first part analyses the governance and institutional mechanism of DDF-CRG at the national level. It provides a brief historical overview of the DDF mechanism in Lao PDR since 2007 and summarises the lessons learnt with regard to the DDF-CRG project set-up, operational and financial arrangements including the inter-governmental fiscal flow process.

Part two takes the analysis to the sub-national level and looks at the implementation of DDF-CRG along the PEM cycle. The report summarises findings and lessons learnt at the following stages: planning and allocation, procurement, implementation, oversight and maintenance.

Based on the findings at the national and sub-national levels, part three suggests options for optimizing the business processes and increasing sustainability of future DDF interventions in Lao PDR.

Figure 1. Business Process Maps: Overview
Objective and Scope

The objective of this assignment was to conduct a public expenditure management bottleneck analysis and business process mapping of the DDF-CRG in view of identifying required institutional capacity needs for direct access to global climate financing facilities such as GEF and Green Climate Fund (GCF) in the future. This report codifies lessons learnt and provides input for policy briefs on institutional capacity and public expenditure management of the climate resilient grants, involving fiscal transfer and local planning, budgeting, financial management, procurement and reporting process. The mission was conducted in linkage and complementarity with the project final evaluation scheduled to take place before end of 2017.

The mission produced the following key deliverables:

- A set of business process maps of the DDF-CRG financing based on DDF-CRG guideline packages showing the decision-making steps and approvals required for the fund flows and implementation of small scale projects funded under the DDF-CRG (Appendix 1);
- A set of business process maps clarifying the actual fund flows and approval requirements from initial requests to the payments of contractors, illustrating the process form identification and selection of projects to submission of project profile (with costing, designing etc.) and to approval of project and the reporting timelines (Appendix 2);
- A set of business process maps suggesting options for optimizing future DDF interventions in Lao PDR (Appendix 3);
- A narrative report highlighting critical bottlenecks that have impacted on the actual process and recommendations for optimization and way forward for future DDF financing in the country.

Methodology and Approach

In order to provide evidence-based information that is credible, reliable and useful, this mission drew on the following primary and secondary sources of information.

Desk review. The consultants reviewed all relevant sources of information including the project document, the MoUs between various stakeholders, the DDF-CRG Guidelines, Instructions and Manuals, the Mid-Term Review Final Report, the DDF-CRG assessment report by UNCDF, relevant official and supporting documents including DDF-CRG investment projects and the District Annual Investment Plans. For a full list of documents consulted please refer to Appendix 6.

Interviews with key informants. The mission followed a participatory and consultative approach working closely with UNCDF Laos and the MoNRE Project Team (especially the National Public Financial Management Coordinator). Interviews and consultations were held
with representatives from MoHA, MoNRE, MoF, MPI, UNCDF, UNDP, and the World Bank. For a full list of individuals and organizations consulted please refer to Appendices 4 and 5.

Field mission. The consultants travelled to Saravanh and Sekong provinces and the districts of Saravanh and Lamam. Focus group discussions were held with the Provincial Support Teams, the District Development Support Committees, District Development Support Teams, contractors and beneficiaries. The mission schedule is annexed as Appendix 4 to this report.

Accountability. Two workshops were organised at the beginning and end of the in-country mission. The inception briefing session held on 7 September 2017 at the MoNRE Project office gathered the key stakeholders at the national level to present the purpose and objectives of the mission and collect preliminary feedback. The debriefing session was held on 25 September 2017 and presented the preliminary conclusions that the consultants had reached. The purpose was to verify data and information gathered and collect feedback and comments to be incorporated in the final version of the report.

3 MoNRE, MoHA, MoF, UNDP and UNCDF participated.
Part I. Governance and Institutional Mechanism of DDF-CRG

1.1 Context

Lao People’s Democratic Republic (Lao PDR) has a population of 6.8 million and a GDP per capita of USD 1,857\(^4\). Sixty-two percent of the Lao population was still living in rural areas in 2014\(^5\). Agriculture and rural development is essential to the Lao economy and represents the livelihood basis for more than 70% of the population (and 20% of GNI).

The economy has grown by 8%\(^6\) annually, through government policies promoting exports\(^7\) and use of natural resources. Recent improvements in infrastructure and communications have delivered benefits, especially to the rural population. The country nevertheless remains poor in comparison to its regional neighbours, and the benefits of economic development are not equally spread across the country. Important development challenges remain, in particular meeting the targets related to the SDGs including environmental sustainability that require significant investment.

The 8th NSEDP is the national integrated development policy document for the period 2016-2020 and sets priorities to pave the way for Lao PDR’s realisation of the SDGs. NSEDP’s primary goal is to accelerate economic and social development to graduate Lao PDR from LDC status\(^8\). The plan focuses on national income, human assets (social protection to ensure access to education, nutrition and health), economic vulnerability and resilience to natural and man-made shocks. UNCDF-led DDF-CRG funding mechanism supports these development objectives.

Lao PDR holds annual round table meetings with representatives of government and development partners. The MPI is a key intermediary in the process and ensures that donor interventions are in line with the principles of the Vientiane Declaration on Partnership for Effective Development Cooperation 2016-2025.

1.2 DDF Background (MoHA Project)

DDF is a funding mechanism that aims to strengthen the capacity of the districts to manage public expenditure and plan for small scale investments that have a direct impact on improved service delivery (e.g. the building of a village school or the renovation of a community market). By developing the capacity of local administrations, DDF strengthens social service provision and the ability of the local government to lead and manage local service delivery. DDF was designed with the technical assistance provided by UNCDF as a discretionary and

\(^4\) 2014-2015 estimate by the MoF.  
\(^6\) 8% GDP growth rate or higher is cited by the government in the 8th NSEDP; the Asian Development Bank, however, estimates growth at a lower rate of 7% in 2015 and 7.2% in 2016; the World Bank estimated annual growth to be 7.5% in 2015.  
\(^7\) The 2010 Public Expenditure and Financial Accountability (PEFA) report notes that government has done much in recent years to make “Lao PDR... a relatively open economy.”  
\(^8\) Lao PDR is now a lower-middle income country with an aspiration to graduate from least developed country status by 2020 and join the ranks of middle-income countries.
incentive driven and performance based block grants system. DDF comprises two types of grants, namely the Basic Block Grant (DF-BBG) for small scale capital investment projects and the Operational Expenditure Block Grant (DF-OEBG) for other service delivery interventions.

DDF was piloted in Saravan and then scaled up to four other provinces (Xiengkhuang, Huaphan, Oudomxay and Sekong) covering 35 districts under Governance and Public Administration Reform - Support for Better Service Delivery (GPAR-SBSD) project during 2007-2012. Based on the lessons learnt, DDF was revised to introduce performance based grants system under GPAR-SCSD implemented during 2012-2016. The DDF was further scaled up to cover a total of 53 districts in 7 provinces (out of 17 in the country) including 21 districts in 7 provinces targeted under the pilot Sam-Sang (“Three Builds”) decentralization directive.

Under GPAR-SCSD 2012-2016, district administrations have received predictable budget allocations and direct responsibility for planning, budget execution and financial management, implementation/execution of service delivery and procurement (including investment project management), monitoring, transparency and accountability through timely and accurate reporting and public information management. The provincial and national levels provided oversight, supervision and guidance.

1.3 DDF-CRG Background (MoNRE Project)

The DDF facility was designed to integrate other elements in fund allocation such as climate change adaptation and social protection. In order to enhance climate change resilience aspects in small scale local infrastructure projects, the selected provinces of Sekong and Saravan benefitted from support from the Effective Governance for Small Scale Rural Infrastructure and Disaster Preparedness in a Changing Climate Project (MoNRE Project). The project is implemented by the Ministry of Natural Resources and Environment (MoNRE) with funding from the Global Environment Facility (GEF) and operational support from UNDP and UNCDF.

The project started in 2013 and finishes in December 2017. The Department of Disaster Management and Climate Change (DDMCC), reorganised into the Department of Climate Change (DCC) in August 2017 is the Implementing Partner and has overall responsibility for the management of the project.

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9 including Luang Prabang and Luang Namtha.
10 Politburo Resolution No.03/CPP/2012 seeks to accelerate local economic development through targeted dissemination of Party resolutions and Government of Lao PDR policies; decentralised public administration; and development of targeted villages. The Sam Sang directive proposes villages as the development unit, districts as the integration unit, and provinces as the strategic unit.
Box 1. Objective and Approach of MoNRE Project

**Objective:** improve local administrative systems affecting the provision and maintenance of small scale rural infrastructure through participatory decision making that reflects the genuine needs of communities and natural systems vulnerable to climate risk.

In order to achieve this, the project applies a ‘three-pronged’ **approach**:

1. strengthening of the national, provincial and district planning capacities for rural infrastructure that incorporates climate considerations;
2. direct financing for infrastructure projects to vulnerable districts through an existing District Development Fund (DDF) mechanism;
3. implementing ecosystem-based adaptation measures that provide additional climate resilience at the watershed level of project infrastructure intervention.

UNDP has overall responsibility for the Project and UNCDF is the Responsible Partner for outcome 2. In particular, UNCDF is supporting incentives in place for small-scale rural infrastructure to be protected and diversified against climate change induced risks (droughts, floods, erosion and landslides) benefitting at least 50,000 people in 12 districts in Sekong and Saravanh provinces. The budget allocated to DDF-CRG is 2 million USD. The key responsibilities of UNCDF are stipulated in the MoU signed with MoNRE in November 2013.

Box 2. Key responsibilities of UNCDF under DDF-CRG mechanism

UNCDF provides technical assistance related to:

- design of DDF-CRG Guidelines and manuals including minimum conditions and performance measures;
- backstopping to ensure effective flow of climate funds to local level, fiduciary management (financial transfer, reporting) and alignment of these funds with the existing local development fund stream;
- support and oversight to the local planning process on budgeting and financial management;
- Channelling climate finance (CR-Grants) through the DDF system to the 12 targeted districts;
- oversight of the monitoring of local climate related expenditures including certified annual expenditure assessments;
- codification of lessons learned, policy briefs and other knowledge products relating to public financial management of the CR-Grants.

DDF-CRG is designed as a mechanism to channel, monitor and report on the GEF-LDCF grant based climate finance through the inter-governmental fiscal transfer system, built on the existing DDF and following the model of local climate financing under the UNCDF Global Programme on Local Climate and Adaptive Living Facility (LoCAL).

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11 The financing modality for Components 1 and 3 is NIM.
12 As stated in the DDF-CRG MOU of October 2013.
Box 3. LoCAL Objectives and Approach

The overall **objective** of LoCAL is to address climate change and build resilient communities and economies. The **approach** includes:

- increasing financing for and investment in climate change adaptation at the local level in least developed countries. LoCAL provides performance-based climate-resilient grants (PBCRGs) and accompanying technical and capacity building support to local authorities;
- mainstreaming climate change adaptation into government (particularly local government) planning and budgeting systems. Grants are disbursed to support the implementation of LoCAL investments in the context of local authorities’ annual planning and budgeting cycles. Their performance is appraised in terms of the degree to which additional resources have been used to build resilience and promote adaptation to climate change;
- providing technical assistance, knowledge resources and capacity building. Lessons learned, effective approaches to local adaptation and good practices emerging from the programme’s experience are compiled and disseminated.

By integrating climate resilience aspects, DDF-CRG has acted as a vehicle to channel additional financing to enable climate resilient local development planning and budgeting and climate adaptation and risk reduction investments in small scale infrastructure. DDF-CRG has been used to ensure that baseline DDF Basic Block Grants for capital investment and development expenditure are climate proofed in the future and address the climate resilient needs of the target communities.

DDF-CRG in Lao PDR supported four types of projects:

1. the upgrade of existing DDF infrastructure to meet climate resilience standards;
2. the upgrade of other existing infrastructure within district investment plans to meet climate resilience standards;
3. new DDF infrastructure that meets climate resilience standards; and
4. other new infrastructure within district investment plans that meets those standards.

### 1.4 Governance and Institutional Mechanism

Under the DDF-CRG facility, twelve districts in Saravanh and Sekong provinces carried out a total of 28 investment projects. The districts had direct responsibility for all the stages of the expenditure cycle: planning and allocations, budget execution and financial management, procurement, monitoring, oversight and reporting. National ministries ensured overall coordination, oversight, supervision and guidance. Figure 2 shows DDF-CRG stakeholders and their responsibilities. District Office of Natural Resources and Environment (DONRE) is a member of District Development Support Committee (DDSC) and District Development Support Team (DDST) but also has a specific role to play as focal point that channels communication between the entities in the districts and the MoNRE Project.
Figure 2. DDF-CRG Stakeholders in Lao PDR and their Responsibilities
1.5 DDF-CRG Inter-Governmental Fiscal Flow Process

The legal basis of DDF-CRG rests on several MoUs (and their amendments) signed and witnessed by several national ministries, UNDP and UNCDF Headquarters, Regional and Country Offices between 2012 and 2014. Figure 3 on the next page provides a timeline, including signatory and witness parties, and the object of the MoUs and their amendments.

The MoU on DDF was amended in November 2014 and signed between UNCDF, MoHA, MoF and MPI to include provisions regarding the transfer of CR Grants through the DDF mechanism. The MoU does not provide a detailed division of responsibilities, but stipulates that DDF-CRG will be managed and accounted for in the Government budget treasury system under a Special Account scheme. The MoU also refers to the revision of DDF Guidelines, Instructions, and Manuals to take into account climate resilience aspects.

Figure 4 represents the DDF-CRG flow of funds based on the MoU on DDF-CRG signed between MoNRE and UNCDF and witnessed/countersigned by MoHA and UNDP in November 2013. The entities highlighted in red are missing in the original diagram included in the MoU, but in practice they are either signatories to the MoUs and / or have an authorizing role in the transfer of funds.

Figure 4. Fiscal Flow Process for DDF-CRG

The actual funds are transferred directly from the UNDP Laos to the DDF-CRG special account at the Bank of Laos (BoL) managed by the National Treasury / Ministry of Finance. UNCDF Laos is the authorizing officer for payments in the UN internal accountancy system. The UNCDF Regional Office in Bangkok has a supervisory role and oversees DDF-CRG operations in Lao PDR as part of its regional portfolio. UNCDF Laos is responsible for day-to-day management of activities, compiles and submits quarterly financial statements to UNDP Laos,
and is overall in charge of timely and qualitative implementation of activities under outcome 2 (please refer to Box 2).
Figure 3. Timeline for DDF and DDF-CRG MoUs

20 February 2012: UNDP LDCF-2 Joint Programme Document
8 May 2013: UNDP Laos and MoNRE
7 August 2012: MoHA, MoF, MPI, 5 Beneficiary Provinces and UNCDF Regional Office BKK
20 August 2013: MoHA, UNCDF Regional Office, MPI, MoF
11 October 2013: MoNRE and UNCDF Regional Office BKK
2 November 2014: MoHA, UNCDF Regional Office, MPI, MoF
8 September 2016: Ministerial Agreement

Legal Document:
- Standard MOU "GPAR SCSD" Joint Programme Document
- MOU DDF
- Amendment 1 to MOU DDF
- MOU DDF - CRG
- Amendment 2 to MOU DDF

Signatories:
- UNDP HQ, UNDP Laos, UNCDF HQ
- UNDP Laos and MoNRE
- MoHA, MoF, MPI, 5 Beneficiary Provinces and UNCDF Regional Office BKK
- MoHA, UNCDF Regional Office, MPI, MoF
- MoNRE and UNCDF Regional Office BKK
- MoHA, UNCDF Regional Office, MPI, MoF

Object:
- Concerning the opening of a second special account
- Witnessed by UNDP Laos and MoHA
- Confirming use of DDF as mechanism for Component 2 CRG
- Attachment 1: Description of Services (UNCDF Laos)
- Refers to MOU DDF - CRG for operational details
- on the endorsement of the amended DDF-CRG Guidelines
MoNRE and MoHA approve the payment requests submitted by the districts. Figure 5 below outlines the fund transfer process between national and sub-national levels based on the MoU and the inter-institutional operational and financial procedures, which are a mix of GEF, UNDP and UNCDF rules and national protocols for funds transfers to local level.

The fund transfer process is complex and involves a myriad of international, national and local entities. In practice, it may take up to five months from the moment the payment request is made to the actual disbursement of funds onto the districts’ special accounts. One of the reason for the two-month delay is due to the fact that MoNRE has to compile the payment requests and supporting documents from all 12 districts and ensure that they are properly prepared before requesting the transfer of the first 50% tranche for the fiscal year. Figure 5 illustrates the process based on actual flows in Saravanh and Lamam Districts.
Figure 5. Business Process Map of Fund Transfers from National to Sub-National Level

1. Inform PSY on the allocation and to provide support to DES/CDSIC on annual plan formulation and implementation.
2. Inform district to revise the 2017 plan according to the allocated amount.
3. Inform district to prepare the annual plan according to DDF-CRG guidelines and allocation.
4. The fund request and project related documents must be formalized and submitted to MoFRE project by Sept 1st, 2016.
5. Allocation transferred to general accounts Bk by UNCDF Lanka.
6. Transfer made to district special account.

- 3 August 2016
- 5 August 2016
- September - October 2016
- 11 November 2016
- 14 November 2016
- 14 November 2016
- 14 November 2016
- 28 November 2016
- 12 December 2016
- 2 months break
- 18 February 2017
- 27 February 2017
- 10 March 2017
- 29 March 2017
1.6 Lessons Learnt at the National Level

**Governance and Institutional Mechanism.** The MoUs were signed at different times over a period of three years and involved different parties. This may account for the fragmented set-up, operational and financial arrangements. The first MoU was signed in February 2012 between UNDP HQ, UNDP Laos, and UNCDF HQ. The MoU governing the DDF mechanism was signed in August 2012 and included MoHA, MPI, MoF, UNCDF Regional Office in Bangkok, and seven participating provinces in Lao PDR. The official endorsement of the DDF-CRG mechanism only came in November 2014 when Amendment 2 to the DDF MoU came into force.

The MoUs signed between UNDP and UNCDF offices, and with MoNRE and MoHA, outline in general terms the financial, operational and reporting responsibilities and obligations of the Implementing Partners. The lack of a clear division of tasks between these key stakeholders has led to some misunderstanding. For example, UNCDF is only required to produce quarterly financial statements, whereas UNDP would have found it useful to have narrative reports too. Some verbal agreements were reached between stakeholders during the implementation period, however, such agreements rely on individuals rather than the system and are not binding.

MoHA is the ministry curating local authorities and has overall responsibility for the DDF mechanism but it is not a direct signatory party but only witness to the DDF-CRG MoU. MoNRE took the lead on climate resilience aspects but had limited involvement in the funding mechanism. This diminished ownership and rendered the implementation process more complex. As Figure 5 illustrates, the current set-up created additional steps and prolonged the duration of fund transfer procedures. One ministry assuming responsibility for all three project outcomes could have enhanced ownership and coherence. In practice, national stakeholders largely view the project as two separate ‘sub-projects’, one led by UNDP/MoNRE (outcomes 1 and 3) and another one by UNCDF/MoHA (outcome 2). There appears to be limited interaction between the two.

Furthermore, DDF-CRG is technically speaking not following LoCAL design\(^ {13} \) and is considered to be a pilot phase and a stepping-stone towards a full-fledged LoCAL mechanism in Laos. Until September 2016, when the DDF-CRG Guidelines were endorsed by MoNRE, the grants followed the classical DDF mechanism (except for the fund allocation formula) and climate resilience was not yet integrated in the operational procedures\(^ {14} \). Year 2015/2016 and 2016/2017 (Year 2 and Year 3 respectively of the 3-year MoNRE project cycle) saw the formula applied for the first time. Overall, there seems to be a need to enhance MoNRE and district / province authorities understanding of how climate resilience grants can benefit them in view of gaining access to climate finance for local level resilience. The funds granted under DDF-CRG are largely perceived as investments supporting development of local infrastructure, the climate resilience aspects appear of secondary relevance.

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\(^{13}\) Please refer to Box 3.

\(^{14}\) Please see 2.1 for analysis of DDF-CRG Guidelines.
Financial Flows. The funds for DDF-CRG are transferred annually by UNDP Laos to the National Treasury/MoF (Bank of Laos), which then disburses the funds to the districts\textsuperscript{15}. UNCDF doesn’t receive the funds directly on its account, but it authorizes payments in the internal UN accounting system (ATLAS). MoNRE and MoHA certify payment requests from the districts. The functions of “operational authorizing officer” and “financial authorizing officer” are spread out among several stakeholders at national and sub-national levels.

The financial flow business process maps show that the current DDF-CRG mechanism runs in a project setting and in parallel to the national public finance management system. As the funds leave the Bank of Laos account, it is difficult to track expenditure at the sub-national level as DDF CRG funds are spent following separate Guidelines. Moreover, the audit function seems to be performed to a limited extent by the Province Level and the MoNRE Project Staff (e.g. verification of financial report). No independent external or national audit has been performed.

\textsuperscript{15} Please refer to Part II for a detailed account of financial flows at the district level.
Part II. Implementation of PEM Cycle of DDF-CRG

2.1 DDF-CRG Guidelines, Instructions and Manuals

A set of six Guidelines and Manuals have been developed for DDF-CRG (Figure 6). The Guidelines refer to the full cycle of public expenditure and cover all stages from planning and fund allocation to procurement and maintenance. The DDF Guidelines have been developed by MoHA in 2012 and amended twice in 2013 and 2014. Although they largely follow national procurement rules, it took several years to secure their approval. The last amended DDF-CRG Guidelines 2014 was officially endorsed by MoNRE only in September 2016. The reason for delay remains unclear but ‘political sensitivities’ and ‘staff turnover’ have been cited.

Figure 6. Overview of DDF-CRG Guidelines and Manuals

The similarity of Guidelines to national rules facilitates the task for district and province authorities. However, the Guidelines leave room for interpretation and have several grey areas (please see 2.4 for examples). At present DDF-CRG and Guidelines remain a parallel process that is not integrated in the national PEM mechanism.

2.2 Overview of DDF-CRG Interventions at Sub-National Level

Sekong and Saravanh provinces are among the poorest in the country. Toomlarm District in Saravanh Province has the highest incidence of poverty in the country estimated at 73%. Saravanh province counts 8 districts and almost half of the population was estimated to be poor (188,354 persons of 390,465 in total). One third of the population in the 4 districts of Sekong Province are poor (34,469 of 109,872). The two provinces are also highly prone to climate related disasters including flood damage caused by heavy rain seasons. The choice of provinces for DDF-CRG intervention is therefore justified and relevant.

16 For detailed business process maps based on the Guidelines and Manuals please refer to Appendix 1.
17 World Bank (June 2016) “Where are the poor? Lao PDR 2015 Census-Based Poverty Map: Province and District Level Results”.
18 Local respondents reported that in 2016 the rainy season was unusually long and lasted for eight months. It resulted in a lot of damage to local infrastructure including roads, houses, schools, irrigation systems and bridges in villages.
In total, 28 projects were implemented in the 12 target districts: 4 projects in 2014/2015 (Year 1 of the MoNRE Project), 12 projects in 2015/2016 (Year 2), and 12 projects in 2016/2017 (Year 3). Table 1 gives an overview of all DDF-CRG funded projects implemented in all districts.

Table 1. List of DDF-CRG Projects in Saravanh and Sekong Provinces

<table>
<thead>
<tr>
<th>Province</th>
<th>District</th>
<th>Project Name</th>
<th>Total LAK</th>
<th>Total USD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2014/2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saravanh</td>
<td>Saravanh</td>
<td>Improve irrigation (box culvert, repair head irrigation and channel) in Nongdeng village</td>
<td>449,368,000</td>
<td>56,171</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Lakhonepheng</td>
<td>Provide water harvesting in Naphabangyai village</td>
<td>210,000,000</td>
<td>26,250</td>
</tr>
<tr>
<td>Sekong</td>
<td>Lamam</td>
<td>Upgrade irrigation scheme in Mo village</td>
<td>313,575,000</td>
<td>39,197</td>
</tr>
<tr>
<td>Sekong</td>
<td>Kaleum</td>
<td>Upgrade existing irrigation scheme in Songkhone village</td>
<td>259,468,000</td>
<td>32,434</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015/2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saravanh</td>
<td>Long Ngam</td>
<td>Construction of wooden bride from Long Ngam to Dong Luang Villages</td>
<td>643,537,000</td>
<td>79,449,01</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Vapi</td>
<td>Construction of community bridge crossing Huay Keung Village</td>
<td>810,000,000</td>
<td>100,000,00</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Khongsedone</td>
<td>Upgrade irrigation system in Hang Heng village</td>
<td>1,017,250,000</td>
<td>125,586,42</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Khongsedone</td>
<td>Construction of dike for wetland reservoir Beung Sa O, Ban Bang Hen</td>
<td>813,800,000</td>
<td>100,469,14</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Lakhonepheng</td>
<td>Upgrade of Check Dam and reservoir water supply in Vungkhane-Houytae village</td>
<td>813,800,000</td>
<td>100,469,14</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Samouy</td>
<td>Upgrade irrigation system in Pi Hai village</td>
<td>855,058,400</td>
<td>105,562,77</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Saravanh</td>
<td>Upgrade irrigation system in Nongdeng Village</td>
<td>664,141,000</td>
<td>81,992,72</td>
</tr>
<tr>
<td>District</td>
<td>Team</td>
<td>Project Description</td>
<td>Cost</td>
<td>Value</td>
</tr>
<tr>
<td>------------</td>
<td>------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>------------</td>
<td>--------</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Ta Oi</td>
<td>Upgrade irrigation system in Phatem village</td>
<td>214,287,332</td>
<td>26,455,23</td>
</tr>
<tr>
<td>Sekong</td>
<td>Lamam</td>
<td>Upgrade irrigation system in Naver village</td>
<td>734,017,588</td>
<td>90,619,46</td>
</tr>
<tr>
<td>Sekong</td>
<td>Thateng</td>
<td>Upgrade water supply and sanitation in Kamkok-Aling village</td>
<td>596,898,335</td>
<td>73,691,15</td>
</tr>
<tr>
<td>Sekong</td>
<td>Kaleum</td>
<td>Upgrade existing water supply in Loi, Kum-2 village</td>
<td>288,750,000</td>
<td>35,648,15</td>
</tr>
<tr>
<td>Sekong</td>
<td>Dak Chueng</td>
<td>Upgrade water supply and sanitation in Dak Touan village</td>
<td>509,181,680</td>
<td>62,861,94</td>
</tr>
</tbody>
</table>

**2016/2017**

<table>
<thead>
<tr>
<th>District</th>
<th>Team</th>
<th>Project Description</th>
<th>Cost</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saravanh</td>
<td>Saravanh</td>
<td>Huay Chaluay Irrigation System in Phanoune Village</td>
<td>605,641,000</td>
<td>75,705</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Ta Oi</td>
<td>Chohai Irrigation System</td>
<td>1,038,860,000</td>
<td>129,858</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Tum Lan</td>
<td>Huayhai Bridge construction in Houywa Village</td>
<td>557,065,000</td>
<td>69,633</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Lakonepheng</td>
<td>Huay Lapon Bridge construction in Donehue Village</td>
<td>413,779,000</td>
<td>51,722</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Vapi</td>
<td>Construction of dike for wetland reservoir Beung Sa Ae, Nalao Village</td>
<td>458,488,000</td>
<td>57,311</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Khongsedone</td>
<td>Hang heng Pumping irrigation Scheme</td>
<td>509,655,000</td>
<td>63,707</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Lao Ngam</td>
<td>Road improvement and upgrade wooden bridge, Keb Pheung Village</td>
<td>531,831,000</td>
<td>66,479</td>
</tr>
<tr>
<td>Saravanh</td>
<td>Samouy</td>
<td>Lahang Irrigation System</td>
<td>680,911,000</td>
<td>85,114</td>
</tr>
<tr>
<td>Sekong</td>
<td>Lamam</td>
<td>Huay Koung system, Beng Village</td>
<td>562,971,000</td>
<td>70,371</td>
</tr>
<tr>
<td>Sekong</td>
<td>Kaleum</td>
<td>Kongtasing Village water supply</td>
<td>590,741,000</td>
<td>73,843</td>
</tr>
<tr>
<td>Sekong</td>
<td>Dak Chueng</td>
<td>Tatalang Village water supply</td>
<td>524,505,000</td>
<td>65,563</td>
</tr>
<tr>
<td>Sekong</td>
<td>Thateng</td>
<td>Huay Dam Irrigation system</td>
<td>430,697,000</td>
<td>53,837</td>
</tr>
</tbody>
</table>

The projects highlighted in green are those pre-identified by the team of external consultants in 2012 during the MoNRE Project formulation stage\(^{19}\). Since implementation of DDF-CRG activities could only start in November 2014 following the signature of Amendment 2 to the DDF MoU, the districts revisited the original list and for Years 2 and 3 the majority of projects (17 out of 28 in total) were selected from the District Annual Investment Plan (DAIP). The following section goes into more detail regarding the planning and allocation process at district level.

### 2.3 Planning and Allocation

The DDF-CRG Guidelines referring to this stage in the public expenditure cycle are the Guidelines on Allocation and Use of Funds and the District Investment Planning Guidelines.

\(^{19}\) In practice, the priority projects on the ‘pre-identified list’ came from the District Development Plans available at that time. Given the gap between identification (in 2012) and start of implementation (late 2014), the participating Districts followed local planning procedures, whereby three-year District Development Plans are revisited on an annual basis and priorities are confirmed based on consultations with villages and kum-bans.
The first document lays out the method of calculation and allocation of DDF-CRG funds and lists eligible expenditure. The second document details the various stages of planning and budgeting, including community consultations and prioritization at district and province levels.

Maps 1 and 2 in Appendix 1 provide a detailed business process at this stage based on the instructions in the Guidelines. This section refers to the actual practice in the field based on stakeholder consultations held in the Saravanh and Sekong Provinces with PST, DDSC, and DDST members (Maps 7 and 8 in Appendix 2).

In practice, the districts in both provinces have used a mixed approach based on the instructions in the Guidelines and the list of pre-identified projects. At the beginning of each fiscal year, district authorities revisited the development plans and consulted with village and kum-ban authorities on priority projects. Each village would propose 3 priorities, kum-ban would retain 1 per village, and the district would select one priority per kum-ban. The selected projects were aligned with the development priorities in 5-year NSEDP and the 3-year District Development and Investment Plans. Figure 8 below provides an overview of the planning and allocation process at Province / District level for reference year 2016 / 2017.

Figure 8. Overview of Planning and Allocation Process at Sub-National Level (2016/2017)

In 2016, Lao PDR decided to change the start date of the fiscal year to coincide with the calendar year, i.e. it was moved from October to January.
No major bottlenecks were reported at this stage. The overall process from project selection to approval of technical designs took on average five months and decision-making happened at the district and province levels (i.e. the national level is not involved in setting priorities at the sub-national level).

However, it should be noted that this is a simplified process that deviated from the Guidelines. For example, the performance-based method of allocating funds was never applied throughout the DDF-CRG cycles.\textsuperscript{21} No performance-based assessment has been conducted in any district, thus curtailing one of the LoCAL principles.

### 2.4 Implementation and Maintenance

Implementation refers to procurement procedures and infrastructure works executed with DDF-CRG funding. The Guidelines referring to this stage in the expenditure cycle are the Implementation Guidelines that do not explicitly contain Climate Resilience elements. The Guidelines provide a set of instructions for all the steps in the implementation process including procurement and contracting, overseeing, supervising, monitoring and hand-over. Maps 3 to 6 in Appendix 1 provide a detailed business process of this stage based on the instructions in the Guidelines. This section refers to the actual practice in the field based on stakeholder consultations held in the Saravanh and Sekong Provinces with DDSC and DDST members, as well as contractors and villagers (final beneficiaries).\textsuperscript{22}

There were no major bottlenecks reported during interviews. The procurement and implementation process took on average between two and three months given the small scale of infrastructure projects and the budget that normally require local publication of bids and award to local contractors. Upon completion of works, district authorities hand over the infrastructure to the village, which undertakes to maintain its functioning and oversee its use. Usually an agreement exists between villages and districts whereby maintenance works above a certain amount (e.g. 1 million LAK) or works requiring specific technical expertise not available in the village would be provided by the District. Many villages set up Community Funds and collect monthly or quarterly contributions from villagers (e.g. for using the water supply system or the irrigation system). The money is used for maintenance works but also serves the purpose of community micro-financing scheme (e.g. villagers take turns in borrowing money for setting up revenue generating activities) or emergency fund for the members of the community (e.g. those that require medical intervention or find themselves in extremely dire circumstances). This is a positive multiplier effect of the small infrastructure projects DDF-CRG funds in Laos.

\textsuperscript{21} Two performance-based assessments were conducted during the DDF cycle (MoHA Project). However, since the process was largely based on self-assessment, all districts came out with very similar high scores.

\textsuperscript{22} Please refer to maps 9 to 12 in Appendix 2 for business process related to procurement and implementation in Saravanh and Lamam Districts.
2.5 Lessons Learnt at the Sub-National Level

**Institutional Mechanism.** At the implementation stage, the role of the national level is limited. At the sub-national level co-ordination is more reproached, but challenges remain. For example, given the hierarchical structure, co-ordination meetings involving several sectors/departments or districts would have to seek prior approval of the Governor. This makes it more difficult to organise meetings at short notice or more often. Villages that are located closer to the District centre or Districts that are located closer to the Province centre find it easier to communicate with authorities and seek technical support (this is a problem especially during the rainy season when many country roads become impracticable often for several months in a row).

**Capacity.** DDF-CRG is not a new mechanism in either province as DDF has been implemented in the area since 2007. Over time the local knowledge base has developed, with district and province authorities participating in numerous training sessions organised by the MoHA Project staff. The MoNRE project provides support through the infrastructure specialist and by reviewing the financial and narrative reports submitted by the provinces (who collect contributions from all districts and consolidate data). Despite several attempts, MoHA and MoNRE failed to organise a joint meeting whereby all stakeholders both at national and sub-national levels have the opportunity to share their experience and lessons learned. The main bottleneck refers to technical capacity at sub-national level (in particular in villages and districts), which remains very limited especially with regard to technical specifications replying to CRG criteria. The province provides some support, but it is limited given that under DDF-CRG provinces do not have a budget for monitoring and oversight and cannot travel to other districts.

**Planning and Allocation.** In 2012, a team of external consultants identified 48 projects to be funded in the target provinces. The list of projects was reduced to 28 as a result of the mid-term review of the MoNRE Project conducted in 2016. In practice, the authorities in both provinces made little use of the pre-identified list and have used a mixed approach to planning and allocation. For example, in Saravanh district the DDST/DDSC consulted with village and kum-ban authorities on a yearly basis and produced a short-list of priorities used to select projects funded by DDF-CRG. In Lamam district, DDST/DDSC suggested that for Year 1 projects be taken from the pre-identified list, whereas for Year 2 and Year 3, the projects were selected directly from the District’s Annual Development Plans.

**Procurement.** While the DDF-CRG procurement process is based on national rules, it remains a parallel process. District and province authorities have not reported any major bottlenecks. However, authorities in both provinces have highlighted grey areas in the current DDF–CRG Guidelines that lead to different interpretations in different districts. For example, the Lamam District in Sekong Province chose to sign two contracts for works projects. One contract followed the DDF template and the other contract followed the government template. They chose this option since the government template “is more detailed”, i.e. requires to attach the project design and all technical specifications. This path was not followed by the districts in the Saravanh province.
**Implementation.** The main bottlenecks at this stage refer to the lack of DDF-CRG templates for all steps in the expenditure cycle. For example, there is no single template for the ‘payment voucher’ for authorizing transfers to contractors. District Office of Planning and Investment (DoPI) prepares the payment voucher using the government template, which appear to be different in Lamam and Saravanh districts.

**Maintenance and Oversight.** The main challenge at this stage refers to the lack of knowledge at the village level on how to manage and properly maintain the newly repaired or built infrastructure. For example, some villages do not know how to manage irrigation channels and tensions may arise among inhabitants during the dry season when water supply is limited and demand is high.
Part III. Optimized Process Options for Sustainability of DDF-CRG

This section provides options for optimizing the DDF process at national and sub-national levels.

**Governance**\(^{23}\). Future DDF interventions in Laos will incorporate climate resilience aspects by default (i.e. there will be no distinction between DDF and DDF-CRG mechanisms). The optimal way forward would be for one national ministry to take the lead. One option is MoHA, who has overall responsibility for local governments and plays a leading role in the decentralization process. Another option is MoNRE, who co-ordinates environmental and climate resilience aspects. Both ministries have offices at province and district levels.

Either way, one single MoU including a clear division of tasks and responsibilities would have to be signed between all stakeholders. DDF governance and institutional mechanism would benefit from a clear understanding of who does what (including among international agencies) from the start. It would be optimal to avoid ‘patch-work’ whereby several agreements with different stakeholders are signed over a longer period of time sometimes several years after the programme has started.

**Fund Flow.** The DDF would benefit from alignment with the national fiscal transfer mechanism. Until now, DDF and DDF-CRG operated in parallel to the national system. By being fully aligned, the DDF can help strengthen the existing national allocation mechanisms. Funds follow the regular public expenditure cycles thereby strengthening national and local capacity. In the long term, this will also improve confidence in the national system more widely and help Lao government get access to global adaptation finance via the national allocation mechanisms if these are accredited by the relevant global climate finance institutions (Green Climate Fund).

A full integration will not be possible overnight as the PEM system in Laos would have to correspond to certain PFM standards. The on-going World Bank led Public Expenditure and Financial Accountability (PEFA) assessment should help to identify the gaps in the national system\(^{24}\). One option is to consider gradual integration into the system by combining DDF and national funding (e.g. annual allocations include a percentage of donor funding that decreases progressively) and by conditioning DDF disbursements on performance and results (e.g. conditionality could include publication of accounts and financial reports, annual audits, performance – based assessments, etc.)\(^{25}\). The final objective would be a DDF mechanism fully integrated into the national system.

**Planning and Allocation**\(^{26}\). Practice has shown that a local-driven bottom-up approach to determining development needs is the most optimal way forward. Districts and provinces should take full responsibility for prioritizing investments projects. Future DDF interventions should build on existing local planning processes.

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\(^{23}\) Please refer to Map 13 in Appendix 3.


\(^{25}\) Similar to the EU budget support mechanism [https://ec.europa.eu/europeaid/node/13967](https://ec.europa.eu/europeaid/node/13967)

\(^{26}\) Please refer to Map 14 in Appendix 3.
After over ten-year pilot phase, DDF is ready to be rolled out nation-wide. One option is launching a national call for projects open to all provinces. If that is the retained option, information sessions should be envisaged in those provinces that never participated in the DDF mechanism so as to reduce the knowledge gap and ensure fair competition among districts.

**Procurement and Implementation**[^27]. The existing Guidelines and Manuals are not entirely fit for purpose. One option would be to revise the Guidelines by a team of mainly national experts involving representatives of the main stakeholders in the DDF mechanism such as MoHA, MoNRE, MoF, and SAO. The language should be simplified and the contents should reflect local needs so that the Guidelines become a useful tool for all procurement and implementation stages (e.g. instead of lengthy narrative include flowcharts or diagrams with the steps and procedures to follow; include templates and checklists for all stages of the PEM process). Another option is fully adopting the national procurement rules and avoid separate DDF Guidelines. Either way, the optimal way forward is to have a national – led process that would ensure compliance with national rules and procedures and eventually lead to national ownership and appropriation of the DDF mechanism.

**Oversight and Maintenance.** Future DDF interventions would have to include functioning performance-based assessment and audit mechanisms that are currently lacking or performed to a very limited extent. The optimal option is to develop these mechanisms in close co-operation with the national agencies whose mandate include these tasks (e.g. SAO etc.). At the sub-national level, an effective way of ensuring oversight is to have both province and district authorities perform regular monitoring and evaluation. One way of ensuring that is providing the sub-national level with adequate financial and human resources.

[^27]: Please refer to Map 15 in Appendix 3.
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- FY 2015_DDF-CRG_Salavanh District_Salavanh Province Procurement file
Appendices

Appendix 1. Business Process Maps based on DDF-CRG Guidelines and Manuals

Map 1 “Three Year District Investment Plan”
Map 2 “Annual District Investment Plan”
Map 3 “Overview Implementation Process All Stages”
Map 4 “Procurement Works between 50 to 500 million KIP”
Map 5 “Procurement Works between 500 million and 1 billion KIP”
Map 6 “Implementation Works”

Appendix 2. Business Process Maps based on practice in Saravanh District (Saravanh Province) and Lamam District (Sekong Province)

Map 7 “Planning and Allocation in Lamam District”
Map 8 “Planning and Allocation in Saravanh District”
Map 9 “Procurement in Lamam District”
Map 10 “Procurement in Saravanh District”
Map 11 “Implementation and Maintenance in Lamam District”
Map 12 “Implementation and Maintenance in Saravanh District”


Map 13 “Governance and Fund Flow”
Map 14 “Planning and Allocations”
Map 15 “Procurement and Implementation”
Appendix 1. Business Process Maps based on DDF-CRG Guidelines and Manuals

Map 1 “Three Year District Investment Plan”
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Map 3 “Overview Implementation Process All Stages”
Map 4 “Procurement Works between 50 to 500 million KIP”

**DISTRICT**
- **WHO**
  - Procurement Officer
  - District Tender Committee
  - District Headquarters
- **PROCESS**
  - Prepares tender documents
  - Approves tender documents
  - Sends Tender Document to contractors & publishes
  - Opens bids publicly and checks qualifications
  - Recommends award to preferred bidder
  - Approves award and signs the Notification of Award of Contract
- **ACTION**
  - Final Tender Document
  - Submission of bids
  - Lowest priced responsive bid chosen
  - Contract signed

**CONTRACTOR**
- **WHO**
- **ACTION**
- **OUTCOME**
  - Contractor
Map 5 “Procurement Works between 500 million and 1 billion KIP”

**WHO**
- Provincial Tender Committee
- District Headquarters
- District Tender Committee
- District Head

**ACTION**
- Approves tender documents
- Prepares tender documents and cost estimate
- Publishes bid invitation in Lao and English national newspapers
- Opens bids publicly and checks qualifications
- Recommends award to preferred bidder
- Approves award and signs the Notification of Award of Contract
- Signs contract with Contractor

**Outcome**
- Final Tender Document
- Submission of bids
- Lowest priced responsive bid chosen
- Contract signed

**Process Phases**
- Day 1
- Day 30 - 33
- Day 78
- Day 79
- Day 85
Map 6 “Implementation Works”
Appendix 2. Business Process Maps based on practice in Saravanh District (Saravanh Province) and Lamam District (Sekong Province)
Map 7 “Planning and Allocation in Lamam District”
Map 8 “Planning and Allocation in Saravanh District”
Map 9 “Procurement in Lamam District”

PROVINCE
- PROCESS WHEN
  - March 2017
  - March 2017
  - April 2017
  - April 2017
  - April 2017
  - April 2017

DISTRICT
- PROCESS
  - WHO
    - DDST (DONRE+DPI)
    - Deputy District Governor
    - DDST (DONRE+DPI)
    - DOSC Head
    - DDST
    - DONRE

- ACTION
  - Bid Preparation
  - Bid Approval
  - Bid Publication & Submission
  - Bid Opening
  - Contract Award
  - Contract signature

- ACTION
  - Prepare bid announcement and tender documents
  - Approves tender documents
  - Invitation to bid is announced on radio, community news exchange channel
  - Chairs opening committee convened immediately after DL submission
  - Inform bid winner of the results
  - Prepares contract

OUTCOME
- Tender open for 15 days
- Preferred contractor selected
- Contract signed
Map 10 "Procurement in Saravanh District"
Map 11 “Implementation and Maintenance in Lamam District”
Map 12 “Implementation and Maintenance in Saravanh District”
Map 13 “Governance and Fund Flow”
Map 14 “Planning and Allocations”
Map 15 “Procurement and Implementation”