Pooled Funding Arrangements in the Lao People's Democratic Republic

Pooled Funding Arrangements in the Lao People's Democratic Republic

Loveleen De and Marco Schaefer
July 2022

Acknowledgements

This discussion paper describes the context, criteria, and proposals for a social welfare funding mechanism in the Lao People’s Democratic Republic. It also describes international examples for inspiration and further study.

The National Social Protection Strategy of the Lao People’s Democratic Republic stipulates that a “Social Welfare Funding Mechanism will be developed with the goal of facilitating a more effective utilization of the resources available[.] … Resources will be mobilized from the private sector, civil society organizations and other non-governmental actors, as well as international development partners. Additionally, innovative sources of financing social protection will be explored, and resource mobilization proposals will be developed to advocate for the Government’s budget allocation to social protection.”

We hope that this discussion paper will serve as a useful background document for preparatory discussions between the UN system, the Lao Government, and other partners towards the goal of establishing a social welfare funding mechanism.

This paper was produced under the UN Joint Programme “Leaving No One Behind: Establishing the basis for Social Protection Floors in Lao PDR” which supports the Government of the Lao People’s Democratic Republic and development partners to better design and implement social protection programmes as part of the National Social Protection Strategy. The ILO gratefully acknowledges the funding provided by the Joint SDG Fund and the Government of Australia.

Special thanks to the Government of the Lao People’s Democratic Republic and especially to Nuno Cunha, Senior Social Protection Specialist, ILO for his invaluable feedback.

The paper was authored by Loveleen De, Social Protection Programme Manager, ILO and Marco Schaefer, Consultant.

Table of contents

Abbreviations and acronyms

ADB	Asian Development Bank
CBPF	Country-based Pooled Fund
CT	cash transfer
GoL	Government of the Lao People's Democratic Republic
GTAFM	Global Fund to Fight AIDS, Tuberculosis and Malaria
JFA	joint financing agreement
M&E	monitoring and evaluation
MoF	Ministry of Finance
MoH	Ministry of Health
NGO	non-governmental organization
NSEDP	National Socio-Economic Development Plan
NSPC	National Social Protection Commission
NSPS	National Social Protection Strategy
ODA	official development assistance
PIU	project implementation unit
SDG	Sustainable Development Goal
TF	trust fund
UN	United Nations
VFM	value for money

Why a social welfare funding mechanism?

The National Social Protection Strategy (NSPS) of the Lao People's Democratic Republic was adopted by Prime Minister Decree No. 224/PM dated 1 April 2020. It stipulates:

- A specific Social Welfare Funding Mechanism will be developed with the goal of facilitating a more effective utilization of the resources available, including domestic resources but also resources available from ODA [official development assistance].
- The NSPS will use government funding and resources mobilized from development partners and international organizations.
- Resources will be mobilized from the private sector, civil society organizations and other non-governmental actors, as well as international development partners.

Additionally, innovative sources of financing social protection will be explored, and resource mobilization proposals will be developed to advocate for the Government's budget allocation to social protection. The mechanism will be designed taking into consideration the specific national legal framework and public financial management framework, but will also take into consideration the modalities available for development partners in order to ensure that a wide number of development partners can contribute to more consistent financing of the sector. Contributions can be both financial and in-kind technical assistance.

The high-level National Social Protection Commission (NSPC) was established by Prime Minister Decree No.655/PM, dated 9 December 2021, as a non-standing government body responsible for social protection in the country. The NSPC has two levels – central and provincial. Its Secretariat is located at the Ministry of Labour and Social Welfare.

Decree No.655/PM also specifies the roles, responsibilities, structure, principles and working approach of the Commission, whose main responsibility is to oversee, plan and monitor the implementation of the National Social Protection Strategy in the Lao People's Democratic Republic. The NSPC is also responsible for coordination with the various implementing ministries and bodies, coordination with development partners, and evaluation and reporting on the NSPS. It held its first meeting on 10 June 2022.

The NSPS also states:

The NSPC will establish a Sector Working Group for Social Protection that will serve as a coordination mechanism with development partners to mobilize funds and resources to implement social welfare activities through donor contributions to the Social Welfare Funding Mechanism. This Sector Working Group will study, design and develop an effective implementation mechanism.

The NSPS expects to benefit from the 5-year National Socio-Economic Development Plan (NSEDP) and to continue to mobilize ODA grants and loans utilizing the roundtable meeting channel. There are also calls in the NSEDP to use low interest and long-term credit from international organizations for purposes of social development and poverty reduction; to seek private sector investment; and to use resources at maximum efficiency and prevent leakages.

It is our assessment that following the recent establishment of the NSPC, the Government will lead the establishment of the Sector Working Group for Social Protection. This, however, may take some time considering the political context and procedures in the Lao People's Democratic Republic. Being a high-level mechanism, it is important that the establishment of the Sector Working Group is led by high levels of Government and United Nations (UN) system, notably the Minister of Labour and Social Welfare – and possibly the Minister or Vice-Minister of Planning and/or Finance – and UN Resident Coordinator, respectively. We also believe that UN agencies and project teams, including work done under the UN Joint Programme on Social Protection Floors 2020–22, can provide technical inputs to the work of the Sector Working Group in "studying, designing and developing an effective implementation mechanism … for the Social Welfare Funding Mechanism (NSPS)".

We think that there are two preliminary options possible for the Social Welfare Funding Mechanism:

1. **A government-led and operated fund** that is housed within government structures and therefore also recorded/trackable by the Inter-Governmental Transfer System (IGTS). There are several precedents for such funds in the Lao People's Democratic Republic. The Government has its own working groups and structures for the creation of such funds. Currently, we do not have access to the supporting legal or background documents for any of these funds. This option would also require further discussion with the Government, and therefore, has not been developed in this current paper.

   It should be noted that while such a fund can follow previous structures, its sources could be more innovative than traditional ODA and/or public budget.

2. **Country pooled funds and basket funds**, which feature more control by development partners than the option above. This is the main area which the current paper focuses on.

What are Country Pool Funds?

Country Pool Funds are an agreement between the UN and a country's government to allocate an amount of funding toward a particular cause – often sustainable development and emergent crises. UN Country Teams that negotiate Country Pool Funds with their host governments reach the first step towards developing a Cooperation Framework in the country.

Albania, SDG Acceleration Fund (info as of April 2021): Albania's Country Pool Fund rebranded from the One Coherence Fund to the SDG Acceleration Fund in 2018, as negotiated between the Government of Albania and the UN. The objective of the SDG Acceleration Fund is to support integrated and coherent resource mobilization, allocation and disbursement to promote development and implementation of integrated activities. These efforts aim to achieve the Sustainable Development Goals (SDGs) outlined in the priority areas expressed in Albania's National Strategy for Development and Integration 2015–2020 and Programme of Cooperation for Sustainable Development 2017–21. In recent years, the SDG Acceleration Fund has been critical in emergent situations and crisis responses, and it strengthened the focus on cross-cutting issues affecting Albania. The next Cooperation Framework will start in 2022 with the aim of engaging the private and public sectors for co-financing investments.

Malaysia, MySDG Trust Fund (info as of February 2022): Malaysia's Ministry of Finance along with Malaysia's UN Country Team negotiated a 20 million ringgit (approximately US$5 million) fund dedicated to SDG acceleration. The fund aims to implement strategic and sustainable actions by targeting groups and sectors that are often left behind. The fund also promotes various stakeholders to contribute towards the achievement of the SDGs and the Cooperation Framework by 2030 by engaging the Government, civil society organizations, the private sector, academic institutions, and UN agencies, funds and programmes for multi-stakeholder collaboration. The fund has an Executive Committee, co-chaired by the UN Resident Coordinator and the Secretary-General of the Treasury (Ministry of Finance), to monitor the implementation of the Fund and identify projects to be implemented.

Uganda, Multi-Partner Trust Fund (info as of August 2021): Uganda's Multi-Partner Trust Fund emerged based on crisis response linked to the onset of the COVID-19 pandemic. It is country-level pooled fund administered by an independent UN Trustee and Uganda's UN Country Team. The objectives of the Fund are to strengthen coordination, evaluation, planning and communication among several entities; promote the strategic allocation of resources transparently and inclusively; reduce political and fiduciary risks faced by stakeholders; and broaden the financial base of non-resident donors. The projects funded under the Multi-Partner Trust fund include COVID-19 and public health responses, human rights responses, natural disaster responses, and economic support. Uganda is currently seeking full expansion from the emergency window to support the new Cooperation Framework of 2021 to 2025.

What are Country-based Pooled Funds?[1]

We have presented the description of Country-based Pooled Funds (CBPFs) as a similar mechanism popularly used in humanitarian contexts.

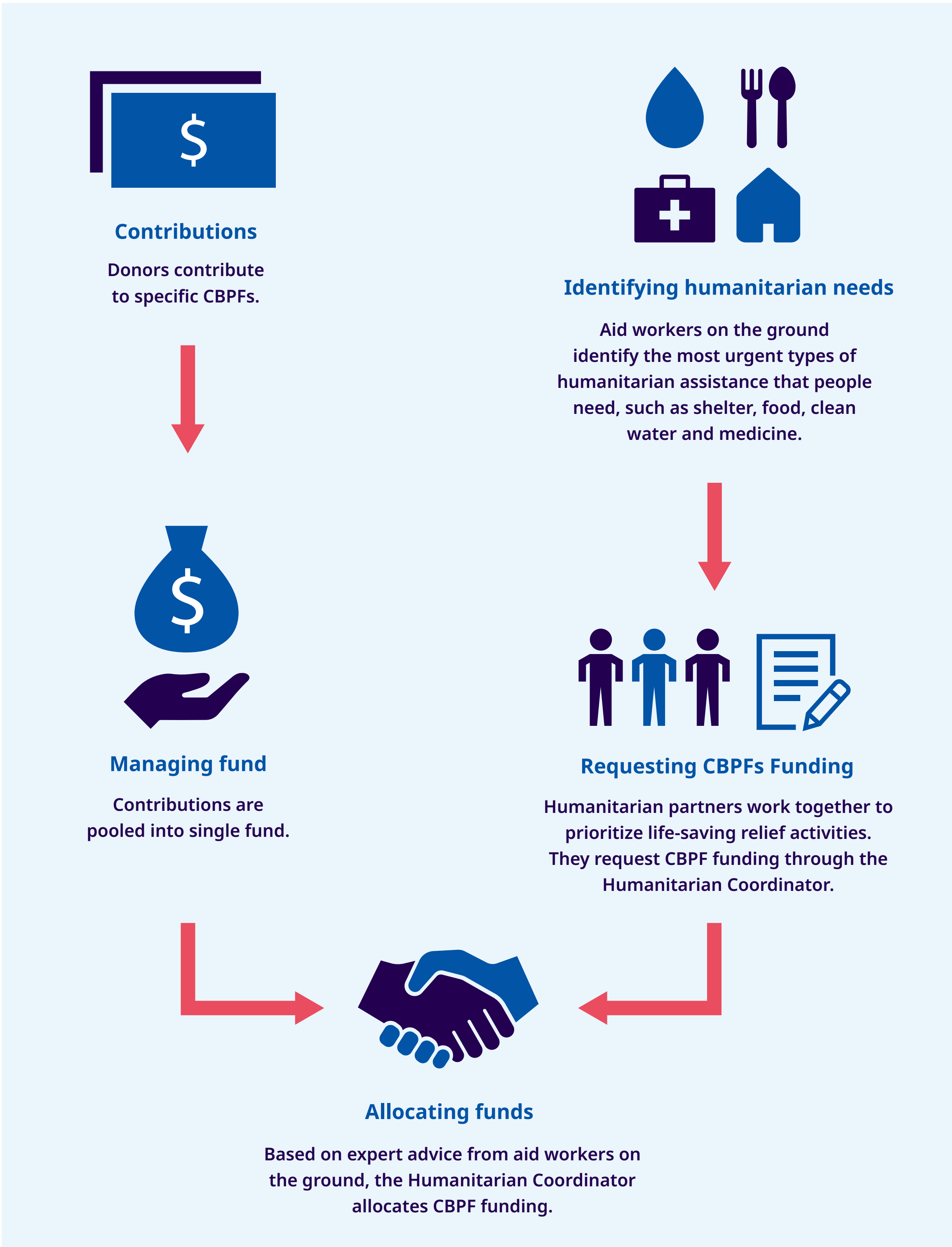
CBPFs allow donors to pool their contributions into single, unearmarked funds to support local humanitarian efforts. CBPFs are funded by voluntary contributions from governments and private donors. This enables humanitarian partners in crisis-affected countries to deliver timely, coordinated and principled assistance. CBPFs play a key role in delivering the "Grand Bargain", a set of reforms to improve the humanitarian financing system that was agreed by aid organizations and donors during the 2016 World Humanitarian Summit. CBPF allocations are fully flexible in-country, support the highest priority projects of Humanitarian Response Plans and adhere to humanitarian principles. They incentivize wider inclusion of humanitarian partners in coordination mechanisms and are the largest source of direct funding for national and local actors. They also improve transparency, promote multi-sectoral cash programming, contribute to better reporting practices and help to minimize transaction costs (UN OCHA 2017; UN OCHA 2020).

CBPFs are established when a new emergency occurs or when an existing crisis deteriorates. They are managed by OCHA under the leadership of the Humanitarian Coordinator and in close consultation with the humanitarian community. Advisory Boards oversee the Funds, providing advice on key decisions, and ensuring efficient and effective management. At the global level, the Pooled Fund Working Group brings together key stakeholders (representing donors, NGOs and UN agencies) to provide policy guidance.
The funds support the high-priority projects of international and national NGOs, UN agencies, and Red Cross/Red Crescent organizations through an inclusive and transparent process that supports priorities set out in Humanitarian Response Plans. This ensures that funding is available and prioritized locally by those closest to people in need.

Contributions from donors are collected into single, unearmarked funds to support local humanitarian efforts. In 2019, CBPFs allocated more than $817 million to 708 partners in 18 countries to support 1,390 humanitarian projects. These projects provided healthcare, food aid, clean water, shelter and other life-saving assistance, as well as construction of infrastructure like hospitals in besieged areas.

[1] This section is largely based on: UN OCHA, "Country-based Pooled Funds (CBPF)".

Figure 1. CBPF structure



Source: OCHA 2020.

What are basket funds?

One possible scenario through which receiving countries and donors can better coordinate and streamline development assistance is through basket funds or joint funds. In the case of basket funds, donors deposit resources into an autonomous account that is managed jointly with other donors and/or the recipient country. Similarly, joint funds are jointly set up by two or more countries, institutions and organizations to carry out specific actions of cooperation within the framework of cooperation programmes/projects.

Basket funds seek to enhance national ownership, to make greater use of country systems and to harmonize donors. Basket funds are characterized by common project documents, common funding contracts and common reporting/audit procedures across all involved donors. Even if initiated by donors, basket funds are strongly aligned to the beneficiary's priorities and policies, and are often administered by the receiving country. In order to fulfil this task, the aid receiving country's government often receives complementary technical assistance (OECD 2009). Funding arrangements are usually embedded in legally binding agreements that govern the parties' responsibilities and obligations as well as the arrangement's procedures. These funds can also mix domestic and external resources.

In the case of the Lao People's Democratic Republic, with donors already being involved in the funding of some targeted social protection programmes, basket funds could be an effective way to better streamline donor funding towards social protection, while at the same time increasing coordination and effectiveness, lowering administrative and management costs, and better aligning the schemes and programmes with a view to increasing coverage. The set-up of a basket fund could thereby help achieve two funding objectives. First, it could help to direct a larger share of donor support to social protection. Second, it could attract more donor funding in absolute terms as well as funding from new donors for social protection.

The basket fund should include some medium- to long-term commitments from the Government on investing public budgetary resources. It should also foresee a long-term shift from a mixed funding arrangement towards an arrangement where donors would play a minor role, with concrete plans to completely phase out external support in the long term, thus making the system financially sustainable and fully owned by national authorities (based on the ILO Working Paper "A Strategy to Finance Social Protection in the Lao People's Democratic Republic").

Jordan: Creating fiscal space for social protection through a basket fund

In the context of the COVID-19 pandemic, the Jordanian Social Security Corporation, with technical support from the ILO and other partners, decided to set up a basket fund known as the Estidama++ Fund – Extension of Coverage and Formalization. The fund is channelled through the existing social security system and aims to further increase social protection coverage and adequacy in the short term in order to mitigate income losses among unregistered self-employed, own-account and other vulnerable wage workers who have been affected by the crisis and are not covered by existing forms of social protection. The fund will provide short-term income support, channelled through the Social Security Corporation, in the form of wage subsidies, together with medium-term contribution subsidies that will provide access to short- and long-term insurance benefits for workers who are currently not insured. Eligibility has been granted to all institutions whose work has been halted due to the pandemic as well as those sectors most affected by the COVID-19 crisis (such as tourism and hospitality). Workers who are eligible for this programme will receive a 50 per cent replacement of their salaries, of which 60 per cent is covered by the employer and 40 per cent by the Social Security Corporation. As of December 2021, around 41,000 workers and 2,400 establishments benefited from the programme (Jordan News 2021).

So far, the fund is being supported by the governments of Norway and the Netherlands, and it is expected to be launched in early 2022. Additional donors are expected to join the pooled fund in an anticipated second phase, and matching funds from the Government are also under discussion. The fund will therefore allow Jordan to advance its agenda of extension of coverage of the social insurance system to the "missing middle", while preserving the long-term financial sustainability of the Social Security Corporation for currently insured members. This approach is framed within the Jordanian National Social Protection Strategy (2019–2025) and is in line with ILO social security standards, including the principles of financial sustainability; solidarity in financing; sound governance; and coherence with social, economic and employment policies. Lessons from the first phase of the implementation will inform further expansion and consolidation of the fund.

Source: Bierbaum and Schmitt 2022.

According to the definition of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD), "the donor contributes funds to an autonomous account, managed jointly with other donors and/or the recipient. The account will have specific purposes, modes of disbursement and accountability mechanisms, and a limited time frame. Basket Funds are characterized by common project documents, common funding contracts and common reporting/audit procedures with all donors" (OECD 2009, Page no.).

The argument for ODA

ODA will not be sufficient to close the financing gap for social protection in the Lao People's Democratic Republic, and it is also likely to decrease in the longer term. Even so, it could certainly play an important role in the short and medium term to fill the financing gap and to support the institutional development of the current social protection system. At the same time, certain funding instruments are increasing in importance and should be assessed thoroughly to elaborate the possibility for increased allocation for social protection in particular. Such instruments include, for instance, the budget support instruments of the European Union (EU)[2] and of other donors. With COVID-19 having accentuated the importance of social protection and health, donors are reprioritizing and redirecting ODA, including sector or general budget support, to help countries strengthen their social protection systems. It is difficult to quantify ODA for the coming years, yet with increased recognition of social protections' indispensable role during times of crisis and beyond, the time is opportune to attract funds specifically for social protection.

ODA could also lead to short-term gains. While it might generally take more time to lobby for increased ODA for the Lao People's Democratic Republic, a positive side effect of the pandemic is the increased recognition across policy makers, development practitioners and donors that investing in social protection has to be a priority, and that reinforcing social protection systems is an important path to a human-centred recovery and inclusive growth. Therefore, lobbying for a higher allocation of ODA to social protection and for increased ODA overall might be feasible in the case of the Lao People's Democratic Republic with its least developed country status.[3] ODA will be instrumental to protect the current level of social protection expenditure and to help increase it in the short term. Basket funds could therefore help better pool funding and improve coordination across donors and development partners, with a view to improving resource allocation and social protection coverage.

It should also be noted that crisis situations bring greater financial hardships to the poorest and most vulnerable people who then face a greater need for social protection to have a decent living. With the current macroeconomic instability and rising inflation, those who are most vulnerable are also the most affected from tightening of public resources. ODA can help smoothen the impact on such groups in the absence of fiscal space for social protection.

[2] The EU Nutrition and Education Budget Support Programmes to Laos are worth a total of LAK 1,120 billion (EUR 95.5 million). It aims to contribute to sustainable, inclusive and equitable growth in Laos in line with the 8th National Socio-Economic Development Plan (NSEDP) and the Sustainable Development Goals (SDGs).

[3] Lao People's Democratic Republic plans to graduate from least developed country status in 2026.

Where have basket funds been used?

Originally, such donor-funding arrangements were most frequently used in post-conflict or fragile situations (for example, in Afghanistan, Liberia, Sierra Leone, South Sudan, and so on) marked by weak public finance management processes and institutions, that is, high rates of "leaking". Basket funding arrangements are also frequently mentioned in the context of the aid-effectiveness agenda – that is, promoting alignment with country systems and government ownership – although the Paris Declaration does not explicitly mention basket funding as an aid delivery modality.

Details of basket funding arrangements

Multi-donor basket funding arrangements are usually embedded in comprehensive, legally binding agreements that govern the parties' responsibilities and obligations as well as the arrangement's procedures and are signed by the respective representatives of the government (such as, the Minister for Social Affairs) and development partners (such as, the UN Resident Coordinator or the ambassadors of donor countries).

Basket funding can refer exclusively to externally funded activities or to mixed domestic–external funding, whereby the government contributes to funding activities in a programme or sector – albeit to a lesser extent. can also refer the option to include in-kind contributions (for instance technical assistance) and that the agreement can also include specific funding lines for technical assistance to be provided by specialized agencies.

While the precise definition of the agreement – such as responsibilities and representation, contributions, consultations and decision-making, organizational structure, procurement, reporting, review/evaluations, auditing and so on – all matter in terms of the various parties' levels of control and ownership of the arrangement, it is the details of the financial management and disbursement mechanism that are at the "heart" of any basket funding arrangement.

Furthermore, the agreement can also include in-kind contributions, such as specific funding lines for technical assistance to be provided by specialized agencies.

Table 1. Selected aid instruments with regard to use of country systems, alignment, harmonization and ownership

Expenditure through aid instrument	Use of country systems[1]	Policy alignment	Process alignment	Harmonization	Ownership
Domestic revenue	All 8	Automatic	Automatic	Automatic	Automatic
General budget support	All 8, can include additional safeguards	Automatic	Automatic	Automatic	Strong
Sector budget support	Usually all 8, can include additional safeguards	Policy aligned with an agreed sector plan	Automatic	Automatic	Strong, but depends on extent to which sector plan is owned, and extent of earmarking
Government-managed pooled fund (basket fund)	Ranges from 0 to all 8, can include additional safeguards	Policy aligned with an agreed sector plan	Could be done, especially if any project/ programme implementation unit (PIU) is embedded in government	Automatic	Moderate, but depends on extent to which sector plan is owned, and extent of earmarking
Jointly managed trust fund	Usually uses parallel systems	Can be policy aligned with an agreed sector plan	Could be done, especially if any PIU is embedded in government	Automatic	Depends on ministerial involvement in decision-making

[1] The eight country systems are: (i) planning; (ii) budgeting; (iii) parliamentary approval; (iv) Treasury; (v) procurement; (vi) accounting; (vii) auditing; and (viii) reporting.

Project support	Usually uses parallel systems	Only if aligned with the overall development plan	Not automatically, but could be done	Not automatically, requires coordination	Depends on ministerial involvement in decision-making
Support to and through non-state actors	Uses parallel systems	Only if aligned with the overall development plan or sector plan	Not automatically, but could be done	Not automatically, requires coordination	Weak for government – maybe ownership at community level.

Continuum of government versus development partner (DP) ownership and control

Basket funding arrangements aim for a middle-of-the-road compromise in the trade-off between a government's need for ownership of development activities and control over funding versus development partners' need for accountability and scrutiny over activities funded by them. However, basket funding arrangements can be tweaked and adapted in multiple ways to reflect the development partners' level of trust in the government's ability to manage funds effectively and with accountability. In the Lao People's Democratic Republic, it is expected that the funds can be managed through programme accounts at the Treasury, that is, "on budget".

Figure 2. Aid modalities on the continuum of government vs DP ownership and control

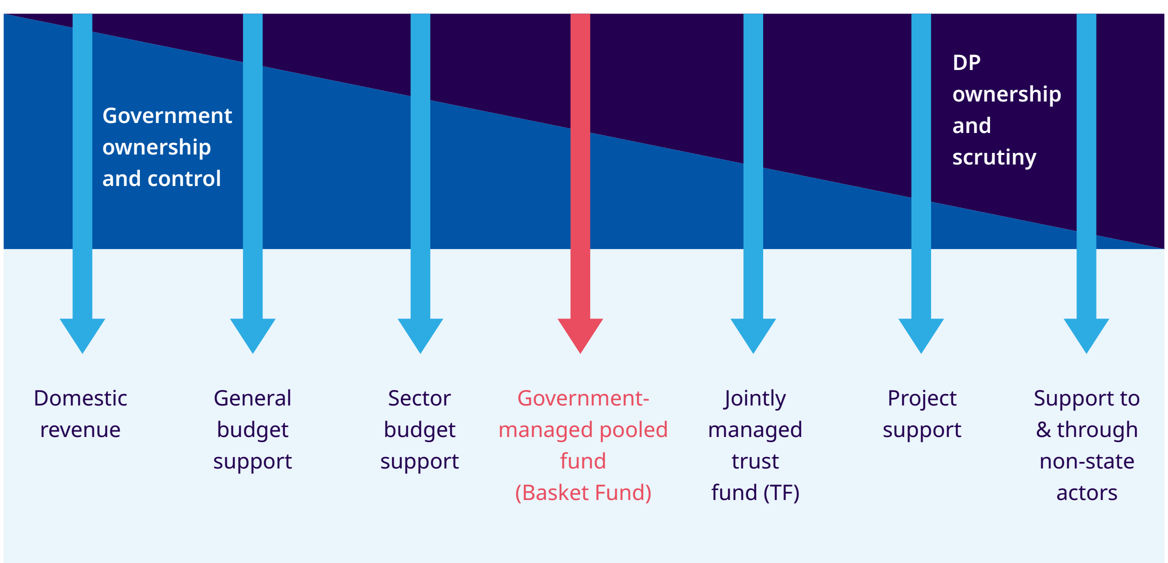


Figure 3. Basked funding arrangements on the continuum of government vs. DP ownership and control

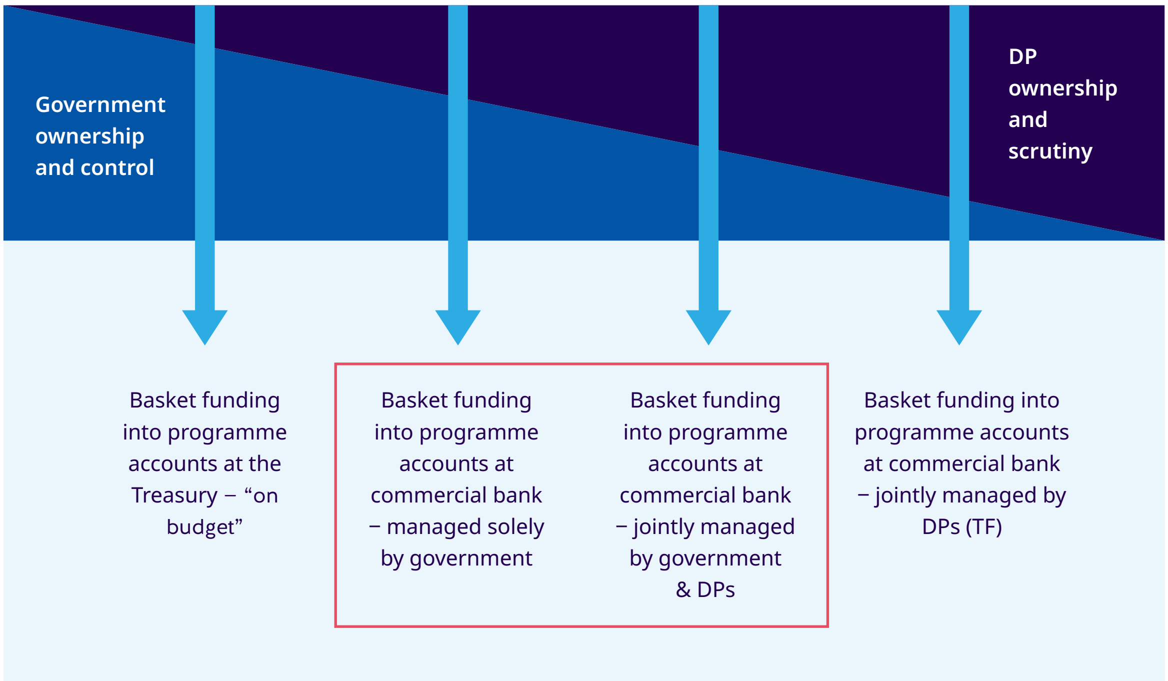


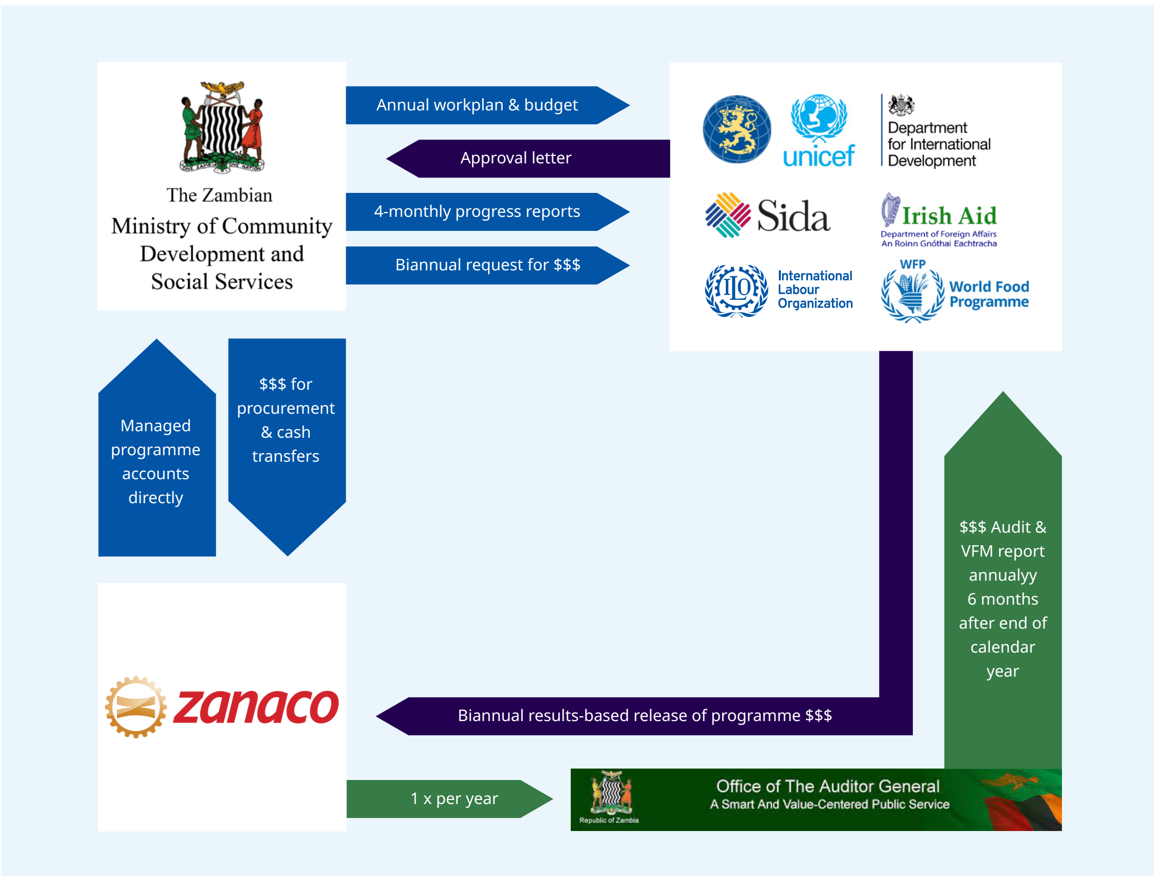
Table 2. Pooled funding success criteria

Ownership	Alignment	Harmonization	Results delivery	Accountability
Strong linkage to relevant government strategy National government is represented on committees Ministerial accountability for expenditure to legislature Location of pooled fund financial management in ministry	CABRI’s 8 “on budget”1 indicators (on plan, on budget, on treasury, on parliament, on procurement, on accounting, on audit, on reporting) Low proportion of funds that can be earmarked Flexibility of technical assistance to work beyond pooled fund Business conducted using national budget classifications Project preparation and approval guidelines available Business conducted in sync with the national financial year	Regularized interface with wide group of donors Experience of fund administrator Protocol for misuse of funds includes national accountability processes	Finance: Commitments to projects/ financing received Finance: Actual spend/ planned spend Flexibility to reallocate funds to different priorities within the year	Monitoring of pooled fund includes government processes Timeliness of pooled fund reports Independent (not joint) reviews

CABRI = Collaborative African Budget Reform Initiative. 1 The term “on budget” refers to funds owned by the government that are part of the annual government budget (revenues and expenditures) and are earmarked for specific purposes. Source: Coppin, Manuel, and McKechnie 2011.

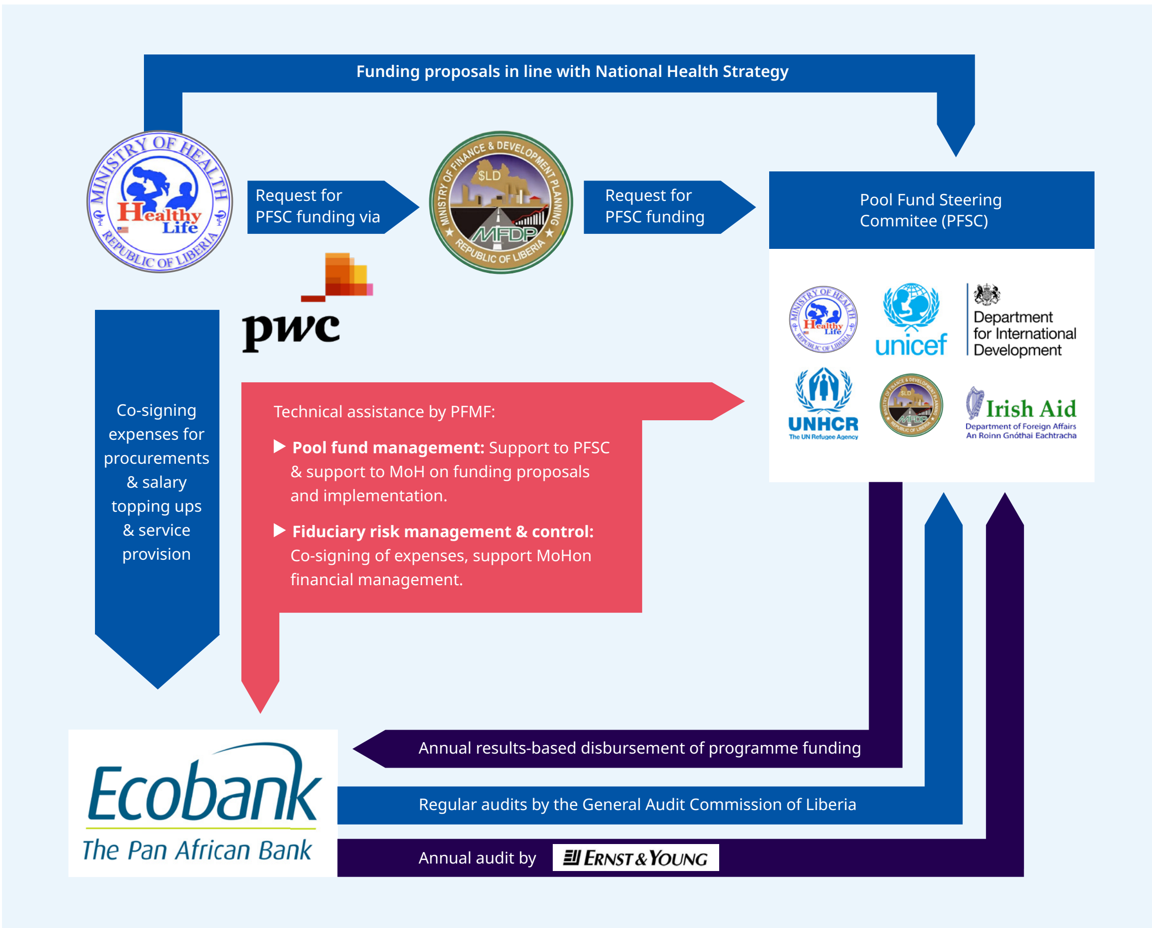
Two examples of basket funds from Zambia and Liberia are explained in Figures 4 and 5, while Table 3 illustrates the similarities and differences between them.

Figure 4. Basked funding arrangements – Zambia Joint Financing Agreement core processes



Note: Under the UN Joint Programme in Zambia, UNICEF was a pass-through agency for the transfer of funds to the other UN agencies.

Figure 5. Basked funding arrangements – Liberia Health Sector Pooled Fund



PF = pooled fund; PFMF = pooled fund management firm; MoH = Ministry of Health.

The **Liberia Health Sector Pooled Fund** is widely acclaimed as the most successful of Liberia's three pooled funds—the others being the Education Pooled Fund and the Reconstruction Trust Fund. It is in effect a recipient-managed multi-donor trust fund but with an international auditing firm as co-signatory. It is recognised as providing efficient disbursement and having sound and transparent financial management. Financing decisions are embedded in a strong sector strategy that has allowed the Ministry of Health to effectively prioritise and drive the fund's interventions. The Ministry of Health and Social Welfare has responsibility for monitoring implementation and one-third of government hospitals and clinics are now financed through it.

One reason for the fund's success is that the Project Coordination Unit is based in the Ministry of Health and Social Welfare. The Unit and the Ministry's own Finance Department are co-located and co-managed. All the planning, procurement and M&E functions are operated using the same common approach. From the start, the Project Coordination Unit has prioritised using country systems for procurement. Donor-provided international technical assistance has supported both the unit and the Finance Department. The donor top-up salaries provided to the unit's local staff—which puts their salaries on par with private sector salaries—are also provided to the Ministry's own Finance Department staff. This set up is in sharp contrast with the other pooled funds, where the project units are located in the Ministry of Finance and use World Bank procurement rules.

Table 3. Key elements of pooled funding arrangements across contexts

		Zambia Cash Transfer Programmes' JFA (original)	Liberia Health Sector Pool Fund Agreement
	Results orientation	Yes, via 4-monthy progress reports submitted by the MoCDSW	Limited progress reports conducted by implementing ministry due to M&E unit not being fully effective
Fiduciary risk management	Fund account (internal or commercial bank)	Commercial bank	Commercial bank
	Fund managing entity and expense authorization principle	MoCDSW (sole authority over fund accounts)	PwC (fund management firm financed by DP; co-signatory authority jointly with the MoHSW)
	Disbursement of funds by DPs	Biannual, based on satisfactory progress as indicated by 4-monthly progress reports	Annually, based on funding proposal by the MoHSW
	Auditing	Domestic and international – annually, report to be delivered 6 months after end of year	Domestic and international – annually

JFA = joint financing agreement; MoCDSW = Ministry of Community Development and Social Welfare; M&E = monitoring and evaluation; MoHSW = Ministry of Health and Social Welfare.

Health sector financing by development partners in the Lao People's Democratic Republic

As recently as 2017, there was no unified system established for development partners' funding to the health sector in the Lao People's Democratic Republic. The arrangements varied by development partner (DP) and according to the type of intervention. It should be noted that this was prior to the integration of the country's myriad health protection schemes into the National Health Insurance scheme, created in 2019.

Frequently, DPs entered into **bilateral/project agreements** with the Government to finance technical assistance activities and/or project implementation units (PIUs) – for example, at Ministry of Finance (MoF) central or provincial level directly – with funds managed independently and individually by the PIUs. Such projects were required to report to the Ministry of Planning and Investment on annual budget commitments and actual expenditures.

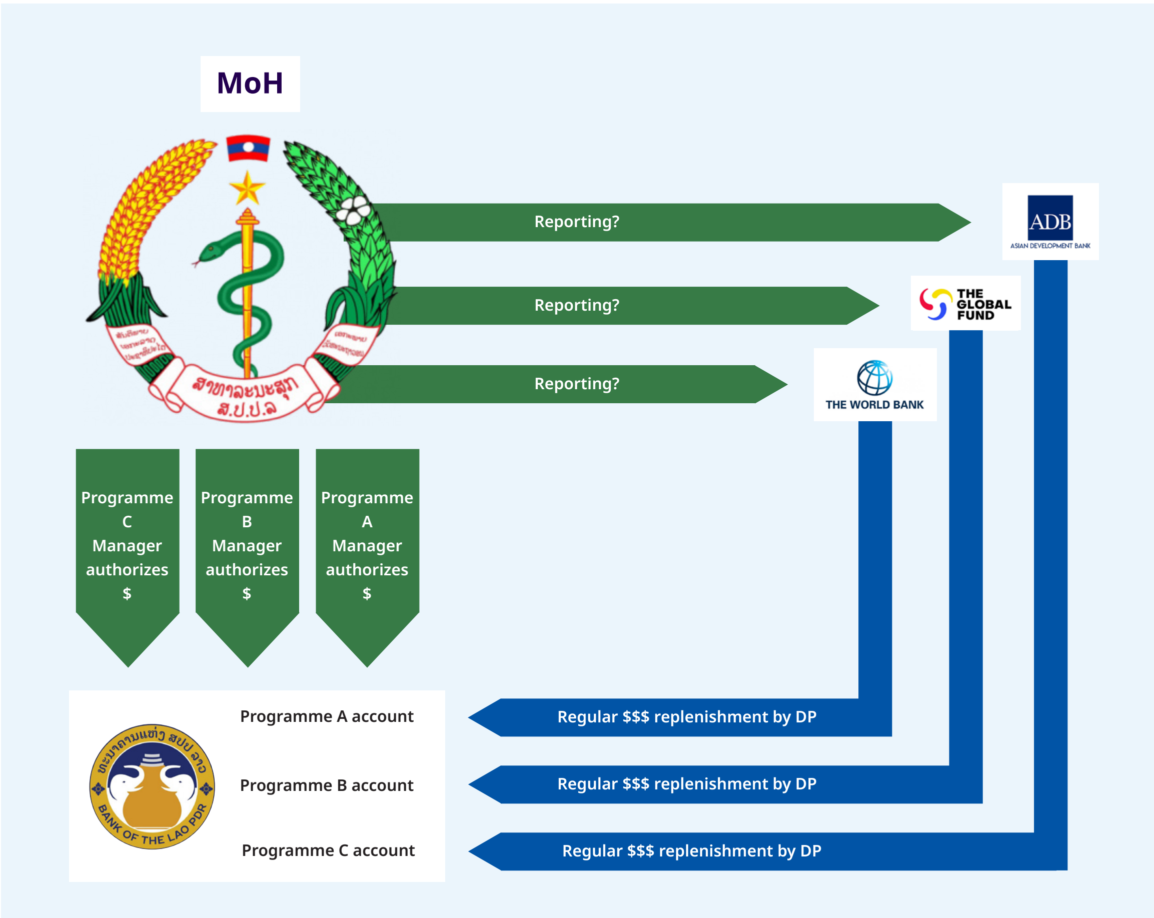
For **health programmes/projects funded by grants** and that were implemented by or jointly with the Lao Government, funds were channelled through the Government system (MoF and the National Treasury). This system was mostly used by the World Bank, the Asian Development Bank (ADB) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). They used imprest accounts, a dedicated account established at the National Treasury (MoF) and replenished regularly upon submission of expenditure reports and supporting documents (vouchers and similar). Although funds were held in custody with the Treasury (or line ministry), budget execution was generally subject to authorization by a programme manager.

For **loan-financed interventions**, loan amounts are generally transferred to the MoF general account and remitted to the Ministry of Health (MoH) by following normal budgeting and public finance management procedures. Full authority over disbursements rests with the MoF and/or MoH. Reimbursement under these loans was often designed on preferential terms, and was contingent on achievement of specific outcomes or "triggers".

Donor funding is increasingly "on budget" – that is, it is reflected in the national budget – with increases in general budget support. Efforts were made to strengthen aid harmonization and coordination by the Lao Government following the 2005 adoption of the Vientiane Declaration on Aid Effectiveness and the 2015 adoption of the Vientiane Partnership Declaration (2016–2025).

All health-related development projects **financed by loans** are reflected in the national budget (that is, "on budget") and **grant-financed projects** are largely in the national budget as well. However, some projects (for example, technical assistance and aid in-kind support) are outside of the national budget and public finance management system.

Figure 6. Grant funding arrangement used by the World Bank, ADB and GFATM for the health sector in the Lao People's Democratic Republic



The introduction of a new Chart of Accounts (COA) in financial year 2009/10 and improvements to the Government's Financial Information System allowed for reporting of expenditures by sector throughout the country. A new COA was adopted in financial year 2017, introducing amendments and a renumbering of accounts. Salary payments are made directly by the Provincial Treasury via bank transfer to the respective officials, now on a monthly basis (it had previously been quarterly). The National Social Security Fund was established as an off-budget fund, that is, NSSF benefit payments and administration costs are not reflected in the national budget.

General pooled fund design options

The proposed basket fund in the Lao People's Democratic Republic would receive funding from both development partners and domestic partners, and it would make contributions to the external cash transfer programme accounts. Contributions from partners would be on a flexible basis, and the funds would be managed by an external agency that would be embedded in the implementing ministry. The fund would have to undergo biannual joint implementation progress reviews and would be audited biennially by an internationally accredited audit firm. A point to keep in mind is that even though external funding sources/aid may form the major contributions in the short term, the joint financing agreement (JFA) should include a commitment of public budgetary resources on a gradually increasing basis.

Table 4. Overview of general pooled fund design options for Lao People's Democratic Republic

	Option A	Option B	Option C
General fund structure	Pooled sector or programme budget contributions to MoLSW	Basket funding arrangement: Both parties (DPs + domestic partner) contribute to external cash transfer programme accounts	Trust fund arrangement: DPs only contribute to an account managed externally – for example, by UNDP or World Bank
Financial contribution levels in potential basket funding arrangements	Stable contributions pre-determined and mapped out across lifespan of JFA via annexed JFA-specific workplan and budget	Flexible contributions determined, for example, by implementation progress	Flexible contributions determined, for example, by availability of domestic financing/ resources (such as a sliding-scale arrangement stipulating incrementally increasing contributions from domestic resources

			by accompanying agreement aiming at expanding tax-base, or similar)
Range of expenses financeable from pooled fund resources	Cash-transfer benefits financing only	Procurement of goods and services only (possibly including salary top-ups)	Cash-transfer benefits financing AND procurement of goods and services
Fund managing agency	Unit in implementing agency (for example, MoLSW) manages fund solely	Representative of an external agency (such as an internationally accredited audit firm) embedded in implementing ministry	Unit in Ministry of Finance (MoF) tasked with fund management
Authority/role of a potential external fund management	Co-signatory authority for any expenses from programme(s) accounts	Ex-post financial audit/scrutiny of financial procedures but no co-signatory authority	Technical assistance to implementing ministry of financial management/ accountability
Fund-holding account location	MoLSW programme accounts (for example, at Treasury)	Programme accounts established at external (that is, commercial), interest-paying bank	Account at MoF (for example, at Treasury) per programme (that is, on budget)

Results orientation	Joint annual implementation progress reviews	Biannual joint implementation progress reviews	Quarterly joint implementation progress reviews
DPs' disbursement frequency	Annually	Biannually	Quarterly
Audit executing agency	Domestic (state auditor or similar)	International (internationally accredited audit firm or similar)	Domestic and international
Audit content	Financial accountability (for example, scrutinizing bank statements, invoices, expenses and procurement procedures)	Value for money (for example, scrutinizing efficiency decisions of overall implementation choices)	Financial accountability and value for money
Audit frequency	Annually	Biannually	3-monthly
Process	Auditor first submits draft report of findings and recommendations to implementing ministry for response to findings and recommendations before handing over complete report to DPs.	Auditor submits report of findings and recommendations to DPs first. DPs discuss findings and recommendations directly with implementing ministry.	Auditor submits 2 draft reports simultaneously to both the DPs and the implementing ministry. Both parties meet/discuss jointly respective responses to the report's findings and recommendations.

The discussion below will focus on Option B.

Key features of a proposed Social Welfare Funding Mechanism in the Lao People's Democratic Republic

This section is based on Option B, tweaked towards government ownership and responsibility. Key features of a Social Welfare Funding Mechanism based on Option B are:

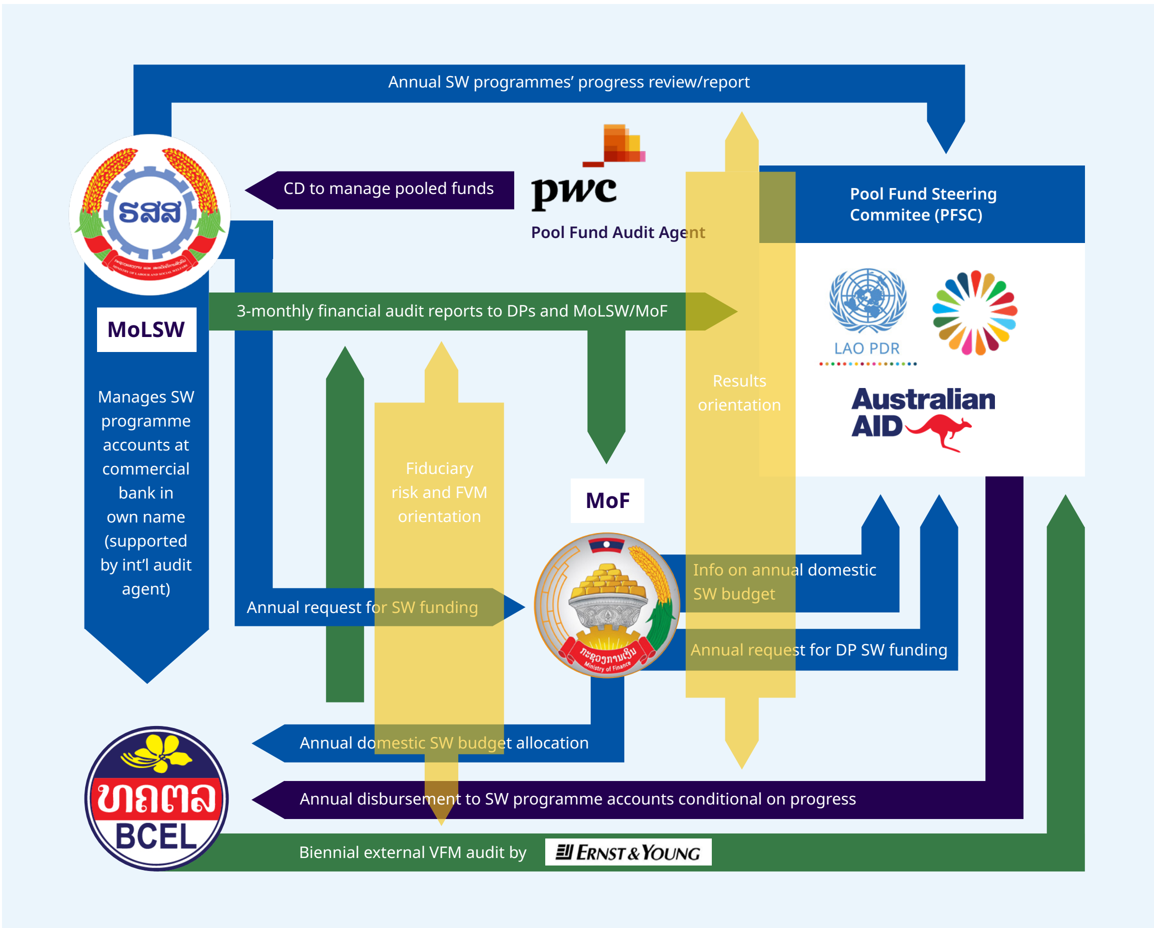
Results orientation

- Progress reviews: Annual social welfare programme progress reports submitted by the MoLSW utilizing a jointly agreed upon M&E framework
- Disbursement of funds by DPs: Annually, based on satisfactory progress review as measured by common M&E framework

Fiduciary risk management

- Fund account (internal or commercial bank): Commercial bank (for example, BCEL)
- Fund managing entity and expense authorization principle: MoLSW – under close supervision and with cash disbursement provided by an international auditing firm agent embedded in the MoLSW. The auditing firm agent will provide technical support in fund management, but has no authority, for example, in terms of initiating expenses from the programmes' bank accounts.
- Auditing:
  - **a.** Quarterly financial reports: Executed by the embedded international auditing firm agent, who will – based on receipts, invoices, bank statements, benefit payment reconciliation reports, and so on – draft three-monthly audit reports that focus on the accuracy and appropriateness of financial procedures, aimed at the timely raising of any red flags to the DPs in case of substantial misuse of funds or inappropriate fund handling.
  - **b.** Annual "value for money" (VFM) audit reports: These reports will be executed by an internationally accredited auditing firm, with a specific perspective on VFM with regard to all procedures, including payment of benefits to cash transfer beneficiaries.

Figure 7. Proposed structure for a Social Welfare Funding Mechanism in the Lao People's Democratic Republic



SW = social welfare.

Checklist of steps to be taken in due course of JFA development

It is proposed to hold a Lao Government–development partners roundtable to gauge the interest and appetite for contributing to a social welfare programme basket funding mechanism. This could also be organized as a side event to the annual roundtable in the Lao People's Democratic Republic. Input documents to the roundtable would include:

- Draft design of the Social Welfare Funding Mechanism (this paper)
- Draft JFA template (annex of this paper).
- NSPS social welfare costing study results.
- Fiduciary Risk Assessment and VFM study results.

Further documents to be developed, agreed upon and to annexed to the JFA:

- Lao People's Democratic Republic Social Welfare Expansion Programme workplan and budget (detailing national social welfare programme expansion and implementation activities to be funded by this JFA, including detailed respective financial contributions by the Lao Government and DPs for these activities).
- Risk Assessment Matrix.
- M&E Framework for results monitoring.
- templates for 3-monthly audit snapshots and quarterly progress snapshots.

References

Bierbaum, Mira, and Valérie Schmitt. 2022. "Investing More in Universal Social Protection: Filling the Financing Gap Through Domestic Resource Mobilization and International Support and Coordination", ILO Working Paper No. 44.

Coppin, Erin, Marcus Manuel, and Alastair McKechnie. 2011. "Fragile States: Measuring What Makes a Good Pooled Fund", Overseas Development Institute Project Briefing No. 58.

Ernst & Young. 2009. "Audit of the Health Sector Pool Fund for the Period of March 15, 2008, to June 30, 2009. Liberia, Ministry of Health and Social Welfare, September.

Hughes, Jacob, Amanda Glassman, and Walter Gwenigale. 2012 "Innovative Financing in Early Recovery: The Liberia Health Sector Pool Fund", Center for Global Development Working Paper No. 288.

Leader, Nicholas, and Peter Colenso. 2005. "Aid Instruments in Fragile States", PRDE Working Paper No. 5.

Libera, Ministry of Health and Social Welfare. 2015. Quarterly Report of the Health Sector Pool Fund: October 1, 2014, through December 31, 2014.

———. 2016. Joint Financial Management Assessment Report, final draft report, 9 August.

Manuel, Marcus, Alastair McKehnie, Maia King, Erin Coppin, and Lisa Denney. 2012. Innovative Aid Instruments and Flexible Financing: Providing Better Support for Fragile States. Overseas Development Institute.

OECD (Organisation for Economic Co-operation and Development). 2009. Reporting Directives for the Creditor Reporting System.

UN OCHA (United Nations Office for the Coordination of Humanitarian Affairs). 2017. "Country-Based Pooled Funds and the Grand Bargain", factsheet.

———. 2020. "About CBPFs", factsheet.

———. n.d. "Country-based Pooled Funds (CBPF)", available at: https://www.unocha.org/our-work/humanitarian-financing/country-based-pooled-funds-cbpf.

Annex. Sample template of a Joint Financing Agreement

[Preamble referring to relevant legislations, missions, MoUs, as necessary.]

1 Goals of the programme and scope of the JFA

1. The overall policy goal of social protection programmes in the Lao People's Democratic Republic is expressed in the National Social Protection Strategy (NSPS) Vision 2030, Goal 2025 – approved in April 2020 – and is defined as "gradually aiming for universal coverage in social protection, according to the available resources and the given socio-economic context, and to working towards building a much-needed social protection floor that protects all Lao people from socioeconomic shocks, environmental disasters and vulnerabilities". This JFA has a focus on NSPS Pillar 3, which stipulates establishing nine non-contributory social welfare schemes, that is, social assistance for different target groups and life-cycle situations.

2. The details of the activities to be covered through this JFA are provided in the attached programme document (see Annex 1), including how technical support for programme NSPS implementation will be provided outside the pooled fund (for example, for XYZ). Additional JFA programme elements can be added to the programme document in Annex 1 upon joint agreement by the Government of the Lao People's Democratic Republic (GoL) and development partners (DPs).

3. The programme document will be updated if required, considering the results of reviews, the decisions taken by GoL entities on the basis of recommendations provided by and agreed by the DPs, for instance, based on technical reviews and/or evaluations and/or relevant national/international developments.

4. This JFA sets forth the jointly agreed terms and procedures for financial and technical support to NSPS programmes and serves as a coordination framework for consultations with the relevant GoL entities (such as, the National Social Protection Committee – NSPC), for joint annual reviews of performance, for common procedures on disbursements, for reporting and for audits.

5. The DPs will align their bilateral agreements/arrangements with the spirit and provisions of this JFA to ensure coherence between the provisions made in terms of the pooled funding mechanism and the bilateral agreements that DPs require to process their international commitments. In case of inconsistencies between the terms and conditions of this JFA and any of the bilateral agreements/arrangements, the provisions of the bilateral agreements will prevail. In so far as specific provisions of a bilateral agreement/arrangement deviate from the JFA, the DP concerned will inform the other DPs thereof, by supplying a copy of the bilateral agreement/arrangement to each DP, specifying the provision(s) concerned. The lead DP will be copied in all bilateral agreements to support coordination.

5. The DPs will base their actual support on the progress obtained in the implementation of the agreed upon social welfare programmes or their components. Progress will be measured through the common agreed performance indicators found in M&E frameworks annexed to this JFA.

2 Responsibilities and representation

6. The Ministry of Labour and Social Welfare (MoLSW) [, the Ministry of Education and Sport, and the Ministry of Agriculture and Forestry] carry the main responsibility for the implementation of the agreed upon programmes or their components.

[Alternative A]

7. The pooled funds are jointly managed by the MoLSW and a Fund Management Agent (FMA), who is to be selected by the DPs jointly (possibly a fiduciary risk expert from an international auditing firm) but funded by the DPs outside the pooled fund mechanism. Disbursements from the pooled funding mechanism for activities mentioned under the attached programme document (Annex 1) are required to be co-signed by the MoLSW and the FMA.

[Alternative B]

7. The DPs' contributions to the pooled fund are managed by the MoLSW [and/or other ministries involved]. The MoLSW [and/or other ministries involved] will – latest by the last day of each quarter of a calendar year (that is, on a quarterly basis) – present financial statements (including receipts and invoices) in accordance with an identified and applicable financial reporting framework[4] to an identified auditing firm contracted by the DPs externally to the JFA. The financial statements will show all sources of funding, including funds from the GoL budget, with sufficient breakdowns of data to permit: (a) identification of individual sources of funds; and (b) disbursements on major activities or types of expenditures separately. The MoLSW affirms that the contributions from the DPs will be used only to cover expenditures included in the workplan, monitoring and evaluation (M&E) documents, and budget agreed between the signatories of this JFA. The DPs will not bear any responsibility and/or liability to any third party with regard to the implementation of the national social welfare programmes covered under this JFA.

8. The MoLSW will: coordinate the social protection sector via the National Social Protection Committee (NSPC) in accordance with national economic planning cycles; provide resources – financial, human and material – as agreed in the attached programme document; implement activities in accordance with agreed workplans and budgets; and adhere to all requirements set out in this JFA.

9. A prerequisite for the DPs' support of the agreed upon social welfare programmes is that the MoLSW [and/or other ministries involved] will have:

[4] For example, the International Public Sector Accounting Standards (IPSAS) or other mutually acceptable national and/or international standards.

- Agreed detailed annual workplans and budgets with DPs by the end of November each year for the following year.
- Submitted to the external auditor agent quarterly monthly statements within 1 month of the end of the quarter.
- Achieved satisfactory progress against agreed upon milestones mentioned in the M&E framework, as assessed during joint annual programme reviews with DPs.
- Implemented recommendations from reviews/evaluations in the agreed timeframe.
- Ensured integrity in implementation, including taking steps to prevent any forms of manipulation.

In the event that national stakeholders (that is, the MoLSW and/or other involved authorities) are unable to meet these commitments, after consultation with the MoLSW (and/or other involved institutions), DPs will decide whether to suspend, delay or change how their support will be delivered.

10. The DPs are committed to following the principles of harmonization and collaboration set out in the *[fill in here the name of any overarching development cooperation framework relevant for DPs operating in the Lao People's Democratic Republic and/or any social protection-specific DP collaboration framework]*.

11. The DPs will strive to ensure the predictability of their respective support by informing the MoLSW (and/or other relevant national authority) as soon as possible of the support they anticipate providing and over which period.

12. The signatories will cooperate and communicate with each other fully and in a timely manner on all matters relevant to the implementation of the relevant national social welfare programmes and this JFA. The signatories will share all information on aid flows, technical reports, and any other documentation/initiative related to the implementation of the national social welfare programmes that are relevant to the support.

13. The MoLSW (or any other relevant national authority) will immediately inform all DPs of any circumstance that may interfere or threaten to interfere with the successful implementation of the relevant national social welfare programmes and, with a view to resolving the issue(s), will call for a meeting to consult with the DPs on remedial action to be taken.

14. In matters pertaining to the implementation to this JFA, the MoLSW will be represented by the Director-General responsible for social welfare programme implementation. The representatives of each signatory DP will be stated in the relevant bilateral agreements/arrangements.

3 Contributions

15. The DPs will inform the MoLSW and other relevant stakeholders each year on [XY], ahead of national financial and operational planning, of their intended support to national social welfare programmes. The DPs will confirm their precise contributions within the bilateral arrangements/agreements, for example, with the MoLSW (and/or MoF). The contributions of the DPs may be subject to the approval of their respective parliaments and/or national appropriation rules. The lead DP will be informed of all proposed financial contributions to assist with coordination.

16. The DPs' financial contributions will be channelled to common interest-bearing accounts approved by the Secretary of the MoF and indicated by and in the name of the relevant social welfare programmes. The MoLSW will immediately acknowledge the receipt of the funds in writing to the DP concerned, copying the lead DP.

4 Coordination, consultations and the decision-making process

17. Regular consultations among the signatories of this JFA are considered to be critical to continued engagement by the DPs and to effective implementation of the national social welfare programmes.

18. The MoLSW will organize regular JFA management meetings – supported by the lead DP, if required – every three months to discuss and report on the implementation of the national social welfare programmes. Meetings can also be called by DPs or the MoLSW on an irregular basis if one of the signatories considers it to be necessary. The regular meetings will be called and chaired by the MoLSW's Director for Social Welfare with participation of technical staff from the MoLSW as needed as well as representatives of other relevant ministries and DPs. DPs can choose to be represented by the lead DP.

19. The regular, 3-monthly JFA management meeting agenda should include: (1) progress against workplans and M&E framework indicators; (2) financial management and 3-monthly audit reports; (3) GoL and DP policy and budget issues (if applicable); (4) social welfare programme design and implementation issues (if applicable/indicated under 1). Standardized progress and audit reports will be submitted by the MoLSW and the international auditing agent one week ahead of the regular meetings.

20. The results of the meetings will be recorded in agreed minutes of the meeting. The agreed minutes will be drafted by the MoLSW and/or the lead DP, and the draft will be sent – not later than one week after the meeting – to all DPs and relevant ministries for their comments. DPs and ministries will inform the MoLSW or the lead DP of their approval/comments within one week after receipt of the draft minutes of the meeting.

21. Coordination between the signatories and the social protection sector more broadly will be organized through the National Social Protection Committee (NSPC) and its Secretariat to ensure and facilitate coordinated planning and implementation across JFA signatories and non-signatories working in the sector. The NSPC Secretariat will convene these broader meetings on a biannual basis. The MoLSW and the lead DP will jointly report on the JFA's implementation status and/or any other issues that are deemed to be of relevance for the broader social protection community working in the country.

5 Financial management and disbursement

22. The MoLSW will perform financial management duties in accordance with sound financial management procedures.

23. The MoLSW will agree to receive on-going technical assistance on fiduciary management by an external international auditing firm expert, aiming at establishing the capacity of the ministry to effectively and efficiently manage pooled programme accounts while observing sound financial management procedures.

24. The MoLSW will prepare three-monthly auditing reports on the management of the pooled programme fund accounts, including receipts, invoices and other relevant expense statements in relation to the implementation of social welfare programmes. The standardized report template will be jointly developed with the external international auditing firm. The three-monthly reports will be submitted to the international auditing firm expert and the lead DP one week after the end of the three-month period. The international auditing firm expert and lead DP can share the report with the other DPs if requested. The international auditing firm expert and the lead DP will comment as necessary on the audit reports' contents one week after receipt, utilizing a perspective focused on fund management capacity-development and fiduciary risk assessment.

25. Contributions of the DPs will be transferred in annual instalments upon receipt and approval of written payment requests send by the MoF on behalf of the MoLSW as well as upon receipt of the complete three-monthly audit reports and a preliminary annual progress report. In determining the actual instalments, the DPs will take into account the actual progress achieved and actual programme liquidity required (for example, for cash transfer benefit payments). Funds remaining at the end of each year will be carried over to fund activities in the following financial year.

26. Each DP will establish its exact and final financial contribution to the programmes upon receipt and approval of the final report and the financial accounts of the programmes and in coordination with the lead DP. Funds that have been placed at the GoL's disposal and which remain after the completion of the programme(s) will be returned to the DPs in proportion to their respective contributions.

27. The DPs reserve the right to re-allocate funds between programmes under this JFA based on the recommendations of reviews, audits and/or GoL policy decisions.

28. If the MoLSW carries out only parts of the programmes, the DPs may adjust any outstanding instalments to be paid by the programme's bank account accordingly on a fair pro rata basis, or may earmark the remaining part of the contribution to purposes to be decided on by the signatories.

6 Procurement

29. The assets and other related logistics procured via the JFA will belong to the MoLSW (or other relevant national authorities) on purchase. Should assets procured via this JFA by the MoLSW (or other relevant national authorities) by and for the social welfare programmes be misappropriated or misused for purposes other than those intended, DPs reserve the right to redeem funds to the value of these goods. An asset register must be maintained and continuously updated by the MoLSW.

30. When the MoLSW (or other relevant national authorities) perform procurements, the MoLSW will be accountable for these in accordance with international procurements standards, rules and procedures. These procurements will be subject to the 3-monthly audits to be performed by the international auditing agent embedded in the MoLSW. DPs may provide technical support for relevant procurement processes (such as, drafting tender documents).

31. The MoLSW will provide shortlist and tender documents to the international auditing agent and the DPs for comment before calling for tenders. For auditing purposes, the MoLSW will furnish the international auditing agent with all relevant documents/information on its procurement practices and actions taken, including details and copies of contracts awarded. Invitations to tender or to make an offer as well as procurement contracts will each include a clause stating that the tender/offer will be rejected and the contract cancelled in the event that any illegal or corrupt practices have been connected with the award or the execution of the contract. There should also be clear clauses to terminate contracts due to poor performance or when objectives have not been fulfilled.

32. Two years after signing this agreement, the MoLSW and the DPs jointly with the international auditing agent will review whether the MoLSW (or related authorities acting on behalf of the GoL in this regard) are in a position to manage the procurement for the programmes with less oversight.

33. The MoLSW will advise the DPs of all contemplated procurements with a value exceeding US$50,000 funded in whole or in part under this JFA.

34. Should the MoLSW (or any other ministry that signed this JFA) decide to fund cash benefit payments or other benefits of social welfare programmes from resources provided under this JFA, the MoLSW (or the relevant ministry) will provide:

a. The list and identification of beneficiaries who were intended to receive the benefits as part of the payment request initiated by the relevant project implementation unit (PIU); and
b. The list of those beneficiaries who have been verifiably confirmed to have received a benefit payment (or other relevant benefit).

The international auditing agent will be included in any benefit payment reconciliation procedures.

7 Reporting

35. The MoLSW (and/or other relevant ministries) will provide the DPs – via the lead DP – with all information relevant to the implementation of national social welfare programmes covered by this JFA. Reporting will be based on mutually agreed upon M&E frameworks and indicators therein. In particular the MoLSW (and/or other relevant ministries) will provide the following reports:

- **Annual workplan and budget**, latest by 15 November each year for the following year (in case of programmes of less than 2 years duration, workplans should be for the complete programme duration).
- **Quarterly progress reports**, based on a jointly agreed upon template and utilizing indicators defined in the M&E framework, by first week of April, first week of July, first week of October and first week of January of each year.
- **Annual progress review report**, that combines the results of the 3-monthly progress reports on an aggregated basis, including qualitative assessments of the progress – or lack thereof – made by each social welfare programme vis-à-vis the M&E Framework.
- **3-monthly audit reports**, to be prepared by the international auditing agent fully supported by the MoLSW (and/or other programme implementing authorities) by first week of April, first week of July, first week of October and first week of January of each year.
- **Final programme report** (in the event that a social welfare programme covered under this JFA is completed/finalized before the end of the lifespan of this JFA), within 6 months of the end of the programme.
- **Final JFA completion report**, to be jointly prepared by the lead DP, the MoLSW and the international auditing agent, within 6 months of the end of the JFA duration.

8 Reviews and evaluations

36. The DPs' review processes of their support under this JFA should be aligned with each other as well as being aligned to national review processes and periods, and they should use common procedures as much as possible with a view of reducing both complexity and the workload of national stakeholders. The MoLSW and other relevant national authorities will maintain a close dialogue regarding support and implementation of national programmes. Performance will be measured on the basis of the indicators mentioned in the mutually agreed upon M&E Framework. Any review will be scheduled in such a way that the national budget process is facilitated and that the need for input into the policy dialogue and decision-making processes of DPs are accommodated to the extent possible.

37. Joint Annual Programme Reviews will be carried out by the Ministry(s) and the DPs, most likely in January each year. Terms of reference will be decided upon jointly by the signatories. The cost of these reviews will accrue to the budgets of the national social welfare programmes supported under this JFA and should be mentioned in the programmes' workplans. Recommendations from the reviews will be incorporated into the workplan for the following year.

38. As far as possible, the DPs will refrain from conducting unilateral reviews/evaluations of national social welfare programmes covered by this JFA. However, when a DP is required to conduct a unilateral review/evaluation, this DP will consult with the other DPs in a timely fashion to discuss the terms of reference, the composition and the scheduling. The MoLSW (and other relevant national authorities) will be consulted immediately on the proposed schedule and terms of reference.

39. Signatories will distribute all review/evaluation reports to one another promptly.

9 Audits

40. To manage fiduciary risks and value for money (VFM) comprehensively, two independent auditory processes will be executed: (1) frequent and regular audits (see 41. and 42. below) focusing on the accuracy and accountability of financial processes; and (2) a different and additional audit (see 43. below) focusing on VFM.

41. Although the MoLSW will have the sole responsibility to hold and manage the various joint programme accounts, it will be required to regularly – that is, every 3 months – hand over all relevant information regarding expenses and other financial flows (such as invoices, receipts, financial statements, and so on) as well as financially relevant planning documents (such as, for tenders) and benefit payments (or other benefits for social welfare programme beneficiaries funded via JFA contributions from DPs and the MOF) to the international auditing agent embedded in the MoLSW. The brief standardized reports are due within one week after the three-month period. The DPs (facilitated by the lead DP) and the MoLSW will have a one-week period after receipt of the report to respond/comment on any findings.

42. The international auditing agent – based on information received from the MoLSW and their own observations – will draft reports (based on agreed upon templates) on a quarterly basis for assurance, learning and/or critical assessment of relevant fiduciary processes in the implementation of social welfare programmes under this JFA. The international auditing agent will execute his/her tasks with a view to:

a. Develop capacities in the MoLSW to manage complex social welfare funding procedures according to internationally agreed upon standards; and

b. Flag needs for change (for example, due to inaccurate/wrongful/corrupt incidences or procedures) in as timely a fashion as possible to enable DPs and national stakeholders to take remedial action as soon after the incident as feasible.

International public sector accounting standards will be applied.

43. The lead DP – financed from resources contributed under this JFA – will arrange for a biennial independent audit, to be executed by an internationally accredited audit organization or firm. Distinct from the processes mentioned under 41. and 42., this annual audit will focus on VFM, including but not limited to, financial procedures. The main purpose of this audit is to identify inefficiencies in achieving the programmes' desired results and to propose more efficient procedures, processes, and so on. "Efficiency" criteria will be benchmarked based on international best practices in social welfare (that is, social assistance) programme execution. Moreover, the biennial independent audit should aim at identifying any major weaknesses encountered in government systems that have not been identified or addressed as part of the regular 3-monthly audit reports. The audit will be initiated in January of every second year, and the auditor's final report will be shared with the lead DP and the MoLSW no later than 30 June of that year. The DPs and the MoLSW will, first, address the findings and recommendations in writing not later than 3 months after receipt of the report, and second, meet to discuss the report's findings and recommendations and provide responses with a forward-looking perspective.

10 Non-compliance and force majeure

44. In the event of (serious) non-compliance with the terms of this JFA and/or violation of the fundamental principles set out in this JFA on the part of the GoL, the DPs may suspend further disbursements to national programmes and their respective bank accounts and reclaim the funds already transferred in whole or in part. Such non-compliance includes, inter alia, substantial deviations from agreed plans and budgets, misuse of funds, or non-compliance with agreed preconditions relating to the implementation of national social welfare programmes. Preconditions include the GoL's continued commitment to poverty reduction and social protection and maintenance of adequate fiduciary standards.

45. If a DP intends to suspend new disbursements or terminate its support, the DP will call for a meeting with the other signatories in order to reach a joint position on the measures required – remedial or otherwise – or to inform other signatories of its intentions regarding the continuation or discontinuation of its support.

46. The DPs may suspend or reduce new disbursements in the event of extraordinary circumstances beyond the control of the GoL that hinder effective implementation of national social welfare programmes. If the DPs consider suspending new disbursements, they will consult with the MoLSW a reasonable length of time in advance, when circumstances permit it. The suspension will be lifted as soon as these circumstances have ceased to exist or appropriate remedial actions have been implemented by the GoL.

11 Corruption

47. The signatories will cooperate on preventing corruption within and throughout the programmes financed by the DPs, and will require that the MoLSW's staff and consultants under projects or programmes financed under this JFA refrain from offering third parties, or seeking, accepting or being promised by third parties, for themselves or for any other party, any gift, remuneration, compensation or benefit of any kind whatsoever, as these actions could be interpreted as an illegal or corrupt practice or activity. The signatories will take swift legal action to stop, investigate and prosecute in accordance with applicable law any person suspected of misuse of resources or corruption.

48. The signatories will promptly inform each other of any instances of corruption as referred to in 47. as well as of the measures taken to address it. DPs may immediately suspend funding in case of serious fraud.

12 Modification, DP accession and withdrawal

49. The signatories will annually review/discuss the implementation, application and effectiveness of the procedures outlined in this JFA.

50. Any modification or amendment of the terms and provisions of this JFA will only be approved if agreed in writing by all signatories.

51. The signatories welcome participation in this JFA of other DPs that wish to support national social welfare programmes.

52. Upon a new DP's written request and written acceptance of the terms and conditions of this JFA, the MoLSW may, as an annex to this JFA, give the DP written authorization to become a signatory. The MoLSW will consult with other DPs in advance and furnish them with a copy of the letter of acceptance.

53. Each DP may withdraw/terminate its support for national programmes by giving the other signatories 3 months' written notice. In the case of a serious problem, such as the discovery of large-scale misuse of funds, or if the GoL stops a social welfare programme covered by this JFA, this notice period may be shorter. If a DP intends to withdraw/terminate its support, that DP will call for a meeting to inform the other signatories of its decision (and to consult with them about the consequences for national social welfare programmes).

13 Dispute settlement

54. If any dispute arises between the signatories as to the interpretation, application or implementation of this JFA, they will consult each other in order to reach an amicable solution.

14 Entry into effect

55. This JFA enters into effect for a given DP on the date of its signature by the MoLSW and the DP in question.

Annexes

Annex 1. List of signatories

This document is produced in [xy] originals in English and Lao language and duly signed by the authorized representatives of the DPs and GoL (including the MoLSW):

Annex 2. Programme documents

- Lao People’s Democratic Republic Social Welfare Expansion Programme, detailing national social welfare programme expansion and implementation activities funded by this JFA, including detailed respective financial contributions by the GoL and DPs for these activities.
- Risk Assessment Matrix.
- M&E Framework for progress monitoring.

Annex 3. Calendar of annual meetings and reporting schedule

Month	Activities	Reports
January	▶ Initiation of annual external VFM audit ▶ Initiation of joint annual progress review	
February		
March		
April		
May		
June		
July		
August		
September		
October		
November		
December		