

Chapter 8

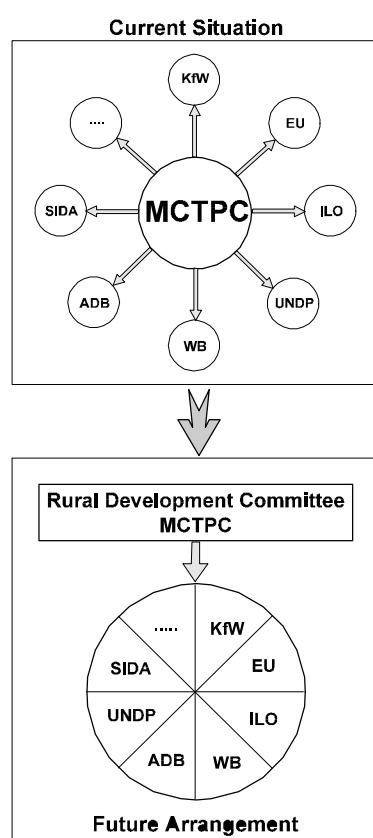
Organisational and Financial Aspects

8.1 Organisation

There are numerous components in the overall development activities, ongoing or proposed, in the rural areas of the country. Clearly, the only link between all the activities is the Government of Lao PDR represented by its institutions at central and provincial level. Although acknowledging that these organisations need building up and strengthening, the priority principle should be one of very close coordination at all stages of various rural development projects. To achieve the most effective utilisation of the resources to be provided by capital funds and technical assistance, it is important that all parties agree on a common strategy related to coordination and cooperation to achieve common and individual objectives.

8.1.1 Central Level

An important component of a future rural road works programme will be to assist the government in its efforts to coordinate, manage and standardise such a programme, including various donor inputs and project activities. There are a number of organisations (ADB, WB, UNDP, KfW, SIDA and others) which are currently or planning to support the rural road sector in Lao PDR. It is in the interest of the government, that the various programmes follow certain standardised work methods, procedures and regulations.



The government also needs a coordinating body which can effectively monitor the performance of various programmes. Furthermore, there is a demand for exchange of information and experience from the various on-going and future rural road projects.

For this purpose, the government has recently established a Rural Development Committee within the MCTPC which, amongst other tasks, will address this issue. A coordinating body for rural road works in MCTPC will also provide a regular channel for discussions and dialogue with the donor community relating to identification and formulation of future donor funded rural roads projects.

In order to effectively utilise the management resources available to MCTPC, there will be a demand for streamlining and standardising ongoing and future rural road works into one coherent programme. Today, the various projects operate independently with very little coordination and exchange of information. One of the immediate tasks for the Rural Development Committee will be to pull the various projects together, creating *one* national programme consisting of all the various actors. In order to achieve this, the Government needs to establish a set of general standards and procedures relating to rural road works.

This includes uniform procedures for contracts management, employment conditions, planning, budgeting, funds allocation and transfers, auditing, monitoring and reporting. It will also require the use of standardised technical

specifications and work methods. Good solutions to most of these issues can already be found in the country. The challenge today, is rather to ensure that all actors are applying the very best work methods in their respective projects.

A standardised system will also allow the government to coordinate all training carried out within the framework of rural road construction and maintenance. With a programme with standardised procedures and work methods, it will be possible to provide a uniform training programme which can service the demands of all projects.

Finally, it should be mentioned that these efforts will streamline and improve the efficiency of the overall management and monitoring of rural road works in Lao PDR. It may also streamline project negotiations between the government and donors when a standard mode of implementation has been established. Negotiations with donors can then concentrate on which part of a national rural road works programme they wish to support (geographical area or activity, i.e. training, technical assistance, equipment, physical works, etc.).

The Government has now decided to establish a coordinating body in MCTPC, the Rural Development Committee, covering all rural development activities which fall under the responsibility of this ministry. Although, the details of this organisation remains still to be formulated, the main features are currently being formulated. It will have a status equivalent to a Department in MCTPC, and its Director will report directly to the Minister. At this stage, its organisation will feature the sections and functions as described in Figure 8.1.

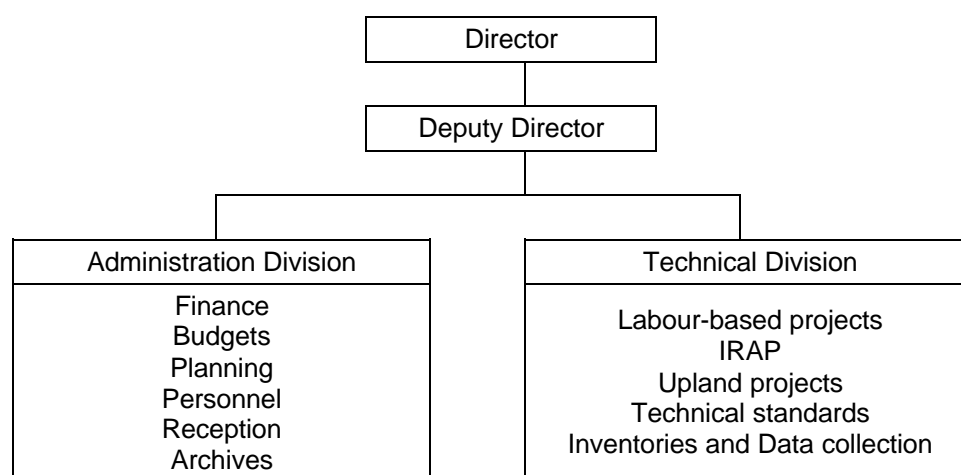


Figure 8.1 Rural Development Committee, MCTPC

8.1.2 Province Organisations

Rural road works, including construction and maintenance of both provincial and local roads is the responsibility of the provincial departments of MCTPC. At provincial level it is important to clearly identify the various actors and their respective roles and responsibilities. Once the local institutions which will be involved have been identified, it is possible to make a detailed assessment of their current capacity and prepare a detailed staffing and training needs assessment (ref. Chapter 9) which will form the basis for future training programmes, thereby ensuring that each of the local parties will fulfil its operational responsibilities. In this context, the following major players can be identified:

- (i) The client, i.e. the owner/provider of the infrastructure - in the case of rural roads, the client has been identified as the Government, represented by the provincial authorities and its representatives, with the MCTPC provincial technical departments providing engineering and

supervision services.

- (ii) The private construction industry through local small-scale and petty contractors who should play a major role in the execution of works.

The three above mentioned players are responsible for carrying out four major activities:

- o planning and estimating of works,
- o supervision of works,
- o execution of works, and
- o certification and payment of works.

(i) The Client

An important role of the client will be to prepare road network plans which includes clear linkages to the existing road network showing the physical connections to the various classes of roads existing in the area which are in a passable condition.

Another important task of the client will be the management of contractors and to ensure timely payment of executed works. In the case of small-scale contractors relying on a large labour-force it will be vital for their success participation that they are paid regularly and on time. This implies that the client will need efficient financial procedures which enable them to process payments for works in a regular and prompt manner.

The DCTPC staff requirements *in each province*, for taking care of the clients interest and obligations when contracts are awarded to the contractors, are described in Figure 8.2. This organisation caters for the management and supervision of both road rehabilitation and maintenance contracts.

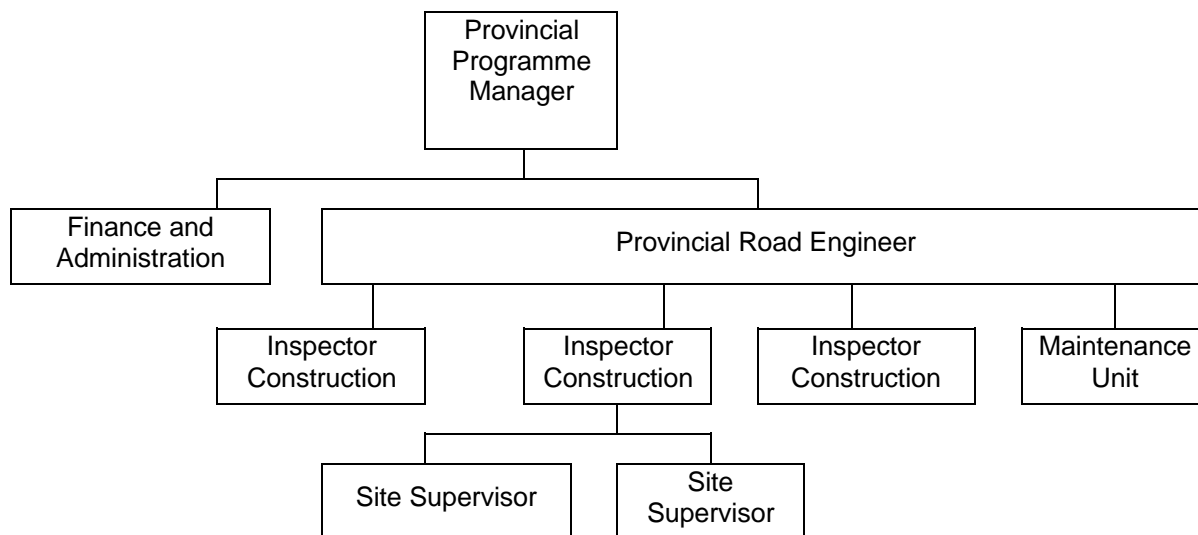


Figure 8.2 Organisation for DCTPC Road Sections

Considering the magnitude of the envisaged work programmes, it is important that the management positions described in the above organigram are filled with existing staff from the provincial government which have sufficient authority as well as experience. In this respect, it is recommended that the position of Provincial Road Engineer is filled by the DCTPC Director or Deputy Director. This would imply that the Programme Manager position should be held by one of the Deputy Governors. Finally, it is important that the Inspector positions are filled by experienced engineers

who are sufficiently competent to carry out the daily supervision of private contractors executing the road works.

(ii) Private Sector

The type of road works envisaged to be carried out can be grouped into two main categories according to the size of works, requiring contractors with two different profiles:

- (a) small-scale contractors carrying out new construction and periodic maintenance of rural roads, and
- (b) petty contractors providing routine maintenance organised as a lengthman system.

It is proposed that the envisaged labour-based road rehabilitation contractors are equipped adequately to execute a monthly production of 1.5 - 2.0 km of completed gravelled roads. This would require an average labour-force of approximately 200 unskilled casual workers. In order to manage an operation of this magnitude, it is estimated that the firms will need the management staff as described in Figure 8.3.

Each contractor should ideally possess the services of a graduate engineer in his management team for the overall technical supervision and management of contracts. This may be the contractor himself or a person employed by him. The on-site manager should at least be a person with a formal training to technician level. For the direct supervision of works, the contractor will need a minimum of three foremen. Furthermore, the contractors should be required to employ a qualified mechanic and book-keeper for his support services.

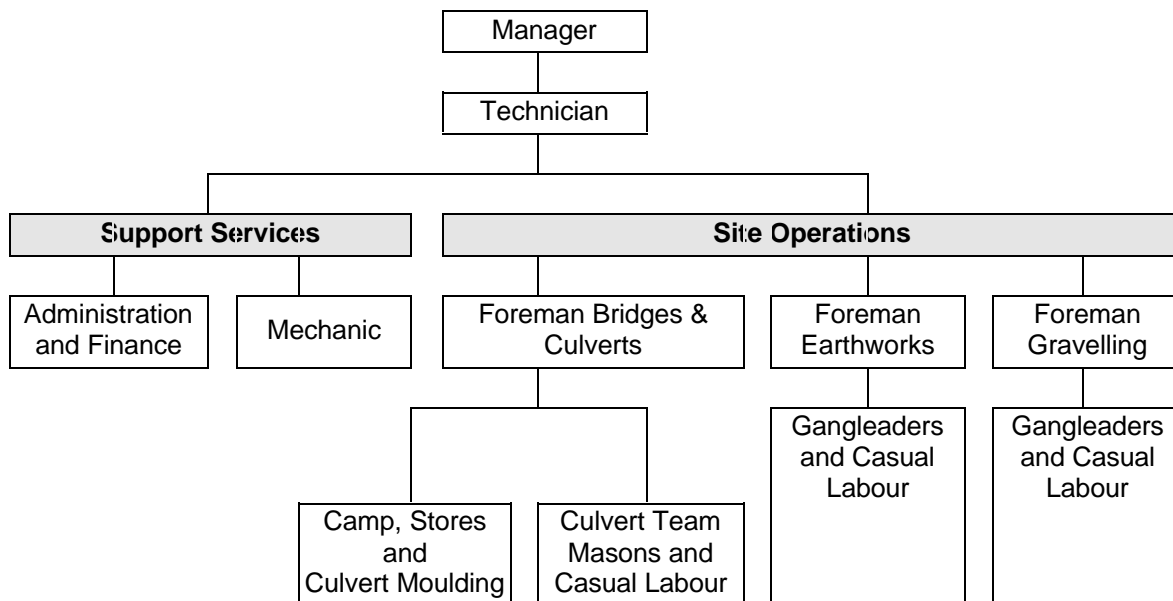


Figure 8.3 Organisation for a Road Construction and Rehabilitation Contractor

Figure 8.3 shows the minimum staff requirements which the contractors need to provide before they can qualify as a labour-based road rehabilitation contractor. If the firms wish to appoint staff with higher qualifications, this should be regarded as an advantage during the selection of the initial batch of contractors. It should be noted that the qualified contracting firms should be required to recruit this staff before commencement of a training programme since this staff will be part of the core target for the training.

8.1.3 Rural Road Maintenance

As mentioned in Chapter 6, very little consideration has so far been given to maintenance of the rural road network. Considering the poor state of the rural roads, it may be argued that this is not the most critical issue, and that the current demand is rather to upgrade and expand the network so it effectively serves the majority of the rural areas throughout the year. However, this being acknowledged, it is important that an effective organisation is in place to cater for increased road maintenance demands when the rural road network is expanded and upgraded.

The often suggested strategy for maintenance of rural roads is to involve the beneficiaries in the maintenance of assets. The economic condition of the populace in the provinces is such that voluntary labour input will be difficult to mobilise. In any case, it is not a sustainable solution and is generally not recommended.

It is also not practical to collect any road user fees nor does the vehicular traffic justify such a levy. It is unlikely that the vehicular traffic on rural roads will ever reach a level in the foreseeable future as to warrant such a levy. Studies have shown that the cost of collection of tolls breaks even at average daily traffic of 250 - 300 vehicles only, and to have any significant revenue, the traffic required is of the order of 500 vehicles per day. The concept of road user fees is not applicable to rural roads except indirectly through increased gasoline prices or from other sources. Hence, the total maintenance costs would initially need to be borne by the recurrent budgetary allocations catered for accordingly.

A whole new system therefore needs to be established at the DCTPCs equipped with management, skills, staff, equipment and operating funds to carry out regular and effective maintenance of the rehabilitated assets. To develop such a system, and to make it operational on a sustained basis, will need time, training and most important adequate, regular and assured allocation of maintenance funding.

For this purpose, funds for maintenance of the rural roads rehabilitated under a donor funded programme, should be considered already during the planning stage. This will ensure that the created assets are adequately preserved and serve the purpose that was meant to be served, both in terms of economic and social benefits, and that the assets created are not allowed to deteriorate by default.

Regular supervision of a dispersed operation like road maintenance is feasible only if a supervisor is mobile. Contracts should specify the stretch of road to be maintained, activities to be performed, the inspection and payment frequency and the payment. The payment must be linked with satisfactory completion of all the maintenance tasks involved. Labour only (petty) contractors could be developed to take responsibility for several lengthmen, thus reducing the administrative burden.

Responsible supervisors would need to be appointed to supervise the conduct of road maintenance works. Their duties would be to instruct the contractors, to issue and account for tools and materials, to inspect all roads in their jurisdiction at regular intervals to ensure that maintenance works are done properly, to keep pay rolls and accounts, and pay the contractors.

Maintenance Management

Accordingly, at the DCTPCs, road maintenance units would need to be organised to carry out the following functions:

- (i) Regular inspection of the road sections and effective supervision of routine maintenance contracts by lengthmen, their output and quality.
- (ii) Arrange procurement and supply of adequate quantities of repair materials, where and when required.
- (iii) Regular inspection (condition survey), maintenance planning, and immediate response to any emergency and unforeseen work requirement.

- (iv) Conduct of regular recurrent and periodic maintenance activities, necessary budgeting, funds allocation and financial management.
- (v) Preparation of contract documents, bill of quantities and cost estimation, inviting bids and award of maintenance contracts.
- (vi) Construction supervision and management of contracts for recurrent and periodic maintenance works done through private small-scale contractors.

The maintenance units would need to be organised and staffed accordingly. The staff concerned would need to be trained to organise, conduct, control and monitor the above stated maintenance works and activities accordingly.

Maintenance Organisation

The provincial government is currently not organised, staffed, trained or has the necessary resources to carry out maintenance of roads, nor is maintenance being done.

The suggested maintenance set up, for rural roads should be on the following lines:

- (i) DCTPC is responsible for prioritisation planning, information systems and overall monitoring.
- (ii) DCTPC is responsible for general planning, procurement of services, regular inspection and reporting (which is the basis of a maintenance system), and detailed supervision and monitoring of the maintenance activities.
- (iii) Private contractors (after their training and development) should handle the routine and periodic maintenance activities.
- (iv) A labour-based lengthman system is used through petty contractors for the routine maintenance activities.
- (v) Establishment of a suitable maintenance unit at the DCTPC, with an engineer charged with the exclusive responsibility of maintenance of all rural roads in the province.
- (vi) Use of labour-based methods for maintenance of rural roads is a must. It is a means to encourage community participation through the petty contractor development.

It is important to organise preventive maintenance starting as soon as rehabilitation works on a particular road section have been completed.

However, to ensure a sustainable maintenance system, adequate financial resources will have to be provided to the provinces exclusively for maintenance, to enable the maintenance unit to effectively operate in the future.

Maintenance Unit

In each of the DCTPCs, a maintenance unit would need to be established. This unit would be responsible for maintenance management of all roads in the province. The staff in this unit will need to be trained in road maintenance management functions and respective responsibilities.

However, regular, adequate and timely availability of funds is a pre-requisite for the maintenance unit to function. The process of budgeting and appropriate financial procedures and controls would need to be introduced.

To carry out all the above stipulated functions and responsibilities, the proposed *Maintenance Unit* would need to have the following staff:

- o Maintenance Supervisors - to check the work of the contractors and ensure correct conduct of the maintenance works, regular inspection, checking and reporting on road condition for planning of new maintenance activities.

- o Contracts Manager - to prepare cost estimates, contract documents and process award of contracts for special, recurrent and periodic maintenance activities.
- o Finance Officer - to process all payments, keep proper accounts, process budgetary allocation and exercise financial control on behalf of the Provincial Government.
- o Administrative staff - necessary administrative and support staff is allotted to the unit for its efficient functioning.

Tasks of the Maintenance Unit

Inventory: recording the list of roads and basic characteristics of each section of the road network.

Inspection: examining the road section and measuring and recording its condition.

Determination of maintenance requirements: analysing effects, their causes; and specifying what maintenance activities are needed to rectify them and delay any further deterioration.

Resource estimation: costing the needed maintenance activities in order to define an overall budget.

Identification of priorities: deciding the work that has to take precedence if resources are limited.

Work scheduling and implementation: timing and controlling the work implementation.

Monitoring: checking the quality, its progress and effectiveness of the work.

The key to the management of maintenance activities is the competence of its technical staff to carry out the assigned duties. A number of trained work supervisors will be needed.

Technical assistance would be needed in different areas both in order to (i) provide the selected staff with sufficient competence to carry out the functions expected from them in the maintenance set up, and (ii) assist the DCTPCs in the mean time in carrying out those functions and provide on-the-job training.

8.2 Budgeting and Cash Flow

8.2.1 The Current Budgeting Process

The total annual budget for the MCTPC including the provinces is prepared and compiled by the Planning Division of the General Administration Department. The main steps of the process are as follows:

1 January	Follow-up of previous year's budget and start preparation of directives for next annual budget.
1 March	MCTPC sends out directives to its departments and provincial DCTPCs for the preparation of the long term plan and the annual budget.
1 June	MCTPC departments and provincial DCTPCs submits proposals for short and long term planning to the Ministry.
1 July	MCTPC submits the draft budget for the coming year to the State Planning Committee (SPC).
1 August	SPC provides comments to the MCTPC draft budget proposal, including expected ceiling amounts for the coming year.
1 September	MCTPC submits the final draft annual budget to SPC.

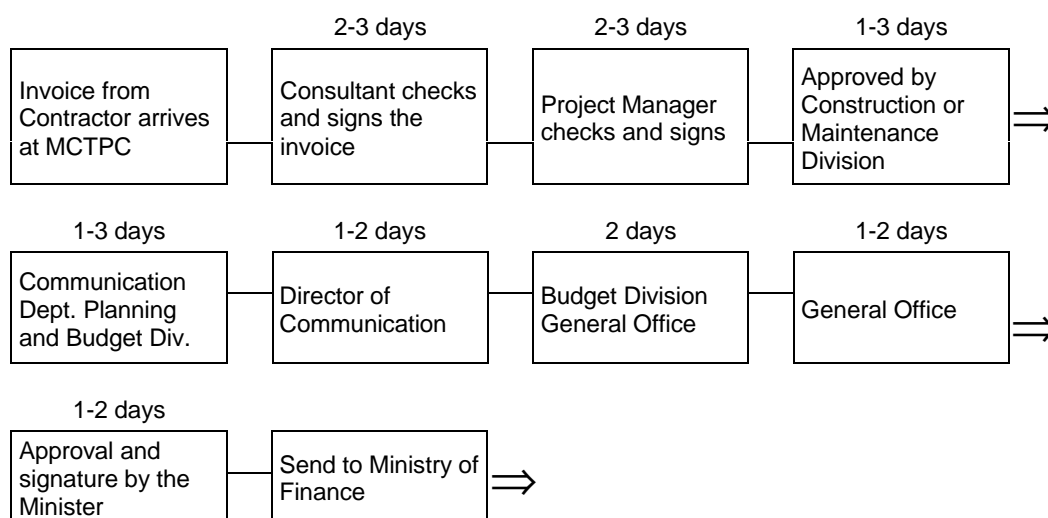
During June, there is a budget dialogue, chaired by the Minister of MCTPC and involving all the heads of departments and DCTPCs, in which the government directives are elaborated and the budget proposals are discussed. At the same time, SPC arranges similar activities in the provinces in order to co-ordinate the budget proposals for different sectors of the economy.

A decision on the budget is made by the National Assembly before the beginning of the new fiscal year, 1 October. Shortly thereafter, the decision is submitted in writing to the concerned ministries.

8.2.2 Finance and Cash Flow

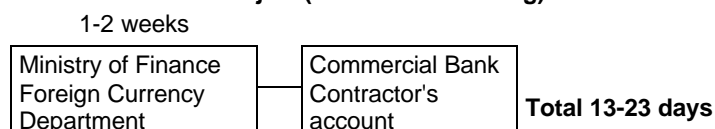
Once the annual budget has been decided upon, the corresponding finance procedures and cash flow concerning provincial road projects run directly between the Ministry of Finance, and the provincial DCTPCs. Thus, the MCTPC headquarters are not involved in the payment process.

The general principle for financing road sector activities is payment from a Treasury account (local funds) or a foreign account (owned by a donor agency or development bank) according to an invoice which must be approved by the appropriate authorities in MCTPC and Ministry of Finance (MoF).

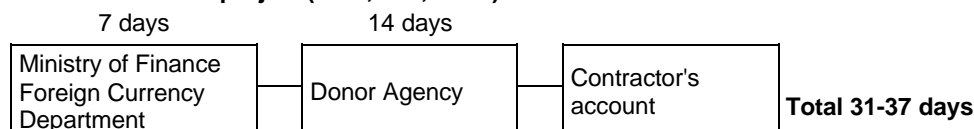


Alternative A: Foreign Currency Fund

A1: Maintenance Project (ADB or IDA funding)



A2: Construction project (ADB, IDA, SIDA)



Alternative B: Local funds

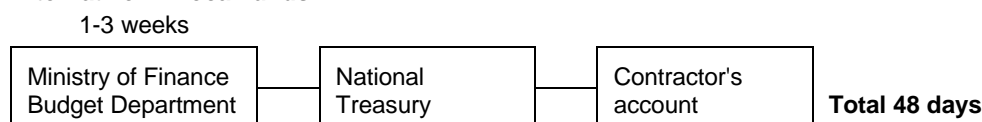


Figure 8.4 Schedule for handling of invoices for road works contracts

Figure 8.4 shows the normal procedure for handling an invoice up to payment, including lead times concerning road works within the responsibility of MCTPC. Payment delays concerning works done

by international contractors are normally penalised through an extra fee on top of the unpaid invoice amount (% of the amount). The use of penalties has resulted in more timely payments than during previous years, but local contracts do not follow such practice. Therefore, payments of invoices in local currency are still delayed or paid only in part.

Payments to local contractors on externally funded projects are made through the BCEL (Banque Commercial Exterieur du Laos) in Vientiane to the contractor's account in a local bank. When the projects are funded entirely by local revenue, the invoices from the contractor are paid out directly from the Finance Division of the DCTPC.

It is admitted that payment delays are quite frequent and that local contractors often call to demand more timely payments. Waiting for many days to get signatures by some of the staff responsible for different steps of the invoice handling process (ref. Figure 8.4) is quite common. If some detail is wrong in the set of documents, and this is detected at a late stage during the checking and signing process, the whole file is returned to the project manager who has to contact the Contractor and ask for a new invoice. Previously, corrections of minor errors with a red pen were allowed but this is no longer permitted. As a result of the present strict rules, contractors sometimes have to wait up to three months before receiving payment.

8.2.3 Development Needs

The average total rehabilitation and construction costs have been estimated at US\$ 15,000:- per kilometre (ref. Section 5.4). If this work is bundled into contracts of 5 to 10 km, it is evident that efficient and transparent contracts management and reporting procedures are required. Furthermore, due to the increased work load, the DCTPCs needs to increase their general supervision budgets (to cover costs such as transport, travel allowances, administration, etc.). Based on the ILO labour-based project, this is estimated at 10% of the overall construction costs.

The contracts management procedures described in Figure 8.4 have been developed mainly for larger road works contracts with a selected few large size construction firms carrying out rehabilitation works on the trunk road network. For a rural road works programme, involving smaller contracting firms and smaller but more numerous and scattered contracts, the requirements of a contracts management system will be different and therefore new procedures will need to be developed and introduced into the system.

The ultimate situation should be for the funds for rural road works to be channelled in advance from central level through to the provinces. This arrangement already exists to some extent for maintenance funds. As a principle, initial systems and procedures should therefore attempt to respond to this and build on what already exists (however rudimentary).

Funds should be directed to and controlled by the provincial authorities as they would be expected to manage and supervise future improvement of the rural roads. This implies that contracts should be managed at provincial level and that funds are at disposal for payment of works through local banks in the provinces. A solution could be to provide an advance transfer of funds from central level to the provinces, based on the agreed annual rural road works programme. Based on progress and expenditure reports from the provinces, the funds could be replenished on a quarterly basis. At central level, the Rural Development Committee would monitor the physical progress of works, and based on this information advise the finance authorities on the advance disbursement of further funds to the provincial departments of finance, thereby ensuring a healthy cash flow to the provinces and avoiding any disruptions of works progress.

When donors are involved in financing rural road works, separate budget lines and accounts should be established, thereby ensuring that expenditure financed from external assistance can be monitored separately.

For this situation to be realised efficiently, there is a demand for strengthening the capacity of the provincial departments of both the Ministry of Finance as well as the DCTPCs in order for them to take on this increased responsibility.

8.3 Reporting and Monitoring

8.3.1 Current Situation

At the moment there are no standard reporting formats for project monitoring in MCTPC. Each project manager makes his own standard report every week, month, etc. For projects assisted by foreign consultants, the normal procedure is just to translate the consultants' reports to the donor agency into Lao. Since the donors all have different reporting formats, the result is that a variety of formats are currently being used in MCTPC.

This creates one fundamental problem, which is that it makes comparison of project productivities impossible. A uniform reporting system should be developed and established in all the provinces as a Lao standard reporting system for rural road works.

The reporting formats should meet the requirements of the donors but also fit into the longer term reporting needs of the Ministry. In a brief and concise manner the reports should present feed-back and work results in measurable terms, providing information in terms of km of road works completed, expenditure, and number of labour employed.

It appears quite sufficient for central level to receive monthly reports, whereas weekly reports is justified at provincial level from the work sites to the DCTPCs.

8.3.2 Outline of a Reporting System

Weekly reports

Brief weekly reports on the physical work progress, use of labour, materials, tools and equipment and costs from the construction sites and any outstanding problems are needed from the site management to the provincial office of DCTPC. These reports should form an important part of the management system in the DCTPCs.

Monthly reports

Each sub-project, separate contract activity or training component should be reported on a monthly basis. The information should be compiled into one report from each province, which should be prepared by the provincial programme managers, assisted by technical assistance staff. The reports should be delivered to the Rural Development Committee in MCTPC, the provincial administration and the DPC not later than the 10th. of each month. The Rural Development Committee in MCTPC should then compile a summary report on the same main issues including an executive summary to be submitted to the Director of the Communication Department. The reports should cover the following areas:

(i) Programme Organisation

- o Establishment (local staff, end of previous month)
- o Technical assistance staff

(ii) Road Works

- o Volumes/amounts of new road, spot improvement, rehabilitation and maintenance works completed last month and accumulated
- o Major problems (technical, managerial, environmental, etc.) encountered and suggested action
- o Plan for the following month

(iii) Training

- o Completed, ongoing and planned courses, study visits, etc.
- o Number of staff in training and completed

(iv) Rural Road Planning

- o Completed, ongoing and planned activities

(v) Staff

- o Staff recruitment, discharges, transfers, promotions, etc.
- o Disciplinary problems (confidential)
- o Workers' safety (accidents, protection measures, etc.)
- o Gender issues

(vi) Equipment & Other Facilities

- o Achievements last month
- o Availability

(vii) Finance

- o Expenditure last month and accumulated, as compared to budget
- o Status of cash flow, etc.

(viii) Management systems and procedures

- o Achievements compared to plans

Quarterly Reports

Quarterly reports should be based on the format of the monthly reports, using aggregated data from previous quarter.

8.3.3 Auditing

There is a Control Division in the General Office which carries out auditing of project management and enterprises in the communication and transport sectors.

They focus on activities financed by Government funds in all the departments of MCTPC as well as in the DCTPCs. The auditing is legal, fiscal and contractual. The staff seems to be qualified and experienced in their field, and have sometimes been quite successful in revealing inaccuracies. Their capacity should be utilised for instance during the selection of contractors for the rural road construction and maintenance projects (pre-auditing), as well as performing normal auditing according to current regulations.