

*Evaluation of EC co-operation with the LAO PDR*

Final Report

Volume 2

June 2009

*Evaluation for the European Commission*





Development  
Researchers'  
Network

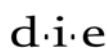
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Studies  
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Estudios Internacionales  
Spain

This evaluation was commissioned by:

**the Evaluation Unit common to:**

EuropeAid Co-operation Office,  
Directorate-General for Development and  
Directorate-General for External Relations

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*The evaluation was managed by the evaluation unit who also chaired the reference group composed by members of EC services (EuropeAid, DG Dev, DG Relex, DG Trade), the EC Delegations in Vientiane and Bangkok, and a Representative of the Embassy of the LAO PDR.*

*Full reports of the evaluation can be obtained from the evaluation unit website:  
[http://ec.europa.eu/europeaid/how/evaluation/evaluation\\_reports/index\\_en.htm](http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/index_en.htm)*

***The opinions expressed in this document represent the authors' points of view, which are not necessarily shared by the European Commission or by the authorities of the countries concerned.***

# Evaluation of European Commission's Cooperation with ASEAN

## Country Level Evaluation

### Final Report

The report consists of 2 volumes:

**Volume I: FINAL REPORT**

**Volume II: Annexes**

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2. Development Co-operation Context
3. EC strategy and the logic of EC support
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## ANNEX 1 – PERSONS MET

Name	Organisation
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Phoxay Khaykhamphitoune	Embassy of the Lao PDR, 1st Secretary, Deputy Chief of Mission
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Filip de Loof	EC Delegation in Bangkok, Attaché Cooperation
Wim Vandenbroucke	EC Delegation in Thailand, Head of Finance and Contracts
Mads Korn	EC Delegation in Thailand, Attaché cooperation
Vaclav Svejda	EC Delegation in Thailand, Programme Officer
Nopmanee Somboonsub	EC Delegation in Thailand, Programme Officer
André Chalmin	AIDCO D1, Desk Thailand, Cambodia, Lao PDR, Myanmar
Sandro Cerrato	DG ECHO; Resident Advisor, Lao PDR, 2003 – 2007
Sonam Yangchem Rana	UNDP, Resident Representative, Lao PDR, Vientiane
Stéphane Vigié	UNDP, Deputy Resident Representative, Lao PDR, Vientiane
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Bounkhouang Khambounheuang	Ministry of Agriculture and Forestry, Department of Livestock and Fisheries, Director General,
Sithong Phiphakhavong	Ministry of Agriculture and Forestry, Department of Livestock and Fisheries, Project Director of Livestock Farmer Support Project
Dr. Michael Handlos	Livestock Farmer Support Project, ITA Team leader
Thanousay Ounthouang	Ministry of Agriculture and Forestry, Department of Irrigation, Deputy Director General
Somnuk Chanthaseth	Ministry of Agriculture and Forestry, Department of Irrigation, Director of Planning and Cooperation Division
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Laila Ismail-Khan	Representative, UNICEF
Aboudou Karimou Andele	Chief of Health and Nutrition Section UNICEF

Jill Zarchin	Education Specialist, UNICEF
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Ambassador Khouanta Phalivong	Ministry of Foreign Affairs Lao PDR, Director-General, Department of Europe and the Americas
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Bounleua Sinxayvoravong	Ministry of Finance, Deputy Director General
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Michael Hassett	Australian Embassy, AusAid, First Secretary, Development Cooperation Section, Vientiane
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Ekaterina Vostroknutova	World Bank, Country Office Lao PDR, Senior Country Economist
Magnus Lindelow	World Bank, Country Office Lao PDR, Senior Economist, Uman Development Unit



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Bounpone Bouapheng	Prime Minister's Office, National Authority for Science and Technology, Director, Metrology Division, Department of Intellectual Property, Standardisation, and Metrology
Ulrich Sabel-kuschella	GTZ
Kongsap Akkhavong	Institute of Public Health
Luke Stephens, Jackie Carrier, Dr Somphao Bunnaphol	Project Concern
Dong il Ahn	WHO
Asmus Hammerich	WHO
Michael Hahn	UNAIDS
Sally Sakulku	Health Unlimited
Mrs Bouachanh Syhanath	Laos Women's Union
Vilayvone Chanthalatay	Vientiane YouthCenter
Nao Bouta	Ministry of Health
Sangsaath Vongkhamsao, Ganesan Kolandavelu	KPMG
Dr Chanmy Sramany, Ricard Lacort, Chansouk Chanthapadith	PR Global Fund
Alexandra Mclean	CARE
Khampheng Saysompheng	Luang Prabang Province Lao PDR, Vice governor of Luang Prabang Provinces & president of Local Heritage Committee
M. Phom	Urban Land Management department in Luang Prabang, Urban Land Management officer
Sengpasith Thongsavath	Luang Prabang Province Lao PDR, Head of livestock & fisheries section (Livestock farmer Support Project)
Khamdy Thonglanivong	Micro-projects Development through Local Communities project / Luang Prabang Provincial Integrated Rural Development Office, Head of Provincial Integrated Rural Development Office
Thongfun Phonsavath	Micro-projects Development through Local Communities project / Provincial Planning Department / Grassroots and Rural Development Section
Project beneficiaries, MPDLC Project (ten persons)	
Village Chiefs, Deputy Village Chiefs, and farmers participating in Livestock Farmer Support Project (LFSP) (on-going project) (total 8 persons)	Luang Prabang, Two villages in Xieng Ngeune District,
Four farmers	Luang Prabang: Vien Kham District, Panxan Village
Buathong Phengsavan	Luang Prabang: Vien Kham District administration; Chief

	of District
Mrs. Buayeminlavong	Lao Women Union in Luang Prabang, General secretary
Rob Murdoch	Help Age International Country Programme Manager of “Building the capacity of vulnerable groups to lead poverty reduction activities in upland Laos PDR” project
Manivone Thoummabouth	Maison du Patrimoine, National Director of Asia Urbs Project
M. Manivanh	Luang Prabang district, Asia Urbs Project beneficiary
Somveopphet Duangpasith	Luang Prabang: Vien Kham District administration; Agricultural Officer
Mr. Thongsay Phomachan	Luang Prabang: Vien Kham District, Panxan Village, nurse
Mr. Huck Say Buavanh	Luang Prabang: Vien Kham District, Panxan Village, nurse
Mr. Bountheuang Duangpachanh	Governor of Luang Prabang Province
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Mr. Kenechanh Pinthip	Luang Prabang, Provincial Coordinator, Livestock Farmer Support Project (LFSP) (on-going project), Deputy Livestock and Fisheries Section
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Gerry O' Driscoll	Project Support Coordinator, GPAR Luang Prabang, Project Support Coordinator (UNDP/SIDA Governance project)
M. Phet Dv. Van	Xien Ngeun district, Asia Urbs Project beneficiary
M. Pheng	Xien Ngeun district, Asia Urbs Project beneficiary
M. Authat	Chomphet District, Asia Urbs Project beneficiary
M. Khamsay	Chomphet District, Asia Urbs Project beneficiary
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Jacqueline Carrier	Concern Worldwide, Strengthening Civil Society Program Manager
Sousada Phoummasack	National Assembly, National Project Director
Dirk Wagener	UNDP Vientiane, Good governance officer
Somphone Lakanchanh	Lao Bar Association, Lawyer
Phoumy Sioudomphanh	Lao Bar Association, President
Vannaly Phounsavath	Lao Bar Association, Acting project manager
Somdy Inmyxai	Director General, SME Promotion and Development Office
Karin Manente	Representative and Country Director, World Food Programme
Silavanh Sawathvong	Department of Forestry, Ministry of Agriculture and Forestry, Director General

## **ANNEX 2 – DOCUMENTS CONSULTED**

### General documents consulted

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### Education

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## ANNEX 3 – THE LEGAL BASIS FOR EC COOPERATION WITH LAO PDR: BILATERAL AND REGIONAL INSTRUMENTS

### 1. Global EC development policy strategic objectives and priorities

Article 177 of the Amsterdam Treaty, which entered into force 1st May 1999) defines the EU development policy priorities, as follows:

- Sustainable economic and social development in favour of developing countries, with a particular emphasis on the most disadvantaged countries.
- Progressive and harmonious integration of developing countries in the world economy.
- Fighting poverty in developing countries.

The European Consensus on Development, signed 20.12.2005 and intended to guide both Community and Member State development cooperation, sets out common objectives and principles for development cooperation. It reaffirms EU commitment to poverty eradication, ownership, partnership, delivering more and better aid and promoting policy coherence for development. The primary and overreaching objective of EU development cooperation is the eradication of poverty in the context of sustainable development, including pursuit of the Millennium Development Goals (MDG).<sup>1</sup> Common principles and objectives are given in Table 1.

*Table 1 Common Principles and Objectives of European Consensus on Development*

Common Objectives	Common Principles
Poverty Eradication	Ownership, partnership
Achieving other(seven) MDG objectives	An in-depth political dialogue
Sustainable Development (incl. good governance, human rights and political, economic, social and environment aspects) <sup>2</sup>	Participation of Civil Society
Promotion of policy coherence for development	Gender Equality
Assist development objectives agreed at the UN major conferences and summits	Addressing State Fragility

Recognising that poverty results from many factors, the Community and Member States are called upon to support poverty reduction strategies which integrate these many dimensions and are based on the analysis of constraints and opportunities in individual developing countries.

As well as more aid, the Consensus commits the EU to providing better aid. Transaction costs of aid will be reduced and the global impact will improve. Development assistance can be provided through complementary modalities (project aid, sector programme support, sector and general budget support, humanitarian aid and assistance in crisis prevention, support to and via civil society, approximation of norms, standards and legislation, etc.). The EU has adopted a timetable for Member States to achieve the internationally agreed target of aid equal to or exceeding 0, 7% of GNI by 2015, with an intermediate collective target of 0, 56% by 2010 and calls on partners outside EU to follow this lead. These commitments will see annual EU aid double to over € 66 billion in 2010.<sup>3</sup>

<sup>1</sup> The European Consensus on Development, 20.12.2005, p. 4

<sup>2</sup> In the discourse of European Consensus on Development “development is a central goal by itself”

<sup>3</sup> The European Consensus on Development, 20.12.2005

## 2. ALA regulations (1996-2006)

The main legal basis for cooperation with Laos over the evaluation period was EC Regulation 92/432, the “Asia-Latin America” or ALA regulation.<sup>4</sup> This covered financial and technical assistance and economic cooperation. ALA included partnerships with states, regions (e.g., Asia regional programmes), decentralized authorities, regional organisations (e.g., ASEAN), public agencies, local or traditional communities, private institutes and operators, including cooperatives and non-governmental organisations. Whereas reducing poverty did not become official EC development policy until 2000, the ALA regulation highlighted that aid should target primarily the poorest sections of the population and the poorest countries in the two regions. The Regulation specified a long list of priority sectors, from drugs to the environment to rural development to democracy and human rights. The main interventions specified are economic cooperation and technical and financial assistance, both take the form of grants. The Regulation specified that economic cooperation should be in the mutual interest of the EU and the partner country or organisation. No similar requirement was stated for financial and technical assistance.

Economic cooperation and financial and technical assistance to countries under the Regulation was evaluated in 2002.<sup>5</sup> The main conclusions of the evaluation were that the detailed strategic content of the regulation had largely been rendered obsolete by the deep changes in EC strategy in the regions since 1992, resulting in a loss of relevance. When combined with the small amount of money available relative to needs and the size of the populations in the region, the evaluation recommended focus on a small number of priority sectors and a more transparent mechanism for allocating resources. These and other recommendations were taken in account in drafting COM(2002) 340<sup>6</sup>, which replaced Reg 443/92 and was in force in 2003-2006, at the end of which a new streamlined instrument, the Development Cooperation Instrument or DCI, replaced the ALA instrument.

## 3. DCI regulations (2007-2013)

The regulation establishing the DCI was adopted on 18 December 2006. The geographic part of it replaces the ALA regulation for developing countries in Asia. The instrument is valid for the period from 2007 to 2013.

The overall goal of the instrument is the eradication of poverty in partner countries and regions in the context of sustainable development, including pursuit of the Millennium Development Goals (MDGs), as well as the promotion of democracy, good governance and respect for human rights and for the rule of law.

Co-operation is intended to:

- consolidate and support democracy, the rule of law, human rights and fundamental freedoms, good governance, gender equality and related instruments of international law;
- foster the sustainable development of partner countries and regions, and more particularly the most disadvantaged among them;
- encourage their smooth and gradual integration into the world economy;
- help develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources;
- and strengthen the relationship between the Community and partner countries and regions.

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<sup>4</sup> <http://europa.eu.int/eur-lex/lex/LexUriServ/LexUriServ.do?uri=CELEX:31992R0443:EN:HTML>

<sup>5</sup> [http://ec.europa.eu/europeaid/how/evaluation/evaluation\\_reports/2002/951614\\_docs\\_en.htm](http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/2002/951614_docs_en.htm)

<sup>6</sup> [http://ec.europa.eu/external\\_relations/la/doc/com02\\_340en.pdf](http://ec.europa.eu/external_relations/la/doc/com02_340en.pdf)

In Asia, priorities stated by DCI are: pursuing MDGs in the field of health, including HIV/AIDS, and education; as well as addressing governance issues to help build an active and organised civil society, and to enhance the protection of human rights, including the rights of the child. Priorities are country-specific. Funds are allocated following country strategy papers which include multi-annual indicative programmes specifying the priority objectives and the indicative multi-annual financial allocations.

The DCIs define a non exhaustive list of 26 different types of actions over ten major areas of co-operation. The regulation establishing the DCI allows a broad range of actors to access the DCI funds and particularly non-state actors.

#### **4. Regional strategic objectives and priorities**

In addition to bilateral cooperation, the EC cooperated with Lao PDR under three types of multi-country programmes in Asia<sup>7</sup>:

- Asia-wide horizontal programmes;
- Regional programmes for ASEAN and SAARC;
- Asia Europe Meeting (ASEM).

The rationale behind multi-country programmes is to be found in the 2003 Communication on relations with ASEAN which is valid for other multi-country programmes, as well.

Most of EC development assistance shall be implemented through bilateral channels. Regional approaches will, however, be chosen when economies of scale are evident, where the development of country-neutral toolboxes makes sense or in support of dialogue conducted at a regional level. Regional programmes will have to include specific provisions to favour the participation of the less prosperous countries of the region.

##### **Asia-wide**

The ALA Regulation 443/92 notes the need for a regional element in the Commission's cooperation strategy. Basic strategy is elaborated in the 2001 COM (2001) 469 "Europe and Asia: a Strategic Framework for Enhanced Partnerships," which remains valid. Objectives identified for EC-Asia cooperation were

- Contribute to peace and security in the region and globally;
- Further strengthen mutual trade and investment flows;
- Promote development of the less prosperous countries in the region by addressing the root causes of poverty;
- Contribute to the protection of human rights, spreading of democracy, good governance (including management of international migration) and rule of law;
- Build global partnerships and alliances with Asian countries, in appropriate international fora, to help address challenges and opportunities offered by globalisation and to strengthen joint efforts on environment and security issues;

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<sup>7</sup> Countries eligible for assistance under the ALA regulation are Afghanistan Bangladesh, Bhutan, Burma / Myanmar, Cambodia, China, East Timor, India, Indonesia, Laos, Malaysia, Maldives, Mongolia, Nepal, North Korea, Pakistan, Philippines, Sri Lanka, Thailand, Viet Nam

- Help strengthen awareness of Europe in Asia (and vice versa).

Starting in the mid-1990s, a number of Asia-wide horizontal programmes were put in place:

- Asia Invest, promoting business-to-business contacts and partnerships;
- Asia-Urbs, promoting local government partnerships;
- Asia Pro Eco, promoting EU-Asia sustainable technology partnerships;
- Asia IT and C, promoting partnerships aimed at achieving compatible standards in IT and C;
- Asia-Link, promoting sustainable partnerships between higher education institutions in the two regions.

In addition to geographical scope and focus, all of these programmes share the goal of promoting closer links between local governments, civil society organisations, and private sector firms. The programmes are demand driven (i.e., characterised by open calls for proposals) and directly benefit institutions in partner countries without the involvement of the government.

In its 2005-2006 “Strategy Paper and Indicative Programme for Multi-country Programmes in Asia” (hereafter, the “Regional Strategy Paper” or RSP 2005-2006), the EC called for multi-country programmes to be consolidated under headings corresponding to three main priorities. These were trade and investment, higher education, and environmental management. As the RSP notes, these consolidated priorities largely correspond to existing Asia-wide programmes.

In “Regional Programming for Asia Strategy Document 2007-2013 (the RSP 2007-2013), the EC identified three priority areas:

- Support to regional integration (through ASEAN and ASEM);
- Policy and Know How based Cooperation in
  - Environment, energy, and climate
  - Higher education and support to research institutions
  - Cross-border cooperation in animal and human health;
- Support to uprooted people.

The need for cross-border approaches was noted in all cases save higher education and research, where the regional approach was justified on grounds of efficiency.

## **ASEAN<sup>8</sup>**

In view of the fact that detailed background information on EC cooperation with ASEAN is available in another ongoing evaluation, we will here only summarise the recent history of this long-standing partnership.

EC –ASEAN cooperation continues to be governed by a 1980 Cooperation Agreement. In recognition that, while renegotiation of the Agreement was not feasible, EC-ASEAN relations

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<sup>8</sup> Members of ASEAN are: Brunei Darassalam, Burma / Myanmar, Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, Singapore, Thailand, Vietnam.

needed to be revitalised, the Commission issued COM (2003) 399/4 “A new partnership with Southeast Asia.” The ASEAN Communication identified six key priorities:

- Supporting regional stability and the fight against terrorism;
- Human rights, democratic principles, and good governance;
- Mainstreaming justice and home affairs issues;
- Injecting a new dynamism into regional trade and investment relations;
- Continuing to support the development of less prosperous countries;
- Intensifying dialogue and cooperation in specific policy areas.

The Communication also called for a new visibility strategy implicating the EC, the ASEAN Secretariat, governments, and EC delegations in the region.

With the 2003 Communication in hand and based on an analysis of lessons learned, the EC's ASEAN RSP 2005-2006 called for a focus on policy dialogue in areas of mutual interest where the EC could support ASEAN's goal of regional integration (and other key sectors). What is described as a “two-way value added test” was proposed: projects would be assessed based on (i) whether cooperation at the ASEAN level would add value compared to bilateral co-operation and (ii) does the EU provide special value added (e.g., in matters related to regional integration). The general emphasis was on a need for dialogue as a precursor to cooperation, in order to establish genuine mutual interest and understanding. It stressed the importance of establishing ownership and commitment at the preparatory stage, of ensuring sufficient flexibility so that countries at different levels of development can benefit, and the importance of regular monitoring.

The RSP 2005-2006 identified a single priority – support for ASEAN integration and region-to-region dialogue. Two instruments for dialogue were proposed: Trans-regional EU-ASEAN Trade Initiative or TREATI, devoted to trade issues; and Regional EC-ASEAN Dialogue Instrument or READI, devoted to all other policy areas. Four action areas were identified: support for the ASEAN Secretariat (continuation of an ongoing programme of capacity building), statistical cooperation, the fight against terrorism and drugs (in the event, this was transposed into a border management programme), and a “New Partnership” visibility programme (in the event, this initiative was abandoned).

Three of these broad outlines of cooperation were maintained in the RSP 2007-2013: regional capacity building and support to region-to-region dialogues (having been proposed as stand-alone activities in 2005-2006, the 2007-2013 RSP put support to TREATI and READI under the cooperation umbrella), statistical cooperation, and cooperation and policy reform in the field of security (border management).

The March 2007 Nuremberg Declaration on an Enhanced EU-ASEAN Partnership, issued at the 16th ASEAN-EU Ministerial Meeting, citing the 30th anniversary of ASEAN-EC dialogue, the fortieth anniversary of ASEAN, and the fiftieth anniversary of the Treaty of Rome, re-committed the partners to dialogue and cooperation across a broad front and at the highest level. Specific areas for action were identified in the accompanying Plan of Action.<sup>9</sup>

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<sup>9</sup> [http://ec.europa.eu/external\\_relations/asean/intro/2007\\_16\\_nuremberg\\_declar.pdf](http://ec.europa.eu/external_relations/asean/intro/2007_16_nuremberg_declar.pdf)

## **ASEM<sup>10</sup>**

The Asia Europe meeting (ASEM) is an informal dialogue process started in 1996. The 2001 Asia Communication recognised its special role in promoting EU-Asia mutual understanding and awareness. While mainly a facility to promote dialogue in areas requested by Asian countries, the EC has contributed to some concrete ASEM initiatives. Those of relevance over the evaluation periods are:

- ASEM Trust Fund (1998-2006). This financed technical assistance to Asian countries coping with the Asian financial crisis;
- Trans Eurasia Information network (2003-present). This aims to promote data and information exchange between Asian and European institutions;
- Asia Europe Foundation (1998-present). Fosters cultural and intellectual activities and people-to-people exchange.

Laos has been affiliated with ASEM since 2004, and some activities have taken place in the country.

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<sup>10</sup> Members of ASEM are all EU members, the EC, and the following Asian countries: Brunei Darassalam, China, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

## ANNEX 4 – INFORMATION MATRIX

### EQ1 - To what extent have EC interventions in rural development contributed to improvements in rural income and food security?

#### EQ answer

*Project-level evidence suggests that EC interventions improved income and food security in some cases, but did not in other cases. Badly implemented relocation and shortages of budgetary resources linked to poor public financial management impaired the sustainability of positive impacts, and the EC has responded to both; through intensified policy dialogue for uplands development in the first case and support to the Government's reform agenda through PRSO budget support and associated policy dialogue in the second.*

Rural development was crucial to poverty reduction in Lao PDR over the evaluation period. Some projects resulted in increases in rural incomes (Judgment Criterion 1.1) and food security (Judgment Criterion 1.2). However, monitoring generally paid insufficient attention to quantitative measures of income and food security, even in cases where baseline studies had been prepared and could have provided a basis for rigorous monitoring. So, while there are general assertions about increased income through the Microprojects Development Through Local Communities (MPDLC) Project, increases in rice production achieved by the Phongsaly Forest Conservation and Rural Development Project, and increases in livestock production associated with the Strengthening of Livestock Services and Extension Activities (SLSEA) Project, it is difficult to rigorously estimate impacts on income and food security as called for by the indicators. However, the field visit in Luang Prabang Province to villages that had benefited from the MPDLC gave strong indirect evidence that, by building access roads, the project had contributed to sustainable increase in income. This evidence consisted of, inter alia, the results of group interviews with project beneficiaries, availability of consumer durables, and examples of home improvement / residential investment.

An inconsistency should be noted between these positive, albeit limited, improvements at the level of project beneficiaries and the overall assessment provided by the National Statistics Office / Asian Development Bank *Participatory Poverty Assessment II (2006)*, which can be compared with a similar study done in 2000 (see Indicator 1.2.2 for citation). The study found (i) that access to land did not improve between 2000 and 2006 and that, in the villages surveyed, livestock had either decreased or remained the same and (ii) villagers themselves overwhelmingly regard declining access to land and the poor state of livestock as the main sources of their poverty. The authors strongly attribute the first of these to the relocation policy, which we discuss in length below and in Special Focus 1 in Annex 5.

Two possibilities may help to explain the apparent inconsistency between project based and survey based findings. One is that the study cited is primarily participatory and qualitative in nature, whereas the ROM monitoring and project evaluation processes are not. The other is that positive project benefits are not translating into results that extend beyond direct beneficiaries. Since the study concentrates on the 47 poverty-priority districts identified by Government and EC projects were active in a number of these, one cannot argue that the study is irrelevant.

EC support for rural development over the evaluation period largely consisted of “project” approaches, by which we mean large integrated projects implemented by Government of Lao PDR agencies. The increases in income and rice production that can be documented have been accomplished despite a difficult working environment in the countryside of Lao PDR. Problems encountered include: some projects were ambitious, placing pressure on implementers to achieve



near-term tangible results regardless of their sustainability; some projects experienced delayed take-off, some projects experienced changes in TA staff or inappropriate deployment timing, as well as, in some cases, unavailability, high turnover, and low capacities of national staff. While problems related to procurement and procedures were to some extent encountered in projects across the board, these appear to have been particularly important in the case of rural development projects. The remoteness of project sites and the fact that much procurement involved equipment made these projects especially difficult. Several reasons emerge. Procurement lots were small and, especially in the earlier years of the evaluation period, it was not always easy to find suppliers/contractors. The search for best, as opposed to second- or third-best solutions led to delays. The fact that procurement issues are handled in the Bangkok delegation may have complicated matters. Another factor slowing implementation in some cases was slow replenishment of project accounts.

In answering this EQ, we also give emphasis to sustainability (Judgment Criterion 1.3). Sustainability has received considerable attention in project design and implementation (e.g., ensuring ownership by local participation; building capacity at provincial, district, and village levels). Capacity building measures appear to have received increased attention in the more recent projects and in later phases of projects begun early in the evaluation period. This is a result of earlier experiences. Many village structures have been introduced, such as Village Banks, pharmacies, and the Village Veterinary Workers Network.

However, sustainability hinges on factors largely beyond the control of the projects. The first is inadequate financial resources available in the poorest provinces and districts, which limit future repairs and maintenance of infrastructure constructed. We discuss, in the context of governance, the fundamental problem that poor provinces have been short of budgetary resources, a problem that government authorities are presently trying to address in the context of public financial management reform, but not with complete success. When public funds are unavailable, villagers themselves do not have sufficient income to enable them to finance repairs and maintenance. Experience in the Phongsaly project suggests that the purchase of cheap equipment, encouraged by EC procurement rules, represented a false economy in the long run. Another limiting factor, related to the budgetary issue, is the limited number of government staff in provinces and districts who continue work after projects' closure.

A third key sustainability factor is relocation, which was found to be a major cause of unsustainability in early rural development interventions. We discuss in detail under Judgment Criterion 1.3 how the EC has been behind a major initiative to expand donor policy dialogue with Government related to relocation, and to integrate this dialogue into rural development programming.

Yet, not all rural development projects were failures, not were all components even of generally weak projects unsuccessful. Our sample of projects examined is too small to make powerful generalisations, but a few thoughts can be distilled from the evidence. Generally speaking, most projects were too ambitious compared to the resources at their disposal. Lao PDR has been and still is a difficult country in which to implement rural development projects due to capacity and budgetary constraints. The situation is even more difficult in the Northern Uplands due to the geographical context, as well as the relocation issue.

Participatory approaches increased the chances of project impact on poverty. In the MPDLC project, where village committees were provided with tools and instructions on what was expected of them by way of maintenance, and where district officials were also trained, access roads continued to be maintained. Labour remains one resource which villages can reasonably be expected to contribute.

Most of the projects we examined were implemented by Government. We do not have a large

enough selection of NGO projects to be able to draw any conclusion regarding the advantages and disadvantages of channelling funds for rural development through NGOs. However, some success was reported in using national NGOs to mobilise volunteers to work in rural communities on projects related to rural development. Here, as well, the approach taken was to involve communities in the choice of projects to be undertaken. One key area for rural development is the problem of unexploded ordnance (UXO; see Special Focus 2 in Annex 5). Based on discussions at the Dissemination Seminar held in Vientiane in January 2009, it emerged that this issue had been insufficiently dealt with in the course of the evaluation. On examination, we have concluded (see EQ 7) that the EC strategy and mix of instruments available has not come to grips with some aspects of this problem. Through thematic budget line-financed projects, the EC has supported UXO clearance in a number of provinces; however, the key problem of insufficient capacity at the responsible national agency, UXO Lao, has not been addressed in a systematic way. The EC has not supported, as have many other donors including Member States, the Government-UNDP Trust Fund for UXO Clearance, a major source of support for UXO Lao.

### **JC 1.1: Improvements in income in rural areas benefiting from EC rural development interventions**

#### **JC assessment:**

Several projects either directly or indirectly called for using income as an indicator, and made provision for measuring its possible increases over time as part of impact studies. Generally, despite this, projects have not taken income as a major variable to be included in baseline studies or monitoring. Therefore, as we discuss below with reference to Indicator 1.1.1, information on income is relatively weak. The Final Evaluation of the Phongsaly Project reports that average annual farm income increased by USD 100, a year, a very substantial sum indeed. There is evidence, discussed under Indicator 1.1.2, that the Phongsaly Project had an uneven impact, with some villages (and not the poorest) benefiting more than others. In general, however, project baseline studies and ROM Reports do not address issues of income distribution in detail. The Strengthening of Livestock Services and Extension Activities Project (SLSEA) may have increased income given the close link between livestock and cash income in rural communities, but we have no concrete evidence that it did so. The strongest evidence that some projects resulted in an increase in income comes from the Final Evaluation of the Microprojects Development through Local Communities (MPDLC) project. Field visits to beneficiary villages provided corroborative evidence of this, and suggested that the main explanation for the increase in incomes lies in the provision of access roads, thereby increasing access to markets and the outside world in general.

The question arises whether encouraging overall economic growth or reducing inequality is likely to be a more effective strategy for reducing poverty. Recent research (see Indicator 1.1.2) concludes unequivocally that, at the district level, reducing inequality will be less effective at lifting those at the bottom of the income distribution out of poverty than will be accelerating the overall (district-wide) rate of growth. By international standards, Lao PDR is characterised by a rather low level of income inequality at the district level.

## **Indicator 1.1.1: Change in average household income**

### **Indicator estimate:**

We consider three projects here, the Microprojects Development Through Local Communities (MPDLC), the Phongsaly Forest Conservation and Rural Development Project, and the Strengthening of Livestock Services and Extension Activities Project (SLSEA).

#### MPDLC

The MPDLC's overall objective was sustainable poverty alleviation and improved quality of life for mountain communities. The project worked with 8,885 households comprising 49,000 people (as compared to a total population in Luang Prabang province of 116,000 persons grouped in 20,100 households). The project worked in 123 villages, about 40 percent of the 288 villages in the two Luang Prabang districts of Chomphet and Viengkham. About 1,000 microprojects were completed. The Project constructed 24 vehicle-passable tracks totalling 139.6 km leading to villages, and 19 bridges.

The ROM Monitoring framework for the project was not suited to measuring impacts on income. The objectively verifiable indicators (OVIs) for overall objectives in the logframe matrix (LFM) are not quantitative, although the availability of an exhaustive baseline study (August 2004) would have allowed for inclusion of quantitative OVIs. However, the MPDLC ROM Report of 16.12.05 stated that incomes had increased since the inception of the project. Alternative income-generating activities, although still at a piloting phase, were described as further increasing incomes. By the time of the project Final Evaluation, it was stated that beneficiary household annual incomes had increased from USD 150 to USD 400 in 30 months. In the example village visited (and the adjoining villages also supported by the Micro-projects programme), 1.5 hours drive from the Viengkham district centre in Luang Prabang province, improved incomes were demonstrated by the emergence of a large number of new and more spacious permanent houses built of timber compared to the old traditional ones still standing. Several households owned recently-purchased motorbikes and one had purchased a pick-up truck.

Much of the positive impact was achieved by building access roads to upland villages. A passable road makes it possible for traders to enter villages to purchase livestock and other marketable products. Prior to availability of access roads, livestock – the main source of cash income for upland villages - was herded tens of kilometres by foot to the district centre where it was sold.

Other impacts mentioned in the ROM Report are increased interaction with districts / other villages via access roads, improved access to schools, higher school enrolment and attendance rates, reduced incidence of disease due to improved access to clean water and health care, and improving conditions of women and children(2).

#### The Phongsaly Project

The Phongsaly Project aimed to improve the quality of life for rural communities and to reduce poverty by one third in 60 target villages. Net incomes from farm activities were targeted to increase; reducing, again by one third, the number of people earning less than Kip 85,000 per month (3). Six sources for increased income were defined: cultivation of irrigated crops, increased production of non-timber forest products (NTFPs), products from forest thinning, livestock, rural enterprises, and efficiency gains attendant on reducing villagers' workload in collecting water and firewood and in taking products to markets.

There are no baseline data available from which it is possible to calculate how many people the

one third would imply (4) and the baseline studies and impact analyses undertaken by the project do not allow calculation of either total or cash incomes. The OVI of a one-third reduction in the number of households earning less than Kip 85,000 was intended to be verified through a survey which did not take place. The impact assessment commissioned by the project in late 2004 did not deal with this question. The project Mid-Term Review (MTR) expected (p. 53) the project to develop other OVIs related to income. This never happened. Therefore, the estimation of project results presented difficulties at the stage of the Final Evaluation (5).

One of the results cited by the project Final Evaluation is that net incomes, measured by mean earnings per person per month, increased by one third. Average annual farm income is reported to have increased by USD 100 due to additional cardamom, rice and livestock production (6). Of this amount, cardamom accounted for USD 60 and additional income from livestock and rice accounted for the rest. Cardamom and livestock benefits accrued mostly to families in Boun Tai and Boun Neua, much less to families in Sampan (7; see also Indicator 1.2.1 below). Apart from difference between villages, there were also intra-village differences between individual families, but these are not presented in detail (8).

The project also promoted handicrafts, produced during the low agricultural season, not as a full-time occupation, as a source of income (9). It is estimated that, on average, the participating women earned Kip 500,000 per year, with the most successful among them earning Kip 2 million. In a small number of villages handicrafts became a significant source of income (10).

### The SLSEA Project

As described in the CSP 2002-2006 (e.g., pp. 12 and 62), over the evaluation period, livestock was a major area of intervention for the EC, and one of particular importance from the standpoint of income generation. Although livestock and fisheries produce only about 17% of the GDP, livestock sales are the main source of cash income generation for the bulk of smallholders (11), often accounting for in excess of 50 percent of cash income (12, 13).

The SLSEA project aimed “to enhance smallholders’ financial autonomy and capacity of initiative by improving their income from livestock rearing” through the strengthening of livestock services and extension activities in the project target areas. The project was instrumental in the establishment, improvement and management of an Animal Health Information System (AHIS), a Livestock Information System (LIS), the improvement and refurbishment of the National Animal Disease Diagnostic Laboratory (NADDL) with provincial satellite laboratories and the National Vaccine Laboratory (NVL). Department of Livestock and Fisheries (DLF) staff at all levels, community based Village Veterinary Workers (VVs), Village Livestock Information (VLIS) personnel within the DLF, and farmers have been trained by or through the project. Recommendations have been made for the improvement and enforcement of the legal framework relating to livestock. Credit for small-scale livestock production has been made available through Village Revolving Funds (VRF) and the Agricultural Promotion Bank (APB) (11).

While it is plausible, given the close connection with cash income, that the project resulted in an increase in average income, we cannot document this in concrete terms. We discuss food security aspects of the project under Indicator 1.2.1 below.

### **Related facts, figures, and references:**

- (1) ROM Report, 03.12.04, Lao PDR – LA – Microprojects Development Through Local Communities (MPDLC), p. 1.
- (2) ROM Report, 16.12.05, Lao PDR – LA – Microprojects Development Through Local

- Communities (MPDLC), p. 2.
- (3) Phongsaly Forest Conservation and Rural Development Project, Project Synopsis & LFM.
  - (4) Phongsaly Forest Conservation and Rural Development Project, Project Synopsis & LFM.
  - (5) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. 34.
  - (6) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. viii.
  - (7) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. 28.
  - (8) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. 34.
  - (9) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. x.
  - (10) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. 28.
  - (11) External Evaluation of Strengthening of Livestock Services and Extension Activities Project (SLSEA), p. 3.
  - (12) External Evaluation of Strengthening of Livestock Services and Extension Activities Project (SLSEA), p. 9.
  - (13) External Evaluation of Strengthening of Livestock Services and Extension Activities Project (SLSEA), p. 24.
  - (14) For income impacts of the MPDLC and SLSEA Projects, group interviews with beneficiaries.

### **Indicator 1.1.2: Change in income distribution; change in income in lower deciles**

#### **Indicator estimate:**

There is no evidence that income distribution has been included as an indicator in the rural development projects and hence it has not been monitored.

The CSP 2007-2013 observes that income inequality is high and that economic growth has benefited the lowland population more than those living in the uplands. As a result, poverty is heavily concentrated in the upland areas populated by ethnic minority populations (1).

The Phongsaly Forest Conservation and Rural Development Project intended to promote equitable economic growth in the villages (2). However, the 60 target villages have benefited unevenly from the Project interventions (3) and, as described above, there were uneven intra-village income impacts which have not been analysed. The MPDLC Project gave rise to significant increases in income (4), but we have no idea of how this improvement was distributed.

On the other hand, we develop below (see JC 9.4) the fact that intra-district income distribution in most area of Lao PDR is fairly even by international standards. The key to poverty reduction at the district level, in other words, is not increasing income equality, but promoting district-wide economic growth.

We speculate (see Indicator 1.2.1 below) that the Strengthening of Livestock Services and Extension Activities Project (SLSEA) had limited impact on the poorest households. Some confirmation of this was given in interviews with project beneficiaries and staff.

Recent research (5) has shown that income inequality in Lao PDR, considered at the district level, is actually rather low by international standards. Two thirds of the variation in the incidence of poverty (as measured by the poverty headcount) can be explained by variation in the level of average per capita income. This suggests that accelerating overall economic growth, at least at the district level, is more important than reducing inequality between the poor and well-off, again

at the district level.

### **Related facts, figures, and references**

- (1) CSP 2007-2013, p 12.
- (2) Phongsaly Forest Conservation and Rural Development Project, Project Synopsis, p. 1.
- (3) Final Evaluation of Phongsaly Forest Conservation and Rural Development Project p. 28.
- (4) MPDLC Final Evaluation; see also Indicator 1.1.1 above.
- (5) Epprecht, M., N. Minot, R. Derwina, P. Messerli, and A. Heinemann 2008. The geography of poverty and inequality in the Lao PDR. Swiss National Center of Competence in Research North-South, University of Bern, and International food Policy Research Institute (IFPRI). Bern: Geographica Bernensia.
- (6) Interviews with SLSEA staff.

### **JC 1.2: Improvements in food security (covering food availability, access to food and food utilisation) in rural areas benefiting from EC rural development projects**

#### **JC assessment:**

The EC strategy in rural development included increased food security as an important aspect of poverty reduction (CSP 2002-2006, e.g. p. 6, p. 17, p. 28). Among the actions funded were large projects (described below), small NGO projects (CSP 2002-2006, p. 19), and interventions financed by the Food Security Programme (CSP 2002-2006, p. 25).

We have found no information regarding change in the proportion of households experiencing food insecurity (Indicator 1.2.1). However, as a result of the Phongsaly Project, the average beneficiary family now produces 400 kg more paddy per year, corresponding to 30 percent of the annual food requirement. This would suggest that there was a significant increase in food security in regions benefiting from the project. We describe below how the project Final Evaluation found that these gains, like the gains in income described under Indicator 1.1.1 and 1.1.2, were unevenly distributed, i.e. villages in some regions gained more than villages in other regions. Overall, Phongsaly Province is still unable to produce the amount of rice it consumes due to insufficient labour, but this is not necessarily an indicator of widespread food insecurity as rice can be purchased in the market.

The SLSEA Livestock Project included improved food security as one of its goals, but we question, below (see Indicator 1.2.1), whether the project benefited the very poorest households among whom food insecurity is concentrated. The MPDLC Project is reported in its Final Evaluation to have led to a significant increase in food security among beneficiary households, but there is no information given on how this was estimated.

Malnutrition remains a problem in Lao PDR despite the strong economic growth of recent years. As the projects visited were large ones implemented by government; we are not in a position to comment on the relative effectiveness regarding food security of small NGO-implemented projects.

## **Indicator 1.2.1: Change in proportion of households experiencing food insecurity**

### **Indicator estimate:**

Food security in Lao PDR is highly variable depending on region. Conditions for achieving food security in uplands regions are difficult. The Agriculture Department allocates each household in the upland villages three plots of land for cultivating crops on a rotational basis. The size of plots depends on the size of the household and what officials judge to be its “diligence” (referring to the capability of the family to cultivate), but the average plot is about one hectare. It was not made clear in these interviews what proportion of uplands households or villages are covered by the three-plot allocation system.

There were concerns expressed that the allocation of the three plots is inadequate to meet the needs of the families and the soils have been exhausted, making people less food secure than before. Traditional technology without fertiliser is being used. In our consideration of relocation (see Special Focus 1 in Annex 5), we have drawn attention to research that indicates that relocated villagers have frequently experienced a decline in food security as land and agricultural inputs / services have proven insufficient.

Projects of special importance for food security were the Phongsaly Forest Conservation and Rural Development Project and the SLSEA Livestock Project. To summarise the discussion below, there is strong evidence that the former contributed to improved food security, no real evidence that the latter did.

### The Phongsaly Project

The Phongsaly Project contained a number of targets closely related to food security. It foresaw reducing the number of villagers consuming less than 2100 calories per day by one third (1). However, there were no baseline data available from which it would have been possible to calculate how many persons this one third would amount to (2). It also aimed for reduction by one third in the number of weeks when participants report they cannot obtain enough food. The three main activities through which it was expected to make adequate food available were rice irrigation, establishment of rice banks and expansion of non-rice cropping. It was stipulated that progress was to be monitored by an impact study every 6 months by an independent contracted agency (3); however, there is no evidence that this monitoring took place. Finally, and most specifically with regard to food security, one of the results foreseen was “food security obtained.” The target was that 70 percent of the target households have enough rice for annual household consumption by mid-2005 (4).

Nothing in the Final Evaluation allows us to estimate the change in proportion of households experiencing food insecurity; however, we can make some closely related statements. The average family now produces 400 kg more paddy (5), corresponding to 30 percent of the annual requirement of a family.

As discussed above in the case of income, food benefits of the project were unevenly distributed, both between the sixty villages targeted and within villages (6, 7). The increased paddy production was heavily concentrated in villages in Group 1 (17 lowland villages with a total of 869 families), and to a lesser extent in Group 2 (19 villages with 838 families). In Group 3 villages (24 villages with 1,199 families) no significant impact was been achieved. However, the Final Evaluation concluded that overall food security for the average farm family had improved (8).

### The SLSEA Project

The SLSEA project aimed, through improving the capacity of the Department of Livestock and

Fisheries (DLF) to deliver livestock-related services, to reduce poverty and improve food security in the five targeted northern provinces of Bokeo, Luang Prabang, Luang Namtha, Oudmxay, and Sayaboury; as well as in the entire country by improving delivery of veterinary diagnostic services and vaccines and through technical support and capacity building for the DLF (9). As made explicit in the CSP 2002-2006 (p. 62), the overall project objective was poverty reduction leading to increased food security for rural farming communities.

Baseline survey data collected in 1998-9, subsequent annual surveys of the same sample groups plus additional groups as the project grew, the national livestock census 1998-9, and related data provide some information regarding livestock numbers, production, and the role of livestock in the rural household economy (10). However, none of these data address the issue of food security directly.

A priori, there is some reason to speculate that the project had limited impact on food security, a problem affecting disproportionately the very poorest segment of the population. Most beneficiaries of the Livestock Project were not the poorest households. The approach of creating model farmers favoured this, as these tended naturally to be drawn from the more able. Social pressures in the villages and the lack of trained field extension staff to guide the very poor may have also played a role. Impact at target group level could be better observed if the baseline survey had been carried out in target areas before project activities commenced, and if follow up surveys included some villages where the project had no activities to give a control group (11).

Field interviews with provincial Livestock Department staff revealed disappointment with the project. There has been inadequate follow-up from Ministry of Agriculture officials in Vientiane and inadequate capacity building for the provincial and especially district staff. In two villages visited, the beneficiaries perceived that the objective of the project was to stop slash and burn cultivation; questioned whether this was feasible, they replied in the negative. There was no mention of poverty reduction: while some farmers who received cattle possessed only two or three head, others (sometimes village heads or their deputies) already owned 5, 7, 9, or even 30 cows.

### The MPDLC Project

According to the Final Evaluation of the Microprojects Development Through Local Communities (MPDLC) Project, food security among the beneficiary population increased by 21 percent due to project interventions. No further support or explanation for this figure was given. The Final Evaluation noted that the upland agricultural activities had not been as successful compared to some of the other micro-projects due to (i) inadequate technical backing from districts and (ii) the fact that some of the agricultural initiatives did not bring adequate returns.

### Other evidence

The National Statistics Office / Asian Development Bank Participatory Poverty Assessment II (2006) arrived at largely pessimistic conclusions regarding food security (12). First, it pointed out that poverty in Lao PDR is not synonymous with hunger. However, it found evidence that natural ecosystems that had provided a balanced diet were under stress and less productive, resulting in increased consumption of processed food and rice, and that poor villagers increasingly have a difficult time providing their families with food. The study is critical of paddy cultivation, calling instead for increased investment in uplands agriculture, livestock, and non-forest timber products.



## Related facts, figures, and references

- (1) Phongsaly Forest Conservation and Rural Development Project, Project Synopsis & LFM.
- (2) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. 34.
- (3) Phongsaly Forest Conservation and Rural Development Project, Project Synopsis & LFM.
- (4) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. viii.
- (5) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. viii.
- (6) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. 28.
- (7) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. ix.
- (8) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. 28.
- (9) External Evaluation of Strengthening of Livestock Services and extension Activities Project (SLSEA), p. 6.
- (10) External Evaluation of Strengthening of Livestock Services and extension Activities Project (SLSEA), p. 14.
- (11) External Evaluation of Strengthening of Livestock Services and Extension Activities Project (SLSEA), p. 14.
- (12) External Evaluation of Strengthening of Livestock Services and Extension Activities Project (SLSEA), Aide Memoire, p. 4
- (13) Chamberlain, James 2007. Participatory Poverty Assessment II (2006). Vientiane: National Statistics Office and Asian Development Bank.
- (14) Interviews with SLSEA project beneficiaries and provincial Livestock Department officials.

## Indicator 1.2.2: Changes in nutritional and nutrition-related related health / anthropometric statistics

### Indicator estimate:

Nutrition has not been a major strategic concern of the EC in Lao PDR. The CSP 2002-2006 does not discuss nutrition, while the CSP 2007-2013 observes that malnutrition is a significant, yet rarely acknowledged problem in Lao PDR. The prevalence of underweight children under five years of age is reported to have remained unchanged at 40% between 2000 and 2001 (1). However, nutrition information from the upland provinces, where most EC funded rural development projects have operated, has not been found.

The nutrition problem in Lao PDR may be related to economic opening. According to this interpretation, opening has led to massive land use change – the clearing of forests by foreign investors -- which has led to the loss of biodiversity that underpinned rural diets, in addition to reducing cash income from non-timber forest products (NTFPs). This problem was clearly apparent in the National Statistics Office / Asian Development Bank Participatory Poverty Assessment II (2006) study (Chamberlain 2007). Where the proportion of villagers consuming meat and vegetables from wild sources was found to have declined dramatically between 2000 and 2006 (2, especially p. 69). While we have found no time series data that would allow us to estimate this indicator directly, according to the World Health Organisation Statistical Information System (WHOSIS, [www.who.org/whosis](http://www.who.org/whosis)) child malnutrition in 2000 was 14 percent, as opposed to 28.4 percent in Cambodia and 20.2 percent in Vietnam (both the latter to statistics are for 2006). For reasons unknown, obesity is much higher in Lao PDR than in either of the two neighbouring

countries.

Under thematic programmes, the CSP 2007-2013 states that the EC will continue to play an active role in the Working Group on Nutrition and Food Security. (2)

**Related facts, figures, and references:**

- (1) CSP 2007-2013, p. 11.
- (2) Chamberlain, James (2007). Participatory Poverty Assessment II (2006). Vientiane: National Statistics Office and Asian Development Bank.
- (3) CSP 2007-2013, p. 28.
- (4) Focus group with international food and nutrition experts, FAO Vientiane.

**JC 1.3: Sustainability adequately taken into account.**

**JC assessment:**

We refer here to the sustainability of project impacts once international support is phased out. The issue of whether EC interventions in Lao PDR have adequately taken environmental sustainability into account is dealt with in EQ 6 below. We focus on two indicators, the first whether monitoring paid adequate attention to contextual and emerging issues affecting sustainability, and the second whether there was appropriate policy dialogue with Government related to sustainability issues.

Our conclusion is that, while a range of factors continue to make sustainability a problem in Lao PDR, there has been sufficient attention to the issue in the design, implementation, and monitoring of the EC programme.

Regarding monitoring (Indicator 1.3.1), documentation from rural development projects has generally paid attention to sustainability of projects' results. There is emphasis on local ownership of projects and capacity building at district and village levels. However, because Lao PDR generally has inadequate resources both financial and human, a constraint beyond the control of the projects, sustainability is always under threat. The poor provinces and districts where the projects have been implemented suffer even more from inadequate resources than does the country as a whole. In the context of the Phongsaly project, a particular issue identified has to do with the financial difficulties experienced by villages in maintaining infrastructures provided to them under EC projects. This problem was made worse, however, by the fact that EC procurement rules provided an incentive to purchase low-cost, low-technology equipment and infrastructure, which called for more repairs than would have been the case had higher-cost, better quality approaches been used.

While not emerging under the Indicators below, it is important to relate the positive sustainability aspects of the MPDLC project, as revealed in interviews in the districts benefitting. First, the project applied a demand-driven approach; villagers themselves decided what their priorities were. Further, the approach involved establishing a variety of village structures (committees) responsible for operation and maintenance of infrastructure built. Each committee was provided with capacity building, including indoctrination in what was expected of them, and provided with tools for operation and maintenance. Extensive capacity building was also provided over the years to district staff.

The main difference between the positive sustainability characteristics of the MPDLC Project and the negative sustainability characteristics of the Phongsaly Project may lie in the fact that the former required beneficiaries to contribute labour, whereas the latter called on them to make a

financial contribution. The MPDLC Project is strong evidence that, despite weaknesses of the project approach as a whole, some projects actually worked well.

Regarding policy dialogue relevant to sustainability (Indicator 1.3.2), emphasis has been given, especially in the new 2007-2013 CSP, to policy dialogue related to the Government's village relocation programme. This is especially important for sustainability, as a conclusion reached from reviewing the results of previous programmes as part of the preparation of the CSP 2007-2013 was that a major factor undermining sustainability of rural development projects was poorly implemented relocation. The EC has taken the lead in establishing a dialogue process with the Government which will attempt to minimise the negative impact of relocation while maximising its benefits, such as the relief of pressure on marginal environments, integration into the market economy, and improved access to services.

Policy dialogue related to improved public sector financial management, a requirement for improved financial sustainability, is at the heart of the PRSO process, which the EC supported indirectly in its early phases and began in 2007 to finance directly.

### **Indicator 1.3.1: Monitoring of a set of contextual issues and integration of emerging issues that could influence sustainability.**

#### **Indicator estimate:**

In looking at how project monitoring has come to grips with sustainability issues, we will focus on two reports: the 03.12.04 ROM Report on the Microprojects Development Through Local Communities Project (MPDLC) and the Final Evaluation of the Phongsaly Project.

#### The MPDLC Project

The MPDLC ROM Report discusses a range of contextual issues related to sustainability: low capacity of district officials, financial constraints, institutional and community ownership, and others. It notes that capacities of District staff have increased to the extent that they are able, on their own, to conduct micro-project appraisals, prepare proposals, and assist villagers with micro-projects -- an indication of some improvement in the prospects for the sustainability of project impacts. The ROM Report also expresses the view that prospects for institutional sustainability at district and village levels are relatively good because the project enjoys a high level of ownership. While district administration revenue constraints are severe and hiring is very difficult, good institutional support may to some extent offset financial constraints.

Participation of village residents in infrastructure provision – usually up to 60 percent of the total cost of small infrastructures such as schools, water supplies, horse tracks, and meeting halls – is noted as a positive indication of potential sustainability. Two examples are given of satisfactory road maintenance by villagers after completion of donor funded road project, and the importance of training and awareness creation is described. Capacity building at the village level is cited as another essential factor of sustainability.

In general, the ROM report reveals a good understating of and concern for the sustainability issues and reveals that project monitors were keeping an eye on the issue. The MPDLC Project Final evaluation confirms that villagers have continued to repair and maintain access roads.

#### The Phongsaly Project

In the Phongsaly Project, the Final Evaluation discusses sustainability in terms of infrastructure, credit, the veterinary network and the provincial support facilities (9). It expresses the view that

the low quality of infrastructure provided (inadequate drainage along village tracks, deficiencies in irrigation systems, and poor construction of village water supply systems) will place demands for repairs on beneficiaries who will be unable to afford them, a clear negative indication for sustainability. The main reason for the low quality of infrastructure provided is that EC procurement rules gave the project an incentive to implement low-cost, village-based agreements for implementation of the works, resulting in lower quality. As the nature of EC procurement was an emerging contextual issue over the evaluation period in Lao PDR, the flagging of the issue by the Final Evaluation is an example of the oversight and lessons-learned function of evaluation.

Beyond the project level, the support provided by EC for background studies related to public financial management contributed to the monitoring contextual issues in the sense of the indicator, as does EC participation in the ongoing PRSO process (see Special Focus 3 in Annex 5).

### **Related facts, figures, and references**

- (1) ROM Report, 03.12.04, Lao PDR – LA – Microprojects Development Through Local Communities (MPDLC), especially p. 2.
- (2) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project

### **Indicator 1.3.2: Dialogue initiated with Government related to sustainability.**

#### **Indicator estimate:**

The CSP 2002-2006 states that the EC assistance to Lao PDR has engendered better mutual understanding and collaboration with Lao PDR national and local authorities, which has had the effect of enhancing the sustainability of projects (1). Although dialogue as such is not singled out, communication on an operational level is viewed as important factor for sustainability. Two areas of special importance for dialogue related to sustainability are relocation and public sector financial management.

#### Relocation, sustainability, and the EC response

One of the findings from a critical review of past progress was that a main factor undermining the sustainability of rural development interventions was the Government village relocation / resettlement programme (2). This is the subject of Focus Point 1 in Annex 5 and was an area intensively investigated via interviews with bilateral donors and Government officials during the field phase.

The literature reviewed in Special Focus 1 is mostly negative on relocation, although ambiguities such as the mixed feelings of villagers themselves have also been noted. The donor community's response has been mixed. Some donors considered relocation to be a human rights issue of the first order; others were more resigned, judging that when well carried out, relocation could be a beneficial policy. There seems broad agreement, however, that the actual implementation of relocation in Lao PDR has been poor, increasing vulnerability more often than it has decreased it. In both the literature reviewed in Special Focus 1 and interviews in the field, instances of persons being moved into locations without adequate land or social support services were cited.

Field interviews in Luang Prabang confirmed the need for improvements in the way relocation is implemented. Many stakeholders expressed concerns on the non-transparent process of land allocation to relocated populations and pointed to the risks of putting together ethnic groups who have no desire to live together.

Policy dialogue with the Government of Lao PDR regarding relocation is of long standing. However, whereas donors have traditionally focused on policy aspects, Government interest has been more in the practicalities of implementation.

In response to the relocation issue and recognition that the sustainability of rural development interventions was gravely impaired, the EC in its CSP 2007-2013 (especially Annex 9), adopted a balanced stance. The discussion avoided ideological declarations while warning of fundamental issues and stating that there is abundant evidence of poor implementation and resulting ill consequences of relocation.

The EC proposed a non-focal action “Support for sustainable development in the uplands and policy dialogue on relocation” (3). As described in more detail in Special Focus 1 in Annex 5, it is planned that the dialogue begin with a discussion of development priorities; an examination of existing information on development options and the nature, extent and effects of relocation as one of those options in the broader context of sustainable rural development. If agreement is reached in principle, the dialogue will go on to take place at three levels: central government, provincial government and district administration. – If this dialogue makes concrete progress, the EC will provide assistance to ensure that development at village level is appropriate given the local situation and that any relocation agreed with GoL is undertaken according to established principles. The engagement will be on relocation *in* practice, not relocation *as* a practice. Note that we also discuss the relocation issue under EQ 6.

#### Public financial management aspects of sustainability

The financial viability of donor-supported projects is the second main issue related to sustainability. As we discuss in Special Foci 3 and 5 in Annex 5, the ratio of recurrent to capital expenditure, the latter mostly donor-financed, is too low in Lao PDR. In the simplest terms, once infrastructure is provided by donors, Government at all levels, central, provincial, and district, is unable to properly maintain, equip, and staff it. This is particularly true in health and education, two social sectors of special interest to the EC in light of their importance for poverty reduction and vulnerable groups. By supporting studies in preparation of earlier PRSOs, and now as a partner directly supporting PRSO, the EC has significantly contributed to the effort to improve public sector financial management in Lao PDR. Policy dialogue with Government in the context of PRSO represents engagement on sustainability issues in the sense of the indicator.

#### **Related facts, figures, and references**

- (1) CSP 2002-2006, p. 20-21.
- (2) CSP 2007-2013, p. 16.
- (3) CSP 2007-2013, p. 5.
- (4) Interviews with bilateral agency officials, EC Delegation officials, international NGO representatives, and Government of Lao PDR officials regarding relocation.

**EQ2 - To what extent did the change in the EC's strategy of support for the health sector (from large interventions to NGO projects and support through the Global Fund) contribute to increased availability of and access to basic health services?**

**EQ answer**

*The EC's strategic shift (in which we include the shift to support for more resources in the health sector through the PRSO Variable Tranche and PRSO-related policy dialogue in public financial management) made sense and was coherent with the national situation and context. Overall availability of infrastructure and personnel is not the most important reason why health indicators are so poor in Lao PDR; the main problem is the skewed distribution of these resources, making for problems of access in rural, remote, underserved areas. To be added to this are poverty (i.e., low demand for health care) and the lack of any effective health care finance system, an emerging area of concern and attention.*

When we refer to “large interventions” here, we are referring to traditional health sector development projects implemented by agencies of the Government of Lao PDR. While the original EQ does not mention budget support through the PRSO process, we will discuss this here, especially the Variable Tranche mechanism which prioritises health and education expenditure.

This EQ is challenging to answer because it implicitly sets up a counterfactual in which the EC continued to finance traditional project interventions. In other words, the EQ is really asking whether the change in strategy resulted in greater effectiveness and impact. We cannot compare Euro for Euro – clearly the change in strategy implied less money for health. However, we can ask whether the shift made strategic sense and was coherent with the national situation and context. We would answer this in the affirmative.

The direct health component of EC support to the Government of Lao PDR was discontinued in the NIP 2005-2006 due to “limitations in the budgetary envelope for the period of the NIP 2002-2004” (NIP 2005-2006, p. 9.1). Only small NGO co-financing health projects and projects under the Global Fund umbrella were carried on in 2003 and afterwards. While these smaller NGO projects targeted particularly vulnerable populations, basic health care remains inaccessible to a large proportion of the rural population, especially ethnic minorities and women (CSP 2007-2013, p.12).

- In considering the Judgement Criteria below, the picture that emerges is as follows: “Headline” health indicators such as infant mortality and under-five mortality have continued to improve (see Judgement Criterion 2.3). This may be due to better access to health care, or it may be due to economic growth and better living conditions. Maternal mortality may have declined, but data disagree, only a small proportion of births are supervised by trained personnel, and immunisation rates are low. Lao PDR continues to perform much worse than neighbouring Cambodia and Vietnam on basic health indicators.
- A review of data from sources such as the WHO Statistical Information System (WHOSIS) reveals that, in aggregate terms, Lao PDR compares reasonably well with its neighbours Cambodia and Vietnam on availability of health infrastructure and personnel. However, as we document in Special Focus 5 in Annex 5, rural and especially remote rural areas are underserved. Availability of facilities and trained personnel does not appear to be a major constraint at the national level, but facilities, equipment, and staff are very unevenly distributed, resulting in continuing problems of access in rural, and especially remote rural areas. NGO project staff interviewed during the field mission all referred, in one way or another, to the difficulties of recruiting staff to serve in the countryside. While salaries are

higher in real terms because of the lower cost of living, payment delays are endemic in rural areas.

- We document, in Special Focus 5, how weaknesses in public financial management translate into inadequate health budgets in poor provinces and districts. As in education (see EQ 3 below) the ratio of recurrent expenditure to capital spending, much of the latter financed by donors, is insufficient. The result is low salaries, poor equipment, and inadequate maintenance.
- Health expenditure overall is very low, and any growth that has occurred has been because of growth in private, out of pocket spending. Public health expenditure, because it tends to go to hospitals instead of clinics, is slanted towards the well to do, not the poor. Lack of household resources is as much a barrier to access to health care as is the lack of infrastructure. Overall, health care financing has been one of the most problematic areas in health, with no overall strategic vision or plan having emerged to date.

With this big picture in mind, what has been the contribution of the EC, and has the evolution of its strategy been a sensible one?

- EC support to Lao PDR never placed emphasis on infrastructure (see Judgement Criterion 2.1). Based on our reading of the evidence, this was the correct stance to take.
- We have no evidence that the new strategy was more or less effective than the old one in terms of capacity building and training, which have always been emphasised (see Judgement Criterion 2.2). The major problem in Lao DPR is distribution of skilled personnel, not overall numbers.
- While NGO projects have effectively targeted remote and under-served areas, we have no evidence that would lead us either to believe or to doubt that they do so better than the Government implemented projects that they replaced. They experience much the same staff constraints as Government.
- We document below that the Global Fund has been a very effective presence in Lao PDR (see Indicator 2.2.2). The Global Fund's comparative advantage in the areas in which it specialises is undoubted; moreover, one of the strongest points of its performance has been the fact that it very effectively built on the foundation that had been put in place by the EC regional malaria programme. This is a good example of a smooth strategic progression in a major public health area in Lao PDR.
- We also document that inadequate public finance for health and the poor management of the financial resources that are available are serious, perhaps the most serious, problem in the health sector in Lao PDR. The application of the Variable Tranche in the EC's support to the PRSO process, i.e. budget support, described in Special Focus 3 in Annex 4, is an effective means of addressing this problem. The Variable Tranche is an additional payment released by the EC contingent on meeting targets in health and education spending, some of which were already present in the policy matrix prior to the start of EC support, and some of which were added at the express desire of the EC. The Variable Tranche is noteworthy because it has allowed the EC to combine overall budget support with its commitment to focus on the social sector and the most vulnerable populations.
- The policy dialogue, especially related to public sector financial management and the budgeting of the social sector made possible by participation in the PRSO is an effective means of addressing serious weaknesses in the health sector. A TA set-aside in the EC's provision of funds to the PRSO also supports capacity building at the Ministry of Health in the context of an eventual move to a sector approach. Since low capacity at the Ministry is

one (albeit not the only) cause of poor financial management, planning, and priority setting, this is an appropriate response. The attention being paid to health care financing, one of the weakest areas of the health picture is welcome, and the EC is active in the Health Care Financing Technical Working Group.

Finally, it is plausible that EC projects outside the health sector, especially the Microprojects Development through Local Communities (MPDLC) project, improved access to health care through its activities aimed at improving remote villages' connections to the outside world (this was one of the benefits mentioned by beneficiaries interviewed; see EQ 1 above).

## **JC 2.1: Health infrastructure for basic health services, especially in under-served regions**

### **JC assessment:**

In the period covered, the EC supported a few small health sector projects through partner NGOs, as well as two large regional projects – the Reproductive health initiative for youth in Asia (covering seven countries) and the EC regional malaria control project (covering Lao PDR, Cambodia, and Viet Nam). In addition, it financed Global Fund projects.

None of these EC-financed projects was primarily infrastructure-oriented. However, three of six NGO projects whose representatives could be interviewed during the field mission had engaged in at least some clinic construction or upgrading / equipping. Information available indicates that at least one EC-supported NGO project built two health centres and that the regional reproductive health project supplied neonatal health units (Indicator 2.1.2), but this does not add up to a consistent picture of the health infrastructure situation and whether the EC contributed substantially to improving it.

We have information that NGO projects, as well as the regional reproductive health project, contained significant training components (see Indicator 2.2.1), but we found no information on the actual numbers and impact in terms of expanded supply of qualified health workers in post.

The 2007 World Bank Public Expenditure Review Integrated Fiduciary Assessment (Report 39791-LA) complains of overinvestment in hospitals and underutilisation of health facilities. The problem of inadequate recurrent expenditure relative to capital spending is discussed in Special Focus 5 in Annex 5. Based on a simple comparison with Vietnam of facilities per capita and beds per capita, it does not emerge that Lao PDR is suffering from a lack of facilities. It is quite likely, however, that many facilities, especially those serving rural and remote areas, are under-equipped and under-staffed).

### **Indicator 2.1.1: Change in number of basic health posts**

#### **Indicator estimate**

Despite searching, we have found no systematic data on the number of health posts operating apart from the summary data on facilities per 100,000 population in 2005 presented in Special Focus 5 of Annex 5. The World Bank PETS study described in detail in Special Focus 5 illustrates convincingly that poor people in Lao PDR have inadequate access to health care, and that the health care they are able to obtain is of inadequate quality. Yet, Lao PDR in 2005 had about the same number of primary health care centres per capita as Vietnam, albeit only half as many beds in such facilities per capita. Since most health centre care is outpatient anyway, the latter statistic should not put Lao PDR at a great disadvantage. Lao PDR had more district referral hospitals per capita than Vietnam and roughly the same number of beds per capita in such institutions. Only at the level of general hospitals does Vietnam show a clear advantage. Yet, all basic health indicators are far better in Vietnam than in Lao PDR, suggesting that the main problems of access to quality



health care should be sought in poverty, poor transport, shortage of trained staff in rural areas, shortage of equipment, and other such causes, not in lack of facilities per se. This view is confirmed by Annear et al. (2008), whose characterisation bears quoting at length:

Despite the low levels of spending the health infrastructure has been strengthened, though both the quantity and quality of health service delivery remain constrained. The public health care network has expanded significantly in the last 15 years with the construction or renovation of the majority of planned provincial and district hospitals and a network of more than 700 rural health centres now completed (as reported at the National Health Conference in August 2007). Officially, it is claimed that 94% of the population has physical access at least to a village drug kit, the most peripheral element of the public health network. If this estimate is accepted as accurate, it appears that the health infrastructure is not the major constraint on service provision, but many gaps occur in remote areas. However, utilization of public health facilities remains very low, with a nationwide 2001-2006 average attendance rate of only 0.2 curative contacts per inhabitant per year (as reported at the National Health Conference in August 2007). Inequalities in access to services are still evident in poorer districts, and in highland areas low population densities and limited physical access make the provision of health services difficult and expensive. The delivery of quality health services in the public sector is impaired by a range of factors. There is a chronic problem of irregular and uneven service provision with consequently low demand-side expectations. Long term under-funding of public health care has created dependence at facility level on margins gained through the sale of drugs. The low salaries paid to health staff and the absence of substantial official incentive schemes has led to low motivation, poor staff performance and increased authorized private practices by public health staff. Demand is further restricted by the problem of unofficial payments to health staff (1). We identified six NGO partners in EC health cooperation, of whom three had left the country prior to the field visit. Of the three for whom representatives could be interviewed, one (CARE) runs a food security project with only some primary health care (PHC) and nutrition components. Neither of the other two, Health Unlimited and Project Concern (interviewed in Vientiane), has an important component for physical health infrastructure, although they implement projects in underserved areas. Project documentation reports that the Handicap France/Action Nord-Sud project in Savannakhet built, equipped and staffed two new health centres (2).

The two major EC-financed regional projects (Regional malaria control programme and Reproductive health initiative for youth in Asia) ended around 2003 and we have extensive information on both of them (3,4). They did not have significant physical infrastructure components. Nor did the Global Fund projects financed by the EC.

While it is not a health post, a Youth Centre in Vientiane set up by the Reproductive health initiative for youth in Asia (5) deserves to be described. Dating from the late 1990s, this facility is still functioning, five years after the end of the project. Major sources of support include the Vientiane branch of the Laos Women's Union, the Ministry of Post and Communications, UNFPA, and the World Bank; in addition, the centre runs a commercial restaurant. Activities are varied: a reproductive health (RH) clinic for youth, a telephone hotline (since 2003), peer education, life skills and HIV training, drug and alcohol abuse prevention, traditional music and dance, drama, DJs training, aerobics, and English and vocational training.

It should be noted that the MPDLC set up an unspecified number of basic drug revolving funds in upland villages without health centres (1); as discussed in Special Focus 5, these revolving funds are a major source of finance for health post non-salary recurrent expenditure, equipment, and renovations.

## **Related facts, figures, and references**

- (1) Peter Leslie Annear, Kongsap Akkhavong, Jean-Marc Thomé, Frank Haegeman, Frédéric Bonnet, Chansaly Phommavong and Soulivanh Pholsena 2008. Moving towards greater equity in health: recent initiatives in the Lao PDR and their implications. *Studies in Health Services Organisation and Policy* 23.
- (2) ROM Report MT 20248.01, Projet d'appui au secteur de la santé (PASS), December 2004
- (3) LAO EU Malaria Control Project, Final Report and End of Project Technical Report, January 2003.
- (4) EU / UNFPA RHIYA Baseline Endline Comparative Report, 2006.
- (5) ROM Report MR 001.46.01, Reproductive health initiative for youth in Asia, Lao component, 2001.
- (6) NGO project staff interviews.

### **Indicator 2.1.2: Number of clinics refurbished / upgraded**

#### **Indicator estimate:**

Information gathered during the field phase was very limited. According to NGO representatives interviewed, the Health Unlimited project improved and equipped four health centres. As per the documents available, the Reproductive health initiative for youth in Asia project renovated and equipped maternal and neonatal units (numbers not specified). The Handicap International / Action Nord-Sud project in Savannakhet built, equipped and staffed two new health centres.

#### **Related facts, figures, and references**

NGO project staff interviews

### **JC 2.2: Human resource availability for basic health services, especially in under-served regions**

#### **JC assessment:**

No quantitative information along the lines called for by Indicator 2.2.1 was found on which this Judgment Criterion can be assessed. However, the CSPs and NIPs do mention important overall shortfalls in qualified health staff. Based on the discussion in Special Focus 5 in Annex 5, the main problem is not the total number of health personnel, but the difficulty of recruiting staff to work in remote rural areas.

The three health-related ROMs reviewed reported on training components which most likely expanded the availability of qualified staff. The 2002-2006 CSP reports that all five EC-supported NGO health projects had training components, and that all of these projects were located in underserved regions.

This was supported by field phase interviews, which confirmed that EC-supported programmes engaged in extensive training of doctors, nurses and health workers including volunteers.

Not directly covered by the indicators below, but relevant for human resource strengthening in Lao PDR, is capacity building at the Institute for Public Health (IPH) that occurred in the context of EC cooperation. The IPH participated in several EC-funded activities. Under a sub-contract, it has worked with the EC NGO co-financing Project Concern PHC project, providing training in basic health management skills for district and provincial health staff and in carrying out the baseline survey for the project. Until 2006, IPH participated in Asia-Link, the EC-funded exchange program, in this case with the Hanoi and Brussels Schools of Public Health. Together

with nine institutions in China and Cambodia and with the UK Institute of Development Studies (IDS) IPH participated in "Povill", an EC-funded project (Euro 277,000) devoted to protecting the rural poor from the economic consequences of major illnesses. Povill carried out household surveys, participated in direct household assistance schemes, assessed the performance of health providers and has worked on encouraging pro-poor health policies.

The EC has also recently become engaged in TA and capacity building at the central Ministry of Health. This is enabled by a set-aside of funds in the context of PRSO budget support for capacity building related to the eventual adoption of a sector approach to health in Lao PDR.

Finally, we added below an indicator (Indicator 2.2.2) on the impact of the Global Fund, supported significantly by the EC. Lao PDR has been a strong performer in the GF, having received US\$ 100 million since 2002. Of the few people requiring anti-retroviral treatment (the epidemic is still highly concentrated and in an earlier stage than in neighbouring countries), almost all are receiving it through Global Fund-financed interventions. While attribution is difficult, Global Fund activities also plausibly contributed to improvements in DOTS detection and treatment success rates between 2000 and 2005).

### **Indicator 2.2.1: Change in doctors / nurses / health care workers in post**

#### **Indicator estimate:**

As in the case of health infrastructure, the information we have been able to gather is limited to a "snapshot" view of 2005 (see Special Focus 5 in Annex 5). Lao PDR has 23 physicians per 100,000 population and 93 nurses; comparable statistics are 16 / 35 for Cambodia and 62 / 68 for Vietnam. The major difficulty in Lao PDR, cited by all sources and experts interviewed, is not so much the number of health personnel as the difficulty of recruiting persons who are willing to work in rural, especially remote rural, areas. As we describe in Special Focus 5 in Annex 5, real salaries are higher in such areas because the cost of living is lower; however, health workers in rural areas experience significant payment delays, while health staff in urban areas are paid on time.

Nevertheless, information is available for training of health personnel: about 2,000 district workers and village volunteers were trained in managing impregnated mosquito nets under the EC-financed regional malaria control programme. Health personnel of two districts and 30 village health volunteers were trained in Savannakhet and in 30 villages in Attapeu; moreover, the Reproductive health initiative for youth in Asia project trained health personnel in pregnancy management, neonatal care, family planning, and STD/HIV at provincial and district level (1, 2, 3, 4). According to the CSP 2002-2006, the majority of five EC-supported NGO health projects had significant training components and were targeted at deprived regions (1).

The significant scale of training made available under EC-supported programmes is confirmed by field-phase interviews. Nurses and health workers (including numerous volunteers) in NGO projects have been major beneficiaries of EC health cooperation. Doctors are unavailable in the areas where the three NGOs operate. Doctors, nurses, as well as community health workers working on Global Fund projects have received extensive training. Thousands of cadres and community members in dozens of villages have acquired new knowledge and skills to address urgent health needs through EC-supported activities.

Human resource constraints continue to hamper progress, however. A 2007 internal medium-term review of the EC-financed Health Unlimited project found that high staff turnover was a limiting factor (5). The Project Concern health project, implemented with Government staff, can expand by only fifteen villages per year because the MoH counterpart has problems in providing the human resources for expansion. Finally, improving emergency obstetric care has, so far, proven impossible due to the lack of doctors, and it has proven difficult to recruit trained staff that is willing to relocate long-term to the province. Health sector salaries in Lao PDR are among the

lowest in the world (6), both due to the under-weighting of recurrent expenditure in the total health budget and the fact that salary increases in recent years have been tightly constrained. The former problem is described in detail in Special Focus 5.

### **Related facts, figures, and references**

- (1) CSP 2002-2006, pp. 32-34.
- (2) ROM Report MR-00140.01, Malaria control program Cambodia, Laos and Vietnam, April 2001.
- (3) ROM Report MR 20248.01, Projet d'appui au secteur de la sante (PASS), December 2004.
- (4) ROM Report MR 00146.01, Asia initiative for reproductive health, Lao Component, April 2001.
- (5) Lao-EU Malaria Control Project, Final Report and End of Project Technical Report, Jan 2003.
- (6) World Bank Integrated Fiduciary Assessment, Report 39791-LA, 2007.
- (7) Interviews with HU, Concern and CARE, as well as with the Global Fund in Vientiane.

### **Indicator 2.2.2: Improved access to HIV/AIDS, malaria, and TB services**

#### **Indicator estimate:**

In answering the EQ, it became clear during the field phase that the Indicators and JCs as designed did not provide an adequate opportunity to assess the EC's contribution via the Global Fund, even though this was explicitly referred to in the EQ. Therefore, we add this Indicator. It could equally well have been placed under Judgement Criterion 2.1, but since Global Fund interventions were focused more on capacity building and training, it seemed preferable to consider this under Judgement Criterion 2.2.

As of November 2008, Lao PDR had received close to US\$ 100 million; US\$ 20 million for HIV/AIDS, US\$ 18 million for TB, and US\$ 56 million for malaria. Lao PDR is regarded as a strong performer in the Global Fund (1). The three diseases received funding in six of the eight Global Fund funding rounds (missing Rounds 3 and 5), all through the Ministry of Health with KPMG as the Financing Authority (HIV and malaria were funded in Rounds 1, 4, 6, 7 and 8 and TB in Rounds 2 and 4). Only one TB project was rejected. The Global Fund's AIDS work has concentrated on sexually transmitted diseases (STIs), social marketing of condoms, behavioural change of high risk groups, voluntary counselling and treatment and referral mechanisms. Work on malaria has concentrated on bed nets, early diagnosis, the introduction of Artemesian Combination Therapy (ACT) as the first line treatment, epidemic surveillance and response, village health workers' training, involvement of the private sector and the combating of counterfeit anti-malarial drugs. TB work has been on DOTS, increasing the quality of services, strengthening detection and referral rates especially in under-served areas.

Information on the impact of the Global Fund on HIV/AIDS is difficult to assess, because it is recognised that the epidemic in Lao PDR is different than in neighbouring countries. The WHO Statistical Information Service (WHOSIS; [www.who.int/whosis](http://www.who.int/whosis)) estimates that, in 2005, the adult HIV prevalence rate in Lao PDR was only 103 per 100,000 as compared to 1,468 in Cambodia and 421 in Vietnam. Anti-retroviral therapy (ART) coverage is affected by how long the epidemic has been established since a number of years must pass before HIV+ persons become immunosuppressed and thus candidates for ART. As opposed to 40,000 persons in need of ART in Cambodia and 67,000 in Vietnam, WHOSIS estimates that less than 1,000 persons in Lao

PDR are in need of treatment, of whom nearly all are receiving it. Of these, practically all are receiving it thanks to Global Fund activities (while Lao PDR is a PEPFAR recipient, it has received less than US\$ 1 million in funding under the US programme).

Another way of approaching the impact of Global Fund is via TB statistics. The first Global Fund grants were approved in 2002 and the first TB grant in 2003, so only the improvement between 2000 and 2005 could possibly be ascribed to the Global Fund. However, the data below, again from WHOSIS, at least paint a picture of consistent improvement. At least some of this can be plausibly ascribed to the Global Fund.

	Cambodia			Lao PDR			Vietnam		
	1995	2000	2005	1995	2000	2005	1995	2000	2005
DOTS detection rate (%)	40	50	68	na	40	72	30	82	84
DOTS treatment success rate (%)	91	91	93	70	77	90	91	92	92

### Related facts, figures, and references

(1) See, for example, [www.aidsplan.org](http://www.aidsplan.org), a self-described ‘independent watchdog of the Global Fund and publisher of Global Fund Observer.

### JC 2.3: Mother and child health service coverage, especially in originally under-served regions

#### JC assessment:

In approaching this indicator, we focus on maternal mortality and child immunization rates. There appears to have been a substantial long-term decline in maternal mortality (Indicator 2.3.3); unfortunately, the latest available estimate appears to be for 2000. Moreover, we have identified significant differences between estimates in the CSPs and estimates in the WHO Statistical Information System.

Most maternal mortality is associated either with haemorrhage, requiring referral to a district hospital, or sepsis, often associated with giving birth outside a health facility. The proportion of births occurring in medical facilities (Indicator 2.3.1) is extremely low in Lao PDR. We did not find any information on change in this proportion. However, the WHO estimates that, in the early 2000s, only 19 percent of births were supervised by trained personnel.

It is plausible that improved access in remote areas to health facilities, made possible by projects such as the MPDLC (see EQ 1 above) contributed to reducing maternal mortality by making easier for women experiencing complications of childbirth to be treated at a properly equipped clinic. Group interviews with MPDLC beneficiaries bought out access to health facilities as one significant project benefit. The very substantial progress against malaria, some of which can with confidence be attributed to the EC regional malaria control programme and EC-supported Global

Fund activities, would without question contribute to a decline in maternal (and child) mortality.

While almost all villages are reported to be covered by the Extended Programme of Immunisation (EPI) programme, child immunization is far from complete. We present data that the DPT3 immunisation rate, a common indicator, has been “stuck” at around 50% since the 1990s. Whether improved service coverage in areas covered by EC support contributed to progress in immunisation these areas is not clear.

Stepping back, it is clear that, by and large, the health system in Lao PRD has failed to deliver an adequate level of health services to the population. Subsidies are captured mostly by the top income quintile and there are large disparities in both services and outcomes (World Bank Integrated Fiduciary Assessment Review, Report 39791-LA, 2000). Attempts to cover financing gaps by the imposition of user fees have adversely affected the poor. The efficiency of health service operation is low because of factors on both the supply and demand side – overcapacity in some cases, low quality of services offered in other, low demand due to poverty and cultural factors, remoteness and inaccessibility, etc. We explore these issues further, especially the role of poor budgeting and public financial management practices, in Special Focus 5 in Annex 5

### **Indicator 2.3.1: Change in proportion of births occurring in medical facilities**

#### **Indicator estimate:**

Proportion of childbirths taking place in suitable facilities is a variable often collected by Ministries of Health, but we did not come across such information. The best we can offer is an estimate in the WHO Statistical Information System (<http://www.who.int/whosis/data>) that, in 2001, only 19 percent of births were supervised by trained personnel, which may be compared to 44 percent in Cambodia and 88 percent in Vietnam (both ca. 2005). The WHO estimate is consistent with the MDG Progress Report Lao PDR of 2004, which indicated that, by 2000, only 17 percent of births were supervised by trained personnel.

Projects in Luang Prabang province (visited by another evaluator) identified improved access to medical facilities as one of the significant benefits of access roads built with project support.

#### **Related facts, figures, and references**

Interviews with MPDLC project beneficiaries (see Persons Interviewed).

### **Indicator 2.3.2: Change in child immunisation rates**

#### **Indicator estimate:**

Data from various sources paint a somewhat varied, but overall consistent picture: immunisation in Lao PDR is far from complete.

The table below gives trends in DPT3 immunisation (percent of one-year olds having completed DPT3 cycle) as estimated in the WHO Statistical Information System (<http://www.who.int/whosis/data>). According to these data, DPT3 coverage has languished at about 50 percent since the mid-1990s. Despite this mixed picture, there is optimism in the Ministry of Health that national immunisation goals can be reached by 2015.

The MDG Progress Report Lao PDR of 2004 indicates that by 2002 55 percent of infants <1 were fully immunized. The World Bank's 2000 World Development Indicators CD-ROM quotes a measles coverage rate of 67 percent and a DPT-3 coverage rate of 60 percent for 1998, the latter not much different from the WHO estimates below.

The proportion of children immunized against measles increased from 50 percent in 2000 to 55

percent in 2002, but had been as high as 62% in 1996 (2). No data later than 2002 were found.

DPT-3 immunisation rates (percent of 1 year-olds)	1990	1995	2000	2005	2007
Cambodia	38	39	50	82	82
Lao PDR	18	54	53	49	50
Vietnam	88	93	96	95	92

According to the CSP 2002-2006, 95 percent of villages in the country are covered by the national Extended Programme of Immunization (EPI). Nevertheless, only 40 percent of all children are immunized on time according to the vaccination schedule. Lao PDR has been polio-free since late 2000 (1).

#### Related facts, figures, and references

- (1) CSP 2002-2006, p.11.
- (2) CSP 2007-2013. p.11.
- (3) Interviews with World Health Organisation staff.

#### Indicator 2.3.3: Change in maternal mortality rates

##### Indicator estimate:

The CSP 2002-2006 estimates (1) that the maternal mortality ratio (deaths per 100,000 live births) declined by 126 per 100,000 in 6 years (from 656 in 1994 to 530 in 2000). The CSP 2007-13 (2) reports that the maternal mortality rate fell from 750 to 530 deaths per 100,000 live births between 1990 and 2000, yet expresses doubts whether continued progress can be sustained given the current low levels of investment in the health sector. It is not stipulated whether these reductions were in areas underserved by the health system. No later figures are available; moreover, they deserve to be taken with a grain of salt as the WHO WHOSIS estimate for the maternal mortality ratio in 2005 is 660 per 100,000 (as compared to 540 in Cambodia and 150 in Vietnam). While further progress against maternal and child mortality is expected, the respective MDGs will not be met.

While most maternal mortality is due to direct obstetric causes (and by extension, lack of access to diagnostic and emergency medical care), malaria in pregnancy is a significant cause. Therefore, we take this opportunity to document progress made against that disease. Under the EC-financed regional malaria control programme, there was extensive capacity building in case management and treatment of severe cases, as well as awareness creation in the population, distribution of microscopes to health centres (and related training) and an important increase in the distribution of impregnated bed nets (reaching 80 percent of households in high prevalence areas). In 2003, the Global Fund picked up where the EC regional project left off, taking over many of the staff

that had been trained. The program now covers all provinces, but not all villages, the constraint being lack of access during the rainy season. In 2005 the country started switching the treatment of malaria to Artemesian Combination Therapy (ACT) and adopted the rapid test kits which are given to trained volunteers to diagnose the disease. In Rounds 6 and 7 of the GF the Ministry of Health moved to engage in work on counterfeit anti-malarial medicines and on strengthening the health system delivering malaria services. The WHO representative interviewed in Vientiane highlighted, as very significant, the role of the EC in contributing to a 60 percent decrease in malaria since the regional EC malaria project started in the mid 1990s. The MDG for malaria is likely to be achieved before 2015.

Maternal mortality is a key variable in the broader area of reproductive health, and we take this opportunity to briefly describe one of the EC's most visible activities, the Reproductive Health Initiative for Youth in Asia, which ended in 2004. RHIYA accomplished significant improvements in the knowledge of reproductive health and AIDS issues of both adults and youth in Vientiane and three provinces appear. However, the pace of progress had been faster Viet Nam in recent years, and the EC's "big push" in this important area was not followed up on in Lao PDR. We allude to this, as well, in our answer to EQ 9, where we identify this project as especially notable in that it revealed the EC pursuing one of its comparative advantages—the ability to provide support in controversial areas where bilateral donors find it difficult to engage. The fact that an innovative Youth Centre set up in Vientiane by the project is still functioning, with a significant contribution of Government financial support, testifies to the continuing relevance and effectiveness of the project.

#### **Related facts, figures, and references:**

- (1) CSP 2002-2006, p.11.
- (2) CSP 2007-2013, p. 11.
- (3) WHO staff interview.
- (4) UNFPA staff interview.

### **JC 2.4: New strategies consider the issue of EC visibility**

#### **JC assessment:**

Neither the 2002-2006 nor 2007-2013 CSPs mentions issues of visibility related to support for improved health. However, the additional of the Variable Tranche mechanism to the PRSO, which highlighted the EC's determination to combine budget support with an explicit focus on the health and education sectors, significantly increase EC visibility within this new strategy. While national project staff interviewed were aware that the EC is a major source of funding for the Global Fund, this was the extent of the evidence we found related to EC visibility. In general, our assessment of this JC is that new strategies did not consider the visibility issue.

#### **Indicator 2.4.1: Evidence of EC visibility in programming**

##### **Indicator estimate:**

Field interviews give a positive view of the Global Fund's engagement, significantly supported by the EC and its Member States, in Lao PDR. Experts involved in the Global Fund Malaria Control Project were aware that the EC was a major source of funding for the Global Fund – admittedly, the same official had previously been national project officer in Lao PDR for the 1996-2003



regional EU Malaria Control Project, which provided the foundation for the Global Fund project). The transition from that project to the Global Fund's malaria control project in 2003 was seen as a model for a smooth transition.

Planning documents reviewed do not give the visibility issue any consideration.

EC participation in the PRSO budget support process has been made more visible by the EC's strongly identifying itself with policy triggers related to social sector budgets through the Variable Tranche mechanism.

**Related facts, figures, and references**

Interview with Global Fund malaria project staff.

**Indicator 2.4.2: Evidence of EC visibility in implementation**

**Indicator estimate:**

See above. We have found no direct evidence, apart from awareness that the EC is a funder of the Global Fund, of EC visibility.

**Related facts, figures, and references:**

None

### **EQ3- To what extent has EC support to the education sector resulted in sustainable increase in the availability of and access to primary education?**

#### **EQ answer**

*“Headline” indicators of primary education such as the net intake ratio and the net enrolment rate have improved in Lao PDR, although gaps between urban and rural, poor and non-poor, and predominantly Lao-Tai and predominantly non-Lao-Tai areas (i.e., areas inhabited principally by the ethnic majority and by ethnic minority groups) continue to be wide. The EC, through its Basic Education in Northern Communities (BENC) project, contributed significantly to the expansion of primary school infrastructure in poor areas. However, access to basic educational infrastructure is not particularly bad in Lao PDR; it is shortages in human resources and teaching materials (as well as the quality of infrastructure and the quality of teachers and teaching materials) that are more serious. The BENC project itself has provided illustrations of the pernicious shortage of recurrent education budgets. In short, over most of the assessment period, while EC support may have had some positive impact on education outcomes, sustainability was low. However, PRSO budget support is now contributing to sustainable improvements in primary education.*

Education is a priority sector for the Government of Lao PDR and for the donor community in Laos. The number of children in the primary education age range will increase from 753,500 in 2000 to 889,600 by 2015. There are disparities between girls and boys, Lao-Tai and non-Lao-Tai ethnic groups, poor and non-poor districts, and urban and rural areas. Low primary school net enrolment and completion rates are concentrated among children in rural, remote areas inhabited primarily by members of ethnic minority groups. School facilities in rural areas are mostly temporary facilities lacking play and learning materials, as well as basic sanitation facilities. However, there has been significant progress in recent years, and it must be kept in mind that the Ministry of Education is now trying to deal with high marginal cost, difficult-to-reach populations. The Education for All (EFA) National Plan of Action (NPA) 2003-2015 is the Government document of reference for the education sector. The NPA concentrates on four priority segments: Early Childhood Care and Development (ECCD); Primary Education; Lower Secondary Education (LSE) and Non-formal Education and Skills Training.

The NPA sets ten quantitative goals. Among these are converting 80 percent of incomplete primary schools to complete (meaning that there will be five grades available) schools by 2010, providing primary school access to children from all unserved villages by 2010 (average of two villages served by one new school), increasing gross and net enrolment rates, and increasing primary completion rates, all while maintaining a constant pupil-teacher ratio that does not exceed 31:1. The most important target for achieving EFA is universal quality primary education by 2015, with equitable access and completion as medium-term objectives.

In examining the Judgement Criteria below, we paint a picture of overall improvement, especially over the long term but in recent years as well, with, however, persistent disparities. Net primary school enrolment rates and have risen, as have net intake ratios; new schools have been built, and old ones have been completed. However, the availability of textbooks appears to have declined and the number of ethnic minority teachers per 1,000 ethnic minority school-aged children has dropped, in part because rapid growth of the target population has exceeded recruitment and training efforts. There is no evidence that teaching materials in ethnic minority languages have been made available. The most rapid expansion, albeit from a low base, has been in secondary education, but the quality of secondary education is poor.

Over the evaluation period the EC was involved in support for education through its on-going 2004-2010 project “Basic Education Development project in Northern Communities” (BENC). The objective of the BENC project in altogether 9 districts of the northern provinces of Luang

Namtha, Luang Prabang and Phongsaly is to improve access to and participation in primary education (by 6,000 students) and non-formal literacy courses for adults (reaching 10,000 persons); to improve the quality of primary education and to enhance management capacity. There was also some provision of education infrastructure and capacity building under the Microprojects Development Through Local Communities Project.

In answering this EQ, we have relied heavily on the Mid-Term Review of the BENC Project to assess the EC's contribution. However, interviews with central and provincial education officials have allowed us to verify and expand on some findings, in addition to which, we highlight the new role of budget support in increasing resources available to the education sector. A significant amount of statistical data on education inputs and outcomes are presented in Special Focus 5 of Annex 5.

A significant amount of infrastructure, in the form of classrooms, has been provided (Judgment Criterion 3.1). Some of this will go to reducing overcrowding, however, some previously unserved villages are also being provided with schools. While the Mid-Term Review raised some issues regarding construction, communities appear to be satisfied with the infrastructure provided. Moreover, infrastructure provision has benefited those communities most in need. This is evident from the fact that increases in enrolment (estimated from data sources other than the then non-functional BENC monitoring system) came predominantly in the poorest districts. However, the Mid-Term Review reveals that admissions are declining in all BENC districts of Luang Namtha (a relatively well-off region) instead of increasing as per the project objective.

While number of schools and enrolment or completion rates say something about the quantity of education received, quality is also important (Judgment Criterion 3.2). Little information is available on number of qualified teachers in post, but availability of teachers, especially in poor, remote districts continues to be a major constraint. That this problem has affected the effectiveness of EC activities is implicit in a BENC Mid-Term Review recommendation that Government be held to account to provide teachers.

While the project made teaching materials available to the poorest districts, there were still shortages of textbooks and teacher manuals, and there is no indication that material was made available in ethnic minority languages.

Information on the proportion of children enrolled (Judgment Criterion 3.3) is not available from project monitoring. One of the strongest criticisms made in the Mid-Term Review was that there were delays in putting a monitoring system in place, although basic information required is available from the Government's Education Monitoring Information System (EMIS). The lack of a monitoring system may have reduced the impact of the project on the quality of education provided (Judgment Criterion 3.4). More concretely, training provided by the project was not fully effective or relevant; curriculum reform was limited, and there is no evidence of improved availability of teaching materials in ethnic minority languages.

Whether progress in education is sustainable is open to debatable for fiscal reasons. In the discussion below, and more specifically in Special Focus 5 in Annex 5, we trace problems in the education sector less to national availability of infrastructure budgets or trained teachers, but rather to inadequate budgets for recurrent expenditure at the provincial and district level. As in health, the ratio of recurrent to capital expenditure (mostly donor-financed) in the education sector is too low. The key to long-term sustainable improvement in the education sector lies more in public sector financial management reform and improvement of the budgeting process than in directly assisting in infrastructure or teacher training. As noted in the CSP 2007-2013 (p. 12), at 11% of the state budget, education spending in Lao PDR is among the lowest in the region. Nearly two thirds of all investment expenditure in the sector comes from aid. At a number of points below, we have noted the persistent problem of maintaining qualified teachers in post, shortages of

teaching materials, and so on.

Interviews with province-level education officials in Luang Prabang confirm the great difficulty in hiring teachers, both because of inadequate supply and because of inadequate budget resources.

The EC is attempting to address the problem of inadequate budgetary resources through the PRSO budget support mechanism (see Special Focus 3 in Annex 5). Priorities identified by the World Bank Integrated Fiduciary Assessment (Report 39971-LA) are focusing resources on primary and basic education, in particular, increasing teachers' salaries; improving the targeting towards priority districts and priority groups such as girls and members of ethnic minority groups, and improving management and financial information in order to achieve more transparency at the provincial level. These priorities are all addressed, albeit some more directly than others, by EC support to the PRSO. The Variable Tranche makes resources directly available to the education sector in poor areas of the country, while PRSO-related policy dialogue addresses issues of public sector financial management.

### **JC 3.1: Infrastructure for basic education in areas benefitting from EC-financed interventions**

#### **JC assessment:**

The school access strategy of the EFA NPA aims to expand supply by (i) "completing" incomplete schools (if a school has 5 grades it is termed complete and if fewer, often only 1 to 3, it is termed incomplete), (ii) establishing schools to serve all children from unserved villages, and (iii) expanding existing complete schools according to demand in their catchment area.

In reviewing Indicator 3.1.1, we report that there has been an increase in the number of primary schools and in the proportion of these that are complete. A broad view is that most areas have basic education infrastructure at the primary level; however, the quality of that infrastructure is low. Buildings themselves are inadequate, basic equipment such as blackboards may be missing, and so on. In Special Focus 5, we develop the theme that money for teaching materials, maintenance, and equipment are at the end of the financing queue, so that the many problems identified with budgeting for public education are worst in these areas.

Infrastructure provision is the major focus of the BENC project, which intends to build 280 classrooms in order to complete 100 schools. At the time of the Medium-term Review, 35 schools with altogether 95 new classrooms had been built and handed over, although not all of them were finalised. The Mid-Term Review recommended that no school should be delivered before being finalized and duly checked according to MoE rules. According to the Mid-Term Review, the technical assessment of project schools reveals defects and significant divergence from the blueprints. The monitoring and supervision of construction was given a mixed review, with both strengths and weaknesses being identified. However, the quality of schools completed under the project is reportedly good and local partners are satisfied with the new buildings.

Some of the infrastructure provided will go to reducing overcrowding rather than putting children currently not in school in the classroom. While this will improve the quality of instruction, the increase in number of children schooled will be lower than might be expected.

Other EC projects provided education infrastructure, as well. The Microprojects Development Through Local Communities (MPDLC) Project built 72 schools. Initially the Phongsaly Forest Conservation and Rural Development Project had an education component; however, the MTR recommended that this be terminated.

### **Indicator 3.1.1: Number of schools built / refurbished**

#### **Indicator estimate:**

As in the case of health, we have better information on personnel (teachers) than we do on infrastructure. At the national level (admittedly broader than the level of “areas benefitting from EC support,” as called for in the Judgement Criterion) about 84 percent of primary-school students have access to schools. About 80 percent of the population lives in villages with a primary school, however, about two out of three of these village schools are incomplete, i.e. offer less than five grades (1). Access to facilities falls off sharply at the lower secondary level, contributing to the observed low transition rate to lower secondary education in poor areas. Infrastructure and classroom conditions are inadequate, especially in rural areas and areas with a preponderance of ethnic minority students (ibid.). As described in Special Focus 5 in Annex 5, many of school directors report that their schools need to be either refurbished or rebuilt entirely. However, according to the Ministry of Education, the number of primary schools increased from 8,155 in 2000/01 (39 percent of them complete) to 8,654 in 2005/06 (44 percent complete).

#### The Basic Education in Northern Communities (BENC) Project

The BENC MTR records that 35 schools with altogether 95 new classrooms have been built and are operational. Tenders for Phase II Round 1 are underway, with 5 tenders awarded (2). If we take it from the Ministry of Education statistics quoted above that the annual rate of primary school construction nationwide was about 80 a year in recent years, then it stands to reason that the BENC project has made and continues to make a significant contribution.

BENC activities have been targeted towards communities and areas most in need. Out of the 73 schools in Phase 1 and the first round of Phase 2, 30 have 2 classrooms, 31 have 3 classrooms and 9 have 5 classrooms. The quality of project outputs, schools being the most visible of these, is good and local partners express strong satisfaction with the new buildings.

However, contrary to international good practice, no assessment of the districts' primary school networks was done by BENC prior to the selection of project villages and school sites. It is well known that school location should be carried out using school mapping techniques and aiming to balance supply and demand at the district level, rather than making each village autarchic in education. The focus on communities' participation and the BENC team's limited knowledge of school mapping led to a school site selection process that the Mid-Term Review referred to as an amalgam of unrelated micro-decisions. One of the recommendations of the Mid-Term Review was that school mapping is critical and should be conducted in collaboration with planners of project PESs (Provincial Education Services) and District Education Bureaus (DEBs) to comply with MoE guidelines.

However, despite the lack of a systematic approach, the project appears to have benefited villages in need. Some 5-classroom schools have been built in villages previously without schools and some in villages where the existing school, while complete, was overcrowded. Some schools have been implanted in villages with very low primary enrolment rates (20-30 percent). However, most new schools have replaced existing schools; therefore, capacity has not increased as much as gross numbers would lead one to believe. The actual impact on admissions and enrolments will be lower than expected.

According to the Mid-Term Review, the technical assessment of project schools reveals defects and there were significant departures from original design as given by blueprints. The Mid-Term Review gave the monitoring and supervision of construction a mixed review. Among the good points, the civil engineer regularly monitored and supervised the construction with DEB (District

Education Bureau) staff, the contractor, and village authorities, and was able to implement at a basic technical standard. Among the weak points, there was in a number of cases a lack of coordination between the site engineer and PUCDA (Provincial Unit for Construction and Development Assistance) in technical aspects and construction monitoring. DEB staff does not have a technical knowledge of construction, the site engineer is an inappropriate person to be charged with monitoring, and therefore quality control was limited.

35 schools were formally remitted to provincial authorities after the end of the MTR workshop, but only 15 of these were fully completed (11 in Luang Namtha, 3 in Luang Prabang and 1 in Phongsaly). The delivery of unfinished schools, before they have been duly inspected and all defects corrected, stands in contradiction with Ministry of Education rules as well as international good practice. It raises the question of who would be responsible if any accident due to construction defects occurs in the future.

#### Other EC projects

Turning to other projects, the Mid-Term Review of Phongsaly Forest Conservation and Rural Development Project recommended terminating the education (and health) component. This was considered an improvement by the Final Evaluation considering that there was about half of the Project implementation time left and the Project had experienced a number of difficulties in implementation (3).

The MR of MPDLC states that 72 schools were built, (not specifying number of classrooms or the number of students the schools are expected to accommodate) (4).

#### **Related facts, figures, and references:**

- (1) Lao PDR Expenditure and Consumption Survey and 2005 Population Census data summarised in the PETS (see Special Focus 5 for citation), p. 43.
- (2) Mid term review of the Basic Education Development project in Northern Communities (BENC). This and subsequent references to that MTR refer particularly to pp. 9-13.
- (3) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. Vi.
- (4) ROM Report 11.12.2006, MPDLC Project.

### **JC 3.2: Functioning education system (offer side)**

#### **JC assessment:**

We have seen above, that the number of schools and classrooms in the country has increased and that the EC BENC project has made a significant contribution. However, in reviewing the Indicators associated with this JC, some issues have been identified at the national level. The number of primary school teachers has not changed significantly in recent years and there are continuing deficits in rural, poor, and non-Lao-Tai areas (Indicator 3.2.1). There has been an overall improvement in the proportion of teachers having proper qualifications, but again, geographical gaps are still significant (Indicator 3.2.2). Availability of educational materials, at least textbooks, has actually worsened in recent years, again with rural, poor, and non-Lao-Tai areas in the weakest position (Indicator 3.2.3).

Note, however, that we are not able to make any judgements on whether gaps are widening or narrowing. We do have evidence that the scarcity of non-Lao-Tai teachers is growing worse (Indicator 3.2.2), but, as always, apportioning scarcity to low supply or high demand is an ambiguous exercise. One interpretation is that the supply-demand gap is widening not because of

insufficient recruitment efforts, but because of high fertility rates among ethnic minority populations.

We know that the shortages of teachers and, even more, of teaching materials are related to insufficient budgetary resource to finance recurrent expenditure, one of the main sources of discussion in Special Focus 5. These constraints have contributed to giving rise to the EC's variable tranche component of PRSO budget support, which is tied to the adequacy of social sector recurrent budgetary resources in poor areas of the country.

In examining the Indicators below, we have also examined information specific to the EC's BENC project. As we have seen above (Indicator 3.1.1), the BENC has provided a significant amount of education infrastructure in the form of classrooms and school buildings. No changes in the number of teachers in post (Indicator 3.2.1) have been recorded in the villages and schools BENC is supporting. This could be attributed to the fact that the project's monitoring and evaluation system was still under design over the evaluation period (a fact that attracted some criticism by the Mid-Term Review). However, we know from general contextual information that there is a continuous competition for qualified teachers due to their limited numbers, especially for the poor districts. If qualified teachers cannot be posted to the schools the project is constructing (and there is at least one case in which this has been seen) project impact will be impaired. The fact that the MTR recommended that the project squarely address the issue of how to force Government to commit to having teachers in post suggests that much remains to be done to address this issue. Field interviews with province-level education officials confirm that availability of teachers is a serious constraint and that, even if enough teachers were available from training, there would not be sufficient money in the provincial budget to hire them. As we discuss below with regard to Indicator 3.2.2, the BENC project has engaged in a significant amount of training, but it appears that there has been insufficient attention to the design and hence quality of training. This follows from a number of recommendations made by the Mid-Term Review regarding training.

We have found little information on teaching materials (Indicator 3.2.3) specific to BENC. However, the MTR specifies that those materials made available by the project have been exclusively directed to the poorest districts.

### **Indicator 3.2.1: Change in number of teachers in post**

#### **Indicator estimate:**

Availability of qualified teachers in post is an important issue in Lao PDR, especially in remote and poor areas where living conditions are difficult. Between 2000/01 and 2005/06, the number of primary school teachers remained constant at about 27-28,000 (1). Nationwide, the primary school pupil-teacher ratio remained about 30 between 1993/94 and 2004/05 while, due to rapid growth in secondary education, the ratio at the secondary level increased from 13 to over 25 (2). Pupil-teacher ratios are higher in rural, poor areas.

There are several reasons for the higher ratio in less well-off districts. One, which we discussed in Special Focus 5 in Annex 5, is that, while real salaries are higher in rural areas because of the lower cost of living, living conditions are less attractive and salary arrears are common. In general, shortages of teachers in disadvantaged districts are due in significant part to the shortage of resources to finance recurrent expenditure. This problem was illustrated by field interviews with the provincial Education Department in Luang Prabang Province. The provincial education budget is far too small to cater for the needs of the sector, leaving the province has a shortfall of 300 teachers at the moment. Even if the additional teachers were available from training, the education budget would not be enough to cover their salaries.

A primary school pupil-teacher ratio of 30 is not internationally regarded as unusual; however, in some areas with large ethnic minority populations, pupil-teacher ratios are far higher than this.

According to the Ministry of Education's Education for All Mid-Decade review (p. 101), between 1999/00 and 2005/06, the proportion of Lao-Tai primary school students in the total student population declined from 73 percent to 63 percent. This represents a combination of factors, ranging from high fertility among ethnic minority populations and expansion of primary education to better cover disadvantaged areas. Despite recruitment and training efforts directed to increasing the number of ethnic minority teachers, the proportion of primary school teachers who were Lao-Tai declined from only 82.9 to 80.8 percent. The number of Lao-Tai primary school teachers per 1000 Lao-Tai primary school students rose from 38 to 40, while the number of non-Lao-Tai primary school teachers per 1000 non-Lao-Tai primary school students declined.

### The BENC Project

The need to secure teachers to be assigned to the additional classes held in BENC project-provided new classrooms was flagged by the Mid-Term Review. One case study (Naxay 2 village) shows that a school was built without PES/DEB commitment to allocate one additional teacher, thereby running the risk that new classrooms would stay empty at least for the next school year. The decision was not mentioned and justified in BENC official reports (3).

The Mid-Term Review of the BENC Project recommended that higher priority should be given to completing incomplete schools while making sure that additional teachers would be allocated to new schools (4). Yet officials of the Ministry of Investment and Planning interviewed during the field phase characterised the EC's request that Government assume more of the operating costs of BENC facilities "unrealistic." This highlights the budgetary and public financial management challenges described in Special Focus 5 of Annex 5.

Pupil-teacher ratios are reported to be higher in the poorest districts, but the Mid-Term Review cites international studies conclude that the pupil-teacher ratio is not linked with achievement as long as it stays within 20 to 40 (5). Teachers are probably less educated and trained in poorest districts, but this is just a speculation that remains to be supported by data.

The potential impact of the intervention is still high, provided the project is able to address the availability of skilled teachers, hopefully regular permanent contract teachers, not short-term temporaries. A clear sign that the issue is important is that a project ROM Report recommended as its highest priority that the project incorporate into its procedures a formal legal commitment on the part of the relevant education authorities to provide enough teachers for the new and upgraded schools (6).

### **Related facts, figures, and references:**

- (1) Ministry of Education, Education for All Mid-Decade Review, 2008, p. xii, Table 3.
- (2) Benveniste et al. 2008, p. 52, Figure 18. See Special Focus 5 for full citation.
- (3) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 8.
- (4) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 12.
- (5) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 18.
- (6) ROM Report (MR), BENC, 07.12.2007.
- (7) Interviews at Ministry of Education, Vientiane, and with provincial education officials, Luang Prabang.



### Indicator 3.2.2: Number of teachers trained

#### Indicator estimate:

The proportion of primary school teachers with proper academic qualifications rose from 69.6 percent in 2000/01 to 84.8 percent in 2005/06 for men and from 86.4 to 93.2 percent for women (1). However, differences in level of qualification and years of experience between poor and well-off regions remain wide (2).

#### The BENC project

The BENC Mid-Term Review gives a target of 1,200 teachers to be trained annually in subject content and instructional methodology. Since there are only about 27,000 primary teachers in the country and fewer than 1,000 secondary school teachers, the project aims to make a significant contribution to training. The Mid-Term Review states that BENC has started implementing training of trainers, teachers and principals, and District Education Bureau staff (3).

Under the first of these components (training of trainers), 30 trainers had been trained at the time of the Mid-Term Review. However, the Mid-Term Review makes a number of criticisms: that a single one-off 6-day training course is inadequate, that there are no annual and end-of-project training objectives and no detailed curriculum to achieve the objectives, and finally, that the training program and method are not oriented toward on-the-job training (4).

Under the second component (training of teachers and principals), the Mid-term Review reports that 589 principals and teachers have undergone training in: (i) the use of primary and non-formal basic education curricula, (ii) teaching Lao language, Mathematics, and the World around Us; (iii) School Administration and Management; and (iv) community development planning. It was the first time for the school principals and teachers in the target schools to receive such training (5). The Mid-Term Review expressed reservations that trainees follow the same course, while each target group has specific professional needs. It also makes a point similar to that made regarding the training of trainers, that a short period of time will not guarantee that trainees will be able to acquire the necessary skills (6). On the bright side, the Mid-Term Review concluded that teacher upgrading and in-service training is mostly targeted to poorest districts. (7)

The Mid-Term Review made a number of specific recommendations related to training. Taken together with the criticisms above, they leave the impression that, while progress is being made as regards quantitative targets, the effectiveness, relevance, and overall quality of training provided could be improved.

Regarding school funds, 500 school principals and Community Education Committee members in 150 project villages have been trained on school management, using funds and grants to support ethnic children and school developments (8).

#### **Related facts, figures, and references:**

- (1) Ministry of Education for All Mid-Decade Assessment, 2008, p. 47.
- (2) PETS study (see Special Focus 5 for citation), p. 45.
- (3) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 8.
- (4) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 10.
- (5) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 10.
- (6) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 10.

- (7) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 18.
- (8) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 10.

### **Indicator 3.2.3: Availability of teaching materials**

#### **Indicator estimate:**

Because teacher's salaries are relatively incompressible, the most serious impact of insufficient recurrent budgetary resources is on maintenance, equipment, and teaching materials. The situation in primary education has worsened, with the number of textbook sets per student declining from 0.47 in 2000/01 – roughly the target of one set of textbooks for every two students – to only 0.22 (one set for every five students) in 2005/06 (1). The expected urban / rural, poor / non-poor, and Lao-Tai / non-Lao-Tai disparities are observed in number of text books per student and proportion of students unable to afford textbooks (2)

#### The BENC project

Four sets of training programs and manuals have been designed under the BENC Project: (i) use of primary and non-formal basic education curricula; (ii) teaching Lao language, Mathematics, and the World around Us; (iii) school administration and management; and (iv) community development planning (3). Textbooks, teacher guides and supplementary teaching materials have only been targeted to poorest districts (4). Some textbooks have reached Chomphet DEB, but the head of the DEB reported that the request was cut in half, meaning that only half of the school children will receive a set of textbooks, i.e. one set will have to be shared among 2 school children. Moreover, the target of 2 textbooks on average per student is inconsistent with the fact that there are 3 textbooks for Grade 1-3 school children and more for Grade 4 and 5 school children (5).

The Mid-Term Review makes a number of recommendations related to training material which indicate that project effectiveness and relevance are in need of improvement. First, it recommends that, since the BENC project targets poor areas with large ethnic minority populations, materials should be adapted to the target groups (6). As we discuss below in the context of Judgment Criterion 3.4, there appears to have been no improvement in the availability of teaching materials in ethnic minority languages.

The “cluster” approach can be used to identify basic equipment and training materials needed in order to satisfy district needs (7), but this has not been employed. There continues to be significant unmet demand for primary school teachers' guides, which are not available in the market.

#### **Related facts, figures, and references:**

- (1) Ministry of Education, Education for All Mid-Decade Review, 2008, p. 99, Figure 29.
- (2) PETS study (see Special Focus 5 for full citation), p. 45, Figures 35 and 36.
- (3) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 10.
- (4) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 18.
- (5) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 47.
- (6) Mid term review of the Basic Education Development project in Northern Communities

- (BENC) p. 10.
- (7) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 11.

### **JC 3.3: Proportion of school-age children receiving appropriate education**

#### **JC assessment:**

Access to primary education in Lao PDR is not unusually bad for a low income country, with 80 percent of children of primary school age living in villages with a primary school. The primary school net enrolment rate is, to some extent coincidentally, about 84 percent. The national evidence (Indicator 3.3.1) is that there has been improvement in the primary net enrolment rate in recent years, as well as a narrowing of gaps between girls and boys. Evidence from the area covered by the BENC project suggests a narrowing of gaps between poor and non-poor districts; if so, this stands in contrast to the national trend between the early 1990s and ca. 2000, which saw a significant widening of net enrolment rate gaps between poor and non-poor areas, between urban and rural, and between predominantly Lao-Tai and non-Lao-Tai areas.

Another indicator of the proportion of school age children receiving appropriate education is the net intake ratio, defined as the proportion of children of the official school starting age who actually enter Grade 1. There have been substantial increases since the early 1990s, and this now stands at about two-thirds. We cannot document increases in areas covered by EC interventions such as the BENC project. "Appropriate" education for ethnic minority children would include instruction by teachers familiar with their mother tongue and the availability of teaching materials in languages other than Lao-Tai. We see little evidence of improvement in these areas.

In the spirit of the EQ, we have focused on primary education, but it is worth pointing out that there has been a substantial increase in the availability of secondary education. However, geographical gaps in access and differences in average enrolment rates are significant, in addition to which expenditure per student is far lower than elsewhere in the region.

The monitoring system of the BENC project is still under design and sources of information do not reveal which proportion of school-age children are receiving appropriate education. As our discussion of Indicator 3.3.1 describes, data from other sources indicate that there were increases in school intake and enrolment rates in a number of the poorest districts served by the project. Discouragingly, however, the same data show that there was actually a decrease in admissions in the best-off districts served by the project and little change in others. There are, likewise, no data available from the project on proportion of children never having attended school in districts targeted. We know from above, however, that the project provided schools in some districts that never had an educational facility.

#### **Indicator 3.3.1: Change in proportion of elementary-age children in school in districts benefiting**

##### **Indicator estimate:**

With hindsight, this indicator should have been stated more explicitly as "Change in proportion of elementary-age children attending school in districts targeted by (i.e., benefiting from) the project."

The monitoring system of the BENC was still under preparation over the evaluation period, so no specific information on the indicator is available. However, quantitative analysis done under the BENC project validates and complements the household analysis deriving from other sources showing that, from 2000/01 to 2004/05, intake (i.e., new enrolments) declined in non-poor

districts covered by the project (a finding that should be of some concern), stayed more or less constant in poor districts and significantly increased in the poorest districts (1). Over the past five years, about three quarters of the observed increase in enrolments came from the poorest districts. In 2004-05, gross enrolment rates were about 10 percentage points lower in poorest districts than in the country as a whole, a reasonably small difference by international standards. It thus seems clear that progress has been concentrated in the poorest districts and that (at least as measured by gross enrolment rates, a sometimes unreliable indicator) the gap between poor and non-poor districts has narrowed.

These data, which point to a narrowing of gaps, stand in contrast to the unfavourable overall trend observed for earlier years (1992/93 and 2002/03) in the country as a whole. According to the Lao Expenditure and Consumption Survey as cited in the PETS study (see Special Focus 5 in Annex 5 for citation) primary school net enrolment rates between poor and non-poor children, between priority and non-priority districts, and between Lao-Tai and ethnic minority children, all widened; in the poor / non-poor case from 16 percentage points in 1992/93 to 24 percent in 2002/03. Data presented in the Ministry of Education (2) for progress between 2000/01 and 2000/05 state that the primary school net enrolment rate increased from 83.0 percent to 86.5 percent for boys and from 76.0 percent to 81.2 percent for girls, a significant narrowing of the gap.

However, Ministry of Education data also suggest that between 2000/01 and 20004/05, the primary completion rate, i.e. proportion of pupils entering Grade 1 who will graduate from Grade 5, remained virtually unchanged at one-third (3).

The MPDLC (see EQ 1) had an educational component. Even with a number of teachers sometimes lower than the number of classrooms and with the quality of teaching not always optimal, the school component represented a key result with high attendance rates (no proportions or rates mentioned) of 5,300 pupils of whom 2,410 girls (4). Again, and as in the case of BENC, project indicators focus on number of students in class, not on more rigorous measures of impact such as net enrolment rates.

The inadequate education budget also means that primary education is not free. It was estimated that in rural areas the average fee per child per school year would be Kip 50,000 while in Luang Prabang town it is Kip 300,000. Whether this affects families' ability to send children to school, is not quite clear. In Luang Prabang province, official estimate that about 8,600 school-age children (12 percent of 72,000) are out of school.

#### **Related facts, figures, and references:**

- (1) Mid term review of the Basic Education Development project in Northern Communities (BENC).
- (2) Ministry of education, Education for All Mid-Decade Review, 2008, p. 47, Table 29.
- (3) Benveniste et al. (see Special Focus 5 for citation), p. 15, Figure 7.
- (4) ROM report 11.12.2006, MPDLC.

#### **Indicator 3.3.2: Change in proportion of children never having attended school in districts benefiting**

##### **Indicator estimate:**

Nowhere have we found data on the proportion of children who have received no schooling at all. However, with the improvement of the net intake rate cited in Indicator 3.3.1 above, it is clear that the proportion never having gone to school has declined markedly over the long term.

Perhaps a reasonable proxy for this variable is the primary education net intake ratio (proportion of population of the official age to enter Grade 1 who does so). This rose from only 29 percent in

1991/92 to nearly 60 percent by 2000/01 and stood in 2005/06 at 66 percent (67.1 percent for boys and 65.6 percent for girls) (1). This is significant progress by any standard. Yet, to get an idea of disparities, the 2005/2006 net intake rate was only 35.9 percent for boys and 31.2 percent for girls in Phongsaly, 48.6 percent for boys and 51.4 percent for girls in Luang Namtha, and 62.9 percent for boys and 60.7 percent for girls in Luang Prabang. While students who fail to enter Grade 1 at the official age may start their education late, and while the overall net enrolment ratio in primary education has improved as described under Indicator 3.3.1 above, it is safe to assume that in some poor districts, there is still a small but significant minority of children who receive no formal education at all.

#### **Related facts, figures, and references:**

- (1) Ministry of Education, Education for All Mid-Decade Review, 2008, p. 48, Table 30 and p. 51, Table 35.
- (2) Ibid, p. 47, Table 29.

### **JC 3.4: Quality of education**

#### **JC assessment:**

The Lao PDR Education for All National Plan of Action (EFA NPA) for 2005-2015 seeks to attain three major goals: equitable access, improved quality and relevance, and strengthened education management.

A number of the indicators from JCs above are also relevant to quality of education. We have stated that, while the number of primary schools has expanded, with a significant contribution from the BENC project, and while access itself is not out of line with other countries, the quality of infrastructure is inadequate (Indicator 3.1.1). All sources consulted paint a picture in which classroom conditions are worse in poor, rural, and predominantly non-Lao-Tai areas. In addition, quality disparities between poor / non- poor, urban / rural, and Lao-Tai / non-Lao Tai areas are observed with respect to

- Primary school pupil teacher ratios (Indicator 3.2.1).
- Level of teacher training (Indicator 3.2.2).
- Textbooks per pupil and proportion of pupils unable to afford textbooks (Indicator 3.2.3)

One of the keys to improved education quality is curriculum reform (Indicator 3.4.1). Curriculum reform for primary education is an on-going process which takes time. Considerable challenges are faced in curriculum development for primary education as well as for teachers' training: need for increase in education expenditure without which an adequate curriculum will be out of reach; strengthening of curriculum development units in the education bureaucracy, continuous assessment and adjustments for ensuring relevance of curriculum, and, particularly, the problem of the under-developed localized curriculum in ethnic minority areas. The EC's BENC project has designed a training programme and a manual for "use of primary and non-formal basic education curricula." However, the project's emphasis has been infrastructure and equipment.

The Lao language is the medium of teaching nationwide, even in areas where it is not the mother tongue for most children. There is no information gathered to date that would suggest that learning materials are available in ethnic minority languages (Indicator 3.4.2). Ethnic minority students also have poorer access to textbooks of any type than Lao-Tai students. Many teachers are not natives of the communities in which they teach, do not speak the local language, and experience difficulties in communicating with and teaching local children. The proportion of

primary school students who are from ethnic minority groups has been rising, outpacing the availability of teachers with the desired language skills and cultural knowledge.

Indicator 3.4.3 concerns monitoring. The Education Monitoring Information System used to track the Education for All programme is of high quality and allows the Ministry of Education to monitor progress closely and in a timely fashion. Yet, the monitoring and evaluation information system of the BENC project was at the design stage 26 months after the approval of the Work Plan and 30 months before the official closing date of the project. The authors of the Mid-Term Review strongly recommended that the project accelerate work on a monitoring framework along simple lines sketched out in the Mid-Term Review itself. A situation analysis of basic education in BENC districts should have been done at the beginning of the project. The MTR team goes on to provide relatively detailed guidance to the project regarding monitoring and evaluation.

On all three indicators, then – curriculum reform, encouraging the availability of teaching materials in minority languages, and engaging in M&E, the BENC Project does not appear to have contributed much to raising the quality (as opposed to the quantity) of education in Lao PDR. However, the project contributed to relieving overcrowding, a variable which is related to quality.

### **Indicator 3.4.1: Curriculum reform implemented**

#### **Indicator estimate:**

The Ministry of Education's National Plan of Action on Education for All (2005) makes a number of basic points about the need for curriculum reform. It notes that improving the quality of education is closely linked to improving the curriculum, that localized curriculum development and curriculum development aimed at ethnic minorities need to be improved, that there is a lack of coherence between the primary and secondary school curricula, that there is no ongoing monitoring and adjustment process capable of ensuring that school curricula remain relevant and up to date, and that there is insufficient attention to vocational education and basic life skills. According to a representative of the private sector interviewed in Vientiane, the lack of skilled labour is a significant impediment to SME development in Lao PDR (see EQ 4 below). The Benveniste et al. study which is one of the main sources for Special Focus 5 in Annex 5 shows that enrolment rates, and the number of teachers in, technical and vocational education has stagnated while enrolment in secondary education has climbed rapidly (1).

The focus of EC support through the BENC project has been infrastructure provision, not curriculum development, although there have been some training activities. As described above, four sets of training programs and manuals have been designed: (i) use of primary and non-formal basic education curricula; (ii) teaching Lao language, Mathematics, and the World around Us; (iii) school administration and management; (iv) community development plan.

#### **Related facts, figures, and references**

- (1) Benveniste et al. study cited in Special Focus 5, p. 25, Figure 12.

### **Indicator 3.4.2: Materials in ethnic minority languages available**

**Indicator estimate:** We have found no evidence of the availability of teaching materials in ethnic minority languages. There is no mention in BENC documents consulted of materials in ethnic minority languages being available. It has been stated in several documents that Lao language is the sole teaching language in Lao PDR, including in areas populated heavily by ethnic minority groups (e.g., 1).

However, there is evidence that teaching materials regardless of language are scarcer in non-Lao-

Tai communities (2).

We have more information on the number of teachers of non-Lao-Tai ethnicity; this has been reported on in our discussion of Indicator 3.2.1. Since one of the determinants of basic literacy is spoken language (mother tongue), it is important to further study the impact of different mother tongues on education and literacy. It might be of great difficulty for ethnic minority children to go to school and learn in Lao for the first time. The BENC Mid-Term Review recommended that special preschool classes (pre-Grade 1) for Lao language should be offered in the ethnic minority areas (3). While expansion of Early Childhood Care and Development (ECCD) is an objective of the Education for All campaign and there has been some success, much of ECCD is privately financed and out of reach of the poor.

**Related facts, figures, and references:**

- (1) CSP 2002-2006, p. 11.
- (2) Benveniste et al. 2008 (See Special Focus 5 for full citation, p. 44).
- (3) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 38.

**Indicator 3.4.3: Monitoring and quality assurance mechanisms in place.**

**Indicator estimate:**

As evidenced by the recent mid-decade review of the Education for All programme, the Ministry of Education in Lao PDR does a credible job of tracking education inputs and outputs. Education For All national- and provincial-level indicators are readily available, and projected values of all indicators are computed within the structure of the national model for EFA. Central to the monitoring process are thirteen quantitative indicators that are in line with international best practice, including appropriate distinctions between gross and net rates, as well as disaggregated by sex.

The indicators are tracked through the Education Monitoring Information System (EMIS) cutting across all activities aimed at planning, implementing, monitoring and evaluating the NPA at national, provincial, district and school levels. Adapting the EMIS to produce the information needed at each stage of the overall process and collecting the information requested for EFA is, therefore, a crucial and urgent pre-requisite. The EC supports this activity, as do all other donors active in education. The World Bank EDP2 Project suggested, as one key activity of donor coordination and the Sector Wide Approach (SWAp), that the MoE design a comprehensive plan for improving the EMIS, in close cooperation with funding agencies, based on already programmed and funded project components related to the EFA NPA(1).

The BENC project

One of the main criticisms of the BENC made by the Mid-Term Review was the failure to put in place an effective monitoring system. The Mid-Term Review of the BENC provides data taken from the EMIS on population and primary education in the BENC 9 target districts as a framework for BENC assessment. Such a database should be part of the project monitoring and evaluation information system; yet this system (at the time of the Mid-Term Review) was still at the design stage 26 months after the approval of the Work Plan and 30 months before the official closing date of the project.. The Mid-Term Review suggests that a situation analysis of basic education in BENC districts should have been done at the beginning of the project, as part of the

M&E system. Actually, such analysis had already been done in Luang Namtha province and districts, and the BENC Team Leader was invited by the Mid-Term Review Team Leader to the workshop (December 2006) where the study was presented (2).

The Mid-Term Review recommended that BENC should give priority to the establishment of the project database for M&E and refer to the examples drawn from EMIS given in the MTR. The MTR goes on to recommend that strict deadlines should be set for the implementation of the M&E system.

**Related facts, figures, and references:**

- (1) Education for All (EFA) National Plan of Action (NPA) 2003-2015, the Ministry of Education of the Lao PRD, UNESCO Bangkok, 2005, p. 92.
- (2) Mid term review of the Basic Education Development project in Northern Communities (BENC). This and subsequent reference to the MTR refer to pp. 7-19.



**EQ4 - To what extent have EC supported actions on technical assistance and through ASEAN projects responded flexibly to needs and increased the ability of the Lao PDR to benefit from regional and global trade?**

**EQ answer**

*The EC's cooperation programme has significantly and flexibly strengthened Lao PDR's capacity to engage in trade integration, from the negotiation to the implementation stage. This is the result of technical assistance to relevant Ministries and agencies, ASEAN-level support for policy dialogue, etc. However, the non-extractive portion of the Lao PDR economy is comprised almost entirely of small and medium-sized enterprises (SMEs). Despite EC support to the sector, SMEs in Lao PDR continue to lag in terms of productivity and international competitiveness.*

EC-Lao PDR economic relations have developed strongly and the EC has made a significant contribution to Lao PDR's integration into the world economy (WTO access) and regional cooperation schemes (ASEAN). The presence of the EC Delegation has strengthened economic relations.

Technical assistance on trade matters was not on the agenda when EC assistance to Lao PDR started during the early 1990s. The main priorities were rural development, urban development and support for refugees returning from Thailand. The CSP 2002-2006 expanded the scope of cooperation to social sectors (education and health) and trade. For 2002–2004, the EC committed Euro 14 million, with Euro 3 million allocated for trade and governance. Under the NIP 2005–2006 a further Euro 4 million was allocated to strengthen the Lao small and medium-sized enterprise (SME) sector for which Euro 3 million had already been earmarked (CSP 2007-2013 Lao PDR, p. 15).

The strong trade foci of the CSPs 2002-2006 and 2007-2013 have partly been the result of lessons learned from past EC cooperation. Although the great majority of pre-2002 projects had been successful and had a positive impact on the direct beneficiaries (according to the CSP 2007-2013), their long-term structural impact on the country's economic and social development was limited. Moreover, a large number of relatively small projects represented a disproportionately heavy administrative burden both on the EC Delegation and on Government. The ratio of Government fiscal resources available for recurrent costs to donor capital investment during the phase of international support was too low to be consistent with the sustainability of positive impacts, a theme we have developed at great length in the social sectors (EQs 2 and 3 and to some extent in rural development (EQ 1).

The Mid Term Review (2003) of the CSP 2002-2006 stressed particular efforts had been made to enhance the possibility for Lao PDR to participate in Asia-wide programmes in support of trade and investment within the context of the Trade Related Technical Assistance programme (as quoted in NIP 2005-2006 Lao PDR, p. 6; note that the complete MTR has not been found but the Evaluation Team was able to consult the Executive Summary).

More specifically, under the NIP 2002-2004 the EC supported trade sector development in the following areas: Lao WTO accession, Lao PDR participation in the EC/ASEAN Intellectual Property Rights (IPR) programme, and Lao PDR's participation in the EC/ASEAN Standards programme all with the general objectives to enhance EU/ASEAN investment and trade and promote trade and economic integration.

The NIP 2005-2006 indentified trade sector development as one of two priority sectors with the main emphasis on the SME Development Programme. The overall objective of this project (ongoing until 2010) has been to provide technical assistance to the government with the overarching aim of contributing to poverty reduction and economic growth. Specific objectives

include increasing the number, the profitability and the growth rate of SMEs in the country. The project was designed to complement the Asian Development Bank (ADB) project in the same sector. However, the two projects are similar and more could be done in terms of coordination. The degree of Lao PDR government ownership of the SME programme appears to be low. Lao SMEs should also have benefitted from the “Asia Invest II: Southeast Asia Academy” project which aimed to ensure economic security and a stable business environment in the region. The project was to increase the quality of services available to SMEs, foster regional integration, promote mutual respect and equal partnership and improve the business environment for increased trade and investment (Project Synopsis, ASI/B7-301/02/0535-012 (71774)). However, we have no information on the outcome of the project. All in all, our assessment is that EC support had little substantial impact in promoting the SME sector, whose performance has been rather disappointing overall. A range of factors, from lack of trained personnel to poor management and business development skills to a limiting regulatory environment, are to blame. This is a major source of concern, as if SMEs are not competitive regionally and globally, there is danger that the promised benefits of regional and global economic integration will not be forthcoming.

There is no indication that the Lao trade sector has profited in any specific way from activities under the ASEM umbrella. There is no record of any trade-related ASEM projects with Lao PDR participation; Lao PDR did not receive any grants from the ASEAN Trust Funds 1 and 2. However, Lao PDR received funds from the Asia Trust Fund (ATF) (2004-2007) for a project (“Building Research and Advisory Capacity of the Economic Research Institute for Trade ERIT”) on research and advisory capacity-building for trade related issues (particularly with regards to WTO agreements): The final evaluation of this project was positive. Lao PDR also benefitted from the Asia Trust Fund for Trade-related Technical Assistance (May 2006-January 2007), which aimed at strengthening the technical competency of regulators and cosmetic industry personnel in Lao PDR and six other ASEAN member states.

While the ATF Mid Term review of 2006 does not elaborate in detail on the cooperation with Lao PDR, it criticises a lack of coordination with related programmes: The project “appears de-linked from UNCTAD’s ongoing activities ... and the EC Multilateral Trade Assistance Project MULTRAP” (International Trade Center/EC, Asia Trust Fund, Mid Term Review, Final Report, 31 August 2006, p. 33). ROM Reports do not exist for most trade-related projects because they were either too small (less than Euro 1 Million) or too recent as in the case of the SME Development Programme.

The general view among persons interviewed in the field phase was that the presence of the EC Delegation in Vientiane since 2003 had markedly contributed to both the ability of national stakeholders to approach the EC and the flexibility and timeliness of EC responses to national stakeholders. According to the Ministry of Industry and Commerce the Delegation has significantly contributed to a better understanding of trade-related issues among stakeholders, for example, through the organisation of seminars on rules of origins and standards.

#### **JC 4.1: Relevant technical studies prepared**

##### **JC assessment:**

Lao PDR has made significant progress regarding its integration into regional and global trade cooperation mechanisms, particularly the ASEAN Free Trade Area (AFTA) and WTO. While we have found no information on studies prepared (Indicator 4.1.1), we are able to assess this Judgment Criterion positively with confidence based on the progress in implementing integration plans (Indicator 4.1.2) and the integration of trade issues into economic planning (Indicator 4.1.3). Some of the information on trade dialogue and capacity building reviewed under Judgment

Criteria 4.2 and 4.3 below is also relevant here.

So far Lao PDR has moved some 80 percent of the country's products into their respective Common Effective Preferential Tariff (CEPT) Inclusion List (IL), AFTA's trade liberalization instrument. Of these items, about 66 percent already attained tariffs within the 0-5 percent tariff band during the evaluation period. Lao PDR had until the end of 2008 to fulfil its AFTA commitments and bring down tariffs on all products in the Inclusion List to no more than 5 percent duties. WTO accession talks have progressed but are still in their early stages. The Lao government has set 2010 as the target year for WTO membership. It can be assumed that progress on trade negotiations is based on relevant technical studies, but such studies have not yet been identified.

#### **Indicator 4.1.1: Studies identified and prepared**

##### **Indicator estimate:**

It is not known whether and to what extent the Lao PDR government prepared or commissioned relevant studies. The website of the Lao PDR Ministry of Industry and Commerce (<http://www.moc.gov.la/default.asp>) has a section on "research papers" which proved, however, to be empty when accessed. Ministry officials reported that the EC supported consultants to produce a study for the Import-Export Department, which is responsible for implementation of trade policy.

##### **Related facts, figures, and references:**

Ministry of Industry and Commerce interviews.

#### **Indicator 4.1.2: AFTA / WTO accession action plans in place**

##### **Indicator estimate:**

According to the most recent data and documentation made available by the ASEAN Secretariat, AFTA has now been virtually established. More than 99 percent of the products in the Common Effective Preferential Tariff (CEPT) Inclusion List (IL) of the ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) have been brought down to the 0-5 percent tariff range. ASEAN's newer members, Cambodia, Laos, Myanmar and Vietnam, have moved nearly 80 percent of their products into their respective CEPT ILs. Of these items, about 66 percent already have tariffs within the 0-5 percent tariff band. Lao PDR has until the end of 2008 to bring down tariffs on products in the Inclusion List to no more than 5 percent (1).

The Lao PDR Working Party for WTO accession negotiations was established in February 1998. The Memorandum on the Foreign Trade Regime was circulated in March 2001. Bilateral market access negotiations have begun on the basis of initial offer on goods and services. The third meeting of the Working Party was held in November 2007 to continue the examination of Lao PDR's foreign trade regime. As a least-developed country, Lao PDR is covered by the 2002 WTO General Council guidelines for accelerating membership negotiations.

The Lao PDR government first set a target to join the WTO by 2008. To that end, the government instructed ministries and key sectors that are directly related to WTO negotiations to hold seminars, inquire into the field and build their development strategies to meet the demand on global integration (2). However, Lao PDR now aims to achieve WTO membership by 2010 (3).

Talks are still in their early stages. At the last meeting in November 2007 the working party's discussions were based on a "factual summary of points raised", a preliminary document that still

has to evolve through some more stages before it can become the “draft working party report” and, eventually, the final agreement.

Since the working party meeting in November 2007, Lao PDR has submitted written replies to members’ questions, and a revised action plan introducing and implementing laws and regulations, with details on standards (technical barriers to trade and sanitary-phytosanitary measures), customs valuation and intellectual property protection.

In the 2007 working party meeting, the Lao PDR government reported the following:

- (1) Laws adopted, including on: value added tax, budget and labour.
- (2) Forthcoming laws and regulations, aiming to be compatible with the WTO e.g. national treatment and non-discrimination including on: import and export procedure, pricing, investment, foreign exchange, veterinary regulations, value added tax, standards, and intellectual property.
- (3) Trade policy: a revised shorter list of export-import goods subject to control or prohibition (October 2006), tariff cuts under the ASEAN Free Trade Area and work with ASEAN members on non-tariff barriers.
- (4) Lao PDR has joined the World Customs Organisation, and adopted a decree to implement the new Customs Law. A proposed similar decree for value added tax is in its final stages.
- (5) Finance: a Commercial Bank law was passed in December 2006; amendments are expected soon on regulations on managing foreign exchange and precious metals.
- (6) Private sector: its importance is recognized in the Sixth Socio-economic Development Plan (2006-2010), with various laws, regulations and activities in support, including a strategy for small and medium enterprises (4).
- (7) Lao trade policy is also shaped by the Early Harvest Program (EHP) of the ASEAN China Free Trade Agreement (ACFTA), and the bilateral trade agreement with the United States (BTA) (5).

#### **Related facts, figures, and references:**

- (1) ASEAN Secretariat, <http://www.aseansec.org/12021.htm>.
- (2) WTO, Accessions: Lao PDR, [http://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_laos\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/a1_laos_e.htm).
- (3) Thai Press Reports, Lao expects to join WTO by 2008, 27 February 2007.
- (4) Thai Press Reports, Lao bid to join WTO by 2010, 12 March 2008.
- (5) The World Bank, East Asia PREM, BUILDING EXPORT COMPETITIVENESS IN LAOS, Background Report, September 2006, p. 7.

#### **Indicator 4.1.3: Trade issues effectively integrated into economic planning and policy making**

##### **Indicator estimate:**

The Lao PDR government has five strategic goals in the trade and investment sectors: negotiating market access, reducing and rationalising trade regulations, streamlining customs, improving trade logistics, and leveraging WTO accession. It has gradually been working towards achieving these objectives through economic planning and policy making. A new Enterprise Law was passed with the goal of improving the investment environment by making it easier to start up businesses, especially by streamlining the business registration process using a negative list approach.

In the trade facilitation area, the Lao government has rationalised import and export licensing

procedures and made them more consistent to the WTO rules. WTO accession is itself deemed to attract FDI to the Lao PDR. According to the government, given the size of the Lao market, future export-led growth will have to rely more on FDI than has been the case in many other countries. Vice-versa, the improvement of investment climate will stimulate trade development. As FDI grows in sectors like hydropower and mining, national export growth from these sectors has also achieved remarkable increases. The first Law on the promotion of foreign investment was enacted in 1988 soon after the country started its New Economic Mechanism. Its subsequent amendment took place in 1994 and most recently in 2004 (1).

As an example of the EC's specific contribution to the implementation of trade policy, the EC's ASEAN Secretariat capacity-building project APRIS assisted Lao PDR (and Vietnam) on the principles and methods for transposing the ASEAN Cosmetic Directive (ACD), the first directive adopted by ASEAN. The project (2005-2006) highlighted the difficulties of harmonisation between country regulations and commonly (i.e. regionally) agreed directives. Outputs included, inter alia, provision of the national regulations. While the APRIS evaluation does not specify whether outcomes/impacts refer to Laos and/or Vietnam (2), information gathered from interviews suggest that the project made a contribution to Lao PDR regulations. This was the only APRIS project that gave direct support to individual member countries; however, based on the positive assessment of APRIS in the ongoing evaluation of EC support to ASEAN, it is safe to assume that Laos benefited from APRIS beyond the ACD project.

In 2005-2006 the Trade Development Facility, to which the EC contributed Euro 4.2 million, financed studies and expertise related to priority areas in trade development and WTO accession.

#### **Related facts, figures, and references:**

- (1) Country note on Trade and Investment Policy Coordination Country: Lao PDR, For ARTNeT Consultative Meeting on Trade and Investment Policy Coordination 16-17 July 2007, Bangkok, Thailand. Prepared by Sirisamphanh Vorachith, Deputy Permanent Secretary, Ministry of Industry and Commerce, Lao PDR.
- (2) Final Evaluation of APRIS Programme, Mission No 2006/122988. Framework Contract Beneficiaries Lot No 10, Final Report, October 2006.

#### **JC 4.2: EC technical assistance easily available.**

##### **JC assessment:**

There is no doubt that the availability of EC TA has increased over time (note that much of the information given under Judgment Criterion 4.3 is relevant here, as well). Bilateral trade dialogue intensified under the CSP 2002-2006 and, in considering Indicator 4.2.2 below, we give a number of examples of effective, timely, and relevant dialogue. The trade dialogue has benefitted from annual EC-Laos Joint Committee meetings and the establishment of an informal working group on trade and cooperation that first met in 2005 and has met annually since then.

While no causal link between EC support and trade trends can be made, it is worth noting the overall positive development of trade in Lao PDR. The EU has become the largest export market for Lao PDR in recent years, although adjacent countries are still important trading partners. High-income countries and EU-15, in particular, have strongly gained in importance as export markets between 1990-93 and 2000-03. Among high-income countries, 84 percent of exports went to EU-15 in 2000-03, compared with 67 percent in 1990-93 (The World Bank, East Asia PREM, Building Export Competitiveness in Laos, Background Report, September 2006, p. 21).

The presence of the EC Delegation in Vientiane since 2003 had contributed to both the ability of Lao stakeholders to approach the EC and the flexibility and timeliness of EC responses to Lao stakeholders (indicator 4.2.1). The Delegation has significantly contributed to a better understanding of trade-related issues among Lao stakeholders, for example, through the organisation of seminars on rules of origins and standards (indicator 4.2.2).

#### **Indicator 4.2.1: EC responded quickly and flexibly to requests**

##### **Indicator estimate:**

The general view among government officials interviewed during the field phase was that the presence of the EC Delegation in Vientiane since 2003 had markedly contributed to both the ability of Lao stakeholders to approach the EC and to increasing the flexibility and timeliness of EC responses to Lao stakeholders. The presence of the Delegation enabled the EC to be more pro-active in its economic relations with Lao PDR. EC support for Lao WTO membership was highlighted as a particular good example for the EC's response to Lao PDR's needs. However, some interviewees hinted that they would like to see more EC support for industrial development in Lao PDR and assistance for the textiles export sector.

According to the Department of Economic Affairs at the Ministry of Foreign Affairs, EC assistance to Lao PDR has been particularly important and effective in the area of public finance management: "revenue collection has improved". This view was echoed at the Finance Ministry, where officials expressed a high degree of satisfaction with the EC's role in the PRSO and associated public financial management reform process. It is in part based on these assessments that we positively judge the EC's contribution, through PRSO, to tackling the key problem of public sector financial management, a theme that cuts across all sectors including the social sectors.

However, there is still room for improvement. EC decisions are perceived to be slow and the time large between queries to the EC and the receipt of answers is perceived to be long."

##### **Related facts, figures, and references**

Interviews at Ministry of Foreign Affairs, Ministry of Industry and Commerce, and Ministry of Finance.

#### **Indicator 4.2.2: Effective EC-Lao PDR trade dialogue**

##### **Indicator estimate:**

The Delegation has significantly contributed to a better understanding of trade-related issues among Lao PDR stakeholders, for example, through the organisation of seminars on rules of origins and standards. "If there is a trade-related problem, we are always able to access the Delegation here or in Bangkok," said one official interviewed. Officials expressed the view that establishment of the Delegation has led to enhanced trade relations and dialogue, but pointed out that it was also very easy to work with the Bangkok Delegation due to proximity. Dialogue covers not only immediate technical questions but long-term strategic concerns; for example, concerns that China's improved access to European markets will make that country an even more formidable competitor in the region.

EU-Lao PDR trade revolves around the textiles industry, which accounted for some 80 percent of exports to the EU in 2005. Total exports to the EU in 2005 were valued at €144 million, making the EU Lao PDR's second most important trading partner and the first export destination. EU exports to Laos were valued €38 million in 2005.

According to the EC Delegation in Vientiane, a number of initiatives have helped Lao textile exports to successfully gain access to the EU market. These have helped local producers meet minimum local processing requirements of the EU's Preferential Rules of Origin by relaxing rules on imported woven fabric and by allowing Lao PDR to consider intermediary inputs, such as fabric imported from other ASEAN countries, as having been produced domestically. Documentary requirements were simplified and quota-free access to the EU market granted since December 1998.

Lao PDR also benefits from the EU's "Everything but Arms" (EBA) initiative which was introduced in March 2000. This scheme allows the duty-and quota-free export to the EU of all products from developing countries with the exception of arms and munitions (1) According to the Ministry of Industry and Commerce, Foreign Trade Department, 84 percent of all Lao PDR exports are traded under the EBA scheme.

At the 3rd EC-Lao PDR Joint Committee meeting in January 2004, it was decided to establish an informal working group on "Trade and Cooperation." This latter met in June 2005. The Lao PDR government provided, inter alia, an update on trade sector development. The EC presented the ongoing EC-Lao PDR cooperation in the economic and trade sector and the direction of future cooperation was discussed (2).

At the 4th EC-Lao PDR Joint Committee meeting in March 2007, the Lao government expressed its satisfaction with the increasing trade volumes with Europe and provided an update on WTO negotiations. The EC confirmed its support to Lao PDR for early accession to the WTO and committed itself to continue to provide trade-related assistance by pooling resources with other donors under the Trade Development Fund. It emphasized the need to help the work of the Lao Working Party in WTO to move ahead. The two sides also exchanged views on GSP rules of origin and on the EU sanitary and phytosanitary (SPS) regime (3).

The 4<sup>th</sup> informal working group on Trade and Cooperation met in March 2008. Both sides exchanged views on WTO accession of Lao PDR, use of the GSP and the proposed ASEAN-EU FTA. The EC expressed its commitment to supporting Lao PDR in its efforts to join WTO (4).

#### **Related facts, figures, and references:**

- (1) Delegation of the EC to Lao PDR, EU-Lao Trade, [http://www.dellao.ec.europa.eu/en/eu\\_laos/laos\\_trade.htm](http://www.dellao.ec.europa.eu/en/eu_laos/laos_trade.htm).
- (2) EC, European Commission and Lao delegations meet in Vientiane, 16 June 2005, [http://ec.europa.eu/external\\_relations/lao/intro/press05\\_16-06-05.htm](http://ec.europa.eu/external_relations/lao/intro/press05_16-06-05.htm).
- (3) Delegation of the EC to Lao PDR, News Release, 7 March 2007, [http://www.dellao.ec.europa.eu/en/2007/4th\\_GOL\\_EC.htm](http://www.dellao.ec.europa.eu/en/2007/4th_GOL_EC.htm).
- (4) Delegation of the EC to Lao PDR, News Release, 4 March 2008, [http://www.dellao.ec.europa.eu/en/2008/IWG\\_trade\\_cooperation.htm](http://www.dellao.ec.europa.eu/en/2008/IWG_trade_cooperation.htm).
- (5) Interviews at Ministry of Industry and Commerce.

#### **JC 4.3: Trade-related capacity formed**

##### **JC assessment:**

Trade-related capacity was formed as the result of the ASEAN Support Project, a component of the Euro-TAL programme which ran from 1998 to 2001. By 2001, 120 Lao government officials from various ministries and governmental institutions had received comprehensive training on

ASEAN affairs, thus helping to facilitate Lao PDR's smooth integration into ASEAN and, as part of this, regional inter-governmental trade cooperation (Lao PDR joined ASEAN in 1997). However, from the reasonably well-documented Euro-TAL project no other qualitative indicators are available to support an assessment of the overall outcomes and impact of EC-funded capacity building during the assessment period. It is nonetheless clear from our review of Indicator 4.3.1 that a substantial amount of training was delivered, that the sense of ownership was high, and that prospects for sustainability are good.

The EC provided support for technical assistance that enhanced Lao PDR participation in regional and global trade dialogue (Indicator 4.3.2). This included TA related to WTO accession and, under the ASEAN programme, umbrella support related to Intellectual Property Rights (IPR) and standards. The ASEAN Standards project supported a study tour to Thailand and participation in a regional workshop. While officials trained are in post still, project activities could not be continued after the project ended because of the lack of equipment and other resource constraints. Because of the long delay in implementation, the project was only able to run for one year, instead of the three to five that would be necessary for thorough and sustainable capacity building (in the officials' judgment). Some doubts were also expressed over the relevance of the international expertise provided.

The Asia Trust Fund (AFT, 2004-2007) provided a grant to Lao PDR for a project on Building Research and Advisory Capacity of the Economic Research Institute for Trade (ERIT). ERIT was established in 1999 and has become a key department within the Ministry of Industry and Commerce (MOIC). The core mission of ERIT is to serve as a think-tank, as well as an advisory body, for the Ministry by, for example, supporting MOIC with advice on issues relating to WTO accession, AFTA implementation, and trade policy reforms. The final evaluation concluded that the project enabled ERIT to enhance the conceptual understanding of complex trade-related issues and the analytical skills for research among its staff (Indicator 4.3.1).

The Asia Trust Fund for Trade-related Technical Assistance programme strengthened the technical competency of regulators and cosmetic industry personnel in seven selected ASEAN Member Countries, including Lao PDR (Indicator 4.3.2).

Based on project documentation and interviews conducted with Lao stakeholders it can be concluded that the quantity and quality of Lao participation, as measured by higher level of national initiative and more pro-active approaches to ASEAN, ASEM and APEC cooperation, has increased during the assessment period.

### **Indicator 4.3.1: Number of officials trained**

#### **Indicator estimate:**

The European Community Technical Assistance Programme for Transition to a Market Economy in Laos (Euro-TAL), 1998-2001, aimed to train senior- and medium-level officials within the Lao PDR Government and prepare them for regional (ASEAN) and international (WTO) integration. The project drew on skills available locally, including at the Ecole Nationale d'Administration et de Gestion, and in the ASEAN region, thereby increasing local ownership. As one of three components of Euro-TAL, the ASEAN Support Project had three principal objectives:

- to provide policy training/briefings on ASEAN-related issues;
- to provide practical skills training in areas needed to ensure the smooth running of Ministries dealing with ASEAN affairs;
- to provide technical assistance and materials for the ASEAN documentation centre at the Ministry of Foreign Affairs or MoFA (1).



The beneficiaries came from various ministries and governmental institutions. The ROM Report (2) documented the high level of appreciation of the project among beneficiaries. 30 senior level officials received an intensive course on ASEAN matters as an extra component due to emerging needs in late 2000. Overall, 120 officials received comprehensive training. The sustainability of training achievements and study tour benefits was perceived to be high. The Director General of the ASEAN Department at the Ministry of Foreign Affairs (MoFA) – responsible for international economic and political opening – was strongly involved in the project and contributed to the sustainability of impacts. Therefore, the project provided a natural platform for the EC in its efforts to support the Government in transition to a market economy and international integration. Despite substantial delays at the start due to delayed funding, the project adapted to prevailing circumstances, added various activities to the original design and achievements exceeded the project purpose and objectives (2).

The Asia Trust Fund (AFT, 2004-2007) provided a grant to Lao PDR for a project on Building Research and Advisory Capacity of the Economic Research Institute for Trade (ERIT). ERIT was established in 1999 and has become a key department within the Ministry of Industry and Commerce (MoIC), the line agency responsible for trade and commerce in Lao PDR. The core mission of ERIT is to serve as a think-tank, as well as an advisory body, for the Ministry by, for example, supporting MoIC with advice on issues relating to WTO accession, AFTA implementation, and trade policy reforms. In the period between August 2006 and March 2007, a total of eight training courses were given at the ERIT training centre. The courses focused on upgrading participants' skills in three main areas: (i) basic concepts of international trade; (ii) practical skills in trade-related research and analyses; and (iii) international practices of commercial law reform. According to the final evaluation report, an average of 38 persons attended each workshop, out of which 32 persons attended the full series of eight training courses, exceeding the initially envisaged number (20). "Through consistent participation in the full series of workshops, the participants progressively improved their research and advisory capacity. This was evidenced by the feedback received by trainers, as well as the national project coordinator who had monitored closely the progress." The evaluation report concludes: "A learning-by-doing approach, with theories combined with a focus on practical exercises, enabled participants to acquire both a conceptual understanding of the topics as well as practical hands-on skills that can be immediately useful in their regular work environment. In particular, the group assignment on market access review, to which participants dedicated three months, enhanced their abilities in data collection, analyses and interpretation, all of which are essential for conducting trade-related research" (3).

### **Related facts, figures, and references**

- (1) European Community Technical Assistance Programme for Transition to a Market Economy in Laos (Euro-TAL). LAO/B7-3010/IB/97/0210, Project Synopsis.
- (2) ROM Report LAO PDR - LAO– EC TA Programme for transition to a market economy in Laos, EURO-TAL, ASEAN support, Project MR-00142.01 – 26/04/01.
- (3) EC/ITC. Lao PDR. Building Research and Advisory Capacity of the Economic Research Institute for Trade, Project: LAO/A1/01, financed by the EU and ITC under the Asia Trust Fund Final Report, Geneva, April 2007.
- (4) Interviews at Ministry of Foreign Affairs and Ministry of Industry and Commerce.

## Indicator 4.3.2: Lao PDR participation in trade-related ASEAN, ASEM, and global trade dialogues

### Indicator estimate:

Lao PDR is committed to ASEAN Free Trade Agreement (AFTA) implementation, under which it is expected to eliminate all import duties by 2015. This objective was confirmed in interviews with Lao stakeholders. Given its status as a developing country, Lao PDR also enjoys preferential access to numerous markets across the world, from which the country is in a good position to benefit. The key, today, is in building a strong human resource base – particularly in the area of trade-related research and analyses – to be utilized in trade policy formulation, in order that Lao PDR may maximize its gains from these opportunities.

Lao PDR is working on trade and investment policy coordination at the multilateral level and is also involved in a regional (ASEAN) initiative on investment rule-making (1). As a member of ASEAN, ASEM and APEC, Lao PDR takes part in all meetings of these organisations / dialogues and has chaired several meetings on a rotating basis.

There is evidence of some EC-sponsored contributions to the strengthening / capacity building of Lao participation in regional and global trade-related dialogues. Lao PDR participated in the EC/ASEAN Intellectual Property Rights (IPR) programme and EC/ASEAN Standards programme with the general objective to enhance EU/ASEAN investment and trade. However, apart from a general assessment that the EC “contributed to trade promotion and trade facilitation”, government officials did not have any specific views on how Lao PDR had benefitted from EC-ASEAN projects. In interviews made it is apparent that among Lao stakeholders the knowledge of participation in EC-funded ASEAN programmes is low.

The Mid Term Review (2003) of the CSP 2002-2006 noted that particular efforts had been made to enhance the possibility for Lao PDR to participate in Asia-wide programmes in support of trade and investment within the context of the Trade Related Technical Assistance (TRTA) programme (2). Specific projects under the NIP 2002-2004 focused on

- *Lao WTO accession*, comprising Euro 1 million as a contribution towards a project which aimed to increase knowledge of international trade policies among Lao PDR officials and to ensure compliance with WTO requirements by strengthening local expertise on WTO provisions and improving the regulatory framework and the administrative capacity within the country.
- *Lao PDR's participation in the EC/ASEAN Intellectual Property Rights (IPR) programme*: A sum of Euro 500,000 was allocated to cover the national Lao component of ECAP II. A workshop on the “Use of Patent Information as a Tool for Technical and Economic Development” was organised with the in May 2006 in Vientiane (Delegation of the EC to Lao PDR, News release, 6 May 2006, [http://www.dellao.ec.europa.eu/en/2006/ECAP\\_II.html](http://www.dellao.ec.europa.eu/en/2006/ECAP_II.html)).
- *Lao PDR's participation in the EC/ASEAN Standards programme with the general objective to enhance EU/ASEAN investment and trade*. The Lao PDR acceded to the EC/ASEAN Agreement and requested to be included in the programme. The NIP foresaw Euro 0.5 million to support the Lao national component (3). The Standards project essentially consisted of training, and some dissatisfaction was expressed with the limited availability of equipment to apply knowledge gained after international support ceased. There was an exceptionally long delay (4 years) in implementation of the project, which meant that all activities had to be compressed into a very short length of time. National officials were also disappointed by the fact that, in their perception, the project focused too much on Sanitary and Phytosanitary Standards (SPS, specifically, food safety), due to the background of the international expert.

- *The Asia Trust Fund for Trade-related Technical Assistance* (May 2006 – January 2007) co-financed by the EC (Euro 184,000) and the International Trade Center (ITC) and implemented by the ASEAN Secretariat. This project aimed at strengthening the technical competence of regulators and cosmetic industry personnel in seven selected ASEAN Member Countries (Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, Thailand and Viet Nam) on Post-Market Surveillance (PMS) and Good Manufacturing Practice (GMP) and to increase their ability to transfer the acquired knowledge to other stakeholders. It served as a follow-up to the EC-ASEAN Regional Economic Cooperation Programme on Standards, Quality and Conformity Assessment, in order to more effectively implement the ASEAN Harmonized Cosmetic Regulatory Scheme. A total of 300 persons including 140 regulators and 160 industry representatives of the cosmetic sector received training on the requirements of the ASEAN Harmonized Cosmetic Regulatory Scheme. In addition, 260 persons including 70 regulators and 190 industry representatives of the cosmetic sector were trained to improve their technical competencies on GMP requirements. With the additional national training events, 350 persons including 95 regulators and 255 industry representatives of the cosmetic sector, especially from SMEs, received assistance to understand at national level both the requirements of the ASEAN Harmonized Cosmetic Regulatory Scheme and the 13 GMP training modules (4).

There is no indication that the Lao trade sector has profited in any specific way from activities under the ASEM umbrella. There is no record of any trade-related ASEM projects with Lao participation. Laos did not receive any grants from either the first or the second ASEM Trust Fund. Foreign Trade Department officials of the Ministry of Commerce and Industry stated that there had been no trade-specific activities under the ASEM umbrella in Lao PDR.

Based on project documentation and interviews conducted with Lao stakeholders, it can be concluded that the quantity and quality of Lao participation (higher level of national initiative and pro-active approaches to ASEAN, ASEM and APEC cooperation) has increased during the assessment period.

#### **Related facts, figures, and references**

- (1) Country note on Trade and Investment Policy Coordination Country: Lao PDR, For ARTNeT Consultative Meeting on Trade and Investment Policy Coordination 16-17 July 2007, Bangkok, Thailand. Prepared by Sirisamphanh Vorachith, Deputy Permanent Secretary, Ministry of Industry and Commerce, Lao PDR.
- (2) As quoted in NIP 2005-2006 Lao PDR, p. 6; the complete MTR has not yet been consulted.
- (3) NIP 2002-2004, Lao PDR.
- (4) EC, Asia Trust Fund For Trade-related Technical Assistance, Co-financed by the European Union and ITC. Upgrading the capacity of selected ASEAN member countries to implement the ASEAN Harmonized Cosmetic Regulatory Scheme, [http://ec.europa.eu/europeaid/where/asia/regional-cooperation/documents/2007factfile\\_asia\\_trust\\_fund\\_philippines\\_fish\\_final\\_en.pdf](http://ec.europa.eu/europeaid/where/asia/regional-cooperation/documents/2007factfile_asia_trust_fund_philippines_fish_final_en.pdf).

#### **JC 4.4: Lao PDR businesses positioned to benefit from increased exports**

##### **JC assessment:**

Under the CSP 2002-2006 and particularly NIP 2005-2006 there were various projects aimed at

the strengthening Lao businesses (especially SMEs) and their capacity-building. Under the NIP 2005–2006 a total of Euro 7 million was allocated to strengthen the SME sector, although it seems that the actual disbursement will only amount to Euro 4 million, according to the project database of the National Small and Medium Sized Enterprise Promotion and Development Office.

The SME initiative has been a central component of the EC's Trade and Development assistance to Lao PDR. The Programme (ongoing until 2010) has provided technical assistance to the Government of Lao PDR with the overarching aim of contributing to poverty reduction and economic growth. Specific objectives include increasing the number, profitability and growth rate of SMEs as well as assisting in simplifying regulations concerning business registration, licensing, trade, investment and finance. The project was designed to complement the ADB project in the same sector. However, the two projects are similar and more could be done in terms of coordination. Two separate offices (EC and ADB projects) in the SME office are not really needed, and better coordination might have achieved better results. The ADB suggested that EC project concentrate more on customs sector, while the Lao Ministry of Foreign Affairs would like to see more EC assistance for industrial development. Based ON interviews with both international and national sources, the degree of Lao PDR government ownership of the SME programme is low.

Project documentation is rudimentary and most information had to be gathered from brief mentions of the EC SME project in the documents of other donors with similar projects in Lao PDR such as ADB, UNIDO, Japan, Luxemburg, France and Republic of Korea. Neither the Delegation nor the Lao counterpart, were able to provide the evaluation team with any detailed documentation on the project.

Data on expansion of the SME sector (Indicator 4.4.2) are contradictory: some sources stated, in interviews, that the number of SMEs was growing, while documentary sources pointed to expansion. However, as we argue below, the number of SMEs is not a very useful indicator. All evidence reviewed suggests that the SME sector in Lao PDR is experiencing only mediocre progress, due to factors ranging from lack of skilled personnel to lack of management skills and entrepreneurial drive to a limiting regulatory environment. We are not able to conclude that the EC contributed significantly to improving this situation.

To a lesser extent, regional cooperation projects under ECAPII and Asia Invest II have also contributed to the strengthening of the private sector. However, as in the case of the SME project in the absence of ROM Reports it is not possible to come to any conclusions about the specific benefits for businesses, either with regard to the export sector or in general terms. Thus, we cannot say with certainty whether the share of SMEs in exports is rising (Indicator 4.4.1), and can only assert as a general proposition that the SME sector is one of the most dynamic in the economy (Indicator 4.4.2).

#### **Indicator 4.4.1: Share of SMEs in Lao PDR exports rising**

##### **Indicator estimate:**

There are no data available on this indicator and in the absence of a ROM Report, it is not known what specific impacts were generated by the Small and Medium Enterprises (SME) Development Programme, one of centrepieces of the NIP 2005-2006. This strategic document identified trade sector development as one of two priority sectors. Under this umbrella a total of Euro€ 7 million was allocated to strengthen the SME sector. The overall objective of this project was not primarily and explicitly to empower SMEs' position in the export sector but to contribute to poverty reduction and economic growth. Specific objectives included increasing the number, the profitability and the growth rate of SMEs in Laos, mainly in the garment sector; wood processing

industry, and tourism. Assistance was directed at both individual enterprises and associations of SMEs, with activities varying from facilitating the creation of an enabling environment for SME growth to creating suitable training facilities and training-of-trainers programmes (1).

The GTZ *Enterprise Baseline Survey 2005* provides a general assessment of the challenges SME face in the export sector: “The main challenges of enterprise in Lao PDR – and for the perspectives of national economic development in a liberalizing and globalizing world – are their *limited competitiveness* due to inadequate technology, scale, technical, managerial, and marketing skills. Additional *business external constraints* are: access to business finance, physical infrastructure, as well as a cumbersome administrative and regulatory business environment. The differentiation by enterprise size shows that larger enterprises do perform better than small and micro enterprises. Only those SMEs that are managed commercially stand a chance to survive and develop in a competitive environment” (2).

As for regional cooperation programmes, the international competitiveness of SMEs might have been strengthened through the “Asia Invest II: Southeast Asian Chamber Academy” project. In order to ensure economic security and a stable business environment in the region, the project aimed at fostering regional integration, promoting mutual respect and equal partnership, and improving the business environment towards increased trade and investment (3). No ROM Report or any other documentation apart from the project synopsis is available.

Furthermore, in 2006 the EC-ASEAN Intellectual Property Rights Co-operation Programme (ECAP II) and the Science, Technology and Environment Agency (STEA) of Lao PDR co-organised a workshop on the “Use of Patent Information as a Tool for Technical and Economical Development” in Vientiane that, inter alia, addressed the needs of SMEs for resource development to find new solutions to technical problems or to identify a new technology (4). Outcomes of the workshop are not known.

#### **Related facts, figures, and references:**

- (1) NIP 2005-2006 Lao PDR.
- (2) Matzdorf, Manfred. Impact Monitoring System of the GTZ program Human Resource Development for a Market Economy (HRDME) in Lao PDR, May 2007, [http://www2.gtz.de/wbf/doc/1\\_SM\\_ME\\_for\\_BEE\\_Laos.pdf](http://www2.gtz.de/wbf/doc/1_SM_ME_for_BEE_Laos.pdf)(3) ASIA INVEST II: SOUTH-EAST ASIAN CHAMBER ACADEMY, Project Synopsis, ASI/B7-301/02/0535-012 (71774).
- (3) Delegation of the EC to Lao PDR, News Release, 8 May 2006, [http://www.dellao.ec.europa.eu/en/2006/ECAP\\_II.htm](http://www.dellao.ec.europa.eu/en/2006/ECAP_II.htm).

#### **Indicator 4.4.2: Number, size, and sustainability of SMEs rising**

##### **Indicator estimate:**

The NIP 2005-2006 briefly mentions “SMEs account for a large share of the private sector in the Lao PDR. They thus contribute significantly to the country’s economic growth” (1). 95% of all companies in Laos are considered SMEs (1). The 2001 survey of manufacturing establishments by Ministry of Industry and Commerce (MoIC) provides the most recent data on the number and size of firms. The survey found 600–700 firms with more than 10 employees, of which only 116 had more than 100 employees. The bulk of establishments — about 24,000—are micro- and small enterprises with less than 10 workers. Such a size distribution is typical for small, low-income developing economies. In the initial stages of development, small-scale enterprises dominate the private sector. As the economy expands, competitive firms grow into larger firms while non-

competitive ones fall by the wayside or are absorbed. In a sense, then the Indicator is misleading since an increase in the size and efficiency of SMEs may be consistent with a shrinking absolute number of SMEs. In a country with a heritage of central planning, such as Lao PDR, what one hopes to see is a rising number of dynamic entrepreneurial young firms filling functions formerly filled by State Owned Enterprises (SOEs).

Findings from a recent GTZ survey of 390 registered establishments in 2005 (cited above) indicate that SMEs are a large and very dynamic force in the Lao economy. At the same time, the dominance of SMEs and the informality of this business form also reflect the weak regulatory and institutional environment in which they operate. The Lao PDR National Statistics office completed the 2006 enterprise survey; results were expected to be published in 2007 but are not yet available (2).

The Decree on the Promotion and Development of Small and Medium Sized Enterprises was passed in April, 2004. This Decree, sponsored by the Ministry of Industry and Handicraft (MIH), defines directions and policies and establishes an SME Promotion and Development Fund. The Decree, albeit brief, is comprehensive in the scope of activities to promote SMEs, covering access to finance, training of entrepreneurs, setting up new regulatory and administration environment, etc. Small enterprise is defined as those having an average number of employees not exceeding 19 persons or total assets not exceeding Kip 250 million, or an annual turnover not exceeding Kip 400 million. Medium sized enterprises are those having an average number of employees not exceeding 99 persons or total assets not exceeding Kip 1,200 million kip, or an annual turnover not exceeding Kip 1,000 million (3).

However, more than a decade after Laos started its economic transition, there has been limited entrepreneurial response to the greater market freedoms. This lack of supply response is most noticeable in sectors such as manufacturing that require long-term investments. The slow increase in the level of foreign investment, and the low level of implemented investments compared to approvals, are evidence of the difficult business environment (4).

There is no indication as to whether the EC project has resulted in a growth of the SME sector. The National Small and Medium Sized Enterprise Promotion and Development Office (SMEPDO) does not have figures on SME growth or any quantitative information on the impact of donor assistance on SME development (in spite of the very detailed and informative website that SMEPDO maintains: [www.smepdo.org/](http://www.smepdo.org/)). One problem appears to be insufficient coordination among donors working on SMEs, resulting in an unsustainable workload for SMEPDO. Responsible officials interviewed were not conversant with the details of the SME project, which lends some credence to the overload concern.

According to the National Chamber of Commerce and Industry (NCCI), the overall number of SMEs has not grown and might even have declined in recent years. However in the absence of any other data it is impossible to verify this information, and according to SMEPDO, the number of SMEs has increased over the last five years, totalling 130,000 in the most recent Economic Census. The target for SME development in Lao PDR (2007 -2010) is 12 percent average annual growth of the SME sector (5). The NCCI expressed the view that the greatest impediment to SME expansion is the scarcity of skilled labour, especially labour that had benefited from vocational training. Lack of entrepreneurial drive and opposition on many fronts to the application of modern approaches to management are also problems, both perhaps to some extent to be attributed to failures of the education system to encourage creative thinking and risk taking. Experts at SMEPDO cited, in addition to these factors, the lack of an enabling regulatory and administrative environment, poor access to finance, limited access to international markets, and the weakness of supporting institutions such as the NCCI. The SME project seeks to address these problems through its four focus areas, namely, enhancing the legal and regulatory environment,

streamlining procedures, access to finance, and capacity building of SME-supporting institutions.

### **Related facts, figures, and references**

- (1) Presentation by Oudet Souvannavong, Vice-President Lao National Chamber of Commerce and Industry Regional Seminar on Informatisation, of SMEs in GMS countries 20-21 July 2006 Kunming, PRC.
- (2) NIP 2005-2006, Lao PDR, p. 12.
- (3) ADB, Project Number 35304, September 2007, Proposed Asian Development Fund Grant and Technical Assistance Grant Lao People's Democratic Republic: Private Sector and Small and Medium-sized Enterprises Development, Program Cluster (Subprogram 1), p. 8.
- (4) The World Bank, East Asia PREM, Building Export Competitiveness in Laos, Background Report, September 2006, p. 104.
- (5) The World Bank, East Asia PREM, Building Export Competitiveness in Laos, Summary Report, September 2006, p. 26.
- (6) Measures and Policies Supporting FDI by SMEs in Lao P.D.R, power point presentation.
- (7) Interviews at SMEDPO, NCCI, and Ministry of Commerce and Industry; interviews with ADB and bilateral aid agencies.

## **EQ5 - To what extent has EC cooperation increased and improved Lao PDR participation in ASEAN regional policy dialogues?**

### **EQ preliminary answer**

*Both through support to the ASEAN Secretariat and bilateral technical assistance and capacity building, the EC has significantly accelerated Lao PDR's integration into ASEAN. Lao PDR has not only participated in ASEAN policy dialogues, it has emerged as a strong and convincing advocate in the area of closing economic gaps within the region.*

Assessing the extent to which either ASEAN-level or country-level cooperation has increased and improved Laos' participation in ASEAN regional policy dialogues -- particularly in the non-trade areas -- is difficult. At the very least, any assessment of this nature would require a systematic process-tracing approach to determine whether there has been increased participation of the Lao government as result of the support provided by EC as an external partner of ASEAN. Here, we work with less conclusive evidence, drawing at best indirect linkages between the kind of support provided by the EC and the qualitative participation of Lao PDR in ASEAN affairs.

In looking at government awareness of ASEAN policy dialogues (Judgment Criterion 5.1), participation in those dialogues (Judgment Criterion 5.2), and the extent to which Government regards ASEAN integration is a key policy goal (Judgment Criterion 5.3), we conclude that Lao PDR participation in ASEAN regional policy dialogues has increased and improved. A cynical argument might hold that this is self-evident, since Lao PDR membership in ASEAN dates only from 1997. However, the broad picture that emerges below is that of an increasing exposure of Lao PDR officials to ASEAN dialogue and, most importantly, the emergence of Lao PDR within ASEAN (epitomised by its term as Chair of the Standing Committee in 2004-2005) as a strong voice for the reduction of the development gap within ASEAN.

To what extent did EC cooperation contribute? EC cooperation with ASEAN which supports the policy dialogues and makes possible participation of many officials from poor countries is a clear direct contribution. Indirect contributions would include, e.g. the technical assistance provided by the ASEAN Secretariat through the APRIS Project, which in turn has supported dialogue activities. These contributions have been positively evaluated in the current evaluation of the EC's support to the ASEAN Secretariat. We would argue that an indirect but nonetheless strong EC contribution to increased Lao PDR participation is the capacity building and technical assistance described at length in answering EQ 4 above. One interviewee suggested that the EC had helped Lao PDR to "take ASEAN to the provinces" meaning that there had been some Delegation support for ASEAN-related activities outside Vientiane.

### **JC 5.1: Increased Government awareness of nature and role of ASEAN policy dialogues**

#### **JC assessment:**

It is evident from interviews that Lao PDR government officials have good knowledge of, and are very familiar with ASEAN in general and the broad range of specific policy dialogues. Virtually all of the discussion under Judgment Criteria 5.2 and 5.3 below is relevant, as is much of the discussion under various Judgment Criteria for EQ 4 above. Taking the broad view, we have no hesitation in assessing this Judgment Criterion positively. The picture that emerges is one of increasing participation in dialogues, effectively representing the concerns of the poorer ASEAN member states, increasing knowledge of ASEAN matters, high prioritisation of ASEAN-related



issues and so on.

### **Indicator 5.1.1: Ministry of Foreign Affairs and Ministry of Trade officials displaying familiarity with ASEAN dialogues**

#### **Indicator estimate:**

This can be inferred that through their regular attendance of regional dialogues and policy meetings, Lao PDR officials would have become familiar with the so-called ASEAN way of doing things and would participate actively in regional policy formulation. Much of the discussion under EQ 4 would be consistent with increasing familiarity of Ministry officials with ASEAN dialogues. Officials the Foreign Trade Department of the Ministry of Industry and Commerce and in the Europe and Americas Department and the Department of Economic Affairs of the Ministry of Foreign Affairs were at ease in discussions ASEAN dialogues.

#### **Related facts, figures, and references**

Interviews with Government officials.

### **JC 5.2: Increased Government participation in ASEAN dialogues**

#### **JC assessment:**

Indicator 5.2.1 on quantitative measures of Lao PDR participation examined below gives little specific information by which to assess this Judgment Criterion; however based on a qualitative review of the nature of participation, we have no hesitation in giving a positive assessment.

Nor do we have at hand specific papers and reports authored by the Government and injected into ASEAN dialogues. However, as exemplified by contributions during its chairmanship of the ASEAN Standing Committee in 2004-2005, Lao PDR (along with Cambodia and Viet Nam) has emerged as a consistent voice for the importance of reducing the development gap between the better-off and poor members of ASEAN. By concentrating its efforts in this area, in which it has clear interest as well as expertise to offer, Lao PDR has become an effective voice within ASEAN.

Note that we have not made much of the qualification “increased”; since Lao PDR joined ASEAN only in 1997, virtually any observations we make regarding indicators below may be considered to represent an increase in participation, awareness, etc.

### **Indicator 5.2.1: Number of Lao PDR officials attending ASEAN dialogue meetings**

#### **Indicator estimate:**

Specific data on this indicator are not available. However, since the current estimate of ASEAN meetings held annually is between 600-700 meetings, and given the fact that all member states are represented in these meetings, we can safely infer that a substantial number of senior Lao PDR Government officials are attending ASEAN meetings.

Despite our lack of quantitative measures, it is worth describing the nature of Lao PDR participation in qualitative and institutional terms (1, 2, 3). Government officials have participated in the annual ASEAN Summit (the meeting of ASEAN Heads of State and Government); the annual ASEAN Ministerial Meetings (Foreign Ministers, Economic and Trade Ministers, Defence Ministers, Health Ministers, Education Ministers, and others), plus a burgeoning number of meetings at the Senior Officials level (SOMs). Representatives of Lao PDR also attend the other

important regional policy dialogue meetings that bring together ASEAN's external/dialogue partners, e.g. in economics and security. It is through these meetings that 'socialisation' takes place among member states, and where Lao PDR officials both at the highest and mid-level categories actively network with their counterparts in the region.

**Related facts, figures, and references:**

- (1) Severino, Rodolfo, *In Search of an ASEAN Community: Insights from ASEAN Secretary General* (Singapore: Institute of Southeast Asian Studies, 2006).
- (2) Hew, Denis, (ed). *Brick by Brick: The Building of an ASEAN Economic Community*, (Singapore: Institute of Southeast Asian Studies, 2007).
- (3) *Regional Security Outlook: 2008-2009, Chapter on Laos* (Singapore: Institute of Southeast Asian Studies, 2008).

**Indicator 5.2.2: Lao PDR input to ASEAN dialogue meetings (position papers, etc.)**

**Indicator estimate:**

ASEAN is based on the equality of its member states and each member (with the exception of Burma/Myanmar, which has not acted as Chair) hosts a roughly equal number of meetings during its one-year chairmanship of the organisation. Decisions taken and agreements signed at these meetings are usually driven by the Chair's input.

As a full-fledged member of ASEAN, Lao PDR took its turn as Chair of the ASEAN Standing Committee in 2004-2005. As Chair, Lao PDR coordinated and took in charge a number of significant regional initiatives introduced during its chairmanship. Thus, in 2004, Lao PDR hosted the 10th ASEAN Summit where the Vientiane Action Plan (VAP) was launched. The VAP is the road-map for ASEAN in realising its goal of building a 3-pillared community by the year 2020 (the three pillars being economic, political / security related, and social / cultural). (At the 12th Manila Summit in 2006—the timeline for achieving an ASEAN Community was moved forward to 2015). Lao PDR (like Cambodia, Burma/Myanmar, and Viet Nam, who taken together with Lao PDR comprise the so-called CMLV group of relatively poor ASEAN members states) constantly flagged the need for ASEAN to seriously address the development divide in the region. It is safe to infer that Lao PDR officials contributed broadly to the conceptualisation of the ASEAN Socio-cultural Community (ASCC) and the ASEAN Economic Community (AEC), and in particular, provided inputs to the drawing of the Vientiane Plan of Action for the ASEAN Security Community (ASC), AEC and ASCC (1). Beyond official meetings, Lao participants at track-two meetings like the ASEAN-Institutes of Strategic and International Studies (ASEAN-ISIS) are known to frequently talk/speak about the need for ASEAN officials, business organisations, and civil society groups to assist their less developed neighbours.

**Related facts, figures, and references:**

- (1) ASEAN Secretariat. *ASEAN Documents Series 2005*, Jakarta 2006 (for all documents, i.e. declarations, agreements, statements etc., under the Lao chairmanship 2004-2005; also available online at [www.aseansec.org](http://www.aseansec.org)).

### **JC 5.3: Government regards ASEAN integration as a key policy goal.**

#### **JC assessment:**

This sentiment is reflected regularly in official statements coming from Lao PDR officials at ASEAN meetings and was also confirmed in interviews across the board – with Government officials, officials from multilateral and bilateral donors, and representatives of non-state actors. An example of this is the Chairman's statement of the Lao PDR leader in his capacity as host and chair of the 10<sup>th</sup> ASEAN Summit in Vientiane in 2004. In this statement, Prime Minister Bouasone Bouphavanh reiterated his country's hope for the adoption of the Vientiane Action Plan (VAP) as a major vehicle to the building of an ASEAN community through the realisation of a comprehensive regional integration process.

Referring to indicators associated with EQ 4 above, we reiterate that ASEAN and WTO accessions are the cornerstone of Government trade policy and that better integration of trade is seen as a crucial component of encouraging economic growth and poverty reduction.

Lao PDR has taken substantial concrete steps towards integration into the ASEAN Free Trade Area (AFTA), especially the reduction of most tariffs to the acceptable band.

Not directly implicated in this Judgment Criterion, but clearly relevant, is the central importance of WTO accession and the many steps taken that have been described in the process of answering EQ 4.

#### **Indicator 5.3.1: Treatment of ASEAN and ASEAN integration in Government policy documents.**

##### **Indicator estimate:**

ASEAN and ASEAN integration are consistently treated as key focal areas of policy concern; e.g. (1, 2).

Trade and its potential for poverty reduction are focal concerns of the Sixth Socio-economic Development Plan (2006-2010) and the national poverty reduction strategy (the PRSO process). The strategic axes of Government trade policy, described in Indicator 4.1.3 above, are all strongly oriented towards integration into ASEAN as well as WTO. We described (Indicator 4.1.2) the putting in place of effective action plans for ASEAN (as well as WTO) accession plans and the effective integration of trade issues into economic policymaking (Indicator 4.1.3). These benefited both from EC bilateral support and from Lao PDR participation in ASEAN-level programmes.

Lao PDR has also demonstrated its commitment to AFTA by aiming to meet its targets in the reduction of tariffs within the agreed terms of AFTA (3). As described in Indicator 4.1.3 above, most tariffs in Lao PDR have been reduced to the acceptable band.

##### **Related facts, figures, and references:**

- (1) Chairman's Statement of the 10th ASEAN Summit, Vientiane, 20 November 2004, <http://www.aseansec.org/16632.htm>. Specifically, [...] "bridging the development gap is extremely important for regional economic integration and is a crucial part of confidence-building efforts to assist members to cope with challenges. In this regard, we noted progress made in the implementation of the Initiative for ASEAN Integration (IAI; the vehicle for channelling assistance from better-off to poorer ASEAN countries) and Road Map for Integration of ASEAN (RIA). We welcomed Singapore's additional contribution of S\$28.9 million (US\$17.6 million) to support the implementation of the IAI as an important symbol of its commitment to foster closer economic integration and enhance ASEAN's

competitiveness as a region.”

- (2) Dean Forbes and Cecile Cutler, “Laos in 2005: 30 years of the People’s Democratic Republic”, Asian Survey Vol. XLVA, No. 1, January/February 2006, pp. 175-179.
- (3) Kyophilavong Phouphet, Regional Outlook Southeast Asia 2008-2009, p.108.

#### **JC 5.4: EC expertise in economic integration made available**

##### **JC assessment:**

The JC has already been positively addressed under EQ 4 above, and the significant strides made by Lao PDR have been described. In particular, the EC made available technical assistance in economic integration (Judgment Criterion 4.2) and formed capacity (Judgment Criterion 4.3). Significant amount of this were accomplished via ASEAN level cooperation (for example, support in intellectual property rights, standards, and WTO accession). We were able to gain less information on specific EC expertise made available in the form of reports, papers, and reports.

##### **Indicator 5.4.1: EC studies, TA, trainings, etc. on EU experience with economic integration.**

##### **Indicator estimate:**

See above, especially Judgment Criteria 4.1-4.3.

##### **Related facts, figures, and references:**

**EQ6 - To what extent has EC integration of gender equality, good governance, and environment into its interventions across the board, working with both civil society and all levels of government, resulted in improvements?**

**EQ answer**

*It would be difficult to conclude that the EC's integration of cross cutting issues in its project interventions has resulted in improvements. While projects have tried to integrate cross-cutting issues, this has been largely pro forma and sometimes clumsily done. Monitoring frameworks which would allow lessons to be learned and transmitted to the level of strategy formulation were missing. Yet, more broadly speaking, there have been improvements – more space for civil society, greater concern for gender and environment, and, most spectacularly, increased attention to the pervasive problem of weak governance – in which the EC has played a role. Participation in PRSO and its leading role on the relocation issue represent the EC's greatest leverage on these issues; historically, support for UNDP projects played an important role, as well.*

Cross-cutting issues and especially governance are integrated into the EC cooperation programme at the level of strategy. However, it is difficult to assess how much the EC has contributed to improvements in these areas. To start, though, it should be clearly stated that there have, indeed, been such improvements (Judgment Criterion 6.4), on civil society, gender, environment and, most particularly, on good governance, where since 2003 the Government has been more willing to come to grips with fundamental issues. Between the CSPs 2002-2006 and 2007-2013, the EC made significant strides in its efforts to integrate cross-cutting issues into its strategy (Judgment Criterion 6.1) and to be in line with the evolving Lao policy frameworks in the area of environmental protection, governance reform, and public sector financial management. At the operational level and in each sector where EC has chosen to cooperate, the EC has also integrated these cross-cutting issues, even they are not explicitly identified and monitored as such (Judgment Criterion 6.1.2). Moreover EC has effectively anticipated the direction of policy and the assistance needs of local civil society organisations (Judgment Criterion 6.2).

Governance

There is broad agreement among stakeholders that the main risk to development in Lao PDR is weak governance, an issue which we try to ground in Lao political culture in Special Focus 4 of Annex 5. Governance is a core cross-cutting issue in which the EC has played a significant role through its involvement with the public financial management component of the PRSO as well as directly through its support for UNDP-implemented projects in areas such as strengthening the National Assembly. These share the characteristic that both relate closely to transparency and accountability in financial management, which in turn relate to key governance issues involving relations between Vientiane, the provinces, and the districts. These issues as they relate to the budgetary process are described in general in Special Focus 3 of Annex 5 and as they specifically relate to health and education sectors in Special Focus 5. The EC has successfully engaged with the two main dimensions of governance, namely economic governance through PRSO in partnership with World Bank, Japan, and Australia; and political governance in partnership with UNDP.

Rule of Law

The EC has been somewhat visible in the area of rule of law, but Lao PDR is a difficult environment in which to come to grips with this. It is widely recognised that decisions with legal force at the centre are not effectively implemented or enforced at the periphery; that

administrative decision making is often opaque and can appear arbitrary. While government, particularly its executive branch, and the National Assembly have both become more assertive in recent years (thanks in some part to donor support for capacity building and institutional reform), the Party is still ubiquitous and; for the most part, non-transparent in its operations.

### Civil society

Civil society is also a difficult area in which to work – civil society broadly considered (voluntary associations, professional groups, etc.) has assumed a growing role in recent years, and the EC has formed partnerships. However, civil society in the European sense, with a full right of free association and institutional autonomy, is not in evidence in Lao PDR. Nonetheless, there appears to be increased willingness on the part of the Party to accord a greater role to civil society organisations other than the officially recognised mass organisations (Women's Union, etc.). The EC developed a three-pronged approach to enhance civil society participation. First, EC sectoral interventions have embraced the principle of participatory development in project formulation and implementation, introducing partnerships between civil society at the grassroots and local authorities. Second, EC has developed a large portfolio of international and local civil society organisation projects with EIDHR instruments and NGO co-financing budgetary lines. Third, the EC, through UNDP, provided capacity building for voluntary associations such as the Lao Bar Association and the Lao Association of Journalists, although concrete results appear to have been limited. An EC project supported legal reform related to the regulation of civil society organisations and the EC also provided direct capacity building, although it must be kept in mind that this is often at an elementary level, e.g. basic computer skills.

In many of these efforts, international NGOs act as partners to national organisations. However, as international NGOs are themselves kept on a tight leash in Lao PDR, the potential of such partnerships to foster the development of a truly autonomous civil society has been limited.

### Human rights

Human rights are not explicitly mentioned in the EQ but should receive some attention in answering it nonetheless, as the EC identifies human rights as a cross-cutting issue. Human rights dialogue was officially established between Lao PDR and the EC in 2005. The relevant venue for discussions related to cooperation is the informal "Working group on cooperation in the areas of institution building and administrative reform, governance and human rights." Through this dialogue, Lao PDR authorities are made aware that the EC continues through its operational cooperation programme to monitor certain issues, such as relocation, and encourages them to meet their obligations deriving from international covenants they have ratified. The EC's lead role in policy dialogue related to relocation (see EQ 1 and Special Focus 1 of Annex 5) brings with it dialogue related to the implied issues of human rights. However, it should be made explicit that the dialogue on human rights aspects of relocation in the context of the uplands development project represents leverage of the initial investment in dialogue and cooperation engagement on implementation aspects of relocation. The strategy (never made explicit) would appear to be that, by engaging closely on dialogue and cooperation related to the practice and implementation of relocation, the human rights and overtly ideological dimensions of relocation will emerge and have to be dealt with.

### Gender, environment, ethnic minorities

The EC has systematically incorporated the gender (especially) and environmental dimensions into the preparation and implementation of all EC programmes. The geographical scope of projects means by definition that ethnic minorities and the related sub-themes listed above are involved. Gender, ethnic minority, and environmental issues are especially visible in the EC's engagement

on the relocation issue.

However, despite the EC's engagement and signs of progress in some areas, there is no evidence that the EC's integration of cross-cutting issues, as well as dedicated programmes has had a tangible impact on decisions taken by the government of Lao PDR.

We have spoken so far mostly at the strategic level. The review of how cross-cutting issues are dealt with in project implementation (see especially Indicator 6.1.2) is nuanced. There is a gap between strategic objectives (i.e., at the CSP level) and the operational reality. This is, to a large extent, because strategic thinking has not come fully to grips with the operational reality. In looking at EC projects, documents reviewed, such as monitoring frameworks, do not effectively track governance, gender, and environment; nor could they because there is insufficient attention paid to baseline situation analysis. Lessons are therefore not learned and capacity building is diluted by inadequate understanding of needs. Moreover, there is no upward flow of insights from the project level to higher-level policy dialogue and strategic thinking, a source of concern as the EC moves progressively into greater emphasis on budget support via the PRSO framework.

The EC has worked with institutions at all levels, from Village Councils up to central government. Whether the working relationships at provincial and district levels amounted to partnerships (Judgment Criterion 6.3) we are unwilling to say.

### **JC 6.1: Mainstreaming of cross-cutting issues into all EC interventions (programming and implementation)**

#### **JC assessment:**

We assess this Judgment Criterion by considering the treatment of cross-cutting issues at two levels – strategy and project documents (Indicator 6.1.1), and project implementation (Indicator 6.1.2). Our assessment is that the EC has made all the right commitments and used all the right language at the strategic level, but when it actually comes to mainstreaming cross-cutting issues, results have been limited. The successive CSPs, from 2002-2006 to 2007-2013, reflect a progressive increase in the weight attached to cross-cutting issues, particularly governance. This is in line with the priorities of Government itself (which, for example, in 2003 promulgated a governance reform policy), as well as the emergence of the PRSO framework which emphasises public expenditure reform as a key priority for poverty reduction. The CSP 2007-2013 and MIP (2007-2010) are based on the recognition that the lack of governance undermines progress in social and economic development in Laos. Cross-cutting issues, in particular, governance, ethnic minority issues (and, implicit in the latter, human rights, gender, and environmental concerns) are integrated into EC cooperation programme. The EC's initiation of a more focused policy dialogue on relocation, tied to concrete issues of implementation and project support, is also significant because of the range of cross-cutting issues involved in relocation, among them, gender, environment, and ethnic minority issues.

Increasing strategic attention to cross-cutting issues is a welcome development. However, we are critical as to the integration of cross cutting themes into projects to date. A theme-by-theme review (Indicator 6.1.2), reveals that monitoring systems were incapable of tracking progress in cross-cutting thematic areas and that there is no sense of ownership of cross-cutting themes in evidence. It is unlikely that EC-supported civil society strengthening projects will leave a legacy of lessons learned to inform a future strategy on cross cutting issues or to feed upward to inform and improve policy dialog, e.g. through the PRSO process. Flexible instruments such as EIDHR and NGO co-financing budget lines represent a potentially useful way of mainstreaming good governance and gender issues, but they have not yet functioned effectively in this regard.

**Indicator 6.1.1: Strategic documents and project documents take account of cross-cutting issues. Indicator estimate:**

The CSP 2002-2006 took some environmental issues, e.g. disaster preparedness and prevention and environmental protection aspects of forestry into account. Governance was identified as a cross-cutting issue for the period of CSP 2002-2006; gender was not, nor is there a significant discussion of human rights. Gender and governance were considered appropriate areas for intervention, but via actions on an ad hoc basis, not on the basis of a strategy. In general, inclusion of cross-cutting issues appears to have been somewhat ritualistic in the CSP 2002-2006. Issues are not really defined, prioritised and put into operation in main sectors of EC cooperation. The CSP 2007-2013 is more explicit, recognising the need to focus on cross-cutting issues and especially gender, ethnic minorities, and governance. Systematic incorporation of cross cutting issues is identified as key to poverty reduction programmes, as is the participation of main beneficiaries (1). The treatment of relocation, while calling for a focus on implementation issues rather than more ideological ones, makes it clear that relocation does pose fundamental issues of human rights.

Governance

In 2003, the Government of Lao PDR adopted a Governance Reform Programme having four objectives – (i) public-service reform, (ii) people's participation, (iii) the rule of law and sound financial management. Over time, governance has assumed increased importance as support has shifted away from the "project" approach (by which we really mean large traditional development projects implemented by government agencies) towards an approach paying more attention to strengthening Government's own reform process and capacities. In strengthening the country's own governance and financial management systems, the new EC strategy aims to ensure that the National Development Strategy translates itself into concrete resource flows to priority sectors and areas and results in tangible progress towards the attainment of the MDGs (1). We have discussed this in detail in Special Focus 3 of Annex 5.

An example is the EC ensuring that cross-cutting issues were taken into account in the preparation of the PRSO is its support for the Public Expenditure Review and other preparatory studies (3). The PER incorporates many cross-cutting issues such as public expenditure analysis from the perspective of women, ethnic minorities and the environment. Gender and ethnic minority concerns are the subjects of a separate study (Poverty and Social Impact Assessment) to assess the distribution of government expenditures from the perspective of vulnerable groups.

These are, however, just first steps. To put the relationship between budget support and cross-cutting themes in perspective, it is useful to consider the following quote from the Thematic Evaluation of the EC support to good governance (June 2006).

Budget support should not be seen as a panacea but ideally be combined with other tools (e.g. the provision of technical assistance or the support to budget-tracking watchdog agencies). Further policy development and learning will be needed on how best (i) to provide / manage sectoral budget support in support of governance reforms with the required standards in terms of quality and monitoring; (ii) to use budget support at decentralised level in support of local governance processes; (iii) to improve the overall capacity of the EC Delegations to make the link between budget support (as a financial tool) and the promotion of governance (e.g. in the framework of regular monitoring exercises or mid-term and end-of-term review processes and related governance assessments).

Among the cross-cutting issues, governance has recently received the most attention because the PRSO, which stresses improvements in governance, is the largest EC programme foreseen for 2007-13. The variable tranche of the PRSO, which ties EC contributions to increases in financial resources made available to poor provinces in education and health (and to staffing), can be seen as a strategy to address the specific financial problems described in Special Focus 5 of Annex 5,



which are deeply rooted in Lao political culture (the relationship between the centre and the provinces) and in dysfunctional government budgetary processes.

Also to be noted is that the EC has provided support for a number of UNDP-implemented governance projects including capacity building at the National Assembly, the formation of a Bar Association, and the formation of a National Auditing Board.

#### Environment, gender, and ethnic minorities

A Country Environmental Profile was prepared for Lao PDR in June 2005 as part of the process preparing the CSP 2007-2013, and environmental issues were discussed in Annex 4 (about 7 pages long) of that document. The EC is committed to addressing environmental policy and sustainable natural resource management in the context of the PRSO (4). Policy dialogue on relocation, discussed at length elsewhere (see EQ 1 and Special Focus 1 of Annex 5) directly addresses environmental concerns, with special reference to unsustainable agricultural practices and land issues, as well as gender and the wellbeing of ethnic minorities.

The EC's education strategy has been explicitly targeted to reduce inequalities, especially those affecting ethnic minorities, but also between boys and girls. The synergies between these two, i.e. the fact that disparities between girls and boys are most serious for ethnic minority groups, are taken into account in strategic documents. The experience of the Basic Education in Northern Communities or BENC Project is discussed under EQ 3. In health, as well (EQ 2), the special problems faced by ethnic minorities and women have been addressed by the EC's interventions, although they have not necessarily been recognised as strategic foci or as cross-cutting themes per se. The PRSO variable tranche explicitly seeks to reduce inequalities in both education and health (see Special Foci 3 and 5 in Annex 5).

Environment and gender are reflected in the DTIS (Diagnostic Trade Integration Study) under the Integrated Framework (IF) and, consequently in the EC's support in the area of trade and economy. The NIP 2005-2006 states that in designing the Small and Medium Enterprises (SME) Development Programme (see Indicator 4.4.1), gender and environmental dimensions should be taken into consideration, that female participation in training activities should be encouraged, and that particular attention should be given to the promotion of appropriate technologies in order to decrease energy consumption and protect the environment. These are statements typical of the meta-level (somewhere between strategic documents and project documents). As we see below in examining Indicator 6.1.2 (albeit not in the case of the SME project, which has not yet been monitored), the project level record of dealing with cross-cutting issues is poor.

For the treatment of gender and ethnic minority themes in the CSP 2007-2013, see the discussion of Indicator 9.1.3 below.

#### **Related facts, figures, and references**

- (1) CSP 2007-2013 p. 19.
- (2) CSP 2007-2013 p. 18.
- (3) CSP 2007-2013 p. 21.
- (4) CSP 2007-2013 p. 25.

## **Indicator 6.1.2: Projects incorporate interventions targeting cross-cutting themes**

### **Indicator estimate:**

In each major sector of EC cooperation (rural development, health, trade and education), projects have systematically incorporated cross-cutting issues even if they are not explicitly identified as such. A large portfolio of projects dealing with international and local civil society organisations through NGO co-financing budgetary lines and EIDHR have been implemented to address cross-cutting issues. However, all project documentation consulted and interviews with national and international stakeholders indicate a relatively low degree of implementation and ownership of cross-cutting issues through projects. There is no information collected or evidence gathered through project implementation on how to properly integrate and to measure progress regarding cross-cutting issues. Project monitoring did not report on the extent to which the mainstreaming of horizontal themes actually took place in the implementation of EC sectoral projects. Similarly, a review of flexible instruments – fourteen Asia-wide projects and ten projects under horizontal lines -- reveals no evidence that good governance, gender issues, and environment were effectively mainstreamed, and indicators of performance are missing.

We proceed below on a theme-by-theme review at the project implementation, as opposed to strategic, level, with mixed conclusions.

### Governance

Governance is holistically defined as support for democratisation, promotion of human rights, reinforcement of the rule of law and administration of justice, enhancement of the role of civil society and capacity building, public administrative reform, management of public finances and civil service reform, decentralisation and local government reform / capacity building (1) A number of assessments agree that weak governance is one of the most, if not the most critical constraint to sustainable social and economic development in Lao PDR. In Special Focus 4 of Annex 5, we have rooted various dimensions of weak governance in Lao political culture; in Special Focus 3 we described the dysfunctional public financial management system that has resulted, and in Special Focus 5, we showed the concrete impacts on disparities in health and education.

It is clear that all sectoral projects, either directly or indirectly, explicitly or implicitly, knowingly or unknowingly, have governance components. Virtually all contain institutional and administrative capacity building components. Most sectoral projects are also implemented in partnership with local authorities; e.g. see (2) for the example of the BENC, rural development, etc. The EC has for some time recognised the importance of the participatory approach, and all sectoral projects such are formulated and implemented with the participation of civil society (villagers, families, provincial and district authorities) etc. (see, for example, discussion of the Microprojects Development through Local Communities or MPDLC Project under EQ 1). Virtually all projects have concentrated on rural and / or remote areas of the country populated by ethnic minority populations where inequalities between men and women are significant, environmental degradation plays a role in the creation of poverty traps, and human rights issues arise, e.g. in the context of relocation.

Despite this, systematic incorporation of governance components was not clearly identified in sectoral project documentation related to implementation and cross-cutting issues do not appear to have been supported by any explicit strategy. Rural development, education, and health ROM Reports consulted do not contain any indicator of performance to gauge progress achieved in governance or gender or with regard to ethnic minorities and women. Projects are poorly documented on governance aspects. For instance, one would expect education sector actions to be

squarely consistent with efforts through the PRSO to increase availability of resources for the social sector in poor areas. We know (see EQ3 above) that availability of human resources is a serious problem and that the Medium Term Review of the BENC Project recommended putting increased pressure on Government to honour commitments regarding the availability of teacher, but this issue was not placed in the decentralisation context. Yet BENC project documentation appears ignorant of the PRSO initiative.

One source of the poor monitoring of governance aspects is that preparation of sectoral projects does not appear to have included a systematic baseline review of governance aspects or mapping of governance linkages. This impaired, from the start, any effort to monitor governance aspects as the project moved forward. It also hampered capacity building efforts because capacity needs had been inadequately assessed.

The EC was involved, as were other European donors, in supporting ambitious UNDP joint programmes on governance. These projects were “Capacity building for civil society,” “Strengthening the Capacity of the National Assembly,” and “Supporting Lao PDR Participation in Rome Statute of the International Criminal Court” (a legal reform project located in the Ministry of Foreign Affairs to bring Lao PDR in conformity with international law). As an example of failure to adequately monitor, we take the National Assembly project, which aimed to improve legislative scrutiny and oversight and to encourage gender balance. Training regarding the first, some of it provided by European Parliamentarians, improved the quality of review by encouraging debate on broad outlines of legislation, whereas debate had previously consisted in large part of wrangling over details. Many stakeholders emphasised that the project increased the capacity of the Economic, Finance, and Planning Committee to exercise budgetary oversight. The project may have also played a role in the National Assembly’s increasing activity in sensitive areas such as land policy. However, ROM Reports (3 and 4, respectively) are not able to provide any set of indicators of performance. The quantity of interventions (activities) implemented is tracked, but not qualitative progress achieved by the capacity building; this is not surprising because there are no benchmarks of the initial situations.

Moreover, there is no evidence of the linkages and synergies between activities related to civil society and those related to the National Assembly. There was no overall strategy on how to develop civil society’s participation in decision making processes and neither the “Capacity building for civil society” nor National Assembly project sought to break down the barriers between civil society and government. The ROM report on “Capacity building for civil society” (3) made no reference to gender issues, environmental concerns or governance.

A civil society project implemented under the NGO co-financing modality did better in tracking cross-cutting issues such as governance. This was the establishment of a cooperation between Oxfam NL (the international partner), and the Participatory Development Training Centre or PADETC (the implementing partner). The relevance of the project to beneficiaries’ needs as well as to Government priorities was high. The flagship activity appears to have been the training of youth volunteer groups to assist teachers in schools, an activity that Government welcomed. Nevertheless the wide range of activities (among them silk production, fish farming, and water filtering columns), the fact that activities were scattered over many geographical locations, and failure to collect data to provide guidance and to evaluate the impact of those actions must have reduced the effectiveness, efficiency, impact and sustainability of the partnerships formed.

The effectiveness of the EIDHR and NGO co-financing facilities is limited by some factors particular to the Lao PDR context. The NGO co-financing facility requires formal authorisation of the national partner by government authorities, which can be difficult in a setting in which freedom of association is not guaranteed. Application procedures are not user-friendly –one EIDHR grant recipient said that it would not apply again, and an NGO co-financing recipient said that only the input of the international partner NGO made it possible to successfully complete the

application. NGO capacity building in Lao PDR often requires starting with the basics of computer literacy, internet usage, etc. Another comment made by an international partner was that, by the time the effort put into the application was compared to the amount of the grant, the effort implied was not worth it.

As described in Special Focus 1 in Annex 5 and in the context of answering EQ 1 above, the new uplands development project (the only traditional project in the new CSP) is explicitly designed to be contingent on as well as provide a platform for intensified policy dialogue with Government on the subject of resettlement / relocation. It is clear from the EC's description of the envisaged policy dialogue (see particularly Annex 9 of the 2007-2013 CSP that this process will incorporate all relevant cross-cutting themes.

## Gender

The Gender Resource Information and Development Center (GRIS) associated with the Lao Women's Union summarised sectoral gender issues as follows (5):

- *Agriculture and rural development*: male predominance in income earning activities and in village governance;
- *Trade and economy*: Lack of education and resources; over-representation in low-paid jobs;
- *Education*: The boy-girl gap in rural areas, female illiteracy;
- *Health*: Low level of reproductive health, difficulty of access to health care of reasonable quality.

The fact that all sectoral projects have been formulated and implemented with a pro-poor emphasis in remote areas suggests that there is a direct consideration of gender issues. Nevertheless, ROM reports do not reflect well to what extent the mainstreaming of gender is actually taking place in project implementation. We find gender-specific data and indicators of performance missing in ROMs related to rural development (6), urban development (7), and health (8 and 9). It seems that the most of ROM Reports are gender blind because of poor initial baseline situation analysis. For instance, only one ROM report consulted (10) states as a recommendation that staff resources should be used to collect baseline data in order to feed results into a results-oriented monitoring system that can cast light on gender issues.

The Phongsaly Forest Conservation and Rural Development Project, described in detail under EQ 1, failed to integrate gender meaningfully. Project documentation largely reflects on "villagers" without distinction although there are several statements especially of income generating activities typically undertaken by women such as weaving, food processing or that women have a role in livestock production. "Farmers" are assumed to be men although women are reported to contribute at least half of the labour in agricultural activities in the upland. Because gender equality has not been integrated, there is hardly any information on to what extent women and men have benefited from the project.

Government policy and rhetoric in Vientiane are strongly supportive of gender equality and the need to better integrate women into development. This is, for example, explicitly recognised in the 2003 reform programme on good governance. However, field visits in Luang Prabang illustrated well the gap between centre and periphery which results in poor implementation of policies. The Lao Women's Union in Luang Prabang gives support to village chiefs who then distribute this to male heads of households – no doubt indirectly benefiting a large number of women, but not empowering them in ways intended by the Women's Union in Vientiane.

## Environment

While Lao PDR is affected by a range of environmental issues, the most pressing of these revolve around unsustainable natural resource management policies, especially those affecting forests. Clearing of lowland areas for agriculture and unsustainable logging have cut forest cover nearly in half over the last 50 years. Loss of rural livelihoods and loss of biodiversity are two direct consequences.

Rural development projects such as the Phongsaly Forest Conservation and Rural Development Project explicitly state their intention to mainstream environmental concerns. To give a brief synopsis, the overall project objective was “Quality of life for rural communities within Phongsaly Province improved, preserving nature and culture, for the sake of Lao PDR sustainable development”. Sustainable forestry and biodiversity conservation were the main environmental themes of the project. A rural development component was added during the formulation stage, and came to consist of food security, increasing incomes, and developing village, province and district institutions. Eradication of opium cultivation and shifting cultivation were at the core, and strategies to achieve this included resettling upland villages to lower altitudes for easier access to economic opportunities and social services. Resettlement had been completed before the project started.

Considering that this was a forestry project, the project preparatory studies contain remarkably little information on forests. All background studies repeat that 47 percent of the total area is still covered by forest, and that the main threat to forests is shifting cultivation. Fear is expressed that, as Phongsaly Province develops, commercial logging may increase. Hence the importance given to land use planning and to integrating forest and agricultural activities at village level so that villages derive benefits from conserving forest resources. No final report of the activities of the forestry component of the project is yet available. Project activities are not clearly linked with forest conservation and the final ROM Report does not mention environmental aspects (11). According to the Final Evaluation (pp. v-viii), the relationship between forest conservation objectives and rural development should have received more attention than it did. Initially, based on biodiversity criteria, 6 forest areas in 5 districts were selected as the working area, but this not adjusted at the formulation stage when the rural development component was added. One of the project’s results is “Forest functions conserved.” The major achievements related to this result are: Non-Timber Forest Products (NTFPs) area increased by 300 ha; shifting cultivation area reduced by 10,000 ha; Nam Lan conservation area established and eco-tourism visits recorded; land use planning undertaken in 118 villages (but without any follow-up). On the negative side, there was no observed improvement in forest management.

On this evidence, “environment” was largely interpreted to mean rural development; nothing was really done on forest management or environmental protection. It is striking that a senior official of the Department of Forestry within the Ministry of Agriculture had had no contact at all with the project.

## **Related facts, figures, and references**

- (1) Thematic Evaluation of the EC support to good governance, June 2006.
- (2) BENC ROM report 20385.02-08/12/06.
- (3) Capacity building for civil society ROM report-20551.01.
- (4) Strengthening the capacity of the National Assembly and supporting Lao PDR participation in Rome Statute of the ICC ROM report- 20713.01 The ROM report of the National Assembly project states that “*some* examples suggest that the functions of the NA are being

strengthened, providing good impact prospects in the longer term “ Nevertheless, the ROM report states also that “The lack of clear/useful indicators and of a proper results oriented internal monitoring system, together with the fact that this is a purely capacity building intervention, makes it very difficult to have a clear picture of the current level of project achievements or results. Most of the Members of Parliament and National Assembly staff interviewed during the mission could not provide clear examples in this respect...Progress reports should be based not only on activities delivered (Trainings, Ws, study tours, handbooks, etc. ) and expenditures but on achievements of results as well, as per indicators in LFM. (no indicators of success because no baseline study)”.

- (5) Lao PDR Gender Profile. Gender Resources Information and Development Center, November, 2005. Vientiane: Lao Women's Union.
- (6) ROM- 20102-05 -Micro projects development through local communities (MPLDLC) and- ROM 00144-01-26/04/01- Micro projects a Luang Prabang ( deuxième phase).
- (7) ROM 20539.01.
- (8) Malaria control ROM -00140.01- 26/04/01.
- (9) Reproductive health ROM-00146.01. Note that the existence of a reproductive health project per se is not typically considered to be an effort to incorporate or mainstream gender issues.
- (10) BENC Project ROM 20385.01- 16/12/05.
- (11) Phongsaly Project ROM 20080.1-20/11/02.

### **Indicator 6.1.3: Assessment of impacts to date on most vulnerable groups taken into account in CSP 2007-13 programming.**

#### **Indicator estimate:**

The new CSP 2007-2013 introduces budget support as the main cooperation instrument as the EC phases out stand-alone projects with the exception of the new uplands development initiative. The incorporation of most vulnerable groups is not done directly, via project interventions, but via the PRSO conditionality matrix which stresses poverty reduction (see Special Focus 3 in Annex 5). The public expenditure review (PER) and Poverty Social Impact Assessment supported by the EC as part of the PRSO preparation process, have been described elsewhere. The extent to which these exercises informed the CSP is not clear, but they are evidence of taking impacts on the most vulnerable into account in strategic programming.

We discuss at greater length the place of vulnerable groups in the CSP 2007-2013 when addressing EQ 9 (see, e.g., Indicator 9.1.3 regarding women and ethnic minorities). A major point of engagement with their needs is the EC's initiative to engage in more focused and coordinated policy dialogue with Government, at all levels, on the relocation issue (see Special Focus 1 in Annex 5 as well as EQ 1 above). As discussed elsewhere, this dialogue will concentrate on relocation in practice, i.e. concrete poverty issues and responses, not on relocation as a general issue.

#### **Related facts, figures, and references**

## **JC 6.2: Partnerships formed with civil society organisations**

### **JC assessment:**

All EC project documentation states that among the target groups are civil society organisations reaching down to the grassroots level and cites progress in consulting with and encouraging the participation of civil society institutions. Yet, there are no truly autonomous NGOs, in the Western sense, in Lao PDR. Nonetheless, civil society exists in Lao PDR in the form of mass organisations, voluntary associations, and the like; and targeted EC projects that reach down to the grassroots level have demonstrated positive progress in consulting and participating with civil society. We list, in addressing Indicator 6.2.1, a number of projects that have worked with civil society. Limiting the effectiveness of these organisations is low capacity and, in the case of mass organisations, the problem of poor communication between Vientiane and the provinces/districts. EC support has generally been in the area of services delivery, although there have been a number of highly thought-of EIDHR projects and one project devoted to improving the legal framework for civil society.

At a very general level, as in policy discussions of the PRSO or relocation, the EC may engage the Government in discussions about civil society, but we have no evidence of pointed policy dialogue of the need to stimulate the free and spontaneous development of civil society institutions (Indicator 6.2.2). Nevertheless, in assessing Judgment Criterion 6.4, we conclude that civil society development is, indeed, occurring in Lao PDR. EC-sponsored partnerships between international NGOs and national NGOs help to encourage this development. However, we express concern that, because international NGOs themselves are circumspect; for good reason, as they are tightly constrained, the partnerships that the EC fosters between international NGOs and national NGOs does little to contribute to the take-off of autonomous civil society.

### **Indicator 6.2.1: Civil society organisations act as project partners**

#### **Indicator estimate:**

We interpret this question as referring to national NGOs; however, in the last paragraph we comment on the role of international NGOs.

The CSP 2007-2013 estimates that NGO-implemented projects in food security and rural development, health, UXO clearance and basic education account for approximately 20% of ongoing projects (1). Microproject facilities such as the MPDLC Project have also effectively reached local civil society. Other projects deserving mention are “Capacity building for civil society,” “Micro-projects in Luang Prabang” (second phase), “Projet d’appui au secteur de la santé – Districts de Phine et Nong, Savannakhet (PASS),” “Promoting Urban sustainable development through the preservation and valorization of Luang Prabang’s urban and peri-urban agriculture” pilot project (ROM 20539.01), and “Restauration des zone Humides de Luang Prabang.” Evidence of the recognition of the important role of NGOs is contained in ROM Reports of the Livestock Project (2, 3), the first of which warns that the extension activities are highly dependent on the involvement of NGOs, who are nonetheless not an integral part of the project; the second of which recommends as a priority to consider possible involvement of NGOs to reinforce the intervention of the livestock services.

But, stepping back to take the large view, what does this engagement with civil society really mean? The Lao PDR Constitution allows for the formation of civil society associations. However, while various ministries and government bodies have the right to individually register member associations, overall laws or regulations regarding the mandate of these associations, their scope of operations and their management by government have not yet been approved. A wide range of associations were able to register due to their personal contacts, rather than meeting specific

criteria, (e.g., the Lao Union of Science and Engineering Associations or LUSEA). However, many of them have been rejected. In the absence of a legal framework, civil society organisations that are not registered are not legal entities, and therefore have great difficulty accessing funds and working with government in Lao PDR. In the same vein, recognition of associations does not mean recognition of civil society in western sense.

Yet, civil society broadly considered certainly exists in Lao PDR. What is an NGO for Government and what is an NGO for the international donor community are two different things. "Volunteers," "people's organisations," "professional associations," etc. are acceptable from Government's point of view, but not NGOs as understood by donors. A law on association, long promised, has been repeatedly delayed.

Mass organisations, such as the Women's Union, have an especially important but also ambiguous role. There is increasing space for the operation of mass organisations, but precisely because these are assuming a larger role, Government sees little need to expand the role of civil society in the Western sense. Nevertheless, this by-and-large positive assessment of mass organisations must be nuanced by the recognition of the problematic gaps which exist between Vientiane and the provinces. No adequate channel yet exists for giving a coherent voice to civil society over the entire territory. Two officers of a mass organisation, one based in Vientiane and the other one in Luang Prabang, had differing positions on basic issues, putting in question the potential impact of civil society organisations over the territory. In Vientiane, the Lao Women's Union member interviewed underlined positive progress on women's situation, such as the evolution of land titles in favour of women's property rights, the representation of women in various ministries etc. By contrast, the Lao Women's Union interviewee in Luang Prabang did not seem especially informed of or interested in those developments. Lao Women's Union in Luang Prabang is mainly involved in social activities in favour of villagers and especially families. Dedicated grants for women are distributed to the chief of the village who is in charge to allocate funds to families, a practice tending to perpetuate male dominance rather than weaken it.

The large portfolio of projects through the NGO co-financing line, which links international NGOs to local partners, has created ad hoc networks with local civil society. However, the sustainability of these ad hoc networks may be weakened since they are not entirely aligned with the National Social and Economic Development Plan.

While many international NGOs have collaborated on an ad hoc partnership basis with Lao civil society organisations, none of the NGO representatives interviewed (either national or international) emphasised the importance of knowledge transfer with their partners. Most NGO co-financed projects were in social areas such as public services delivery in various sectors (health, education, rural development etc.). At the provincial level, one national NGO representative commented that the coordination amongst non-state actors is very weak and that there is a risk of duplication of activities. Moreover, it was difficult to assess to what extent NGO co-financing projects complement the main sectoral approach of EC cooperation; for example, it is unclear to what extent the project "Building the capacity of vulnerable groups to lead poverty reduction activities in upland Lao PDR" was also involved in the livestock sector (4), the latter being a major focus area in poverty reduction through the SLSEA project.

By co-financing activities implemented by UNDP and through the EIDHR instrument (5,6), the EC has helped to build capacity at organisations such as the Lao Bar Association or Lao Journalist Association. Yet, Government has restricted the scope of the Bar Association and other associations (engineers, private schools, and others) are short of capacity. Nevertheless all national partners funded through EIDHR were satisfied with the instrument. First, it has helped to build internal capacities of national organisations. Second it has helped to make those organisations



more visible by disseminating information, not only in Vientiane, but in the provinces, as well. It is important to keep in mind the Lao PDR context in which information is communicated on a need-to-know basis, and cadres are expected to accept and act upon instructions without question. The availability of “alternative” information from organisations financed by EIDHR is a significant step forward.

However, a critical view (7) would hold that the role of international NGOs is ambiguous and that their potential could be better realised. Over 100 international NGOs are active in Lao PDR. All must have Ministry of Foreign Affairs approval and government counterparts, including at the operational, village level. In recent months, there were signs of a tightening of government supervision of international NGOs, linked to a lingering suspicion that some are acting contrary to government interests. International NGOs tread a very fine line, limiting the extent to which they can contribute to the nurturing of a genuinely autonomous civil society. Nothing indicates that EC partnerships with international NGOs have set in motion a dynamic to change this.

### **Related facts, figures, and references**

- (1) CSP 2007-2013, p. 15.
- (2) SLSEA Project, MR, 27.11.2002.
- (3) SLSEA Project, MR, 11.12.2006.
- (4) Building the capacity of vulnerable groups to lead poverty reduction activities in upland Laos PDR. NGO co-financing- ONG-PVD/2006/118-675, 2007-2011.
- (5) Public Legal education for Laos- EIDHR - DDH: 2006/129-204.
- (6) Information and women for development in Lao PDR- EIDHR- DDH/2007/142-743.
- (7) Lundmark, Pernilla and L. Malmberg 2008. Cooking in someone else's kitchen: The influence of INGOs on civil society in Lao PDR. Lund University Department of Political Science.

### **Indicator 6.2.2: Dialogue with Government regarding role of civil society**

#### **Indicator estimate:**

We discuss, under Indicator 8.2.2 below, the main vehicles for policy dialogue between the Government of Lao PDR and the EC. The EC supported one NGO project which is working on promoting a legal framework for an extended definition of the role of non-state actors (1). The EC has recently engaged the Government on proposed tightening of rules related to the operation of international NGOs.

### **Related facts, figures, and references**

- (1) Strengthening Civil Society in Lao PDR DDH/2006/129-091.

### **JC 6.3: Partnerships formed with sub-national levels of government.**

#### **JC assessment:**

All sectoral programmes addressed institutional and administrative capacity building at local level as a core component of project activities. The EC sectoral interventions have embraced the principle of participatory development in project formulation and implementation, including input from local authorities.

However, it is not clear how partnerships with sub-national levels of Government are used to strengthen decentralisation (Indicator 6.3.1) as a matter of good governance. Monitoring frameworks do not make it possible to track progress in decentralisation. As a matter of course, the EC works with sub-national government offices and officials in sectors such as health and education, but whether these working relationships amount to lasting partnerships is open to question (Indicator 6.3.2). It is difficult to identify a significant impact of partnerships with local governmental authorities, or to assess to what extent there is added value in the exchange of experiences and partnerships. There is no administrative and bureaucratic tradition of sharing information between the centre and the provinces / districts, which is detrimental to any potential positive impact of development cooperation on the decentralisation aspect of governance.

Decentralisation and the formation of partnerships with sub-national levels of government must be put in the broader political and cultural context which we explore in Special Focus 4 of Annex 5. Decentralization in Lao PDR does not involve transfer of political power outside the Party. Local authorities may be given 'full' responsibilities for implementing local development projects, but those responsible will be for the most part Party members, and the Party will be in charge of organising the activities and leadership of rural development committees. Decentralisation will, therefore, not address fundamental problems of inadequate and asymmetric information; of opaqueness. Although, People's Party members (or government) are represented both in Vientiane and in the provinces at all levels of power, there is still no tradition of bureaucratic administration all over the territory. Failure to implement laws enacted policies set, and decisions reached by central government; false or incomplete reporting of statistics, and lack of effective monitoring systems to ensure that national priorities and targets are met are all common.

#### **Indicator 6.3.1: EC support to Government de-centralisation reforms**

##### **Indicator estimate:**

In rural development, there has been only limited decentralisation. However, nearly all rural development projects focused on capacity building and training of provincial and district staff. Institutional capacity building includes introduction / strengthening of a considerable number of village structures and development tools coupled with intensive training enabling the provincial and district staff to make their approach to rural development more systematic and strategically sound. Examples of these are Village Development Plans or VDPs, Village Banks and village development funds, and village pharmacies. In this way, the decentralisation process is strengthened, but decentralisation per se is never mentioned. A rare exception is a ROM Report of the MPDLC Project (1), which notes that failure to involve the provincial administrative level would result in the project not achieving its purpose since the province-level institutions are key in the decentralised governance structure of the Lao PDR. The CSP 2002-2006 (2) calls for particular attention to be paid to the effects of the government's policy of decentralisation of decision making to the provinces/districts to ensure that nation-wide activities Livestock Project activities are closely co-ordinated with province-based activities; a MR (3) makes the same plea.

The sector in which it appears there is the closest fit between EC support and the Government's policy of decentralisation is education. The CSP 2002-2006, while elaborating on the forthcoming

PRSP states (4) that under the education sector one of the specific objectives is decentralising decision making towards provinces and districts and increasing community share in ownership, planning and contribution to education expenditures. However, as the BENC Mid-Term Review discussed in detail under EQ 3 found, the monitoring of the BENC Project was deficient, making it impossible to describe the project's impact on relevant variables such as institutional reform, the competencies of provincial and district-level institutions, transfers of funds, ownership of the decentralised system, etc.

There is considerable overlap between the public sector financial management activities associated with PRSO and strengthening decentralised decision-making, priority-setting, and management. However, the irony of the situation cannot be assumed away. The essential purpose of public financial management reform, the centrepiece of the PRSO, is to re-centralise fiscal authority and to enforce central policy priorities; to prevent, as it were, the provincial drift highlighted in Special Focus 3 of Annex 5. Yet at the same time, Government is committed to an agenda of increasing the authority of local authorities "on the ground" to set priorities and make decisions.

#### **Related facts, figures, and reference**

- (1) MPDLC MR 14.04.2003.
- (2) CSP 2002-2006, p. 25.
- (3) SLSEA MR 27.11.2002.
- (4) CSP 2002-2006, p. 6. Specifically, the BENC aims to reinforce local structures such as Department of Education Bureau (DEB) and Provincial Educational Services (PES) alongside the decentralization process taking place in Laos.

#### **Indicator 6.3.2: Local governments act as project partners.**

##### **Indicator estimate:**

The Project Authorities for the Phongsaly Forest Conservation and Rural Development Project were the national-level Committee for Investment and Cooperation and the Provincial Administration of Phongsaly.

In the health sector, EC projects have worked with local health authorities (e.g., 1) and projects have worked with national and sub-national government officers. There is no culture of sharing information between Vientiane and the provincial and districts levels. At each level, there is a striking degree of ignorance of what the other level is doing. This lack of communication between the levels was detrimental to the efficiency and impact of EC programmes such as the livestock project, where priorities set and decisions taken at the central level were not appropriate at the local level. None of local stakeholders interviewed in Luang Prabang mentioned the country environmental profile prepared by Lao PDR on 2005 or the Governance Reform Program adopted by Lao PDR on 2003. There is a gap between decisions taken in Vientiane and their enforcement at the provincial level.

#### **Related facts, figures, and reference**

- (1) ROM Report MR 20248.01, Projet d'appui au secteur de la sante (PASS), December 2004.

## **JC 6.4: Improvements in how Government treats issues of gender equality, good governance, and environment**

### **JC assessment:**

The single indicator proposed, on ratings from international NGOs, has not yielded much information except that corruption is reported to be worsening. While there have been some efforts to tackle this problem, they are not of the magnitude observed in China and Vietnam, where corrupt officials have been sacked and high-profile public trials have taken place. Lest these high-profile efforts be given too much significance, however, the economic burden of corruption, especially the poor, derives not from payoffs to the powerful, but from the grind of daily petty corruption, which has been addressed effectively in none of the countries cited (including Lao PDR). In other areas, there are some signs of progress, however.

### Environment

The draft Five-Year Plan integrates environmental protection into economic and development planning across most sectors. Admittedly, concerns remain about the enforcement of policies at local level. The weak institutional capacity of local government is a major obstacle to enforcing the existing legislative and regulatory framework. Government experts interviewed recognise this problem.

### Gender

The NSEDP outlines a vision and strategy to promote gender equality. The four overall objectives are to (i) support poor women's economic activities, (ii) improve their access to basic services such as education and health, (iii) involve women in local decision making, and (iv) generally increase their involvement and take their needs into account when developing policies and plans. A National Strategy for the Advancement of Women is in the final stages of drafting and a set of Guidelines for a National Gender Action Plan are being developed. The NSEDP also contains a specific gender strategy for different sectors of activity, e.g. agriculture and education.

### Governance

There have been a number of improvements related to governance:

Government adopted a Governance Reform Programme in 2003 (see Indicator 6.1.1 above).

Although independent national NGOs are not allowed, there is an increasing number of officially registered trade and professional organisations, the number of community service groups has grown, and mass organisations of the Party such as the Women's Union have become more active.

The National Assembly plays a more active oversight role, and corruption cases have been reported in the media. Freedom of religion has significantly improved.

As one observer commented, the Party realises that it is overextended, and this has led to a new willingness to work with partners such as mass organisations and the National Assembly.

Multilateral agency partners report that transparency and governance are improved. However, it must be borne in mind that the operational and institutional basis for implementation of governance and civil society reforms is still, after several years of Government and donor interest, limited. This is partly due to the lack of institutional and administrative culture but also limitations of political will. For further discussion of how governance problems are rooted in Lao political

culture, see the discussion in Special Focus 4 of Annex 5.

The same remark applies to civil society participation, which has improved but not in a sense that would be internationally recognised. As exemplified by experience with the Lao Bar Association (as well as the Lao Journalists Association), projects can make organisations functional without necessarily making them operational watchdogs or partners in decision making and policy making processes.

Finally, good governance includes transparency, accountability, and other aspects of sound public financial management. As discussed in the context of budget support (see especially Special Focus 3 in Annex 5) improved public financial management is at the heart of the PRSO process, in which the EC is a major partner.

**Indicator 6.4.1: Situation reports and “scores” from broadly recognised international NGO monitors suggest improvement.**

**Indicator estimate:**

One internationally recognised index of good governance, the Transparency International index of corruption, has been worsening, not improving in Lao PDR.

**Related facts, figures, and references**

**EQ7 - To what extent was the EC mix of instruments (regional and thematic budget lines), approaches (fiduciary funds, project approach, macro-level programmes, SWAP) and financing modalities (specific procedures, budget support, joint funding) and/or channels of disbursement (government, private sector, NSAs, multilateral organisations) appropriate to the national context and EU strategic policy aims?**

### **EQ answer**

*The EC's strategic aim is sustainable poverty alleviation and the main contextual variables are the lack of accountability and transparency in public expenditure combined with low capacity. The main strategic shift over the evaluation period, from traditional development projects to support for the government's own reform agenda through PRSO budget support with a focus on public financial management and the dedication of variable tranche funds to the social sectors, was appropriate. However, we do identify some areas namely UXO and civil society development, where the mix of approaches used has failed to meet some needs.*

We approached this EQ with a wide range of Judgment Criteria: whether tools were effectively combined, whether implementation modalities were in line with needs and capacities of national partners, whether there was unified strategic thinking (“one vision”), and whether approaches were appropriate to the problem of corruption.

We can deal with at the outset is corruption. The CSP 2007-2013's emphasis on governance and transparency is consistent with a concern over corruption, but no explicit reference to corruption as a reason for observed strategies. The EC has tackled the issue of harmonising donor practices regarding per diems and honoraria, and the overall emphasis on public sector transparency and accountability in the context of PRSO is related to corruption.

A broad range of tools (the instruments, approaches, etc., above) have been applied in Lao PDR. These tools have reflected sectoral needs and adapted over time to the changing context (Judgment Criterion 7.1, especially the growing awareness among donors that weak governance is the greatest impediment to development prospects in Lao PDR and the increased willingness of Government to come to grips with problems in this area. The mix of instruments has changed over time as capacity constraints of national partners have become clear (Judgment Criterion 7.2); we refer here particularly to the heavy burden that projects placed on government budgets at all levels once international support ceased. In answering EQs 2 and 3, and in Special Foci 3 and 5 in Annex 5, we have analysed in detail the inability of the Lao PDR budgetary process, in its current form, to generate sufficient funds for health and education at the provincial level; the PRSO variable tranche is an attempt to address this directly, as does policy dialogue in the context of PRSO. Emerging issues, from economic integration to avian influenza, have been dealt with reasonably well, especially through policy dialogue, which can “turn on a dime” in a way that projects cannot. EC financing of UNDP governance projects and the emerging use of thematic budget lines such as EIDHR to address these issues are other examples of adaptability. The EC has used ASEAN-level programmes to provide capacity building and technical support, both directly and indirectly by ASEAN support to Lao PDR participation in ASEAN policy dialogues (discussed above under EQ 5).

There has been consistent strategic thinking informed by a reasonable monitoring and evaluation process at the strategic level (Judgment Criterion 7.3); the CSPs 2002-2006 and 2007-2013 cogently explain what lessons have been learned and how the programme is adapting. One caveat to informative monitoring and evaluation was raised in the context of EQ 6, namely that monitoring processes did not pay enough attention to cross cutting issues, including governance.

To be highlighted is the EC's move from a traditional project-based approach to its current two-pronged approach for supporting the Lao PDR government in implementing its poverty reduction

policies, namely (i) supporting the reform agenda of Lao PDR through the PRSO process and (ii) directly engaging in poverty reduction through “Support to sustainable development in the uplands and policy dialogue on relocation,” where project support is contingent on effective policy dialogue regarding the implementation of relocation. The EC, by joining the World Bank and other donors in the PRSO initiative, is contributing to the necessary structural changes that are expected to result in improved public financial management and making government budget funds increasingly available for poverty reduction, a precondition for sustainability. To be blunt, too many development interventions in Lao PDR have gone to waste because government was unable to step up to bat after the donors left. User-friendly design options such as making the national contribution consist of village-level labour for road maintenance (as in the MPDLC Project, discussed under EQ 1) are fine as far as they go, but it is difficult to go much above the level of micro-projects without a substantial government contribution. This has often not been forthcoming. Through strengthened public financial management, including the clarification of the relationship between central government and the provinces, the PRSO process will contribute to structural reform that will pay long-run dividends that would be difficult to reap with a project by project approach.

The move to budget support has elicited mixed emotions, including regret that some of the better aspects of the project approach are being lost and fears that Government does not have the needed capacity to manage funds. However, Government commitment to aid effectiveness and improved governance is serious, and the PRSO framework is the single most effective avenue for policy dialogue related to poverty reduction. The World Bank and Ministry of Finance have both scored high marks for their work on budget support. Another theme, explored at length in the current ongoing evaluation of Vietnam, is that through budget support, weaknesses and problems with national systems / processes / structures are discovered that would have remained hidden under a traditional project approach.

The relocation issue and policy dialogue response is a good example of a response to lessons learned. During the preparation of the CSP 2007-2013, it was realised that successful projects' impacts often went to waste because of the Government of Lao PDR village relocation programme, whose problems in implementation are the subject of Special Focus 1 in Annex 5.. The EC has responded by taking the lead in initiating a multi-donor policy dialogue with Government on this sensitive subject, essentially as a pre-condition for continued support to upland region development. As we have discussed in detail elsewhere (see especially EQ 1), the emphasis of policy dialogue will not be relocation as a general theme, but rather the nitty-gritty details of implantation, considered on a case-by-case basis. While this practical approach, with shades of *realpolitik*, is to be saluted, it should also be recognised that this is precisely the approach that the Government of Lao PDR wishes the international community to take. Human rights dialogue, and perhaps the strengthening of civil society using instruments such as the EIDHR, will have to play an important role going forward to ensure that human rights concerns are taken adequately into account.

In the area of UXO, political considerations (failure of Lao PDR to sign the Ottawa Treaty) have impeded a comprehensive response tackling the need for capacity building. The EC has adapted by using thematic budget lines to support UXO clearance at the provincial level, working through international NGOs and, exceptionally, the responsible government agency UXO Lao; however, it has not joined with other donors in contributing to the Government-UNDP Trust Fund for UXO Clearance, a major source of resources for UXO Lao. We have found that the EC combined bilateral trade assistance reasonably well with ASEAN-level programmes, while calling for better coordination between the two sets of interventions.

In answering EQ 6, we found that EC support for civil society development has been reasonably effective, but using civil society as a major channel of support in Lao PDR is complicated by the

fact that civil society in the European sense does not exist. NGO co-finance was extensively used in health although, as we noted above in EQ 2, the number of projects was insufficient to achieve economies of scale or scope. As to thematic budget lines, there are a number of EIDHR projects, all subject to the cautions voiced in our answer to EQ 6 on the nature of civil society in Lao PDR. The move to NGO projects in the health area does not appear to have been in response to strategic considerations, but rather a reaction to scarcity of budgetary resources. In general, there does not appear to be an effective coordination mechanism for ensuring the strategic internal coherence of NGO activities. While the EC works through international NGOs in a number of areas, we have not seen much evidence that these international NGOs, through their partnership with national civil society groups, are putting in motion a dynamic to strengthen autonomous civil society in Lao PDR. This is not necessarily the fault of the EC or other donors; international NGOs in Lao PDR must walk a thin line. Very late in the evaluation, evidence emerged that the EC is using its position as a privileged and influential dialogue partner to pressure Government to rescind burdensome and restrictive rules on the operation of international NGOs.

The private sector is a practically non-existent partner, although the EC has cooperated with the Lao Chamber of Commerce. Cooperation with other multilateral agencies, such as the World Bank and UNDP, has been excellent.

### **JC 7.1: EC co-operation was able to combine timely instruments, approaches and financing modalities to suit its strategic goals**

#### **JC assessment:**

In reviewing Indicator 7.1.1 below, we track how the EC's combination of a wide range of tools was adjusted over time as lessons were learned and was adapted to sector-specific needs. The CSP 2007-2013 ushers in a major change. By far the major strategic shift over the evaluation period was away from a traditional project approach – by which we really mean large development projects implemented by government agencies – to a two-pronged strategy consisting of direct budget support for policy reform related to poverty reduction (the PRSO process; see Special Focus 3 in Annex 5) and continued project support for uplands regions, but combined with a strong policy dialogue initiative focused on relocation issues (see EQ 1 and Special Focus 1 of Annex 5). As we document in assessing Judgment Criteria 2 and 3, which are closely related and should be read in conjunction with Judgment Criterion 1, this shift reflected a broad range of factors including lessons learned regarding the capacity of partners, the suitability of EC project procedures in the Lao PDR process, emerging policy concerns (Indicator 7.1.3), the growing focus on governance issues, and so on.

#### **Indicator 7.1.1: Mix of instruments, approaches and financing modalities different according to sector specific factors and changed over the period along with the context**

##### **Indicator estimate:**

The EC has deployed a wide range of tools in its cooperation with Lao PDR – bilateral project assistance under the ALA agreement until 2007 and under the DCI since then; direct budgetary support for the Government policy reform process under the PRSO (the bulk of support foreseen under the 2007-2013 CSP), regional projects such as the Reproductive health initiative for youth in Asia and the EC regional malaria control programme; providing finance for governance projects implemented by UNDP, support for technical assistance, capacity building and participation in policy dialogue funnelled through ASEAN-level cooperation (Standards and ECAP, for example), direct technical assistance (e.g., Euro-TAL), bilateral policy dialogue, thematic budget line programmes (NGO co-financing and EIDHR) and more (for example, we have hardly even



alluded to emergency humanitarian and Linking Relief and Reconstruction and Development aid under ECHO and DIPECHO or to the activities of the Food Support Programme). An inventory of all the instruments, approaches, and financing modalities would occupy many pages.

The issue probed by this indicator is whether there has been a consistent strategic, or for that matter tactical, logic underlying the changing deployment of these tools.

The main shift has been from the project approach to budget support (the subject of Special Focus 3 in Annex 5) and policy dialogue. A number of reasons, both positive and negative, can be adduced, for this. The first, is desire to honour EC commitments (e.g., under the Paris and Bologna processes) to align its cooperation more closely with Government policy while minimising transaction costs. As stated in the European Consensus on Development (15 December 2005), the EC should take a lead on aid harmonisation, coordination, and alignment and demonstrate this commitment by moving towards sector-wide operations and budget support. Field interviews with Government officials and officials of partner international donor agencies have, without exception, left the impression that aid effectiveness and enhanced coordination are at the top of the agenda in Lao PDR. The EC's support in producing a government-requested Action Plan for aid coordination (associated with the so-called Vientiane Declaration, itself basically a re-statement of the Paris Declaration) is an example of the EC's role in this process.

A second reason is that EC procedures for implementing projects were administratively burdensome, especially in a small country such as Lao PDR. Some of these problems have been alluded to in answering EQ 1 on rural development, an area in which there is a great deal of evidence in the form of project final evaluations. A number of local partners interviewed cited difficulties in working with EC procedures.

A third reason was the lesson learned and expressed in the 2007-2013 CSP that structural policy reform, informed by focused policy dialogue, technical assistance, and capacity building, was more likely to support sustainable economic development than project interventions. Closely related to this was the gradual conclusion, by the EC and other donors as well, that problems of weak governance represent the greatest impediment to development in Lao PDR.

The move to budget support has elicited mixed reactions. There seems little doubt that the shift was donor driven; indeed, that many Government ministries would prefer continuation of the project approach. Officials of the Ministry of Investment and Planning, responsible for aid coordination on the Government side, confirmed that, from their point of view, projects were to be preferred and commented that, while PRSO was well managed, implementation of projects under the programme was unacceptably slow. However, the Ministry of Finance, which is involved in PRSO at the policy level, enthusiastically supports the improvements in public financial management that are occurring through the PRSO process. International stakeholders worry that, despite relatively favourable baseline assessments, Government has limited capacity to manage funds.

World Bank officials, noting the relatively modest sum involved and the ambitious Policy Matrix, expressed the view that Government would not have agreed to the strategic shift had there not been support for the approach at the highest political level. A number of donor agency officials commented that policy dialogue through the PRSO was more effective than policy dialogue through the Round Table process.

Speaking in plain text, interviews with provincial government officials revealed almost total ignorance of what budget support was and what its implications for them may be.

Some strategic shifts respond to sector specificities. In rural development, the EC found, in the strategic review process that led up to the CSP 2007-2013, that sustainability of rural development projects was impaired by the operation of the Government village relocation programme. In an

effort to better assist vulnerable populations, the EC has initiated a wide-ranging multi-donor policy dialogue regarding re-settlement as a cornerstone of the new “Rural development in uplands regions” project, the only “traditional” project in the 2007-2013 CSP. Helping Government improve the implementation of its resettlement policy, it was reasoned, was more likely to be effective than directly supporting rural development only to see results destroyed by resettlement. Details of the proposed approach are described in Special Focus 1 of Annex 5. We point out, though, that focusing on implementation issues rather than fundamentally ideological human rights issues is precisely the preferred approach of Government. We have assessed positively the EC’s willingness to adopt this practical approach, arguing that in the course of discussing implementation, human rights issues will natural emerge. However, the human rights dialogue and strengthening of civil society will need to play a strong role in ensuring that human rights concerns are not glossed over.

Some shifts appear to have been ad hoc. For example, we have identified no reason, other than budgetary resource constraints, for the decision to provide no further support for large health projects and to move to small NGO projects, instead (1). The decision to funnel support to health through the variable tranche of PRSO can, by contrast, be grounded strategically in the governance and budgetary issues described elsewhere and their especially serious impact on the social sectors. The move to funnel support through the Global Fund reflects EC commitment to respect the comparative advantage of that institution.

As Lao PDR’s integration with the world community has increased, there has been growing attention to issues regarding civil society, human rights, and related issues, which called for a different set of tools. Financing of European NGOs under the “NGO Co-financing” facility in support of non-state actors development has increased; in addition, democracy and human rights activities funded under the additional “Governance and Human Rights” action will be supplemented by activities funded under the EIDHR programme (2). The EC has financed several UNDP-executed projects related to institution building for civil society (strengthening of the National Assembly, formation of a bar association, formation of a national audit institution). However, we have noted in answering EQ 6 the challenge of developing autonomous civil society in Lao PDR.

Although the importance of Asia-wide programmes in the EC’s relations with individual ASEAN member states has significantly grown during the assessment period, Lao PDR has been only a modest beneficiary of the regional programmes. According to the CSP 2007-2013 (3), the reasons range from the difficulty of accessing information (these programmes are widely disseminated through the internet, a medium still out of reach for many, including in government circles) to a lack of capacity and potential partners in Lao PDR. Field interviews with civil society partners also confirmed that information is not easy to get and the application process is challenging.

#### **Related facts, figures, and references**

- (1) NIP 2005-2006, p. 9.
- (2) CSP 2007-2013, p. 28.
- (3) CSP 2007-2013, p. 27.

#### **Indicator 7.1.2: Emerging issues incorporated quickly and effectively into policy dialogue and cooperation programme.**

##### **Indicator estimate:**

Emerging issues can be incorporated into policy dialogue almost as quickly as they emerge. The cooperation programme as a whole reacts more slowly, because EC development cooperation is governed by the cycles of CSPs, on-going interventions and funding tied to these. To give an

example, in October 2004 Lao PDR signed the Memorandum of Understanding on Cooperation against Trafficking in Persons in the Greater Mekong Sub-Region, but the first cooperation activities in this important area will not take place until under the CSP 2007-2013 (1). Sometimes this is not a problem, because the programme may be working in perennial problem areas (as in education or almost any area closely linked to rural development and impoverished regions). In trade and economy, “turning on a dime” is not called for, because the cooperation programme has been driven by mid- and long-term structural factors (global economic integration and the heavy opportunity economic isolation). The global and regional economy may come and go in cyclical terms, but even so strong an event as the 1997 Asian economic crisis was, from the standpoint of Lao PDR, a minor event as compared with the structural trend towards a more open economy. However, the current global financial crisis may have a stronger effect since Lao PDR is now more open. If foreign direct investment declines, as it almost certainly will, the impact on growth prospects will be significant.

One area where rapid response to new issues can be detected is health. The emerging problem of avian influenza gave rise to an immediate bilateral policy dialogue and a rapid response from the regional cooperation programme in the form of a cross-border project to strengthen veterinary and epidemiological services (2). Major donors in the area of avian influenza (according to a specialized agency expert) are the U.S., Germany, and Japan, who have each contributed US\$ 1 million per year to support contingency planning, and legal reform. Coordination in the avian influenza field works well and there has been improvement in governance and transparency aspects of the problem.

**Related facts, figures, and references:**

- (1) CSP 2007-2013, p. 27.
- (2) EC-Lao Joint Committee Meeting,  
[http://www.dellao.ec.europa.eu/en/2007/4th\\_GOL\\_EC.htm](http://www.dellao.ec.europa.eu/en/2007/4th_GOL_EC.htm).

**JC 7.2: For the main actions the implementing modality responded to the needs of the actions, as well as to the capacity of the partner**

**JC assessment**

Here we take “needs” to refer to relevance to national needs and “partner” to refer to national partners.

The traditional project approach has been the main instrument in rural development. The relevance of EC project interventions to needs in this area is hardly open to question. However, the plethora of donor funded rural development projects, including those of the EC, in the uplands where EC interventions have also largely concentrated, must have placed considerable pressure on the respective provincial and district administrations that have suffered from inadequate budgets, institutional weakness, and lack of staff (see Indicator 7.2.2 for fiscal constraints, and Indicator 7.3.2 below for the CSP 2007-2013’s recognition of the heavy administrative burden of projects). The fact that the traditional project approach is being largely left behind says something about its suitability to the capacities of the partners, as well as about the suitability of EC procedures for a small country such as Lao PDR (see Indicator 7.2.1 for a summary of problems encountered in implementing the Phongsaly Project). Similar observations can be made about education, where, e.g. availability of teachers make it questionable whether capacity constraints of the partner (or, as it might also be put, the budgetary commitment of the partner) were adequately taken into account. No such criticisms have emerged in our examination

of the Microprojects Development through Local Communities Project, and we recognise that not all projects were failures.

In trade and economy, as well, relevance to needs is not in question. The EC programme seems to have taken capacity well into account, as evidenced by the statement “Corruption and weak capacity and willingness to implement policies and reforms remain the main challenges in Lao PDR” (NIP 2005-2006, p. 6), and all interventions seems to have addressed capacity building. A final judgement is difficult to make given the sketchy monitoring.

The PRSO budget support instrument has been designed to address the priority needs of Lao PDR, in particular the need for improved public financial management, while tightening the alignment of international assistance with national needs and priorities. Throughout this evaluation, we have identified and supported the strategic soundness of EC participation in budget support in Lao PDR. It responds to needs in several ways. Through the variable tranche, it directly addresses the shortage of resources in the social sectors. Through its emphasis on reforming public financial management, it addresses the structural problem that comprises the greatest barrier to development in Lao PDR.

We identify, in UXO, one area in which the EC’s implementing modality has been unable to flexibly adapt to the partner’s needs. In part because Lao PDR is not a signatory of the Ottawa Treaty, the EC has been unable to support a large, sustained, focused programme on UXO, rather, it has implemented thematic budget line-financed projects through international NGOs as well as several small projects implemented directly by the responsible government agency, UXO Lao. As described in Special Focus 2 in Annex 5, international NGOs with specialised expertise in UXO have identified pressing needs for capacity building at the central level, including equipment, training, and data. The EC has not addressed these needs, for example, through participating in the UNDP-Government Trust Fund for UXO Clearance. The EC continues to press, through the political dialogue, the Lao PDR to sign the Ottawa Treaty, which would clear the way for a more systematic approach to this problem.

**Indicator 7.2.1: Mix of instruments, approaches and financing modalities were instrumental in achieving EC goals with a minimum of effort and cost**

**Indicator estimate:**

A set of related implementation problems has emerged in our review of projects carried out. International good practice shows that rural development projects require considerable flexibility in implementation and that project Team Leaders should have a mandate, within defined limits, to make alterations at a short notice when unexpected situations arise. Geographical isolation alone is one of the reasons for this. The EC confronted at least two problems in making such flexibility available. Globally, the sheer number of projects being implemented makes it difficult to design procedures that strike the right balance between flexibility and accountability. In Lao PDR itself, there is some evidence that human resource constraints at the Delegation level also played a role. For example, the absence of a finance and contracts officer at the Delegation means that the Bangkok Delegation handles administration. While this has worked acceptably because of close proximity and ease of communications, it inserts another layer into all administrative processes.

The Phongsaly experience

The Phongsaly Forest Conservation & Rural Development Project may serve as a case in point for the kind of implementation problems encountered in traditional development projects (1). The project started officially 01.06.1998. The first task was the preparation of the IPA and of the Work Plan. The fact that eight experts arrived instead of the planned three made for difficulties of

housing and accommodation. The IPA was not approved, so the project received only Euro 250,000 in the first year instead of the foreseen Euro 600,000. The province changed its mind regarding the selection of priority districts; it also suggested basing teams in the districts instead of in Phongsaly. Because of this, already prepared housing and office plans had to be redesigned. The EC Delegation could not approve the plans because there was no approved Work Plan. The counterpart staff for the project was unavailable, and the planned local experts could not be hired due to low salaries offered.

These problems occupied Years 1 and 2. From year 3 onwards, the office, housing and equipment situation was resolved, component plans were in place, there was money in the bank, and a Field Coordinator had been appointed in a second senior position. Yet, personnel conflicts arose and only a limited number of irrigation projects, village water systems, PLUP activities, and provincial facilities, were implemented. In the agriculture, livestock, forestry, and credit components, achievements were well below targets. There was a large outflow of junior experts in August 2001. The Medium Term Review in November 2001 made a number of good recommendations, but the Delegation did not respond. A new team came only in September 2002. Only during its last 2.5 years did the project have an opportunity to work in a relatively trouble-free fashion. The TA team stayed together, key local staff stayed in the project, the project budget was available. Most of the physical and financial accomplishments of the project were realised in these last few years.

Procurement was a particular problem in Lao PDR projects; indeed, the rigidity of procurement was one a major reason why the traditional project approach was de-emphasised in the 2007-2013 country strategy. We have seen, in our discussion of EQ 1, how procurement rules encouraged field staff to implement village-based, low-tech infrastructure projects that may end up costing more in the long run when high maintenance costs are taken into account.

Another example of lack of flexibility is the current policy of not continuing projects past the four-year mark. In the case of the livestock sector, the existing project could have been tweaked for a change in emphasis and extended; instead, a new project is being put in place, with accompanying loss of continuity and start-up costs.

In trade and economy, there was heavy reliance on capacity building and TA delivered through ASEAN programmes (e.g., work on WTO accession, standards, and intellectual property rights). Taken in combination with growing Lao PDR participation in ASEAN policy dialogue, this represented an efficient use of available modalities. We can only speculate whether ASEAN-level TA explicitly replaced direct bilateral TA (e.g., Euto-TAL).

The move to budget support through the PRSO has reduced transaction costs for Government and, in view of the kinds of project difficulties described above, represents an efficiency gain. By aligning the EC with the World Bank and other donors in policy dialogue and monitoring, it has contributed further to efficiency. It has also focused EC support on the weakest point of development in Lao PDR, namely opaque public financial management and the inefficiencies and inequities to which it gives rise; In the case of education and health, the PRSO variable tranche allows the EC to inject needed resources directly into sectors and provinces and achieve impacts which it is unlikely would be realised under traditional approaches.

An important area in which the EC response has been limited is UXO clearance (see Special Focus 2 in Annex 5). In part because Lao PDR is not yet a signatory to the Ottawa Treaty to ban landmines, the EC has not been able to engage in a large, sustained programme focused on UXO. It has supported two large NGO projects and plans to continue support to UXO clearance through thematic budget lines (food security, non-state actors and local authorities, and EIDHR). However, while it directly supports several small Government-implemented UXO activities (and distinguishes itself from other donors for doing so) it has not been able to address pressing capacity needs at the central government level. Unlike many bilateral donors, including large

Member States, the EC has not supported the Government-UNDP Trust Fund for UXO Clearance, a key source of funding for the government agency UXO Lao. The fact that UXO activities tend to be very expensive whereas other activities supported by thematic budget lines tend to be low cost makes it difficult to integrate UXO into rural development projects financed through thematic budget lines.

### **Related facts, figures, and references**

- (1) Final Evaluation, Phongsaly Forest Conservation & Rural Development Project, especially p. Vii
- (2) Interviews with EC Delegation staff.

## **Indicator 7.2.2: Adaptation to take into account capacity of partner**

### **Indicator estimate:**

If the question is whether interventions considered capacity constraints and included capacity building, then the answer is yes. Projects implemented in poor regions (see EQs 1, 2, and 3) took account of capacity building needs at the formulation and other preparatory stages and all included significant training and related capacity building components at provincial, district, and village levels. Some ROM reports proposed increased attention to capacity building, especially in the context of ensuring sustainability. One ROM report (1) of the Phongsaly Project recommended that exit strategies should be based on a realistic assessment of local capacities at community and government levels; another (2) recommended ensuring that support mechanisms are in place to guarantee capacity building at village level. In the case of civil society, the EC has supported capacity building both directly through the “Capacity building for civil society” project and indirectly by supporting local partners such as PADETC who undertake capacity building as part of their activities.

Despite the fact that capacity building has been taken into account, capacity at the local level is extremely weak. Outside Vientiane, basic office skills are in short supply, infrastructure and facilities are inadequate, and it is difficult to attract skilled staff. As we discussed above, experts on SME development identified lack of human resources as a severe constraint. In the case of the ASEAN-level Standards project, the national counterpart interviewed pointed out that a much longer project would have been needed to ensure sustainable capacity building and that, once the project ended, proper equipment and resources were not available to apply the knowledge that had been gained through the project.

Capacity refers not just to the abilities of individuals, but to the overall institutional and social context. In answering EQs 1, 2, and 3, we referred to a set of sustainability issues arising from the extreme shortage of resources at all levels. The Ministry of Education has had problems ensuring that teachers are available for new classrooms (EQ 2), it is feared that villages will be unable to maintain infrastructure (EQ 1); NGO health projects experience difficulties in hiring staff (EQ 2), etc. Put in general terms, Government’s fiscal capacity to support needed recurrent expenditure is out of proportion to donor’s ability to finance capital costs. Referring specifically to the BENC project, a Government official commented that the EC’s expectation that Government assume more of the operating expenses was “unrealistic.” A bilateral aid agency representative described education as “chronically underfunded.” As the review process leading up to the CSP 2007-2013 found, any strategy that requires significant ongoing commitment of Government resources is open to question (see Indicator 7.3.2 below). Similar problems have arisen in health where, for example, the NGO-implemented projects reviewed all encountered staffing constraints at the decentralised level.

One form of adaptation to this problem may be found in the example of the MPDLC project, which adopted an approach in which village contributions to projects consisted of labour which, for example, resulted in roads being well maintained after project support was ended. This is echoed in a recent World Bank appraisal of community-driven development interventions, which emphasised that enhancing livelihoods is the key to ensuring sustainability (3).

As we have repeatedly emphasised, the move to budget support through the PRSO is a sign of adaptation to take into account the fiscal capacity constraint. Through the variable tranche mechanism favouring the education and health sectors, the EC has strengthened the claim of these underfunded sectors on resources, especially to finance recurrent expenditure. Through support for public financial management reform, the EC and other donors are common to grip with the structural problem that comprises the major impediment to development in Lao PDR.

In trade and economy there has been no difficulty in adapting interventions to the capacity building needs of the partner, as the partner consists of a handful of ministries in Vientiane. We have largely dealt with capacity building in trade and economy in discussing EQs 4 and 5, where the partners' overall assessment was very positive. The need for an improved environment for SME growth was discussed in EQ 4, and the EC-financed SME project contains components that aim to address this basket of issues.

In assessing Indicator 6.3.2, we have discussed the fact that communication between central and provincial offices of Government agencies are extremely poor, a fact that EC programming has insufficiently taken into account. In the area of UXO, as well, EC-financed interventions have not addressed the lack of capacity at the central level (see Special Focus 2 in Annex 5 and EQ 1).

#### **Related facts, figures, and references**

- (1) MR, Phongsaly Project 11.12.2006.
- (2) MR, Phongsaly Project 03.12.2004.
- (3) Community-driven approaches in Lao PDR: Moving beyond service delivery. Humen Development Sector, East Asia and Pacific Region, World Bank, October 2008.

### **JC 7.3: One instance was recognized the authority on strategic thinking and combining EC instruments/approaches and was supported by monitoring and evaluation reporting.**

#### **JC assessment**

The EC's interventions since 2002 have been driven by CSPs; in the earlier years of the evaluation period, strategy was more haphazard and, as we have described, traditional development projects dominated. Monitoring and evaluation (Indicator 7.3.4), while not ideal, was good enough to flag serious problems with projects, leading to a process of re-thinking that can be clearly discerned in the CSP 2002-2006 and culminated in a major change of strategic approach in the CSP 2007-2013 (Indicator 7.3.3). NIPS 2004-2005 and 2005-2006 and the current MIP fully reflect this evolution in approach.

#### **Indicator 7.3.1: Stages of involvement of the EC Delegation in thematic and regional programmes: identification, feasibility, monitoring and evaluation**

##### **Indicator estimate:**

Based on field interviews, the EC Delegation in Vientiane has had limited involvement in strategic

programming.

### **Related facts, figures, and references**

Interviews with EC Delegation officials.

### **Indicator 7.3.2: Documents derive lessons from utilisation of different approaches and instruments**

#### **Indicator estimate:**

At the project-document level, we have seen no evidence that lessons derived regarding different approaches and instruments were taken into account. See Indicator 7.3.3 below for the case of strategic documents. At the strategic level, both the CSPs 2002-2006 and 2007-2013 flag issues that have arisen with different approaches, derive lessons learned, and propose adaptation (see Indicator 7.3.3).

### **Related facts, figures, and references**

### **Indicator 7.3.3: Strategy document taking lessons learned into account**

#### **Indicator estimate:**

It was stated above (Indicator 7.1.1) that the main strategic development over the evaluation period has been the gradual abandonment of the traditional project approach, largely in favour of budget support for policy reform related to poverty reduction and intensified policy dialogue.

A review of the 2002-2006 and 2007-2013 CSPs shows how this evolution occurred in response to lessons learned. The CSP 2002-2006 states (1) that "... a problem experienced in some EC-Lao PDR projects have been that the *original project design has been too ambitious.*" Project proposals, the CSP continued, had sometimes contained too many objectives covering too large areas. The importance for the EC as well as for the Lao PDR authorities to have realistic expectations was noted, with specific reference to the fact that project areas are often remote and the capacity of government agencies is weak. Project design under the NIP 2002-2004 and 2005-2006 responded to this set of circumstances.

The 2007-2013 CSP drew on a reflective process regarding the pros and cons of previous approaches and instruments and called on going further, stating (2), "In the long term, strategic policy reform yields more sustainable benefits at structural level than direct project support." The main lesson learned from past EC cooperation was that, although the great majority of projects had been successful and had had a positive impact on the direct beneficiaries, their long-term structural impact on the country's economic and social development had been limited. In the specific case of rural development, relocation had too often resulted in the dissipation of positive impacts achieved. The relatively large administrative burden both on the Delegation and on the Government was judged to be out of proportion to the benefits. The CSP observed that, in the past, limited EC aid had been dispersed over too many small projects in various sectors, and called for using a more limited range of aid instruments and focusing on policy dialogue in fewer sectors (specifically, sectors in which the EC could add value) in order to enhance the effectiveness of EC aid. It recognized that recurrent funds available in the state budget are not sufficient to match the capital investments made by donors, suggesting that direct budget support budget support for policy reform would be more effective. The resulting two prong strategy -- supporting the Government reform agenda through the PRSO and providing direct support for uplands regions combined with policy dialogue on the crucial relocation question -- reflects a



strategic review of lessons learned.

### **Related facts, figures, and references**

- (1) CSP 2002-2006, p. 21; emphasis added.
- (2) CSP 2007-2013, pp. 16 and 17.

### **Indicator 7.3.4: Monitoring and evaluation permits effectiveness and efficiency of various approaches and instruments to be followed.**

#### **Indicator estimate:**

Much of our knowledge to date of monitoring and evaluation comes from the rural development (EQ 1) and education (EQ 3) sectors, and in the latter case, derives from one Mid-Term Review. Monitoring and evaluation in the trade/economy sector is scarce. National projects and Lao PDR components of regional programmes in this area are either too small (less than Euro 1 million) or too recent (e.g., the SME development project) to have been evaluated. In health, document review has come across several references to monitoring and evaluation; for example, the HIV/AIDS Savannakhet project is said to have had poor monitoring. By contrast, the EU-Lao Malaria Control Programme had “a detailed internal monitoring system with regular audit and quality supervision at central, as well as provincial and district level.” The project had a Mid-Term Review and final evaluation, which strongly informed the formulation of the Government’s first Global Fund programme on malaria.

In rural development, monitoring has been carried out essentially via the ROM system. A number of major final evaluations, including the Livestock Project and the Phongsaly forestry project, have been carried out. As described under EQ 1, monitoring and evaluation was not always adequately planned for, even when good baseline surveys were available (e.g., we commented on the dearth of information on income impacts). However, the broad outlines of project impact, effectiveness, and efficiency were brought out by the monitoring and evaluation process, and if sustainability was not precisely monitored, at least major issues for sustainability were flagged. In the education sector, the Mid-term Review of the BENC project was carried out and arrived at significant recommendations for the remainder of project life.

In the context of answering EQ 6, we have pointed out that nowhere did monitoring frameworks take enough account of cross-cutting issues in a way that would allow effectiveness and efficiency to be followed or lessons to be derived.

Monitoring of the PRSO process is carried out jointly with the partners with reference to the Performance Assessment Framework (see Special Focus 3 in Annex 5). The most recent joint review mission was carried out in September 2008 and concluded that the PRSO was operating satisfactorily.

### **Related facts, figures, and references**

### **Indicator 7.3.5: Evaluations on advantages and disadvantage of various instruments carried out.**

#### **Indicator estimate:**

While the advantages and disadvantage of various instruments are discussed in the CSP 2007-2013, there is no reference to evaluations. However, interviews make it clear that the EC’s engagement with PRSO budget support was the result of an extended period of reflection on the pros and cons of the approach.

## Related facts, figures, and references

### **JC 7.4: The EC's choice of approaches, financing modalities, and/or channels of disbursement contributed to reducing the problem of corruption**

#### **JC assessment:**

While there is far to go, our assessment of this JC is essentially positive. In assessing Indicators 7.4.1, 7.4.3, and 7.4.4, we note that the move to the PRSO process, with its strong public sector financial management component, reflects a need universally perceived – by international partners, government officials, and non-state actors – for greater transparency and accountability in public financial management. The EC specifically contributed to greater transparency and accountability by supporting capacity building for budgetary oversight in the National Assembly. At the level of donor practices, the EC Delegation took the lead in convening a meeting at which donors shared information on practices regarding per diems, salary supplements, and the like (Indicator 7.4.2). In a context where government salaries fall below the poverty line and even modest attachment to project activities or events can represent a major income supplement, this was a significant contribution. However, there is no sign that the EC, or other donors, have attacked the problem of corruption in daily life at the grassroots level.

**Indicator 7.4.1: The need to fight corruption was reflected in decisions on the selection of instruments, approaches, financing modalities and channel as well as of the sectors to work in, and working methods.**

#### **Indicator estimate:**

While corruption is broadly acknowledged in secondary sources to be a serious problem, the theme is not highlighted in either the CSP 2002-2006 or 2007-2013. If it was one of the reasons for the switch away from project approaches – rural development projects, in particular, are widely recognised to be susceptible to corruption – this was nowhere explicitly said. Perhaps the heavy administrative procedures blamed for the move away from the project approach were needed in order to avoid corruption in procurement and hiring

The emphasis on governance and transparency, including transparent analysis of the incidence of public expenditure, is a major theme of the PRSO process and is in line with concerns about corruption.

Many international partners felt that the need to improve governance, including the fight against corruption, was the most urgent priority in Lao PDR, especially in view of the expected boom from the export of hydropower and other natural resource-based industries. UNDP is engaged in an ongoing dialogue with Government on how to manage natural resource revenues wisely and avoid the trap of becoming a corrupt extractive economy. As described below and elsewhere, the National Assembly is reported to be increasingly vigilant in its budgetary oversight as well as in monitoring land transactions; the EC's support for National Assembly capacity building was designed to, and has, materially contributed to this. EC assistance (through UNDP) to strengthening the Lao Bar Association was designed to strengthen the rule of law, but was reported by local partners to be ineffective.

The EC Delegation took the lead in calling donor agencies together to share information regarding their policies on per diems, contractual arrangements, etc. This was welcome in a challenging context where government salaries are insufficient to live on and the potential for abuse and the playing off of one donor against the other is high.

**Related facts, figures, and references:**

**Indicator 7.4.2: The EC resisted calls for “extra fees and expenses” in the process of implementing interventions and insisted on transparency in all administrative and accounting procedures.**

**Indicator estimate:**

Issues that have been raised by the donor community at Round Table meetings include the need for better information-sharing from the Lao PDR side; the need for more thorough assessment of aid utilisation; increased transparency in administrative procedures, particularly as regards project approvals, and an increased focus on good governance.

A bilateral agency representative pointed out the great difficulty of avoiding corruption and financial mismanagement in a context where many government salaries fell beneath the poverty line. The EC Delegation's has taken the initiative to attempt to standardise donor policies regarding per diem, salary supplements, contractual modalities, and tax treatment.

**Related facts, figures, and references:**

Interviews with bilateral aid agency staff.

**Indicator 7.4.3: The EC has supported increased transparency and accountability in budget support and government spending more generally.**

**Indicator estimate:**

Through the PRSO and its public financial management component the EC is, as discussed at many points, strongly supporting transparency and accountability. This is discussed at length elsewhere and we will not repeat that discussion. The contribution of the National Assembly to budgetary transparency has also been mentioned in many places. We have already flagged, as a source of concern, the lack of awareness of the budget support modality at the level of provincial government, to judge from interviews in Luang Prabang.

**Related facts, figures, and references**

Interviews with government agency staff, Luang Prabang.

**Indicator 7.4.4: The problem of corruption is reflected in the focus on support for government reform emerging in the CSP 2007-13.**

**Indicator estimate:**

The problem of corruption is not in the foreground of the 2007-13 CSP. However, the emphasis on governance may be based, in part, on the experience that project approaches often give rise to non-transparent and corrupt practices. The PRSO is explicit in its focus on improved public sector financial management, a need acknowledged by a wide range of Government officials interviewed.

**Related facts, figures, and references:**

Interviews with Government officials.

**EQ8 - To what extent has the EC coordinated and cooperated with EU Member States and International Financial Institutions intending to improve the complementarity of their interventions?**

**EQ preliminary answer**

*Evidence on donor coordination and cooperation is scattered and particularistic and, as is often the case, it is easier to assess the quantity rather than the quality. However, we judge that the EC was able to satisfy the requirement of complementarity by achieving synergies, exploiting comparative advantage, avoiding overlaps, and gap filling. EC strategy in Lao PDR has evolved in the direction of coordinated and joined-up approaches in the context of the aid effectiveness agenda. However, many of these steps are of comparatively recent origin,, and the EC has up to now played only a relatively modest role as a coordinating body in its own right.*

At the heart of donor coordination in Lao PDR is the sector Working Groups system, associated with the Round Table process organised by Government and co-chaired by UNDP. Views on how well this has worked are mixed. One donor reported that the system is more effective now than previously. Another expressed the view, however, that the process was too politicised to operate effectively. There is abundant evidence that the EC has strategically committed itself to coordination and has contributed to establishing coordination mechanisms involving bilateral and multilateral donors and Government (Judgment Criterion 8.1). There have been few instances of joint programming (Judgment Criterion 8.2) outside the education sector, but the EC has contributed in a number of ways to the coordination of joint policy dialogue; for example, in relocation and in trade and economy. There is no conflict or inconsistency to be seen between the EC's own goals and approaches and the goals and approaches driving externalised facilities financed by the EC, such as the Global Fund and the Reproductive Health Initiative for Youth in Asia project (Judgment Criterion 8.3).

The identification of lead donors in each sector (in accordance with the Code of Conduct, which is designed to reduce transaction costs for Government), has worked well in Lao PDR, in part because the donor landscape is relatively sparse. Some bilateral agencies reported that donor coordination has significantly improved over time, but dated the improvement only to the last few months. The EC has organised training workshops for Member States related to the Code of Conduct. However, MS bilateral agencies expressed uncertainty over precisely what role the EC Delegation will play, in particular, whether it will serve as go-between for the MSs and Government. One bilateral agency official was of the view that the EC Delegation has expressed an interest in coordinating MSs, but the MSs themselves are reluctant.

In most priority areas apart from human rights – rural development, health, education, trade and economy, vulnerable groups – the most effective instrument for policy dialogue with Government is now the PRSO. Not only does PRSO allow for joint monitoring of progress against mutually agreed targets in these areas, it also tackles the main theme cutting across sectors, namely the need for improved accountability, transparency, and efficiency in public financial management. The EC's participation in the PRSO process is in itself evidence that it has adopted a coordinated approach.

In a key area that falls outside the PRSO, namely relocation, the EC has played a leading role in establishing policy dialogue with Government through development of its new uplands development project. The proposed task force bringing together donors with representatives of all levels of government (central, provincial, and district) will serve a coordination role, but it is not clear how the positions of the donors themselves will be coordinated or what role the EC will play.

We are able to give concrete examples of achieving synergies, exploiting comparative advantage

(explored in more detail under EQ 10), avoiding overlaps, and gap filling (Judgment Criterion 8.4). EC participation in PRSO marks a step forward in the direction of better coordination with other donors and institutions. Our overall impression is that the quality, as well as the quantity, of EC participation in and facilitation of coordination mechanisms in Lao PDR is high and that concrete results are living up to strategic commitments.

An issue not directly dealt with in the Judgment Criteria below, but relevant, is the issue of EC presence in Vientiane, which was thin until recently. The EC established an Office for Technical Coordination in Vientiane in late 2000. The office was under the direct guidance and supervision of the EC Delegation to the Lao PDR based in Bangkok. In 2003, this was upgraded to the status of Delegation, but administrative and finance decisions are still handled out of Bangkok, as are a number of programmatic areas. The EC's visibility increased significantly after 2003 and could increase further still if the size of the Delegation was expanded. The current arrangement works well, mostly because travel between the capitals is so easy. However, there would be efficiency gains if the Delegation in Vientiane received a staff allocation to take over more administrative, especially financial, matters. However, in discussions with EC Delegation officials in Vientiane, the Evaluation Team found that potential recommendations often had to be considered in light of staffing constraints.

Finally, although this EQ deals with coordination between donors, we note the need, discussed in the context of EQs 4 and 5 above, for better coordination of EC bilateral technical assistance to countries such as Lao PDR and ASEAN-level support to the integration process, especially at the level of implementation.

### **JC 8.1: EC contributed to establishing coordination with member states, on one side, and multilateral donors (particularly the World Bank), on the other side, relating to their co-operation programmes**

#### **JC assessment:**

The gist of our discussion of Indicators 8.1.1 and 8.1.2 below is that we have abundant evidence that the EC committed itself at strategic level to coordination, but we have only scattered concrete instances of coordination at the sector or project level. The indicators specifically refer to records, and in fact we have none, apart from records of good intentions. Nor have we seen records of the coordination mechanisms in place (Indicator 8.1.3), however, we have been able to document the existence of a number of functioning or (as of the CSP 2007-2013) planned coordination fora. Other processes more related to policy dialogue than the cooperation programme strictly considered are given in Indicator 8.2.2 below.

In the field phase, the Evaluation Team encountered varied opinions on coordination. Some bilateral donors saw improvement, but only in recent months. The joint EC-World Bank Diagnostic Trade and Integration Study was given as an example of good inter-agency coordination, the area of support for SMEs was cited as an area in which there had been poor coordination, with ensuing confusion and overlap. The EC has recently begun participating in a Working Group on SMEs, which may improve the situation.

Through its leading role in tackling the relocation question, the EC has put itself in a position to coordinate MS responses in this area, but it is not yet clear how this will occur in practice. The EC has been heavily involved in the Integrated Framework process linking trade to development, which among other things coordinates donor technical assistance related to trade. EC participation in the PRSO by definition establishes coordination with the major international financial institutions including the World Bank and with participating bilateral donors (Japan and

Australia).

### **Indicator 8.1.1: Records of EC avoiding potential conflicts between its co-operation programmes and member states ones or other donors ones**

#### **Indicator estimate:**

We approach this indicator at two levels, the strategic level, and the project or programme level. In general, we can affirm the EC has adopted all the right stances regarding coordination and has participated in fora, made commitments, etc.

The CSP 2002-2006 enumerates the engagement of donors in the various sectors in the Lao PDR (see especially Annex 3, which summarises Member States' bilateral aid programmes). At the strategic level, the CSP 2002-2006 took into account the need to reinforce co-ordination with other donors, in particular EU Member States, in order to ensure complementarity and raise the EU profile (1). It called for continuation of mutual and regular consultation on projects and strategies in order to share information and best practice (2) and committed EC-funded projects to developing operational linkages and information sharing with other donors, especially when operating in the same sectors and geographical areas. It called for all new projects to be designed in co-ordination with these key partners and for the seeking of joint funding whenever possible. Referring specifically to rural development but capable of broader interpretation, the CSP cites among lessons learned the need to reinforce co-ordination with other donors, in particular EU Member States, to ensure complementarity and raise the EU profile. Elsewhere in the same report, co-ordination difficulties were cited as one factor in the EC's phasing out support for the bilateral rural development projects (3). The CSP 2002-2006 introduced a newly created Informal Working Group for "Co-operation in the areas of institution building and administrative reform, governance and human rights" without further elaboration (4). This subsequently (as reported in the CSP 2007-213) served as the venue for policy dialogue related to relocation.

We have spoken in terms of what the CSP 2002-2006 committed the EC to do. There seems little doubt that, in view of the attention given to mapping the overall aid landscape in Laos, basic strategic coordination was carried out. However, it is at the sector level that we must look for specific examples of avoiding conflicts between EC and other donors' programmes, and here, we are confronted with a dearth of concrete examples. In this regard, it needs to be kept in mind that the EC Delegation in Vientiane was not opened until 2003. In working in Luang Prabang and Luang Namtha provinces under the 2002-2004 NIP, the EC co-ordinated with the Lao-Swedish Road Sector Project (rural access roads) and with the ADB Rural Roads Project by confining its support to the linking of villages to national or provincial roads. In the area of education, characterized by a plethora of donors and programmes, the CSP 2002-2006 cites the importance of ensuring that the BENC project is coordinated with the ADB's Second Education Quality Improvement Project, the World Bank's Education Development Phase II project, and initiatives by France and Sweden (5). One of the specific planned activities of the BENC project was to provide professional backstopping and administrative capacity to support high level committee and task force work on, inter alia, co-ordination.

Project-level documentation often refers to the need for co-ordination; for example, a ROM Report of the BENC Project (6) calls for reinforcement of co-ordination with other projects in the uplands and the final evaluation of the SLSEA Livestock project decried duplication (7).

Views and opinions gathered in Vientiane on co-ordination of trade-related projects are mixed. An example for successful co-ordination and co-operation – in this case between the EC and the World Bank – is the Diagnostic Trade and Integration Study (DTIS) and Action Matrix (approved in 2006) under the global Integrated Framework (IF) process. By contrast, as already discussed under EQ 4 (particularly JC 4.4), it seems that the ADB and EC support for the SME sector has

suffered from poor co-ordination. However, available documentation of the ADB project and the interventions of other multilateral and bilateral donors (for example AusAID, GTZ, JICA, South Korea, World Bank etc.) suggest that donor activities in the SME sector have not been well co-ordinated and potential synergies and complementarities have not been explored (8). The result is that significant transaction costs were imposed on the implementing government agency.

The identification of lead donors in each sector has worked well in Vientiane, in part because the donor landscape is relatively sparse. Some bilateral agencies reported that donor coordination has significantly improved, but dated the improvement only to the last few months. The EC has organised training workshops for Member States related to the Code of Conduct, designed to reduce transaction costs for Government. However, MS bilateral agencies expressed uncertainty over precisely what role the EC Delegation will play, in particular, whether it will serve as go-between for the MSs and Government. One bilateral agency official was of the view that the EC Delegation has expressed an interest in coordinating MSs, but the MSs themselves are reluctant. This appears to be particularly the case in the area of relocation, where the EC has taken a leading role in establishing dialogue, has put in place a project (uplands development) with which this policy dialogue will be tightly linked, but has not defined precisely what its role in coordinating either project activities or policy dialogue will be.

Views on how well the sector Working Groups system, associated with the Round Table process organised by Government and co-chaired by UNDP, has worked were mixed. One donor reported that the system is more effective now than previously. Another expressed the view, however, that the process was politicised, and that policy dialogue through the PRSO was much more effective. Participation in the PRSO is a major strategy by which the EC has sought successfully to coordinate its support with that of other donors.

#### **Related facts, figures, and references**

- (1) CSP 2002-2006, p. 66-67.
- (2) CSP 2002-2006, p. 3.
- (3) CSP 2002-2006, p. 25.
- (4) NIP 2005-2006, p. 14.
- (5) CSP 2002-2006, p. 65-66.
- (6) MR, BENC, 07.12.07.
- (7) External Evaluation of SLSEA Project, p. 5
- (8) See for example, ADB, Proposed Asian Development Fund Grant and Technical Assistance Grant Lao People's Democratic Republic: Private Sector and Small and Medium-sized Enterprises Development, Program Cluster (Subprogram 1), Project Number 35304, September 2007; project database of The National Small and Medium Sized Enterprise Promotion and Development Office (SMEPDO), [www.smepdo.org](http://www.smepdo.org).
- (9) Interviews with Delegation staff, bilateral aid agency officials, multilateral agency officials, Government officials.

#### **Indicator 8.1.2: Records of EC resolving inconsistencies between its co-operation programmes and member states ones or other donors' ones**

##### **Indicator estimate:**

The discussion of Indicator 8.1.1 covers this indicator, as well. However, we add here a secondary

reference to the Mid-Term Review of the Lao PDR CSP 2002-2006, carried out during the first quarter of 2003, which concluded that the focal sectors foreseen in the NIP 2002-2004 were complementary to the co-operation activities of EU Member States and other donors (1). This is concrete evidence of the impact of actual co-ordination carried out. Another piece of positive evidence is that the CSP 2007-2013 (2) indicates that CSP planning involved a three-step consultation (during June 2005-April 2006) with four Member State development counsellors based in Vientiane, as well as other Member State officials in Thailand and Vietnam. A summary of the main approach was presented to the Donor Working Group (see Indicator 8.2.2) in December 2005.

### **Related facts, figures, and references**

- (1) NIP 2005-2006, p. 5.
- (2) CSP 2007-2013, p. 53.

### **Indicator 8.1.3: Reports on coordination mechanisms put in place**

#### **Indicator estimate:**

We have relatively good information on what major coordination mechanisms are in place, but have not consulted records such as minutes, reports, etc.

The major forum for consultations and coordination between Government and the international donor community is the Round Table Process organised by UNDP and Government. In Round Table Meetings, national and sectoral policies of Government of Lao PDR are discussed. At the November 2006 Round Table meeting, of a variant of the Paris Declaration produced by Government, the “Vientiane Declaration”). A Task Force with representatives from the government and the donor community was set up and an Action Plan has been produced to implement the Declaration. The EC was a key actor in this process (CSP 2007-2013, p. 18).

The EC has participated as a leading donor in the Diagnostic Trade Integration Study (DTIS), officially adopted in 2006 by Government as the basis for trade and investment promotion; and has contributed to the design of a multi-donor trust fund for supporting trade related initiatives. The EC has been heavily involved in the Integrated Framework (IF) process that aims to link trade policy to wider development policy (CSP 2007-2013, p.10) The IF contributes, inter alia, to improved co-ordination of the delivery of trade-related technical assistance amongst bilateral and multilateral donors within a coherent policy framework (see Integrated Framework, <http://www.integratedframework.org/about.htm>). The interviews conducted in Vientiane showed that views on the DTIS and Action Matrix are particularly positive. Several stakeholders acknowledged the high level of coordination and cooperation between the World Bank and the EC. However, in the course of the ongoing evaluation of ASEAN level support, it has emerged that the degree of coordination between bilateral TA related to trade and the regional trade integration process leaves something to be desired.

Finally, Vientiane is small and the development community is tightly knit. Consultation and coordination is pursued in significant degree through regular briefing sessions in the context of project formulation, evaluation, etc. (3).

#### **Related facts, figures, and references:**

- (1) CSP 2002-2006, p. 22-23.
- (2) CSP 2002-2006, p. 20.
- (3) CSP 2002-2006, p.23.



## **JC 8.2: EC contributed to launching EC-Member states joint programmes or consistent policy dialogue with the Lao PDR authorities**

### **JC assessment:**

In trade / economy and health there have not been any joint programmes. In rural development sector, the new “Support for sustainable development in the uplands and policy dialogue on relocation” intervention, accounting for about one-quarter of the 2007-2013 CSP, involves other donors. However, the project is just now (January 2009) being formulated and, at the time of the field mission, MSs involved in the project expressed uncertainty over how the uplands development project is going to be coordinated.

In discussing Indicator 8.2.2, we give a few other examples of EC contribution to achieving consistency in policy dialogues with Government. The relocation policy dialogue component is the best concrete example of an EC contribution to consistent policy dialogue, but there is still uncertainty as to the exact nature of the EC's coordination role. We speculate in discussing Judgment Criterion 8.3 that this may be an especially valuable contribution of the EC, one of whose comparative advantages is that it may be able to use its weight and multilateral status to raise sensitive issues that individual Member States would be reluctant to broach.

The EC contributed to launching the SIDA-led sector programme in education (of which France is also a major supporter).

### **Indicator 8.2.1: Existence of joint co-operation programmes**

#### **Indicator estimate:**

In rural development, France, Sweden, and Germany are involved in “Support for sustainable development in the uplands and policy dialogue on relocation.” Based on interviews at AFD, SIDA, and GTZ, there is little still uncertainty on how this project will be coordinated. Prior to the CSP 2007-2013, we have no information on joint cooperation programmes in rural development. Under the NIP 2002-2004 there was pooling of EC funds (Euro 6 million) in a sector-wide education programme also funded by SIDA, France, ADB and the World Bank. The formulation has proceeded as scheduled. The launching of "Support to Basic Education in the Lao PDR," focusing on 9 districts of Luang Nam Tha, Luang Prabang and Phongsaly provinces was expected in 2004. No joint programmes have been found related to trade and economy or in the health sector. EC support for governance projects implemented by UNDP could be considered a form of joint cooperation, since EC resources are pooled with support from other donors. The EC has not participated with other donors in supporting the Government-UNDP Trust Fund for UXO Clearance.

### **Related facts, figures, and references**

### **Indicator 8.2.2: Existence of joint policy dialogue or common donors platforms upstream to policy dialogue with Government of Laos**

#### **Indicator estimate:**

The main overall platforms for policy dialogue with the GoL are the EC-Lao PDR Joint Committee set up under the 1997 Cooperation Agreement, which meets every two years to engage in political dialogue and to assess cooperation activities.

The Round Table process, so far been the main aid coordination mechanism between donors and

the GoL, aimed at mobilising aid resources to finance development plans. It is reported (1) that coordination has improved since the institution of the Round Table.

#### The PRSO budget support process

Apart from informal consultations (Delegation staff meet regularly with Development Counselors of Member States, or at least have done so after the Delegation was put in place in 2003) and collegial sharing of information, there is no evidence of formal donor consultation processes (or, consultations between EC Member States) upstream to these multilateral donor-GoL dialogues. The closest thing to this may UNDP-sponsored sectoral / thematic Donor Working Groups (DWGs), eight in number, which hold quarterly meetings and one overall yearly meeting. (2). The EC is a participant.

The EC has been involved in PRSO policy dialogue since late 2004, and we discuss this engagement in detail in Special Focus 3 of Annex 5. The PRSO aims at contributing to restructuring several fundamental policies which would ensure for example that more central government budget funds would be allocated to poverty reduction and also enhancing sustainability of rural development results including those of the EC (3). Through its emphasis on improving public sector financial management, the PRSO framework provides participating donors such as the EC with the opportunity for coordinated policy dialogue aimed at raising the quality and sustainability of development assistance across the board in Lao PDR.

The creation of a cross-cutting sector donor group, to be chaired by IMF and World Bank, on “Macro-economy and Private Sector Development” is under discussion. Finally, there is an “EC/Lao PDR Working Group on co-operation in the areas of institution building and administrative reform, governance and human rights.” There is also a group of like-minded partners, chaired by Germany, which discusses human rights, resettlement, and repatriation issues.

#### **Related facts, figures, and references**

- (1) NIP 2005-2006, p. 7.
- (2) CSP 2007-2013, p. 18.
- (3) CSP 2007-2013, p. 21-23, 26.
- (4) Interviews with Delegation staff and bilateral and multilateral aid agency officials.

### **JC 8.3: EC funded trust funds or facilities managed by international agencies (WB, UN agencies), consistent with EU long-term goals and EC co-operation interventions**

#### **JC assessment:**

The EC has contributed to a number of externally-managed funds and programmes. Indicators 8.3.1 and 8.3.2 ask whether the logic and approach of these extended interventions were consistent with the EC’s own goals and approach, and the answer is that they were. Concrete examples given are the Reproductive Health Initiative for Youth in Asia project, the EC’s support of the Global Fund, and the trust fund arrangement set up to finance technical assistance in public financial management (especially the analysis of the incidence of public expenditure and its impact on vulnerable groups). More generally, EC support for the PRSO process of support for policy reform in pursuit of poverty reduction is consistent with the EC’s own goals and approach. Of note is the variable tranche mechanism, which releases supplementary EC funds contingent on

increases in the budget share of the social sectors (education and health). While this originally raised concerns among the partners that it would complicate the PRSO, the mechanism has worked smoothly according to experts interviewed and has allowed the EC to reconcile its commitment to PRSO with its stated strategy of emphasising the social sectors in development.

We have discussed elsewhere (Special Focus 2 of Annex 5, EQ 1, and EQ 7), the EC's absence from the group of donors who fund the Government-UNDP Trust Fund for UXO Clearance, which is a major source of funding for the UXO Lao, the key government agency responsible for UXO problems. This absence may be due to the fact that Lao PDR is not yet a signatory to the Ottawa Treaty banning landmines. While the EC has provided significant support through thematic budget lines for UXO clearance, and has supported directly some activities implemented by UXO Lao, it has not been able to engage in the sustained commitment to UXO that would have addressed the serious lack of capacity at the central level.

### **Indicator 8.3.1: Consistency of logical framework and approaches between EC regional and bilateral co-operation strategy and externalized facilities logical framework and management**

#### **Indicator estimate:**

On consideration, this indicator could have been more clearly stated as "Logical consistency between the EC's cooperation strategy in Lao PDR and externalized facilities," the gist being that we want to ensure that when the EC supported externalised facilities, the logic (and implementation) of those facilities was consistent with EC strategy for Lao PDR and broader EC development policy. Also, on consideration, Indicators 8.3.1 and 8.3.2 are mirror images of each other, and we will provide only one set of observations.

In November 2005, the GoL launched a Public Expenditure Management Strengthening Programme (PEMSP), and is currently setting up a multi-donor trust fund to support its implementation. This is a fully government-owned programme and it is expected that the PEMSP will bring most of the donor-funded technical assistance under a single strategic reform framework in the Public Financial Management area. The main purpose of these efforts is to improve the poverty reduction impact of Government expenditure or, at least, to make transparent its distributional impacts and differentiated effects (e.g., on women). These goals are fully consistent with EC goals and programmatic interventions.

In September 2006, Government adopted the Diagnostic Trade Integration Study and Action Matrix, which articulate policy actions to increase export competitiveness and promote trade and investment in the country. The EC has participated as a leading donor in the DTI study and has contributed to the design of a multi-donor trust fund for supporting trade related initiatives.

No trust fund arrangements have been found in rural development or the education sector. In health, the EC contributed to the Reproductive Health Initiative for Youth in Asia project, which was implemented by UNFPA. In view of the strong EC commitment to the promotion of sexual and reproductive health (1), plus its strong commitment to seeing that such services are available to youth and adolescents (a group targeted by the project) consistency can be taken as assured. Similarly, the goals and management of Global Fund activities (see EQ 2 above) are completely consistent with EC strategy and practices.

#### **Related facts, figures, and references**

- (1) Evaluation of the Population and Development Theme in EC External Assistance, 2005.

### **Indicator 8.3.2: Consistency of externalized facilities logical framework and management with EU long term goals in Laos**

#### **Indicator estimate:**

See Indicator 8.3.1 above.

#### **Related facts, figures, and references**

### **Indicator 8.3.3: EC Visibility with externally managed facilities**

#### **Indicator estimate:**

Officials interviewed were aware of, for example, the fact that the EC is a major source of funding for the Global Fund and the role of the EC in financing multi-donor trust funds such as those related to public sector financial management and trade. However, there do not appear to have been any special efforts made to promote EC visibility within the GF. The EC is fully visible within the PRSO framework.

#### **Related facts, figures, and references**

Interviews with bilateral and multilateral agency officials, Government officials.

### **JC 8.4: EC contributed to achieve complementarity between member states' and other donors' interventions**

#### **JC assessment:**

On consideration, this Judgement Criterion is rather confusingly stated; as a literal reading would be that the EC worked to ensure that Member States' and other donors' (e.g., World Bank, Japan) interventions were complementary, paying no heed to its own cooperation programme. Clearly what is intended is that the EC contributed to achieving complementarity between all donors' interventions, not just those of other parties.

We address this through a fairly long list of indicators. Based on the many coordination actions described above, we have no difficulty stating that the EC achieved synergies between its cooperation programme / policy dialogue and the cooperation programme / policy dialogues of other donors (Indicator 8.4.1). We draw particular attention to EC policy dialogue and interventions in support of improved governance, which leverage all sectoral policy dialogues and programmatic interventions across the board. In three sectors (rural development, education, and trade / economy) we identify in strategic documents (the CSP 2002-2006) explicit identification of gaps and subsequent steps taken to fill them (Indicator 8.4.2). The EC is also part of a relatively new Donor Working Group on Health Care Finance, which will address a major gap in the approach to the problem of inadequate access to quality health care. All coordination activities have amounted to actions to avoid overlap (Indicator 8.4.3) and the CSP 2002-2006 explicitly refers to comparative advantage of the EC (Indicator 8.4.4). Indicator 8.4.5 asks about "additionality" and "gap filling"; we refrain from making any statement about additionality, which is hard to demonstrate rigorously, but find one concrete example (livestock sector interventions) of gap filling.

The EC played a role in implementation of the Code of Conduct, which seeks to avoid donor overlap on a sector by sector basis (Indicator 4.2.3). Finally, there is some evidence that the EC systematically exploited its comparative advantage (Indicator 8.4.4).

### **Indicator 8.4.1: Records of the EC's achieving synergies between its co-operation programmes or policy dialogue and member states' ones or other donors' ones**

#### **Indicator estimate:**

In strategic documents reviewed, the partners repeatedly commit themselves to achieve synergies, as does Government (e.g., 1). Perhaps the most readily marshalled evidence that synergies are being pursued, and with little doubt achieved, is the move towards policy dialogue and governance which emerged over the evaluation period. Both of these leverage the impact of all interventions, not just EC interventions. EC involvement in the PRSO dialogue, the EC-led initiative on relocation-related dialogue, the support for public expenditure analysis, especially the impact of public expenditure on women and ethnic minorities, support for governance-related activities (e.g., establishment of National Audit Office, and strengthening of the National Assembly are examples of interventions which interact dynamically with cooperation across the board, regardless of donor or instrument.

#### **Related facts, figures, and references:**

- (1) National Socio-economic Development Strategy to the Year 2020 (2006), Development Plan 2001-2005, and Poverty Reduction Strategy Paper, 2001.
- (2) Interviews with bilateral and multilateral aid agency officials.

### **Indicator 8.4.2: EC strategic planning documents identify gaps and discuss means of filling them.**

#### **Indicator estimate:**

As mentioned above (Indicator 8.1.1) the CSP 2002-2006 explicitly identifies support for the livestock sector as a gap in poverty reduction interventions.

The same document details gaps in the education sector and describes how the BENC project will address these.

All strategic planning documents are very detailed on gaps in the cooperation programme on trade/economy, and the projects outlined in the CSP 2002-2006, NIP 2002-2004, NIP 2005-2006 and CSP 2007-2013 are a direct response to these identified gaps. The CSP 2002-2006 and NIP 2002-2004 provide the frame for the selection of the health sector projects finally funded; the NIP 2005-2006 and CSP 2007-2013 identify the gaps, but do not identify actions to fill them.

#### **Related facts, figures, and references**

### **Indicator 8.4.3: Actions taken to ensure minimisation of overlap**

#### **Indicator estimate**

All of the coordination actions described above have, as their most basic function, the avoidance of duplication and overlap. The Code of Conduct, which stipulates no more than three donors per sector and identification of a lead donor for coordination purposes, is being implemented well in Lao PDR.

#### **Related facts, figures, and references**

Interviews with bilateral aid agency officials.

**Indicator 8.4.4: EC strategic planning explicitly takes comparative advantage into account.**

**Indicator estimate:**

EC comparative advantage is explicitly referred to in the CSP 2002-2006 when it is stated that given the limitations on available EC resources, the EC-Lao PDR cooperation programme will focus on a limited number of core areas where the EC already possesses field experience and where it can add value in terms of poverty reduction (1). Later, the same report promises that support to rural development will concentrate on sub-sectors (small-scale rural roads and livestock) where the EC has comparative advantage (2).

While it is nowhere explicitly mentioned, it is worth pointing out the EC support for the Reproductive Health Initiative for Youth in Asia project, which had youth and adolescents as its principal target population, played to an EC comparative advantage on at least three counts – the EC's willingness to tackle sensitive issues, its willingness to treat adolescents as a target group, and its rights-based approach to reproductive health.

In taking the lead in policy dialogue on relocation, a thorny issue and one that Government was reluctant to discuss at first, the EC may have exploited its ability to raise issues that Member States would find difficult to pursue on a bilateral basis.

**Related facts, figures, and references**

- (1) CSP 2002-2006, p. 23.
- (2) CSP 2002-2006, p. 59.
- (3) Interviews with bilateral aid agency officials.

**Indicator 8.4.5: EC interventions characterised by “additionality” and “gap-filling.”**

**Indicator estimate:**

“Additionality” means that EC support is not merely displacing support that would have been available elsewhere; the definition of “gap filling” is self-evident. Additionality is notoriously difficult to prove rigorously. Given the broad range of donor support for Lao PDR, it would be hard to identify gaps that have been filled by the EC. One such example is the livestock sector, which has received relatively little donor support despite its importance to poverty reduction. The EC saw an opportunity and initiated the livestock projects Strengthening of Livestock Services and extension Activities Project, (SLSEA) and Strengthening of Livestock Services Project (SLSP) (1).

**Related facts, figures, and references:**

- (1) CSP 2002-2006, p. 25.

## **EQ9 - To what extent has the design and implementation of EC interventions adequately privileged the needs of the most vulnerable groups?**

### **EQ answer**

*EC project interventions targeted geographic areas characterised by a high degree of poverty, which we take as more or less synonymous with vulnerability. By concentrating on northern regions, and more recently in focusing on relocation issues, the EC has privileged the needs of ethnic minority populations, who are among the most vulnerable. In project implementation, participatory approaches suitable to ensuring that projects take the needs of the poor into account have been implemented.*

We looked at the role of vulnerable groups in strategic planning (Judgment Criterion 9.1) and programming and implementation (Judgment Criterion 9.2). Based on the review described below, there is no doubt that the needs of the vulnerable have taken precedence in the EC's engagement with Lao PDR. Both CSPs (2002-2006 and 2007-2013) prioritise poverty reduction and analyse the needs of the most vulnerable groups, which in Lao PDR are ethnic minorities residing in the upland regions. The needs of women, who are disadvantaged on a wide range of measures of wellbeing, are discussed frequently. The commitment towards the needs of the vulnerable is consistently brought forward into the design and implementation of most EC projects, also clearly reflected in budget allocations. Almost all of the rural development interventions have been / are concentrated in the northern parts of the country where poverty is most prevalent, as is the on-going education sector project BENC. In answering EQ 2, we established that all EC interventions in health, as well, have been directed at populations in disadvantaged regions. The distribution of EC activities speaks for the commitment by the EC towards poverty reduction and support to the most vulnerable groups. However, in assessing JC 9.1, we point out that the areas with the highest proportional prevalence of poverty (the uplands regions) are not the areas where the most poor live (lowland areas).

EC budget support in the PRSO framework is strongly linked through the Performance Assessment Framework to poverty reduction (See Special Focus 3 in Annex 5).

The strategy to support the needs of the most vulnerable during the CSP 2002-2006 was mostly through the traditional project approach, particularly in the areas of rural development and education. In implementing projects benefiting the most vulnerable, there were considerable efforts made to apply project management procedures adapted to vulnerable groups. However, problems were faced in deployment of national staff, particularly skilled and trained civil servants, by the Government to EC initiatives; other difficulties were experienced in procurement. Projects would have been more effective and efficient had there been more flexibility in management than was possible under the framework of EC rules and procedures. The project approach to health, repeatedly identified in strategic documents as a priority need of vulnerable groups, was abandoned in favour of small NGO projects, support to the Global Fund, and variable tranche PRSO budget support contingent on achieving health (and education) milestones. No explicit poverty focus is found in documentation on the SME development project in the trade and economy sector.

Participatory approaches were employed in strategic planning and, to varying degrees, in projects. Documents consulted from some projects, for example, the BENC project or MPDLC project, pay considerable attention to participation; while documentation from others, for example, the livestock project (SLSEA) is largely technical in nature. It is possible that pressure to achieve tangible results quickly may have discouraged application of the participatory approach in some cases.

More than one international stakeholder interviewed during the field phase independently,

identified a risk that, that abundant revenues from natural resources will not contribute to equitable and sustainable development. Poor governance and the low level of human resources are themes that cut across this vision. EC participation in the PRSO is a tangible contribution to improving public financial management, and the allocation of revenues from upcoming hydroelectric power projects figures among the conditionalities built into in the Performance Assessment Framework.

In our consideration of EQ 6, we noted that, while gender and issues related to ethnic minorities were integrated into EC sector programmes, there was no overall logical framework, with objectives and a monitoring framework, which would allow progress to be tracked and lessons to be derived. Nor did we find any real evidence that gender or ethnographic analysis had been engaged in when planning interventions.

Finally, in our consideration of EQ 3, we noted that one gender issue of particular importance, reproductive health, has suffered from inattention since the end of the large regional Asia reproductive health initiative for youth project financed by EC and implemented by UNFPA. We came across one example of a purely dysfunctional approach to vulnerable groups, namely the disbursement of funds meant to empower women by village chiefs, who allocated them to male heads of households.

### **JC 9.1: Needs of most vulnerable groups emphasised in strategic planning**

#### **JC assessment:**

Vulnerability and geography are indissolubly mixed in Lao PDR. As part of the country analysis, the CSP 2002-2006 (especially p. 12) devoted a section to the problems in the uplands where poverty rates are highest. Economic development has historically concentrated on a few, more accessible parts of the country close to the Mekong River, and has largely by-passed the upland areas. Government policy and public spending have been biased towards urban centres and the lowlands, both areas occupied by the ethnic majority. The disadvantages of upland regions were referred to a number of times in discussing EQs 1, 2, and 3. These include: poor infrastructure and limited access to basic health and education facilities; limited access to markets, which has encouraged ecologically destructive farming methods (as well as the cultivation of opium, suppression of which has removed a source of cash income), and UXO. Remote upland areas are largely inhabited by members of non-Lao speaking ethnic minority groups. The initiative being taken by the EC in the area of relocation (see Special Focus 1 of Annex 5) is proof in itself that, in strategic planning for projects in which relocation is a factor, there has in the past been insufficient analysis of the needs of the most vulnerable groups.

Although poverty mapping as such is not mentioned in the two CSPs (Indicator 9.1.1), both documents emphasise and analyse the needs of the most vulnerable groups throughout. Information does exist in the Lao PDR on which provinces and districts have the highest incidence of poverty, which has led the Government to identify 47 priority districts. The PRSO Performance Assessment Framework makes use of these priority districts. The EC has provided support to Government in analysing the impact of expenditure patterns on women and ethnic minority group members (Indicators 9.1.2 and 9.1.3). Participatory approaches particularly important for successfully reaching the most vulnerable populations were evident in most project documentation consulted (Indicator 9.1.4).

However, EC (and other donor's strategies appear to disregard some of the statistical basics of the geography of poverty in Lao PDR:

- While remote and mountainous regions of the Northern Uplands have by far the highest poverty densities, the majority of poor people do not live there – they live in the densely



populated Mekong Valley lowlands. This raises the difficult issue of whether scarce resources are better allocated to poor areas or poor people.

- At the district level, average poverty levels are well correlated with average per capita income. In fact, at the intra-district level, Lao PDR is characterised by a relatively even income distribution although, of course, there are wide differences between average incomes in rich and poor districts. The implication is that the poverty reduction impacts of reducing income inequality may not be as effective as great as those of stimulating overall economic growth. In this sense, for example, some of the concerns expressed in the Final Evaluation of the Phongsaly project that some districts have benefitted more than others should be taken with a grain of salt.

Under Indicator 9.1.3, related to the needs of women and ethnic minorities, we refer to the concern raised in the context of answering EQ 3 that insufficient attention has been paid to reproductive health since the end of the large regional reproductive health for youth in Asia project. Moreover, in discussing the same indicator, we note that some of the EC's incorporation of vulnerable group concerns is rather artefactual – for example, any project in Luang Prabang will by definition deal with ethnic minority population concerns, because these groups comprise such a significant share of the population. Examples of real analysis along lines of ethnicity and gender were not found.

### **Indicator 9.1.1: Poverty mapping and analysis feature in programme design**

#### **Indicator estimate:**

Poverty mapping as such is not mentioned in the CSPs 2002-2006. However, household surveys and other data available for Laos make it possible to identify areas and districts most affected by poverty, and both CSPs explicitly discuss how assistance will be targeted at areas (essentially in the North) where poverty is most widespread. 47 districts in the North have been identified by the Government of Lao PDR as particularly affected by poverty, and these figure in the PRSO Performance Assessment Framework conditionality policy matrix. These are the districts surveyed by the National Statistics Center / Asian Development Bank Participatory Poverty Assessment (2006), cited throughout this report (1).

The most recent poverty mapping of Lao PDR (2) raises some challenging issues for the donor community. Among the salient points:

- Most poor people live in non-poor areas. While the Northern Uplands are notoriously poor, they are very sparsely populated, a fact not unrelated to their being poor, as they are remote and mountainous. While focusing attention on these provinces, as does the EC as well as other donors, may be effective in terms of tackling a concentration of poverty, it runs the risk of not meeting the needs of a larger population of poor households who, however, live in more prosperous and densely inhabited areas. As the authors put it (p. 83), this raises a challenging issue: should assistance be directed to poor areas or to poor people?
- Variations in poverty at the village level within one area can be largely explained by a handful of agro-climatic variables such as slope and soil type. However, even highly disadvantaged areas have experienced growth and poverty reduction. Moreover, increase in market access and the facilitation of migration can benefit even the most geophysically challenged region.
- District-level inequality in Lao PDR is rather low by international standards. The implication is simple: reducing inequality has little potential for raising the living standards

of the poorest; it is broad-based economic growth combined with a reasonable sharing of the gains that is required.

In concentrating on the priority districts identified by the Government of Lao PDR, such insights have not been incorporated into the strategies of the EC and other donor countries.

#### **Related facts, figures, and references**

- (1) Chamberlain, James 2007. *Participatory Poverty Assessment II (2006)*. Vientiane: National Statistics Center and Asian Development Bank.
- (2) Epprecht, M., N. Minot, R. Derwina, P. Messerli, and A. Heinemann 2008. *The geography of poverty and inequality in the Lao PDR*. Swiss National Center of Competence in Research North-South, University of Bern, and International food Policy Research Institute (IFPRI). Bern: Geographica Bernensia.

#### **Indicator 9.1.2: Support to Government in poverty analysis.**

##### **Indicator estimate:**

The EC is funding a pre-identification study of the impact of current government policy on gender and ethnic minorities. Current efforts to understand more about gender relations in ethnic minority communities may lead to policies to address inequality and increase opportunities for women's development. A key area in which the EC is providing support to Government in better understanding poverty is relocation. As we have discussed (Special Focus 1 if Annex 5 and EQ 1) the empirical record on agricultural development following relocation is very discouraging. It has been discussed above (see Indicator 1.3.2 as well as the discussion under EQ 6) that the EC has taken the lead in establishing a multi-donor policy dialogue with Government designed to improve the implementation relocation programme. Populations affected by relocation are without exception poor and vulnerable, so this dialogue may fairly be counted as a major EC-led initiative to support Government in poverty analysis.

It is worth noting that, in reviewing EC support, whether bilateral or ASEAN-level, to trade, we have seen no evidence of EC support to analysis of the links between trade and poverty, even though poverty reduction is at the heart of the Government's programme to place economic integration at the forefront of development policy. Documents such as the NIP 2005-2006 explicitly linked trade sector development to the Lao PDR Poverty Reduction Strategy in general terms, but we have so far not come across detailed analysis of trade-poverty links. We note, at the same time, that it is possible that this occurs in the context of the Integrated Framework, which the EC supports.

##### **Related facts, figures, and references:**

#### **Indicator 9.1.3: Needs of women and ethnic minorities analysed.**

##### **Indicator estimate:**

The CSP 2007-13 discusses the reproductive health needs of women (1,2), as well as the growing problem of human trafficking especially in women and children, as well as illegal migration and migrant smuggling, particularly towards Thailand (3).

The World Bank-led PER (Public Expenditure Review) which the EC supported via its participation in the PRSO process incorporated a special study analysing the impact of the distribution of government expenditure from a gender and ethnic minority perspective (the so-

called Poverty and Social Impact Assessment). These studies related to the allocation of public expenditure will be used as the basis of recommendations for the possible redirection of future government financial resource flows to enhance their effectiveness in reducing poverty (4).

The CSP 2002-2006 highlighted the fact that women in Lao PDR consistently score lower than men on basic indices of human development and discusses how women of the urban elite enjoy substantial political representation and growing influence, but these gains have not extended to rural areas and lower income groups, and gender inequalities are particularly strong amongst some ethnic minorities (5).

In discussing the main areas of concentration, the CSP 2002-2006 advocates among the guiding principles for the preparation of EC-funded projects to pay special attention to gender relations, which includes support to women's participation in local decision making and development activities, starting from project staff composition up to the selection of the type of specific project activities (6). The needs of vulnerable groups in the area of health are repeatedly cited in EC strategic documents.

As all EC-supported projects in Lao PDR are targeted at poor populations in relatively deprived areas, project documentation consulted is reflective of gender and ethnic minority concerns, including the use of disaggregated data where possible. However, echoing a comment we made in discussing Indicator 9.1.2 above, we have no sense to date of whether EC technical assistance, capacity building, or policy dialogue related to trade brings gender and ethnic minority concerns into the picture. Moreover, while projects, by virtue of their location, address vulnerable groups, field visits to Luang Prabang leave the impression that the incorporation of vulnerability is rather artefactual. Most residents of Luang Prabang belong to one or another ethnic minority, so all projects therefore target minority groups. However there is no evidence that those programmes tackled systematically or analytically the ethnic dimension of poverty. There were no baseline studies, no incorporation of ethnological analysis, or use of ethnic data which would have permitted this deeper appreciation of needs or informed a more sophisticated strategy. The same point could be made with respect to gender. This echoes much of the discussion above under our assessment of EQ 6.

A gender issue of special importance is reproductive health. Field interviews indicated that, while EC-supported progress against malaria was consolidated and built upon in the EC-supported Global Fund programme, reproductive health, which had been heavily supported by the Reproductive Health Initiative for Youth in Asia project, was left as something of an orphan when that project ended and was not replaced with another targeted intervention. While other beneficiaries of the regional project, such as Vietnam, have built on the gains made, this is not the case in Lao PDR, according to experts interviewed.

**Related facts, figures, and references:**

- (1) CSP 2007-2013, p. 11.
- (2) CSP 2007-2013, p. 11.
- (3) CSP 2007-2013, p. 18.
- (4) CSP 2007-2013, p. 21.
- (5) CSP 2002-2006, p. 12.
- (6) CSP 2002-2006, p. 24.
- (7) Interviews with Government officials and multilateral aid agency staff.

### **Indicator 9.1.4: Participatory approach to designing strategies and interventions targeting vulnerable groups.**

#### **Indicator estimate:**

In the context of discussing the main areas of concentration, the CSP 2002-2006 indicates that community involvement to the greatest extent possible in the design and implementation of local initiatives will be a guiding principle (1).

We have already discussed at length in answering EQ 1 the high degree of community involvement in the Microprojects Development through Local Communities (MPDLC). Without repeating that discussion, we would cite only the success stories observed with respect to community maintenance of road projects after the initial infrastructure is put in place.

Another project for which emphasis on community participation and the bottom-up approach have been defining characteristics is the Basic Education in Northern Communities (BENC) project described in detail in EQ 3 (2, 3, and 4).

Microproject interventions under the Phongsaly Forest project were identified in a participatory manner as was possible (5). The Mid-Term Review of that project, however, is also realistic in recognising the challenging nature and even the downside of community participation. The participatory approach of the project, while central to its ownership and sustainability, requires time, experienced staff and a solid knowledge and understanding of the local culture, since fostering participation is rooted in values and implies a deep knowledge of those values, an expertise which according to the Mid-Term Review was not considered and was not to be found in the project team (3).

As an example of the sometimes ambiguous nature of community participation, participation of communities to the construction of schools is a condition for promoting ownership, sustainability and demand for education. On the other hand, community contributions might be considered as a case of double taxation. They may also represent a high opportunity cost in terms of income foregone for the communities. Finally, this conditionality raises the issue of what to do about those communities which are not willing or able to contribute (4).

The emphasis on community participation that is prominent in the BENC and MPDLC projects is not recognizable across the board. For example, the SLEAS livestock project documentation was been almost entirely technical in nature, with little attention being given to community-level processes and modalities.

A World Bank review of participatory community-driven approaches (6) stressed the importance for sustainability of including local officials, as well as community residents in training and awareness raising. We cannot assess the extent to which EC projects accomplished this.

#### **Related facts, figures, and reference:**

- (1) CSP 2002-2006, p. 24.
- (2) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 7.
- (3) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 8.
- (4) Mid term review of the Basic Education Development project in Northern Communities (BENC) p. 8-9.

- (5) Final Evaluation, Phongsaly Forest Conservation and Rural Development Project, p. 14-17.
- (6) Community-driven approaches in Lao PDR: Moving beyond service delivery. World Bank Human Development Sector Unit, East Asia and Pacific Region, October 2008.

**Indicator 9.1.5: Vulnerable groups analysed and taken into account in CSP 2007-13 programming exercise.**

**Indicator estimate:**

“Support for sustainable development in the uplands and policy dialogue on relocation” has been allocated 24% of the total country allocation (CSP 2007-2013 p. 23) and, along with budget support through the PRSO process, is a keystone of the new country strategy. As we describe in Special Focus 1 of Annex 5, persons subject to relocation are especially vulnerable. PRSO supports programmes informed by Government’s own poverty analysis. For women and ethnical minorities, see Indicator 9.1.3 above.

**Related facts, figures, and references**

**JC 9.2: Needs of most vulnerable groups take precedence in programming and implementation**

**JC assessment:**

The two CSPs give high priority to the most vulnerable groups in the country and most interventions have explicitly targeted those in greatest need. The EC project interventions under the CSP 2002-2006 have been in the northern part of the country where vulnerability is most prevalent (see Indicator 9.2.1). This is in line with EC policies on poverty reduction as well as in accordance with the EC cooperation agreement with the Lao PDR. The 2007-2013 CSP foresees that nearly a quarter of EC support, and essentially all project support, will be devoted to the Northern region, with a focus on the important problem of population relocation. By focusing policy dialogue on relocation as it is implemented, this approach should help to address the needs of extremely vulnerable groups who are at risk of deterioration in their wellbeing if the quality of resettlement operations is not improved.

The reviews above of specific projects in rural development (EQ 1), health (EQ 2), and education (EQ 3) also indicate that EC support has been explicitly targeted towards the most vulnerable groups.

We also approach this EQ by asking to what extent implementation procedures have been well adapted to vulnerable groups (Indicator 9.2.2). We do not repeat much that has already been said in examining EQs 1, 2, and 3. We do take this opportunity, however, to bring out some of the problems with EC procedures that have been experienced, such as procurement difficulties, the bias towards low-tech (but perhaps, in the long run, high maintenance cost) infrastructure, and so on. We also draw on the Mid-Term Review of the BENC education project to point out that community ownership and involvement are typically held to be key aspects of serving the needs of poor and vulnerable groups, but these also require time and expertise in implementation.

In the area of trade and economy, individual projects such as the SME Development Project, do not explicitly address the needs of vulnerable groups.

## **Indicator 9.2.1: Geographical distribution of project interventions corresponds to mapping of vulnerable groups**

### **Indicator estimate:**

There is no explicit use of mapping or geographic information systems approaches, but the geography of poverty in Lao PDR is well understood and EC projects have been designed to benefit areas where the prevalence of poverty is greatest. As we point out above, though (Indicator 9.1.1), the largest number of poor persons live in relatively non-poor areas. Below, we look at the geographical distribution of EC interventions.

### PRSO

The Government's poverty reduction strategy supported by PRSO prioritises 47 districts (1). Through its support for the PRSO under the CSP 2007-2013, the EC will contribute to activities disproportionately benefiting these districts.

### Rural development

As an example of the EC's targeting of projects, we may take the example of micro-projects in Luang Prabang Province. This is based upon Phase I work in Luang Prabang Province and continues in different districts incorporating lessons learned and increasing emphasis on capacity building. The original heavy (and disproportionate) allocation of resources for infrastructure has been reduced and the focus was shifted to a Community Development Programme (CDP) of micro projects with a narrower target group of 42 of the poorest, mostly Lao Theung, remote villages. In addition, support is being given to the Highland Development Programme (HDP) of the provincial government. The specific objective of improving living conditions in 4 districts is achievable with the resources allocated (3).

The SLSEA livestock project was targeted at 5 northern provinces (Bokeo, Luang Prabang, Luang Namtha, Oudmxay, and Sayaboury), in addition to which, it delivered a nationwide programme of support to improve veterinary diagnostic services and vaccines and to support MoA DLF in Vientiane and the provinces. (4). However, as we have noted in our answer to EQ 1, it cannot be said that this project was targeted at the most vulnerable groups.

The Phongsaly Forest Conservation and Rural Development Project was implemented between June 1998 and May 2005 in 60 villages in 3 districts (Bountai, Bounneua, and Sampanh).

### The social sectors

The Basic Education in Northern Communities (BENC) project is explicitly targeted at poor communities. BENC targets nine districts (three only during its first phase) in the provinces of Luang Namtha, Luang Prabang and Phongsaly (5).

All EC-supported NGO health projects operated in zones experiencing a serious deficit in the availability of health services.

The Variable Tranche component of PRSO budget support is triggered when financial and human resources are made available in priority poor regions.

### **Related facts, figures, and references:**

(1) CSP 2007-2013, p. 22.

- (2) CSP 2002-2006, p. 3.
- (3) MR 26.04.01, Micro-projects in Luang Prabang.
- (4) External Evaluation of Strengthening of Livestock Services and Extension Activities Project (SLSEA), p. 6.
- (5) MTR, BENC, p. 7.

**Indicator 9.2.2: Project management procedures adapted to vulnerable groups (conditions for participation; localisation of project staff, etc.).**

**Indicator estimate:**

The best evidence we have relevant to this Indicator has to do with EC-supported rural development and education projects and was mostly already presented in the course of answering EQs 1 and 3. EC-Lao PDR cooperation projects (apart from technical assistance and policy dialogue related to trade) have generally targeted poor areas, especially in the north. This raises a number of issues related to management procedures, among them coping with limited capacity, limited number of supply sources, scarcity of trained staff, low district and provincial budgets, etc. The issue of community participation is closely linked with issues of ownership and, through that, sustainability.

Experience with micro-projects provides a good example of the importance and difficulty of adapting to local, community level needs and capabilities. As we described in answering EQ 1, under the Microprojects Development Through Local Communities Project, for example, individual micro-projects were selected and adapted according to the local community's demands and were planned, implemented and operated with a high level of village participation (see especially Indicator 1.3.1). Infrastructure development was de-emphasised and resources were reallocated to community development, in response to the Mid-Term Review and evolving provincial government priorities. Villager contributions were mostly in kind and in the form of labour, a form of participation suited to the populations. This made the MPLDC project stand out as a success as compared to some other interventions which required a monetary contribution for the maintenance of equipment. We have discussed the positive impacts, and relatively strong sustainability profile, of this project in answering EQ 1.

However, there are also examples of procedures that were poorly suited to beneficiaries. In discussing the sustainability aspects of EQ 1, we described how the Final Evaluation of the Phongsaly project presented a critical picture of procedures and processes for project implementation. Project monitoring and evaluation concentrated on new activities, not the performance of already completed micro projects. Oversight of local irrigation system design was not implemented in the course of EC TA for rural engineering; leading to the production of inadequately documented designs. Comments by EU TA experts were not taken into account by local project staff. EU procurement procedures were complicated, time consuming and comprehensible only by someone with experience in the area. The threshold of Euro 5,000 was very low and resulted in 90 percent of the works being procured through EU procurement rules. The project tried to avoid these procedures by implementing low-cost, village-based agreements for implementation of works, however, this resulted in lower standards and quality of infrastructure provided and, moving forward, will make for high repair and maintenance demands that local communities will find it hard to afford. The Mid-term Review of the BENC project, which formed the basis for our answer of EQ3, was also critical of a number of aspects of EC procedures.

EC Delegation officials, interviewed, have remarked that the difficulties experienced in project management (especially procurement) were one rationale behind moving away from the project

approach in the 2007-2013 CSP.

**Related facts, figures, and references**

Interviews with EC Delegation staff, focus group interviews with project beneficiaries in Luang Prabang



**EQ10 - To what extent did the EC approach result in adoption of European approaches towards poverty reduction that would not have been adopted absent the EC policy dialogue and co-operation programmes?**

**EQ answer**

*We identify a number of areas in which the EC added value, for example, in its cooperation programme on trade integration (definitely) and in working on sensitive issues such as relocation (probably), as well as some areas in which we see little evidence of EC value added, such as coordination. However, with the possible exception of trade integration – an area in which the EC has acknowledged expertise – it is difficult to identify any particularly European approaches to poverty reduction which have been adopted due to European policy dialogue and cooperation. Indeed, it is easy to identify some that have not – for example, the provision of a comprehensive health care finance programme and other forms of social security benefitting those at risk of poverty (the aged, in particular). In examining the rationale for EC strategic shifts over the evaluation period, considerations of comparative advantage and value added do not appear to have taken precedence over other concerns.*

This EQ synthesises information scattered throughout other EQs, and many of the Judgment Criterion Assessments and Indicator estimates below simply refer to other EQs. It is designed to address the difficult area of value added.

The Judgment Criteria examined below present a varied picture. The area in which the EC has a clear comparative advantage is trade integration, and this was a key area in EC policy dialogue and cooperation, essentially through bilateral and ASEAN-level technical assistance (Judgment Criterion 10.1). The DTIS is an example of an intervention where European influence was strong and European approaches to the linkages between trade and development were adopted by Government. Absent European participation, the nature of the DTIS might have been different.

However, (Indicator 10.1.1) there is no evidence that the major strategic shifts observed over the evaluation period had anything to do with comparative advantage or value added, or for that matter with making available European approaches to poverty reduction. The donor community simply realised that between relocation of villages where projects had been located, the inability of Government to support projects after donor support ceased (interpreted generally as a problem of governance but more specifically as a problem of public sector financial management) and problems internal to the donor community (over-concentration, high costs, etc.), the project approach was not an effective way of stimulating development. To put the point somewhat differently, that EC is aligned with UNDP on political and administrative governance and the World Bank on economic aspects of governance. It is difficult to identify any distinctive EC value added at the strategic level.

The EC would add value if it engaged in effective policy dialogue in areas where it spoke with particular force or credibility or where other partners were unwilling to speak out (Judgment Criterion 10.2). There is a hint that the latter might be occurring in the important area of population relocation. We find below that, while the European response to population relocation is ultimately a political matter, and one in which the EC can not act on its own, there is much scope for further work in the area. By concentrating on the implementation of relocation rather than on grand policy aspects, and by ensuring that lessons at the decentralised field level are observed and fed up the decision chain to Vientiane, the EC would add more value in this area. More generally, though, and despite broad EC engagement in policy dialogue and some contribution to support for civil society, there is no evidence that the EC is acting in the particular fashion envisaged by the Judgment Criterion or the EQ. In another controversial area where the EC speaks with great authority, reproductive health, support ceased with the end of the flagship regional project.

The EC identifies coordination as an area in which it adds value. The EC participated in

coordination exercises but did not actively add value, as, e.g. it might have had it taken the lead in coordinating member State programmes (Judgment Criterion 10.3). The opinion of Member State partners interviewed in the field was mixed, some saw the EC as serving a coordination role, while others did not. However, persons interviewed were unanimous in recognising the EC as a qualitatively and quantitatively important player in Lao PDR and welcomed its presence as a counterweight to other players, among them China, Thailand, and Viet Nam.

### **JC 10.1: EC concentrates on sectors in which it has comparative advantage.**

#### **JC assessment:**

While other sectors have attracted more financial support, the EC has accorded a high importance to trade, which given the Lao PDR national strategic agenda, means trade integration (Indicator 10.1). Given its experience in achieving European integration, this is universally identified as an area in which the EC has a comparative advantage. Another factor giving the EC comparative advantage in trade is the fact that it can make assistance available through varying instruments and, as we review below and have established in much more detail in answering EQs 4 and 5, Lao PDR has benefited significantly from the EC's ASEAN level cooperation. It would be a mistake to place too much emphasis on the fact that larger sums went into areas such as rural development, education, and health; these were traditional "project" areas over the evaluation unit, whereas trade and especially trade integration are areas *par excellence* for technical assistance. It is unlikely that the absorptive capacity, or the need, for support on the same scale, was present in trade. Indicator 10.1.2 asks whether the EC has made strategic moves in response to its (possibly evolving) comparative advantage. At many points, it has been pointed out that there was a major shift over the evaluation period, away from large projects and towards support for policy reform. Reasons that have been cited at various points include over-concentration of donors, low sustainability of impacts, and the emerging perception that governance reform, especially as regards public financial management, was a pre-condition for successful development. However, it is difficult to interpret this strategic shift, sound though it may be, in terms of comparative advantage or value added. It is, rather a needed strategic reorientation based on a combination of impact, effectiveness, efficiency, and sustainability – all of which the donor community concluded were no longer well served by the project approach. While the EC monitors and pays attention to value added, especially in its strategic assessments, it cannot be said that this is a driving force.

#### **Indicator 10.1.1: Trade and regional integration are placed at the centre of the EC's support to Laos.**

##### **Indicator estimate:**

The gradual integration of developing countries into the world economy is a major objective of EC development co-operation, and is an area in which the EC has considerable experience born of its experience with European integration. Trade integration is conventionally felt to be an area of EC comparative advantage.

One of the four specific objectives for CSP 2002-2006 was assistance to trade and investment, further promoting the integration of Lao PDR in the international trade community (1) and trade was a key area of support (2). However, the largest sectors in monetary terms were rural development together with the social sectors, education and health. Similarly, under the CSP 2007-2013 period, while trade was accorded importance, the focal areas are budget support under PRSO to Government's reform agenda (58 percent of assistance) and the support for uplands development project (24 percent of support).

In financial terms, then, trade and economic integration, although important, cannot be said to be at the centre of EC support. However, this may represent an assessment of needs and absorptive capacity that pointed the EC strategy in the direction of technical assistance rather than projects. As discussed in detail under EQ 4, the EC has been a major contributor to the Integrated Framework (IF) process for integrating trade policy into broader development policy and poverty reduction (3). In September 2006, Government adopted the Diagnostic Trade Integration Study (DTIS) and Action Matrix articulating key policy actions to be taken to increase export competitiveness and promote trade and foreign direct investment in the country. The EC participated as a leading donor in the DTIS and has contributed to the design of a multi-donor trust fund for supporting trade related initiatives.

The EC has provided support to trade integration through its ASEAN-level cooperation, as well. The accession of Lao PDR to the 1980 EC-ASEAN Cooperation Agreement in July 2000 allowed Lao PDR to participate in EC-ASEAN regional cooperation programmes and in the EC-ASEAN Joint Consultative Committee meetings (JCC). Lao PDR also takes part in the Trans-Regional EU-ASEAN Trade Initiative (TREATI), which is a forum to promote dialogue and regulatory cooperation to improve the EU-ASEAN trade and investment relations and to support the process of ASEAN economic integration. Lao PDR benefited from ASEAN cooperation in the areas of intellectual property rights and standards.

While government officials interviewed unanimously expressed appreciation for EC technical assistance, ASEAN Secretariat experts interviewed in Jakarta expressed the wish that there be better coordination between bilateral technical assistance related to trade and the regional programme.

The shift to budget support for Government policy reforms discussed at length elsewhere has implications also for facilitating integration into the regional and global economy. The strategy aims to improve and strengthen the business environment as a precondition for sustainable growth and development. Increased attention to trade/investment sector support is explicitly discussed as a means of exploiting the EC's comparative advantage in linking trade, aid and development (4). One of the areas covered by the first PRSO series is promoting sustained growth including private sector development, accelerating regional and global integration, and improving resource management. (CSP 2007-2013, p. 20).

#### **Related facts, figures, and references:**

- (1) CSP 2002-2006, p. 5.
- (2) CSP 2002-2006, p. 3.
- (3) CSP 2007-2013, p. 10.
- (4) CSP 2007-2013, p. 19.
- (5) CSP 2007-2013, p. 20.

#### **Indicator 10.1.2: EC strategically moves into and out of sectors where it perceives that it does or does not add value.**

##### **Indicator estimate:**

A case in point is the strategic logic of the CSP 2007-2013, which called for withdrawal from direct rural development projects and selecting, as the single focal area, direct budget support for the Government's reform agenda under the National Development Strategy (58 percent of the

total allocation) supplemented with non-focal actions in three sectors: support for sustainable development in the uplands and policy dialogue on relocation. (24% of the budgeted allocation); governance and human rights. (5% of the budgeted allocation); and support for trade and economic cooperation (13% of the budgeted allocation).

Among the reasons cited (1) are realisation that rural development projects are not having lasting impact due to relocation, realisation that without public financial management reform, Government will be unable to provide adequate support for donor interventions once international support ceases, and a general feeling that lack of good governance is hampering progress across the board.

Admittedly, this shift is not so much a reallocation between sectors as a fundamental strategic shift. More to the point, it is difficult to interpret this shift as being in response to considerations of EC value added. Similarly, the EC decision to cease support for large traditional health projects (see EQ 2) was driven by lack of funds and a perception of donor overcrowding, not concerns regarding value added.

### **Related facts, figures, and references**

- (1) CSP 2007-2013, p. 5.

## **JC 10.2: EC bilateral / regional policy dialogue is influential in the Lao policy debate on controversial national policies / regulations related to poverty reduction**

### **JC assessment:**

As we discuss in detail in Special Focus 1 of Annex 5, the EC is a leading player in policy dialogue related to relocation of ethnic minority population groups (Indicator 10.2.1). This area is by nature controversial, with Government focusing on the potential benefits of resettlement and donors drawing attention to the fact that many resettlement operations have been badly implemented, resulting in a worsening of poverty. The EC has adopted a pragmatic position in its country strategy, pointing out failures in implementation while avoiding blanket statements verging on ideology. The design of the policy dialogue, involving multiple donors and multiple levels of government and focusing on specific proposed resettlement operations, appears well-designed to maximise EC influence and impact. As we argue in discussing Indicator 10.2.4 below, despite its focus on the nitty-gritty details of relocation, the policy dialogue is bound to create a space in which inherently more ideological issues, including human rights, can be discussed.

The EC has worked with civil society organisations and generally supported the development of civil society. However, there is no evidence so far that the increase in civil society observed would not have taken place in the absence of EC actions (including policy dialogue) and so far, there is no evidence on which it can be asserted that EC policy dialogue related to controversial issues surrounding civil society has been influential. Stakeholders interviewed during the field phase emphasised that, while government is willing to see a greater role for non-state actors such as the Women's Union and other mass organisations, there is no question of allowing an independent, European-style civil society to evolve. In answering EQ 4, it was established that the EC has engaged in close policy dialogue on trade and economy issues through the Joint Committee (see especially Indicator 4.2.2). It is not known to what extent discussions in the Joint Committee has focused on controversial issues, or to what extent the crucial Diagnostic Trade Integration Study (DTIS, adopted by Government in 2006) was informed by bilateral / regional policy dialogue).

**Indicator 10.2.1: EC is engaged in policy dialogue in controversial areas where other donors are reluctant to speak or where they are perceived to be less neutral than the EC.**

**Indicator estimate:**

We found no evidence that other donors present in Lao PDR areas less willing to speak or perceived to be less neutral than the EC. However, at many points we have referred to the EC's lead role in the policy dialogue on relocation as an example of the EC fulfilling a role akin to that described by this Indicator. Some Member State representatives interviewed interpreted this as the EC stepping in to fill a role that would be difficult for any Member State acting on its own to fill. Sensitive Hmong refugee issues have been taken up in the human rights dialogue, and some Member State officials interviewed felt that the EC would be better suited than any European country with present in Lao PDR to take over the chair of the Human Rights Working Group when it is vacated by Sweden.

**Related facts, figures, and references**

**Indicator 10.2.2: EC supports the strengthening of civil society and works with civil society partners where appropriate.**

**Indicator estimate:**

We have discussed this at length in assessing Judgment Criterion 6.2. Our conclusion was that the EC has worked with many civil society organisations in implementing projects and has generally supported the strengthening of civil society. However, we were not prepared to attribute the increase in civil society observed in recent years to EC interventions or policy dialogue. The Lao PDR government's view of "civil society" and its limits is at variance with the European view. Civil society partners supported, for example the Bar Association and the Journalists Association, are tightly limited in the scope of their activities.

Through its NGO co-financing programme, the EC has supported partnerships between international and national NGOs. However, as we also discussed in dealing with EQ 6, international NGOs themselves have very limited room for manoeuvre in Lao PDR? And the impact of these partnerships on developing an autonomous national civil society is limited.

**Related facts, figures, and references**

**JC 10.3: EC adds value to the MS' as well as international community's engagement with Laos through coordination**

**JC assessment:**

The CSP 2007-2013 (p. 5) explicitly states that the EC regards coordination as an area in which it can add value.

All of the indicators below have been addressed in greater detail elsewhere. We have documented the EC's active involvement in coordination (Indicator 10.3.1), while not putting on our finger on concrete results. Nor is there explicit evidence that the EC coordinates Member States' activities; some officials interviewed were of the view that the EC plays this role, others were of the view that it does not. However, in answering EQ 8, we had no hesitation in saying that the EC's coordination activities had avoided overlaps, had helped to achieve synergies, etc. There is no evidence that the EC finances other coordination agencies (Indicator 10.3.2) and there are few examples of joint programming (Indicator 10.3.3) apart from the PRSO and participation in multi-donor trust funds related to trade and public sector financial management. The nature of

joint programming under the new uplands development project is still being decided. While there have been tangible improvements in the way cross cutting issues such as governance are dealt with by the Government of Lao PDR, and the donor community takes them more seriously in strategic planning, we cannot attribute this to EC actions (Indicator 10.3.4). We drew attention, in answering EQ 6, to the lack of a systematic framework for cross cutting issues, with strategic goals, objectives, and a monitoring framework to assess progress and help derive lessons learned.

Based on these lacklustre results, we cannot judge that the EC added value through coordination.

### **Indicator 10.3.1: Through regular consultations and meetings, EC coordinates activities of MS in Laos**

#### **Indicator estimate:**

We have reviewed this at great length in answering EQ 8, concluding that while the commitment to coordination at the strategic level was high, there were relatively few concrete records or examples of the results of coordination. However, we were confident at the EC had generally achieved complementarities, synergies, etc. We have no evidence that the EC acts as a coordinating agency for member states; UNDP chairs the Donors Working Group.

#### **Related facts, figures, and references**

### **Indicator 10.3.2: EC finances other coordination agencies.**

#### **Indicator estimate**

We have no information to indicate that this is true.

#### **Related facts, figures, and references**

### **Indicator 10.3.3: Joint programming activities undertaken.**

#### **Indicator estimate:**

See Indicator 8.2.1, where relatively few joint cooperation programmes were identified. The major joint donor effort in Lao PDR is the PRSO budget support instrument.

#### **Related facts, figures, and references**

### **Indicator 10.3.4: Issues such as environment, human rights, etc. mainstreamed more successfully than would have been possible absent EC action**

#### **Indicator estimate:**

This was essentially the subject of Judgment Criterion 6.1, where our assessment was that the EC has made all the right commitments and used all the right language, but when it actually comes to mainstreaming cross-cutting issues at the project level, results have been limited. Even if the EC had successfully mainstreamed cross-cutting issues, we might not know it, because monitoring mechanisms have been poorly designed to track progress (in part because of the failure to do baseline situation analyses). There are no overall strategic goals and objectives for cross-cutting issues, and no mechanism by which lessons learned in the field will be transmitted up the decision chain to have an impact on strategic programme design. The EC initiative on policy dialogue related to relocation holds the promise of achieving mainstreaming of gender, environment, and ethnic minority issues more effectively into uplands development than would have been possible had the EC not taken the lead. Because of the strategic decision to concentrate on relocation as it is implemented, rather than thematising it as an ideological issue, it appears unlikely that human rights will be mainstreamed in a conspicuous fashion. However, the policy will create a space for

discussion of human rights issues in at least two ways. First, it will operationalise simple criteria such as the principle that populations should have the opportunity to explore possibilities for development *in situ* and if they find these preferable, should be allowed to remain in place. Second, it will identify and thematise government obligations to resettled populations (adequate resources, etc.).

We document solid progress in the way cross-cutting issues are treated by the Government of Lao PDR but, despite a tendency for EC strategic documents to take them more seriously (i.e., comparing the CSPs 2007-2013 and 2002-2006), we cannot attribute progress to EC actions.

**Related facts, figures, and references:**

## **ANNEX 5 – SPECIAL FOCI**

1. The relocation controversy in Lao PDR and the EC's response
2. Unexploded ordnance (UXO) in Lao PDR
3. EC budget support in Lao PDR
4. Weak governance in Lao PDR: a diagnostic
5. Strengthening the social sectors



## Special Focus 1

### The Relocation Controversy in Lao PDR and the EC's response

“Relocation” and “resettlement,” used interchangeably in Lao PDR, refer to Government-sponsored schemes to encourage residents of remote mountainous villages to relocate. Most of these villagers belong to non-Lao ethnic groups, and those now being relocated are often among the poorest because the better-off have already left (Daviau 2006). There are three main instruments of resettlement:

- Focal Sites, where large number of families are concentrated to make services and, especially, infrastructure, available to them more efficiently.
- Village Consolidation, a smaller programme which takes small villages and groups them together in a larger agglomeration. As noted in the EC's 2007-2013 CSP, this is most controversial when members of ethnic minority groups are moved from upland to lowland areas or valleys.
- Land and Forest Allocation, an integrated rural land use programme one of whose main impacts has been to reduce the area available for slash-and-burn agriculture, thereby encouraging villages to agree to relocation.

Relocation is considered by Lao policy makers to be a means to eliminate environmentally destructive slash-and-burn agriculture and to reduce poverty by concentrating population in areas where it is easier to provide basic infrastructure such as schools, hospitals, and roads. Another benefit can be the reduction in opium cultivation. Less often mentioned motivations are cultural integration, nation-building, and security. The term “stabilisation of settlement” is sometimes encountered. As the EC's 2007-2013 CSP notes in its Annex 9, relocation is a policy of long standing and the extent of the phenomenon – in some upland district, it is estimated that up to half of villages have been relocated in the last twenty years is massive.

Baird and Shoemaker (2005) cite a wide range of studies and assessments that have shown that many relocated villages have experienced worsened conditions as a result of the move and that hoped-for benefits have not materialised. The EC's 2007-2013 CSP (citing “studies” but not specifying) notes that the costs of preparing a new site often exceed available resources, and that land suitable for resettlement is in short supply. Relocated households find transition to new agricultural techniques difficult, leading to food scarcity and increased morbidity and mortality. Government promises made in order to encourage families to move are not always kept. Relocation is implemented under time pressure, with the emphasis on moving entire villages quickly. Daviau (2006) concluded that relocation increased, rather than decreased, the vulnerability of the poorest households, and expressed the view that as implemented, the policy was contrary to the Government's poverty reduction strategy. The National Statistics Center / Asian Development Bank Participatory Poverty Assessment II (2006; Chamberlain 2007) was unequivocal in stating (p. 11) that village consolidation had increased disease and mortality rates, discouraged school attendance since children were needed for production, reduced food production, and adversely affected biodiversity. In a final irony, while relocation may have contributed to opium eradication, the social stress and dislocation to which it gave rise actually resulted in higher rates of opium addiction.

Many international donors and NGOs have either directly or indirectly, actively or passively, supported relocation. The criterion often cited is whether relocation is voluntary or involuntary. Critics (Baird and Shoemaker 2007, Evrard and Goudineau 2004) argue that the distinction is meaningless in light of current human rights concerns and the pressures being exerted to encourage villages to move. Daviau (2006) describes the sources of this pressure as follows: all Government agents entering villages promote the proposed move, mass organisations are removed and public infrastructure is shut down, and increased access to the benefits of international development project benefits is used as an inducement.

However, it is undeniable that in interviews and focus groups, many villagers express their desire to be relocated or at least discuss the advantages and disadvantages (High 2007). Persons who have been resettled, even when they report that they are poorer than before, do not always express a desire to return to their old way of life. There appears to be an aspirational dimension to resettlement, in which resettled populations may express dissatisfaction with their situation but see a wider opportunity set in their new location. However, there is also a generational fracture, with the young more willing to move than the old. Thus, relocation must also be contextualised in a broader context in which power is slipping from elders to the young (Daviau 2006).

Government has been willing to engage in dialogue with the EC on relocation. Emerging from this has been the following criteria, proposed by the EC, for willingness to allocate funds to uplands development (CSP 2007-2010, p. 23. Funds will be available when decisions to relocate or not meet a number of criteria:

- Choice of option fits within a long-term vision of sustainable development;
- Choice of option is based on a participatory assessment;
- Villages that have development potential in situ should be encouraged to remain;
- Relocation should be voluntary and based on a participatory approach that respects cultural and sociological considerations;
- When relocation is the preferred option, new sites will be prepared in advance with participation of those who are to move; that they should be adequate and that safeguards should be in place against negative environmental impacts;
- Follow up capacity building in a range of community development areas should be provided.

Policy dialogue should take place at central, provincial, and district level; if substantial progress is made, EC would provide assistance for village development provided any relocation agreed upon is in line with these principles.

In proposing the approach above, the EC's CSP 2017-2013 strikes a note of resignation – relocation has a bad name, it is a difficult issue for donors, but it is occurring whether the donors provide support to the affected areas or not. It notes that there are substantial gains to be had from better management and implementation of relocation, and affirms the EC's view that intensified policy dialogue, which Government has shown itself willing to engage in, is the best way to proceed.

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## Special Focus 2

### Unexploded ordnance (UXO) in Lao PDR

#### UXO and development in Lao PDR

From 1964 to 1973, Lao PDR was subject to massive aerial bombing during the second Indo-China War. More than half a million bombing missions were carried out, resulting in over two million tonnes of explosive ordnance being dropped. Nearly a third of all ordnance delivered failed to detonate. “Bomblets” or, as they are locally known, “bombies” from cluster munitions are the main form of UXO.

A country-wide survey, conducted by Handicap International Belgium in 1997 on the socio-economic impact of UXO in Lao PDR found that a quarter of villages in the country were affected (EC 2002a, UNDP 2008b, JRC 2004, Landmine Monitor 2008, p. 3). 37 percent of agricultural land is estimated to have been made unsafe by UXO, this in a nation where four-fifth of population farm the land (MacKinnon 2008). Savannakhet is the country's most severely affected province. Already difficult living conditions in remote areas are made even harder as villagers are impeded from going out to conduct their daily activities (EC 2002a). Between 200 and 300 people are injured by UXO each year (Vientiane Times 2007, UNDP 2008a:4, UNDP 2008b, Mansfield 1996, p. 5).

UXO contamination is recognized as a serious humanitarian and development problem. The most obvious link to poverty is the denial of agricultural land to already poor and vulnerable communities. Other effects are additional costs and delays on infrastructure projects (Mansfield 1996, p. 6, UXO-NRA 2007, p. 7). According to the 1999 UXO Lao Annual Report, population growth has started to place pressure on unused land contaminated by UXO, putting farmers who cultivate it at increased risk (Brahmi & Poupmon 2002, p. 26).

Landmines are a separate, but also serious threat to civilians. Those weapons can be found on roads, footpaths, farmer's fields, forests, along borders, and in and surrounding houses and schools. They deny access to food, water and other basic needs, and inhibit movement (Landmine Monitor 2008, p. iii).

The extent of the socio-economic impact of UXO contamination has not been credibly quantified. The only comprehensive national survey of contamination in Lao PDR was the above-cited study undertaken by Handicap International for UXO-Lao in 1997. The survey identified 10 “severely” contaminated provinces and further eight of the remaining nine provinces with lesser levels of contamination. (GICHHD 2007, p. 3).

In the popular imagination, it is the innocent farmer working or child playing who is injured by UXO. Yet, in Savannakhet, Houaphan and Xieng Khouang, three of the worst affected provinces, a high percentage of UXO-related casualties are linked to scrap metal collection (Land Monitor 2008, p. 3). This activity generates extra income to complement subsistence farming, but promotes risky behaviour (GICHHD 2007, pp. 6-7, 19, 54ff; MacKinnon 2008, UNDP 2008a, Landmine Monitor 2008, p. 3). The majority of people injured or killed by UXO today are aware of the risk but, due to poverty and pressing socio-economic needs, knowingly undertake these high risk and potentially life threatening activities (UNDP 2008a, p. 35).

High levels of poverty in rural communities often correlate with high levels of UXO contamination. Action to deal with the UXO/problem is an absolute pre-condition for the socio-economic development of Lao PDR and for the achievement of the Millennium Development Goals (MDGs) (UNDP <http://www.undplao.org/whatwedo/crisisprev.php>). Lao PDR's National Socio-Economic Development Plan 2006-2010 (NESDP) identifies UXO as “one of the major security challenges facing poor communities in terms of access to land and markets (Landmine Monitor 2008, p. 3).

## International and Lao PDR response

The 1997 Mine Treaty Ban (MTB) or Ottawa Treaty (Convention on the prohibition of the use, stockpiling, production, and transfer of anti-personnel mines and on their destruction, [http://www.un.org/Depts/mine/UNDocs/ban\\_trty.htm](http://www.un.org/Depts/mine/UNDocs/ban_trty.htm)) provides the best framework for governments to alleviate the suffering of civilians living in areas affected by anti-personnel mines. The MTB was opened for signature on December 1997 in Ottawa, Canada. As of 2009, 156 countries have ratified the treaty and two states have signed but not ratified it. Thirty-seven states, including Lao PDR, the People's Republic of China, India, the Russian Federation and the United States, are not party to the Convention. (Land Mine Monitor 2008) Article 6 of the Convention, on international cooperation and assistance give the EC a legal basis for mine clearance, stockpile destruction, technical assistance, care and rehabilitation of victims, social and economic reintegration of victims, and mine awareness. The EC may put its capacities at the service of the international community, be it as catalyst, as political partner or as donor (EC 2002b, p. 5).

A second international instrument of importance is the Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects as amended on 21 December 2001 (CCW) is usually referred to as the Convention on Certain Conventional Weapons. It is also known as the Inhumane Weapons Convention. The purpose of the Convention is to ban or restrict the use of specific types of weapons that are considered to cause unnecessary or unjustifiable suffering to combatants or to affect civilians indiscriminately. The structure of the CCW – a chapeau Convention and annexed Protocols – was adopted in this manner to ensure future flexibility. The Convention itself contains only general provisions. All prohibitions or restrictions on the use of specific weapons or weapon systems are the object of the Protocols annexed to the Convention.

[http://www.unog.ch/80256EDD006B8954/\(httpAssets\)/40BDE99D98467348C12571DE0060141E/\\$file/CCW+text.pdf](http://www.unog.ch/80256EDD006B8954/(httpAssets)/40BDE99D98467348C12571DE0060141E/$file/CCW+text.pdf).

Lao PDR signed the Oslo Convention on Cluster Munitions, one of the most significant humanitarian and disarmament treaties of the decade, when it opened for signature 3 December 2008 (UNDP 2008b).

The international response to the explosive threat began in Lao PDR formally in 1994 with Mines Advisory Group (MAG) which set up operations in Xieng Khaoung province. This was followed by the formation of UXO Lao in 1996 under the auspices of the Ministry of Labour and Social Welfare. This is the largest clearance operator in Lao PDR (GICHD 2007, p. 13; UNDP 2008, p.15). In the early days most of the work was based upon slow meticulous techniques of de-mining in “high-risk” minefields rather than the perhaps more appropriate battle area clearance (BAC) techniques used elsewhere for clearing ordnance other than mines. The latter method is significantly faster. At the same time a community awareness programme was developed with the aim to educate the population at risk. As of 2006, UXO Lao was active in nine provinces, all from the 10 “severely” contaminated provinces identified by the national survey in 1997 (GICHD 2007, p. 8). Since beginning operations, UXO LAO has reached more than 1.7 million people through over 7,000 visits to affected villages to educate about the dangers of UXO and how people can protect themselves; cleared more than 13,700 hectares of land; performed over 16,000 roving tasks, and cleared more than 840,000 items of UXO including some 395,000 bombs (UNDP 2008:15).

## The EC's role

The legal basis for EC actions related to UXO are two Regulations on actions against antipersonnel landmines – the first covering developing countries (1724/2001) and the second on covering other countries – adopted on 23 July 2001 (EC 2002b:4). EC support for UXO clearance in Lao PDR has been impeded by the fact that Lao PDR is not a signatory to the Ottawa Convention, which limits the development of a sustained, integrated response. Nonetheless, while using political dialogue to urge Lao PDR to sign the MTB, the EC has supported and envisions continued support for a number of

projects under various thematic budget lines. The 2002-2006 CSP and associated NIPS did not provide funding for UXO, however, Euro 2 million from the Anti-personnel landmines (APL) thematic budget line was made available for Lao PDR in 2003-2004. In the 2007-2013 CSP, it is foreseen that thematic lines such as food security, non-state actors and local communities, and EIDHR may be used to support UXO activities.

Specific projects include:

- With Euro 1 million funding from the EC, Handicap International Belgium has established an Integrated UXO Threat Reduction project in the three most heavily affected districts of Savannakhet Province (EC 2002a). Through the end of 2005 more than 74km<sup>2</sup> of land had been cleared (0.031% of total land area and 1% of agricultural land). (GICHD 2007:13). In the context of its support for rural development, the EC has supported the Mines Advisory Group (MAG) in Saravane Province, as well as Handicap International and UXO-Lao (EC 2002a:20, 24, 25).
- Also with Euro 1 million, the Mine Action Group (MAG) engaged in humanitarian mine clearance in Khammoune Province in 2004-2008.

Both actions are continuing in 2008-2010. In addition the EC plans to support UXO Lao directly in Attapeu Province and Sekong Province. The EC is the only donor with operational projects being implemented by the Government agency Lao UXO. However, unlike a number of other donors, the EC does not contribute to the Government-UNDP Trust Fund for UXO Clearance created in 1995, a major source of support for Lao UXO. Bilateral donors who have contributed include Australia, Germany, Netherlands, New Zealand, Norway, Sweden, UK, and USA.

### The way forward

A positive development is the increase of land clearance per annum and the decrease of the rough calculated costs per hectare (GICHD 2007:16). Yet, UXO demolition has not yet ensured the safety of local people in affected areas. What are some of the priority weaknesses of the programme that need to be addressed? To a large extent these relate to central capacity:

- Despite the UXO action sector being 12 years old, there are still no national standards in place. Today operators are under no obligation to pursue and specific set of standards and the Government of Lao PDR does not have in place a mechanism to judge the quality of clearance land that is being conducted (GICHD 2007, p. 10).
- No comprehensive survey has been conducted since the Handicap International 1997 national survey impact, which is now out of date (GICHD 2007, p. 12). Continued lack of accurate casualty data in Lao PDR creates serious obstacles for targeted work in high-risk areas (Landmine Monitor 2008:9)
- The UXO Lao office is equipped with outdated computers and GIS software, resulting in long processing time, inefficiency, and poor quality of mapping. Satellite imagery is not available and the office does not have proper software to deal with this kind of data. Some of fundamental problems relate to poor prioritization at the national level, poor work planning, poor approval and control mechanism, as well as a lack of analytical capacity within UXO Lao – and indeed within the UXO action sector in Lao PDR (GICHD 2007:13-15).

Integration of UXO into rural development and other projects, as envisaged by the EC's thematic budget line approach, is not likely to address these systemic capacity needs. As noted by Delegation staff, one of the practical difficulties of integrating UXO components into rural development projects is that these tend to be much more expensive than other components of an integrated approach, thus running the risk of putting in place a lopsided intervention. Yet, a more sustained systematic and focused approach to UXO will be difficult to obtain in the absence of a signature to the MTB Ottawa Treaty.

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## Special Focus 3

### EC budget support in Lao PDR

The general budget support instrument is designed to minimize transaction costs, maximize alignment with national policy priorities, encourage coordination and harmonization among donors as well as among ministries, and promote predictability of aid inflows as well as their smooth integration into the budget cycle.

EC budget support in Lao PDR is provided in the context of the Poverty Reduction Support Operation (PRSO), a grant from the World Bank which can be supplemented by other donors such as the EC. Australia and Japan also contribute to the PRSO in Lao PDR.

As described in the most recent World Bank PRSO Project Document (World Bank report 41826-LA), The PRSO supports the Government's National Development Strategy with a focus on three areas:

- reforms in public sector financial management (revenue collection and the monitoring of expenditure at both national and provincial levels), and sectors characterized by heavy state involvement (the financial sector, public utilities, state owned enterprises);
- improving access in the social sectors, especially health and education, by aligning expenditure with National Development Strategy goals in these pro-poor areas;
- encouraging sustainable growth through appropriate trade, private sector, and natural resource management strategies.

In its initial years (PRSO-1 began in 2004), the focus was been on public sector financial management, a priority area because substantial revenues from exports of hydroelectric power are forecast to come on stream in the near future. At the same time, the PRSO is designed to ensure that the resources available to the health and education sectors, which were adversely affected by the 1997 Asian financial crisis, are increased. The overall goal is to help Government achieve its national development objectives as set forth in the sixth National Socio-Economic Development Plan (NSEDP) while encouraging openness, accountability, transparency, and generally sound financial management in the public sector.

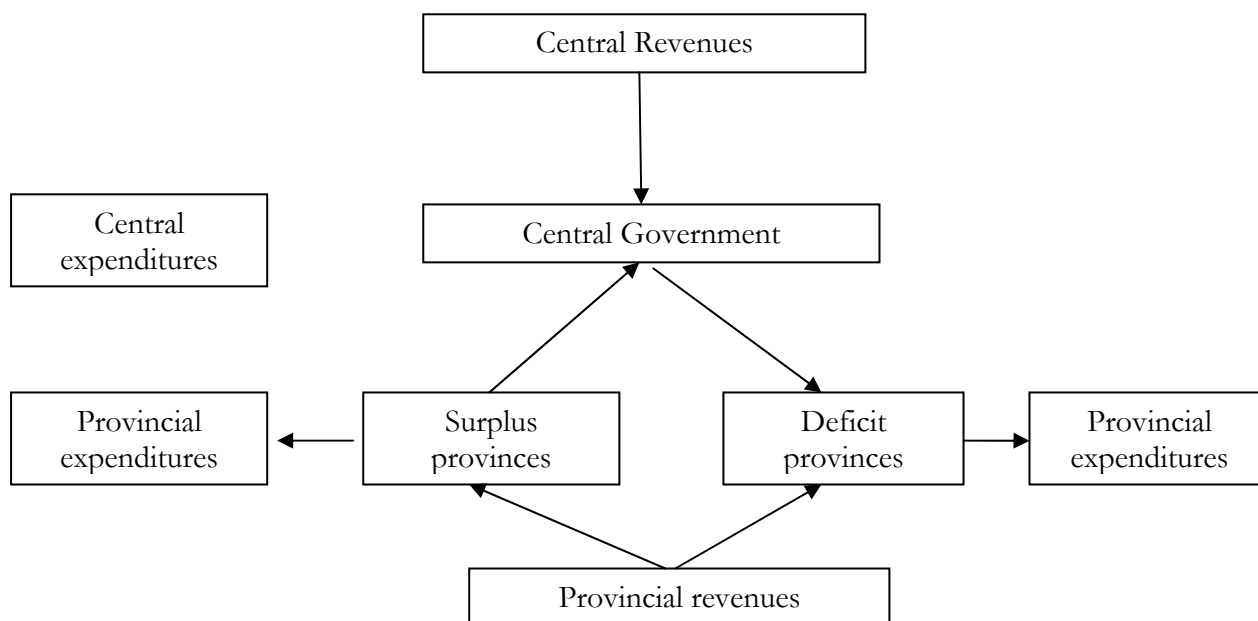
The essential challenge in improving public sector financial management, especially as it relates to centre-provincial relations and the social sectors, is nicely captured by a diagram in the study *Public Expenditure Tracking Survey in Primary Education and Primary Health* (World Bank 2008, especially pp. 5-6). The schematic below illustrates the basic fiscal links. Most budgetary flows are horizontal, not vertical – taken as a group, provinces collect 60 percent of all revenues, 90 percent of which they retain, accounting for about half of total provincial expenditures. These figures are all national aggregates, however; there are sharp differences between surplus, typically well-off provinces, and deficit, typically poor ones. Provinces which have a surplus after expenditures subsidise, via the central government, provinces that have a deficit after expenditures (provinces cannot borrow). How much provinces will remit to, or receive from, central government (i.e. transfers between provinces mediated by central government) is negotiated, politically controversial, and highly non-transparent. A significant proportion of transfers received from surplus provinces is retained by central government to finance its own expenditures.

In each province, there is a government structure that essentially replicates the central government structure, with the Governor in place of the Prime Minister: each central Ministry (say, health or education) has a provincial line agency reporting to the central line ministry and to the Office of the Governor. The Provincial Planning Office (counterpart to the central Ministry of Planning) and Provincial Finance Office (counterpart to the central Ministry of Finance) have the greatest authority in deciding on provincial-level expenditure, especially Planning Offices. A similar structure exists at the District level, but it is at the Provincial level that major decisions are made. Since transfers from central government to deficit provinces are not earmarked by sector, provincial budgetary officials have almost

complete autonomy over the sectoral distribution of expenditure. This has resulted in the systematic under-funding of the education and health sectors.

Two challenges arise in this institutional context:

- ensuring that surplus, well-to-do provinces, do not hoard their resources instead of transferring them to deficit, poor provinces;
- and ensuring that national spending priorities, as set forth in the NSEDP, are respected at the provincial level.



The main priorities in public sector financial management have been identified (World Bank 2007) as follows:

- Strengthen the annual budget process by ensuring that a detailed budget is available for approval by the National Assembly in October and strengthen the monitoring of budgets. The EC, by supporting the UNDP-implemented project to build capacity at the National Assembly, has contributed to this;
- Re-assert authority of the central Treasury over provincial treasuries. In addition, a process should be developed by which provinces allocate resources to national priority areas in their provincial-level budgets;
- Focus on public financial accountability and transparency;
- Promote high-level dialogue about the fiscal relations between provinces and the centre. Priority areas are enforcing the transfer of resources from better-off to poorer provinces and enforcing expenditure priorities at the provincial level. Budget allocations among provinces should be based on more realistic revenue forecasts;
- Enforce budgetary transparency at the provincial level;
- Strengthen legal environment;
- Accelerate capacity building at all levels.

These reforms are being implemented in the context of the Public Financial Management Strengthening Programme (PFMSP), which consists in significant degree of re-centralizing functions. Proceeding from province to province, Treasury, Customs, and Tax Departments are being merged with the central counterparts, financial controls are being improved, and alignment to central budget priorities is being strengthened (World Bank 2008b, p. 13).



PRSO disbursements are on an annual April-March cycle and are subject to joint reviews of progress in pursuing Government plans in the form of “expected actions” in the three areas above. For PRSO-3, which first disbursed funds in late 2007, there were 37 such expected actions, of which 11 considered most crucial were identified as “triggers” whose achievement allows donors to begin planning the next instalment of the PRSO. Taken as a whole, the matrix of expected actions is known as the Performance Assessment Framework.

As noted in the EC’s CSP 2007-2013, the PRSO is fully consistent with EC policy goals, and the EC has been involved in policy dialogue related to PRSO since 2004. The EC financed studies helping to prepare PRSO-1, 2, and 3. In helping to prepare PRSO-2, the EC participated in the Public Expenditure Review as well as separate studies focusing on the impact of expenditure patterns on women, members of ethnic minority groups, and the environment. The EC’s first direct financial support occurred in the context of PRSO-3, for which it provided Euro 3.2 million. EC funds are disbursed directly to the Treasury, and from this standpoint, EC support to PRSO is not classic budget support in which funds from various donors are co-mingled. However, monitoring and the decision to disburse are linked to the PRSO process through the Performance Assessment Framework. 5-7 percent of the funds are earmarked for technical assistance.

The EC informed its partners at the time of the PRSO-4 programming mission that it desired to identify a series of health and education sector indicators which would be tied to a variable tranche, payable by the EC if satisfactory progress were made in improving these indicators. Some of the three indicators per sector that the EC identified were already in the Performance Assessment Framework. The EC requested that several others be added: recurrent education and health expenditure as a share of total recurrent public expenditure and number of health personnel in identified priority districts. While there was some initial concern that the variable tranche concept would complicate implementation of the PRSO, in the end, Government and other partners agreed.

There are two main risks to budget support. One is the possibility that government commitment to reform will waver, a risk that is addressed in Lao PDR by intense policy dialogue. The second is mismanagement of funds, probably the greater risk in Lao PDR. The EC addressed this not only by participating actively in the World Bank-led 2005-2006b Public Expenditure Review, but also by commissioning its own study on public sector financial management systems in Lao PDR (presented as Annex 1 of the MIP 2007-2013). The study concluded that, while such systems were weak, sufficient progress was being made to justify use of the budget support instrument. In addition, the focus of the PRSO on improving public sector financial management through support for the PFMSP can be seen as a way of reducing fiduciary risk.

The World Bank’s 2007 Lao PDR Public Expenditure Review Integrated Fiduciary Assessment (Report 39791-LA) was cautious, noting that while public spending had contributed to poverty reduction over the 2002-2007 timeframe, revenue collection was inadequate to meet development goals and spending needed to be re-oriented to improve efficiency and equity. The report called on Government to continue its efforts to strengthen public expenditure management and on donors to better target their assistance on priority sectors as identified in the National Socio-Economic Development Plan. The PRSO contributes to progress in both areas.

In the area of education, the Assessment concluded that top priorities were increasing the proportion of national resources allocated to education; improving financial monitoring and reporting at the provincial level, and improving teachers’ conditions including salaries. The variable tranche mechanism addresses the first of these and the associated actions aimed at improving public sector financial management help to address the second.

In the area of health, the Assessment concluded that priorities were increasing the overall resources available to public health, improving targeting of the poor, strengthening provincial health sector financial management, and aligning donor and government expenditure more closely with actual health sector priorities. EC support to the PRSO contributes directly to the first and third of these, and makes some contribution to the third by explicitly setting target for health personnel in priority districts.

In September, 2008 a joint review mission concluded that PRSO implementation to date has been satisfactory and that most of the agreed key actions will have been completed by March 2009. In December 2008, the EC released Euro 13 million in support of PRSO 4, which will provide support during the four fiscal years commencing 2008-2009. Euro 1 million will finance capacity development in the Ministry of Education and the Ministry of Health.

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## Special Focus 4

### Weak Governance in Lao PDR: a diagnostic

“Weak governance” is broadly cited as the major risk to sustainable development in Lao PDR, and as a risk of special concern as increased revenues from the export of hydropower and other natural resources come on stream. Government responded with the Governance Reform Programme in 2003 with four objectives: public-service reform, people’s participation, strengthened the rule of law and sound financial management. The reform aims to improve the functioning of the civil service; to formalise and regulate relations between central, provincial, and district governments / agencies; and to improve public financial management, strengthen participation, and encourage local empowerment. However, progress is perceived to be slow. In this Special Focus, we try to provide a deeper diagnostic about the causes and consequences of “weak governance.” In doing this, we make reference to a 2001 diagnostic from the Asian Development Bank (ADB 2001) which illustrates that many problems identified long ago continue to be of concern.

Governance issues in the Lao DR must be seen in the historical context of one-party rule by the Lao People’s Revolutionary Party (LPRP) imposed in 1975. There followed a period of international isolation with the suspension of foreign assistance, notably from Thailand. However, while attempts were made to collectivise agriculture and impose “socialization,” Lao PDR never experienced anything approaching the excesses in Cambodia. As early as 1979, the ruling party had recognized that the private sector would continue to play a significant role. Economic reform began in 1986 with the New Economic Mechanism and foreign investment was liberalised in 1988; in 1994, the investment law was loosened further to permit 100 percent foreign-owned enterprises. While overall state control remains a policy tenet, this has increasingly taken the form of general advice and direction, rather than strict *dirigisme*. Yet, the Party Politburo remains the ultimate policy authority.

The principal issues affecting governance in Lao PDR are.

The challenge of nation-building. Important steps towards nation-building have taken place in recent years. The country’s first constitution was promulgated in 1991 and since then the government has put a legal infrastructure in place. Yet, it must be kept in mind that Lao PDR was historically a loose confederation of local fiefdoms, and the building of a national identity comes slowly. The ethnic fragmentation of the population represents a related challenge. Lao PDR’s large and powerful neighbours, China, Viet Nam, and Thailand, are ever-present.

The intertwining of economic, political, and cultural structures. As a relatively recent paper (Fox 2004) points out, the political and social factors that most impinge on economic outcomes are closely linked with Lao political culture. That political culture, to a greater extent than in China and Vietnam, which are often identified as the models being emulated by Lao PDR, draws on personal and family relationships. The Lao People’s Revolutionary Party’s monopoly on political institutions (for example, it directly appoints Ministers and provincial governors) is exercised in a manner reminiscent of traditional patronage. In addition to controlling Government, the Party controls the administrative bureaucracy, the military, and the judiciary. Party-controlled mass organisations are the closest that Lao PDR comes to NGOs in the Western sense, although there has been increased tolerance in recent years for voluntary, professional, and commercial organisations. State owned enterprises (SOEs) are a visible sign of Party control over large swathes of the economy, but far less transparent is the military’s involvement in some areas of business, including logging. However, it would be a mistake to view the Party as a monolithic barrier to reform, or even to assume that its authority is altogether unchallenged. There are signs, in recent years, that the Executive branch of government is looking to the Party for no more than broad strategic directions, not specific instructions. The National Assembly has recently taken a keen interest in land transactions involving foreign buyers, and the national budget is now fully under the oversight of its Budget Committee.

The failure of economic transition to engender administrative and civil service reform. The civil service bureaucracy functions as the administrative arm of the Party. Civil service recruitment and

advancement are inherently political; they may or may not, depending on the case, reflect merit and performance. Moreover, Party organisations and organisations closely related to the Party (mass organisations, for example) continue to play a major role in the delivery of services. The quality of service delivery is deficient because proper incentives are not in place. Proper incentives, in turn, require transparency and accountability. For the last decade, Government has embarked on wide ranging Governance and Public Administration Reform (GPAR) designed to create an effective, efficient and low-cost administration with the requisite institutional legal framework. The reform tackles central Government reforms, decentralisation, deconcentration and modernization of civil service personnel management. But despite a substantial dedication of resources to this reform effort, results remain mixed and the pace of implementation remains slow. The political nature of the civil service, the absence of a merit-based human resources management culture, the scarcity of skilled workers, and the generally low capacity of institutions at all levels, central, provincial, and district, are the main challenges to civil-service reform. As a sign of how slow change is in coming, we may note the problems listed by the Asian Development Bank (ADB) in its 2001 diagnostic of governance issues in Lao PDR: low remuneration, lack of an effective performance-based assessment system, absence of clear job descriptions and lists of responsibilities, a seniority based promotion system, and lack of basic office and management skills. Despite some efforts at reform, all problems remain in place. Salaries are not high enough to permit a reasonable standard of living, opening the door for ubiquitous corruption at all levels. Too often the more talented and motivated either avoid joining the civil service or leave it to take jobs in the private sector.

Lack of clarity in public financial management (PFM). Remarkable economic development has been achieved in Lao PDR, but benefits have not been distributed equitably for the benefit of the poor. The main problems, in addition to corruption, are the lack of fiscal discipline and sound expenditure management and deficient service delivery. In 2005, Lao PDR adopted a detailed five-year Public Expenditure Management Strengthening Programme (PEMSP). This provides a framework to improve (i) fiscal planning and budgeting (ii) budget execution and reporting (iii) the capacity of staff with responsibilities in the area of public financial management, and (iv) the consistency of the legislative framework and of centre / local fiscal relationships. The latter two problems are closely related. Laws do not specify clearly the role and responsibilities of different departments and levels of government in the budget process. The lack of clarity and accountability between the centre and provinces has hampered progress. The important role of self-governing provinces in revenue collection and expenditure decisions, which we described in Special Focus 3, has tied the centre's hands in its efforts to implement the sixth National Socio-economic Development Plan (NSED). Writing in 2001, the ADB noted weak centre-province ties not only in public financial management, but in policy definition and priority-setting, as well, with provincial officials sometimes failing to understand or misinterpreting policy directions from the centre, but at the same time, policy makers in the centre being slow to learn when experience on the ground is showing the need for new policy directions. Both problems remain serious. As evaluation team members found when interviewing officials and representatives of mass organizations in Luang Prabang and in Vientiane, the perceptions of policy actors sometimes fail to coincide.

Weak civil society: Civil society, in the Western sense, is weak and has not played a major role as an agent of change. This is not to say, however, that voice and accountability are always necessary pre-conditions for massive poverty reduction (consider China and Vietnam). Political stability it is also important to reaching development goals. In Lao PDR, participatory governance has been encouraged through mass organisations who were invited as witnesses of the Governance Reform Program and the preparation of National Socio-economic Development Plan (NSED). Writing about civil society in 2001, the ADB stated (p. 24), "No major increase in scope is likely. That, with hindsight, has proven to be too pessimistic. Voluntary associations and professional organisations are playing an increasing role, and it appears that the Party realises that it cannot manage change without some support from such groups. The challenge which the Party must overcome is that, as it appears increasingly to realize, the policymaking and Implementation needs of a complex open society are beyond the capacity of a small, ideologically committed elite. If problems of certification can be solved, it seems likely that the next stage of civil socially development in Lao PDR will be an expanding role of in the delivery of social

services. However, since civil society organisations are not allowed to exist without government sanction, such groups do not exert any real monitoring or oversight function. Weak social mobilisation is not merely a result of repression; it is often caused by lack of education, lack of information, and the fact that the poor are usually represented by the Party-related mass organisations. The deepening of civil society will require a progressive shift from a Party-centred system to a people-centred system providing more scope for direct participation of citizens in decision-making.

Corruption. The Transparency International (TI) Corruption Perception Index 2008 ranks Laos at one of the most corrupt countries in the world at position 151 out of 180 countries, down from position 111 in 2006 and 77 in 2005 but slightly up from 168 in 2007 (Transparency International 2007). In presenting its finding, TI commented that the worsening in Lao PDR highlighted the need to engage more actively with civil society. A presidential Anti-corruption Commission has been established in Lao PDR but it is difficult to assess its impact to date. No adequate channels yet exist for making anti-corruption or other laws widely known to the people, apart from Party-controlled media. According to Freedom House, any journalist prior to reporting on corrupt practices must first seek authorization from relevant institutions. As most of the population outside the main urban areas either cannot or do not read, they know little or nothing about existing laws, and so do not refer to them in the face of official malfeasance. While the Party-controlled media has at times run articles condemning corruption, names have not been mentioned and there has been no prosecution of any high-ranking officials. This is in stark contrast to the cases of Vietnam and China.

#### Human rights, democratisation , Rule of Law

In its diagnostic published in 2001, the ADB noted that the 1991 Constitution is vague on specifics. The Party is hardly mentioned at all, nor are the responsibilities of officials at various levels stipulated in detail. It remains the case that, despite economic liberalisation, there has been little actual devolution of power from the Party. Candidates for the National Assembly are still pre-selected by the Party, however, the National Assembly has been increasingly assertive in areas such as budgetary oversight and large land transactions. The ADB noted that human rights, the rule of law, protection of the environment, public provision of basic safety nets, gender equality, freedom of religion, and other mainstays of liberal democracy are amply represented in the Constitution. Despite this, there has been continuing concern voiced by the international community, notably the United States and the EU, over the state of human right in Lao PDR.

Writing in 2001, the ADB noted that the Asian financial crisis of 1997 had significantly influenced the approach to governance issues taken by the Government of Lao PDR, i.e. the Party. The main impact was to encourage the Party to concentrate on the problems of the economy. This had the impact, inter alia, of strengthening the hand of the international partners, including the IMF and the World Bank, in policy dialogue. It may be taken practically as a given that, in the current crisis, exports, ODA receipts, and FDI will all decline. Whether this encourages greater progress in economic reform and liberalization as post-1997 or the reverse remains to be seen.

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## Special Focus 5

### The challenge of strengthening the social sectors

Whether considered from the standpoint of inputs or outcomes, the education and health sectors in Lao PDR are among the weakest in the region and, indeed, the world. In this Special Focus, we describe the recent situation in terms of inputs (essentially financial) and outcomes, and then give a brief diagnostic of weaknesses in public financial management that give rise to especially serious problems in the social sectors. We rely in large part on the World Bank's Public Expenditure Tracking Survey or PETS (World Bank 2008a), which builds up expenditure accounts from the facility level. However, since PETS gives an observation at only one point in time (2004/2005) we supplement it with data from other surveys and sources.

#### Education expenditure and outcomes

*Education expenditure.* PETS estimates that public expenditure for education was only about 2 percent of GDP in 2004/2005 (World Bank 2008a, p. 17). Most recent estimates are that this rose to 3.1 percent of GDP in 2007/2008 (World Bank 2008b, p. 15). Looking at longer-term trends, public spending on education has fluctuated between about 1 and 3 percent of GDP since the early 1990s (Benveniste et al. nd, p. 17, Figure 9). The share of public education in total government expenditure has changed more dramatically, having peaked at 15 percent in the mid-1990s, this declined to 6 percent in the context of the Asian financial crisis, then rising to 12 percent in 2004/2005 (ibid.). The most recent estimate (World Bank 2008b, p. 15 Table 3) places education at 5.2 percent of total government expenditure, however, it is not clear that the two data series are consistent.

Expenditure per primary school student in 2004/2005 was estimated to be 2 percent of per capita GDP, as opposed to 7-14 percent in other Asian developing countries (World Bank 2008a, p. 55; Benveniste et al. nd, p. 16). The gap was more striking at the level of lower secondary school; 3 percent of GDP per capita per student in Lao PDR as opposed to 20-24 percent in other Asian developing economies (Benveniste et al. nd, p. 16), this is evidence that the quality of education at higher levels in Lao PDR is not of the same standard as in other countries in the region. Government policy has placed emphasis on expanding secondary school enrolments, at significant opportunity costs as resources are diverted from primary education, but quality has clearly not kept pace with quantity.

As shown in Table SF 5.1, not only is total education spending low, its composition is skewed in favour of capital spending. In part due to abundant donor resources, capital spending increased by a factor of nearly four between 2001/02 and 2006/07, while recurrent spending lagged far behind. Although teacher salaries remain low, the share of teacher salaries in recurrent spending has risen, meaning that what has suffered most has been operations and maintenance and teaching materials. In discussing these trends, Benveniste et al. (nd, p. xi) predict "dire shortage" of funds to finance teachers, textbooks, and essential maintenance.

Table 2: Education budget, 2001/02-2006/07

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
<b>Total (Kip bill.)</b>	386.1	451.9	457.5	658.1	1033.4	1189.9
% of GDP	2.3	2.4	2.5	2.5	3.2	3.2
% of total budget	10.1	10.8	10.8	11.0	14.0	15.0
<b>Recurrent</b>	184.7	185.8	246.6	304.7	383.1	430.5
% of education budget	47.8	41.1	53.9	46.3	37.1	36.2
% of total public recurrent	10.0	10.4	8.7	8.7	10.2	9.4
<b>Capital</b>	201.5	266.1	210.9	353.4	650.3	759.4
% of education budget	52.2	58.9	46.1	53.7	6.9	63.8
% of total public capital	10.2	11.0	12.6	14.2	17.8	22.6
% donor financed	59.2	76.1	81.9	92.2	91.8	95.6

Source: Ministry of Education data presented by Benveniste et al. nd, p. 72, Table 20

There are insufficient data on physical infrastructure to permit comparison of two points in time, but the inadequacy of classrooms can be judged by the fact that in a recent survey 30 percent of school directors responded that their schools needed to be completely rebuilt and 22 percent responded that major repairs were needed. According to the Ministry of Education, the number of primary schools increased from 8,155 in 2000/01 (39 percent of them complete in the sense of having all five grades) to 8,654 in 2005/06 (44 percent complete).

An often-cited, albeit crude, index of educational quality is the student-teacher ratio. Between 1993/1994 and 2004/2005 this hardly changed from 30 at the primary level, a figure which puts Lao PDR in the middle range of developing countries in the region (Benveniste et al. nd, p. 52, Figures 18 and 19). Because of steady expansion of secondary school enrolment, the pupil-teacher ratio at the secondary level rose steadily from 13 to 25 (*ibid.*). However, the authors note that the distribution of pupil-teacher ratios is highly skewed (i.e. has a long right tail), and there are instances of remote schools having pupil-teacher ratios in excess of 70.

One of the difficulties in recruiting teachers is low pay; about the same as per capita GDP at the primary and lower secondary level, as opposed to the regional average of 2.5 times per capita GDP. There are no significant urban-rural differences so, despite the fact that the cost of living is lower in rural areas, it is very difficult to induce teachers to work in remote areas. One reason is that, despite higher real salaries, payment arrears are much more serious in rural areas than urban ones (World Bank 2008a, p. 31).

*Education outputs.* While data differ depending on whether they are administrative or survey-based, there is agreement that net primary enrolment rates have improved in Lao PDR (*ibid.*, p. 15). However, according to the Lao Expenditure and Consumption Survey, cited by the same source, gaps of all kinds – between poor and non-poor children, between priority and non-priority districts, and between Lao-Tai and ethnic minority children – widened, from 16 percentage points in the early 1990s to 24 percent in 2002/2003 in the first case (*ibid.*, p. 16). An exception was the gap between boys and girls, which narrowed slightly. Education data at the provincial level clearly illustrate the disparities that exist between wealthy and poor provinces (Ministry of Education 2008).

According to a summary (Benveniste et al. nd, pp. 19-20):

- Access to primary school in Lao PDR is relatively high at 84 percent, but access falls off rapidly as regards lower secondary and upper secondary schools, especially for poor, non-Lao-Tai, rural youth;

- Girls have lower enrolment rates overall (46 percent enrolled as opposed to 54 percent for girls), the gap is accentuated in poor, rural, non-Lao Tai populations and is especially acute at the lower and upper secondary level;
- The system is inefficient, with primary level dropout and grade repetition rates both unacceptably high;
- Despite these problems, long-term improvements in output indicators such as literacy have been substantial, and there has been progress even over the relatively short term in closing gaps. The study whose findings are extracted in the Table below (Benveniste et al. nd p.9) found that between the late 1990s and early 2000s, there were significant increases in literacy for urban women (both poor and non-poor) and for both male and female rural dwellers, whether poor or no poor.

Table 3: Literacy rate, population aged 18-60 (percent)

	Urban		Rural	
	Male	Female	Male	Female
<b>Total</b>				
1997/98	96.7	85.6	81.7	50.4
2002/03	96.9	89.8	84.4	59.8
<b>Non-poor</b>				
1997/98	97.6	88.1	86.5	58.0
2002/03	97.6	91.4	87.6	67.1
<b>Poor</b>				
1997:98	92.9	75.9	81.7	39.1
2002/03	93.8	82.1	78.1	46.0

Changes in gross enrolment rates since 1994/95 indicate that lower and upper secondary school enrolment has grown much more rapidly than primary school enrolment. This is not surprising since these started from a much lower base; of more concern, perhaps is that secondary school enrolment has greatly outpaced enrolment in technical and vocational training programmes (Benveniste et al. nd, p. 25, Figure 12). Yet, as we have discussed elsewhere in this report, the shortage of skilled labour is one of the main constraints to expansion of the SME sector, accounting for most businesses, in Lao PDR.

### Health expenditure and outcomes

*Health expenditure.* The PETS reports estimates that public expenditure for health, while it has increased since the 1990s, was still only 1.2 percent of GDP in 2002/2003, half the level in neighbouring Vietnam (p. 56, Figure 44). The most recent national estimate (World Bank 2008b, p. 15) is that public expenditure on health was only 0.6 percent of GDP in 2007/2008, a significant decline. These statistics are consistent with the comparable data series from the WHO Statistics Information System



(WHOSIS) data base assembled in the table below. Two facts emerge most strongly from these comparative data. The first is the fact that health total spending in Lao PDR has increased more slowly than in neighbouring Cambodia and Vietnam. The second is that one reason is immediately noticeable: Government health spending has remained frozen at only US\$ 16 per capita in international purchasing power parity (PPP) terms. Whereas the share of the public sector in total health spending has increased moderately in Cambodia and declined moderately in Vietnam, it has plummeted in Lao PDR, from nearly half in 1995 to about one-fifth in 2005.

Table 4: Expenditure on health per capita (PPP International \$)

	1995	2000	2005
<b>Cambodia</b>	67	93	167
avg. annual % change		1.6	3.0
as share of GDP (%)	5.7	5.8	6.4
of which Government	13	21	41
% of total	19.4	22.6	24.6
<b>Lao PDR</b>	35	49	78
avg. annual % change		1.7	2.4
as share of GDP (%)	3.0	3.2	3.6
of which Government	16	16	16
% of total	45.7	32.6	20.5
<b>Vietnam</b>	85	132	221
avg. annual % change		2.2	2.6
As share of GDP (%)	4.9	5.4	6.0
of which Government	28	40	57
% of total	32.9	30.3	25.8

Source: WHO Statistical Information System (WHOSIS) database; <http://www.who.int/whosis/en>

Note: Share of total health expenditure in GDP is based on average prices, not PPP.

The allocation of health spending is also troublesome. In recent years only about one-fifth has been spent in district and village health facilities; the lion's share goes to support provincial and central hospitals (World Bank 2008a, pp. 57-58). As in the case of education, the ratio of capital spending to recurrent expenditure is too high, resulting in low salaries and frequent delays in payment (ibid., pp. 66-67). Health centres are forced to rely on a hodgepodge of sources – NGO grants, local community in-kind contributions, profits from Revolving Drug Funds, and income from farming – to finance non-salary operating costs and equipment.

It is more difficult in health than in education to obtain data on facilities and staffing. However, a single “snapshot” for 2005, assembled from data on the website of the Western Pacific Regional Office of WHO, indicates that on a range of capacity measures, Lao PDR scores lower than neighbouring Vietnam. Yet, there is nothing in the table that would clearly explain the better health outcomes presented below. Lao PDR has about the same number of primary health care centres per capita as Vietnam, admittedly with fewer beds per capita, but most primary health care is outpatient in nature.

Table 5: Health facilities and personnel per 100,000 population, Lao PDR and Vietnam, ca. 2005

	Lao PDR		Vietnam	
	Facilities per 100,000 population	Beds per 100,000 population	Facilities per 100,000 population	Beds per 100,000 population
General hospitals	0.39	45.46	0.86	118.43
Specialised hospitals	0.05	2.85	0.15	32.19
District referral hospitals	2.26	42.10	0.68	55.51
District: General		0.93		0.47
Primary health care centres	13.37	29.50	13.61	56.65
Primary : District		0.71		1.02
Private hospitals	0.00	0.00	0.07	5.29
Private outpatient clinics	4.52	0.00	0.00	0.00
Physicians per 100,000	23		62	
Nurses per 100,000	93		68	

Source: <http://www.wpro.who.int/countries/2008>

*Health outcomes.* Despite lagging behind in expenditure and health system capacity, Lao PDR has made some impressive gains as measured by a few of the standard “headline” health indicators. Infant mortality was halved between 1990 and 2006, a decline more rapid than that achieved in Cambodia albeit not as impressive in proportional terms as the reduction in Vietnam. Under-five mortality declined by more than half, once again, a more rapid decline than in Cambodia but not as rapid as in Vietnam. Unfortunately, evidence on the neonatal mortality rate and the maternal mortality ratio are not available, at least in the WHOSIS database. This is too bad, because these are particularly good indicators of access to basic health services in acute cases, whereas the infant mortality rate and under-five mortality rate are more indicative of overall public health system coverage. Despite overall improvements, data from the 2005 Census reveal wide gaps between rich and poor provinces, and a clear linear relationship between poverty rates and health indicators (World Bank 2008a, p. 53 and Figure 54).

Table 6: *Infant and under-five mortality (per 1000)*

	1990	2000	2006
<b>Cambodia</b>			
IMR	85	88	65
avg. annual % change		0.3	-4.9
U5MR	116	104	82
% of total		-1.1	-3.9
<b>Lao PDR</b>			
IMR	120	77	59
avg. annual % change		-4.3	-4.3
U5MR	163	101	75
avg. annual % change		-4.7	-4.8
<b>Vietnam</b>			
IMR	38	23	15
avg. annual % change		-4.9	-6.8
U5MR	93	30	17
avg. annual % change		-10.7	-9.0

Source: WHO Statistical Information System (WHOSIS) database; <http://www.who.int/whosis/en>

#### Weaknesses in the social sector budget process

Lao PDR's unfavourable profile in the social sectors reflects a range of problems and weaknesses, from poverty to geographical remoteness of some areas. However, a significant part of the poor performance in health and education is due to inadequate budgetary resources, especially to finance recurrent expenditure, and is related to the problems of public sector financial management described in Special Focus 3, and related to the governance issues discussed in Special Focus 4, above. The table below, based on information in World Bank 2008a (pp. 21 and 60) describes the torturous trail from an initial district-level budgetary needs assessment to the final allocation of money to the district education and health authorities by the district-level finance authorities. The key barrier to expanding social sector expenditure is marked in bold. Budget allocations from the center to province do not stipulate the sectoral distribution of expenditure. Since the central Ministries of Education and Health are responsible only for a limited number of programmes, the bulk of decision making is done at the provincial level by Provincial Finance Offices that are closely associated with Provincial governors.

Table 7: The budget trail: from District budget proposals to District allocation of funds

Education	Health
District Education Bureau (DEB) prepares draft budget, submits to Provincial Education Services (PESs).	District Health Office (DHO) prepares draft budget, submits to Provincial Health Office (PHO).
PES consolidates DEB budgets together with its own, submits to the Provincial Planning Service (PPS) and Provincial Finance Office (PFO).	PHO consolidates DHO draft budgets and submits to Provincial Finance Office (PFO, with copy to central Ministry of Health (MOH), but not for approval.
PPSs and PFOs submit consolidated draft provincial education budgets to Department of Planning and Cooperation (DOPC) and Department of Finance (DOF) in central Ministry of Education.	PFO consolidates PHO draft provincial health budget with other sectoral draft budget proposals and submits to central Ministry of Finance (MOF).
DOPC and DOF consolidate provincial proposals into one MOE draft budget, submit to Committee on Planning and Investment (CPI) and Ministry of Finance (MOF).	
CPI and MOF review all ministry draft budgets and prepare national budget for submission to National Assembly.	CPI and MOF review all ministry draft budgets and prepare national budget for submission to National Assembly.
Once budget is approved, MOF distributes to provincial PFOs and to central MOE (directly responsible for special schools such as technical training facilities and schools for ethnic minorities). <b>There is no sector earmarking in the distribution to PFOs.</b>	Once budget is approved, MOF distributes to provincial PFOs and to central MOH (directly responsible for some special programmes and facilities). <b>There is no sector earmarking in distribution to PFOs.</b>
PFO distributes funds to PES (to finance its own operation) and to DFOs.	PFO distributes funds to PHO (to finance its own operations) and to DFO.
DFO distributes to DEB.	DFO distributes to DHO.

This complicated process ultimately leaves district health and education authorities at the mercy of inter-provincial transfers decided upon by central government and intra-sector allocations made by PFOs. Since budget proposals bear almost no resemblance to actual allocations, the utility of the budgeting process as a planning tool is compromised. Most PFOs simply impose a budget ceiling on PESs and PHOs based on last years' actual expenditure.

In reviewing the Education for all programmes, the Ministry of Education (2008, p. 17) summed up needs for reform succinctly in the form of three critical issues needing to be addressed:

- Development of output-oriented budgeting;
- Ensuring the equity of resources across provinces and implementation of national policies at the provincial level;

- And reviewing resource redistribution mechanisms across provinces.

All evidence indicates that the way forward in the health sector is the same.

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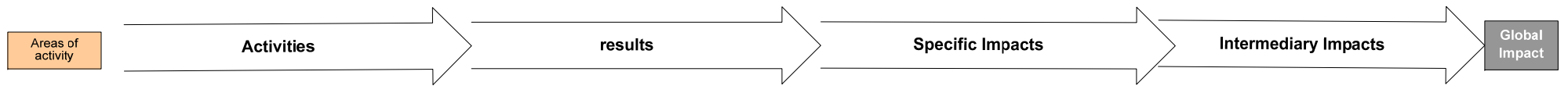
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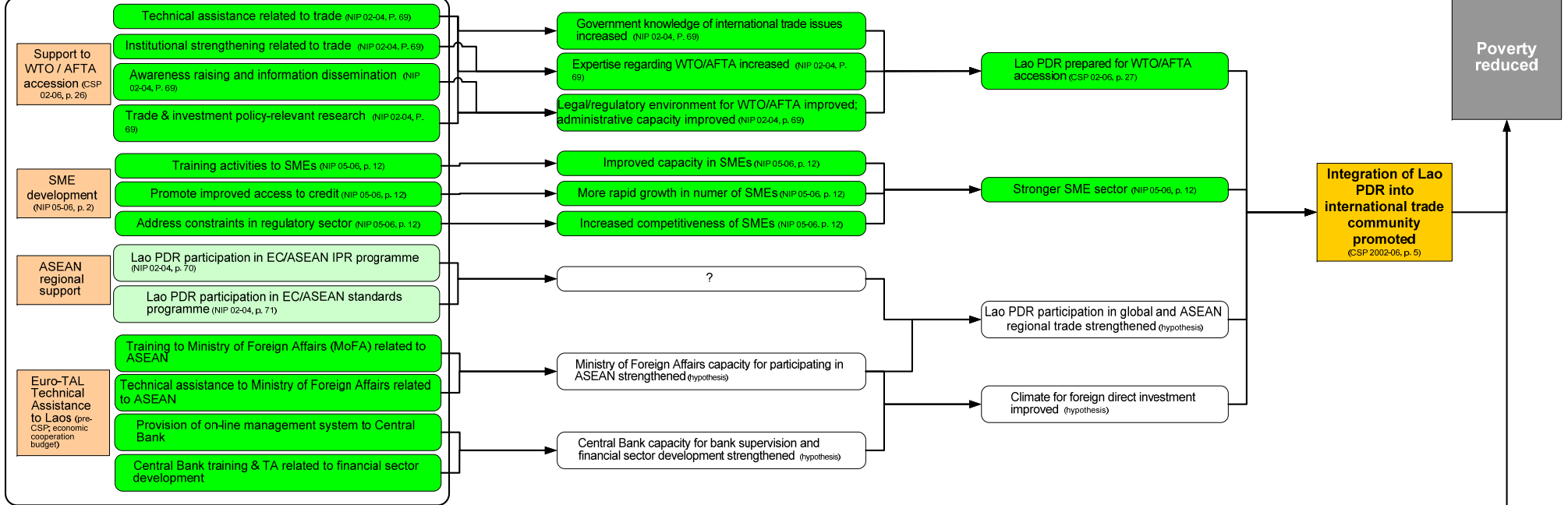
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# ANNEX 6 – IMPACT DIAGRAM/INTERVENTION LOGIC

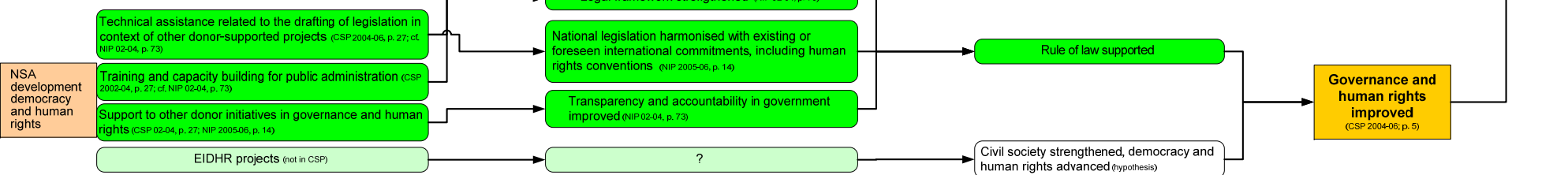




**Trade and development** (CSP 2002-06, p. 26)



**Cross-cutting issues** (CSP 2002-06, p. 27)



## ANNEX 7 – MINUTES OF DISSEMINATION SEMINAR

Joint Evaluation Unit  
Evaluation of EC Cooperation with Lao PDR  
Dissemination and Validation Seminar  
Thursday 29 January 2009  
09:00-18:00  
Novotel, Vientiane

This seminar consisted of three discussion sessions, the first with representatives of Government, the second with the development partners, and the third with representatives of civil society. Its goal was to provide a forum for dissemination of draft findings and recommendations, discussion, and commentary.

On the same occasion, the preliminary results of the EC's Mid-term Review of the Lao PDR Country Strategy 2007-2013 were presented and discussed. These minutes focus on the Country Strategy Evaluation.

### Discussions with representatives of Government

Following opening remarks by Mr. Henry Pranker, Chargé d'Affaires, Mme. Susanne Wille of the Joint Evaluation Unit and Mr. Landis MacKellar presented the evaluation's purpose, approach and preliminary results.

- *Mr. Mouangkham* pointed out that there had been a number of related evaluations recently, such as the World Bank's Country Strategy Assessment, and inquired whether there would be an attempt to compare this evaluation's results with the other works. Mr. Mackellar took note of the suggestion. Mr. Mounahgkham also informed the group that the MoF would be consulting with the development partners on the response to the financial crisis.
- *Mme Ounavong* of the Office of the Director General, Ministry of Planning and Investment, department of International Cooperation, hoped that EC procedures could be simplified in the context of giving greater autonomy in administrative matters to the EC Delegation in Vientiane. She called for increased coordination between the EC and its Member States in the context of the EU Code of Conduct and the Vientiane Declaration, and urged the EC delegation to play a strong role. She highlighted the government's commitment to the Uplands Development Project, which will be designed during the course of a spring formulation mission. In reply, Mr. Pranker called for increased commitment to developing joint programmes (like Uplands development) with the development partners. In response to an issue that had been raised by Mr. Mouangkham, he also recognized that in coming years, increased attention will be paid in the cooperation programme to the issue of climate change.
- *Mr. Phalivong* of the department of European Affairs of the Ministry of Foreign Affairs expressed concern that some more recent donors have not taken fully on board the EU Code of Conduct's call for limiting donor presence in certain sectors. Mr. Pranker reaffirmed the EC delegation's commitment to work closely with European donors to achieve the goals of the Code of Conduct, but also pointed out that, especially in area of rural development, Lao PDR was a particularly complex context in which to work.

### Discussions with representatives of the Development Partners



As previously, Mr. Prankerd opened the meeting and Mme. Wille and Mr. MacKellar presented evaluation purpose, approach, and preliminary results.

- *Mme. Caven* of UNFPA drew attention to the EC's previous work in reproductive health, and Mr. Mackellar replied that this formed the subject of a specific recommendation in the draft report. Mme. Caven also drew attention to the need for sensitive issues, such as women's access to the justice system, to be addressed by the cooperation programme.
- *Mr. Schunhe* of the German Development Service raised the issue of SMEs, which perform very poorly due to the lack of managerial and technical skills. Vocational education and the school system need support to address this situation. Mr. Schunhe also drew attention to the unsatisfactory situation regarding NGOs in Lao PDR, and urged the EC to use its influence with Government to advocate for clarification of the legal framework relating to non-state actors.
- *Mr. Boonmaat*, representative of the UN Office on Drugs and Crime, suggested that the Uplands Development Project might integrate some components related to the fight against drugs, stressing the importance of aligning with Government's sectoral plans, in this case the Drug Control Master Plan.
- *Mr. Seremond*, the French Ambassador, noted that the recently instituted monthly meetings of European member states involved in cooperation had proven very useful from a coordination standpoint.
- *Mr. Illangovar*, representative of the World Bank, expressed the Bank's appreciation for the EC's role in filling gaps in the economic and trade reform agenda. He admitted the need for better coordination between cooperation in the area of trade and cooperation in the area of SMEs and recognised the EC's role in trade reform. In closing, he drew attention to the need to come better to grips with the impacts of the global financial crisis.
- *Mr. Locke* of the EC Delegation expressed the view that, even in light of the financial crisis, the EC-Government policy dialogue mix was just about right. The EC hoped that adjustment in the choice of instruments could improve impact and coherence with EC strategic aims. Uplands development could, in instrumental terms, be considered just another example of a programme-based approach, no different than, say support to public financial management or the trade development facility. He cautioned that the EC's role in coordination would be conditioned by the Delegation's capacity and the Member States' view on whether the Delegation should lead in certain policy areas. However, he noted that there were some areas in which the EC and all its Member States present in Lao PDR had clear common interests, e.g. the strengthening of legislation and legal reform.
- *Mr. Luca* of the EC Delegation in Bangkok returned to the issue that had been raised regarding the lack of a legal framework for NGOs. Cambodia, he reminded the room, also had no legal basis, yet civil society was much more active in that country. What was needed in this area was common donor advocacy and a coordinated stance in dialogue with Government.
- *Mr. Hnangvie* of the Asian Development Bank expressed appreciation for the EC's very relevant, closely aligned cooperation programme. Because of the coordinated approach being taken, he saw the Uplands Development Project as having the most significant impact of any EC intervention. He recognized the need for better coordination in the area of SMEs. He saw an opportunity for the EC to play a greater role in economic integration by providing support to the Greater Mekong initiative.

- *Mr. Remy*, the representative of SIDA, expressed appreciation to the special attention being given by the EC to the population relocation issue through the Uplands Development Project. He hoped that the EC Delegation's capacity for coordination would be strengthened, noting the many contributions made to date, not only in the context of the Uplands Development Project, but also in the run-up to the Vientiane Declaration on aid effectiveness, where EC consultations played a major role. He cautioned that, with Sweden phasing out, there was risk of a gap in the areas of Rule of Law and human rights, and expressed hope that the EC would consider building its own capacity in these sensitive areas. In this context, he strongly expressed his hope that the EC Delegation in Vientiane would be strengthened.
- *Mr. Tony*, the Ambassador of Switzerland, saw the need to continue using wide range of instruments. Projects were needed to develop good ideas which could subsequently be translated into programmes. The lack of national NGOs was a major gap that needs to be addressed. Like the representative of SIDA, he saw the EC's consultative and coordination role in the context of the Vientiane declaration and the production of the Vientiane Plan of Action as an excellent example of the EC having pursued its comparative advantage.
- *Mr. Prankerd* summarized the discussions. He agreed that, while it was still developing its skills in the area, the EC Delegation could do more in the area of coordination. He saw that the EC could play a significant role in sensitive issues, including perhaps a more active dialogue with Government in the area of human rights.

#### Discussions with representatives of civil society

As previously, Mr. Prankerd opened the meeting and Mme. Wille and Mr. MacKellar presented evaluation purpose, approach, and preliminary results.

- *Mr. Lock* of the EC Delegation clarified that by "project approach," Mr. Mackellar was referring to large development projects typically implemented by the Government of Lao PDR. Mr. Prankerd amplified, asking representatives to please not make the mistake of concluding that the EC was moving towards exclusive reliance on General Budget Support. Mr. Lock commented in passing that general Budget Support might not be as attractive from a transactions cost point of view as many appeared to believe.
- Yet, commented *Mr. Pickat* of Save the Children, the 60 percent of total support being allocated to general Budget Support seemed very high. Mr. Chalmain of DG Relex cautioned that 60 percent was in some senses an overestimate, as it did not consider resources made available through thematic budget lines. When these were taken into account, 40 or 50 percent would be closer to the mark. Nonetheless, Mr. Pickat wondered, was the shift towards General Budget Support strategic, in the sense of encouraging better public financial management; or pragmatic, i.e. in hopes of improved aid effectiveness? If CSOs are not involved in implementation, how could the transparency and accountability of Government be ensured, not to mention its relevance to poverty reduction? NGOs need to play a stronger role in the General Budget Support modality, but that role has not so far really been defined. NGOs could play a major role in the implementation of sector wide approaches, and Mr. Pickat urged that donors should put pressure on Government to give CSOs better access to programmes financed through budget support. The issue is not merely how much of the pie is given to general Budget Support as opposed to NGOs, the issue is how NGOs can exert leverage within the General Budget Support process. Also at issue is the provision of a more stable, long-term platform for the funding of NGOs. There is

need for policy dialogue about civil society not only at the grand strategic level, but closer to the project level, as well.

- *Mme. Benson*, also of Save the Children, asked if there were linkages between the cooperation programme and human rights, specifically the ASEAN Human Rights Initiative. *Mme Olsson* of DG Relex pointed out that the EC has an active human rights dialogue with the Government of Lao PDR. *Mr. Luca* of the EC delegation in Bangkok added that, through the European Initiative on Democracy and Human Rights, the EC is helping to put institutions in place. Yet, *Mme. Olsson* of DG Relex cautioned, use of the EIDHR instrument was impeded by the lack of civil society.
- *Mr. Wienand*, the representative of German Agro Action, complained of the lack of transparency in business practices in Lao PDR, especially those involving foreign purchases of land and natural resources. He commented that the Government clearly sees the EC support in trade and economy as a counterweight to these powerful outside commercial interests.
- *Mme Sakulku*, the representative of Health Unlimited, drew attention to previous successes like the EC's support to reproductive health. She noted the difficulty in attracting qualified staff due to low salaries, and urged the EC Delegation to bring order to the matter of international and national salaries and per diems.
- *Mr. Prankerd* asked for the sense of the room on the environment for NGOs working in Lao PDR. How do CSOs work in the absence of a decree, once promised, but never passed. He noted that the issue of the decree will be raised by the EC in a scheduled March 29 session of the human rights dialogue.
- *Mme. Luna* of Friends International replied that national CSOs work in a gray area; only international, not national NGOs, can function in a watchdog role. Government appears to think that it can take on more responsibility for implementing projects, but the reality is that most line ministries lack the capacity. She expressed her hope that the EC will strongly object to new rules being considered by government to restrict the place of civil society yet further.
- *Mr. Prankerd* replied that this would be the main item raised in the human rights dialogue.
- There was a heated discussion of access by disabled persons to EC-financed project facilities, which resulted in the EC Delegation undertaking to look into the matter. The representative of Power International, attached to the Lao Disabled People's Association, commented that, while EC support was appreciated, the amount of work that went into mobilizing only US\$ 100,000 was not warranted.
- There was general discussion of the role of NGOs and their current situation in Lao PDR. *Mr. Saytheloa* of PADEC speculated that Government may not correctly perceive the role and objectives of national NGOs. The representative of the National Regulatory Authority, stressing that he spoke in personal capacity, gave his view that the Government of Lao PDR was concerned that, rather than promoting national unity, some NGOs were instead sowing seeds of division. *Mme Ransom* of UNDP asked what, given the reality that there is no decree on civil society, the donor community can do to support local NGOs? Her suggestions were financial support for small associations and capacity building in partnership with international NGOs. Opportunities with Village Associations were mentioned by *Mr. Pickat*.

## ANNEX 8 – METHODOLOGICAL APPROACH

The evaluation followed a detailed methodological design based on evaluation guidelines set forth by the Joint Evaluation Unit. The evaluation process was divided into a number of phases, each of which entailed the implementation of a number of methodological steps, and each of which culminated in a report.

During the Structuring Stage, the principle foci of this evaluation were identified. This was achieved through a review of pertinent policy documents, the elaboration of the context of EC cooperation in the country, a short exploratory field visit, examination of relevant funding flows, and a careful reconstruction of the EC's intervention logic. Based on the purpose of the evaluation to identify relevant lessons and to produce recommendations for the current programme, the process was focused on the following areas of cooperation: (1) rural development, (2) health; (3) education; (4) trade and economy.

The complete cooperation framework with Lao PDR was taken into consideration, encompassing all the main agreements and other official commitments between the EU and Lao PDR. This evaluation was conducted simultaneously with evaluations of the EC's ASEAN-level cooperation strategy. ASEAN-level cooperation is taking place along two principal axes – support to the ASEAN Secretariat, mostly related to regional economic integration, and thematic projects in areas such as intellectual property rights and standards which are implemented in ASEAN countries. The ASEAN Secretariat, in turn, provides Member States with support related to regional integration. Given the context, this evaluation paid special attention to the coordination of country-level assistance with ASEAN-level assistance benefiting Lao PDR, as well as Asia regional and global programmes.

Preliminary evaluation questions (EQs), judgement criteria (JCs) and potential related indicators were specified based on the intervention logic, and then thoroughly discussed with members of the Reference Group and the Evaluation Managers. The resulting re-drafted EQs and JCs provided a clear direction to the evaluation, allowing for a focussed investigation into the most important areas of cooperation. The EQs are given in the table below.

### Evaluation Questions

EQ1 - To what extent have EC interventions in rural development contributed to improvements in rural income and food security?
EQ2 - To what extent did the change in the EC's strategy of support for the health sector (from large interventions to NGO projects and support for the Global Fund) contribute to increased availability of and access to basic health services?
EQ3 - To what extent has EC support to the education sector resulted in sustainable increase in the availability of and access to primary education?
EQ4 - To what extent have EC supported actions on technical assistance and through ASEAN projects responded flexibly to needs and increased the ability of the Lao PDR to benefit from regional or global trade?
EQ5 - To what extent has EC cooperation increased and improved Lao PDR participation in ASEAN regional policy dialogues?
EQ6 - To what extent has EC integration of gender equality, good governance, and environment into its interventions across the board, working with both civil society and all levels of government, resulted in improvements?
EQ7 - To what extent was the EC mix of instruments (regional and thematic budget lines), approaches (fiduciary funds, project approach, macro-level programmes, SWAP), and financing modalities (specific procedures, budget support, joint funding) and /or channels of disbursement (government, private sector NSAs, multilateral organisations) appropriate to the national context

and EU strategic policy aims?
EQ8 - To what extent has the EC coordinated and cooperated with EU member states and international financial institutions intending to improve the complementarity of their interventions?
EQ9 - To what extent has the design and implementation of EC interventions adequately privileged the needs of the most vulnerable groups?
EQ10 - To what extent did the EC approach result in adoption of European approaches towards poverty reduction that would have not been adopted absent the EC policy dialogue and cooperation programmes?

The core of the methodological approach employed is the rigorous hierarchy of EQs, JCs, and indicators:

- EQs were designed to achieve the objectives of the evaluation (see Section 1.1 above) in accordance with the EC's intervention logic as established by the review of strategic documents.
- Each EQ was answered based on the assessment of several Judgement Criteria. There was no attempt to explicitly weight or rank JCs, but taken as a whole, they provided a sound basis for answering the EQ.
- Each JC was assessed based on a number of indicators identified. Again, there was no explicit weighting of indicators, but taken as a whole, they provide a reasonable basis for assessing each JC. In a few cases where the Evaluation Team felt that the indicator was providing little useful information, it noted this.

Indicators, which comprised the essential evidence base for the evaluation, were measured using statistical data taken from primary and secondary sources, ROM reports, project Mid-term Reviews (MTRs), the 2003 Lao PDR Country Strategy MTR, interviews with experts and stakeholders in Brussels, Vientiane, Luang Prabang Province, and Bangkok, focus group discussions, etc. The relationship between, indicators, JCs, and EQs is made explicit in the Information Matrix presented in Annex 3. This Annex presents the entire evidence base on which EQs were answered, together with information on the sources used to measure the indicators.

During the Desk Phase, efforts were made to gather as much documentary evidence and information as possible, to provide preliminary assessments of the JCs and preliminary answers to the EQs. Those documents were EC programming bilateral and regional documents, as well as reporting on EC projects and programmes (policy documents, implementation and evaluation reports, mid-term reviews, ROM reports). Documents on policy context and socioeconomic data and analysis were searched for through Internet and in the reports of other donor agencies. One significant lacunae emerged when it proved impossible to locate the 2003 Mid-term Review of the EC's Lao PDR Country Strategy Programme; this was mitigated during the field mission when the Executive Summary of this documents was found in hard copy form in the EC Delegation Bangkok. By the end of the evaluation, the availability of documentation was about that normally encountered in EC country strategy evaluations.

Also during the Desk Phase, a number of interviews were carried out with key informants at EC headquarters in Brussels. These interviews provided valuable information on the EQs, and helped to identify and fill data gaps. They were also useful in identifying contacts for further interviews during the field phase.

At the end of the Desk Phase, preliminary answers to the EQs were drafted based on document review. Treating these as hypotheses, the Evaluation Team identified needs for further information and designed a field strategy for gathering such information. Prior to the field visit, the evaluators presented their proposed approach methodology to the Reference Group identifying projects to be analysed, respondents to meet, and methodological tools to be used. This framework (see below) was agreed by the RG as a sound basis for the next phase.

	Sources					
	EC Delegation	Project management	Ministries	NGOs	Beneficiaries	Mss & donors
To what extent have EC interventions in rural development contributed to improvements in rural income and food security?		main				
To what extent did the change in the EC's strategy of support for the health sector (from large interventions to NGO projects and support for the Global Fund) contribute to increased availability of and access to basic health services?		main				
To what extent has EC support to the education sector resulted in sustainable increase in the availability of and access to primary education?		main				
To what extent have EC supported actions on technical assistance and through ASEAN projects responded flexibly to needs and increased the ability of the Lao PDR to benefit from regional or global trade?			main			
To what extent has EC cooperation increased and improved Lao PDR participation in ASEAN regional policy dialogues?			main			
To what extent has EC integration of gender equality, good governance, and environment into its interventions across the board, working with both civil society and all levels of government, resulted in improvements?				main		
To what extent was the EC mix of instruments (regional and thematic budget lines), approaches (fiduciary funds, project approach, macro-level programmes, SWAP), and financing modalities (specific procedures, budget support, joint funding) and /or channels of disbursement (government, private sector NSAs, multilateral organisations) appropriate to the national context and EU strategic policy aims?	main					
To what extent has the EC coordinated and cooperated with EU member states and international financial institutions intending to improve the complementarity of their interventions?						main
To what extent has the design and implementation of EC interventions adequately privileged the needs of the most vulnerable groups?		main				
To what extent did the EC approach result in adoption of European approaches towards poverty reduction that would have not been adopted absent the EC policy dialogue and cooperation programmes?	main					

	Methodological tools				
	Interviews	Focus group	Statistical benchmarking	Field visits	Documents and press release
To what extent have EC interventions in rural development contributed to improvements in rural income and food security?				main	
To what extent did the change in the EC's strategy of support for the health sector (from large interventions to NGO projects and support for the Global Fund) contribute to increased availability of and access to basic health services?				main	
To what extent has EC support to the education sector resulted in sustainable increase in the availability of and access to primary education?				main	
To what extent have EC supported actions on technical assistance and through ASEAN projects responded flexibly to needs and increased the ability of the Lao PDR to benefit from regional or global trade?	main				
To what extent has EC cooperation increased and improved Lao PDR participation in ASEAN regional policy dialogues?	main				
To what extent has EC integration of gender equality, good governance, and environment into its interventions across the board, working with both civil society and all levels of government, resulted in improvements?				main	
To what extent was the EC mix of instruments (regional and thematic budget lines), approaches (fiduciary funds, project approach, macro-level programmes, SWAP), and financing modalities (specific procedures, budget support, joint funding) and /or channels of disbursement (government, private sector NSAs, multilateral organisations) appropriate to the national context and EU strategic policy aims?	main				
To what extent has the EC coordinated and cooperated with EU member states and international financial institutions intending to improve the complementarity of their interventions?	main				
To what extent has the design and implementation of EC interventions adequately privileged the needs of the most vulnerable groups?				main	
To what extent did the EC approach result in adoption of European approaches towards poverty reduction that would have not been adopted absent the EC policy dialogue and cooperation programmes?	main				

The field phase involved:

- Interviews with all relevant EC Delegation staff in Vientiane and Bangkok;
- Interviews with multilateral agency officials at World Bank, Asian Development Bank, United Nations Development Programme (UNDP), and UNICEF;
- Interviews with bilateral agency officials representing Japan, Australia, Sweden, Germany, and France;
- Interviews with officials of the Lao PDR government: Ministry of Agriculture, Ministry of Industry and Commerce, Ministry of Health, Ministry of Education, Ministry of Foreign Affairs, Ministry of Finance, provincial and district officials in Luang Prabang;
- Interviews with representatives of five national non-governmental organisations (NGOs) including one in Luang Prabang; interviews with representatives of four international NGOs (INGOs);
- Four small focus group discussions with project beneficiaries in Luang Prabang;
- Group discussion on rural development issues with Food and Agriculture Organisation (FAO) officials and experts;
- Eight project site visits (three in Luang Prabang, five in Vientiane).

To successfully implement the programme described above during a relatively short period of time, careful planning and coordination with the EC Delegation was necessary. Logistics were arranged by, and a general background orientation was provided by national experts affiliated with Lao Consulting Group, a local company. At the beginning and end of the field visits, the Team Leader carried out a briefing at the EC Delegation in Vientiane.

Shortly after the field mission, there was a debriefing of the Reference Group in Brussels, at which preliminary answers to EQs (i.e., findings) were presented. On the basis of discussions at this meeting, a draft final report was prepared. Based on the answers to the EQs, the draft final report proposed two sets of conclusions and recommendations. *Global* conclusions are typically grounded in findings related to more than one EQ and relate to overall issues in EC cooperation with Lao PDR. Each global conclusion gives rise to a global recommendation. *Specific* conclusions typically arise from the answer to a single, or sometimes two, EQs and are more sector-specific than global conclusions. Each specific conclusion gives rise to a specific recommendation. Proposed conclusions and recommendations were presented for discussion at a meeting of the Reference Group (including video link-up with the Vientiane Delegation). On the basis of detailed comments received, a revised Draft Final Report was written.

Thereafter, a consultative seminar was held in Vientiane in which EC officials from the Vientiane and Bangkok Delegations, officials from DG Relex and EuropeAid in Brussels, the Evaluation Manager, representatives of Government, and representatives of international and national civil society organisations took part. Feedback from this seminar was reflected in the drafting of this Final Report.

### **Limitations and lessons learned**

The results of the evaluation are limited by a number of factors. Statistical information regarding a number of indicators, for example, in the health and education sectors, were not available. ROM monitoring reports do not cover the entire period. The Team was unable to locate the full text of the 2003 Mid-Term Review of the CSP 2002-2006, although a hard copy of the Executive Summary was found in the Bangkok Delegation. Finally, it must be kept in mind that the number of days spent in the field was very constrained, and in several areas (rural development, health, and education) projects were located in the provinces. However, taken as a whole, the evaluation team feels that the evidence described above in this section on methodology, provides a reasonably firm basis on which to arrive at findings and conclusions. The team also benefited



from the close involvement of the Reference Group, as well as from an evaluation seminar in Vientiane at the draft final report stage in which a wide range of stakeholders participated. With hindsight, a lesson learned was that team days should have been reallocated towards the Desk Phase. This would have resulted in a more efficient field mission and in less need to play “catch-up” during the post-field synthesis phase (i.e., the drafting of the Final Report).