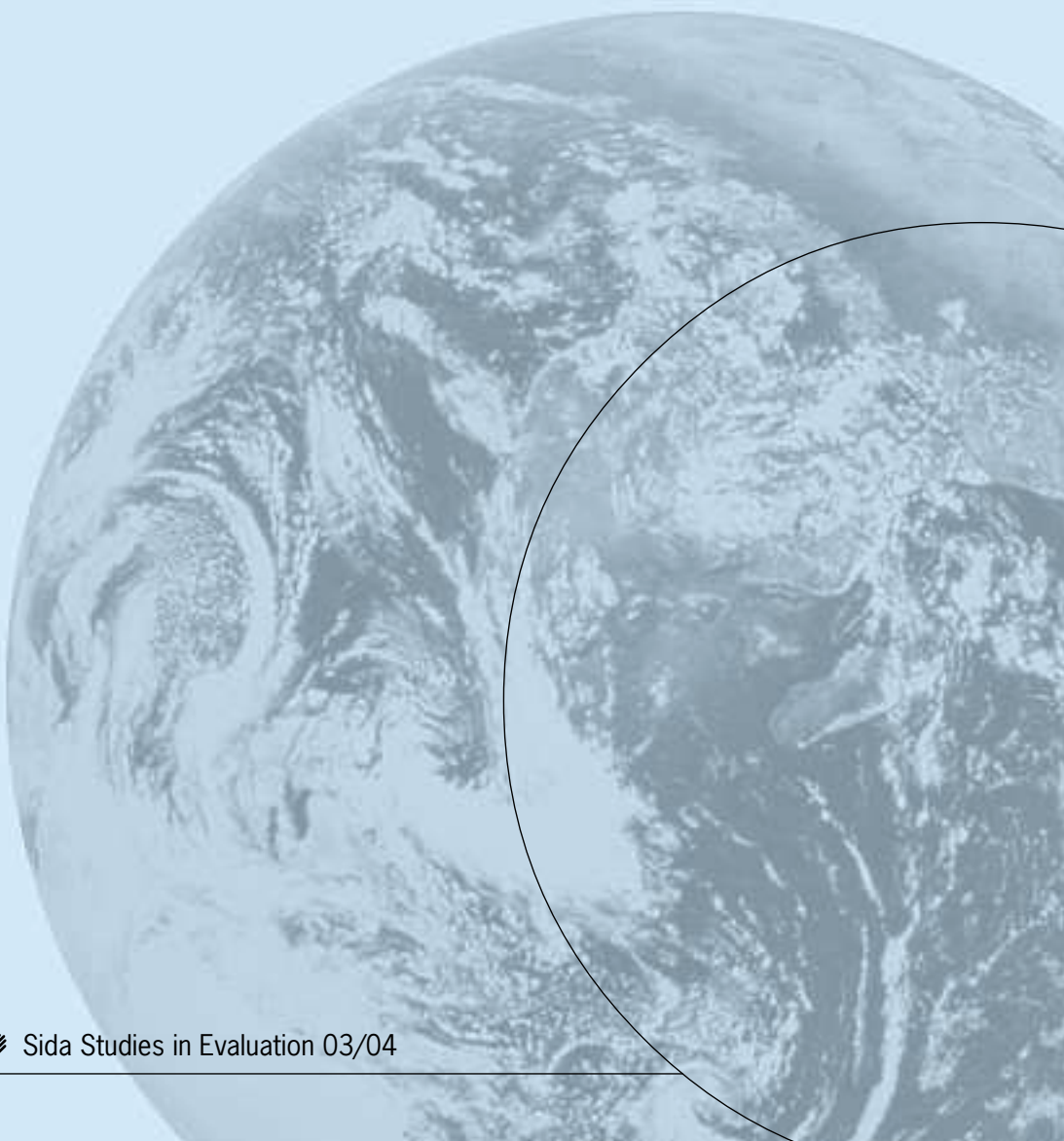


Institutional Perspectives on the Road and Forestry Sectors in Laos

Institutional Development and Sida Support in the 1990s

Pernilla Sjöquist Rafiqui



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Foreword



The present study reviews the road and forestry sectors in Laos and Swedish support to these sectors during the 1991–2001 period from an institutional development perspective. It shows that the institutional set-up of Laos – in terms of formal and informal rules of the game – does not appear to have been able to address the major fundamental problems facing the two sectors. The legal structure governing the sectors is new and still in the making, whereas traces of Laos’ old central planning system prevail in terms of informal norms and behavioral rules, which partly may explain the performance problems.

Swedish support for institutional development has been a central component in both sector programs. None of them have adopted the notion of institutions as rules, the study shows, but nonetheless involved certain efforts at changing both formal and informal rules of the game. The programs have mainly focused on organizational development and on increasing efficiency, largely through the provision of training. A central underlying assumption appears to have been that training given to individuals would feed into broader institutional change. This assumption is challenged by the study. Although successes have been recorded, Swedish support has faced numerous problems. An important finding is that many of these appear to be linked to the particular political institutional system in Laos. The study concludes that Swedish support would have benefited from an institutional approach, which may have provided a better understanding of the institutional context of the programs supported and the local actors involved. It also suggests issues for evaluation of Swedish support to institutional development within the two sectors in Laos from such a perspective.

The study was commissioned in response to requests within Sida for an evaluation of Swedish support to institutional development in the forestry and road sectors in Laos. It serves both as an independent descriptive study and as a pre-study for a possible future evaluation.

Stockholm, November 2003

Eva Lithman
Director
Department for Evaluation and Internal Audit

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List of Acronyms

ADB	Asian Development Bank
DAFO	District Agriculture and Forestry Office
DCTPC	Department of Ministry of Communication, Transportation, Post, and Construction
DoF	Department of Forestry
DoR	Department of Roads
GoL	Government of Laos
HRD	Human Resource Development
IRAP	Integrated Rural Access Planning
IUCN	World Conservation Union
JFM	Joint Forest Management
LSFP III	Lao-Swedish Forestry Program Phase III
LSFP IV	Lao-Swedish Forestry Program Phase IV
MAF	Ministry of Agriculture and Forestry
MCTPC	Ministry of Communication, Transport, Post and Construction
NBCA	National Biodiversity Conservation Area
NFAP	National Forestry Action Plan
PAFO	Provincial Agriculture and Forestry Office
SFA	Selected Field Areas
SOE	State-Owned Enterprise
TFAP	Tropical Forestry Action Plan
ToR	Terms of Reference

Executive Summary

This study was commissioned by the Department for Evaluation and Internal Audit (UTV) at Sida (Swedish International Development Cooperation Agency) in response to in-house requests for an evaluation of Swedish support to Laos, a country that has received assistance since the 1970s. Up until very recently the road and forestry sectors were the main focus of Swedish support to the country, and moreover, ideas about institutional development have been put into practice in various capacity building programs in the two sectors in Laos. However, so far no summarized information about the sectors or experience of the support programs has been available, particularly with regards to institutional and organizational development. This study is to fill that gap, and to constitute the first step towards an evaluation of Swedish assistance to Laos. Thus, this report has the form of a descriptive pre-study, and should not be regarded as an evaluation as such.

The study has four main objectives, of which emphasis is put on the first two:

- (i) To review the development and main problems facing the road and forestry sectors in Laos, with special reference to institutional and organizational development.
- (ii) To review the nature, change and reported success of Swedish assistance to these sectors, with special reference to institutional development programs.
- (iii) To summarize the motivations for and findings of existing evaluations of Swedish support that focus on institutional development and capacity building.
- (iv) To identify and discuss issues for a future evaluation of Swedish assistance provided to the two sectors in Laos.

The focus of the study is limited to the time period 1991–2001. An institutional perspective is used in addressing all four objectives. It differentiates between institutions as formal and informal behavioral constraints – *rules of the game* – and organizations as agents – *players of the game* – who behave in accordance with these rules, but are able to also influence them. The institutional perspective is supplemented with the so-called Institutional Analysis Development (IAD) framework to help structure the discussion and visualize important linkages not only between actors in the sectors, but also between actors and the contextual constraints that limit their ac-

tion space. The methodology is discussed at some length in the report, and one implicit task for the study is to assess whether or not an institutional approach would be a valuable tool also for the upcoming evaluation.

The reviews are based on official program documents and reports, combined with notes and memos of interest found in Sida archives. Interviews were conducted with Sida personnel in Stockholm and staff at the Swedish Embassy in Laos, as well as with a number of past and present Swedish advisers and a few Lao counterparts who were involved in the programs at various points in time.

As to the first objective, the study describes problems and the general development of the sectors, along with major changes in the institutional context during the decade of interest. Central findings include the following:

- Deforestation, together with low profitability and efficiency of the local forest industry, has been the main problem facing the forestry sector. Rapid wearing out of the existing road network and little routine maintenance were main problems confronting the road sector.
- The institutional set-up of Laos during the 1990s was not able to mitigate the fundamental problems commonly expected for common-pool resources and semi-public goods such as forests and roads. For the former sector the predictable problem is over-harvesting of forest reserves, which in the Lao case arose through the local forest industry in combination with poor local communities that rely heavily on timber and non-timber products for their livelihoods. For the latter sector the challenge is under-provision, which for Laos is particularly obvious when it comes to supply of routine maintenance services.
- The formal legal structure governing the sectors is new and still in the making, a result of Laos being in the process of switching from an economic system inspired by central planning to one based on the market mechanism and openness to international trade. Some of its weakest points concern precisely logging rights and customary rights to lands, as well as usage and taxation rights of roads.
- The prevailing quota systems, monopoly rights, and pricing structures bear traces of Laos' old economic system and serve as potential explanations for the performance problems. Moreover, they give rise to norms and informal rules of the games followed by actors in both sectors.
- The provinces come across as the most important level at which activities within the sectors are negotiated and decided upon. The Provincial Governor holds a particularly strong position within the Lao administration, and is a strong actor in both sectors.

- The formal regulatory body within forestry appears to be particularly weak compared to the commercial interests of the sector.
- The international donor community appears to have been a strong actor capable of influencing if not the speed, then at least the direction of institutional change in the roads sector.

To prepare for the upcoming evaluation, a review of Swedish assistance to these sectors was made. It focused on two consecutive support programs for each sector, looking specifically at their so-called “institutional development” (ID) components. The analysis reveals that:

- The nature of Swedish assistance to both Lao sectors has changed considerably over the years. In short, it can be described as a shift in focus from primarily growth-enhancing activities (fostering a competitive forest industry, constructing a national road network) to activities centered around people and their use of the resources (forest research, utilization, and management; road maintenance and rural access roads). In parallel, the attention has been moved from central levels of the Lao administration to lower levels, mainly the provinces.
- ID and capacity building were important components of the support programs for both sectors in the 1990s. Their main objective was to provide Laos with modern forest and road authorities capable of monitoring and managing the country’s forest reserves and road networks. In other words, these program components focused mainly on ministerial actors and on changing the evaluative criteria used for measuring the outcomes in the sectors.
- None of the programs, thus, adopted the notion of institutions as formal and informal rules of behavior. ID activities focused mainly on organizational development and increased efficiency, although some support was given to the drafting of the road and forestry laws.
- Nevertheless, although some subprograms were not identified in the documentation as focusing on institutional development, they in effect did so according to the perspective employed here. One example is the Joint Forest Management program, which involved both formal and informal institutional change, or changes in the rules of the game, for local governments and communities.
- The strategy used for the ID work was similar in both sectors. It included training to increase the competence of ministerial staff, development of new and improved managerial and administrative systems, and technical assistance from Swedish advisers. The advisers were to support the process of change, but not to control it or to monitor outcomes specifically.
- The underlying assumption of this strategy seems to have been that the training given to individuals in technical, administrative, and man-

agerial issues would (a) be applied once learnt and (b) spill over into, or be demanded by, the rest of the organization once its benefits had been demonstrated. This “natural extension” would in turn render the ministry in question more efficient and successful in fulfilling its mandate.

- The ID programs encountered numerous problems, but based on project documentation as well as existing evaluations, also some successes. Problems range from misinterpretations of the term “institution” and a perceived lack of interest for program activities on behalf of the Lao to direct rejections of certain project elements. The study observes that it has often been difficult to transfer even successful projects into other spheres of the administration, which reveals how easily the above assumption can be violated.
- The study links these problems to the particular political system of Laos in which governmental and Party structures are highly intertwined and in which the Party plays the superior but non-transparent role in the relationship. Behind the scenes at all levels of the forestry and road ministries is a loop in the decision process, as decisions have to be sanctioned from above within the state administration and the Party apparatus. That is, the prevailing Party agenda ultimately forms a binding (but not fixed) “rule-in-use” guiding the activities and decisions of ministerial staff.
- Finally, the study argues that Sida-supported organizational development activities in Laos would have benefited from the adoption of an institutional approach, because such an approach increases the understanding of the behavioral context within which a particular program is planted. Institutional analysis – properly applied – would highlight not only the internal incentive structures of the partner organization, but also the risks facing Laotian counterparts who are associated with the changes proposed by the various program components.

The study examines existing evaluations of Swedish assistance to the Lao road and forestry sectors to identify potential gaps in knowledge with regards to support to institutional development. The study finds that:

- Few evaluations have investigated the ID activities of either program, and there exist none that take an institutional perspective as defined in the study at hand.
- For forestry, no evaluations have investigated the poverty implications of the support programs, while some assessments for roads do exist.

As an aid in the preparation of a detailed evaluation of Sida support to institutional development in the two sectors, the study identifies a number of issues that could be investigated. The suggestions are based on the em-

pirical reviews and analytical considerations offered by the IAD framework.

It is argued that there are three possible starting points for the evaluation:

- (i) A focus on Swedish assistance to the road and forestry sectors in Laos, in which an institutional perspective is used to raise the discussion above the immediate result level, and to incorporate contextual issues and explanations.
- (ii) A focus on institutional strengthening and capacity development in general, in which Laos is used as a case study.
- (iii) An evaluation of Swedish support to the sectors from a poverty perspective, in which an institutional perspective is used to gain a better understanding of the livelihoods of poor people in the Lao PDR.

No ranking is made between these alternatives, but it is recommended that an institutional perspective be used, regardless of the point of departure chosen for the evaluation.

- Given the profile of the Sida-funded programs in Laos, it is argued that they offer an opportunity to learn more about the process of *organizational* development and change. This includes lessons regarding sustainability and ownership, as well as the advancement of methods to evaluate the outcomes of projects that focus on human resource development.
- One option is that the strategy behind the organizational building activities, that is, learning-by-doing under the lead of Swedish advisers, be evaluated. Valuable findings from institutional theory concerning incentives and risks should be used, and the fact that in Laos, people who have received training within the programs can be traced, should be taken advantage of.
- The reviews identifies program components that were not labeled as institutional but that in effect focused on institutional development as defined in the study at hand. These components could give valuable information on local and national processes of *institutional* development and change in Laos.
- The study suggests that the role of donors and consultants in the development process be addressed in the evaluation. In many cases, Swedish and international consultants appear to form the “institutional memory” of the sectors and to constitute an important group of actors.
- The study finds that there is a lack of structured knowledge of the effects of the road and forestry programs on poverty reduction in Laos and suggests this be included in an upcoming evaluation. Most importantly, the fundamental question of what formal and informal institu-

tions the various programs affect and how they are linked to the livelihoods of the poor is so far not well understood.

- Finally, if the second starting point is chosen (focusing on processes and conditions for institutional development at large and using Laos as a case study), it is suggested that questions be explored along the lines of:
 - (i) How have changes in the institutional context of Laos influenced Swedish aid?
 - (ii) How has Swedish aid influenced and changed the institutional set-up in Laos?
 - (iii) What are the most important factors determining the speed and direction of institutional change in Laos, and to what extent is such change path dependent?

Chapter 1

Introduction

The Lao People's Democratic Republic (PDR) is a landlocked country abundantly endowed with natural resources, particularly water and forests. It hosts a population of about 5.2 million people who are among the poorest in the Southeast Asian region; almost 40 percent are living below the national poverty line. The economy is overwhelmingly agricultural (52 percent of the gross domestic product [GDP]) and rural (80 percent of the population). Since the introduction of economic reforms in the mid-1980s, the economy has been growing at about 7 percent per year (ADB, 2002). Forest resources constitute the main income base of the country, while roads and infrastructure are the major cost items.

The road network has been extended and upgraded with the help of foreign funds since the creation of the Republic in 1975. Likewise, substantial amounts have been channeled into the forestry sector to turn it into an economically viable yet ecologically sustainable sector. The Soviet Union and Eastern Europe provided international assistance until the fall of the communist block, while Western donors first began to turn their attention to the country after the introduction of economic reforms in the mid-1980s.

Swedish support to Laos began in the late 1970s and constitutes a large part of the country's budget in the two sectors of interest, just as the road and forestry sectors are major budgetary items of Sida's commitment in Laos.¹ In spite of this, no all-encompassing assessment and evaluation of the support to these sectors has so far been made, neither for policy purposes nor for contribution to Sida's in-house learning process. This paper has been commissioned against this background. It represents a first step toward an extensive evaluation to be led by The Department for Evaluation and Internal Audit (UTV) and should not be interpreted as an evaluation as such.

More accurately, it is a prestudy. Its primary objective is to review the development of the forestry and road sectors in Laos, along with the Swed-

¹ In recent years Democracy & Human Rights has become another major area of Swedish support to Laos. In 2001 Infrastructure received about SEK 74 million, followed by Forestry (SEK 18 million) and Democracy (SEK 17 million). Total assistance amounted to SEK 129.3 million that year (Sida, Årsredovisning 2001).

ish involvement in the same sectors. As stated in the Terms of Reference (ToR), this should be done from an institutional perspective in which institutions are regarded as “rules of the game” rather than organizations of structural importance, and with a particular emphasis on institutional development.² The paper should also contribute towards an upcoming evaluation by identifying key areas and issues for further investigation. Also for this purpose the ToR state that a method that allows for information on institutional and organizational development in the two sectors under scrutiny be used.

The remainder of the paper is organized as follows: Section 2 focuses on method and the meaning and implications of using an institutional perspective. Section 3 presents a brief poverty profile of Laos and discusses how poverty is linked to the country’s forestry and roads sectors. The overall development of the forestry sector and Swedish support to it between 1991 and 2000 is the focus of Section 4, and the roads sector is given the same treatment in Section 5. Based on these reviews, Section 6 offers a discussion on contextual variables that stand out as important in limiting the action space of agents in the respective sectors. Section 7, finally, treats key issues and questions for further investigation and evaluation.

² See Appendix 3 for complete Terms of Reference.

Chapter 2

Methodology

“Institutional support”, “institution building” and “institutional development” are phrases frequently encountered in project documentation, country strategies, and policy texts at Sida. Parallel with these notions run others such as “competence development” and “capacity building”. These sets of concepts are usually considered to mean similar, or even the same, things. The support programs for roads and forestry in Laos are one example. As will be seen from the reviews, in these programs, institutional development usually means support to concerned ministries at the national or provincial level in the form of training for key personnel groups at various levels in the organizations, the improvement of systems of administration and management, or both.

The ToR for this assignment give a somewhat different meaning to the notion of institutional development. In them it is stated that the definition of institutions as *rules of the game* should be applied and ‘compared to the concept as it has been used and understood at different points in time when programming Swedish support to the road and forestry sectors in Laos’. Moreover, and more importantly, it is stated that the perspective of institutional development should be used as a *method of analysis* for the reviews. Taken together this means that “institutional development” should be interpreted to mean changes in formal and informal behavioral constraints rather than be limited to improved efficiency of organizations. Furthermore, an institutional perspective should work as a theoretical underpinning in the form of a framework on which to base the reviews and discussion.

An original idea of the ToR is to compare this notion of institutions with the way the concept has been used in Swedish support to the roads and forestry sectors in Laos. Institutional strengthening has been an important part of both these programs during the last decade. Fundamental questions to ask include whether or not the notion of institutions as rules of the game have influenced the programs, and if Swedish support, intentionally or unintentionally, has contributed to institutional development in these sectors in Laos. It will not be possible to answer such questions in any detail in this report, but they will be reflected on, as they may constitute interesting issues for further investigation and evaluation.

Given the importance of the institutional concept as such for this pre-study, the section on method has been extended somewhat compared to what might be the normal practice. What follows is a short introduction to the institutional perspective and its key conceptual distinctions and lines of reasoning. The discussion is brief and related to the needs of this particular paper. Interested readers are referred to Appendix 1 for a more detailed presentation, or to any of the references mentioned there.

2.1 An institutional perspective – what does it mean?

In everyday Swedish and English the term “institutions” is often used to refer to organizations plus “something more”, usually an organization – or sometimes even a person – of particular structural importance. A number of Sida activities, for example, are labeled “institutional” but would be regarded as focusing on various aspects of organization within the institutional perspective used here. Other activities may have institutional elements – or even have institutional change as their main focus – but the term is rarely mentioned, nor is the institutional aspect highlighted. To assess whether this is also the case for the subprograms that focus on “institutional strengthening” within the support programs to the roads and forestry sectors in Lao PDR, we need to clarify what is meant by institutions in such a perspective, and in particular what institutional development and change mean.

2.1.1 Institutions vs. organizations

Institutions, in the sense of *rules of the game*, is a notion usually attributed to Douglass C. North (1990) and his work on explaining variations in the performance of economic systems over time. In his terminology “institutions” refer to “the humanly devised constraints that shape human interaction” or, in short, *the rules of society*. Institutions help to reduce uncertainty in the daily life of the individual and to structure human activity into lasting or repeated patterns of action. Institutions constitute social rules – as opposed to personal rules – that prescribe individual behavior to recurrent interaction problems between human beings (Eriksson Skoog, 1998) They can be *formal* (for example, written policies, laws, rules and regulations) or *informal* (for example, customs, traditions and conventions). The expression “institutional framework” is used to cover both such settings.

In North’s terminology, the term “organization”, on the other hand, refers to “groups of individuals bound by some common purpose to achieve objectives”. Organizations include political, economic, social, and educa-

tional bodies. North admits that there is a high degree of interdependence between organizations and institutions in real life and that both provide structures for human interaction. Conceptually and analytically, however, the two are very different, he argues.

Using a sports analogy he lets “institutions” indicate the *rules of the game* while “organizations” covers the *teams or players that play the game*. Thus, institutional constraints are part of the determination of opportunities in society, while organizations are created to try to take advantage of those opportunities. From an analytical perspective it is essential to try to distinguish the *rules* governing a situation (that is, the institutional framework) from the *strategies* of the players involved in it (that is, interests and actions of the organizations).

2.1.2 Institutional development and change

This distinction between the rules of the game and the strategies of the players is particularly critical when investigating how institutions evolve and change over time. Following North, the process of institutional change and development can be thought of as a bargaining process in which the party who stands to improve his or her position if the institutional structure is altered may very well set aside resources to do so. Even though sounding smooth and easy enough, it may potentially be a very complicated story involving substantial costs in economic, social, and political terms.

Institutional change – or institutional development – hence refers to a change in the rules that govern a situation, which causes the incentive structure for the agents in that situation to change. Unless there is an external shock to the system, it is induced by the actions of the organizations or groups of organizations – or by individual actors – in the situation. North claims that there are two basic sources of institutional change: changes in relative prices and changes in preferences.

Changes in relative prices stem from changes in the ratio of factor prices (due to changes in the ratio of land to labor, of labor to capital, or of capital to land), changes in the price of information, and changes in technology. Such changes lead to altered bargaining positions between organizations or individuals, as some have more resources at their disposal than before while others have less. Relative price changes, thus, influence the prevailing societal power structure and lead to efforts to reconstruct economic and political contracts. These efforts can either be solved within the existing institutional context, that is, within the prevailing set of formal or informal behavioral constraints (for example, rules or traditions), or lead to a change of it.

Change in preferences is a much more complex process and considerably less is known about its sources and mechanisms. One important thing, however, particularly from a development perspective, is that the price people pay for their convictions and behavior will influence the extent to which new ideas or ideologies are expressed. If the cost of articulating ideas that differ from the social norm is low, changes in preferences may very well be a source of institutional change. If, on the other hand, the cost of breaking a written rule or rule of conduct is very high, the individual will in most cases be reluctant to do so, and the institutional setting will remain unchanged.

Consequently, there are two sides to the coin of institutional change: changes in incentives and changes in the cost to the individual of altered behavior. This is one reason why changes in formal institutions (laws and regulations) might not yield the perceived outcome; new laws may require behavior that would break an established way of doing things, and the price for the individual of following the new rules might be very high indeed. The issue at stake is the risk carried by the individual in the process of institutional change. Leadership by the most powerful is one way of reducing individual risk and cost, coordination of activities another. That is, if many agents can coordinate and change their behavior and actions at the same time, the cost carried by each is reduced. If there is a critical mass of agents joining in, cost might even disappear completely.

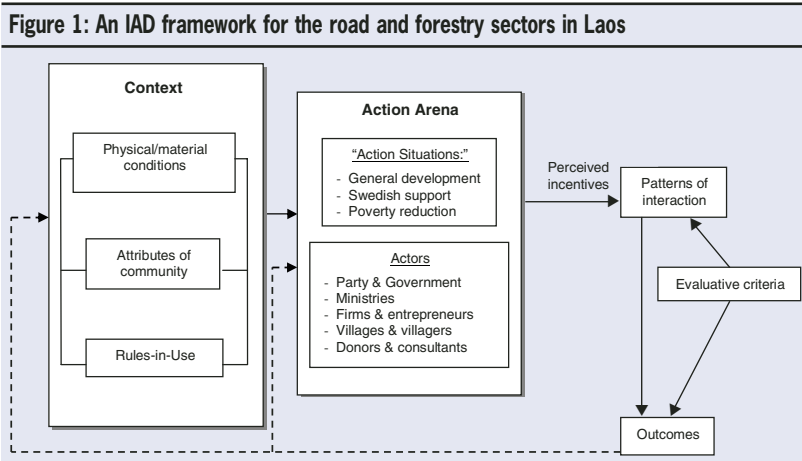
Institutional development or change is, hence, a rather complicated story involving many issues and concerns. To analyze the precise nature of the process of institutional change – and whether Swedish support has contributed to any such change – is an interesting endeavor, but not the main purpose of this study. Laos is currently undergoing substantial changes in its institutional setting, and to link that *specifically* to the nature of Swedish support is beyond the scope of the current paper. Yet, ideas and questions pointed out by North's reasoning are useful when investigating Swedish support to institutional development in the forestry and roads sectors.

2.2 Application to the study

The institutional perspective will carry out three basic functions in the paper. First, it is the general “lookingglass” through which an overview of Swedish support and the development of the two sectors in Laos is viewed and interpreted. This is to ensure that important contextual aspects of the support programs are included. Secondly, it forms the backdrop for the discussion of the nature and effects of Swedish support labeled “institutional development” to the roads and forestry sectors in Laos. And, thirdly, the institutional perspective provides guidance in identifying principal areas for further investigation and evaluation.

Obviously, an institutional approach to an assessment of Swedish support to the forestry and roads sectors in Laos cannot entail that the entire institutional framework of the country be mapped out. Rather, the task at hand is to link important contextual variables of an institutional nature to the activities and positions of various actors involved in the sectors, and to compare this with the way institutional development has been defined in the Swedish support to the sectors.

The Institutional Analysis and Development (IAD) Framework developed by Elinor Ostrom will be used to facilitate this (Ostrom, 1999 and 2002). The framework is depicted in Figure 1 below, where categories of actors and crude action situations according to the ToR have been included. A detailed presentation of the IAD framework and its components (such as the action arena, action situations, and rules-in-use) is found in Appendix 1. It is recommended, but not necessary, that the reader spend a few minutes on the text presented there.



Source: Adapted from Ostrom et al. (2002) p. 276.

As can be seen from the figure, the IAD framework consists of three main parts: a contextual part, an action and actors part, and a part that focuses on outcomes. The arrows indicate that the context (which consists of physical conditions and institutions in North's terminology) influences the action space of the actors (organizations following North's terminology) in a given situation, and that the outcome of their decisions and interactions is influenced by the perceived incentive structure. A flow-back mechanism is suggested by the dotted arrows, which captures the circular relationship between institutions and organizations implied in the earlier discussion on institutional change. That is, institutions influence organizations, but the actions of groups of organizations and individuals also influence institutions and their development.

The analytical aims of the paper are rather modest since its objective is to review rather than to find answers to specific questions. Therefore, the IAD framework is intended first and foremost to function as a road map in this study. It is primarily deemed useful to visualize the notions of context, institutions, organizations and incentives, and to structure the discussions in the reviews. The main objective will be to fill the boxes in Figure 1 with valuable information about *i*) the development of the sectors and Swedish support in the 1990s, *ii*) the actors and their roles in shaping the institutions governing the sectors, and *iii*) contextual variables that seem to influence the action spaces in the road and forestry sectors in Laos.

The general overviews, thus, contain information about groups of actors in sectors as well as the formal legal framework of Laos. To the extent possible, the general overviews indicate important linkages between actors as well as between actors and the institutional context. The overviews of Swedish support try to place the road and forestry programs within the IAD framework, and to see whether the assistance targeted contextual or actor variables – or a combination of the two. With the help of the overviews and existing evaluations and reports on results of Swedish assistance, initial judgements are then made on what rules qualify to be labeled “rules in use”, that is, the set of formal and informal institutional variables that are binding for the actors in the sectors.

2.3 A brief note on poverty in the report

The overarching goal of Swedish assistance to the Lao PDR is poverty reduction. According to the ToR the issues of the review should also be related to this goal. This particular angle is tackled by outlining what is known about the situation of the poor in Laos, and the role that roads and forests play in their lives. These findings will then be compared with the aim and nature of Swedish support to the road and forestry sectors in Laos, as well as with any recorded outcomes of importance to poverty reduction. Consequently, “poverty reduction” has been included along with “general development” and “Swedish support” in the action arena in Figure 1 above.

2.4 Resources and information

The reviews are based on official program documents, reports and agreed minutes from the various support programs, combined with notes and memos of interest found in Sida archives. In addition, concerned personnel at Sida headquarters in Stockholm have taken their time to discuss institutional development and Swedish support to Laos. In Vientiane, interviews have been conducted with staff at the Swedish Embassy and a

number of past and present advisers involved in the programs. The author has also had the opportunity to meet with a few Lao who have worked as counterparts in the programs at various points in time.

Chapter 3

Poverty Characteristics in Lao PDR

With a per capita GDP of USD 330 in the year 2000, the Lao PDR is poor by Asian and world standards (ADB, 2002). The country scored 0.485 on the Human Development Index in 2000, which ranked it no. 143 in the world, placing it in the group of low human development countries. Then again, this is an improvement from 1985 when Laos only reached 0.375 on the Human Development Index (UNDP, 2002).

The Government of Laos has not yet decided on the definition of an official poverty line, but a few attempts have been made to construct one and to measure the rate of poverty prevalence in Laos. Kakwani *et al.* use the Lao Expenditure and Consumption Surveys (LECS) from 1992/1993 and 1997/1998 to investigate per capita real consumption, and to construct a poverty line based on nutrition requirements adjusted for age and sex. They find that per capita real consumption in Laos grew at an annual rate of 5.8 percent between the two surveys, which is higher than the growth in per capita GDP. The authors concluded that Lao households benefited from high economic growth in the 1990s (Kakwani *et al.*, 2001).³

Poverty in Laos is mainly a rural and regional phenomenon. The Northern region is the poorest in terms of monthly per capita consumption, and Vientiane Municipality is the richest. Four out of five provinces with poverty incidence higher than 50 percent are found in the North. Also in terms of depth and severity of poverty, the North was found to be the worst region in the country.⁴

³ The incidence of poverty decreased in the 1990s in Laos. In the beginning of the decade some 45 percent of the population lived under the national poverty line; in the latter part of the decade the number had come down to 38.6 percent. The number of poor thus declined by 3.1 percent annually. Growth has not been distributed equally, however; the poor in Lao society have benefited proportionally less than the rich. The share in per capita consumption of the bottom 20 percent of the population decreased (from 9.3 to 7.8 percent) while that of the richest 20 percent increased (from 38.4 to 44.4 percent). Kakwani and his colleagues infer that Laos experienced some trickle-down effects from its growth in the 1990s but that its equality record, which is high by Asian standards, eroded.

⁴ The 1995 World Bank study *Lao PDR: Social Development Assessment and Strategy* was the first attempt to construct a poverty line and to measure regional disparity in poverty. In that study the South was found to be the most impoverished part of the country. This finding was challenged in 1999 in a study by Gun Alm Stenflo from Statistics Sweden called *Poverty Profiles for Lao PDR*, which found that the North was the poorest region in Laos. Her results were confirmed by Kakwani *et al.* (2001), whose findings form the basis of the discussion here.

Furthermore, the North represents an aberration in that it has high growth rates in per capita real consumption (higher than Central and South), while at the same time displaying the lowest rate of poverty reduction in the country. This indicates a sharp increase in inequality during the 1990s in the North.

Figure 2: Per capita real consumption (kip*)

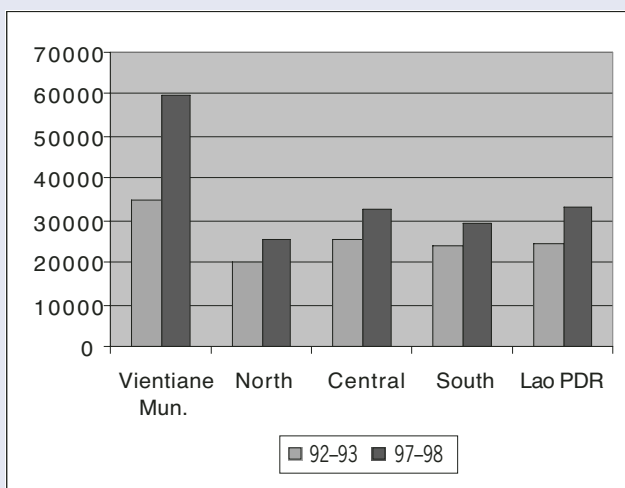
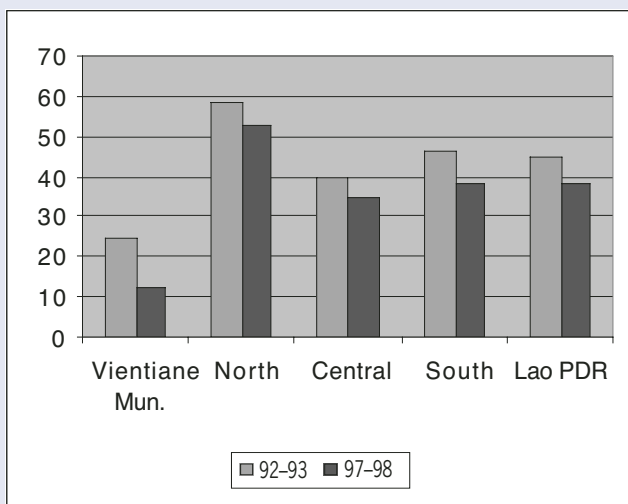


Figure 3: Poor as percentage of population



Source: Kakwani et al. (2001)

* Local currency in Laos

Another poverty feature in Laos is that it is highly related to ethnicity. The country hosts over 230 ethnic groups that can be categorized in four major ethnolinguistic families: Tai-Kadai, Mon-Khmer, Hmong-Mien and Tibeto-Burmese. Lao speakers are a subgroup of the Tai-Kadai language family and according to the 2000 Poverty Participation Assessment (PPA), they constitute a minority among the poor, both in terms of number of villages and population (SPC, 2000).⁵ That the poor mainly comprise ethnic minorities in remote areas is also the founding principle of the Rural Development Program, the leading policy document on poverty of the Lao Government.⁶

3.1 Poverty, roads, and forests – how are they linked?

Apart from identifying determinants of poverty and wealth in Laos, the PPA also gives an idea of ways in which roads and forests are important for the poor in Laos.⁷ Villagers cite a lack of allweather roads as the most important problem preventing economic growth. Thus, they need not only access to markets in general, but they need it particularly during the wet season since this is when most agricultural goods are mature and ready for sale. In general, a lack of roads and access to markets is not considered a main cause of poverty in the assessment, but remedying this lack is ranked as one of the main solutions to it.

Another element of roads in the lives of the poor is that long transportation and bad roads make people hesitant to go to the hospital in cases of serious illness and disease. As stated in the PPA, people prefer to die at home among family and friends rather than incur the cost of treatment (which could mean having to sell a buffalo or cow) and burden a family member or neighbor with having to carry them to the hospital and back.

Natural forest resources such as wild animals, fruits, and vegetables are essential consumption items for the rural population in Laos. Eightyfive percent of the villagers in the PPA obtained more than half of their (nonrice) food consumption from wild sources. In addition, many forest products such as cardamom and paper mulberry bark are key sources of cash for poor households. Forest products are collected and sold to pay for health,

⁵ For example, only 13 percent of the population speak Lao as their first language in the four provinces furthest to the north.

⁶ One of the Government's "solutions" to this has been to establish so-called "focal sites for development", often involving the resettlement of villages of different ethnic backgrounds in the same village constellation. For a discussion see, for example, Bourdet (1998) and Chamberlain & Panh (2002).

⁷ Rice sufficiency is considered to be the main determinant for poverty among the poor. Livestock, and in particular buffaloes, is regarded to be the most important indicator of wealth and well being. Livestock serves as a savings mechanism as well as being highly important spiritually, as a sacrificial offering.

education, transportation, and clothing. Not surprisingly then, environmental degradation (forest overuse and logging) is one of the most commonly cited causes of poverty.

With regards to forestry and forestland, it is clear that land problems directly related to rice production are the first priority of the poor in Laos. The Land Allocation policy is vital from this perspective, and the PPA found that the implementation process needs to be evaluated and reexamined as it far too often has failed to improve the livelihoods of the poor.

One final point should be made that is not directly related to roads and forestry but is interesting from an institutional perspective. Villagers in the PPA put a lot of weight on local leadership as an economic determinant of poverty and economic growth. Innovative leadership by village members within the cultural context of the specific group could change things, in the eyes of assessment participants. It was considered crucial that this leadership come from the inside, from a respected person who understands what innovations and solutions would work given the ‘confines of a particular world view’; that is, given the local institutional context.⁸

⁸ The most respected person in the assessment villages was the Neo Hom (Lao Front for National Reconstruction) Representative. In all villages, this person was also the ethnic leader of the village.

Chapter 4

The Forestry Sector 1991–2001

The forestry sector in Laos is notoriously difficult to grasp and map out in a simple yet correct way. This is due to the many usages of forests and forestlands, and the large number of accompanying groups of actors with vested interests in the sector. A fundamental question is what to include under the heading of “forest”. On the one hand, one can focus on the trees themselves and their use in industrial production; on the other, one can focus on the land and its alternative use in agriculture. In between falls the category of the forest as a provider of food and nonforestry products to local communities, and, of course, as an ecological system rich in biodiversity but susceptible to external pressure.

In this review, forestry has been taken to mean the sector at large, that is, including all these various aspects of usage and interests in the forests of Laos. This is because it best reflects Swedish support during the time period of interest.

4.1 General overview of the sector

The National Statistical Office reports that the contribution of forestry to national GDP was 7.1 percent in 1995, falling to 3.1 in 2000. The input of forestry to government revenue also decreased during the same period, from 17 percent in 1995 to 9 percent in 1998. Around 30 percent of total export value per year stemmed from wood products in the latter half of the 1990s. However, efforts to match supply and demand statistics indicate that log exports must be far larger than reported and that unrecorded or illegal logging is sizeable in Laos (WB/Sida/MoF, Finland, 2001). The Government of Laos (GoL) has admitted that the problem of illegal logging exists.

Although making important contributions to the economy and regional employment, the forest sector has not been able to develop into the engine of growth envisaged by analysts at the time of the creation of Lao PDR.⁹ Laos has not been able to develop its potential for competitive wood processing; issues such as illegal logging and corruption haunt the indus-

⁹ Approximately 22,000 people are employed in the sector. Most of the wood processing units are located in the southern and central regions of Laos where the largest reserves of natural forests are found.

try, and the sector does not contribute to the state budget anywhere near its potential. Moreover, deforestation threatens not only the resource base of its forest industry but also the livelihoods of its rural population.

The southern and central parts of Laos still have some of the highest forest cover ratios in Asia, despite alarming rates of deforestation.¹⁰ Domestic demand for wood is high in Laos; about 80 percent of the country's energy consumption is wood based, mostly in the form of fuel wood and charcoal. Foreign demand for forest products – particularly unprocessed wood – is also high and has been increasing during the 1990s. Lao forest reserves have become attractive in the region as forest resources are rapidly being depleted in its neighboring countries, particularly in Thailand and Vietnam. The role of roads is important in this context. Not only have the forests become more attractive, but they are also more accessible today than 10 years ago due to the upgraded road network in Laos.

4.1.1 Policy and legal framework – the formal institutional context

All forestland – and permanent agricultural land – in the Lao PDR belongs per definition to the National Community, represented by the State. The State has the power to decide how forestland should be managed and used (Eggertz, 1997). Lao forest policy has changed much during the 1990s.

The First National Conference on Forestry held in May 1989 is a landmark in the evolution of forest policy in Laos. It had widespread support in the Republic and was attended by some 500 participants from both the central government and the provinces. Major donors, banks, and non-governmental organizations (NGOs) were also represented (Ohlsson, 2001). The conference presented a forest policy based on conservation and rehabilitation, as opposed to the earlier emphasis on production. It also envisaged permanent resettlement by the year 2000 of 60 percent of the 1.5 million people in the upland areas, who were engaged in shifting, or swidden, cultivation.¹¹

The work on the Tropical Forestry Action Plan (TFAP) was an outcome of the conference. The Food and Agricultural Organization (FAO) was the implementing agency for the work on the plan where the Asian Development Bank (ADB), United Nations Development Program (UNDP),

¹⁰ The Lao PDR had an estimated 17 million hectares of forest covering 70 percent of its land area in the 1950s. By 1989 this had declined to 11.2 million hectares, or 49 percent of the land area, and most indications point to the forest coverage having declined further in the past 10 years.

¹¹ The magnitude of this goal has been abandoned, although resettlement is still on the agenda of the GoL (see Footnote 6 above), but this time under the rhetoric of providing better services for the rural poor.

and the World Bank (WB) were the main donors. It was endorsed in 1991. The TFAP focused on six areas: human resource development and institutional strengthening, protection of watersheds, sustained use of natural forests, plantation forestry, and sustainable alternatives to shifting cultivation (Turnbull, 1999).

The endorsement of the TFAP is another landmark; it opened the doors to more donor support to the sector in Laos. An updated version called the National Forestry Action Plan (NFAP) was sanctioned by a Prime Minister's Decree, also in 1991. The NFAP was approved by the Government of Laos to form part of the forest policy of the Ministry of Agriculture and Forestry (MAF), and it has been a guiding document for forest sector planning since.

The legislative responses to the new policies were rather rapid; 13 decrees relating to the forestry sector were adopted between 1989 and 1992 alone. They span issues such as property and family law, the organization of the MAF, logging bans, land taxes, and land rights (Ohlsson, 2001). The Forest Law was adopted in 1996. It replaced earlier decrees. Any regulations contradicting the new law were invalidated and existing forest resource legislation was thus concentrated.

The Forest Law describes the rights and duties of the MAF, the Provincial Agriculture and Forestry Office (PAFO), the District Agriculture and Forestry Office (DAFO), and the village authority, which is recognized as a formal administrative level of government by the Lao Constitution. It also defines the categories of forest in Laos: protection forest, conservation forest, production forest, regeneration forest, and degraded forest. Article 31 recognizes customary rights to forest resources as long as they do not conflict with any specific law. Villagers may use nontimber forest products for household consumption or harvest them for sale in sustainable volumes, with the permission of DAFO and PAFO (Bailey, 1996). Although comprehensive, the Forest Law does not cover the issue of logging contracts and sales of logs.

4.1.2 Actors in the sector

As depicted in the IAD framework in Figure 1, groups of actors in the sector include the forestry industry and local communities, various ministries at central and provincial levels, and foreign donors and their consultants. In the forestry sector the roles and relations between these actors are often complicated and the same actor can have different and sometimes contradicting interests.

The grouping of actors used here is made according to their primary position *vis-à-vis* the institutional framework of the sector; that is, actors whose

primary task is to uphold and implement formal institutions (various ministries), actors acting within this context (industry and local communities), and actors who lend support to other actors in all these categories (foreign donors).

The forest industry

A brief overview of the incentive structure facing the forest industry in Laos reveals a combination of regulations, set prices, and quotas. During the 1990s, the government has tried to steer activities away from logging and towards wood processing to increase the value-added component of the sector. This has been done by formal regulations that ban logging. The price of wood is based on centrally set royalties plus various fees and taxes. Royalties have been changed frequently – but not systematically – and have not been successful in tracking international prices. Logging quotas are decided at the national level, but handled by the provinces. The provinces have had a habit of adding to quotas over the year, which has led to overcutting. The quota system also carries an incentive for felling premium logs, since volumes are calculated at the second landing. This means that imperfect logs can be left behind at the felling site and remain unmounted (ADB/IMF/WB, 2002).

The distinctions between logging and wood processing and between natural forests and plantation forests make it easier to discuss the characteristics and challenges facing the forest industry in Laos.¹² In short, the natural forestbased sector is mature, has an overcapacity, and operates in a very competitive environment. The plantation forestbased sector, on the other hand, is still small and in its infancy (Keating *et al.* 2002).

Excess capacity seems to be a problem common to wood processing enterprises in Laos, Thailand, and Vietnam. Lao units report as little as 50 percent capacity utilization, and they are not profitable. Reportedly, they survive by not reinvesting cash flows and by not paying the full amount of royalties and taxes to the government. The wood processing industries of Vietnam and Thailand not only have excess capacity but are also more competitive than the Lao ditto. The inability of the Lao forest royalties to correctly mirror international prices is given as one explanation for this. The demand of forest products from Vietnam and Thailand mostly refers to roundwood to feed their own processing factories. High quality wood comes from natural forests and the species found there (such as teak), rather than from fast growing species found in plantation forests (such as eucalyptus).

Logging concessions during most of the 1990s have been the exclusive right of three State-Owned Enterprises (SOEs) under the jurisdiction

¹² The category “production forests” is made up of *natural forests* and *plantation forests*. Natural forestry concerns production based on trees that are 80 years or older, while plantation forestry refers to fast-growing species that can be felled already after 5–10 years.

of the Ministry of Defense. They operate in the North, Center, and South respectively and have a monopoly situation when it comes to the logging of natural forests in their allotted regions. The SOE active in the South is particularly influential. About 20 percent of the wood processing units of Laos constitute 80 percent of the country's wood processing capacity, and these larger units are mainly located in the South.

The large players in the industry tend to be integrated operations that are involved in logging and processing and have secured market access. As Laos is a landlocked country, entering into joint partnerships with foreign investors, particularly from Thailand and Vietnam, is one way of securing market access. The SOEs have been receiving preferential treatment in the allocation of processing, export quotas, and contracts with foreign investors. Private enterprises and private firms in collaboration with SOEs dominate ownership in the sector, in terms of number of processing units. In terms of influence, the three militarybacked SOEs seem to predominate (ADB/IMF/WB, 2002). This is due to their strategic position with reference to the natural forest resources in Laos, one of the country's most valuable and liquid assets.

The Ministry of Agriculture and Forestry and others

As can be seen from the Table 1, a number of ministries influence the action space of the forestry sector in one way or another. The MAF is particularly important from an institutional perspective, not only in its capacity as a regulatory and advisory body to the GoL, but also because of its role in landuse surveys and landallocation/land use decisions. It also participates in setting the logging quotas.

However, from documents, interviews, and casual discussions, it is evident that the MAF, and in particular the Department of Forestry (DoF), is not a "big player" in the sector and never was during the 1990s. Its position in relation to commercial interests has been very weak, and by extension one can speculate whether its role relative to other ministries has been feeble as well. Moreover, the provincial branch of the MAF, the PAFO, is *de facto* ranked lower than the Provincial Governor. The relationship is depicted in Appendix 2. PAFO has frequently been overruled in important decisions such as those concerning annual log quotas and sustainable forest management at the provincial level.

Table 1: Selected ministries and committees and their relation to forestry, 1998

Ministries and Committees	Relation to the Forest Sector
State Planning Committee	<ul style="list-style-type: none"> i) Macroeconomic and sector planning ii) Policy formulation iii) Coordination between sector policies and line ministries
Ministry of Agriculture and Forestry	<ul style="list-style-type: none"> i) Regulatory and advisory role for the GoL ii) Translating policies and strategies into programs and projects iii) Research and information iv) Surveys of forests and forest land v) Advise/decide on changes in land use vi) International cooperation
Ministry of Finance	<ul style="list-style-type: none"> i) Collection of revenues/royalties (generated through logging and harvesting of NTFP) and taxes, for example, land tax. ii) Financial management, including budget allocation to the forest sector
Ministry of Commerce and Tourism	<ul style="list-style-type: none"> i) Establish minimum prices for timber from logging quotas ii) Collect customs fees iii) Control the three State-Owned Enterprises (SOEs)
Ministry of Education	Higher education in forestry, agronomy etc. up to the B.Sc. level
Ministry of Justice	<ul style="list-style-type: none"> i) Coordinate and assure consistency between different laws and regulations ii) Formal dissemination of legal documents
STENO (Science, Technology and Environmental Organization)	Coordinating agency for environmental planning and management across all sectors (part of PMO)
Ministry of Information and Culture	The Institute of Cultural Research is a source of information about ethnic minorities

Source: Celander (1998) p. 6.

The Ministry of Commerce and Tourism (MCT) also comes across as an important actor based on the table above. Its Timber Committee sets the timber price, which can differ depending on different species and available market information. Royalties and other duties are included as a fixed sum in the price. Finally, it seems like, at least formally, the three SOEs are under the control of the MCT, although some sources prefer to put them directly under the jurisdiction of the Ministry of Defense (see, for example, WB/Sida/MoFA, Finland, 2001; ADB/IMF/WB, 2002).

The Ministry of Finance (MoF) is another influential player, both as an income collector on behalf of the Government and in its key role as financial manager of the sector. The doings, or non-doings, of the MoF have

constituted binding constraints for large groups of actors in the forestry sector, as the availability of funds has continued to be a great source of uncertainty all through the 1990s.

The donor community and international consultants

Sida was one of the first donors in the forestry sector in Laos, and until the early 1990s, it was the only one that supported the DoF at the MAF. ADB and UNDP have since followed course and supported the MAF directly. Support by international donor agencies increased after the endorsement of the TFAP in 1991. Donors seem to be moving largely in the same direction with research- and community-based programs becoming more and more prominent.

One trend that Sida has not embraced so far is the integration of forestry and agricultural activities in communitybased programs.¹³ In Laos, integrated programs are usually the domains of NGOs, as are efforts that target conservation.

The largest programs in financial terms during the 1990s: a Forest Management and Conservation Project funded by WB/Finnida (USD 20 million); a Plantation Forestry Project funded by ADB (USD 16 million); and Sida's Lao-Swedish Forestry Program III and IV. The total Swedish contribution during the decade amounted to SEK 173 million. All these large programs are also of long duration, between 5 and 9 years. The Foreign Aid Report 2000–2001 lists some 12 ongoing multilateral and bilateral projects immediately related to forestry, in addition to numerous smaller NGO programs (LSFP IV, 1996*b*; LPDR, 2002).

To give an idea of what magnitudes we are talking about, total Official Donor Assistance to Laos for the fiscal year of 2000/2001 amounted to USD 379.5 million. Of this, USD 30.34 million, or 7.8%, were allocated to the sector "agriculture, forestry & irrigation". USD 1.6 million was disbursed under LSFP IV, which comprised approximately 4% of total donor funds to the sector that year (LPDR, 2002).

The main support programs in the sector have tended to focus on similar issues. This has raised not only the issue of donor coordination within the sector but also that of absorption capacity and resource constraints on the Lao side. Education and language skills within the central and local administration are two limiting factors. The number of people who possess the required technical or managerial skills in combination with adequate language proficiency is small. Consequently, those who do are in demand for multiple positions in central or provincial ministries as well as donor programs.

¹³ Possible exceptions might be found in Sida's assistance to agroforestry research.

One interesting aspect of the longevity of the major programs is that much of the so-called institutional memory of the sector actually rests with foreign consultants who have worked as technical advisers and assistants to the central ministry MAF for long periods of time. Some have been in Laos since the late 1980s and have seen many organizational charts come and go, numerous nominations, and much reshuffling of responsibilities and positions within the ministry. As moving of staff, particularly those in senior positions, typically entails the removal of all his (it is usually a he) documents as well, knowledge of past events can be a valuable asset for the consultant and the donor program he (it is usually a he) is working for.

Local communities and villages

According to the Lao Constitution, villages are a part of the formal governmental structure. The Prime Minister's Decree on decentralization from 1999 specifies that they are the implementing unit of state policy with the special purpose of reducing poverty. Customary rights to forest lands are recognized in Laos, and there is a formal opportunity to receive compensation for losses due to limitation of customary rights. Compensation is usually given in the form of new land in a different location for people affected by, for example, the construction of dams.

Shifting, or swidden, cultivation is used extensively in Laos, particularly in the mountainous parts of the country. Land under shifting cultivation is formally forestland and not agricultural land. The practice of shifting cultivation has been identified as one of the main threats to the forest resource base of the country, and an extensive land allocation process is currently being undertaken. This includes categorization of protection, conservation, production forests, and allocation of land for cultivation. Arguably, the land allocation process is not a matter of recognizing the traditional rights of ethnic minorities but rather of granting the State claims of ownership (Eggertz, 1997).

The rural population in Laos constitutes about 80 percent of the total population, or some 4 million people. They are heavily dependent on forests for foods, fuel, medicines, tools, construction materials, and cash income from the sale of nontimber forest products. As seen from the section on poverty characteristics above, this is particularly true in the poorest regions and among the poorest segments of Lao society. It has been estimated that a rural family of five consumes approximately USD 280 equivalent per year in so-called Non-Timber Forest Products, including fuel wood (ADB/IMF/WB, 2002).

Based on various policy and strategy documents of the Lao Government, the role – or responsibilities – of rural communities and villages in the forestry sector seems to be expanding. Local communities are to be involved in long-term forest resource management, monitoring and management of the country's 20 National Biodiversity Conservation Areas, increased use of degraded forestland for agriculture, and re-plantation. In the PPA, some villagers expressed their dissatisfaction with increased governmental responsibilities and requirements without proper compensation. Local communities are slowly being given longterm enforceable use and access rights to forest lands under their traditional control. Whether this will translate into increased voice of poor communities in the forestry sector, by means other than from the continued practice of swidden cultivation, remains to be seen.

4.1.3 Concluding observations

This brief overview reveals that rapid deforestation due to overharvesting of the forest resource base and illegal logging are major problems that the forestry sector in Laos has encountered during the 1990s. Deforestation is regarded a major challenge for the future, not only by environmentalists, but also by the poor in Laos who are dependent on forest resources for their livelihoods. Another key problem is the apparent low efficiency and profitability of Laos' forest processing industry. Laos has so far not succeeded in establishing high value-added production domestically, and its core firms are active in a decidedly mature and competitive market. Moreover, the overview points to a few institutional and organizational features linked to these problems, which will be discussed here.

A first analytical aspect to the over-harvesting problem is that natural resources such as forests belong to a category of goods referred to as “common-pool resources”. Such goods are distinguished by non-excludability (it is hard to exclude potential beneficiaries from use of the resource) and rivalry (one person's use of the resource subtracts from the amount of the resource available to others). Over-harvesting by users is, thus, an intrinsic problem concerning common-pool resources. Theory says that effective formal or informal institutions are needed to prevent overuse, congestion, or even destruction of such resources.

Such institutions need not necessarily be of a topdown, centrally enforced nature, however, since there are ample empirical findings that show how users of a resource themselves can develop rather efficient rules to govern their resource over time.¹⁴ The point is, rather, that with-

¹⁴ See Ostrom *et al.* (2002) for a discussion of common-pool resource problems, and for further references.

out some system of rules to constrain the behavior of the potential beneficiaries of the resource, the incentives are such that the resource runs the risk of being depleted. Are such institutions in place in Laos? The increased attention paid to deforestation at the policy level and the factual evidence of a rapidly depleting forest cover in Laos would indicate that this is not the case.

Formal property and usage rights to forest land and forestry products are important institutions for managing the overharvesting and deforestation problems in a market-based economic system, as are local formal or informal solutions. The formal institutional context of the Lao forest sector has changed significantly during the 1990s, and formalization of various interest groups' property rights is a process that is currently taking place. Yet, gaps in the formal legislation prevail and, given the common-pool resource nature of forests, it is noteworthy that two of its weakest points seems to be logging rights and customary rights to forestlands.

Add to this the incentive structure facing the wood processing industry (such as the measuring system) and poor communities and the result, as predicted by theory and described by Eggertz (1997), is one of "open access" to forestland in which large concession holders and villagers overuse the land. Their activities are sometimes in competition with each other, sometimes complementary. Both firms and individuals in Laos chose to ignore regulations that would render their existence or livelihoods impossible. Formal regulations come out as weak in this process. Unfortunately, the documentation available for this review reports no investigation into local formal or informal institutional arrangements to solve the overharvesting problem.

As to performance, the system of logging quotas, monopoly rights over the logging of natural forests, and a pricing system based on centrally set royalties are features of the institutional setting that arguably affect the performance of the Lao forest industry. These combined features in turn seem to give rise to certain norms or informal rules of the game that are prevalent within the sector. One is the habit of the provinces of adding logging quotas throughout the year; another is the habit of avoiding paying the full amount of royalties and taxes displayed by Lao wood processing enterprises. The last feature is an indication of the continued existence of so-called "soft budget constraints" within the present day Lao economic system.¹⁵

¹⁵ The soft budget constraint refers to a phenomena of non-binding financial constraints commonly found in socialist economies, due to which loss-making firms come to expect future bail out by some financial institutions or the state. The notion is much more than a bookkeeping identity; it is a description of a certain behavioral characteristic of the planner as well as a reflection of a dynamic commitment problem for the state. The notion was coined by János Kornai; see, for example, his 1992 *The Socialist System: The Political Economy of Communism*, Princeton University Press.

There are two features of the organizational structure of the Lao forest sector that stand out as particularly important for the speed and direction of institutional change in the sector. One is the weak position of the formal regulative body when it comes to monitoring and implementation; the other is the strong position of the provincial level in the determination of the action space in the forestry sector. As to the first, the role of the MAF changed considerably during the 1990s, from that of an executive branch of an administration under Lao style central planning, under which the SOEs functioned more or less as departments, to one of strategic planning and legislation. The roles and responsibilities of the national, provincial and district administrative bodies of the MAF are still in the making, which seems to have a negative effect on the implementation and enforcement of forest legislation in particular. Thus, even if the formal legislation was complete the enforcing body is presently not a strong actor in the sector. From this perspective, donor support aiming at strengthening the capabilities and resources of the MAF and its provincial bodies may be justifiable.

The second observation is that the provinces seem to have become the most important level at which the actual activities in the forestry sector are negotiated and determined. The Provincial Governor in particular holds an extremely strong position at this level. That the three strong SOEs in the sector have more or less monopoly powers in the regions in which they are based and that each region consists only of a handful of provinces makes it possible for strong alliances between the provincial administration under the Governor and the industry to form. The provincial offices of the MAF are very weak parties in this triangle. It can be speculated that the provincial level is where the organizations (players of the game) that most influence the institutions (the rules of the game) in the sector are found.

Finally, local communities and villages in Laos may become increasingly more influential actors as their roles and responsibilities within the sector are officially recognized and sanctioned. The land allocation process and formalization of user's rights to land are arguably important ingredients in this development, as is the formal responsibility of Lao villages for poverty reduction. The documentation as well as informal conversations indicates that the donor community have been influential in putting both poverty and land use on the policy agenda of the GoL, thereby having influenced the process of institutional development in Laos.¹⁶

¹⁶ Apparently, the word "poverty" was impossible to use within the Laoian context 10 years ago, and it is only during the last decade that the issue has been openly discussed and made part of government policy.

4.2 Overview of Swedish support to the sector

Sweden has been supporting the forestry sector in Laos since the late 1970s and great changes have occurred in terms of focus and methods of the support over the years.¹⁷ This is not something exclusive to Swedish assistance but rather part of changes in general trends in thoughts and approaches to forests and forestry. In short, the evolution has been from a focus on trees to one on people; from forestry as an engine of growth to forests as fundamental to rural livelihoods as well as an income-generating asset for forest enterprises and the Lao state (Persson, 1998). This means that the goals of the various support programs have changed quite a lot over the years, and in particular that the scope of activities has broadened considerably.

Two programs cover the time period of interest for this review: the Lao-Sweden Forestry Program Phase III (1991–1995) and the Lao-Sweden Forestry Program Phase IV (1995–2001).

4.2.1 Program outlines and components

The motivation of the Lao-Swedish Forest Program (LSFP) was ultimately the same for phase III and IV, namely, improved productivity of forest resources and sustainable land use based on environmentally sound principles. In both phases, institutional strengthening was considered vital for such a development to occur, and constituted a large part of the program budgets. LSFP III consisted of six subprograms that are loosely sketched in Table 2, along with the four subsystems of LSFP IV.

¹⁷ Initially, Sweden supported two State Forest Enterprises, SFE-1 and SFE-3, with the aim to increase revenue from forest utilization. The assistance up until 1987 mainly went to the establishment and operation of these two enterprises. Between 1982 and 1987 the support also included a number of planning and management projects within the Department of Forestry and Environment at the Ministry of Agriculture and Forestry (MAF). A more comprehensive forestry sector program in operation between 1988 and 1991 covered new areas such as forest resource conservation, stabilization of shifting cultivation, and provincial support. Up to 1990, Swedish aid to the forestry sector of the Lao PDR totaled SEK 182 million (LSFP III, 1991).

Table 2: Basic information about LSFP III and IV

LSFP III (1991–1995)	LSFP IV (1996–2001)
<u>Subprograms</u>	<u>Subsystems</u>
<ul style="list-style-type: none"> – Central Support (institutional strengthening) – Forestry Training (institutional strengthening) – Forest Inventory – Shifting Cultivation – Silviculture – Forest Resources Conservation 	<ul style="list-style-type: none"> – Institution Building Initiative – Participatory Village Development & Sustainable Land Use Systems – Participatory NBCA Management System – Natural Resource Management Initiatives
<u>Geographical target areas</u>	<u>Geographical target areas</u>
Unknown	<ul style="list-style-type: none"> – 4 Provinces (2 North, 1 Central, 1 South) – 4 NBCAs
<u>Administration target levels</u>	<u>Administration target levels</u>
– MAF	– PAFO & DAFO
<u>Budget</u>	<u>Budget</u>
– SEK 120 million*	<ul style="list-style-type: none"> – SEK 110 (until original ending date 1999) – SEK 153 (including extension until 2001)**
<u>International Consultants</u>	<u>International Consultants</u>
<ul style="list-style-type: none"> – Swedforest & ÅF-SMG – IUCN (conservation) – SLU (research) 	<ul style="list-style-type: none"> – SccNatura (former Swedforest) & ÅF-SMG – IUCN (conservation)

Sources: LSFP III (1991), appendix 1–6; LSFP VI, CD-ROM.

* Of which SEK 75 million to institutional support in the form of Central Support (61.1) and Forestry Training (13.9)

** This means that total accumulated Swedish assistance to the sector by 2001 amounted to SEK 455 million.

NBCA = National Biodiversity Conservation Area; ÅF-SMG = Svenska Ångpanneföreningen – Svenska Management Gruppen; IUCN = World Conservation Union; SLU = Swedish University of Agricultural Sciences

Even though the justification for support remained the same between the phases, the approach changed quite dramatically in a few important ways. First, its primary focus on the Lao forestry administration changed to one on small-scale farmers in rural areas of Laos, that is, from institutional support that would indirectly benefit rural people to a direct targeting of rural farmers that indirectly required support of the bureaucracy.

Second, priority areas shifted from central to provincial and district levels of the administration. It was the Government's role as provider of services to rural farmers that was to be supported, and therefore the capacity of PAFOs and DAFOs.

And, third, research became a more prominent feature than before. LSFP IV clearly emphasized model development, competence development, and applied research compared to the more general approach of LSFP III. “Model development” refers to models for planning and implementation of land management activities. The intention was to explore new ways of working between rural villages and local governmental bodies. Such models were elaborated in selected villages and districts in four provinces and four NBCAs.¹⁸

4.2.2 Institutional strengthening activities within LSFP III and IV

How did the two programs use the notion of institutional development?

The term “institutional development” was not used by either of the LSFP programs. Instead they both refer to “institutional strengthening” activities. In the case of LSFP III institutional strengthening was directly stated as a priority area. The program document asserts that

[t]he development of human and institutional competence will be the main concern in the Programme. Through strengthening forestry institutional capacity and competence, new methods and techniques will be introduced, which will benefit both forestry staff and the local population (LSFP III, 1991: p. 10).

No definition of institutional competence and capacity is given, however, nor does the document elaborate on its specific usage of the terms.

As can be seen from Table 2, institutional strengthening was one of the main concerns of LSFP IV as well. In the program document for this phase, the purpose of the institutional strengthening was stated as “to strengthen functional capacity of the vertical forestry sector through improved technical and managerial capacity within the administration” (LSFP IV, 1996). Thus, the intent of the assistance is better described and the definition can be more easily inferred.

One should perhaps interpret this as learning-by-doing on behalf of LSFP and the involved consultants. The vagueness of the concept of institutional development, and a lack of recognition of this in the early stag-

¹⁸ Towards the end of the program, some 18 models had been developed, and when it was decided that phase IV was to become the last in the LSFP series, a comprehensive consolidation work started. A separate project was set up within the program “the Model Consolidation Project” with the aim of making the models and methods that had been developed “understandable, accessible and usable to all partners involved in development work”. The end result of the 2 1/2-year effort is a comprehensive documentation of systems and components that made up the program as well as a compilation of reports and special papers. Most documents are available on a CD-ROM in both English and Lao. The models and methods were combined into four main systems and two cross-cutting systems. The main systems are listed in Table 2; the cross-cutting systems referred to Gender Mainstreaming and Monitoring respectively.

es of the program, seems to have been a fundamental problem confronting assistance activities with this focus during phase III. Documented feedback from the senior adviser and the director general at the Department of Forestry suggest that the fact that the concept was not defined or elaborated on in the program document caused confusion among people at both central and local levels in the Lao administration. Moreover, the involvement of the Lao side seems to have been limited in the early planning stages of the program, which resulted in an inadequate understanding of the usefulness of some of the activities and a low commitment to implementation (LSFP III, 1995a and 1995b).

What activities were labeled as institutional strengthening?

In practical terms, institutional strengthening under LSFP III was mainly addressed through involvement in issues of personnel (training, information systems), administration (planning and budgeting, financial management, reporting) and organization (organizational structure). Institutional work thus defined was to a certain extent part of all subprograms, as assistance was provided to the different departments of the MAF with which the various subprograms were involved. The approach envisioned in the program document is clearly that of learning-by-doing with the help of technical advisers who were to advise and guide Lao counterparts but execute no control. The same could be said to hold for institutional strengthening initiatives under LSFP IV, but with the primary focus on the provincial levels of the MAF instead.

Based on the documentation, it is evident that what was implied by “institutional strengthening” in both LSFP III and LSFP IV primarily concerned what is regarded as “organizational strengthening” from an institutional perspective à la Douglass North. Admittedly, both programs included elements of advice and support to the development of the formal regulatory framework of the sector, but this was considered a minor activity and has not received much attention in the documentation.

The overall goal seems to have been to assist in the transformation of the MAF into a modern forest authority, with a focus on long-term monitoring and management of the nation’s forest reserves. The aim of Swedish support was to aid the MAF in defining this new role and to develop new and improved systems to back up necessary changes as well as provide training for involved staff. In short, the MAF should become more efficient and better at performing the tasks it had in its mandate to do. This is probably the reason why “institutional strengthening”, “capacity building”, and “human resource development” are treated almost synonymously in various documents.

This being said, it should be noted that for phase III it was expected that improvements within the MAF would also spill over into benefits for the

local population. In other words, the development of “new methods and techniques” was also supposed to result in some sort of change for the actors outside the Ministry itself. Loosely speaking, this is an indirect approach to institutional development in North’s sense, based on the fact that structurally important organizations (such as the MAF) are carriers of formal institutions in society. Support to forest legislation and policy – that is, direct efforts of institutional development – was part of the program, but never its main purpose.

During phase IV, institutional and organizational strengthening were in a sense more clearly separated out. Efforts to enhance capacities of individuals combined with new improved administrative systems continued to aim at helping the organizations (MAF, PAFO, and DAFO) perform their mandates better and more efficiently. At the same time, institutional development as we know it in this paper had been made more explicit; the focus on models allowed for the development of alternative ways of solving issues that could potentially result in changes of the formal and informal rules of the sector.

*Were the institutional strengthening activities successful?*¹⁹

In the case of LSFP III, the bulk of support for institutional strengthening activities went to a unit referred to as Central Support. This was the planning and coordination unit for LSFP that was placed under the Planning, Finance and Cooperation Service Division (PFCO) of the DoF.²⁰ It provided administrative and technical support to the program at large but was also seen as vital in the work to build up the competence of the state forestry administration in sector management. This unit was allotted the heavy task of establishing good administrative practices for itself and introducing new concepts and functions to the PFCO and the Department – and developing policy within the MAF.

According to the final report of the senior adviser, the workload that Central Support was supposed to carry was too heavy for the rather small, and mainly administrative, unit (LSFP III, 1995b). For example, the development of monitoring systems – a vital part of the transformation of the MAF into a modern and efficient sector administration authority – was, in

¹⁹ This part is based on reports produced within the LSFPs, such as final reports by Senior Advisers, Technical Advisers and other project leads. Existing evaluations will be discussed in the next section.

²⁰ When the first phases of the LSFP were programmed, the DoF administration was considered too weak to be able to handle such a big program within its normal administrative working cycle. To meet Swedish demands on program management, the DoF set up a Forestry Cooperation Office (FCO) with the task of coordinating all LSFP activities and to support the program with services best supplied centrally. As new donors entered the domain of the DoF in the mid-1990s, there was a need to coordinate activities. The FCO was reorganized in the Planning, Finance, and Cooperation Service Division (PFCO) where LSFP became only one of several programs (LSFP III, 1994).

the opinion of the adviser, not perceived as a top Lao priority and therefore did not receive the backing needed. Matters concerning policy and legislation, on the other hand, were regarded as Lao issues for which outside support was not needed. The same applied to changes in the organizational structure of the MAF and its line divisions. Both these tasks were rendered unsuccessful, despite the provision of a long-term Development of Institutional Capacity Adviser (DICA) to the Head of the DoF.

However, the planning, budgeting, and financial management capacity within Central Support improved vastly during phase III. This had some spillover effects on the rest of the DoF, as local staff became capable of and responsible for procuring goods, bookkeeping, and receiving and disbursing funds. The bookkeeping software that had been adapted for Lao conditions was also picked up by the ADB for its financial follow-up when the ADB initiated its Plantation Forestry Project in 1994.

Thus, the activities aiming directly at the institutional framework – policy and legislation – failed, while a technical system aiming at efficiency succeeded and spilled over into other parts of the MAF. In fact, it even showed the potential of becoming a standard among donors in the sector. According to interviews in Laos, a new, upgraded system is now in place in the MAF, a sign that the people there are able to develop their skills further. This effort may thus be regarded as sustainable.

As in the previous phase, the senior adviser of LSFP IV reports little progress on support to the legal framework. In his words, inputs from LSFP IV had been limited at best. Influence on policy development also rendered little success, although there are signs results produced by the program have served as inputs in the Lao internal policy debate. One example – land classification based on satellite images – is known to have been an input in the deforestation dialogue.

When it comes to training, the senior adviser questioned the efficiency of investing in education and higher level training abroad. Students were selected by the Lao side, and consultants often felt that selection criteria were more political than technical. Moreover, the positions graduates were assigned to after their return to Laos usually did not correspond to their new competence. The LSFP worked out guidelines for selection procedures and job placement, but these were never approved. The adviser's assessment, in hindsight, was that it is difficult, if not impossible, to try to implement a formal merit-based system in an administration that is built on appointment and has such a top-heavy power structure as the Lao.

4.2.3 Other parts of the programs with institutional development features

The emphasis on model development (that is models for planning and implementing land management activities) exposed LSFP IV to a number of challenges of an institutional character. As pointed out by the senior adviser in his final report, model development could – and maybe even should – confront government policy. However, he also points out that to promote the use of models that were not officially sanctioned (which may take years) could be a risky business for Lao technical staff. The real decision-makers, that is, the more senior and older staff, were usually very sensitive and careful to follow Government policy. As long as an effort was labeled a model – and backed up by a foreign adviser – there was little or no risk to local staff. But as soon as application on a wider scale became the issue, problems occurred (LSFP IV, 2002). The result was that old models were usually preferred to new ones, which raised serious concerns about the sustainability of innovative models after the end of LSFP IV.²¹

To go through all subprograms of LSFT III and IV in search of projects or project components that deal with institutional issues, even though not defined as such, was considered outside the scope of this study given the time limitations and the breadth of the programs. The chances are that components exist that indirectly concern and focus on the change of behavior constraints, particularly informal ones, the Gender Mainstreaming component of LSFP IV being a case in point. However, a few projects stand out as clear examples of efforts to deal directly with institutional development and change as defined in this review, even though not labeled institutional activities. Two of these are briefly outlined below.

The first is the Joint Forest Management (JFM) component of LSFP IV. The JFM I and JFM II projects tested two different models for joint management in locations where State Production Forests (SPF) and village forests coincide. Both models consisted of a contractual partnership between the GoL and a particular village. The models differed in regards to who were given the rights and responsibilities to implement the SPF management plan (which includes rights to logging, the sale of logs and/or processing logs and selling sawn timber) and who were committed to protecting the SPF area and paying royalties and taxes in return. Activities in JFM villages were coordinated with land use planning and land allocation activities, in which land use patterns and customary legal structures were identified. In particular, the JFM component involved an exemption from the principle that villagers were not allowed to harvest and sell wood from natural forests.

²¹ Other reasons for concerns over sustainability of developed models were timing and resources on the Lao side. Timing – because some of the models were very young, or in some cases not yet tested – and resources – because the financial capacity of provincial and district authorities was so limited.

The second is an innovation in the spirit of institutional development outside the regular subprograms of LSFP III, and that is the introduction of a new funds transfer system. Funds used to be channeled via the consultant, Swedforest, who was responsible for disbursements within the Program. With the new system funds were instead made available to a GoL account at the Swedish Central Bank and then transferred via the Lao National Bank, the Ministry of Finance, to the MAF and the DoF.

The Ministry of Finance turned out to be unwilling or incapable of letting the funds through, which severely affected program implementation and ultimately the credibility of program staff in the eyes of the villagers and other involved parties. The senior adviser considered this a major setback to the program, caused by a premature shift in procedure rather than a design flaw *per se*. Other final reports confirm lack of liquidity within LSFP III (delays were in the magnitude of 18 months) as the main problem faced in the Program, having caused significant delays and hampered activities. This is only one of many examples of the pivotal role of the MoF in most sectors in Laos.

4.2.4 Concluding observations

The overview of Swedish support to the forest sector in Laos in the 1990s conveys that its overall objective was the improved productivity of forest resources and sustainable land use based on environmentally sound principles, a goal that was not linked directly to the poverty reduction aim that became prevalent during the decade. Institutional strengthening was central to both LSFPs as the development of a modern forest authority was regarded a necessary condition to achieve the overall goal. Institutional strengthening activities were expected to benefit not only ministerial staff but indirectly also the position of local poor populations.

Moreover, the overview shows that the institutional strengthening activities focused on organizational development and competence building of ministerial staff, rather than on development of formal and informal behavior constraints in a wider sense. That is, the term “institution” as we know it in this review has not been used but has rather been applied to structurally important organizations in the Lao economic system such as the Ministry of Forestry. Even though the focus of the LSFPs changed during the decade (from a concentration on the MAF to rural farmers; from central to district levels of the Lao administration; to an increased focus on research) this interpretation of the concept remained.

As such, the notion of institutional strengthening turned out to be an underdefined concept, which caused considerable problems for the people involved in this program component, both on the Lao and the Swedish sides. Despite the elusive nature of the concept, the programs do not seem

to have been explicit about their own definition or about specific target areas or how to measure the success and sustainability of the efforts. This is particularly true for LSFP III, but is not irrelevant for LSFP IV, even though substantial improvement was made between the two phases.

Moreover, not only is “institutions” a concept with multiple or vague meanings in Swedish and English, it can be hard to translate into Lao. The consolidation project of LSFP IV showed that “institution building” was most readily translated as “institute building” in Lao, which usually is taken to mean physical objects such as buildings, computers, and photocopying machines. Reportedly, this is also what the Lao side often asks for when discussing institution building activities with foreign donors and consultants.

Conceptual vagueness, together with the unwillingness of the Lao side to open up on certain issues of organizational character, indicate that at times there might have been a perceived lack of ownership on behalf of the Lao for institutional strengthening program components. The difficulties encountered by LSFP III and IV illustrate how organizational development as envisioned by the programs (increased efficiency and a merit-based system based on individual competence, for example) sometimes required complementary institutional change, something that the Lao were not necessarily ready to do.

Hence, can institutional analysis such as that advocated by the IAD framework tell us anything about the organizational development efforts undertaken within the LSFPs? The answer is most definitely yes. Formal and informal behavioral rules within an organization determine the incentive structure (that is, the reward and punishment structure) facing its staff. And, in most cases such “internal institutions” are dependent on the institutional context in society at large.

An institutional perspective on organizational development of the MAF would, for example, raise questions such as:

- (i) Who are the most powerful and important actors in the organization?
- (ii) What are the rules-in-use according to which the counterpart acts?
- (iii) What are the risks carried by the counterpart if he (or she) champions the changes implied by the program?
- (iv) Do the implied changes require coordination, that is a simultaneous change in the behavior of a number of actors, in order for change to have a positive probability of taking place?
- (v) Does the program challenge the interest of strong actors outside of the organization, and how would they be able to influence the program outcome if that were the case?

There is very little in the documentation that indicates that such an analysis was made as part of the project design phases of LSFP III and IV. On the other hand, many recorded (formally and informally) lessons were learnt over time. In fact, most of the problems encountered by activities concerning organizational strengthening seem to stem from issues such as those listed above and an inadequate understanding of the institutional context in which a particular project was planted. The specific nature of the incentive structure in a state organization that is still part of a communist political system, is, for example, not addressed. Nor is the issue of what capabilities and norms ministerial staff carry with them from an era of Lao-style central planning.

Instead, it seems that most organizational strengthening activities have worked under the assumption that as soon as a specific project begins to operate successfully and the Lao can see its benefits, there will be a natural demand for extensions also into other spheres of the administration. As pointed out by many consultants, this is not necessarily the case. Most definitely not within a political system such as that of Laos, where governmental and Party structures are highly intertwined and where the Party plays the superior but nontransparent role in the relationship.

This means that all institutional strengthening activities are ultimately tested against the prevailing Party doctrine, and that even a successful project may be discarded based on evaluative criteria other than organizational efficiency. Moreover, as has been shown, the forestry sector is one that generates income for its strong actors in an otherwise cash-constrained economy, and one can speculate that there are strong forces in place pushing for a status quo that not necessarily support an upgrading of the efficiency of the state control body MAF.

4.3 Existing evaluations of Swedish support

While successes and failures documented by the LSFP programs themselves were presented above, this section focuses on existing evaluations, or reports with a highly evaluative character, of Swedish support to the sector. The aim is to identify possible gaps in knowledge and information, with a particular reference to Swedish assistance to institutional development activities.

4.3.1 Evaluations of institutional strengthening assistance

When it comes to institutional strengthening, few if any evaluations or assessments are available for any of the phases of the LSFP. The report “Measuring Institutional Strengthening” from LSFP IV is one exception (Ardelius *et al.*, 1998). Emphasizing that the longterm objective of the in-

stitutional strengthening intervention is “the development of the organization itself and its capacity to fulfill its mission”, the study builds a model to measure these efforts within a Laotian context. Two existing models for the evaluation of institutional strengthening, along with a number of theoretical arguments and findings, influenced the proposed method.²²

Performance indicators were developed for seven main parameters: resources available to the unit, internal efficiency, gender, the output of the unit, client value of services provided, degree of dependence of donor contribution, and changes implemented in services and administration. The heads of a number of units at district, provincial and central levels in the administration were then asked to rate their unit’s performance based on a verbally and numerically specified rating scale. The method was, thus, one of self-evaluation with the intention of creating a basis for a future management information system.

As for the training component of the institutional strengthening effort, the collected data reveals that although about 8 percent of staff working time was spent in training, unit heads felt that it was often not based on the specific needs of the unit. Staff sometimes attended courses that gave a competence they did not, or were not even expected to, use in their work. Understanding of and attitudes towards gender issues had improved, but few concrete actions were reported. Most of the heads of units felt that they were doing well with regard to administrative procedures such as planning, budgeting, and financial control. Even so, the task team argued that in an international comparison, many procedures could still be improved and that emphasis needed to progress from planning to implementation in order for the Lao forest administration to become more efficient and effective. Although the data collected for fiscal year 1997/1998 were to act as a baseline for annual measurements there are no indications in other program documents that this ever became an institutionalized practice.

Another exemption is the external review of the Forestry Research sub-program “Research Capacity Development” (Turnbull, 1999). The reviewer shows that most of the research support for capacity building in Laos has come from LSFP, a Lao-German project on Forestry Education, and FAO’s support to the preparation of a forestry research strategy document. He also argues that most collaborative research projects have a significant component of training built in to them. The LSFP was found to have contributed to institutional strengthening by putting up the facilities of the Forestry Research Center (FRC) and by assisting in developing the

²² The so-called Staircase Model, which focuses on the output side of an organization and its ability to respond to external change, and the Swedish Quality Award guidelines that focus on processes within an organization. See pages 13–15 in Ardelius *et al.* (1998).

central DoF library into an Information Services Unit. Interestingly, this amounts to institutions being referred to in a physical sense, very much in line with the Lao interpretation of the term as discussed earlier. The support to postgraduate training of FRC staff abroad was the third contribution of the LSFP, according to the reviewer.

In Turnbull's opinion the workshop on Human Resource Development held in 1998 was an important event in institution building. Many of the participants, including FRC representatives, expressed their dissatisfaction with the outcomes of the human resource activities undertaken so far, particularly with the experiences of overseas education. In response, a new strategy document was prepared and routines drafted to improve the selection process of students, of appropriate academic institutions, and of relevant topics for theses. The author was confident these routines would have far-reaching implications once implemented, and he is probably right. As mentioned earlier, however, the problem was that these routines were never accepted by the Lao administration.

4.3.2 Other evaluations that handle institutional matters

The formal institutional framework for forest use and management with particular emphasis on village forest management is reviewed in a report from 1996, the same year the Forest Law was approved (Bailey, 1996). The Lao Constitution states that all organizations and individuals must protect the environment and natural resources. In his report, Bailey finds that the formal legislation and regulations under the new Forest Law offers local governments enough authority to be able to uphold a local participatory decision-making process.

The operation of the formal legal framework was investigated by a case study. Bailey found that all households were dependent on the use of forest resources (timber and non-timber forest products) for basic needs for material, energy, and complementary food consumption. Therefore, villagers choose to ignore local regulations that would limit their usage of such forest resources. The local government staff acknowledged that it was impossible for them to implement these policies, but saw no way of questioning them either. The conclusion was that the capacity of the local levels of government to implement the Forest Law is inadequate. Moreover, the relationship between local government staff and villagers was not conducive to village participation, and villagers often expressed concern about being asked to take on too much responsibility for the administration of government regulations.

The JFM component was evaluated by a Lao-based evaluation team in 2001. The team looked specifically at issues of sustainability, sharing of costs and benefits between villages and local ministries, and compatibility

with Lao legal structures and policies. Some government staff acquainted with the program had been of the opinion that the Forest Law only permitted hiring villagers as laborers, which would render one of the models illegal. The team found, however, that the JMF practices were not in contradiction to the law, as this specifies that compensatory benefits for forest management on behalf of the government might include timber. Moreover, they found that both models support other GoL objectives, such as decentralization, rural development, and efforts to reduce shifting cultivation. They also rendered JFM 1 and 2 as ‘two of the few examples of sustainable forest management currently operating in Lao PDR’, and prioritized between the two based on contribution to village economic development (LPDR, 2001).

There are also two evaluations of the Forest Inventory Program (Plan-analys Konsult, 1994; SPM Consultants, 1994) and one independent study on the Land Use Planning and Land Allocation activities (Bloch, 1998). The latter gives a good description of the legal framework and relevant instructions issued by the authorities that are important for the forestry sector. From an institutional perspective, the FIP evaluations do not add much apart from confirming yet again that it was difficult to fulfill objectives regarding support to formal legal framework development. The supported unit was expected to participate in policy dialogues and to assist with essential data and information, but this turned out to be beyond its mandate. Financial audits, which were also available, did not add much to the picture.

4.3.3 Poverty and the Lao-Swedish Forestry Programs

Poverty reduction was part of the justification for both LSFP III and IV, but particularly for phase IV. Issues such as land allocation and forestry production hit right at the heart of the poverty issue in Laos, according to the poverty profile and PPA study referred to in Section 3. Moreover, by focusing increasingly on provinces and upland areas, the programs seemed to live up to their stated justifications.

Maybe surprisingly then, there are few if any studies done on the impact of the programs on poverty. Rodenburg and Chansamone’s (2000) study of social and gender impacts of the Land Allocation (LA) process in rural areas does not focus specifically on poverty, but it does investigate the impact of the LA processes on gender and kinship groups in rural Laos. The study finds that distribution of land seemed to work out equally for women and men, but that women in general were less informed about land allocation procedures. This had mainly to do with their lack of education and lower language skills (to understand Lao). Land allocation had brought clarity of land tenure and inheritance issues, but villagers worried about availability of land in the future for the younger generations.

Similarly, the LA process established what plot of land belonged to whom and thereby helped to reduce conflicts within the village, while conflicts with external intruders on the land, and with other villages, increased. One apparent finding was that land allocation had implications for the method of cultivation. Intensified farming meant more work (in most cases for both women and men), and many villagers had diversified not only into the production of cash crops such as corn and bananas, but also into growing eucalyptus and mulberry. On the whole, this meant that not only did a larger share of the household income stem from agriculture, but that household income usually increased as well. On the other hand, new rules and restrictions meant that land available for collection of nontimber forest products and firewood was reduced and usually located further away.

Rodenburg and Chansamone point out that the village headman and the village committee, who were in charge of the LA process, were becoming more powerful. Their responsibilities included registration of land use, collecting taxes, controlling the use of land by villagers, and distributing land. The village committee also regulated customary rights that were “formalized but not legalized” as the authors put it. Villagers that did not declare their own land usually did so out of fear of taxation. Another reason was because they interpreted the LA process as a land reform and were afraid that their land would be taken away and redistributed to the poor. For womenled households, the availability of household labor was a restriction to being allotted claimed land.

Finally, the authors raise concerns over the land title processes in Laos. According to them it was not uncommon to find 3-year Temporary Land Use Certificates (TLUC) that had expired without the holder having received a proper land title. Moreover, it was not clear whether villagers, who did not have a TLUC but who could show tax bills, could use these instead to prove usage rights to a plot of land.

4.3.4 Concluding observations

The first observation concerning existing evaluations is that there were none made during the 1990s using the perspective proposed here, that is, an institutional perspective focusing on formal and informal behavioral rules. Given that institutional constraints seem to have greatly influenced the outcome of Swedish support programs, such a perspective would allow the discussion of issues that have previously been regarded as “additional”, but that within the institutional analysis framework have become central to the story. Second, there are only a few assessments made on the institutional strengthening activities of LSFP III and IV, even though this component was a major budgetary item in both programs. Thus, despite over a decade of support to organizational development within the Lao

state administration, relatively little is known about the outcome of these efforts.

More specifically, there are a number of interesting issues relating to the successes and failures of the institutional strengthening components to investigate, both for result-oriented reasons and for reasons of the inhouse learning process at Sida. These include, for example:

- (i) Given that training and capacity development were a large part of the institutional strengthening components, what results were achieved? What has happened to the numerous people who were given training (domestically and abroad) in the programs? How many were trained and what are they doing today? Do they hold positions and responsibilities in line with their training? Have they been able to apply their skills and implement changes proposed by the program? If not, what hurdles did they face? Could these have been addressed in the training program? Why/why not?
- (ii) For the sake of method development and the issue of how to measure assistance to organizational development, it would be interesting to look closer at the performance indicators found in Ardelius *et al.* (1998). Were they ever used again in Laos? If no, why not? If yes, what do they tell us about the efficiency and result of the Swedish support? Can they be used to assess Swedish institutional strengthening assistance in other countries and contexts as well?
- (iii) Concerning the issue of sustainability, one might ask what administrative routines introduced by the LSFP have actually been adopted and used beyond its particular program phase? Why was the financial administration system of LSFP III successful, for example? How did it address the issues of institutional character listed in Section 4.2.4? Was the demand for it driven by forces within the Lao administration, or by other donors? If the latter is the case, what was the Lao response?
- (iv) In the spirit of ownership it would be interesting to know what the *Lao side* interpretations of the institutional strengthening subprograms were. How did the Lao counterparts view the concept of institutions and the activities that it implied? In their opinions, what were the constraints, difficulties, and possibilities that faced this particular program component? And what were the successes?

Third, to the knowledge of this reviewer there are no evaluations available that investigate in any detail the poverty implications of the LSFP series. This indicates a rather serious gap in knowledge given that Sida's justification for assistance to Laos is poverty reduction. An institutional perspective on the situation of the poor in the locations where the LSFPs have been active would, for example, potentially reveal what direct and

indirect support measures have influenced the situation of the poor, and why others have failed.

Hence, there is ample room for future evaluations of these three aspects of the Swedish support to the Lao forestry sector.

Chapter 5

The Road Sector 1991–2001

A functioning road network was virtually nonexistent in the Lao PDR after the war. The Lao Government and donors (at that time the Soviet Union and China) identified investment in infrastructure as crucial for the future economic growth and recovery of the country. Laos needed roads to link its major cities and towns together, and it needed to be connected to its neighboring countries to access ports and other exit points for its exports. In particular, it was reasoned, Laos needed year-round roads strong enough to carry the heavy traffic implied by its main comparative advantage being its natural resources, in particular forestry and mining. These arguments are still valid, but today, roads are also associated with the debate over poverty alleviation and about access in a different way than before; namely, access of poor rural communities to local markets, health facilities, and schools.

Admittedly, the road sector is part of the larger segment of the economy that focuses on transportation infrastructure. Other important areas such as waterways and airways will not be included in this review for two reasons. First, Swedish support has only concerned construction and maintenance of roads and not of waterways and airways. Second, roads are the most important means of transportation in Laos and few, if any, influential actors or interest groups will be left out if the review is limited to only this part of the transportation infrastructure sector.²³

5.1 General overview of the sector

The Lao PDR has a high capital to recurrent expenditure ratio by international standards; in fact capital expenditure has consistently exceeded recurrent expenditure for most of the 1990s.²⁴ A large part of this has been allocated to investments in the road sector. During the 1990s, a total

²³ This being said, it should be remembered that other means of transportation, waterways in particular, may be very important to certain groups of Lao society and sometimes constitute the only option for movement of people and goods between locations. This is true year around for some geographical areas where roads are still non-existent, and for other areas during the rainy season when rural earth roads become unusable.

²⁴ For comparison, in Thailand, capital spending for the same time period was just 36 percent of total spending and in Vietnam, 29 percent.

of nearly USD 600 million was invested into extending and upgrading the national road network (ADB/IMF/WB, 2002). Laos contributed some 5–10 percent of this; the rest is donor funded.

As can be seen from Table 3, the total length of the Lao road network has doubled since 1976, the largest increase being in paved and dirt roads, which have more than doubled in length. A sketchy estimation based on the investment numbers above and Table 3 would yield that some 9,200 kilometers of road were added during the 1990s, at the cost of roughly USD 60,000 per kilometer.

Table 3: Expansion of road network, 1976–2000 (Thousand km)

	1976	1980	1985	1990	1995	1996	1997	1998	1999	2000 ^e
Total length of road	11.5	12.2	12.4	14.0	18.4	22.3	21.6	23.2	23.2	24.0
Tarred road	1.4	1.9	2.4	3.3	2.4	3.5	3.5	3.7	3.7	3.9
Graveled road	4.4	4.2	3.3	4.8	5.1	8.5	6.1	6.7	6.7	6.9
Earthen roads	5.7	6.1	6.8	5.9	10.8	10.3	12.0	12.8	12.8	13.2

Source: Basic Statistics of the Lao P.D.R. 1975–2000, State Planning Committee.
e = estimated

Problems in the sector stem from a variety of sources. Prominent among them is a demanding physical environment that is a challenge for durable and cost-efficient road construction. The heavy rainfalls and hilly terrain test both road design and the technical solutions used. In addition, mountains in Laos are not made of solid rock, which increases the risk of landslides or roads being washed away during the rainy season. Today, the main concern is the sustainability of the existing road network, an issue pushed strongly by the donor community. A related problem is the still underdeveloped local road construction industry, which is particularly eminent in the field of maintenance.

5.1.1 Policy and legal framework – the formal institutional context

All land for road activities belong to the State of Laos, just as in the case of forestland. The Lao road policy has changed quite dramatically when it comes to the setup of the sector during the 1990s, particularly with regards to the road construction industry and its position vis-à-vis the Ministry of Communication, Transport, Post and Construction (MCTPC). Another change is the increased focus on rural access compared to general access, that is, access to markets and district centers of rural villages rather than access of provincial capitals to the rest of the country.

The National Transport Study (NTS) from 1991 and the Highway Improvement Project (HIP) Main-tenance Study of 1993 are important doc-

uments that influenced Lao policy in the early 1990s. The NTS set the stage for a systematic approach to development and planning of the sector, and it classified 75 percent of the country's national roads as poor or very poor. The HIP Maintenance Study added that 86 percent of the provincial roads were in need of rehabilitation and rated 64 percent as in poor condition. This was the impetus for the Lao Government to adopt a goal for road sector development in terms of provision of transport facilities to every province, district, and village in the Lao PDR. This goal has remained more or less unchanged.

Significant for the road sector in Laos is the availability of donor funding to help the Government achieve its commitment. In the Public Investment Program (PIP) from 1991 to 1995, for example, the road sector consumed about 32 percent of total investment with about 90 percent being funded by foreign assistance in the form of bank loans or grants. As funding predominantly takes the form of loans, particularly from the big multilateral organizations, concerns have been raised about the impact of road investments on the size of Laos' foreign debt. In more recent years, the donor community has begun to push back on the high investment rate in the sector and conditioned continued assistance on the establishment of a Road Sector Fund to secure local means for road maintenance. Such a fund was adopted in 2000 and it combines incomes from certain taxes (for example, fuel tax) earmarked for road maintenance with a loan (ADB/IMF/WB, 2002).

The Road Law was issued rather late, in 1999, and – just as the Forest Law before it – it replaced earlier decrees. The law classifies Laos' roads in six categories: national roads (of strategic importance to the national economy), provincial roads (important roads that connect to the provincial capitals), district roads (interdistrict roads, connections from district centers to villages), urban roads (within urban areas), rural roads (connecting villages and service centers), and special roads (for specific purposes such as national security and roads in forest preservation areas).

Moreover, the Road Law assigns the responsibility of management and usage of land for road activities to the MCTPC, who also has the legal responsibilities for all public road sector functions. The Department of Communication, Transport, Post and Construction (DCTPC) is the provincial body of the ministry. Its task is to organize and manage construction and repairs of roads within the province. District and village authorities are responsible for the construction and maintenance of roads in their jurisdiction, but they usually lack the funds and capacity to fulfill their responsibilities.

In accordance with its mandate, the MCTPC has drafted rules for the implementation of the law that address issues such as environmental man-

agement, registration of contractors, and the establishment of a Contractor's Association and an industry consultative body (MCTPC, 2000). These two organizations are interesting innovations in the industry; time will tell what their positions and influence on the policies of the sector will be. One problem linked to the forestry sector where both the legal framework and implementation is weak is that of overloaded vehicles. Arguably, the main factor behind premature destruction of district and rural roads in Laos are heavily loaded timber trucks.

5.1.2 Actors in the sector

Based on the IAD framework in Figure 1, groups of actors for the road sector include the construction and maintenance industry, local communities, various ministries at central and lower levels, and foreign donors. The presentation of actors is similar to that for the forest sector, that is, actors who implement and develop the formal institutional setting, actors who adjust to it, and actors who support it.

The road construction and maintenance industry

The structure of the road construction and maintenance industry changed fundamentally during the 1990s, as did the incentive structure facing the actors. In the year 1990, no private road construction enterprises were active in the Lao PDR. SOEs undertook all construction of new roads and bridges, as well as maintenance. The work was done on a contractual basis with the MCTPC or the DCTPCs, depending on whether the roads were provincial or district, respectively. In practical terms, the SOEs still functioned more or less like departments under the ministry; the contracts were basically an instrument to record expenses and there was no competition within the industry.

SOEs were allotted contracts based on a system of division of work in the provinces and along the national roads. Externally funded road projects could contain components under so-called International Competitive Bidding (ICB), but these were separate from those sections of roads under Lao construction. The SOEs suffered from severe delays of payment from the Ministry of Finance, which caused them to leave sites idle and use equipment for other activities where cash could be found.

The 1991 ADB Privatization Study addressed issues related to the privatization of the road sector in Laos. Even so, the privatization process has been rather long and slow. Valuation of state firms was a general problem for Lao SOEs going private, as was managerial capabilities. By the mid-1990s there were some 15 local companies active in the sector, and 9 foreign (MCTPC, 1995). Unofficial sources claim that the number is higher now. Even though the number of firms has increased, the local construction industry is still in its infancy as it lacks resources as well as educated

road engineers. Foreign contractors, many from the Asian region (South Korea, China, and Vietnam) have executed most of the investments made during the last decade. International consulting firms, such as SWECO, often conducted design and inspection.

Part of the explanation for the slow progress may be found in the incentive structure that faced existing and potential entrepreneurs in the sector at the beginning of the decade. In line with traditional central planning, the SOEs operated under a system of fixed unitprices, based on average rather than actual costs, and output measures in quantitative numbers.²⁵ This created severe disincentives for routine maintenance activities in particular and was one of the explanations for the reluctance of SOEs and private entrepreneurs alike to take on such activities. The usage of fixed unitprices prevailed well into the mid-1990s.

Thus, procurement and contracting are still rather new experiences on behalf of both Lao ministerial staff and contractors. Licensing procedures include three different classes of licenses that restrict participation in project bidding; large enterprises are entitled to bid on any project while small firms (in terms of equipment, bank holdings, and all year staff) are restricted to smaller projects. Allegedly, price competition is much harsher in category three (small firms) and this is also where most new Lao contractors are found. This information has not been corroborated by official statistics.

Ministry of Communication, Transport, Post and Construction and others

We can use Table 1 from the forestry section as a reference point for the roads sector, with the obvious exception of having to swap the MAF for the MCTPC. Thus, there are a number of ministries that influence the action space in the roads sector. In this sector, too, the State Planning Committee, Ministry of Finance, Ministry of Justice, and Ministry of Education have responsibilities and perform tasks similar to those listed in Table 1.

There are some significant differences between the positions of the MAF and the MCTPC in their respective sectors, though. While the MAF came across as a weak player in the forest sector, there are few indications that this is the case for the MCTPC. One fundamental reason might be that it is the MCTPC (or its district bodies) who are the buyers of road construction and maintenance services in the sector, a role that the MAF does not play in the same way in the forest sector. In fact, the MCTPC is

²⁵ Apparently, the Swedish funded Road Maintenance Pilot Area (RMPA) active south of Vientiane was for most of the 1990s the only exemption to this rule. After presumably intense negotiations with the Lao authorities, it managed to negotiate a contract where reimbursement would be paid in terms of actual costs and not according to the normal, centrally set, fixed price.

the sole buyer of any services for the public road networks, and as such holds a strong position in relation to the contracting industry.

As for the MCTPC internally, one should not underestimate the challenge passed by the transformation of the organization from one with responsibility over SOEs that functioned more or less like Ministerial departments to one with responsibilities for the legal framework and procurement contracts, licensing agreements and so on. That is, from a relationship with firms based on a central planning system to a provider of the overall incentive structure of the sector in a marketbased system, where pricing, budgeting, and monitoring mean very different things.

The MCTPC was reorganized a couple of times in the 1990s to better reflect its changing role. Simultaneously, the Ministry has been part of the general decentralization process during the decade that has given more influence to the provinces. Just as in the forest sector, there have been some problems in defining new roles and responsibilities between the central and local administrative bodies, and, as in the case of forestry, the head of the DCTPC is ranked lower than the Provincial Governor.²⁶ Still, based on interviews and conversations, the decentralization process seems to have gone more smoothly in the roads sector than in forestry. One can but speculate that this has anything to do with what has already been pointed out; namely, that the road sector constitutes a cost while forestry constitutes an income for the Government.

International donors and consultants

External financiers have been present in the sector since the creation of the Lao PDR. In the beginning, the main donor was the People's Republic of China. The first foreign donor to enter after the introduction of New Economic Mechanism (NEM) in 1985 was ADB, and it has been the most important actor among the donors since. The situation for the latter half of the 1990s is shown in Table 4 below.

The donors and relative importance in monetary terms were roughly the same in the first half of the 1990s as in Table 4, with a few exceptions (Bruzelius & Wallin, 1995). The Japan International Cooperation Agency (JICA) has advanced in the list and become an increasingly important donor in the sector, even bypassing the WB. On the other hand, a significant contributor in the mid-1990s, AusAID of Australia, exited the sector. AusAID funded the construction of the much-publicized Mittaphab Bridge (Friendship Bridge) over the Mekong south of Vientiane, which connects Laos to Northeastern Thailand, and the Thai road and railway network that lead to Bangkok. But, according to their web page, AusAID today considers itself too small in terms of resources compared to the multina-

²⁶ See Appendix 2 for a general chart.

tional donors that are active in the sector and has therefore decided to focus on health and landtitling projects instead.

Table 4: Investments in road sector, 1995–2000

Source of funding	Construction		Maintenance		Total	
	USD million	%	USD million	%	USD million	%
ADB	131.0	42	4.7	20	135.7	40
JICA	86.1	28	–	0	86.1	26
WB	53.2	17	9	39	62.2	18
Sida	20.3	6	5.1	22	25.4	8
Government of Laos	9.7	3	4.2	19	13.9	4
KfW	10.0	3	–	0	10.0	3
UNDP	3.0	1	–	0	3.0	1
Total	313.3	100	23.0	100	336.3	100

Source: “Project Appraisal Document – Road Maintenance Program”, The World Bank, 2001-01-31. ADB = Asian Development Bank, JICA = Japan International Cooperation Agency, WB = the World Bank, KfW = Kreditanstalt für Wiederaufbau, UNDP = United Nations Development Program

The Foreign Aid Report 2000–2001 (LPDR, 2002) lists 49 projects for the transport sector (including roads, bridges, and airports) and a total disbursement amount for the fiscal year of USD 91 million. Sida supplied, 5 percent of this (USD 4.67 million). Neighboring Thailand and Vietnam are listed with two and three projects each, ranging from USD 4.77 million (Luangprabang airport improvement, Thailand) to USD 175,000 (road lights in Vientiane Municipality, Vietnam).

Over time there appears to have been not only closer cooperation but also a division of focus between multilateral and bilateral organizations. Sida has, for example, worked closely with the WB, as both have concentrated on the Lao road administration and training of its staff. In 2001 this resulted in Sida taking over the responsibility for support to the DCTPC in four provinces previously supported by the WB, while the WB focused on national roads under the MCTPC.

Rural communities

As mentioned earlier, poverty in Laos is on the whole highest among scattered and isolated groups, usually belonging to an ethnic minority. The latest socio-economic survey, Lao Expenditure and Consumption Survey (LECS) II from 1997/1998, indicates that the majority of villages in five out of seven provinces in the North are not accessible by truck even in the dry season (SPC, 1999). Roads, therefore, are usually identified as a necessary, but not always as a sufficient, condition for the alleviation of poverty in Laos.

Just as in the forestry sector, it may be argued that rural communities are playing an increasingly important role in the roads sector. The Government has in its Rural Development Program identified both forestry and roads as priority sectors, and principal means by which to reduce poverty. Particularly in the areas of road maintenance, much attention has been placed on rural communities. Villagers tend to be reluctant to partake in such programs in cases when the pay is too low compared to agricultural pay, or wear-and-tear of the local road is caused by overloaded timber trucks rather than local, small-scale traffic going to the village. The International Labor Organization (ILO) has been trying to promote labor-based methods for construction as well, that is, not just road maintenance activities. Such programs have a potential of being successful since road construction tends to take place in the dry season, which is the non-agricultural season.

Ownership and usage rights of local or village roads is a key issue emphasized by the increased focus on maintenance. Unfortunately, this study has not been able to find any information on the exact legal status of village rights to roads, and especially road usage taxation. Informal conversations convey that various donor-led projects are trying different mechanisms to establish incentive structures that induce routine maintenance. For villages with market access where cash is available, one solution, for example, is for villagers to pay into a common fund and to tax external users of the road. Another approach is for villagers to contribute labor as payment and receive monetary compensation only above a certain cut-off point. This is the method used by the current Swedish program, LSRSP II, where each village household is expected to do routine road maintenance for two working days per year for free. Monetary compensation is paid for work in excess of this.

5.1.3 Concluding observations

This brief overview shows that construction and rehabilitation of roads have continued to be top priorities for the Lao Government and donors alike during the 1990s. The justification for such activities has changed, however, from a sole focus on economic growth to one that views roads as essential in the fight against poverty. The demanding physical environment of Laos continues to be a problem and a challenge for the performance of the road sector; finding technical and administrative solutions to these challenges is to a large extent what donor support to the sector is all about. But the main problem facing the sector today seems to be the rapid wearing out of the existing road network and the need to find solutions to secure maintenance of both national and lower level roads.

When discussing the problems of the road sector, it may be useful to note that roads are often categorized as a “semi-public good”. This means that they display some degree of non-excludability (it is difficult to exclude potential beneficiaries from use of the road) and non-rivalry (one person’s use of the road does not subtract from other people’s use of the road).²⁷ The problem facing each of the actors in such a setting is whether or not to contribute to the provision of the good, knowing that it will produce a benefit for all actors as a group. In general, the provision of a discrete public good hinges on the *sum* of the individuals’ willingness to pay (their reservation prices) being higher than the total cost of provision of the good. This introduces a strategic component to the decision of the individual, as it is enough that one actor – or a minority of actors – have reservation prices high enough for the good to be provided. According to theory, unless actors can somehow be forced to reveal their true willingness to pay, the incentive structure of public goods will usually lead to free-riding (not contributing to a public good but still consuming it) and under-provision of the good. This can be avoided if adequate rules stating who will provide what and how the production of the good should be carried out are in place. Hence, formal or informal institutions are needed to secure a level of provision of the good that is socially desirable.

Just as for the forestry sector one may ask whether such institutions are in place in Laos. Here, it seems useful to distinguish between the construction of roads and road maintenance as two different goods. In the case of Laos it would seem as if road construction suffers less from under-provision than does road maintenance. The formal institutional context for road construction has changed quite dramatically during the 1990s, as has the role of the MCTPC and its local bodies. The Road Law is still new and of a rather general nature, and rules and regulations need to be developed to make it operational. Rules regarding procurement and contract design – as well as contract enforcement – are all areas where much activity is currently taking place. Other activities with high activity levels are, for example, the work to develop national standards concerning road widths, the width and carrying capacity of bridges, and permitted inclination of roads for main trade routes in mountainous regions. Thus, a mixed private and public system for road construction backed up by heavy donor support is slowly emerging in Laos.

Road maintenance, on the other hand, suffers substantially from under-provision in Laos. Not only has the GoL fairly recently and reluctantly

²⁷ For a “pure-public good” both of these conditions are fulfilled. National defense and radio and TV broadcasting are common examples of pure-public goods. Roads, on the other hand, are rarely purely public; traffic congestion, for example, may violate the non-rivalry condition and roadblocks may render the good more or less excludable. See, for example, Ostrom (2002) for a discussion on public goods and institutions.

pushed road maintenance activities up the priority list; the Lao contractor industry is still young, and seems to be particularly weak when it comes to routine road upholding activities.²⁸ Usage and taxation rights, that is, rules regarding who can use the road and how to remunerate providers of maintenance services, are important institutions for maintenance activities in a market-based economic system. The fixed unit price system that prevailed well into the mid-1990s had a documented adverse effect on maintenance activities in Laos. New solutions are currently being tested out that involve rural villages as well as local contractors, and one may reason that systems that take into account the basic incentive problems of semi-public goods are those that will succeed the best.

It is evident from the overview that the donor community, and its long-term consultants, has been an extremely important group of actors in the road sector that has been able to influence if not the speed then at least the direction of institutional change in Laos during the 1990s. It has funded the vast majority of extensions and upgrading of the road network that has occurred thus far in the Lao PDR; it has been heavily involved in the privatization process; and to a certain extent it has also been involved in the development of the formal legal system. Unfortunately, one might argue, this position has not changed much and Laos comes across as being equally dependent on foreign donors for road sector improvement today as it was a decade ago. For example, one can only speculate what the presence of multiple and financially strong donors, themselves often with budgetary goals measured in terms of annual disbursements, has meant for the GoL when setting its economic agenda. Given the availability of funds, it would seem rational for the GoL to opt for road construction followed by rehabilitation within a few years, rather than spending its own scarce resources on routine maintenance.

A second observation with regards to the organizational structure of the sector is the changing role of the MCTPC, and the increased importance of the provincial levels of its organization. Taking the forestry and road sector together shows, thus, that the provinces hold a very strong position in the Lao administrative hierarchy, and that the much power is vested in the Provincial Governor. As roads and forestry activities in many regards are complementary to each other, this might be an efficient solution that allows coordination of activities between the sectors. However, with the severe financial constraints that the Lao Government is under, it also raises the possibility of deciding on road investments or contractual arrangements that serve commercial interests within forestry rather than the national goal of rural development for roads, to solve the financial difficulties of local administrations.

²⁸ However, it should be noted that only limited information about the structure, challenges, and profitability of Lao enterprises and entrepreneurs in the roads sector was available for this review.

5.2 Overview of Swedish support to the sector

Sweden began its support to the roads sector in the 1970s, and it has evolved from import substitution and purchase of equipment to road and bridge construction and then to road maintenance and institutional strengthening. This pattern is a general one that has been followed by most donors. As the construction of the main national roads have or are being completed, greater emphasis has been put on provincial and district level roads, and on maintenance as an important activity in the sector.

Sida sector support commenced in 1987, but it was with the 1991–1996 Lao-Swedish Road Program (LSRP) that a comprehensive approach was taken. The discussion will therefore be limited to this program and to that of the subsequent Lao-Swedish Road Sector Program I (LSRSP I) of 1997–2000.

5.2.1 Program outlines and components

The basic features of the programs are found in Table 5. The nature of the support activities in the two programs reflects the development of the sector in general terms, that is, the finalization of the construction of the main parts of its core national road, Road 13, in 1997, which allowed attention to be redirected to provincial and district roads.²⁹

Another development that also follows the general trend described in the previous section is the increased attention paid to maintenance activities. Arguably, routine maintenance is an issue that Sida has consistently supported and discussed during the 1990s and thereby influenced the development in the sector.³⁰ A third development is the introduction of labor-based construction of rural roads, where inspiration was taken from mainly ILO. Sida's emphasis on poverty reduction as the main justification of its assistance is reflected over time in the road sector documentation.

The overall objective in the LSRP Project Document was, simply, to reduce road transportation costs and to “develop the national capacity in road construction and road maintenance” (LSRP, 1990). The overall objective of LSRSP I, on the other hand, is firmly linked to the GoL's public investment strategy for the sector, which was ‘to alleviate poverty through improving the access of the rural population to employment, economic and social services and markets’ (LSRSP I, 1997).

²⁹ One may speculate that the inclusion of “I” for the program starting in 1997 was meant to indicate a change in focus and a break with earlier phases (from 1987 and onwards).

³⁰ Apparently, there was no word for routine maintenance in the Lao language about 10 years ago when the Road Maintenance Pilot Area started.

Table 5: Basic information about Swedish support to the road sector in Laos

LSRP (1991–1996)	LSRSP I (1997–2000)
<u>Subprograms</u>	<u>Subprograms</u>
<ul style="list-style-type: none"> – Road and bridge construction – Road maintenance (RMPA) – MCTCP institutional support – CDRI institutional support – SCT/RTC training – Road safety 	<ul style="list-style-type: none"> – Capacity building – Maintenance of national roads (target provinces) – Construction and maintenance of province/district roads – Community roads and microprojects – Access roads off Road 13 S – IRAP planning
<u>Types of roads and geographical target areas</u>	<u>Geographical target areas</u>
<ul style="list-style-type: none"> – Road 13 South, national road – Vientiane to Pakkading (approx. 189 km) 	<ul style="list-style-type: none"> – 3 provinces (2 North, 1 Central)
<u>Administration target level</u>	<u>Administration target level</u>
<ul style="list-style-type: none"> – MCTPC 	<ul style="list-style-type: none"> – DCTPC
<u>Budget</u>	<u>Budget</u>
<ul style="list-style-type: none"> – SEK 170 million (until original end date, 1995) – SEK 320 million (including extension to 1997) 	<ul style="list-style-type: none"> – SEK 175 million
<u>International Consultants</u>	<u>International Consultants</u>
<ul style="list-style-type: none"> – Sweroad (institutional support) – Skanska International Civil Engineering (from Aug. 1991; construction and training) – SWECO (construction supervision) 	<ul style="list-style-type: none"> – Hifab International/VAB

Sources: LSRP (1990); Sida (1997); LSRSP I (1997)

RMPA = Road Maintenance Pilot Area; CDRI = Communication, Design and Research Institute; SCT/RTC = School of Communication and Transport/Road Training Center; IRAP = Integrated Rural Access Planning

This was translated into purposes for the program in terms of reduced transportation costs (measured as vehicle operating costs) and increased access (measured as all year weather road networks per capita). Arguably, these are indirect measures of how road construction and maintenance actually benefit the rural poor in Laos. In addition, LSRSP I includes a number of activities that represent a “bottom-up” perspective. Apart from previously mentioned labor-based construction activities, the Integrated Rural Assessment Planning (IRAP) process was introduced as a means to obtain data on the needs of rural communities and their prioritization of support activities.

The extension of the first program from 1994 to 1996 at the cost of almost twice the original budget may be worth commenting, as it is indicative of the difficulties encountered in road construction in Laos. Moreover, the events were essential for redirecting Swedish assistance towards competence building within the roads administration. LSRP was concerned with

the construction and rehabilitation of the main national road number 13 south of Vientiane. The original setup was that the SOE SER-13S would carry out all such work with technical advice from Sweroad and that local construction materials would be used. Apart from long delivery times of construction equipment, severe – and premature – damage to sections of the road was reported after the rainy season of 1990.

An independent consultant firm found that the damage was due not only to bad performance of SER-13S, but particularly to poor handling of construction material and inadequate laboratory testing procedures. Unofficial comments suggest not so much a formal lack of competence at the laboratory, but rather a reluctance or unfamiliarity of laboratory staff to report failure in the tests they performed. The consequences for all parties involved were quite harsh. Skanska and SWECO were brought in under tenure procedure; Skanska as an adviser to SER-13S and SWECO as a construction supervisor. Sweroad was to remain as a consultant to central MCTCP and, hence, to institutional development activities.

As it became evident that SER-13S did not have the competence or the resources to finish the last section to Pakkading according to the time plan, practical considerations took over. The ADB- and WB-funded stretches of Road 13 to the north and south of Sida's part were to be finished in late 1996 or early 1997, and neither Sida nor MCTCP wanted to face the potentially embarrassing situation of a “missing link” in the nation's core road network. In 1992, Skanska was contracted to complete all construction and rehabilitation work on the road, and also to reinforce and modify the original erosion protections at some bridges along the road.³¹ As a result of these modifications, the budget increased from an estimated SEK 170 million – SEK 320 million. The road, however, was completed in early 1997.

5.2.2 Institutional development within LSRP and LSRSP I

How did the two programs use the notion of institutional development?

In contrast to the LSFPs presented earlier, institutional strengthening or development is seldom used as a notion, or general idea, in the support programs to the road sector. The preferred term is “capacity development” or “institutional capacity building” where “institution” refers to the MCTPC or its provincial and district branches. Capacity, in turn, mainly refers to training activities but also to the development of efficiency enhancing administrative and managerial systems. Compared with the forestry programs, institutional development in the roads sector was, hence, more narrowly defined, although both sector programs share the same spirit and intention.

³¹ For parts of the work on the bridges, Skanska in turn engaged a Vietnamese sub-contractor.

Even though not stated explicitly in the Project Documents, it is evident from the introduction of an umbrella Institutional Development Plan in 1994, that long-term improvement in the institutional competence for building and maintaining roads was regarded as important as the provision of the actual roads themselves; that is, institutional capacity development aimed at providing Laos with a well functioning road administration capable of planning construction and maintenance work to support the large capital investments made in the sector.

What activities were included under institutional capacity building?

For LSRP, capacity development activities focused mainly on management training at the central administration of the MCTPC; the contractor SER-13S (as long as it was involved); and an Institute for Road Design, CDRI. Issues addressed included planning and management, development of standards and methods for quality control, procurement, and career management. The program was also active in supporting the development of the Road Law and regulations. Finally, support was given to the training of instructors and technicians at the Road Training Center at the School of Communication and Transport under the MCTPC. Together, these activities made up approximately 17 percent of the initial project budget (LSRP, 1990).

Capacity building under LSRSP I included a range of activities at central, provincial, and district levels of the MCTPC and at the Communication Training Center (CTC, formerly the Road Training Center) that focused on the private sector, and research and development. The development of standard documents and procedures for routine and periodic maintenance work was top priority, as was development and training at the new department, the Rural Development Committee of the MCTPC. At the provincial and district levels, the work involved the establishment of a budgeting, planning, and reporting system for maintenance activities. Research and development included support to courses in labor-based technologies at the Department of Engineering at the National University of Laos. Finally, a number of studies on environmental impacts, policy implementation, and socioeconomic effects were listed under capacity building activities. Capacity building constituted about 30 percent of the budget.

The IRAP component is not included as a capacity building activity in the Project Document but is nevertheless defined as such in documentation relating directly to it. IRAP is a process involving participatory assessment techniques in rural areas with the target of prioritizing rural infrastructure, including roads. Its principle activity is identified as the development of capacity at the provincial and district level to better plan for improved accessibility.

Were the capacity building activities successful?

There are a number of annual reports, mid-term reviews, technical reviews, and special reports produced under LSRP and LSRSPI, but unfortunately no formal final reports by any Senior Adviser, that address institution building activities. However, documentation, interviews, and informal conversations convey that certain activities within the set of capacity building activities were rendered successful. One is the CTC, to which direct support has been phased out. This was both due to the new profile of the school, serving communications at large rather than roads specifically, but also because the Center was deemed sustainable. Other areas that were deemed important, and where progress is currently occurring under the LSRS II program, are procurement (where ADB has been leading the way) and the development of a financial system within the MCTPC.

Reportedly, one of the main general problems encountered with the focus on local roads and provincial level administration is the increased number of actors involved. As to capacity development activities specifically, a major problem has been a perceived lack of interest for these efforts at higher levels in the provincial administration. As the focus now largely is on maintenance, this means that the main aims of capacity development activities are skills and system development for quality control, which is a new and different approach to the issue in Lao.

Arguably, the old system could be characterized as “command based”; official inspectors went out a couple of times per year to report what repairs needed to be done and work was then distributed among contractors. The new system is not only based on continual monitoring of the roads but also on more sophisticated methods for measuring what work needs to be done and when. In particular, contractors and their output are evaluated according to an increasingly sophisticated set of criteria. The Lao staffs that participate directly in the activities are very excited about the work, but the Swedish advisers often judge the support for these activities on behalf of provincial management as lukewarm.

5.2.3 Concluding observations

The overall objective of Swedish support to the road sector has shifted from a focus on efficiency – in terms of reduced transportation costs and improved national capacity in construction and maintenance – to one of improved access for the rural poor population. Poverty alleviation was an essential part of the overall objective by the end of the decade. A well-functioning road authority was regarded a fundamental part of this process, and just as in the case of Swedish support to the forestry sector, institutional support was an important part of the road programs in the

1990s. These activities were usually referred to as “institutional capacity building” and aimed at developing the organizational structure and improving the efficiency of the MCTPC, or its provincial level bodies. Thus, the notion of institutions in terms of formal and informal behavior constraints was used in neither LSRP nor LSRSP I.

“Capacity” in the sense of skills and competence is clearly the catchword for both programs, and activities focus on managerial and technical training as well as supportive systems. This labeling seems to have managed to avoid confusion about the nature, scope, and intent of the program activities like those experienced in LSFP III, even though the aims of the programs and sub-projects were basically the same in both sectors. The support method chosen was also the same: learning-by-doing with Swedish technical consultants who advise and provide ideas – but who do not monitor or control.

Nevertheless, the emphasis on capacity in one way brings out the underlying assumptions of the Swedish assistance more plainly. Training individuals in technical, administrative, and managerial issues will *a)* be applied once learnt and *b)* spill over into, or be demanded by, the rest of the organization and, thus, render it more efficient and successful in fulfilling its mandate. The same reservations to this line of reasoning that were made for forestry apply here as well. That is, the intertwined nature of the governmental and Party structure implies that a project may be discarded on grounds other than improved organizational efficiency, such as being out of line with the prevailing Party doctrine. Alas, not many assessments of the capacity building efforts made by senior program staff are available, which is unfortunate as they might indicate the reasons behind the challenges and successes experienced by the various program components.

A final general observation is that “capacity”, if too narrowly defined, risks missing the importance of the incentive structure inherent in the organization and in the institutional framework in which the organization is placed. To avoid this, Sida’s current policy for capacity development uses a broad definition and regards institutional analysis as defined in this paper as an intrinsic part of its approach.³² Just as in the case of forestry, there is little in of the documentation that reveals any analysis of rules-in-use and the prevailing incentive structure within the organizations where the projects take place. Informal dialogues confirm this impression.

³² See Appendix 1 for a brief introduction, or Sida (2000) *Capacity Development as a Strategic Question in Development Cooperation*, Sida working paper no. 8.

5.3 Existing evaluations of Swedish support

Before looking at evaluations of institutional development activities in LSRP and LSRSP I, it is worth mentioning that there exists a Minor Field Study (MFS) that uses institutional theory à la Douglass North to investigate institutional change in the Lao road sector (Bengtsson, 1995).

Bengtsson raises three broad and valuable questions: 1) How have changes in the institutional context of Laos influenced Swedish aid, 2) How has Swedish aid influenced and changed the institutional setup in Laos, and 3) Are there any signs of path dependency in the Lao road sector?³³ Perhaps these are issues somewhat too extensive for the MFS format, but the findings are nevertheless of interest. The privatization process is used as an example of institutional change that has affected Swedish aid, and the author gives the examples of Workshop Km 14 that was privatized in 1991 and the Road Maintenance Pilot Area that “was administered as a private enterprise” a few years later. Moreover, that Sida managed to push through radical changes in the responsibility structure after the failure of Road 13 S in 1991 is attributed to a simultaneous wish of the GoL to move towards a market-based economic system in which monitoring and control are vital ingredients.

Arguably, it is harder to address the second question, and Bengtsson only mentions the focus on institutional development that was made part of the program in the early 1990s, along with the reorganization of the MCTPC. As to path dependency, it is traced in three problem areas frequently encountered in interviews, namely, delayed payments to enterprises; the fixed unit price system; and a lack of monitoring, well-designed contracts, and clear responsibilities. These were all interpreted as tokens of a previous socialist economic system. Even though much change has occurred in these areas in recent years, it is probably safe to say that marks of the old system are still present and affect the development of the sector as well as Swedish assistance today.

³³ In Bengtsson’s interpretation path dependency “explains how a country must follow the road it has chosen, since a lot has been invested in the system” (Bengtsson, 1995: 2). Arguably, this reading of the concept is too deterministic. Path dependency is an idea that originates with Brian Arthur and that tries to answer the question why inefficient solutions may prevail over efficient ones in multiple equilibria settings that stem from increasing returns to scale. The argument is highly technical but basically shows how even small events early on in a cumulative process can influence the final outcome, if the probability of a certain event occurring in one time period is increased by it having occurred also in the previous time period (see, for example, Arthur, 1994). North uses the idea to address the historical fact that inefficient institutional arrangements (for example, property rights structures) can survive over long periods of time. However, he points out that path dependency is not “a story about inevitability in which the past neatly predicts the future” (North, 1990: 98). But, the importance of Laos’ historical legacy for the development of the road sector, which seems to be what Bengtsson is looking for, is indeed a valid concern.

5.3.1 Evaluations of institutional development assistance

Sylte & Hjelm (1994) found in a general assessment of Sida's institutional development support that it had been valuable for the sector. This is based on Sida providing the only support that addressed the 'institutional issues' as a whole and that it had been instrumental in the 1993 re-organization of the MCTPC (the first major re-organization after the introduction of privatization and decentralization). The management-training component of LSRP was considered a particularly important input to this work. According to the authors, Swedish support was highly appreciated by the MCTPC. Nevertheless, they found that it lacked conformity and consistent objectives and that it addressed too many needs with too little resources at hand.

Birgegård (1999) makes some reflections on the Institutional Development Plan and found that it was too comprehensive and overoptimistic. He also calls attention to the fact that institutional development is a long-term undertaking and that such efforts could only be initiated during the time period of the project. Based on a set of workshops, he finds that rural roads are a complex concept that most participants don't seem to know how to handle properly and that the designated Rural Development Committee of the MCTPC did not have the appropriate capacity to take on such a difficult task.

5.3.2 Other evaluations that handle institutional matters

The IRAP component was evaluated in 1998 (Carapetis, 1998). The reviewer finds that the basic problem had been a lack of skilled Lao counterpart staff in concerned provinces, and he points out that the availability of funds for implementation of the program might have led to 'unrealistic' expectations on behalf of Sida that progress would be rapid. To his mind, the pace of skill development is the crucial variable that will determine the speed of implementation of a project such as IRAP; nothing is gained from pushing local staff beyond their capacity to absorb and learn new approaches and procedures.

The community and access road components of LSRSP I, as well as of IRAP, were evaluated recently (Bokeberg *et al.*, 2000). Community roads refer to roads that do not qualify to be included in the public roads system. The team found that both community roads and access roads were more or less on target in terms of physical output. Community roads, however, tended to be of higher quality than originally intended; most of them were 4–5 meters wide, well graveled, and drained. This was considered acceptable given the low maintenance that could be expected in the future, combined with expectations for continued low traffic.

With regards to local institutions for maintenance, the team found that the system that had been tried in one of the provinces was not to the satisfaction of the participants, as it did not compensate them well enough. Unfortunately, the team was unable to visit roads that had been handed over to the respective communities for maintenance to see what happened after completion of a project component. Apart from a near absence of regular road maintenance, the problem areas were defined as lying with the district administrations that displayed both poor executive capacity and an inadequate number of qualified staff. In terms of poverty alleviation, Bokeberg *et al.* found that the project had contributed to improved living conditions and poverty alleviation, among other things by allowing for an expansion of rice irrigation. However, they suspected that these benefits might have bypassed the poorest of the poor.

5.3.3 Poverty and the Lao-Swedish Road Support Programs

As can be seen from the project purpose statements above, poverty alleviation was clearly stated as the primary reason for Swedish support to the road sector from 1997 and onwards. Before this, the justifications for projects tended to be related to efficiency, reduced transportation costs, and economic growth. The nature of the programs has also changed, and the focus is today more on rural communities, which in the case of Laos makes them almost by definition poor communities.

Based on the poverty profile and Participatory Poverty Assessments presented earlier, the programs are well designed in that they target local communities and access roads. In addition, two out of three provinces are located in the North, the poorest region of the country. The point that poor villagers in the PPA are making about having all-weather, or all-year, roads because of the agricultural season does not seem to find support among all participants in the programs, however.

It is striking that the road programs seem to have spent considerable time investigating the connection between rural roads and poverty reduction, much more than was the case in forestry. A number of studies have been commissioned to look at poverty reduction from a variety of angles using different approaches. Bokeberg (2000) has made a review of the literature on rural roads and poverty alleviation in Laos, in which she finds that increased incomes through production and marketing of agricultural surplus are the main benefit of rural roads experienced by the local population.

Admitting that it is hard to quantify how much of this can be attributed to the road, she shows that studies from various parts of the country indicate a strong positive correlation between marketing of agricultural surplus, crop diversification, use of modernized technologies and accessibility to a

motorized transport communication network. Likewise, there is a strong correlation between school enrolment, health, and general living conditions.

However, Bokeberg points out that the poorest seem to benefit relatively little from road improvements. There is a negative impact on income distribution that adversely affects the poorest groups, which are made up of landless people, ethnic minorities, or both. Apart from this, there are few negative socioeconomic impacts recorded. Finally, Bokeberg claims that any direct negative impact of rural road improvement (such as loss of productive land and soil erosion) often can be minimized or avoided through proper project implementation.

5.3.4 Concluding observations

A first observation is that there is little recorded knowledge about the capacity development activities of LSRP and LSRSP I from a perspective of outcome or learning. It is not clear, for example, if any methods for measuring the success or failure of capacity enhancing activities were developed during the 1990s. Casual conversations convey that method development is part of the current LSRSP II phase, so valuable lessons might be learnt from this.

In general, similar questions as those posed for institutional strengthening activities in the forestry sector under Section 4.3.4 are applicable also to the capacity development activities in the road sector. These included issues such as tracing individuals who have been trained by the programs, studying successful systems or subcomponents of the programs, and interviewing present and former Lao counterparts to get their interpretation and views about the activities.

A second observation is that there exist anthropological case studies (see Bokeberg 2000 for references) with information on in particular informal institutions and traditions that influence the ability of poor communities to take benefit of the opportunities rural roads in Laos provide. The studies indicate that the contextual environment is very different for different groups of people on Laos. These case studies could be useful inputs to a broader evaluation of the poverty aspect of Swedish support to the road sector in Laos. However, they are mostly from the first half of the 1990s, so there is perhaps a need for new field-based studies on poverty reduction and Swedish support to the road and forestry sectors.

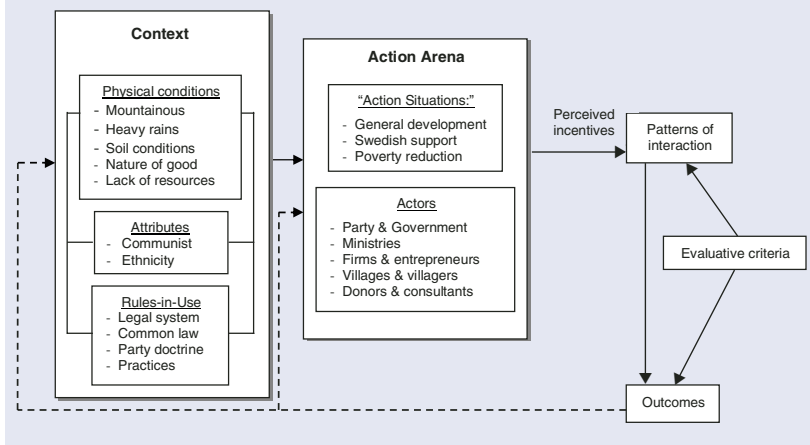
Chapter 6

Reflections on the Institutional Context in Laos

So, what have the overviews told us about the institutional context and the process of institutional change in the road and forestry sectors in Laos, and about Swedish institutional support to these sectors in the 1990s? The discussion held so far allows us to fill the contextual boxes of the IAD framework with information and to make some comments on important contextual variables in Laos. In particular, the question of what contextual variables constitute binding constraints on the action space of the agents in the road and forestry sectors in Laos may be addressed and a few general conclusions drawn, in addition to those found in the concluding observations sections throughout the report.

As to the group of variables “physical/material conditions”, we have seen that the nature of the good (forests comprising a common pool resource, roads being a semi-public good) will affect the incentive structure in the sectors, and that over-harvesting and under-provision are common features to expect – unless proper institutions are in place. The institutional set-up in Laos during the 1990s does not seem to be such that fundamental problems in the sectors that stem from the nature of the goods (rapid depletion of forest reserves and rapid wearing out of the existing road network, for example) were circumvented. On the other hand, this is an area where much change is currently taking place in Laos, as the formal legal structure is adjusted to better fit a market-based economic system. Unfortunately, there was no information about existing local informal solutions to these problems available for this review. But it should be noted that some Swedish assisted programs within, for example, forestry aimed directly at finding mechanisms for solving the over-harvesting problem by testing new models of cooperation between villages and local governments. Likewise, labor-intensive road maintenance activities were part of the Swedish road programs, and various mechanisms are also being tested out also in the current phase of the program.

Figure 4: An IAD framework for the road and forestry sectors in Laos, continued



Source: Adapted from Ostrom et al. (2002) p. 276.

There is no doubt that the physical environment of Laos – that is, the climate, seasons, and geographical layout of the country – influences the action spaces in both sectors. The fact that it rains heavily for about 6 months of the year, for instance, does affect the activity planning of all actors involved. For example, the fiscal year of the Government begins in October since this is the end of the rainy season. Even though physical constraints are real and binding for the actors in the two sectors, technical solutions can be found to most of the challenges they pose – given the time and the resources at hand. As a lack of resources is another binding constraint on behalf of the Lao government and administration, providing resources and finding technical solutions is, in fact, in the end what most of the support to the roads and forestry sector is all about.

As to the “attributes of community” set of variables we have seen that ethnicity is a determining factor for poverty in Laos, and that the Communist Party is still very influential, not only in the political but also in the economic sphere of Lao society. In particular, the Party makes up a silent, sometimes hidden, but always present binding (but not fixed) constraint on individual behavior of staff within the state administration. The overviews show that Party and Government policy – formal or informal – constitutes a very important binding “rule-in-use” variable.

That the Party agenda constitutes a binding constraint is clear from interviews and casual conversations, even though it is not evident from the official documents reviewed in this paper. Nevertheless, the Party agenda is ultimately what the capacity and institutional strengthening activities of the Swedish programs have been up against. Behind the scene at all levels

of the ministries such as the MAF and the MCTPC, there is a loop in the decision process – decisions must be sanctioned from above within the state administration, and they are constantly reflected against the prevailing Party doctrine. The word “prevailing” is important here as the ideology or doctrine of the Lao People’s Revolutionary Party has proven to be quite dynamic over the years. Having embraced both Buddhism and economic reforms that opened up the country to international markets, the Party has proven to be particularly resilient when it comes to holding on to political power and control.

Even though considerable change in terms of new and younger appointees in influential positions has transpired in recent years, the monitoring of staff within ministries such as the MAF and the MCTPC is still rigorous. Any pilot project or innovation that challenges the Party line in some fundamental way will inevitably run into trouble. The support to higher education within LSFP IV is one example. Even some of the success stories within institutional support – such as the introduction of a financial management system at the Department of Roads – first had to be adopted by other donors before they were reluctantly accepted by the Lao side.

The new formal legislation seems to play a mixed role among rules-in-use, sometimes being binding, sometimes not. The Lao constitution was adopted as late as 1991, that is 16 years after the creation of the Republic. Since then, laws have been drafted and adopted to replace the highly complex bundle of decrees that originally governed the actions of ministries and others in Laos. Confusion about interpretation, authority, and responsibilities have made implementation difficult, as has the lack of resources (financial, human) on behalf of enforcement agencies. The new laws are therefore not as effective in practice as they might be on paper – at least not yet.

Arguably, this opens up the room for negotiation over the “softness” of various formal institutional constraints by the actors in the sectors. Apart from formal institutions such as property and usage rights to forest lands and roads, there are a number of formal rules that influence the action space in the two sectors in Laos, at least potentially. Some are transformed versions of old rules (such as logging rights and royalty and pricing systems) while others are new (such as standards, procurement routines, and licensing rules). Although great changes occurred during the last decade that aspired towards greater predictability and transparency of the system, the overviews indicate that informal norms that dampen the effect of formal rules still exist in Laos, particularly within forestry. Examples from the text include the habit of provincial administrations to add logging quotas over the year, and the habit of SOEs to avoid paying royalties or taxes when faced with financial difficulties.

The speed and direction of institutional change will, as is depicted in the IAD framework, be influenced by the relative importance of the actors in any of the sectors. In the case of forestry, commercial interests hold a particularly important position *vis-à-vis* the legislative, a situation that does not seem to be the case for roads where instead the donor community stands out as especially important. Based on the overviews, one could perhaps claim that the roads sector has undergone a more thorough process of institutional change than has forestry in the 1990s in Laos. For example, the decentralization process of the MCTPC has advanced further, the privatization process and reformation of the road industry has been more complete, and the procedures and system for important activities such as road maintenance has changed completely.

This having been said, the fundamental problems encountered by the Swedish support programs when it comes to institutional – or organizational – development have been of a similar nature. The Swedish support programs in the 1990s can be interpreted as aiming at initiating or instigating organizational change that would lead to important institutional change in the form of new legal systems and well-functioning roads, and forestry authorities as upholders of those systems. That is, the programs focused on support to ministerial actors in the action arena of the IAD framework, and to a certain extent, on affecting the evaluative criteria used for judging the outcome of activities in the sectors. This would feed into institutional change that would benefit not only the productivity of the sectors, but ultimately other actors as well, including the poor. This strategy was very much in line with public policy, but may have been premature for the organizations in which they were planted, since the incentive structure facing the staff and the evaluative criteria used were still very much linked to the historical economic-political system of the country.

This brings us, finally, to a short note on the issue of institutional change, timing, and risk carried by “champions of change”. In general, the introduction of the New Economic Mechanism in Laos in the mid-1980s did not involve a “revolution” in terms of change of senior personnel in the ministries. Thus, the inheritance from a former centrally planned bureaucracy could only be rubbed off with time, as the ministerial staff grew confident in the direction and irreversibility of the process of change. The transformation of the MAF and the MCTPC into modern forestry and road administrations required in fact organizational changes to be complemented by internal institutional change – that is changes in rules-in-use within the ministry – and these were intimately connected to the overall institutional setting in Laos.

As underlined by many interviewees, although there are still problems with time consuming processes due to verification against the Party doc-

trine, the situation is vastly different today compared to in the early 1990s. At least hypothetically, the “readiness” for some of the organizational development activities proposed by the programs may be higher today, and to a certain degree and within certain limitations, there might be more room for Lao counterparts to advocate innovations within their organizations. But based on the documents reviewed in this report, the incentive structure for Lao counterparts is in general poorly investigated and understood.³⁴

³⁴ See section 4.2.4 for a discussion on issues addressed in an institutional perspective on organizational development.

Chapter 7

Issues for Further Evaluation

The final aim of this review is to help in identifying key areas for further evaluation, making use of findings from the institutional perspective used so far. A closer reading of the ToR indicates that Sida strives for an evaluation of Swedish support to the forestry and road sectors that uses institutional analysis and that focuses specifically on policy issues and learning for the benefit of Sida. Arguably, such an evaluation could take one of three points of departure.

The first is to begin with a focus on Laos and to center on Swedish support to the road and forestry sectors at large and to use an institutional perspective to lift the analysis above the immediate result level and to address the issue of constraints found within the Laotian context. The underlying question is then what can be learnt from almost 30 years of Swedish support to these sectors and how are the experiences linked to the changing institutional contexts of Laos and of Sida. It may be worthwhile looking at and developing further the broad questions raised by Bengtsson (1995): (1) how have changes in the institutional context influenced Swedish aid? (2) how has Swedish aid influenced and changed the institutional setting in Laos, and (3) are there any signs of path dependency in the development of the sectors, and how has it influenced points 1 and 2 if that is the case?³⁵

The second approach begins with a focus on institutional strengthening and capacity development, as these are important areas of Swedish assistance not only to Laos, but to other countries as well. Laos may then be used as a case study to draw lessons from more than a decade of such efforts in a very challenging institutional environment. Even though we have seen that it was organizational development that was truly at the heart of these programs, institutional analysis will prove a useful tool when trying to determine why some activities worked while others did not. Issues of rules-in-use within the organization and risk carried by the Lao counterpart are fundamental for understanding the fate of donor programs with this profile. Thoughts along the lines of Bengtsson (1995) above may very well serve as a source of inspiration for this evaluative starting point as well.

³⁵ See Section 5.3 for a discussion on Bengtsson (1995) and on the issue of path dependency.

A third starting point is to evaluate Swedish assistance to the sectors from a poverty perspective, and to use institutional analysis to get a better understanding of the constraints on poor people's livelihoods in Laos. Issues to be considered and linked to the forestry and roads sectors concern whether or not the institutional development in Laos is moving in a direction that will support poverty alleviation efforts in the country. Sida's role in this development process is, of course, an imperative question for an evaluation using this particular angle.

These three approaches are most probably not mutually exclusive tracks, which is why they are referred to here as starting points. The issue of poverty reduction, for example, probably needs to be addressed in any approach chosen for the upcoming evaluation. More specific evaluative issues have been addressed throughout the study in the overviews, and what follows is a brief summary of the thoughts put forward earlier.

- Capacity and institution building activities = what are the lessons learnt?

The overviews show that there is a general lack of knowledge of the outcomes and processes of the capacity and institution building components of the programs in both sectors. A number of issues could be raised; for example, what are the lessons learnt regarding the process of organizational development; what are its main ingredients and how should it best be supported? What are the lessons learnt concerning sustainability: what are the program components such as administrative routines that have been adopted and used beyond the particular program phase? What are the lessons learnt when it comes to ownership: what is the Lao side interpretation of these activities and how did they relate to them? What are their views on the constraints, difficulties, and possibilities faced by these specific program components?

Important methodological issues could also be investigated and lessons learnt. For example, what methods have been developed within the programs to measure success or failure of capacity and institution building activities? How are these related to method discussions and policy held at Sida, particularly by the Methods Development Unit? How do they relate to the concept of institutions and institutional analysis forwarded in this paper? What do they tell us about the result of Swedish support to these activities in Laos? Are there other methods available that can be used to measure the result of these efforts?

- Capacity and institution building activities = champions or coordination for change?

The overviews show that organizational building activities within the programs were mostly conducted by a learning-by-doing approach with a Swedish adviser working with one, or a few, Lao counterparts.

What implications has this strategy had for the outcomes of the activities? How have the issues of risk carried by the counterpart and coordination of activities between counterparts been addressed? In general, what are the lessons learnt about the link between institutional and organizational change in Laos? Is a critical mass for change slowly being built up, as indicated by many consultants?

As to the last question, Laos is a small country with a rather immobile population, which greatly facilitates the tracking of people previously trained within the programs. This allows an investigation into where the people who have been educated under the roads and forestry programs are located today. What positions do they hold within the ministry? Did they perceive that the incentive structure allowed for change in line with the programs? What, to their mind, were the risks induced by program activities that focused on organizational change? Have some left to do something different? What, in that case, and why did they decide to leave (note that there exists an emerging market in Laos for consultancy services that may work as an outside option for ministerial staff)?

- Other activities that could indirectly influence the institutional development = success and sustainability?

Activities that were not labeled “institutional” by the programs but that in effect focused on institutional development, as defined here, existed particularly in the latter phases of both sector programs. Reportedly there were some successful sub-projects – what happened with them after Sida phased out? Were they sustainable? Why, why not? How did they address the issue of institutional change, such as the prevailing incentive structure and risk carried by initiators of change? Did they result in new ways of working that can affect the institutional framework, particularly that of the poor?

- Role of consultants = instigators of institutional change, or a case of path dependency?

The Swedish consultants have in many cases spent considerable amounts of time working in various positions in the sectors in Laos. In many cases they constitute the “institutional memory” of the sector, which, arguably, may have both its benefits and drawbacks. In any case, they in fact form an important group of actors, as do their Lao-tian counterparts. A recent development in Laos is that the consulting field attracts individuals from the various branches of the ministries.

The role of donors and consultants in the development process is a classic topic for debate, and it includes issues such as self interest and incentive structures facing these actors that might lead to actions that are not in the best interest of the beneficiary of support. How have the

priorities been set when it comes to dividing resources between various program components, and how is that linked to the internal incentive structures of the consultants? What role have the consultants played in cases where organizational and institutional change has occurred, outside that of technical assistance? And what about in cases where such change has not occurred? What are the formal vs. the informal processes at stake?

- Swedish support to the sectors and poverty reduction = how are they linked and what are the outcomes?

The overviews reveal a general lack of structured knowledge of the effects of the road and forestry programs on poverty reduction in Laos, even though a few reports and anthropological case studies exist within roads. In particular, we don't know what formal and informal rules the programs do affect, and how this in turn affects the poor. What are the links by which poverty is affected by programs such as LSFP and LSRSP? What are the hurdles to benefits reaching the poorest of the poor?

Whatever form the evaluation finally takes, it is suggested that an institutional perspective be adopted since it allows for the inclusion of contextual variables that we have seen are highly important in the case of Laos. One example is the formal and informal behavioral constraints and incentive structure stemming from the particular political and economic structure of the country. The IAD framework, although adapted for Sida's specific needs, could prove to be a useful tool for this undertaking. Not in the least since it will force the formulation of a set of well-defined problems or questions to be investigated, in order for it to work as the powerful analytical tool it is designed to be.

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Note: Mimeo refers to unpublished documents.

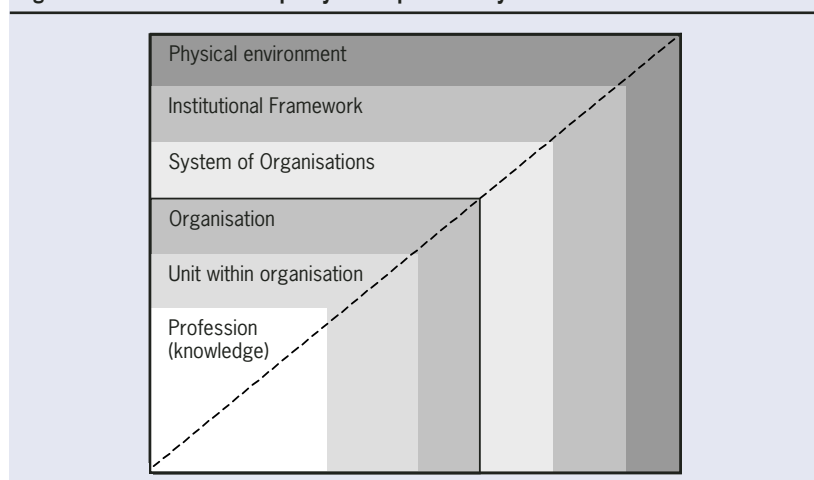
Appendix 1

More on Institutions and the Contextual Framework³⁶

An illustration of North's distinction between organizations and institutions is found in Sida's policy on capacity development (Sida, 2000). Support to capacity development is defined there as the combined efforts to back the development of knowledge, competence, and well-functioning organizations and institutions in poor countries. Knowledge is identified as not merely a means to increase productivity but also as a tool that helps to give people an identity and enables them to participate fully in social and political life.

But people's ability to use their knowledge is constrained by the institutional framework within which they exist. Hence, institutional analysis is regarded instrumental for such a broad approach to capacity development. In the policy document, the distinction is made between institutions and organizations (and between formal and informal institutions) and the following areas of support to capacity development are distinguished:

Figure 1: A framework for capacity development analysis



Source: Sida (2000).

³⁶ The following draws heavily on Sjöquist (2001) *Institutions and Poverty Reduction: An Introductory Exploration*, Sida discussion Paper No 9.

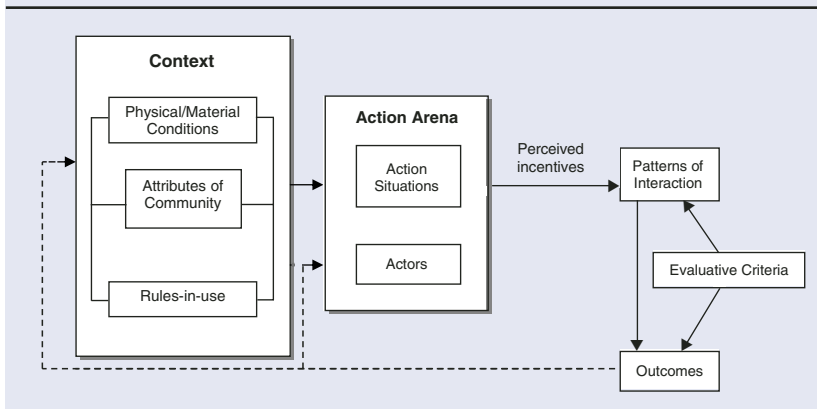
The characterization of institutions in the spirit of the writings of Douglas C. North and the school of thought referred to as the New Institutional Economics (see, for example, North, 1990; Eggertsson, 1990; Rutherford, 1994; Alston *et al.*, 1996; Furubotn & Richter, 2000) forms the basis for the institutional perspective as defined in the ToR to this study. This is not to say that his categorization is the ultimate one nor that institutions are the sole domain of economics, or for that matter even an analytical discovery that can be attributed to this field of study. On the contrary. Other branches of the social sciences (along with certain non-mainstream work in economics) have long focused on formal and informal rules, regulations, and norms – that is, on institutional structures – in society.

Yet, it is only recently that the basic idea behind the notion, namely that there are a number of written and unwritten constraints that together make up the societal context and incentive structure within which people interact and make decisions, has come to influence the work on poverty alleviation in organizations such as the World Bank (WB) (Narayan *et al.*, 2000; WB, 2000; WB 2002).³⁷ The institutional perspective thus defined was found useful for this study partly because it is well known, and partly because it is rather straightforward but still informative and flexible. It sets the analytical starting point by differentiating between organizations and institutions and by requiring that institutions be thought of in terms of formal and informal behavioral constraints.

The main benefit of the institutional perspective is that it requires a more all-encompassing and holistic view of the problem under investigation and that contextual questions are asked to make the nature of the situation under scrutiny more understandable. However, this is also the main drawback of the approach, as it inevitably runs into problems of priority and point of entry. An institutional approach to an assessment of Swedish support to the forestry and roads sectors in Laos cannot require that the entire institutional framework of the country be mapped out, for example. Rather, the task at hand is to link important contextual variables of an institutional nature to the activities and positions of the various actors involved in the sectors, and to the outcomes in terms of the general development of the sectors, as well as Swedish support. The Institutional Analysis and Development (IAD) Framework developed by Elinor Ostrom and her team at the Workshop in Political Theory and Policy Analysis, Indiana University, USA, will be used to facilitate this (Ostrom, 1999; Ostrom *et al.* 2002).

³⁷ Underlying the recent interest in the role of institutions in economic and social systems displayed by the international aid community is the dismal experience of, for example, Structural Adjustment Programs in various countries of Africa and the challenges facing economic reform programs in countries moving away from the central planning of their economies. The fact that the development of a market-based economic system requires certain institutional support in terms of both formal and informal rules has also opened up for the idea of institutional development as an approach to economic advancement of poor countries.

Figure 2: A Framework for institutional analysis



Source: Ostrom et al. (2002) p. 276.

The IAD framework offers a structured and fairly detailed way of thinking about institutions as contextual variables to specific problems and situations. It is summarized in Figure 2.

Just as North, Elinor Ostrom separates rules of the game (institutions) from players of the game (actors), letting the former be part of the *context* and the latter of the *action arena*. A few alterations and refinements distinguish the IAD framework from North's general setting, however. First, Ostrom prefers the notion of "rules" rather than "institutions" to avoid any confusion with everyday usage of the term. Second, since the framework is to be applied to specific empirical problems, the focus is only on rules that are both applicable to and active in the situations to be analyzed. That is, only behavioral constraints that are *binding* for the particular problem at hand are incorporated.

This is reflected in the definition of "rules" as "enforced prescriptions" about what actions are required, prohibited, or permitted in the situation, and the categorization along the lines of "rules-in-use" (or working rules) that includes both such formal and informal enforced prescriptions.³⁸ Third, Ostrom lets "attributes of the community" (or culture) refer to the norms of behavior generally accepted in the community, the degree of homogeneity of preferences of those living in the community, and the distribution of resources among those affected. Cultural variables such as norms overlap with North's wide notion of informal institutions. Hence, within the IAD framework, institutions as behavioral constraints are part of the context that influences the action space of organizations and individuals. This is congruent with the institutional perspective based on North's categoriza-

³⁸ "Rules-in-use" is the set of rules to which participants would refer if asked to explain and justify their actions to fellow participants in the specific action situation that is being analyzed. These are the rules used by individuals when they make decisions, and they do not have to overlap with the formal laws and regulations governing a particular nation or society.

tion, although they are grouped along the lines of culture and rules-in-use rather than in terms of formal and informal institutions.

As can be seen from Figure 2, the IAD framework consists of three main parts: a contextual part, an action part, and an outcomes part. When using the framework to analyze a particular problem, one does not attempt to fill the boxes with all available information from left to right in the figure. Given the particular problem to be analyzed, the entry point is instead at the center, at the *action arena*, which in turn is made up of *actors* and *action situations*. The action arena is used to analyze, predict, and explain behavior *within* institutional arrangements, and the term refers to a *social space* where individuals interact, exchange goods and services, solve problems, dominate one another, or fight.

This is not as complicated as it might first sound. Basically, the elements that make up the action arena are, as elaborated on in Ostrom *et al.* (2002), the common elements used in game theory to construct a formal game. Actors are individuals or groups of individuals involved in the particular process of interest, all with their own values and beliefs, and maybe with varying resources and information.³⁹ One or more action situations are identified to bring structure to the process, and situations that occur only once, a known number of times, or indefinitely will affect the strategies of actors differently.⁴⁰ The action arena surrounding a development project, for example, is made up of actors on the donor side as well as in the host country, together with certain important situations in which they interact and make decisions. What situations to choose for the analysis depend on the underlying problem and process to be analyzed. For a development project, it may make sense to use the different project phases (planning, agreement, implementation, phasing-out) as a basis for identification of action situations, although other options are available as well.

The action arena identifies, hence, the actors and their choices and strategies within a given context. This is helpful as it makes it easier to prioritize within the institutional context – only institutional variables (rules-in-use and culture) that are applicable to the particular action situation are of interest for the analysis. These institutional constraints affect the incentive structure as perceived by the actors and the outcomes of the resulting pattern of their interaction. But actors in turn affect the institutional context via a feedback mechanism, which implies a circular rather than linear relationship between institutions and organizations. Isolating action situations within an action arena is also beneficial in that it helps

³⁹ *Actors* in a situation can be characterized by four sets of variables: (1) The *resources* (time, energy, finances) that they bring; (2) The *internal value* that actors assign to actions and outcomes (incl. pride and shame); (3) The way actors acquire, process, retain, and use *knowledge* and *information*; and (4) The *processes* actors use to *select* particular courses of action (Ostrom *et al.*, 2002, p. 277)

⁴⁰ The structure of an *action situation* can be described by the following variables: (1) The set of actors; (2) The specific positions that are filled by actors; (3) The set of actions that each actor in a position can take; (4) The level of control that an actor has over this choice of actions; (5) The linkage of actions to a set of potential outcomes (the decision or game tree); (6) The external costs and benefits assigned to actions and outcomes; and (7) The information that is available to each actor about a situation (Ostrom *et al.*, 2002, p. 276).

to nail down a point of departure for a discussion on institutional development and change. Institutional development means, within the IAD framework, changes in underlying rules-in-use (or in culture) that affect the action arena we are concerned with.

Contrasting this with the ToR for the current paper, there is one obvious limitation to the usage of the IAD framework for an assessment of the development of and Swedish support to the forestry and roads sectors in Laos at this point in time. The identification of an action arena and isolation of action situations rest on one basic prerequisite, namely, a well-defined problem or question to be investigated using institutional analysis. No such problem is put forward in the ToR, since the present paper is positioned as a pre-study focusing on synopsis, and on putting forward key areas of investigation for an upcoming evaluation. The IAD framework will therefore be used mainly as a roadmap, structuring and guiding the inquiry in this paper. The overviews intend to fill the boxes of the framework with information about relevant actors and institutional variables, and to detect important linkages rather than to make a full-fledged analysis. Yet, one of the contributions of this paper is to use institutional thinking to help identify problems and questions suitable for a thorough evaluation in the next phase of the assessment of Swedish aid in Laos. Using the IAD framework to think in terms of action situations, action arenas, and institutional context at this early stage is viewed as helpful to achieve this.

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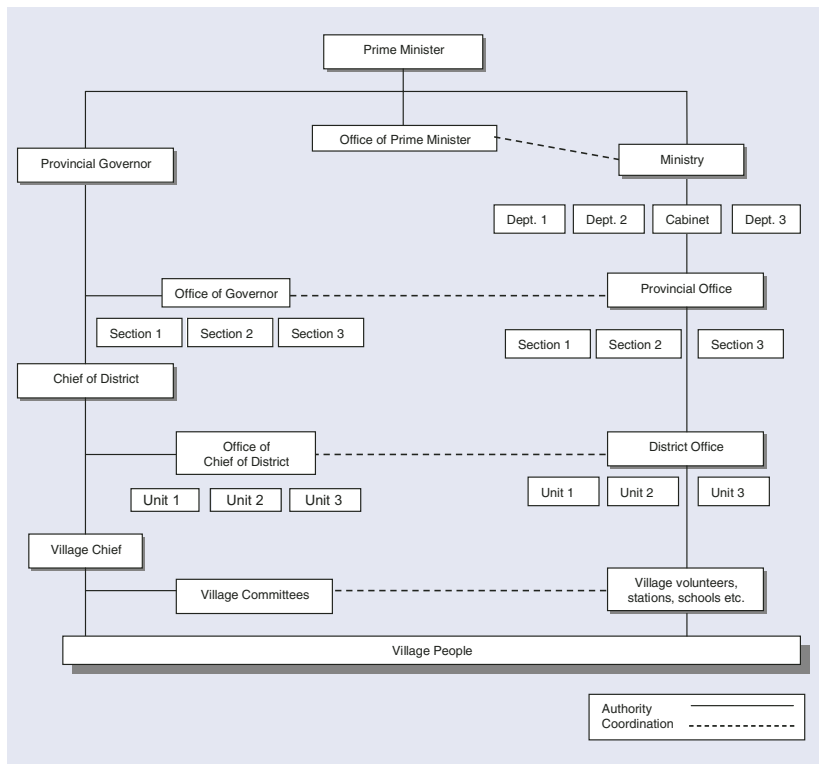
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Appendix 2

Schematic Relationship of Governmental Organizations

From national to village level and between Administrative Authorities and Line Ministries



Source: Adapted from Celander (1998).

Appendix 3

Terms of Reference

Review of the Swedish Support to the Forestry and Roads Sectors in Laos during the 1990s

1 The Purpose of the Assignment

The purpose of the assignment is to

- 1) Give a broad overview of developments in the forestry and roads sectors in Laos during the last ten years, with special reference to organisational and institutional developments. The overview should relate to performance, problems and constraints in the two sectors.
- 2) Make an overview of the Swedish support in the two sectors during the same time, seen from the institutional and organisational perspective described below.
- 3) Review earlier evaluations of Swedish support in the two sectors during the same period, seen from the same perspective
- 4) Identify evaluation issues for a possible evaluation of the Swedish support to the two sectors, seen from an institutional perspective

All four issues will have to be discussed in the report. The review will, however, focus on the first two issues in order to give a broad overview of developments during the last ten years. The first issue is to be treated as a background to the second one. The scope and range of the review will continuously be discussed between the consultant and UTV during the assignment. Depth and detail will have to depend on the quantity, quality and availability of the documentation and on the information that can be supplied by Sida staff involved in the sectors. Comments on possible gaps of information may be relevant in connection with a discussion of evaluation issues mentioned under 4) above.

The issues of the review should be related to the overarching goal for Swedish assistance to Laos, which is poverty reduction. The perspective of institutional development is to be used as a method of analysis in reviewing development in the two sectors on the one hand and the results of Swedish interventions on the other. structures of gender embedded in the power structures of institutions should be reflected upon as they appear in the two sectors and as they are viewed or absent in the documentation around the Swedish support.

Summing up, the overall purpose of the review is first, to give a broad overview from an institutional perspective, leaving details and complete descriptions aside, and second, to give guidance in view of a possible next step. Findings are to be used in discussions about future Lao-Swedish cooperation in the two sectors and in the country strategy process for Laos to be initiated by Sida during the latter part of 2002. They will also provide a basis for deciding whether an evaluation of these two sectors is to be undertaken or not.

2 The Concept of Institutional and Organisational Development

In the literature on the subject, definitions of an institution vary and are often vague. As a point of departure, the definition of an institutional framework as described in Sida's Policy for Capacity Development, that is a "framework in the sense of *rules of the game* and the concept of organisation in the sense of the *team which is playing*" should be used.¹

A country's fundamental institutions are not to be seen simply as a catalogue of regulations in the formal sphere and codes of conduct in the informal sphere of a society. Institutions may be described as being the informal and formal rules governing organisations and individual actors, such as private and public actors and donors, and their interaction with each other in different areas and hierarchical levels, from the central to the local level, of a society. The formal rules include organisations for government and public administration, political and judicial systems and rules regulating the economy and The informal rules include *e.g.* codes of conduct, traditions and noncodified relations of power.

Institutions and organisations change over time and are interrelated with each other in a multitude of ways. Institutions create incentives, which influence the behaviour of organisations and actors. In their turn, actors and organisations influence institutions. Organisational and institutional development refers to changes whereby organisations and systems of organisations may improve their ability to deal with the tasks before them and to institutional change for the benefit of society at large. In this context, such benefit should relate to the goal of poverty reduction.

The concept of institutional and organisational development as it is used in the present review could be compared to the concept as it has been used and understood at different points in time when programming Swedish support to the road and forestry sectors in Laos. A systematic comparison between the one and the other could give a general picture of how institutional and organisational support has evolved over time.

¹ See Sida's *Policy for Capacity Development*, Stockholm 2000, p. 21. For further discussion of this concept see: G. Eriksson Skoog *The Soft Budget Constraint*, p. 37ff, Kluwer Academic Publishers, Boston, 2000; C. Gunnarsson: *Capacity Building, Institutional Crisis and the Issue of Recurrent Costs*, EGD:2001:1, Stockholm 2001, p. 16ff; and P. Sjöquist, *Institutions and Poverty Reduction, An introductory exploration*, Sida, Stockholm 2001.

Depending on the restricted time frame for this assignment, the emphasis of the overview may be on the formal rather than on the informal rules and regulations.

3 Background

In the late 70s, Sweden and Laos embarked on a development cooperation programme which over the years expanded both in depth and width. Two of the original concentration sectors have remained in the focus of Lao-Swedish development cooperation, namely forestry and roads. They were chosen because of their crucial importance for Laos' economic recovery after the war but also because of their strategic role in reducing rural poverty. As reconstruction and rehabilitation was followed by long term development efforts, the poverty reduction objective was given increasing emphasis in the documents guiding the projects and programmes.

During the 90s, Laos undertook a number of economic reforms which increased the use of market forces as incentives for economic growth. The changes in policies and institutional frameworks affected virtually all aspects of the economy, including the forestry and road transport sectors. The old system of State enterprises being responsible for operations both in road construction and in forestry were licensed to private contractors, while the ministries retained the regulatory and promotional roles. The Lao-Swedish cooperation programmes expanded during this decade, continuously adjusting to the changing policy environment. Particular efforts were made to build sustainable capacity for implementing the Government's new strategies, by expanding the number of qualified staff and by introducing policies, routines and institutions that ensured effective implementation.

The Roads Sector

The road network of Lao PDR is characterised by a low density of roads per area of land, and an above average density of roads per capita. This is due to a small population, scattered over a large area. The state of the road network is affected by climate, a difficult geographic situation, a general lack of financial resources and wide-spread poverty. Roads have been declared a priority sector by the Lao Government and investments have absorbed around 35–45 per cent of the public investment budget. A major part of these investments have been financed by development assistance.

Steps have been taken in recent years by the Lao Government with the support of the donors to develop a decentralised organisation in the roads sector in order to ensure the establishment of a modern and uniform road administration. Such elements are also part of the project agreements with Sweden.

Swedish support to the sector started in the late 70s. During the 1990s it has totalled SEK 450 million. The period under review was covered by three consecutive agreements, namely 1991–94, 1994–96 and 1997–2000, also by the current Lao-Swedish Road Sector Project Agreement runs from 2001 to 2004.

The Forestry Sector

Lao PDR has abundant natural resources, especially water and forests. However, as emphasised by the Government's Strategic Vision for the Agricultural Sector, careful stewardship is required to develop these resources.² While much of the Greater Mekong Subregion has already been deforested, about 47 per cent of Laos is still under forest cover. This has resulted in an acute commercial pressure on Laos from neighbouring countries, especially Thailand, China and Vietnam. Control of logging in Laos has become increasingly difficult with the rising demand pressure from across the borders. A legal frame has been introduced consisting of forest law and related regulations but is generally not being enforced. Among the problems that the forestry administration has to cope with are lack of infrastructure, low salaries, growing problems of corruption and a weak administrative capacity.

Swedish support started in 1977. The accumulated Swedish contribution during the 1990s amounts to around SEK 300 million. The focus was first on logging, silviculture and saw-milling with the purpose of boosting production and human resources development. In the late 1980's the Lao-Swedish cooperation programme was broadened to cover conservation and reforestation. human resources development figured very prominently in the programme already in the mid-80s. During the 90s, the programme has had the ambition to change its focus from forestry operations to sustainable land use, and from training to institution building and human resources development including gender mainstreaming, from central decision making to decentralisation and delegation of power and, lastly, from a programme managed by consulting companies to a Lao-owned programme.

The period under review was covered by forest sector agreements 1990–91, 1992, 1992–95, 1996 and 1997–2001. A new agreement is under preparation, where the emphasis is widened to land use planning and research in upland areas.

4 Output of the review

The review will contain four parts:

1. A broad description of the roads and forestry sectors, which includes rules, actors and organisations and their interaction with each other during the last ten years. The relative importance and role of relevant organisations in the two sectors should be described and their functions and power in relation to one another. The role of other donors should be made part of the picture. Major changes over time, approaches and methods should be described. In this way a broad picture of institutional frameworks and organisations in the two sectors should emerge, related to the development problems, constraints and performance. This is to be done as a background to:

² Lao PDR, *The Government's strategic vision for the agricultural sector*, Vientiane 1999.

2. A description of Swedish support in the two sectors in terms of its intended and/or unintended contribution to institutional and organisational development during the last ten years. Changes of approach should be described. To this end, an overview of the objectives, design and the documented or otherwise known results of all Swedish interventions in the two sectors shall be made, with attention being paid to institutional and organisational development in the sense the concepts were used at the time in order to compare them to how we understand them at present.
3. A review of documented results of Swedish support as described above under 2), and of earlier evaluations of Swedish support in these two sectors and their findings, especially with regard to institutional and organisational development. This could contribute to mapping out possible gaps of knowledge and information concerning support in the two sectors.
4. This should lead to a set of evaluation issues which could be used in a possible later evaluation of institutional development.

5 Workplan, timetable and resources

The review shall be based on a review of relevant documents. Concerning the Swedish support, these should be reviewed on the basis of the following documentation: assessment memoranda (besluts-/insatspm), annual reviews and agreed minutes, mid-term reviews, consultant's reports, evaluations and results analyses from Swedish interventions during the last ten years in the two sectors as well as programming documents in general (country strategies, country analyses, country reviews etc). Interviews with programme officers both at Sida in Stockholm and at the Swedish Embassy in Vientiane will be necessary in order to give the necessary overview of the ten year period.

Sida will help the Consultant to identify key persons for interviews and find the relevant documents in Sida archives. As a general rule however, the consultant will be responsible for the collection of data. In the cases where an official Sida contact is necessary to prepare a meeting, Sida will assist accordingly. As a general rule however, the responsibility for setting up meetings, copying, etc, rests with the Consultant.

Two weeks will be spent at the Swedish Embassy in Vientiane in order to interview programme officers and go through relevant documentation.

6 Reporting

Throughout the study the consultant should keep in touch with UTV and the UTV evaluation manager.

The consultant will present the first draft of the final report at the latest on 31 October. After having received UTV's comments, the draft report shall be presented at a seminar at Sida in Stockholm during the month of November, followed by revisions of the draft report if necessary. A final version of the report in

5 copies and on diskette shall be submitted to Sida not later than 15 December 2002.

The report shall be written in English. It should not exceed 30–40 pages excluding annexes, and in addition have an executive summary. Subject to decision by Sida, the reports will be published and distributed as publications within the Sida Evaluations series. The report should be written in a way that enables publication without further editing.


7 Budget

It is estimated that 8 manweeks will be needed for the review with an extension of 2 weeks during the month of November if this is agreed between the parties. The extension would cover a seminar and revisions of the draft report if necessary.

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Institutional Perspectives on the Road and Forestry Sectors in Laos

The present study reviews the road and forestry sectors in Laos and Swedish support to these sectors during the 1990s from an institutional development perspective.

It finds that, so far, transition of the institutional set-up of Laos has been unable to come to grips with the fundamental problems facing the two sectors. Swedish support for institutional development, which has aimed at building modern forest and road authorities capable of monitoring and managing the sectors, has also faced several problems. An important finding is that many of the problems appear to be linked to the particular political institutional system in Laos, where Government and Party structures are highly intertwined.

The study concludes that Sida support to the two sectors would have benefited from an institutional approach, for a better understanding of the behavioral context of the programs and the internal incentive structure of partner organizations. It suggests areas for evaluation of the Swedish support from such a perspective.



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