

Evaluation of EC co-operation with the LAO PDR

Final Report

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

*Full reports of the evaluation can be obtained from the evaluation unit website:
http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/index_en.htm*

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

Evaluation of European Commission's Cooperation with the LAO PDR

Country Level Evaluation

Final Report

The report consists of 2 volumes:

Volume I: FINAL REPORT

Volume II: ANNEXES

VOLUME I: FINAL REPORT

1. Introduction
2. Development Co-operation Context
3. EC strategy and the logic of EC support
4. Findings
5. Conclusions
6. Recommendations

VOLUME II: ANNEXES

1. Annex 1 – Persons met
2. Annex 2 – Documents Consulted
3. Annex 3 – The legal basis for EC-Cooperation with Lao PDR: Bilateral and Regional Instruments
4. Annex 4: Information Matrix
5. Annex 5: Special Foci
6. Annex 6: Impact Diagram/Intervention Logic
7. Annex 7: Minutes of Dissemination Seminar
8. Annex 8: Methodological approach

EXECUTIVE SUMMARY

I. Objectives of the evaluation

The overall purpose of this evaluation is to ensure accountability for the use of allocated resources as well as to promote a lesson-learning culture in EC development cooperation. The main specific objectives of the evaluation were:

- to provide the relevant external co-operation services of the EC and the wider public with an overall independent assessment of the Commission's past and current cooperation relations with the Lao PDR;
- to identify key lessons in order to improve the current and future strategies and programmes of the Commission.

II. Methodology

During the Structuring Stage of the evaluation, the EC's intervention logic and most important areas of cooperation were identified. Preliminary evaluation questions (EQs), judgement criteria (JCs) and related indicators were specified based on the intervention logic, then discussed with members of the Reference Group and the Evaluation Managers, and re-drafted accordingly.

During the Desk Stage, in addition to Results Oriented Monitoring Reports, project documents, Mid-Term Reviews and Final Evaluations (about 50 project-related documents in total), 75 thematic documents from other development institutions, the press, and the academic literature were consulted.

During the Field Phase, the Evaluation team conducted interviews with over 100 persons concerned with EC cooperation, including EC Delegation staff in Vientiane and Bangkok, multilateral agency officials, bilateral agency officials, officials of the Lao PDR government at the central and provincial level, and representatives of national and international NGOs. Four small focus group discussions were held with project beneficiaries in Luang Prabang, and there were eight project site visits (three in Luang Prabang, five in Vientiane). Five "Special Focus" case studies (see Annex 5) were prepared.

At the Synthesis Phase, a consultative seminar was held in Vientiane in which EC officials from the Vientiane and Bangkok Delegations, officials from DG Relex and EuropeAid in Brussels, the Evaluation Manager, representatives of Government, and representatives of international and national civil society organisations took part. Feedback from this seminar was reflected in the drafting of the final report.

Further details on the methodology employed, may be found in section 1.2 of Volume I, and in even greater detail in Annex 8 of Volume II of the report.

III. Country context

Lao PDR is a low-income country (one of the twenty poorest in the world) which has experienced extremely rapid economic growth in the past five years and is anticipated soon to benefit from a major increase in budgetary receipts as hydropower and other natural resource export projects come on stream.

Yet, **development is very uneven:**

- Lowlands of the south have benefited much more than the uplands regions of the north.
- Many people in the poorer regions of the country (incl. ethnic minorities) have inadequate access to basic social services and suffer from food insecurity and poor nutrition.
- An ambitious population relocation/resettlement programme has attempted to simultaneously discourage environmentally destructive agricultural practices in the highlands while moving households to areas where they will have better access to social services. However, there is

strong evidence that resettlement has in many cases even worsened poverty, and not reduced it.

Despite economic reforms, especially those related to encouraging integration into the regional (ASEAN) and global economies, **structural change has come slowly** to Lao PDR.

- The Communist Party retains political power and,
- Despite growing tolerance for voluntary and professional associations, a civil society in the European sense does not exist.
- Public finance is characterised by a lack of transparency and accountability, resulting in a shortage of resources in the poorer provinces.

IV. EC engagement

The main vehicle for EC development cooperation with Lao PDR over the evaluation period was the Country Strategy paper (CSP) 2002-2006 promulgated in 2001. This was, in turn, the basis for the National Indicative Programmes (NIPs) 2002-2004 and 2005-2006. The EC strategic response, in the context of limited resources and widespread rural poverty, called for **priority to be given to rural development and the social sectors (education and health)**, with increased attention to governance and trade. At the very end of the evaluation period a CSP 2007-13 was published. In a major strategic shift, this paper called for the bulk of EC resources to be pooled in the multi-donor **Poverty Reduction Strategy Operation (PRSO)** providing general budget support for the Government's reform agenda. PRSO devotes special attention to improvements in public financial management and, in part thanks to the EC's special efforts, allocation of increased budgetary resources to education and health in the context of poverty reduction. The EC decided to support only one project, a project on rural development in the uplands regions, but made project support contingent on an intensified multi-donor policy dialogue with all levels of government on the implementation of population relocation. The purpose of this dialogue is to maximize the positive impacts and minimize the negative impacts of population relocation while ensuring community participation in all aspects of the relocation decision making and implementation processes.

How has the EC's strategic engagement evolved over the last (roughly) ten years in response to identified challenges? As a first strategic shift, the EC has abandoned the traditional, large development projects implemented by Government agencies that were the mainstay of its commitments until recently. There is broad agreement that the most pressing need in Lao PDR is for fundamental reform of governance in general and public sector financial management in particular, which can best be pursued through coordinated policy dialogue in the context of budget support. The Lao PDR government's poverty reduction strategy is reasonably well conceived and characterised by a high degree of ownership, which improves the prospects for poverty reduction through budget support. While capacity remains weak, the minimum conditions for financial accountability are met. In general, budget support in Lao PDR is working well.

The second strategic shift was to make project support in rural development contingent on improvements in the way relocation programmes are designed and implemented. In a sense, this marks a concession on the part of the EC (and other European donors involved), because it accedes to government's long-standing insistence that resettlement is a set policy and that the only issues to be tackled, are along the lines of "how," not "whether." However, in designing the policy dialogue which will accompany the project, the EC has set in motion a process in which sensitive issues, especially those involving human rights, will inevitably surface. By tying support for projects to satisfactory resolution of concrete relocation issues such as procedures to be followed and consultations to be carried out, the EC is attempting to provide incentives. **Political dialogue will, of course, continue** to address the more sensitive aspects of relocation.

Overall, EC cooperation with Laos related to the CSP 2000-2006 amounts to approximately €42.8 million. In the CSP 2007-2013, the move to Budget Support is exemplified by the fact that out of a total €33 million, €19.2 million are foreseen for General Budget Support. Over the period 2000 - 2007 EC payments represented between 2.2% (2007) and 3.8 % (2005) of all ODA disbursements. Payments of all EU member states and the EC combined, represented between 8.6% (2007) and 16.0% (2001) respectively.

V. Overall assessment

In reviewing the three major sectors of support, namely **rural development, health, and education**, our assessment is that impacts have been scattered and for the most part not sustainable. Lao PDR is a difficult country in which to carry out traditional large, Government agency implemented projects. A number of reasons can be given. One of these is the geographically challenging nature of the country. Another is the low capacity of partners and the difficulty of recruiting skilled personnel. The disruptive impacts of population relocation bear part of the blame, and too often, the Government has been unable to come up with the recurrent expenditure budgets needed after donor support for capital investment has ceased.

In a fourth area, namely **trade and economy**, EC technical assistance and capacity building, both bilateral and through ASEAN-level programmes, accelerated Lao integration into the regional and global economies and helped Lao PDR to become a significant voice within ASEAN.

Finally, while the EC contributed to some successful projects related to **governance** (for example, strengthening of the National Assembly), support for national voluntary and professional groups shows no sign of sparking the development of civil society as understood in Europe. Capacity of non-state actors has remained low, and partnerships sponsored between national and international NGOs have not added as much value as might have been hoped for.

A rough **overall assessment** along Development Assistance Committee (DAC) lines might be that the EC's engagement was assuredly relevant to national needs and coherent with EC strategic priorities. However, it would be difficult to identify the project approach that dominated most of the evaluation period as either efficient or effective. Impact, except perhaps in the more institutional cases of support to trade integration and support to the National Assembly, was largely limited to the areas and target populations directly benefiting. Sustainability was low.

In conclusion, the EC's cooperation programme in Lao PDR had some positive impacts over most of the assessment period, but these were limited and sustainability was low. By recently moving towards budget support and linking its remaining project support to progress on population relocation, the EC has taken steps to address the problems identified in this evaluation.

VI. Conclusions and Recommendations

The main **conclusions** of the evaluation, in decreasing order of significance or priority, are:

#	Conclusions	Ref.
1	The move away from traditional projects to budget support through participation in the PRSO is sound, but continued progress in public sector financial management is crucial in order to ensure sustainable impacts on poverty. A stronger and more independent role for civil society would help, as well.	Vol. 1, page 37
2	Budget support and support for other forms of governance reform are appropriate means of supporting progress in the social sectors.	Vol. 1, page 37
3	Population relocation raises troublesome issues, but it is taking place, whether the international community opposes it or not. There exists an	Vol. 1,

	opportunity, made possible by the government's willingness to engage in dialogue, to improve the implementation of relocation so as to minimise its well-documented negative poverty impacts .	page 38
4	EC assistance has been extraordinarily effective and efficient in promoting international economic integration . Yet, it is not self-evident who the beneficiaries from this international economic integration will be, and it is not clear that this support will contribute to the goal of closing regional gaps .	Vol. 1, page 38
5	The EC could enhance its influence by playing a more significant role in promoting coordination .	Vol. 1, page 39
6	The " regionalised Delegation " approach (the EC Delegation in Vientiane depending on the EC Delegation in Bangkok for some administrative functions and backstopping in some sectors) works well, but Delegation capacity issues need to be considered.	Vol. 1, page 39

These conclusions give rise to an equal number of global **recommendations**:

#	Recommendations	Ref.
1	The EC should continue to provide budget support in the context of the PRSO process, with strong emphasis on improving public sector financial management . It should continue to strengthen institutions capable of monitoring the budgetary process.	Vol. 1, page 43
2	The EC should change the way it approaches the issue of social sector development in Lao PDR to place the sources and uses of resources, specifically financial flows (including out-of-pocket payments), in the foreground.	Vol. 1, page 43
3	Follow the two-pronged strategy regarding relocation , but ensure that human rights issues are not sidelined (i.e. concentrate in the cooperation programme on policy dialogue regarding implementation aspects, while dealing with more sensitive and politicised aspects to the human rights dialogue).	Vol. 1, page 44
4	The EC should change the way it thinks about trade and economic development to take greater account of low competitiveness, failure to add value, and human resource development .	Vol. 1, page 44
5	In consultation with its partners, especially the EU Member States, the EC should define what coordination role it wishes to play in Lao PDR vis à vis the Member States as well as other donors.	Vol. 1, page 45
6	Review human resources and administrative processes of EC Delegations in Vientiane and Bangkok.	Vol. 1, page 45

VII. Acknowledgements

We have benefited from the hospitality of the EC Delegation in Vientiane and the many national and international partners in Lao PDR who were generous with their time in interviews. The EC Delegation in Bangkok was also flexible in accommodating a visit by the Team Leader. The Reference Group of this evaluation was conducive and supportive. Finally, we thank the Joint Evaluation Unit for effective management of the Reference Group and of the process as a whole.

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ACRONYMS

ADB	Asian Development Bank
AEMM	ASEAN-EU Ministerial Meeting
AFTA	ASEAN Free Trade Area
AI	Amnesty International
AIDCO	EuropeAid Co-Operation Office
ALA	Asia-Latin America
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEM	Asia Europe Meeting
BENC	Basic Education Development Project in Northern Communities
CAI	Monitoring Report Regional Asia
CAP	Country Action Plan
CCF	Country Co-operation Framework
CPI	Department of General Planning
CRISEC	Common Relex Information System European Commission
CRIS	Common Relex Information System
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
DfID	Department for International Development (UK)
DG	Directorate General of the EC
DIC	Department of International Cooperation
DOD	Disbursed Outstanding Debt
DSW	German Foundation for World Population
EAEF	Feasibility Study for the Establishment of an Energy Manager Accreditation Scheme for the ASEAN region
EBA	Everything-But-Arms scheme
EC	European Commission
ECHO	EC Humanitarian Aid Department
EEC	European Economic Community
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Rights
EQ	Evaluation Question
EU	European Union
EUR ASIA	European Institute for Asian Studies
FDI	Foreign Direct Investment
FSP	EC Food Security Programme
GDP	Gross Domestic Product
GNI	Gross National Income
GMS	Greater Mekong Subregion
GSP	EU General System of Preferences
HDI	Human Development Index
IFIs	International financial institutions
IMF	International Monetary Fund
JC	Judgement Criteria
JCO	Joint Cooperation Committee

JSG	Joint Study Group
LATA	Lao Association of Travel Agents
LDC	Least Development Country
LFNR	Lao Front for National Reconstruction
LFSP	Livestock Farmer Support Project
LPDR	Lao People's Democratic Republic
LPRP	Lao People's Revolutionary Party
MAG	Mines Advisory Group
MDG	Millennium Development Goals
MIP	Multi-annual Indicative Programme
MoFA	Department of International Organisations
MoF	Department of External Finance
MPDLC	Micro Projects Development through Local Communities
MTEF	Medium -Term Expenditure Framework
NGO	Non-governmental Organisation
NIP	National Indicative Program
NOVIB / PADETC	Capacity Building For a Civil Society
NSA	Non-State Actors
NSEDP	National Socio-Economic Development Plan
NZAID	New Zealand's International Aid and Development Agency
ODA	Overseas Development Assistance
ODI	Overseas Development Institute United Kingdom
NSA	Non-State Actors
PASS	Projet d'appui au Secteur de la Santé
OECD	Organisation for Economic Cooperation and Development
PCA	Partnership and Cooperation Agreements
PDR	People's Democratic Republic
PFCRDP	Phongsaly Forest Conservation and Rural Development Project
PFM	Public Financial Management
PPP	Public Private Partnership??
PRAG	Practical Guide to Contract Procedures for EC External Actions
PRSO	Poverty Reduction Support Operation
READI	Regional EC-ASEAN Dialogue Instrument
RG	Reference Group
RIP	Regional Indicative Programme
RSP	Regional Strategy Programme
RTIM	Round Table Implementation Meeting
RTP	Round Table Process
SAARC	South Asian Association for Regional Cooperation
SCDP	Sisaket Community Development Project
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
SOE	State-Owned Enterprises
STD	Sexually Transmitted Diseases
SWAP	Sector Wide Approach
SWOT	Strengths, Weaknesses, Opportunities, Threats
TA	Technical Assistance
TAL	Euro Technical Assistance to Laos project
TAL BTP	Technical Assistance Programme for Transition to a Market Economy in Laos – Bank Training Project

ToR	Terms of Reference
TREATI	Trans-Regional EU-ASEAN Trade Initiative
UN	United Nations
UNCTAD (TAB 12)	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UNICEF	The United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
USAID	US Agency for International Development
USD	United States Dollar
UXO	Unexploded Ordnance
VD	Vientiane Declaration on Aid Effectiveness
WB	World Bank
WHO	World Health Organisation
WTO	World Trade Organisation

1 INTRODUCTION

1.1 Framework of the evaluation

The evaluation of the European Commission's co-operation with Lao PDR is part of the 2007 evaluation programme as approved by External Relations and Development Commissioners and aiming at ensuring accountability for the use of allocated resources as well as the promoting of a lesson-learning culture throughout the organisation.

In the context of the programmes of the Relex Family of Directorates-General¹ and of greater concentration of external co-operation and increasing emphasis on results-oriented approaches, particular attention needs to be paid to the provision of reliable evaluation.

The main objectives of the evaluation were:

- to provide the relevant external co-operation services of the EC and the wider public with an overall independent assessment of the Commission's past and current cooperation relations with the Lao PDR;
- to identify key lessons in order to improve the current and future strategies and programmes of the Commission.

Following the Desk Phase, the Evaluation Team undertook a field mission to Lao PDR, including a day at the EC Delegation in Bangkok, from September, 22 to October, 4, 2009. Details of this are given below.

1.2 Methodological approach

The evaluation followed a detailed methodological design based on evaluation guidelines set forth by the Joint Evaluation Unit. The following paragraphs outline some of the main features of the methodology employed, but for more detail, see Volume II – Annex 8: Methodological Approach.

The evaluation was targeted specifically, at answering the following set of evaluation questions (EQs), which are based on the intervention logic, and were agreed upon by the members of the Reference Group and the Evaluation Managers:

Evaluation Questions

EQ1 - To what extent have EC interventions in rural development contributed to improvements in rural income and food security?
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EQ2 - To what extent did the change in the EC's strategy of support for the health sector (from large interventions to NGO projects and support for the Global Fund) contribute to increased availability of and access to basic health services?

EQ3 - To what extent has EC support to the education sector resulted in sustainable increase in the availability of and access to primary education?
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EQ4 - To what extent have EC supported actions on technical assistance and through ASEAN projects responded flexibly to needs and increased the ability of the Lao PDR to benefit from
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¹ Directorates General of External Relations, (RELEX), Development (DEV), and the EuropeAid Co-operation Office (AIDCO)

regional or global trade?
EQ5 - To what extent has EC cooperation increased and improved Lao PDR participation in ASEAN regional policy dialogues?
EQ6 - To what extent has EC integration of gender equality, good governance, and environment into its interventions across the board, working with both civil society and all levels of government, resulted in improvements?
EQ7 - To what extent was the EC mix of instruments (regional and thematic budget lines), approaches (fiduciary funds, project approach, macro-level programmes, SWAP), and financing modalities (specific procedures, budget support, joint funding) and /or channels of disbursement (government, private sector NSAs, multilateral organisations) appropriate to the national context and EU strategic policy aims?
EQ8 - To what extent has the EC coordinated and cooperated with EU member states and international financial institutions intending to improve the complementarity of their interventions?
EQ9 - To what extent has the design and implementation of EC interventions adequately privileged the needs of the most vulnerable groups?
EQ10 - To what extent did the EC approach result in adoption of European approaches towards poverty reduction that would have not been adopted absent the EC policy dialogue and cooperation programmes?

The evaluation process was divided into a number of phases, each of which entailed the implementation of a number of methodological steps.

During the Structuring Stage of the evaluation, the EC's intervention logic and most important areas of cooperation were identified. Preliminary evaluation questions (EQs), judgement criteria (JCs) and related indicators were specified based on the intervention logic, then discussed with members of the Reference Group and the Evaluation Managers, and re-drafted accordingly.

During the Desk Phase, in addition to Results Oriented Monitoring Reports, project documents, Mid-Term Reviews and Final Evaluations (about 50 project-related documents in total), 75 thematic documents from other development institutions, the press, and the academic literature were consulted.

During the Field Phase, the Evaluation team conducted interviews with over 100 persons concerned with EC cooperation, including EC Delegation staff in Vientiane and Bangkok, multilateral agency officials, bilateral agency officials, officials of the Lao PDR government at the central and provincial level, and representatives of national and international NGOs. Four small focus group discussions were held with project beneficiaries in Luang Prabang, and there were eight project site visits (three in Luang Prabang, five in Vientiane). Five "Special Focus" case studies (see Annex 5) were prepared.

At the draft final report stage, a consultative seminar was held in Vientiane in which EC officials from the Vientiane and Bangkok Delegations, officials from DG Relex and EuropeAid in Brussels, the Evaluation Manager, representatives of Government, and representatives of international and national civil society organisations took part. Feedback from this seminar was reflected in the drafting of the final report.

Limitations and lessons learned

The results of the evaluation are limited by a number of factors. Statistical information regarding a number of indicators, for example, in the health and education sectors, were not available. ROM monitoring reports do not cover the entire period. The Team was unable to locate the full text of the 2003 Mid-Term Review of the CSP 2002-2006, although a hard copy of the Executive Summary was found in the Bangkok Delegation. Finally, it must be kept in mind that the number of days spent in the field was very constrained, and in several areas (rural development, health, and education) projects were located in the provinces. However, taken as a whole, the evaluation team feels that the evidence described above in this section on methodology, provides a reasonably firm basis on which to arrive at findings and conclusions. The team also benefited from the close involvement of the Reference Group, as well as from a evaluation seminar in Vientiane at the draft final report stage in which a wide range of stakeholders participated.

With hindsight, a lesson learned was that team days should have been reallocated towards the Desk Phase. This would have resulted in a more efficient field mission and in less need to play “catch-up” during the post-field synthesis phase (i.e., the drafting of the Final Report).

2 DEVELOPMENT CO-OPERATION CONTEXT

2.1 Overview

In this section, we describe the general development context in Lao PDR and the international donors' engagement. This is not meant to be a detailed analysis of the country's political, economic or socio-economic situation, but a brief overview of the main issues affecting Lao PDR and its relations with international donors. Supplementing the descriptive text here is a detailed statistical snapshot given in Annex 1, together with a series of statistical tables comparing Lao PDR with other ASEAN members.

Lao PDR is a low-income country with a population of 5.8 million people and an average GDP per capita of 612.8 US\$ (at current prices) in 2006. It ranks among the lowest of the Asian countries in terms of the UN Human Development (HDI rank 130 out of 177 countries in 2007/2008).² The Lao population is characterised by a high degree of diversity, with at 49 different ethnic groups. Poverty reduction remains the main challenge particularly in rural and inaccessible, mountainous areas where ethnic minorities are concentrated. Lao PDR is greatly dependent on development aid, with ODA funds contributing to more than half of the state budget.

With strong economic performance since the beginning of this decade and well designed (but slowly implemented) structural reforms in trade, private sector development and public financial management, among others, Lao PDR has made some promising attempts at fighting poverty, addressing social inequities, and building stronger capacity to manage its rich natural resources. Through its "National Socio-Economic Development Plan," (NSED, the country's poverty reduction plan)³ the Lao government has laid out its objective of exiting from Least Developed Country status by 2020.

The economy grew by 8.0% in 2007, above the 6.8% average of 2002–2006. For a seventh consecutive year, industry recorded double-digit growth (14.0% in 2007).⁴ While real GDP growth is expected to slow down in 2008 to about 7% as result of the impacts of the global financial crisis, growth remains fairly strong and still driven by the ongoing mining and hydropower projects as well as agro-processing industries, construction and other services. In 2007, gross FDI increased by nearly 20% to US\$ 770 million compared to 2006. Future FDI is likely to decline as a result of the current global economic downturn.⁵ Poverty rates have been on the decline, with the number of poor households falling from 46 percent of the total in 1992/93 to approximately 33 percent in 2002/03 and 31 percent in 2005, according to World Bank data.⁶

Structural economic reforms in Lao PDR over the course of the last fifteen years have not been matched by similar political changes. The official political ideology is still Marxism-Leninism. The political structure has not changed since the communist take-over in 1975. The Lao People's

² UNDP. Human Development Report 2007/2008, New York 2007.

³ Lao People's Democratic Republic, National Socio-Economic Development Plan (2006-2010), Committee for Planning and Investment, Vientiane, October 2006.

⁴ ADB, Asian Development Outlook 2008, Manila 2007, p. 205.

⁵ World Bank, Lao PDR, Economic monitor, November 2008, http://siteresources.worldbank.org/INTLAOPRD/Resources/293582-1096519010070/LaoEconomicMonitor_Nov2008.pdf

⁶ World Bank, Lao PDR : Economic monitor, May 2007, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2007/06/18/000020439_20070618144241/Rendered/PDF/400640ENGLISH01itorMay200701PUBLIC1.pdf

Revolutionary Party (LPRP) dominates political life at every level. The military, the party and the executive branch remain closely intertwined.

With regard to civil and political rights, restrictions on freedom of expression and assembly remain, as do constraints faced by international and domestic human rights monitors. However, while the open expression of political dissent is not tolerated, the government-controlled national press has been given more room to express critical comments. Debates on political issues in the National Assembly have also increased over the past years. The transparency of policy-making, while still lacking in some areas, has improved.⁷ However, the constraints on effective governance in Laos are significant. The country is landlocked, mountainous and impoverished. Infrastructure is still inadequate, despite recent construction, and roads are often impassable in the wet season.

2.2 Context and national priorities

Laos has come a long way in moving from a command to a market economy, but competition still operates under a weak institutional framework. The Lao currency Kip is convertible, and prices are determined by the market. Competition exists in some sectors, notably in small-scale marketing, parts of the service sector (hotels, tourism) and where investments are foreign-owned (textiles, mining). However, the business dealings of politically powerful families, characterised by a high degree of non-transparency, ensure that playing fields are not even. Where commercial regulations exist, they can often be circumvented through political contacts. Resort to law is often ineffective for the same reason.

The Lao economy remains predominantly agrarian. Agriculture employs around 85% of the population and accounts for about half the economy. With the economy in shatters and production on the decline, the LPRP abandoned the drive towards socialism and began introducing market-oriented reforms (“New Economic Mechanism”) in 1986 – at the same time as Vietnam. This was partly motivated by the collapse of the former Soviet Union and subsequent loss of Soviet aid and markets in Eastern Europe, which had long kept the country afloat. As a result, exports have been rising steadily with textiles and garments had been the first success story. However, the clothing industry has been in decline since the abolition of 10 WTO textile quotas at the end of 2004 and the phasing out of quotas in the EU market in the same year. Opening the doors to foreign capital and the establishment of a foreign investment code has ushered in a wave of foreign investment.

However, major challenges remain: Lao PDR it is one of the 20 least-developed countries in the world with land shortage as a real constraint in many areas. Development is also unevenly spread across the country. Fertile lands around Mekong and in the south are relatively prosperous but life is hard in rest of mountainous country. For people living in this area poverty is endemic.

The five-year plan for the period from 2006 to 2010 forms part of the broader National Growth and Poverty Eradication Strategy, which is designed to allow for Laos to upgrade from a less-developed country by 2020. The party pursues policies designed to attract foreign direct investment and sustain the level of official development assistance, while it maintains its monopoly on power to ensure political stability and social order. This approach shows clear resemblance of the Chinese and Vietnamese models. What Laos lacks in comparison with these two countries are comparable strong human resources. Two factors, however, are likely to work in the ruling elite’s favour. One is the increasing integration of Laos into both ASEAN and the Greater Mekong Sub region (GMS), which will encourage a variety of reforms to meet standards

⁷ EC, National Indicative Programme, Lao DPR, 2005-2006, p. 6.

and requirements.⁸ Secondly, by 2010, revenues will begin to flow from new hydropower dams and mining ventures as the country's water and mineral resources are exploited by foreign capital.

2.3 Trade

Merchandise exports in nominal terms rose by an estimated 50.6% in 2007, reflecting growing exports of copper and gold, which account for about 60% of total exports. Other exports are clothing, electricity, and agricultural products such as coffee. Thailand remains the largest market for Lao exports. Sales to China and Vietnam are also strong, and European countries, including France, Belgium, Italy, Germany and Switzerland, have increased their imports from Laos in recent years.

Imports fell by 1.7% in 2007 as a result of reduced purchases of heavy machinery as a major hydropower project neared completion, and the closure of some clothing factories, which rely heavily on imported raw materials. A small trade surplus and rising tourism earnings helped narrow the current account deficit to 15.0% of GDP. After inflows of FDI and grants, the overall balance of payments recorded a surplus. External reserves increased by US\$203 million to US\$530 million by December 2007 equal to almost 6 months of non-resource imports.

Laos has the smallest trade volume of all ASEAN members in the EU's trade relations with Southeast Asia. Lao exports to the EU were valued at €144 million in 2005, making the EU the second most important trading partner and the first export destination. Textiles account for 80% of exports to EU. In terms of imports Thailand is the main source. EU exports to Laos were valued € 38 million in 2005.⁹ Laos has enjoyed trade surpluses with the EU in recent years and benefits from the Everything-But-Arms (EBA) scheme of the EU GSP.¹⁰

Laos takes part in the Trans-Regional EU-ASEAN Trade Initiative (TREATI) aimed at improving the EU-ASEAN trade and investment relationship and support the process of ASEAN economic integration.

Since the mid-1980s, Laos has moved to liberalise foreign trade. As a landlocked country, Laos has encouraged trade with Vietnam and China in order to reduce its dependency on Thailand. Tariffs have been reduced, and will be reduced further now that Laos is a member of ASEAN. There is some concern that, under the provisions of AFTA, light industry in Laos will be affected, especially the textile industry.¹¹ Laos' weighted average tariff rate was 14 percent in 2005. There has been some progress in liberalisation, but customs corruption and inefficiency, weak border control, prohibitive tariffs, import bans and restrictions, discriminatory import taxes, preauthorization and planning restrictions, import licensing requirements, and weak enforcement of intellectual property rights still add to the cost of trade. The government has set a new target of joining the WTO by 2010. Formal negotiations commenced in late 2004. The EU supports the Lao government in its efforts to achieve WTO membership.

⁸ Dosch, Jörn; Colin Dürkop; Nguyen Xuan Thang (eds.) *Economic and Non-traditional Security Cooperation in the Greater Mekong Subregion (GMS)*, Singapore: Konrad Adenauer Foundation, 2005.

⁹ http://ec.europa.eu/external_relations/lao/intro/index.htm

¹⁰ CSP 2007-2013, p. 10.

¹¹ Bertelsmann Transformation Index 2008, Country Study Laos, <http://www.bertelsmann-transformation-index.de/115.0.html?L=0>

2.4 Investment

Laos became the first country in Indochina to open its economy to foreign investment. The bulk of foreign interest has been in sectors of the economy which require small amounts of capital investment but offer relatively quick returns, such as the services sector, logging and mining.

In 2006, the gross FDI in Lao PDR was estimated at more than US\$500m (this ADB estimate¹² is significantly higher than the US\$ 187.4 million given by ASEAN) of which about 70 percent made up by three hydropower projects under construction, such as NT2, Nam Ngum 2 and Xekaman 3, and the rest came from key mining activities as well as other processing industries and agricultural plantations. Rubber plantations, small-scale manufacturing, and tourism also attracted such inflows. The largest foreign investors in Lao PDR include Thailand, Australia, Vietnam, China, France, and Korea. Overall EU investment in Lao PDR has been small and amounted to only US\$ 21.7 million during the period between 1995 and 2003.¹³ Foreign investors are legally guaranteed that their investments will be protected, their property will not be confiscated without compensation, and their operations will be free from government interference. Foreign investment is screened, and capital in excess of US\$20 million must be approved by the prime minister's office.¹⁴

While the Lao government has received mostly praise from foreign donors for its policy initiatives, particularly its sixth five-year plan (for 2006-2010) and the general improvement in the investment environment,¹⁵ the IMF criticised the slow implementation of key reforms. The IMF team, which visited the country in mid-2007, reported that the combination of increased tax and customs collection and natural-resource revenue had helped to reduce the budget deficit and lower net domestic borrowing as of May 2007. However, progress on economic reforms had been mixed, and the cost of doing business was still high. State-owned banks are far from being solvent, while various state-owned enterprises continue to make losses and run up debts.¹⁶

¹² ADB. Asian Development Outlook 2008, Manila 2007, p. 290 (table A16).

¹³ ASEAN Secretariat, ASEAN Statistical Yearbook 2004, Jakarta.

¹⁴ Heritage Foundation: Index of Economic Freedom 2008,
<http://www.heritage.org/index/country.cfm?id=Laos>

¹⁵ EIU ViewWire, Laos economy: Praise for economic policies, New York: Jan 30, 2008.

¹⁶ IMF, Lao People's Democratic Republic: 2007 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Lao People's Democratic Republic, IMF Country Report No. 07/360, November 2007

2.5 Poverty

Laos remains among the poorest nations in Asia, only slightly ahead of Cambodia, Bangladesh and Nepal as measured by the ADB's "Per Capita Real Gross Domestic Product Indexes" 2005.¹⁷ According to the UN World Food Programme every second child in rural parts of the country (around 255,000 children in all) is chronically malnourished, with levels of under-nourishment being even worse among some ethnic groups. The study found that 13% of rural households (or 84,000 households) were "food- insecure" at post-harvest time, while one-half of all rural households were at risk of becoming food-insecure.¹⁸

Lao PDR is the world's most heavily bombed country. Two thirds of the country is still contaminated with unexploded ordnance (UXO), which continues to cause death and injury as well as deny the use of land for cultivation or grazing. The presence of UXO has a direct correlation to food insecurity as vast areas of land, particularly in remote places, remain unsafe for agricultural production.

There is no social security system in place to alleviate poverty or to help meet medical or disability costs. Nor are there old age or invalidity pensions, except for veterans of the revolutionary struggle on the Pathet Lao side, provided by the Ministry of Labour and Social Welfare.

The latest available Gini Index value of 34.2% suggests a relatively low level of inequality (as compared to other Southeast Asian states such as the Philippines, Malaysia and Cambodia with more than 40% each), which has even slightly decreased since 1997 when the value stood at 37%.¹⁹ At the same time there is a rapidly expanding group of Lao entrepreneurs profiting from the opening of the economy. While salary levels for mid and high level state officials range from only US\$ 50–90 a month, below that required to afford many basic necessities. Development is unevenly spread around the country. Whereas farmers in the fertile Mekong valley are relatively well off, many in the highlands and mountainous regions manage only a subsistence living.

In 2004, the government agreed to adopt a National Growth and Poverty Eradication Strategy with the cooperation of international donors. Implementation will depend, however, on the political commitment to fund programs for those most in need.

2.6 The social sector: health and education

MDGs for the health sector show a positive trend, but at a slower pace than projected. The child mortality rate declined significantly from 170 to 100 per 1,000 live births between 1990 and 2005, compared with the target of 55 per 1,000 live births by 2015; the proportion of underweight children below the age of five, estimated at 40% in 1990, is still above 30% in 2005 compared with the target of 20% by 2015; and maternal mortality ratio dropped from 750 to about 500 per 100,000 live births between 1990 and 2005, compared with the target of 175 per 100,000 live births. Laos is surrounded by countries with generalized HIV/AIDS epidemics. Social changes and increased connectivity are accelerating the spread of HIV/AIDS in high-risk groups.

The overall quality of the health sector is poor. The health sector suffers from endemic problems of low state spending (5.5% of state expenditure in 2005) and lack of competent manpower. Basic healthcare remains inaccessible to a large proportion of the rural population, especially

¹⁷ ADB, Purchasing Power Parities and Real Expenditures, Manila 2007, p. 32.

¹⁸ UN World Food Programme, Assistance to Food Insecure Households Affected by Multiple Livelihood Shocks, PROJECT NO.: LAO PDR PRRO 10566.0.

¹⁹ United Nations Development Program (UNDP), Human Development Reports 2003 and 2007-2008.

ethnic minorities and women. Poor sanitation and nutrition levels in most of rural Laos are reflected in standard indicators of health and longevity. Infant mortality is 87 per 1,000, while at birth life expectancy at birth was only 63.2 years in 2005. While the latter figure represents an increase from 54.3 years compared to about a decade ago, Lao PDR has still the third lowest life expectancy average in ASEAN (ahead of Myanmar and Cambodia). Malaria and Haemorrhagic fever are widespread.²⁰

When compared to other Asian countries, in Lao PDR, aggregate public and private health spending remains at a low level. There is a shortage of recurrent funds for the operation of health services. Domestically financed government health expenditure is declining and is biased toward the central level. User fees have been introduced to fill the gap, but they have created financial barriers to access for the poor.²¹

Lao PDR has made progress in improving educational standards in recent years. As the CSP 2002-2006 outlines in detail, between 1991-92 and 1998-99 the net enrolment rate for primary schools rose from 62% to 74% and net enrolments for lower secondary schools rose from 28% to 43%. Adult literacy also improved from 60.2 per cent in 1995 to approximately 70 per cent in 2000 but remains low by regional standards and hampered by a high drop-out rate. On average, children spend 5 years in school, but school attendance is even lower in ethnic minority areas where access to schools is more difficult. The Lao language is the sole language of teaching in Lao PDR, including in ethnic minority areas.²²

While the government has been attempting to strengthen the quality and quantity of health and education service provision, at 11% of the state budget, education spending in Laos is among the lowest in the region. However, adult education has been expanded and new schools are being built. Literacy rates are still low by regional comparison, 55.5% for women, 77.4% for men. Nearly two thirds of all investment expenditure in this sector comes from development aid, mainly concentrated on primary education. Donor coordination in this sector started in 2002, and in the next National Development Plan for Education (2005-2010) a sector development programme initiated by SIDA will be formalised. The World Bank is now funding a capacity-building programme at the Ministry of Education and other donors such as the ADB are also involved in funding this sector.²³

Higher education is provided by three universities: the National University of Laos which is made up of several faculties, as ten higher education institutions located in Vientiane were merged and reorganised into faculties of this multi-campus University; Souphanouvong University; and Champasack University. In addition, there are higher technical institutes and teacher training colleges. In the future, the teacher training colleges will be transformed into Regional Colleges. Higher education institutions are managed by the government. The universities are under the responsibility of the Ministry of Education.²⁴

The quality of education at all three levels remains very low, and the government has failed to make education a national priority. Schools have minimal facilities and textbooks are in short supply. Investment in research and development is nonexistent. A few private schools are in

²⁰ ADB, Technical Assistance to the Lao People's Democratic Republic for Preparing the Health Sector Development Program (Financed by the Japan Special Fund), July 2005; CSP 2002-2006; CSP 2007-2013.

²¹ World Bank, Lao PDR Public Expenditure Review, Integrated Fiduciary Assessment, Report No. 39791-LA, 15 May 2007, p. 94.

²² CSP 2002-2006, p. 11.

²³ Lao PDR-European Community Strategy Paper for the Period 2007-2013, p. 12 ; UNDP. Human Development Report 2007/2008.

²⁴ UNESCO, World Higher Education Database, Lao PDR, http://www.unesco.org/iau/onlinedatabases/systems_data/la.rtf

operation, offering courses in languages (mainly English), business (management, accounting) and IT. The WB notes that “a critical requirement for Lao PDR is to increase to 15 percent the proportion of national resources spent on education and to ensure that this spending favours priority districts. However, no information system exists for data collection, analysis, and dissemination, notably at the provincial level.”²⁵

2.7 Environment

The economy of Lao PDR is primarily natural resource based with more than 50 percent of GDP from agriculture, forestry, livestock and fisheries. Most communities also rely on fuel wood for energy and many on non-timber forest products for food supply. Lao PDR is comprised of diverse ethnic groups whose social systems, cultural characteristics and identities are linked to their local ecosystems.

In Lao PDR, forest cover stood at 41.5 percent of the area of the country (a significant decrease from 70% in 1940). It has a large volume of internal renewable water resources and considerable mineral resources, such as gold, lignite and copper. These natural resources have catalyzed past economic growth, but mismanaged exploitation has caused significant environmental damage to the country. Much of the land in Laos is susceptible to soil erosion as a result of the large amount of land with a high degree of slope, the types of soils and the high rainfall. Soil erosion is compounded by shortened fallow periods, resulting in lower productivity and ever increasing demand for more land.

Lao PDR is one of the most biodiversity-rich countries in Southeast Asia. Despite relatively poor information, it is known that over-harvesting of timber and the wildlife trade are placing this biodiversity at grave risk.

The government has started to put in place a legal framework for environmental protection and natural resources conservation. The Environmental Protection Law of 1999 is the principal environmental legislation in the country. It includes measures for the protection, mitigation and restoration of the environment as well as guidelines for environmental management and monitoring.

The Lao government has set aside 17 National Biodiversity Conservation Areas comprising just over 10% of the national territory, and has logging controls in place. Enforcement of controls is sporadic at best, however. Major mining and hydroelectric projects undertake environmental impact studies, but largely because of international pressure. The Lao government does not require such studies for the investment projects it approves. The government expresses most concern over slash-and-burn agriculture traditionally practiced by ethnic minorities, and has pursued a policy of resettling them at locations where agriculture is sustainable. A recent development of some environmental concern has been the long-term leasing of large areas for plantation agriculture.²⁶

2.8 Governance

There is broad agreement among donors that poor governance, broadly considered, is the main risk factor for Lao PDR's development, especially during the critical phase over the next few

²⁵ World Bank, Lao PDR Public Expenditure Review, Integrated Fiduciary Assessment, Report No. 39791-LA, 15 May 2007, p. 94.

²⁶ World Bank, Lao PDR Environment Monitor 2005

years when abundant revenues begin to be available from the export of hydropower and other natural resources. The Government adopted a Governance Reform Programme in 2003. Activities are organised according to four objectives: public service reform, people's participation, the rule of law and sound financial management. Attempts are being made to improve the workings of the civil service, to formalise and regulate relations between central and local government, to improve public financial management and to strengthen participation and encourage local empowerment, but progress is perceived to be slow²⁷. As we discuss in Special Focus 4 of Annex 5, weak governance in Lao PDR is deeply rooted in political culture. However, the engagement of international partners with governance issues in Lao PDR has never been greater²⁸. Improved transparency and accountability in public financial management lie at the heart of the multi-donor Poverty Reduction Strategy Operation budget support initiative (in which the EC participates), and capacity building projects have supported the National Assembly and civil society organisations.

2.9 Human Rights

In 2007 a number of international human rights organisations, most prominently Amnesty International (AI) released critical reports on human rights violations in Lao PDR.²⁹ The EC-Lao CSP 2002-2006 noted that "In respect of civil and political rights, restrictions on freedom of expression and assembly remain, as do restrictions faced by international and domestic human rights monitors, making it difficult to assess in detail the human rights situation in the country. It is particularly difficult to obtain information on detentions and trial of people accused of crimes against the state and the government does not permit outside observers visiting the prisons."³⁰ "Democracy and Human Rights" constitute a thematic key area of cooperation under the CSP 2007-2012.³¹ Human rights concerns have been particularly strong as concerns relocation programmes, to which we devote Special Focus 1 in Annex 5. Related to the relocation issue, the return of Hmong from Thailand is a difficult subject on which Government is reluctant to engage in constructive dialogue although this issue is on the EC agenda in EC/Laos working group framework established on "Cooperation in the areas of institution building and administrative reform, governance and Human Rights". Since 2005, the second and third working groups meetings put the issue of Hmong refugees in Thailand officially on the agenda. The sensitivity of the issue can be gauged from the fact that, in June 2007 a group of ethnic Hmong were arrested in the US; and charged with plotting a coup to overthrow the Lao PDR regime.

²⁷ Lao PDR-European Community Strategy Paper for the Period 2007-2013, p. 6.

²⁸ Gunn, Geoffrey C., *Laos in 2007, Regional Integration and International Fallout*, in *Asian Survey*, Vol. 48, No. 1, February 2008, pp 62-68: 64.

²⁹ Amnesty International, *Lao People's Democratic Republic: Hiding in the Jungle—Hmong under Threat*, <http://www.amnesty.org/en/library/asset/ASA26/003/2007/en/dom-ASA260032007en.html>

³⁰ CSP 2002-2006, p. 9.

³¹ CSP 2007-2013, p. 28.

3 EC SUPPORT TO LAO PDR

3.1 The overall context

Lao PDR is heavily dependent on external support to ensure proper financing of the country's development. ODA accounts for 85% of public investments and 38% of total public expenditures. ODA grants and concessional loans amounted to US\$ 420 million in terms of commitments (agreements signed between the GoL and bilateral and multilateral partners) during FY 2005-2006, with loans and grants sharing almost the same proportions. In terms of effective disbursement, ODA is estimated to be at the level of US\$ 350 million US\$ for FY 2006-2007.³²

At US\$ 50 Lao PDR ranks highest for net disbursement of ODA per capita in Southeast Asia. Together, the World Bank and the ADB, along with the top five bilateral donor countries (by 2004–05 statistics), Japan, Sweden, France, Germany, and Australia, are the largest donors. China and Vietnam, which have traditionally exercised considerable political influence in Lao PDR, weighed in at sixth and seventh largest aid donors, respectively.³³

Among EU Member States, the top donors are France, Germany and Sweden. Belgium and Luxembourg also have bilateral development programmes. Commission and EU Member State funding taken together accounts for some 25 percent of total assistance (loans and grants) to Lao PDR.³⁴

EC assistance to Lao PDR started during the early 1990s when the main priorities were rural development, urban development and support for refugees returning from Thailand. In April 1997 the EC and Lao PDR signed a Cooperation Agreement with a broad focus on development and economic co-operation and trade cooperation. Relations were further strengthened with the opening of a European Commission Delegation in Vientiane in May 2003. In connection with the 3rd EC/Lao Joint Committee Meeting in January 2004, two informal working groups were established: on “Cooperation in the areas of institution building and administrative reform, governance and Human Rights” and “Trade and Cooperation”. The first meetings were held in Vientiane in June 2005.

³² Round Table Implementation Meeting, 8 November 2007, Vientiane Achievements, Constraints and Future Direction within the Implementation of the National Socio-Economic Development Plan 2006-2010, Main Background Document, CPI/DIC, 5 November 2007.

³³ Gunn, Geoffrey C., Laos in 2007, Regional Integration and International Fallout, in Asian Survey, Vol. 48, No. 1, February 2008, pp 62-68.

³⁴ CSP 2007-2013, p. 17.

3.2 EC Strategic Objectives and Priorities in Lao PDR

3.2.1 *EC-Lao PDR Cooperation Agreement*

The legal basis for EC cooperation with the Lao PDR remains the Cooperation Agreement that came into legal force in December 1997. This emphasised trade, development and economic cooperation as well as committing both parties to respect for human rights.³⁵ The Cooperation Agreement was intended to, and still does, provide a basis for dialogue and cooperation.

Specific areas identified were to

- accord each other most-favoured nation status;
- promote EU-Lao PDR trade in accordance with the principle of mutual advantage;
- strengthen economic cooperation in accordance with the principle of mutual advantage
- achieve a lasting opening-up of markets compatible with the economic situations of the Parties and the assistance needed by Lao PDR in its effort to join the WTO;
- contribute to Lao PDR efforts to improve the living standards of the poorest via rural development, transition to a market economy, and human resource development;
- encourage job creation in both the EC and Lao PDR;
- take requisite measures relating to protection and conservation of the environment and natural resources.

Table 1 Priorities identified in the Cooperation Agreement: a bird's eye view

Area identified	General objective	Specific priorities identified
Development	Alleviate poverty	Create jobs, foster development at grassroots level, promote role of women in development; combat AIDS; address drugs; human resources development; unexploded ordinance
Trade	Create favourable conditions for EU-Lao PDR trade, diversify structure of EU-Lao PDR trade, work towards elimination of barriers to trade	Accord each other most favoured Nation status; improve cooperation in customs matters; exchange information on public procurement, tourism, and statistical cooperation; accede to international intellectual property right conventions (Lao PDR); provide needed technical assistance (EC)
Environment	Enhance prospects of sustainable economic growth and social development by placing high priority on respect for natural environment	Draft an effective environmental protection policy including means and resources for implementation (Lao PDR); develop sustainable and non-polluting energy sources and solutions to urban and industrial pollution problems; protect fragile ecological zones and develop sustainable tourism; environmental impact assessment of all major projects; cooperate to achieve objectives of environmental agreements to which both Parties are signatories; protect and conserve forests, including an end to illegal logging
Economic	Assist Lao PDR to restructure its economy, encourage synergies between EU and Lao PDR private sectors, encourage private	Facilitate access to EC know-how and technology; facilitate contacts between economic operators, promote trade; Encourage public and private sector investment programmes and cooperation between enterprises; facilitate cooperation on enterprise policy, especially with regard to improving the business environment and encouraging contacts; reinforce

³⁵ Official Journal L 334/14 – 5.12.97

	investment	mutual understanding of the Parties' respective economic environments; promote international standards and quality assessment
Agriculture	Develop trade in agriculture	Sanitary, phytosanitary, and environmental measures; assist Lao PDR in efforts to diversify agricultural exports
Energy	Ensure sustainable development of Lao PDR energy resources	Dialogue
Regional	Extend cooperation to activities under cooperation or integration agreements with other countries in region	Provide technical assistance related to practical aspects of regional integration; promote of intraregional trade; support regional institutions; studies concerning regional links
Science and technology	Exchange information and experience; promote lasting ties between scientific communities; promote innovation in industry including technology transfers.	Joint implementation of research projects; exchange of scientists; joint scientific meetings; dissemination of results and development of links between public and private sectors; evaluation
Chemical drug precursors and money laundering	Prevent diversion of chemical drug precursors and prevent money laundering	Promote other forms of economic development; exchange relevant information
Physical infrastructure	Address infrastructure constraints to private investment and economic development in general	Encourage specific programmes for rehabilitation, reconstruction, and development of Lao infrastructure
Information, communication, and culture	Improve mutual understanding and strengthen ties	Preparatory studies and technical assistance for conservation of cultural heritage; cooperation in media and audiovisual; organisation of events

Source: EC-Lao PDR partnership and Cooperation Agreement, Articles 2-13.

Modalities of engagement identified were development cooperation (under the ALA Regulation, with priority given to the poorest segments of the population), trade cooperation, environmental cooperation, and economic cooperation.

Table 8 gives a summary of the areas of cooperation and specific priority actions that were identified in the Cooperation Agreement. Apart from the fact that restructuring towards a market is explicitly recognised, the areas in Table 8 represent a standard menu of cooperation choices appropriate to a poor country.

3.2.2 CSP 2002-2006 & NIPs 2002-2004 and 2005-2006

The main vehicle for EC development cooperation with Lao PDR over the evaluation period was the Country Strategy paper (CSP) 2002-2006 promulgated in 2001. This was, in turn, the basis for National Indicative Programmes (NIPs) 2002-2004 and 2005-2006. At the very end of the evaluation period, a CSP 2007-13 was published, accompanied by a Multi-annual Indicative

Programme (MIP) 2007-2010. While we will consider the latter as an end point towards which EC strategy was evolving over the period, the basic strategic document we have used in constructing our Evaluation Questions is the CSP 2002-2006. A diagrammatic representation of the EC strategy, mostly drawn from the CSP 2002-2006 and CSP 2007-2013 (see next section), is given in Annex 7.

In the period between the Cooperation Agreement of December 1997 and the CSP 2002-2006, there were two strategic developments of note. The first was the coming into force in 2000 of the EC's Development Cooperation Policy, which stipulated that the global objective of all EC development cooperation activities is poverty reduction. This focus is explicitly recognised on page 24 of the CSP 2002-06. A second development was the meeting of the EC-Lao PDR Joint Committee in Brussels in May 2001, which identified three overarching goals:

- improving the economic environment of Lao PDR by providing easier access to community know-how, technology, and capital;
- facilitating contacts between economic operators and other measures designed to promote commercial exchange and investment;
- reinforcing mutual understanding of respective economies.

Specific areas for development cooperation identified were rural development, education, health, and unexploded ordinance (UXO).

The EC strategic response, in the context of limited resources and widespread rural poverty, called for priority to be given to rural development and the social sectors (education and health), with increased attention to governance and trade (CSP 2002-2006, p. 24). As general considerations within these major intervention areas, the CSP called for:

- Efforts to be concentrated in the geographically most deprived areas, namely the northern provinces and two southern provinces (Attapeu and Sekong) where poverty incidence was highest;
- Involvement of communities in design and implementation of local initiatives; emphasis everywhere on human resource development to address the weakness of administrative capacity in Lao PDR;
- Inter-linkage of trade policy and development policy in order to achieve objectives related to poverty reduction.
- Mainstreaming of environment in all projects;
- Special attention to gender.

The priority areas identified in the 2002-2006 CSP are shown in Table 2 together with the specific potential forms of intervention envisaged.

Table 2 CSP 2002-2006

Priority areas	Sub-areas
Rural development	Small-scale rural infrastructure (access roads) Livestock UXO EC Food Security Programme (FSP) support to NGO proposed- and implemented community food security projects.
Social sector	Education - <i>increase access</i> - <i>improve quality</i> Health - <i>NGO budget-line projects</i> - <i>Consider continuation of large pre-CSP health projects(e.g., malaria control)</i>
Trade and development	Support Lao PDR to prepare for WTO and AFTA accession Training / development of expertise regarding - <i>EU trade rules / certification requirements</i> - <i>WTO membership requirements</i> - <i>Customs, especially statistics</i> - <i>Export opportunities (training targeted at business owners)</i>
Cross-cutting issues	General application of available budget lines for environment, gender, human rights and democracy, culture and education Governance - NGO implemented activities related to - Human resource limitations in administration, especially justice - Shortcomings in the legal framework - Cooperation with other donor efforts related to judicial reform, strengthening of National Assembly; establishment of National Audit Office.

3.2.3 CSP 2007-2013 and Multi-annual Indicative Programme 2007-2010

The new CSP reflects both the coming into force of the new DCI as well as the overall shift from project to direct budget support in EC development assistance and in line with Paris Declaration commitments. Areas of support being phased out are:

- Support for health, due to presence of many donors and low level of EC value added;³⁶
- Bilateral rural development projects, due to high concentration of donors, difficulties of donor coordination, and lack of a sector-wide approach;
- Bilateral private sector development projects, due to a strategic shift away from a project-oriented approach to a reform-oriented approach stressing the establishment of an enabling environment.

Four priority areas are identified:

- Support to the Government's reform agenda under the National Development Strategy through a Poverty Reduction Support Operation (PRSO), which in its first phase covers strengthening public financial management, aligning budget resources with pro-poor

³⁶ However, support to the health sector will continue through EC support to the Global Fund.

policies, and accelerating growth through private sector development, regional and global integration, and improved resource management. The CSP notes that the EC was involved in PRSO discussions since 2004 and that PRSO objectives are entirely aligned with EC goals. The EC's participation in the PRSO is the subject of Special Focus Area essay in Annex 5;

- Support for sustainable development in the uplands and policy dialogue on population relocation. A key lesson from the previous CSP was that rural development projects can be adversely affected by population relocation programmes. The CSP notes that populations in affected regions are especially vulnerable, that many represent ethnic minorities, and that gender gaps are especially acute. Dialogue on relocation inevitably relates to human rights, but also covers such other areas as lack of transparency and simple incompetence in implementation;
- Governance, including corruption, and human rights, identified as cross-cutting areas relevant to all EC-funded activities;
- Trade and economic cooperation, in the form of technical assistance and capacity building related to WTO and the AFTA.

Cross-cutting areas to be addressed via thematic / horizontal budget lines and policy dialogue are environment, gender and ethnic minorities, good governance and institution building, and HIV/AIDS.

3.2.4 Multi-country aspects of the EC's co-operation with Lao PDR

Many Asia regional programmes have had a presence in Lao PDR – Asia Link, Asia URBS, Asia Invest, and Asia IT and C. However, the CSP 2007-2010 (p. 27) noted some disappointment with the level of Lao participation, citing the possibility that the main means of disseminating information about some programmes was the internet, to which few persons in Lao PDR have access.

Lao PDR participated in two ASEAN-level programmes – the EC-ASEAN Standards Programme and the EC-ASEAN Intellectual Property Rights Programme.

3.3 Implementation and resources

Table 3 gives an overview of past EC cooperation spending in Lao PDR, by sector. While the periods given are inexact, they correspond roughly to the pre-CSP segment of the evaluation period (1997-2001) and the CSP 2002-2006 phase.

While the CSP is not explicit, these appear to be actual disbursements. The total EC disbursement figure in the OECD DAC Development Statistics Online database for 2000-2006 is USD 61.9 million, or Euro 56 million at an average exchange rate of 1.1. As this is a consolidated figure including ECHO and thematic budget lines, it is not surprising that it is somewhat higher than the figure given in the CSP.

The initial period was dominated by rural development and health. The CSP 2002-2006 expanded the scope of cooperation to social sectors (education and health) and trade, while maintaining the focus on rural development as the main area of support. Note that, as pointed out in a footnote in the CSP, the apparent drop in rural development support is an illusion; in fact, two projects totalling Euro 21.6 million straddled the two periods and there was no reduction in support to the sector. However, the coming into force of the CSP did see some significant changes in emphasis. Education was, for the first time, allocated substantial resources, while the health sector, as mentioned above, saw a major shift from large projects to small NGO implemented

interventions, implying a sharp drop in expenditures. Governance emerged as a focal sector, with most of the money expended going to support large governance projects implemented by partners such as UNDP.

Table 3 Past EC Cooperation, by Sector (spending in EURO million)

SECTOR	1993-99	2000-06	TOTAL
Banking and financial services	4.8	0.0	4.8
Business and other services	0.0	3.7	3.7
Commodity aid and general programme assistance	1.8	4.5	6.3
Education	0.3	6.6	6.9
Emergency assistance	0.6	0.1	0.7
Governance and civil society	1.9	6.1	8.0
Health	10.8	3.4	14.2
Other social infrastructure and services	0.3	0.3	0.3
Population policies / programmes and reproductive health	1.2	0.8	2.0
Rural development	35.7	17.6	53.3
TOTAL	57.4	42.8	100.2

Source: CSP 2007-2013, p. 32.

Further detail on implementation and resources is given in Table 4, which specifies priority interventions in the NIPs 2002-2004 and 2005-2007 and in the MIP 2007-2013. Of greatest note is the move from projects to budget support under the latter.

Table 4 Allocations, indicative programmes 2002-2013 (Euro millions)

Sector of co-operation	NIP 2002-2004	NIP 2005-2006	MIP 2007-2013
Rural development			
- Support to livestock sector	5.0		
- Sustainable development in uplands and policy dialogue on relocation			8.0
Social sector			
- Support to basic education	6.0		
Trade			
- Support to WTO accession	1.0		
- Participation in EC / ASEAN IPR Programme	0.5		

- Participation in EC / ASEAN standards programme	0.5		
- SME development programme		3.0	
- Activities identified by Diagnostic Trade Integration Study			4.2
Governance			
- Support to legal sector	1.0		
- Support to International legislation project at Ministry of Foreign Affairs		1.0	
- Activities linked to policy dialogue in Working Group on Institution Building and Administrative Reform, Governance, and Human Rights			1.6
Support to Government of Lao PDR' reform agenda (budget support)			19.2
TOTAL	14.0	4.0	33.0

ODA plays a crucial role in the Lao PDR economy, amounting to 11-12 percent of gross national income. As shown in Table 5, the largest bilateral donor is Japan, followed at a large distance by Thailand. The largest European donors in recent years have been France, Sweden (now in the process of phasing out as part of a global consolidation process) and Germany.

Table 5 Net ODA disbursements, by donor, 2006-2007 average (USD million)

Donor	Amount (USD million)
Japan	75
Asian Development Fund (Asian Development Bank)	72
IDA (World Bank)	43
Thailand	32
France	30
Sweden	22
Germany	21
Australia	17
Korea	16
Global Fund	9
EC	9

Source: For all but EC, OECD DAC Development Statistics Online.
<http://www.oecd.org/dataoecd/62/60/1878247.gif>. For EC, see Table 6 below.

Table 6 presents data from the same source in a different way. Total net ODA disbursements increased over 40 percent between 2000 and 2007. EU MS ODA increased by a factor of nearly two, while assistance from the EC itself remained relatively flat, declining from 14.3 percent of EU DAC countries assistance to 8.6 percent. What has been most striking has perhaps been the emergence of major non-DAC donors, such as Korea and Thailand, which in the last two years accounted for over 10 percent of total disbursements.

Table 6 Disbursements of ODA, Lao PDR, 2001-2007 (USD million)

	2000	2001	2002	2003	2004	2005	2006	2007
All donors	281.6	245.5	278.0	301.2	269.8	296.0	364.1	396.4
of which								
DAC countries/members	194.9	151.0	177.8	189.0	16.1	159.0	187.6	221.0
of which								
EU DAC countries/ members	54.4	52.0	60.5	76.4	78.4	76.1	85.2	103.7
Multilateral	85.9	93.7	98.5	109.9	89.9	126.6	124.1	132.5
EC	7.8	8.3	8.5	8.1	9.1	11.3	8.8	8.9
share of total	2.8%	3.4%	3.1%	2.7%	3.4%	3.8%	2.4%	2.2%
share of EU DAC	14.3%	16.0%	14.0%	10.6%	11.6%	14.8%	10.3%	8.6%

Source: OECD DAC Development Statistics Online, accessed 06.03.09.

<http://stats.oecd.org/wbos/Index.aspx?DataSetCode=TABLE2A>

In this database, the EC is counted as a DAC country.

3.4 Donor co-ordination in Lao PDR

Given the large role external support and in order to improve its effectiveness, the Lao government and donors are attaching high importance to the coordination and management of ODA. As is the case in all recipient countries, coordination of external assistance is the cornerstone of a harmonised and sustainable development and a prerequisite for aid effectiveness. Within this context, the Round Table Process (RTP) is well established in Lao PDR and is receiving technical assistance from UNDP. The RTP aims at strengthening the policy dialogue between the government and donors, building stakeholders' consensus on development policies and priorities, channelling required resources in line with the country's development objectives, and improving the utilization of resources and aid effectiveness. The most recent Ninth Roundtable Meeting took place in Vientiane in November 2006. Participants included representatives from 36 countries, the EC, four International Financial Institutions, most resident and non-resident UN Agencies, and 22 International NGOs; as well as the Lao government the Lao private sector.

In June 2005 joint Government-Donor Sector Working Groups were created to support the Round Table Process, ensure better sectoral and inter-sectoral coordination, and improve resource utilization and aid effectiveness. Within the government, intra and inter-ministerial

coordination are being improved. The Department of International Cooperation (DIC) has moved from the Ministry of Foreign Affairs to the Department of General Planning in the Ministry of Planning and Investment in order to strengthen the link between external resources, and development planning and public investment programming.

With regard to the aid effectiveness agenda of the Paris Declaration, the Lao PDR government formulated the Vientiane Declaration on Aid Effectiveness (VD) in November 2006 and subsequently a Country Action Plan (CAP) in May 2007. The VD which represents a 'localised' version of the Paris Declaration has been signed by Government and 24 donors. Government has established a National Secretariat for the implementation of the VD and CAP. The Secretariat is chaired by the Director General of DIC and comprises high ranked government officials representing the Department of General Planning, the Department of International Organisations at the Ministry of Foreign Affairs, the Department of External Finance at the Ministry of Finance, and representatives of Line Ministries.³⁷

The multi-donor Poverty Reduction Support Operation (PSRO) supports the Lao government in the implementation of its National Growth and Poverty Eradication Strategy and National Social Economic Development Plan.³⁸ Through this approach and a complementary Public Financial Management (PFM) capacity building programme, it is envisaged that the efficiency and transparency of PFM systems will be strengthened to ensure efficient and effective use of public resources. Furthermore, the sustainability of government development efforts will be enhanced through the promotion of equitable growth and revenue mobilisation. The PSRO comprises five main components: good governance, public expenditure management capacity strengthening, public service delivery improvement, promotion of a competitive environment for private sector development and trade regime liberalisation. Led by World Bank, the participants in the PSRO are the EC, Australia, and Japan. As described in Special Focus Area 3 of Annex 5, the PSRO is not only a major vehicle for policy dialogue but, by reducing transaction costs and maximising the coherence of donor support with national priorities, the PSRO is a key instrument supporting the Paris Declaration agenda on aid effectiveness.

³⁷ Round Table Implementation Meeting, 8 November 2007, Vientiane Achievements, Constraints and Future Direction within the Implementation of the National Socio-Economic Development Plan 2006-2010, Main Background Document, CPI/DIC, 5 November 2007; Lao PDR/UNDP, The National Roundtable Process, <http://www.rtm.org.la/General%20RTM.php>; Lao DPR, Report on the Round Table Implementation Meeting, Vientiane, 08 November 2007, Committee for Planning and Investment Department of International Cooperation.

³⁸ Delegation of the European Commission to Lao PDR, News Release, European Commission backs Lao reform and poverty alleviation efforts, 06 March 2008, http://www.dellao.ec.europa.eu/en/2008/poverty_alleviation.htm

4 FINDINGS

This section presents findings for all EQs. For each EQ, we give a very brief answer in a text box, then a somewhat longer assessment in the paragraphs following. For full-length EQ answers, plus the assessments of Judgment Criteria informing the answers, and for information on the indicators which informed the assessments of the Judgment Criteria, see Annex 4, the “information matrix.” It is at the level of indicators that citations to source documents and field interviews are to be found.

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

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

Some projects resulted in increases in rural incomes and food security. However, monitoring generally paid insufficient attention to quantitative measures of income and food security, even in cases where baseline studies had been prepared and could have provided a basis for rigorous monitoring. So, while there are general assertions about increased income through the Microprojects Development Through Local Communities (MPDLC) Project, increases in rice production achieved by the Phongsaly Forest Conservation and Rural Development Project, and increases in livestock production associated with the Strengthening of Livestock Services and Extension Activities (SLSEA) Project, it is difficult to rigorously estimate impacts on income and food security. However, the field visit in Luang Prabang Province to villages that had benefited from the MPDLC gave strong indirect evidence that, by building access roads, the project had contributed to sustainable increase in income.

In answering this EQ, we also give emphasis to sustainability, i.e. whether positive impacts are likely to persist after donor support ceases. Sustainability has received considerable attention in project design and implementation (e.g., ensuring ownership by local participation; building capacity at provincial, district, and village levels). Capacity building measures appear to have received increased attention in the more recent projects and in later phases of projects begun early in the evaluation period.

However, sustainability hinges on factors largely beyond the control of the projects. The first is inadequate financial resources available in the poorest provinces and districts, which limit future repairs and even basic maintenance of the many infrastructures constructed. We discuss, in the context of governance, the fundamental problem that poor provinces have been short of budgetary resources, a problem that government authorities are presently trying to address in the context of public financial management reform, but not with complete success. When public funds are unavailable, villagers themselves do not earn sufficient income to enable them to finance repairs and maintenance. Another limiting factor, related to the budgetary issue, is the limited number of government staff in provinces and districts who continues work after projects’ closure.

A second key sustainability factor is relocation, which was found to be a major cause of unsustainability in early rural development interventions. The EC has been behind a major initiative to expand donor policy dialogue with Government related to relocation, and to integrate this dialogue into rural development programming. Yet, not all rural development projects were failures, not were all components even of generally weak projects unsuccessful. Our sample of projects examined is too small to make powerful generalisations, but a few thoughts can be distilled from the evidence. Generally speaking, most projects were too ambitious compared to the resources at their disposal Lao PDR has been and still is a difficult country in which to implement rural development projects due to capacity and budgetary constraints. The situation is even more difficult in the Northern Uplands due to the geographical context, as well as the relocation issue.

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

Most of the projects we examined were implemented by Government. We do not have a large enough selection of NGO projects to be able to draw any conclusion regarding the advantages and disadvantages of channelling funds for rural development through NGOs. However, some success was reported in using national NGOs to mobilise volunteers to work in rural communities on projects related to rural development. Here, as well, the approach taken was to involve communities in the choice of projects to be undertaken.

One key area for rural development is the problem of unexploded ordnance (UXO). Based on discussions at the Dissemination Seminar held in Vientiane in January 2009, it emerged that this issue had been insufficiently dealt with in the course of the evaluation. Through thematic budget line-financed projects, the EC has supported UXO clearance in a number of provinces; however, the key problem of insufficient capacity at the responsible national agency, UXO Lao, has not been addressed in a systematic way. The EC has not supported, as have many other donors including Member States, the Government-UNDP Trust Fund for UXO Clearance, a major source of support for UXO Lao.

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

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

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

This EQ is challenging to answer because it implicitly sets up a counterfactual in which the EC continued to finance traditional project interventions. We cannot compare Euro for Euro; however, we can ask whether the shift made strategic sense, was coherent with the national situation and context, and continued to deliver improved health to people in need. We would answer this in the affirmative.

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

The picture that emerges from the Judgment Criteria is as follows:

- "Headline" health indicators such as infant mortality and under-five mortality have continued to improve. This may be due to better access to health care, or it may be due to economic growth and better living conditions. Lao PDR continues to perform much worse than neighbouring Cambodia and Vietnam on basic health indicators.
- Lao PDR compares reasonably well with its neighbours Cambodia and Vietnam on availability of health infrastructure and personnel. However, rural and especially remote rural areas are underserved. Facilities, equipment, and staff are very unevenly distributed, resulting in continuing problems of access in rural, and especially remote rural areas. While salaries are higher in real terms because of the lower cost of living, payment delays are endemic in rural areas.
- Weaknesses in public financial management translate into inadequate health budgets in poor provinces and districts. As in education (see EQ 3 below) the ratio of recurrent expenditure to capital spending, virtually all of the latter financed by donors, is insufficient. The result is low salaries, poor equipment, and inadequate maintenance.

- Health expenditure overall is very low, and any growth that has occurred has been because of growth in private, out of pocket spending. Public health expenditure, because it tends to go to hospitals instead of clinics, is slanted towards the well to do, not the poor. Lack of household resources is as much a barrier to access to health care as is the lack of infrastructure. Overall, health care financing has been one of the most problematic areas in health, with no overall strategic vision or plan having emerged to date.

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

- EC support to Lao PDR never placed emphasis on infrastructure. Based on our reading of the evidence, this was the correct stance to take.
- We have no evidence that the new strategy was more or less effective than the old one in terms of capacity building and training, which have always been emphasised. The major problem in Lao PDR is distribution of skilled personnel, not overall numbers.
- While NGO projects have effectively targeted remote and under-served areas, we have no evidence that would lead us either to believe or to doubt that they do so better than the Government implemented projects that they replaced. They experience much the same staff constraints as Government projects.
- The Global Fund has been a very effective presence in Lao PDR. It very effectively built on the foundation that had been put in place by the EC regional malaria programme. This is a good example of a smooth strategic progression in a major public health area in Lao PDR. By contrast, a very successful regional project on reproductive health for youth was not followed up on in Lao PDR.
- Inadequate public finance for health and the poor management of the financial resources that are available are serious, perhaps the most serious, problem in the health sector in Lao PDR. The application of the Variable Tranche in the EC's support to the PRSO process, i.e. budget support is an effective means of addressing this problem. The Variable Tranche is noteworthy because it has allowed the EC to combine overall budget support with its commitment to focus on the social sector and the most vulnerable populations.
- The policy dialogue, especially related to public sector financial management and the budgeting of the social sector made possible by participation in the PRSO is an effective means of addressing serious weaknesses in the health sector. A TA set-aside in the EC's provision of funds to the PRSO also supports capacity building at the Ministry of Health in the context of an eventual move to a sector approach. Since low capacity at the Ministry is one (albeit not the only) cause of poor financial management, planning, and priority setting, this is an appropriate response. The growing attention being paid to health care financing, one of the weakest areas of the health picture, is welcome, and the EC is active in the Health Care Financing Technical Working Group.
- Finally, it is plausible that EC projects outside the health sector, especially the Micro-projects Development through Local Communities (MPDLC) project, improved access to health care through its activities aimed at improving remote villages' connections to the outside world.

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

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

We paint a picture of overall improvement, especially over the long term but in recent years as well, with, however, persistent disparities. Net primary school enrolment rates have risen, as have net intake ratios; new schools have been built, and old ones have been completed. However, the availability of textbooks appears to have declined and the number of ethnic minority teachers per 1,000 ethnic minority school-aged children has dropped, in part because rapid growth of the target population has exceeded recruitment and training efforts. There is no evidence that teaching materials in ethnic minority languages have been made available. The most rapid expansion, albeit from a low base, has been in secondary education, but the quality of secondary education is poor. Vocational and technical education (admittedly, not the focus of this EQ, but the subject of considerable discussion under EQ 4) has not expanded, and there has been only very limited progress on curriculum reform. As we discuss elsewhere, schools in Lao PDR are not producing the skills needed for a modern, integrated, rapidly growing economy.

Over the evaluation period the EC was involved in support for education through its on-going 2004-2010 project “Basic Education Development project in Northern Communities” (BENC). There was also some provision of education infrastructure and capacity building under the Micro-projects Development through Local Communities Projects.

A significant amount of infrastructure, in the form of classrooms, has been provided by the EC. Some of this will go to reducing overcrowding, however, some previously unserved villages are also being provided with schools. Moreover, infrastructure provision has benefited those communities most in need. This is evident from the fact that increases in enrolment (estimated from data sources other than the then non-functional BENC monitoring system) came predominantly in the poorest districts.

While number of schools and enrolment or completion rates say something about the quantity of education received, quality is also important. Availability of teachers, especially in poor, remote districts continues to be a major constraint. That this problem has affected the effectiveness of EC activities is implicit in a BENC Mid-Term Review recommendation that Government be held to account to provide teachers. While the project made teaching materials available to the poorest districts, there were still shortages of textbooks and teacher manuals, and there is no indication that material was made available in ethnic minority languages.

Whether progress in primary education is sustainable is debatable for fiscal reasons. We trace problems in the education sector less to national availability of infrastructure budgets or trained teachers, but rather to inadequate budgets for recurrent expenditure at the provincial and district

level. As in health, the ratio of recurrent to capital expenditure (mostly donor-financed) in the education sector is too low. The key to long-term sustainable improvement in the education sector lies more in public sector financial management reform and improvement of the budgeting process than in directly assisting in infrastructure or teacher training. Among priorities that have been identified are focusing resources on primary and basic education, in particular, increasing teachers' salaries; improving the targeting towards priority districts and priority groups such as girls and members of ethnic minority groups, and improving management and financial information in order to achieve more transparency at the provincial level.

Most of these problems are being addressed directly or indirectly by EC support for PRSO budget support. The Variable Tranche makes resources directly available to the education sector in poor areas of the country, while PRSO-related policy dialogue addresses issues of public sector financial management.

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

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

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

Trade matters were not on the agenda when EC assistance to Lao PDR started during the early 1990s. The CSP 2002-2006 expanded the scope of cooperation to trade, partly in response to the perceived need to have a longer-term structural impact on the country's economic and social development.

Under the NIP 2002-2004 the EC supported trade sector development in the following areas: Lao WTO accession, Lao PDR participation in the EC/ASEAN Intellectual Property Rights (IPR) programme, and Lao PDR's participation in the EC/ASEAN Standards programme all with the general objectives to enhance EU/ASEAN investment and trade and promote trade and economic integration. The Mid Term Review (2003) of the CSP 2002-2006 stressed particular efforts had been made to enhance the possibility for Lao PDR to participate in Asia-wide programmes in support of trade and investment within the context of the Trade Related Technical Assistance programme.

The NIP 2005-2006 identified trade sector development as one of two priority sectors with the main emphasis on the Small and Medium Enterprises (SME) Development Programme. The overall objective of this project (ongoing until 2010) has been to provide technical assistance to the government with the overarching aim of contributing to poverty reduction and economic growth. Specific objectives include increasing the number, the profitability and the growth rate of SMEs in the country. The project was designed to complement the Asian Development Bank

project in the same sector. However, the two projects are similar and more could be done in terms of coordination. The degree of Lao PDR government ownership of the SME programme appears to be low so far. The SME sector, of crucial importance to the country, is not competitive with the SE sector in neighbouring countries due to shortages of skilled personnel, low level of business management skills, and a generally discouraging business environment in terms of regulatory regime and access to credit.

There is no indication that the Lao trade sector has profited in any specific way from activities under the ASEM umbrella. Lao PDR did not receive any grants from the ASEAN Trust Funds 1 and 2. However, Lao PDR received funds from the Asia Trust Fund (ATF) (2004-2007) for a project ("Building Research and Advisory Capacity of the Economic Research Institute for Trade ERIT") on research and advisory capacity-building for trade related issues (particularly with regards to WTO agreements): Lao PDR also benefitted from the Asia Trust Fund for Trade-related Technical Assistance (May 2006 - January 2007), which aimed at strengthening the technical competency of regulators and cosmetic industry personnel in Lao PDR and six other ASEAN member states. While the ATF Mid Term review of 2006 does not elaborate in detail on the cooperation with Lao PDR, it criticises a lack of coordination with related programmes.

All Lao PDR government stakeholders interviewed expressed a high level of satisfaction with the development of EC-Lao PDR economic relations and the EC's contribution to Lao PDR's integration into the world economy (WTO access) and regional cooperation schemes (ASEAN). The general view was that the presence of the EC Delegation in Vientiane since 2003 had markedly contributed to both the ability of national stakeholders to approach the EC and the flexibility and timeliness of EC responses to national stakeholders. The Delegation has significantly contributed to a better understanding of trade-related issues among stakeholders, for example, through the organisation of seminars on rules of origins and standards.

With one exception relating to cosmetics, we found no evidence that technical assistance activities in Lao PDR were closely and consistently coordinated with the implementation schedule of ASEAN commitments. This limited relevance, effectiveness, and impact and hampered the exploitation of synergies between bilateral and regional cooperation.

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

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

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

In looking at government awareness of ASEAN policy dialogues, participation in those dialogues, and the extent to which Government regards ASEAN integration is a key policy goal, we

conclude that Lao PDR participation in ASEAN regional policy dialogues has increased and improved. A cynical argument might hold that this is self-evident, since Lao PDR membership in ASEAN dates only from 1997. However, the broad picture that emerges is that of an increasing exposure of Lao PDR officials to ASEAN dialogue and, most importantly, the emergence of Lao PDR within ASEAN (epitomised by its term as Chair of the Standing Committee in 2004-2005) as a strong voice for the reduction of the development gap within ASEAN.

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

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

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

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

Governance

Governance is a core cross-cutting issue in which the EC has played a significant role through its involvement with the public financial management component of the PRSO as well as directly through its support for UNDP-implemented projects in areas such as strengthening the National Assembly. These share the characteristic that both relate closely to transparency and accountability in financial management, which in turn relate to key governance issues involving relations between Vientiane, the provinces, and the districts. By combining these two interventions, the EC has successfully engaged with the two main dimensions of governance, namely economic governance through PRSO and political governance in partnership with UNDP.

Civil society

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

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

Human rights

The EC's lead role in policy dialogue related to relocation brings with it dialogue related to the implied issues of human rights. However, it should be made explicit that the dialogue on human rights aspects of relocation in the context of the uplands development project will represent leverage of the initial investment in dialogue and cooperation engagement on implementation aspects of relocation. The strategy (never made explicit) would appear to be that, by engaging closely on dialogue and cooperation related to the practice and implementation of relocation, the human rights and overtly ideological dimensions of relocation will emerge and have to be dealt with.

Gender, environment, ethnic minorities

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

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

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

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

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

A broad range of tools (the instruments, approaches, etc., above) have been applied in Lao PDR. These tools have reflected sectoral needs and adapted over time to the changing context, especially the growing awareness among donors that weak governance is the greatest impediment to development prospects in Lao PDR and the increased willingness of Government to come to grips with problems in this area. The mix of instruments has changed over time as capacity constraints of national partners have become clear. In answering EQs 2 and 3, we have analysed in detail the inability of the Lao PDR budgetary process, in its current form, to generate sufficient funds for health and education at the provincial and district levels. EC financing of UNDP governance projects and the emerging use of thematic budget lines such as EIDHR and non-state actors and local authorities to address these issues are other examples of adaptation. The EC has used ASEAN-level programmes to provide capacity building and technical support, both directly and indirectly by ASEAN support to Lao PDR participation in ASEAN policy dialogues (discussed above under EQ 5).

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

The main shift to be highlighted is the EC's move from a traditional project-based approach to its current two-pronged approach for supporting the Lao PDR government in implementing its poverty reduction policies, namely (i) supporting the reform agenda of Lao PDR through the PRSO process and (ii) directly engaging in poverty reduction through "Support to sustainable development in the uplands and policy dialogue on relocation," where project support is contingent on effective policy dialogue regarding the implementation of relocation.

The EC, by joining the World Bank and other donors in the PRSO initiative, is contributing to the necessary structural changes that are expected to result in improved public financial management and making government budget funds increasingly available for poverty reduction, a precondition for sustainability. Through strengthened public financial management, including the clarification of the relationship between central government and the provinces, the PRSO process will contribute to structural reform that will pay long-run dividends that would be difficult to reap with a project by project approach.

The relocation issue and policy dialogue response is a good example of a response to lessons learned. During the preparation of the CSP 2007-2013, it was realised that successful projects' impacts often went to waste because of the Government of Lao PDR village relocation programme. The EC has responded by taking the lead in initiating a multi-donor policy dialogue with Government on this sensitive subject, essentially as a pre-condition for continued support to upland region development. The emphasis of policy dialogue will not be relocation as a general theme, but rather the nitty-gritty details of implantation, considered on a case-by-case basis.

In answering EQ 6, we found that EC support for civil society development has been reasonably effective, but using civil society as a major channel of support in Lao PDR is complicated by the fact that civil society in the European sense does not exist. While the EC works through international NGOs in a number of areas, we have not seen much evidence that these international NGOs, through their partnership with national civil society groups, are putting in motion a dynamic to strengthen autonomous civil society in Lao PDR. This is not necessarily the fault of the EC or other donors; international NGOs in Lao PDR must walk a thin line.

In the area of UXO, political considerations (failure of Lao PDR to sign the Ottawa Treaty) have impeded a comprehensive response tackling the need for capacity building. The EC has adapted by using thematic budget lines to support UXO clearance at the provincial level, working through international NGOs and, exceptionally, the responsible government agency UXO Lao; however, it has not joined with other donors in contributing to the Government-UNDP Trust Fund for UXO Clearance, a major source of resources for UXO Lao.

We have found that the EC combined bilateral trade assistance reasonably well with ASEAN-level programmes, while calling for better coordination between the two sets of interventions. The private sector is a practically non-existent partner, although the EC has cooperated with the Lao Chamber of Commerce.

4.8 EQ8 - To what extent has the EC coordinated and cooperated with EU member states and international financial institutions intending to improve the complementarity of their interventions?

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

There is abundant evidence that the EC has strategically committed itself to coordination and has contributed to establishing coordination mechanisms involving bilateral and multilateral donors and Government. There have been few instances of joint programming outside the education sector, but the EC has contributed in a number of ways to the coordination of joint policy dialogue; for example, in relocation and in trade and economy. There is no conflict or inconsistency to be seen between the EC's own goals and approaches and the goals and approaches driving externalised facilities financed by the EC, such as the Global Fund and the Reproductive Health Initiative for Youth in Asia project.

The identification of lead donors in each sector (in accordance with the Code of Conduct, which is designed to reduce transaction costs for Government), has worked well in Lao PDR, in part because the donor landscape is relatively sparse. Some bilateral agencies reported that donor coordination has significantly improved over time, but dated the improvement only to the last few months. The EC has organised training workshops for Member States related to the Code of Conduct. The EC also played a leading role in the Task Force established to develop a Plan of Action for the Vientiane Declaration, a localized version of the Paris Declaration. However, MS bilateral agencies expressed uncertainty over precisely what role the EC Delegation will play, in particular, whether it will serve as go-between for the MS and Government.

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

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

We are able to give concrete examples of achieving synergies, exploiting comparative advantage (explored in more detail under EQ 10), avoiding overlaps, and gap filling. EC participation in PRSO marks a step forward in the direction of better coordination with other donors and institutions. Our overall impression is that the quality, as well as the quantity, of EC participation

in and facilitation of coordination mechanisms in Lao PDR is high and that concrete results are living up to strategic commitments.

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

4.9 EQ9 – To what extent has the design and implementation of EC interventions adequately privileged the needs of the most vulnerable groups?

EC project interventions targeted geographic areas characterised by a high degree of poverty, which we take as more or less synonymous with vulnerability. By concentrating on northern regions, and more recently in focusing on relocation issues, the EC has privileged the needs of ethnic minority populations, who are among the most vulnerable. In project implementation, participatory approaches suitable to ensuring that projects take the needs of the poor into account have been implemented.

We looked at the role of vulnerable groups in strategic planning and programming and implementation. There is no doubt that the needs of the vulnerable have taken precedence in the EC's engagement with Lao PDR. Both CSPs (2002-2006 and 2007-2013) prioritise poverty reduction and analyse the needs of the most vulnerable groups, which in Lao PDR are ethnic minorities residing in the upland regions. The needs of women, who are disadvantaged on a wide range of measures of wellbeing, are discussed frequently. The commitment towards the needs of the vulnerable is consistently brought forward into the design and implementation of most EC projects, and also clearly reflected in budget allocations. Almost all of the rural development interventions have been / are concentrated in the northern parts of the country where poverty is most prevalent, as is the on-going education sector project BENC. In answering EQ 2, we established that all EC interventions in health, as well, have been directed at populations in disadvantaged regions. The distribution of EC activities speaks for the commitment by the EC towards poverty reduction and support to the most vulnerable groups.

EC budget support in the PRSO framework is strongly linked through the Performance Assessment Framework to poverty reduction.

The strategy to support the needs of the most vulnerable during the CSP 2002-2006 was mostly through the traditional project approach, particularly in the areas of rural development and education. In implementing projects benefiting the most vulnerable, there were considerable efforts made to apply project management procedures adapted to vulnerable groups. However, problems were faced in deployment of national staff, particularly skilled and trained civil servants, by the Government to EC initiatives; other difficulties were experienced in procurement. Projects would have been more effective and efficient had there been more flexibility in management than was possible under the framework of EC rules and procedures.

Participatory approaches were employed in strategic planning and, to varying degrees, in projects. Documents consulted from some projects, for example, the education (BENC) project or Micro-projects development through local communities (MPDLC) project, pay considerable attention to participation; while documentation from others, for example, the livestock project (SLSEA) is largely technical in nature. It is possible that pressure to achieve tangible results quickly may have discouraged application of the participatory approach in some cases.

In our consideration of EQ 6, we noted that, while gender and issues related to ethnic minorities were integrated into EC sector programmes, there was no overall logical framework, with objectives and a monitoring framework, which would allow progress to be tracked and lessons to be derived. Nor did we find any real evidence that gender or ethnographic analysis had been engaged in when planning interventions.

Finally, in our consideration of EQ 2, we noted that one gender issue of particular importance, reproductive health, has suffered from inattention since the end of the large regional Asia reproductive health initiative for youth project financed by EC and implemented by UNFPA. We came across one example of a purely dysfunctional approach to vulnerable groups, namely the disbursement of funds meant to empower women by village chiefs, who allocated them to male heads of households.

4.10 EQ10 - To what extent did the EC approach result in adoption of European approaches towards poverty reduction that would have not been adopted absent the EC policy dialogue and cooperation programmes?

We identify a number of areas in which the EC added value, for example, in its cooperation programme on trade integration (definitely) and in working on sensitive issues such as relocation (probably), as well as some areas in which we see little evidence so far of EC value added, such as coordination. However, with the possible exception of trade integration – an area in which the EC has acknowledged expertise – it is difficult to identify any particularly European approaches to poverty reduction which have been adopted due to European policy dialogue and cooperation. Indeed, it is easy to identify some that have not – for example, the provision of a comprehensive health care finance programme and other forms of social security benefitting those at risk of poverty (the aged, in particular). In examining the rationale for EC strategic shifts over the evaluation period, considerations of comparative advantage and value added do not appear to have taken precedence over other concerns.

The area in which the EC has a clear comparative advantage is trade integration, and this was a key area in EC policy dialogue and cooperation, essentially through bilateral and ASEAN-level technical assistance.

However, there is no evidence that the major strategic shifts observed over the evaluation period had anything to do with comparative advantage or value added, or for that matter with making available European approaches to poverty reduction. For example, the donor community simply realised that due to relocation affecting areas where projects had been located, the inability of Government to support projects after donor support ceased (interpreted generally as a problem of governance but more specifically as a problem of public sector financial management), and problems internal to the donor community (over-concentration, high costs, etc.), the project approach was not an effective way of stimulating development.

The EC would add value if it engaged in effective policy dialogue in areas where it spoke with particular force or credibility or where other partners were unwilling to speak out. There is a hint that the latter might be occurring in the important area of relocation. By concentrating on the implementation of relocation rather than on grand policy aspects, and by ensuring that lessons at the decentralised field level are observed and fed up the decision chain to Vientiane, the EC is adding value in this area. However, it is difficult to construe a positive answer to the EQ out of the EC's good work on relocation. In another controversial area where the EC speaks with great authority, reproductive health, support ceased with the end of the flagship regional project.

The EC identifies coordination as an area in which it adds value. The EC participated in coordination exercises but has not actively added much value yet, as, e.g. it might have had it taken the lead in coordinating Member State programmes. Work on the Code of Conduct and on assisting in development of an action plan for implementing the Vientiane Declaration are examples that the EC can, when it wishes, add value through coordination. The opinion of EU Member State partners interviewed in the field was mixed, some saw the EC as serving a coordination role, while others did not.

5 CONCLUSIONS

5.1 Global

Global conclusions are given in decreasing order of priority.

Conclusion cG1 (from EQ 7, EQ 6, and the sectoral EQs 1, 2, and 3)

The move away from traditional projects to budget support through participation in the PRSO is sound, but continued progress in public sector financial management is crucial in order to ensure sustainable impacts on poverty. A stronger and more independent role for civil society would help, as well.

All of the evidence considered here has supported the view that, while not all projects were failures, the move away from the traditional development project approach in Lao PDR was justified. Projects often suffered from poor implementation, transaction costs were high, and sustainability was questionable in the absence of structural reform. We have presented ample evidence from multiple sectors that the main impediment to development in Lao PDR is weak governance and, especially, weak public financial management. The result of the complicated and opaque system of public finance is that poor provinces and districts, and especially the social sectors within poor provinces and districts, find themselves receiving insufficient (and unpredictable) budgetary resources, especially for recurrent expenditure. The absence of independent civil society capable of performing anything approaching a watchdog role exacerbates the situation. Based on the high level of commitment from Government, the PRSO budget support approach is working well. However, there is continuing need to enhance government capacity and to ensure that the public financial management strengthening process makes substantial progress. The expectation that Lao PDR will experience strong revenues from natural resource-based exports, and the resultant fears that it may repeat the mistakes of other dysfunctional extractive economies, give this issue urgency, as does the distinct possibility that both ODA and FDI will decline in the face of the global economic crisis.

Conclusion cG2 (from the sectoral EQs 2 and 3):

Budget support and support for other forms of governance reform are appropriate means of supporting progress in the social sectors.

In a sense, this general conclusion is subsidiary to cG1 above, but it merits the appellation “global” because it applies to the social sector as a whole (and has more than a little relevance to rural development, as well). It merits high priority because, with rapid increases in revenues likely, the pressing question for poverty reduction in Lao PDR will not be where money will come from, but how it will be spent. While there has been progress on a number of social indicators in Lao PDR, it would be difficult to attribute this to donor or even government actions; economic growth and the accompanying increases in income could go a long way towards explaining, e.g. decreasing infant mortality or increasing primary net enrolment rates. Yet, wide gaps along the dimensions specified above persist; indeed, there is very little evidence that they are narrowing. The root cause of poor performance in the social sector in Lao PDR is not lack of infrastructure and human resources; these are only proximate causes. In both

education and health, lack of access and low quality are essentially problems of poor, rural areas with significant ethnic minority populations. The basic problem lies in the dysfunctional distribution of budgetary resources resulting from poor public financial management. Through the Variable Tranche, the EC has ensured that its engagement via budget support is consistent with its commitment to support the social sectors, particularly in the poorest areas of the country. Through PRSO-based policy dialogue, it is attempting to address long-term structural issues and institutional weaknesses.

Conclusion cG3 (from EQs 1 and 6)

Population relocation raises troublesome issues, but it is taking place whether the international community opposes it or not. There exists an opportunity, made possible by Government's willingness to engage in dialogue, to improve the implementation of relocation so as to minimise its well-documented negative poverty impacts.

Population relocation is an issue that pervades cooperation in Lao PDR, as it is linked to rural development, poverty and vulnerable groups, ethnic minorities, environmental sustainability, human rights, and civil society development. The subject of relocation is complex, politicised, and there is a broad range of opinions, even among donor agencies. International partner attitudes range from extreme concern, manifested by refusal to support any project involving resettlement, to resignation. The empirical evidence that we have reviewed here is almost unanimous in showing that relocation, while it offers attractions in theory (such as better access to social services and improved environmental sustainability) has been a disaster in practice to the communities relocated. Yet, our review of recent literature and field interviews validated the nuanced view taken by the EC in Annex 9 of its CSP 2007-2013. The EC's approach of spearheading intensified policy dialogue on the subject in the context of the Uplands Development project is sound. Policy dialogue on relocation in the past has tended to be top down, concentrating on the grand design rather than on issues of implementation. By focusing on implementation, rather than general ideological issues, and by tying project support to better implementation of relocation, the new project presents an opportunity for substantial progress in this difficult area. However, it should be kept in mind that a focus on implementation rather than deeper issues is precisely what Government has long urged, a point we take up again in formulating a recommendation to follow from this conclusion.

Conclusion cG4 (from EQs 3, 4, 5, and 6)

EC assistance has been extraordinarily effective and efficient in promoting international economic integration. Yet, it is not self-evident who the beneficiaries from this international economic integration will be, and it is not clear that this support will further the goal of closing regional gaps.

The EC has provided superlative technical assistance and capacity building in support of Lao PDR's programme of regional (ASEAN) and global (WTO) integration. Yet, the EC's programme in trade and economy has not come fully to grips with the problem that structural weaknesses make it difficult to identify who in Lao PDR will benefit from integration or how integration will help to close economic gaps within ASEAN. Lao PDR will never be able to benefit from a large unskilled and semi-skilled labour force as much as its neighbours Viet Nam, Thailand, and China. Skilled labour is in short supply and vocational and technical education has

stagnated. Lack of curriculum reform has meant continued emphasis on rote learning, limited encouragement of independent thought and, in general, has done little to foster entrepreneurship, risk taking, and the skills required for confident management. The quality of secondary education, outside of elite schools, is poor. Not surprisingly, the SME sector, which accounts for most economic activity outside of agriculture, is strangled by the lack of skilled human resources as well as a regulatory and economic environment relatively unfavourable for expansion. The result is that many SMEs are not competitive with Lao PDR's commercially powerful neighbours. While the EC is supporting an SME project, this has suffered from a lack of coordination with similar support being provided by other donors. The governance and public sector financial management problems that run throughout this evaluation underscore the risk that the benefits from integration will not be equitably distributed, or at least that broad-based poverty reduction will not be promoted.

Conclusion cG5 (from all EQs)

The EC could enhance its influence by playing a more significant role in promoting coordination.

Taken together, the EC and EU states are the largest source of ODA in Lao PDR. Therefore, despite the fact that it is only a mid-ranking donor, the EC has the potential to play a major role if it pursues its coordination role more aggressively. The EC's contributions to date, including work on the Code of Conduct, the Action Plan for implementation of the Vientiane Declaration, and the uplands development policy dialogue on relocation, show that, even at current low levels of staffing, the EC Delegation in Vientiane can make a significant contribution. More than one interlocutor, both national and international, welcomed the EC's presence as a counter to other major forces, such as Lao PDR's larger neighbours, in providing development finance and policy advice. While there are only two large Member States present (Germany and France) attaining a common position has not been easy, and the EC could play a significant role in promoting coordination and the aid effectiveness agenda more generally.

Conclusion cG6 (all EQs):

The "regionalized Delegation" approach works well but Delegation capacity issues need to be considered.

The "regionalised Delegation" approach, in which Vientiane depends on Bangkok, has functioned well. The putting-in-place of the Delegation in 2003 had a significant positive effect on EC visibility, and a number of stakeholders felt that a larger EC presence would increase visibility even more. Within both Delegations, nonetheless, there was a feeling that largely due to proximity and ease of travel, the current arrangement is functional. However, some officials expressed the view that the Vientiane Delegation should be taking on more responsibilities of an administrative nature, for example, in finance. A number of general and specific recommendations made here, for example, related to taking on coordination responsibilities or perhaps assuming the Chair of the Working Group on Human Rights or taking a more active role in issues such as public financial management, health care finance, and civil society development, raise Delegation capacity issues which will need to be carefully considered.

5.2 Specific

Specific conclusions are given in order of the EQ finding from which they are derived.

Conclusion cS1 (from EQ 1)

There is little evidence rural development projects had concrete, sustainable positive impacts. Problems encountered included cumbersome procedures, low local capacities, scarcity of decentralised resources, and governance issues.

While scattered impacts were identified, there is little hard, systematic evidence that EC interventions in the form of rural development projects had concrete positive impact on rural incomes and food security. However, not all projects were failures, nor did all components of weak projects fail. There is some reason to believe that project that emphasised a participatory approach, benefitted the entire community, and could be sustained by community in-kind contributions were the most successful. Community-level interventions to improve access to isolated rural villages gave rise to tangible benefits, including increased incomes and other household resources. Our review of rural development projects has validated many of the concerns over cumbersome procedures, low local capacity, scarcity of decentralised resources, governance issues, etc. that encouraged the EC to move away from the project approach in its evolving country strategy. These problems are especially pressing in rural areas due to the geographical challenges of working in remote locations. We did not have a large enough sample of NGO-implemented projects to comment on whether these worked better or worse than projects implemented by government. In answering EQ 3, however, the NGO health projects that we examined experienced many of the same implementation difficulties as projects implemented by Government.

Conclusion cS2 (from EQ 2)

While sound overall, the EC's health strategy has not paid sufficient attention to two pressing concerns: health care finance and reproductive health.

Health care finance

Shortage of resources at the national level for primary health care is not the main cause of poor health among poor people in Lao PDR; it is that these resources are very unevenly and inequitably distributed. Reasons for this are rooted in a complex and non-transparent public sector financial management system that starves poor areas of needed recurrent budgetary resources, meaning that salaries, materials, facility maintenance, etc., are inadequate. This also means that out-of-pocket payments, often petty bribes, are common. What funds are available tend to go to financing provincial hospitals, not district health centres. The PRSO budget support process has, through the EC's variable tranche, built in conditionality related to the share of budgetary resources going to the health sector and placement of health personnel in priority districts. However, and despite the positive impact of PRSO-related improvements in public sector financial management, the donor community, including the EC has not really tackled the lack of an effective health care finance system.

Reproductive health

Reproductive health, a priority in Lao PDR, has lost impetus with the closure of the regional Reproductive health initiative for youth in Asia project. The gap created has not been filled by NGO projects or Global Fund activities. This means that the EC is no longer a player in a health area with close linkages to gender, poverty, vulnerability, and ethnic minority issues.

Conclusion cS3 (from EQ 3)

While the EC has contributed significantly to expanding the availability of infrastructure for primary education in disfavoured rural districts, the sustainability of positive impacts is weak. Reasons are lack of recurrent budget resources, resulting in shortages of staff, materials, and maintenance.

This conclusion mirrors Conclusion cS1 above related to rural development. In this case, however, the greatest problem is inability or unwillingness of provincial governments to adequately staff schools and provide needed teaching materials. In fairness, recruitment of staff to rural areas is difficult, but one of the reasons for this is that payment arrears are common. Concentration of education resources on secondary schools, even though the quality of education provided is low and benefits flow disproportionately to the better-off, is another reason. Specific problems encountered are declining availability of teaching materials and a pressing need for teachers drawn from ethnic minority groups. The statements that we made above with respect to health – that resource shortage at the national level are not as much of a problem, from the poverty point of view, as their distribution, is equally true for education. The EC, through the variable tranche aspect of PRSO budget support and the budgetary reforms that are built into PRSO, is helping to address the structural weaknesses of the education sector. Until substantially more progress is made, however, the impact of simply providing more school rooms is likely to be limited.

Conclusion cS4 (from EQs 4 and 5, as well as from the ongoing evaluation of EC-ASEAN cooperation)

While both bilateral and ASEAN level assistance contribute to Lao PDR's economic integration, coordination between regional-level policy development and bilateral technical assistance is weak. So, too, is coordination of the EC's support to SME development and similar efforts financed by other donors.

We have described how broad cross-cutting EC support in the trade and economy sector has increased the capacity of Lao PDR to participate in regional and global trade, though we drew attention to problems faced by SMEs. Lao PDR has benefited, not only from bilateral programmes, but also from ASEAN-level support in the area of standards and intellectual property rights, and from EC-supported participation in regional trade integration policy dialogues such as TREATI. Moreover, a portion of the impact of ASEAN-level programmes such as APRIS (support to the ASEAN Secretariat) should be assigned to Lao PDR. However, coordination between regional-level policy development and bilateral technical assistance appears weak. For example, technical assistance related to trade and the economy does not appear to have been coordinated in any systematic way with ASEAN-level dialogue and processes. This is not so much at the level of strategy, where documents take various instruments and their

comparative advantages into account, as at the level of implementation, where there seems to have been little effort made to ensure that bilateral interventions are supporting concrete measures being implemented at the regional level or to help Lao PDR meet specific commitments that have been made in the context of ASEAN integration.

Conclusion cS5 (from EQ 6)

While there has been progress on sensitive cross cutting issues of governance, human rights, civil society, environment, gender, and ethnic minority groups, a more strategic approach is required for significant impact. Strategy has been especially lacking at the project level.

There has been perceptible progress in Lao PDR on sensitive issues such as governance, human rights, and civil society. However, Lao PDR continues to be a one-party state where decisions are often opaque and the Party's monopoly on power remains the ultimate political fact. We distinguish between three major cross-cutting issues – (i) issues of economic governance, especially public sector financial management, (ii) issues of political governance, including human rights, rule of law; and the role of civil society; and (iii) issues of environment, gender, and ethnic minority groups. By far the best instrument for promoting public sector financial management reform in Lao PDR is the PRSO budget support process, to which the EC is fully committed. There has been progress. Continued attention is required, however, especially since some of the policy triggers are rather qualitative and subject to interpretation. Working through UNDP, the EC supported a significant increase in the capacity of the National Assembly, and this has borne fruit. Less successful were projects to support professional associations and civil society groups, in part because of low capacity but also in part because of the discouraging legal, political, and institutional setting. In general, there does not appear to be an EC strategy which specifically addresses the issue of how to promote autonomous civil society in a fundamentally non-enabling environment. While the EC has sponsored partnerships between international and national NGOs, these seem to focus more on service delivery than on nurturing a powerful, independent civil society. Cross-cutting issues of environment, gender, and ethnic minority groups were integrated into EC strategy and project implementation. However, some of this integration was arte-factual, as, for example, in targeting the poorest populations living in remote locations, the EC by definition targeted ethnic minority groups; none of the integration was informed by a deep analysis of the cross-cutting issues involved. Moreover, projects did not incorporate specific strategies relating to these cross-cutting issues, as a result of which, it would be impossible to monitor progress made and derive lessons learned which could feed into further strategy design. All of the suggests that a more focused strategic approach which takes into account the difficult political and institutional context and sets forth explicit objectives, strategies, and monitoring frameworks, is required.

6 RECOMMENDATIONS

6.1 Global

Global recommendations are given in decreasing order of priority.

Recommendation rG1 (from Conclusion cG1)

The EC should continue to provide budget support in the context of the PRSO process, with strong emphasis on improving public sector financial management. It should continue to strengthen institutions capable of monitoring the budgetary process.

Particularly in the light of recent favourable reviews, the EC should continue its involvement in the PRSO budget support process, pressing for increased budgetary transparency and tracking the availability of decentralised resources. Building on its largely successful experience in strengthening the National Assembly, and deriving lessons from its very limited success to date in fostering autonomous civil society, it should attempt to promote independent monitoring of the budgetary process.

Recommendation rG2 (from Conclusion cG21)

The EC should change the way it approaches social sector development in Lao PDR to place the sources and uses of resources, specifically financial flows (including out-of-pocket payments), in the foreground.

In approaching the social sector, the EC should stop thinking in traditional project terms of facilities provided (or refurbished) and persons trained. As we have said above, it is the distribution of budgetary resources, especially recurrent budgetary resources that finance staff, maintenance, and materials, that is the main source of poor social sector outcomes among the poor. The EC has already taken a good step by participating in PRSO budget support and in tying its variable tranche contribution to the availability of social sector resources in priority districts. More generally, however, in its technical assistance and capacity building activities and in its own analysis and strategic planning, the EC should focus on tracking the sources and uses of resources (essentially financial resources) in the social sectors. Methodologies for this are well established and non-controversial, skills are transferrable, and opportunities for raising awareness and fostering exchanges of information represent low-lying fruit. Links to the important question of how best to utilise expected earnings from exports of hydropower and mineral resource exports are clear; as are links to the possibly emerging issue of how to cope with reduced ODA resources. The design of financing systems to ensure access to health and education is an area in which the EC, with its expertise in the European Social Model and variants of it (Nordic versus Continental, for example), has experience to offer. While both health and education have poverty links, these are especially pronounced in the case of health, since catastrophic health events are a strong correlate of poverty in developing countries worldwide.

Recommendation rG3 (from Conclusion cG3)

Follow the two-prong strategy regarding relocation, but ensure that human rights issues are not sidelined.

The key to progress on relocation is to take advantage of Government's willingness to discuss issues of implementation, creating a space for discussion of human rights aspects without placing them at the centre of the relocation dialogue. The approach currently being taken by the EC, focusing in uplands development on implementation while using the human rights dialogue to address more politicised aspects, is a sound one. First, it permits the EC to address the poverty issues that are indissolubly tied to relocation. Second, human rights aspects of relocation will inevitably arise in the "Uplands development" discussions on implementation and poverty-related aspects. It is also in line with Delegation capacities and the fact that, despite the fact that there are few Member States present, coordination on this issue is not easy. However, the EC should make it clear that the dialogue on implementation undertaken in the context of the uplands development project is only half of the equation; that there are continuing concerns about the human rights aspects of relocation as practiced in Lao PDR, and that these will continue to be dealt with through political dialogue. One natural venue for this is the EC/Laos working group framework established on "Cooperation in the areas of institution building and administrative reform, governance and Human Rights" since 2005. Another possible way of ensuring EC leadership on human rights aspects of relocation would be if the EC were to take the chair of the Working Group on Human Rights and ensure that relocation figured prominently on the agenda.

Recommendation rG4 (from Conclusion cG4)

The EC should change the way it thinks about trade and economic development to take greater account of low competitiveness, failure to add value, and human resource development.

As in the social sector, a change in the way the EC approaches trade and economic development is called for. The EC's trade cooperation, of undoubtedly high quality and impact, has focused on traditional issues of trade integration issues – harmonisation, standards, customs, trade facilitation, etc. This was strategically sound given the context of ASEAN integration and WTO accession. Nor do we say that these issues are no longer important. However, it is increasingly evident that many SMEs in Lao PDR, which account for almost all of the non-agricultural, non-extractive economy, are not commercially competitive. The set of problems encountered is complex, ranging from poor access to finance to a non-enabling regulatory environment to shortages of skilled labour to poor management. The EC SME Development Project has attempted to address the first of these; it has been hampered by coordination problems (which we address in a specific recommendation below), but it is not too late for this project to have a significant impact. On the latter two issues, however, shortage of skilled labour and lack of management skills and entrepreneurship, we have seen no signs of progress or of EC involvement. There are crucial overlaps with the education sector, in areas such as better development of vocational and technical education, improving the quality of secondary education, and curriculum reform to stress independent thinking, risk taking, and practical business skills.

Recommendation rG5 (from Conclusion cG5)

In consultation with its partners, especially the EU Member States, the EC should define what coordination role it wishes to play in Lao PDR vis à vis the Member States as well as other donors.

Coordination may require additional Delegation capacity, but even more importantly, it needs to be based on a commitment from the Member States who are present. Since only a few Member States are present in Lao PDR, such discussions should be easy to arrange. An area for coordination that comes to mind is population relocation. The EC cannot act unilaterally here because the European response is ultimately a political one involving other actors. However, in focusing on implementation issues with well-defined linkages to poverty and vulnerability, the EC could add value by working with Member States to examine problems and lessons learned in the implementation of resettlement policies and then ensure that these are fed into the policy dialogue. The EC also has taken on a leading role in support of the aid effectiveness agenda, and could follow up on successes such as the workshop it convened on the Code of Conduct. Again subject to capacity constraint, and in light of the EC's leading role on relocation, the EC could consider assuming the chair of the Human Rights Working Group when this is vacated by Sweden.

Recommendation rG6 (from Conclusion cG6)

Review human resources and administrative processes of EC Delegations in Vientiane and Bangkok.

The EC Delegations in Vientiane and Bangkok should jointly review human resources and administrative processes to determine whether the existing arrangement is optimal and, if not, what allocation of resources would improve the situation. All specific and general recommendations in this Report should be reviewed from the standpoint of whether Delegation capacity in Vientiane is sufficient, and whether current arrangements by which Bangkok supports Vientiane are optimal.

6.2 Specific

Recommendation rS1

To the extent that the EC continues its engagement in rural development (apart from the uplands development project), projects should be small, community driven, and should place the emphasis on sustainability.

The focus on sustainability would place a premium on participatory, community-driven approaches. The ideal projects would stress livelihoods, would not call for a steady flow of cash resources for maintenance after project closes, would involve grants instead of loans, would not be dependent on the continued involvement of government officials, and would contribute to access in remote areas. In the uplands development project, lessons learned elsewhere in rural development would suggest putting in place a monitoring framework, and establishing initial conditions via a baseline survey, so that impacts on material indicators of household wellbeing can be tracked, as well as stressing the types of approaches mentioned above. If implemented by NGOs, lessons learned elsewhere in this evaluation should be kept in mind – the need to avoid small, scattered interventions and the need to ensure that partnerships formed between international NGOs and national civil society groups help to contribute to the development of an autonomous civil society in Lao PDR.

Recommendation rS2 (from Conclusion cS2)

Incorporate issues of reproductive health and health care finance into the cooperation programme.

Both of these areas need attention and both represent areas in which the EC can add value. Reproductive health is of special concern to vulnerable groups – women (especially women belonging to ethnic minorities, who are likely to suffer from poor access to reproductive health care) and adolescents. It represents an area in which the EC is able to add value because of its rights-based approach and willingness to address sensitive issues which Member States might be reluctant to deal with. Finally, it is an area in which the EC had great success but in which there was no follow up to build on this success. The EC might consider working directly with a major international NGO partnered with a national group (such as the Women's Union). If so, the problems encountered in the small, scattered NGO health projects that we reviewed should be kept in mind. Alternatively, the EC could renew its successful partnership with UNFPA. As to health care finance, the predominance of out-of-pocket payments is evidence of the failure of Lao PDR to put in place a functional system of health care finance. The area has a number of advantages from the EC's point of view. It is closely tied to public financial management reform, a PRSO priority, and has clear links to the problem of generating sufficient resources for health at the grassroots level. PRSO budget support set-aside funds for technical assistance to the Ministry of Health could be used to form capacity. As part of this, the EC might consider sponsoring a series of awareness raising / capacity building workshops at different levels – district, province, and central – in which officials responsible for allocating funds for health and officials in health agencies themselves come together to candidly discuss needs and availabilities; the sources and uses of funds for health.

Recommendation rS3 (from Conclusion cS3)

De-emphasize support for “bricks and mortar,” i.e. infrastructure, in education; pay more attention to staffing, teaching materials, and quality issues.

All of the evidence we have considered here suggests that access to basic primary education, in the form of a rudimentary school building, has improved in Lao PDR. At the same time, staffing has not improved, ethnic minority teachers are in increasingly short supply, textbook availability has declined, and curriculum development and reform have progressed slowly. Scarce resources continue to be preferentially allocated to non-poor areas and to secondary education. Despite the need for greatly expanded and improved vocational and technical education, there has not been a sufficient expansion in the support of such training. In other words, there are plenty of opportunities for providing valuable support to the education sector – but simply building primary schools or adding classrooms in poor districts is not necessarily the one offering the highest value for money, especially so long as staffing difficulties persist. To the extent that support for infrastructure continues, this should be coordinated with the PRSO budget support process, including the Variable Tranche, to ensure that needed complementary resources, especially recurrent budget, are available in the districts receiving extra infrastructure. As in health, the EC might consider sponsoring a set of awareness-raising and capacity building workshops to bring together financial and educational officials at various levels – district, province, and centre - to candidly discuss needs and availabilities; the sources and uses of funds for education.

Recommendation rS4 (from Conclusion cS4)

Improve coordination between bilateral technical assistance in trade and its ASEAN support for regional integration; address coordination issues related to SME development.

The EC should take steps to improve coordination between bilateral technical assistance in trade and its ASEAN-level support for regional integration. Delegation capacity issues, as well as any issues regarding the allocation of responsibilities between the Vientiane, Bangkok, and Jakarta Delegations, as well as procedural issues and the capacity of the ASEAN Secretariat, should be examined as needed. Specific coordination issues related to donor overlap in the SME sector were identified; these should be addressed.

Recommendation rS5 (from Conclusion cS5):

Deepen strategic analysis of cross cutting issues in project design. Improve monitoring so that lessons learned regarding cross cutting issues can be taken up in strategy formulation.

This recommendation consists of sub-recommendations:

- Since it is a theme that cuts across all areas, the EC should continue to support greater accountability and transparency in public sector financial management through its participation in the PRSO process. Based on the success of the National Assembly

project, the EC should consider other modalities to specifically address the need for greater transparency as revenues from hydropower and the exploitation of mineral resources begin to flow.

- Further strengthening of partially independent political institutions, such as the National Assembly, appears promising. While being realistic about the national political context, the EC should assess carefully the scope for action of non-state actors in Lao PDR, supporting and building capacity only in cases where the organisation appears likely to make a significant contribution to development of civil society. The contribution of international-national NGO partnerships to strengthening civil society should be critically assessed and project strategies modified where necessary to stress this.
- At the EC-wide level, a new strategy on cross-cutting issues, more precisely defined and targeted, is needed. More appropriate indicators and benchmarks must be developed to measure progress towards cross-cutting issue expected results in line with achievement of strategic goals. An institutionalised mechanism for feeding such insights back up the chain to EC decision-makers should be developed.

7 AN OVERALL ASSESSMENT

The following overall assessment, provides answers on the questions of how well has the EC's programme to date fit the country's needs, and has it been consistent with EC strategic objectives; how well has it performed in terms of impacts; do current shifts in the programme improve performance on both counts; most important, in view of what we have learned, what kind of cooperation programme makes sense in Lao PDR.

In reviewing the three major sectors of support, namely rural development, health, and education, our assessment is that impacts have been scattered and for the most part not sustainable. Lao PDR is a difficult country in which to carry out traditional large Government agency implemented projects. A number of reasons can be given. One of these is the geographically challenging nature of the country. Another is the low capacity of partners and the difficulty of recruiting skilled personnel. The disruptive impacts of population relocation bear part of the blame, and too often Government has been unable to come up with the recurrent expenditure budgets needed after donor support for capital investment has ceased.

In a fourth area, trade and economy, EC technical assistance and capacity building, both bilateral and through ASEAN-level programmes, accelerated Lao integration into the regional and global economies and helped Lao PDR to become a significant voice within ASEAN.

Finally, while the EC contributed to some successful projects related to governance (for example, strengthening of the National Assembly), support for national voluntary and professional groups shows no sign of sparking the development of civil society as understood in Europe. Capacity of non-state actors has remained low, not having partnerships sponsored between national and international NGOs added as much value as might have been hoped for.

A rough overall assessment along Development Assistance Committee (DAC) lines might be that the EC's engagement was assuredly relevant to national needs and coherent with EC strategic priorities. However, it would be difficult to identify the project approach that dominated most of the evaluation period as either efficient or effective. Impact, except perhaps in the more institutional cases of support to trade integration and support to the National Assembly, was largely limited to the areas and target populations directly benefiting. Sustainability was low.

How has the EC's strategic engagement evolved over the last (roughly) ten years in response to these challenges? First, the EC has abandoned the traditional, large development projects implemented by Government agencies that were the mainstay of its commitments until recently. Given the inefficiencies observed and the high transaction costs for both Government and the Delegation, this was the right move to make. There is broad agreement that the most pressing need in Lao PDR is for fundamental reform of governance in general and public sector financial management in particular, which can best be pursued through coordinated policy dialogue in the context of budget support. The Lao PDR government's poverty reduction strategy is reasonably well conceived and characterized by a high degree of ownership, which improves the prospects for poverty reduction through budget support. While capacity remains weak, the minimum conditions for financial accountability are met. In general, budget support in Lao PDR is working well. The second strategic shift was to make project support in rural development contingent on improvements in the way relocation programmes are designed and implemented. In a sense, this marks a concession on the part of the EC (and other European donors involved) because it accedes to government's long-standing insistence that resettlement is a set policy and that the only issues involved are along the lines of "how," not "whether." However, in designing the policy dialogue which will accompany the project, the EC has set in motion a process in which sensitive issues, especially those involving human rights, will inevitably surface. By tying support for projects to satisfactory resolution of concrete relocation issues such as procedures to

be followed and consultations to be carried out, the EC is attempting to work through incentives. Political dialogue will, of course, continue to address the more sensitive aspects of relocation.

In conclusion, the EC's cooperation programme in Lao PDR had some positive impacts over most of the assessment period, but these were limited and sustainability was low. By recently moving towards budget support and linking its remaining project support to progress on population relocation, the EC has taken steps to address the problems identified in this evaluation.