



1. Project Data

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|---|--|---|--------------------------------|
| Project ID P087716 | Project Name LA-Khammouane Development Project | | |
| Country Lao People's Democratic Republic | Practice Area(Lead) Agriculture | Additional Financing P127176 | |
| L/C/TF Number(s) IDA-H4040,IDA-H7560,TF-92394 | Closing Date (Original) 31-Mar-2014 | Total Project Cost (USD) 19,611,700.00 | |
| Bank Approval Date 17-Jun-2008 | Closing Date (Actual) 31-Mar-2016 | | |
| | IBRD/IDA (USD) | Grants (USD) | |
| Original Commitment | 9,000,000.00 | 985,000.00 | |
| Revised Commitment | 17,600,000.00 | 800,973.05 | |
| Actual | 16,384,170.18 | 800,973.05 | |
| Prepared by Francesco Cuomo | Reviewed by J. W. van Holst Pellekaan | ICR Review Coordinator Christopher David Nelson | Group IEGSD (Unit 4) |

2. Project Objectives and Components

a. Objectives

The Project Appraisal Document (PAD) states that the project development objective (PDO) for the Khammouane Development Project (KDP) is “To strengthen the planning process and public financial management associated with the decentralized delivery of services and infrastructure, including irrigation development, in Khammouane Province” in Laos PDR (PAD, para 26).

The Financing Agreement (FA) for the project states: “The objective of the Project is to strengthen the Recipient’s capabilities with respect to the planning process and public financial management associated with the decentralized delivery of public services and infrastructure, including irrigation development, in Khammouane Province” in Laos PDR (Financing Agreement, Schedule 1).



For the purpose of this evaluation, as per IEG guidelines, the objective in the Financing Agreement is used to assess the project's achievements.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

d. Components

Component 1: Support for Local Development and Provincial Capacity Building (appraisal cost: US\$6.87million, actual cost US\$9.35 million). The reason for the increase in cost was additional financing for the project provided by IDA. The component provided support to: (i) pilot and adopt more transparent and participatory procedures for public investments in particular for improving rural livelihoods and (ii) strengthen key provincial departments to implement and sustain this approach. It consisted of three subcomponents. Subcomponents 1 and 2 respectively created and supported the District and Provincial Development Fund, along with the required capacity building to implement complementing district and provincial level public investments. The District Development Fund (Subcomponent 1) was based on a community driven development model and focused on investments evenly distributed between sectors: (i) education and water supply; (ii) rural roads, including bridges; and (iii) health.

Component 2: Support for Irrigation Development along Namtheun 2 (NT2) Downstream Channel and Lower Xebangfai (appraisal: US\$4.17 million, actual cost US\$6.17 million). The reason for the increase in cost was additional financing for the project provided by IDA. The component aimed to support the development of irrigation in Gnomalat District and the Lower XBF River by using water discharged from the NT2 hydropower station. It consisted in 5 subcomponents. 3 subcomponents focused on rehabilitating and building irrigation infrastructure, one subcomponent addressed the preparation of a strategic plan for sustainable development of irrigation with water flowing through the NT2 downstream channel, and one supported the management unit in the Department of Irrigation (DOI) and the Provincial / District Agriculture and Forestry Office of the Ministry of Agriculture and Forestry (MAF) to plan and implement the development of irrigation in the Province.

Component 3: Support for Rural Livelihoods and Agricultural Development (appraisal: US\$0.00 million, actual cost: US\$3.00 million). The reason for the increase in cost was additional financing for the project provided by IDA. A third component was added in 2011 at the first Additional Finance, for activities that at the time were being implemented under component 1. It included a scaled-up Agriculture Livelihood Grant scheme (extended to an additional 33 poorest villages), a new pilot Agriculture Entrepreneur Grant scheme, and an increased support for institutional strengthening of Provincial/District Agriculture and Forestry Office by expanding the support to XBF Agriculture Extension Center and strengthening the capacity of Provincial/District Agriculture and Forestry Office to implement extension activities for farmers in connection with Agriculture Livelihood Grant and Agriculture Entrepreneur Grant schemes.



e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project cost: At appraisal the total project cost was US\$11.4 million equivalent; actual cost was US\$20.33 million equivalent. This difference is due to two additional financing.

Financing contribution: At appraisal, the project was estimated to cost US\$11.4 million equivalent, of which the Bank was to finance US\$9.00 million (86%). The Japan Policy and Human Resources Development Fund (PHRD) was expected to contribute roughly US\$1 million (9.5%) and the Government of Laos (including the Hydropower Company contribution) roughly US\$1.05 million (9%). At completion, following one additional financing and two other restructuring, the project totaled US\$20.33 million, of which the Bank financed US\$17.6 million, the PHRD fund roughly US\$1 million and the Borrower roughly US\$1.35 million in cash and US\$0.66 million in in-kind contribution. The actual use of the project financing was US\$19.6 million (96%), of which US\$16.4 million of Bank financing (93% of Bank financing used).

Borrower Contribution: The contribution of the Khammouane Province was US\$1.35 in cash and US\$0.66 million in in-kind contribution.

Dates: The project was approved by the board on June 17th, 2008, and effective on September 8th, 2008. The project was restructured 3 times on February 29th, 2012, October 15th, 2013 and April 27th, 2015. The original closing date was extended by 2 years from March 31st, 2014 to March 31st, 2016. The two-year delay was due to unforeseen significant up-front investments for basic training and institutional set up of the District and Provincial Development Funds and poor coordination with UNCDF on the costs for the services the project required (ICR, para 36).

Restructuring: Rural livelihood and agricultural development activities pursued under component one were incorporated into a new third component after the additional finance in 2011. Three PDO indicators were added at the Additional Finance level to better capture the outcomes from improved irrigation in terms of increased agricultural production, and poor villages that experienced income increases directly related to the livelihood activities, and include the mandatory corporate indicator on the number of direct project beneficiaries.

The 2013 project restructuring revised 3 outcome indicators. The indicator of “more equitable access to services” (Indicator 1) was replaced by indicators reporting the number of investments in specific infrastructure (Indicator 1 through 4). Indicator 4 that reported on the outcome of improved irrigation was modified into output indicators reporting on the area provided with irrigation and drainage services, and livelihood grants indicator (Indicator 5 at AF) that reported on poor villages which experienced income increases were changed to report on the number of Agricultural Livelihood Grand recipients (clients) who adopted an improved agricultural technology promoted by the project. Activities regarding the Support for Pilot Downstream Irrigation Development in Tha That Area were dropped in April 2015 following a decision by the hydropower company based on a feasibility study which identified a risk of damage to the regulating dam of NT2.

This review will not provide a split rating because there were no changes in the Project Development Objective, and all the restructuring were Level 2 concerning budget allocations and outcome indicators. There were no significant changes in the level of performance expected from the project, and the changes in in the Results Framework and Outcome indicators were made to better reflect the realities of the project, increase precision, and retrofit the core sector indicators in the Results Framework



3. Relevance of Objectives & Design

a. Relevance of Objectives

The project objectives were highly aligned with pillar 1 of the Government's development strategy (promote people's participation), pillar II (focus on rural development) and Pillar IV (strengthen the effectiveness of public administration) (PAD, para 10-11; CPS, para 62). The project was also consistent with the World Bank strategy at appraisal. Specifically, it supported objective one (regional integration and rural development) and objective two (strengthened public financial management and service delivery capacities (CAS FY 2005, para vi).

The objectives were very relevant as they addressed weak governance and capacity related to public financial management at the district and provincial level through the establishment and implementation support of two funds, as well as a more accountable, transparent and responsive decentralized infrastructure delivery mechanism using a community driven development system. Furthermore, the impacts stemming from these activities were expected to address the increasing rural-urban divide because the District Development Fund and the Provincial Development Fund were expected to finance the construction of infrastructure in rural areas (PAD, paras 31, 33, 36).

The World Bank Country Partnership Strategy (CPS) at the project's close was consistent with the project objectives at appraisal. For example, the project is clearly aligned with the cross-cutting theme of stronger public sector management (CPS, FY 2012-2016, para 73, outcome 4.2-3). The Country Partnership Strategy indicates that (i) budgeting in Laos is not strategic and based on the short term, and (ii) the budget is not well reported and monitored leading to an ineffective and inefficient use of public finances (CPS, para 99). This project is aimed at addressing these issues.

Conclusion: The project objectives were highly relevant to the Government and World Bank strategies relating to the planning process and public financial management associated with decentralization.

Rating

High

b. Relevance of Design

The project activities at appraisal and as re-arranged through restructuring were relevant to achieve the project objectives by implementing a series of actions to strengthen the planning process and public financial management associated with infrastructure development and service delivery in Khammouane Province. However, the results framework did not provide clear causal chains linking project activities to project outcomes. Stating outcomes and outcome indicators as is done in the PAD's results framework (Annex 3) does not help an understanding of the project's theory of change. On the other hand, other sections of the Project Appraisal Document and the Implementation Completion Report (ICR, paras 55, 62) provide more information on the casual chains and these are described more in detail below.

The planning process was designed to improve at two levels:

- At the district level, the community driven development approach was intended to ensure that delivery of



infrastructure is therefore “decentralized”, as well as more transparent, clear and accountable to the community needs of as the priorities are set by the communities (an example would be the adoption of a participatory planning process at village/kum ban/district levels that reflects community aspirations)

- At the provincial level, the planning process was to be strengthened by building technical capacity within the Khammouane Province administration, as well as supporting the strategic planning for Irrigation Development along Downstream Channel

The public financial management was designed to improve due to:

- The establishment of the District Development Fund and Provincial Development Fund
- The alignment of the Provincial budget with the planning processes
- The inclusion of recurrent costs for the Province and District Development Funds investments into the Provincial budget
- The technical assistance provided to assist in implementing the two funds. Specifically, the PAD states that “Particular attention would be given to: (i) proper consultation and priority setting, (ii) overall resource allocation, (iii) public disclosure of information, (iv) reporting and oversight, and (v) fiduciary management (particularly procurement and financial management)” (PAD, para 37).

Conclusion: The design of the activities in this project were substantially relevant to the improvement of the planning process and a strengthened public financial management associated with decentralization although the project would have benefitted from a more clearly stated results framework on which to build an adequate M&E system.

Rating

Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To strengthen the Government's capabilities with respect to the planning process associated with the decentralized delivery of services and infrastructure, including irrigation development, in Khammouane Province.

Rationale

Outputs:

Capacity building and training

- Several trainings were held with District and Provincial Agriculture and Forestry Office, the Department of Planning and Investment and the Department of Irrigation for a total of 1,377 trained



staff. Some of these training were also conducted by the Department of Irrigation to District and Provincial Agriculture and Forestry Office and focused on planning and implementing irrigation schemes (ICR, Annex 2, para 10, 24, table 2.6). A further 43 Provincial Agriculture and Forestry Office staff were trained by the XBF Agriculture extension center in participatory community planning and project management (ICR, para 52).

- A total of 5,543 Water User Associations (WUAs) committee members and farmers were enrolled in 315 trainings that provided assistance to 38 Water Users Associations and technical advice to farmers to improve their management of the new/rehabilitated irrigation schemes (ICR, para 24, table 2.10). This resulted in WUAs recruiting a (part-time) technician to manage the pumping station and opening a village bank account to collect water fees and finance the necessary operational expenses and repairs (ICR, Annex 2, para 24)
- The District and Provincial Agriculture and Forestry Office were able to deliver training and hands-on technical support to production groups as well as support villages in establishing the revolving fund, after the basic block grant was released (ICR, Annex 2, para 35)
- The Xe Bang Fai (XBF) Agriculture Extension Center produced 20 tons of certified seeds in 2014, significantly increasing its capacity to produce registered and certified seeds (ICR, Annex 2, para 48). There were no references as to whether these seeds were distributed or sold.
- There is no evidence of any evaluation of the value of these capacity building activities and trainings. However, the ICR states that: “There appears to be among the farmers that participated in agriculture training programs a greater adoption of technologies promoted by extension staff” (ICR, Annex 2, para 53). Also, information provided by the project team during the preparation of this Review advised that there were increases in technology adoption (900%) and paddy yield (128%).

Planning processes and procedures

- The province and districts were able to award 10 provincial and 185 district investments, financed by Provincial and District Development Funds respectively, in areas previously relatively underserved in terms of public investments (ICR, para 57).
- The project established rigorous procedures for selecting beneficiaries for training to build provincial and district capacity to adopt participatory approach. It also conducted two stakeholder consultation workshops in February and March 2016 to discuss lessons learned from the training and share experiences from the project (ICR, paras 62, 70).
- Provincial and District Agriculture Office staff were provided extensive training on selecting and awarding beneficiaries for the Agriculture Livelihood Grant (ALG) and the Agriculture Entrepreneur Grant (AEG). The Agriculture Entrepreneur Grant process required 10 months and selected 8 candidates from the first batch of 1,019 applications; while it is unclear how many applications the committee went through, the ICR states that: “a similar process was used to select the other 9 candidates” (ICR, Annex 2 para 40). By the end of 2015, 51 Agriculture Livelihood Grant block grants of \$10,000 each were disbursed to 1,624 households in 51 villages (ICR, Annex 2, para 35, 36, 38).
- The province adopted guidelines for public investment planning and budgeting that the District Development Fund implemented in all ten districts (ICR, Intermediate Indicator 4; ISR #10). These guidelines were developed under the Project for Capacity Building in PIP Management (PCAP) supported by JICA during 2004-2011, aimed at building capacity of sector ministries and provincial



sector departments to effectively and efficiently implement public investment planning on schedule and in accordance with planned budget execution under an upgraded sector program (ICR, para 50)

Outcomes

While there was no evaluation of the capacity building impact of the training of officials in the District and Provincial Agriculture and Forestry Office, Department of Planning and Investment, and in the Department of Irrigation, the following impacts point to strengthened processes with regard to service and infrastructure delivery because of the project's activities. These processes represented an improvement compared to the previous infrastructure delivery method, which the project team advised consisted of the central government or donors designing the investments with little participation of provincial and district authorities. The positive outcome of the training is arguably reflected in the capacity of the project staff to implement and adhere to improved planning processes and procedures. The following are some significant examples:

- Staff is now able to efficiently implement the new, decentralized and participatory approach to the delivery of public investments and services (ICR, para 68). Information provided by the project team also confirms that staff skills and capabilities have improved, and asserted that the high number of provincial and district subprojects was evidence that an improved level of planning capacity was achieved.
- Two ministries and one district adopted established standards for (i) the format for public investment planning for decentralized investment planning procedures (ICR, para 80); (ii) preparation of implementation guidelines for the Sam Sang Program (ICR, para 80); and (iii) planning and management of the Social and Environmental Remedy Fund (ICR, para 50).
- The project guidelines developed for the implementation of the District Development Fund were adopted by two other projects in Laos, namely (i) Phase III of the JICA-financed project for enhancing the capacity for public investment planning; and (ii) by the Project "Effective Governance for Small-Scale Rural Infrastructure and Disaster Preparedness in a Changing Climate" implemented by the Ministry of Natural Resources and Environment in collaboration with the Governance and Public Administration Program under the Ministry of Home Affairs and supported by the GEF Least Developed Countries Fund (ICR, para 50).
- The planning of water management and irrigation was improved by strengthening of 38 Water Users Association (WUA), which resulted in a 24% - 58% increase of irrigated areas depending on the season (ICR, para 59; Annex 2, paragraph 23). By project end, WUAs collected higher irrigation fees which covered 80% of the operations and maintenance costs, hired a technician to manage pumping stations, and were able to finance necessary operational expenses and repairs with records open for review (ICR, para 59, Annex 2 para 24).
- There were improvements in the capacity of the districts to plan, select and award grants to small businesses following extensive capacity building and training under Agricultural Livelihoods Grant (ALG) and the Agricultural Entrepreneurs Grant (AEG). For the ALGs the beneficiary households were selected through a participatory process; For the AEGs, a comprehensive competitive selection process overseen by a seven-member steering committee was used (ICR, paras 51, Annex 2 para 40-41, Annex 3 para 15).

Conclusion: There is evidence that an enhanced level of planning capacity in local government institutions was substantially achieved as reflected in the considerable number of examples of improved



planning of activities and projects in Khammouane province.

Rating

Substantial

Objective 2

Objective

To strengthen the Government's capabilities with respect to the public financial management associated with the decentralized delivery of services and infrastructure, including irrigation development, in Khammouane Province

Rationale

Outputs:

- The project trained many staff and provided technical assistance to the Provincial Department of Finance in financial management. 198 district and provincial staff (compared with a target of 195) were trained on the District and Provincial Funds procedures covering financial management, procurement, safeguards, and consultation (ICR, Intermediate Outcome indicator 7). 179 staff were trained on project financial management and procurement standards, although it is unclear if these 179 were a subgroup of the 198 or a different group (ICR, para 16, Annex 2 table 2.6).
- According to the ICR the PHRD Grant successfully contributed to develop provincial and district capacities for decentralized planning and financial management. Specifically, through technical assistance, training, on-the job coaching, and knowledge exchanges, the PHRD Grant supported: (i) the adaptation to the Lao context of the District Development Fund approach for the direct transfer of financial resources to districts; (ii) the piloting of block grant transfers and implementation by all ten districts of Khammouane Province; and (iii) the development of technical capacities of provincial and district public servants on participatory planning and financial management.(Annex 8)
- Detailed financial management and procurement procedures and manuals were prepared under the District Development Fund and the Provincial Development Fund, including clear downward accountability mechanisms and reporting requirements at each implementation level and intensive training programs delivered with the participation of the Ministry of Finance central services. Dedicated units were established in the project steering committee with the recruitment of senior project FM specialists (ICR, paras 33, 47).
- Budget procedures used by the Provincial and District Development Funds were adopted by the province and all districts (ICR, PDO indicator 5). Consequently, compared with the past, by the project's close annual provincial and district budgets included recurrent costs such as wages of teachers and medical personnel, and operation and maintenance of the assets (ICR, Intermediate Outcome Indicator 3).



Outcomes:

The following evidence on achievements in the area of public financial management in the Khammouane province and its districts was provided in the ICR:

- Annual Provincial budget plans were aligned with a priority planning process, and budget execution reports were prepared comprehensively and timely (ICR, PDO Intermediate Outcome indicator 5).
- Information provided by the project team highlighted that financial management of Water Users Associations improved as they were able to increase the collection of irrigation fees from 584 million Kips to 758 million Kips (80% of the operations and maintenance costs). The ICR adds that: “It is reasonable to expect that most schemes will be able to cover their full cost O&M within two or three years after KDP closing” (ICR, para 59).

Conclusion: Evidence in the ICR on the extent to which the Government's capacity for public financial management was strengthened was weak and not evaluable. The achievement of this objective was therefore rated *modest*.

Rating
Modest

5. Efficiency

Even if the economic rate of return (ERR) was estimated for selected “tangible’ sub-investments (ICR, Annex 3, para 1), a quantitative assessment with which improved planning and public financial management were achieved cannot be assessed without much more information on the details of staff enhancements and own achievements.

Particularly important is the absence of any measurement for the training / capacity building programs (ICR, Annex 3, para 1). Nevertheless, the ICR concludes that some training activities were successful and staff regularly used the skillset acquired (ICR, para 53), and information provided by the project team agrees with this conclusion.

There was a 2 ½ year delay in project implementation due to (a) unforeseen considerable up-front investment for institutional set up and basic training, and (b) choice of a different service provider than UNCDF as originally planned due to disagreements on the costs and technical expertise required (ICR, para 36). The project management costs increased from US\$1.8 million to US\$4.46 million, or about 103% of projects costs including additional financing and restructurings because of the addition of Component 3, of which project management cost represented 49% by project end, and the unaccounted strong coaching role the Bank team had to assume due to limited local capacity (ICR, para 76).

Conclusion: It is understood that some sub-investments were efficient. However, although associated objectives, these were not the core objectives of the projects. Therefore, the overall efficiency is rated as



modest.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

| | Rate Available? | Point value (%) | *Coverage/Scope (%) |
|--------------|-----------------|-----------------|--|
| Appraisal | | 0 | 0 <input type="checkbox"/> Not Applicable |
| ICR Estimate | | 0 | 0 <input type="checkbox"/> Not Applicable |

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of objectives was high, and relevance of design substantial. The achievement of objective 1 (to strengthen the Recipient’s capabilities with respect to the planning process) was rated substantial, while the achievement of objective 2 (to strengthen the Recipient’s capabilities with respect to the public financial management) was rated modest because of weak evidence.. Efficiency was rated modest because of absence of data on the efficiency of the improved recipient’s capabilities with respect to regard to planning process and public financial management, the absence of an evaluation of the capacity building activities, and significant implementation delays compared to the project design. In the context of the importance of strengthened planning for decentralized delivery of services and infrastructure this Review concluded that the overall achievements of this project had moderate shortcomings and therefore its outcome is rated Moderately Satisfactory

a. Outcome Rating

Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating

Risk to Government commitment to decentralized planning : Substantial

The current Government policy in promoting devolution and strengthening local capabilities to improve the planning process and the public financial management is strong, but there is no assurance that this policy will be sustained or that Khammouane Province would maintain the District and Provincial Development Funds approach to implement its rural development strategy after project closure (ICR, para 71). Furthermore, in



according to the ICR, there is a risk of decreasing staff skills in case the decentralization process slowed down, which is also heightened by the high turnover of staff during project implementation (para 71).

A positive note that supports the Government's intent has been the adoption by the Nakai district in Khammouane Province of the District Development Fund approach to planning and managing its Social and Environmental Remedy Fund (ICR, para 50).

Risk to financial sustainability: Substantial

According to the ICR the risk to financial sustainability is high unless budget resources are available in the future:

- Water User Association cost recovery was not achieved by project end, and progress is not certain, even if the ICR states that "it is reasonable to expect cost recovery within two years of KDP closing" (paras 59, 72)
- There is no institutional mechanism for funding big repairs should a scheme suffer severe damage (para 72).
- There is limited budget to scale up the Agriculture Entrepreneur and Livelihoods Grant schemes by the Government of Khammouane Province, and therefore, unless additional resources are brought in, the risk of these two grant schemes being discontinued is substantial (para 71-73).

a. Risk to Development Outcome Rating

Substantial

8. Assessment of Bank Performance

a. Quality-at-Entry

As mentioned in section 3a, the project was highly relevant to Laos' political and economic context and its efforts to introduce decentralization. The activities were also consistent with the project's development objective, as noted in section 3b. Fiduciary risks as assessed in the PAD were substantially addressed at the design stage (PAD, para 78 and following). There were moderate shortcomings in the design of Monitoring and Evaluation, which will be discussed further in Section 10.

- The project incorporated lessons learned from other projects in Laos as well as those gained through the Poverty Reduction Fund and the Governance and Public Administration Reform, a project jointly funded by UNCDF, UNDP and the EU (PAD, para 47-48).
- As described in Section 3, project objectives were highly relevant and project activities were well designed.
- Soon after project approval poor coordination with UNCDF resulted in UNCDF not being chosen as partner by the project team, adding delays to the implementation (ICR, para 36).
- The M&E system and design of PDO indicators suffered from original outcome indicators that were not implementable and had to be restructured. As noted in section 3b, many PDO indicators measured outputs instead of outcomes, and there was a lack of a clear causal chain between project inputs,



intermediate outcome and final outcomes in the results framework.

- The design of the project's implementation arrangements was weak. For example, the planned early recruitment of financial management and procurement specialists was not achieved. Also, the establishment of a computerized accounting system was delayed for two years. As the ICR points out (para 48) the reasons for these delays were that there was no account of the lack of local capacity and technology. These issues, together with a subsequent high turnover of staff, eventually resulted in 2.5 years delay as discussed in the section 5 of this Review.

Quality-at-Entry Rating Moderately Satisfactory

b. Quality of supervision

According to the ICR the World Bank supervision provided extensive support during 15 mission, with systematic field visits and guidance on financial Management and procurement (Annex 2 para 76). Further, the ICR highlights the high attention to safeguard compliance, and quick reaction times when procedures were not followed (ICR, Annex 2 para 77). The Implementation Status and Results reports were detailed and frank, and provided a good picture of the overall status of the project (Annex 2 para 77). The analytical work performed by the team during implementation support missions was the basis for the changes introduced under the additional financing (Annex 2, para 77). However, as noted in the ICR, the project team could have been more proactive in suggesting dropping infeasible activities related to the Support for Pilot Downstream Irrigation Development in Tha Thot Area under Component 2 at an earlier stage; nonetheless, these activities were, with Government approval, dropped in April 2015 (Annex 2, para 16). Considering the extensive supervision with minor shortcoming, the Quality of supervision is rated Satisfactory

Quality of Supervision Rating Satisfactory

Overall Bank Performance Rating Moderately Satisfactory

9. Assessment of Borrower Performance

a. Government Performance

Evidence from the ICR points to a satisfactory Government performance. The Government was fully engaged at appraisal and remained engaged in the Khammouane Development Project throughout its duration. Government ministries were active in supporting the project implementation (particularly the Department of Irrigation), and the Ministry of Planning and Investment as well as the Ministry of Home Affairs used the project's guidelines of planning procedures and implementation in other projects (ICR, para 80).



Government Performance Rating

Satisfactory

b. Implementing Agency Performance

There were several implementing agencies involved with the project. The Steering Committee was led by the Government of Khammouane Province and included representatives from four central government ministries (Planning and Investment, Agriculture and Forestry, Home Affairs and Finance) and four provincial government departments. The Committee was supportive of the project and very responsive to the World Bank's recommendations. However the provincial departments suffered from subpar performance in procurement, delays in delivering quality unaudited financial reports and high staff turnover (ICR, paras 36, 81, 82; ISR#11). In addition, according to the ICR, the scoping study and strategic plan for irrigation development (prepared by the technical advisor to the provincial government) was of relatively low quality because it did not include all the required information to take informed decisions on irrigation development (ICR, Annex 2, para 19).

In light of this assessment the performance of the implementing agencies had moderate shortcomings and therefore was rated Moderately Satisfactory.

Implementing Agency Performance Rating

Moderately Satisfactory

Overall Borrower Performance Rating

Moderately Satisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design

According to the PAD (para 64) the Project Coordination Section in the Khammouane Provincial Government was responsible for monitoring and evaluation. The project design required baseline and follow up surveys for sample districts, kum-banhs and villages to be carried out at the beginning, mid-term and at the end of project (PAD, para 65).

Nonetheless, the project would have benefitted from a more relevant M&E design to better capture the strengthening of the planning process and specific measures of achievements of public financial management. Specifically, the M&E design presented several challenges:

- The objectives were not clearly specified, and interim objectives in the results framework at appraisal were not in line with the Project Development Objective.
- The results framework did not provide a clear causal chain linking project activities to project outcomes. Two of the three outcome indicators were output indicators; the remaining outcome indicator was too high a level to guide data collection, and had to be restructured
- The design of the M&E did not account for limited local capacity, which required further training and this contributed to a 2½ years delay, together with unforeseen considerable up-front investment for institutional set up (such as installing a computerized system for accounting), and disagreements with



UNCDF on the cost for certain project activities (this was already discussed in detail in 5).

Overall, the design of M&E was weak - particularly for objective 2

b. M&E Implementation

M&E was performed by Khammouane Province; the ICR and the ISRs confirm that the province was responsive to World Bank comments and established a task force including technical staff from provincial line agencies to monitor project activities after technical audits of the District Development Fund highlighted significant issues with project's sub-projects (ICR, para 38; ISR #11).

The ICR notes that the quality of data collection varied by component. For component 1, collection of information improved following the additional finance and 2013 restructuring. For component 2, collection and monitoring of data were comprehensive (ICR, para 41). Finally, M&E for Component 3 was limited to a baseline survey, and collection focused on investment proposals, but it included little useful information about beneficiaries or impact of the agricultural grants on their activities and income (ICR, para 41).

c. M&E Utilization

The ICR states that the M&E was used by the project team to follow the progress on the implementation of the different activities, and the Mid-Term Review was able to identify and address implementation difficulties (ICR, para 38; para 42). Nonetheless, the utilization of M&E had significant shortcomings for the following reasons:

- The M&E did not focus adequately on indicators appropriate for assessing whether the objectives were achieved. This lack of indicators was attributable to the lack of a clear theory of change in the results framework that linked inputs with intermediate outcomes and with final outcomes.
- The indicators often confused outcomes and output indicators.
- While the ICR stated that the M&E informed changes in capacity building activities and the need to reallocate funds, it was unclear how the project team came to this conclusion given the lack of objective-oriented indicators.

M&E Quality Rating

Modest

11. Other Issues

a. Safeguards

The project had an environmental category B classification and triggered 5 safeguards policies: Environmental Assessment, Pest Management, Indigenous Peoples, Involuntary Resettlement, and International Waterways. The project team was attentive to safeguard issues and was very responsive when it found violation of the planned safeguard screening procedures under the District Development Fund (ICR,



para 43).

The project addressed these areas in the following ways (ICR, para 44):

- An Environment and Social Safeguard Framework (ESSF) was developed to provide the overall procedures and technical guidelines during the planning and implementation of project activities. A Compensation and Resettlement Policy Framework and the ESSF were developed to be applied to sub-projects that may involve resettlement or land acquisition.
- An Indigenous Peoples' Development Framework was prepared to ensure adequate consultation with and participation of minority ethnic groups.
- An Initial Environment Assessment was carried out for rehabilitation of the Tha Thot irrigation perimeter.
- The potential increase of chemicals and pesticide use was estimated negligible and the project excluded the procurement of any pesticides. Mitigation and preventive measures included chemical prohibition list, extension agents and farmers training on integrated pest management.
- In accordance with OP 7.50 on International Waterways, the letter of notification on development of irrigation along XBF River (one of Mekong's tributaries) was sent out to the neighboring riparian zones in Thailand, Cambodia, and Vietnam. There was no involuntary resettlement and no issue with ethnic minorities associated with the project.

Despite the high attention to safeguards, the World Bank downgraded the Overall Safeguards rating to Moderately Unsatisfactory in 2014 after it found irregularities in the planned safeguard screening of DDF investments. A detailed safeguard review of 2010-2012 DDF subprojects was carried out, and an environmental code of practice was developed and applied by all DDF contractors. Further training on safeguard issues, including on integrated pest management, was provided to the project staff. The ICR as well as the project team (when consulted by IEG) confirmed that compliance was achieved for all subprojects by the end of the project (ICR, para 46).

b. Fiduciary Compliance

According to the PAD, fiduciary risk was anticipated to be high in the Lao PDR because of weak internal control systems and an acute shortage of financial management (FM) or procurement skills. As a result, a comprehensive action plan was designed to ensure adequate basic FM implementation and accountability systems and training (PAD, paras 77-79). However, weaknesses persisted as there were difficulties in recruiting FM and procurement specialists, and accounts were maintained "by hand" for the first two years (ICR, paras 47-48). Fiduciary aspects improved after February 2011, when the Project Steering Committee and the Downstream Irrigation Management Unit were eventually fully staffed (ICR, paras 47-48). The ICR does not, however, mention the yearly unqualified financial audits, and only one technical audit of the District Development Fund subprojects is mentioned. Upon IEG's request, the project team advised that all the annual financial audits were unqualified, and shared other technical audits that highlighted some problem area.

Financial management of the project improved over time, as noted by the independent financial audit reports (all unqualified) and three comprehensive reports on the project's internal controls and other issues, which highlighted significant improvements between 2012 and 2016. In 2012, the auditor found 14 weaknesses, of



which six were assigned a risk rating of “High”, seven of “Medium” and one of “Low”. While in 2014 several issues persisted, by 2016 (project end), there were only five weaknesses, with only one “medium” and the rest “low”. A high risk rating is defined as “significant weakness that could compromise internal controls and/or operational efficiency. It should be urgently addressed.” A medium risk rating is defined as “A weakness that could undermine the system of internal controls and/or operational efficiency. It should be addressed with a lower priority than a high-risk weakness.” These audits were prepared by PricewaterhouseCoopers (PWC) in accordance with International Standards on Auditing.

c. Unintended impacts (Positive or Negative)

No unintended impacts were found.

d. Other

12. Ratings

| Ratings | ICR | IEG | Reason for Disagreements/Comment |
|-----------------------------|-------------------------|-------------------------|----------------------------------|
| Outcome | Moderately Satisfactory | Moderately Satisfactory | --- |
| Risk to Development Outcome | Substantial | Substantial | --- |
| Bank Performance | Moderately Satisfactory | Moderately Satisfactory | --- |
| Borrower Performance | Moderately Satisfactory | Moderately Satisfactory | --- |
| Quality of ICR | | Substantial | --- |

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons

Summary of lessons from ICR

- **When decentralizing the PFM system, process and capacity building activities alone are not enough**



to ensure success. Devolving the public financial management system to decentralized units is a long and difficult process that involves strategic and political issues.

- **Line agencies are good partners to implement complex programs when provided with appropriate training.** When provided with appropriate training, supervision and guidance, line agencies were able to efficiently establish and supervise a fully decentralized, participatory mechanism for the delivery of public investment and services.
- **Beneficiaries should be involved at all stages of the project to ensure buy-in in project activities.** Key stakeholders strongly supported project activities (i.e. DDF investments, the satisfactory functioning of the restructured Water Users' Associations, cost recovery from members of the irrigation perimeters etc.) due to the involvement and commitment of beneficiaries in all aspects of an activity, from planning to implementation and monitoring.
- **Plans to reform public agricultural research and extension centers need to balance pro-market objectives with the public nature of many goods.** The plan to reform the XBF Center would have benefitted from acknowledging its public role and need for public funding. The Plan's institutional objectives of establishing a service institution driven by market demand and financially autonomous were not achieved and at completion, it was clear that initial assumption regarding non-salary operating costs was overly optimistic to cover its (non-salary) operating costs in the near future.

Further lessons identified by this review:

- **An evaluation of trainings and capacity building activities is essential to the project.** An evaluation of trainings and capacity building activities is essential to support project conclusions on the achievements and impact of the training on staff capacity.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

While the ICR was consistent with OPCS guidelines and reasonably concise, this Review finds that the ICR has some shortcomings:

- The ICR was not sufficiently results oriented because it analyzed the contribution of strengthened planning and financial management to the achievements of the components, rather than analyzing the contribution of the components to achievement of strengthened planning and public financial management (paragraphs 55 to 62) .
- The quality of evidence presented in the ICR is inadequate to support the claim in paragraph 54 of the achievement of strengthened financial management
- There were internal inconsistencies, and, for example, it is not clear how many sub-investments were



awarded: the ICR refers at different points to 185 District Development Fund projects and 10 Provincial Development Fund projects (ICR, para 57), 175 District Development Fund Projects and 10 district wide investments (ICR, Annex 2 para 4), and 184 District Development Fund sub-projects (Annex 2, Table 2.2).

a. Quality of ICR Rating
Substantial