

Review of Asia Trade and Development Programme Projects

Commissioned by:

The Ministry of Foreign Affairs and Trade

Prepared by:

Bruce Trangmar, Team Leader
MWH New Zealand Limited

Ruth Frampton, Phytosanitary Specialist
Critique Limited

Christchurch, New Zealand

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Executive Summary

Background

This report documents the findings and recommendations of the Review of Three Trade and Development Projects undertaken in the Greater Mekong Subregion, South East Asia by the New Zealand Aid Programme, Ministry of Foreign Affairs and Trade (MFAT) (formerly New Zealand Agency for International Development (NZAID)) during 2005-10. These projects are the Mekong Private Sector Development Facility (MPDFII), Food Safety and its Management (FS), and Phytosanitary Capacity Building (PCB). These projects comprised the NZAID Asia Trade and Development (T&D) programme from 2005-2010. Countries participating in the MPDFII and FS projects comprised Cambodia, Lao People's Democratic Republic (Lao PDR) and Vietnam (CLV), while these three countries and Myanmar (CLMV) also participated in the PCB project.

The three projects were implemented in different modalities. MPDFII (2008-2013) is being implemented by the International Finance Corporation (IFC) through a US\$49.9 m multi-donor trust fund to which MFAT has pledged US\$2 m. The Food Safety project (2005-2009) was funded by MFAT (US\$1.15 m) who contracted the Food and Agriculture Organisation of the United Nations (FAO) to implement the project. The PCB project (2006-2010) was funded by MFAT (AUS\$2.7 m) and managed by UniQuest Pty Limited under a management services consultant contract with MFAT.

The review was commissioned by MFAT. The broad purpose of the review was to identify how the selected projects have contributed to increasing access to markets (domestic/South East Asia/international) for local producers in a way that local production has been stimulated and is growing, particularly for small producers.

The review was conducted during August and September 2010. The review comprised desk review, field visits to Cambodia, Laos, Vietnam (CLV), meetings and discussions with stakeholders (MFAT staff, targeted officials in CLV, project contractors, partners and donors, and direct and indirect beneficiaries).

The review was undertaken in the context of various initiatives of the Association of South East Asian Nations (ASEAN), including the ASEAN New Zealand Regional Cooperation Programme (ANZCRP), Initiative for ASEAN Integration (IAI), IAI Work Plan 2, Hanoi Declaration, Vientiane Action Plan, Joint Declaration for an ASEAN-New Zealand Comprehensive Partnership, as well as NZAID and/or MFAT initiatives. These included the NZAID Trade and Development Policy, Asia Strategy, Asia Trade and Development Programme, Country Strategies for Cambodia, Lao PDR and Vietnam, and MFAT's Flagships programme. The three projects were designed and implemented under the Asia Strategy (2004-2010), but this Strategy was superseded in June 2010 by MFAT's Flagships programme.

The report comprises:

- Description of the context of the Asia Trade and Development programme
- Purpose and objectives of the review
- Approach and methodology used in undertaking the review
- Review findings
- Lessons learned
- Conclusions
- Recommendations and suggested follow up actions.

The report also contains appendices containing acronyms and abbreviations, terms of reference for the review, assessment of projects against Development Assistance Committee (DAC) criteria, persons met, list of data sources, and list of MPDFIII projects.

Key Findings

Overall Assessment

Using the DAC criteria, all three projects were assessed to be highly relevant to the Asia Trade and Development programme as defined by the Trade and Development Policy (NZAID 2003) and the Asia Strategy (2004). The projects were rated as Medium to High in terms of their overall effectiveness, and Medium overall in terms of their impact, sustainability, and efficiency of delivery. The three projects varied across criteria and for specific criteria (Table 1). Over all criteria, MPDFIII was rated Medium to High in terms of meeting the intent of the Asia Trade and Development programme, while the Food Safety and Phytosanitary Capacity Building projects were both rated Medium. However, many MPDFIII projects have only just begun implementation and it is too early to assess them in terms of the Asia Trade and Development programme, especially in terms of impact and sustainability.

Table 1. Assessment of the Three Projects in relation to the Asia Trade and Development Programme using DAC Criteria

Project/ Country	Relevance	Effectiveness	Impact	Sustainability	Efficiency	Overall
MPDFIII	H ¹	H	M-H	M-H	M-H	M-H
Food Safety	H	M	L-M	M	M	M
Phytosanitary Capacity Building	H	M	L-M	L	M	M
Three Projects - Combined	H	M-H	M	M	M	M

¹ H = High M = Medium L = Low. Note: The above assessments are subjective.

Relevance of the Projects

Country Priorities, Alignment with NZAID's Asia Strategy, and MFAT's Bilateral Strategies. All three projects address important trade and development priorities of CLMV. The project development objectives were all well aligned with the Asia Strategy (and the Trade and Development Policy) in terms of indirectly contributing to "supporting the newer members of ASEAN to establish the capability and mechanisms that will facilitate their integration into national, regional and international markets". MPDFIII is contributing significantly to improving the business operating environment that is essential to underpin such integration. The FS and PCB projects have been less effective despite their development objectives aligning with the Asia Strategy. In general, the three projects have indirectly, and perhaps coincidentally, complemented the MFAT bilateral T&D strategies in CLV. However, there are few, if any, direct programme design and operational linkages between the MFAT regional and bilateral trade and development programmes and projects.

Priorities of the Initiative for ASEAN Integration. The three projects have not been designed specifically to address IAI priorities (ASEAN 2009a) because there is little, if any, specific reference to addressing IAI in the design documents. Despite this, all three projects are indirectly supporting various IAI priorities. The MPDF projects are

contributing indirectly to most items under ASEAN Economic Community (AEC) Themes A (Single Market and Production Base), B (Competitive Economic Region) and C (Equitable Economic Development). MPDF is also contributing to several themes and items under the ASEAN Socio-Cultural Community (ASCC). The FS and PCB projects have both contributed indirectly to AEC item A7 Food, Agriculture and Forestry, and ASCC items A5 Facilitating Access to Applied Science and Technology, and B3 Enhancing Food Security and Safety. The FS project has also helped to address items for specific actions listed under AEC item A7 Food, Agriculture and Forestry, and ASCC item B3 Enhancing Food Security and Safety, "Conduct capacity building programs by 2011 on risk analysis including training for CLMV countries to support food safety measures".

Promoting Access to Markets and Increasing Local Production. Only MPDFIII included specific projects that directly promoted market access. The wider MPDF impacts of improving the business enabling environment for the private sector, especially SMEs, will also have significant impact on the private sector's longer term ability to access markets. MPDFIII is helping to increase local production by assisting the agricultural sector and businesses improve their agribusiness supply chain linkages and value chains, product quality improvement, producer and agribusiness training, processing efficiency, and market information access. The FS and PCB projects did not have specific objectives of directly promoting access to markets or increasing local production.

Increasing Networking in ASEAN. The three projects were largely designed and implemented as a series of projects in each CLMV country, rather than being designed as truly regional programmes. There was not a significant project design focus or statement in the objectives of any of the three projects to actively promote ASEAN and IAI networking among CLMV or the wider ASEAN members. MPDFIII has achieved some degree of CLV networking through project workshops, project-specific study visits among CLV, regional conferences and training. Networking in the PCB project was based on contact between CLMV participants in diagnostic training workshops and Senior Officials Meetings (SOMs). Training workshops in the FS project were conducted in each CLV country separately with little interaction among countries.

Traded Commodities between ASEAN and Beyond. None of the three projects were designed to directly trade commodities between ASEAN or more widely internationally. Economic growth resulting from the improved business enabling environment promoted by MPDFIII may result in increased trading of commodities over time, but increased trading will result from many complex economic, social and political drivers from which it is impossible to disaggregate the MPDF contribution.

Harmonisation of Phytosanitary Measures and Food Safety Regulations. The PCB project contributed to the harmonisation of phytosanitary measures adopted in CLMV countries with International Standards for Phytosanitary Measures (ISPMs). However, it contributed little to CLMV phytosanitary officials' understanding of applying these ISPMs to international trade. Outputs from the FS project have contributed to CLV either identifying which Codex standards are high priorities for adoption as technical regulations or adopting Codex standards as national standards. CLV government staff with food safety-related roles are generally well aware of these high priority standards and the need for their adoption.

MPDF Role In Improving the SME Business Environment. Overall, the 28 projects within MPDFIII are making a significant contribution to improving the SME business

environment in CLV. Access to Finance projects are helping to build stronger and diversified financial markets that serve the private sector in each country by strengthening individual financial institutions, improving/reforming financial sector infrastructure and policy; and in removing legal and regulatory framework obstacles that have previously constrained SME access to finance. Investment Climate projects are supporting CLV develop and implement policy, legal and regulatory reforms at both national and sub-national level that improve the business environment and operations. These reforms all lower transaction costs and time spent by firms on non-productive activities, thus enabling them to compete more effectively. Sustainable Business Advisory projects are strengthening and promoting private sector development by providing direct assistance to firms to help them develop sustainable business practices; better integrate into larger supply chains to improve quality, efficiencies, and income levels; and improve their competitiveness, entrepreneurship and market prospects. Access to Infrastructure projects have only just started and it is too early to assess their impact.

Effectiveness of the Projects

Achievement of Project Objectives. The three projects have varied in their achievement of development objectives. Overall, MPDFIII is making good progress in contributing to growth and poverty reduction in CLV, and has successfully built on earlier phases of MPDF. Both the FS and PCB projects suffered from a disconnect between their development objective and specific objectives in that the project design did not establish clear linkages between objectives at different levels. Overall the FS project made some very real contributions towards the development of a modern and science-based food control system in CLV countries. However, these contributions have not resulted in reduced food safety risks for domestic consumers in these countries or an increase in food and agricultural exports that meet internationally accepted food safety standards (Codex standards). The PCB project has definitely contributed to phytosanitary building capacity in the CLMV countries, but this has not led to direct improvement in phytosanitary practices, or any promotion of trade and rural income generation, thereby reducing poverty.

Cross Cutting Issues. MPDFIII projects address business enabling environment issues that will lead to economic growth and indirectly **poverty reduction**. MPDFIII also includes several projects that directly address access to finance and income generation for the poor. The development objective of the PCB project refers to poverty reduction, but specific project objectives and activities did not contribute to rural income generation or poverty reduction. The FS project design did not include poverty reduction as an objective.

The projects varied in their treatment of **gender** issues. MPDFIII has been very active in addressing gender issues in the business environment with training and capacity building for both women and men being a key part of most projects. Neither the FS or PCB projects specifically targeted gender issues although male and female technicians, and in some cases women farmers in the FS project, participated in training.

Human rights are not a specific focus of any of the three projects. However, several MPDFIII projects are addressing labour rights, working conditions, and labour-management relations in factories in Cambodia and Vietnam.

The projects also varied in their treatment of **environmental** issues. Sound environmental management underpins MPDF's sustainable business model for all SMEs and MPDFIII projects are specifically targeting environmental issues, such as energy

efficiency and clean production, improved energy and waste management in the rice milling industry, and recycling of used lead acid batteries. The design of FS and PCB projects did not feature activities related to addressing particular environmental issues.

Project and Risk Management, Implementation Modalities. All three projects have been well managed, despite each having a different project management model. All three projects have also generally been effective in managing project risks.

The three projects have used different implementation modalities with MPDFIII being based on a multi-donor trust fund approach, FS being implemented by FAO using NZAID funding, and the PCB applying an MSC approach. The MPDFIII modality has been appropriate for a project that is managing about 28 individual projects across three countries at any one time. The pooling of funds from eight donors into the multi-donor trust fund for implementation by IFC has provided project management flexibility for IFC and has also enabled small donors, such as MFAT, to leverage other donor funds into a sizeable project. For projects that include more than one country, both IFC and FAO have brought the benefits of using large, international agencies that have long term, local offices in each of CLV. A weakness of the non-resident MSC approach used in the PCB project is that the MSC does not have the same leverage with government, service providers and the private sector that IFC and FAO have been able to achieve.

Funding and Value for Money. The costs to deliver the projects differed markedly. Overhead and support costs were calculated and reported differently by each project so it is not easy to compare these relative costs among the projects. The different nature and scale of the three projects (especially MPDFIII compared to FS and PCB) makes it difficult to compare value for money among projects.

Despite MPDFIII's high overhead cost (27%), the cost for bilateral donors, such as MFAT, to deliver such services in three countries to the same quality as IFC without a multi-donor trust fund, such as MPDFIII, are simply prohibitive. For a small donor, such as MFAT, contribution to MPDFIII provides a high quality, high status opportunity to leverage IFC's global expertise, strong presence in each CLV country, and other multi-donor contributions to achieve its regional Trade and Development objectives at minimal MFAT administrative expense (part of a Development Programme Manager's (DPM) time). The projects in MPDFIII are all at different stages of implementation, so there is a wide range in achievement of outputs and outcomes depending on each project's stage. Most completed projects achieve an overall ranking of High or Medium to High across all DAC criteria.

FAO support costs were considerably lower at about 13% of FS total project budget, but comprise different items to MPDF so it is not possible to compare the two. FAO was able to field a significant number of highly qualified food safety experts partly due to a lower cost structure. The quality of the PCB project operations appears reasonable for the amount invested by MFAT, but probably required more management inputs by the DPM due to the large number of contract variations compared to the other two projects.

The FS and PCB projects made important steps in building capacity of CLMV government institutions to appropriately regulate and manage sanitary and phytosanitary matters. The quality of outcomes for the money spent was generally better for the FS project. However, the desired longer term impact and sustainability of these two projects will only be achievable with ongoing contributions of additional complementary projects funded by other donors.

Sustainability of Benefits. Analysis of the three projects against DAC criteria assesses an overall sustainability rating of Medium for the three projects combined, but varying from Low for the PCB to Medium to High for MPDFIII.

An overall Medium-High ranking for completed MPDF projects generally reflects the overall quality of project targeting, government-private sector partnership, and capacity-building approach of IFC to ensure that all MPDF projects have a high likelihood of long term impact and sustainability. The FS and PCB projects represent significant foundation steps in building capacity of CLV government institutions to appropriately regulate and manage sanitary and phytosanitary matters. However, it is difficult to identify long lasting benefits from each of these projects. CLV government officials viewed the two projects as unfinished and hoped for ongoing support for capacity building in food safety, plant protection and other phytosanitary matters.

Partner Government Ownership of Issues Addressed and Development Processes Initiated. The three projects have had different degrees of government ownership of the issues addressed and development processes initiated. This has also varied by country.

MPDFIII has had very strong government commitment and ownership to improvement of the business environment and development of the private sector in CLV. Food safety is well recognised by all CLV governments as a matter requiring particular attention. The failure of Cambodian Ministers to agree on the designation of responsibilities among food control agencies continued to frustrate progress there in improving food safety and its management.

The PCB project has not attracted nearly the same level of CLV government attention in addressing phytosanitary capacity building in the pest surveillance and diagnostic areas compared to food safety. However, with growing recognition of the importance to economic development of increased food and agriculture exports that meet international sanitary-phytosanitary (SPS) requirements, greater priority will need to be attached to ensuring appropriately resourced phytosanitary regulatory systems are in place. Given that many pests are common to all CLMV countries, regional cooperation and collaboration between GMS countries should be more closely considered in future development processes related to phytosanitary matters. A strictly national approach is unlikely to be the most efficient or cost effective.

Lessons Learned for Future Trade and Development Programme

Key lessons learned from the current Asia Trade and Development programme in developing any future programme include:

Strategic Framework

Clearly Define Any Future Strategic ASEAN or Asia Trade and Development Programme. A major weakness of the current Asia Trade and Development programme is that there is no readily available public document defining the scope or objectives of the programme. This makes it very difficult for stakeholders and programme partners to understand the aim and purpose of the Asia T&D programme.

Focus the Programme. New Zealand is a very small player in ASEAN with very limited development assistance resources to support the very wide range of themes, items and actions under the IAI Workplan II. The MFAT flagships identify four broad areas, but it is not stated which specific IAI themes, items and actions they target, or how they relate to IAI.

Fully Integrate Regional and Bilateral Trade and Development Programmes. A major weakness of the current Asia Trade and Development programme is that it is not a truly regional programme, but three projects operating in CLMV. There is no direct linkage to trade and development activities under the bilateral programmes in CLV. The Asia Trade and Development programme is managed out of Wellington. MFAT staff in the Bangkok and Hanoi Embassies have not been involved in the Asia T&D programme at all, and have very little understanding or contact with it. As a result, the wider MFAT trade and development programme in CLV is disjointed and is not taking advantage of the opportunity for a well-integrated complementary regional and bilateral approach to trade and development.

Base Any Future Programme in the Greater Mekong Subregion. For MFAT to effectively contribute development assistance to the dynamic trade and development environment in ASEAN and the GMS, any well-integrated future Asia Trade and Development programme that is targeting IAI must be based in the GMS, not Wellington. This will enable MFAT trade and development staff to develop a much closer understanding of the regional trade and development issues; enable MFAT to respond quicker to development opportunities; develop closer trade and development relationships with partner governments, the private sector, business associations, and like-minded donors working in the sector; and enable MFAT trade and development staff to interact more closely with projects MFAT is funding.

Build on Existing Successful Relationships NZ has with Partners in the Region. New Zealand is a small player with limited funding and human resources for development assistance in trade and development in South East Asia. MFAT has developed good working relationships with IFC and FAO through MPDFs II and III, and the FS project. It is not clear how MFAT's four flagships will relate to ongoing projects, such as MPDFIII. However, for a small player like MFAT it is essential that existing successful relationships are built upon, leveraged and further developed as part of any future T&D programme to complement any new initiatives with new unproven partners.

Future Direction

Strong Government and Private Sector Partnership in Design and Implementation of Future T&D Projects. This has been a key feature of MPDFIII projects involving the private sector, but not so in the FS and PCB projects which have had little connection with the private sector. Any future Trade and Development programme that wishes to engage the private sector must have a strong focus on government and private sector partnership in design and throughout implementation, as well as partnership other donors.

Flexible Project Design. The business, trade and market access environment in South East Asia is dynamic and constantly changing. This requires development assistance projects targeting trade and development to be very flexible in their design and implementation so they can respond effectively to such changes. This has been a key lesson learned from MPDFIII where IFC has adjusted its project mix based on the needs of its government and private sector stakeholders.

Use of Resident International Implementing Agencies. MFAT is a very small, non-resident donor in most ASEAN countries. This creates challenges for implementation of its development assistance projects. The MPDFIII and FS projects have shown there are distinct advantages in using resident international organizations, such as IFC and FAO, for project implementation, where projects occur in more than one country. The long term and local presence of such agencies enables them to establish longer term,

partnership relationships with government officials and the private sector; good coordination with other donors supporting similar initiatives; potential access to day-to-day technical advice for project participants; and timeliness for addressing project issues. Such agencies can also access global technical resources and experience for capacity building and developing new initiatives.

Leverage of Other Donor Funds. MFAT participation in MPDFIII has shown the benefits of participating in a multi-donor trust fund where contributions from other donors can be pooled and leveraged. MFAT's US\$2 m contribution is leveraging another US\$47.9 m from IFC and other donors to create a US\$49.9 m fund for private sector development that is well implemented, well managed, and well regarded in CLV.

Cooperate with Other Donors on SPS Matters. Country-specific SPS requirements and obligations under international agricultural and trade agreements are complex and vary among countries. The comprehensive approach to SPS assistance requires a 5-10 year effort tailored to each country's specific needs, and comes at considerable expense. To achieve sustainable impact of SPS programmes across several countries requires well coordinated multi-donor assistance and strong national government support. MFAT's limited development assistance resources only allow very small scale projects (e.g. FS and PCB projects) – too small to achieve sufficient momentum to produce sustainable impacts.

Importance of English Language Skills. Khmer, Lao, Burmese and Vietnamese, the official languages of CLMV countries, respectively, are not languages that can be used in communications internationally or even between CLMV; English is the language used. Enhancing English language skills of the business trading community and CLMV officials (especially those with SPS-related roles) is essential to improving the capability of CLMV countries to function effectively in the international trading environment and communicate with international science and technology communities. The ASEAN Scholarships, one of MFAT's four flagship programmes, may provide an opportunity for MFAT to assist directly with this so that outputs from donor-funded trade facilitation and/or SPS-related projects are more likely to achieve sustainable impacts.

Key Recommendations

The report makes 23 recommendations for the Asia Trade and Development programme, the higher priority being:

- MFAT should prepare a definitive public document that clearly specifies the aims, approach, objectives, and activities that New Zealand will undertake in any future Asia Trade and Development programme and in delivering its commitment to the Joint Declaration for an ASEAN-New Zealand Comprehensive Partnership. (Refer Section 6.1).
- Focus New Zealand's limited development assistance resources on a very small number of specified IAI themes, items, and actions so that New Zealand's assistance is very clearly targeted, directly addresses specific IAI Workplan II items and actions that ASEAN wants; and is in items/actions where New Zealand has expertise that can add value to the IAI. (Refer Section 6.1).
- Any future Asia Trade and Development programme should be designed to focus on specified IAI themes, items and actions in the IAI Workplan II. It should fully integrate regional and bilateral activities into one single coherent, complementary programme. It should combine activities that operate at regional level in a common way across CLMV, complemented by specific bilateral activities that directly support

the in-country implementation of the regional initiative or activity. (Refer Section 6.1).

- Base any future regional Asia Trade and Development programme that is focused on ASEAN IAI in the Greater Mekong Subregion, with MFAT staff responsible for managing such a programme located in the region, possibly Hanoi given Vietnam's status as an IAI member. (Refer Section 6.1).
- In implementation of any future Asia Trade and Development programme MFAT should maintain a balance between further developing and leveraging successful relationships with existing development partners (such as IFG, FAO), and developing new relationships and projects in application of MFAT's four new flagships. (Refer Section 6.1).
- Any projects involving the private sector supported by MFAT under any future Asia Trade and Development programme or the four flagships must be flexible in their project design to respond quickly to changes in the business environment that private sector and government beneficiaries are operating in. (Refer Section 5.3.4).
- Fully engage government, the private sector and other relevant donors at all stages of design and implementation of any future Asia Trade and Development programme and four flagship programmes that target the business environment, private sector development and market access. (Refer Section 6.2.3).
- Where MFAT-supported projects are regionally-focused or include more than one country, MFAT should utilize resident international agencies in the implementation of future Asia Trade and Development projects, whatever their scale, to enhance the likelihood of sustainable impacts resulting. (Refer Section 6.2.1).
- MFAT should seriously consider ongoing participation in MPDF if MPDF goes to a fourth project at the end of MPDFII and continues to be compatible with the Asia Trade and Development programme objectives. (Refer Section 6.2.1).
- Unless MFAT can partner with like-minded donors to jointly fund projects or programmes of sufficient scale on regional SPS matters in CLMV, SPS matters should only be included in any future Asia Trade and Development programme on a bilateral basis. (Refer Section 6.2.1).
- Under the new MFAT ASEAN Scholarship programme, offer CLMV officials with trade facilitation and/or SPS-related roles two-year scholarships in New Zealand for English language training. Such scholarships should offer CLMV recipients the opportunity to be immersed in a predominantly English-speaking society as well as providing business, trade and technical language training over a lengthy period. (Refer Section 6.2.4).

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1 Introduction

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The review was undertaken in the context of various initiatives of the Association of South East Asian Nations (ASEAN), including the ASEAN New Zealand Regional Cooperation Programme (ANZCRP), Initiative for ASEAN Integration (IAI), IAI Work Plan 2, Hanoi Declaration, Vientiane Action Plan, Joint Declaration for an ASEAN-New Zealand Comprehensive Partnership, as well as NZAID and/or MFAT initiatives. These included the NZAID Trade and Development Policy, Asia Strategy, Asia Trade and Development programme, Country Strategies for Cambodia, Lao PDR and Vietnam, and MFAT's Flagships programme. The three projects were designed and implemented under the Asia Strategy (2004-2010), but this Strategy was superseded in June 2010 by MFAT's Flagships programme.

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2 Description of the Trade and Development Programme

2.1 Background and Political Context

2.1.1 New Zealand and ASEAN

New Zealand has been providing support for economic cooperation activities to South East Asia and more specifically to the ASEAN region for well over three decades under New Zealand-ASEAN related agreements. Before the formation of NZAID in 2002, development assistance was provided through the ASEAN New Zealand Regional Cooperation Programme (ANZRCP) consistent with agreements under the ASEAN/NZ Dialogue process.

2.1.2 Initiative for ASEAN Integration

The ASEAN Heads of State/Government launched the Initiative for ASEAN Integration (IAI) at the ASEAN summit in 2000. The purpose of the IAI is to narrow the development divide and enhance ASEAN's competitiveness as a region to provide a framework for regional cooperation through which the more developed ASEAN members could help those member countries that most need it. In 2001 ASEAN Foreign Ministers adopted the Hanoi declaration on Narrowing the Development Gap (NDG) for Closer ASEAN Integration. In 2003, ASEAN leaders issued the Declaration of the ASEAN Accord (Bali Concord II) stressing that the deepening and broadening of ASEAN integration shall be accompanied by technical and development cooperation to address the development divide and accelerate the economic integration of Cambodia, Laos, Myanmar and Vietnam (CLMV). This was to be achieved through the road map for integration of ASEAN to enable all member states to move forward in a unified manner and that the benefits of ASEAN integration are shared. The Vientiane Action Programme (2004-2010), a medium-term development plan to realize the ASEAN Vision 2020 (ASEAN 1997), highlighted the strategic importance of narrowing the development gap to realize the ASEAN Community, and that the IAI be strengthened to address the needs of CLMV and sub-regional areas.

The NDG was to include specific regional cooperation activities aimed at assisting the less developed member states to achieve closer economic integration, to benefit from ASEAN schemes for regional economic integration activities, to supplement national efforts directly aimed at poverty reduction, and the promotion of equitable and inclusive development. This was operationalized through the IAI Work Plan that implemented 134 projects/programs attracting about US\$191 million from ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand) and about US\$20 million from dialogue partners, development agencies, and other partners.

2.1.3 NZAID Trade and Development Policy

Harnessing international trade for development has been a key component of New Zealand official development assistance since 2003. New Zealand's Official Development Assistance (NZODA) policy and position on harnessing international trade for development is expressed in NZAID (2003).

This document states that NZAID's policy and position is that:

- Trade can reduce poverty

- But trade delivers best when critical economic and governance factors are in place
- Developing countries face challenges in making trade work for development
- And the international donor community can play a key role in overcoming these challenges and constraints.

NZAID (2003) also states that "In line with MDG 8, *Develop a Global Partnership for Development*, NZAID is committed to supporting further development of an open, rules-based, predictable, non-discriminatory trading and financial system (Target 12), and addressing the special needs of the Least Developed Countries, land locked countries, and small island developing states." Lao PDR fits the criteria for land locked countries.

In its policy document (NZAID 2003), NZAID recognizes that trade growth and liberalization, under certain supporting conditions, can deliver sustainable poverty reduction and substantially stimulate development worldwide. The document states that the keys to an effective NZAID role, consistent with its vision and values, are:

- Targeted policy engagement on trade and development issues
- Trade-related programming that supports developing countries' ownership of trade policies, participation in multi-lateral trade processes, trade access and efforts to develop policies and institutions to harness trade for development.

Further details on this policy and position are given in NZAID (2003).

This Trade and Development Policy and the Asia Strategy (NZAID 2004) forms the policy and strategic framework under which the Asia Trade and Development programme was conceived.

2.1.4 NZAID Asia Strategy

When NZAID was formed in 2002, the NZODA programme was adjusted to include private sector development and trade related activities. The NZAID Asia Strategy developed in 2004 included Trade and Development as a key theme (NZAID 2004) further defining application of the Trade and Development Policy (NZAID 2003) in South East Asia.

The Strategy states that "in South East Asia, we (NZAID) support the newer members of ASEAN (CMLV) to establish the capability and mechanisms that will facilitate their integration into national, regional and international markets". Although not specifically mentioning the IAI, this statement is consistent with the IAI's purpose. The Strategy further states that "in addition, we (NZAID) support measures to ensure the benefits of international trade extend to the rural sector, particularly poor and marginalized communities. We (NZAID) also support the development of community-based trading partnerships that seek to facilitate trade for sustainable livelihoods, assist diversification and pursue the development of comparative and competitive advantage". One of the key approaches of the Asia Strategy was to "maximize the synergies between core-bilateral partner country programmes, thematic programmes and programmes of our (NZAID's) development partners" (NZAID 2004). These items are also consistent with the IAI objectives.

2.1.5 Asia Trade and Development Programme

In early 2006 NZAID created a dedicated Asia Trade and Development (T&D) programme¹, to promote the objectives outlined by NZAID's overarching Trade and Development Policy (NZAID 2003) and NZAID's Asia Strategy (NZAID 2004).

Under the Asia T&D programme support was provided for piloting both bilateral and regional trade and development activities, across a range of sectors. Most of the bilateral pilot projects were in Cambodia. These included support for the Cambodian garment sector; the Cambodian Government's Trade Sector Wide Approach (participation in a multi-donor exercise to support the silk sector) and for a pilot initiative on rural agribusiness in Siem Reap. Most of the regional trade and development activities were aligned with the Vientiane Action Programme (VAP) and have been focused on the less developed countries of the Greater Mekong Region, namely Cambodia, Myanmar, Laos and Vietnam, as required by ASEAN.

The creation of the Asia Trade and Development programme in 2006 saw the programme aligned with ASEAN policy goals (Vientiane Action Programme (VAP) and Initiative for ASEAN Integration (IAI)). Support included:

- Trade Facilitation Initiatives, comprising:
 - The continuation of a major project to facilitate trade expansion through the development of phytosanitary capacity, but focused on the CMLV countries of ASEAN
 - Support for Mekong Food Safety capacity-building, and
 - A project to develop metrology standards and improve legal metrology capacity in the Mekong region.
- Private Sector Development in the CLV countries (Cambodia, Laos and Vietnam) and Indonesia. This includes support to the International Finance Corporation (IFC) Mekong Private Sector Development Facility (MPDF) and the Programme for Eastern Indonesia Small and Medium Enterprise Assistance (PENSA) programme in Indonesia. Both of these facilities support a range of private sector development projects

Support for the bilateral trade and development activities under the T&D programme continued. However in 2009, a decision was taken to transfer these projects (Cambodian Silk Sector and Cambodian Agribusiness projects) to the bilateral-managed programmes.

2.1.6 Country Strategies

NZAID developed country strategies for Cambodia and Lao PDR (both 2005-2010) and Vietnam (2007-2016) that sit within the framework of the NZAID Asia Strategy. The Cambodia (NZAID 2005a) and Lao PDR (NZAID 2005b) strategies both include Trade and Private Sector Development as target sectors for bilateral assistance.

The goal of the strategies for each country is to eliminate poverty through a focus on sustainable rural livelihoods, and in the case of Vietnam also through basic education opportunities for poor and marginalized people.

¹Note: The consultants could not find any details or written documentation defining the Asia Trade and Development programme in MFAT files or on the MFAT website. There does not appear to be a formal document defining the programme and its objectives.

In Cambodia and Lao PDR the NZAID bilateral country strategies aim to support pro-poor tourism, natural resource management, trade and private sector development, and human resource development.

Cambodia

Under trade and private sector development in Cambodia, NZAID (2005a) would support entrepreneurial and SME development in pro-poor sectors, such as agribusiness. Under the strategy, NZAID would assist rural producers improve their skills, diversify production, move into more-value-added agribusiness activities and link up with more rewarding national and international markets. The strategy also states that Cambodia requires an enabling environment that reduces the cost of doing business, while simultaneously protecting labour rights and improving industrial relations. Under the strategy, it would also work with partners to improve labour relations and promote core labour rights in sectors of significance to employment and the economy, notably the garments sector. It would also build government capabilities in the agricultural sector, to facilitate Cambodian producers' access to local, national and international markets. The Trade and Development programme would also look for spin-offs and innovative opportunities arising from the bilateral programme's engagement in pro-poor tourism and natural resource management.

Specific bilateral trade and private sector development activities are the Cambodia Silk and Agribusiness projects that transitioned from the Asia Trade and Development programme to the Cambodia bilateral programme in 2009.

The Cambodia Strategy refers to regional activities, such as the GMS Economic Cooperation Programme, ASEAN Vientiane Action Plan (VAP), and the Initiative for ASEAN Integration (IAI) as part of the regional context for the strategy. However, it does not state specifically that NZAID bilateral activities would focus on activities that will promote or contribute directly to the VAP or IAI. No further mention of the VAP or IAI is made in the description of the NZAID programme in Cambodia.

Lao PDR

In the Lao PDR Country Strategy (NZAID 2005b), the Trade and Private Sector Development interventions appear to be solely from the Asia Trade and Development programme rather than from specific bilateral interventions. The Lao PDR Strategy states that "NZAID will identify opportunities for creating greater synergies between this assistance (i.e. the Asia T&D programme) and that which is provided under the Lao PDR country programme".

Engagement in the trade and private sector development area was to be at two levels:

1. Creating the environment in which Lao PDR producers can take advantage of local, national and international markets by building government capabilities in certain pro-poor sectors, particularly agriculture.
2. Supporting local initiatives, working directly with producers to develop skills and capabilities and thereby promoting income generation.

The Strategy also states that while the Trade and Development programme is not part of the country programme, it will look for spin-offs and innovative opportunities arising from the country programme's engagement in pro-poor tourism and natural resource management.

In discussing the regional context, the Lao PDR Strategy specifically states that "as a dialogue partner of ASEAN, NZAID will ensure that its Lao programme is appropriately

aligned to the VAP and IAI.” However, no further mention is made of ASEAN, the VAP or IAI in stating the programme’s objectives, sectoral focus, operating principles, modalities, resources and management or measuring performance.

Vietnam

The sectoral focus of the Vietnam Country Strategy (NZAID 2007a) is on sustainable rural livelihoods, education, human resource development and health. The sustainable rural livelihoods sector is comprised of sanitary and phytosanitary capacity building and linking producers to markets. The Strategy states that NZAID will “build on the regional phyto-sanitary capacity building programme, assisting plant protection organizations at the central level to meet the requirements of the SPS agreement with a view to creating an enabling environment for trade in plant products”. While there has been New Zealand bilateral assistance for combating avian influenza, there does not appear to have been any specific direct bilateral activities under the country strategy since 2007 to complement the Asia T&D Phytosanitary Capacity Building Project.

Direct bilateral activities under the linking producers to markets item mainly comprises an agribusiness project in Binh Dinh that aims to help link poor rural households to markets and create value chains relevant to their local context. The Vietnam Strategy states that this project will attempt to create links with other activities supported by NZAID in food safety, and activities under the MPDF in relation to SMEs (i.e., projects under the Asia Trade and Development programme). The Binh Dinh project started in 2009 so there is adequate time and opportunity to link with organizations that received support under the Asia T&D programme.

As with the Cambodia and Lao PDR strategies, the Vietnam country strategy refers generally to the VAP, IAI and GMS Economic Cooperation Programme; and the NZAID strategy of sharing experience across its GMS programmes and bilateral programmes in CLV. However, no specific mention is made in the strategy of the bilateral sectoral activities directly linking to VAP and IAI activities.

2.2 NZODA Current Emphasis and Future Direction in South East Asia

2.2.1 IAI Work Plan II

In 2009 a Strategic Framework and the IAI Work Plan II (ASEAN 2009a) was prepared for 2009-2015 aligning with the three ASEAN Community Blueprints (ASEAN Economic Blueprint (ASEAN 2007), ASEAN Socio-Cultural Blueprint (ASEAN 2009b), and the ASEAN Political Security Blueprint (ASEAN 2009c)). The IAI Work Plan is based on the key programme areas of the each of the three Blueprints, the 1st IAI Work Plan 2002-2008, and the project ideas contained in the Mid-Term Review of the 1st IAI Work Plan 2002-2008.

The IAI Work Plan II details specific actions to be undertaken under the themes and items listed in Table 1. In addition, a general enabling action of the Work Plan is to conduct projects to raise English-language efficiency of government officials and people of the CLMV countries (ASEAN 2010a).