

**Country Assistance Program
for
Lao PDR**

Government of Japan

September 2006

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Annex 2:

● Logical Framework

I. The Recent Political, Economic, and Social Situation

1. The political situation

A system of centralized, single-party rule under the Lao People's Revolutionary Party has persisted in Laos since 1975¹. Yet driven by the reform movements in the former Soviet Union and Viet Nam, Laos decided in 1986 to launch the "Chintanakan Mai (New Economic System)" Policy and to carry out economic structural reforms based on "Rabop Mai (New Economic Mechanism [NEM])," the essence of which is the opening of markets and the introduction of market economy principles. Furthermore with the formulation of a constitution in 1991, Laos has been aiming to achieve the rule of law in order to build a modern nation. At the Congress of the Lao People's Revolutionary Party in 1996, "to free the country from the states of least-developed country (LDC)² by 2020" was set as a goal. Following the country's accession to the Association of Southeast Asian Nations (ASEAN) in 1997 it has been actively participating in ASEAN activities. In addition to serving as the chair for ASEAN for 2004-2005, Laos is also making efforts to reduce intraregional tariffs by 2008.

Regarding the relations with each major neighboring country, Laos has had a "special relationship" with Viet Nam due to the course of the 1975 revolution, with an extremely close relationship persisting in all fields primarily through the party and the governments. Laos is said to have a "comprehensive cooperative relationship" with China, and particularly in recent years the two countries have been building an even closer relationship especially following China's active diplomacy towards Southeast Asia and the intensifying economic activities by Chinese individuals within Laos. In the northern part of Laos in particular, economic relationship between Laos and China is remarkably expanding. Laos and Thailand are deeply linked in economic and cultural fields as the countries, particularly Laos and Northeast Thailand, are ethnically and linguistically similar. The majority of Laos' imported

¹ The region corresponding to modern-day Laos was unified under the Lan Xang Kingdom in 1353. Towards the end of the 18th century it became a dependent territory of Siam, after which it became a French colony in 1893 through the Franco-Siamese Treaty. In 1953 the country achieved independence as the Kingdom of Laos through the Franco-Lao Treaty of Amity and Association, yet there were repeated instances of attempts between rightists, centrists, and leftists at forming a coalition government and civil wars. In 1975, in the environment surrounding the conclusion of the Vietnam War, leftists seized power via a revolution. The Kingdom of Laos was abolished in December of the same year and the Lao People's Democratic Republic was established.

² LDC=Least Developed Countries which, according to United Nations classification, are countries where development has been slow even among developing countries. There are currently 50 countries around the world which have been identified as LDCs. Specific inclusion criteria include less than US\$ 750 in per capita Gross National Income (GNI) and a population of 75 million or fewer persons.

commodities come from Thailand, and Laos, mainly the plains along the Mekong River, is incorporated in Thailand's economic zone.

2. The economic situation

Following the introduction of the “Rabop Mai (New Economic Mechanism [NEM])” in 1986 an independent accounting system for government and privately managed corporations was introduced, and policies for privatization, the domestic economy, and trade liberalization were promoted. As such, Laos has been making a gradual transition from a planned economy to a market economy. From the latter half of the 1980s through the late 1990s, Laos continued to have stable economic growth in tandem with the strong economic growth of various neighboring ASEAN countries. From 1992 to 1997, the real Gross Domestic Product (GDP) average annual growth rate reached 7.0%. During the Asian Economic Crisis that occurred in 1997 the country was seriously impacted as a result of its strong economic ties with Thailand, with the currency in Laos, the kip, declining sharply. While the real GDP growth rate also fell to 3.4% in 1998, in 1999 it shifted towards recovery, and from 1999 to 2003 the average growth rate was 5.8%. The growth rate in 2004 was 6.0% (estimated value) and is expected to reach 7.0% in 2005. While the agriculture and forestry sector comprises slightly less than 50.0% of GDP and 80.0% of the working population, economic growth has been driven by the growth of the industry and service industries (particularly the increase of exports from the private sector) since the 1990s. It is predicted that hereafter the percentage comprised of the power generation and mining sectors will expand rapidly. (See Reference Material 2 regarding primary macroeconomic indicators of Laos.)

Laos is faced with constraints in terms of economic development, such as the fact that it is a landlocked country, has a small population (approx. 5.6 million people) and sparse population density, and that domestic market integration has not yet occurred due to delays in infrastructure development. Conversely, Laos is situated in the central part of the river basin region along the Mekong River, a crucial geographical site, and is well-endowed with abundant natural resources (forests, water, minerals), and thus carries with it the potential for economic growth. Closer economic relationships with neighboring countries bring greater economic opportunities to Laos, while several challenges have arisen. In this situation, whether or not Laos will be able to actively capitalize on the framework of ASEAN regional integration and develop the latent potential therein will come under question.

3. The social situation

The Government of Laos classifies the people of Laos by 4 linguistic groups and 49 ethnicities, and the people are also largely divided into highlanders, midlanders, and lowlanders generally by the altitude at which they reside. The vast majority of the lowland ethnic groups which comprise roughly 60.0% of Laos are Buddhists with a mild national character in general. Regions are segmented due to underdeveloped infrastructure, with ethnic minorities residing in mountainous regions preserving their respective indigenous cultures, languages, and social customs. This makes the society exceedingly rich in diversity. While the Government of Laos is calling for ethnic integration, in the future on account of issues such as the increasing disparities between ethnic groups accompanying economic development and the settlement of ethnic minority groups in mountainous regions associated with the suppression of slash-and-burn agriculture, as well as the promotion of their relocation to other regions, the possibility of the issue of ethnicity coming to the surface has not yet been ruled out.

According to the data for 2003³, among households residing in the 72 districts (out of 142 districts in total) designated as impoverished, 50.4% of households are ranked as poor households⁴ according to the definition of the Government of Laos. These households are unable to secure sufficient food and daily necessities. It is feared that in the future disparities in the standard of living in urban and rural areas will widen along with the advancement of economic development. Moreover, it is expected that there will be a pronounced increase in the size of the young working population which, due to restraints on the scale of the labor market, has led to concern of an increase in social problems caused by the worsening employment situation of young people in rural areas and the influx of young people to urban areas. In addition, the concern has also been pointed out that the capacity for mutual assistance possessed by families and communities will become debilitated through the progression of urbanization and industrialization.

While the eradication of poppy cultivation was declared in February 2006, the issue of drug

³ Source: *National Growth and Poverty Eradication Strategy (NGPES)* (January 2004). See footnote 7 for details about NGPES.

⁴ Households earning 100,000 kip (2001 value, the same hereafter) per capita per month in urban areas and households earning 82,000 kip or less in rural areas are considered impoverished households. 100,000 kip in urban areas and 82,000 kip in rural areas generally correspond to the purchase price of 16 kg of polished rice.

addicts⁵ is serious in regions where poppy was once cultivated. Likewise, the proliferation of the use of stimulant drugs⁶ among young people primarily in urban areas is a new emerging issue in recent years.

⁵ In remote mountainous regions access to health and medical services is difficult, and there are numerous instances of poppy being used as a painkiller.

⁶ It has been reported that instances of stimulant drugs being used to relieve fatigue and as dietary supplements are not uncommon as a result of insufficient information and knowledge.

II. Development Challenges for Laos

< Main Points >

● Development programs by the Government of Laos

In accordance with the National Growth and Poverty Eradication Strategy (NGPES; January 2004) and the Sixth National Socio-Economic Development Plan (2006-2010) (March 2006), “to free the country from the states of least-developed country (LDC) by 2020” has been made the country’s most significant goal.

● Primary challenges for the development of Laos

(Challenges to human development)

Improvement of basic public services (basic health and medical services, access to basic education, improvements in quality)

Responding to a wide array of issues in mountainous, impoverished, rural areas (development of basic infrastructure, raising the income of impoverished farmers, sustainable use of forest resources, removal of unexploded ordnances, etc.)

(Challenges to economic development)

Development of economic infrastructure (transportation infrastructure such as roads and bridges, electrical power systems, water supply, etc.)

Fostering the private sector (improving the investment environment, strengthening the competitiveness of domestic companies, coordination with the agricultural sector)

(Challenges to the capacity development of Laotian society)

Establishment and implementation of development programs, establishment and administration of macroeconomic policies, management of public finances and debts, improvements to the legal system, effective use of human resources

1. Development programs and strategies by the Government of Laos

The Government of Laos has been implementing the National Socio-Economic Development Plan as its national development plan. At the Sixth Congress of the Lao People’s Revolutionary Party in 1996, a clear development goal for Laos of “leaving behind its status as a LDC by 2020” was established. At the Seventh Party Congress in March 2001 poverty reduction goals were set for the years of 2005, 2010, and 2020, through which the Vision 2020 plan was further clarified. Following this, the government formulated the Fifth National Socio-Economic Development Plan (2001-2005) (the Fifth Plan).

At the same time, the Government of Laos adopted the National Growth and Poverty Eradication Strategy (NGPES)⁷ in January 2004 in order to achieve comprehensive growth and poverty reduction. This was completed through consultations at the national and local level, as well as consultations with donor countries and organizations, as well as civic groups such as non-governmental organizations (NGOs). The NGPES, along with the Fifth Plan, has been positioned as the core development plan for the country.

Accompanying the conclusion of the Fifth Plan, the Government of Laos formulated its Sixth National Socio-Economic Development Plan 2006-2010. This plan was approved by the National Assembly of Laos in June, 2006 and its implementation has begun. The Sixth Plan encompasses the NGPES and places focus on poverty reduction, and is aimed at achieving an economic growth rate of 7.5% and per capita GDP of US\$ 700-750 based on factors such as contributions to future growth through previously developed infrastructure, and expectations for growth in power generation, mining and tourist industries.

| | |
|--|---|
| ●The Fifth National Socio-Economic Development Plan (2001-2005) | |
| < Priority challenges > | To achieve and maintain rapid economic growth, achieve a stable supply of food, to reduce impoverished households, to stabilize away from slash-and-burn-dependent agriculture, to abolish the cultivation of poppy, to maintain social order and political stability |
| < Target value > | GDP growth rate of 7.0-7.5%, GDP per capita of US\$ 500-550 |
| < Value achieved > | GDP growth rate of 6.3%, GDP per capita of US\$ 491/496 (as of September 2005) |
| ●National Growth and Poverty Eradication Strategy (NGPES) | |
| < Priority challenges > | Macroeconomic reform; development of agriculture and forestry, education, and healthcare focused on poverty reduction; development of the transportation infrastructure; village development based on communities |
| < Cross-cutting challenges > | Environment, drugs, clearance of unexploded ordnances (UXO) ⁸ , |

⁷ This is the Poverty Reduction Strategy Paper (PRSP) for Laos. PRSP is a paper which must be compiled at the annual assemblies of the World Bank and the International Monetary Fund (IMF) as conditions for the receipt of debt relief for Heavily Indebted Poor Countries (HIPC)s or concessional financing from the World Bank and IMF.

⁸ It is said that the amount of explosives dropped on Laos by the US Army over the course of the Vietnam War from 1964-1973 exceeded 2 million tons. Approximately one-third of the regions in the country remain exposed to the risk posed by these unexploded ordnances.

gender issues, HIV/AIDS

<Poverty reduction> Across the nation, 72 of the 142 districts are designated as impoverished regions, with 47 of those 72 districts designated especially as priority regions for poverty reduction countermeasures. The impoverished districts roughly overlap with areas in which ethnic minorities reside, concentrated in the eastern and northern mountainous regions bordering Viet Nam.

<Economic growth> Emphasizing promotion of large-scale projects such as the Nam Theun 2 Hydroelectric Project (for which large sums of foreign capital can expect to be acquired)⁹ and mine development,¹⁰ attraction of foreign investment, support to small and medium enterprises (SMEs).

●The Sixth National Socio-Economic Development Plan (2006-2010)

By incorporating the contents of the NGPES, two core national development plans are integrated into one.

<Challenges> Reforms in economic and employment fields, improving in the investment and business environments, fostering SMEs, investment for socioeconomic development (infrastructure development, emphasis on impoverished regions), expanding trade and integration into the international economy, reform of the monetary system, reform of education and occupational training, economic development that harmonizes social development and environmental preservation, administrative reform, stabilizing the social and political situations

<Target value> Economic growth rate of 7.5-8.0%
GDP per capita of US\$ 700-750 (2010)

2. Major policy challenges for the development of Laos

<General overview: Points of issue surrounding development plan and strategies>

As mentioned above, although development plan and strategies exist, Laos has no choice but to rely on foreign assistance (for the past several years as many as 50-70% of public investment projects have depended on assistance¹¹) on account of chronic fiscal deficits from

⁹ A plan to construct a dam for hydraulic power generation on the Nam Theun River in central Laos, exporting 995MW of the 1070MW of electricity generated to Thailand and using the remaining 75MW domestically. This is being implemented with financial cooperation from the World Bank and the Asian Development Bank (ADB), and is planned for completion in 2009.

¹⁰ The Government of Laos only designates mine areas and provides mining rights, as well as collects taxes for using mine areas and income taxes; it in itself is not an entity involved in such projects.

¹¹ Public investment project cost is the amount calculated by deducting current expenditures (salaries for civil servants, etc.) from government expenditures. The trend in the percentage of ODA extended for public

an operational standpoint. Without such aid the implementation of development programs would not be possible. In light of this, the greatest challenge facing Laos is the strengthening of self-help efforts in order to mitigate its level of dependence on aid and realize voluntary, independent development and economic growth.

The primary policy challenges facing development in Laos will be reviewed below from three aspects: human development, economic development, and capacity development for Laotian society.

<Background and challenges of human development>

In promoting “human development” (the process of expanding people’s choices) in Laos, with the perspective of “human security”¹² in mind, efforts for “poverty reduction” (especially in mountainous regions) will constitute the most important challenges in the immediate future.

a) Improvements to basic public services

According to the Human Development Report (FY2005 edition) of the United Nations Development Programme (UNDP), the Human Development Index (HDI)¹³ for Laos places it 133rd out of 177 countries (the lowest among the 10 ASEAN countries).¹⁴ Moreover, the major development indices¹⁵ for Laos with respect to the MDGs¹⁶ are as follows: infant mortality rate: 82 out of 1,000 infants (2003), mortality rate of children under five: 91 out of 1,000 children (2003), maternal mortality rate: 650 out of 100,000 mothers (2000, adjusted

investment projects is as follows: Years 1999/2000: 73%, 2000/2001: 60%, 2001/2002: 48%, 2002/2003: 61% (Foreign Aid Report 2002-2003, Ministry of Foreign Affairs, Lao PDR).

¹² See the ODA Charter and ODA Mid-Term Policy for information regarding the concept of human security.

¹³ The Human Development Index (HDI) is an index that was created by the UNDP with the goal of determining the development level of each country not merely as an economic index, but by focusing on various aspects of human development (particularly health and hygiene and education) in its measurements. Specifically, it is calculated on the basis of factors such as life expectancy at birth, literacy rate and number of years of school attendance, and per capita GDP and purchasing power.

¹⁴ Out of the 10 ASEAN countries Singapore is ranked the highest at 25th place, with the surrounding countries including Thailand at 73rd, China at 85th, Viet Nam at 108th, Myanmar at 129th, and Cambodia at 130th.

¹⁵ An international development index that was adopted at the United Nations General Assembly in September 2000. It consists of eight goals which should be accomplished by 2015 and have clear quantitative indicators and achievement deadlines. The eight goals are: (1) eradicate extreme poverty and hunger, (2) achieve universal primary education, (3) promote gender equality and empower women, (4) reduce child mortality, (5) improve maternal health, (6) combat HIV/AIDS, malaria, and other diseases, (7) ensure environmental sustainability, and (8) develop a global partnership for development.

¹⁶ Major indices other than those related to the MDGs are life expectancy at birth: 54.5 years old (2003) and the literacy rate for adults 15 years old and older: 68.7% (2003).

value), 15-24 year old literacy rate: 79% (2003), and primary education enrollment rate: 85% (2002/2003). As such, Laos remains at the lowest level of development in the Southeast Asian region. Furthermore, the results of the national census listed below indicate that improving access to basic healthcare services and primary education are important challenges.

Third National Census¹⁷ (conducted in March 2005) (given to 10,553 villages nationally)

- Villages with health clinics: 789 (7%)
- Villages with elementary schools: 8,461 (80%)
(Villages with incomplete schools (such as only lower grades, etc.): 4,704 (45%))
- Villages with access to roads: 7,012 (66%)
- Villages with electricity: 3,716 (35%)
- Villages with water supply: 675 (6%)

b) Challenges for rural regions

As the above National Census demonstrates, rural regions are noticeably behind in the development of basic infrastructure. In mountainous regions in particular village roads, electricity, and water supply are insufficiently developed; basic services are inadequate; ways to make a livelihood are limited by the fact that access to markets is difficult; and the people are faced with serious poverty. As a result of this there is a trend towards widening income disparities between residents of these mountainous regions (predominantly ethnic minorities) and residents of urban areas or the plains along the Mekong River.

Laos possesses an abundance of forests rich in diversity, but as a result of slash-and-burn agriculture which has exceeded the sustainable level as well as excessive and illegal logging, etc., the percentage of forests¹⁸ has been drastically reduced from a rate of approximately 70.0% in 1940 to 41.5% in 2002. At the same time, the deterioration and destruction of forests have the most serious impact on the poor in mountainous regions (especially ethnic minorities) who have no choice but to rely on forest resources for their livelihood. In order to address such a situation, Laos, upon receiving support from Japan in 2005, formulated the

¹⁷ The first was in 1985, the second in 1995.

¹⁸ The percentage of earth covered by forests whose total projected area of crown of each tree to the ground covers more than 20% of the whole area of the forests.

Forest Strategy 2020,¹⁹ which indicates the future orientation of development for the forestry sector, and its implementation is the challenge.

On the other hand, the rapid development and mineral resources exploitation are expected in some parts of mountainous areas, and thus, advance assessment on environmental and social factors and steady implementation of the appropriate countermeasures after the project are crucially important in order to minimize the negative impacts such as the change of living conditions for local inhabitants arising from the developments, and especially the decrease of forest resources, the deterioration of water quality and volume, and the decrease of biodiversity.

Although self-sufficiency has been achieved at the national level for the staple food of rice since 2000, food security remains a significant challenge as a result of issues such as underdeveloped roads in villages of mountainous regions. Moreover, in the mountainous regions in the south-central part of the country bordering with Viet Nam, there are a significant number of unexploded ordnances (UXOs) remained which cause a serious threat to the people of these regions and an impediment to development.

<Background and challenges of economic development>

The development of infrastructure which is the foundation for economic development and the fostering of the private sector are significant challenges for encouraging Laos' independent and ongoing socioeconomic growth, augmenting the basis for government revenue and expanding employment.

c) Development of economic infrastructure

Regarding the “hard” aspect of development such as transportation infrastructure based around major highways and bridges, and electricity and water supply facilities, Laos has been steadily promoting development to date while receiving assistance from Japan, the World Bank, and the Asian Development Bank (ADB), among others. However, significant

¹⁹ The Forest Strategy 2020 includes the formulation and implementation of land use policies at the national and regional level. In Laos, the plan allocates long-term land use rights (transfers, inheritability) to individuals after an interim period of three years. This is designed to promote commercial crop production in addition to the collection of land taxes through the determination of used land. Conversely the allocation of woodlands is not carried out for individuals, but for villages.

development needs still persist within the country.²⁰ Moreover, in addition to the development of new infrastructure, “soft” aspect efforts such as capacity enhancement and institutional building for the proper operation/maintenance and effective utilization of previously installed infrastructure are essential so that such infrastructure can effectively contribute to economic growth.

d) Fostering the private sector (particularly small and medium enterprises)

Fostering the private sector is essential for economic growth and expanding the tax revenue base of the government. In addition to this, fostering the private sector will be an extremely important challenge from the perspective of creating jobs for the young working population that will increase rapidly in the future, reducing poverty, and furthering social stability. In terms of fostering the private sector, placing emphasis on collaboration with the agricultural and forestry sectors, which comprise slightly less than 50% of GDP and 80% of the working force, would serve as an effective and realistic method for achieving poverty reduction.

The improvement of business environment including enhanced transparency is required for Laos to take advantage of ASEAN economic integration, and to facilitate foreign direct investment (FDI). At the same time, it is feared that accompanying the lowering of intraregional tariffs there will be an influx of low-priced products from neighboring countries and this will further expand the trade deficit. As such, it is imperative that efforts are made to improve the competitiveness of domestically manufactured products in export market. Moreover, in Laos neither the independence and autonomy of the banking sector nor the principles of competition are adequately ensured such that, coupled with other factors, the financial system is insufficiently developed, and the domestic savings rate is low. Furthermore, it has been analyzed that on account of this, surplus funds within the country are not utilized for the sake of domestic growth but rather flow outward to Thailand. The establishment of a sound financial system and the development of savings and credit systems in rural areas are long-awaited for the sake of vitalizing the private sector.

<Background and challenges of capacity development for Lao society>

As prerequisites for addressing the challenges of human development and economic development described above, it is indispensable to foster the human resources that will

²⁰ Speaking in terms of road infrastructure, progress is steadily being made with respect to the development of major highways, but the development of the main roads connecting these remains delayed.

assume such tasks and to strengthen organizations. Laos must raise the level of capacity of its society as a whole in order to enable sustained and independent development, as well as to make effective use of assistance from donor countries and organizations. Capacity development that takes into consideration not merely the fostering of human resources, but also organizational enhancement and institutional building is the most important challenge facing the development of Laos.

e) Formulation and implementation of development programs, and macroeconomic management

Laos is overwhelmingly short of the human resources to undertake sound macroeconomic management, which is a prerequisite for achieving economic development, and the formulation and implementation of adequate development programs. In addition, basic statistics (particularly economic statistics such as figures for trade) which are essential to the formulation of policies and programs are not adequately maintained.

f) Management of public finances and debts

The capacity for financial management of the central government in Laos is insufficient. In particular the proper management of revenue, which is expected to increase in the near future through the Nam Theun 2 Hydroelectric Project and mining sector development, will greatly influence the future socioeconomic development of Laos. As a result, the enhancement of the financial management capacity in Laos in the next several years will be an important challenge. Additionally, the weakening of the central government's authority through the decentralization has resulted in the Ministry of Finance being unable to maintain control over the revenues and expenditures of the provincial governments. At the same time, management of the public investment projects is not conducted in an integrated manner, and the efficient allocation of the limited funds along the lines of priorities related to the development plan remains unsolved.²¹

²¹ Since 2004, the main government offices for the budgets of public investment projects have been divided into the Department of International Cooperation of the Ministry of Foreign Affairs for matters concerned with foreign assistance, and the Committee for Planning and Investment (CPI) for matters concerned with the national budget. Including the Ministry of Finance, adjustment between these three parties have not been adequate. On the other hand, as the degree of dependence on assistance for public investment projects is high, it cannot be denied that the low predictability of assistance from abroad has made it difficult for adjustments on the Laotian side.

While Laos meets the criteria²² for Heavily Indebted Poor Country (HIPC) status, the Government of Laos maintains not applying for the debt relief measures pursuant to the HIPC's initiative. As matters currently stand, raising debt sustainability by means of increasing revenue and improving the capacity for expenditure management is a challenge.²³

g) Improving the legal system

Following the formulation of the Constitution in 1991 the legal system has been improving sequentially towards the aspiration of a country governed by the rule of law. However, the shortage of human resources poses a substantial problem to this, and some donor countries and multilateral organizations, including Japan, are currently providing assistance to this end. In particular, in preparation for future ASEAN regional economic integration and accession to the World Trade Organization (WTO), the improvement of related legal system is a challenge. Furthermore, confidence of domestic and international business is low in the legal system and legal stability necessary for Laos to move towards a market economy, facilitate investment, and foster private enterprises. Therefore, improving the legal system and improving the working of the judiciary system are urgent tasks.

h) Effective utilization of human resources

The labor market for private enterprises in Laos that are capable of absorbing human resources who have undergone higher education remains small, with the hiring of civil servants through personal connections being common. As such, the introduction of civil servant employment examinations and a promotion system based on competitive principles, as well as adjusting the number of civil servants and raising their salary level are challenges.

i) Measures for the socially vulnerable

In Laos, people who are not able to receive basic public services or the benefits of the market economy (the socially vulnerable, which includes residents of mountainous regions

²² When the debt/export ratio (NPV base) meets or exceeds 150%, or the debt/revenue ratio (NPV base) meets or exceeds 250%. Laos meets both of these criteria (debt/export ratio: 212.7%, debt/revenue ratio: 482.3% (2004)).

²³ The Macroeconomic Policy Support (MAPS) carried out by Japan from 2000 to 2005 as a JICA project points out the necessity of restraining outstanding debts at a sensible level, as there is the possibility that debt repayment will become difficult if outstanding debt climbs above that level. On the other hand, assistance through loans, by bringing with it the necessity of debt repayment, raises awareness regarding the credit culture (belief that finances should be repaid when received) of Laos. There is value in pursuing the possibility of using concessional loans on the premise that they are in fact linked with sustainable economic growth. However, it is essential to raise debt sustainability as a prerequisite for this.

[particularly ethnic minorities], handicapped persons, the unemployed, and those addicted to drugs, who generally coincide with the poor) are still as numerous as ever. Accordingly, institutional building such as the development of structures for protecting and supporting the socially vulnerable is a challenge. This is necessary in order to achieve the involvement of a greater number of people in social and economic development, as well as to enhance the capacity of the society as a whole.

< Development challenges raised by Japan's Macroeconomic Policy Support (MAPS): Laos' challenge for integration >

As part of its technical cooperation, Japan has been implementing Macroeconomic Policy Support (MAPS) from 2000 to 2005 jointly with a Lao government organization (the National Economic Research Institute [NERI]). Through this cooperation controversies have emerged such as “In Laos a personalized form of economic development that harnesses the country’s abundant natural resources and unique assets should be sought rather than East Asian-style economic growth driven by foreign capital inflow and exports,” and “The ‘Challenge for Integration’ through the Government of Laos will become a challenge for the sake of future economic development.” “Integration” here comprises not just ASEAN regional economic integration, but also widely encompasses interregional integration for the formation of a unified market within Laos, as well as coordination between the government and the private sector. The following points have been indicated by MAPS as challenges to be addressed by the Government of Laos.

- 1) Development of human resources for the formulation of macroeconomic policies and development policies
- 2) Capacity enhancement for the collection and analysis of socioeconomic data
- 3) Enhancement of tax collection and expansion of the taxation base
- 4) Implementation of policies with transparency in order to attract foreign direct investment
- 5) Ensure the independence and autonomy of the banking sector
- 6) Consideration of regional diversity in the implementation of agricultural policies
- 7) Accelerate production for products unique to Laos and organic agricultural products, take food safety into consideration, and establish quality certification organizations
- 8) Acknowledge the strengths and weaknesses of Laos’ domestic industry in both Asian and global markets, etc.

III. Japan's Assistance Policies for Laos

< Main Points >

● Basic policy for assistance to Laos

Japan supports the self-help efforts of Laos for the reduction of poverty and for human development. In addition, it also supports the efforts by Laos towards realizing voluntary, independent, and sustainable economic growth, with a view to integration into the global and regional economies.

● Three goals of assistance to Laos, Six priority areas and assistance policies by priority areas

- 1) With a view to promoting the reduction of poverty from the standpoint of “human security,” Japan will support Laos in its steady steps towards the achievement of the Millennium Development Goals (MDGs).
 1. **Improving basic education** (improving the educational environment and access, mitigating factors inhibiting school attendance, raising the quality of education)
 2. **Improving healthcare services** (improving maternal and child health services, developing human resources and institution building related to the field of healthcare, raising the capacity for health management of local communities)
 3. **Developing rural regions and sustainable use of forest resources** (improving the basic facilities and environment of rural residents, improving the livelihoods of local residents, ensuring food security, implementing policies and institution building in the area of agricultural and forest preservation)
- 2) With a view to promoting economic growth constituting the driving force for independent, sustained growth, Japan will support foundation building for the economic growth.
 4. **Developing socioeconomic infrastructure and effectively utilizing existing infrastructure**
 5. **Institution building and human resources development for enhancing the private sector** (improving the environment to facilitate investment and exports, developing human resources in order to enhance the private sector)
- 3) Japan will support capacity development which is a prerequisite for self-help efforts by Laos to achieve poverty reduction and economic growth.

6. Improving administrative capacity and institution building (enhancing the capacity for implementing economic policies, management of public finances, administrative and financial reform, improving the legal system and the support system for the socially vulnerable)

1. Relevance of Japan's ODA for the Lao PDR

There is no question as to the fact that the security and prosperity of the East Asian region as a whole is indispensable to the security and prosperity of Japan. Located in the center of Indochina, Laos shares a border with five countries: Viet Nam, Thailand, Cambodia, China, and Myanmar, and it serves the role of what can be described as a buffer region for the countries. In addition, these surrounding countries also indicate a strong interest in the development of Laos, situated in the heart of the Mekong Region's²⁴ enormous market with a population of approximately 250 million people. From this sort of geopolitical condition the "security and prosperity of Laos" emerges as a precondition for the "security and prosperity of the Mekong Region" and, furthermore, as a precondition for the "security and prosperity of the East Asian region as a whole." In addition, while Laos acceded to ASEAN in 1997 its socioeconomic development is still lagging behind among other ASEAN member countries. As such, enhancing the socioeconomic development of Laos and providing for the correction of intraregional disparities are challenges to ASEAN's stability and development. From this perspective, providing assistance that would contribute to the socioeconomic development of Laos is in accordance with Japan's policies with a focus on ASEAN and assistance policies for the Mekong Region development.

March 2005 marked the 50th anniversary of the establishment of diplomatic relations between Japan and Laos. Laos was also the first country in the world to which the Japan Overseas Cooperation Volunteers (JOCV) were dispatched, with their activities being highly appreciated by distinguished figures of Laos such as the Prime Minister. Moreover, as illustrated from the fact that a bridge that was constructed through Japanese assistance is used in the design for one of Laos' bills, Japanese ODA is appreciated highly, and the two countries have been maintaining favorable relations. Through such traditional friendly relations Japan and Laos are cooperating with each other closely at the United Nations (UN) and other

²⁴ The Mekong Region here refers to five countries and one region: Viet Nam, Thailand, Laos, Cambodia, Myanmar, and Yunnan Province in China.

international fields as well. Providing assistance to Laos is of importance from the standpoint of maintaining and further deepening such a long-standing relationship between Japan and Laos, while noting political and socio-economical situation surrounding Laos.

2. Four aspects defining the direction of Japan's assistance to the Lao PDR

1) Two development challenges: economic growth and poverty reduction

“To free the country from the status of least-developed country (LDC) by 2020” is the highest goal of the development programs of the Government of Laos, and “economic growth” and “poverty reduction” are concurrently identified as two significant goals that fall underneath it. Economic growth is a necessary condition for poverty reduction, but not a sufficient condition, which suggests the importance of sustained poverty reduction with economic growth as a basis. Conversely, cooperation towards poverty reduction is essential in itself. At the same time, it raises the ability of the poor to participate in economic activities and draw a broader range of people into the economic growth process by improving health conditions and raising the literacy rate, and thus will forge the fundamental conditions for economic growth. Accordingly, on the premise of the current state of affairs in Laos, effective means of assistance for both economic growth and poverty reduction will be necessary in the immediate future. Furthermore, this type of assistance, such as support for the development of infrastructure or in the field of education, for example, will vary qualitatively, and the length of time required before the fruits of this sort of assistance are realized will also differ substantially. On account of this, on the surface respective assistance for economic growth and poverty reduction appears to be entirely separate, yet when viewed over a long duration the two come to be largely interlinked. In this way, there exists a synergy between economic growth and poverty reduction.

2) Laos' unique economic growth model

As a “land bridge” situated in the heart of the enormous market of the river basin region along the Mekong River spanning five countries and China's Yunnan Province and consisting of 250 million people, Laos has the potential to serve as the base for intraregional transportation and distribution in the future. Other potentials that are being raised are the generation of electricity through the country's abundant water resources, development of mineral resources, sustained use of rich forest resources, cultivation of organic agricultural products, uncovering of unique products brought forth by the diverse and traditional rural society, and the development of tourism (eco tourism). However, in terms of the sources for Laos' economic growth, the

manufacturing industry which has become the driving force for growth since the 1990s has been small in scale and, excluding those which have come about through foreign direct investment, the role it has played in employment creation and foreign currency acquisition is limited. Additionally, in regards to hydropower generation and mining sector development, for which expectations are high, there are issues such as environmental and social constraints and the availability of funds. The multitude of unique products can contribute to raising income and reducing poverty at the rural level, but the degree to which it can contribute to this at the national economy level appears to be limited for the immediate future. In this way, the sectors believed to be the sources for Laos' growth each contain their own respective latent potentials, while at the same time also retaining their own constraining factors. Moreover, Laos is a country with a small population that inhabits a wide variety of regions with different ecological systems. These various types of economic lifestyles have yet to be integrated into a single market economy, partially as a result of the insufficient infrastructure within the country. Therefore, a pattern of growth wherein a small, select number of sectors act as the core for growth in pulling up the entire domestic economy cannot be called sufficient from the viewpoint of sustained growth. For this reason it is essential to combine various growth models or patterns in Laos, and an economic growth that is dependent on select sectors to tow it along is not conceivable. Laos must explore its own unique economic growth model adapted to the economic and social environments, by such means as capitalizing on its geographical advantage as a "land bridge," and promoting complex development while promoting the private sector initiatives and fostering small and medium enterprises in the aforementioned areas with growth potential in the future.

3) Frameworks for ASEAN regional integration and development of the Mekong Region²⁵

The Government of Laos is working towards reducing intraregional tariffs within ASEAN by 2008. While it is feared that such a reduction in tariffs would have a negative impact on the domestic economy, it is a challenge to develop an environment for the sake of attracting FDI with intraregional industrial cooperation in mind, in order to take advantage of ASEAN

²⁵ In addition to ASEAN, there are the ADB's Greater Mekong Subregion (GMS) development, the Mekong River Commission (MRC, headquarters in Vientiane), the Socio-economic development master plan for CLV (Cambodia, Laos, Vietnam) development triangle, ASEAN-Mekong Basin Development Cooperation (AMBDC), the Thailand initiated Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), the AEM-METI Economic and Industrial Cooperation Committee (AMEICC), and the like. Laos is making efforts through these frameworks in order to acquire a broad range of support.

economic integration. Japan has placed development of the Mekong Region as a preliminary step towards drawing Laos into ASEAN integration, as well as incorporating it into the dynamism of East Asian growth. Based on the New Concept of Mekong Region Development announced at the Japan-ASEAN Commemorative Summit in December 2003, Japan should review assistance to Laos, bearing in mind such factors as the integration of economic cooperation and trade/investment, and the “East-West Corridor²⁶” which is to be transformed into an “Economic Corridor.”

4) Fostering confidence and pride among the people of Laos for voluntary socioeconomic development

The ASEAN-related Summit Meetings in November 2004 and the ASEAN-related Foreign Ministers’ Meetings in July 2005 which Laos hosted successfully served not only as a valuable opportunity to strongly elevate Laos’ presence within the international community, but was also a significant opportunity to foster confidence and pride on the part of the people of Laos.

Japan regards it extremely important that the people in Laos unite to participate in the nation-building efforts. Considering this point, it is important that Japan continues to provide support for fostering this confidence and pride among the people of Laos and encouraging their voluntary participation in socioeconomic development. For that purpose it is also important to reach out to a wide range of people in Laos and provide medium- and long-term-focused support, such as the fostering of human resources directly engaged in the development of their country, as well as the youths who will take on this task in the future.

3. Japan’s basic policy for assistance to the Lao PDR

Japan’s basic policy for assistance to the Lao PDR is based on the five basic policies of the ODA Charter, which are 1) supporting self-help efforts of developing countries, 2) perspective of “human security,” 3) assurance of fairness, 4) utilization of Japan’s experience and expertise, and 5) partnership and collaboration with the international community; and its four

²⁶ This refers to an arterial highway traversing Indochina from east to west which has been developed under the leadership of the ADB. The highway links Mawlamyine in central Myanmar, Mukdahan in central and northeastern Thailand, Savannakhet in west-central Laos, and Da Nang in central Viet Nam with one another. Japan is cooperating with Laos (grant aid, yen loans) as well as Thailand and Viet Nam (both with yen loans) for road development and bridge and tunnel construction for the East-West Corridor.

priority issues of 1) poverty reduction, 2) sustainable growth, 3) addressing global issues, and 4) peace-building. Also from the perspective of supporting the implementation of the NGPES and the Sixth National Socio-Economic Development Plan (2006-2010) of the Government of Laos, Japan's basic policy for assistance to Laos is **“to support self-help efforts of Laos for the reduction of poverty and for human development, and to support such efforts by Laos for realizing voluntary, independent, and sustainable economic growth, with a view to integration into global and regional economies.”**

4. Three goals of assistance, six priority areas and assistance policies by priority areas

With a view to achieving the basic policy mentioned above, the following three goals of assistance [1)-3)] and six priority areas and assistance policies by priority areas [1-6] have been identified.

- 1) With a view to promoting poverty reduction from the standpoint of “human security,” Japan will support Laos in its steady steps towards the achievement of the Millennium Development Goals (MDGs).**
- 2) With a view to promoting economic growth constituting the driving force for independent, sustainable growth, Japan will support foundation building for the economic growth.**
- 3) Japan will support capacity development which is a prerequisite for self-help efforts by Laos to achieve poverty reduction and economic growth.**

The goal 3) above has been positioned as a common challenge supporting the achievement of the goals 1) and 2).

Below, assistance goals 1) through 3) from above will be described in detail, as will each of the six corresponding priority areas and assistance policies by priority areas.

- 1) With a view to promoting poverty reduction from the standpoint of “human security,” Japan will support Laos in its steady steps towards the achievement of the MDGs. Mountainous regions where the degree of poverty is egregious will be placed as priority regions.**

1. Improving basic education

In light of the poor educational environment in Laos,²⁷ Japan will support the efforts of the

²⁷ Refer to the HDI of the United Nations Development Programme (UNDP). Furthermore, focusing on the perspective of gender, from primary education through higher education the total attendance rate is 67% for

Government of Laos to address the following challenges in accordance with Japan's "Basic Education for Growth Initiative (BEGIN)" announced in 2002. This is also for accomplishing goal two (achieve universal primary education) and goal three (promote gender equality and empower women) of the MDGs.

(Improving the educational environment and access, mitigating factors inhibiting school enrollment)

With the objective of raising the school enrollment and completion rates, Japan will provide support for the construction of primary schools and the restoration of decrepit and/or undersized school buildings in conjunction with raising the quality of education ("soft" aspect support) to be described later. In the improvement of school buildings and related facilities, Japan will keep in mind community-based measures that will provide for proper maintenance and management (including the introduction of participatory approaches). In addition, Japan will proactively consider measures that will lead to mitigating the factors that inhibit school enrollment, as well as rectifying gender inequality existing in the school enrollment and completion rates²⁸.

(Improving the quality of education)

While giving sufficient consideration to Laos' capacity to absorb assistance, Japan will continue to provide training for teachers. Additionally, Japan will consider a means to deliver textbooks and teaching materials in view of possible collaboration with international organizations and NGOs.

2. Improving healthcare services

In light of the poor health and medical conditions in Laos, Japan will support the efforts by the Government of Laos to address the following challenges based on Japan's "Health and Development Initiative" announced in June 2005 and "the Health Strategy 2020" set by the Ministry of Health of Laos, while also employing the "Health Sector Master Plan" formulated through the assistance of Japan.

(Improving maternal and child health care services)

Japan will implement cooperation focused on maternal and child health care in a form that benefits impoverished regions, with a view to accomplishing goal four (reduce child

males and 55% for females (2002/2003), with the percentage of literate adults 15 years of age or older 77% for males and 61% for females (2003). (UNDP Human Development Report, 2005 edition).

²⁸ In addition to awareness raising education aimed at guardians, etc, this also includes promotion of school health services, construction of student dormitories accompanying the construction of school buildings, and excavation of wells to relieve children of the labor of drawing water.

mortality) and goal five (improve maternal health) of the MDGs. Regarding goal six (combat HIV/AIDS, malaria and other diseases), Japan will coordinate with activities of the Global Fund to Fight AIDS, Tuberculosis and Malaria²⁹, and provide support with an emphasis on the perspective of maternal and child health care.

(Human resources development and institutional building related to the health and medical care field)

In addition to on-going cooperation to raise the technical level of healthcare workers and provide assistance for better maintenance and management of medical equipment, hereafter Japan will strengthen its approach from the aspects of institutional building and reform. In particular, Japan will emphasize strengthening administrative systems with a view to increasing the sustainability of the outcome/impact of cooperation, as well as provide cooperation with a view to raising the management capacity of the health and medical care system.

(Capacity improvement for health management of local communities)

Japan will provide support to raise the capacity for community health management in mountainous regions where the local residents do not have easy access to health and medical facilities. This will be accomplished through public awareness activities³⁰ designed to disseminate information on public health to rural residents and children. Moreover, Japan will emphasize collaboration with support for improving the living environments in the rural regions described in 3 below.

3. Developing rural regions and sustainable use of forest resources

As development support for the rural regions where people subsist on the agriculture and forestry, Japan, from the premise of the limited administrative capacity of the Lao Government, will propose a system for agriculture promotion and rural development that takes advantage of Laos' strengths in terms of its rich natural resources and rural communities that have a high capacity for self-reliant mutual support. At the same time, Japan will aim to enhance the capacity of rural communities and offer cooperation to raise the administrative capacity to an adequate level.

(Improving the basic facilities and living environment of rural residents)

²⁹ A global foundation that was established in January 2002 for preventing and treating three major world diseases; it is also known as the Global Fund. This organization procures funds from the governments and private sectors of various countries.

³⁰ Activities at school level will be carried out in cooperation and collaboration with the Ministry of Education.

Japan will provide support for the development of rural roads, water supply and electrical facilities, and small-scale irrigation facilities on the assumption of the participation of local residents in their planning, implementation, maintenance and management. Support will also be given for institutional building and capacity development for the appropriate use, maintenance and management of existing facilities. Furthermore, Japan will also carry out support for the disposal of UXOs which pose a serious threat to local inhabitants.

(Improving the livelihoods of rural residents)

Japan will provide support to improve the livelihoods of rural residents by promoting sustainable utilization of the abundant forest resources by combining activities such as agroforestry, livestock breeding. Moreover, in order to raise the income level through the sale of surplus crops on the market and the partial introduction of market-oriented crops, Japan will provide support to organize farmers' group for production and distribution, to conduct public awareness activities and to provide farmers with technical guidance and market information³¹. When this sort of cooperation is implemented, consideration will be given to measures that will widely benefit other regions as well.

(Ensuring food security)

The insufficient provision of food, in terms of both quantity and quality, is becoming a major issue in mountainous regions. Because of this Japan will provide food aid as necessary, as well as implement support for the production and distribution of improved varieties of high quality rice seed, develop rural infrastructure to improve distribution, and improve the system for disseminating low-input aquaculture techniques in rural areas.

(Policy implementation and institutional building related to the field of agricultural and forest preservation)

Japan will provide support for the steady implementation of the “Integrated Agricultural Development Plan”, which serves as the master plan for agricultural development formulated through cooperation with Japan. In addition, support will be extended for the functional enhancement of implementation and monitoring of the conservation of forest resources based on the Forest Strategy 2020. Support will also be implemented for the improvement of agricultural statistics which will be prerequisite for the formulation, implementation, and monitoring of the agricultural and rural development plan.

³¹ Through farmers' group, producers are able to strengthen their price bargaining power on the market. Furthermore, as expanding the yield of agricultural crops often has the adverse effect of causing farmers' income to decrease, depending on the conditions of supply and demand on the market, the provision of market information carries considerable meaning.

- 2) With a view to promoting economic growth constituting the driving force for independent, sustainable growth, Japan will support foundation building for this premised on the standpoint of poverty reduction through economic growth. In particular the capital of Vientiane which constitutes the base for economic activity, Savannakhet which is the central city of the East-West Economic Corridor, and other major cities will be the priority regions.

4. Developing socioeconomic infrastructure³² and effectively utilizing existing infrastructure

(Developing socioeconomic infrastructure)

While taking the progress of ASEAN regional economic integration into consideration, Japan will provide primarily grant aid, while also considering the possibility of loan aid based on the careful analysis on the debt repayment capability of Laos, for the development of socioeconomic infrastructure essential for the vitalization of the private sector. Specifically, assistance will be implemented for the development of transportation infrastructure (roads, bridges, etc.), development of the electrical generation and power transmission systems (electric power plants and power transmission lines) which are the largest industries in relation to the acquisition of foreign currency, and the development of urban environmental infrastructure (water supply, etc.) which will contribute to improving the living environments of urban residents³³.

(Effectively utilizing existing infrastructure)

Japan will provide support for human resources development, organizational strengthening, and institutional building for the proper maintenance and management of existing infrastructure (water supply, electricity facilities, roads, airports, etc.), including facilities developed through assistance from Japan.

³² While recalling the “Japan’s ODA model” which induced the dynamism for autonomous economic growth in East Asia through the “benefits of positive feedback” between Japan’s ODA and the private sector, it is necessary to recognize the catalytic role of ODA in bringing in private funds, as the private enterprises play a large role in contributing to economic growth. From this perspective, regarding infrastructure development through the Public Private Partnerships (PPPs) in which participation by Japanese private enterprises is at the forefront, it will be possible for Japan to give consideration to proactively introducing to Laos the results of side support (Asia PPP Action) used to promote PPPs implemented in Thailand, Viet Nam, and Indonesia.

³³ It is expected that the development of socioeconomic infrastructure will contribute to the growth of the prospective tourist sector and the mining sector as future sources for the acquisition of foreign currency. Moreover, it is hoped that the development of transportation infrastructure will contribute to developing a Mekong region distribution network and establishing access to markets for impoverished regions.

5. Institutional building and human resources development for enhancing the private sector

The private sector not only serves as the driving force for economic growth, but it also contributes to improving the trade balance and expanding the tax revenue base of the government. In order to foster the private sector³⁴ Japan will implement technical cooperation for the improvement of business environment, institutional building, and the enhancement of administrative services³⁵. Moreover, Japan will extensively and effectively utilize its ODA schemes including the trust funds of international organizations. At the same time, Japan will place emphasis on the perspective of utilizing ODA as a catalyst for the vitalization of the activities of private enterprises.

(Improving the environment to facilitate investment and exports)

Japan will implement cooperation in the fields of improving investment procedures and the customs system, establishing quality certification and quarantine systems of agricultural products that meet international standards to contribute to export promotion, and reforming the financial system in order to effectively utilize surplus domestic funds for development within the country. In particular, in order to generate added value for agricultural products within Laos, Japan will place emphasis on the fostering of small and medium enterprises in the field of processing agricultural crops for exporting. Japan will also implement cooperation focused on providing market information and issues such as “food safety” to this end. Regarding the “One Village, One Product” Movement³⁶ proposed by Japan, a model area will be selected and support focused on the marketing aspect will be provided.

(Human resources development for enhancing the private sector)

Japan will provide assistance to enhance human resources contributing to economic growth, based at the National University of Laos, the Lao-Japan Human Resource Cooperation Center, etc. In addition to technical cooperation through the Japan International Cooperation Agency (JICA), collaboration and cooperation by other Japanese organizations with frameworks for

³⁴ Including the mineral resource sector and the tourist sector which are expected to grow as future sources for the acquisition of foreign capital. Regarding the mineral resource sector, although there are many uncertainties about the potential of mineral deposits across Laos and information necessary for investment has not been maintained, it is expected that the sector will become a promising area for future development based on the geographical conditions across Indochina and the status of mineral deposits in neighboring countries.

³⁵ In particular Japan will provide technical cooperation that will contribute to capacity development on the part of Laos in the bilateral negotiations between Japan and Laos for the ASEAN Comprehensive Economic Partnership (CEP) which began in April 2005.

³⁶ The Government of Laos uses the phrase “One District One Product.”

human resources development in the private sector, such as JETRO³⁷ and AOTS³⁸ will be enhanced to promote more effective human resources development.

3. Japan will support capacity development which is a prerequisite for self-help efforts by Laos to achieve poverty reduction and economic growth.

Along with capacity development at the individual level, it is important to ensure the sustainability of the outcome of assistance and self-reliant development taking into account the proper assignment of personnel to appropriate positions, enhancement of organizational capacity through the systematic accumulation of capacity, and further institutional building. Based on this idea, reference will be made here first to capacity development support throughout the public sector which is involved in the priority areas 1) and 2) mentioned above in a cross-cutting manner. In regards to other capacity development as well, Japan will assist foundation building that will enable each and every person in Laos to voluntarily participate in nation building with confidence and pride.

6. Improving administrative ability and institutional building

(Enhancing the capacity for implementing economic policies, management of public finances, and administrative and financial reform)

Cross-cutting challenges related to 1 through 5 above are improvement of capacity for formulating and implementing macroeconomic and development policies, public financial management including revenue increases (strengthening tax collection and expansion of the tax revenue base) and expenditure optimization, enhancement of capacity for formulating and implementing public investment programs, and promotion of administrative and financial reform including reform of the civil servant system. Given that appropriate efforts regarding these challenges are indispensable in order to sustain the outcome/impact of assistance from individual donor countries and organizations, and realize autonomous development in Laos, Japan will support for the capacity development of administrators (from central and local governments) in the said fields, for the strengthening of organizations, and for institutional building, through such means as technical cooperation and Grant Aid for Human Resources Development Scholarship (JSDP). Regarding cooperation in the field of public financial management, Japan will strive to coordinate with the World Bank in its efforts to support administrative and financial reform, including the implementation of the Public Expenditure

³⁷ Japan External Trade Organization (JETRO).

³⁸ The Association for Overseas Technical Scholarship (AOTS).

Management Strengthening Program (PEMSP), through the Poverty Reduction Support Operation (PRSO).

(Establishment of a legal system and support system for the socially vulnerable)

In order to assist Laos' steady steps towards a transition to a market economy and ASEAN regional economic integration, Japan will provide support based on the outcome/impact of Japan's cooperation to date with a view to improving reliability in Laos' legal system, including the establishment of foundations and training of human resources³⁹ in order to establish a legal system in civil and commercial areas, and enhancing the judicial system. In addition, Japan will support the establishment of a foundation so that a system may be constructed for protection and support of the socially vulnerable and for ensuring the participation of a greater number of people in Laos in its socioeconomic development.

5. Japan's approach for the provision of assistance

In implementing assistance to Laos in the future, Japan will bear in mind issues based on the "development challenges" and "assistance policies by priority areas and challenge" mentioned above and will place priority on the five approaches listed below. Also, as discussed in "An Evaluation of Japan's Past Assistance Projects" (See Reference Material 5 at the end), to date Laos has highly evaluated Japan's assistance, which is also beginning to function as an important diplomatic tool for promoting friendly relations between Japan and Laos. In light of this situation, Japan will continue to carry out assistance which takes this importance into account.

[1] Strengthening ownership by Laos, and awareness of responsibility on Japan side

[2] Implementation of assistance which meets needs and is more effective and efficient

[3] Cooperation which respects the regionality and diversity of Lao society

[4] Further promotion of assistance coordination, and collaboration

[5] Ensuring the benefits to Laos when implementing Mekong regional projects

The five approaches are described in detail below.

[1] Strengthening ownership by the Lao side (awareness of involvement), Japan's awareness of responsibility

(Strengthening the sense of ownership by authorities and organizations in Laos which receive assistance)

³⁹ Human resources in this context include employees responsible for law-related matters at government ministries and agencies and the parliament, and employees involved in judicial work.

Regarding assistance implemented by Japan in the past, the following issues have been pointed out: Laos' tight financial situation, insufficient allocation of human resources, and lack of awareness with respect to maintenance and management. Also, as a result of having become chronically over-dependent on assistance, Laos weakened its sense of ownership and the assistance to Laos has a tendency to fall into donor-led. In order to strengthen ownership by Laos, development agenda of each sector will be addressed and shared collectively between Japan and Laos, and policy dialogues will be held so that aid from Japan will be utilized effectively and dialogue-based project formulation⁴⁰ will be accelerated.

(Japan's awareness of responsibility as a donor country)

Japan fully recognizes its responsibility as a donor country, and will carefully examine Laos' capacity for absorbing assistance and determine an appropriate scale for assistance and details of the cooperation. Specifically, Japan will attach importance to ex-post evaluations that focus on the sustainability of the outcome/impact of assistance and the potential for autonomous development, and will consider evaluation results carefully when considering new project proposals. Regarding equipment and facilities, taking into account Laos' maintenance and management costs, which increase cumulatively coupled with Laos' continuous acceptance of assistance from the past, Japan will curb new cooperation as much as possible and place top priority on follow-up efforts to ensure the realization and sustainability of outcome/impact of assistance by existing equipment and facilities.

**[2] Implementation of assistance which meets needs and is more effective and efficient
(Consideration of a timeline when implementing assistance)**

Depending on the development challenge, the outcome/impact of assistance may be realized in the short-term or it may take time for outcome/impact to be realized⁴¹. Japan, keeping in mind that necessary timeframes to be set for implementing assistance are different, will consider the timeline most appropriate for the respective development challenges and Laos' assistance needs as well as assistance methods based on that timeline. When doing this Japan will be careful not to sacrifice Laos' sense of ownership by being too quick to seek the results of assistance.

⁴⁰ The creation of rolling plans which span multiple fiscal years will be considered as a means for dialogue-based project formulation and also to improve assistance predictability.

⁴¹ For example, in the case of support for infrastructure projects, economic outcome/impact are realized not only after facility completion but also at the construction stage through local employment creation, material procurement etc. On the other hand, for assistance in the fields of human resources development and institution building it generally takes time for outcome/impact to be realized.

(Clarification of objectives for implementing assistance and strengthening of program approaches)

Development challenges at the sub-sector level and assistance objectives will be clearly set, and “selection and concentration” of assistance in the implementation stage will be promoted. Scenarios which set down assistance objectives will be formulated in order to respond to development issues, and a program approach⁴² will be positioned in order to realize the scenarios and respond to issues regarding the sustainability of outcome/impact of assistance for stand-alone projects. Specifically, a set of projects will be arranged vertically (along the timeline)⁴³ and/or concurrently (in sharing roles)⁴⁴ under one program target. Due attention should be paid to enhance, as a program approach, interactive collaboration⁴⁵ between the schemes of assistance such as yen loans, grant assistance, and technical cooperation in order to implement Japan’s ODA more efficiently and even effectively.

Furthermore, attention will be paid to the interrelatedness of multiple development challenges and, in cases in which greater assistance benefits can be expected from a more comprehensive approach, collaboration will be promoted between program approaches⁴⁶.

(Effective utilization of counterpart funds)

Regarding counterpart funds based on non-project grant aid, food aid and other assistance Japan has provided in the past, Japan will call on Laos to utilize these funds more strategically, including actively using them as a budget for maintaining and managing facilities and

⁴² This is an approach in which plural individual projects are arranged under the same program objective, and the program objective at the higher level is achieved by achieving the individual project objective.

⁴³ To give an example, after the initially planned outcome/impact of assistance for one assistance project have been realized (or are expected to be realized soon) an assistance project at the next level is implemented. In this case the results of one project are positioned as the prerequisite for generating results from the next project. This kind of approach is expected to give Laos positive incentives and also draw forth its self-help efforts.

⁴⁴ For example, for common challenges, assistance will be implemented based on a multi-layered approach. The multi-layered approach will organically combine cooperation at the policy level (policy advisor specialists), the intermediate working-level (transferred technology specialists), and the grassroots level (volunteers), simultaneously and in parallel. It aims to ensure the sustainability of assistance benefits through the generation of synergistic effects by the results of cooperation at the different levels.

⁴⁵ The provision of yen loan to Laos whose ability of debt redemption is limited under the current condition that public external debt indicators exceed the standards of HIPC. Japan needs to pursue more effective assistance modality for enhancing the ability of debt redemption, and thus, the strengthening of interactive collaboration between the various schemes of assistance is important in order to utilize Japan’s limited ODA resources more efficiently and strategically.

⁴⁶ For example, if the improvement of agricultural infrastructure (roads and wells) and the introduction of school health services are implemented with sufficient collaboration, it is expected that improvements in child school attendance rates and child health will act on each other to generate and realize synergistic effects.

equipment which have been developed or installed through assistance from Japan.

[3] Cooperation which respects the regionality and diversity of Laotian society

(Utilization of the existing mutual assistance system in Laotian society)

The system of self-reliant and mutual support rooted in Laos' traditional rural communities can play a large role in socioeconomic development based on self-help efforts by Laos. Japan too will make careful considerations so as not to impede the self-help efforts based on this system and will place importance on assistance which will contribute to strengthening it.

(Consideration of the diversity of traditional rural communities)

Because each ethnic group within Laos' rural communities has a unique culture and unique social customs, it is difficult to apply a uniform rural development model throughout the country. Japan will implement assistance after considering the characteristics and diversity of each region⁴⁷.

[4] Further promotion of aid coordination and collaboration

(Strengthening aid coordination and collaboration with other donor countries and international organizations)

Japan will also play an active role in donor coordination, regarding it as a forum, not for mere information exchange, but for consultation among donors toward more efficient and effective assistance. In particular, Japan will actively respond to trends such as sector-wide approaches⁴⁸ in the education and health sectors. Also, coordinating with other donors, Japan will actively encourage the Lao government to reform and build institutional mechanisms which are indispensable in order to ensure that outcome/impact of the assistance are realized, and will consider whether the Lao side has a proactive stance or not, when judging the appropriateness of adopting new projects and continuing with existing projects⁴⁹.

⁴⁷ In light of this point, the support for the "One Village, One Product" Movement also mentioned above in the priority points in Japan's assistance aims to identify exportable local specialties in each region. It can also be called support for regional industry promotion which harnesses the uniqueness and diversity of the regions.

⁴⁸ This refers to an approach in sectors such as the education and health sectors, in which involved parties including recipient countries, recipient governments, donor countries, and donor organizations work to carry out activities which are mutually consistent based on consistent development policies for the entire sector. There are various other names for this, including sector programs and sector development programs.

⁴⁹ Japan will call on the Government of Laos, while coordinating with other donor countries and organizations, to carry out: the drastic revision of wage systems including a system of paying additional wages for teachers and medical staff who work in remote areas, the introduction of a scholarship system for teacher training schools which require recipients to work in a remote area for a fixed period of time after graduation, the full-scale introduction of the Public Expenditure Tracking Survey (PETS) as one part of strengthening financial management, and the utilization of counterpart funds to construct housing and

(Strengthening collaboration with NGOs and community-based organizations)

Japan will also strengthen collaboration with NGOs as well as the community-based organizations in traditional rural areas, as partners for grassroots-level cooperation. Japan will place emphasis on and effectively utilize existing systems at the community level.

(Implementation of South-South cooperation based on a strengthening of collaboration with neighboring countries)

Japan will strengthen support to Laos in the form of South-South cooperation which utilizes the experience and human resources of neighboring ASEAN countries. This kind of cooperation will also contribute to promoting integration in the ASEAN region and promoting IAI⁵⁰. Emphasis will also be placed on collaboration with regional frameworks such as the Mekong River Commission (MRC)⁵¹.

[5] Ensuring benefits of Laos when implementing Mekong regional projects

(Ensuring that benefits of Laos when implementing Mekong regional projects)

Formulating regional projects that aim to promote regional economic integration⁵² and their implementation will continue to be important in the future. That said, Japan will carefully examine whether the benefits brought to Laos by a particular project is worth the burden⁵³ placed on the country, and will take care to incorporate measures for ensuring benefits to Laos. Additional support will be added where necessary in order to ensure the benefits brought to Laos by such projects.

(Preventing and mitigating adverse effects)

Japan will give consideration to the increases in population flow that follow the enhanced networking with surrounding countries as well as the risk of infection with HIV/AIDS and other diseases that result from the population flow, and will look into appropriate measures for preventing and mitigating these adverse effects where necessary.

provide means of commuting (bicycles) for teachers and medical staff.

⁵⁰ The Initiative for ASEAN Integration (IAI). The launch of this cooperative framework was agreed upon at the Fourth ASEAN Informal Summit held in November 2000, with the aim of addressing disparities in the ASEAN region and increasing ASEAN's regional competitiveness.

⁵¹ The Mekong River Commission (headquarters: Vientiane) is promoting the reconciliation of interests involving water resources and sustainable development, based on original initiatives of the four countries of Laos, Thailand, Viet Nam, and Cambodia.

⁵² It is also important to look into long-term human resource development measures during the process of formulating intraregional cooperation projects, so that Laos can receive commensurate benefits.

⁵³ In particular, repayment obligations that accompany yen loans and maintenance and management costs in the case of grant aid projects.

In particular, when developing the Mekong Region, it is extremely important to the preservation of the diverse lifestyles of the people of Laos and long-term stable growth of the country to give consideration to sustainable management of natural resources of the river basin region along the Mekong River. It is therefore necessary to fully consider the conservation and circulation of water resources as well as the conservation of ecosystems, forest resources, soil, biodiversity and so forth.

6. Special attention when implementing Japan's ODA

Based on the ODA Charter and the ODA Medium-Term Policy, Japan will place emphasis on environmental, social, and gender considerations as cross-cutting issues which are common to the priority areas of Japan's assistance, and pay attention to the status of governance improvements.

Specifically, in keeping with the Japan International Cooperation Agency (JICA) and Japan Bank For International Cooperation (JBIC) "Guidelines for the Consideration of the Environmental and Social Impacts", when implementing assistance projects Japan will carefully consider from an early stage of planning whether there will be adverse effects on the environment or society and will either confirm that no such effects are produced or make certain that appropriate measures are implemented for minimizing them⁵⁴.

Regarding gender considerations, at the stage of project formulation and implementation, development challenges and needs specific to men and women will be clarified without preventing them from participating equally in the development, and care will be taken to ensure that a special burden is not placed on either of them. In addition, benefits for women will be clearly positioned among the project implementation objectives, including an emphasis place on the improvement of the status and income level of women as part of support for poverty reduction and on improving the school attendance rates of girls as part of support for basic education⁵⁵.

⁵⁴ Particularly regarding the Nam Theun 2 Dam Construction Project (see footnote 9), before approving the project, parties including the World Bank spent much time carrying out environmental and social impact assessment surveys. The sharing of the know-how accumulated on this occasion between donors including Japan is a vital challenge.

⁵⁵ The National Commission for the Advancement of Women (NCAW) has been established as an organization (national machinery) within the Government of Laos for promoting gender equality.

Regarding governance issues, Japan will pay attention to whether positive efforts are being made for: i) ensuring a political system in which policies reflect the voice of the people, ii) reinforcing the rule of law, iii) adequate information disclosure by government, iv) preventative activities and the strengthening of controls for the eradication of corruption, v) strengthening the roles of rural communities, among others. In relation to assistance, the issue of discipline of civil servants has been pointed out in the past, and Japan will pay close attention to the situation surrounding the steps taken by the Lao Government aimed at strengthening the discipline of civil servants⁵⁶.

⁵⁶ For example, there have been reports of cases in which vehicles provided through assistance were being used for purposes other than their original purpose, and in which the relatives, acquaintances, etc. of hospital staff were given priority to use the beds provided to medical facilities.

Reference Material

1. Basic information on Laos

- Official country name: Lao People's Democratic Republic (capital: Vientiane)
- Area: 240,000 km² (landlocked country bordering Thailand, China, Viet Nam, Cambodia, and Myanmar)
- Population: approximately 5.61 million (according to the third national census: March 2005)
- System of government: people's democratic republic (system of single-party rule by the Lao People's Revolutionary Party)
- Official language: Lao; Currency: kip (US\$ 1=10,800 kip as of August 2005)
- GDP per capita: US\$ 491 (2005 figure)
- GDP growth rate (year-on-year): 6.0% in 2004 (estimated value), 7.0% in 2005 (projected value) (World Bank, 2005)

2. Economic situation and major economic indicators of Laos

Agriculture (excluding forestry) accounted for 47.5% of Laos' GDP for 2001-2002 (about 80% of the working population consists of agricultural workers), industry (excluding electric power generation and mining sectors) for 20.9%, the service sector for 25.1%, and the forestry, electric power generation and mineral sectors combined as the natural resources sector for 6.5%. Starting in the 1990s, Laos' economic growth was driven by growth in industry and the service sector (particularly due to increased exports in the private sector), but the growth in the electric power generation and mining sectors is expected to increase rapidly going forward.

Regarding the national budget, whereas revenue totaled approximately US\$ 335 million in 2003/2004, expenditures were approximately US\$ 463 million (both estimated figures), and the fiscal deficit amounted to 8.4% of the country's GDP. The Government of Laos is in a situation wherein it continuously balances a significant deficit using assistance from overseas. The state is such that for the past several years, assistance has accounted for around 30%-50% of total expenditures (or around 50%-70% of capital expenditure (public investment project) which is equal to the amount after subtracting current expenditure from total expenditure). A challenge is the management of expenditure in accordance with development priority, combined with strengthening the fiscal base for the increase of revenue and improving business environment for fostering the private sector as a revenue source.

<Major macroeconomic indicators (2001-2005)> *East Asia Update*, November 2005, the World Bank

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|-------|-------|--------|-------|-------|
| GDP growth rate (%, year-on-year) | 5.8% | 5.8% | 5.8% | 6.44% | 7.3% |
| Consumer price index (%, year-on-year) | 7.5% | 10.6% | 15.5% | 10.5% | 5.9% |
| Trade balance (US\$ million) | -288 | -263 | -261 | -451 | -398 |
| Foreign direct investment (FDI) (US\$ million) | 24 | 60 | 69 | 257 | 141 |
| Total external debt (% GDP) | 82.7% | 88.8% | 103.4% | 91.5% | 85.4% |
| Foreign currency reserves (months' worth) | 2.9 | 3.1 | 3.4 | 4.0 | 4.0 |

Note: 2004 values are estimated, 2005 values are projected. The trade balance is negative (deficit) for every year. Foreign currency reserves are calculated based on goods and services import value.

3. Japan's assistance to Laos to date

Since 1991 Japan has had the largest share of bilateral assistance to Laos of any donor country, and has implemented bilateral assistance of roughly US\$ 75-90 million per year. Based on developments such as the policy dialogues conducted by the Economic Cooperation Mission to Laos dispatched in March 1998, and keeping in mind the establishment of the economic and social foundations that are a prerequisite for Laos' economic independence, Japan has since FY1999 set as priority areas for its assistance to Laos 1) human resources development, 2) support for basic human needs (BHN)⁵⁷, 3) agriculture and forestry sector, and 4) infrastructure development, and has actively implemented cooperation.

In terms of bilateral assistance by form of assistance⁵⁸, Japan has provided assistance in the

⁵⁷ "Basic human needs" is an assistance principle of assisting in ways that directly help people in low-income groups. It originated with the 1973 "New Direction" mandate of the United States Agency for International Development (USAID), and through such forums as the ensuing World Employment Conference (1976), the awareness that the fulfillment of BHNs is necessary as one of the development goals took root.

⁵⁸ In addition to bilateral assistance, Japan provides support through international organizations and direct support to NGOs, local communities, etc.

form of grant aid in priority areas such as infrastructure development centered on the transportation sector, BHN support, and agricultural and rural development, and the cumulative amount of assistance Japan provided in the six years from FY1999 to FY2004 reached 35.6 billion yen. Also, regarding technical cooperation, Japan has been implementing cooperation primarily for human resources development, the establishment of a social foundation, agricultural and rural development, and the health and medical sector, and the amount of assistance Japan extended in the five years from FY1999 to FY2004 reached approximately 20.4 billion yen (for breakdowns of the grant aid cooperation and technical cooperation by scheme, see Appendices 1 and 2). Regarding loan aid, during the period from FY1999 to FY2004 Japan implemented the Second Mekong International Bridge Construction Project (approx. 4 billion yen) in FY2001 and also decided to provide loan aid for the Greater Mekong Power Network Development Project (approx. 3.3 billion yen)⁵⁹ in FY2004.

<Appendix 1: Grant aid to Laos (FY1999-FY2004)> (unit: hundred million yen)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|-------|-------|-------|-------|-------|-------|
| General grant aid | 66.27 | 39.92 | 38.58 | 41.04 | 26.33 | 21.29 |
| Non-project grant aid | — | 15.00 | 15.00 | 15.00 | 10.00 | 5.00 |
| Debt relief | 2.83 | 2.79 | 2.73 | 2.68 | — | — |
| Food aid | 3.10 | 4.00 | 3.80 | 5.00 | 4.00 | 3.00 |
| Grant aid for the increase of food production | 5.00 | 3.50 | 4.50 | — | — | — |
| Grassroots grant aid | 2.63 | 3.02 | 2.97 | 1.33 | 0.25 | 0.80 |
| Cultural grant aid | 0.30 | 0.43 | 2.45 | 0.43 | 0.33 | — |
| Grant aid for NGOs | — | — | — | 0.20 | 0.20 | 0.08 |
| Total | 80.13 | 68.66 | 70.03 | 65.68 | 41.11 | 30.17 |

<Appendix 2: Technical cooperation to Laos (FY1999-FY2004)> (unit: million yen)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------------------|------|------|------|------|------|------|
| Acceptance of trainees (persons) | 354 | 390 | 447 | 504 | 614 | 672 |
| Dispatch of experts (persons) | 116 | 128 | 145 | 108 | 122 | 171 |

⁵⁹ Prime Minister Junichiro Koizumi announced the provision of this loan aid during a meeting held on the occasion of the ASEAN+3 Summit held in Vientiane in November 2004.

| | | | | | | |
|---|----------|----------|----------|----------|----------|----------|
| Dispatch of missions (persons) | 196 | 217 | 278 | 251 | 191 | 201 |
| Japan overseas cooperation volunteers (persons) | 25 | 24 | 18 | 18 | 20 | 10 |
| Other volunteers (persons) | 9 | 10 | 19 | 16 | 15 | 11 |
| Project-type technical cooperation (projects) | 1 | 5 | — | 1 | 5 | 4 |
| Development studies (studies) | — | 5 | 4 | 1 | 1 | — |
| Total expenses (million yen) | 3,155.76 | 3,489.26 | 4,486.18 | 3,544.70 | 2,982.86 | 2,773.40 |

<Appendix 3: Loan aid to Laos (FY1999-FY2004)> (unit: hundred million yen)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------|------|------|-------|------|------|-------|
| Loan aid | — | — | 40.11 | — | — | 33.26 |

4. Background of assistance provided by other donors (donor countries and international organizations)⁶⁰

<Overview>

Recently Laos has been receiving overseas assistance totaling approximately US\$ 400 million annually. Given that this assistance nearly equals the size of the budget of the Government of Laos, it can be said that development in Laos is supported by assistance. For FY2003-FY2004 the ratio of grants (donations) to loans was 57:43, and the ratio of bilateral assistance to assistance from international organizations was 52:48 (Committee for Planning and Investment (CPI): *Foreign Aid Report 2002-2003*).

<Bilateral assistance>

Other major bilateral donors aside from Japan include Sweden, France, Australia, Germany, China, and Viet Nam.

Sweden is shifting from conventional assistance in multiple areas including infrastructure development, forest management, capacity building in the field of statistics, and support for tax reform, to focus on promoting poverty reduction and the development of a democratic society. The trend has also been to shift emphasis on support for institution building for the maintenance and management of facilities from the construction of facilities.

⁶⁰ Reference material: *Foreign Aid Report 2002-2003*, Laos Ministry of Foreign Affairs.

France continues to implement assistance in the cultural sphere which it has placed emphasis on up until now. Apart from that, France has made the area of village development a priority and is implementing medical staff training in the healthcare sector including physicians.

Australia is implementing cooperation in the areas of: i) human resources development through improved access to education (primary education support for minority ethnic groups in mountainous regions and dispatch of students to undergraduate and graduate schools in Australia), ii) promotion of a market economy through support for the verification of land-use rights, and iii) support for the livelihoods of the poor. Australia is also placing emphasis on support for Laos' accession to the World Trade Organization (WTO), and is planning future support for capacity building linked to trade promotion and expansion.

In recent years China has been rapidly expanding economic assistance to Laos and raising its profile as an emergent donor, but its participation in donor meetings is limited and the current status of its assistance is by no means clear. That said, China's areas of assistance are wide-ranging to include the acceptance of foreign students, civil servant training, road development, dam construction, and hospital construction.

Regarding the United States, because the US supported rightist and neutral groups of the Kingdom of Laos legislature until the 1975 revolution, its presence rapidly diminished after the revolution. The US currently places emphasis on humanitarian assistance including: i) measures against drugs (such as comprehensive village development that aims to eradicate poppy cultivation and training of immigration and customs officials), ii) HIV/AIDS prevention and support for patients, iii) support for disposal of UXO, and iv) food assistance for the poor through the WFP and international NGOs.

<International organizations, etc.>

International organizations implementing assistance to Laos include: the World Bank/International Development Association (IDA), the International Monetary Fund (IMF), the Asian Development Bank (ADB), United Nations (UN) organizations (15 organizations including the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), and the World Food Programme (WFP)), the European Union (EU), and the Mekong River Commission (MRC).

The World Bank, while promoting economic reform in Laos, provides a relatively large amount of concessional loans through the IDA (US\$ 81 million for FY2003-FY2004⁶¹), but in FY2005 it is implementing support through grants (donations). In addition to striving for macroeconomic stability through continued promotion of economic reform including reform of state-owned banks and public enterprises through Poverty Reduction Support Credit (PRSC), the World Bank places emphasis on the strengthening of governance and in particular support in the area of public financial management which bears in mind the management of revenue from electric power exports realized by the Nam Theun 2 Dam Construction Project.

The ADB, like the World Bank, places emphasis on the promotion of economic reforms, and provided US\$ 58 million in concessional loans from 2003 to 2004. In view of Laos' future development as part of a regional economy, bearing in mind the Greater Mekong Subregion (GMS) development, the ADB hopes that Laos will collaborate with the markets of China, Thailand, and Vietnam. Meanwhile, within Laos the ADB is implementing assistance in areas such as infrastructure development and development of the social sector for poverty reduction, energy, and rural development, focusing on the "northern region."

The IMF has until now, through mechanisms such as the Poverty Reduction and Growth Facility (PRGF) and Article IV consultations, supported the implementation of appropriate fiscal and monetary policies, the stabilization of the macroeconomy through structural reform, and particularly the centralization of tax collection and revenue management.

With an eye to poverty reduction and the achievement of the MDGs pledged by Laos to the international community, international organizations centered around the UNDP have placed emphasis on capacity building and have implemented support for fair and sustainable development. In 2002-03 they implemented a total of US\$ 27 million in grant aid. Recently these organizations are underscoring "rights-based development"⁶².

<International NGOs>

In Laos the activities of domestic NGOs are basically not authorized, and the activities of

⁶¹ The fiscal year of the World Bank is 7/1-6/30.

⁶² Rights-based approaches to development. A rights-based approach to development is a conceptual framework for the process of human development that is based on international human rights standards and directed to promoting and protecting human rights. A rights-based approach integrates international human rights standards into the plans, policies and implementation processes of development. implementation processes. (United Nations High Commissioner for Human Rights (UNHCHR) webpage: www.unhchr.ch/development/approaches-04.html)

international NGOs are restricted as well. As of August 2005, there were approximately 60 international NGOs conducting activities in Laos, with activities in wide-ranging areas including agricultural, rural development, education, health care, natural resources management, the environment, emergency humanitarian assistance accompanying droughts and flood damage, measures against drugs, UXO disposal, and human resources development. International NGOs are implementing direct support activities that place emphasis on capacity building of the people of Laos, albeit on a small scale, for groups including ethnic minorities in mountainous regions which government support does not reach, women in socially disadvantaged conditions, and handicapped people.

<Donor coordination (coordination between donor countries and international organizations)>

The framework of policy dialogue between the government of Laos, donor countries and international organizations was set in Laos and a meeting has been held half-yearly. In early 2004, eight working groups⁶³ covering the priority areas and cross-cutting challenges of the NGPES were established, and detailed area-specific policy coordination and policy dialogues between not only donors but between donors and government organizations as well are being advanced.

5. Evaluations of Japan's past assistance projects

<Evaluations by external experts>

The Country Assistance Evaluation of Laos released in March 2005⁶⁴ points out that cooperation from Japan, which has placed emphasis on consistency with the development policies of the Laos government, has contributed to revitalizing the Laotian economy and improving the lives of the people of Laos through capacity building of organizations targeted for assistance and the development of high-quality economic and social infrastructure, and that this cooperation is highly evaluated. At the same time, the evaluation gives the following points as major challenges in implementing future assistance to Laos:

- As a major donor, to play a more leading role within the donor community.
- To set clear goals for assistance policies, each priority area, and the sub-sector levels.

⁶³ The eight groups are groups on healthcare, education, infrastructure, agriculture and rural development, the macroeconomy and the private sector, governance, UXO disposal, and drug regulations. As of August 2005, Japan serves as the chair for the healthcare area, the vice-chair for the economic infrastructure area, and, in the area of drugs, Japan is acting as co-chair with Australia in the Mini-Dublin Group Meetings.

⁶⁴ An evaluation by external experts of the policies and fruits of Japan's assistance to Laos. It looked at projects provided from 1997-2003.

- To carry out monitoring and evaluations of cooperation projects that have already been implemented and reflect feedback on policies.

<Project evaluations by JICA>

Based on an evaluation of past projects conducted by JICA separately from the Country Assistance Evaluation of Laos mentioned above, the following issues have been highlighted as part of an overall trend:

- 1) Difficulties have arisen with respect to Laos maintaining and developing the outcome/impact of cooperation through self-help efforts after project cooperation is completed. In this regard measures were needed, such as the inclusion of institution building support for maintaining the outcome/impact of cooperation in Japan's cooperation or the arrangement of institutional building by Laos as the condition of Japan's cooperation.
- 2) Regarding cooperation which designates model districts and organizations, it is expected that after cooperation is completed the outcomes of the cooperation will spread to other regions and organizations through the self-help efforts on the part of Laos. However, because there are budgetary and human resource limitations in Laos, there are cases in which a widespread diffusion of outcomes is difficult because technology and knowledge is not systematically shared or parties lack the capacity to formulate plans for maintaining outcomes and spreading them to others. Some form of follow-up is therefore necessary on the Japanese side.
- 3) From the perspective of effective budget utilization, in recent years the importance of producing assistance benefits in a form which is visible has been stressed. However, there are cases in which projects are implemented under Japan's leadership without giving due consideration to ownership by Laos, as a result of seeking the early fruition of benefits.
- 4) There are cases in which constructed facilities and provided materials and equipment are not adequately maintained or managed due to Laos' tight financial situation and lack of maintenance and management awareness as well as capacity.

Japan's Country Assistance Program for Laos

| Basic Policy | Three Goals of Assistance | Six Priority Areas | Assistance Policies by Priority Areas |
|---|--|--|--|
| <p>Support the self-help efforts of Laos for the poverty reduction and human development</p> <p>Support Laos's efforts towards realizing voluntary, independent, and sustainable economic growth, with a view to integration into the global and regional economies</p> | <p>1) Support Laos in its steady steps towards the achievement of the Millennium Development Goals(MDGs) with a view to promoting the reduction of poverty from the standpoint of "human security" (Mountainous regions where the degree of poverty is egregious will be placed as priority regions.)</p> | <p><u>1.Improving basic education</u> (Accomplish MDGs goal 2 (Achieve universal primary education) and goal 3 (Promote gender equality and empower woman).)</p> | <p>(Improving the educational environment and access, mitigating factors inhibiting school enrollment) Construction of primary schools, renovation of decrepit and/or undersized school buildings (including the introduction of participatory approaches) , awareness raising education aimed at guardians, school health services, construction of student dormitories, excavation of wells to relieve children of the labor of drawing water</p> |
| | | | <p>(Improving the quality of education) Training for teachers, delivery of textbooks and teaching materials (collaboration with international organizations and NGOs)</p> |
| | | <p><u>2.Improving healthcare services</u></p> | <p>(Improving maternal and child health care services) Achieve MDGs goal 4 (reduce child mortality) , goal 5 (improve maternal health) and goal 6 (combat HIV/AIDS, malaria and other diseases) , coordination with activities of the Global Fund to Fight AIDS, Tuberculosis and Malaria</p> |
| | | | <p>(Human resources development and institutional building related to the health and medical care field) Raising the technical level of healthcare workers, assistance for better maintenance and management of medical equipment, raising the management capacity of the health and medical care systems</p> |
| | | | <p>(Capacity improvement for health management of rural inhabitants) Public awareness activities to disseminate information on public health to local residents and children (collaboration with support for improving the living environment in the rural region described in 3 below)</p> |
| | | <p><u>3.Developing rural regions and sustainable use of forest resources</u> (Cooperation in seeking a system for agriculture promotion and rural development that takes advantage of Laos' strengths in terms of its rich natural resources and rural communities that have a high capacity for mutual support, and in providing assistance to raise the administrative capacity to an adequate level.)</p> | <p>(Improving the basic facilities and living environment of rural inhabitants) Development of roads, water supply and electric facilities, and small-scale irrigation facilities, institutional building and capacity development for the appropriate use, maintenance and management of existing facilities, disposal of UXOs which pose a serious threat to rural inhabitants</p> |
| | | | <p>(Improving the livelihoods of local residents) Sustainable utilization of the forest resources, combining agricultural activities such as agroforestry and livestock breeding, support to raise the income level through the sale of surplus crops on the market and the partial introduction of market-oriented crops, expanding benefits and effects to other regions</p> |
| | | | <p>(Ensuring food security) Food aid, production of high quality rice seed, development of rural infrastructure to improve distribution, disseminating low-input aquaculture techniques</p> <p>(Policy implementation and institutional building related to the field of agricultural and forest preservation) Implementation of the "Integrated Agricultural Development Plan", strengthening the implementation and monitoring of the conservation of forest resources under "the Forest Strategy 2020", support for the improvement of agricultural statistics which will be prerequisite for the formulation, implementation, and monitoring of the agricultural and rural development plan</p> |

| | | | |
|--|--|---|---|
| | <p>2) Support foundation building for the economic growth with a view to promoting economic growth constituting the driving force for independent, sustained growth</p> <p>(Vientiane capital which constitutes the base for various economic activities, Savannakhet which is the center city of the East-West Economic Corridor, and other major cities will be the priority regions.)</p> | <p>4.Developing socioeconomic infrastructure and effectively utilizing existing infrastructure</p> | <p>(Developing socioeconomic infrastructure)</p> <p>Development of transport infrastructure (roads, bridges, etc.) , the electric generation and power transmission systems (electric power plants and power grids) and urban environmental infrastructure (water supply facilities, etc.)</p> |
| | | | <p>(Effectively utilizing existing infrastructure)</p> <p>Support for human resources development, strengthening organization, and institutional building for the proper maintenance and management of existing infrastructure (water supply, electricity facilities, roads, airports, etc.)</p> |
| | | | <p>(Improving the environment to facilitate investment and exports)</p> <p>Improvement of procedures of investment and the customs, establishing quality certification and quarantine systems to promote the exports of agricultural products, support for financial sector (priority will be given to support for processing agricultural crops for export) , follow-up on the “One Village, One Product” Movement</p> |
| | <p>3) Support capacity development which is a prerequisite for self-help efforts by Laos to achieve poverty reduction and economic growth</p> <p>(a common challenge in supporting the achievement of the goals 1) and 2))</p> | <p>5.Institutional building and human resources development for enhancing the private sector</p> | <p>(Human resources development for enhancing the private sector)</p> <p>Expanding human resources contributing to economic growth (based at the National University of Laos and the Lao-Japan Human Resource Cooperation Center, collaboration with JETRO, etc.)</p> |
| | | | <p>(Enhancing the capacity for implementing economic policies, management of public finances, and administrative and financial reform)</p> <p>Improvement of capacity for formulating and implementing macroeconomic and development policies, public financial management, enhancement of capacity for formulating and implementing public investment programs, support for the capacity development of government officers (both national and local level) in charge of administrative and financial reform including reform of the civil servant system, strengthening of organizations and institutional building</p> |
| | | | <p>(Establishment of a legal system and support system for the socially vulnerable)</p> <p>Enhancing reliability in legal system (establishment of foundations and training of human resources in order to improve civil and commercial laws and regulations, and enhancing the judicial system, etc.) , support for institutional building to ensure the participation of a greater number of people in its socioeconomic development</p> |
| | | <p>6.Improving administrative ability and institution building</p> | |