

**Third Party Evaluation 2004**

**The Ministry of Foreign Affairs of Japan**

**Country Assistance Evaluation of Laos  
Summary**

March 2005

## Preface

This report is the summary of County Assistance Evaluation of Laos carried out by the External Advisory Meeting on ODA Evaluation, which is an informal advisory body of the Director-General of the Economic Cooperation Bureau of the Ministry of Foreign Affairs of Japan.

Japan has been one of the top donor countries of ODA (Official Development Assistance) and there have been domestic and international calls for more effective and efficient implementation of assistance. The Ministry of Foreign Affairs, as the responsible ministry of ODA, has been conducting ODA evaluation mainly at the policy level with two main objectives; to support the implementation and management of ODA and to ensure its accountability. This evaluation aims to verify the purpose, process of planning and implementation of ODA policy and result of Assistance to Laos to extract valuable lessons and recommendation which may reflect in aid policy to provide more effective and efficient to the country in the future. In addition, it aims to ensure accountability by publication of this evaluation.

The External Advisory Meeting on ODA Evaluation was formed to improve the objectivity in evaluation. The Meeting is commissioned to conduct ODA evaluation and to report its results and recommendations to the Economic Cooperation Bureau of MOFA. Dr. Hiroko Hashimoto, a member of the Meeting, Professor, Jumonji University, was in charge of this evaluation.

Dr. Nobuyoshi Nisizawa, Professor, Kinki University and Dr. Seiichi Fukui, Professor, Kobe University have made enormous contributions to this report. Likewise, cooperation was received from the Ministry of Foreign Affairs and Overseas Project Management Consultants, Ltd.. We would like to take this opportunity to express our sincere gratitude to all those who were involved in this review. The Aid Planning Division of the Economic Cooperation Bureau of the Ministry of Foreign Affairs was in charge of coordination. All other supportive work was received from Overseas Project Management Consultants Ltd. under the commission of the Ministry of Foreign Affairs.

Finally, we should add that the opinions expressed in this report do not reflect the view and position of the Government of Japan or any other institutions.

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# Executive Summary

## 1. Background, Objectives and Scope of Evaluation

### 1.1. Background

Laos is a Least Developed Country (LDC) and set a long-term national development goal to leave behind once and for all the status of LDC by 2020. In 2003, the country announced the National Growth and Poverty Eradication Strategy (NGPES) in order to achieve poverty eradication through sustained equitable economic growth. Laos is in a strategic location for the entire region of Indo-china and became a member of ASEAN in 1997.

Laos is one of major recipient countries of Japan's ODA ranking as the 16<sup>th</sup> largest recipient in 2002 based on the expenditure. Japan has continually been the largest bilateral donor for Laos since 1991 and the largest donor among all donors including multilateral organizations since 1998.

Presently, a new country assistance plan for Laos is under the process of preparation. In order to increase the effectiveness and efficiency of Japan's ODA to Laos, it is necessary to review and evaluate Japan's ODA policy for Laos since 1998 and its outcome.

### 1.2. Objectives of Evaluation

The main objective of the evaluation is to provide an overall review of Japan's ODA policy for Laos, to extract valuable lessons and recommendations for the Laos Country Assistance Plan currently under preparation, and to provide more effective and efficient aid to the country. The evaluation aims to ensure the Japanese government's transparency and its accountability to the public for ODA to Laos.

### 1.3. Scope of Evaluation

#### *Object of Evaluation*

The object of the evaluation is Japanese ODA policies and achievements in Laos between 1997 and 2003. There is a key policy to be reviewed, the Japanese Laos Country

Assistance Policy, drawn up in 1998. The objectives, process and results of this policy are evaluated comprehensively in the report.

### ***Framework of Evaluation***

The evaluation investigates and analyzes the following areas: 1) the objectives of the Laos Country Assistance Policy, 2) its processes, 3) its results. Each of these areas will be evaluated separately, followed by an overall evaluation.

The relevance of the Laos Country Assistance Policy is verified by an analysis of the consistency of its objectives with 1) the National Policy of Japan regarding ODA, 2) the development needs of Laos, and 3) the development policy for the Mekong region. The analysis is based on objective trees. In addition, a comparative analysis between Japan's ODA policy and the policies of other donors is achieved through the major donor matrix.

In terms of analysis of the process of the Laos Country Assistance Policy, the focus is put on the process of both drawing up the plan and of its implementation. In particular, the appropriateness of the process from the formation of operational strategy to the project formation of the Japanese ODA implementation agencies (JICA and JBIC), as shown in flow-charts of the implementation process, is reviewed in the evaluation. The organizational structures involved in the process on both the Japanese and the Lao sides are analyzed. The coordination and harmonization with the schemes for assistance of other donors is also analyzed from the point of the evaluation of the efficiency of the ODA implementation.

The results of the Laos Country Assistance Policy are analyzed quantitatively and qualitatively, from the point of view of the effectiveness of the policy. A logic model based on the actual ODA executed by Japan, explains the logic of cause and effect between the intended "aims" of the plan and the "actions" implemented. A quantitative and qualitative evaluation follows analysis of the logic model. The main points of the evaluation are as follows: the extent of Japan's contribution through ODA to the development of Laos; the effectiveness of the priority sectors of the Laos Country Assistance Policy; the relevance of the results of the plan in the context of the East Asian Region, together with its impact.

## **2. Development Challenges for Laos and Japan's ODA**

### **2.1. National Development Plans of Laos**

At the 6<sup>th</sup> Congress of the Laos Peoples' Revolutionary Party in 1996, the long-term national development goal of departing from the status of LDC was announced and the 8 state priority programs was fixed. Furthermore, the National Socio-Economic Development Plan (NSEDP 1996-2000) was drawn up and the following development strategies decided: 1) acceleration towards a market economy; 2) economic growth of the agricultural, industrial and service sectors; 3) development and improvement of the regional economic structures; 4) rural development; 5) expansion of economic cooperation and the promotion of foreign investment; 6) consideration of natural environmental harmonization. The NESDP 2001-2005, which is now under implementation, includes sector strategies with goals for each particular sector. Of particular emphasis is the eradication of poverty and regional development. Programs are proposed for poverty eradication at both national and local levels. Following the I-PRSP announced in March 2001, a round-table meeting took place in September 2003 and NPEP, the National Plan for the Eradication of Poverty, announced, putting emphasis on agriculture, education, health and transport infrastructure. This round table meeting took the form of consultation of development cooperation between the Lao government and major donors. The NPEP was later altered to the NGPES National Growth and Poverty Eradication Strategy, and was officially approved as a PRSP by both the IMF and the World Bank.

### **2.2. Achievements and Issues of Laos**

#### ***Macroeconomic Performance***

Through the series of economic reforms brought in by the NEM New Economic Mechanism, begun in the late 1980s, Laos moved towards a market-oriented and open economy. In the late 1990s, the country promoted strengthening of economic ties with neighboring countries. As a result of this, Laos showed a high economic growth which was driven in part by the ASEAN countries. Although this economic growth slowed down following the Asian economic crisis of 1997, Laos has maintained an annual economic growth rate of over 5%. The economic growth in the 1990's was led by the industrial and mining sector, in particular manufacturing, and the service sector, the commercial, transport and communications sectors.

The economic growth that was driven by the manufacturing and service sectors, however, was seen to benefit only limited areas of the country. This industrial growth appeared only in and around urban areas which have a good transportation infrastructure and access to national and international markets. Therefore, the vast majority of the Lao population who live in rural areas, are little affected by the macro-economic growth and its spillover effects.

In July 1997, Laos officially joined ASEAN and was incorporated into AFTA, which aims at free trade in the region. The framework of AFTA requires Laos to reduce tariffs and to promote liberalization of trade within AFTA. It is of concern for Laos that the reduction and abolishment of tariffs will bring about a decrease in tax revenue since the country has large share of indirect tax which includes tax revenue from customs and duties. It is also expected that the lowering and abolishment of tariffs will increase the volume of imports and result in a trade deficit. Furthermore, there is a risk that the Lao economy will become unstable with the depreciation of the exchange rate and an increase in inflation due to the expected trade deficit.

### ***Capacity for National Development***

Over the last 30 years Laos has seen bewildering changes in the centralization and decentralization of public administration. The government introduced decentralization as a part of the reform policy. However, with a lack of proper preparation, this led to considerable chaos, particularly in the fiscal position of the country. Although further decentralization, aiming at the improvement of the budget balance and efficiency of public administration, has been attempted since 2001, obstacles against the socio-economic development of Laos remain because institutional building and human resource development has not yet been sufficiently implemented.

In the process of national budgeting, there has been no coordination between the recurrent and capital budgets. The plan of annual public expenditure has not been adequately prepared with budgetary scales corresponding to revenue. Because the recurrent budget does not include recurrent costs for capital expenditure, implementation of development projects has required additional expenditure which has exceeded the annual government budget. This "contingent" expenditure is one of main causes of delay in the implementation of development plans as well as causing problems in the execution of a budget which includes other necessary spending.

The insufficient capacity of Laos to absorb foreign aid, including the recurrent budget, gave rise to inadequate maintenance and underutilization of infrastructure and facilities which had been developed by ODA, negatively affecting sustainability of ODA in the country.

It was noted that the Committee for Planning and Cooperation (CPC), which used to be a counterpart organization of ODA, had problems with both human and institutional capacity. In October 2003, the Department for International Cooperation (DIC), which is responsible for ODA, was transferred from the CPC to the Ministry of Foreign Affairs. From September 2004, the CPC was renamed as the Committee for Planning and Investment (CPI), which is in charge of the preparation of the Public Investment Program (PIP). There are concerns among donors of the lack of clarity of the responsibilities of the CPI and the DIC.

### **2.3. Japan's ODA to Laos**

#### ***Japan's ODA Policy for Laos***

The Laos Country Assistance Policy was drawn up with the following considerations: 1) the importance of Laos in the growth of the entire Indochina region; 2) its status as a Least Developed Country (LDC) with constraints in development due to its nature as a land-locked mountainous country; 3) the introduction of the market mechanism and democratization; 4) the necessity for institutional and organizational development including fiscal reform since the country's accession to AFTA.

Furthermore, the necessity for Japan's ODA to Laos was seen in the context of the importance of the ASEAN countries to Japan. The former ODA mid-term policy of 1999 addressed support for ASEAN countries for keeping and expanding their economic growth and for lessening gaps among member countries. At the same time, for Laos, it was recognized that support was necessary for poverty, for the transition to a market economy and for sustainable development.

There were four target sectors in the Laos Country Assistance Policy: 1) human resource development; 2) basic human needs (BHN); 3) agriculture and forestry; 4) infrastructure development. In addition to these sectors, capacity building, such as for formulation of development plans, policy planning and implementation, and legal and institutional development were considered as cross-cutting issues that also had to be addressed.

### ***Japan's ODA to Laos from 1997 to 2003***

The total amount of Japan's ODA between 1997 and 2003 was 660 million US dollars, of which 420 million US dollars was on grants, and 220 million US dollars was technical cooperation.

Japanese aid for Laos was therefore mainly in grants and technical cooperation, taking into account the status of Laos as a LDC. Grants aid mainly supported infrastructure development, in particular transport, the areas of health and medical care and primary education, including the construction of elementary schools. There was also grant aid for human resource development through the construction of facilities for the Lao National University and for scholarship programs. Technical cooperation has taken place in human resource development, social infrastructure development, health and agriculture. It is particularly worth noting that a policy support type of technical cooperation for the preparation of development plans and institutional building has been provided, in order to cope with the cross-cutting issue of development in the country. Up to 2003, there was only one project implemented by an ODA loan. This was the "Second Mekong International Bridge Construction Project", which is a part of the East-West Corridor.

Japan continuously ranks first in the bilateral donor share for Laos. Since 1998, Japan became the largest donor among all donors, including multilateral organizations. The share of Japan's ODA accounted for 30% of the total net disbursement of ODA to Laos. Although many donors lessened the amount of their aid after the Asian economic crisis, Japan increased its aid, reaching a figure of 45% of the total in 1999, and since then maintaining a level of above 30% of the total aid given to Laos.

## **3. Objective Analysis of Japan's ODA Policy for Laos**

### **3.1. Consistency of Objectives of Japan's ODA Policy for Laos with the Japan's ODA Charters and the ODA Mid-Term Policy**

Although the priority sectors and their sub-sectors were mentioned in the Laos Country Assistance Policy, the policy objectives for ODA to Laos were not clarified. For this reason, in the objective tree of the Laos Country Assistance Policy, it was necessary to assume that the purpose of the policy would be to support for sustainable economic development and to verify the conformity of the four priority sectors of the plan within the objectives for ODA in Japan.

It was found that the priority sectors of the Laos Country Assistance Policy were consistent with the philosophy, fundamental principles and priorities of Japan's ODA charters. It was also found that the objectives of the ODA mid-term policy – 1) support for social development and poverty reduction; 2) support for economic and social infrastructure; 3) support for human resource development and intellectual aid; 4) support for global issues; 5) support for economic reforms to overcome the Asian economic crisis – were all consistent with the priority sectors for the ODA to Laos, though the mid-term ODA policy was prepared after the Laos Country Assistance Policy.

### **3.2. Consistency with the Development Needs of Laos**

Having set the target of leaving behind its status as an LDC by 2020, Laos has produced five and ten year mid-term plans. Although there is not necessarily a consistency between these plans, this report verified consistency of Japan's ODA policy with the development needs of Laos as shown in the eight priority programs, the NSEDP (1996-2000 and 2001-2005) and the NGPES.

In the eight priority programs, the policy objectives of Japan's ODA were consistent with the following five main areas: 1) increase in food production; 2) review of slash and burn farming; 3) rural development; 4) infrastructure development; 5) human resource development. Although it seems that there is a lack of consistency between the priority areas of the Japanese aid policy for Laos and the strategies in NSEDP (1996-2000), it can be expected that the four priorities of Japan's ODA would in fact contribute to achieving the goals of the national development plan of Laos. The NSEDP (2001-2005) is composed of sector development strategies and each sector strategy has sector goals. The NSEDP (2001-2005), which was drawn up after the Laos Country Assistance Policy, detailed the same development projects, including infrastructure, as the ones that were to be supported by Japan's ODA. This means that mutual influence can be seen between Japan's ODA and the Lao government development policy. The NGPES is a "comprehensive framework for growth and development" to achieve poverty eradication by 2010. At the same time the strategy remains of the policy and implementation plan for poverty reduction in the NESDP. The mid-term priority sectors in the NGPES are: 1) agriculture and forestry; 2) education; 3) health; 4) transport infrastructure. These are in alignment with the main four areas of Japanese assistance planned for Laos. It can thus be seen that Japanese aid is consistent with the development needs of Laos regarding poverty reduction.

### **3.3. Consistency with Mekong Subregional Development Policy**

Since 1990, various international organizations have been established for the development of the Mekong sub-region. These have included the Mekong River Commission and the GMS Program (the Greater Mekong Subregion Cooperation Program) under the initiative of the ADB. Japan also has emphasized development in this region and has provided assistance, including hosting of the Forum for Comprehensive Development of Indochina in February 1995.

The two policy consultation missions from Japan to Laos, the Laos Economic Cooperation Mission in 1998 and the Mission for Policy Dialogue in July 1999, highlighted the importance of the development of the Mekong Subregion for Laos. Japanese development policy for the Mekong Subregion can therefore be said to be consistent with the aid policy for Laos.

### **3.4. Comparison with Other Donors' ODA Policies for Laos**

Although there are other donors providing ODA in the same areas prioritized in the Laos Country Assistance Policy, they take different approaches from the ones of Japan. Some donors have very specific target areas for their ODA to Laos.

Japan's ODA has emphasized human resource development, including training and higher education as well as capacity and institutional building, including policy planning, implementation and legislation while also considering support for poverty reduction. On the other hand, other bilateral donors give assistance for BHN, agriculture forestry, and rural development with the clear aid goal for poverty reduction. Multilateral donors focus on the strengthening of governance through assistance with administration reform and capacity building.

### **3.5. Findings from Analysis of Objectives of Japan's ODA Policy for Laos**

It can be confirmed that the priority sectors and the sub-sectors of the Laos Country Assistance Policy were consistent with Japan's overall ODA policy and the development needs of Laos. On the other hand, the policy target of Japan's ODA to Laos is identified to enable Japan to give assistance to meet a wide range of development needs in Laos. From this point of view, it can be appreciated that the Laos Country Assistance Policy satisfied the development needs of Laos. However, there is some lack of clarity on the "goals of ODA to Laos" for the Laos Country Assistance Policy and therefore strategies for

the achievement of the “goals of ODA to Laos” were not identified.

#### **4. Process Analysis of Japan’s ODA Policy for Laos**

##### **4.1. Formulation Process of Japan’s ODA Policy for Laos**

The Laos Country Assistance Policy was drawn up after consultation between the Ministry of Foreign Affairs and other relevant ministries, JICA, and JBIC, working on the results of the studies and meetings: 1) the previous Country Evaluation of Laos in 1996, 2) “the basic survey for the establishment of a plan for economic co-operation” of 1997, and 3) the “JICA Country Assistance Study Commission” also of 1997. It was published after the Economic Cooperation Mission to Laos had agreed upon the priority areas of Japan’s ODA to Laos with the Lao government.

Although it must be said that the detailed process of the formulation of the plan is unclear from contemporary written records, which leave only an outline, it can be said that an appropriate process was followed since all the relevant Japanese ministries and agencies participated in the process. In addition, the process included opportunities to confirm the development needs of Laos. Furthermore, after the formation of the Policy, in July 1999, a delegation of the Economic Policy Consultation was dispatched in order to review the effectiveness of the priority sectors within the plan. The changing needs of Laos were also taken into account with reference to policy support and development in the Mekong Subregion.

##### **4.2. Consistency of Implementation with Policy Direction**

The preparation process of the JICA Country Operation Plan includes consultations with the Ministry of Foreign Affairs and other related organizations. In the “2000 JICA Country Operation Plan”, which was prepared after the Laos Country Assistance Policy in 2000, the same four priority sectors as well as the sub-sectors are adequately covered. It can therefore be said that the Laos Country Assistance Policy and the JICA Country Operation Plan are in alignment.

ODA loans are limited in frequency and amount, taking into account the scale of the Lao economy and its debt-service capacity. Therefore, JBIC prepares its operational guidelines for Laos when a project is formulated. JBIC has consultation with the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Economy, Trade and Industry as well as other government organizations and with JICA on each guideline of a yen loan

project.

Since the yen loans must necessarily be limited, in the operational guideline for Laos, JBIC stressed the importance of linkage with grant aid and technical cooperation and targeted appropriate support areas for yen loan projects.

The process for the formation of each project is always based on the requests of the Lao government and is carried out after due coordination and in cooperation between the governments of Laos and Japan. The necessary procedures are followed for each scheme of yen loan, grant aid, and technical cooperation. However, since participation from the Lao side can sometimes be lacking due to limited capacity, there are possibilities that development projects are not formulated and implemented with the full-ownership of Laos. This is very likely to reduce the effects on the capacity building of Laos and even to have negative impacts on the sustainability of development projects where Laos does not take the lead in a project.

#### **4.3. Coordination and Linkage in the Implementation Process**

In Laos, Japan has implemented many projects with efficient and effective coordination between different aid schemes, mainly between grant aid and technical cooperation.

Donor coordination on aid policy has not been particularly active except roundtable meeting since the Laos government was not proactive until the publication of NGPES in September 2003. After this, however, the Lao government established eight donor working groups under the cooperation of UNDP. Since November 2004, donor coordination meetings which included the Lao government were initiated and the donors have started to exchange information related to the priority sectors.

As the largest donor of ODA to Laos, Japan has actively participated in roundtable meetings and other activities and provides ODA taking into account donor coordination. On a project level, in particular in the health sector, Japan is already advocating closer cooperation with WHO and UNICEF. Japan's attitude towards donor coordination has been appreciated by other donors. In addition, Japan is expected to take more initiative in donor coordination in Laos.

#### **4.4. Findings from Process Analysis**

Having included the participation of government organizations in Japan and fully

understood the needs of Laos, it can be considered that the preparation process of the Laos Country Assistance Policy was appropriate. However, it has been impossible to verify the adequacy of strategies taken to achieve the aims of the assistance policy in its approaches in the priority sectors. In addition, this report is limited in reviewing whether or not a process has been undertaken to verify the relevance of Japan's ODA policy for Laos.

The environment in which ODA to Laos is given is rapidly changing, due to factors such as the establishment of the NGPES aiming at poverty reduction, more active donor coordination, and the increase in economic cooperation from China. Although the Japan's Laos Country Assistance Policy has been effectively verified since March 1998 when the four priority sectors were agreed by the Economic Cooperation Mission, again in July 1999 with the Policy Consultation Mission and finally since 2003 with the ODA task force, there has been no systematic opportunities set for regular reviews.

## **5. Outcome and Impact Analysis of Japan's ODA Policy for Laos**

### **5.1. Analysis of Achievements of the Policy**

In a logic model to show the logic and the cause-and-effect between the aims and implementation of Japan's ODA policy for Laos, it was found that amongst the sub-sectors of ODA projects, some sub-sectors have a larger number of projects implemented while others have a smaller number. The four priority sectors in the Laos Country Assistance Policy were largely covered by the sub-sectors and efforts have been made to meet the various development needs of Laos. However, it was found that even amongst the four priority sectors, many projects were implemented in the health sector with BHN aid and in infrastructure development including the transport sector. Consequently it can be clearly seen that there is a particular emphasis on the approach for these two sectors within the implementation of the Japan's aid policy for Laos.

Limitation of data and the evaluation framework did not allow adequate quantitative and objective verification on 1) the effectiveness of Japan's policy on the macroeconomic development of Laos; 2) the contribution of Japan's ODA to the achievement of the development aims of NSEDP; 3) the contribution of Japan's ODA to the achievements of the MDGs. However, it can be said that there is a considerable connection between the results of Japan's aid policy in Laos and the development aims of the country and

therefore that development in Laos has been effectively carried out. Also, during the period from 1997 to 2003, Japan's ODA to Laos made up an important source of funding for development projects and made a large contribution to the propulsion of development projects, including infrastructure development.

## **5.2. Analysis of the Outcomes of Japan's ODA in the Priority Sectors in the Policy**

### ***Effectiveness of Japan's ODA in the Priority Sectors***

Since the distribution of Japan's ODA in each priority sector, and the distribution of the development budget by the Lao government are consistent with each other, it can be seen that Japanese aid has made a considerable contribution in all priority sectors. However, while ODA is extremely important in the areas of human resource development, BHN, agriculture and forestry and infrastructure development, there still remains much to be done in the fields of operation and maintenance of development projects, together with ensuring sustainability of the effects and impacts of those projects. It will be necessary to review the past approach of Japan's ODA and its effectiveness in these areas.

### ***Relevance of Japan's ODA to Laos with Japan's ODA to the East Asia Region***

Although Japan's loan aid to Laos differs from other the East Asian countries due to the LDC status of Laos, grant aid and technical cooperation have been provided to support the transition to a market economy, human resource development, economic infrastructure development and the social sector in order to meet the demands of all lower income ASEAN countries, including Laos. The Laos Country Assistance Policy, in accordance with Japan's aid policy for the East Asian Region under the old ODA mid-term policy, can therefore be said to be appropriate. It should also be noted that the trends in Japan's ODA to the East Asian region have a large affect on ODA to Laos.

## **5.3. External Factors to be Considered**

Since the Lao economy heavily depends on the external economy, large changes in the economies of the ASEAN nations which have close economic ties with Laos, such as those due to the Asian economic crisis, have great impacts on the fiscal position of Laos. A decrease in tax revenue including sales tax and tariffs due to shrinking economic activities, and an increase in public expenditure caused by the large scale public

investment which exceeded the budget brought about an expansion of the budget deficit. The weak fiscal base of the government had an effect on the development projects supported by ODA. Deficiencies in the current budgets harmed the effects and sustainability of existing ODA projects. Donors in Laos require an improvement in the situation.

On the other hand, it is also necessary to consider the influence of the ODA from other donors. As other major donors reduced the amounts of their ODA after the Asian economic crisis, the presence of Japan as the top-donor became more significant. Since the bilateral donors shifted their priority areas to support, the importance of Japan's ODA in the fields of health and infrastructure development became increasing.

#### **5.4. Impacts of Japan's ODA Policy for Laos**

Impacts of Japan's ODA for Laos can be seen particularly in the following areas: 1) in the relations between Japan and Laos; 2) in the East-West Corridor development program; 3) in international recognition of Japan's ODA to Laos.

As far as the bilateral relations between Japan and Laos are concerned, in a questionnaire survey regarding ODA projects carried out in Laos, it was found that about 80% of respondents were aware that Japan is the largest donor for Laos. Japan's ODA provide good opportunities to the people of Laos to receive good impression of Japan and it has contributed greatly to the maintenance of friendly relations between the two countries.

Regarding the East-West Corridor development, Japan has provided grant aid for the rehabilitation of the national road Route 9, which is part of the East-West Corridor. Through this, it is expected that the East-West Corridor development will contribute to the economic development of central Vietnam, central Laos and north-eastern Thailand. Thanks to the stimulation of logistics, there will be increased trade, agricultural production and agro-industries, particularly in Laos.

Internationally, Japan's ODA in Laos, including the construction of roads, schools and health centers, is highly valued in meeting the needs for country's infrastructure development. On the other hand, those bilateral donors who do not command large budgets concentrating on "soft-type" projects such as governance, are expecting Japan to strengthen linkage between both "hard" and "soft" types of projects as well as to

consider support institutional building including the operation and maintenance of infrastructures.

## **6. Overall Evaluation and Recommendations**

### **6.1. Overall Evaluation**

The Laos Country Assistance Policy can be seen consistent Japan's ODA policy and matches the aims of the development plans and strategies of Laos at the level of the priority sectors. Thus, consistency with the aims of ODA policy in Laos can be seen ensured. As far as the results of the policy are concerned, it can be understood that Japan maintained its contribution to development plans that met a wide range of needs in Laos even though many other donors cut the amount of their ODA, or decided to concentrate only on specific areas after the Asian economic crisis,

It must be pointed out, however, that the purposes and objectives of Japanese ODA in Laos have not been yet made clear in the Laos Country Assistance Policy. Unclear aims and direction to be taken for ODA in the priority sectors were responsible for ambiguous and less a less strategic direction of ODA projects undertaken at the sector level. There is therefore some difficulty in evaluating the effectiveness and efficiency of the results of the Japan's ODA policy.

Donors in Laos, including Japan, have indicated the issues of ODA in Laos related to the recurrent budget for development projects and the sustainability of development projects after the completion of donors' assistance. In order to review the effectiveness and efficiency of the results of Japan's aid in Laos appropriately, evaluation and analysis must also take place from the point of view of the sustainability of aid effects.

### **6.2. Recommendations**

The aims and objectives of Japan's ODA to Laos must be clarified not only from the point of view of the accountability of the Japanese government to the Japanese people, but also because it is necessary to make Laos as a recipient country understand the purpose and significance of Japan's ODA to Laos. In addition to this, it is inevitable that the Japanese government implement more strategic, efficient and selective aid in order to maximize the effects of ODA since the ODA budget has been reduced. Although this

evaluation did not objectively analyze how Japan's ODA to the priority sectors has and can contribute to the economic growth of Laos, it is essential to consider effectiveness of assistance and to prioritize sectors for the new Country Assistance Plan for Laos from the following points of view: **1) support for regional economic integration for the economic development of Laos, including infrastructure development and human resource development; 2) support for poverty reduction, including BHN support and development in poor areas; 3) support for crosscutting issues, such as gender.**

To carry out a highly effective and efficient aid policy, it is necessary to ensure consistency between the strategic aid policy and the process of project formation. In the preparation process of the new Country Assistance Plan, it is crucial to have discussion and understanding on priority areas supported by Japan's ODA through policy dialogue between the Japanese and Lao governments and that this is based on well-defined goals and objectives of assistance to each priority area under the clear policy goals and objectives of Japan's ODA to Laos. Such policy formation will enable more strategic and logical project formation to achieve the sector goals. This, in turn, should lead to better efficiency in Japan's ODA to Laos. At the same time, it will be necessary to support capacity building of the Lao government for project formation, including enhancement of participatory development, since the project planning capacity of Laos is very limited even though Japan's ODA is provided in correspondence to requests by the Lao government.

The strengthening of the fiscal foundations of the Lao government is a critical issue for the implementation of ODA projects. It is necessary to consider measures to ensure recurrent costs for infrastructure and social services developed by ODA. Also, in order to promote self-discipline and ownership for development projects on the part of Laos, it will be indispensable to make clear how long and how far aid will continue, together with a time limit on how far and when the aims of the priority sectors can be reached in the preparation process of the new Country Assistance Plan. It is also necessary to devise a monitoring system to review the progress of the sector goals defined in the Plan.

In order to increase efficiency of Japan's ODA to Laos, it is not enough to list up aid schemes which can be implemented in Laos from the existing scheme of Japan's aid. It is essential to set up a new country assistance plan which includes the development of a new aid framework with approaches to cope with the current development needs in Laos. The new framework should contain revision of schemes including the expansion of

targets, development of new schemes, and coordination with other donors.