

Ex-ante Evaluation

1. Name of the Project

Country: Lao People's Democratic Republic

Project: Second Poverty Reduction Support Operation (PRSO2)

(Loan Agreement: February 22, 2007; Loan Amount: 500 million yen; Borrower: The Government of Lao PDR)

2. Necessity and Relevance of JBIC's Assistance

Since 1986, the government of Lao PDR has gradually been promoting a shift from a planned economy to a market oriented economy based on the New Economic Mechanism (NEM) which is a new line of reform. This has been accomplished through the introduction of self-supporting accounting system for state-owned enterprises (SOEs), privatization of SOEs, as well as the promotion of deregulation for the domestic economy and trade deregulation.

The real GDP growth rate has been rapid growth trend in recent years, marking 7.0 per cent in 2005, and it is expected to keep the range of 6.0% to 7.0% from hereafter. The factors behind the recent rapid growth are investment in mining and hydroelectric power sector, as well as the expansion of exports of mineral resources. On the other hand, the percentage of the agricultural sector in the GDP is just under 50%, farm worker who accounts for 85 per cent of the total population are low-income group. The per capita of GNI was \$440 in 2005, placing Lao PDR as the poorest of the least developed countries. Although the poverty rate declined from 46% in 1992-93 to 33.5% in 2002-03 due to the sustained high economic growth, the situation of poverty remains serious.

At the Sixth Party Congress in 1996, the government of Lao PDR stated growth out of the poorest country by 2020 as national goal. To realize the goal, the government of Lao PDR drew the National Growth and Poverty Eradication Strategy (NGPES) as a Poverty Reduction Strategy Paper (PRSP) in June 2004.

Moreover, the 6th National Socio-Economic Development Plan (NSED) for 2006-2010 was newly approved by the National Assembly in July 2006, which will replace the existing NGPES and will be adopted as the new PRSP after the approval process by the World Bank and the IMF. NSED continues to focus on poverty reduction, and in parallel it aims at (i) rapid and stable growth (production of value added goods to fill demand of the domestic market and increase exports), (ii) strengthening of competitiveness in the frameworks of ASEAN and WTO, (iii) simultaneous economic development and social development, and (iv) expansion of socio-economic infrastructure.

To achieve the PRSP in Lao PDR, the World Bank launched the Poverty Reduction Support Operation (PRSO), and then World Bank approved financing for PRSO1 and PRSO2 in 2005 and in 2006 respectively. To put it concretely, it supports the reforms in three main sectors, (i) Public Resource Management (public expenditure management, strengthening state-owned banks, and improving the performance of state-owned companies), (ii) Public Expenditure Policies (aligning spending with Pro-poor NGPES/NSED priorities), and (iii) Sustainable Growth (strengthening private sector development, accelerating regional and global integration, and improving resources management).

As NGPES is an action plan which is oriented toward both growth and poverty alleviation,

supporting the implementation of PRSO has a great significance. Furthermore, as PRSO is a policy reform with the aim of poverty reduction, it is wholly consistent with the priority area (contribution to poverty reduction) of JBIC's Medium-Term Strategy for Overseas Economic Cooperation Operations (FY2005-FY2007). In addition, PRSO is expected to contribute to the preparation of the environment to promote project type assistance by Japanese ODA, and to enhance the effects of a future deployment of assistance for infrastructure development. Therefore assistance of the various reforms by extending a loan for PRSO is highly necessary.

3. Project Objectives

The aim of PRSO is to contribute for poverty alleviation and growth in Lao PDR, which will be realized by achievements of the policy goals laid out in the NGPES, by assisting policy and institutional reforms being propelled by the Government of Lao PDR.

4. Project Description

(1) Project Outline

The basic concept of PRSO is to channel funds efficiently to Pro-poor NGPES Priorities such as education and health sectors by improving the efficiency of fiscal management, and by increasing fiscal revenues through sustainable growth. To assist the Government in achieving this goal, the ODA loan will be disbursed to the Laotian Government's general budget to implement reforms in the following three broad policy areas: (1) public resource management; (2) public expenditure policy; and (3) sustainable growth. Under three pillars cited above, a set of nine measures for institutional reforms, consisting of sectoral issues, are set forth.

(2) Total Programme Cost/Loan Amount

\$12.2 million

(Yen Loan Amount: 500 million yen)

(World Bank IDA fund amount: \$8 million equivalent (grant))

(3) Schedule

April 2004 – March 2007 (Programme period for PRSO1 – PRSO3)

(4) Implementation Structure

Executing Agency: Ministry of Finance

The PRSO is administered by the PRSO Steering Committee (chaired by the Minister of Finance) and the Secretariat (chaired by head of the External Financial Department in the Ministry of Finance with representatives of government ministries) established under the Committee.

(6) Environmental and Social Consideration

(a) Environmental Impacts/Land Acquisition and Resettlement

(i) Category: C

(ii) Reason for Categorization: PRSO is sector (general budget support) that is not expected adverse impact on the environment, and PRSO is not applicable to "a sensitive area" which is stipulated in the "Japan Bank for International Cooperation Guidelines for Confirmation

of Environmental and Social Consideration” (established in April 2002). Thus this programme is classified as Category C.

(b) Promotion of Poverty Reduction

The PRSO is an assistance in NGPES which aims to achieve poverty reduction and growth in Lao PDR. And also the PRSO itself aims to implement pro-poor policies and redress inequality through rational allocation of expenditures to social services that contribute to reducing poverty.

(c) Promotion of Social Development (e.g. Gender Perspective)

None

(7) Other Important Issues

Toward post-PRSO1-3, JBIC will actively participate in discussion with the government of Lao PDR and the World Bank, so as to reflect Japanese interest in the programme. Additionally, to enhance an efficiency of programme which aims to improve policies and institutions, JBIC will consider, in collaboration with JICA, provision of technical assistance such as the facilitation of trade and investment, as well as stimulation of economic activities in private sector, and so on.

5. Outcome Targets

(1) Evaluation Indicators (Operation and Effect Indicator)

Based on consultation with the government of Lao PDR, the World Bank prescribed outcome targets and indicators for each item in policy area to be achieved through PRSO1-3, and they are evaluated through monitoring. From among those, JBIC has selected, as operation and effect indicators, the two outcome targets and the attendant indicators which has a strong correlation to the projects and studies supported by JBIC.

Indicator	Baseline (baseline year)	Target (2007)
1. Public Resource Management (Outcome targets: reduction of SOE losses, increase of transparency and commercial viability of SOEs)		
Percentage of loss making SOE	30% (2003)	Improvement in baseline
Reduction of annual loss of loss-making SOEs	200 billion kip (2003)	Improvement in baseline
Reduction of combined loss for the first phase of SOEs (four SOEs)	19 billion kip (2003)	Improvement in baseline
2. Public expenditure policy (Outcome target: Expansion of access to infrastructure service, sustainable financing for infrastructure)		
Percentage of rural population with access to electricity	43% (2004)	Improvement in baseline

Outcomes of other reform items are expected to be evaluated at the time of completion of PRSO3

(March 2007) by the government of Lao PDR and the World Bank based on the indicators established for each item. JBIC will confirm this evaluation.

(2) Internal Rate of Return (Financial and Economic Internal Rate of Return)

N.A.

(3) Qualitative Effects

Through the implementation of PRSO, the following qualitative effects are expected: (1) strengthening public expenditure management, (2) strengthening the financial sector, (3) improving performance of SOEs, (4) improving the financial sustainability of Utilities, (5) budget preparation that emphasizes poverty reduction given limited revenues, (6) ensuring of transparency of annual expenditures and securing of accountability, (7) strengthening private sector development, (8) accelerating regional and global integration, and (9) improving resource management.

6. External Risk Factors

Particularly, as for policy and institutional reforms that entail legislative process, there is a risk that delays will occur beyond the control of the administrative authorities, which may have an impact on the progress of the overall plan.

7. Lessons Learned from Findings of Similar Projects Undertaken in the Past

In co-finance programmes like PRSO, particularly, where many related institutions are involved, it has been learned that it is necessary to give adequate consideration in order that communications reach all relevant institutions, and that their understanding of all aspects of programmes are with one consent. Based on this lesson learned, in the process of programme formation, meetings regarding each reform item with the government of Lao PDR, the World Bank and other donors have been held repeatedly, and an endeavour to negotiate regarding sharing information and contents of programme is being made.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation

- (a) Percentage of loss making SOE
- (b) Reduction of annual loss of loss-making SOEs
- (c) Reduction of combined loss for the first phase of SOEs (four SOEs)
- (e) Percentage of rural population with access to electricity

(2) Timing of Next Evaluation

After completion of programme