

Ex-ante Evaluation

1. Name of the Project

Country: The Lao People's Democratic Republic

Project: Third Poverty Reduction Support Operation

(Loan Agreement: February 28, 2008; Loan Amount: 500 million yen; Borrower: The Government of Lao People's Democratic Republic)

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 a 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.

The real GDP growth rate has shown a rapid growth trend in recent years, marking 7.6% in 2006, and it is expected to keep the range of 6.0% to 7.0% going forward. The factors behind the recent rapid growth are investment in mining and hydroelectric power sectors, 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%, and farm workers who account for 85% of the total population comprise a low-income group. The per capita GNI was \$500 in 2006, 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 and to 31% in 2005 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 ranks of the poorest countries by 2020 as a national goal. To realize this goal, the Government of Lao PDR drew up 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 (NSEDP) for 2006–2010 was newly approved by the National Assembly in June 2006. NSEDP, which will replace the existing NGPES, will be adopted as the new PRSP after the approval process by the World Bank and the IMF. NSEDP continues to focus on poverty reduction, and in parallel it aims at (i) rapid and stable growth (production of value added goods to meet demands in 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 in 2005, for PRSO2 in 2006, and for PRSO3 in 2007. To put it concretely, it supports the reforms in three main sectors, (i) improving public resource management (public expenditure management, strengthening state-owned banks, and improving the performance of state-owned companies), (ii) improving public expenditure policies (increasing spending on pro-poor NGPES/NSEDP priorities and monitoring of the said spending), and (iii) sustainable growth (strengthening private sector development, accelerating regional and global integration, and improving forest resources management).

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

supporting the implementation of PRSO has a great significance from the perspective of ensuring the implementation of NGPES. In addition, as PRSO is a form of policy support 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). Moreover, by participating in a consultative process with the Government of Lao PDR and the World Bank and calling for cooperation with these entities via policy dialogs, the policy objectives of PRSO can be expected to reflect Japan's advice on such matters as the Government of Japan's policies related to investment. Furthermore, since PRSO contains a response to reform of the power sector and response to trade liberalization related to AFTA participation as PRSO1-PRSO3 policy actions, PRSO can be expected to make infrastructure of the power and transport sectors, which were developed with assistance by Japanese ODA loans, more efficient and easier to use. Thus providing assistance to various reforms by extending an ODA loans for PRSO is highly necessary and relevant.

3. Project Objectives

The aim of PRSO is to contribute to poverty alleviation and economic growth in Lao PDR, which will be realized through achievements of the policy goals set forth in the NGPES/NSEDP for individual sectors, by assisting institutional reforms (reform of public resource management, reform of public expenditure policy, sustainable growth) 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 through improvement of budget planning and implementation and reinforcement of the financial sector, and by increasing fiscal revenues through sustainable growth due to improvement of the private sector, etc. 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: (i) improving public resource management; (ii) improving public expenditure policy; and (iii) sustainable growth.

(2) Total Project Cost / Loan Amount

About \$19.1 million

(Yen Loan Amount: 500 million yen (about \$4.7 million))

(World Bank IDA Fund Amount: \$10 million equivalent (grant))

(EC Fund Amount: approximately 3 million euros (\$4.4 million) (grant))

(3) Schedule

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

(4) Implementation Structure

(a) Borrower: The Government of Lao People's Democratic Republic

(b) Executing Agency: Ministry of Finance

(c) Operation and Maintenance System: The PRSO is administered by the PRSO Steering Committee (chaired by the Minister of Finance) and the Technical Secretariat (chaired by the Vice Minister of Finance with representatives of government ministries) established under the

Committee.

(5) Environmental and Social Consideration

(a) Environmental Effects / Land Acquisition and Resettlement

(i) Category: C

(ii) Reason for Categorization: The project sector (general budget support) is not expected to have adverse impact on the environment, and the project is not located in a sensitive area under the “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations” (established in April 2002). Thus this programme is classified as Category C.

(b) Promotion of Poverty Reduction

The PRSO supports NGPES, which aims to achieve poverty reduction and economic growth in Lao PDR, and the PRSO itself aims to implement pro-poor policies and redress inequality. Thus it falls under the category of poverty reduction project as defined by JBIC.

(c) Promotion of Social Development (e.g. Gender Perspective, Measures for Infectious Diseases Including AIDS, Participatory Development, Consideration for the Handicapped, etc.)

This programme aims to improve the quality of those engaged in education and healthcare by establishing budget allocation guidelines for implementing a minimum amount of educational and healthcare services at the local government level by including healthcare and education fields in the “allocation of expenditure for priority poverty reduction measures,” which is one of the reform items being promoted by the Government of Lao PDR, by using enhancement of their incentive to work as a trigger.

(6) Other Important Issues

To enhance the efficiency of programmes like PRSO3 which aim to improve policies and institutions, JBIC will consider, in collaboration with other members of the aid community, provision of technical assistance such as the facilitation of trade and investment, as well as stimulation of economic activities in the public sector.

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, two outcome targets and attendant indicators that have strong correlations to projects and studies supported by JBIC.

Indicator	Baseline (baseline year)	Target (2007)
1. Improving Public Resource Management (Outcome targets: reduction of SOE losses, increase of transparency and commercial viability of SOEs)		
Percentage of loss making SOEs	30% (2003)	Improvement from baseline
Reduction of annual loss of	200 billion Kip (2003)	Improvement from baseline

loss-making SOEs		
Reduction of combined loss for the first phase of SOEs to be restructured (four SOEs)	19 billion Kip (2003)	Improvement from baseline
2. Improving public expenditure policy (Outcome target: Expansion of access to infrastructure services, sustainable financing for infrastructure)		
Percentage of rural population with access to electricity	43% (2004)	Improvement from baseline

Outcomes of other reform items are being evaluated from 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.

6. External Risk Factors

Particularly, as for policy and institutional reforms that entail legislative processes, 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 to ensure that communications reach all relevant institutions, and that the institutions are in agreement on all aspects of these programmes. 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 efforts are being made to adjust and reach an agreement on sharing information and programme contents.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation

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

(2) Timing of Next Evaluation

At project completion (to be implemented in concert with the World Bank's evaluation work)