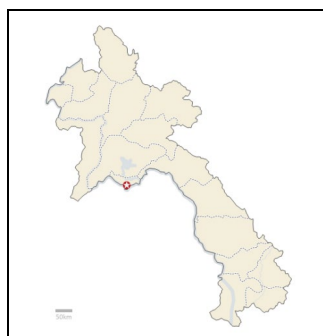


## 0. Summary

This project aimed to build capacity of public debt management and improve public services. This program aimed to promote reforms in various areas indicated in the mid-term and long-term national plans of the Lao People's Democratic Republic (hereafter, Lao PDR) through budget support and policy dialogues, by supporting institutional reforms that the Government promotes, thereby contributing toward poverty reduction and economic growth. The program is highly relevant to Lao PDR's development policy and needs and to Japan's official development assistance policy. Overall, the program's framework and approach have been appropriate as respective sectors' main tasks that lead to poverty reduction and economic growth have been translated into concrete actions consistently. Although approximately half of the indicators had met their targets, some indicators' targets were not met. The indicators that were not achieved included the number of days needed to establish a company, the number of documents needed for import/export, the number of state-owned enterprises (hereafter, SOEs) with deficit, electricity arrears of the Government toward the Électricité du Laos (hereafter, EDL), the number of Ministries that input systematically the provincial budgets by the beginning of the fiscal year, and the textbook-pupil ratio for three core subjects in all five grades of primary education. This program strengthened the institutional capacity of financial management and improved the budget allocation to the health sector, which contributes to poverty reduction. From these findings, this program has achieved its objectives to some extent. Therefore effectiveness and impacts of the program are fair. Furthermore, the Japan International Cooperation Agency (JICA) contributed by advising on policy actions and the suggesting improvements in the project coordinating capacity of the related Ministries of the Lao Government.

## 1. Project Description



Program Location (Entire Lao PDR)



Discussions held at the Ministry of Finance

## 1.1 Background

The economic and social development in Lao PDR has been lagging due to the land-locked geographical situation and the long civil war that lasted until 1975, and the country is classified by the United Nations as one of the least developed countries (LDCs). In 1986, under the “New Economic Mechanism,” Lao PDR chose to introduce the principles of market economy and to promote an open economic policy. The Sixth Congress of the Lao People’s Revolutionary Party in 1996 set an objective of exiting from the LDC status by 2020. To achieve this, in 2004, the Government launched the *National Growth and Poverty Eradication Strategy*, (hereafter referred to as “NGPES”)<sup>1</sup> or the long-term national plan positioned as the *Poverty Reduction Strategy Paper* (hereafter referred to as “PRSP”),<sup>2</sup> and since then, poverty reduction and economic growth have been considered as national goals. The Government formulated a five-year plan, or the *Seventh National Socio-Economic Development Plan* (hereinafter, “NSEDP”) (2011–2015), which aimed at the achievement of the Millennium Development Goals (MDGs) by the year 2015 as one of the most important goals. Thus, the need to promote poverty reduction and economic growth was becoming greater than ever.<sup>3</sup>

Since the 2000s, there has been a transition from the project approach, which was the conventional aid modality, to the program approach,<sup>4</sup> which is considered as an improved aid modality. In 2005, the Second High Level Forum on Aid effectiveness adopted the “Paris Declaration on Aid Effectiveness,” by addressing the following five points: strengthening ownership of recipient countries, consistency with recipient countries’ policies, harmonization among donor countries, result management, accountability of donor countries and recipient countries.

Following these international trends, in 2006 Lao PDR and donors for Lao PDR agreed on the “Vientiane Declaration on Aid Effectiveness,” which addressed promoting ownership, strengthening consistency with national policies, harmonization and simplification of development methods, management and prioritization of results, and mutual accountability. The implementation of these principles increased the momentum for enhancing the effectiveness of aid.<sup>5</sup>

The World Bank, having provided general budget support in various countries under its program approach, initiated the first general budget support in Lao PDR as the Poverty Reduction Support Operation (PRSO) in 2005. The PRSO aims to improve the management of public resources, to

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<sup>1</sup> In Lao PDR’s national development plan, it has been shown that sustainable growth and the eradication of poverty are set as national goals by stabilizing the macro-economy, improving the business environment, strengthening the governance of the public sector, and continuous revenue securing (Lao People’s Democratic Republic, *National Growth and Poverty Eradication Strategy* (NGPES), 2004).

<sup>2</sup> The World Bank and the International Monetary Fund have been implementing this program since 1999, wherein developing countries formulate their own development plans. Particularly, it has been strengthened to turn public spending into areas that lead to poverty reduction. International Bank for Reconstruction and Development/World Bank *Annual Report* 2001, pp. 42-43.

<sup>3</sup> Materials provided by JICA.

<sup>4</sup> The Organisation for Economic Co-operation and Development (OECD) raises the following points as features of the program approach. First, it is a comprehensive program and budget framework. Second, it is a formal process of the harmonization of donors, and harmonization of reporting, budgets, fiscal management, and procurement, based on the leadership of the host country or institution. This process also involves efforts to increase the use of local systems for program design, implementation, fiscal management, and monitoring and evaluation (OECD, *The Paris Declaration on Aid Effectiveness* (2005) and *Accra Agenda for Action* (2008), Paris: OECD, not dated).

<sup>5</sup> World Bank, “World Bank in Lao PDR,” Issue No. 4, March-April 2007, pp. 1-2.

increase social service expenditure, to maintain economic growth by improving the utilizing of public resources and public expenditure policy, and by supporting institutional reforms for sustainable growth. Additionally, the PRSO is also in the position to support strengthening public expenditure management to make effective use of public resources generated by the Nam Theun 2 hydropower dam developed by the World Bank and other natural resource projects for poverty reduction and economic growth.<sup>6</sup>

The Japan Bank for International Cooperation (hereinafter, “JBIC”) participated in the PRSO 2 in 2006 as the first co-financing donor and subsequently participated in PRSO 3 in 2007. After the integration of JBIC’s overseas economic cooperation operations and JICA in 2008, JICA participated in PRSO 5 in 2009 and PRSO 9 in 2013. These loans were provided in the form of expenditure on import settlement funds, and the Lao Government could retain the same amount of the local currency, which could be used as a general revenue source for the implementation of policies.

The mechanism of PRSOs was designed to provide financial assistance as support for government finance through the process as follows. “Policy Matrix” was decided based on a policy dialogue with the Lao Government concerning policy and institutional reform necessary to achieve the national goals indicated in the PRSP. Upon confirming the achievement of the “Policy Matrix” financial support was disbursed. Under the “Policy Matrix” were the “policy actions” necessary to achieve policy and institutional reforms, and particularly important policy actions were set as “triggers” every fiscal year. The confirmation that the triggers were achieved by the Government of Lao PDR, enabled the donors to conclude the grant or loan agreement and make a full disbursement.<sup>7</sup>

Overall, the PRSOs were implemented in series: PRSO 1-3 in the 1<sup>st</sup> PRSO series for 3 years, PRSO 4-7 in the 2<sup>nd</sup> PRSO series for 4 years, and PRSO 8 to 11 in the 3<sup>rd</sup> PRSO series for 4 years. However, PRSO 10 was canceled because its multiple triggers were not achieved, and subsequently PRSO 11 was not conducted.<sup>8</sup>

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<sup>6</sup> These details can be found in the World Bank report titled the “International Development Association program document for a proposed credit in the amount of SDR3 million (equivalent to US\$4.5 million) and a proposed grant in the amount of SDR3.6 million (equivalent to US\$5.5 Million) to Lao People’s Democratic Republic (PDR) for a First Poverty Reduction Support Operation,” March 11, 2005, p. 21. The Nam Theun 2, hydropower dam is a private sector business amounting to US\$ 1.2 billion, which has the largest generation capacity (1,020 MW) in Lao PDR, and the Lao government has a holding 25% shares in this business. The World Bank provided support through a partial risk guarantee of US\$ 50 million and a grant aid of US\$ 20 million.

<sup>7</sup> Information provided by JICA. The PRSO trigger condition for the following fiscal year was established in the PRSO of that year. Additionally, in the PRSO of that year, the progress of the trigger set in the previous year was confirmed. In this process, the trigger that achieved the goal was called the “prior action (already accomplished reform component).”

<sup>8</sup> The World Bank and the Lao Government discussed certain modifications of the triggers in order to respond to the changing circumstances. However, among the eight triggers to be achieved by April 2014, one was achieved, three were partially achieved, and four were not achieved (Policy Matrix on June 30 2016, in World Bank, “Implementation Completion and Results Report,” No. ICR108561, 2016, pp. 7-9). The World Bank pointed out that reforms had been hindered between 2013 and 2015 and indicated three factors behind it (*Ibid.*, p. 11, pp. 20-21).

First, the biggest factor was the lowered commitment to the PRSO program of reforms by the main ministries such as the Ministry of Finance. For instance, the Government introduced excessive civil service wage increases in late-2012, which led to greater issuance of non-concessional debt. Moreover, the Government failed to promote the Treasury Management Information System (TMIS), which affected the reforms for the Public Finance Management (PFM). Second, it was difficult for the Ministry of Finance to coordinate with the line ministries and to implement the reforms. Third, the decline in global commodity prices reduced revenues and the fiscal space for the Government to implement fully the school clock grants and the free maternal and child health program.

Apart from this, the World Bank implemented the Green Resilient Growth Development Policy Financing in 2017-2018 with the aim of supporting the Government in achieving fiscal stability and moving toward green growth.

## 1.2 Program Outline

By supporting the policy and institutional reforms promoted by the Government of Lao PDR, this program promoted reforms in various areas of Lao PDR's development goals in NGPES/NSEDP, the long-term and medium-term national development plans, and the policy dialogue, thereby contributing toward Lao PDR's poverty reduction and economic growth. This ex-post evaluation reviewed four loans provided by Japan, and their outlines are as follows.

Loan Name	Second poverty reduction support operation (hereinafter, “(a)”)	Third poverty reduction support operation (hereinafter, “(b)”)	Budget strengthening support loan (hereinafter, “(c)”)	Ninth poverty reduction support operation (hereinafter, “(d)”)
Loan Name under the PRSO framework	PRSO 2	PRSO 3	PRSO 5	PRSO 9
Loan Approved Amount/ Disbursed Amount	500 million yen / 500 million yen	500 million yen / 500 million yen	1,500 million yen / 1,500 million yen	500 million yen / 500 million yen
Exchange of Notes Date/ Loan Agreement Signing Date	December 2006 / February 2007	February 2008 / February 2008	November 2009 / November 2009	December 2013 / January 2014
Terms and Conditions	Interest rate 0.01%; repayment 40 years (including 10 years of grace period) Condition for Procurement: General Untied			
Borrower / Executing Agency	The Government of the Lao People's Democratic Republic /Ministry of Finance			
Loan Completion	March 2007	March 2008	December 2009	March 2014
Main Contractor (Over 1 billion yen)	—			
Main Consultant (Over 100 million yen)	—			
Related Studies (Feasibility Studies, etc.)	“Study on the formulation of the reform plan of public enterprises for providing Lao PDR with poverty reduction assistance” (2005) “Preparatory survey on the industrial development plan of the Lao PDR” (2010)			
Related Projects	<b>【Technical Cooperation】</b> “Project on Support to Trade Promotion” (2009–2012) “The Project for Capacity Building on Public Investment Program Managements” (2004–2007), “Project for Enhancing Capacity in Public Investment Program Management” (2007–2010) “Strengthening of Governance and Trade Facilitation in Customs” (2013–2017), “Project for Improving In-service Teacher Training for Science and Mathematics Education”(2010–2013) “Supporting Community Initiatives for Primary Education Development in the Southern Provinces (hereafter, CIED)” (2007–2011) “CIED Phase 2” (2012–2016) “Capacity Development for Sector-wide Coordination in Health” (2006–2010) “Project for Strengthening Integrated Maternal, Neonatal and Child Health Services” (2010–2015) “Capacity Development for Sector-wide Coordination in Health Phase 2” (2010–2016) “Project for Sustainable Development of Human Resource for Health to Improve			

	<p>Maternal, Neonatal and Child Health Services” (2012–2016)</p> <p>【Technical Assistance Project related to ODA loan】  “Project for Establishing Public Investment Plan under NSEDP” (2012–2015)</p> <p>【Grant Aid】  “The Project for the Improvement of School Environments in Champasak and Savannakhet Provinces” (2010)  “The Project for Strengthening Health Service Network in Southern Provinces (2013)</p> <p>【Other organizations’ projects】  World Bank: “Nam Theun 2 Multipurpose Project” (2005～2017)  “Public Finance Management Strengthening Program (PFMSP)” (2007～2013)  “Customs and Trade Facilitation Project, Trade Development Facility” (2008～2017)  (including the Multi-Donor Trust Fund of donors such as Australia and EC)  European Union (EU): “Basic Education Quality and Access in Lao PDR (BEQUAL)” (2015～2019)  “Support to the Education Sector Reform in Lao PDR” (2015～2017),  “Partnership for improved nutrition in Lao PDR— Strengthening nutritional governance for generating a multi-sectoral response and scaling up nutrition-specific actions” (2016～2021).</p>
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## 2. Outline of the Evaluation Study

### 2.1 External Evaluator

Takeko Iinuma, Waseda University<sup>9</sup>

### 2.2 Duration of the Evaluation Study

This ex-post study was conducted with the following schedule.

Duration of the Study: November 2017–January 2019

Duration of the Field Study: March 27–April 7, 2018 and July 14–July 20, 2018

### 2.3 Constraints during the Evaluation Study

As stated above, this program was meant to reserve internal currency by applying the yen loaned to import settlement funds, and the retained local currency is devoted to the general financial resources of the Ministry of Finance of Lao PDR, and hence its use was not specified. In other words, since the Ministry of Finance could not specify the allocation of budget to relevant ministries or departments, it was difficult to perform a financial sustainability analysis.

<sup>9</sup> The reinforcement staff of the Waseda University, an incorporated educational institution, is the contractor. The actual affiliation of the evaluator is to the Senshu University (Professor).

### 3. Results of the Evaluation <sup>10</sup>

#### 3.1 Relevance (Rating: ③<sup>11</sup>)

##### 3.1.1. Consistency with the Development Plan of Lao PDR

The Government of Lao PDR formulated a long-term national development plan, NGPES (2004), as a PRSP, which became the national goal for poverty reduction and sustained economic growth. The NSEDP (2006–2010), which is a mid-term and the sixth five-year plan, also focused on poverty reduction, and it was considered as the second PRSP. The plan aimed at rapid and steady development, enhancing competitiveness in the framework of the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization (WTO), promoting compatibility between economic and social development, and expanding socio-economic infrastructure. The 7<sup>th</sup> NSEDP (2011–2015), a subsequently formulated plan, aimed at achieving objectives, such as economic growth of more than 8%, a GDP per capita of US\$ 1,700, the MDGs, infrastructure development, and building a diverse economic infrastructure to enable Lao PDR's exit from the LDC status, establishing sustainable development, achieving political stability and impartiality, and promoting efforts for regional and international integration. In order to achieve these major national development plans, (a) was implemented based on the NGPES, (b) and (c) on the NSEDP (2006-2010), and (d) on the 7<sup>th</sup> NSEDP (2011–2015), and all operations were consistent with national development plans and policies at the time of each appraisal.<sup>12</sup> Particularly, since the 7<sup>th</sup> NSEDP placed the education and health sectors as one of the important components because there had been concerns on not being able to achieve the MDGs, and the significance of (d) emphasizing the institutional improvement in education and health can be valued. Furthermore, the main objective of the 8<sup>th</sup> NSEDP (2016–2020), which was the five-year plan at the time of this ex-post evaluation, is to exit from the LDC status. In order to achieve it, the plan aims at the following objectives: to achieve sustainable and inclusive economic growth with reduced economic vulnerability, human resource development that leads to capacity building of the public and private sectors, poverty reduction in all ethnic groups, access to high quality education and health services for men and women of all ethnic groups, and the effective conservation of natural resources and the environment respecting green growth and sustainability. This plan aims to progress with achieving poverty reduction and sustainable growth while maintaining the persistent policy direction. From the above, the program is consistent with the focus on the development policy at the time of appraisal and ex-post evaluation.<sup>13</sup>

<sup>10</sup> Since this program serves as an Option for Program Type Japanese ODA Loans, it is difficult to quantitatively compare input (fiscal support) and output (policy reform), and thus, in this evaluation, efficiency is not evaluated. For sub-rating, only “relevance” and “effectiveness/impact” are indicated, and general rating is not considered.

<sup>11</sup> ③: High, ② Fair, ① Low

<sup>12</sup> The Government of Lao PDR, *National Growth and Poverty Eradication Strategy (NGPES)*, 2004; the Committee for Planning and Investment, *NSEDP (2006-2010)*, 2006; the Ministry of Planning and Investment: *The Seventh Five-Year NSEDP (2011-2015)*, 2011; the Government of Lao PDR and the United Nations: *The Millennium Development Goals Progress Report for the Lao PDR 2013*, 2013.

<sup>13</sup> Ministry of Planning and Investment, *8th Five-Year National Socio-Economic Development Plan 2016–2020*, June 2016. In addition, each sector plan at the time of ex-post evaluation was in agreement with the national plan, the 8th NSEDP. Moreover, in any sector, efforts were made to ensure that poverty reduction and economic growth continue as the main objectives of the national plan. Major sectoral plans related to these operations are the Financial *Public Finance Development*

### 3.1.2 Consistency with the Needs of Lao PDR

#### 3.1.2.1 Development needs

In seeking medium- and long-term national goals, the Lao Government faced many development needs. First, achieving the MDGs had been the main development goal for poverty reduction since commencement of (a), as the poverty rate depicted a serious situation at 33.5% in 2002/2003. The other development issues requiring urgent attention were as follows: (1) strengthening finance and public finance management, (2) sustaining the natural resource sector, (3) building a sustainable public finance mechanism in education and health sectors, and (4) industrial diversification and strengthening competitiveness. Additionally, at that time, there was a concern about the achievement of the MDGs in the education and health sectors (the MDG 2: the “achievement of universal primary education,” and the MDG 5: the “improvement of maternal health condition”), and hence there was a focus to improve government spending in both sectors. The percentage (survival rate) of students reaching the final grade of primary education was significantly lower than 70% (2011–2012); additionally, it was challenging to achieve 95% of the target, and improvements in the quality of education. Additionally, the number of deaths per 100,000 pregnant women was 470 (2011), and bringing down this number to 260 people (2015) was an urgent task.<sup>14</sup> Under such circumstances, (d) covered the wide range of the primary education and maternal and child health, which had been the most delayed areas in the MDGs. Thus, the program responded appropriately to the important development needs of the country.<sup>15</sup>

Prior to the implementation of (a) (b), the main needs regarding economic growth were as follows: (1) structural reforms for market-oriented economy, including SOE reforms, private sector development, financial sector reforms, (2) promotion of foreign direct investment (3) attracting foreign direct investment, (4) improving infrastructure, such as roads and electric power, and (4) building a sound financial basis. However, each of these areas had difficulties due to the following issues.<sup>16</sup>

(1) Since the introduction of the “New Economic Mechanism,” the Government of Lao PDR has been promoting structural reforms such as financial sector reforms, SOE reforms, and private sector development. However, there were problems in the following aspects; the financial sector was small and vulnerable, and did not function properly in the market; many state-owned commercial banks had non-performing loans for SOEs; large-scale SOEs had persistent deficits; and the private sector was underdeveloped due to many inhibitory factors.

(2) Foreign direct investment increased after the enforcement of the Foreign Investment Management Encouragement Act 1988. In 2000–2006, a direct investment in the electric power sector led to a significant increase in the investment amount, and investment in the Nam Theun 2

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*Strategy 2025, State Enterprises Strategic Plan on Restructuring SOEs, Government Bond Roadmap of Bond Market Development in Lao PDR (2011–2020), Infrastructure Sector Plan (2016–2020), Health Eighth Health Sector Development Plan (2016–2020), Health Sector Reform Strategy and Framework till 2025, and Education Sector Plan (2016–2020).*

<sup>14</sup> Information provided by JICA.

<sup>15</sup> The Government of Lao PDR and the United Nations. *The Millennium Development Goals Progress Report for the Lao PDR 2013*. United Nations, 2013.

<sup>16</sup> For all of (1) – (4), information provided by JICA.

hydroelectric power plant accounted for 83% of the total foreign direct investment, as of 2005. The second major investment area after the electric power sector was the mining sector. However, there were no promising industries, other than electric power and mining. Additionally, high investment costs when compared to the surrounding Asian countries, underdeveloped infrastructure, such as roads, and uncertain investment approval process, among others, have prevented direct investment, with the exception of the power sector in Lao PDR.

(3) Infrastructure has been an impediment to economic growth because of insufficient maintenance. For example, as of 2005, the national highway pavement rate was 53%, the prefectural road / regional road pavement rate was 3%, and the household electrification ratio was 47% (2004). In addition to delays in the development of roads, and poor transmission and distribution networks, among others, there was a problem concerning arrears due to improper electricity charges in the power sector, and hence securing financial soundness was an issue.

(4) In the fiscal area, budget deficits were persistent due to the problems of revenue and expenditure management. Although the decentralization policy of the tax administration was being promoted, the taxation ability of the local government was low and the revenue base was weak. Concerning the expenditure issues, the central government's budget formulation and execution abilities were insufficient. The public external debt had been persistently large, making the country eligible for the Heavily Indebted Poor Country (HIPC) initiative in 2005. Although the Lao Government had been working on debt repayment and poverty reduction without receiving debt relief under the initiative, strengthening the fiscal foundation was considered indispensable.

In response to these needs, the program provided assistance, which would lead to: strengthening public expenditure management capacity, strengthening the financial sector, improving the performance of SOEs, and improving the financial sustainability of the public utility sector, budget formulation that emphasizes poverty reduction measures in the limited revenue, ensuring transparency and accountability on expenditures, developing the private sector, promoting economic integration with the international community of neighboring countries, and improving resource management.

### 3.1.2.2 Funding needs

Financing of the fiscal deficit at the time of these loan appraisals was compensated by external borrowing because domestic financial market was not well-developed and domestic borrowings were limited. Most of these external borrowings were concessional loans provided by the World Bank, ADB, and JBIC (then). While current expenditures could be covered by the revenue, capital expenditure (development budget) for infrastructure development, among others, accounted for more than half of the expenditure and mostly covered by foreign aid (Table 1).<sup>17</sup> The implementation of these operations in response to such funding needs was significant.

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<sup>17</sup> In Lao PDR, the revenues are indicated with figures with grants and figures without grants.



Table 1 Financial Scenario of Lao PDR: Changes in Revenues/Expenditures  
and Compensation for Deficit (Unit: 100 Million Kip)

	2002/2003	2003/2004	2004/2005*	2005/2006**
Revenue and Grant	2,794	3,103	3,875	5,316
Revenue	2,341	2,821	3,337	3,956
Grants	453	283	538	1,360
Expenditure	4,107	3,967	5,126	6,716
Current	1,527	1,890	2,479	2,949
Capital (development budget)	2,370	1,853	2,647	3,512
Debt repayment / contingency	120	224	0	255
Overall balance	▲1,223	▲864	▲1,251	▲1,400
Financing	1,223	864	1,259	1,400
Domestic borrowing (net)	97	▲59	▲205	▲82
Foreign borrowing (net)	1,108	923	1,460	1,482
Discrepancy / Financing gap	18	0	4	0

Source: IMF, 2005: Article IV Consultation Staff Report, 2006

\* Revised budget.

\*\* Budget plan.

Furthermore, at the planning stage of (c), it was reported that due to the impact of the global financial crisis, there would be a decline in the tourism revenue, exports, and resource-related revenue due to a decline in resource prices, also a deterioration in the fiscal and international balance of payments due to the postponement of the investment plan.<sup>18</sup> In the face of the deterioration of the fiscal balance, as domestic financing means were limited and it was difficult to issue bonds overseas, the country had to rely on the support from donors to cover a large fraction of its financial gap. Therefore, this program also responded to the needs in the event of a concern about the deterioration of the financial gap caused by such a financial crisis.

The above facts show that this program has been highly consistent with the country's development needs.

### 3.1.3 Consistency with Japan's ODA Policy

In Japan's *the Country Assistance Program/Policy for Lao PDR* (2006, 2012), the three main aid goals were as follows: (1) to support steady progress toward the achievement of the MDGs, (2) to support economic development as an engine for autonomous and sustainable growth and to support its foundation (3) to develop capacity that can result in self-help efforts toward poverty reduction and economic growth. By improving the public resource management, which is the foundation of Japan's

<sup>18</sup> World Bank. *Impact of the Financial Crisis and Recent Economic Developments in Lao PDR*. Vientiane: the World Bank Office, 2009.

aid goal (3), PRSOs promoted budget allocation for the priority poverty measures as in Japan's aid goal (1) while promoting sustainable growth including the private sector development as in its aid goal (2). Therefore, this program has been well-aligned with Japan's ODA policy.

### 3.1.4 Appropriateness of the Program Plan and Approach

This program was based on multilateral donor cooperation, and the summary of the entire operations is shown in Table 2. The European Community (EC) and Australia have been participating, starting from the PRSO 3 and PSRO 4, respectively, with a focus on the education sector.

There are two main reasons why Japan's form of cooperation was not in the form of a grant aid but loan assistance. First, the main contents of the program, at the outset, was the support for state-owned, private corporate, and financial sectors. In this sense, this program was not suitable for grant aid from Japan to Lao PDR since grant aid targeted basic human needs (BHN) and infrastructure improvement. Second, under the Japan Mekong Region Partnership Program (2007–2010), which demonstrated that the Mekong region was an important region for economic cooperation and that ODA volume would be expanded for this region, the utilization of yen loans was considered requisite for securing the aid volume while Japan's grant aid budget was on a downward trend.<sup>19</sup> The Government of Lao PDR highly evaluated Japan's participation in co-financing scheme with concessional loans after understanding the situation of Japan.<sup>20</sup>

Table 2 Overview of the Entire PRSOs

Operation	Year	Donor	Amount	Type of aid	Main areas
PRSO 1 <sup>st</sup> Series					
PRSC 1 <sup>21</sup>	2005	World Bank	10 million US Dollars	Loan/grant	(1) improvement of public resource management, (2) improvement of public expenditure policy, (3) sustained growth
PRSO 2	2006	World Bank	8 million US Dollars	Grant	
		Japan	500 million Yen	Loan	
PRSO 3	2007	World Bank	10 million US Dollars	Grant	
		Japan	500 million Yen	Loan	
		EC	3 million Euro	Grant	
PRSO 2 <sup>nd</sup> Series					
PRSO 4	2008	World Bank	10 million US Dollars	Grant	Promotion of sustainable growth by improving the investment, environment, natural resource management, trade, public finance management system, and
		EC	3 million Euro	Grant	
		Australia	2.5 million Australian Dollars	Grant	
PRSO 5	2009	World Bank	10 million US Dollars	Grant	

<sup>19</sup> Information provided by JICA.

<sup>20</sup> Interviews with the Ministry of Finance.

<sup>21</sup> The first support was implemented as a Poverty Reduction Support Credit (PRSC), and it assumed the name PRSO in the second series of assistance.

		Japan	1500 million Yen	Loan	public service provision
		EC	3 million Euro	Grant	
		Australia	2.5 million Australian Dollars	Grant	
PRSO 6	2010	World Bank	10 million US Dollars	Grant	
		EU <sup>22</sup>	3 million Euro	Grant	
		Australia	2.5 million Australian Dollars	Grant	
PRSO 7	2011	World Bank	10 million US Dollars	Grant	
		EU	3 million Euro	Grant	
		Australia	2.5 million Australian Dollars	Grant	
PRSO 3 <sup>rd</sup> Series					
PRSO 8	2012	World Bank	20 million US Dollars	Grant	(1) Strengthened fiscal and public financial management, (2) sustainable revenue management related to the natural resource sector (mining and hydroelectric power generation), (3) construction of a sustainable public finance mechanism for education and health sectors (4) institutional reform for industrial diversification and boosting competitiveness
PRSO 9	2013	World Bank	20 million US Dollars	Loan/Grant	
		Japan	500 million Yen	Loan	
		EU	4 million Euro	Grant	
PRSO 10	2014	World Bank	Not implemented		
		Japan			
		EU			
PRSO 11	2015	World Bank	Not implemented		
		Japan			
		EU			

Source: Based on materials provided by JICA.

As an evaluation of the aid approach, the following sections examine the validity of Japan's participation in the World Bank-led PRSO scheme and the validity of the contents of the policy matrix.

### 3.1.4.1 Relevance of Japan's participation in the PRSO framework

Japan has been the largest donor country for Lao PDR since 1991. Japan's participation in the PRSOs was significantly important for providing comprehensive assistance in cooperation with other donors and for drawing on Japan's accumulated experience as a donor and its cooperation across multi-sectoral assistance projects. First, PRSOs set public financial management as the main pillar; however, due to the nature of public finance management, there are very diverse sectors and sub-sectors (such as tax, budget, accounting, treasury management, and human resource development). It was meaningful for Japan, which has supported in diverse sectors, to participate in a multilateral donor cooperation scheme that covered comprehensive support. Additionally, at the PRSO, it has

<sup>22</sup> Following the establishment of the European External Action Service (EEAS), which is the organization that is responsible for foreign policy, with the granting of a legal personality to EU's at a global level by the Lisbon Treaty (effective on December 1, 2009), the designation of the EU has been replaced by EC.

been recommended that the target areas of PRSOs be assisted by associating the PRSO agenda with each donor's technical assistance in the related sectors. With considerable experience in the related aid areas, Japan facilitated the promotion of individual field projects as well as reform agenda within the PRSO framework. Participation in (a) (b) promoted the implementation of the public corporate reform proposed by JBIC (then) through the above-mentioned surveys. Additionally, reforms on the Special Economic Zone, which were supported by Japan through (a), (b), and (c), lead to the basic concept of the national industrial development and the plans for Vientiane, Savannakhet, and Champasak industrial parks. The participation resulted in a feasibility study of Vientiane industrial zone phase 1.<sup>23</sup> Participation in (d) facilitated the reform necessary for the number of technical cooperation projects and their outcomes. Technical cooperation projects include "Community Initiative Primary Education Improvement Project (CIED)" (2007–2011), "CIED Phase 2" (2012–2016), "Health Sector Project Adjustment Capability" (2010–2015), "Project for Strengthening Integrated Maternal, Neonatal and Child Health Services" (2010–2015), "Capacity Development for Sector-wide Coordination in Health Phase 2" (2010–2016), and "Project for Sustainable Development of Human Resource for Health to Improve Maternal, Neonatal and Child Health Services" (2012–2016).

Moreover, Japan's participation in the PRSO at the earliest stage also attracted the participation of EC/EU and Australia, which led to the promotion of donor coordination. In fact, the reason why Australia participated in PRSO 4-7 was because of its judgement that its participation was significant in establishing cooperation with major donors, such as the World Bank and Japan and EC / EU for Lao PDR poverty reduction, and in committing toward achieving the aid effectiveness.<sup>24</sup>

In operations, such as PRSOs, which require multidisciplinary knowledge, the cooperation of all donor countries is considered crucial. Furthermore, in Japan, the executing agency of this program changed from JBIC to JICA after JBIC's overseas economic cooperation operation were merged with JICA in 2008, and hence it was necessary to maintain coherence and further cooperation in the implementation of the program. Japan created a "Country-based ODA Task Force" consisting of diplomatic establishments abroad and JICA country offices, and held meetings when necessary<sup>25</sup>. It seems that such institutional background also led to smooth cooperation of various institutions in Japan.

The above facts show the validity of Japan's participation in the PRSO framework in terms of donor coordination and side support.

#### 3.1.4.2 Validity of contents of the policy matrix

Examining the validity of the PRSO from the perspective of the contents of the policy matrix, it can be observed that the logical route is consistent under the national goal—poverty reduction and

<sup>23</sup> "Preparatory survey on industrial zone development in the Lao People's Democratic Republic." JICA, June 2010

<sup>24</sup> Bob Warner and Malcolm Bosworth, "Lao PDR PRSO 4-7 Independent Completion Report." Commissioned by AusAID Vientiane, 2011, p. 2.

<sup>25</sup> Interviews with the Government of Japan.

economic growth. In each sector, important components and issues leading to poverty reduction and economic growth were selected and placed logically and rationally as targets of concrete areas.

Regarding the level of policy actions, the level differs depending on the sector. For instance, with regard to actions on planning and budget, some focuses merely on “creation,” others focus on “approval,” or “execution.” Therefore, the appropriateness of policy actions was varied in their easiness and difficulties.<sup>26</sup> In fact, there were also doubts about the appropriateness of targets.<sup>27</sup> Although queries on the details of policy action formulation could not be fully answered unless the respondent was the actual personnel in charge at the time of implementation, and the grounds for individual policy action formulation could not be scrutinized in this evaluation, it was observed that in certain cases, due to some exceedingly ambitious indicators, the personnel in charge had difficulties in dealing with the actual implementation of reforms.

When formulating policy actions, basically, the Lao Government and the World Bank made decisions on their selections, but the Japanese side also expressed their views and influenced policy actions. In (a) (b), the JBIC (then), through policy dialogues, urged that the recommendations made through the public corporation reform support survey should be reflected in the PRSO’s policy action.<sup>28</sup> Furthermore, at the time of formulating the policy action for the education sector in (d), a method emphasized the injection of funds into school education following the World Bank proposal (on management of the use of school subsidies), and the Japanese side could present a practical approach that highlighted how to utilize the funds (emphasis on training for effective use of school subsidies) and incorporated this proposal into policy actions to a certain extent.<sup>29</sup>

The above facts show that the implementation of this program has been fully consistent with Lao PDR’s development policy, development needs, and Japan’s ODA policy. Regarding program plans and approaches, Japan’s participation has been significant in the PRSO framework. The content of the policy matrix has been also consistent under the national goal of poverty reduction and economic growth; this matrix has considered important policy components and issues in each sector and has set them as policy actions in concrete areas. Embassy of Japan, JBIC (then), and JICA actively participated in inter-project cooperation and policy dialogues, and complementary support from other related projects prioritized by Japan created effective forms of assistance. Therefore, relevance of this program is high.

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<sup>26</sup> Interviews with the Ministry of Finance and the related Ministries.

<sup>27</sup> Interviews with the related Ministries and JICA experts.

<sup>28</sup> Interviews with the Government of Japan.

<sup>29</sup> Interviews with the Government of Japan.

### 3.2 Effectiveness and Impact<sup>30</sup> (rating: ②)

#### 3.2.1 Policy Action / Trigger (Policy and Institutional Reform Components)

Policy areas and institutional reform components necessary to achieve the national goal of poverty reduction and sustainable economic growth were set up under this program, and multiple policy actions were included in each component. Particularly, important policy actions were fixed as triggers for each fiscal year. Most triggers were accomplished; however, for some triggers, even partial achievement was considered as an achievement. For example, in the loan (b), the component of ② the formulation of arrears reduction plan, in the Trigger 8 (Implementation of Electricity Sector Action Plan), was not completed at the time of appraisal. However, as the result of a review of ① the revision of the electricity fee and ② improvements of other components, such as decline in electricity loss, they concluded that the trigger was achieved as a whole. However, at the time of ex-post evaluation, formulation of arrears reduction plan was not completed. According to the EDL, although they were also aware of the reform objectives and report from the World Bank, in fact, new arrears were accumulating, and payment from government agencies accounted for one-tenth of the necessary amount.<sup>31</sup>

#### 3.2.2 Quantitative Effects (Operation and Effect Indicators)

In order to measure the effectiveness of the program, target values and target years (three to five years after) were set for each policy area/institutional reform components. There are variations in achievement depending on operations and indicators (Table 3). Regarding indicator achievements of (a), (b), (c), and (d), improvement from the baseline were observed for (a) and (b), and all of the four indicators were achieved. On the other hand, indicators of (c) (d) had concrete numerical targets, and the difficulty level was higher than that of (a) (b). As a result, out of 12 indicators, (c) achieved 6 indicators, 5 indicators have not been achieved until now, and data for 1 indicator are unknown. In the case of (d), out of 8 indicators, only 3 indicators were achieved, 2 indicators were partly achieved, 2 indicators have not been achieved until now, and data for 1 indicator are unknown. The indicators that were not achieved are the number of days required for establishing a company, the number of documents necessary for importing and exporting, the number of facing a deficit, the arrears of electricity to the EDL, the number of ministries systematically inputting budgets of the provinces prior to the start of financial year in the system, the textbook-student ratio of the three major subjects in the fifth grade of elementary school.

Depending on indicators, it is not possible to grasp the progress of institutional reforms by merely examining conformance to the indicator, and it is necessary to judge the outcome of the overall trend. For example, the component 3 in (d) regarding the establishment of a sustainable public finance mechanism in education and health, although indicator was achieved, it cannot be said that it was

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<sup>30</sup> Sub-rating for Effectiveness is to be put with consideration of Impact.

<sup>31</sup> Moreover, as an administrative problem, since the original bill is necessary for payment of the fee for audit reasons because EDL is unable to reissue the invoice, and if one loses the original bill, he/she cannot pay the fee (Interviews with parties concerned).

completely achieved because further financial problems were confirmed.<sup>32</sup>

Table 3: Operation / Effect Indicators and Results

(a)(b)	Baseline (2003)	Target (2007)	Actual (2007) <sup>33</sup>
	Baseline Year	Completion Year	Completion Year
<b>1 Improve public resource management</b>			
Ratio of loss-making SOEs 【Achieved】	30%	Improvement from the baseline	Only 10.2% of central SOEs were loss-making (2006) <sup>1</sup>
Reduce the combined losses made by SOEs 【Achieved】	200 billion Kip	Improvement from the baseline	192 billion Kip (2004) (Nominal Kip inflation was around 10% a year, thus the real decrease in combined losses is even larger <sup>2</sup> )
Reduce the combined losses made by 4 SOEs that were the targets of the first restructuring 【Achieved】	19 billion Kip	Improvement from the baseline	Improvement from the baseline **
<b>2 Improve public expenditure policy</b>			
Percentage of the rural population that can access electricity 【Achieved】	43% (2004)	Improvement from the baseline <sup>4</sup>	55% (2007)

<sup>1</sup> Assessment by the State Asset Management Department.

<sup>2</sup> In 2006, it was confirmed that the reform was maintained, at that time the central SOEs accounted for more than 90% of the total income loss and was 39 billion Kip.

<sup>3</sup> According to World Bank, "Implementation Completion and Results Report," No. ICR0000592, 2009, the total deficit of the four SOEs subject to restructuring decreased from 265 billion Kip to 73 billion Kip in PRSC 1 (World Bank's loan project implemented in 2006) (p. 4) (not dated).

<sup>4</sup> According to the World Bank's indicator setting, "it increased to 55% by January 1, 2010." (*Ibid.*, p. x).

(c)	Baseline (2006)	Target (2011) (at the time of PRSO 7 completion)	Actual (2011) <sup>34</sup>
	Baseline Year	Completion Year	Completion Year
<b>1. Create enabling business environment and attract quality investment</b>			
Number of days needed to start up a business 【Not achieved】	163 days	70 days	92 days <sup>1</sup>
Number of enterprises registered (Ratio of newly registered enterprises to all	N/A	10% increase per year	N/A (Because collected data did not distinguish the new enterprises

<sup>32</sup> World Bank, *op. cit.*, 2016, pp. 15.

<sup>33</sup> Throughout PRSO 1-3, the actual value achieved at the completion year of PRSO 3 by March 2007. These actual values were cited from World Bank, *op. cit.*, 2009, pp. ix-xii.

<sup>34</sup> The actual value achieved at the completion year of PRSO 7. The actual values achieved are from World Bank, *op. cit.*, 2012, p. 37-42.

registered enterprises) 【Unknown】			from the old ones)
2. Reduce trade barriers and proceed with implementation of international and regional agreements			
Number of days to export / import 【Achieved】	Export : 66 days Import : 78 days	Export : 32 days Import : 33 days	Export : 26 days <sup>1</sup> Import : 26 days <sup>1</sup>
Number of documents to import / export 【Not achieved】	Export : 12 Import : 16	Export : 7 Import : 8	Export : 9 <sup>1</sup> Import : 10 <sup>1</sup>
Total trade in GDP (%) 【Achieved】	69%	78%	98.2% <sup>2</sup>
3. Improve the performance and monitoring of state-owned enterprises (SOEs)			
Number of loss-making SOEs (primary to tertiary sectors) 【Not achieved】	13 enterprises	Reduced to half	40% (24 enterprises) out of the enterprises that could be monitored (2018) <sup>3</sup>
Ratio of the total losses to total profits of central SOEs <sup>4</sup> 【Achieved】	42% <sup>5</sup>	20% <sup>5</sup>	0.001%(2008)
Stock of arrears for electricity consumption from government agencies to EDL 【Not achieved】	113 billion Kip	0	About 90% of the bills are arrears (2018) <sup>6</sup>
4. Enhance transparency and commercialization of State-owned Commercial Banks (SOCBs)			
Percentage of NPLs of total SOCBs loans 【Achieved】	21.2%	Below 5%	2.18% (2011)
Amount of financing for the private sector 【Not Achieved】	71.6%	80%	73.4% (2012)
5. Improving service delivery (health and education)			
Primary school enrollment rate in 47 priority districts. 【Achieved】	28.4%	Over 28.4%	92.0% (2012) <sup>7</sup>
Recurrent health expenditure as % of total recurrent expenditure 【Achieved】	3.9% <sup>8</sup>	Over 3.9%	4.3% (2009/2010)

<sup>1</sup> World Bank, *Doing Business*, 2013.

<sup>2</sup> World Bank, World National Accounts data, and OECD National Accounts data files. However, the share of the total trade as % of GDP was 82.0% in 2006, and 91.7% in 2011.

<sup>3</sup> Interview with the Ministry of Finance (2018). Out of the 187 SOEs that the Ministry is informed about, 60 SOEs' financial status was monitored, and it was reported that 40% were loss-making.

<sup>4</sup> Percentage of total losses to total profits.

<sup>5</sup> According to World Bank, "Implementation Completion and Results Report," 2012, the baseline was 4.8%, the target was to reduce 20%.

<sup>6</sup> According to World Bank, *op. cit.*, 2012 (p. 37), stock of arrears came to be 0, and the target was achieved. However, according to the related authorities, as of 2018, the issue of arrears for electricity was not yet solved.

<sup>7</sup> Ministry of Education and Sports

<sup>8</sup> This amount is from the fiscal year 2007/2008.

(d)	Baseline (2011/12)	Target (2015)	Actual (2015) <sup>35</sup>
	Baseline Year	Completion Year	Completion Year

<sup>35</sup> Throughout PRSO 8-11, the actual value achieved at the completion year of PRSO 11 in 2015. These actual values were cited from World Bank, *op. cit.*, 2016, pp. iiv-xi.



<b>1 Strengthened fiscal and public financial management</b>			
Number of Ministries inputting budgets in GFIS for “Tier-2” entities prior to start fiscal year <b>【Not achieved】</b>	0	4	2 Ministries and Vientiane Municipality
Percentage of government cash balance consolidated <b>【Achieved】</b>	0%	70%	95% (95% of accounts transferred, thereby estimated that at least 95% of cash balance consolidated into the Treasury Single Account (TSA))
<b>2 Sustainable revenue management in the natural resource sectors (mining and hydropower)</b>			
Core elements of standard fiscal regime in place for in mining and hydropower. <b>【Unknown】</b>	None	1	Unknown
<b>3 Sustainable public financing for schools and health facilities</b>			
Textbook-pupil ratio for 3 core subjects and all five grades of primary education. <b>【Not achieved】</b>	1 : 1.8	1 : 1	1:1.2 (end of 2015)
Number of districts which complete the assessment of the degree of compliance to the Quality Standards for primary education. <b>【Achieved】</b>	0	over 30 Districts (600 schools)	80 Districts
Share of births attended by skilled health personnel <b>【Achieved】</b>	37% (2009/10)	50%	58% (July 2015)
<b>4 Improving the industrial diversification and competitiveness</b>			
Time it takes to import (Days). Number of documents required <b>【Partially achieved】</b>	Time : DB*46 ES**11 Documents : DB10	Time : DB28 ES7 Documents : DB7	Time : DB26 ES2 Documents : DB8
Time to start a business (Days). Cost to start a business. <b>【Partially achieved】</b>	Time : DB93 ES14 Cost : 7.6% (of GNI)	Time : DB60 ES7 Cost: 6% (of GNI)	Time : DB73 ES N/A Cost : 4.9% (of GNI)

\*DB = doing business (Number of days and documents legally required)

\*\*ES = enterprise survey (Actual number of days needed)

Setting an appropriate target value is a major problem. As mentioned earlier, there was a difference between easy indicators and difficult indicators, and there were also variations in the degree of difficulty at the practical level, depending on sectors and individual components.<sup>36</sup> The target value of the indicator may affect the attitude of concerned ministries regarding the policy plan. The European Court of Auditors also pointed out in 2010 the difficulty of setting appropriate targets for the performance indicators in general budget support; they also indicated that targets that were

<sup>36</sup> Interviews with JICA experts and related Ministries.

insufficiently challenging or targets that were overly ambitious could reduce the incentive effect.<sup>37</sup>

Besides the issues of the indicator development, it is also crucial to consider the organizational situation of the ministries responsible for undertaking practical efforts to achieve the indicators. In the case where sufficient budget allocation cannot be directed to the ministries concerned or when the number of personnel in the department in charge is not sufficient for responding to the policy system improvement, it becomes a serious burden when difficult indicators are selected. Indicators should be set not only for policy needs but also for the existing level of practicality.

Besides this, the statistical data make it difficult to judge whether the indicator has been achieved. For example, concerning the reforms of the state-run enterprises, the Ministry of Finance fails to grasp data on all SOEs. This is due to the institutional circumstances, such as the fact that many SOEs have been placed in jurisdictions other than the Ministry of Finance in the past. Additionally, there are indicators that do not have appropriate data for judging the degree of achievement. For example, there is an indicator of enterprise registration rate (new registration (%) to the whole), but because the Lao Government does not distinguish new enterprises from existing enterprises in registration and grasps only the number of existing registered enterprises, and thus the data on the new company's registration rate does not exist. It is necessary to carefully choose indicators based on the current status of constraints of such statistical data.

There is also an issue with the quality of public statistical data. In many areas of public and private sectors, accurate and harmonized statistical data development is incomplete. Even regarding Lao PDR's fiscal statistics, there have been many issues, such as an accurate understanding and management of revenue performance, expenditure issues for non-budgetary components (off-budget), and inconsistency and discrepancy in preparing fiscal data.<sup>38</sup> The large restrictions on the statistical data collection and management system, budgets for and securing of specialized personnel, and the lack of accurate data could have hampered the smooth implementation of this program, which evaluates the progress of policy reforms with indicators. The above analysis shows that it is indispensable to determine indicators in consideration of the presence / absence of data and the actual situation of data collection / management.

### 3.2.3 Qualitative effects (other effects)

As a direct qualitative effect of the implementation of this program, there were improved components in all of (a), (b), (c), and (d), such as strengthened organizational capacity in the area of financial management, and periodic management and reporting through policy actions.<sup>39</sup>

According to the World Bank's assessment, as a direct effect common to (a), (b), (c), and (d), the

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<sup>37</sup> Warner and Bosworth, *op. cit.*, p. 20.

<sup>38</sup> Teruhide Kaneda, "Issues and Approaches for the Improvement of Laos' Financial Statistics" in Motoyoshi Suzuki, ed. *Transforming Society and Economy of Laos: Present and Future*. Vientiane: JICA Laos Office, 2013, pp.223-252

<sup>39</sup> As individual projects, the Ministry of Finance approved the Public Expenditure Management Strengthening Program (PEMSP) implementation plan and capacity building plan in the operation (a), and the Ministry of Finance collaborated with Ministry of Education and Ministry of Health in the operation (c) to complete the strategy and implementation plan for introducing the sector budget allocation method of the fiscal year, and the operation (d) applied the organization codes for the local budget and allocated the budget to the education / health sector at the central level.

PRSO process strengthened the organizational capacity of areas such as fiscal management and enhanced focus of the Lao Government on the involvement of development agenda and policy dialogues with donors' on poverty reduction and adjustment.<sup>40</sup> Moreover, the World Bank noted as unintended effect that through this program the Government recognized the usefulness of the sectoral strategies, and that the actual capacity of the Government to initiate reforms and the areas that required governmental efforts were revealed.<sup>41</sup>

At the time of the ex-post evaluation, there was further progress in institutional aspects; the Public Debt Management Law, which indicates numerical targets for public debt, was approved at the National Assembly in 2018.

The qualitative effects at the time of appraisal were as follows. Except for the strengthening of the organizational capacity of the public expenditure management capacity mentioned above, this program did not have a direct impact; its effect has been indirect and also medium- or long-term in nature. As there are many other factors influencing the realization of the expected effects, other main qualitative effects are discussed under the impacts in the next section.

Operations	Expected qualitative effects
(a)(b)	<ul style="list-style-type: none"> <li>① Strengthening public expenditure management capability</li> <li>② Strengthening the financial sector</li> <li>③ Improving the performance of SOEs</li> <li>④ Improving the financial sustainability of public utility sector</li> <li>⑤ Formulating the budget by focusing on poverty reduction measures within limited revenue</li> <li>⑥ Securing transparency in expenditure and guaranteeing accountability</li> <li>⑦ Nurturing the private sector</li> <li>⑧ Promoting economic integration with neighboring countries / international society</li> <li>⑨ Improving resource management</li> </ul>
(c)	<ul style="list-style-type: none"> <li>① Improving governance in administration</li> <li>② Improving budget execution in public financial management</li> <li>③ Improving public service provision</li> <li>④ Improving business environment and promotion of trade in the private sector</li> <li>⑤ Contributing to sustainable development</li> </ul>
(d)	Improving policies and institutions in public finance management: social sector (education and health)

### 3.2.4 Impacts

#### 3.2.4.1 Intended Impacts

This section analyzes, as the status of indirect and medium-term impacts of the assistance to the policy and institutional reforms under the program, improvements in public financial management, budget formulation that leads to poverty reduction measures, and improvements in the business environment of the private sector. Poverty reduction and economic growth, which are the overall goals

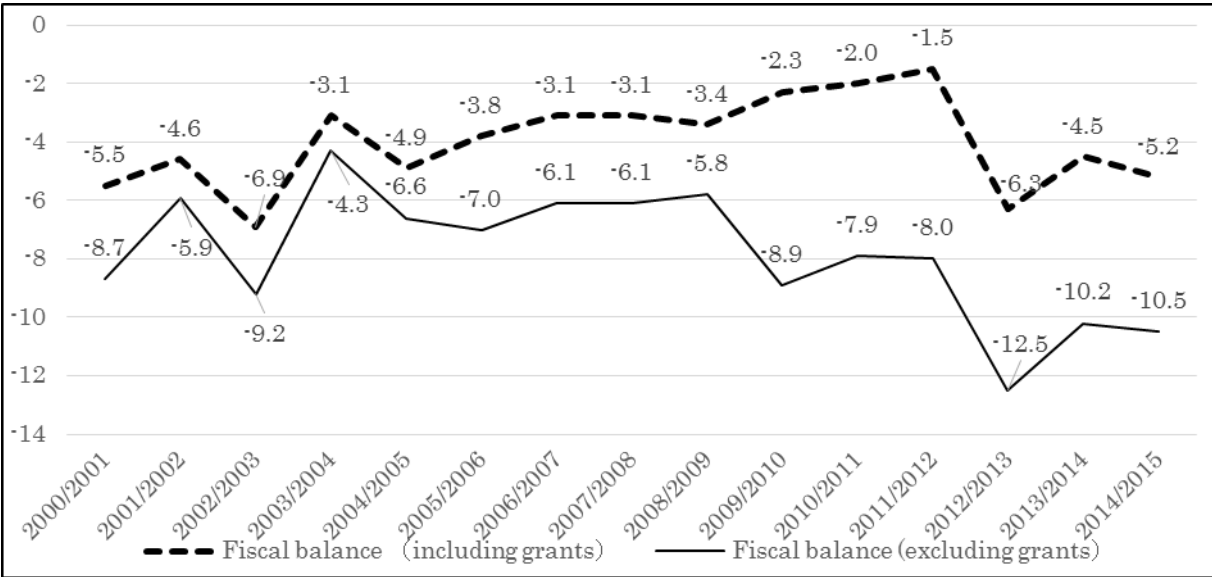
<sup>40</sup> World Bank, *op. cit.*, 2009, p. 17.

<sup>41</sup> *Ibid.*, p. 18.

of this program, are considered to be indirect and long-term impacts. Since it is difficult to verify how much contribution this program made on poverty reduction and economic growth, this report includes a general analysis, but it is not part of the evaluation decision.

### (1) Improvement in Public Financial Management

Lao PDR’s finance, which has been plagued by a permanent budget deficit, is highly dependent on external aid. Even the fiscal balance data are categorized into two cases with and without grant aid. As the deficit ratio further increased after 2009/2010, dependency on grant aid helped to avoid further deterioration of the fiscal balance (Figure. 1).

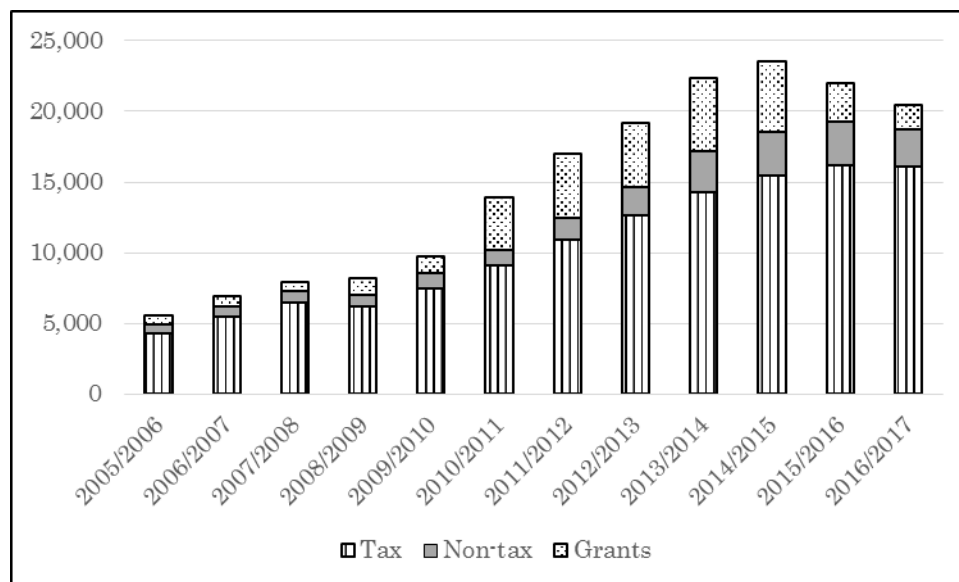


Source: Ministry of Finance, Government Finance Statistics Annual Report for 2013-2014, p.15. Figures after 2010, Ministry of Finance, Government Finance Statistics Annual Report for 2014-2015, p. 57.

Figure 1: Trends of Fiscal Balance (% of GDP) (%)

Although Lao PDR depends heavily on grant aid, it aims to graduate from the LDC status in 2020, and there is a great concern that the grant aid will not be provided due to a graduation from LDC. A decline in the revenue was observed from the year 2015-2016 due to a decrease in grant aid (Figure. 2).<sup>42</sup>

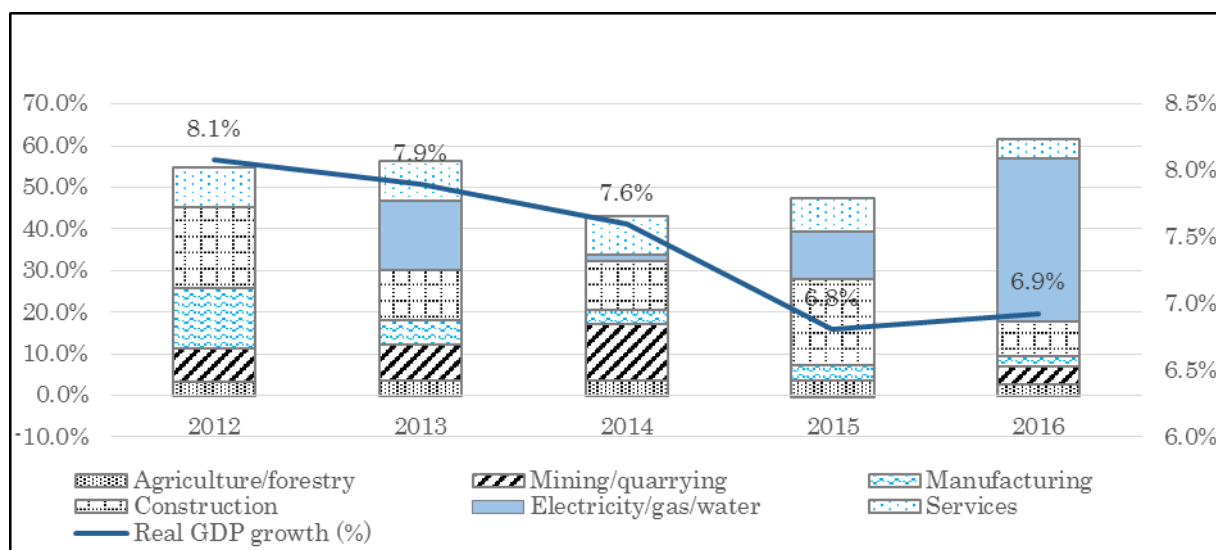
<sup>42</sup> A decline in tax revenues and non-tax revenues starting from 2015/2016 is attributed to the fall of the international commodity prices of natural resources (copper) and to the decrease in revenues from cooperate tax, resource tax, and concessions (IMF, Staff Report for the 2017 Article IV Consultation, 2017).



Source: IMF, Staff Report for the 2010 Article IV Consultation, 2010; IMF, Staff Report for the 2012 Article IV Consultation, 2012; IMF, Staff Report for the 2014 Article IV Consultation, 2014; IMF, Staff Report for the 2017 Article IV Consultation, 2017; and Ministry of Finance: Government Finance Statistics Annual Report for 2013-2014.

Figure 2: Sources of Revenue (1 Billion Kip)

In the area of public finance management, Lao PDR particularly has a low revenue level, and securing stable revenues has been a major issue. In 2013 and 2016, the contribution to the GDP growth rate by electricity sale of hydropower generation was the highest (Figure. 3). Furthermore, it is expected that the income from electricity sales is expected to double from 2020, which is anticipated to stabilize revenues and promote economic growth, but the financial situation until now has been extremely severe.<sup>43</sup>

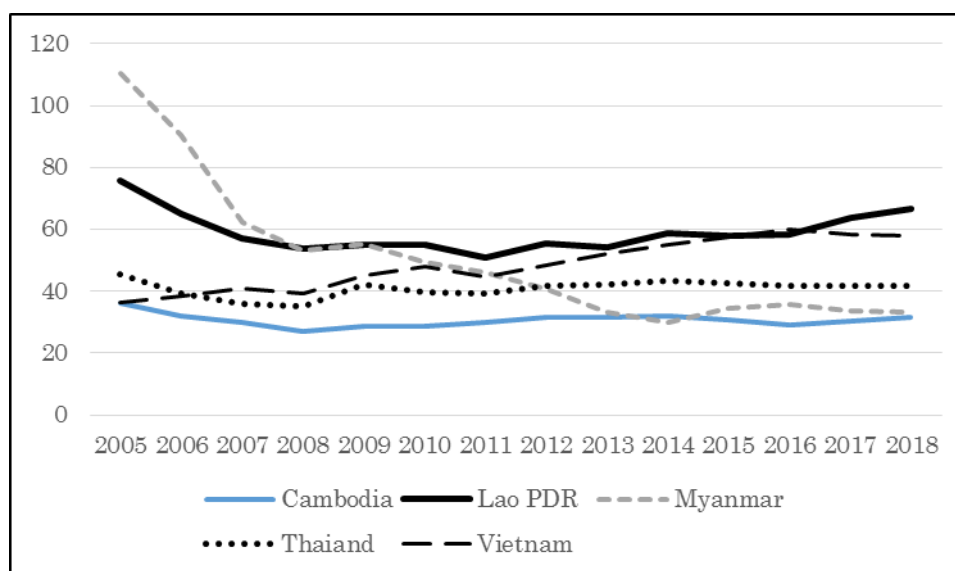


Source: Lao Statistics Bureau.

Figure 3: Nominal GDP Growth Rate and Contribution by Industry (% , 2002 nominal)

<sup>43</sup> Interviews with JICA experts and parties concerned.

Lao PDR has also been witnessing a high level of public debt. Figure 4 compares the trends of the general government gross debt in Lao PDR with that of its neighbors. From 2008 to the time of this ex-post evaluation, the debt ratio of Lao PDR has been in one of the most serious conditions, and there has been no sign of improvement. In 2016, the country's public debt amounted to 68% of GDP, and, in 2017, the IMF's/World Bank's debt sustainability analysis considered Lao PDR to be in a "high risk of debt distress" (red signal supposition).<sup>44</sup> The backdrop of such deteriorating fiscal circumstances is that the investment in infrastructure has been increasing, development in the mining sector has halted, among other factors.<sup>45</sup>



Source: International Monetary Fund, World Economic Outlook Database, October 2018.

Figure 4: Trends of General Government Gross Debt of Mekong Region States  
(as a Percentage of GDP, %)

Considering the above, although the financial situation has not improved, there are many factors in the economic structure and administrative situations that could not be influenced by the scale of individual programs such as PRSOs.

## (2) Budget formulation leading to poverty reduction measures

For social sectors such as health and education, which directly lead to poverty reduction, it is generally difficult to secure sufficient budgets unless they are prioritized in policies. In this program, the reform of health and education budgets leading to poverty reduction measures was included, for instance, in (c), the Ministry of Finance worked in cooperation with the Ministry of Education and the Ministry of Health to implement strategy and implementation for introducing the sector budget

<sup>44</sup> World Bank. *Lao Economic Monitor 2017*. Vientiane: The World Bank Lao PDR, 2017.

<sup>45</sup> Interviews with JICA experts and parties concerned.

allocation method of the fiscal year.

An indicator of budget allocation leading to poverty reduction was “expenditure on recurrent health budget in total recurrent budget expenditure.” The Ministry of Health had been requesting an increase in the health budget every year, therefore it was important that this component was included as a trigger in a PRSO.<sup>46</sup> The health budget has more than doubled from 2009/2010 to 2013/2014, and the ratio of government expenditure also increased to 6.3% (Table 4). Even the subsequent plans intended to increase the health budget, and the impact that the PRSO gave to the health budget is recognizable.<sup>47</sup>

Table 4: Health and Medical Expenditure

\ Year	2009/2010 (Actual)	2012/2013 (Actual)	2013/2014 (Actual)	2014/2015 (Plan)	2015/2016 (Plan)
Actual value (1 billion Kip)	604	1,072	1,437	1,864	1,917
Actual value (1 million US Dollars)	70.5	134	182	233	237
Government expenditure ratio (%)	4.9	5.0	6.3	7.3	7.4

Source: Ministry of Finance’s Official Gazettes and State Budget Plans, as cited in World Bank. *Lao Economic Monitor 2017* Vientiane: The World Bank Lao PDR, 2017, p. 50.

In contrast, with regard to the educational budget, although it had been stipulated that the education budget percentage should be 18% or more by the revised Education Law in 2015, it remains usually at only 13 to 15% and still remains the same at the time of ex-post evaluation.<sup>48</sup>

### (3) Business environment for the private sector

The private sector in Lao PDR began to develop practically since the 2000s; however, many industries are still underdeveloped, and legislative and institutional improvements were needed in order to attract corporate activities and foreign investment. In this program, the development of business environment and investment promotion were part of the reform components. As shown in Table 5, in the Doing Business indicators of the business environment, Lao PDR ranked the 141<sup>st</sup> among 185 countries in terms of the easiness of starting business (2017); this depicts difficulty in

<sup>46</sup> Interviews with the related Ministries.

<sup>47</sup> Yet, this increase originally reflected an increase in civil servants’ wages in 2012, and later non-wage recurrent expenditures were to be increased. In the fiscal year 2013/2014, about 70% (about US\$130 million) of the government health budget went to wage-related recurrent expenditure (33%) and to capital expenditure (37%). The remaining 30% (about US\$55 million) was available for non-wage recurrent expenditure. The low level of non-wage recurrent expenditure, particularly at the facility level, has serious implications for the provision of health care and supply-side readiness. Such limited financing resulted in the introduction of user fees and drug revolving funds in order to raise revenues at the facility level (World Bank. *Lao Economic Monitor 2017*. Vientiane: The World Bank Lao PDR, 2017, pp. 46-47).

<sup>48</sup> Interviews with parties concerned.

doing business. Although the required number of days for the starting business has been gradually improved, it takes a number of days for establishing a power connection, and conducting imports and exports; the business environment still faces various challenges.

Table 5: Changes in Doing Business Indicators in Lao PDR

Indicator \ year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Easiness of starting business (1 = easiest 185 = most difficult)	..	..	..	..	..	..	..	136	139	141
Starting business: required number of days (days)	85	85	85	77	87	87	87	87	67	67
Electricity situations: Number of days required for connection (days)	..	134	134	134	134	134	134	134	134	134
Tax rate: Ratio to profit (%)	33.5	31.4	31.4	31.4	31.4	26.3	25.8	25.3	26.2	26.2
Export: Required number of days (days)	..	..	..	..	..	..	12	12	12	12
Import: Required number of days (days)	..	..	..	..	..	..	14	14	14	14

Source: World Bank, Doing Business.

#### (4) Poverty Reduction

Under the MDGs, which represent international goals of poverty reduction, efforts were made at the same time as this program to reduce poverty by 2015. A partial improvement was seen in the poverty and education/health indicators of the MDGs.

Table 6 shows the targets related to this program areas, extracted from the MDG 1 (eradication of extreme poverty and hunger), which is the first goal of poverty reduction. In 2012, the Target 1-A of reducing the number of people living on less than \$1 per day was achieved.<sup>49</sup> Efforts under the Target 1-C halved the population suffering from hunger, but could not achieve the goal of under-weight children and development inhibition.

<sup>49</sup> The United Nations in Lao PDR. *From Millennium Development Goals to Sustainable Development Goals: Laying the base for 2030*. Vientiane: The United Nations in Lao PDR, 2017. This report states that it has achieved albeit no indication of the achieved value of “the proportion of people living on less than 1 dollar per day by 2015.”



Table 6: Indicators of Poverty in MDGs (Lao PDR)

Goal 1: Eradicate extreme poverty and hunger						
Target 1-A: Reduce the proportion of the population living on less than one dollar a day to half of the 1990 level by 2015						
	1992	1997	2002	2007	2012	2015 target
1.1. Proportion of population below national poverty line (%)	46.0	39.1	33.5	27.6	23.2	24.0
1.2. Poverty gap ratio (% of poverty line)	11.2	10.3	8.0 (2002/2003)	6.5 (2007/2008)	5.5 (2012/2013)	6.0
1.3. Share of poorest quantile in national consumption (%)	8.8 (1992/1993)	7.7 (1997/1998)	8.5 (2002/2003)	7.9 (2007/2008)	7.2 (2012/2013)	-
Target 1-C: Decrease the proportion of the population suffering from hunger by half of the 1990 level to 2015						
	1993	2000	2006	2011/12	2015	2015 target
1.8. Proportion of under-weight children under 5 years old (calculated according to WHO standard) (%)	39.8	36.4	31.6	26.5	25.5	22.0
1.9. Percentage of child under 5 years of development inhibition (calculated according to WHO standard) (%)	53.6	48.2	47.6	44	35.6	34.0
1.10. Percentage of undernourished population (%)	42.8 (1990-92)	37.9 (2000-02)	26.9 (2005-07)	21.4 (2010-12)	18.5 (2014-16)	21.4

Source: The United Nations in Lao PDR. *From Millennium Development Goals to Sustainable Development Goals: Laying the base for 2030*; Vientiane: The United Nations in Lao PDR, 2017.

In the MDG 2 (the achievement of full penetration of primary education), although the goal of “primary enrollment rate of primary education” reached 2014 (estimate), improvements in the “total enrollment rate of secondary education,” “primary education survival rate,” and “youth literacy rate” were slow, and their goals were unattained. Concerning the MDG 4 (a reduction in the infant mortality rate), improvements were slow, and goals set for the “infant mortality rate,” “vaccination rate,” and “lowering the percentage of under-weight children under 5 years of age” were not attained.

Although the goal of “maternal mortality rate” of the MDG 5 (improvement of maternal health) was achieved, other goals have not been achieved. Among these goals, the goal for “increasing the percentage of births attended by skilled health personnel” has not been achieved. In the MDG 6

(prevention of the spread of HIV / AIDS, malaria, and other diseases), “the prevalence of malaria and tuberculosis,” was achieved but “halting the spread of HIV/AIDS and subsequently decreasing,” “HIV / universal access to AIDS treatment” has not been achieved.<sup>50</sup>

It is worth noting that the MDGs, for which this program devoted effort, saw the achievement of the targets set for the primary enrollment rate and the maternal mortality rate. While indicators of completion of primary education, advancement of secondary education, expansion of textbooks, and expansion of health services for maternal and child health to alleviate health vulnerabilities could not meet the MDGs, it is still meaningful that these important development objectives were included in the policy actions of PRSOs. For example, as pointed out by the World Bank, PRSOs lead to more adequate management of budgeting, execution and monitoring of the school block grants and free maternal and child health care policy, and could be recognized as contributions toward addressing these problems to a certain extent.<sup>51</sup>

#### (5) Economic Growth

From the mid-2000s to the early 2010s, within the periods of this program implementation, remarkable economic growth was achieved (Table 7). This program was implemented at the crucial time of the country’s efforts for economic growth, and encouraged the promotion of reforms that could contribute to such growth. However, it is not possible to specify the specific degree of contribution this program has given to economic growth.

Table 7: Major Economic Indicators

	1990	1995	2000	2005	2010	2015
GNI (million dollars) (PPP, real, 2011 standard, international dollars)	n.a.	n.a.	12,827	17,532	24,715	36,666
Per capita GDP (dollars) (PPP, real, 2011 standard, international dollars)	1,708	2,024	2,485	3,115	4,219	5,755
Per capita GDP growth rate (%) (year)	3.7	4.6	4.1	5.4	6.9	5.9
Foreign direct investment (million dollars) (balance of payment basis, net, flow, nominal US dollars)	6,000	95,100	33,890	27,720	278,806	1,421,167
Foreign direct investment (%) (GDP ratio, net, flow)	0.69	5.39	1.96	1.01	3.91	9.88
External debt (%) (GNI ratio)	204.3	122.8	152.4	122.8	97.4	94.6

Source: World Bank, World Development Indicators.

<sup>50</sup> *Ibid.*, pp. 1-4.

<sup>51</sup> World Bank, *op. cit.*, 2016, pp. 15-16.

### 3.2.4.2 Other Positive and Negative Impacts

#### (1) Impacts on the Natural Environment

In appraisals of (a), (b), and (c), financial support was a domain in which no particular environmental impact was foreseen, and as per the “JBIC Guidelines for Confirmation of Environmental and Social Considerations” (April 2002 ), the area under assistance does not fall under an area of environmental influence or susceptibilities. At the time of appraisal of (d), it was determined that the undesirable environmental impact of the program was minimal as per the “JICA Guidelines for Environmental and Social Considerations” (April 2010). During the ex-post evaluation, the executing agency confirmed that the impact on the environment was irrelevant in this program.

#### (2) Resettlement and Land Acquisition

Resident relocation and land acquisition by this program has not occurred.

#### (3) Impact on gender

The PRSO, as a whole, did not incorporate gender perspectives into policy matrices or indicators, and the work on gender issues has been entrusted to relevant ministries, departments and donor initiatives in the implementation of individual actions.

In this program, the formulation and implementation of a plan concerning health personnel for the free maternal and child health policy, improving health statistics and indicators, and establishing its monitoring cycle, supposedly impact women’s health. Moreover, by promoting reforms, it is estimated that nurses and midwives can be trained, skills and knowledge can be improved, and empowerment of mothers and child health human resources, who are mostly women, can be facilitated.

Besides, concerning the issues related to the process of impact occurring, it is necessary to consider the capacity of the ministries concerned. In the conventional project approach, since project management procedures are different for each donor, the administrative organizations in countries with high dependence on foreign aid are especially burdened with project management. However, even with aid coordination through the program approach, which intended to reduce the burden on the beneficiary government, PRSOs required significant planning, implementation, management, and policy dialogues. The Ministry of Finance and other planning bureaus of relevant ministries and departments had to make efforts to achieve actual policy actions and report the results of each fiscal year in the policy dialogues and negotiate for the next year. Thus, these functions could overload the Lao Government, which has limited human resources and budgets.<sup>52</sup>

Concerning effectiveness, about half of the operation/effect indicators achieved the target value, but there were several effect indicators that were partially achieved or not achieved. In terms of qualitative effect, “strengthening the organizational capacity of areas such as public finance management” was achieved through this program. In terms of impact, “the budget allocation leading

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<sup>52</sup> Interviews with the related Ministries.

to poverty reduction” benefited the health sector, while no change has been observed in “improvement in public financial management” and “business environment of the private sector.”

The above factors show that the effectiveness and impact of this program are fair.

### 3.3 Sustainability

#### 3.3.1 Institutional / Organizational Aspect of Operation

Along with institutional reforms, there were also sectors that established a monitoring system. For example, due to the reorganization of state enterprises, monitoring of the reorganization process was carried out by the Government.

The missions of the World Bank’s headquarters was monitoring the PRSO’s policy matrices. JICA experts also actively participated in monitoring when their assignment period coincided with the appraisal and implementation of the PRSOs. As mentioned earlier, the health sector advisor established a Health Human Resources Technology Working Group, under the Ministry of Health, and conducted monitoring. As seen in this example, monitoring by JICA experts contributed to the improvement of the work system, which can be instrumental in improving sustainability.<sup>53</sup>

From the viewpoint of the sustainability of a program’s effectiveness, at the time of the ex-post evaluation, only a small number of personnel in the Government and in aid agencies were aware of the fact that PRSOs had been conducted. Most of the personnel in charge were retired or transferred to other bureaus, and it is difficult for current personnel to inherit institutional memories of the cooperation experience of PRSOs. It is a financial cooperation scheme and is not designed directly for human and physical outcomes. In relation to the total government funding and aid funds injected against the major targets of poverty reduction and economic growth, PRSO’s scale has been small. Lessons on the experience in PSROs could be lost unless conscious efforts to record/document are made.

### 3.4 Values added of JICA

As mentioned earlier, the PRSO in Lao PDR was premised on cooperation with donors’ other assistance projects. This program aimed to provide loans for important issues in development policy of Lao PDR, and the Japanese side had adopted a system to support implementation of reforms by conducting policy dialogues, based on experiences in the related areas where its considerable assistance had been done in the past, leading to meaningful cooperation for both countries. Actually, other aid organizations also considered JICA as an important partner in that this program supported a wide range of policy agenda of PRSOs while focusing on providing technical support for the education and health sectors.<sup>54</sup>

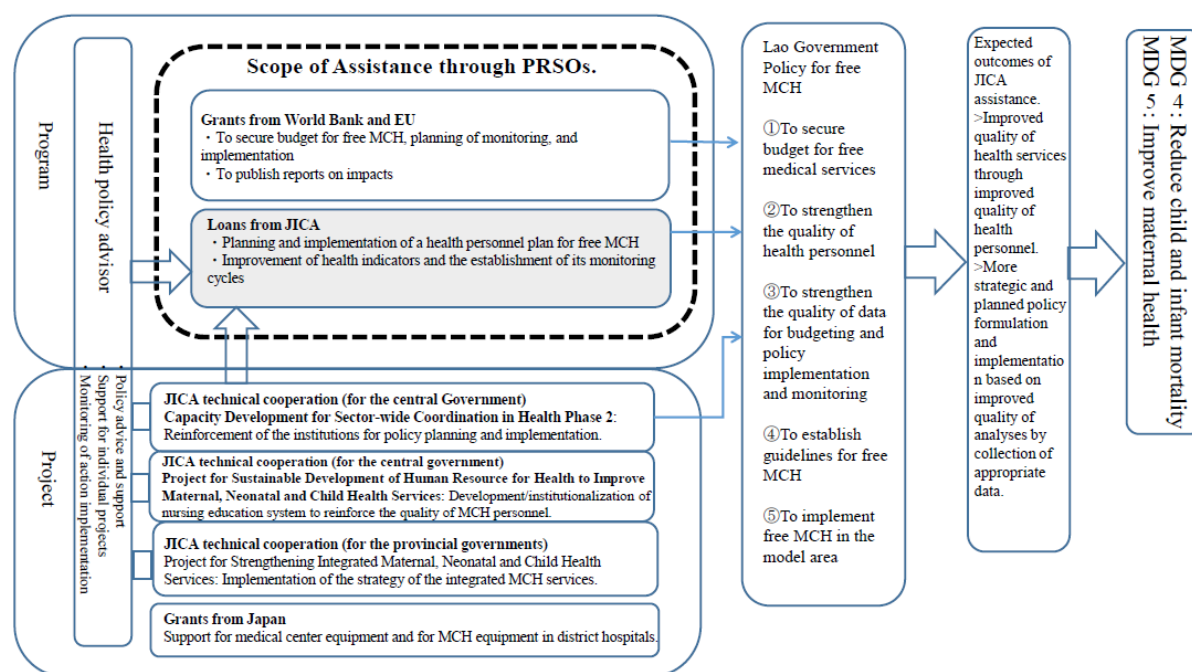
Specifically, while implementing PRSO 9, a JICA technical cooperation project in the health sector “Capacity Development for Sector-wide Coordination in Health, Phase 2” was being

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<sup>53</sup> Interviews with former JICA experts.

<sup>54</sup> World Bank, *op. cit.*, 2016.

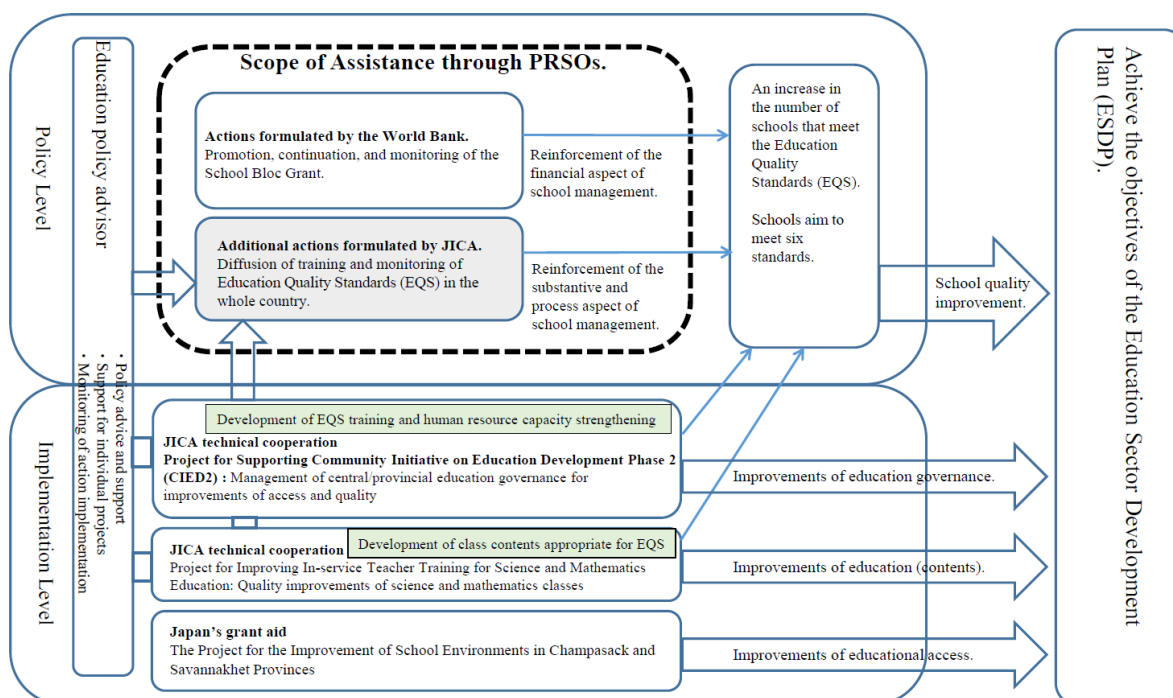
implemented. Through a project coordination mechanism developed in its Phase 1, this project strengthened the system to materialize policy and practice of plans and strategies of the Ministry of Health and development partners and, while harmonizing and standardizing project procedures, assisted in improving the project coordination capacity of the Ministry of Health. By utilizing this coordination framework, this technical cooperation project affirmed and promoted PRSO 9's implementation (Figure 5).



Source: Based on materials provided by JICA.

Figure 5: Conceptual Diagram of Lao PDR Maternal and Child Health Policy Support by PRSO 9 and JICA Scheme

Additionally, in the education sector, two technical cooperation projects and one grant aid project were comprehensively linked with the policy actions on the quality of education that were added by JICA for PRSOs. Along with the policy actions to strengthen the quantitative aspects of education, which were proposed by the World Bank, JICA's inputs were effective in complementing these policy actions (Figure. 6).



Source: Based on materials provided by JICA .

Figure 6: Conceptual Diagram of Lao PDR Education Policy Support by PRSO 9 and JICA Scheme

Although this program was in the form of development policy loans, importance of cooperating with related technical cooperation was recognized by the Ministry of Finance as well as the relevant ministries and departments. It is extremely important for JICA, which has extended technical cooperation, to provide complementary assistance in the areas where much of its lasting effort had gone into. Besides, there was a synergistic effect that enhances the effectiveness of other financial cooperation projects and technical cooperation projects in association with this program. Actually, as a result of collaboration and cooperation with related projects assisted by Japan, as indicated in “1.2 Project Outline,” personnel from these related projects fulfilled important roles by providing with technical suggestions on PRSO’s policy actions and triggers.. In this sense, Japan’s participation in the development policy loans added significant value along with its multiple range of supplementary support based on its substantial experience in field-oriented cooperation.

## 4. Conclusion, Lessons Learned and Recommendations

### 4.1 Conclusion

This program aimed to promote reforms in various areas indicated in the mid-term and long-term national plans of Lao PDR, through budget support and policy dialogues, by supporting institutional reforms that the Government promotes, thereby contributing toward poverty reduction and economic growth. The program is highly relevant to Lao PDR’s development policy and needs and to Japan’s official development assistance policy. Overall, the program’s framework and approach

have been appropriate as respective sectors' main tasks that lead to poverty reduction and economic growth have been translated into concrete actions consistently. Although approximately half of the indicators had met their targets, some indicators' targets were not met. The indicators that were not achieved included the number of days needed to establish a company, the number of documents needed for import/export, the number of SOEs with deficit, electricity arrears of the Government toward the EDL, the number of Ministries that input systematically the provincial budgets by the beginning of the fiscal year, and the textbook-pupil ratio for three core subjects in all five grades of primary education. This program strengthened the institutional capacity of financial management and improved the budget allocation to the health sector, which contributes to poverty reduction. From these findings, this program has achieved its objectives to some extent. Therefore effectiveness and impact of the program are fair. Furthermore, JICA contributed by advising on policy actions and the suggesting improvements in the project coordinating capacity of the related Ministries of the Lao Government.

## 4.2 Recommendations

### 4.2.1 Recommendations to the Executing Agency

Regarding the fact that there are multiple indicators that were not achieved in the 2nd and 3rd PRSO series, particularly, it is desirable to highlight the current situation of policy agenda that was grasped in policy dialogues in order to maintain institutional reforms. The relevant government agencies should be encouraged to monitor actions and indicators which are not achieved. Certain government departments often have insufficient resources to promote reforms, and further consideration should be given to securing personnel and allocating budgets.

In general, concerning budget support, for both recipient countries and donors there are many useful aspects such as strengthening ownership and harmonizing aid, but transparency is found as one of the crucial factors of program implementation. In this program, yen loans executed were used for import settlement funds. The Government of Lao PDR were supposed to reserve the same amount of local currency as the loaned yen currency and use it as a general revenue source for promoting policy reform by transferring this local currency to the national budget account. Although the use of this internal currency portion was not stipulated, it would be possible to obtain further understanding and cooperation from the relevant ministries and departments by enhancing transparency in fiscal management and releasing relevant information continuously to the ministries and departments concerned.

### 4.2.2 Recommendations to JICA

With regard to the reform components that are not yet achieved in this program, it is recommended to continue to utilize the JICA project scheme for the relevant sectors to ensure that each ministry and agency can monitor implementation, and policy advisers and JICA experts can provide complementary assistance.

### 4.3 Lessons Learned

#### (1) Approach combining financial support and other forms of assistance

Combining budget support with other forms of assistance, which have been considered from the beginning for Lao PDR's PRSOs, is essential for smooth implementation of these operations. First, policy advisors in each sector play major roles as it is a program that directly works on policies in each reform area. Furthermore, combination of other forms of assistance with technical cooperation is effective, and ranging from the setting of the trigger to the monitoring, there are possibilities for the technical cooperation experts to assist in hands-on manners, through which outcomes can be achieved. If there is no technical cooperation at the time of operations, it is desirable to engage experts of relevant sectors in related assistance by conducting relevant investigation as much as possible, or by collaborating with other forms of aid.

#### (2) Issues of indicator setting and statistical data

There were difficulties inherent in setting indicators in the policy matrix. If an indicator was too easy, it would not lead to advance reform-related efforts. If an indicator was too difficult, the actions would be burdensome for the responsible technical ministries. Especially, when the allocation of sufficient budgets to the ministries concerned is not planned or when the personnel in the department in charge is unable to respond to the policy system improvement, setting a difficult indicator can be a serious burden. When selecting indicators, it is desirable to consult with the involved parties and the departments in charge as much as possible.

There was also a problem of the insufficient maintenance of statistical data, which made it difficult to judge whether indicators were achieved and whether the quality of data was maintained. In addition, there were cases in which the department in charge had not grasped it or there was no appropriate data for judging the degree of achievement of the indicator. It is necessary to implement support for data collection and data management in parallel with a program loan.

#### (3) Points to keep in mind about budgetary support through the program approach

In the program approach, one advantage is to reduce the administrative burdens of a recipient country, which derive from individual project management procedures for each donor. Although it is preferable to be able to promote policy dialogues and aid coordination, the burdens on the recipient country's government, such as time and effort spent to set, report, and monitor policy actions and indicators, are significant. One needs to pay careful attention to government personnel, institutional systems, and the capacity. It is important to note that, in this program, the ministries and departments in charge of the areas of reforms were obliged to implement policy actions without additional budgetary or human resource inputs, which resulted in increased burdens in addition to their regular functions.