

JBIC Signs ODA Loan Agreement with Lao PDR

--JBIC's first Assistance for Policy and Institutional Reform towards Lao's Poverty Reduction and Sustainable Growth--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) will sign an ODA loan agreement totaling up to 500 million yen with the Government of the Lao People's Democratic Republic to finance the Second Poverty Reduction Support Operation (PRSO2) today.
2. The loan is co-financed with the World Bank's support for PRSO, which is a modality for donor harmonization and policy coordination. The total amount of assistance is expected to reach around \$12.2 million (equivalent to approximately ¥1,430 million). Unlike project-type loans for infrastructure development, the PRSO is a scheme where the loan is disbursed upon the attainment of the policy actions initially set out by the Lao Government to achieve the goals of the National Growth and Poverty Eradication Strategy (NGPES) launched by the Lao Government in June 2004. This is the first-time this type of assistance has been committed from JBIC to Lao. Policy and institutional reforms under PRSO focus on three major policy areas: (1) improving public resource management such as public expenditure management; (2) improving public expenditure policy by realigning outlays toward pro-poor priorities; and (3) ensuring sustainable growth through private sector development and improving resource management.
3. Lao PDR has sustained high economic growth in recent years, recording real GDP growth at about 7% annually; accordingly, the poverty incidence has been reduced more than 10% over the last decade. Despite this improvement, 33.5% of its population of 5.6 million still lives in poverty.[1] For further poverty reduction, it is essential that the Government of Lao improves the quality and quantity of basic health and education services, maintains sustainable economic growth with appropriate development policies, and generates employment and income-earning opportunities.
4. The Government of Japan has been preparing to hold joint dialogues by the public and private sectors for improving the investment climate in Lao, and to negotiate the Japan-Lao bilateral investment agreement. This ODA loan for PRSO is expected to create an opportunity for closer policy dialogue with the Lao Government. Furthermore, it is expected that this financial support will facilitate public-private collaboration by incorporating new policy actions in areas such as investment and trade promotion into the policy reform areas addressed under PRSO. JBIC will continue to support policy and institutional reforms, as well as infrastructure development, in order to realize sustainable growth and poverty reduction in Lao PDR.

(Click [here](#) for details.)

[1] Poverty incidence as of 2002-03

1. Loan Amount and Terms

Program Name	Amount (mil. yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period (years)	Procurement
Second Poverty Reduction Support Operation	500	0.01	40/10	General Untied

2. Program Outline

(1) Background and Necessity

Lao PDR has sustained high economic growth in recent years, and real GDP growth will remain about 7% annually. Accordingly, poverty incidence has been reduced from 46% of the national population in 1992-93 to 33.5% in 2002-03. By region, poverty incidence has decreased in central and southern Lao, while poverty reduction in northern Lao – a mountainous area, home to many minority indigenous groups, - is lagging behind to a remarkable degree. A major cause of persistent poverty is limited access to markets, due to inadequate basic infrastructure development. In addition, inadequate public services in the health and education sectors and weak governance hinder poverty reduction and economic development.

In order to alleviate poverty in Lao, it is crucial to strengthen measures that benefit the poor by implementing appropriate development policies, and to realize high economic growth. Based on this principle, the Government of Lao launched the NGPES as the Poverty Reduction Strategy Papers (PRSPs) in June 2004 to address the challenges of poverty reduction and economic growth. NGPES consists of three major policies: stabilizing macroeconomic conditions; improving the business environment; and improving governance in the public sector. It also laid out policy agendas in the agriculture, education, healthcare and other sectors for poverty reduction.

To support these efforts by the Government of Lao, the World Bank launched the Poverty Reduction Support Operation (PRSO), and World Bank's financing for PRSO1 and PRSO2 was approved in 2005 and in 2006 respectively. In response to this, the Government of Japan has engaged in PRSO policy dialogue with donors such as the International Monetary Fund (IMF), Asian Development Bank (ADB), European Commission (EC), Swedish International Development Cooperation Agency (SIDA) and Japan International Cooperation Agency (JICA). The commitment for this JBIC loan is believed to make a further contribution to poverty alleviation in Lao PDR.

(2) Objective and Program Brief

The objective of this ODA loan is to support institutional reforms being propelled by the Government of Lao so as to achieve the policy goals laid out in the NGPES, thereby contributing to poverty reduction and economic growth in Lao PDR. The basic concept of PRSO is to channel funds efficiently to Pro-poor NGPES Priorities such as education and health sectors by improving the efficiency of fiscal management, and by increasing fiscal revenues through sustainable growth. To assist the Government in achieving this goal, the ODA loan will be disbursed to the Lao Government's general budget to implement reforms in the following three broad policy areas: (1) public resource management; (2) public expenditure policy; and (3) sustainable growth. Under three pillars cited above, a set of nine measures for institutional reforms, consisting of sectoral issues, are set forth.[1] The proceeds of the loan will be used for purchasing imports of general merchandise.

The executing agency is Ministry of Finance.

Address: 23 Siongha Road P.O. Box 46, Vientiane, Lao PDR

Tel: 856-21-911-370; Fax: 856-21-412-142

[1] The nine measures for institutional reforms are: 1) Public resource management (1.1 Strengthening public expenditure management; 1.2 Strengthening the banking sector; 1.3 Improving performance of state-owned enterprises; 1.4 Financial sustainability of Utilities); 2) Public expenditure policy (2.1 Aligning spending with Pro-poor NGPES Priorities; 2.2 Monitoring the alignment of spending with Pro-poor NGPES Priorities); 3) Sustainable growth (3.1 Strengthening private sector development; 3.2 Accelerating regional and global integration; and 3.3 Improving resource management.).