

JBIC Signs ODA Loan for Lao PDR

--Supporting Policy and Institutional Reform for Poverty Reduction and Sustainable Growth--

1. Japan Bank for International Cooperation (JBIC; Governor: Koji Tanami) signed on 28 a Japanese ODA loan agreement totaling up to 500 million yen with the Government of the Lao People's Democratic Republic (Lao PDR) to finance the Third Poverty Reduction Support Operation (PRSO3).
2. This ODA loan is co-financed by the World Bank to support Poverty Reduction Support Operation (PRSO). The total amount of assistance for PRSO3 is expected to reach around \$19.12 million (equivalent to approximately 2,030 million yen). JBIC has assisted PRSO since the Second Poverty Reduction Support (PRSO2) signed in February 2007, and this is the second ODA loan supporting PRSO in Lao PDR.
3. The PRSO is a scheme to support implementation of the National Growth and Poverty Eradication Strategy (NGPES) launched in June 2004 by the Lao government. The policy actions include strengthening fiscal revenue and expenditure management, improving public resource management through restructuring of state-owned banks and enterprises and developing private sector activities through establishment of business forums. This ODA loan supports policy and institutional reforms, by providing financial assistance in response to a favorable assessment of government efforts to implement the policy actions.
4. Lao PDR has sustained a high real economic growth of about 7% in recent years. As a result, the poverty incidence has declined more than 10% over the last decade. Despite this improvement, but 31% of its population of around 5.8 million is still living in poverty.[1] For further poverty reduction, it is essential that the government improves the quality and quantity of basic medical and education services, and sustains economic growth with appropriate development policy, thereby generating employment and income-earning opportunities.
5. Investment in Lao PDR from Japan has been growing in recent years. Over the period of one year from September 2006 to August 2007, around 40 companies[2] started business operations in this country. In addition, following the first Lao-Japan Public and Private Sectors Joint Dialogues held in December 2007, the Governments of Japan and the Government of Lao PDR in January 2008 signed the Japan-Lao bilateral investment agreement to promote investment. Under the institutional reforms supported by PRSO, in order to improve the investment climate, the Domestic and Foreign Investment Law was amended, which made it possible to extend the investment terms granted for foreign investors from 15 to 50 years, and the screening procedures for investment applications have become smoother and faster. These reforms are aimed at removing barriers to foreign investors, and are expected to encourage the inflow of foreign direct investment from Japan and other countries.
6. 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 2005. (Source: World Bank (2006), Lao PDR Poverty Assessment Report, From Valleys to Hilltops – 15 years of Poverty Reduction)

[2] Source: Ministry of Planning and Investment of Lao PDR

1. Loan Amount and Terms

| Program Name | Amount (Mil. Yen) | Interest Rate (% per annum) | Repayment Period/ Grace Period(Years) | Procurement |
|---|-------------------|-----------------------------|---------------------------------------|----------------|
| Third Poverty Reduction Support Operation | 500 | 0.01 | 40/10 | General Untied |

2. Executing Agency

The executing agency is Ministry of Finance.

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3. Outline of Third Poverty Reduction Support Operation

(1) Background and Necessity

Lao PDR has sustained a high real growth of about 7% in recent years. As a result, the poverty incidence fell from 46% of its population in 1992-93 to 33.5% in 2002-03, to 31% in 2005. By region, poverty has decreased in the midwestern and southwestern regions, but the northern and eastern regions—mountainous areas and home to many minority indigenous groups—are lagging far behind in this respect. A major cause of persistent poverty is limited access to markets due to poor basic infrastructure development. In addition, inadequate public services in the health and education sectors as well as weak governance are hindering poverty reduction and economic development.

In order to reduce poverty in Lao PDR, it is crucial to strengthen measures that benefit the poor by implementing appropriate development policy, while achieving sustainable economic growth. Based on this recognition, the government launched the NGPES as the Poverty Reduction Strategy Paper (PRSP) in June 2004 to address these challenges to poverty reduction and economic growth. The NGPES consists of three pillars: stabilizing macroeconomic conditions; improving the business environment; and improving governance in the public sector. It also sets out policy actions in the agriculture, education, healthcare and other sectors to achieve poverty reduction through sustained growth.

To accelerate the new policy, the Government of Lao, in cooperation with the World Bank, launched Poverty Reduction Support Operation (PRSO). To date, the World Bank approved financing for PRSO1, PRSO2 and PRSO3 in 2005, 2006 and 2007 respectively. The Government of Japan has participated in the policy dialogue on PRSO along with the European Union (EU) from its initial stages and supported PRSO since PRSO 2, by providing an ODA loan through JBIC to make further contribution to poverty reduction in Lao PDR.

(2) Purpose and Brief Description of the Project

The objective of this Japanese ODA loan is to support institutional reforms being pushed forward by the Government of Lao PDR to achieve the policy goals laid out in the NGPES for individual sectors, thereby contributing to the country's poverty reduction and economic growth. The basic concept is to channel funds efficiently to pro-poor NGPES priorities such as the education and health sectors, by improving the efficiency of fiscal management and increasing fiscal revenues through sustainable growth.

To assist the Government of Lao PDR for achieving this objective, the loan will finance its general budget. In parallel with this financial support, policy dialogue will take place between the government and international donors to monitor implementation of nine institutional reform measures laid out to promote reforms in the following three broad policy areas: (1) improving public resource management; (2) improving public expenditure policy; and (3) sustainable growth. The proceeds of the loan will be used for purchasing the import of general merchandise.