

Lao People's Democratic Republic
JICA Country Analysis Paper
(JCAP)
Executive Summary

Japan International Cooperation Agency
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Purpose of JCAP

JICA Country Analysis Paper (JCAP) is a paper in which countries are analyzed by JICA, as a development assistance agency, from the viewpoint of development and is to be utilized in considering and providing effective cooperation to Official Development Assistance (ODA) recipient countries. JCAP provides information from the viewpoint of development for the government of Japan in formulating aid policies such as “country assistance policy”. It is also noted that actual cooperation and projects to be implemented shall be considered and determined in accordance with policies of the government of Japan, and budget of each fiscal year, etc.

Background of the Revision

The previous JCAP for Lao People's Democratic Republic (Lao PDR) was formulated in March 2015. Since then, socio-economic situation in Laos and global trend have changed drastically with the compound risks. The Sustainable Development Goals (SDGs) were adopted by the United Nations, and so was Paris Agreement at COP21, while the United Nations (UN) resolution in 2021 also adopted the target for Laos to graduate from Least Developed Countries (LDC) status in 2026.

Amid the growing economic development of Association of Southeast Asian Nations (ASEAN) region and increasing presence of emerging donors, COVID-19 pandemic as well as global economic turmoil caused by Ukraine crisis, global price hike and the rise of complex risks such as climate change have had significant impact on Lao economy. In combination with those impacts, Laos is also facing another challenge from the worsening public debt situation. In order to provide effective cooperation to contribute to development of Laos, it is necessary to update the JCAP reflecting these global and domestic changes.

Executive Summary

1. Introduction

Lao PDR has a strategic location at the Mekong region as bordering five countries including China. The stable development of Laos is important not only for the integrated development of the ASEAN Community, but also for Japan, which has close diplomatic and economic ties with the Mekong region.

Since the 2000s, the country has achieved steady economic growth with the annual real gross domestic product (GDP) growth rate of approximately 7%, mainly due to the development of the industrial, energy and mining sectors. On the other hand, debt situation has been deteriorated due to large infrastructure development projects such as hydro-power plants and the Laos-China Railway. Since 2019, real GDP growth has been sluggish at an average rate of 2.8%, with the public debt on the rise, increasing debt sustainability risks. Fiscal stabilization is an extremely important issue. The cooperation is necessary considering the debt situation as well as contributing to improvement of the debt situation to ensure stable development of Laos.

For Laos to achieve stable economic growth in the future, it is essential to promote industrial diversification and strengthen competitiveness in addition to fiscal stabilization. As a landlocked (land-linked) country, strengthening Laos' connectivity with other countries will contribute to the promotion of a Free and Open Indo-Pacific (FOIP) . In addition, cooperation for clean energy, including hydropower, will lead to carbon neutrality in the Mekong region. Since labor costs in Laos are lower than the neighboring countries and low-carbon electricity is available, several Japanese private companies have shown their interest in expanding their business from the neighboring countries and developing low-carbon supply chains such as Thailand +1 and China +1. By supporting the stable development of Laos, it is expected to contribute to the business expansion of those Japanese companies.

In 2021, the UN General Assembly adopted Laos' graduation from LDC in 2026. On the other hand, its social development indicators such as the Human Development Index, are still lower than the average of developing countries. While the poverty rate of the whole country has improved, the economic disparity between urban and rural areas has been widening. In addition, rapid inflation and currency depreciation in recent years have led to cuts in household spending on food, education, and health, as well as a migration of labor force to foreign countries. In order to ensure human security and achieve the goal of "leaving no

one behind" set forth in the SDGs, further improvements are required for addressing these challenges.

While China is increasing its influence through infrastructure development, and increased trade and investment, Laos' expectations and trust in Japan's cooperation remain high with a background of the long-standing good relations between both countries.

2. Directions of Cooperation

2.1 Overall Goal: Realization of "Quality Economic Growth" and "Inclusive and Sustainable Society" Supported by Sound Fiscal Foundations

In order to support Lao PDR's independence and self-reliance, JICA will implement development cooperation that contributes to "quality growth" with respect to the country's socio-economic system, nature, and culture by making use of Laos' strengths, while responding to the economic impacts. In other words, to achieve Laos' transformation into a high-middle-income country as stated in its long-term plan "Vision 2030" and the sustainable economic development set forth in the "Ninth Five-Year National Socio-Economic Development Plan," JICA will promote cooperation through policy advice, institutional capacity development by utilizing Japan's strength of long-term and supportive approach based on mutual respects.

To achieve fiscal consolidation, which is an urgent issue, JICA will continue to cooperate to improve for sustainable public finance management and improved governance. Also, given the geographical location at the center of the Mekong region with the abundance of renewable energy resources, JICA will provide the cooperation to realize quality economic growth through strengthening connectivity with the neighboring countries.

In addition, JICA will cooperate in the development of stable social infrastructure so that social services which are constrained by the reduction in fiscal expenditure due to the deteriorating debt situation, can be provided to all people, regardless of income group or disparity between urban and rural areas.

2.2 Priority Areas (Subsidiary goals)

Priority Area 1: Strengthening Fiscal Foundations and Rule of Law

Amid the deteriorating debt situation, fiscal consolidation is an urgent issue. In order to achieve transparent and predictable fiscal management, JICA cooperates in the area of public debt management, revenue enhancement, and

sound development of the financial sector. In addition, in order to guarantee and ensure the fundamental rights and freedoms of the people including vulnerable groups, and to create fair and transparent business environment, JICA makes efforts to contribute to the promotion of the rule of law, including continuous support in the legal and judicial systems legislation development.

- **Capacity Building for Sustainable Public Finance Management (Fiscal Policy)**

To address the external debt issue and vulnerability of the financial sector, JICA continues short- and mid/long-term support, carefully examining needs and impact of projects for the areas of: (1) public debt management; (2) public investment management (expenditure); and, (3) modernization of tax administration and customs administration (revenue), adding (4) strengthening functions of the central bank. Especially, JICA provides policy advice to support fiscal consolidation and self-reliance, and collaborate with development partners to maximize an impact at a program level.

- **Strengthening the Rule of Law (Strengthening Governance)**

JICA continues to cooperate with the Lao PDR's judicial institutions and legal education institutions to establish a foundation for continuously fostering lawyers with basic legal mind and skills, such as the ability to interpret and apply laws and regulations. Also, JICA cooperates to improve legal practice with the trained lawyers, towards promoting the rule of laws.

In addition, through sharing Japan's experiences, JICA also promotes capacity development of leaders in the government and the party and of the next generation who will be steering the country in the future.

Priority Area 2: Quality Economic Growth through Strengthening Connectivity with Neighboring Countries

Utilizing unique geographical characteristics and the abundant natural resources of renewable energy of Laos, JICA focuses on cooperation that contributes to strengthening connectivity in transport and energy sectors.

Also, for diversification of industries and strengthening competitiveness for sustainable economic growth, JICA continues to contribute to development of core cities (i.e. Vientiane Capital and Luang Prabang), enhancement of competitive industries (i.e. service industry including tourism and manufacturing) and human resources development.

- **Improvement of Transportation Network and Logistics Efficiency Contributing to Strengthening Connectivity (Improvement of Transportation Network)**

JICA continues to provide cooperation mainly in the fields of roads, bridges, and aviation in order to strengthen connectivity both domestically and within ASEAN, especially in the Mekong region. JICA provides cooperation in both infrastructure development and human capacity development in tandem with promoting effective and efficient operation and maintenance of existing infrastructure throughout of its lifecycle including utilization of ICT. Specifically, JICA considers to strengthen asset management of existing infrastructure including ones funded by JICA project in the past, as well as construction and rehabilitation of roads and bridges that contribute to strengthening East-West connectivity, improvement of logistics route to and from production hubs and access to international corridors.

In addition, for border facilities which are indispensable for strengthening connectivity with neighboring countries, JICA considers to develop and renovate border facilities along with strengthening of operational capabilities of customs administration, introduce digital technology of tracking and managing international freight trucks for realizing a cross border transportation agreement (CBTA) in the Mekong region, and improve and modernize customs clearance operations.

- **Establishment of Power Supply System Contributing to Carbon Neutrality (Establishment of Stable Energy and Electricity Supply System)**

As Laos has a great potential for renewable energy such as hydropower, it is expected to contribute to achieving carbon neutrality not only in Laos, but also in the Mekong region as the “Battery of Mekong”. JICA continues to enhance regional power interconnection and improve operational capacity as well as improvement of electricity quality and domestic grid operation. In addition, JICA continues to cooperate for improving management of Electricite du Laos including financial aspect.

In the mining sector, which is an important means of earning foreign currency, JICA considers strengthening cooperation for establishment of human networks that contribute to the sustainable management of mineral resources.

- **Industrial Diversification and Enhancement of Competitiveness (Urban Management and Industrial Promotion)**

In order to strengthen urban functions, taking into account changes of environment and circumstances surrounding cities, JICA considers cooperation that contributes to capacity building related to urban development management such as promoting implementation of formulated master plans and city plannings. For urban transport, JICA considers development and improvement of public transportation system and its efficient operation, promoting mobility management, strengthening the capacity of urban transport management organizations, and supporting the development of transportation infrastructure.

In the area of private sector development, JICA continues to strengthen business competitiveness through the development of human resources for business, support startups, promote business linkages between companies, and strengthen management of the Lao-Japan Institute in order to implement these initiatives independently and sustainably. JICA also collaborates with JETRO to enhance the linkage between Lao and Japanese companies. In addition, JICA also cooperates in improving corporate competitiveness including tourism and agricultural sectors. In particular, since agriculture is a major sector where 70% of working population are engaged, JICA focuses on elements necessary for building a food value chain in order to increase added value and expand commercial agricultural production, including export to neighboring countries.

Priority Area 3: Strengthening Inclusive and Stable Social Infrastructure

Amid decreasing government investment and expenditure on the social sector, JICA provides cooperation to improve the quality of services and mitigate disparities, so that all people can enjoy basic social services such as health, education, water supply and wastewater treatment. JICA also pays attention to the impact of urbanization in the cities such as Vientiane Capital as well as efficiency of public service delivery in rural areas with low population density.

- **Provision of Social Services without Disparities (Improvement of Education, Enhancement of Health Services and Development of Urban Environment)**

In the basic education sector, JICA cooperates to improve quality of education by strengthening teachers' professional development practices

from both individual's capacity development and infrastructure development aspects to ensure quality learning through utilization of the new mathematics curriculum and textbooks developed by the previous JICA project. Also, in the area of higher education, JICA focuses on the field of engineering through a combination of (1) supporting for a leading university (National University of Laos: NUOL), (2) establishing university network (utilization of AUN/SEED-Net assets, support to secure external funds and promotion of University-Industry Collaboration), and (3) supporting studying in Japan with the aim to improve education and research capabilities of NUOL, and furthermore, developing high-level engineering human resources who will contribute to industrial development of Laos.

In the health sector, JICA cooperates to improve the quality of health personnel as well as healthcare services toward Universal Health Coverage (UHC) and achievement of the SDGs by utilizing the cooperation assets such as development of health facilities and equipment, and nursing and midwifery licensing system. In addition, given the small number of healthcare workers and limited capacity, JICA continues to provide technical cooperation aimed at improving the capacity of healthcare workers as well as the support for secondary medical facilities at a provincial level to improve the quality of medical services and referral system.

In the field of water supply, JICA works, mainly in urban areas where water demand will continuously increase, to strengthen water supply system through improvement of facilities and human capacity development. In terms of human capacity development, JICA continues to strengthen capacity development of the staff at the Department of Water Supply in the Ministry of Public Works and Transport as well as strengthen the system of providing capacity development program to nationwide Water Supply Enterprises in terms of improving administration and management. Meanwhile, in sewage sector, though JICA's cooperation is limited compared to water supply sector, JICA considers development of legal system, development of human resources related to operation and maintenance through technical cooperation as well as cooperation which contributes to formulating master plans in major cities. In addition, in solid waste management, JICA continues to consider cooperation for improving solid waste management capacity considering differentiation with other development partners' program in this sector.

- **Creation of Social Environment for Sustainable Development (Measures against Climate Change and UXO)**

The disposal of unexploded ordnance (UXO) is indispensable for stable land development. JICA provides cooperation for UXO clearance as well as climate change countermeasures which is essential for achieving carbon neutrality and ensuring sustainable economic development.

In the area of climate change, JICA continues to cooperate, mainly in forest sector, for capacity development of central and local government through both policy and field activities related to REDD+, and development of forest monitoring system. JICA also considers capacity development through Knowledge Co-Creation Program (KCCP) and mainstreaming adaptation measures into the existing projects.

For UXO clearance, JICA considers cooperation, in order to further improvement of UXO Lao of which operational capacity JICA has been working to enhance, for contributing to improvement of workflow between HQ and provincial offices, and management capacities in HQ.

Realization of "Quality Economic Growth" and "Inclusive and Sustainable Society" Supported by Sound Fiscal Foundations

Priority Areas	Development Challenges	Cooperation Programs
Strengthening Fiscal Foundation and Rule of Law	Capacity Building for Sustainable Public Finance Management	Fiscal Policy
	Strengthening the Rule of Law	Strengthening Governance
Quality Economic Growth through Strengthening Connectivity with Neighboring Countries	Improvement of Transportation Networks and Logistics Efficiency Contributing to Strengthening Connectivity	Improvement of Transportation Network
	Establishment of Power Supply System Contributing to Carbon Neutrality	Establishment of Stable Energy and Electricity Supply System
	Industrial Diversification and Enhancement of Competitiveness	Urban Management
Industrial Promotion		
Strengthening Inclusive and Stable Social Infrastructure	Provision of Social Services without Disparities	Improvement of Quality of Education
		Enhancement of Health Services
		Development of Urban Environment
	Creation of Social Environment for Sustainable Development	Climate Change Measures
Measures against Unexploded Ordnance		