4. Trends in Aid to the Lao PDR

4-1 Outline of foreign aid to the Lao PDR

(1) Foreign aid to date

The Lao PDR received US\$338.5 million in foreign aid (net disbursement) in 1996, of which US\$219.1 million (around 65%) was donated. More than double the US\$151.2 million which came into the country in 1990, this indicates a major increase in aid to the Lao PDR over the last few years. Around 79% of government public investment over the last five years has been covered through foreign aid, with development relying heavily on aid. The Lao's main bilateral donors are Japan, Germany, Sweden, Australia and France, while away multilateral donors the ADB, IDA and IMF play central roles (Figure I-12). Japan is the largest bilateral donor, with net disbursement at US\$57.4 million in 1996. This amounts to 39% of the Lao's bilateral aid, and 17% of all foreign aid, multilateral aid included.

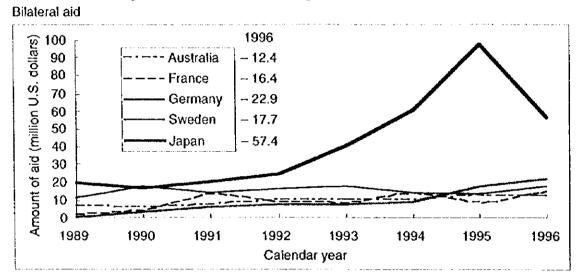
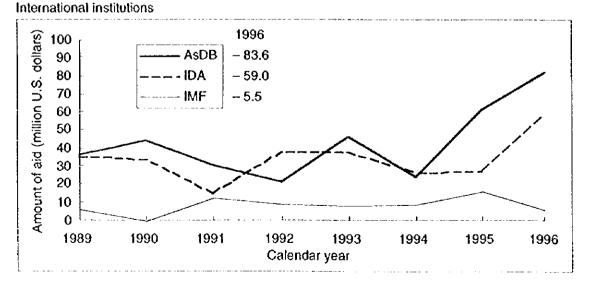
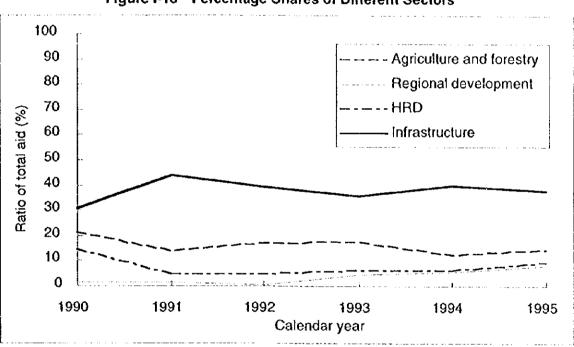


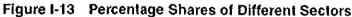
Figure I-12 Trends in Foreign Aid to the Lao PDR



(2) Trends by area

Looking at foreign aid by sector, transport, agriculture and forestry are the main recipients, followed by human resources development (HRD), regional development, energy and operation of the economy, in that order. While there are differences in the ratios in which bilateral and multilateral aid are apportioned, transport, agriculture and forestry top both lists, as has been the case consistently since 1990 (Figure I-13). Looking at the five years covered in the government's Public Investment Plan 1991-1995, transport and telecommunications account for 51% of total spending (with 82% from foreign aid), by far the largest share, which indicates the high priority placed on the development of roads and other infrastructure. Forestry and agriculture account for 15% (with 78% from foreign aid). Turning to the areas within the Lao PDR in which foreign aid has been injected since 1990, excluding that which has targeted the country as a whole or a number of provinces, aid has been concentrated in Vientiane and its environs (22% in monetary terms), followed by Savannakhet (6%) and Luang Prabang (3%).





(3) Overview of aid from other donors

Main aid projects by other donors are as follows. The project's content, the implementation period and related ministries are listed within brackets. For some donors, the results of local hearings are also included.

1) Germany

- * Promotion of small-scale enterprises (Technical cooperation in the promotion and business administration of small and micro enterprises; 1994-98; Ministry of Trade)
- * Nam Ngum watershed management (Water utilization management in the Nam Ngum watershed through local participation; 1995-99; local departments of the Ministry of Agriculture and Forestry)

- * Dong Dok forestry training (Improvement and strengthening of training at Dong Dok Forestry College; 1994-97; Ministry of Agriculture and Forestry)
- * Vocational training project (Improvement of training systems in line with the labor market; 1993-98; Ministry of Education)
- * Economic management training (Improvement of government officials' planning and management abilities; 1993-1999; National School of Administration and Management
- * Vocational training-oriented non-formal education (Non-formal education and technical training; 1995-98; Ministry of Education)
- * Bokeo Province regional development (Integrated regional development, including irrigation, animal husbandry, health and education; 1994-98; Bokeo Province)
- * Upgrading of Route 6 (Upgrading of Route 6 in Houaphan and Xieng Khouang; 1994-99)

2) France

- * French education (Strengthening of French language training in schools; 1995-96; Ministry of Education; 1991-95; Dong Dok Institute
- * Vocational training education (Technical training at French vocational training schools; 1990-95; National Politechnic Institute)
- * Training for government officials (Postgraduate training for government officials; 1991-95)
- * Improvement of airport facilities (Upgrading of airport facilities and related equipment in Savannakhet; 1993-1995; Lao Civil Aviation Department)
 - France's technical cooperation emphasizes public sanitation and education. France applies grant aid to electricity, hospital construction and medical equipment, and development of telecommunications facilities, etc. Electricit* de France has a 30% investment in the Nam Theun 2 Electric Consortium. France is also engaged in the disposal of unexploded ordnance and landmines and town preservation in Luang Prabang.

3) Sweden

* Enhancement of legal regulations (Strengthening of legal regulations through enhancement of the functions of the Ministry of Justice; 1994-95; Ministry of Justice)

- * Support to the State Statistical Center (Data gathering, classification, and other statistics standardization and systems development; 1992-1995, 1994-97)
- * Forest management (Field analyses and the development of development methods to protect forests from logging; 1992-95; Forestry Department)
- * Road and transport sector (Upgrading of 200 km of roads and bridges on Route 13 between Vientiane and Pak Kading; 1991-97)

- * Waterworks environmental sanitation (Improvement of waterworks to make the water supply safer; 1993-97; Clean Water Institute)
 - Sweden has a particularly strong record in the area of forest protection, cooperating in the formulation of both the National Forestry Law and the Land Law. Human resources development at local level is built into all projects. In terms of road development, Sweden is not only involved with Route 13 but also MCTPC capacity-building and the development of feeder roads. Microcredit has effectively stalled because of the inadequacy of implementing organizations.

4) Australia

- * English education (English language training in Australia for government officials; 1988-95, 1989-95, 1995-99)
- * Bridge construction (Bridge construction on Routes 1 and 13; 1995-99)
- * Thai-Lao Friendship Bridge, 1994
 - Australia's aid has focused on human resources development and education (scholarships and English training). In recent years, priority has shifted from infrastructure and agriculture to rural development and health and medical care (HIV, PHC).

5) Netherlands

* Irrigated agriculture development (Improvement of agricultural productivity through irrigation; 1992-96; organizational enhancement of the Irrigation Department; 1993-97)

6) United States

* Measures against narcotics (Integrated regional development toward conversion from poppy cultivation in Houaphan Province; 1989-1996; Houaphan Province)

7) ADB

- * Higher education (Integration of the various specialist schools into the National University of Laos; 1995-2002)
- * Improvement of education (Teacher training; provision of teaching materials; 1992-98; Ministry of Education)
- * Irrigation development (Technical cooperation related to expanding irrigation; 1992-98; Irrigation Department)
- * Water diversion on the Nam Suoung (Diversion of water from the Nam Suoung to the Nam Ngum dam; 1993-96; Electricité du Laos)
- * Nam Theun-Hinboun hydropower project (Development of 1600 GWh of electricity for export to Thailand; 1994-98; Electricité du Laos)
- * Fourth road upgrading project (Upgrading of roads and bridges on the 230 km stretch between Vang Vieng and Luang Prabang on Route 13; 1990-96)
- * Sixth road upgrading project (Upgrading of all-weather roads in Attopeu, Champassak and Se Kong; 1994-99)
- * Champassak road upgrading project (Upgrading of roads on Thai and Cambodian borders; 1995-96)

- * Vientiane integrated urban development plan (Town planning, development management, improvement of sanitation facilities; 1995-2000; Vientiane Municipality)
- * Industrial afforestation project (Promotion of industrial afforestation using eucalyptus, etc., in central and southern the Lao PDR; 1994-98)

8) IDA

- * Education development (Curricula, textbooks, non-formal education; 1993-2000; Ministry of Education)
- * Highland agriculture development (Improvement of agricultural productivity and promotion of market economy in northern highlands; 1990-95; Ministry of Agriculture and Forestry)
- * Forest protection and management (Forest inventories, forest plans, human resources development; 1994-2000; Forestry Department)
- * Industrial loans (Procurement of raw materials and machinery and technical cooperation for the modernization of small and medium enterprises; 1989-1995; Bank of the Lao PDR)
- * Electrification of southern the Lao PDR (Infrastructure for the electrification of Champassak, Savannakhet and Saravane; 1988-96)
- * Transport in southern Lao PDR (Road and bridge upgrading in the above three provinces; 1988-95)
- * Second highway improvement project (Upgrading of designated roads, including road planning and operation and maintenance plans; 1994-2001)
- * Second telecommunications upgrading project (Microwave telecommunications between Luang Prabang and Pakse, digitalization of telephone switches in five cities; 1990-97)

9) IMF

- * Stand-by (14 million SDR; 1980-81)
- * SAF (20.51 million SDR, 1989-92)
- * ESAF (35.19 million SDR, 1993-97)

10) UN Group

UNDP

- * Support for the reform of administrative systems and organization (HRD to improve administrative capacity and promote women's participation; 1993-97)
- * Education for ethnic minorities (Development of model education at village level; 1993-97)
- * Small-scale irrigation (Development of 12 small-scale irrigation facilities in Oudomxay and Louang Namtha; 1991-96)

- * Fishery development (Dissemination activities to improve fishing technology on 160 private sector demo farms; 1992-1996, Department of Animal Husbandry)
- * Se Kong regional development (Improvement of access to health services and other regional development; 1990-95; Se Kong Province)

UNICEF

- * WID (Support for women's participation in village development through the Lao Women's Union; 1992-96)
- * Basic education (Improvement of primary education, improvement of girls' literacy rates; 1992-96; Ministry of Education)
- * Water supply (Drafting of plans for the improvement of village water systems; 1992-96; Clean Water Institute)
- * Improvement of health and nutrition (Improvement of maternal and child health, antimalaria and antidiarrheal disease programs, inoculation campaigns, etc.; 1992-96)

UNDCP

* Integrated regional development plan for the highlands (Improvement of roads, health and education toward conversion from poppy cultivation; 1989-96; special regions)

The UNDCP is also conducting a number of regional development and legislation projects as narcotics countermeasures.

UNFPA

- * Population education (Maternal and child health and birth spacing in Champassak; 1995-98)
- * Strengthening maternal and child health care and birth spacing (Maternal and child health care in five regions, including Champassak, Luang Prabang and Savannakhet; 1993-96)

11) IFAD

* Bokeo food security guarantee plan (Loans to secure food and improve income; 1995-2002)

(4) Outline of NGO cooperation

The number of NGOs operating in the Lao PDR has increased since the introduction of the New Economic Mechanism, with 53 groups providing US\$18.16 million in 1997. These NGOs are predominantly involved in heath and medical care (23% of all funds provided, with efforts focused on sanitation education, HIV/AIDS, maternal and child health care, PHC, etc.), regional development (21.9%; village development) and education (17.2%; primary education, capacity-building, non-formal education, vocational training, etc.). Japanese NGOs in the Lao PDR are the Japan Sotoshu Relief Committee (primary school construction, creation of teaching materials, book education) and the Japan International Volunteer Center (organizing women's groups, social forestry).

(5) Foreign direct investment

Direct investment has increased with the formulation of the 1988 Foreign Investment Law (amended in 1994 as the Foreign Investment Promotion Law), with a total of US\$5,611 million reported to be invested in 594 projects by 31 countries from 1988 to 1995. Energy (electricity) was the target of 77% of this, indicating the high expectations of electricity. Investment was also made in light industry, hotels and other tourism, transport and telecommunications, and mineral resources. Thailand provided around half of total investment, followed by the United States, Korea and France.

4-2 Japanese aid trends

4-2-1 Development of aid

The following features can be seen, decade by decade, in Japan's aid to the Lao PDR.

(1) Initial period (late 1950s)

Opening with FY1957 development survey projects on waterworks and bridges (construction of the Gogum bridge as well as waterworks facilities in Vientiane Municipality), as of FY1958, Japan launched trainee programs and expert dispatches under the Colombo Plan. The Japan Overseas Cooperation Volunteer (JOCV) initiated their first project in FY1965, sending 10 members of the first party (48 persons) to the Lao PDR. During this initial aid period, the Lao PDR was well down on the list in terms of aid scale (bearing in mind that Japan provided aid to only 20 countries at the time), but various projects directed at the Lao PDR were implemented from this early stage, which coincided with the launching of Japanese aid.

(2) Expansion period (mid-1960s)

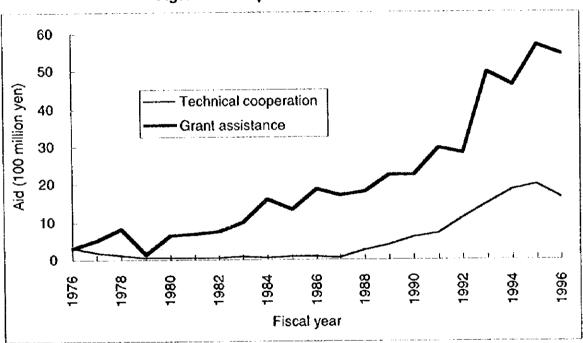
Aid (technical cooperation) expanded steadily from the mid-1960s to the mid-1970s, with project-type technical cooperation provided for the Luang Prabang hospital, the Tha Ngon Medical Center and Tha Ngon agricultural development, as well as development surveys for construction of the Vientiane International Airport and the Nam Ngum dam repair plan. Japan's cooperation in Mekong development surveys began with the First Phase Reconnaissance Survey on the Major Tributaries of the Mekong in 1958, when Japan conducted a preliminary survey on the Nam Ngum with special funds from the United Nations, launching a detailed design survey in FY1965. Japan also spent three years from FY1967 carrying out a construction plan survey for a bridge between Nong Khai and Vientiane (leading to the construction of a bridge in 1994 with aid from Australia). Yen loans totaling 5.19 billion were provided in FY1974 and FY1976 for the Nam Ngum dam hydropower project.

(3) Contraction period (mid-1970s)

The Pathet Lao revolution in 1975 reduced aid for the next decade, with project-type technical cooperation, trainee programs and JOCV dispatches in particular temporarily suspended.

(4) Reactivation period (late 1980s onward)

Since the New Economic Mechanism based on the "new thinking" was introduced in 1986, aid has continued to grow based around support for Lao's market economy transition. Japan restarted JOCV dispatches in FY1990 and project-type technical cooperation in FY1992, while from FY1995 the Youth Invitation Program began again, with Japan's aid increasing steadily. In FY1996, a yen loan of 3.903 billion was provided for the Nam Leuk hydropower project, financed jointly with the ADB. Grassroots grants, initiated in FY1989, had provided US\$3.75 million for 76 projects by FY1996, with major increases in recent years. Most of this aid has gone into primary school construction, hospital renovation, improvement of drinking water and small-scale bridge construction. In addition, as Mekong river basin development and development initiatives embracing the Indochina peninsula as a unit move forward, projects related to these initiatives are being undertaken in the Lao PDR as the geographical heart of both regions.





4-2-2 Current state of Japanese aid

(1) The Lao PDR ranking in terms of aid scale

In terms of the monetary value of recent aid to the Lao PDR, the Lao PDR ranks somewhere between 20th and 30th as a recipient of Japanese ODA. Priority has been placed on grant assistance, predominantly, as mentioned earlier, for the development of transport and other economic infrastructure. Technical cooperation in FY1996 entailed three instances of project-style technical cooperation, with 47 experts and 15 JOCV members dispatched, 152 trainees accepted and 92 survey team personnel dispatched (all FY1996 personnel figures refer to new dispatches and trainee acceptances), while 1.621 billion yen was disbursed. JICA is therefore providing middle-scale cooperation to the Lao PDR in terms of both personnel and funds.

(2) Performance by area

Overviewing JICA technical cooperation by area, primary areas are agriculture, forestry and health and medical care, the three main planks of the Lao PDR cooperation.

In terms of priority aid areas, at the grant and technical cooperation policy consultation in 1992, Japan informed the Lao PDR that it will focus aid on agricultural and rural development, health and medical care, infrastructure development, and education and human resources development, basing this on support for economic reform toward the introduction of a market economy. It was also agreed that the environment would be added to these areas as of FY1996. Table I-45 lists the aid which Japan has implemented since FY1987 in line with the above, demonstrating general congruence with priority areas.

(3) Aid features

Since aid was restarted following the adoption of Lao's economic open-door policy, it has been characterized by the emphasis and precedence given to grant assistance, and particularly infrastructure development (with the focus on agriculture such as irrigation facilities and other infrastructure development). This was because of the urgency of developing the relevant infrastructure to promote state modernization and the introduction of a market economy: Therefore, it is considered that the grant assistance could provide the desired immediate effect. Technical cooperation, however, has been a much stronger force in the 1990s; this was usually provided along with grant assistance in the early days, with project-style technical cooperation finally restarted in 1992, as noted above. While the Lao PDR is not short of development tasks, human resources development, the key to resolving these, has barely begun. LLDCs tend to push strongly for grant assistance, and this certainly has a large role to play, but it is technical cooperation which underpins sustained development, and this should be further expanded and strengthened in years to come.

One useful means of human resources development is training in neighboring countries which can supply the appropriate technology (third-country training). Lao's participation in third-country training in the ASEAN countries is being encouraged to the greatest extent possible, with 48 Lao receiving such training in neighboring countries in 1996. As Thailand's similar natural conditions are thought to make local training particularly effective in terms of human resources development, particularly in agriculture and forestry, this has been underway since FY1996 based on JICA cooperation projects targeting both Thailand and the Lao PDR; preparations are currently being made for third-country group training in Thailand (a forestry course) specifically for the Lao PDR in FY1997. Thailand and the Lao PDR also formed an agreement in 1989 on economic and technical cooperation, based on which Thailand is providing technical cooperation in tourism and education.

(4) Future aid trends

The Public Investment Plan in the Socio-Economic Development Plan 1996-2000 is looking for US\$1.5 billion in foreign aid. Given that a total of around US\$1.2 billion was pledged up until 2000 at the Sixth Round Table (a meeting of donor countries hosted by the UNDP) in 1997, aid seems likely to continue on the current scale. Grants (grant assistance, technical cooperation) will remain the basic form of aid to the Lao PDR as an LLDC. In terms of content, allocation by area under the Public Investment Plan continues to place high priority on transport (34%), followed by industry (14%), agriculture and forestry (11%), regional development (10%), education (9.6%) and public sanitation (8%). The development of roads and bridges is an important element in terms of investment promotion and the distribution of agricultural products, and with the Greater Mekong Subregion in the process of being realized under Asian Development Bank leadership, national highways and other aspects of the transport sector will continue to be a major aid focus. (Main GMS projects are listed in Appendix 2.) This should stimulate the flow of people and goods on the Indochina peninsula, making it vital that the Lao PDR create plans to ensure that it receives maximum benefit.

As infrastructure development proceeds, it will be essential to address the improvement of living standards in rural villages, the Lao's biggest development challenge. The above-mentioned Round Table noted the eradication of poverty, particularly in rural villages, as one of the Lao's maximum priorities, while the DAC New Development Strategy also emphasizes social development toward raising the social participation of the poor, with the emphasis therefore on economic growth that provides a safety net for the poor. Agricultural and rural development centered on anti-poverty measures is the basis of aid to the Lao PDR, and a development project perspective directly linked to relieving rural poverty is vital in development, countermeasures to prevent destructive slash and burn agriculture and forest protection, basic education and improvement of health and medical care.

Further, particularly given the recent currency crisis, the Lao PDR urgently needs to train government officials and improve the country's organizational capacity aiming at the sound macroeconomic management and the Lao's 2008 participation in AFTA. While domestic and foreign expectations are high in regard to the development of electricity and forests, the Lao's main resources, a balance must be kept with environmental protection, necessitating the development of human resources able to rise to this task.

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Table I-45 Japan's Aid Projects

Agricultural and rural development

Agricultural and fural development		
Project	Implementation period	Disbursement (100 million yen)
Tha Ngon farm restoration project (grant assistance)	86-87	12.12
Rural development project in suburbs of Vientiane (M/P> grant assistance)	90-91	22.12
Creation of a topographical map of Borikhamsay Province (development study program)	92-95	
Comprehensive agricultural development project in Savan- nakhet Province (M/P> grant assistance)	94-95	22.25
Agricultural and rural development program in Vientiane Province (project-type technical cooperation)	95-97-2002	
Comprehensive rural development project on the Boloven Plateau (M/P)	94-96	
Agricultural development project in slash-and-burn areas in Oudomxay Province (M/P, F/S)	91-93	
Aid fer increased food production (fertilizer, farm machin- ery)	87-96	47.0
Small-scale rural environment improvement in poverty- stricken regions along the Mekong River (forestry)	FY1997	Preliminary survey
Forest protection and restoration project (project-style tech- nical cooperation)	96-98	
Watershed management project for Vang Vieng forest pro- tection (M/P)	96-98	
Afforestation Center construction project (grant assistance)	FY 1997	Basic design study
Health and medical care		
Vaccination project (grant assistance)	95	0.94
Measures against infectious diseases, equipment related to polio eradication (provision of equipment)	96	0.75
Public sanitation project (project-style technical coopera- tion)	92-97	
Setathirat Hospital improvement project (project-style technical cooperation and grant assistance)	FY1997	Preliminary survey for project-style tech- nical cooperation
Infrastructure development		
Vientiane river port renovation project (grant assistance)	86-87	9.02
Vientiane waste water system development project (M/P, F/S)	87-89	
Tha Ngon bridge construction project (F/S)	89-90	
Vientiane Municipality traffic system development project (grant assistance)	88-89	10.07
Nam Ngum power plant repair project (grant assistance)	89-90	8.83
Se Katam Hospital small hydropower plant project (F/S)	90-91	

Telephone communications system development project		
(grant assistance)	91-92	17.36
Project for the improvement of water supply facilities in Vientiane (grant assistance)	92-94	27.45
Se Kong River hydropower project (M/P)	93-94	
Project for improvement of road construction equipment for Route 8 (grant assistance)	93	7.49
Project for renovation of bridges on Route 13 (grant assis- tance)	94-96	24.55
Project for improvement of satellite communication system (grant assistance)	94-95	11.22
Vientiane International Airport renovation project (grant assistance)	95-98	44.64
Nam Leuk hydropower project (loan assistance)	96	39.03
Pakse Bridge construction project (F/S> grant assistance)	97-	54-46
Second project for renovation of bridges on Route 13	FY 1997	Basic design study
Route 9		
uman resources development		
Project for improvement of facilities and equipment of the Higher Technical School of Electrotechnics and Electronics (grant assistance)	93	6.39
Trainee acceptances (including C/P for above projects)	87-96	486 persons
Main specially-established training courses: economic man- agement and operation; ASEAN accession support/invest- ment environment development and industrial policy		
JOCV dispatches		
Main projects in other areas		
Project for the development of fire-fighting materials (grant assistance)	89	2.5
Project for improvement of solid waste management in Vientiane urban area (M/P, F/S> grant assistance)	96	7.5
Project for the development of materials for Lao National TV (grant assistance)	91-92	8.97
Ground water development project in Vientiane Province (grant assistance)	93	5.92
Ground water development project in Champassak and Sarav (development study program 1993-95> grant assistance 199	ane Provinces 97)	

	1989	1990	1991	1992	1993	1994	1995
Australia	6.8	6.0	7.5	10.6	10.4	10.7	13.1
France	2.1	4.0	13.5	9.0	8.2	14.3	8.6
Germany	0.4	3.1	6.0	7.5	7.3	9.2	17.5
Sweden	11.2	17.1	14.4	15,9	17.0	13.9	13.4
Japan	19.7	16.9	20.6	24.8	40.5	60.6	97.6
AsDB	36.0	44.3	30.7	20.7	45.9	24.0	6.1
IDA	35.0	33.0	15.0	37.7	37.4	26.2	27.1
IMF	5.6	-0.5	12.0	8.3	8.2	8.5	15.9
TOTAL			143.8	165.3	207.0	219.2	313.7

Table I-46 Foreign Aid to the Lao PDR (bilateral)

Table I-47 Foreign Aid to the Lao PDR (international institutions)

	1989	1990	1991	1992	1993	1994	1995
AsDB -	36.0	44.3	30.7	20.7	45.9	24.0	61.4
IDA	35.0	33.0	15.0	37.7	37.4	26.2	27.1
IMF	5.6	-0.5	12.0	8.3	8.2	8.5	15.9

Tat	ole 1-48	Percentage S	S			
	1990	1991	1992	1993	1994	1995
Agriculture and forestry	20.92	13.76	16.83	17.10	12.33	14.39
Regional development	1.53	1.31	0.43	4.64	5.69	8.27
HRD	14.08	4.35	4.65	6.13	6.27	9.41
Infrastructure	0	0	0	0	0	0

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Year	Amount (unit: thousand yen)		
1957-1975	2,367,534		
1976	310,386		
1977	183,007		
1978	106,196		
1979	29,176		
1980	30,163		
1981	32,935		
1982	27,305		
1983	77,366		
1984	23,501		
1985	64,443		
1986	84,358		
1987	51,038		
1988	254,902		
1989	375,406		
1990	596,319		
1991	681,581		
1992	1,083,760		
1993	1,459,367		
1994	1,852,345		
1995	1,964,829		
1996	1,621,333		
Total	13,277,250		

Table I-49Outlay on The Lao PDR(1957-1996; collection of statistics on a fiscal year base began in 1975)

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II. Japanese Aid to the Lao PDR

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1. Priority Areas and Approaches in Japanese Aid:

1-1 Basic Direction of aid

The most effective approach for the Lao PDR will be to promote national development by internalizing to the greatest extent possible the various benefits deriving from participation in the Asian network. At the same time, the most important condition in minimizing network participation costs will be the integration of the country's currently divided and isolated regional markets into a single domestic market.

As forming this integrated domestic market is the most fundamental task in the Lao's development, the basic direction of Japanese aid and cooperation should be the development of the necessary conditions for creating an efficient market economy.

One aspect of this will be cooperation in developing the Lao's human resources. This should include both the greater fulfillment of basic human needs and the development of skilled human resources. Another aspect will be cooperation in reforming systems in the fiscal and monetary sectors toward improved governance abilities.

Technical and financial cooperation in the areas of experimental agriculture research and irrigation, as well as roads, transport, communications and electricity, will also be vital in developing the physical conditions for efficient market economy formation. This needs to be combined with the necessary support for sustainable development.

With accession to ASEAN forcing the Lao PDR to boost the capacities of the national economy within a limited time frame, the Lao PDR is likely to experience the same rapid expansion of income and interregional disparities as seen during the development of the other ASEAN countries. Growing income disparities are expected between Vientiane and other areas where infrastructure has already been developed and market access improved (as well as regions receiving aid) and regions without these advantages.

Such increased income disparities could lead to political instability, and the issue could becoming particularly marked as a source of conflict among the Lao's many ethnic groups. To avoid this situation, further consideration should be given to the social sector, and mechanisms established for the appropriate distribution of the fruits of economic growth among income groups and regions to ensure equity visibly.

With most of the poor currently living in rural areas and supporting themselves through agriculture, income disparities are likely to expand in the years to come, while the working population is also expected to increase as a result of the Lao's population growth rate and bottom-heavy population structure. In this context, rural development which incorporates environment protection and human resources development should be highlighted in terms of real job creation. Other essential areas will include:

- (a) public investment in the social sector on a scale appropriate to the level of economic growth;
- (b) monitoring of growing disparities accompanying market economy transition; and
- (c) development of distribution mechanisms.

1-2 Aid priority areas

(1) Human resources development

Human resources development is the bedrock of sound market economy development. Suddenly faced with participation in the Asian network, a dramatic increase in contact with the outside world, as well as foreign aid, have made capacity-building for civil servants and both government and private sector human resources in the economic sector important tasks for the Lao PDR. Improving governance abilities in the government finance and financial sectors will be particularly important in mobilizing the resources needed for development and ensuring their efficient allocation.

In terms of primary education, to improve enrollment ratio, the Lao PDR needs to resolve the issue of access by constructing more schools. Aid in this area should be provided in a form adapted to actual conditions and taking into consideration the particular circumstances of the Lao PDR, including "soft" aspects such as teachers and teaching materials, ethnicity and language. One such approach would be the incorporation of education methods involving local participation which already have a performance history in the Lao PDR.

In regard to health and medical care, although it may take time, aid and cooperation should be concentrated on the development of efficient operation and management systems for maternal and child health care and preventive medical care.

(2) Agriculture and farming village development

With the bulk of the country's population living in rural villages and farming for a living, it is no overstatement to say that improving the state of agriculture and farming villages will help alleviate poverty and reduce disparities. Priority issues in addressing the task of increasing food production are cooperation with regard to small-scale irrigation development and water-utilization organizations, as well as cooperation in varietal improvement toward the increased productivity of rice fields that use only natural rainfall. To promote the dissemination of the new technology for the introduction of dry season crops, it will be vital to increase the number of personnel involved in the dissemination and to train them, to set up a fund for financing farmers, etc. Cooperation will be needed in experimental research related to commercial crops as a means of increasing income, assistance in resolving market access issues, and the development of feed resources in order to promote animal husbandry. Developing rural industries such as silk weaving and agricultural product processing would enable rural villages to absorb the increase of the labor force brought about by high population growth, and would promote the formation of an industrial structure suited to the Lao PDR; such assistance to rural areas would help avoid problems of urbanization.

(3) Infrastructure and energy development

The development, operation and maintenance of domestic distribution and communications networks in the Lao PDR will be of crucial importance in forming an integrated domestic market and delivering social services. For transportation, cooperation could be focused to develop statistics for the creation of a comprehensive traffic masterplan and to improve capabilities of government institutions. The masterplan should bear in mind the balance among the various subsectors and distribution trends. In addition, systems need to be created for the operation and maintenance of completed infrastructure projects. In general, new projects should be suited to the Lao's operation and maintenance capacities.

International transportation and communications infrastructure development plans involving Indochina have marked the Lao PDR as a land-bridge. Where it implements cooperation in these areas, Japan must take an approach that benefits the Lao economy, promoting domestic distribution, for example; and its approaches should also be based on a development scale suited to the Lao's debt-bearing capacities.

Electricity is currently a precious source of foreign exchange for the Lao PDR. As the state economy will continue to need to use electricity as a source of foreign currency, development in this area needs to be conducted in harmony with environmental conservation. In recent years, with more development projects being funded by private sector, the central government's work on the development of legal systems related to the electric power sector needs to be enhanced as soon as possible.

(4) Environmental conservation and environmental resource management

Forest degradation is an important issue for the Lao PDR from an environmental conservation perspective, and resolution of this issue will be a vital element of the Lao's further economic development. Japan should engage in ongoing cooperation in participatory forest conservation and reforestation through the collection and analysis of basic data, or in the form of projects, combining this with measures currently underway to control the use of slash and burn agriculture. Consideration could also be given to incorporating responses to a few key issues rigorously selected from among the various issues arising at village level.

Water is another important resource. Support needs to be given to the creation of river basin management plans with attention given to land utilization and soil conservation. To put such an environmental management system into practice, the Science, Technology and Environmental Organization and other relevant government agencies must be strengthened, and the systems diffused to the local level. Even in aid projects not directly targeting environmental issues, activities related to environmental conservation should be incorporated as part of the program, in order to increase environmental awareness.

2. Priority Aid Areas in Main Sectors

2-1 Economic areas

2-1-1 Macroeconomy

(1) Macroeconomic management

In all likelihood, international financial institutions like the World Bank and the IMF will continue to control economic indicators at the macroeconomic level. However, while coordinating with the economic visions of these institutions, from the perspective of macroeconomic stabilization, it is time that Japan, already the Lao's top donor, started comprehensively advising the Lao government as to how to utilize ODA directed at rural and infrastructure development.

(2) Stable expansion of investment and savings

As most capital provided by donor countries and international aid institutions is in fact used to cover government capital expenditure and the budget deficit, if public investment is not made more productive, the increasing inefficiency of investment could widen the investmentsavings gap and even impact on current accounts, eventually expanding the Lao's debt burden. Moreover, from a world perspective, the Lao PDR is simply not a candidate for a wealth of aid capital from international institutions and other donors. With China, Viet Nam and other neighbors already absorbing much of the available foreign private investment, the Lao PDR could well see the provision of foreign capital and technology taper off rather than increase, contrary to its hopes. Obviously, then, public aid needs to be used as efficiently as possible. If the Lao PDR uses public aid to make investment more productive, it can hope for greater private investment in the future, including foreign investment. In this context, areas where assistance is needed are (i) strengthened tax collection and strengthened screening of public investment projects to foster as many domestic companies as possible, and (ii) dissemination of practical knowhow in regard to international finance and trade, including the finance and insurance areas vital to banking system expansion. These measures should be undertaken in line with aid coordination among the Lao PDR government and aid donor countries and institutions. Implementation may require expert dispatches to each of the sectors concerned; at the same time, however, where there are senior-level experts providing the above-mentioned comprehensive advice, measures should be kept consistent with this.

(3) Geographic investment distribution plan

The direction of the Lao's macroeconomy is closely linked with development trends on the Indochina peninsula where the country is located, and across the entire region, including Thailand and Myanmar. The development of this region must be considered in order to identify the right direction for international infrastructure development to take in the Lao PDR. In this sense, a geographic investment distribution plan which also takes into consideration AFTA trends will be vital in improving investment efficiency, particularly in international infrastructure development over the next decade. Having such a plan, or even guidelines, would mean that the Lao PDR could establish a number of key points within the country for economic development, proceeding from there to promote the development of a nationwide transport and communications network and transmission grid; such a geographic and phased approach would allow the efficient use of foreign aid capital which, over the mid- to long-term, might be less than abundant ⁽¹⁾. Given that the Lao PDR has no option but to develop its economy within the Asian network, such a plan or guidelines would significantly improve the quality of policy dialogue during project screening, not only between donors and the Lao PDR government, but also among aid institutions and within the Lao PDR government. Even technically, it would be easy to develop such a plan in a country as small and as sparsely populated as the Lao PDR ⁽²⁾, while, for the reasons noted above, the effect on planning costs would be considerable.

2-1-2 Agriculture

Food self-sufficiency, cash crops, encouragement of animal husbandry, stabilization of slash-and-burn farming and other development issues in this area could be addressed as follows, giving ample consideration, of course, to the characteristics of traditional Lao agriculture.

- (1) To address the immediate issue of increasing food production, top priority should be given to small-scale irrigation development. Development of small-scale pump irrigation and well and weir gravity-supplied irrigation using the water resources of the Mekong and its tributaries at Borikhamsay, Khammouane, Savannakhet, Saravane and Champassak would provide the greatest investment effect. Small-scale pump irrigation should be encouraged in the plain areas, and in fact is already planned in a number of provinces. Reasons for this form of irrigation include the limited number of plain areas suited to gravity irrigation, the fact that pump irrigation is the better method when farmers are shouldering irrigation development costs because of the huge investment that gravity irrigation requires to construct the reservoir to hold the water needed for double cropping, and the Lao's cheap supply of electricity for agricultural use $^{(3)}$. Where there is not enough capital to construct irrigation facilities, the use of two-step loans put through the Asian Development Bank by Japan should be considered. However, prerequisites for this would be the development of ADB human resources and the strengthening of its functions as a bank. Providing power through small-scale hydropower generation should also be considered in the case of pump irrigation for over 100 hectares. Facility management and maintenance will require efficient operation by water utilization organizations. Japan could consider dispatching experts (even experts from third countries) in an advisory capacity to help organize the farmers involved, as is being undertaken in countries like Pakistan.
- (2) To raise the productivity of wet-season rice crops irrigated with rainwater, the old rice strains need to be developed into strains with high drought and floodwater resistance.
- (3) To disseminate the new technology accompanying the introduction of dry-season crops, centers supplying improved seed varieties need to be expanded; dissemination staff need training to enable them to advise on crop fertilization, water management and weed eradication, and staff numbers should also be increased; and credit should be pro-

⁽¹⁾ In terms of establishing development bases, redevelopment plans already being implemented for major cities such as Vientiane and Luang Prabang could be repositioned from a national perspective.

⁽²⁾ Given Lao PDR's geographical scale, JICA's experience with integrated rural development programs would suggest that if Japan provided supported for the creation of a nationwide development program, this would be quite feasible from a technological perspective.

⁽³⁾ Yoneda, 1997.

vided to farmers for the purchase of chemical fertilizer and the introduction of ploughing and threshing machinery.

- (4) See the section on the environment in regard to support for slash-and-burn projects and related projects on zoning and designation of land use rights.
- (5) The following should be considered as steps toward expanding cash crop production: improvement of sugar cane production and sugar processing technology in Phong Saly and Louang Namtha in the north; village road development on the Boraven Plateau to increase cabbage and ginger production, as well as experimentation and research toward varietal improvement of coffee, feed corn, cotton, tea, nuts, vegetables (cabbages, Chinese cabbages, potatoes, ginger, etc.) and fruit (bananas, durian, etc.) as exports and as import substitutes; and development of small-scale gravity irrigation for vegetable crops in plateau areas such as Boloven and Xieng Khouang ⁽⁴⁾. Buckwheat and mushrooms, both apparently suited to the Lao's natural conditions, could also be considered as export crops, and it would be worth conducting a study on the possibilities for sericulture in connection with promotion of silk-weaving.
- (6) To promote animal husbandry, the Lao PDR has reached the stage where feed resources have to be developed to increase large livestock numbers (efficient use of commonage forests in the highlands and the development of highly-productive pastures in the plain areas). In terms of husbandry of smaller animals, experiments and research should be carried out on the economic efficiency of introducing improved strains. To establish a livestock inoculation regime, personnel with veterinary qualifications need to be trained, the infrastructure must be developed for vaccine preservation, and vaccine production must be expanded ⁽⁵⁾.
- (7) Fishpond cultivation and the promotion of pisciculture using the abundant water resources of the Mekong and its tributaries will require early implementation of marine experimentation and research and the development of dissemination mechanisms, as well as mechanisms for fish breeding and distribution. As funds will be needed to develop fishponds, prevent pond eutrophication and purchase fry, consideration should be given to financing in these areas.
- (8) To give thorough consideration to the above points and make accurate judgments as to their merits and demerits, reliable and comprehensive statistics and information on soil, topography and water resources will be vital. Mechanisms for gathering agriculture and forestry-related statistics and information should be improved and expanded as early as possible.

2-1-3 Forestry

Considerable support is already being provided to the Forestry Department, the agency through which forest and forestry support is channeled. Since July 1996, Japan too has been providing project-style technical cooperation for forest protection and watershed management

⁽⁴⁾ Lao PDR Ministry of Agriculture and Forestry and JICA (1996).

⁽⁵⁾ Suzuki, 1996.

around the Nam Ngum dam, as well as development studies and grant assistance (forestry centers) in support of this. Given the Forestry Department's current personnel, the most effective approach would be to prioritize steady progress on existing projects until the younger Lao counterparts involved in these have found their footing, whereupon new projects can be launched.

Also important in the Lao PDR forestry are the three regional development enterprises under military jurisdiction, but while these have some public aspects because they are self-supporting and not geared for public support, they are not appropriate recipients of direct forest and forestry assistance.

In addition to steadily promoting the integrated forest protection and watershed management project around the Nam Ngum dam, which brings together project-style technical cooperation, development studies and grant assistance, Japanese support in the forest and forestry area in the Lao PDR in the years ahead should focus on expertise support as the most practical and effective approach. This could entail dispatching individual experts to provide policy advice, for example, and participating in the National Forestry Law working groups.

Specific areas where experts should be individually dispatched to provide policy advice are as follows:

(1) Development of a forest plan system and implementation mechanisms

A forest plan system and the mechanisms to implement this should be developed, including the establishment of a forest ranger corps, the production of a manual on creating simple forest registers, and the development of methods of roughly gauging growth volume. The Lao's monitoring of its forest resources is inadequate, and the forests in the northeast in particular are being rapidly logged out because of the availability of good quality *Pinus merkusii* and Lao cypress there. Prompt development of forest resource management plans, including calculation of forest resources, is therefore vital.

(2) Creation of a special accounting system based on a forest development fund

This is a method currently being considered by the Lao PDR government whereby various donors would finance a forest development fund based on the National Forestry Law. The government is also considering whether a special purpose tax of some percent could also be levied on hydropower-generated electricity sold and on forest product exports ⁽⁶⁾, adding this to the above fund to use for forest protection and afforestation.

(3) Consideration of afforestation cooperation possibilities

Farmers are beginning to experiment with teak and eucalyptus afforestation in various parts of the Lao PDR. Consideration should be given to the possibility of assisting these efforts and cooperating in formulating their organization.

More specifically, this would entail consideration of the creation of afforestation associations and forest-lovers' associations and the establishment of a forest profit division system, as

⁽⁶⁾ In Lao PDR, Forest Tax is already included in royalties (see 2-4-1 Current State of Forestry, 3)Prices and production costs. Once collected, this is used as general source of funds, and is not a special purpose tax.

well as forest development and the creation of maintenance and management mechanisms to be used in the forests developed, providing models for forest restoration by local residents.

For example, scrub areas could be restored and reforested by villages based on land-use and village-development plans. Wages could be paid to villagers for their afforestation work. However, part of these wages would be pooled as a village "general service" fee, to be used on the basis of independent village judgment to pay for the necessary materials and facilities for village development plans. Afforestation associations could manage and maintain the cultivated trees and divide the profit from logging among village members.

(4) Forestry Department human resources development

If the expertise support noted in (1) to (3) was provided, as well as support in calculating forest resources and forest plan creation, implementation of policies and plans would necessitate strengthening human resources in the Forestry Department, the agency through which such assistance would be channeled. In terms of current human resources development in the forest and forestry area, GTZ is providing support to the Forestry College at Dong Dok, while Sida is providing materials to the Muang Mai Forestry School and other forestry training centers. Any forest- and forestry-related human resources development undertaken by Japan as a project must to be kept consistent with these efforts.

The following measures could be conducted immediately to strengthen human resources:

- (i) High-frequency English training conducted by Lao English teachers during lunch breaks and after work, as is the case in Sida and JICA forestry projects;
- (ii) Provision of budgets for individual expert dispatches and projects so that counterparts can easily be sent to neighboring Thailand for technical training;
- (iii) Development of means whereby the Lao can be sent to English-speaking countries particularly for language training (independent of technical training).

In addition, the Forestry Department seems to lack human resources with expertise in forestry and the timber trade, because thus far, the department has stressed the development of organizational mechanisms to deal with slash-and-burn agriculture. The development of human resources with this kind of expertise is an urgent task in responding to, for example, accession to ASEAN and the timber recognition systems which are becoming a worldwide trend. Such human resources development support would be more effective if it did not stop at the Forestry Department but was also extended to staff at BPKP and the other regional development agencies.

2-1-4 Transport and communication

(1) The Transportation Sector

1) Transportation in General

There is an urgent need to assist Laos to formulate a masterplan for its transportation system in order to make policy for the transport sector as a whole. Japan should also assist the Lao PDR in formulating specific masterplans for each subsector, such as roads, within the framework of the general masterplan.

2) Roads

After carefully assessing the profitability of projects and the ability of the Lao PDR to repay its foreign loans, the scope of consideration should be widened gradually to include the possibility of loan assistance, in addition to grant cooperation. Cooperation in the road sector must increasingly take fully into consideration the compatibility of projects under consideration with the development plans of individual regions and measures to protect the environment. Items of possible cooperation in the future include the following:

- Construction of an East-West corridor road (linking Thailand, the Lao PDR, and Vietnam)
- Construction of regional artery roads in northern Laos and roads across the mountainous area running South-North
- Construction of a bridge across the Mckong River
- Assistance in national highway artery and provincial road network maintenance (implementing traffic safety measures and a road numbering scheme at the same time)
- Support for the regional road improvement program involving agricultural infrastructure improvement focused on specific target areas (grant aid/technical cooperation)
- Technical cooperation in construction industry training programs

3) Aviation

Due to the likelihood that the aviation sector will acquire increasing importance in the Lao transportation network, it is urgent both to consolidate existing aviation sector structures and to formulate a masterplan to replace the existing masterplan in 2001.

While considerable progress has been made in the construction of Vientiane International Airport, progress toward the construction of regional airports is still insufficient; it will also be necessary to envisage the development of nine or ten additional regional airports as a package, safety being the principal objective, together with radio, communications, lighting, and firefighting facilities, etc., if and wherever necessary.

Japan has offered active cooperation through grant aid in the construction of Vientiane Airport and has been a major donor in this sector. Given this background, Japan should explore the possibility of further financial cooperation in regional airport construction. It is also possible to envisage assistance with the ultimate objective of turning Savannakhet and Pakse Airports, and perhaps others, into international airports.

Presently, Lao air traffic controllers and airport administrators and engineers are trained at the Civil Aviation Training Center (CATC) under the jurisdiction of the Department of Civil Aviation, but teaching staff and materials are in short supply. Technical cooperation and equipment donations for CATC should be studied in the context of aid for this sector.

Commercial aircraft, as mentioned previously, are flying night and day over Laos, whose air traffic control system is inadequate to ensure safety. Hence the need for immediate modernization of Laos's air traffic control (by equipping facilities with radar and modernizing air traffic control methods) in the Vientiane Flight Information Region (FIR).

4) Maritime Transport

Thus far, Japan has given its financial cooperation in the construction of the Vientiane-Laksi Bridge; future cooperation could be directed at the following areas (while carefully ensuring compatibility with the GMS program and coordinating Japan's efforts with other donors'):

- Construction of regional ports, key ports in northern and southern Laos (including master planning, especially construction of passenger terminal, ferry facilities, cargo loading and unloading equipment, warehouses, etc.)
- Improvement of maritime routes, especially response to the GMS upper and lower Mekong River water transport infrastructure projects, water route surveys, dredging of water routes, improvement of navigation markers.
- Strengthening of Mekong River navigation training and institutions for the training of port authority engineers and ship's crews
- Construction of dry port facilities (cargo and passenger terminals) linking ports to road transport
- Construction of a data telecommunications network to improve shipping efficiency and improvement of the satellite telecommunications network to improve the safety of water transportation

(2) The Telecommunications Sector

Japan, together with the World Bank, has continued to extend cooperation as a major donor to assist Laos in its telecommunications development. Especially during the 1990s, Japan has been Lao's top donor in this area, helping the Lao PDR to increase the number of telephone branch exchanges and to establish a satellite telecommunications network.

It is advisable for Japan to continue to actively undertake high-priority projects in this sector in the Lao PDR, since the need for telecommunications development is so great. It is especially necessary to increase assistance in software and services, as well as cooperation in hardware aspects. In financial cooperation also, to ensure that precious aid funds are used effectively, it is advisable to use both loans and grants and to make efforts to promote cooperation on a private enterprise basis. In this area, aid coordination among donors is, to be sure, more important than ever.

Japanese aid in the telecommunications sector could envisage projects of the following types:

- Mid-term master planning,
- Construction of regional and rural telecommunications infrastructure,
- Construction of a Greater Mekong Subregion fiber optic telecommunications network,
- Technical cooperation, including the dispatch of experts, etc., to strengthen the organization of project operations and maintenance.

2-1-5 Electric energy

Aid in the electric energy sector should be focused on consumer and environmental aspects, while at the same time the role public funds should play in mobilizing private sector capital in Asia should be borne in mind. More specifically, thought should be given to the role of Japanese aid in regard to the following three points.

(i) Consumer-side support in domestic development

Despite the Lao's large electricity plants and the further expansion of these in days to come through private sector-led development, rural electrification has been delayed by the severity of natural conditions in remote mountain areas and the long wait for development of a transmission grid, and the consequent negative impact on the environment is becoming marked. Support for transmission grid development and rural electrification centered on small-scale hydropower will therefore be major pillars of Japan's cooperation in the years ahead. The most easily absorbed forms of cooperation will be development studies and grant assistance.

(ii) Support for systemic and personnel environment development

Government development of legislation for the electricity sector is of maximum urgency as private capital-led development progresses, a task well suited to project-type technical cooperation. Integrated use should also be made of training systems and technical cooperation through expert dispatches in order to foster human resources in this sector, with efforts made to increase the efficiency of such tools.

(iii) Capital and technical support for environmental aspects

The environmental impact of private sector development is already being recognized worldwide. Where basic government policy centers on such development, the focus of government capital assistance should be on the environment in particular, including capital cooperation in social development in the areas where electricity is generated. Technical cooperation through expert dispatches could also be valuable in helping the government to enforce regulations in regard to private sector development.

Picking up on another angle, Japanese private sector capital has been very slow to move in terms of the private capital that Asian countries need, primarily because companies have dragged their feet over undertaking studies involving risk and because public funds have been slow to make a decision on the Lao PDR government project holdings. To support these aspects, consideration needs to be given to mobilizing public funds at the development study stage. In addition, given the major role played in environment countermeasures by the government's share in development capital, concrete consideration should be given to providing the government with the capital it is currently struggling to secure.

2-1-6 Manufacturing

To build the rural weaving industry, which is one manufacturing industry in the Lao PDR with development possibilities, (i) wide-ranging foreign demand and the producers of woven cloth need to be linked (formation of a wide-ranging market), and (ii) raw materials need to be locally produced (import substitution).

(1) Cooperation in promoting market formation

To secure markets in Europe, the United States and Japan, the immediate need is for (i) development of patterns suited to these countries and (ii) dissemination (revival) of natural dyes.

In addressing these needs, full use should be made of the economic players involved in the Lao handweaving industry--the weavers, the textile manufacturers and the retailers. The textile manufacturers and retailers in particular respond sensitively to economic incentives, and many textile manufacturers could well be described as entrepreneurs. Market-fostering development assistance which cultivates this entrepreneur spirit within a market economy would not require major capital input, and would be a pump-priming strategy which would have a continuous effect once a market is established. Specific means could be as follows.

(a) Holding exhibitions to link foreign demand and producers: Rural entrepreneurs cannot obtain information on foreign market demand. The Lao Women's Union is creating trial silk products matched to foreign tastes, but none of the textile manufacturers around Vientiane know anything about this. When the trial products are shown, textile manufacturers say that such cloth would be easier to weave than what they are currently weaving. When asked if they will try weaving such cloth, the reply is that they would if there was a market for it. As a strategy to address this situation, the following case could be useful. In northern Thailand, many textile manufacturers have made connections with urban businesspeople (not only from Bangkok but also from abroad) at exhibitions held by the government, developing long-term trade relations. On these occasions, the businesspeople provide the textile manufacturers with information on foreign demand (colors, patterns, etc.), and cloth is then woven in line with demand. In other words, once a channel is established, to the extent that the product remains competitive, market mechanisms will automatically feed back information on product demand to producers through this channel. Where long-term trade relations can be established, textile manufacturers can develop products in line with foreign demand without worrying about inventory risk. For example, one Vientiane textile manufacturer used to sell his products to Bangkok merchants, but now receives orders from retail stores in Japan and a number of other countries. The same textile manufacturer also uses natural dyes now because these are more popular in developed countries. Fostering such entrepreneurs will assist the Lao's efforts to introduce a market economy.

It could also be valuable to display goods from Thailand, India and other countries with experience in developing their traditional crafts for Western and Japanese markets. It would certainly be worth considering cases in countries such as Thailand and India where traditional crafts formerly limited to that country's cultural sphere have been developed in line with Western and Japanese tastes (for example, tablecloths, bedspreads and place mats made of Indian cotton are now widely available on the Japanese market). Such cooperation would have an immediate effect; below we examine measures along the same lines but with a slightly more medium-term effect.

(b) Interaction with Japan's traditional weaving industry: To build the Lao's rural handweaving industry, it needs to develop a range of products that target Western and Japanese demand structures. This is where interaction with Japan's traditional weaving industry could be useful. However, the characteristics of the Lao's handweaving first need to be understood. For example, Lao handwoven cloth is created by women, which means that the reed is driven in relatively weakly. The Lao PDR therefore cannot weave non-shrink products such as the Japanese "obi." Techniques which could be transferred from Japan's traditional weaving industry need to be selected with thought to such technical limitations. In addition, weavers' relation to the market differs for figured cloth and splashed-pattern cloth. For technical reasons, the textile manufacturer is the key to figured cloth distribution, whereas there are no textile manufacturers for splashed-pattern cloth, allowing direct trade between weavers and retailers. For figured cloth, it is the textile manufacturer who decides on pattern and color, while individual weavers make this decision for splashed-pattern cloth. As a result, development strategies will be different for figured and splashed-pattern cloth, even in terms of transmitting demand information and technology transfer. Providing Japanese market information and technology is likely to be more effective in regard to splashed-pattern cloth patterns.

Chemical dyes are being used in the Lao PDR, with natural dye techniques beginning to disappear. Chemical dyes produce stronger color, which suits Lao tastes. However, natural dyes are by far more popular in developed countries. The Lao PDR could easily produce something similar to the Thai natural-dye scarves available on the Japanese market, and would be able to hold its own even in terms of costs. Natural dye techniques are still alive in Japan (for example, yellow silk cloth (*kihachijo*). Natural dyeing needs to be revived, including communication of this technique. Because no basic information is available on the Lao handweaving industry and natural dye techniques, experts need to be set to gathering such information. For example, one Vientiane weaver produces cloth on commission for a Thai company which needs natural-dye cloth. This cloth is exported to Japan and other countries as a Thai product. The weaver learned his natural dye techniques at a training center in Chiang Mai, Thailand, as such techniques are approaching extinction in the Lao PDR. Yet if demand can be secured, weavers are likely to move proactively toward a revival of natural dyes.

If Japan is to provide cooperation in this area, experts (trading companies, department stores, and retailers, etc.) with a thorough knowledge of Japanese consumption trends will have to be brought in. Clear directions based on Japanese consumption trends would be valuable in market formation and could have a much greater positive impact than more costly aid.

(2) Domestic supply of raw materials

The Lao PDR must be self-sufficient in raw materials if it is to improve its foreign currency position. This will need a slightly more medium- to long-term strategy. Self-sufficiency in silk and cotton thread would have a major effect, and not just in terms of decreasing thread imports. Handweaving in the Lao PDR is primarily undertaken by the lowland Lao peoples. Lao peoples in the midlands and highlands have no handweaving tradition, perhaps because of their pursuit of shifting cultivation. If these peoples were to take up sericulture, they too would see more employment. As slash-and-burn is considered a problem in the Lao PDR, the planting of mulberry trees would help to prevent soil erosion. Silkworm pupae can also be used as fishfood, and even turned into food as a source of protein, as is the case in northeast Thailand. Japan's aid experiences with sericulture and thread production in Viet Nam and Thailand should also be of use in the Lao PDR. The areas inhabited by the midland and highland Lao peoples in the north are particularly blessed in terms of climate, and could raise silkworms of an even higher quality than the southern variety of silkworms introduced in Viet Nam and Thailand. Because northern Lao PDR is already a natural habitat for a native type of silkworm, the basic environment is already in place, needing only the transfer of a silk thread industry using modern technology. If a process can be created which runs from upstream through to downstream--from sericulture and raw cotton production to machine-made thread to handweaving--this could have a major impact on the Lao's economy.

In terms of ease of introduction, however, cotton thread manufacture is the better candidate. The Lao's raw cotton is the old short-filament strain, and does not lend itself to the production of high-quality cotton. Cultivating high-quality strains of raw cotton and developing a thread manufacturing industry based on these would be a strategy with significant impact given the potential for handwoven cloth exports.

In any case, forming the process from sericulture and raw cotton cultivation through to handwoven cloth will hinge on boosting the competitiveness of the Lao's handweaving industry. The rural handweaving industry is without doubt one of the few Lao industries which has the potential for international competitiveness, and it could be effective to approach development cooperation with this point as the axis.

	Short-term tasks	Medium-term tasks	Long-term tasks
Goal	Market development (developing downstream industries)	Import substitution (developing upstream and midstream industries)	Import substitution (developing upstream and midstream industries)
Specific assistance	 * Organizing trade exhibitions * Interaction with Japan's traditional weaving industry * Development of natural dyeing * Study of the Lao PDR handweaving industry 	 * Cultivation of good-quality raw cotton * Thread manufacture (cotton thread) * Introduction of sericulture technology 	* Thread manufacture (silk thread)

The following table summarizes the argument so far.

2-2 Social areas

2-2-1 Human resources development

In terms of aid in the education area currently being provided by international institutions and country donors, there are close to 80 projects lined up as part of the UNDP's development cooperation alone. Particularly active in this area are the Asian Development Bank, the World Bank, UNICEF, France, Australia and Germany. The ADB is working on teacher training and the printing of teaching materials for basic education, as well as integration of the various specialist schools into the National University of Laos, and will also undertake a project for the promotion of girls' education. The World Bank is working in areas such as curricula and teaching materials development for basic education, school construction and education administration. UNICEF's focus is on training for teachers currently working in basic education, while France is involved in French language education and the training of officials, Australia in English language education and the provision of opportunities for study abroad, and Germany in vocational training.

Japan has not been as active in the education area as other main donor countries. Japan's record to date is primarily in the provision of equipment unattached to other forms of aid, the development of higher education institutions through grant assistance, and vocational training and primary school construction using grassroots grant assistance. Japanese NGOs have also been active in primary school construction. In years to come, Japan should engage in more intensive education assistance in response to the rapidly changing education situation in the Lao PDR, coordinating role division with other aid institutions. While focusing on the development of sorely-needed skilled human resources, school construction and other elements of basic education, Japan should also consider making an original contribution in terms of secondary education and personal contact, areas which other donor countries and international institutions have tended to overlook.

With these prerequisites, we have divided cooperation areas that are considered to have high implementation potential within Japan's aid framework into (i) the expansion of basic education and (ii) the development of skilled human resources.

(1) Expansion of basic education

1) Construction of primary and secondary schools and dormitories in rural and mountain areas

Japan is already participating in the Lao PDR school construction through the grassroots grant assistance provided by the Embassy and Japanese NGOs. As it happens, Japan also has considerable experience in school construction in the African countries. Given the serious school access problem in the Lao PDR, cooperation in organized and wide-ranging school construction would be a major contribution to improving school attendance. At the same time, while the low population density and the lack of schools which can be reached on foot are one problem, relatively low utilization rates for existing schools in the Lao's mountain and rural areas also mean that Japan cannot expect to see the major effect in terms of rising attendance rates achieved through the improvement and expansion of facilities in Africa. However, while there will be various implementation problems, Japan should set to work on school construction, including the building of new schools. The best approach would be thorough school mapping, taking into consideration road construction plans, and looking at the adoption of a cluster system for newly-built schools in remote areas (a system whereby a central school would help to operate and educate in small-scale new schools). Maximum use should also be made of the traditional system whereby local residents participate in school construction. Participation by local residents is useful not only in terms of construction costs, but also in ensuring efficient maintenance and operation after construction and fostering a sense of ownership among local residents. Efforts in this area must be coordinated with NGOs and the World Bank, both of which already have experience in school construction. Consideration should also be given to prioritizing provinces where attendance rates are low, ways to promote girls' education, gaining a solid understanding of the education needs and language problems of ethnic minorities, dormitory construction in remote areas, and utilization of school buildings for adult education.

There is a strong need for school construction, but to link this effectively to improved attendance rates, construction must be based on full studies on the special circumstances of Lao education noted above.

2) Support for non-formal education

With the Lao's low literacy rates and years of school attendance among adults, and particularly women, non-formal education is extremely significant in terms of social development. Japan could provide technical cooperation in areas such as the development of curricula and teaching materials in order to link literacy with production activities and higher living standards; capacity-building for officials involved in non-formal education; and the creation of distance-learning programs using radio. Projects should be implemented in cooperation with Thailand, which has a wealth of experience in literacy education, and the Asia/Pacific Cultural Centre for UNESCO (ACCU), which already has experience in developing literacy teaching materials in the Lao PDR.

3) Technical cooperation in the development of secondary school mathematics and science education curricula, textbooks and teacher training; JOCV dispatch of science and mathematics teachers

It would be worth considering cooperation in the science and mathematics areas which has been overlooked by other aid institutions, thought to be the most effective, as Japanese educational "software" aid at secondary school level. Appropriate counterparts in the Lao PDR could be the Research Institute for Educational Sciences under the Ministry of Education and Sports, which is already working with the World Bank on the development of curricula and textbooks for primary and lower secondary education, and the Faculty of Education within the National University of Laos, which handles all upper secondary teacher training.

(2) Development of skilled human resources

1) Training for civil servants and market economy personnel

With the introduction of a market economy, exchange with foreign countries and the sudden expansion of foreign aid, training and capacity-building for civil servants and personnel working in finance, trade and other aspects of market economy have become important tasks. Selecting areas with high training needs and conducting training and observation programs, including third-country training, would produce a major effect with relatively little input.

Thailand has the greatest potential in terms of a location for training and study tours for Lao people. There are many advantages to third-country training in Thailand: for example, the language and culture are similar, facilitating adjustment by trainces; the possibilities for transferring Thailand's development experience to the Lao PDR are higher than in the case of other countries' experience; Thailand also has a great deal of experience as an aid recipient; and training costs would be significantly lower than for training in Japan. However, there are issues such as the uneven quality of Thailand's higher education according to the area, the lack of opportunity for the foreign-language learning that the Lao PDR needs to push forward with economic development, and the delicate historical and political relations between the two countries. A balance will need to be kept between third-country training using the advantages Thailand offers and training provided in Japan according to the area and the timing.

2) Integrated cooperation for the National University of Laos

The National University of Laos has only just started operation, supported by the Asian Development Bank. Given the importance of developing skilled human resources in the Lao PDR, Japan should also cooperate actively with the National University, particularly in curriculum development, teacher dispatches, and the intake of students from the newly established Faculty of Economy and Business Administration, and the Faculty of Engineering, which has already received aid in the past. Japan needs to identify key Japanese universities as focal points for this cooperation, ensuring a long-lived effort.

3) Promotion of intra-regional personal contact in line with ASEAN accession

Japan has a long record of cooperating within the ASEAN framework, including the Youth Invitation Program, the Ship for Southeast Asian Youth Program, and the ASEAN Cultural Fund. As a new ASEAN member, the Lao's smooth incorporation into these kind of projects will provide Lao people with opportunities for contact not only with Japan but also within the ASEAN region, promoting the ripening of the harvest of the Lao's accession to ASEAN.

2-2-2 Social sector

Below we examine focal tasks for aid in the three areas of population, poverty and employment; gender; and health and medical care.

(1) Population, poverty and employment

In the short-term, the Lao PDR suffers from a quantitative shortage of human resources, while immediate tasks related to the eradication of poverty can be condensed into employment creation, specialist training and improvement of market access. In the context of employment creation, technical and skill training (particularly training for specialist engineers attached to central organizations, government personnel at regional level and local leaders) and smallscale projects aimed at improving living standards at village level (for example, waterworks) would serve to promote the eradication of poverty and employment creation both directly and indirectly. Over the long term, because the Lao's population seems likely to continue to grow, with children (10 years and under) forming a particularly high percentage of the non-working population, the expansion of employment, education and social services will have to be dealt with in addition to the above.

(2) Gender

Giving weight to women's extensive participation in areas such as commerce, handicrafts and services, it would be useful to consider a variety of small-scale projects to promote women's participation in society. Small-scale women's projects are already underway at village level, and with many NGOs operating actively in this area, promoting the activities of NGOs working with women's groups could be one effective approach.

(3) Health and medical care

Over the long term, it will be vital to form operation and management systems in medical care, maternal and child care and preventive medicine, bearing in mind the sustainability of such systems. In doing so, functions at capital, provincial capital, main village and village levels will have to be determined one by one, seeking a framework that will draw these together. One approach could be to incorporate health and medical care activities carefully chosen for their objectives as part of regional and rural development cooperation, making use of the multiplier effect.

The supply of medical equipment and medicines, as well as the posting and training of specialist staff, is inadequate even in Vientiane's central hospital, with particularly severe problems in rural and mountain areas. Aid is needed which addresses the particular situation in each region. Many NGOs are working on the supply of medicines and related aid. As Western NGOs are particularly conspicuous in this area, care will have to be taken in coordinating methods and techniques. Specific consideration must be given to guidance for private sector clinics, referral systems among home doctors, specialist hospitals and general hospitals, division of work among specialists in examination and treatment, in testing, and in pharmacy, and medical prescription procedures.

The major regional disparities in dissemination services for maternal and child health care and preventive medicine must be borne in mind, as well as the region-specific nature of issues faced: for example, the main types of infectious disease, poor nutrition and micronutrient deficiencies, heavy labor performed by women, and traditional customs. Health and medical care education, improvement of women's lives, and gender projects will be important over the long term, while in the short-term, health centers need to be developed and progress made with mobile medical circuit services.

2-3 Environmental conservation and environmental resource management

The following two perspectives are important in looking at directions for Japanese aid in terms of environmental protection and environment resource management:

- * Aid directly targeting environmental conservation and environmental resource management
- * Building environmental concerns into projects not directly targeting environmental issues

(1) Aid directly targeting environmental protection and environment resource management

The medium- to long-term focus should be on efforts in the following areas.

1) Support for participatory-style forest protection and regeneration projects

Forest deterioration is an important issue to the Lao PDR from the perspective of environmental protection and regeneration; it is also extremely important in terms of raising regional development potential. To regenerate forests in regions that have been stripped, a bureaucracy-led afforestation approach could be taken, whereby the government plays a leading role. But given the current state of human resources and organizational weakness at provincial and district level, there would be a limit to areas suited to large-scale government-led afforestation. It would be more effective to adopt a participatory approach in combination with measures for the stabilization and reduction of slash-and-burn agriculture which the government highlights at every opportunity.

A project for forest protection and the restoration of forest damaged by slash-and-burn agriculture is currently underway in Vang Vieng District, Vientiane Province. As the first project in the Lao PDR to directly address the major problem of land stripped through slashand-burn agriculture, it is attracting attention not only from the Lao government but also from other donors. It will be important to ensure the substantiveness of this project, and to expand the target region to embrace the whole downstream watershed of the Nam Ngum dam, dividing work with the GTZ project being conducted in the upstream reaches of the same watershed.

Protecting forests and regenerating stripped land will depend on simultaneously transferring technology toward forest regeneration in the degenerated areas and creating social mechanisms to involve local residents in forest protection. This would be difficult to achieve using the project-unit approach usually taken by aid donors. The gathering and analysis of basic data through development studies and the creation of macroscale plans need to be combined with project-type technical cooperation in forest generation which utilizes results from the above. Involving local residents in forest protection will mean responding appropriately to the various requests that come up from the regional level; however, it will be impossible to build all these requests into projects. This is where it will be important to establish a coordinating function within projects to identify tasks that can be carried out at village level and to pass the various regional requests on to the relevant Lao organizations. JOCV staff should be injected into these projects to make daily contact and coordinate with local residents at a village and district level, much like the community organizers working in northeast Thailand, also maintaining a link with the experts involved in project-type technical cooperation. A mechanism would also have to be established so that the cost of these activities was covered by the technical cooperation donor, thus allowing JOCV staff full scope for their activities. Organic linkage of project-type technical cooperation and development studies would also be effective.

2) Support for watershed management plan creation

In recent years, the Lao PDR has at last begun to recognize the watershed management concept. Watershed management plans are closely involved with forest protection, prevention of soil erosion, land utilization, sustainable regional development and monitoring of the environmental impact of large-scale water resource development.

To date, only a few watershed management plans have been created or are in the process of being created, including those covering part of the Nam Ngum dam watershed. Creating watershed management plans will be important to ensure the appropriate management and utilization of forests, water resources and farmland in watersheds where dams are planned, where rural development projects are being conducted by the State Planning Committee, and where the introduction of a certain scale of irrigation project is planned.

Various aspects have to be incorporated into watershed management plans, including macroscale approaches such as the wide-ranging establishment of protection forests and conservation forests; the watershed-level establishment of land utilization coordination systems, including upstream and downstream, as well as forests, farmland and pastures; the village-level formation of participatory-style land utilization plans; and the development of organizations for implementing watershed management.

3) Support for the creation of centers related to environment management

Planned environmental management in the various development projects in the Lao PDR will depend on strengthening the functions of STENO, the main agency of jurisdiction at national level.

STENO has a concept of establishing National Environmental Research and Training Center, but has yet to officially request support. All the points below are important in managing the environment, but it will be vital to support the establishment of this center so that it can function as a focal point for studies and research, as well as human resources development and training. The center will need to be able to support a wide range of functions, including not only the development of science and technology on pollution prevention, but also social organization aspects, the creation of systems related to regulations and guidance, and the strengthening of coordination functions within the government. Thorough consideration should also be given to the division of labor and links between this center and existing research institutions in other ministries.

Support and training will also need to be provided to develop organizations for environment management at provincial level.

* Strengthening study and research functions in regard to the current state of the environment and the future outlook

- * Development of equipment for the analysis of water quality, air and soil; monitoring functions
- * Development of systems for gathering and processing environment information
- * Establishment of policy-drafting functions in regard to the creation of urban environment management plans
- * Strengthening of policy-drafting functions in regard to rural forest resource and watershed management
- * Development of environmental protection technology suited to the Lao PDR and its positive verification
- * Technology development and systems research in relation to the establishment of various environmental standards
- * Implementation of Lao environment impact assessments (EIA) in regard to largescale development
- * Development and training of environment-related human resources at national and provincial level
- * Development of teachers and the introduction of environment-related subjects at the National University of Laos; linkage with STENO
- * Systematic dissemination of and public education on environment education-related information
- * Establishment of coordination functions which cut across the various areas related to environment management.

4) Support for drafting urban environment management plans

A number of environment-related problems are surfacing in the capital of Vientiane, including waste disposal, disposal of natural water flows and traffic control, as well as improvement of the living environment, water pollution, air pollution and sanitation problems. An integrated master plan to deal with these problems needs to be created as soon as possible, ensuring progress in environment management. At the same time, thought also has to given to support for technical guidance, human resources development and the introduction of monitoring systems for Vientiane.

Support provided to Vientiane can be used as a model for the later promotion of environment management in cities such as Savannakhet, Pakse and Luang Prabang.

(2) Building environmental concerns into projects not directly targeting environmental issues

Given the wide-ranging and multi-faceted areas involving environment issues, the insufficient capacity of Lao human resources in terms of taking direct responsibility for the environment, and the need to boost public awareness still further as to the necessity of planned environment management, even in aid projects which do not directly target the environment, new activities have to be added and considered from the perspective of environmental protection and environment resource management. These include:

- * Coordination of land utilization for forests and agriculture, as well as the formulation of integrated land utilization plans, from the perspective of watershed management
- * Development of handicrafts which link to the sustainable utilization and protection of forests
- * Agriculture dissemination activities and linkage between these and dissemination activities related to environmental and forest protection
- * PHC dissemination activities and linkage between these and dissemination activities related to environmental and forest protection
- * Expansion of environment education in schools
- * Introduction of a 1% system for the environment (allocation of 1% of project costs to areas related to environment protection)

(3) Life planning support

For those villagers making a living from arduous slash-and-burn labor, surviving from day to day is the most they can manage, with no room to make any medium- or long-term plans for their lives.

Yet entrenching forest protection and forest regeneration (afforestation, etc.) at village level will require not just short-term food production and cash acquisition measures: villagers themselves will have to start thinking about the course of their lives from a medium- to longterm perspective.

Particularly in the case of afforestation, trees need more than twenty years of care, and even teak which is "easily" grown on slash-and-burn land is highly likely to be logged within a few years without such long-term life plans.

One important pillar supporting life planning is the diversification of sources of cash income. This includes high-risk and high-return capital, low-risk and low-return capital, limited daily cash income and cash income in lump sums over five to ten year spans, responses to flood and drought, women's cash income and seasonal allocation of labor. Obviously, not only cash income, but also improvements in spending (sanitation education, birth spacing, etc.) are included.

3. Issues and Points to Note in Implementing Japanese Aid

Given the Lao's present situation and the issues it must face, the following points are the issues to be considered for the implementation of Japanese aid as envisaged in the previous section.

3-1 Aid approach aspects

(1) Aid responsive to needs and the respective roles of central and regional government

Given the country's small population and geographical divisions, examination of aid from the standpoint of effectiveness makes evident the constraints on aid to rural areas.

Also, it is obvious that certain forms of aid project, in which coordination between central and local government is indispensable, will face certain limitations including human resource and administrative constraints. (For instance, diffusion and extension from the central model to the local level may have such difficulty) it is necessary to understand Lao's limitations in absorptive capacity in order to determine the appropriate scope, design, and scale of assistance program. In addition, given the human resource scarcity, the attention must be paid not to concentrate aid resources to a single sector at a time.

This can be done, for example, by implementing two types of aid simultaneously: composite rural development cooperation limited to a specific area at the local level, as described later, and cooperation in human resource development by training government officials at the central level.

Yet it is vital that Japan's assistance to the Lao PDR as a whole be consistent with its goals and priorities, namely support for the formation of an integrated domestic market and transition to a market economy directed at sustainable development.

(2) Multisector approach in rural development

The problems of poverty, health care, education, etc., in the Lao PDR are interconnected; furthermore, achieving higher standards of living in rural areas will do much to alleviate these problems; it can therefore be expected that a multisector approach to cooperation directed at agriculture, a key industrial sector in the Lao PDR, will be effective in forging the core of agricultural development if action is directed at several areas at once, however small the scale -through aid, for example, that includes the fostering of rural industry, basic health care, elementary schooling, and measures to narrow gender gaps. It is vital to adopt a participatory approach from the standpoint of fostering local people's ownership of aid projects and assuring the accuracy with which the needs described below are identified and goals are defined. Yet when it comes to incorporating elements of cooperation in sectors other than agriculture, it is necessary to select goals and targets very strictly while taking into account areas where local people are counting heavily on Japan and where Japan is able to supply the desired resources.

At the same time, it is necessary to identify in detail the situation of the target area -- the Mekong River basin, the northern highlands, the southern plains, or Greater Mekong Subregion (GMS) areas -- and to study the nature and priorities of aid taking into account the characteristics of development in the area in question.

(3) Consideration for maintaining the dynamism of NEM

The Lao PDR, like Vietnam, has adopted "socialist market economics," a policy defined first by China premised on the possibility of coexistence of socialism and a market economy. The Communist Parties of each of these three countries share the belief that the party's dictatorship is necessary during the transitional period leading up to the realization of their ideal of true socialism. For these three countries, therefore, market economics is purely a means to an end. In each of them, the hazards of market economics have already become apparent, and conservative sentiment is mounting in favor of pursuing socialistic welfare and equality policies and defending traditional national culture. In a sense, it would be natural for the Lao PDR, which began its move toward a market economy from an even more seriously disadvantaged starting point, to put a halt to its conversion to a market economy. Last year's onset of the Asian financial crisis, especially as it affected the Thai economy, has dealt a severe blow to the Lao economy. For the time being, the Lao PDR, like Vietnam, is likely to turn in on itself. As an aid donor, Japan should attempt to ensure that the Lao's fledgling openness to the outside world and transition to a market economy will not lose their dynamism. Sustained support is especially necessary for the construction and maintenance of infrastructure-road, rail, and telecommunications networks leading to the establishment of a greater Indochina economic zone—in preparation for future policy conversions.

ASEAN, together with other countries, is supporting education, language training, and specialized skill acquisition, and must continue to expand and improve this support. Yet the officials involved in these programs, even when they are high government officials, rise in terms of their rank and influence within the party no higher than the middle cadre level. It might therefore be necessary to foster the acquisition of new skills and a broader perspective by Central Committee-rank cadres with greater influence within their party. The United States has invited the governors of Xieng Khouang, Bokeo, and Houaphan provinces to the United States for a training tour in connection with its recent program to dispose of unexploded bomb shells and stamp out the cultivation of plants used in the narcotics trade. These are new forms of aid.

3-2 Consideration of the Lao PDR finances

(1) Flexibility about local costs

Smooth and effective implementation of aid in order ultimately to achieve independent development requires that the recipient country assign counterparts to necessary posts and make whatever budget allocations are necessary to run the project. For an LLDC like the Lao PDR, however, it is often impossible to ensure that both of these requirements are met, and the failure to meet them is a common problem for all donors. Especially because the Lao PDR cannot be expected to assume much of the local costs, the scale of aid projects should be determined accordingly; Japan must look into ways to assist the Lao PDR to meet local costs, and studies must adequately determine suitable project scales in macroeconomic public investment programs.

(2) Consideration of Maintenance Organization and Structures

Analysis of the Lao government's budget structure shows that current expenditure is very small with respect to investment. This indicates how extremely difficult it is for the Lao PDR to find money from its financial resources even to pay the salaries of its counterparts, the costs of consumables and maintenance, and other local costs. In light of these circumstances, Japan should assist the Lao PDR to set up a special account for maintenance expenditure outside of the government's general account and provide systems and train personnel to meet the abovementioned costs and to maintain roads, etc. Furthermore, the selection of projects that will entail a need for maintenance after the cooperation program has ended must involve forecasts of the Lao's ability to pay for maintenance in the future and decisions that take into account whether Japan can give sufficient support to set up these systems.

In connection with these issues, it should be noted that there are very few cases in which Lao workers are able to participate in construction work in existing cooperation projects. Whether for considerations of efficiency or due to quantitative and qualitative shortages of skilled Lao workers, planners and implementers must rely on Vietnamese, Chinese, and Thai workers for much of the work. More consideration should be given to how post-construction maintenance could be facilitated, how construction work would bring more technology transfer, and how more ownership and jobs would result as byproducts of aid for the Lao PDR through greater local participation.

(3) Consideration of the Lao's Creditworthiness

It would be unwise to rashly increase the Lao's foreign debt to procure the funds needed for development, because it is virtually impossible for the Lao PDR to quickly meet the conditions for alleviating its debt service burden (rapid improvement of its export competitiveness, marked improvement in the productivity of its previous investments, lightening of the burden for the Lao PDR of exchange rate risk, etc.). It will therefore be necessary to seek to mobilize domestic savings, to upgrade the screening capabilities of the Lao side, and thereby ensure more efficient allocation of funds at the same time as to have financing, under carefully examined, favorable conditions, when loan assistance is under consideration. The Lao PDR should also exercise caution before agreeing to commercial loans. Technical cooperation, too, will effectively increase the recipient's ability to manage debt.

Road construction and other parts of the Greater Mekong Subregion (GMS) plan are beneficial to the Lao's neighbors; it should be carefully considered whether it is fair for the Lao PDR to shoulder burdens under the same conditions as its economic more powerful neighbors in the case of projects with relatively less merit for the people of the Lao PDR; donors should do more, including by putting pressure on the Lao's neighbors and by urging the Lao PDR not to accept unfavorable conditions in these cases.

3-3 Aid Coordination

While the Lao government has many development tasks on its agenda, it must be said that both its specific development strategies and its ability to organize aid projects are inadequate. On the other hand, while multinational projects are making advances, as evidenced by Mekong River basin development and the GSM plan, there are many more conditions and points to bear in mind in coordination with the Lao PDR than with ordinary developing countries.

Presently, projects being carried out by Japan and other donors tend to be concentrated geographically on Vientiane and other cities and relatively accessible areas. When multiple donors carry out activities in similar fields without coordinating them, this lack of coordination aggravates localized manpower shortages and tightens other bottlenecks due to the demand for construction workers and workload of organizations in charge on the Lao side.

In the present situation, where the Lao PDR lack's the institutional ability and human resources both to coordinate aid from other countries, including international project aid, and to promote its own national interests, stronger administrative agencies such as CIC which is the international aid coordination agency. As the donor giving the most aid to the Lao PDR, Japan is called upon to contribute actively in the area of aid coordination as well. Appendices

Appendix 1 Japan-ASEAN Cooperation Projects

Here we will outline Japan-ASEAN cooperation projects. One example of economic cooperation is the ASEAN Promotion Centre on Trade, Investment and Tourism (APC). This was launched in May 1981 in Tokyo as an international institution comprising Japan and the ASEAN 5, with the goals of promoting the export of ASEAN products to Japan, expanding Japan's investment in ASEAN, and boosting tourism. In addition to activities at the standing exhibition ball in Ginza, the APC also dispatches and receives trade and investment missions and holds a number of fairs. In FY1995, 90% of its 1.3 billion yen budget was funded by the Japanese Government, with 10% divided equally among the other six members. This means each country has to shoulder just under 20 million yen a year in membership dues, but all of that 20 million yen can be used in the context of members' APC activities. Viet Nam is currently considering joining the APC. As annual dues would not be cheap for either the Lao PDR or Cambodia, either the equitable burden-sharing concept will have to be revised, or Japan should consider paying part of these two countries' dues.

Second on the list is the Plant Renovation Project, whereby Japan provides technology transfer cooperation for plant operation, maintenance and management in order to revitalize plants which were built through Japanese economic cooperation but which have now deteriorated. Thirteen development studies have been undertaken to date.

Third, Japan-ASEAN Science and Technology Cooperation is being conducted in the three areas of biotechnology, micro-electronics and material science in order to promote cooperation between Japan and ASEAN in these three areas.

Fourth, the ASEAN Youth Invitation Project brings to Japan every year more than 800 young people from ASEAN countries who will shoulder the task of nation-building in the next century. These young people engage in field observation and training and meet with Japanese youth. The project is also called the Japan-ASEAN Friendship Programme for the 21st Century (JAFP).

Fifth, the Japan-ASEAN Cooperation Promotion Programme (JACPP) has been providing capital cooperation for the implementation of personal contact and seminars on issues concerning Japan-ASEAN cooperation. This fund was established in 1983, and in FY1994 Japan contributed 57 million yen.

Sixth, the ASEAN-Japan Development Fund (AJDF) aims to support the development of ASEAN's private sector and the further promotion of ASEAN intraregional economic cooperation. The AJDF established the Japan-ASEAN Investment Fund to promote more direct investment in ASEAN, and has also provided two-step loans through ASEAN countries' development finance institutions. Up until the end of FY1992, around US\$1.7 billion in cooperation had been implemented.

Seventh, the Inter-ASEAN Technical Cooperation Programme (IATCP) actively supports cooperation with the ASEAN region through Japan's coverage of training expenses and expert dispatches for intra-regional technical exchange projects planned and implemented by ASEAN countries. In FY1994, five million yen was provided for electronics seminars and 5.89 million yen provided for quality control.

In terms of cultural exchange and culture-related cooperation, the first example would be the ASEAN Cultural Fund. This promotes cultural exchange within the ASEAN region, supporting personal contact, Southeast Asian research, lectures and exhibitions, and audiovisual projects.

Established by Japan with five billion yen, the fund is operated by ASEAN, with operation capital (250 million yen annually) appropriated for working expenses.

Second, the Ministry of Foreign Affairs' Youth Invitation Program (Southeast Asia) invites outstanding young people from ASEAN and Southeast Asia as the leaders of tomorrow to come to Japan for a short 14-day visit to look at Japan's politics, industry and culture, meet with young Japanese, travel to local areas and participate in homestays. Third, research exchange between Japan and ASEAN is expanded and strengthened under the Japan-ASEAN Research Cooperation Project (JARCP), with international symposia and seminars held by the Japan Institute of International Affairs predominantly on the theme of Japan-ASEAN relations, while fellowships are also provided for young researchers from ASEAN countries. This project began in FY1988 and is still underway.

Fourth, the Japan-ASEAN Exchange Project (JAEP) provides capital cooperation for the hosting or support of seminars and expert exchanges in order to support academic and educationrelated exchange projects either between Japan and ASEAN or among ASEAN countries. Japan donated 106 million yen in FY1994.

Fifth, the Japan Foundation Asia Center holds performances, exhibitions, film screenings, lectures and symposia to introduce Asian, and particularly ASEAN, culture to Japan and to promote cultural and intellectual exchange between Japan and ASEAN.

It should also be noted that since 1996, the Asia Center has been providing integrated support, particularly in terms of human resources development, for the accession of Cambodia, the Lao PDR and Viet Nam to ASEAN. By joining ASEAN, the Lao PDR is likely to see more Japan-ASEAN related aid from the Japanese Government, and there are also high possibilities in terms of technology transfer.

Appendix 2 Turnover Tax

Turnover tax is charged at four rates -- 3, 5, 10 and 15%--according to product type (Table 1). To understand this better, let us assume a case where importer A imports a US\$100 washing machine, selling this to wholesaler B for US\$150, who then sells it to retailer C, from where it moves into the hands of the consumer (Table 2). The import tax on washing machines is currently 10%, while turnover tax is 5% (Turnover Tax Category II) and commodity tax is also 5%. Importer A therefore has to pay US\$21.25 in tax at the time of import. By making turnover and commodity tax payments obligatory on the importer at the time of import, the government ensures collection of these taxes. The importer can collect his goods only after he has paid these taxes. The importer sells the washing machine to wholesaler B (having already paid the necessary taxes), and wholesaler B then sells it to retailer C. At that point, a 5% turnover tax is imposed on the washing machine which the wholesaler is selling, but because this tax was already paid at the time of import, only the difference, US\$1.75 (= US\$7.5 - US\$5.75) needs to be paid. Where retailer C sells the washing machine, in the case of small-scale retailers with an annual gross income of up to 24 million kip, a lump sum tax combining turnover and profit tax is levied, raising the percentage of payable taxes that are actually paid. In such a case, the 6% lump sum tax shown in Table 3 is levied, with the retailer paying \$US900 in tax. As accounting systems are not in widespread use in the Lao PDR, it is difficult to actually levy profit tax on small- and medium-scale retailers, making taxation on the basis of estimated revenue the government's only option.

I	3%	Food products, raw materials, production facilities, etc.	
II	5%	Electronic appliances, waterworks facilities, daily necessities such as fuel and construction materials	
]]]	10%	Quality goods (cars, televisions, radio cassette players, air conditioners, hotel and restaurant charges, etc.)	
IV	15%	Luxury goods (alcohol, beer, etc.)	

Table 1 Turnover Tax Categories

Source: Drawn by authors from interviews at the Taxation Bureau, the Lao PDR Ministry of Finance.

Party taxed	Tax rate	Amount of tax paid
Importer A	Import tax on washing machine 10%	100\$ × 10%=10\$
-	Commodity tax 5%	(100\$+10\$)×5%=5.5\$
	Turnover tax 5%	(100\$+10\$+5.5\$)×5%=5.75\$
	Tax subtotal	10\$+5.5\$+5.75\$=21.25\$
Wholesaler B	Turnover tax 5%	150\$ × 5%=7.5\$
	Amount of tax paid, duplicated tax exemption	7.5\$ - 5.75\$=1.75\$
Retailer C	Estimated annual revenue US\$15,000	
	Lump sum tax 6% (Turnover tax + Profit tax)	US\$15,000 × 6% = US\$900
	Amount of tax paid	US\$900

Table 2 Hypothetical Example of Turnover and Commodity Taxes

Source: Authors

Estimated annual revenue	Manufacturing, construction, transport	Commerce, trade	Other services restaurants
$\chi < 2,000,000$ kip	1	2	3
$2,000,000 \le \chi < 4,000,000 \text{kip}$	2	3	4
$4,000,000 \le \chi < 8,000,000 \text{kip}$	3	4	5
$8,000,000 \le \chi < 12,000,000 kip$	4	5	6
$12,000,000 \le \chi < 16,000,000$ kip	5	6	7
$16,000,000 \le \chi < 20,000,000 kip$	6	7	8
$20,000,000 \leq \chi < 24,000,000 \text{kip}$	7	8	9

Table 3 Lao PDR Lump Sum Tax

Appendix 3 Direction of Corporate and Government Strategies

Different national circumstances have affected the timing at which the various ASEAN countries shifted from an import substitution-based to an export promotion-based industrialization policy: 1968 in the case of Malaysia; 1976 for Thailand; 1987 for Indonesia, with its massive domestic market; and 1965 for Singapore, which has had no option but to depend on foreign markets. However, all these countries share the characteristic of having drafted and implemented their industrialization strategies in line with the domestic situation.

Another feature shared by the ASEAN countries is the introduction of foreign investment into their industrialization strategies, with the Philippines, Indonesia, Singapore and Malaysia all formulating foreign investment and investment promotion laws in 1967, superseded slightly by Thailand (1958). These countries imposed high import tariffs on finished goods, providing foreign companies with incentive to set up local bases, while at the same time they maintained low wages on the domestic market, made labor unions illegal, developed both hardware and software aspects of infrastructure and spared no effort to create an investment environment attractive to foreign affiliates.

The ASEAN countries have continued these industrialization policies for some 30 years since ASEAN was formed in 1967, resulting in the creation of AFTA. The purpose of AFTA is to create a free trade area centered around intra-regional tariff reductions, the abolition of quantitative restrictions on imports, and the abolition of non-tariff barriers, enabling the ASEAN countries to resist the threatening emergence of China and the establishment of the EU and NAFTA. The ASEAN 6 have already completed the import substitution process and are midway through export promotion, at which point they have chosen to take up the new challenge of creating AFTA. The three new ASEAN members, however, with the exception of Viet Nam, have still not even entered this process. The level and content of development differs even between the Lao PDR and Myanmar. To give these new members time to adjust, Viet Nam has until 2006 and the Lao PDR and Myanmar until 2008 to reduce tariffs on items temporarily excluded from the CEPT to 0-5%. However, all ASEAN's new members are socialist countries with market mechanisms introduced only after the launching of economic reform in 1986. It seems a little high-handed to set a tariff reduction date of 2003 for the ASEAN 6, all of which have been working on capitalist-based development for 30 years, and then to expect Viet Nam to reach the same standard a mere three years later, the Lao PDR and Myanmar five years of they pay attention.

The philosophy behind AFTA is impeccable. However, if tariff rates are reduced to 0-5%, this will mean an end to the old national strategies of import substitution and export promotion through the setting of tariff barriers. Moreover, the scheme could have a dynamic impact in that domestic industries already in operation will suddenly be hit by the introduction of imported goods at low tariff rates, with foreign companies which were in business locally withdrawing to set up instead in other ASEAN countries. During this process, some industries will vanish or shrink in scale, while some countries will draw even more foreign investment. The establishment of AFTA will give companies an even greater controlling role, introducing an era in which state strategies such as import substitution and export promotion are overridden by corporate business strategies. The competition to attract investment will become even fiercer among ASEAN countries with company survival hanging on their success, and even heat up among the new ASEAN members. Without sea access, the Lao PDR will stand at a significant disadvantage not only to the older ASEAN member countries, but also to Viet Nam and Myanmar, the other two newcomers. If the Lao PDR continues to provide domestic industries with heavy protection over the long term, the companies enjoying the benefit of this will be permanently unable to break free of a high-cost structure. The Lao PDR would actually have to progressively reduce its tariffs even without ASEAN accession, with companies and the state working to reduce costs and boost production. Infrastructure development will still take some time, but even in terms of software aspects such as tax systems, the Lao PDR must work to create an investment environment even more attractive than what the other ASEAN countries can offer.

Annual Studies (Country, Region, and Issue-Wise, Etc.)

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