Statement by Surendra Singh  
Date of Meeting: April 20, 1999

LAO PDR - Country Assistance Strategy

We welcome this opportunity to discuss the Country Assistance Strategy of LAO PDR. We compliment the Staff for their candid and detailed report. We also welcome the decision of the Management to strengthen the Liaison Office in LAO PDR. This will bring the Bank closer to the people. We very much appreciate that the current CAS has incorporated the findings of Client Survey, particularly its weaknesses in project design and inadequate appreciation of the ground realities in the field.

The country is undergoing tremendous strain due to the East Asian crisis. The impact has been further increased, because of the land-locked nature of the LAO and its dependence on the neighboring Thailand for most of its exports. It will take time, may be years, before the country stabilizes its macro economic factors. In this connection though we appreciate the CAS’s main objective of stabilizing the economy in close collaboration with the IMF, we have to be very cautious in imposing conditions that cannot be digested by this fragile economy. What is immediately needed is development, growth and employment, so that 46% of the population who are living below the poverty line and the substantial middle income people who are facing the crunch of the East Asian crisis can be shielded from further pain. Deepening the structural reforms has to be gradual, based on the absorbing capacity of the economy.

Since the social indicators in LAO PDR are among the worst in the region, we feel the Bank should concentrate its investment operations more on health and education. It is disappointing to note that...
in the year 2000 it has been planned to invest only a nominal sum of US$5 million towards maternal health and childhood development and no investment has been planned on the education front for the next two years. In the interest of strengthening reforms, our priorities in the social sector can not be misplaced.

When the last CAS was discussed in February 1996, it was mentioned that the main objective of the CAS was to reduce the incidence of poverty from 46% to 22% in the next 4 years. However, the current CAS does not mention anything about the progress made in this direction. In addition, the focus on poverty reduction in the current CAS seems to be inadequate. We would like to have Staff's comments in this regard.

It is a worrisome factor to note the excessive dependence of the country on external assistance. Perhaps this is one of the main reasons for the considerable deterioration in the macro economic environment following the regional financial crisis. The country already has an unsustainable burden with a debt service ratio of 34%. Further dependence on external assistance (US$1.2 billion during the CAS period) to finance their current account imbalance and public deficit will only worsen the situation. This will also lead to the problem of aid coordination, since the assistance comes from more than 50 different agencies. This issue has not been adequately addressed in the CAS.

Similarly, LAO PDR is excessively depending upon forest produce for its export (32%). This will not only lead to environmental degradation but also external shocks due to volatility in the regional development. We appreciate the government's intention in diversifying its development program by opening up the opportunities in the manufacturing and service sector. This paper does not throw much light as to how the Bank is going to help the Government in this direction. We believe IFC and MIGA can play a substantial role in this connection.

We welcome the involvement of World Development Institute (WDI) in capacity building. WDI needs to take a very pro-active role, since there is not just enough trained people available in government.

Regarding the hydro-electricity project of Nam Theun-2, we wonder whether it is absolutely necessary for the Bank to finance this project which is pending for quite a long time due to many complicated issues of environment, resettlement and indigenous people. Since the demand for power from the neighboring Thailand has come down, the financial viability of this project is again under
With 43% illiteracy rate and high infant as well as maternal mortality, Bank could rather invest its precious resources in building up social infrastructure. Development of electricity can be left to the private sector, with the help of IFC/MIGA.

Finally as a general point, we would like to emphasize that for all the small countries the CAS should be left to the regional banks like ADB. The regional banks operations in these small countries are broader and deeper and they have better understanding of the local conditions. We have limited programs but problematic portfolios. It is better we associate ourselves with the regional banks in preparing the CAS or at the best it can be a joint CAS. This can be considered as a general issue when we discuss about Bank’s operations for small countries.

To sum up, we extend our support for the proposed CAS subject to the above comments.