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LAO PEOPLE'S DEMOCRATIC REPUBLIC

Chansy Phosikham, Governor

It is an honor and a great pleasure for me to represent the Government of the Lao People's Democratic Republic (Lao PDR) at the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB).

Let me join my fellow Governors in congratulating the Chair, the President of ADB, and the Government and people of India for the excellent arrangements made for this important meeting and for the very warm hospitality extended to our delegation.

I am also pleased to have the opportunity to visit the beautiful city of Hyderabad with its long and remarkable cultural history.

I would like to take this opportunity to inform the meeting of the Lao PDR's current economic situation. In 2005, the economic growth rate was 7.2%, which was 0.2% higher than the projection. GDP per capita was US\$490, or an increase of 10.4% compared with the previous year. Inflation has been reduced from 8.6% at the end of 2004 to 6.5% at the end of 2005, and the exchange rate has remained stable.

Domestic and foreign investment in the Lao PDR for the first 6 months of the fiscal year 2005–2006 has increased by 6.1%, compared with the same period last year. The capital inflow to the Lao PDR from foreign investors through the banking system increased by 36.6% from the target level of US\$330 million. The main factors contributing to this growth were the adoption of the single window process for approving foreign direct investment (FDI), which has further facilitated and streamlined FDI; the start of the construction of the Nam Theun 2 hydropower project; and the start of a copper mining project. These two big projects have helped to increase foreign investors' confidence in the Lao PDR.

The Government of Lao PDR had many achievements in 2005, particularly in reducing poverty and raising living standards. Most poor people live in remote areas, and make a living by engaging in shifting cultivation. The Government has policies to discourage the poor from slash and burn farming and shifting cultivation and to take up more sustainable jobs. In addition, the



Government is working hard to provide basic social services with better coverage for the poor, particularly in the education and public health services.

In addition, the Government has actively promoted domestic production and foreign investment. This will contribute to job creation and increase incomes of the poor. As a result of these measures, the poverty incidence in the Lao PDR has been reduced by 17.4% from the 201,672 poor families recorded in 2004. In addition, other social indicators have increased, and living standards have improved. Furthermore, in early 2006, the Government was able to announce that poppy cultivation had been virtually eliminated from the whole country.

The start of fiscal year 2005-2006 is also the start of the sixth 5-year social and economic development plan (2006-2010). The main economic targets for 2005-2006 are an economic growth rate of 7.5% to 8%, and a GDP per capita of US\$529 (an increase of 7.7% compared with the previous year). There is also a target of increasing revenue collection to 12.3% of GDP, or an increase of 19.8% compared with the previous year.

In addition, the Government will continue to support export-oriented policies in order to achieve export growth of 15%, compared with the previous year. In addition, the Government will continue to pursue appropriate fiscal policies, with the aim of increasing revenue collection and strengthening expenditure controls in order to maintain the stability of the economy.

We value the support from the international community highly, including support from bilateral and multilateral organizations and international financial institutions, including the Asian Development Bank. This support is very important for socio-economic development in our country, and will help to convert Lao PDR from a "land-locked country" to a "land-link country".

The Lao PDR extends its full support to ADB's initiatives for regional and sub-regional integration, particularly the integration of the Greater Mekong Subregion. This process includes highways, power, transportation, trade, and investment. We strongly believe this integration will contribute significantly to the economic development of the countries in the region and subregion.

According to the 2006-2008 country assistance strategies of ADB, the ADF allocation for the Lao PDR is US\$40 million per year, a reduction from US\$52.8 million allocated in 2005-2006. We understand that the reduction in the ADF allocation for Lao PDR was influenced by the adoption of performance-based allocations by ADB. We are very concerned that this reduction may affect the implementation of the Social-Economic Development Plan of the Lao PDR, and that it may result in a delay in our achieving the Millennium Development Goals. Therefore, I urge ADB and donors to reconsider this issue.