

LAO PEOPLE'S DEMOCRATIC REPUBLIC
SOMDY DOUANGDY, Governor

It is a great pleasure for me and my delegation to be present in this historic city of Madrid and to address the 41st Annual Meeting of the Board of the Governors of the Asian Development Bank (ADB). I join my fellow Governors in congratulating our chair and would like to express my deep appreciation to President Kuroda and his team for their dedication, commitment and leadership in steering ADB toward achieving its overarching goal of realizing a poverty-free Asia and Pacific region. I would like to extend our special thanks to the Government of Spain and the people of Madrid for their warm hospitality and excellent arrangements.

Let me take this opportunity to update the meeting on recent developments in the Lao People's Democratic Republic (Lao PDR). The Lao economy continues to perform well. Driven by the hydropower and mining sectors, growth accelerated to 8% in 2007, above the previous 5-year average (7.5%). Although inflation reached an all time low of 4.1% in 2007, it is being aggravated by pressures from rising domestic imported food and global oil prices. The exchange rate stabilized in 2001 and has since ranged between KN8,500 and KN10,000 per US dollar. Broad money (M2) has been expanding at an average of 20% over the past 3 years, reflecting the expansion and increasing the monetization of the economy.

2007 was a milestone year for the Lao PDR as the Government achieved many significant outcomes, including those relating to creating a favorable environment for domestic and foreign investment. These have resulted in foreign direct investment increasing significantly during the last few years, particularly in the hydropower and mining sectors. The trade balance has been in surplus for the first time. In addition, the government is working to reduce poverty and lift living standards by enhancing basic social services for the poor, particularly in education and public health. With GDP per capita reaching US\$680 in 2007, the incidence of poverty declined to an estimated 29% in 2007 from 33% in 2003. Steady progress is being made toward achieving the income poverty target of the Millennium Development Goals (MDGs).

In order to fulfill its socioeconomic development plans for the coming years, the Government of the Lao PDR has begun major reforms, including a continued focus on improving the business environment; enhancement of investment efficiency; greater progress in public financial management reform, particularly centralization of revenue administration, treasury functions, and the redesign of the intergovernmental fiscal relationship; and acceleration of banking sector reforms. On Lao PDR's economic integration with the rest of the world, the government has continued to reduce tariffs according to its ASEAN Free Trade Area (AFTA) commitments, and to accelerate preparations for World Trade Area (WTO) accession.

The economy is projected to continue its robust performance over the next 2 years, with growth expected to remain above the 5-year average, given the ongoing reforms. Although inflation has been at historic lows, it is expected to be aggravated by rising global oil and food prices and may slightly increase. The external balance of payments is expected to remain stable as foreign direct investment continues to expand. While the pace of reforms is gaining momentum, the Government recognizes that challenges remain in diversifying the sources of growth and in enhancing the capacity for more prudent public financial management of windfall revenues from the natural resource sectors for priority health and education services.

Lao PDR would like to congratulate the ADB Management and donors for successfully concluding the ADF X negotiations. As this entails an increase in the ADF allocation, we presume this will also require an adjustment to ADB's performance-based allocation system, so it can be less volatile, the share of blend countries can be capped, and a larger share can be allocated to smaller countries. Given the enormous development needs of Lao PDR, the current level of ADF allocation is insufficient. Lao PDR would welcome an increase in its ADF allocation.

Lao PDR also welcomes the earmarking of 12% of available funds for subregional projects. Such projects allow a number of countries to benefit and are cost-effective because of economies of scale. They also enhance regional cooperation and economic interdependence. The increased grant element in ADF-funded projects is also a welcome measure. Even though the provision to reduce the allocations by 20% as a volume discount is somewhat harsh, the amount will still be available to the subregion in the form of hard-term lending. This mitigates the impact somewhat and the overall package is acceptable.

Lao PDR would like to pursue the options of availing of alternative financing from ADB for revenue-generating projects. Given its huge development requirements, especially in the hydropower sector, Lao PDR would like to explore the options of receiving alternative financing from ADB, including from its ordinary capital resources (OCR) facility. However, Lao PDR notes that, even for OCR, there is the headroom issue, which will limit ADB's capacity to respond to requests from Lao PDR and other DMCs for OCR operations. Lao PDR would like to request ADB to address this issue so that it can provide responsive assistance to its DMCs, including Lao PDR.

One of the most important issues to be discussed and finalized during this Annual Meeting is the new long-term strategic framework 2008–2020 (Strategy 2020) of ADB. Lao PDR supports Strategy 2020 and the decision to concentrate on ADB's core competencies. In line with the Government's sixth social-economic plan, Lao PDR appreciates Strategy 2020's continued support for transport, finance, higher education, the environment, and regional cooperation. While there has been shift from the agriculture and health sectors, the Lao PDR would appreciate it if ADB could continue providing assistance to rural development, given that the bulk of the country's poor live in rural areas. Similarly, as health will no longer be a priority sector, it is suggested that ADB should move from the sector gradually, given the importance of the sector in helping Lao PDR achieve its non-income MDGs. Of particular interest to Lao PDR is the greater emphasis on regional cooperation. This augurs well for ADF countries like Lao PDR, as it will allow the larger countries to join others in projects of mutual interest.

Lao PDR supports ADB's initiative to create a fund to deal with climate change. The fund will complement the clean energy initiative launched in 2007. We would like to see these two funds providing technical inputs and core financing to tap renewable energy in our region and also to help DMCs to pursue environmentally sustainable energy use.

In conclusion, on behalf of the Government of Lao PDR, I would like to express our sincere appreciation to the Management and staff of ADB, and fellow member countries for the assistance given to the Lao PDR. I would also like to extend the Government's continued support for collaboration with ADB in realizing tangible development results for Lao PDR. I wish the meeting success.