Lao PDR: Country Assistance Strategy (IDA/R99-51)

We welcome the opportunity to discuss the CAS for LAO PDR. We also would like to thanks the staff for preparing a very useful and candid report.

Our comments are the following:

If we are concerned with poverty alleviation, inflation should be eliminated immediately
Inflation is a tax on the poor. We are indeed very concerned with the current macroeconomic imbalances in LAO PDR and the serious implications on the country’s social indicators. When inflation is estimated to be 50% for calendar year 1999 we can only be alarmed and distressed, even if inflation is coming down from a much higher level.

We do know how to eliminate inflation immediately. Gradualism is a bad choice and it has proven very difficult and very painful in other countries. Best practice indicates that, in high inflation scenarios, a shock therapy -reducing inflation to single digits- should have been the preferred option. Unless serious reforms are implemented to tackle the underlying sources of the macroeconomic imbalances, the cost of adjustment will only be surpassed by the increasing cost of not adjusting.

We believe that, parallel to the adoption of strong macroeconomic policies, comprehensive sector reforms must be launched in selected sectors, namely privatization, health and education.

Privatization (we do not see a clear strategy)
We are afraid the CAS does not present a clear and well focused strategy in this regard. LAO PDR has privatized about 600 enterprises and only 29 are left. On the other hand, it would have been very important to know the relative value of those 29 “strategic” state owned enterprises, probably they are more important than the 600 already privatized. In fact, some of them may be at the root of structural imbalances.
**Education and Health** (we do not see the needed thrust)

Education and health are the motors of economic development and economic equality. A dramatic push to improve education and health should be the real challenge for the Bank. The literacy rate is estimated in only 57% and "education is characterized by high rates of inefficiency and waste" (page 7).

In the Health sector the low level of life expectancy (53 years), the low coverage of programs of immunization (48 % of villages) and the incidence of malaria and measles in the population is appalling.

**Conclusion**

The elimination of inflation should have been a priority because, among other things, it is a regressive tax on the poor. Privatization should continue at a higher pace, and probably nothing else that the Bank does in LAO PDR would have a higher rate of return than investing in human capital. We do not see a push for a dramatic change in any of these areas in the CAS.

Finally, we want to express our best wishes to people of LAO PDR in the implementation of the measures imbedded in the CAS.