Statement by Matthias Meyer  
Date of Meeting: April 20, 1999

LAO PDR - Country Assistance Strategy

1. We commend the task team for a very good document. We also appreciate the candid and realistic assessment of achievements, current challenges and medium-term prospects. We fully agree with the overall CAS objective and the focus on tackling the interrelated issues of widespread poverty and macroeconomic weaknesses.

2. The continuation of a broad-based support focusing on the social, rural and infrastructure sectors is appropriate. We very much appreciate that the Bank is exercising strategic selectivity in this case and is not attempting to become active in sectors or domains in which it has little comparative advantage.

3. Poor fiscal management and monetary expansion, exacerbated by the Asian financial crisis, led to high inflation, reduced growth, loss of investors’ confidence and is hurting the poor disproportionately. Restoring macro-economic stability and resuming a sustainable development path is urgent and would require a strong Fund-supported ESAF program. This bleak macro-picture and the equally difficult situation in the financial sector fit the Low Case scenario. The improvements that would trigger a move to the Base Case Scenario are appropriate, but very hard to achieve. Our own assessment coming from bilateral field staff indicates that anything but the “Low Case Scenario” for the period 2000 – 2002 seems unrealistic.

4. We appreciate the candid assessment of lessons learned and we share the conclusions drawn from this analysis, especially the “need for policy-based sectoral lending, sequenced in smaller bundles to address a series of tractable sectoral policy issues”. The CAS correctly notes the importance of the provincial level and the de facto decentralization of many responsibilities in the Lao PDR system. We are less certain, however, how the Bank will incorporate these developments in terms of its policy dialogue and programs. Some further explanations on this issue would be appreciated.

5. With regard to the Bank’s sectoral lending and non-lending activities, the document gives the impression of a smooth coordination with other major players (especially ADB). As for the education and agricultural sectors, where Switzerland is directly
involved, there tends to be a rather unwholesome competition between the Bank and ADB on “sector leadership”. The CAS foresees the preparation of an “umbrella investment program in which all the major donors can participate”. While this might be a sensible approach, the Bank is unfortunately perceived, as having a tendency to impose sector predominance, in this case by means of the APL instrument. We would expect the Bank to seek a real dialogue with the other major or minor donors in the sector. We are also surprised that the well-advanced major strategy work of ADB in the education and agricultural sectors is barely mentioned in the CAS.

6. **Portfolio performance** improved, but many of the generic implementation issues stemming from weak institutions and burdensome government procedures remain. Likewise, the client feedback survey in Attachment 1 indicates, that IDA’s effectiveness is perceived to be relatively low for example with regard to policy advise and local capacity building. In our view, the Bank still tends to work mainly with large and high-powered institutions which overwhelm the weak Lao counterpart institution and disregard the limitations of its **implementation capacity**. This results sometimes in overly ambitious project design and bears the risk of underachieving projects. The potential for **saving** capacity for example through simpler project designs and better donor coordination is significant and should be fully exploited. Enhancing the field presence in Lao PDR by strengthening the liaison office and striving for simpler project design are certainly steps in the right direction.