

# LAO PDR SYSTEMATIC COUNTRY DIAGNOSTIC

## Public Engagement



**WORLD BANK GROUP**



February - March 2016

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# Objectives of the Engagement



# Objectives of the Engagement



Identify key development opportunities, constraints and challenges for Lao PDR

Identify pathways to end extreme poverty and to promote shared prosperity – most critical interventions

## Definitions:

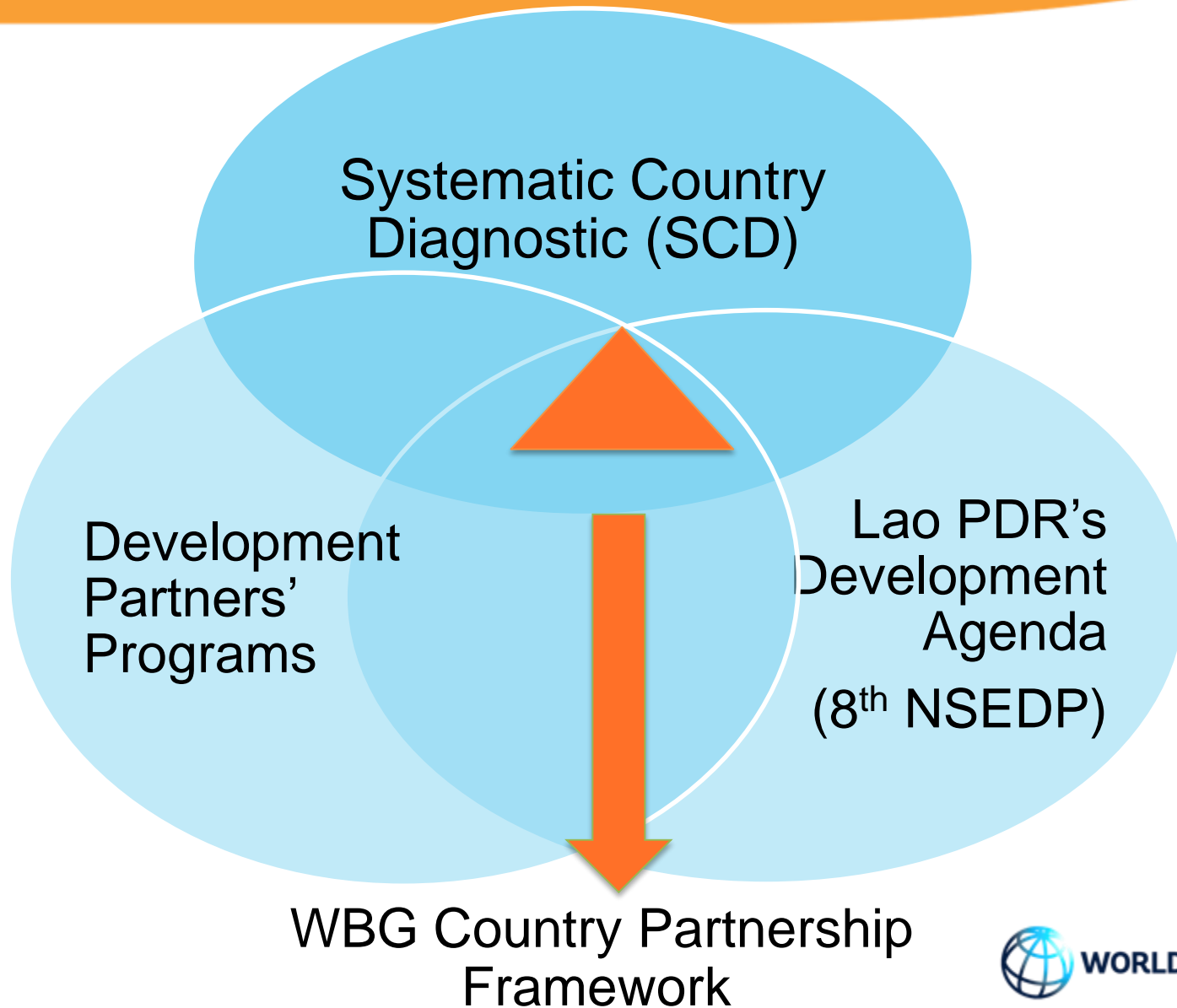
- **Extreme poverty:** People living with less than 7,500 LAK per person per day.
- **Shared prosperity:** Emphasis on growth of income/consumption of the poorest 40 % of the population.



# World Bank Group Country Engagement



# World Bank Group Country Engagement Model



# Systematic Country Diagnostic





# Systematic Country Diagnostic

The WBG is conducting an SCD in Lao PDR, seeking to identify priorities for achieving the twin goals:

- **End extreme poverty**
- **Promote shared prosperity**

The SCD is a systematic and evidence-based diagnostic that will examine the full range of **opportunities and constraints to end extreme poverty and promote shared prosperity** in Lao PDR (not just areas of WBG engagement).





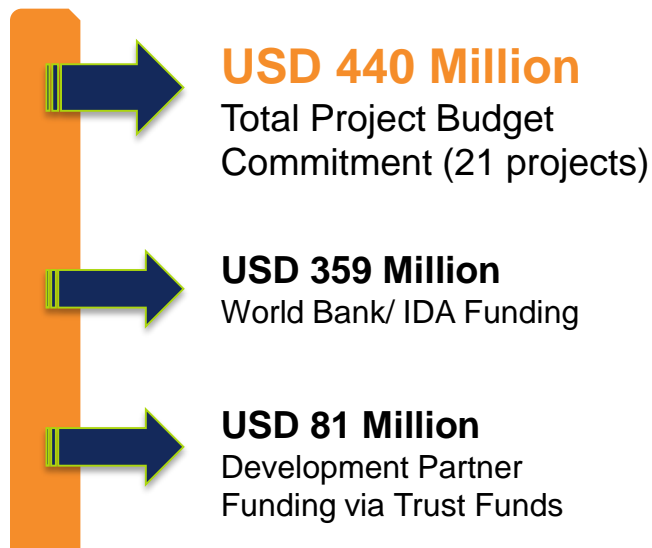
# World Bank Group in Lao PDR



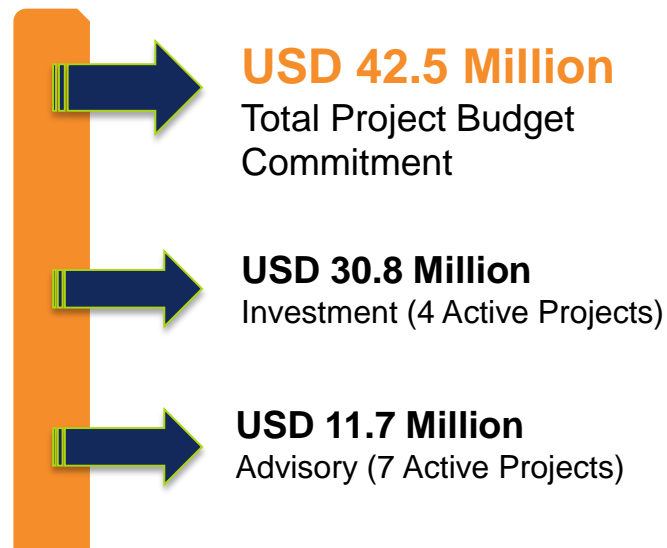
# World Bank Group in Lao PDR

Since the beginning of its partnership with Lao PDR 50 years ago, the World Bank Group has financed \$1.2 billion for development projects in the country.

Current **World Bank** funding for projects:



Current **IFC** Portfolio :



# World Bank Group in Lao PDR

The current WBG's support in Lao PDR is guided by the Country Partnership Strategy (CPS) for 2012-2016.

**The objectives of the CPS are:**



**Objective 1**  
Competitiveness  
and Connectivity



**Objective 2**  
Sustainable  
Natural Resource  
Management



**Objective 3**  
Inclusive  
Development



**Cross-cutting  
theme -**  
Stronger Public  
Sector  
Management

# Country Context





# Country Context

## An overview over the last decade of Lao PDR:



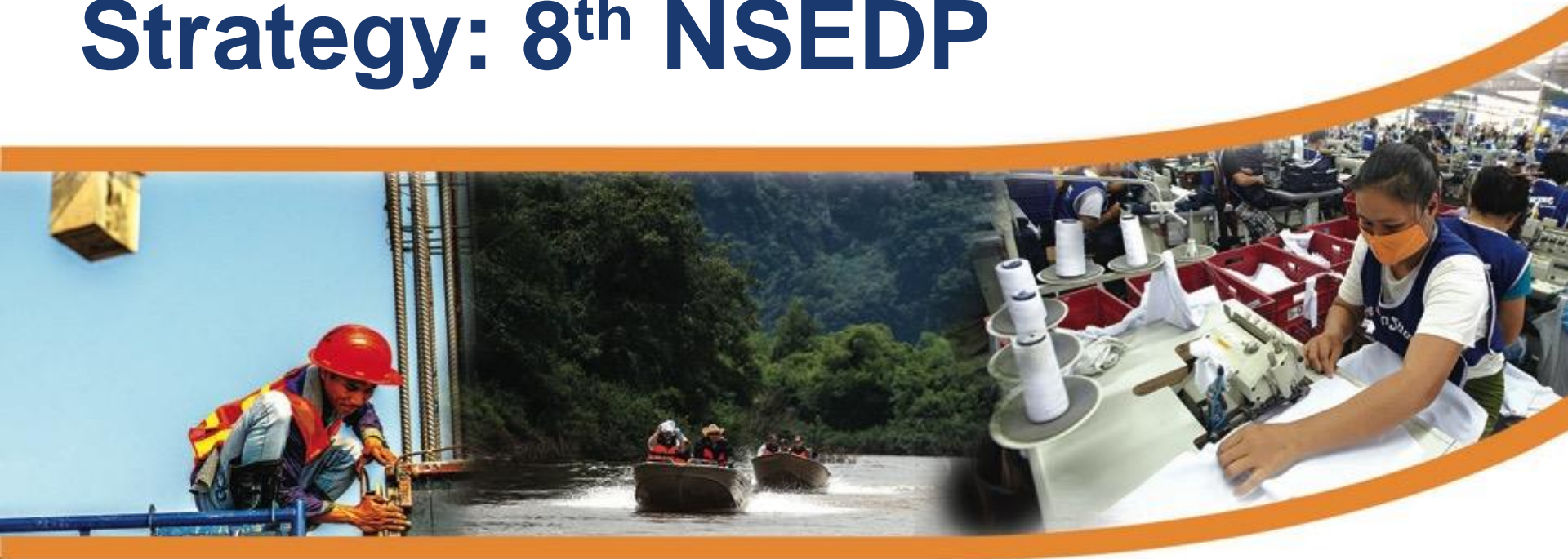
# Country Context

**What will it take to put Lao PDR on the path of strong, inclusive and sustainable growth?**



- Can current GDP growth rates be sustained?
  - New external environment
  - Rapid resource use
  - Limited creation of good jobs and high household vulnerability
  - Growing competition from closer regional integration.
- What reforms can increase productivity and generate jobs?
- Can the workforce take on the jobs if they are available?
- How to ensure gains in poverty reduction are protected?

# Government Development Strategy: 8<sup>th</sup> NSEDP



# 8<sup>th</sup> National Socio-Economic Development Plan

“ To prepare Lao PDR for Least Developed Country graduation by increasing productivity, consolidating knowledge and skills, and realization of comparative advantage, acquisition and applications of science and technology and continued diversification. ”



# 8<sup>th</sup> National Socio-Economic Development Plan

## Outcomes

Sustained Inclusive Economic Growth



Human Development Enhanced and SDGs achieved



Reduced Effects of Natural Shocks and Climate Change



## Outputs

- Sustained and inclusive economic growth;
- Macroeconomic stability;
- Integrated development planning and budgeting;
- Balanced regional and local development;
- Improved public / private labor force capacity;
- Local entrepreneurs are competitive;
- Regional / International integration.

- Improved living standards / poverty reduction;
- Improved nutrition;
- Access to high quality education;
- Access to health care and preventive medicine
- Enhanced social protection;
- Protection of traditions and culture;
- Political stability, order and justice

- Environmental protection and sustainable natural resource managements;
- Preparedness for natural disasters and risk mitigation;
- Reduced instability of agriculture production

Overall Objective: Reduced Poverty and LDC Graduation

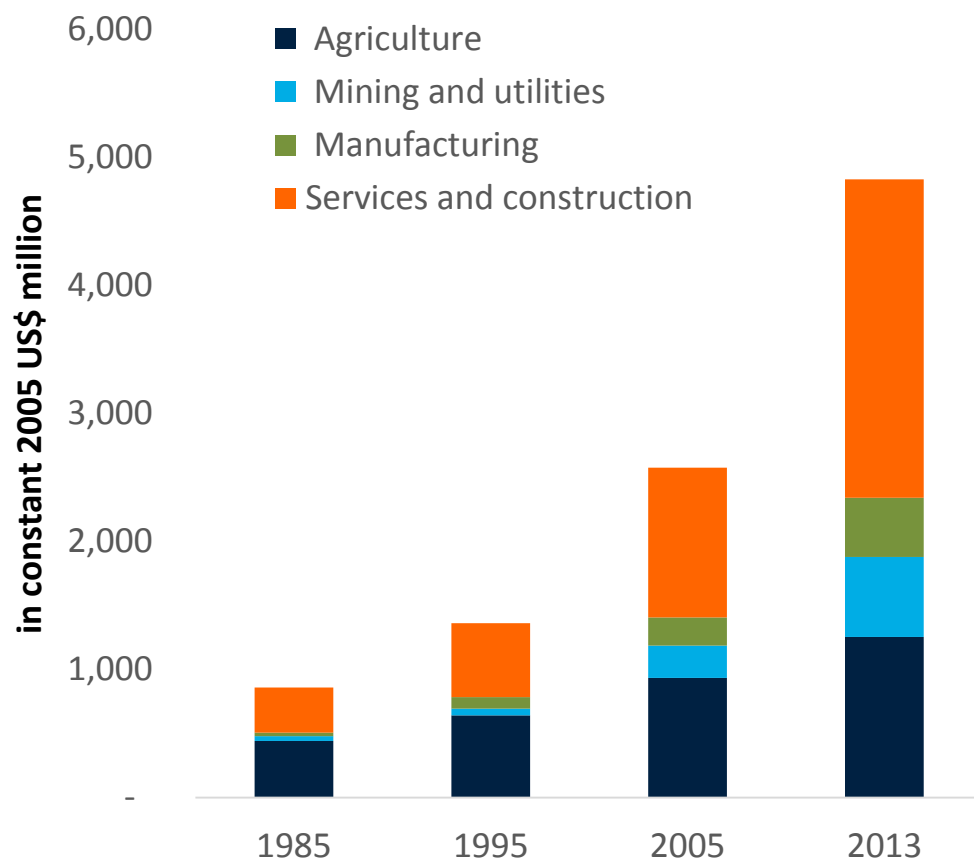
# Growth



# Strong GDP Growth Performance...

- Lao PDR GDP per capita is now at \$1,600 (in current prices)
- Lao PDR is among the faster growing economies in East Asia and globally
  - Last decade, 8% average growth p.a. for Lao PDR compared to 4.5% for all EAP region

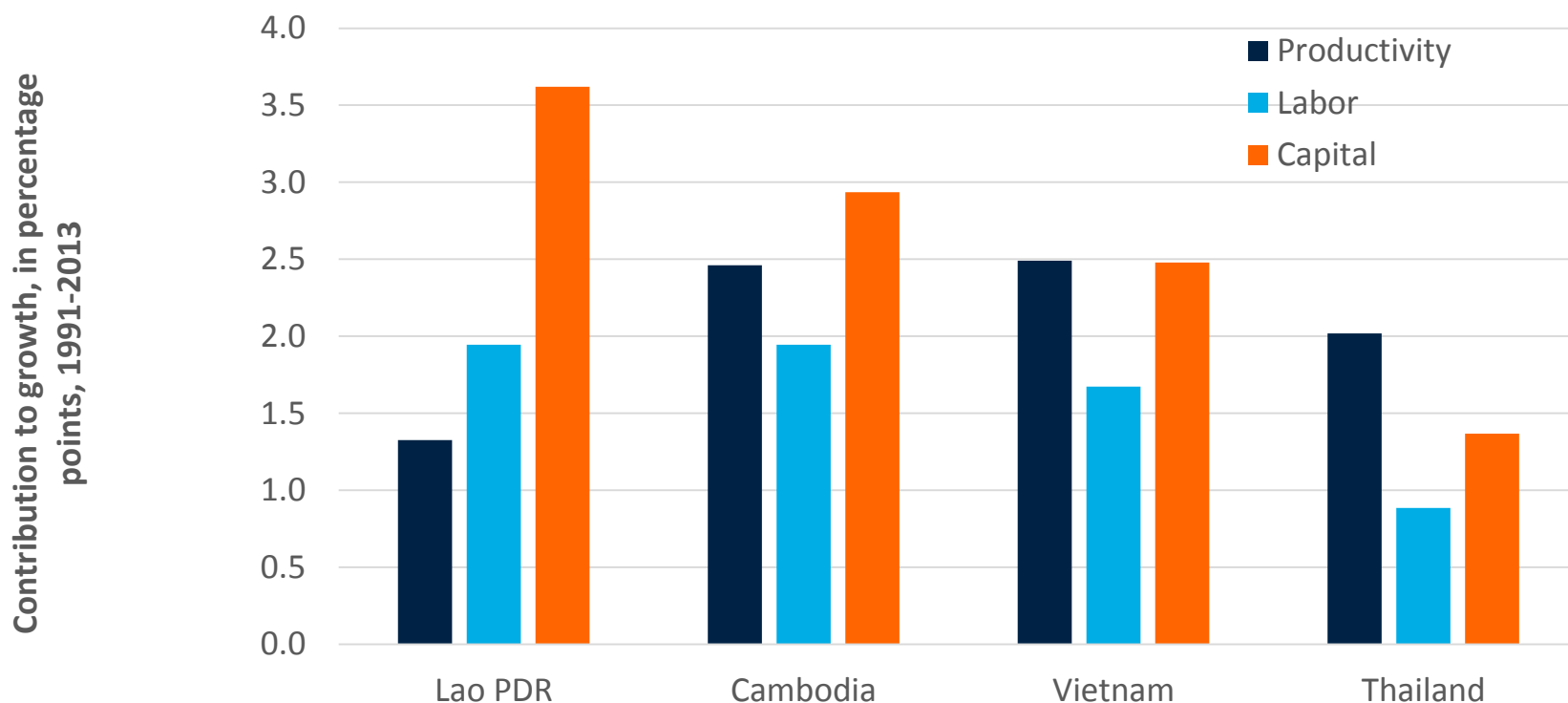
 Due to natural resources and growth in services



Source: World Development Indicators

# ... largely driven by natural resources...

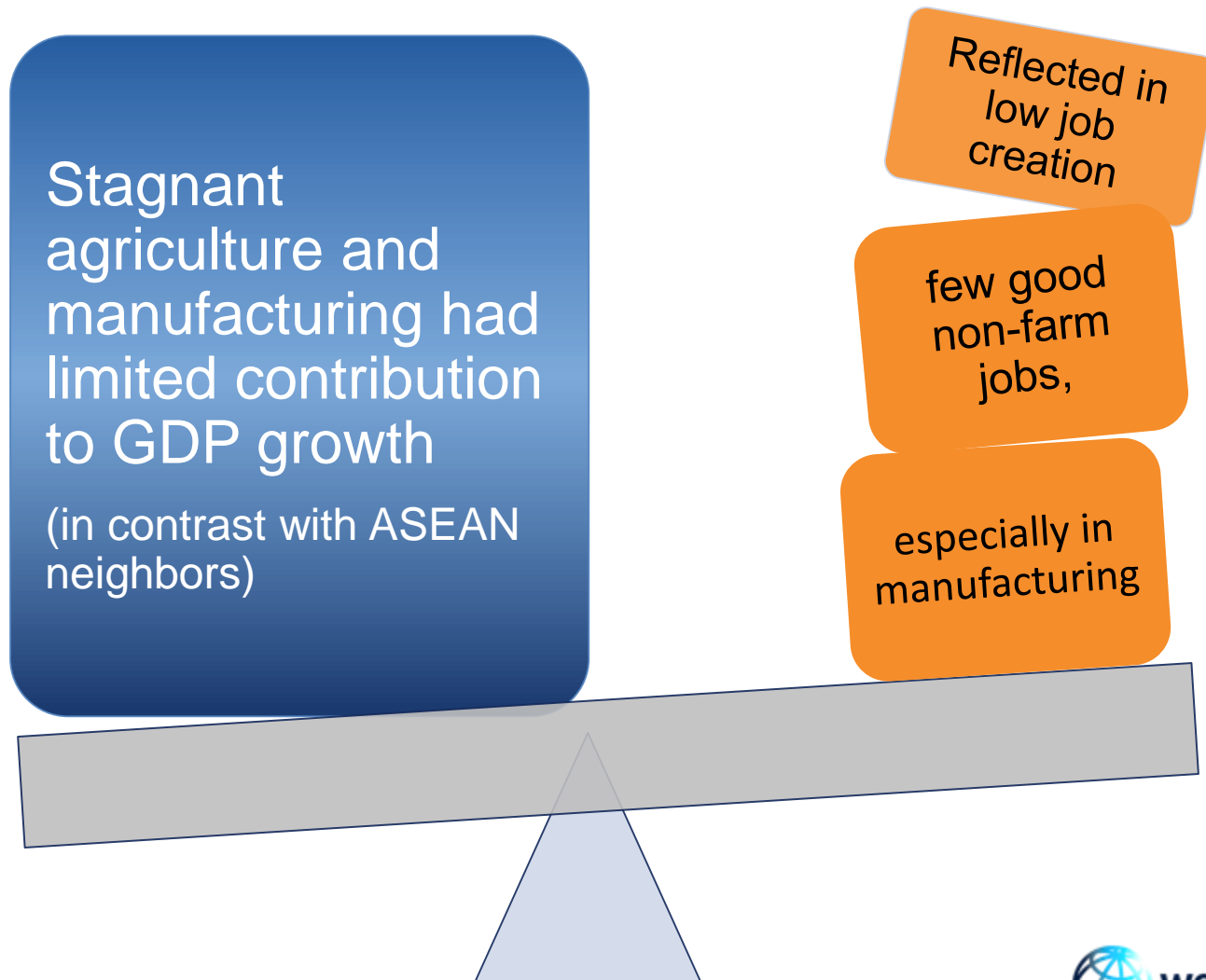
Capital investment in natural resources has driven growth with small contribution from productivity



Source: World Bank MacroFiscal Model



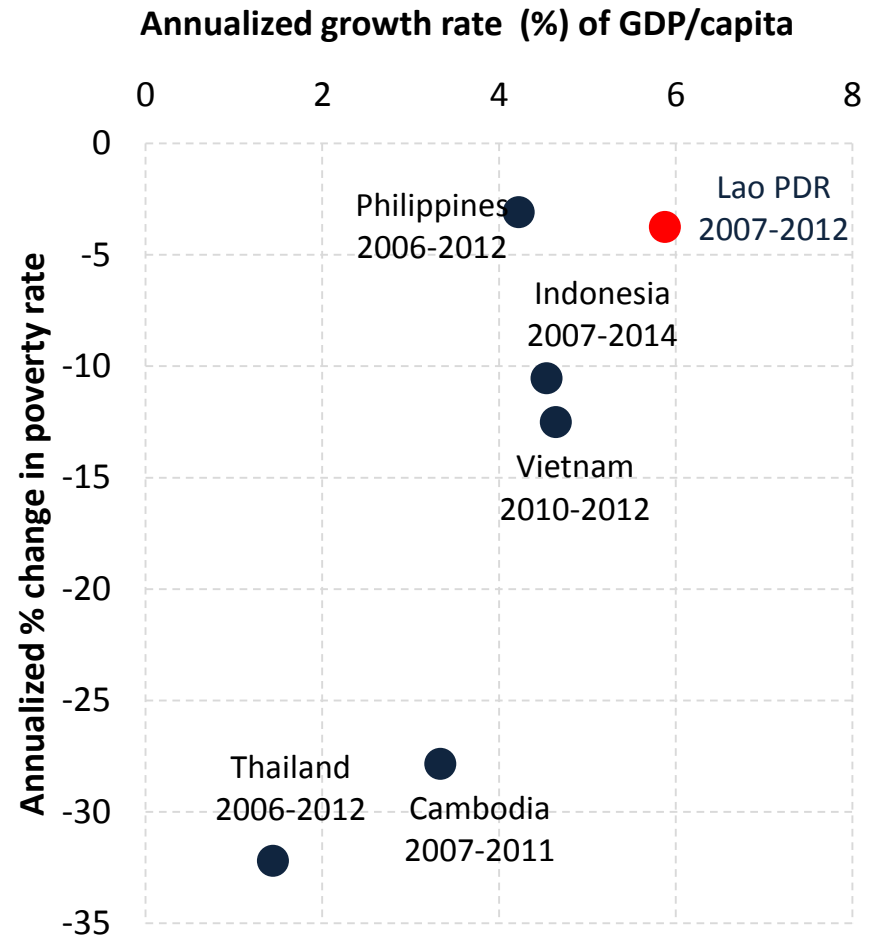
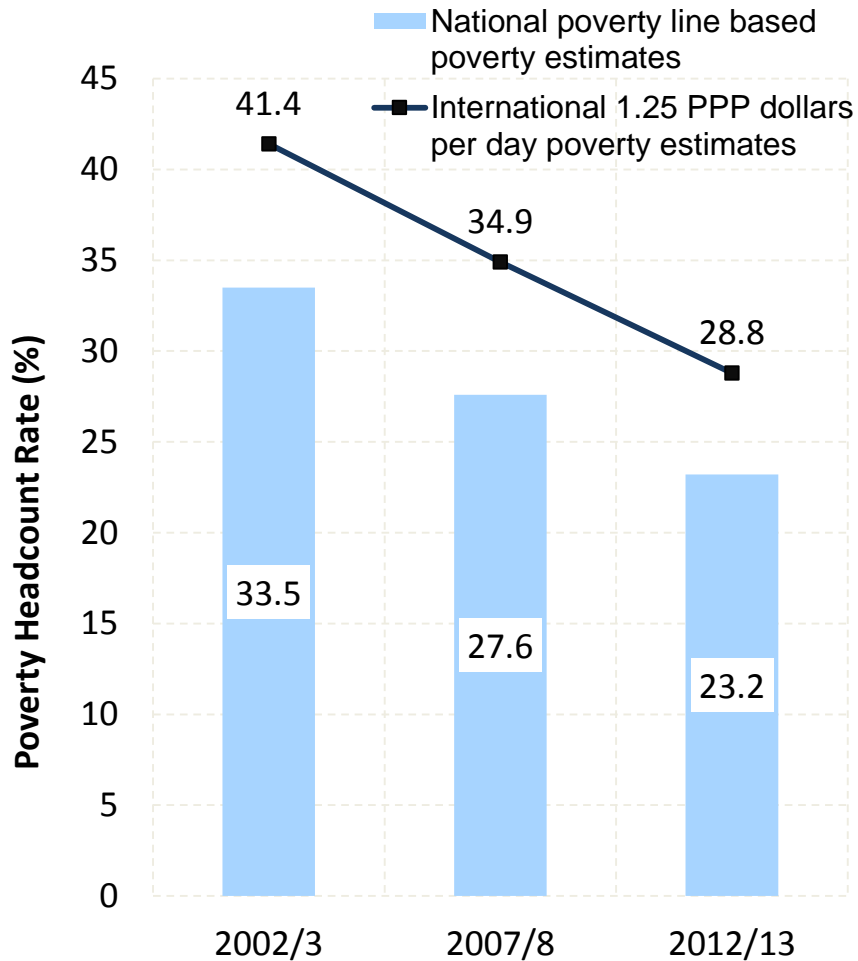
# ... with limited transformation of the economy and job creation



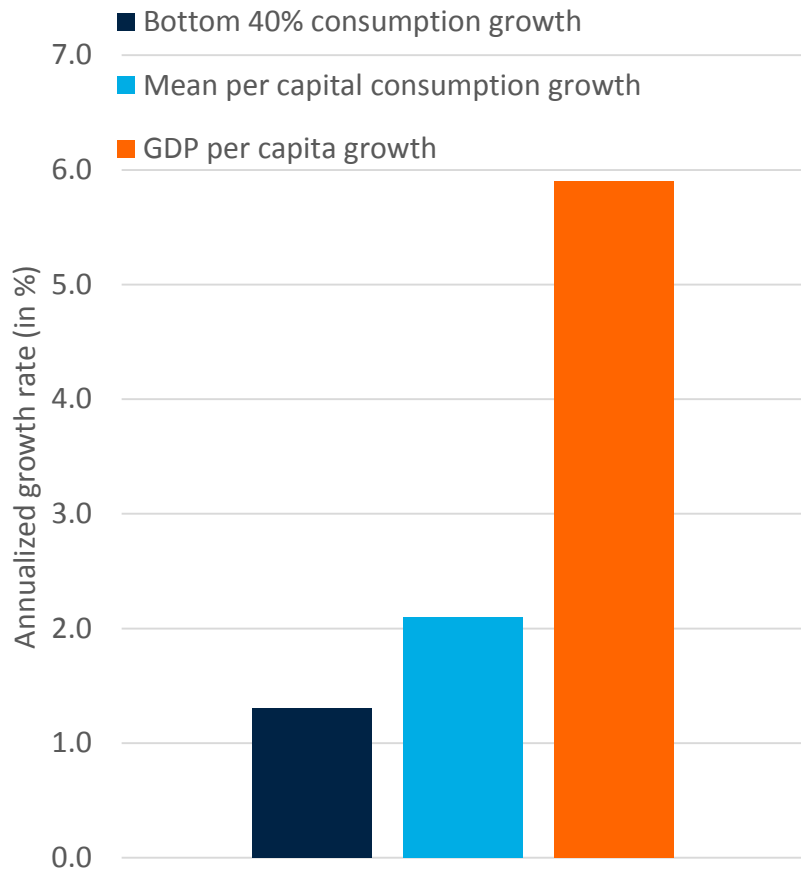
# Poverty



# Poverty declined, but at a slower pace compared to other countries...



# ... as consumption grew less than GDP, especially for the poor



As a consequence, inequality has been gradually increasing\*:

- Rural-urban gap getting wider: 10% poverty in urban areas vs 29% in rural areas
- Widening inequality within and between urban areas

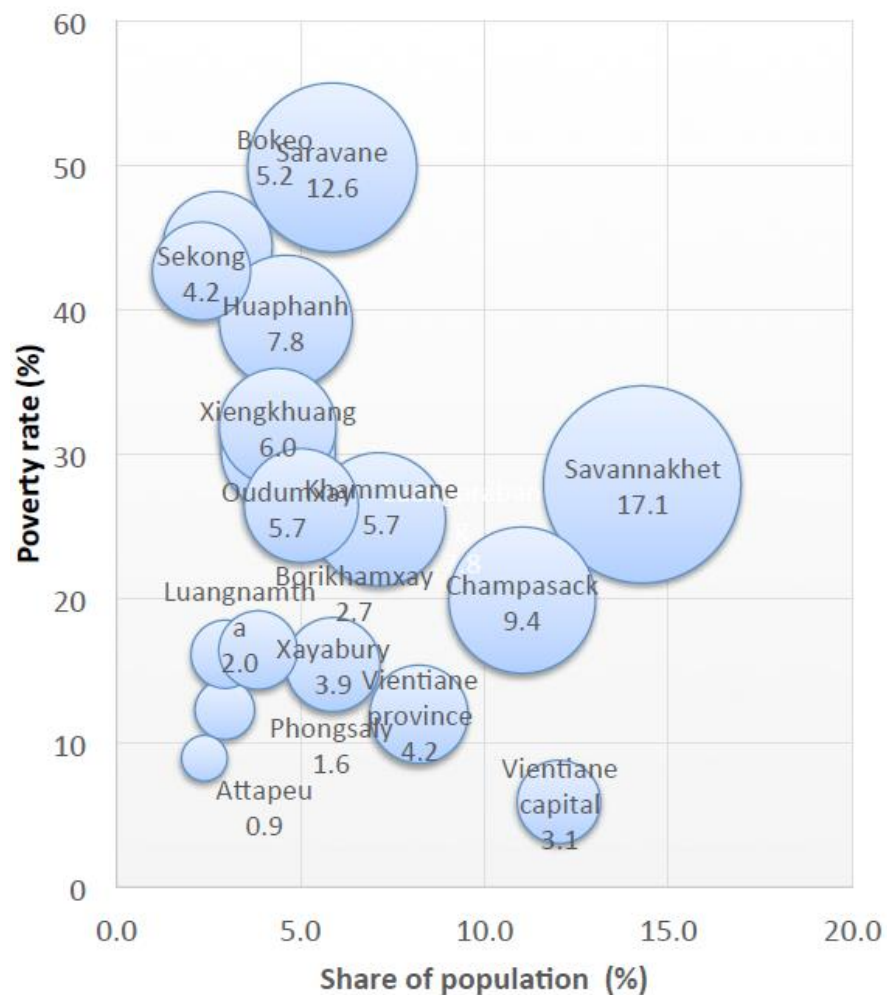
\* Gini coefficient increased from 32.5 in 2002/03 to 36.2 in 2012/13

# Who and where are the poor?

## Poverty is higher:

- In rural areas
- In uplands
- Among minorities
- Among the less-educated
- In bigger households
- Among people employed in agriculture
- Among people with lower access to basic utilities

*Observation:* most of the poor are not where the poverty rate is highest: Saravane has the highest poverty rate, but Savannakhet has most poor people





# What gets people out of poverty?



**1** More education  
(even among  
farmers)

**2** More off-farm  
opportunities (paid  
workers or self-  
employed non-farm)

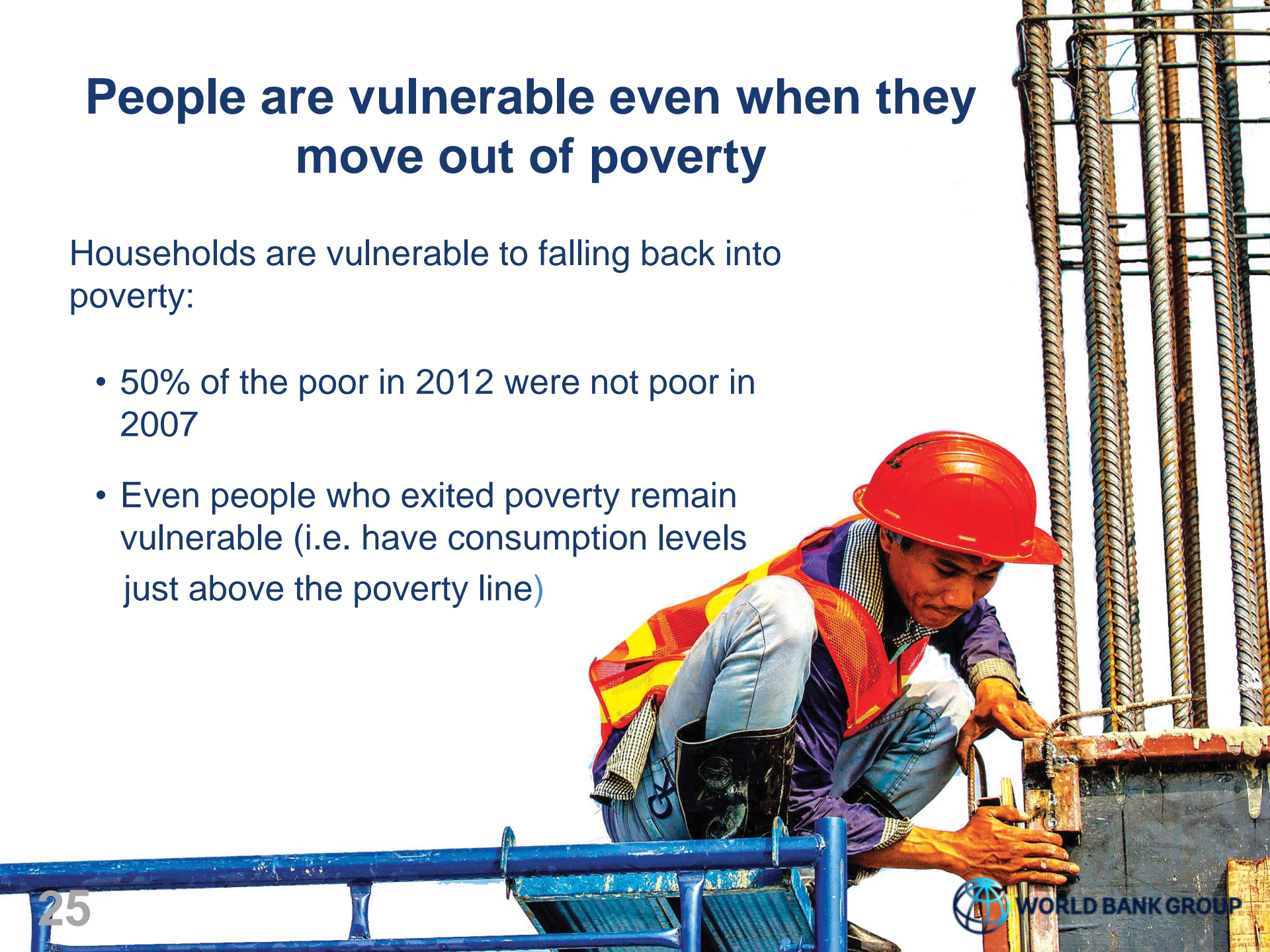
**3** Access to services  
and social safety  
nets



# People are vulnerable even when they move out of poverty

Households are vulnerable to falling back into poverty:

- 50% of the poor in 2012 were not poor in 2007
- Even people who exited poverty remain vulnerable (i.e. have consumption levels just above the poverty line)



# Risks of the Current Growth Pattern





# Macroeconomic Risks



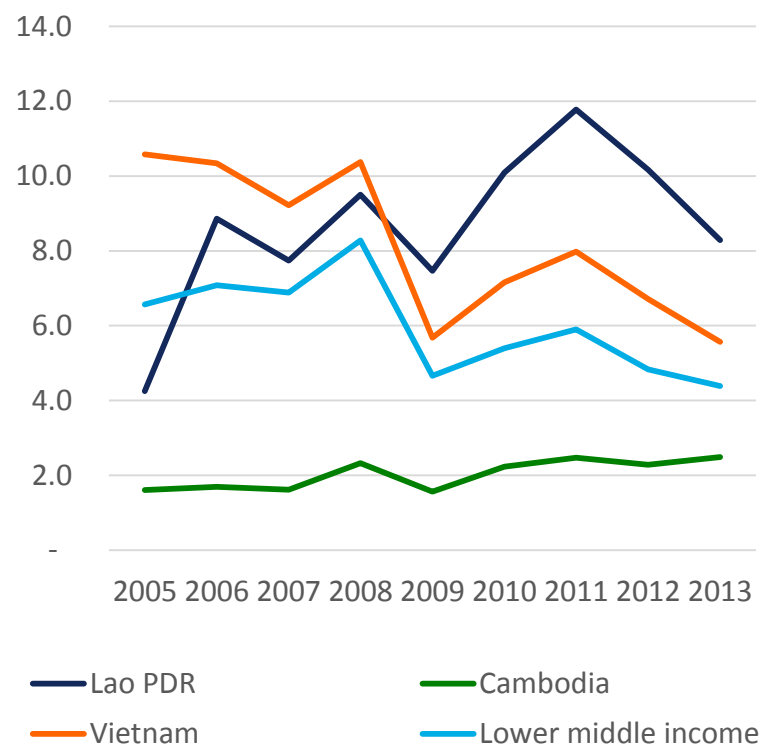
- Large fiscal deficit (5% of GDP)
- IMF and WB have classified Lao PDR at moderate rate of debt distress, borderline to high (Government debt is 60% of GDP)
- An appreciating currency is hurting competitiveness and keeping reserves low
- Growing non-performing loans and low capital in key banks

# Environmental Risks

## Resource Use Is Affecting Livelihoods

- Deforestation and degradation of forests
- Harmful operating practices in some extractives industries
- Impact from development of hydro potential
- Significant costs from natural disasters, exacerbated by climate change

Natural resource depletion, as % of GNI



Source: World Development Indicators





# Social Cohesion Risks

A growingly integrated population will demand more opportunities

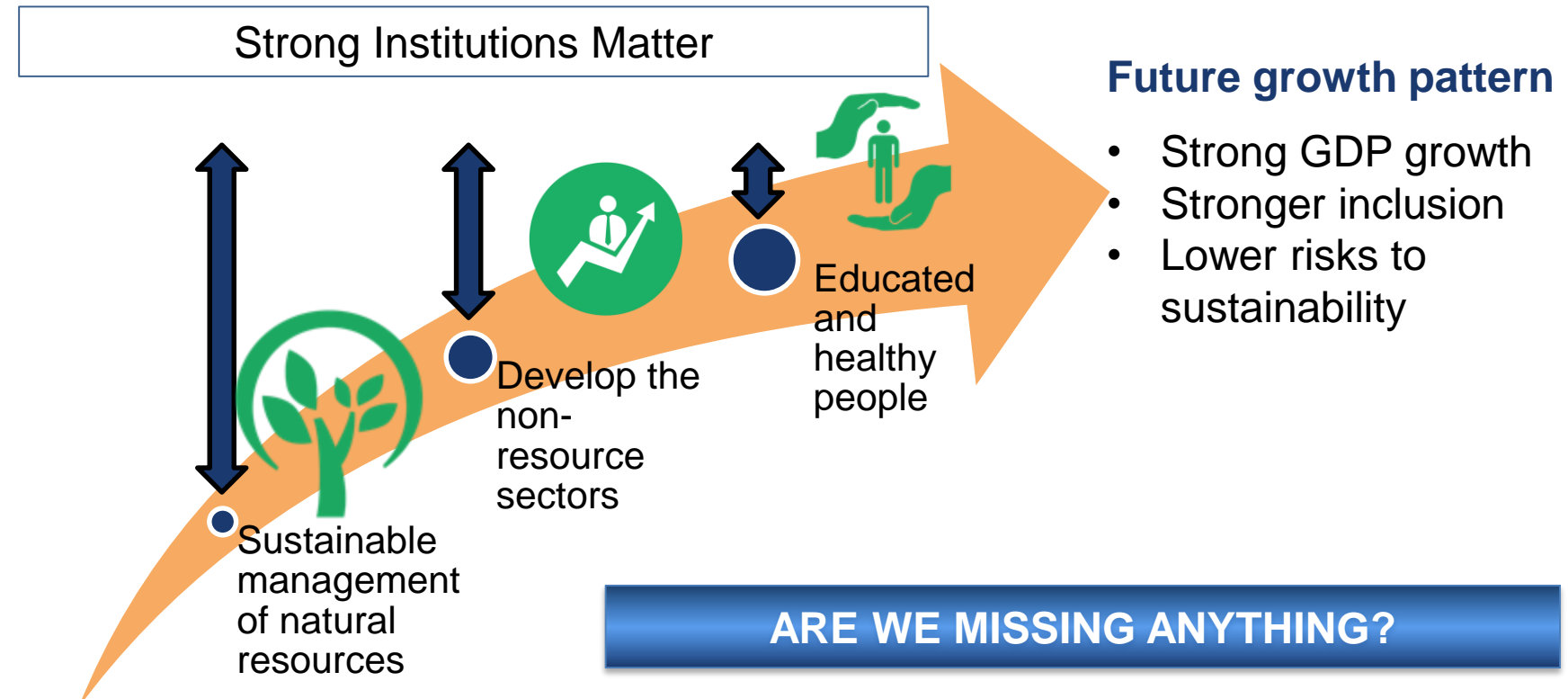
- Despite growth rates of 8% p.a., unemployment emerged in Lao PDR
- 500,000 jobs were created from 2003 to 2013 (4/5 were non-farm jobs). Over the next decade, **900,000** young workers will enter the labor force

Opportunities for a growingly integrated and connected youth will be critical for social cohesion.

# Systematic Country Diagnostic



# Structure for the Systematic Country Diagnostic

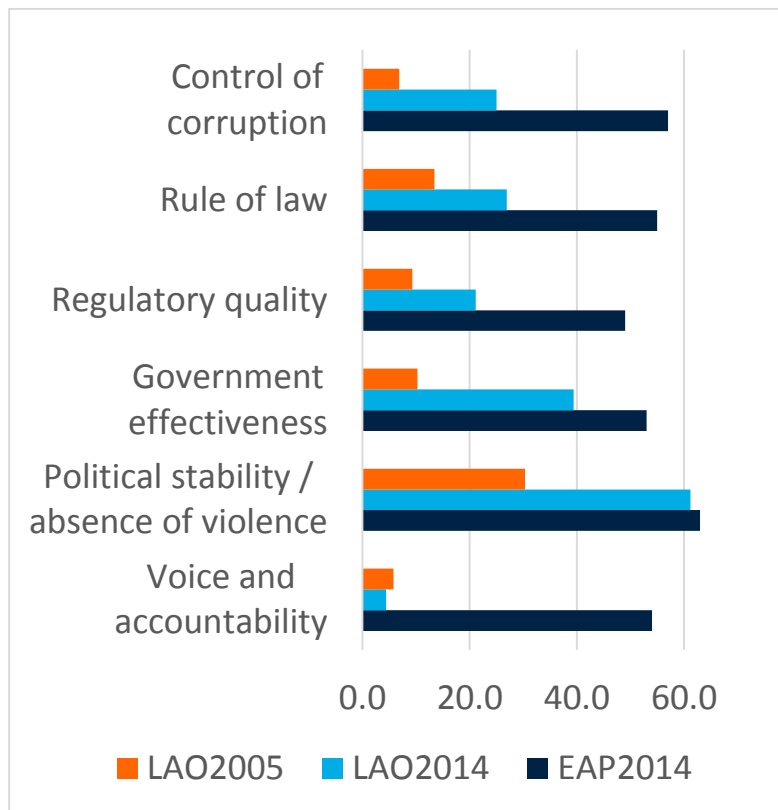


## Current growth pattern

- Strong GDP growth
- Weak inclusion
- Significant risks to sustainability

# Overarching Theme: Strong Institutions Matter

*Rationale:* Strong institutions and governance improve development outcomes



Source: Worldwide Governance Indicators

Institutions can provide more and better services through:

1. Greater transparency
2. Stronger stakeholder engagement
3. Better use of modern technology
4. A more capable civil service

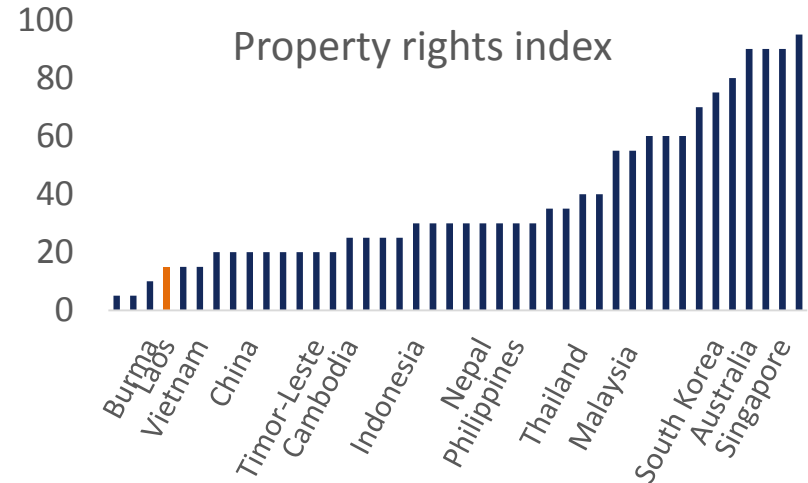
# Overarching Theme: Strong Institutions Matter

## Restoring macroeconomic stability

1. Gradually lower the fiscal deficit.
  - Stronger revenues base
  - Reallocation of spending
  - Efficiency in spending
2. Dealing with systemic risks in the banking sector
3. Adjust monetary and exchange rate policies to reduce vulnerabilities and strengthen buffers

## Protecting property rights and ensuring a level playing field

Property rights are frequently challenged in Lao PDR, on land issues but also in commercial transactions



Source: The Heritage Foundation



# Pathway 1: Sustainable Management of Natural Resources

*Rationale:* Natural resources are extensively used in Lao PDR but could have been better managed

To strategically manage natural resources, Lao PDR can:



**1.** Efficiently manage, extract or conserve resources  
Needed more conservation effort.

**2.** Collect a fair share of revenues  
Mixed results in terms of revenue collection; growing revenues from hydropower but very little from logging and mining.

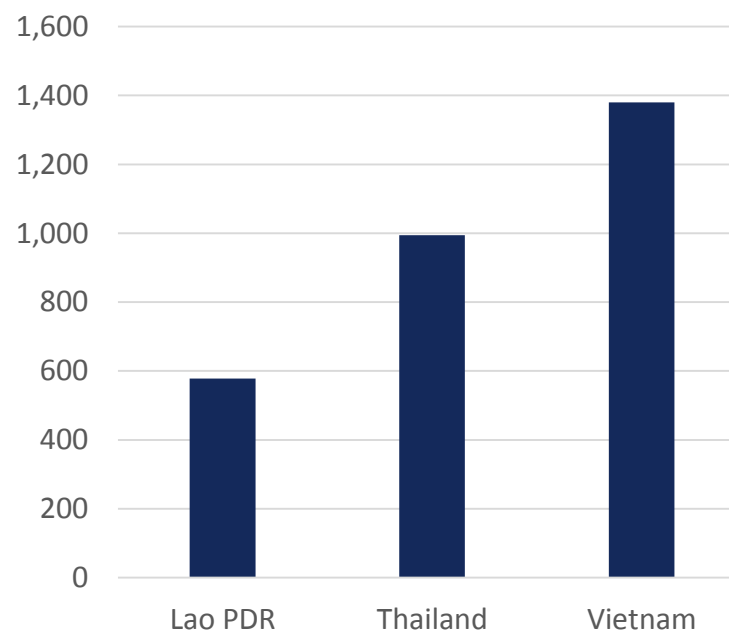
**3.** Invest wisely  
Strong public financial management needed to redistribute the benefits more widely.

## Pathway 2: Develop the non-resource sectors

*Rationale:* Low productivity in agriculture keeps incomes low for a majority of the people

- Output growth (around 3.7% p.a.) mostly came from more land under cultivation, not higher productivity
- Agriculture accounted for 44% of poverty reduction (Compared to 65% in Cambodia)
- Better educated farmers were less poor.

Value added per hectare, in 2005 US\$ prices



# Pathway 2: Develop the non-resource sectors

*Rationale:* A difficult business environment keeps firms small and inward-oriented; hence offering low wages which don't attract workers



1. There are very few firms:
  - 19 SMEs/1,000 persons (Vietnam:30)
2. Many firms stay small and do not grow:
  - With low investment in firms, productivity remains low and limits ability to pay higher wages and attract labor from agriculture

The business environment suffers from complex regulations and procedures, low transparency and uneven enforcement. (Ease of Doing Business in Lao PDR: 134 out of 189 countries)

# Pathway 3: Educated and healthy people

*Rationale:* Where the few good jobs are available, firms complain about an inadequate workforce

## 1. Lack of foundational skills in education

- 32% of 2<sup>nd</sup> graders cannot read
- 27% adult illiteracy rate



## 2. Prevalence of malnutrition and stunting

- 44% stunting rate of children under 5 years old



## 3. Other factors undermining the economic potential of workers

- Large part of population in poor health
- Inadequate provision of water supply and sanitation (although improving)
- Pockets of the population without access to roads and electricity



# Pathway 3: Educated and healthy people

*Rationale:* Even when people move out of poverty, these gains are put at risk by high vulnerability, lack of a safety net and risk mitigation measures



**1.** 50% of the poor in 2012 were not poor in 2007

The vulnerable, especially in agriculture, are exposed to disaster risks and climate change

38

**2.** 350,000 people affected by floods in 2013 with damages of \$270 million

**3.** In the absence of a functioning safety net, households are poorly equipped to deal with shocks

16% of the poor are “health burdened”, and only 12% are health insured



# Next Steps

# Next Steps

## Results from the SCD will inform the WBG's work:

- The SCD will be a key input for the **Country Partnership Framework**, which the WBG plans to develop later this year, together with the Lao Government and Development Partners.
- The SCD, Lao PDR's Development Strategy (8<sup>th</sup> NSEDP) and Development Partners programs will lead to the identification of priority areas in the WBG Country Partnership Framework 2017-2020.

# Thank you!

A summary of recommendations and participant list from this meeting will be sent to you and posted on the WBG Website.

Suggestions or comments should be sent to: [worldbanklaos@worldbank.org](mailto:worldbanklaos@worldbank.org) or to [www.facebook.com/worldbanklaos](https://www.facebook.com/worldbanklaos)

There is an online survey available on the World Bank Lao website:

[www.worldbank.org/en/country/lao](http://www.worldbank.org/en/country/lao)



# Glossary of Some Terms Used in this Presentation

**CPF/CPS:** Country Partnership Framework / Country Partnership Strategy – a document that identifies the key objectives and development results through which the WBG intends to support a member country in its efforts to end extreme poverty and boost shared prosperity in a sustainable manner.

**GDP:** Gross Domestic Product – the value of all good and services produced in the economy.

**Gini coefficient:** measure of the extent to which the distribution of consumption among households deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

**TFP:** Total Factor Productivity – is the portion of output not explained by the amount of inputs used in production. As such, its level is determined by how efficiently and intensely the inputs are utilized in production.

**WBG:** World Bank Group – international financial institution, a specialized agency of the United Nations, consisting of five organizations (IDA, IBRD, IFC, MIGA and ICSID) providing assistance to developing countries to promote poverty reduction and shared prosperity.