

LAO PDR SYSTEMATIC COUNTRY DIAGNOSTIC



May-June 2017

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Systematic Country Diagnostic - background

World Bank Group goals

End extreme poverty ...	Reduce the percentage of people living on less than US\$1.9 a day at 2011 purchasing power parity (PPP).
... promote shared prosperity	Foster income growth of the bottom 40 percent of the population in every country.
... in a sustainable manner	Resource use should not prevent future generations from achieving a level of well-being at least as great as that attained by the present generation.

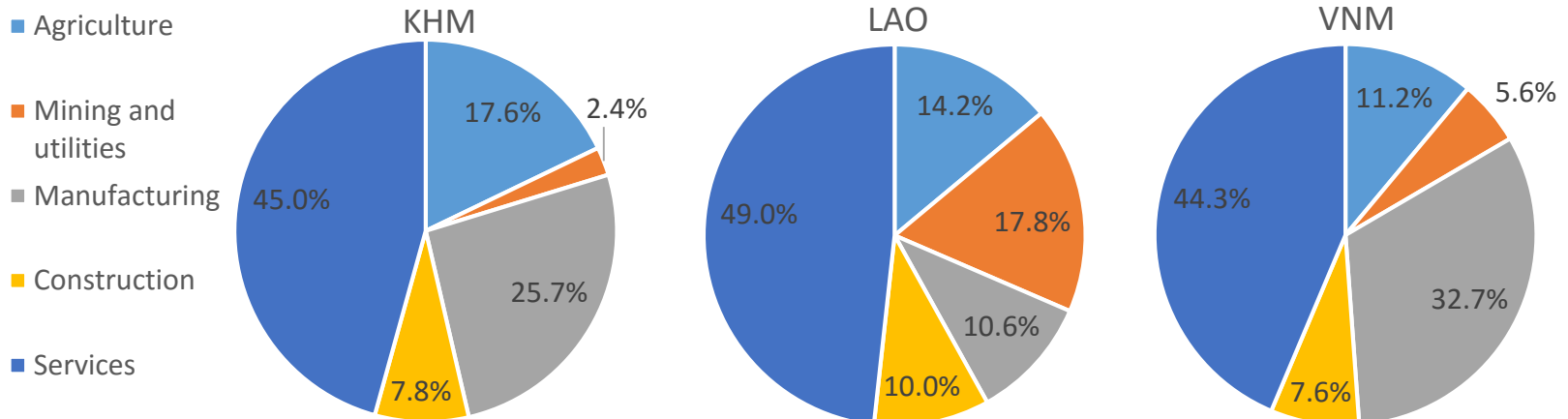


The SCD is a systematic and evidence-based diagnostic that examines the opportunities and constraints to reducing poverty and boosting shared prosperity.

The growth story

Very strong growth, largely driven by natural resources

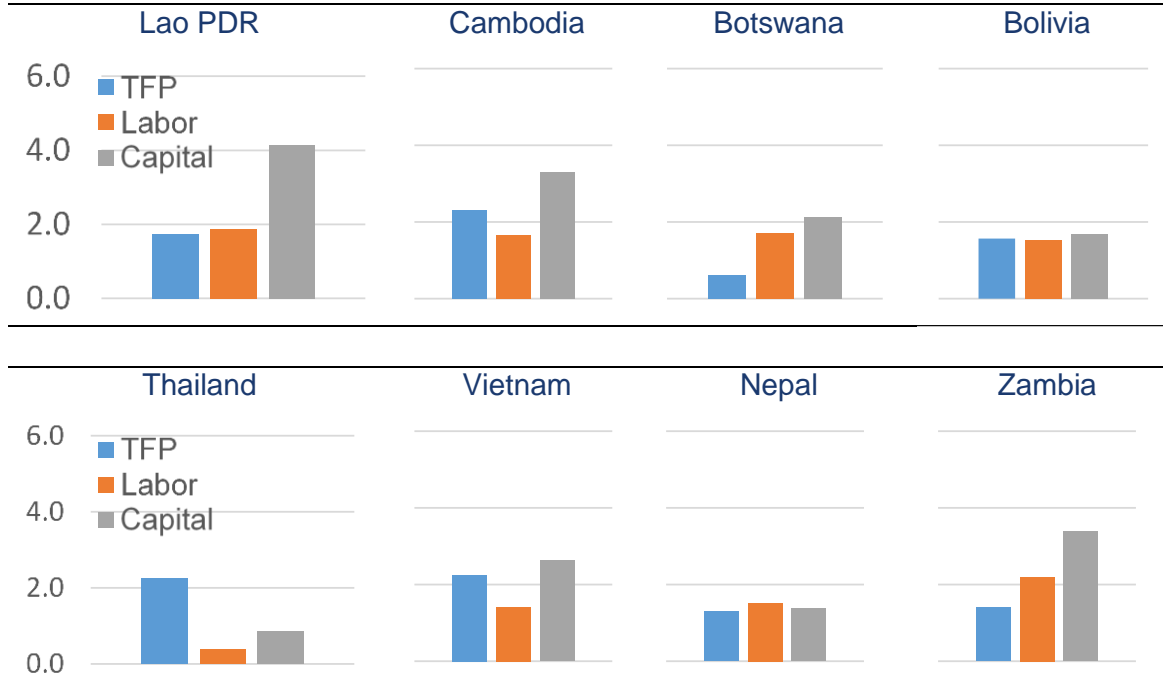
	GDP In US\$ billion	GDP growth rate Average (07-16)
Lao PDR	15.7	7.8
Vietnam	207.0	6.0
Cambodia	20.0	6.6
Myanmar	67.5	8.6
Thailand	407.8	3.2



Source: United Nations (UN) National Accounts dataset.

The growth story

Investment in resource sectors drove growth; but, with small productivity gains



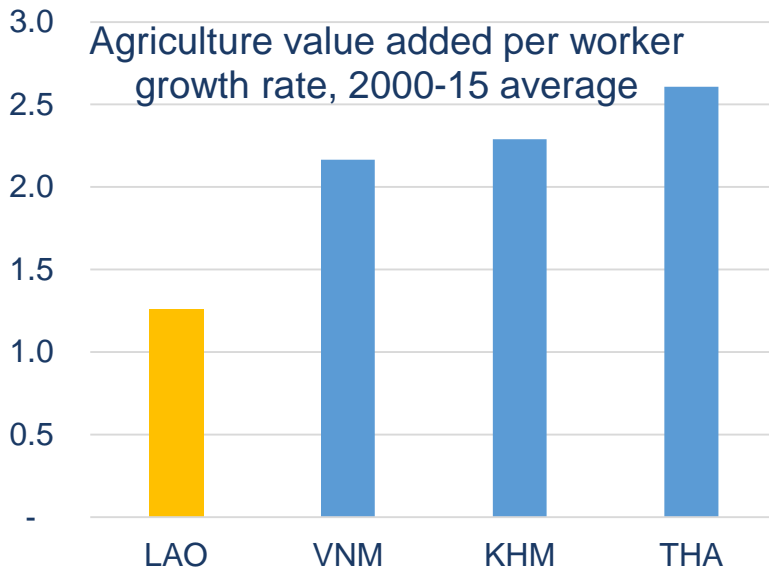
Source: World Bank Macro-fiscal Model.

But, only 38% of Lao PDR manufacturing firms invested in fixed assets in 2015 (compared to 52% in Cambodia and 72% in Vietnam)



The growth story

Agriculture grew below potential



Source: World Development Indicators.

Excessive focus on rice production.

Commercialization of production is low

Quality of produce is low.

Implications:

- 2 million workers each produce and earn very little
- The environmental impact of agriculture is rapidly growing



The growth story

Manufacturing growth has been weak

Difficult business environment that is selectively enforced:

- 139: Lao PDR's rank on Doing Business
- 67: days required to start a business
- 36: tax payments required a year

When jobs are created, firms complain about skills

Hard infrastructure is less of a barrier; however:

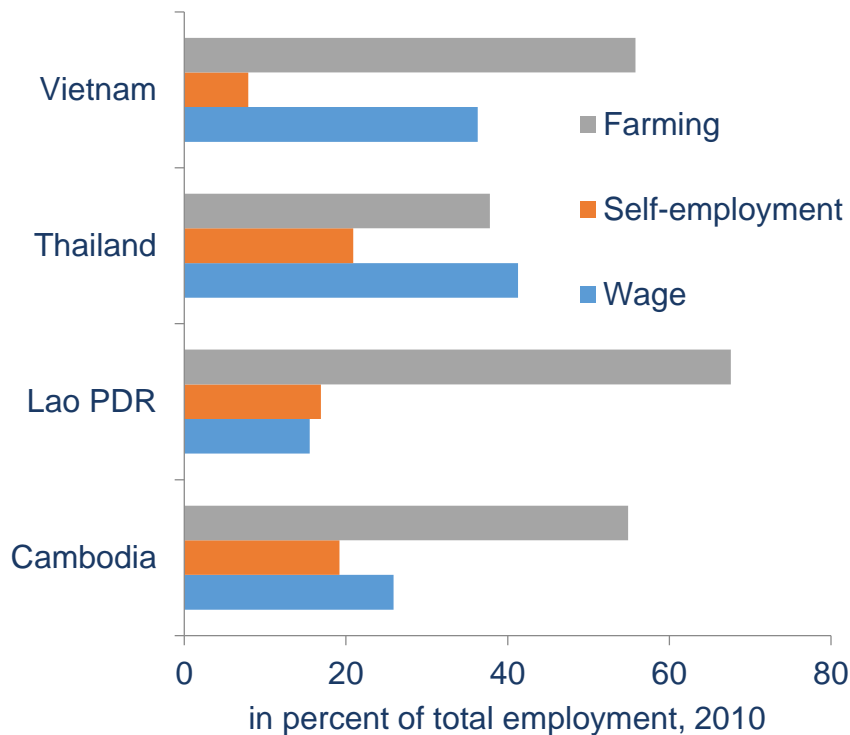
- Lao PDR's Logistics Performance Index is among the lowest in the region

Access to finance improved, though small businesses struggle to obtain finances to grow

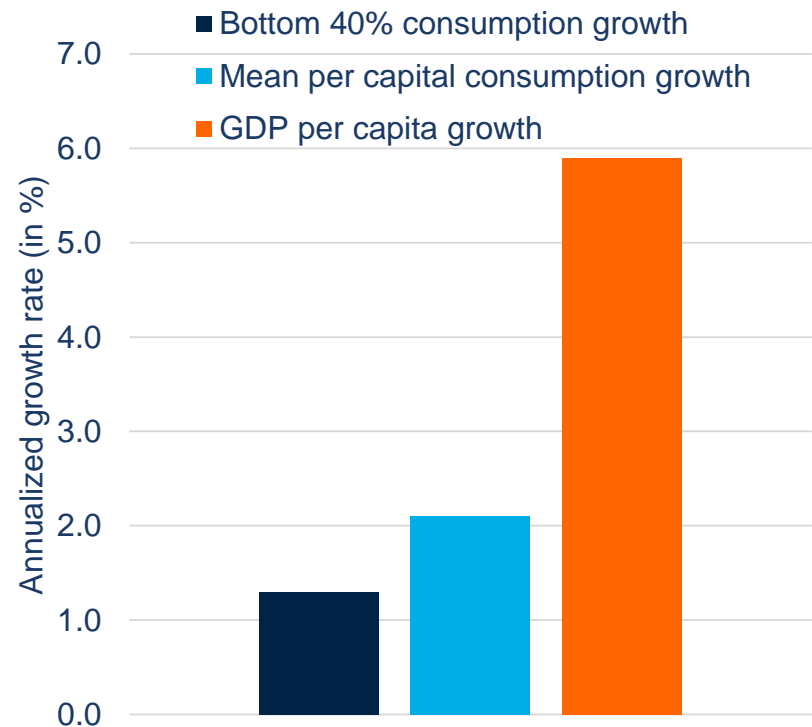


The growth story

Implications: weak private sector, few jobs created and earnings remain low



Source: World Development Report 2013.

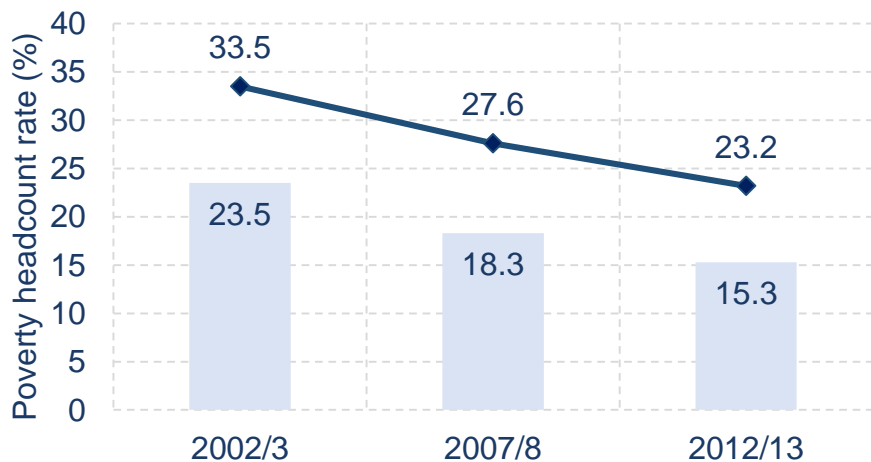


Source: LSB and Lao Expenditure and Consumption Survey.

The poverty story

Living standards improved

- ✓ Poverty declined from 33.5% in 2003 to 23.2% in 2013
- ✓ Access to public services improved - e.g. access to electricity increased to 90% in 2015



— International \$1.9 (2011 PPP) dollars a day poverty estimates

Source: Laos Expenditure and Consumption Surveys.



The poverty story

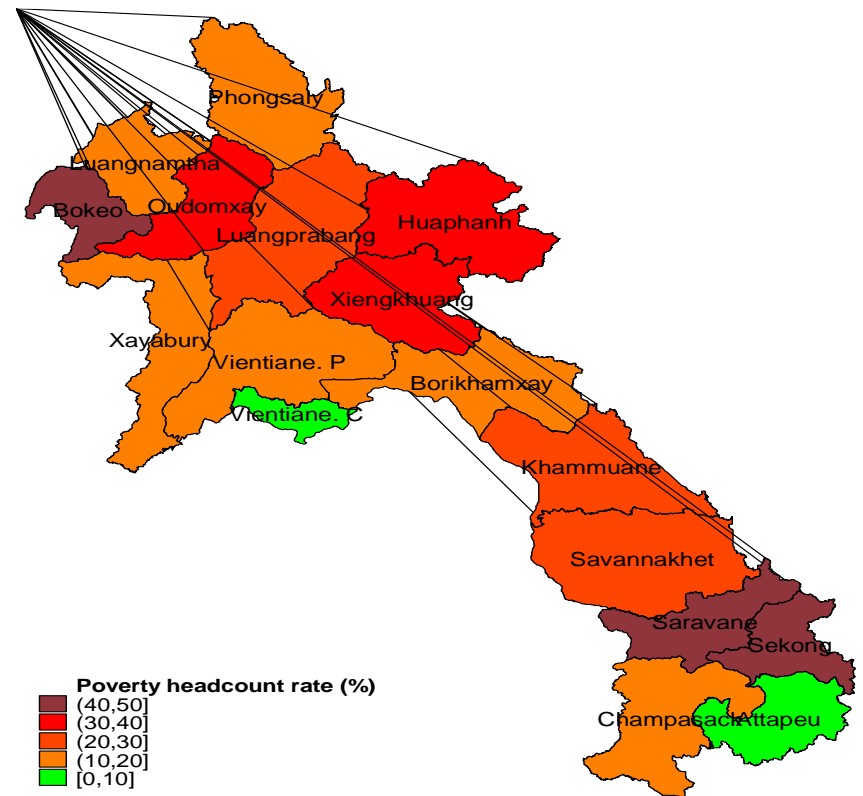
But remain low, and with considerable differences

80% of population lives on less than \$5.5 a day, and is considered *economically insecure*

44% of children under 5 years old are stunted

Poverty is higher among non-Lao Tai ethnic groups

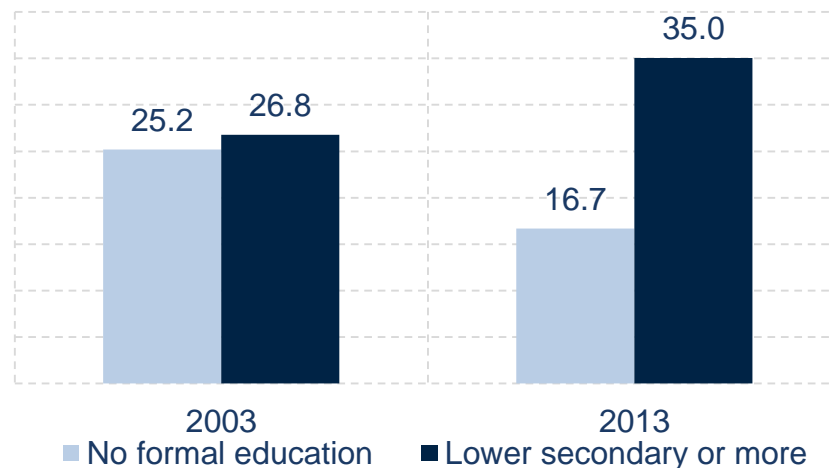
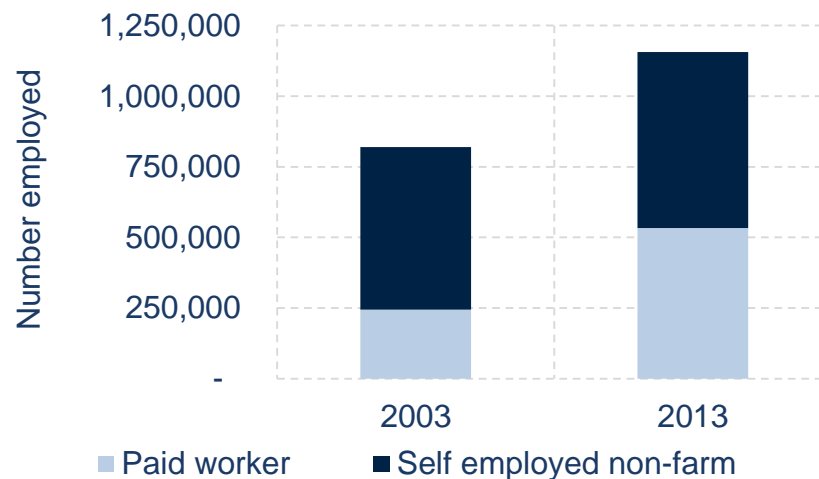
Differences are widening



The poverty story

Drivers of poverty reduction

- ✓ Off-farm jobs
- ✓ Education
- ✓ Smaller households
 - ✓ 2003: dependency rate 2.7
 - ✓ 2013: dependency rate 1.9
- ✓ Access to land
 - ✓ 2003: 2.3 ha/HH;
 - ✓ 2013: 2.9 ha/HH)



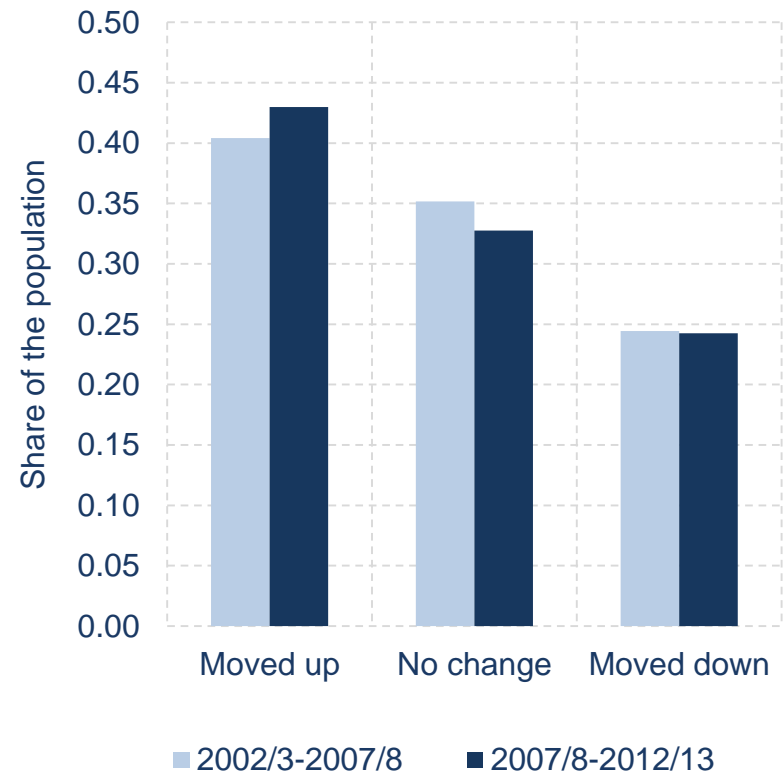
Source: Laos Expenditure and Consumption Survey.

The poverty story

High vulnerability to shocks

- ✓ Agriculture households are most vulnerable, but the risk of falling into poverty is very real for a large part of the population
 - ✓ 50% of the poor in 2012 were not poor in 2007
- ✓ Households are poorly equipped to deal with shocks
 - ✓ Weak social safety net
 - ✓ Low financial inclusion

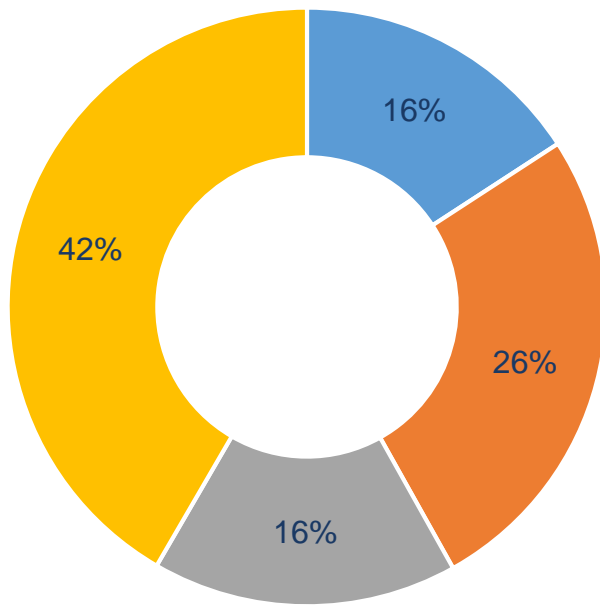
Movements across groups



Source: Laos Expenditure and Consumption Survey.

The poverty story

Different constraints affect different groups



- urban, connected, high capital
- rural, connected, moderate capital
- health burdened
- remote rural, unconnected, low capital

Source: Laos Expenditure and Consumption Survey.



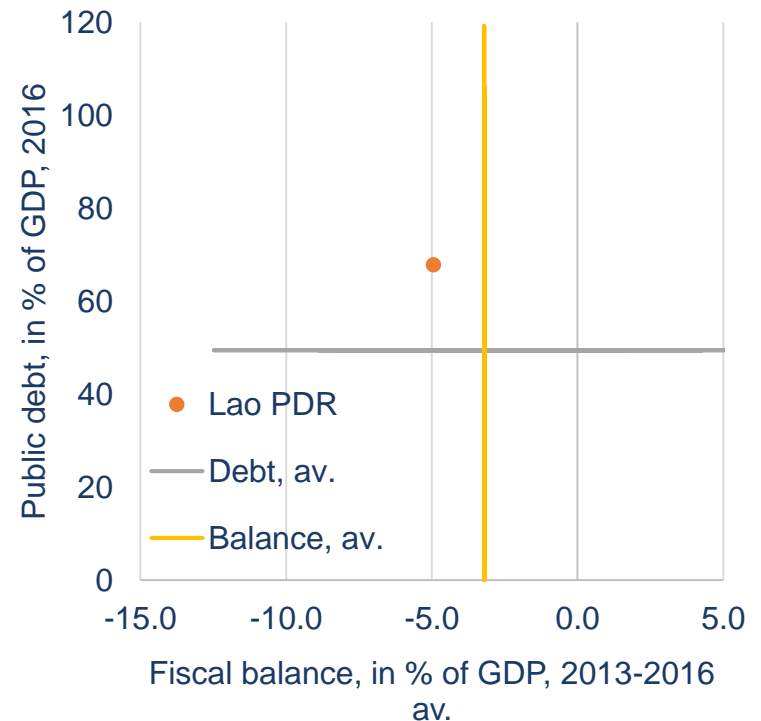
Can current trends be sustained?

Elevated macroeconomic risks

- ✓ High government spending keeps public debt level elevated
- ✓ Appreciating exchange rate
- ✓ Significant vulnerabilities in parts of the financial sector

- ✓ Macroeconomic instability will hurt the poor most and will undermine growth prospects

Fiscal deficit and public debt



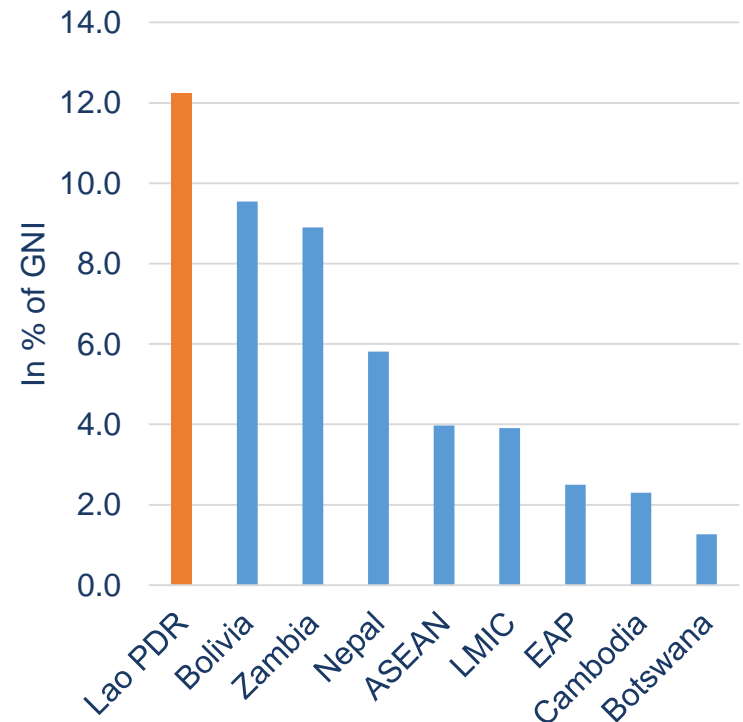
Source: IMF World Economic Outlook.

Can current trends be sustained?

Rapid exploitation of natural resources

- ✓ Cost of environment degradation estimated at 7% of GDP in 2013
- ✓ Compounded by significant disaster risk exposure and growing impact of climate change
- ✓ Affects the most vulnerable;
- ✓ May slow the major growth driver;
- ✓ Threatens bio-diversity

Natural resource depletion



Source: IMF World Economic Outlook.

Towards and agenda for the twin goals

Lao PDR development challenge

Current development pattern

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

Future growth pattern

- Strong GDP growth
- Stronger inclusion
- Lower risks to sustainability

Towards and agenda for the twin goals

Lao PDR development challenge

Cross-cutting theme: Strengthened institutions



Sustainable and efficient management of natural resources



Unlocking the potential in non-resource sectors to create opportunities



Building the asset of people to be able to take on these opportunities and to mitigate risks and protect gains



Prioritized agenda

Why prioritize?

Pathway	Constraints	
Ensuring natural resources continue to deliver growth ...		
... through sustainable and efficient management	<ul style="list-style-type: none"> Lack of integrated approach in management of natural resources Inefficient enforcement of legislation Poor regulatory framework for mining 	<ul style="list-style-type: none"> Inefficient collection of resources Lack of a regional power market
Unlocking the potential in non-resource sectors ...		
... by improving agriculture productivity ...	<ul style="list-style-type: none"> Excessive focus on rice self-sufficiency Improving, but still limited connectivity to markets Insufficient and inadequate irrigation and drainage Limited access to quality seeds and inputs and extension services 	<ul style="list-style-type: none"> Inability to meet quality requirements and weak links with agribusinesses Market distortions
... and through creating more off-farm job opportunities	<ul style="list-style-type: none"> Informality Complicated trade and business procedures Inefficient, in many cases discriminatory, enforcement of the regulatory framework Strong links between state officials and commercial entities Regulatory regimes that inhibit competition Inadequately educated workforce 	<ul style="list-style-type: none"> Difficulties in electricity supply Improving, but still limited connectivity Low value for money on public sector investments Public sector arrears affecting businesses' profitability Inefficient financial system Pressures on the exchange rate
Building people's assets to allow them to take on the opportunities and reduce vulnerability ...		
... by improving the quality of the labor force ...	<ul style="list-style-type: none"> High rates of malnutrition Inadequate funding and management in key social sectors Uneven access to basic utilities Wage arrears undermining civil servants' efforts 	<ul style="list-style-type: none"> Vulnerability to price shocks Weak education outcomes Insufficient demand for services
... and lowering vulnerabilities	<ul style="list-style-type: none"> Limited availability of social programs, with weak targeting Poor coverage with health insurance 	<ul style="list-style-type: none"> Low levels of financial inclusion Underdeveloped DRM

Criteria

1. Expected impact over the twin goals
2. Focus on vulnerable groups
3. Urgency of interventions
4. Complementarities, synergies and trade-offs

Extensive engagement process

Prioritized agenda

Prioritized agenda for strong, inclusive, and sustainable growth

TOP PRIORITIES



Promoting strategic use of natural resources and responsible management of the environment



Increase agricultural productivity to support incomes



Investing in improving nutrition to achieve children's full potential



Improving quality of education and keeping girls in school



Putting public debt on a sustainable path and strengthening financial sector stability

HIGH PRIORITIES



Making it easier to do business and create good jobs



Investing in infrastructure for growth and inclusion



Improving access to and quality of health services for more productive people

MEDIUM PRIORITIES



Putting in place a strengthened disaster risk management



Introducing a basic social protection system to lower vulnerability



Improving inclusiveness of the financial sector to improve access to credit and lower risks

< Enhancing governance and creating a rules-based environment >

Prioritized agenda

Enhancing governance and creating a rules-based environment

1. Transforming the relationship between the state and the private sector
2. Assign and protect property and creditor rights
3. Stronger institutions with oversight mandate



Promoting strategic use of natural resources and responsible management of the environment

1. Clear and transparent rules and enforcement mechanisms for resource allocation
2. Adopt an integrated approach to water management
3. Strengthen forest management



Prioritized agenda

Increasing agriculture productivity to support incomes

1. Transition from a focus on rice self-sufficiency to competitiveness based agriculture
2. Greater and smarter government support
3. Better connect farmers to markets (both infrastructure but equally important information)



Improving nutrition to achieve children's full potential

1. Invest in early childhood care (family planning, maternal and child care, nutrition-related services)
2. Aim for universal access to improved water and sanitation



Prioritized agenda

Improving the quality of education and keeping girls in school

1. Focus on basic literacy
2. Target interventions to vulnerable groups (especially girls)
3. Provide On-the job training and job relevant vocational education



Putting public debt on sustainable path and strengthening financial sector stability

1. Reduce tax exemptions and improve tax administration
2. Keep the wage bill under control and reconsider some investments
3. Adopt a robust regulatory framework for the financial sector, including state-owned banks and ensure effective implementation