

World Bank Group’s Systematic Country Diagnostic (SCD) Public Engagement in Lao PDR



Participants to the Central Government engagement meeting held in Vientiane on February 23rd, 2016

From February 23rd to March 9th, 2016, the World Bank Group (WBG) carried out public engagement meetings with diverse stakeholder groups present in the country (State and Provincial Governments, National Assembly, Mass Organizations, Private Sector, Development Partners, Civil Society and Academics). The engagement meetings included 8 events in 4 locations (Vientiane, Luang Prabang, Oudomxay and Pakse) and focused on identifying and prioritizing the key development opportunities to end extreme poverty and promote shared prosperity in Lao PDR. The engagement aimed at gathering recommendations on the content and priorities within the Systematic Country Diagnostic (SCD) and to feed into the final version of the document. The public engagement also sought to increase understanding within the WBG of the concerns and priorities on the situation of Lao PDR as well as to strengthen relationships with key stakeholder groups.

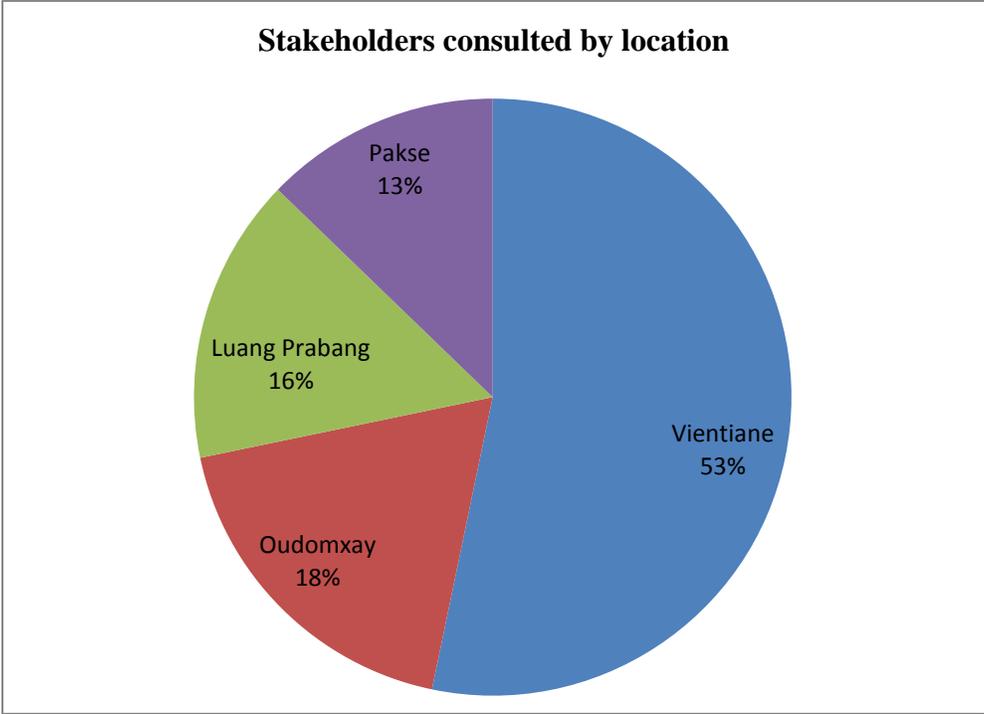
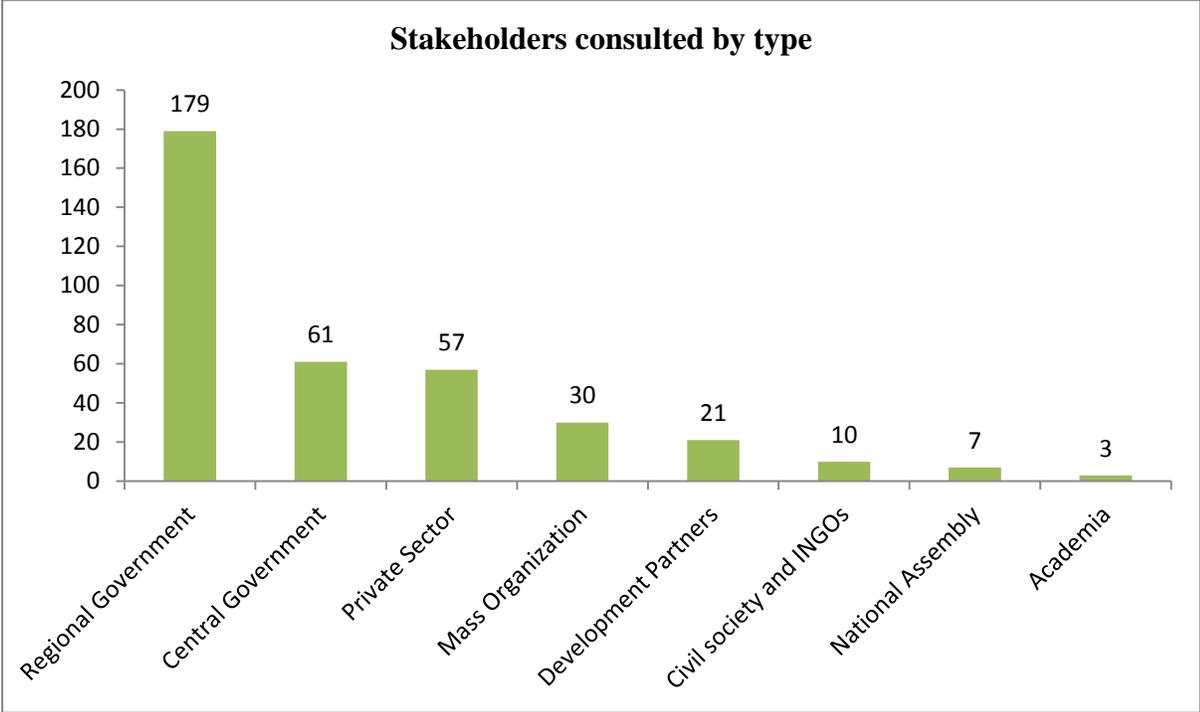
Invitations and materials for consultations were sent out two weeks in advance for each event (in both English and Lao), and consultations were also announced on the WBG website and Facebook page. An online survey on the SCD was also posted on the WBG Lao website. The Ministry of Planning and Investment co-chaired and supported the organization of the meetings with Government (at central and regional levels). The Lao National Chamber of Commerce and Industry did the same for the meeting with private sector.

All of the meetings commenced with a presentation which covered the preliminary findings of the SCD in regard to the main pathways to reduce extreme poverty and boost shared prosperity in Lao PDR. The presentation was given in either English or Lao depending on the participants, with simultaneous translation into the other language. After the presentation, an open discussion was held around three broad questions:

- (i) What are the key challenges for Lao PDR to address in the next 4 years?
- (ii) What are the main development opportunities for Lao PDR in the next 4 years?
- (iii) Are the development pathways presented earlier realistic and achievable in the next 4 years? What policies, reforms and investments will be most important?

Overview of the Participants

The WBG public engagement meetings were attended by total of **368 people** (290 men and 78 women). A breakdown of the different types of stakeholders and locations are given in the graphs below.





Development Partner's meeting in Vientiane on February 26th, 2016



Provincial Government representative at the meeting in Oudomxay on March 3rd, 2016

Key messages

Key recommendations, concerns and ideas that were discussed during the consultation meetings as well as received through online submissions are summarized below.

Thematic Area	Recommended areas of focus
Agriculture and rural development	<ul style="list-style-type: none"> - Most job opportunities should be created in agriculture as the vast majority of people are active in this sector. Employment for young people: find a way to retain them in agriculture, so they don't migrate to the cities. - Shift from natural resources depletion to agriculture development. Forest coverage: target is 70 %, now we are at 47%, so fall short. If only 30% of arable land, need to have sustainable food production: no increase in the land area, but based on quality and increased productivity. Stabilization of slash and burn culture is essential. If we don't change the way agriculture works, we'll continue heavy deforestation. - Transfer of working population from agriculture to manufacturing and services sectors. To protect forest coverage, we need to reduce people working in agriculture. - Land reform: Land concessions have been given by the GoL to firms or influential people without looking at all aspects. When providing land concessions to foreign investors, people get very low compensations and challenge for farmers who cannot get productive land. GoL to assess how to manage land in a sustainable way. - Rice production: at the moment it's cheaper to import rice. People don't want to do irrigated rice production, only rain fall production as really high irrigation costs. How GoL can help to increase productivity? Develop different varieties of seeds and rice species, irrigation, extension services... - In Vietnam: "people go to the field like they go to the office". But in Laos it's more subsistence agriculture: do what we are used to and don't change our livelihoods. Lack of knowhow of agriculture workers – Need extension workers. Ex: we don't know which type of rice could be our comparative advantage. - Access to markets is crucial. Even if a lot of production (rice for example), farmers are not guaranteed to be able to sell their products (to domestic or export markets). People just burn excess production. - Opportunity: sustainable agriculture development (ex: organic agriculture). Currently: around 120 organic farms in the country. Laos could have a comparative advantage in AEC in the organic sector, but this requires ability to meet standards (laboratories, qualifications) and find niche markets. Build a "Lao brand" / certification system to be synonymous with good quality. - There is no government comprehensive strategy to improve agriculture productivity - Agriculture = highest risk sector regarding droughts, floods or other disasters. Issue on water management. Hard for commercial agriculture production. - Middle men that buy agriculture products buy them at very low prices and make a very high profit margin.
Education and skills	<ul style="list-style-type: none"> - Illiteracy was very high in 1975 (90%) – today: big improvements but skills are still an issue. Human resource development should be a priority. Lower skills compared to other countries / neighbors - Need to move closer to international standards. - When people don't have access to education, it's very hard to improve their quality of life. It's even harder if those people are exposed to alcohol and gambling and lack of motivation. - 2016-2020 Education Plan: improve quality of education and compulsory lower secondary school for all. - Need to increase quality of education and it should be more adapted to labor market needs. We train people to become leaders (ex: many PhDs) but not subordinates (need

- more vocational training). Skills development should be related with the development potential of Laos (ex: train more people in agriculture). Teachers' training / motivation and more equipment in schools are essential to increase education quality.
- Reading comprehension skill among elementary school students is very low. **Pre-school program** / early childhood development should also be supported.
- **Vocational training**: access to potential alternatives to continue learning for people who have not been able to finalize formal education. Ex of needed skills: basic management skills or management of natural resources. Sometimes problem to attract students because quality of vocational training is not always good.
- Promote education for young people – particularly **informal education** (video clips or e-library – people to learn by themselves).
- Very difficult to get the right **allocation for education in the national budget**, but even when we get a figure, not sure to actually get that money at the end.
- For SMEs, the **skills deficit** felt most forcibly for owners related to management, administration and innovation, while for larger business in construction / furniture making/accounting it seems that the technical skills of staff is not adequate. Many factories lack skilled labor – need to hire international people (ex: from Thailand) so very expensive – decreases competitiveness.
- **Access to education is different depending on the localities**. Ex: distance from school, need labor force to work in farm, village relocation in middle of school year.
- Rural areas have resistance to new technologies, because limited understanding. How to **deal with people's perceptions, understandings and traditions** is important for human resources development.
- Have **jobs reserved for Lao nationals** only, because people cannot compete with foreign labor. E.g. Casinos don't hire local people but hire foreign labor from China.

Inclusion

- Growth and GDP per capita is only an average but doesn't reflect the reality of the people. Even if total **poverty percentage** has decreased, extreme poverty level has increased. Many poor people do not have production means or production land – no opportunities in the villages. Even public servants are poor – only 1 million kip monthly salary.
- **Poor people are not a homogeneous group** –don't have the same needs. Female headed households are better off than male headed households. Poverty reduction: mainly in South and Center of Laos, but not so much in the North. Maybe because investments are lower than in other regions of the country. Only provinces with flat and good arable land along the Mekong are OK, the other mountainous areas have more challenges.
- Missing link: How to **better include the most vulnerable**? How to target them (ethnic minorities, people with disability, women...)? Seems difficult to reach the most vulnerable groups without having a **social protection system** in place.
- Laos has more **ethnic minorities** than any other country in the region. Need to take into account ethnic diversity as it explains health differences, but also problems in the education sector, difficult access to infrastructure and difficult to provide services. Have built schools and health centers but people are not using the services. Why?
- Focus more on **socio-economic development of women** in Laos (as they represent 50% of the population). Women, particularly in remote areas and ethnic minorities, are poorer, cannot access to information, lack education, cannot get good jobs.
- Vulnerability: LECS surveys have increased the level of the poverty line (from 80.000 to 130.000 kip per month) so that could explain partly why people are considered as 'falling back into poverty'.
- The only governance indicator getting worse in Laos over the last years is '**voice and accountability**'. How can civil society be strengthened? How to strengthen Human Rights to improve inclusiveness of growth?

Health and nutrition	<ul style="list-style-type: none"> - Stunting costs \$97 million annually to the country. Children cannot go to school and learn effectively without a proper nutrition. People don't know what their nutrition needs are - need awareness raising. Also link stunting to income generation / rural employment. - Improve health facility standards and quality of health workers – crucial for development, need more investment. Why people don't use health centers? Because people don't trust health workers skills. Strong beliefs in traditional medicine could also explain the low utilization of health services. - School feeding is a good initiative to promote education and children to attend school - Hygiene and sanitation are an issue in remote areas. Issue of communicable diseases because no access to clean water. - Family planning and birth control – because of traditions and norms, people don't practice family planning, this also increases mortality rates.
Natural resources	<ul style="list-style-type: none"> - Nat. Res. depletion adverse impacts are visible to all (lack of water for consumption, floods, land erosion). Natural disasters will increase and affect heavily the citizens, particularly the poor. - Need to reduce the use of / find sustainable way to use natural resources. Focus on environment preservation, especially forest and biodiversity. Logging is high and will be difficult to reach target of 70% forest coverage by 2020. Limit logging activities and too much fishing. Also need better management and more involvement of the people in environment conservation. - Water management is a big issue – need to improve it. By 2020, 70% of population should have access to clean water. - No insurance fund for natural disasters – only mobilize donations if something happens. Difficult for businesses and people to recover from damages. - Mining and logging – have not provided value added to population. Would need factories to transform raw material – creates jobs. Many resources from mining (ex: gold) get out illegally of the country. - Hydropower development = comparative advantage for Laos, can get high revenues from this sector and pay for the development of the country. Carbon credit? - Many people still live inside Natural Protected Areas. Try to introduce them to other livelihoods like service and industry so they don't need to live on timber anymore, stop depletion.
Business environment	<ul style="list-style-type: none"> - Despite significant improvement in the business environment, there are still certain gaps between policy and implementation. Regulations are not enabling for businesses (Ex: very high costs for fees/taxes). Improve the business environment is crucial to increase job creation, particularly by SMEs. Also complicated to get into the market and labor law enforcement is not good. - GoL should put in place tax incentives (tax holidays) and enabling legislation for businesses to operate and to recruit / create jobs. - Reduced interest rates in 2015 to reduce cost of credit for firms, also provide better access to financing for businesses – can create more jobs for citizens. - Laos is not rated well in Doing Business because everything is slow in Laos. Not good public service because issues with laws and regulations enforcement and also public servants are not paid enough (corruption issues).
Access to Finance	<ul style="list-style-type: none"> - Today: \$5 billion deposit in banks = total loans in country, and has increased substantially in last years. So not problem of lack of funds, but more a problem of financial inclusion. Only a fraction of SMEs – less than 30% – have used bank credit, and SMEs feel largely locked out of the formal credit market. The number of firms using external sources to finance their investment is very low compared to

	<p>Cambodia, Vietnam and Thailand.</p> <ul style="list-style-type: none"> - Too high interest rates – should decrease in the future with a new 2015 regulation. - Issue regarding Non-Performing Loans – difficulty for banks to recover the money or collateral if need to go to Court. - Collateral is an issue for SMEs (banks don't even look at quality of project); also banks always provide the same kind of loan, not adapted to type of project. Need to provide capacity building to banking sector to better adapt the offer to the SMEs requests / needs. - Acknowledgment given to the Ministry of Finance for its recent establishment of a centralized, online, notice-based registry where financial institutions can now register any security interest held over movable property. - Problem of access to credit for poor people in rural areas. People don't want to take big loans, just small loans to cover health shocks. Have village banks to move closer to people.
Non-resource sectors	<ul style="list-style-type: none"> - Peace and stability = good selling point to attract FDI to Laos. - Tourism industry to be developed sustainably / eco-tourism. Conservation and improve services – still a lot of room for improvement. Good opportunities because Laos shares borders with several countries. Learn from other countries (like Thailand) to improve the tourism sector. It's a way to reduce heavy reliance on natural resources and increase jobs in services sector. - Need more processing industries in all Provinces – get more added value and export more than raw material. - Agriculture and eco-tourism are good and often mentioned. But we should think about other concrete industries / opportunities to further help diversify the economy. - Lack of labor in many sectors – high migration to neighboring countries. Need to attract back workers in Lao PDR. Interest free loans to support SME creation, vocational training? - Lao people should decrease the use of imported products and start using more domestic products, which will help the economy and create more jobs. - Develop Pakse district as trade corridor and investment hub for Southern Laos.
SME development	<ul style="list-style-type: none"> - Focus on SME development, and not so much on big firms which are owned by foreigners (in nat. res. sector for example). Encourage innovation/entrepreneurship. - IT SMEs would need to be encouraged – big market to develop. Ex: civil servants don't have e-mails or websites for GoL and firms. - Set up a commercial bank to support / target financial support to SMEs.
Infrastructure and Energy	<ul style="list-style-type: none"> - Having access to basic infrastructure (clean water, electricity and healthcare) will help stop poverty, especially in rural areas. - Electricity projects can help to generate incomes – most projects in rural areas. Also export of electricity is a great opportunity. Export more? Lao PDR to become the 'battery' for ASEAN? - Human resources are a challenge in energy and mining. Ex: all dams will belong to GoL in a few years and capacity is not there yet, now only 30% of staff is Lao. - Access to roads is essential to reduce poverty (ex: increase access to markets and connectivity) – also focus on road maintenance, not only building new roads. Not possible to commercialize production without roads (focus on rural roads). - Weak infrastructure adds to the production cost for business, thereby reducing their competitiveness. If infrastructure from roads/transport is not improved it will be hard for local businesses that have a comparative advantage in trade, such as handicrafts, garments, wood processing, and SMEs to exploit cross-border trade / investment. - Railroad project (access to China market); Water transportation to be developed.

Institutions and governance	<ul style="list-style-type: none"> - Political stability, good security, clear policies and targets – these are all opportunities for Laos. - High bureaucracy and slow approval of projects in Laos. Get rid of red tape procedures and increase ownership of public servants. - Need to increase coordination and collaboration between different ministries regarding overall service delivery package. For example, in the education sector between Ministry of Education and Ministry of Labor. - Lack of transparency and corruption are big challenges. Need to address these issues in order to increase private investments. State audit organization needs to have budget to do their job and fight against corruption. - Good laws and regulations are in place but Rule of Law enforcement in general is an issue in Laos (e.g. law enforcement on land concessions). Rule of Law and transparency need to be strong in order to sustainably manage the natural resources. Need more law dissemination / information, even civil servants don't know the laws. Example: enforcement of new law on environment - Strategic Environmental Assessment can't be done anywhere in the country for SMEs, so cannot control their pollution levels - Voice and accountability have decreased these last years in Laos: possible solution/opportunity for the future to increase support to civil society and accountability - CSO to be more involved in watchdog activities towards government, look at budget. - Sam Sang (decentralization) – first time ownership of project is given to Provincial level and projects are quite successful at village level. However, still at pilot level.
Budget and revenues	<ul style="list-style-type: none"> - Need to prioritize budget allocations / expenditures to stay within budget and be in line with development targets, need strict PFM and macroeconomic management. - Budget allocations: some provinces get much more budget than others – creates differences between provinces (ex on infrastructure). Sekong province only receives 1.5% of total annual budget allocations - 45 million kip/year - very low allocation. - What are the real expenditures in social sectors? How the GoL can allocate more effectively their resources to social services? Re-direct public investment and spend more wisely – particularly Sam Sang policy. - Need to increase revenue collection (align with ASEAN countries). - Incomes from mega projects should be re-distributed and used for the development of the country. How to appropriately allocate budget and revenues? - Macro-economy issues: need to deal in future with debt and deficit. GoL invested a lot in infrastructure for the country but the returns on investment are not great.
Connectivity and Regional integration	<ul style="list-style-type: none"> - How to transform Lao PDR from landlocked to landlinked country? GMS location is an opportunity, close to biggest market in the world: China – attract more investors. - Cross border engagement is key – unlock the power of Laos' markets to success in regional integration. Market access is a problem for the moment. - Cost of logistics/transport in Lao is very high (30%), particularly compared to neighbors. Once products are available, how to sell them abroad? - AEC integration will affect businesses. Laos is behind regarding competitiveness compared to AEC countries. Import taxes should be the same in all AEC countries. - Neighbors don't want to import agriculture products from Laos because they apply many protective measures. Ex corn exports with Vietnam. With the AEC, we are starting to enforce standards for good agriculture practices. But lack of dissemination and people don't know the new regulations. - Northern provinces have development strategy with China – Master Plan. Try to implement this plan with first factory processing in Oudomxay.