Contents

1. Systematic Country Diagnostic
2. The growth story
3. The poverty story
4. Can current trends be sustained
5. Towards and agenda for the twin goals
6. A prioritized agenda

All photos are copyright World Bank Group Laos.
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

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (in US$ billion)</th>
<th>GDP growth rate (Average 07-16)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lao PDR</td>
<td>15.7</td>
<td>7.8</td>
</tr>
<tr>
<td>Vietnam</td>
<td>207.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Cambodia</td>
<td>20.0</td>
<td>6.6</td>
</tr>
<tr>
<td>Myanmar</td>
<td>67.5</td>
<td>8.6</td>
</tr>
<tr>
<td>Thailand</td>
<td>407.8</td>
<td>3.2</td>
</tr>
</tbody>
</table>

The growth story

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

<table>
<thead>
<tr>
<th></th>
<th>Lao PDR</th>
<th>Cambodia</th>
<th>Botswana</th>
<th>Bolivia</th>
</tr>
</thead>
<tbody>
<tr>
<td>TFP</td>
<td><img src="image1.png" alt="Graph" /></td>
<td><img src="image2.png" alt="Graph" /></td>
<td><img src="image3.png" alt="Graph" /></td>
<td><img src="image4.png" alt="Graph" /></td>
</tr>
<tr>
<td>Labor</td>
<td><img src="image1.png" alt="Graph" /></td>
<td><img src="image2.png" alt="Graph" /></td>
<td><img src="image3.png" alt="Graph" /></td>
<td><img src="image4.png" alt="Graph" /></td>
</tr>
<tr>
<td>Capital</td>
<td><img src="image1.png" alt="Graph" /></td>
<td><img src="image2.png" alt="Graph" /></td>
<td><img src="image3.png" alt="Graph" /></td>
<td><img src="image4.png" alt="Graph" /></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Thailand</th>
<th>Vietnam</th>
<th>Nepal</th>
<th>Zambia</th>
</tr>
</thead>
<tbody>
<tr>
<td>TFP</td>
<td><img src="image1.png" alt="Graph" /></td>
<td><img src="image2.png" alt="Graph" /></td>
<td><img src="image3.png" alt="Graph" /></td>
<td><img src="image4.png" alt="Graph" /></td>
</tr>
<tr>
<td>Labor</td>
<td><img src="image1.png" alt="Graph" /></td>
<td><img src="image2.png" alt="Graph" /></td>
<td><img src="image3.png" alt="Graph" /></td>
<td><img src="image4.png" alt="Graph" /></td>
</tr>
<tr>
<td>Capital</td>
<td><img src="image1.png" alt="Graph" /></td>
<td><img src="image2.png" alt="Graph" /></td>
<td><img src="image3.png" alt="Graph" /></td>
<td><img src="image4.png" alt="Graph" /></td>
</tr>
</tbody>
</table>

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**

- 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

*Source: World Development Indicators.*
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: 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

[![Graph showing poverty headcount rate from 2002/3 to 2012/13](image)](image)

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)

Number employed

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 (42%)
- rural, connected, moderate capital (26%)
- health burdened (16%)
- remote rural, unconnected, low capital (16%)

Source: Laos Expenditure and Consumption Survey.
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

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

1. Sustainable and efficient management of natural resources
2. Unlocking the potential in non-resource sectors to create opportunities
3. Building the asset of people to be able to take on these opportunities and to mitigate risks and protect gains
Prioritized agenda

Why prioritize?

<table>
<thead>
<tr>
<th>Pathway</th>
<th>Constraints</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring natural resources continue to deliver growth …</td>
<td>Lack of integrated approach in management of natural resources</td>
</tr>
<tr>
<td>… through sustainable and efficient management</td>
<td>Inefficient collection of resources</td>
</tr>
<tr>
<td>Unlocking the potential in non-resource sectors …</td>
<td>Lack of a regional power market</td>
</tr>
<tr>
<td>… by improving agriculture productivity …</td>
<td>Excessive focus on rice self-sufficiency</td>
</tr>
<tr>
<td>… and through creating more off-farm job opportunities</td>
<td>Inefficient, in many cases discriminatory, enforcement of the regulatory framework</td>
</tr>
<tr>
<td>Building people’s assets to allow them to take on the opportunities and reduce vulnerability …</td>
<td>Informality</td>
</tr>
<tr>
<td>… by improving the quality of the labor force …</td>
<td>Inadequate funding and management in key social sectors</td>
</tr>
<tr>
<td>… and lowering vulnerabilities</td>
<td>High rates of malnutrition</td>
</tr>
</tbody>
</table>

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 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