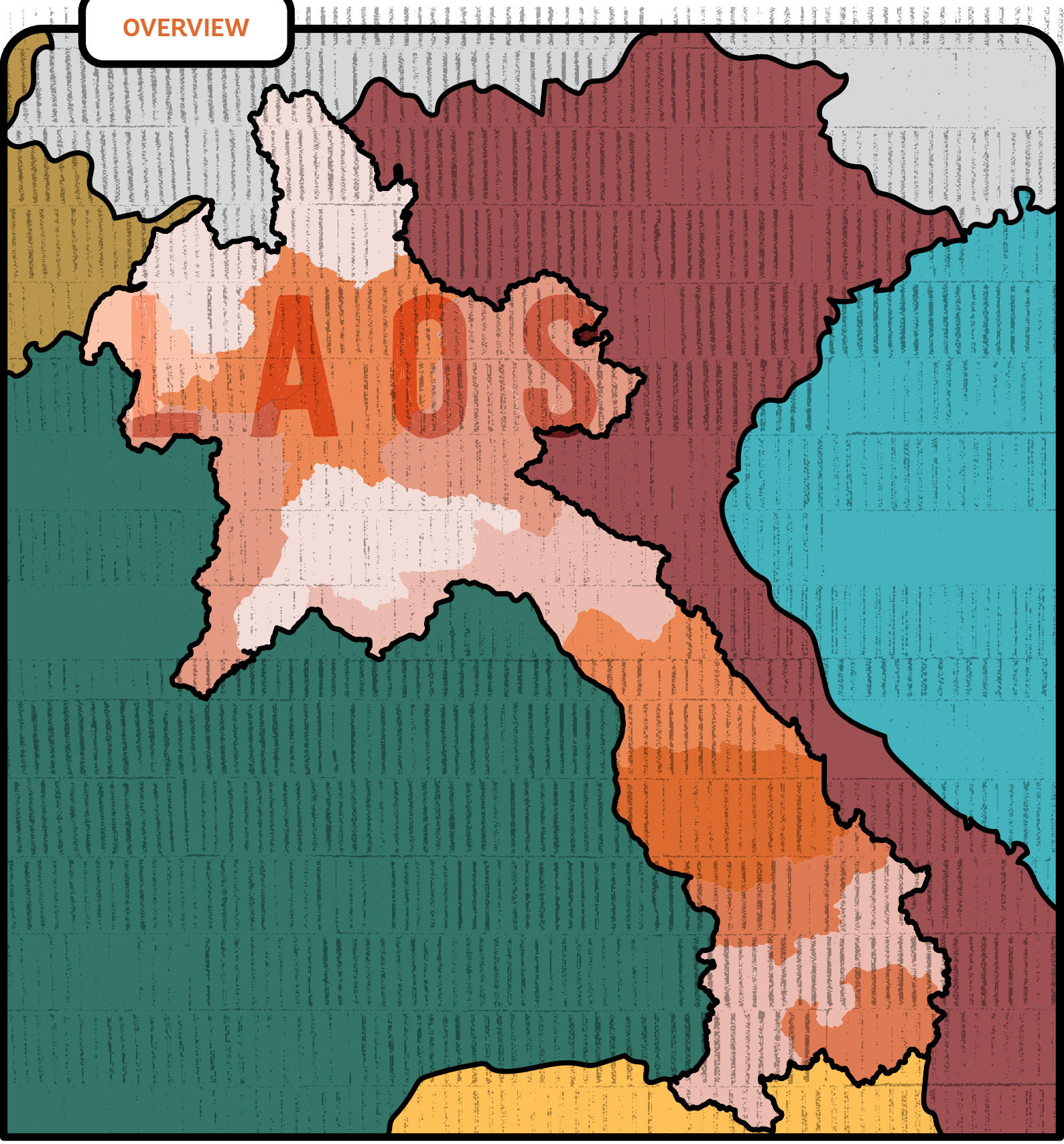
LAO PEOPLE'S DEMOCRATIC REPUBLIC POVERTY ASSESSMENT 2020: CATCHING UP AND FALLING BEHIND

OVERVIEW



WORLD BANK GROUP

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OVERVIEW

POVERTY CONTINUES TO FALL THANKS TO FARM INCOMES AND REMITTANCES, EVEN AS OFF-FARM JOBS BECOME SCARCE.

Poverty in Lao People's Democratic Republic (PDR) has continued to fall (Figure 1a). Lao PDR has made remarkable progress in reducing poverty over the past few decades. The poverty rate more than halved between 1993 and 2019, falling from 46 percent to 18 percent – mirroring rapid GDP growth of an annual average rate of 7.3 percent during the same period. Recent estimates using a revised poverty methodology show that the national poverty rate declined by 6.3 percentage points between 2013 and 2019, from 24.6 percent to 18.3 percent. This nevertheless represents nearly one-fifth of the Lao PDR population living on less than ₭N 9,364 ($1.1) a day in 2019.[1]

Rising farm incomes have driven poverty reduction (Figure 1b). Since 2013, agricultural households have transitioned away from subsistence rice cultivation towards the commercial production of cash crops. This has largely been fueled by favorable external factors, such as increasing demand and prices for cassava from Thailand and Vietnam, and for cardamom from China, Republic of Korea and Vietnam. As part of this process, between 2013 and 2019 average farm productivity rose by 9 percent, and by 17 percent for commercial farming. Higher income from agriculture provided the main route out of poverty for poor farming households.

However, the disappearance of off-farm jobs has slowed poverty reduction. Since 2013, the industry sector has created few jobs, while the service sector has grown slowly. As a result, neither absorbed the surplus agricultural workforce (Figure 1c). Indeed, between 2013 and 2019, about 20,000 net nonfarm jobs disappeared (a 1.7 percent contraction) and the unemployment rate increased from 4.1 percent to 15.7 percent. Although this was mainly driven by agricultural seasonal unemployment, the fraction of workers unemployed for reasons unrelated to seasonality rose from 0.6 percent to 3.2 percent. The labor force participation rate also declined from 84 percent to 72 percent, suggesting even greater slack in the labor market.[2] Poverty would have been 2 percentage points lower in 2019 if households had enjoyed similar access to off-farm opportunities as in 2013.

Remittances helped make up for lost nonfarm income. Between 2013 and 2019, remittances from migrants became a source of income for nearly 15 percent of households and accounted for 3.7 percentage points in poverty reduction. Push factors included lack of job opportunities and a search for better income, with a high incidence of migration observed in provinces where nonfarm employment declined significantly.[3] Internally, about two in five domestic migrants moved to Vientiane Capital, spurring urbanization. International migration originated predominantly in the central and southern provinces of Champasack, Saravane, Savannakhet, and Sekong.

In the absence of new jobs, rapid economic growth did not translate into an equally high rate of poverty reduction. Between 2013 and 2019, a one percent increase in GDP per capita generated a decline in the poverty rate of only 0.67 percent. Two factors contributed to this phenomenon. First, the lack of employment opportunities led to stagnating household income and consumption. Between 2013 and 2019, the average annual growth rate of consumption per capita was 3.3 percent, falling behind the average growth rate of GDP per capita of 5.6 percent. Secondly, growth was more favorable to the nonpoor: as nonfarm job creation stalled, earnings among existing nonfarm workers rose, with the average real wage increasing by almost 60 percent between 2013 and 2019.

As a result, inequality has risen, driven by an increasing concentration of consumption at the top end of the distribution. The average consumption per capita among the poorest quintile grew by 2 percent per year compared to the national average of 3.3 percent, and 4 percent for the richest quintile. The Gini index, a measure of inequality, increased from 36 in 2013 to 38.8 in 2019 (Figure 1d).

1 The poverty methodology was revised based on the 2018/19 Lao Expenditure and Consumption Survey (LECS 6) survey to replace the old poverty methodology that was established in 1998. The revision is to ensure that poverty measures reflect the minimum basic needs of the current population of Lao PDR.

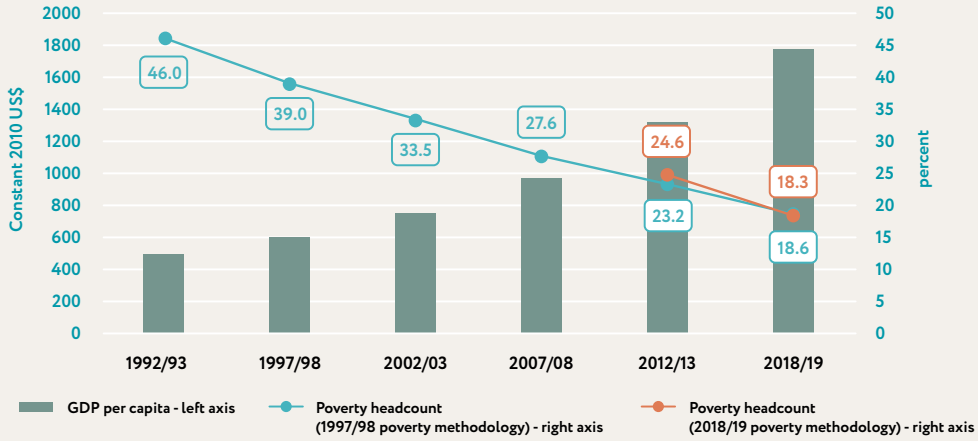
2 In this report, the unemployment rate is defined as the percentage of the labor force that did not work during the past week and is actively looking for work or is not seeking work but waiting for reply or recall by an employer or for the busy season to work (seasonal unemployment).

3 In a survey of 1,209 Laotian migrants in Thailand, a lack of job opportunities at home and searching for better income were the reasons given by 87 percent of respondents. "Assessing Potential Changes in the Migration Patterns of Laotian Migrants and Their Impacts on Thailand and Lao People's Democratic Republic." International Organization for Migration (IOM), Bangkok, Thailand, 2016.

FIGURE 1.

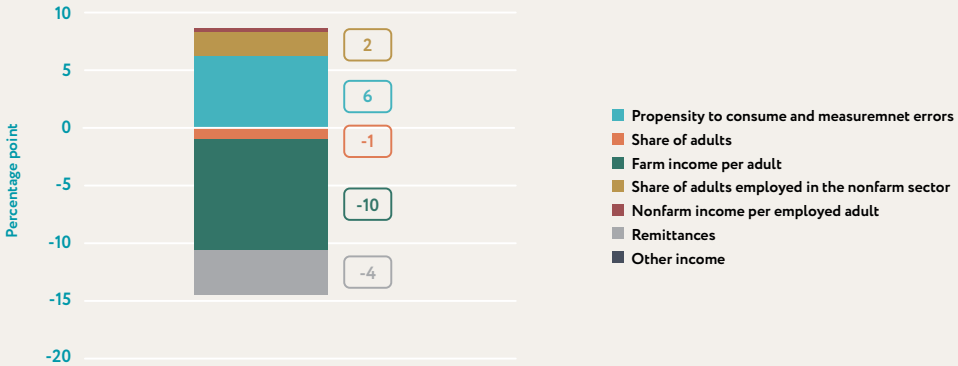
Poverty continues to decline,

a) Trends in poverty



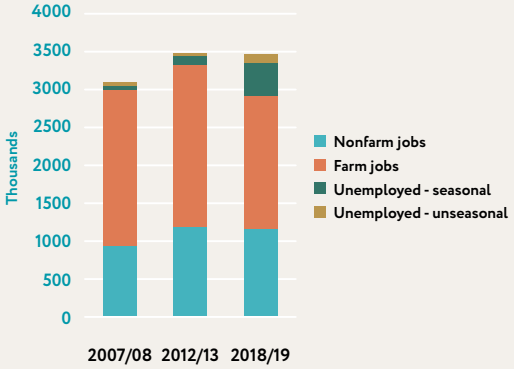
...driven by rising farm income and remittances

b) Contribution of income sources to poverty change 2013-2019 (percentage point)



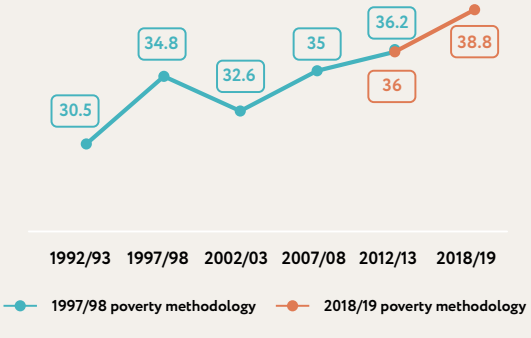
...in the absence of broad-based employment creation.

c) Composition of the labor force



As a result, inequality is rising, and the rapid economic growth did not translate into an equally high rate of poverty reduction

d) Trends in Gini index



Source: (a), (d) Government of Lao PDR and World Development Indicators. (b), (c) LECS 5 and LECS 6

Note: (b) Shapley decomposition of changes in the poverty rate as proposed by Azevedo et al. (2013). Shapley decomposition analysis of poverty changes is employed to show the factors behind poverty reduction between 2012/13 and 2018/19. Household per capita income is the sum of family members' income from different sources divided by the number of household members. Thus, household per capita income is determined by i) the share of adults living in a household; ii) average farm income per adult; iii) the share of adults employed in the nonfarm sector; iv) average nonfarm income per employed adult; v) the amount of remittances received; and vi) the amount of other nonlabor income, such as capital income and social transfers (other incomes).

THE GEOGRAPHY OF POVERTY IS CHANGING, AS LAGGING REGIONS CATCH UP AND OTHERS FALL BEHIND.

Poverty has fallen faster in rural areas than in urban ones, thanks to an improvement in farm incomes and remittances among rural households. The rural poverty rate dropped by 7.6 percentage points to 23.8 percent between 2013 and 2019, driving most of the national decline (Figure 2a). As at the national level, an improvement in farm incomes and remittances drove poverty reduction in rural areas. All poor rural households relied on agricultural incomes in 2013. There are two routes to escape poverty for such households—improving agricultural incomes or moving to the nonfarm sector for higher returns. With the second route closed, poverty reduction was driven by higher income from agriculture. In urban areas, the poverty rate declined only marginally from 7.9 percent to 7 percent. Urban poverty would have declined further to reach 3 percent in 2019 if households had had similar access to off-farm opportunities as in 2013. Poverty reduction in urban areas stagnated, with the poverty rate declining marginally from 7.9 percent to 7 percent. Urban poverty would have declined to 3 percent in 2019 if households had had similar access to off-farm opportunities as they did in 2013.

Southern and northern provinces drove the impressive progress in reducing poverty. Between 2013 and 2019, poverty rates decreased in all southern provinces except in Attapeu, where the poverty rate more than doubled which after the Xe Pian-Xe Namnoy hydropower dam collapsed in 2018, causing severe flooding. Overall, poverty in the south fell from 29.9 percent in 2013 to 17.7 percent in 2019, making it the least-poor region. Poverty also declined in all northern provinces except Xayabury, with Bokeo experiencing the largest reduction in absolute terms. The poverty headcount rate of the region fell substantially, from 31 percent to 20.7 percent.

Improved farm productivity helped slash poverty in the south. In southern Lao PDR, poverty fell sharply in rural areas but stagnated in urban areas, narrowing the rural-urban gap from 22.7 percentage points in 2013 to 9.5 percentage points in 2019. Rural southern farmers received higher farm income from shifting their production toward commercial crops such as cassava. In particular, as demand for coffee grew, a shift from traditional methods to more efficient practices doubled productivity, increased yields and significantly boosted incomes, despite farm-gate prices increasingly only moderately. Between 2013 and 2019, average farm productivity rose by 18 percent in the southern region, compared to 12 percent in the northern region and 3 percent in the central region (Figure 2c).

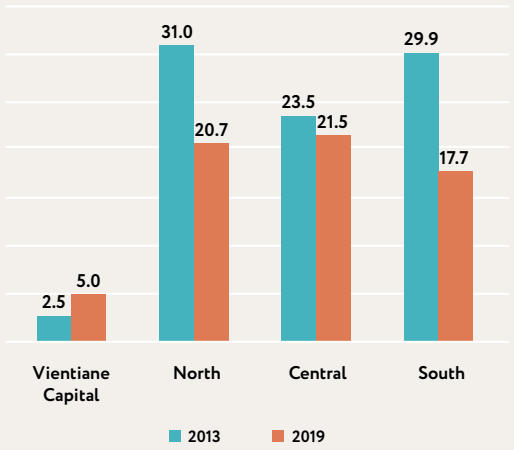
A rapid drop in poverty in northern provinces was driven by progress in urban areas and dynamism in the nonfarm sector. Unlike in the central and southern regions, urban poverty in the northern region halved between 2013 and 2019. While nonfarm jobs were shed nationally, in the northern region, public infrastructure and foreign investment boosted local economies and generated nearly 40,000 jobs in urban areas (Figure 2b). Rural poverty also decreased. Farmers in the northern region tend to allocate more of their land to non-rice crops compared to other regions and increasingly shifted toward high-value crops such as cardamom. Income from growing tea also significantly increased, to the point that very few tea-farming households remained poor in 2019.

In marked contrast, poverty levels stagnated in the central region, which went from being the richest region to the poorest. The poverty headcount rate declined only slightly from 23.5 to 21.5 percent, leaving the region—previously the wealthiest—with the highest incidence of poverty. Poverty reduction stalled in both urban and rural areas. Low-income farming households performed worse than their northern and southern counterparts in terms of farm productivity growth, due in part to the importance of rice farming for consumption. Commercialization has occurred slowly in the central region, and farm productivity has stagnated. Average farm productivity grew by 3 percent in real terms, and fell by 1 percent among farmers from the bottom 40 percent of the consumption distribution. This compounded the effects of declining nonfarm job opportunities, which prevented households in the central region from diversifying into other income sources. As such, the chances of poor farming households escaping poverty were slim. Despite only maintaining its share of the total population (36 percent), the central region in 2019 was home to 42 percent of the poor, up sharply from 34 percent in 2013 (Figure 2d). In contrast, the share of rural poor in southern provinces substantially declined.

FIGURE 2.

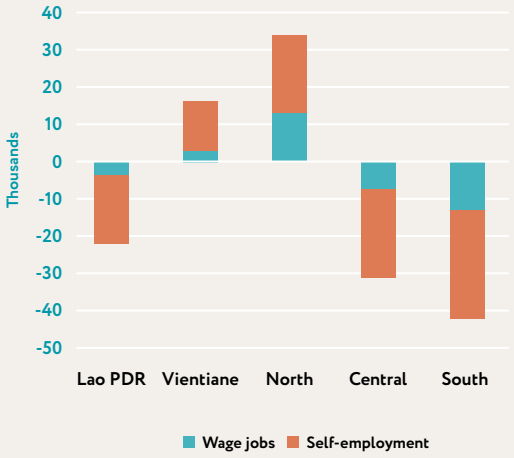
Poverty reduction stagnated in central Lao PDR, previously the wealthiest region,

a) Trends in poverty by region



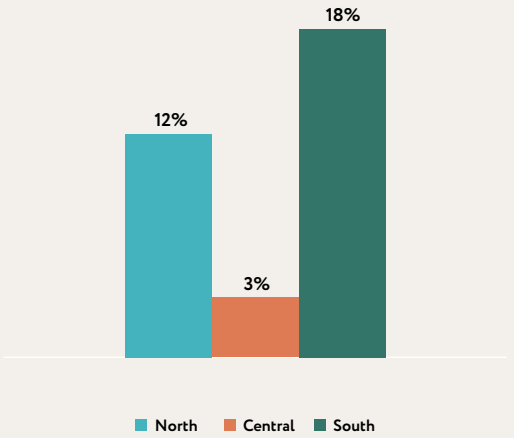
...driven by declining off-farm opportunities

b) Net nonfarm job creation by region, 2013–2019



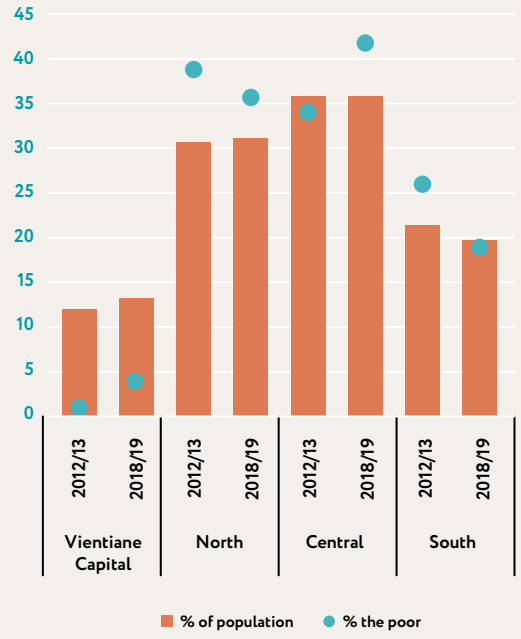
... and low farm productivity growth,

c) Farm productivity growth by region (in real terms, percent), 2013–2019



...leading to a significant shift in the spatial distribution of the poor

d) Geographical distribution of the poor and the population by region, 2013–2019



Source: LECS 5 and LECS 6.

DESPITE LAGGING REGIONS CATCHING UP, ETHNIC MINORITIES AND LOW EDUCATED HOUSEHOLDS HAVE FALLEN BEHIND.

Poverty remains high among minority ethnic groups. The incidence of poverty is highest among the Hmong-Iumien ethnic group at 38.4 percent, followed by the Mon-Khmer (32.7 percent) and the Chine-Tibet (18.1 percent). The Hmong-Iumien ethnic group constitutes 19 percent of the poor, despite making up less than 10 percent of the population. At 10.6 percent, poverty is lowest among the Lao-Tai ethnic group, who make up 65 percent of the population but constitute 38 percent of the poor.

The Hmong-Iumien ethnic group has fallen behind due to lagging farm productivity. Between 2013 and 2019, the poverty rate of the Lao-Tai, Mon-Khmer, and Chine-Tibet declined by almost a third, while poverty only decreased by 15 percent among the Hmong-Iumien. During this period, rapid growth in farm productivity was observed among Chine-Tibet farmers, who were more market-oriented and more diversified across high-value crops, with rice accounting for only 40 percent of land utilization compared to 60 percent among Mon-Khmer and Hmong-Iumien farmers and 73 percent among Lao-Tai farmers. As a result, a significant improvement in farm income drove poverty reduction among the Chine-Tibet, despite a lack of nonfarm employment. For Mon-Khmer households, the impact of farm income on poverty reduction was moderate but was reinforced by a lower dependency ratio. Farm productivity growth was meanwhile low among Lao-Tai and Hmong-Iumien farmers. While nonlabor income such as remittances compensated for small gains in farm income among Lao-Tai households, Hmong-Iumien households lacked alternative sources of income, thus reducing their chance of escaping poverty.

Poverty fell less quickly among poorly educated households. In 2019, a poverty rate of 34.6 percent was observed among people living in households headed by someone with no formal education. This is more than 10 times higher than among households headed by those with at least a completed secondary education. Between 2013 and 2019, poverty declined by more than half among people whose household head had secondary or tertiary education. For those whose household head had left school before finishing primary education, the pace of poverty reduction fell by just one-third. Nevertheless, the slowest pace of poverty reduction was found among people whose household head had vocational training: their income levels stagnated due to slack in the off-farm labor market.

THE COVID-19 PANDEMIC IS LIKELY TO HURT JOBS AND INCOMES EVEN FURTHER, HAMPERING POVERTY REDUCTION.

Lao's labor market is characterized by agricultural workers facing seasonal fluctuations in labor demand, high informality, and a growing number of public sector jobs. In 2019, farm employment accounted for 50.7 percent of the labor force, with an additional 12.5 percent of workers unemployed due to seasonality. The public sector employed 6.7 percent of the labor force, a substantial increase from 2.3 percent a decade previously. This was accompanied by a decline in private-sector waged jobs. Overall, wage jobs are limited, employing 15 percent of the labor force. This means there is a high level of informality in the Lao labor market (Figure 3c).

In recent years, labor market conditions have not supported inclusive growth. All sectors, except the public and hospitality sectors, experienced a net decline in employment in the six years after 2013 (Figure 3b). The wholesale and retail trade sector shed the most workers—about 76,000 in total, almost exclusively self-employed workers—followed by the manufacturing sector, which lost 73,000 jobs. Although the public and hospitality sectors created jobs, these were not enough to offset employment losses in other industries. The number of nonfarm jobs substantially declined in Khammuane and Bolikhamxay in the central region, and also fell in Champasack and Attapeu in the southern region. The central region experienced a substantial decline in manufacturing jobs, and the southern region saw significant job losses in retail trade.

The COVID-19 outbreak has brought an unprecedented employment shock, putting pressure on an already-weak job market. A sharp drop in tourism demand has led to job losses in related sectors including retail trade, transport, and hospitality, which together account for 11 percent of total employment. The fall in travel and tourism demand is expected to last well into 2021, leading to income loss or even permanent job losses if the crisis is prolonged. Construction and personal services have also been affected

by a nationwide lockdown and social distancing measures, while manufacturing faces a slowdown in both domestic and global demand.

Remittances are likely to drop sharply due to the pandemic, creating a big challenge for those who rely on them to survive. Approximately 70 percent of remittances sent to Lao households are from abroad. But the pandemic has resulted in job losses among migrants, and many have returned home. Most Lao nationals abroad work in Thailand, which employed an estimated 300,000 documented Lao migrants (Department of Employment, Thailand), equivalent to around 15 percent of Lao PDR's labor force (2017). Most Lao migrants in Thailand worked in sectors that have been negatively affected by the COVID-19 pandemic and measures to contain its spread. More than 70 percent of Lao migrants were active in manufacturing (29 percent), food and beverage sales (20 percent), general labor (12 percent), and general services (10 percent). Meanwhile, domestic economic activities have also deteriorated, affecting remittances sent by internal migrants. Given the pattern of migration, the potential negative effect of a decrease in remittances will be greater in rural areas, and in central and southern provinces.

The COVID-19 pandemic could thus hamper poverty reduction through two main channels: employment and remittances. Disruption of economic activities due to the pandemic and mitigation measures has impacted jobs and household income, and could stall or even reverse progress in reducing poverty. Among the hardest-hit areas are the travel- and tourism-related sectors, including retail trade, transport, food, and accommodation. Given that the hospitality sector was the primary source of job creation other than the public sector in recent years, the pandemic will likely add pressure to an already strained off-farm labor market. Low-income non-farm households tend to depend on one source of income, meaning they are doubly vulnerable to employment shocks and the risk of falling deeper into poverty. As migrants return amid tighter job markets abroad, remittances are expected to decline, further impoverishing poor and vulnerable households (Figure 3d).

The COVID-19 pandemic is expected to partially reverse the poverty reduction of 2013–19 (Figure 3a). A sharper-than-expected slowdown in the non-agricultural sectors, combined with a decline in remittance flows, is expected to have a negative impact on poverty. This impact can only be marginally offset by the recovering agricultural sector. Households linked to sectors experiencing strong demand shocks, such as tourism, retail trade, and hospitality, will face an increased risk of falling into poverty. A simulation suggests the impact of COVID-19 will increase poverty levels compared to a business-as-usual scenario. Based on growth projections as of May 2020, more than 250,000 people are expected to emerge as the "new poor", defined as a combination of (i) those who would have escaped poverty but are now projected to remain poor and (ii) those projected to fall into poverty because of COVID-19. If the outlook worsens, these numbers could grow still further. The impact of the pandemic is expected to linger, with poverty projected to return to its pre-crisis level in 2021 or later.

THE POOR CONSIST OF DISTINCT GROUPS REQUIRING DIFFERENT INTERVENTIONS.

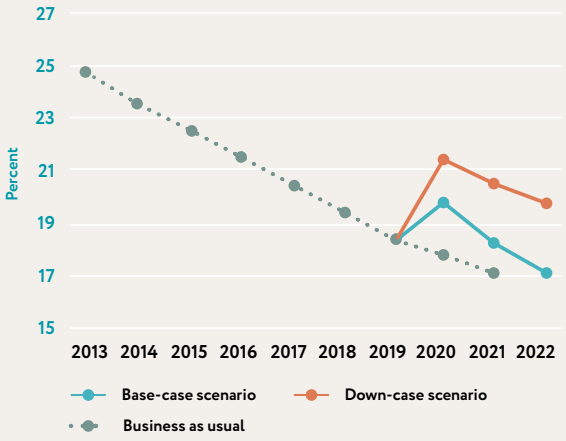
A broad set of interventions targeting different groups of the poor is required to maintain poverty reduction momentum in Lao PDR. The combination of low education and jobless growth has limited off-farm opportunities for the poor, increasing their reliance on agriculture. Yet, farm productivity among most of the poor is low. Ethnic minorities are further constrained by low connectivity and limited access to public services.

To identify priorities for poverty reduction, the poor are classified into three main subgroups, each facing different challenges and requiring different policies (Figure 4, Table 1). The first group (41 percent of the poor) consists of remote, low-educated, agricultural households who are predominantly ethnic minorities. The second (45 percent) consists of better-connected but low-educated agricultural households, predominantly Lao-Tai. The third group (14 percent) consists of households engaged mainly in low-productivity nonfarm activities, with education levels that are still low but higher than in the other two groups.

FIGURE 3.

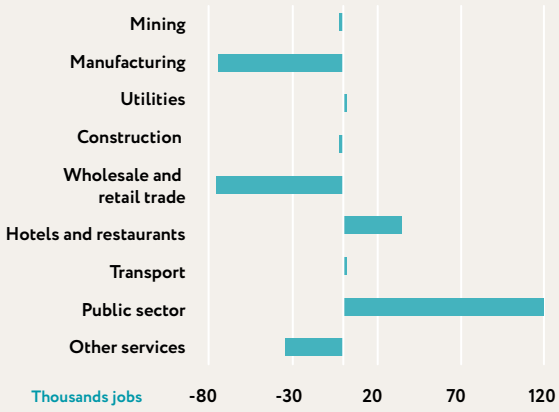
The COVID-19 pandemic could stall or reverse progress in reducing poverty,

a) Impact of the COVID-19 pandemic, projected poverty rates (as of May 2020)



...as hospitality, among the hardest hit industries, has been a primary source of private sector job creation in recent years,

b) Net nonfarm job creation, 2013–2019

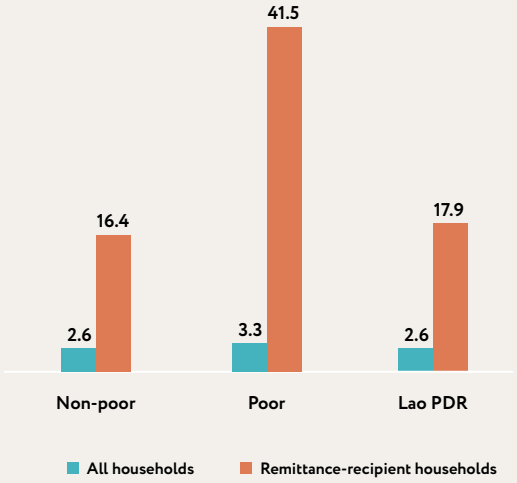


...while informal workers in the sectors most vulnerable to COVID-19 impacts are at risk of falling deeper into poverty,

c) Employment by sector, 2019

...as are households that are highly dependent on remittances.

d) Remittances as a share of household expenditure, 2019



Source: LECS 5 and LECS 6.

Note: (a) Macro-micro simulation results. Growth projections as of May 2020 (World Bank, 2020). The business-as-usual scenario is based on growth projections prior to the crisis. The simulation projects changes in industry and services employment based on historical employment-growth elasticity by sector and assumes a halt in the transition out of agricultural employment. The down-case scenario assumes 25 percent of job losses in travel- and tourism-related sectors. Remittances fall by 30 percent in both scenarios before slowly returning to the precrisis level, reflecting the Thai economic outlook.

The third group is most likely to be affected by pandemic-related shocks. The "new poor" tend to be fit the profile of the third group, low-skill workers employed in the nonfarm sector (construction, informal services, and manufacturing). A decline in travel and tourism demand has affected employment in related sectors including retail trade, transport, and food and accommodation. Workers in construction and personal services are potentially the most affected by social distancing measures. Most of the poor in this group are self-employed workers, along with the owners and employees of informal (unregistered) small enterprises. A slowdown in domestic and global demand will force some of these businesses to close or retrench workers, leaving those in the informal sector with little or no income or social protection. The impact on the other two groups is expected to be moderate, arriving mainly through supply chain disruption and border closures that could cause price spikes and food shortages.

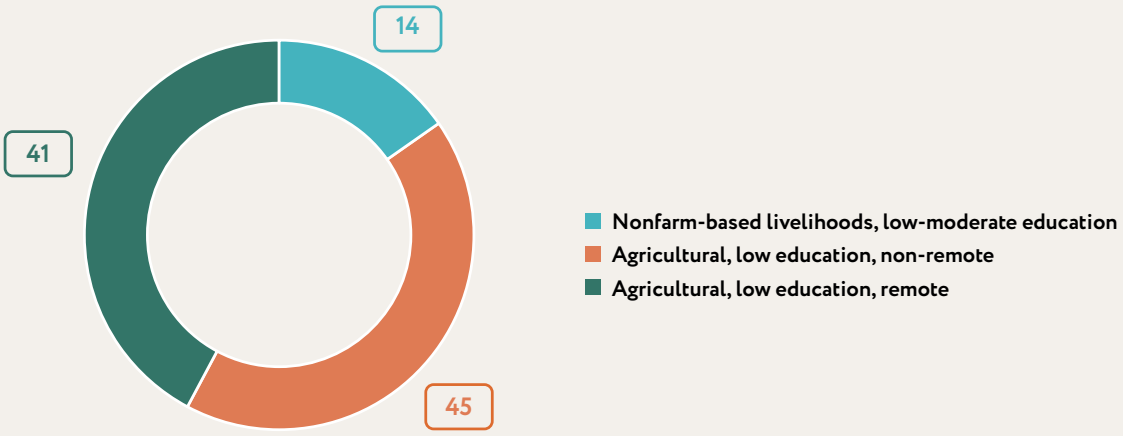
Given the constraints facing these three groups, and the additional challenges posed by the pandemic, interventions to reduce poverty in Lao PDR should focus on five areas:

- Closing the infrastructure gap and improving connectivity in remote areas where ethnic minorities are concentrated;
- Boosting agricultural productivity through promoting crop diversification and commercialization;
- Promoting low-skill job generation by easing business regulatory restrictions and introducing an employment promotion program;
- Adopting supply- and demand-side measures to promote investment in education and skills development that will improve access to opportunities for the next generation; and
- Expanding safety nets to provide an income buffer for households with limited livelihood options.

While geography-based interventions remain an adequate tool to address poverty in remote areas, an increased emphasis on household-level targeted interventions is needed to tackle growing inequality and target the "new poor" that will have emerged after the pandemic. The changing geography of poverty also points to the need for a spatial rebalancing of poverty interventions, with increased attention on the central region needed.

Given that the COVID-19 pandemic adds more complexity to an already difficult situation, several issues raised in the report warrant further analysis. For example, generating a better understanding of the impacts of COVID-19, including on labor-market dynamics, will be critical to guiding policy to support inclusive growth and tackle inequality amid the slower growth and heightened uncertainty of a post-pandemic Lao PDR.

FIGURE 4.
Composition of the poor by subgroup (in percentage)



Source: Authors' calculation based on LECS 6.

TABLE 1.
Characteristics and key constraints by subgroup

	AGRICULTURAL, REMOTE, LOW EDUCATION	AGRICULTURAL, LESS-REMOTE, LOW EDUCATION	NONAGRICULTURAL, MORE URBAN, LOW-MODERATE EDUCATION
Education	Very low	Low	Average, but low
Agriculture land	Average	Above average	Above average
Physical Assets	Low	Above average	Above average
Livelihood	No off-farm opportunity, exclusively farm No remittances	No off-farm opportunity, exclusively farm No remittances	Nonfarm, with limited farm activities
Location	Rural, remote, mostly highland and midlands	Rural, nonremote, mostly lowland and midlands	Rural and urban
Ethnicity	Ethnic minorities	Lao-Tai dominant, but considerable share of minorities also	Lao-Tai dominant
Key constraint	Inadequate assets, social safety net, and low agricultural income	Low agricultural income and lack of off-farm opportunities	Low productivity in nonfarm sector
Pathway out of poverty	Social inclusion and economic integration	Increased agriculture productivity	Access to better nonfarm jobs

Although poverty is falling, inequalities in its prevalence persist and broad interventions are needed to maintain momentum, especially given the challenge of COVID-19