



COUNTRY REPORT OF THE ASEAN ASSESSMENT ON THE SOCIAL IMPACT OF THE GLOBAL FINANCIAL CRISIS: LAO PDR

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I. THE IMPACT OF THE CRISIS AND THE GOVERNMENT'S RESPONSE

To date, the crisis does not appear to have had a substantial impact in Lao. Secondary effects might still be felt, but, as the rest of the region begins to pull out of the crisis, it is possible that the economy in Lao will avoid being negatively affected to any great degree. Real GDP growth remained stable at 7.6 percent in 2009 (2008: 7.6 percent) despite the financial crisis. Financial markets in Lao PDR are undeveloped, so the main ways in which the global financial crisis is making itself felt in Lao is in reduced foreign direct investment (FDI), reduced demand and prices for exports (particularly natural resources such as copper), and reduced tourism. Continuously restrained credit markets with low liquidity and high cost of borrowing could have a substantial negative impact on planned investments and on the implementation of large projects, particularly in the mining and hydropower sector. Several investment projects, in particular in the natural resource sector, have been cancelled or delayed. Lao exports mainly consist of metals (copper and gold) and agricultural products (rice, coffee, maize, and rubber). Exports fell by 5 percent in the first six months of 2009 compared with the same period last year, and the World Bank (as of June 2009) expected exports to drop by 15 percent on average in value terms in 2009, although it expects them to recover in the medium term.

Negative impacts on trade and the natural resource sector have already had fiscal consequences, with reduced revenues from export tariffs, taxes, and income from state assets such as State Owned Enterprises. In total, the World Bank expects Lao's revenue to fall from 14.2 percent of GDP in 2007/8 to 13.2 percent in 2008/9. However, partly because of reforms to make revenue collection more efficient and the imposition of new taxes, the budget deficit has been smaller than anticipated. The World Bank currently predicts a deficit of around 6.8 percent of GDP for 2009, including off-budget spending, which is significantly lower than the figure of 7.6 percent of GDP initially predicted in June 2009.

The incidence of poverty has declined steadily over the last 15 years from 46 percent in 1993 to 26 percent in 2008, and yet a large share of the population remains vulnerable. During the past five years, Lao's economy has grown at an average of approximately 7.4 percent each year, including an estimated 7.0 percent in 2008 (World Bank, 2008), which has contributed to the sustained reduction in poverty. This report focuses on the impact of the global financial and of the food price crisis that preceded it, but it is important to keep in mind that households in Lao also face many other sources of vulnerability.¹ Agriculture remains the primary economic activity, with 71 percent of the labor force reporting farming, fishing, or forestry as their main economic activity. The livelihoods of these households are constantly at risk from weather (for example, storms, flooding, and drought), livestock disease, pest infestation, and other factors.² In 2008, the agriculture sector grew only by 2.0 percent due to flooding and falling

1 Key analytical sources on vulnerability in Lao include: the Human Security Survey and Vulnerability Assessment undertaken by the Government of Lao PDR in three provinces to support the preparation of the National Growth and Poverty Eradication Strategy (2002), the World Food Programme's District Vulnerability Assessment (2005), the 2000 and 2006 Participatory Poverty Assessments (ADB/NSC, 2001 and 2006), the World Food Programme's Comprehensive Food Security and Vulnerability Assessment (WFP, 2007), and the Hidden Costs study (OXFAM, 2007).

2 In the nationally representative Lao Expenditure and Consumption Survey (LECS) (DOS, 2002/3 and 2007/8), village leaders were asked to identify factors that restricted people in their village from earning more money. A high proportion of village leaders identified natural shocks, particularly insect infestations and animal disease, as constraints to income growth, and there was only a slight reduction in the perceived importance of these factors between 2002/3 and 2007/8. Unsurprisingly, with the exception of flooding, rural communities are more likely than urban communities to report natural shocks as a factor constraining growth.

commodity prices. However, in the absence of natural disasters, growth in agricultural production is expected to be more robust this year.

Over time, as households have become increasingly integrated into the market economy, new sources of vulnerability are emerging, which have been highlighted during the recent crises. A growing share of the population relies for their consumption on purchased food, either because of shortfalls in their own production or because they have shifted their production to cash crops. At the same time, the labor market in Lao PDR is experiencing a gradual transformation as opportunities increase in the non-farm sector. These changes can have important benefits for households but also expose them to the vagaries of price fluctuations and other macro shocks.

The global financial crisis is expected to impact Lao households through three primary channels: (i) by reducing employment or earnings within Lao PDR as a result of declines in demand for exports and foreign direct investment; (ii) by reducing overseas remittances and prompting return migration as other countries experience the recession; and (iii) by reducing the quality of or access to services because of cuts in government spending or the inability of households to afford the costs (either direct or indirect) of services.

Employment and Wage Effects of the Global Crisis

Overall, the effects of the financial crisis on employment and wages in Lao PDR do not appear to be dramatic, but it is possible that they have been delayed. Few workers are employed in the formal sector, and the vast majority work in agriculture, forestry, or fishing, sectors which have not been strongly affected by the crisis. Most of the available evidence suggests that the impact on non-agricultural sectors, apart from mining, have been limited so far. However, some of the preliminary results of a small qualitative survey³ suggest that workers in garments and jewelry are beginning to experience cuts in their wages and working hours and that tourism has decreased. Initially, any effects will be felt predominantly in urban areas and thus have little impact on the poorest households in rural areas, particularly in the most remote areas. However, these households may nonetheless be affected if remittances from their family members who have migrated to urban areas decline.

Specific vulnerability to the employment or wage effects of the financial crisis is largely a function of the extent of this impact on different sectors of the economy and the importance of these respective sectors in terms of employment. In this regard, the first thing to note about the labor market in Lao PDR is that it is predominantly informal. Indeed, the most recent census suggests that only around 6 percent of the population (or around 13 percent of the active labor force) work in the formal sector (Figure 1a).⁴ Data from the most recent Lao Expenditure and Consumption Survey provide a complementary perspective (see Figure 1b). Seventy-one percent of the survey's respondents⁵ reported agriculture, forestry, or fishing as their main activity (even in urban areas, 40 percent of the

³ World Bank (2009b)

⁴ This is likely be an over-estimate. "Informal sector" is defined here as individuals who report being "own account workers" or "unpaid family workers." Depending on the definition, some of the workers employed in private sector firms should also be defined as informal sector workers.

⁵ Respondents were asked to answer questions about activities performed on the farm, in a household business, or for someone else, but to exclude own housework/cleaning and childcare. Education was also excluded.

respondents report agriculture as their main activity), while only 11 percent reported working in the sectors that are most likely to be affected by the financial crisis (manufacturing, mining, construction, and hotels and restaurants).

Figure 1a: Structure of the Labor Force, in Lao PDR, 2005

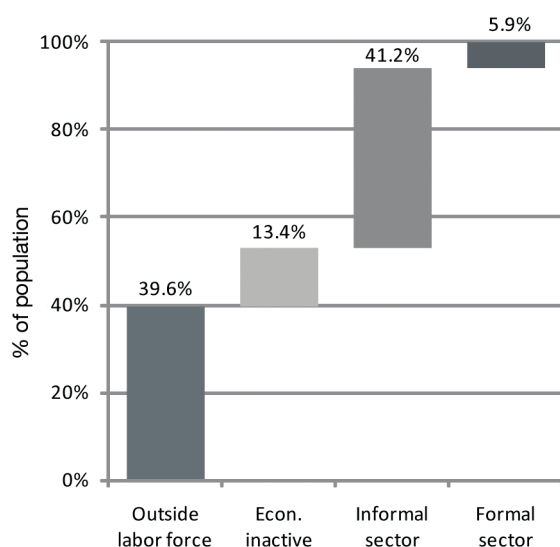
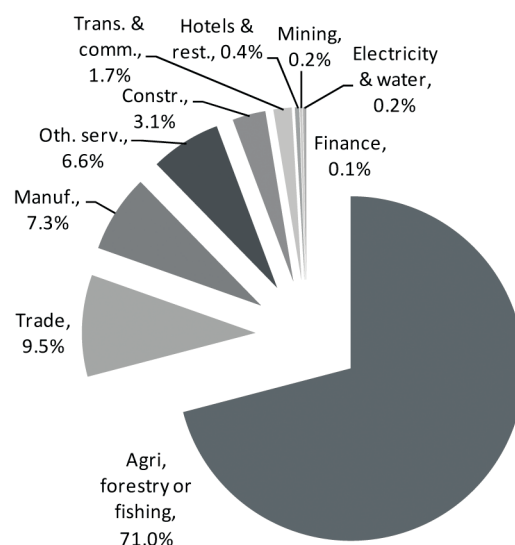


Figure 1b: Structure of the Labor Force, in Lao PDR, 2007



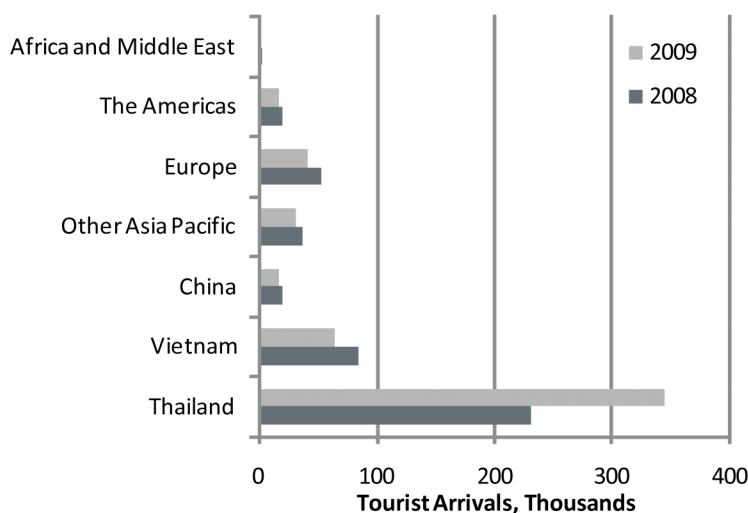
Sources: Figure 1a - Lao Census (2005). Figure 1b - Lao Expenditure and Consumption Survey 2007/8, weighted sample, with main activity defined as the activity on which the respondent spent most time on during the previous week (author's calculations).

Evidence suggests that there have not been massive layoffs and that the impact of the crisis on business performance and operations has been limited. The Ministry of Labor and Social Welfare (MLSW) reports that the number of members of the formal social security fund decreased from 43,500 in December 2008 to 41,000 in March 2009, which might represent layoffs. However, preliminary estimates indicate that membership has recently increased once again. Even from separate sources, the MLSW has found no evidence of large layoffs. The World Bank carried out a rapid enterprise survey in April 2009 that covered 140 firms in the retail, manufacturing (including export-oriented manufactures), and tourism sectors. Although about 69 percent of firms said that their businesses have been affected by the global financial crisis, the survey revealed that the crisis has had only a limited impact on their business performance and operations. Forty-four percent of the firms reported having higher revenues for the first quarter of 2009 than in the same period the previous year, and only 40 percent suffered a decline in their first quarter revenues. The respondents hypothesized that the limited impact of the global crisis may be due to the fact that demand for imported clothing in Europe, Lao's main market, has been less affected by the crisis. Lao garment producers have also indirectly benefited from the strong performance of Thai clothing exports in Europe because a significant number of Lao producers are operating as subcontractors for Thai textile exporters. Unlike in

other sectors, the percentage of firms reporting a decline in sales in the retail sector was slightly higher than those reporting increases, which may be an early sign of the crisis having an impact.

The crisis is expected to have only a minimal effect on tourism. Lao PDR is gradually becoming an integral Greater Mekong Sub-region tourism destination. New tourist sites and accommodation facilities have increasingly been developed over the past few years. Furthermore, the World Tourism Organization expects international tourism to grow in Asia and the Pacific in 2009, though more slowly than in recent years. As a result, the Lao tourism industry has experienced healthy growth, and tourist arrivals almost tripled between 2003 and 2008. The Lao National Tourism Administration reported an increase in the number of tourist arrivals in the first three months of 2009 compared with the same period in 2008. However, Figure 2 shows that this increase was caused by an increase in Thai tourists. Decreases in arrivals from other Asian countries, Europe, and the Americas suggest that the impact of the crisis is already being felt to some extent and may intensify in future.

Figure : Tourist Arrivals 2008-2009 (3 months)



Source: Lao National Tourism Administration (2008)

The preliminary results of focus group discussions carried out in April 2009 indicate that workers in some sectors have already been affected. Qualitative evidence from focus groups held in Vientiane, Luang Prabang, and Champasack (World Bank, 2009b) suggests that the crisis is having a more severe impact than seemed likely from the firm survey – partly because the focus group participants were deliberately selected from sectors that are more likely to have been more affected by the crisis. Some factory workers in Vientiane (mostly working in the garment or jewelry industries) reported that their salaries and working hours had been cut by half or more. Participants from the restaurant and hotel association also reported a drop in trade, especially from high-end tourists. However, carpenters, restaurant workers, traders, and tuk-tuk drivers either reported increases in income or decreases for reasons largely unconnected to the financial crisis. The results of the focus group discussions in Luang Prabang

suggested that decreases in tourism had affected businesses. However, the decreases were believed to be caused by the political situation in Thailand or by the fact that it was low season for tourism rather than by the global financial crisis.

Migration and Remittances

So far, evidence on the impact of the crisis on migrants is limited and does not appear to be significant, but it will be important to monitor reverse migration carefully. The financial crisis may have a severe negative impact on the income of Lao households if migrants send fewer remittances or return home themselves. The primary destination for international migrants from Lao PDR is Thailand,⁶ although estimates of the number who are working abroad vary, partly because much of the migration is informal.⁷ However, some studies do shed light on the nature of migration, the demographic and social profile of migrants, and the sectors in which they are working. Limited availability of paid jobs, year-round rice shortages, and low wages are major push factors that prompt Lao workers to migrate, especially as they can make a much bigger wage in Thailand. Lao migrant workers tend to be young and to come from the provinces that border Thailand. They are generally employed in sectors where Thais are unwilling to work, such as domestic work, construction, or agriculture. Official figures suggest that remittances are not as important a source of income in Lao PDR as in other countries in the region.⁸ However, if informal remittances are included, the importance of remittances to the Lao economy is likely to be much higher, and they may be very important income sources for particular communities.⁹ Preliminary findings from a qualitative study carried out in an area in the South from where many migrants originate indicate that families and communities received significant amounts of financial support from migrants.

Insofar as the crisis affects the Thai economy leading to wage reductions and unemployment among migrants, this can be expected to reduce remittances and increase return migration, leading to unemployment in Lao PDR. The Fiscal Policy Office (FPO) of Thailand predicted that around 1.4 million workers would lose their jobs as a result of the current financial crisis. During such crises, migrant workers are often among the most vulnerable in terms of job losses in destination countries (IOM, 2009). The Ministry of Labor and Social Welfare in Lao PDR receives information from the provinces about return migration, but it is not clear how accurate these figures are. Furthermore, as it is usual for migrants to come and go frequently, the motivation for return migration and its connection to the financial crisis is unclear. Preliminary findings from focus group discussions with returned migrants found that they had mostly returned because of the living conditions and social environment in Thailand or because they wanted to be close to their families again. Overall, the existing evidence

6 There are also substantial numbers of Lao migrants in developed countries. The ILO (2009) has estimated that there are 143,012 Lao migrants in OECD countries, including 108,100 in the US and 24,077 in France.

7 A registration process for migrant workers from Myanmar, Lao PDR, and Cambodia has been open in Thailand since 2004. In 2008, there were 179,887 migrant workers from Lao PDR registered with the Ministry of Interior, and thereafter 105,250 of these workers were granted work permits by the Ministry of Labor (IOM, 2008).

8 According to the Migration and Remittances Factbook (2008), Lao PDR received only US\$1 million of remittances in 2008. This is a tiny fraction of GDP (roughly 0.02 percent) compared with other major remittance-sending countries in the region. For example, in 2007, remittances as a percentage of GDP were in 15.5 percent in Nepal, 11.6 percent in the Philippines, 9.5 percent in Bangladesh, 8.1 percent in Sri Lanka, 7.9 percent in Vietnam, and 4.2 percent in Cambodia.

9 Jampaklay and Kittisuksathit (2009) interviewed 117 Lao migrants in Thailand in 2007. The majority sent remittances home through personal networks such as relatives (32 percent) or friends (20 percent). Only 15 percent relied on a formal institution. On average, migrants in the sample had sent home 13,000 baht in each of the two years prior to the interview. Given that there are more than 100,000 Lao migrants in Thailand, total remittances of Lao migrants in Thailand can be estimated to be close to US\$37-40 million per annum.

does not indicate that the crisis has had a significant impact on migration or remittances. This could be because Thai policy towards migration has not become notably more restrictive¹⁰ and because Lao migrants often take jobs that Thai workers are not interested in doing themselves. However, the Thai government is issuing no new work permits in 2009. Interviews with the heads of Lao villages have revealed that the numbers of people migrating have decreased, and the State Employment Bureau in Lao has indicated that workers in the electronics industry in Thailand have also been returning home. It will be important to monitor return migration and decreases in remittances carefully and provide financial support to affected households to help them to reestablish their livelihoods.

Access to Services

There is also no clear evidence of a significant decrease in use of the social services in Lao PDR. The Ministry of Education collects data on school enrolments every year. The data for the academic year 2008/9 show no reduction in enrolment rates.¹¹ Also, the Ministry of Health has reported an increase in both outpatient and inpatient visits between 2007/8 and 2008/9.¹² It is possible that quality of these services has deteriorated or at least improved more slowly due to a reduction in funding. It is also possible that, because of reduced income among middle income households, parents are moving their children from private into state schools or households are only able to afford lower-quality health care. However, the Ministry of Education has reported that there has been a steady increase in private school enrollments at every level between 2007/8 and 2008/9.

Monitoring

Up-to-date data on macroeconomic indicators are collected on a regular and timely basis with monthly and quarterly data available up to 2009, but there is as yet no system for collecting or disseminating regular, up-to-date social indicators. There are no regular labor force surveys in Lao. The Ministry of Labor and Social Welfare monitors employment using several sources, such as membership of the social security fund. Membership of the fund is mandatory for all formal sector firms with over 10 employees and is voluntary for smaller firms.¹³ The MLSW also monitors employment using information submitted by firms to trade unions, the National Chamber of Commerce and Industry, the Ministry of Planning and Investment, or other ministries. Table 1 gives a brief description of the available data sources in Lao for the period 2005-2010 and shows that there are not enough updated social indicators to measure the impact of crises.

10 The Thai government has made a strong commitment not to lay-off or repatriate any migrant workers. The government's present economic policy emphasizes the need for the private sector to employ migrant workers in order to reduce the cost of production in labor-intensive sectors. The bilateral Memorandums of Understanding established between Thailand and three migrant sending countries including Lao PDR further facilitate migration, allowing migrants to apply for new passports without returning home. In June 2007, 28,316 Lao migrant workers had their nationality verified and were issued with temporary passports valid for two years (IOM, 2008). The registration process started in June 2009 also means that migrants can work legally in certain sectors. It is nonetheless possible that Thai firms may give unofficial preference to Thai workers.

11 The primary, lower, and upper secondary school net enrolment rates were 91.6 percent, 62.7 percent, and 36.8 percent respectively in 2008/9, and dropouts from primary school were 7.5 percent. In 2007/8 the enrolment rates were 89.2 percent, 59.2 percent and 37.2 percent, and dropouts from primary school were 7.9 percent.

12 Outpatient visits increased from 314,160 to 351,863 and inpatient visits from 56,921 to 60,325 between 2007/8 and 2008/9.

13 In reality, coverage is below 50 percent of all mandatory firms.

Table 1: Data Availability and Surveys Scheduled for 2005-2010

Source	Frequency	Next	Latest
LECS (Lao Household Expenditure and Consumption Survey): integrated household surveys with modules on education, health, labor, income and expenditure: comes with a considerable lag.	Every 5 years	n/a	2007/08
Agricultural census	n/a	2008/ 09	n/a
(Non-agricultural) labor survey	n/a	n/a	2002
Population count	n/a	2010	n/a
Business sentiment survey (World Bank)	Quarterly	Q2 2009	Q1 2009

Because the impact of the economic crisis has not yet been deeply felt in Lao PDR, demand for high-frequency data on social indicators is not likely to increase in the short run. Moreover, the government has no incentive and few resources to engage in sophisticated crisis monitoring efforts. Any collection of data for monitoring the economic crisis is, therefore, likely to be at the initiative of donor organizations rather than the National Statistical Office (NSO). A notable example of a donor initiating data collection is the Sentinel Sites approach initiated by UNICEF in Lao. Instead of carrying out an expensive and organizationally complicated survey, UNICEF is helping the Ministry of Planning and Investment to collect selected social indicator data at a few (8 to 10) sentinel sites. In order to reduce errors in transmitting the relevant information the data are collected at the grassroots level from hospitals and schools, which collect a limited amount of data on a weekly/ monthly basis and send it directly to the ministry's central office. UNICEF provides the ministry with technical assistance in selecting indicators and sites, setting up reporting systems and the data management system, and providing training to staff on site and at the central office. In order to keep the surveillance system simple, each ministry will only be able to select one or two indicators to be monitored and these indicators should be accessible and easy to gather, for example, school attendance, teachers' attendance, number of outpatient visits, pre-natal care visits, or the number of street children.¹⁴

The Government's Response to the Crisis

The impact of the crisis has not been felt yet and no substantial stimulus measures have been undertaken. Overseas development aid (ODA) does not appear to have decreased, and government expenditure on education and health has not been cut relative to the pre-crisis budget. Recently, the government announced that it would be spending over 3,000 billion Kip to support large projects, including large hydro and thermo power plants and mining projects to create employment. The government is promoting the extensive development of small and medium-sized power plants to increase the local supply of electricity and to reduce the demand for imported electricity. In addition, Lao PDR will be the host of Southeast Asian Games (SEA Games) in December 2009, which is very likely to require increased government expenditure but also increased employment. Cuts in spending on the social services

¹⁴ With four different ministries involved, there will be not more than eight indicators all together. Given the limited resources of the government, analyzing more indicators would delay the exercise considerably.

have not been necessary partly because the increase in the budget deficit has not been as large as expected, and partly because the government has been able to mobilize additional resources to finance planned expenditures. There was a slowdown in ODA flows between 2006/7 and 2008/9, but these are predicted to increase in 2010/11. The Ministry of Health has reported stable ODA flows.

II. SOCIAL PROTECTION PROGRAMMES AT THE ONSET OF THE CRISIS

Although there are no universal safety nets, there are several small-scale programmes, often supported by donors, that aim to mitigate household vulnerability in Lao PDR. However, these programmes suffer from a number of drawbacks. Partly because they depend on different sources for funding, they tend to be fragmented, and each one has a different targeting system. Also, the programmes tend to target districts rather than households or individuals, and this is a limitation in times of crisis, for example, when it becomes crucial to reach vulnerable pockets of the population. Social insurance currently covers only a small fraction of the working population and has little enforcement capacity, although efforts are being made to expand coverage. This section summarizes the current situation regarding social protection programmes in Lao PDR.

Table 2: Main Social Protection Programs and Coverage

	Program	Targeting	Coverage
Food transfers and school feeding	Protracted Relief Recovery Operation (PRRO) - Unconditional food transfers	Households in affected villages (floods, infestations, etc.)	143,600 in 2008 - 17% of the 350,000 people whom the Government of Lao PDR and Inter-Agency Standing Committee estimated to have been affected
	WFP school feeding	Primary schools in all districts in the Southern Provinces, poorest and most remote districts in the North (using District Vulnerability Analysis). Within districts, all schools located away from district centers	88,020 students (291,920 beneficiaries through take home rations) - 6% of the population under the age of 10, but around 24% of the under-10 population in priority districts
Workfare	Protracted Relief Recovery Operation (PRRO)	Districts, through District Vulnerability Analysis. Within a village all households are eligible for support.	198 villages across the country. 30,390 participants for a total 162,500 beneficiaries. 3% of the Lao population, but around 11% within priority districts.
	NGOs - Livelihood Support Project	NGOs' own criteria	74,000 estimated beneficiaries
	WFP Food-for-training	n/a	100 villages in Saravane, Sekong, and Attapeu
Fee waivers	Health Equity Funds	Poor households	12 districts
Livelihood Promotion	Poverty Reduction Fund (PRF)	Districts	Since 2003, a total of 208 billion Kip approved for 2,422 subprojects in 6 provinces

Cash Transfers, including Conditional Cash Transfers

There are no institutionalized cash transfer schemes in Lao PDR, but a few donor-supported pilots are currently in operation. For example, the Global Fund to Fight AIDS, Tuberculosis, and Malaria has supported a programme of cash incentives to encourage tuberculosis (TB) patients to get tested and to comply with treatment regimes. Along similar lines, the World Food Programme (WFP) provides food to HIV/AIDS patients and their families at Savannakhet Provincial Hospital as an incentive to their anti-retroviral treatment. In 2007, the programme delivered food to 424 patients and their families (WFP Annual Report, 2007). The new World Bank-supported Community Nutrition Project will pilot the provision of cash incentives to encourage Laotians to use health services (particularly maternal and child health, including nutrition). In all of these pilots to date, the cash or in-kind incentives have been quite small, and they do not provide chronically poor households with the means to ensure adequate consumption of food and other necessities.

Food Transfers and School Feeding

The WFP provides unconditional food transfers, in the form of either on-site feeding or take-home rations, in response to natural disasters under the Protracted Relief and Recovery Operation (PRRO) and under the WFP school feeding programme. Central and provincial agencies initiate food relief requests, and the WFP field staff members then investigate the conditions in question.¹⁵ The WFP gives all households in affected villages a take-home ration of 30 kg of rice per person. This ration is calculated to last two months, but may last longer depending on the composition of the household. In 2008, the WFP provided rice to 83,600 people in 161 villages in seven provinces.¹⁶ A further 60,000 people received relief food after floods in August 2008 (WFP, 2009).¹⁷ The agency is currently providing food relief to villages affected by rat infestations in the Northern provinces. The WFP also provides primary school children with a daily fortified corn-soya blend snack and with take-home family rations of canned fish, rice, and iodized salt as an incentive for their parents to send them to school. The programme has been expanded to cover all districts in the southern provinces, while it targets the poorest and most remote districts in the north (using the District Vulnerability Analysis and educational enrollment statistics). Within districts, the programme targets all schools located away from district centers. In 2007 it reached 1,103 schools and 88,020 students.¹⁸ As the food taken home by the students reaches the entire family, this represents approximately 291,920 beneficiaries (WFP Annual Report, 2007). School feeding programmes are also in place in other areas, supported by IRD (International Relief and Development) and the Burnet Institute (REACH). There are plans to expand school feeding under the recent Education Sector Development Framework (ESDF), but the scope and speed of this expansion are still being determined.

15 The main responsibility for coordinating food relief lies with the central MLSW, aided by the Ministry of Foreign Affairs, the National Disaster Management Office (NDMO), Ministry of Agriculture and Forestry (MAF), the provincial disaster management committees, the district MLSW offices, the Lao Red Cross and the Lao Unexploded Ordnance Programme (UXO).

16 This represents approximately 1.5 percent of the entire Lao population.

17 This represents 17 percent of the 350,000 people whom the Government of Lao PDR and the Inter-Agency Standing Committee estimated to have been affected (as of October 2008).

18 This represents 6 percent of the population under the age of 10 but around 24 percent of the under-10 population in first priority districts. The programme targets primary school students only, and the number of children expected to benefit represents the number of primary school students in the targeted schools. In reality more children may benefit, as children often bring their younger siblings with them to school. WFP (2009) has estimated that the school feeding programme covered around 90 percent of intended participants on average between 2004 and 2007.

Workfare (Food-for-work, Cash-for-work, and Food-for-training)

Food-for-work programmes are supported by the WFP in partnership with government agencies and other organizations under two projects – the Protracted Relief Recovery Operation (PRRO) and the Livelihood Support Project (LS). In exchange for food, household members contribute their labor to build productive assets including access roads, paddy land, irrigation systems, plantations, fishponds, and terraces on sloping agricultural land.¹⁹ Recipient communities play a role in selecting types of assets to be created, and the aim is for the community to achieve sustainable food security within three years using the assets that they create. Participants in the food-for-work programmes are paid according to their outputs (as opposed to according to the number of hours or days worked), following a schedule set by the WFP (the rates are slightly different for the two programmes). The PRRO programme is implemented by the MLSW and its district offices, the Ministry of Public Works and Transport, the district and provincial food-for-work committees, and the Ministry of Agriculture and Forestry and its regional line agencies. As for the school feeding programmes, districts are targeted using the District Vulnerability Analysis.²⁰ In 2008, the PRRO implemented food-for-work schemes in 198 villages across the country. There were 30,390 participants with a total 162,500 beneficiaries (WFP, 2009).²¹ The LS programme is implemented directly by NGOs who target villages according to their own criteria. In these cases, food-for-work functions as one part of wider livelihood programmes. Altogether the LS had 19,345 participants and 74,000 estimated beneficiaries (WFP, 2009).²² Within each targeted district, there is no formal means for targeting households.

Food-for-training and cash-for work approaches have also been tried. In Saravane, Sekong, and Attapeu, the WFP, in partnership with the International Management Group (IMG), provides rice as a way to encourage women to enroll in the IMG's Maternity Waiting Homes. Working with three partners in 100 villages, the WFP also distributed 225 tonnes of rice in 2007 as support for training women in literacy and improved weaving skills (WFP, 2007). The cash-for-work approach has been used by a number of agencies, notably the European Union and CARE International in Phongsaly. The WFP is also piloting cash-for-work on small scale, based on its food-for-work scheme. The pilot is using the Lao Postal Service (LPS) to distribute the cash transfer,²³ although exactly how the payment is actually made varies depending on the capacity of the local LPS. The LPS can charge the WFP a collection "fee" of 4 to 8 percent of the average food-for-work rice ration to compensate it for its additional travel expenses and time for delivering the transfer. However, the poor functioning of food markets appears to have hindered the effectiveness of the cash-for-work approach even in the pilot phase. One community demanded food instead of cash, so only 10 percent of the funds were transferred as cash.

¹⁹ A village can only benefit from one scheme per year, although this scheme can be renewed for a second year, usually for maintenance purposes. The tasks usually last for about three to four months, including preparation.

²⁰ This is based on secondary data from various sources for a number of indicators, including rice production, crop diversity, livestock ownership, access to forested areas, access to roads and rivers, malaria incidence, the impact of Unexploded Ordnance (UXO) and the incidence of low or no education. Principal components and cluster analysis are used to create maps of vulnerability. Some FFW recipient villages also received relief rice provisions in response to natural disasters.

²¹ This represents around 3 percent of the Lao population but around 11 percent within first priority districts. Within a village, all households are eligible for support.

²² This is 1 percent of the Lao population but over 5 percent of the population of the first priority districts. In total, the PRRO and LS schemes probably cover around 16 percent of the population of the first priority districts.

²³ The LPS can make financial transfers to 61/132 districts in the country as a whole and to 20 out of 35 target provinces in the north.

Fee Waivers and Scholarships

The main experience with fee waivers/subsidies has been in the health sector, where the expansion of health equity funds is currently underway. The Health Care Law of 2005 requires health care to be provided free to poor patients. However, in practice, this provision is rarely implemented. To address this problem, the government began to pilot health equity funds (HEFs) with NGO support in 2003. Since then, HEFs have been introduced in 12 districts (out of 139), and further expansion is under way with support from ongoing World Bank and ADB projects. The central premise behind HEFs is to help poor households to pay user fees and other costs associated with seeking health care. Although there are significant differences among the HEFs operated in different districts, they have a number of common features. The schemes tend to be operated by third parties (typically NGOs), which are responsible for identifying poor households and administering the benefits. So far, the experience with HEFs in Lao PDR has not been well documented, and the costs and effectiveness of this approach need to be studied further. In the education sector, primary and lower secondary school is supposed to be fully subsidized by the government. However, parents have to pay for their children's uniforms and other costs and are sometimes asked to help finance the non-wage recurrent costs of the school.

Labor Market Policies (including Minimum Wage and Employment Creation.)

The Government of Lao PDR has adopted several active labor market policies (ALMP) including funding vocational training programmes to increase the quality of the labor force and has raised the minimum wage for all formal sector workers. Low-income countries typically rely on increasing labor demand through public works. Lao PDR has several localized FFW programmes but no national public works programmes. To support employment, however, the government is supporting different ALMP. For example, the MLSW works with mass organizations such as the Lao Women's Union, trade unions, and the Youth Union to provide vocational training to their members. In the first six months of 2009, 18,280 people received training in Vientiane or in the provinces in a variety of fields including agriculture, food processing, and services. Also, the MLSW recently announced an increase in minimum wages for all formal sector workers from 290,000 kip to 348,000 kip.²⁴ However, in practice, it is hard to force employers to implement this increase. In any case, it is questionable how effective raising the minimum wage is in protecting incomes. Empirical evidence suggests that the minimal wage can result in the employment of fewer workers, particularly less-skilled workers, women, and young people.

Price Controls: Subsidies and Stabilization

There are no systematic price subsidies or subsidized food sale programmes in Lao PDR. Furthermore, there is no specific law, regulation, or institution dealing with food price stabilization. The movement towards a market economy following the promulgation of the New Economic Mechanism (NEM) in 1986 limited the extent to which the government could intervene in the market. The Prime Minister's Decree on Goods Price Control in October 2001 reaffirmed the central role of the market in setting prices. However, it also stated that the Ministry of Commerce was to be directly responsible to the government for the control of the prices of some consumer goods and raw

²⁴ The way in which this increase was calculated was based on the basic consumption level of each worker in a month. Business units, manufacturers, and service providers are also theoretically obliged to pay an additional 8,500 kip to each worker every day for meals, which equals a total of at least 569,000 kip per month for unskilled workers who work a regular eight-hour day for 26 days a month. The minimum wage is not adjusted to reflect regional differences in the cost of living.

materials including some imports, agricultural produce, industrial products, some domestic products, and natural resources for export. Amendments authorizing the Ministry of Industry and Commerce to place rice, beef, and other consumer items on the list of controlled goods are now being considered by the Ministry of Justice (Vientiane Times, 2009b). The Ministry of Commerce produces lists of the average prices of goods in each period and is charged with coordinating with other agencies to ensure that there is an adequate supply of domestic goods to meet consumer demand. However, it is unclear how this can be achieved, and a price control management unit has yet to be set up within the Ministry of Commerce.

In principle, on the production side, the Government of Lao PDR sets the minimum farm-gate price to keep prices stable in conjunction with the Ministry of Commerce and Trade's Notification No. 1021 of November 8 2000. It is unclear how and whether this is enforced in practice. The government also strongly encourages private initiatives, including those by foreign investors from neighbouring countries, to promote contract farming.²⁵ This may help to stabilize prices, as contract firms usually agree to purchase a specific commodity at an agreed-upon price and time, while the farmer agrees to supply the contracts to specified quality standards. However, not all farmers gain from contract farming. Many are unable to negotiate fair prices for their goods and need help to enhance their value-added products through processing, sorting, and packaging.

Livelihood Promotion

There are many livelihood promotion projects active in Lao PDR, supported by donors and by the government. For example, the Poverty Reduction Fund (PRF) was established in 2002 and is primarily funded by the World Bank and the Swiss Agency for Development and Cooperation (SDC). The Fund gives grant assistance to communities for approved subprojects. Since 2003, a total of 208 billion Kip has been approved for 2,422 subprojects in 6 provinces.²⁶ The Fund is targeted to the poorest villages in the poorest districts with the aim of reducing chronic poverty. However, in most cases, villagers are paid only for skilled work and have to provide their unskilled labor for free.²⁷ There are other livelihood promotion programmes working in Lao PDR. However, because of the fragmented nature of these programmes and the fact that they, like the PRF, aim to reduce chronic rather than transitory poverty, their role as a social safety net is limited.

Public and Private Sector Social Security Schemes

Several social security schemes exist in Lao that, between them, cover all public and some formal sector workers or approximately 8.5 percent of the population. The civil servants' scheme has its roots in the statutory social security system for employees in the public sector (civil servants and State Owned Enterprise workers) that was put in place during the years of central planning. That system was reformed in 1993 to exclude SOE workers,

25 Under ASEAN Free Trade Area (AFTA) initiatives, trading agents from Thailand can pursue contract farming in border areas in Lao PDR. Zero tariffs will be applied from 2010 onwards for agriculture products produced under contract farming.

26 Luangnamtha (3 percent), Huaphanh (39 percent), Xiengkhuang (11 percent), Savannakhet (20 percent), Saravanh (8 percent), and Champasack (19 percent). These are percentages of the total number of sub-projects. The small percentage of subprojects approved for Luang Namtha (3 percent) is because Luang Namtha is a new province in the PRF intervention and has, therefore, had only 65 subprojects approved under Cycle VI. The other five provinces have been PRF members since 2003 (Cycle I).

27 If subcontractors are engaged by the village to carry out the project, the village has to pay a market wage at their discretion for unskilled labor. Villages that are performing the work themselves can only pay themselves only in exceptional cases (for example, the high poverty level of a specific village). In Cycle VI, 35 percent of infrastructure projects were carried out by communities themselves.

and it now includes health insurance, sickness cash benefits, maternity cash benefits, birth grants, death grants, disability benefits, pensions, child allowances, and unemployment benefits. The scheme covers around 7 percent of the population (15 percent if military personnel are included). Reforms²⁸ currently being piloted in Vientiane but soon to be extended nationally have increased the amount of employee contributions (8 percent of salary paid by employees and 8.5 percent by government). While these reforms are an important step in the right direction, the scheme currently suffers from weak administration and uncertain financial sustainability. A social security system for private formal sector employees was officially established in mid-2001²⁹ under an autonomous Social Security Organization (SSO).³⁰ The SSO is financed through contributions from both employees (4.5 percent of earnings) and employers (5 percent of earnings) up to an income ceiling of 1,500,000 LAK and provides a broad range of benefits.³¹ Although the 2006 Labor Law states that all enterprises consisting of at least one person are required to join the social security scheme, the SSO decree, which mandates enrollment for all enterprises with 10 or more employees, has not yet been amended to be consistent with this law. The total number of firms covered by the SSO by the end of 2008 was only 405, with a total of 43,053 employees. The total number of beneficiaries (including employees and their dependents) was estimated at approximately 85,839 in 2008³² – about 1.5 percent of the population. In part, the low coverage reflects the fact that the SSO currently targets only a small fraction of the working population.³³ However, it is also the result of low enforcement capacity and low human resource capacity within the SSO to stimulate enrollment, to identify non-compliant firms, and to enforce the decree.

III. ADJUSTMENTS MADE TO SOCIAL PROTECTION PROGRAMMES IN RESPONSE TO THE CRISIS

Because the impact of the crisis has been small relative to the impact of other shocks, such as recent rodent infestations in the North, the government has introduced no new programmes in response to the crisis. Any changes that have been made in the education sector, such as a proposal to use cash transfers, and in the health sector are part of longer-term development plans. Part of the government's strategy to deal with the financial crisis is to create employment through sizable public and private expenditure. While this does not constitute a social protection response per se, it might support employment in case the effects of the crisis prove to be greater than expected. However, it is unclear whether the poorest households will have access to these employment opportunities. Also, the central MLSW office has asked its provincial offices to keep track of the number of unemployed and the number of return migrants in their areas and to draw up plans to expand vocational training courses to provide extra places for these unemployed workers. Once the provincial offices have sent their plans to the central office in Vientiane, the MLSW allocates funds for the training to be carried out. However, in practice, few training programmes have been altered.

28 Decree 70/PM.

29 Following Prime Minister's Decree No. 207/PM, dated Dec 23, 1999.

30 When SOE workers were excluded from the public sector social security scheme, a 1994 labor law made SOEs responsible for providing social security benefits for their employees.

31 The benefits provided by the SSO scheme include health insurance, sickness cash benefits, maternity cash benefits, birth grants, death grants, disability benefits, pensions, child allowances, and unemployment benefits.

32 Figures published in the SSO Annual Report 2007-2008.

33 The SSO maintains a database of target firms obtained from the Tax Registration Office, which includes a total of 1,357 firms, including 1,087 firms in Vientiane Capital and urban areas of Vientiane Province, 206 in Savannakhet, and 64 in Khaummoune. These firms represent only those that pay taxes and have a tax identification number. However, according to the Lao Economic Census (2005), only 8 percent of economic units in the country have a tax registration number. Thus, future efforts to expand enrollment in the social security scheme to all firms with at least 10 employees, and eventually one employee, will need to look beyond the small group of tax-paying firms.

However, the government is aware that the effects of the crisis may become more significant over time and is on the lookout for early warning signs that would require additional responses. Furthermore, as Lao PDR is increasingly becoming integrated into the global economy, the impact of future crises may be more serious. Therefore, a team has been set up, led by the Prime Minister's Office, to look for warning signs, to monitor the impact, and to consider appropriate responses to the crisis. The team is using data that is already being collected on a regular basis to monitor the effects of the crisis but are also carrying out or considering additional monitoring. For example, little data has previously been collected on migration, but since the onset of the crisis, the MLSW has been monitoring return migration. Returning migrants are required to report to their village chief, who then reports to the district government, which then reports upwards to the MLSW. A team within the MLSW collects information itself but also uses information given by firms to ministries at various levels³⁴ to track layoffs and employment. The Ministry of Education has been discussing with UNICEF the possibility of setting up a Rapid Surveillance System, although this has not yet been implemented. Improving labor force data is one of the goals of the MLSW's master plan, including adding labor-related items to the population census and related surveys and making greater use of data already collected routinely as well as developing new indicators and instruments.

IV. SP POLICY ISSUES TO BE ADDRESSED AND FURTHER ANALYZED

First, it is clear that Lao households are highly vulnerable to natural disasters and shocks and that the role of safety nets and social protection in general is of considerable importance for helping them to cope with risk both during periods of crisis and regular times. Most households affected by natural disasters such as floods, droughts, and pest infestations require support to maintain their basic levels of nutrition and well-being. Furthermore, because of the seasonal nature of agriculture, some households require support during the slow agricultural season, even when unaffected by natural disasters. Poor households are also vulnerable to health shocks and, when these occur, they need extra support to cover not only their out-of-pocket health care expenses but also to compensate for their loss of income.

Moreover, the food price and financial crises have highlighted other forms of vulnerability that are likely to become more significant over time as the Lao economy becomes more open to global markets and increasingly marketized. Many households rely on the market for their consumption, especially in urban areas and in the agricultural slow period. However, at this point, the increase in food prices appears not to have had much of a negative impact on household consumption. Similarly, although the financial crisis has had some impact on trade, the natural resource sector, and tourism, it has had little impact so far in terms of increasing poverty or negatively affecting welfare. This is the case because most Lao households still depend mostly on subsistence agriculture rather than on industry for their livelihoods.

The crises have also revealed the limitations of the government's current use of geographic targeting in its poverty reduction strategy. In terms of numbers, more poor households are located outside the targeted "priority districts" than within them. Moreover, poor and near-poor households in the border provinces with Thailand (who rely

³⁴ For example, to the Ministry of Planning and Investment, directly to the MLSW or to the district MLSW offices, to trade unions, to the National Chamber of Commerce and Industry, or to other ministries related to the sector.

heavily on remittances) and low-paid workers in export-oriented industries or tourism are becoming increasingly vulnerable as the economy becomes more integrated into the global economy. Yet, the vulnerability of households to economic shocks in the context of the increasing marketization of the Lao economy is still poorly understood. Further work needs to be done to determine what support is needed by households outside the priority districts and how to ensure that such support is effectively targeted. Public works programmes would be one option for these areas, as they would be self-targeted if the wage rate was set at below the market wage. They might also be an appropriate option for mitigating seasonal income fluctuations in rural areas. However, further consultation is needed to establish a consensus on how best to meet the needs of vulnerable groups in Lao PDR.

Finally, this report has also highlighted important gaps in the country's safety net. For example, rural households will continue to need support when affected by natural disasters, but current programmes cover only the most severe disasters and are limited to the very poorest areas. There is little or no support available for households affected by household-specific shocks or by seasonal income fluctuation or for vulnerable households outside of the poorest areas. In particular, the support available for vulnerable households facing health shocks, one of the major sources of vulnerability, is extremely limited. Finally, some demographic groups such as some ethnic minorities, the disabled, and the elderly with no support are systematically disadvantaged in terms of a lack of income and livelihoods but they are often not covered by existing safety nets. The households most likely to be affected by the current financial crisis are not the poorest and may have access to existing coping mechanisms. However, poor households that rely heavily on markets, such as poor urban households, may require assistance if food prices continue to rise. Furthermore, newly vulnerable groups, such as returning migrants, may also need support.

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