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Vulnerability and Safety Nets in Lao PDR

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This note was prepared by Magnus Lindelow and Nina Fenton. Key inputs were provided by Piriya Pholpirul, Kalanidhi Subbarao, Khamlar Phonsavaat, World Food Program Laos, the Poverty Reduction Fund, the Ministry of Labour and Social Welfare, Chris Dongges (ILO), the Ministry of Health, the Ministry of Education, the Ministry of Finance, the Ministry of Planning and Investment and others. Results from analysis of the third and fourth rounds of the Lao Expenditure and Consumption Surveys (LECS) are used in some of the sections of the paper. These data were provided courtesy of the Department of Statistics in the context of the ongoing collaboration on an updated poverty profile for Lao PDR, and the results presented in the paper form part of the background analysis for the profile.

Summary

Lao PDR has experienced high levels of economic growth in recent years and the incidence of poverty has fallen dramatically since the 1990s. Yet, this report shows that Lao households continue to be highly vulnerable to regular seasonal fluctuations, as well as agricultural shocks and natural disasters. The report also highlights the importance of health shocks, injury and death for household welfare. Households adopt a variety of strategies to cope with these shocks, but in many cases are unable to fully smooth consumption, with negative short and long term consequences.

The food price and financial crises have underscored other forms of vulnerability that are linked to the increased openness and marketization of the Lao economy. The report shows that the impact of the food crisis in Lao has been small so far. However, significant numbers of households now rely on the market for consumption, especially in urban areas and in the agricultural lean season. Although Laos has not experienced the spike in food prices seen elsewhere, rice prices are significantly higher than they were in 2006.

Similarly, the effect of the financial crisis on poverty and social outcomes has been limited so far. This is partly because most Lao households are predominantly engaged in subsistence agriculture, forestry or fishing. Furthermore, most available data suggest that impacts on non-agricultural sectors, apart from mining, have been small, although preliminary results of a World Bank qualitative survey suggest that workers in garment and other manufacturing sectors are beginning to face cuts to wages and working hours. Even the effects on migration and remittances have been relatively muted. Although there has been some decline in fiscal revenues, ODA flows appear to have been stable, and there is no evidence that access to services such as health and education has suffered.

Overall, the report points to a number of important vulnerable groups. The chronic poor in remote rural areas, including ethnic minority groups, remain highly vulnerable to seasonal fluctuations and natural disasters. However, households in urban areas, particularly the poor and near-poor, are vulnerable to future increases in food prices if they are not accompanied by increases in real wages. Moreover, as the Lao economy develops, more households will rely on off-farm work or migrant remittances, making them increasingly vulnerable to domestic and global macro-shocks. Finally, particular groups, including children, women, the disabled and the elderly are likely to be particularly badly affected by these shocks.

The report goes on to discuss the potential value of social safety nets. Safety nets can reduce poverty and alleviate suffering for households who are unable to fully smooth their consumption after a shock. But effective safety nets don't just contribute to reducing poverty in the short term; they can also prevent long-term poverty traps from arising (e.g. due to households being forced to sell productive assets, withdraw children from school, or reduce consumption below nutritionally adequate levels), and enable households to pursue riskier but more productive livelihood strategies.

Currently, the system of formal safety nets in Laos is very limited. The social security system covers only the public sector and a small number of formal private sector workers. Emergency food transfers are provided to areas affected by the most severe natural disasters, with the support of WFP. In addition, some districts benefit from food-for-work and school feeding programs. However, this support is available only in the poorest areas. Labor market programs focus on vocational training and the minimum wage policy (which is not strictly enforced). The role of price subsidies and stabilization appears to be limited. Some health insurance is available to the poor through community-based health insurance and health equity funds, but coverage remains very limited. Other programs, including cash transfers and support for vulnerable groups such as street children, are very small-scale, fragmented, and rely heavily on donor and NGO support.

The report reveals important gaps in current policies and programs and suggests some potential directions towards implementing a comprehensive and institutionalized safety net program in Lao PDR. This will require substantial investments, not only to finance the actual programs, but also to develop the required capacity and knowledge at both local and central levels. While there are no easy solutions, reaching consensus on priorities and policy options for addressing vulnerability in Laos is essential if recent progress in poverty reduction and economic growth is to be sustained and deepened.

ບົດສັງເຂບ

ເມື່ອຫຼາຍປີຕົ້ນມານີ້, ນັບແຕ່ຊຸມປີ 1990, ສປປ ລາວ ໄດ້ປະສົບກັບການຂະຫຍາຍຕົວດ້ານເສດຖະກິດ ໃນລະດັບສູງ ແລະ ສະພາບການດ້ານຄວາມທຸກຍາກ ກໍ່ໄດ້ຫຼຸດລົງຢ່າງຫຼວງຫຼາຍ. ພ້ອມນັ້ນ, ບົດລາຍງານສະບັບນີ້ ສະແດງໃຫ້ເຫັນວ່າ, ພ້ອມດຽວກັນກັບ ຜົນກະທົບທາງດ້ານກະສິກໍາ ແລະ ໄພທໍາມະຊາດ, ຄົວເຮືອນລາວ, ຍັງສືບຕໍ່ອ່ອນໄຫວ ຕໍ່ການປ່ຽນແປງຂອງລະດູການເປັນປະຈຳ. ບົດລາຍງານນີ້ຍັງເນັ້ນເຖິງຄວາມສໍາຄັນຂອງຜົນກະທົບດ້ານສາທາລະນະສຸກ, ການເຈັບ ແລະ ການເສຍຊີວິດ ສໍາລັບຄວາມເປັນຢູ່ ຂອງຄົວເຮືອນ. ບັນດາຄົວເຮືອນ ໄດ້ຮັບເອົາເອົາຫຼາກຫຼາຍຍຸດທະສາດ ເພື່ອຈັດການຕໍ່ຜົນກະທົບເຫຼົ່ານັ້ນ, ແຕ່ໃນຫຼາຍໆກໍລະນີ, ດ້ວຍຜົນຕາມມາ ໄລຍະສັ້ນ ແລະ ໄລຍະຍາວ ທີ່ເປັນທາງລົບ, ກໍ່ບໍ່ສາມາດ ເຮັດໃຫ້ການຊົມໃຊ້ຄ່ອງຕົວໄດ້ ຢ່າງເຕັມສ່ວນ.

ລາຄາອາຫານ ແລະ ວິກິດການດ້ານການເງິນ ໄດ້ເນັ້ນຮູບແບບຄວາມອ່ອນໄຫວອື່ນໆ ທີ່ຕິດພັນກັບການເປີດປະຕູ ອອກສູ່ພາຍນອກ ແລະ ການຫັນເປັນເສດຖະກິດຕະຫຼາດ ຂອງລາວ. ບົດລາຍງານນີ້ ສະແດງໃຫ້ເຫັນວ່າ ຜົນກະທົບ ຂອງວິກິດການດ້ານອາຫານ ໃນລາວມີໜ້ອຍຫຼາຍ. ເຖິງຢ່າງໃດກໍ່ດີ, ປັດຈຸບັນ ການຊົມໃຊ້ ຂອງຄົວເຮືອນຈໍາ ນວນຫຼວງຫຼາຍ ແມ່ນຂຶ້ນກັບຕະຫຼາດ, ໂດຍສະເພາະ ໃນເຂດຊົນນະບົດ ແລະ ໃນລະດູການກະສິກໍາທີ່ມີຜົນຜະລິດ ໜ້ອຍ. ເຖິງວ່າ ປະເທດລາວ ບໍ່ເຄີຍປະສົບກັບລາຄາອາຫານ ທີ່ຂຶ້ນສູງ ດັ່ງທີ່ເຫັນກັນໃນບ່ອນອື່ນໆ, ລາຄາເຂົ້າ ກໍ່ຍັງສູງຂຶ້ນກວ່າ ລາຄາເຂົ້າ ໃນປີ 2006.

ໃນຂະນະດຽວກັນນັ້ນ, ຜົນກະທົບຂອງວິກິດການດ້ານການເງິນ ຕໍ່ຄວາມທຸກຍາກ ແລະ ລາຍຮັບດ້ານສັງຄົມ ກໍ່ຍັງ ຖືກຈຳກັດເຊັ່ນກັນ. ສາເຫດສ່ວນໜຶ່ງ ແມ່ນຍ້ອນຄົວເຮືອນລາວ ໂດຍສ່ວນໃຫຍ່ ທໍາມາຫາກິນດ້ານກະສິກໍາ, ປ່າໄມ້ ຫຼື ປະມົງ ເພື່ອລ້ຽງຊີບຕົນເອງ. ພ້ອມດຽວກັນນັ້ນ, ບັນດາຊັ້ນສ່ວນໃຫຍ່ທີ່ມີ ໄດ້ຊື້ບອກວ່າ ນອກຈາກຂະແໜງການ ຊຸດຄົ້ນບໍ່ແຮ່ທີ່ຖືກກະທົບແລ້ວ, ຜົນສະທ້ອນຕໍ່ບັນດາຂະ ແໜງການທີ່ບໍ່ແມ່ນກະສິກໍາແມ່ນ ມີໜ້ອຍ, ເຖິງວ່າຜົນຂອງ ການສໍາຫຼວດດ້ານຄຸນນະພາບເບື້ອງຕົ້ນ ຂອງທະນາຄານໂລກ ຊື້ບອກວ່າ ຄົນງານໃນໂຮງງານຕັດຫຍິບ ແລະ ບັນດາຂະແໜງການອຸດສາ ທະກໍາອື່ນໆ ກໍາລັງປະເຊີນໜ້າກັບການຕັດເງິນເດືອນ ແລະ ຊົ່ວໂມງເຮັດວຽກ. ເຖິງວ່າ ຜົນກະທົບ ຕໍ່ການຍົກຍ້າຍຖິ່ນຖານ ແລະ ການສົ່ງເງິນມາຈາກຕ່າງຖິ່ນ ບໍ່ໄດ້ຖືກກ່າວໄວ້ຢ່າງກວ້າງຂວາງ, ລາຍຮັບງົບປະມານບາງຢ່າງ ກໍ່ຫຼຸດລົງ, ກະແສເງິນ ຊ່ວຍເຫຼືອຈາກຕ່າງປະເທດ ກໍ່ປາກົດວ່າຄົງຕົວ, ແລະ ກໍ່ບໍ່ມີຫຼັກຖານ ທີ່ຊີ້ໃຫ້ເຫັນວ່າ ການເຂົ້າເຖິງການບໍລິການ ເຊັ່ນ ດ້ານ ສາທາລະນະສຸກ ແລະ ການສຶກສາ ໄດ້ຮັບຄວາມຫຍຸ້ງຍາກ.

ໂດຍລວມແລ້ວ, ບົດລາຍງານນີ້ ໄດ້ສຸມໃສ່ກຸ່ມທີ່ອ່ອນແອຫຼາຍ ຈໍານວນໜຶ່ງ. ເຂດທ່າງໄກສອກຫຼີກປະຈຳ, ຊຶ່ງລວມ ມີກຸ່ມຊົນເຜົ່າສ່ວນນ້ອຍ, ຍັງອ່ອນແອຫຼາຍ ຕໍ່ການປ່ຽນແປງຂອງລະດູການ ແລະ ຕໍ່ໄພທໍາມະຊາດ. ເຖິງຢ່າງໃດກໍ່ ດີ, ບັນດາຄົວເຮືອນເຂດທ່າງໄກສອກຫຼີກ, ໂດຍສະເພາະ ຜູ້ທຸກຍາກ ແລະ ຜູ້ທີ່ຖືວ່າທຸກຍາກ, ຈະອ່ອນໄຫວຫຼາຍ ຕໍ່ການເພີ່ມຂຶ້ນຂອງລາຄາອາຫານ ໃນອະນາຄົດ ຖ້າເງິນເດືອນຕົວຈິງ ຂອງເຂົາເຈົ້າ ບໍ່ເພີ່ມຂຶ້ນ. ພ້ອມດຽວກັນນັ້ນ, ຍ້ອນເສດຖະກິດຂອງລາວ ກໍາລັງພັດທະນາ, ຄົວເຮືອນຈໍານວນຫຼາຍ ຫຍິ່ງຈະດໍາລົງຊີວິດຂຶ້ນກັບ ວຽກງານນອກ ຂະແໜງກະສິກໍາ ຫຼື ການສົ່ງເງິນມາຈາກຜູ້ຍົກຍ້າຍໄປຖິ່ນອື່ນ, ຊຶ່ງຈະພາໃຫ້ເຂົາເຈົ້າຫຍິ່ງອ່ອນໄຫວ ຕໍ່ຜົນກະທົບ ມະຫາພາກພາຍໃນ ແລະ ໃນທົ່ວໂລກ. ທ້າຍສຸດນີ້, ບັນດາກຸ່ມຄົນສະເພາະ, ຊຶ່ງລວມມີ ເດັກນ້ອຍ, ແມ່ຍິງ, ຄົນພິການ ແລະ ຜູ້ອາຍຸສູງ ກໍ່ເໝືອນວ່າ ຈະໄດ້ຮັບຜົນກະທົບທາງບໍ່ດີ ຈາກສະພາບການເຫຼົ່ານີ້ ໂດຍສະເພາະ.

ບົດລາຍງານນີ້ ຖືກສ້າງຂຶ້ນເພື່ອສົນທະນາປຶກສາຫາລື ກ່ຽວກັບ ຄຸນຄ່າບົ່ມຊ້ອນ ຂອງຕາໜ່າງຄວາມປອດໄພດ້ານ ສັງຄົມ. ຕາໜ່າງຄວາມປອດໄພ ສາມາດຫຼຸດຜ່ອນຄວາມທຸກຍາກ ແລະ ເຮັດໃຫ້ຄວາມຫຍຸ້ງຍາກ ຂອງຄົວເຮືອນ,

ທີ່ບໍ່ສາມາດ ເຮັດໃຫ້ການຊົມໃຊ້ຂອງຕົນຄ່ອງຕົວນັ້ນ, ຫຼຸດຜ່ອນລົງ ຫຼັງຈາກໄດ້ຮັບຜົນກະທົບ. ແຕ່ຕາໜ່າງຄວາມ
ປອດໄພ ທີ່ມີປະສິດທິຜົນ ບໍ່ພຽງແຕ່ປະກອບສ່ວນ ໃນການຫຼຸດຜ່ອນຄວາມທຸກຍາກ ໃນໄລຍະສັ້ນ, ຕາໜ່າງດັ່ງ ກ່າວ
ຍັງສາມາດປ້ອງກັນ ຈາກການເກີດມີພູມພາບຄວາມທຸກຍາກ ໄລຍະຍາວ (ຕົວຢ່າງ, ຍ້ອນຄົວເຮືອນ ຖືກບັງ
ຄັບໃຫ້ຂາຍຊັບສິນໃນການຜະລິດ, ເອົາເດັກນ້ອຍອອກຈາກໂຮງຮຽນ, ຫຼື ຫຼຸດຜ່ອນການຊົມໃຊ້ ໃຫ້ຕໍ່າກວ່າລະດັບ
ໄພຊະນາການທີ່ເໝາະສົມ), ແລະ ພາໃຫ້ຄົວເຮືອນສາມາດ ເດີນຕາມຍຸດທະສາດ ທີ່ມີຄວາມສ່ຽງກວ່າເກົ່າ ແຕ່ໃຫ້
ຜົນຜະລິດຫຼາຍຂຶ້ນ.

ບັດຈຸບັນນີ້, ລະບົບຕາໜ່າງຄວາມປອດໄພທາງການ ໃນປະເທດລາວ ຍັງຈຳກັດຫຼາຍ. ລະບົບຄວາມປອດໄພດ້ານ
ສັງຄົມ ກວມເອົາພຽງແຕ່ພາກລັດ ແລະ ຄົນງານພາກເອກະຊົນໃນລະບົບ ຈຳນວນນ້ອຍ. ການລຳລຽງສິ່ງອາຫານ
ສຸກເສີນ ຖືກສະໜອງໄປໃຫ້ບັນດາເຂດ ທີ່ໄດ້ຮັບຜົນກະທົບຈາກໄພທຳມະຊາດ ທີ່ຮ້າຍແຮງສຸດ, ດ້ວຍການສະ
ໜັບສະໜູນ ຈາກ ອົງການອາຫານໂລກ. ພ້ອມດຽວກັນນັ້ນ, ບາງເມືອງ ກໍໄດ້ຮັບຜົນປະໂຫຍດ ຈາກ “ອາຫານເພື່ອງານ”
ແລະ ໂຄງການລ້ຽງອາຫານໂຮງຮຽນ. ເຖິງຢ່າງໃດກໍດີ, ການສະໜັບສະໜູນດັ່ງກ່າວນີ້ ມີໄວ້ສຳລັບບັນດາເຂດ ທີ່ທຸກ
ຍາກເທົ່ານັ້ນ. ໂຄງການຕະຫຼາດແຮງງານ ສຸມໃສ່ການຝຶກອົບຮົມວິຊາຊີບ ແລະ ນະໂຍບາຍເງິນເດືອນຕໍ່ສຸດ (ຊຶ່ງ
ບໍ່ມີການບັງຄັບໃຊ້ ຢ່າງເຂັ້ມຂັດ). ບົດບາດ ຂອງການຊ່ວຍໝູນລາຄາ ແລະ ສະຖຽນລະພາບ ກໍ່ຢາກົດວ່າ ຈຳກັດ.
ການປະກັນໄພສຸຂະພາບ ບາງຢ່າງ ມີໄວ້ໃຫ້ ຜູ້ທຸກຍາກ ໂດຍຜ່ານ ການປະກັນໄພສຸຂະພາບ ຕາມພື້ນຖານຊຸມຊົນ
ແລະ ກອງທຶນເພື່ອສຸຂະພາບ, ແຕ່ອັດຕາການກວມ ກໍ່ຍັງຕໍ່າຢູ່. ໂຄງການອື່ນໆ, ຊຶ່ງລວມມີ ການໂອນເງິນລົດ ແລະ
ການສະໜັບສະໜູນ ກຸ່ມທີ່ອ່ອນໄຫວ ເຊັ່ນ ເດັກນ້ອຍຂ້າງທາງ, ແມ່ນມີຂອບເຂດນ້ອຍຫຼາຍ, ຖືກຈັດແບ່ງເປັນກຸ່ມ
ນ້ອຍໆ, ແລະ ຂຶ້ນກັບຜູ້ໃຫ້ທຶນ ແລະ ການສະໜັບສະໜູນ ຂອງອົງການທີ່ບໍ່ຂຶ້ນກັບລັດທະບານຢ່າງໜັກ.

ບົດລາຍງານນີ້ ສະແດງໃຫ້ເຫັນ ຊ່ອງຫວ່າງທີ່ສຳຄັນ ໃນບັນດານະໂຍບາຍ ແລະ ໂຄງການ ບັດຈຸບັນ ແລະ ໃຫ້ຂໍ້
ແນະນຳບາງຢ່າງ ກ່ຽວກັບທິດທາງບົ່ມຊ້ອນ ໄປສູ່ການຈັດຕັ້ງປະຕິບັດ ໂຄງການຕາໜ່າງຄວາມປອດໄພ ທີ່ຄົບ ຖ້ວນ
ແລະ ເປັນລະບົບ ໃນ ສປປ ລາວ. ສິ່ງນີ້ ຈະຮຽກຮ້ອງໃຫ້ມີການລົງທຶນທີ່ໃຫຍ່ຫຼວງ, ບໍ່ພຽງແຕ່ ສຳລັບການ ປະກອບທຶນ
ໃຫ້ແກ່ບັນດາໂຄງການບັດຈຸບັນ, ແຕ່ຍັງສຳລັບການພັດທະນາ ຂີດຄວາມສາມາດ ແລະ ຄວາມຮູ້ ທີ່ ຈຳເປັນ
ທັງໃນຂັ້ນທ້ອງຖິ່ນ ແລະ ສູນກາງ. ໃນຂະນະ ທີ່ບໍ່ມີວິທີການແກ້ໄຂທີ່ງ່າຍດາຍ, ການບັນລຸຄວາມເປັນ ເອ ກະສັນ
ກ່ຽວກັບບູລິມະສິດ ແລະ ທາງເລືອກດ້ານນະໂຍບາຍ ສຳລັບການນຳສະເໜີ ກ່ຽວກັບຄວາມອ່ອນໄຫວ ໃນ ປະເທດລາວ
ກໍ່ເປັນສິ່ງສຳຄັນ ຖ້າຄວາມຄົບໜ້າ ໃນການຫຼຸດຜ່ອນຄວາມທຸກຍາກ ແລະ ການຂະຫຍາຍຕົວ ດ້ານ ເສດຖະກິດ
ເມື່ອບໍ່ດົນມານີ້ ມີຄວາມຍືນຍົງ ແລະ ເລິກເຊິ່ງ.

Table of Contents

A.	Introduction and background.....	1
B.	Shocks and vulnerability in Lao PDR: What do we know?.....	2
C.	Food Prices and Vulnerability in Lao PDR.....	7
D.	The global financial crisis and its impacts.....	12
	<i>Employment and wage effects of the global crisis</i>	<i>13</i>
	<i>Migration</i>	<i>16</i>
	<i>Social Services and Fiscal Revenues</i>	<i>18</i>
E.	Social safety nets in Lao PDR	19
	<i>Public and Private Sector Social Security Schemes</i>	<i>19</i>
	<i>Cash transfers, including conditional cash transfers</i>	<i>20</i>
	<i>Food transfers and school feeding.....</i>	<i>21</i>
	<i>Workfare (food-for-work, cash-for-work and food-for-training)</i>	<i>22</i>
	<i>Fee waivers and scholarships.....</i>	<i>23</i>
	<i>Labor market policies</i>	<i>25</i>
	<i>Price control: subsidies and stabilization.....</i>	<i>26</i>
	<i>Livelihood promotion.....</i>	<i>27</i>
	<i>Welfare programs for vulnerable groups</i>	<i>28</i>
F.	Conclusions and key challenges.....	28
G.	References.....	30

Tables and Figures

Figure 1: Percentage households experiencing shocks, World Bank vulnerability study ..	4
Figure 2: Rising international food prices	8
Figure 3: Rice prices in Laos and internationally	9
Figure 4: CPI for food and non-food items, Lao PDR.....	9
Figure 5: Structure of the labor force in Laos.....	14
Figure 6: Tourist Arrivals 2008-2009 (3 months).....	15
Figure 7: Percentage of households receiving remittances in the last month, 2007/8.....	17

Table 1: Restrictions on income growth as reported by village leaders (2002/3 and 2007/8)	3
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Table 2: Rice consumption and sales by households in Laos (2007/08)	11
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A. Introduction and background

1. The incidence of poverty in Laos has declined steadily over the last 15 years, from 46% in 1993 to 28% in 2008 (DOS/World Bank, 2009). Yet, vulnerability to poverty remains an important concern. In part, vulnerability is linked to risks in the agricultural sector. Farming is the primary economic activity for most Lao households, with 71% of the labor force reporting farming, fishing or forestry as their main economic activity. The livelihoods of these households are constantly at risk due to weather (e.g. storms, flooding, and drought), livestock disease, pest infestation, and other factors. The vulnerability of rural households has been brought into sharp focus recently with devastating flooding in several Southern provinces. Households in rural Laos have also faced increased risk of losing access to land or other productive natural resources as a result of population growth, environmental degradation, and competing pressures on land.

2. But vulnerability in Laos is not only related to land and agriculture. Over time, households have become increasingly integrated in the market economy. As a result, a growing share of the population relies on purchased food, either because of shortfalls in their own production or because they have shifted towards cash crops. At the same time, Laos is experiencing a gradual transformation of the labor market, with growing employment opportunities 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 impacts of the recent rise in food prices and the economic crisis on Lao households have been relatively limited so far. However, the effects do serve to highlight sources of vulnerability that will be increasingly important as the Lao economy continues to develop.

3. In Laos, as in most less developed countries, formal insurance institutions and safety nets are poorly developed, limiting the capacity of households reduce risks and cope with shocks. Hence, when shocks materialize, households tend to rely on precautionary savings and informal networks to manage risks. Yet, these mechanisms are often inadequate, forcing households to cut back consumption or sell productive assets to cope. This, in turn, may result in poverty, both in the short term as households fail to meet basic food and non-food consumption standards, and in the longer term as a result of malnutrition or the loss of productive assets.

4. There is a broad range of policy options for helping households manage risks and reduce vulnerability. In considering these options, however, it is important to understand the nature of vulnerability of different types of households, and to ensure that measures to reduce and manage risks build on policies and programs that are already in place. With this in mind, this note provides an assessment of vulnerability and safety nets in Laos. The first section reviews what is known about vulnerability. It pays particular attention to the impacts of the recent food price and global financial crises, but also tries to put these impacts into a broader context by recognizing the continued importance of agriculture-related risks. The second section provides an overview of safety net programs, highlighting design and implementation arrangements of schemes or programs that are currently in operation. Drawing on this information, the final section provides an assessment of key challenges in respect of vulnerability and risk management, and makes broad recommendations for how safety net approaches could be strengthened over time

B. Shocks and vulnerability in Lao PDR: What do we know?

5. Needless to say, vulnerability is not a new concern in Laos. Although definitions and methodological approaches have varied (see Box 1), a number of data sources highlight the exposure of Lao households to risk, and their limited ability to cope with shocks when they materialize. For example, 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 villages report natural shocks, particularly insect infestations and animal disease, as constraints on income growth, and there was only a slight reduction in perceived importance of these factors between 2002/3 and 2007/8 (Table 1). Unsurprisingly, with the exception of flooding, rural communities are more likely to report natural shocks as a factor constraining growth.

Box 1: What do we mean by “vulnerability”?

Vulnerability is different from poverty in that it refers to an ex ante situation rather than an ex post outcome. While poverty is a result of households decisions and events that actually occur, vulnerability effectively refers to the risk that a household will fall into poverty (or other adverse outcomes will materialize) as a result of shocks or other events, and of the inability of the household to effectively mitigate the effects of the shock or cope with its consequences. Vulnerability is an important dimension of poverty and deprivation. But vulnerability can also be a cause of poverty as household mitigation or coping behaviors (e.g. risk avoidance, sale of assets, reducing nutrient intake, taking kids out of school) can contribute to reduced income and consumption over time. Needless to say, different groups face different risks. For example, rural households are more vulnerable to poverty in the face of pest infestations, but are usually less vulnerable to increases in unemployment, or to inflation. However, it is common to talk about “vulnerable groups”. This refers to the groups most at risk of falling into poverty because of shocks. Female-headed households, old people, children, the poor, those living in remote areas, and ethnic minorities are often classified as “vulnerable”. These groups are vulnerable both because they face more shocks than other households and because they are less able to cope with these shocks (Dercon, 2001).

6. However, it is notable that natural shocks are by no means the only constraint on growth. The proportion of villages citing lack of jobs grew over time. Although rural villages were less likely to report lack of jobs as a restraint, more than 50% of villages with road access did so in 2007/8. This suggests that even rural villages are becoming more dependent on the market economy for income growth. This increasingly exposes them to economic as well as natural shocks. Rural villages also complained of lack of access to credit. Although not directly linked, lack of credit may reduce the capacity of villages to adequately respond to shocks.

Table 1: Restrictions on income growth as reported by village leaders (2002/3 and 2007/8)

	Urban		Rural road		Rural no road	
	2002/3	2007/8	2002/3	2007/8	2002/3	2007/8
Natural shocks						
Drought	0.16	0.09	0.21	0.13	0.22	0.24
Flooding	0.36	0.14	0.32	0.23	0.22	0.28
Insects	0.45	0.33	0.69	0.48	0.66	0.55
Animal disease	0.45	0.40	0.63	0.53	0.66	0.60
Economic environment and institutions						
Lack of jobs	0.61	0.57	0.34	0.53	0.28	0.36
Lack of saving	0.36	0.34	0.26	0.28	0.20	0.23
Lack of credit	0.48	0.40	0.63	0.48	0.72	0.51
Natural resource-based assets						
Lack of land	0.61	0.54	0.31	0.29	0.37	0.40
Lack of seed	0.18	0.16	0.12	0.15	0.10	0.11
Lack of irrigation	0.51	0.44	0.68	0.54	0.64	0.50
Unfertile soil	0.45	0.31	0.33	0.37	0.33	0.40
Unsafe soil	0.09	0.08	0.15	0.10	0.11	0.18
Other community assets						
Lack of store	0.21	0.10	0.44	0.34	0.54	0.53
Lack of knowledge	0.52	0.53	0.56	0.48	0.62	0.54
Lack of manpower	0.09	0.10	0.11	0.09	0.16	0.12
Lack of transport	0.03	0.06	0.32	0.21	0.74	0.85
Lack of market	0.22	0.28	0.63	0.55	0.71	0.63
Other	0.04	0.03	0.07	0.05	0.08	0.13

Source: Lao Expenditure and Consumption Survey (LECS), 2002/3 and 2007/8. Sample weighted to reflect population size. Results from background analysis for forthcoming poverty profile; data courtesy of DOS.

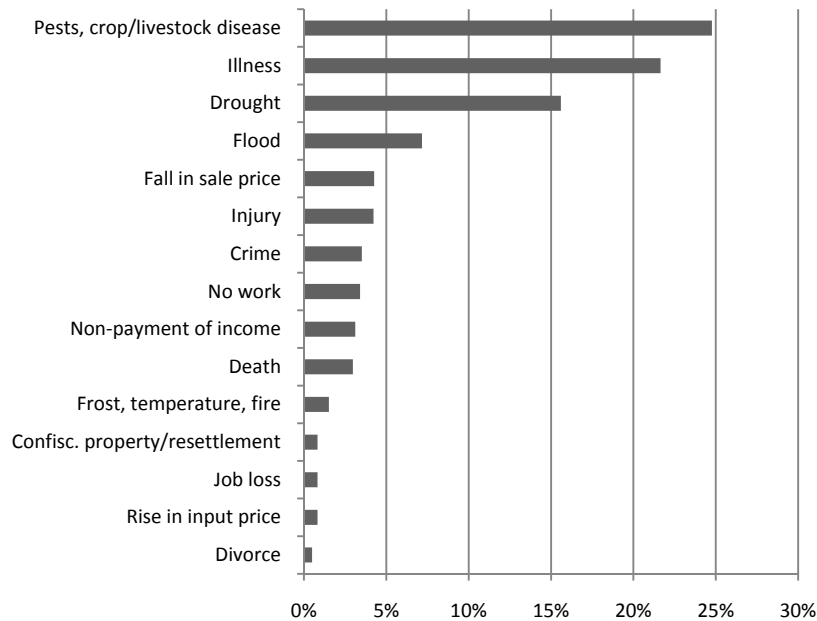
7. A recent World Bank study offers additional perspectives on vulnerability, albeit from a small sample from Vientiane, Phongsaly and Attapeu provinces (World Bank, 2008a). Six hundred households were asked about shocks or “harmful events” that had led to a reduction in income, loss of assets and/or a reduction in consumption of food and other essential items during the last 12 months. Natural or biological shocks were the most commonly reported causes of income reductions (Figure 1). Twenty-five percent of households (weighted sample) reported being affected by pest infestation, crop or livestock diseases. The effects of pest and animal diseases can be severe. For example, the recent rodent outbreak in the Northern Uplands is, according to villagers, the worst in 20 years (WFP, 2009b). The WFP estimated that between 85,000 and 140,000 people became food insecure as a result of the outbreaks. Seventy-four percent of the affected households interviewed reported losses of 50-100% of their crop. In very affected villages, all villagers became food insecure, with many reducing the number or quality of meals, or skipping meals altogether.

8. Sixteen percent of households in the vulnerability study were affected by drought and 7% by floods, mudslides or storms. The areas along the Mekong and its tributaries are highly prone to floods. The number of people affected in each major flood in the period 1966 – 2002 ranged from 2,000 to more than 590,000 (WFP, 2007a). The most recent floods in late September 2009 are estimated to have affected more than 180,000 people in some of the poorest districts in the country.¹ The CFSVA (WFP, 2007a) points out that while floods in the region typically do not

¹ Preliminary internal estimates by the World Bank, November 2009

cause large numbers of deaths, they do cause housing damage, loss of crops, and loss of equipment and other assets. For example, it is estimated that the recent floods have affected almost 20,000 hectares of agricultural lands. Loss of buffalo can be particularly damaging, as buffalo are needed as draught animals. Across all wealth categories, the average family lost half of its cows and/or buffaloes in the 1996 flood (WFP, 2007a). Sanitation is also a major concern in areas affected by flooding. As discussed in Box 2, the effects of climate change mean that both droughts and floods are likely to become even more common in future.

Figure 1: Percentage households experiencing shocks, World Bank vulnerability study



Source: World Bank Vulnerability Study (2008a), sample weighted to reflect population by province

Box 2: The probable impacts of climate change in Lao PDR

There are no precise scientific data on the possible timeline, duration and level of climate change impacts occurring in each part of Laos. However, some tentative projections of the expected impact are available (WREA, 2009) which coincide with other regional and global future climate scenarios. If the concentration of CO₂ increases from the baseline of 360 ppm (in 1980-1989) to 540 or 720 ppm respectively, as it likely under the “business as usual” scenario:

- The temperature is likely to increase by 1-2 degree Celsius over the Mekong river basin (Laos, Thailand and Vietnam)
- The amount of precipitation is likely to increase by 10-30% in the northeastern and southeastern parts of Laos
- The length of hot days is likely to increase by 2-3 weeks and cool days will decrease by 2-3 weeks
- The intensity and duration of storms is likely to increase.

Climate change will therefore imply greater frequency of flooding in some regions, but a higher probability of drought in others. This could reduce yields and increase the vulnerability of rural households, especially those dependent on agriculture, to shocks.

9. According to the Vulnerability Study (WB, 2008a), health risks are second only to agricultural shocks as a source of vulnerability. Twenty two percent of households in the vulnerability study were affected by serious illness, and an additional 7% by injury or death of a household member. These events are often associated with significant costs, either in terms of expenditures or loss of income. The vulnerability study found that the costs of health shocks were larger than for any other category of shock, at around 1.3 million kip on average. Direct health costs were the largest component, but foregone income and non-medical costs (such as travel expenses) were also significant. These losses may force households to reduce consumption, sell productive assets, and leave them without the ability to buffer consumption in response to further shocks. Health shocks had the largest impact on household self-reported welfare of all shock types. Furthermore, the results indicated that many of those affected by health shocks were unable to fully recover.

10. “Economic” shocks were not commonly reported, even by urban households. Only 8% of households in the vulnerability study reported experiencing an economic shock. These shocks were mostly unexpected declines in the prices of commodities that households sell, lack of work or non-payment or delay in the payment of income. Socio-political shocks, mostly crime, were reported by 5% of households. No households reported being adversely affected by unexpected increases in prices of food or other essential commodities, although it should be noted that the study was carried out before the recent spike in food prices.

11. Other studies confirm these findings, and offer some additional perspectives on the shocks faced by Lao households. For example, the government undertook a *Human Security Survey and Vulnerability Assessment* in three provinces to support the preparation of the National Growth and Poverty Eradication Strategy (Committee for Planning and Cooperation and UNCRD, 2002). In this study households identified low income; shortage of capital or credit; lack of land or poor soil quality; natural disasters; pests and livestock disease; lack of employment opportunities; and illness as important sources of vulnerability. Perceptions of vulnerability varied considerably between men and women. However, both groups noted that vulnerability has an important seasonal element, in particular in rural areas, and that many sources of vulnerability are beyond the control of villagers.

12. The 2001 and 2006 *Participatory Poverty Assessments* (PPA) (ADB/NSC, 2001 and 2006) also highlight the importance of natural resources to household livelihoods. This reliance makes households highly vulnerable to shocks that affect access to these resources. For example, access to and use of land is changing rapidly in Lao PDR. In some cases these changes are playing an important role in increasing rural incomes, but at the same time pressures on land expose households to new vulnerabilities. Similar issues are raised in the *Hidden Costs* study (OXFAM, 2007), which highlights pressures on natural resources in the Mekong region through degradation, policy changes such as land forest allocation, village consolidation, eradication of swidden and opium cultivation, and other factors. According to both the 2006 PPA and the Hidden Costs study, these pressures have grown over time, leading to increased vulnerability to both income poverty and malnutrition. Hydropower and mining projects can have important benefits in terms of increased incomes and, in some cases, reductions in vulnerability through better control of variability in water flows. However, they can also deprive households of access to land and livelihoods if negative effects are not appropriately managed. The growing marketization of agriculture can also threaten access if land rights of local people are not effectively taken into account. Moreover, although cash crop production can make an important

contribution to increasing rural incomes, it also reduces diversification and exposes households to volatile market prices.²

13. Available studies suggest that rural households, remote districts and ethnic minority households tend to be among the most vulnerable to shocks. The World Bank Vulnerability Study (World Bank, 2008a) argues that rural households are exposed to multiple livelihood shocks, with limited coping mechanisms. The World Food Program (WFP) *District Vulnerability Assessment* (2005) also highlights the role of location in determining vulnerability. The report focuses on vulnerability to food insecurity, measured at the district level using quantitative indicators that are hypothesized to be correlated with vulnerability.³ According to the assessment, vulnerable districts are concentrated in the North, North West and South. Districts close to the border with China or Myanmar in the North, or Vietnam in the South display particularly high levels of vulnerability. These districts coincide to a large degree with the districts identified as “priority districts” by the Lao government and tend to be predominantly inhabited by ethnic minority groups.⁴ Districts located close to Vientiane, or in the South along the Thai border appear to be less vulnerable, at least on the metric used in the vulnerability assessment. Both of the PPAs identify ethnicity as a key determinant of vulnerability in rural Laos.

14. Most of the evidence on vulnerability relates to households rather than to individuals. However, different individuals within households are exposed to different shocks and differ in their capacity to cope. Children, the elderly, women and the disabled are often particularly badly affected by shocks.⁵ Children and women also face particular risks such as domestic violence and trafficking, which may be exacerbated by economic distress. Ministry of Education et al (2009) highlights how the economic crisis may adversely affect children in terms of health and nutrition, education and social protection. Children are more likely to suffer long term effects from these outcomes than adults. Further evidence on the vulnerabilities of particular demographic groups is urgently needed.

15. Although Lao households use a variety of coping mechanisms to deal with the outcomes of shocks, their capacity to avoid negative short and long term effects appears to be constrained. For example, the Vulnerability Study (World Bank, 2008a) finds that use of income and savings is the most commonly adopted coping strategy by Lao households. Many also rely heavily on social networks of friends and family, borrowing rice from relatives or friends during lean months, or asking for help to restore homes or property following floods. Households also use

² The PSIA (WB/EC, 2008) found that, in 7 priority districts from the list of 47 poor districts included in the study, despite remote locations, virtually all of the poor ethnic group communities were participating to some extent in cash crop growing for either domestic or export markets.

³ The indicators used in the assessment include rice production, cropping diversity, livestock ownership, access to forested areas, access to roads and rivers, malaria incidence, UXO impact and incidence of low or no education.

⁴ Based on Instruction No 010/PM, the Committee for Planning and Co-operation (CPC) and the provinces identified 72 districts as poor. The village-level indicators used were: proportion of households with income (or the equivalent in kind) of less than kip 85,000 kip (100,000 kip for urban and 82,000 kip for rural) per person per month (at 2001 prices), access to school, access to dispensaries, traditional medical practitioners and hospitals, access to safe water and access to roads. A core group of the 47 poorest districts were selected as “priority districts” for investments during the period 2003-2005. The 25 remaining “second priority” districts were also to get attention from 2005 onwards.

⁵ In addition, households in vulnerable groups are generally larger and younger than other households. This means that a high proportion of individuals living in vulnerable households are children.

alternative sources of food, including wild resources.⁶ They may also trade livestock and other assets to purchase essential items. Selling assets was little used for income-related shocks, but was cited as a response to health shocks by 14% of households. However, households are unable to fully insure themselves. Over 50 per cent of the households report being forced to reduce their consumption in response to shocks. The *Human Security Survey and Vulnerability Assessment* (Committee for Planning and Cooperation and UNCRD, 2002) also documented the broad range of strategies for mitigating and coping with shocks, including reducing expenditures, raising livestock and poultry, gardening or alternative crops, handicraft production, fishing, and social networks. Reflecting this finding, ownership of assets and access to alternative livelihoods was found to significantly reduce vulnerability.

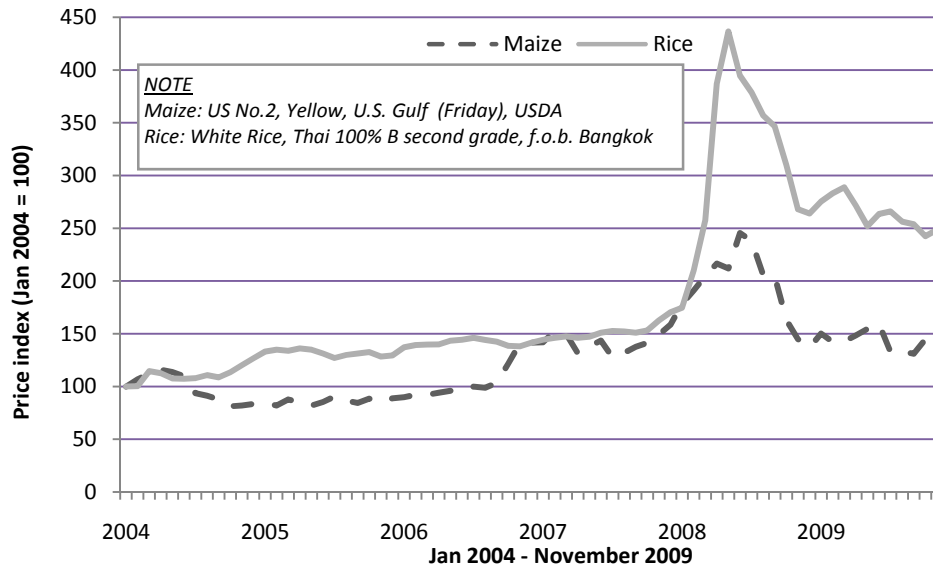
16. Overall, evidence suggests that natural shocks and disasters, including pest infestations, livestock disease and flooding, are the main sources of vulnerability for Lao households. However, health shocks are also important, both in terms of incidence and impacts on household welfare. As households are becoming more integrated into the market economy, they are increasingly exposed to market-related shocks. However, these remain a relatively un-important source of vulnerability, in particular for households in rural and remote areas. Although few households have access to formal insurance, they adopt a variety of coping strategies to deal with shocks. However, there is evidence that they are unable to fully insure themselves against negative effects on welfare.

C. Food Prices and Vulnerability in Lao PDR

17. Recent years have seen a gradual increase in international food prices. However, starting in the fall of 2007, the prices of many commodities started increasing more sharply, reaching a peak in the middle of 2008 (see Figure 2). For example, the price of rice almost tripled between January 2006 and June 2008. Key drivers of these recent food price increases include high energy and fertilizer prices, the depreciation of the US dollar and increased use of food products for bio-fuels. While prices have declined since their peak, volatility is expected to persist over the medium term.

⁶ Historically, many ethnic groups in the uplands were never rice sufficient, and consumed wild roots/tubers on a regular basis (Krahn, 2003). Rural households also rely heavily on wild fish and aquatic organisms (shells, prawns, etc.) and non-timber forest products (NTFPs) such as mushrooms, wild vegetables, and wild animals to substitute their protein intake.

Figure 2: Rising international food prices



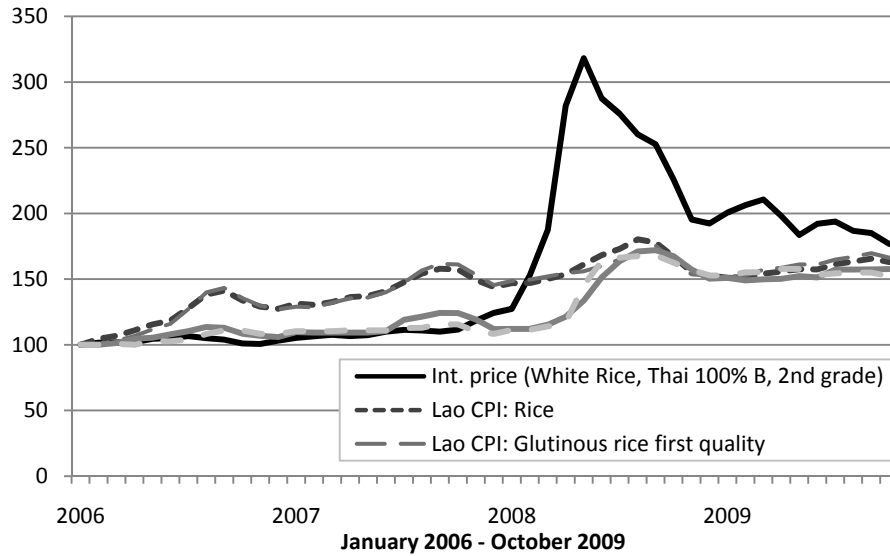
18. Many low- and middle-income countries are net rice producers, and should therefore benefit, overall, from rising prices. However, even if the country as a whole gains, it is possible that poor households, who tend to spend a significant share of their budget on food, will be negatively affected if they depend on the market. Specifically, rising food (and fuel) prices may negatively impact human development in four dimensions: (i) increasing poverty, (ii) worsening nutrition, (iii) reducing the utilization of education and health services (and therefore compromising the human capital of the poor), and by (iv) depleting the productive assets of the poor. It is therefore important to assess the impact at the household level.

19. There are a number of reasons why the impacts of the global food price crisis have been more muted in Lao PDR than elsewhere. One reason is that the increase in international food prices has only been partially transmitted to the Lao economy. Indeed, although rice prices in Laos have been increasing steadily over the last few years, the local price of rice was hardly affected at all by the spike in international prices in 2008 (see Figure 3). This is due to a range of factors, including extensive focus on national self-sufficiency in rice,⁷ limited international trade of glutinous rice (which is the staple in Laos), trade restrictions, and the fact that a large proportion of marketed rice is purchased by the State Food Enterprise (SFE).⁸

⁷ WFP (2007, Table 3) estimated net per capita rice production as a percentage of requirements per province during 2001-2005. Laos was self-sufficient in rice overall in all years but 2001. However, the surplus was very small: 0.9 percent on average and 10.4 percent at the maximum. Due to a lack of infrastructure, mountainous terrain and market structure, markets in Laos are segmented and food prices vary significantly by region and remoteness. Van der Weide (2006) finds that food prices in predominantly rural areas (Southern and Northern) tend to be higher than the more urban central region. Prices also have higher variance in rural than urban areas, and seasonal variation is stronger because of lack of storage facilities (WFP, 2007). This segmentation means that the transmission of global price increases to the more remote areas of Laos may be even more muted.

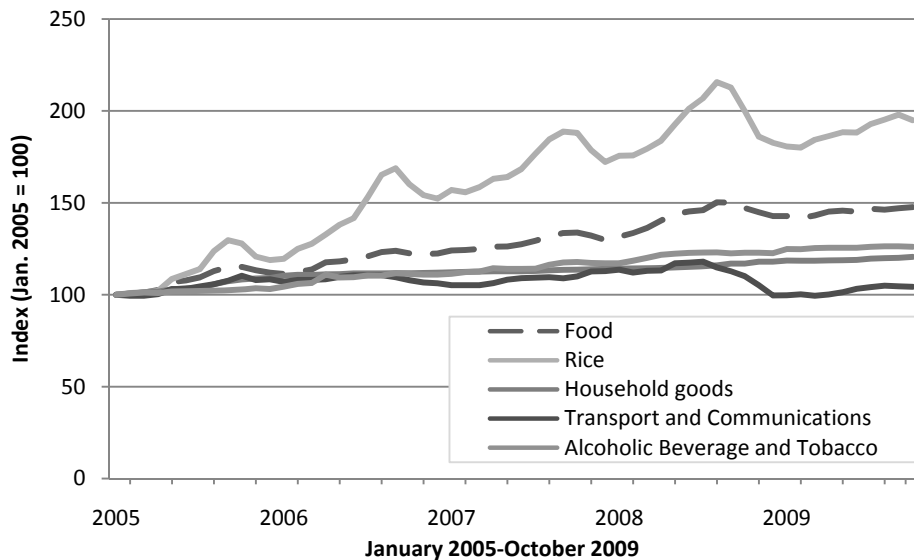
⁸ The SFE procures rice during harvest for government staff and sells rice stocks during rice shortages. This process may help to stabilise the rice price. In addition, the SFE is responsible for operating food procurement from farmers and traders in the central and Southern provinces in order to stabilize prices.

Figure 3: Rice prices in Laos and internationally



20. However, although Laos has not experienced the spike in food prices seen elsewhere, rice prices were significantly higher in early 2009 than they were in 2006. Food prices have been increasing more rapidly than the prices of non-food items (see Figure 4), and rising rice prices have been important drivers of that trend. Food prices have been rising in a context of economic growth. However, the rise in the prices of food (nearly 9% p.a. since 2005) and rice (15% p.a. since 2005) has been more rapid than the growth in GDP, which has varied between 4.5% and 7.6% p.a. during the period. Moreover, growth in household consumption has been lower than growth in GDP. Preliminary estimates indicate that growth in real household consumption has been less than 4% annually between 2002/3 and 2007/8.

Figure 4: CPI for food and non-food items, Lao PDR



21. What are the welfare consequences of this secular price increase? To a significant degree, this depends on whether a household is a net producer or net consumer of food. Indeed, insofar as producer prices keep pace with consumer prices, households that are net producers of rice and other foods will benefit from the rising prices. Conversely, households that buy more rice than they sell have to either increase expenditures on food to maintain food consumption (and hence reduce non-food consumption), or cut back on food expenditures (quantity or quality of food) to protect non-food consumption.

22. Evidence from neighboring countries suggests that the impact on household welfare varies considerably with geographic, demographic, and socioeconomic factors. Rural residence and poverty status are particularly important determinants, although region of residence and ethnicity are also shown to matter. Glewwe and Vu (2008) estimate “net food sales” (the difference between total sales and total purchases of food items) for Vietnam in 2006.⁹ They find that while a majority of rural households (54.4%) are net sellers of food (and would hence benefit from a price increase), only 11.9 percent of urban households sell more food than they buy. According to the estimates, 60% of poor households would benefit from food price increases, although the size of the benefit will be much smaller than that experienced by well-off net sellers. The results from a similar study in Cambodia are slightly different. Glewwe and Vu (2009) estimate household net food consumption, which is defined as food production minus food consumption.¹⁰ Again they find that rural households and the poor are more likely to benefit from price increases than better-off or urban households. However, on average, all household groups saw a reduction in welfare in the simulation. Even in rural areas 79.6 per cent of households are net food consumers (99.7 per cent of Phnom Penh residents). 76.2 per cent of the poor are net consumers (85.1 per cent of the non-poor). Glewwe and Vu (ibid) suggest that the positive effects in Vietnam arise because of relatively equal land distribution. Yet, it is important to note that, even in Vietnam, according to the assumptions of the model, almost 46 per cent of rural dwellers would see a decline in welfare as a result of increases in the price of food.¹¹

23. Do similar patterns apply to Laos? The methodology applied in Vietnam and Cambodia is difficult to replicate using the LECSIV data. However, the households did complete a detailed monthly consumption diary which distinguishes the source of food: own production or purchased from the market (see Table 2).¹² Although these results rely on the magnitude of supply and

⁹ Purchases of food include purchases of any food items recorded in the household diary of the 2006 VHLSS questionnaire. Food production is calculated as the sum of production of rice, other staples, vegetables, fruit products, livestock and aquaculture products.

¹⁰ Both the Cambodia and Vietnam papers follow the methodology first used by Deaton (1989). Because the Cambodian data did not include information on crop sales, it was impossible to use the same methodology for the two countries. The two approaches are designed to be theoretically equivalent, although in practice differences may arise due to different recall periods or data collection methodologies being applied.

¹¹ Both papers rely on the assumption that there are neither consumer-side responses, such as switching among food items in response to changes in relative prices, nor producer responses, such as increasing production, or changes in the prices of supply inputs or real wages. The failure to account for these potential responses means that the magnitude of the estimated effects on welfare is approximate. In addition, if the extent of demand and supply-side responses varies across the income distribution, the estimated distributional impacts based on the assumptions could also be biased.

¹² Households report only purchases of rice during the month. It is possible that some households who do not report purchasing rice consume rice that they bought in previous months and have stored. This means that the percentage of households buying rice may be underestimated. However, Lao households usually prefer to purchase relatively small quantities of rice at a time, rather than run the risk of the rice going bad or being eaten by pests. The bias is therefore expected to be relatively small, and should not affect the patterns visible between groups.

demand-side responses to increased prices, households that rely on the market for rice are highly likely to be negatively affected by increased prices. Conversely, households that sell rice would potentially benefit from increased prices. The LECS module on crop production contains information on food sales in the last agricultural season, which is also summarized below.¹³ Table 2 indicates that many Lao households are completely unexposed, as consumers, to increases in the price of rice. Only 32% of households report rice purchases, while 80% report consuming rice from their own production.¹⁴

Table 2: Rice consumption and sales by households in Laos (2007/08)

	<i>Percentage of HHs that buy rice</i>	<i>Percentage of HHs that consume own produced rice</i>	<i>Percentage of HHs that sold some rice in the last agricultural season</i>
All	32%	80%	27%
Urban	64%	50%	16%
Rural with road	19%	92%	31%
Rural without road	11%	98%	35%
Vientiane	70%	38%	24%
North	22%	91%	25%
Central	29%	82%	27%
South	30%	83%	31%
Lowland	39%	73%	33%
Midland	34%	80%	14%
Upland	15%	95%	24%
Non-poor	35%	77%	29%
Poor	21%	88%	20%
Jan – Mar	22%	87%	N/a
Apr – Jun	32%	80%	
Jul – Sep	48%	68%	
Oct – Dec	25%	84%	

Source: LECSIV (DOS), household diary, sticky and ordinary rice, weighted sample. Results from background analysis for forthcoming poverty profile; data courtesy of DOS

24. Certain groups are particularly vulnerable to increases in food prices. Urban households, those in the Vientiane and Central regions, and the non-poor, are most likely to be negatively affected. For example, in urban areas 64% of households bought some rice. In contrast, only 11% of households in remote rural areas bought any rice from the market. Similarly, 21% of poor household purchased rice, compared to 35% of non-poor households. Even though the North has deficit rice production overall, households there are less likely to buy rice from the market than households in the South, Central or Vientiane regions. Households are particularly vulnerable during the agricultural low season. Lowland rice is harvested around September, so household stocks are lowest in the 3rd quarter (July-Sept). During this period only 68% of households report consuming their own rice, while 48% bought rice from the market.

25. Rural households are more likely to sell rice and benefit from increased prices than urban households. Surprisingly, however, households in rural villages with no road are just as likely as households with road access to sell some rice. Even the most remote households may have some

¹³ The survey design does not specify whether the “last season” was wet or dry. This means that it is difficult to interpret the results as accurately representing the proportion selling rice. However, the patterns between groups are nonetheless of interest.

¹⁴ In the LECS consumption diary households record consumption of own-produced rice from stored rice, but they do not record consumption of stored purchased rice. This means that the importance of purchased rice is likely to be underestimated here.

opportunity to benefit from increased food prices. However, the poor are less likely to sell rice than the non-poor. Small farms in Lao PDR are often excluded from opportunities for high value-added production. They typically lack necessary resources such as fertilizer, pesticides and land. They also lack knowledge about and access to improved varieties and farming techniques, infrastructure and information to participate in the market.

26. In conclusion, the impact of the recent food price increase on Lao households is likely to be mixed. Increases in prices will be muted compared to international price trends, especially in the most remote areas. Furthermore, a large number of Lao households, especially in rural areas, are insulated from the effect of price increases because they do not rely on the market for rice consumption. Some will benefit from increased incomes if they sell rice. Urban households will face the largest negative impact, so there may be a need to provide support to poor urban households if price increases continue. However, the increase in prices will also affect a significant number of rural households. Although a small proportion of households in the most remote rural areas report purchasing rice, they already suffer from a precarious food security situation. The price level is already generally higher in remote areas, so any price increases may hit the most vulnerable. Households are particularly vulnerable during the low agricultural season. Moreover, households who have already suffered natural disasters such as flooding or pest infestation, and who are more likely to rely on purchased food, could be badly affected by price increases. It is important to note, however, that the findings from partial equilibrium analysis of this may be misleading due to the failure to consider broader effects, including impacts on real wages. Evidence from other countries suggests that these second-order effects can sometimes be important.

D. The global financial crisis and its impacts

27. The global financial crisis began in financial markets with the collapse of Lehman Brothers in August 2008, but quickly spread to the real sector. Globally, growth rates, trade and commodity prices fell, and credit markets became tighter. Financial markets in Lao PDR are undeveloped, so the main impacts of the crisis have been through the real sector: reduced FDI, reduced demand and prices for exports (particularly natural resources such as copper), and reduced tourism. Several investment projects, in particular in the natural resource sector, have been cancelled or delayed, and exports fell by 5% in the first 6 months of 2009 compared to the same period last year. The World Bank (2009d) expects exports to drop by 15% in value terms in 2009, although they are expected to recover in the medium term. The MPI estimates that GDP growth in 2008/9 was 7.6%, only slightly down from 7.8% in the previous year.¹⁵ However, estimates by the World Bank are less optimistic. Latest preliminary estimates predict a drop from 7.6% in 2008 to around 6.4% in 2009 as a result of the financial crisis (World Bank, 2009f).

28. 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 SOEs. In total, the World Bank expects revenue to fall from 14.2% of GDP in 2007/8 to 13.2% in 2008/9. However, partly because of reforms to increase the efficiency of revenue collection 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% of GDP, including off-budget spending, which is significantly lower than the figure of 7.6% of GDP initially predicted in June 2009.¹⁶

¹⁵ Based on verbal communication with the MPI.

¹⁶ Revenues from the Nam Theun 2 hydropower project will provide an additional boost to government revenues.

29. Overall, the global financial crisis is expected to impact Lao households through three primary channels: (i) reductions in employment or earnings within Lao PDR as a result of declines in demand for exports and foreign direct investment; (ii) reductions in overseas remittances or return migration as other countries experience recession; and (iii) reductions in quality or access to services because of cuts in government spending or inability of households to afford the costs (direct or indirect) of services. All of these impacts could have significant direct effects on household welfare. They may also lead to responses such as cutting back on essential food and medical expenditure, pulling children out of school, increasing the labour force participation of women or children, or selling households assets, that could have long term negative effects.

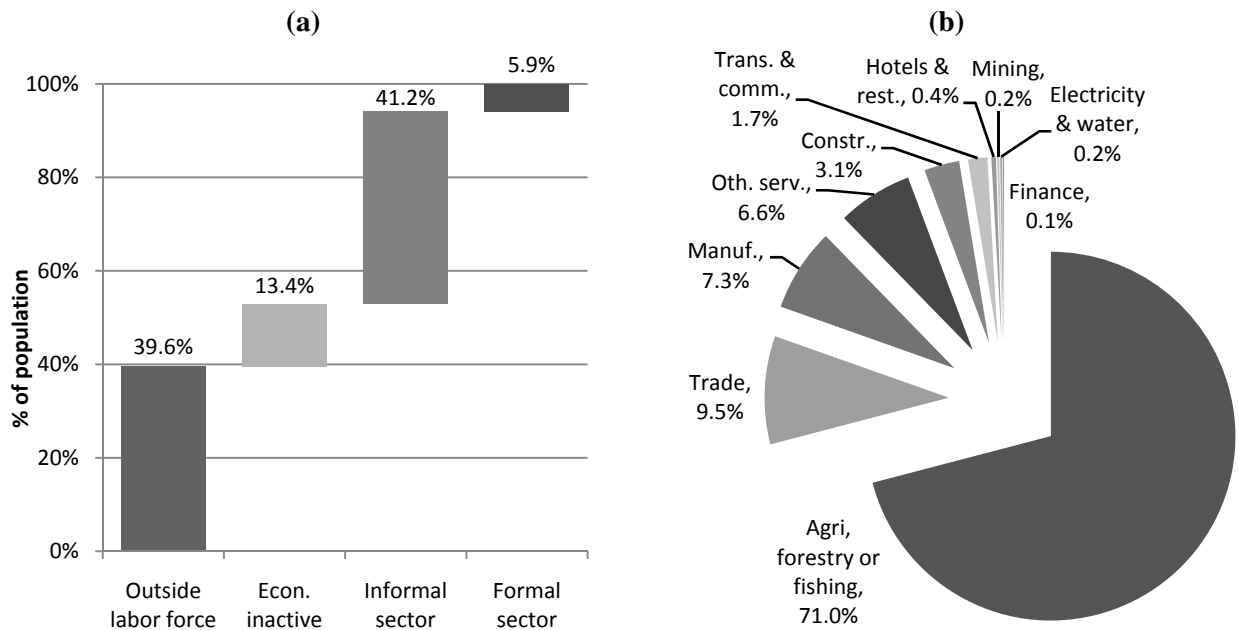
Employment and wage effects of the global crisis

30. Vulnerability to the employment or wage effects of the economic crisis is largely a function of the extent of impact on different sectors of the economy, and the importance of these respective sectors in terms of employment. In this regard, a first thing to note about the labor market in Laos is that it is highly informalized. Indeed, the most recent census suggests that only around 6% of the population (or around 13% of the active labor force) are in the formal sector (Figure 5a).¹⁷ Data from the most recent LECS provides a complementary perspective (see Figure 5b). Survey respondents (above 10 years old) who were engaged in any economic activity were asked about their main activity in the week preceding the interview.¹⁸ Over 71% report agriculture, forestry or fishing as their main activity (even in urban areas, 40% of the respondents report agriculture as their main activity), while only 11% report work in the sectors that are most likely to be impacted by the financial crisis (manufacturing, mining, construction, and hotels and restaurants).

¹⁷ This is most likely an over-estimate. “Informal sector” is defined here as individuals that report being “own account workers” or “unpaid family workers”. Depending on the definition, some of the workers employed in private sector units should also be defined as informal sector workers.

¹⁸ Respondents are asked to answer about activities performed on the farm, in a household business or for someone else, but to exclude own housework/cleaning, childcare, etc. Individuals in education are also excluded.

Figure 5: Structure of the labor force in Laos



Source: (a) Lao Census (2005); (b) Lao Expenditure and Consumption Survey 2007/8, weighted sample, with main activity defined as the activity the respondent spent more time on during the previous week. Results from background analysis for forthcoming poverty profile; data courtesy of DOS.

31. There are no regular labor force surveys in Lao. However, a number of pieces of evidence shed light on the impact of the economic crisis on employment and earnings. The Ministry of Labor and Social Welfare monitors employment using several sources. One source is membership of the social security fund. Membership is mandatory for all formal firms with over 10 employees and voluntary for smaller firms.¹⁹ MLSW report that members of the formal social security fund decreased from 43,500 in December 2008 to 41,000 in March 2009, which could represent layoffs. However, preliminary estimates indicate that membership has recently increased once again. The MLSW team also monitors employment based on information submitted by firms to trade unions, the National Chamber of Commerce and Industry, the Ministry of Planning and Investment, or other ministries. So far, they have found no evidence of large layoffs.

32. Secondly, there have been a number of surveys of consumer and producer sentiment. The World Bank carried out a rapid enterprise survey, covering 140 firms, in April 2009 (World Bank, 2009e). The sectors covered included retail, manufacturing (including export-oriented manufactures) and tourism. Although about 69 percent of firms said that their businesses have been affected by the global economic crisis, the survey reveals limited impact on business performance and operations. Forty-four percent of firms reported higher revenues for the first quarter of 2009, compared to the same period last year, and only 40 percent suffered a decline in their first quarter revenues. Few firms reported adjusting employment, wages or working hours downwards. Business confidence across the manufacturing, retail, and tourism sectors remains strong and the majority of firms interviewed during the survey were positive about the future of their businesses. About 44% of firms are still projecting higher revenues for 2009 compared to 2008 and about 40% are planning to increase their investment during 2009. The results did not vary greatly by sector. Unlike other sectors, the percentage of firms reporting a decline in sales in

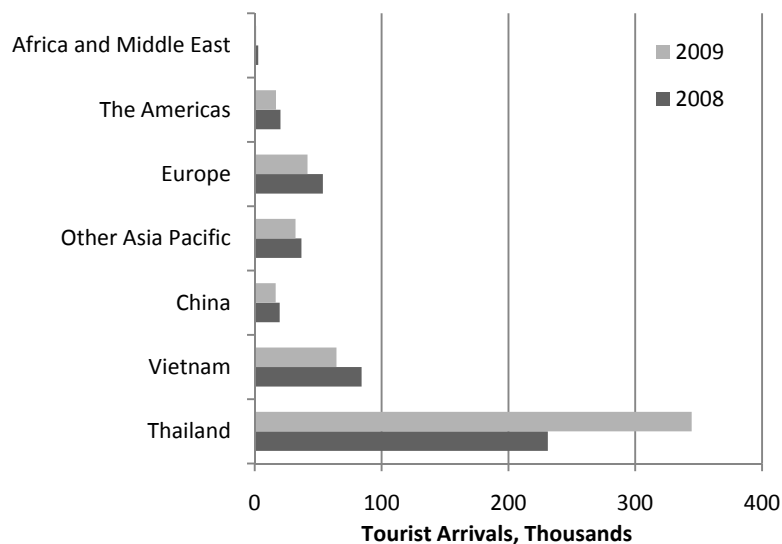
¹⁹ In reality coverage is below 50% of targeted economic units.

the retail sector was slightly higher than those reporting increases, possibly an early impact of the crisis. The World Bank carried out an additional survey of 48 firms in April/May 2009. Twenty-three percent of firms said that they had experienced a reduction in demand, but only 4% had reduced the number of workers or were planning to do so and none planned to reduce wages. The results of these two surveys are consistent with findings of retail and consumer confidence surveys carried out by Indochina Research Co., Ltd (2009a and 2009b).

33. Thirdly, evidence from key sectors does not indicate substantial impacts. The World Bank (2009a) found that, although business leaders had anticipated a drop in demand following the expiration of the Agreement on Textiles and Clothing, up to April 2009, garment producers in Laos were still reporting strong orders. They hypothesize that the small 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 of its close integration with Thai textile industry (a significant number of Lao producers are operating as subcontractors for Thai exporters).

34. There are also reasons to believe that the crisis will have limited impact on tourism. Laos is gradually becoming an integral GMS tourism destination. New tourist sites and accommodation facilities have been consistently developed in 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 have almost tripled between 2003 and 2008. The Lao National Tourism Administration (2008) reports an increase in the number of tourist arrivals in the first 3 months of 2009 relative to the same period in 2008. However Figure 6 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 an impact of the crisis is already being felt and may intensify in future.

Figure 6: Tourist Arrivals 2008-2009 (3 months)



35. Finally, the World Bank carried out a qualitative study in April 2009 (World Bank, 2009c). The preliminary results indicate that workers in some sectors have already been

affected.²⁰ Some factory workers in Vientiane (mostly working in the garment or jewelry industries) reported that their salaries and working hours have been cut by half or more. 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 economic crisis. The results 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.

36. Overall, the effects of the economic crisis on employment and wages in Laos are expected to be relatively muted. There are a number of reasons for this. First, few workers are employed in the formal sector, and the sectors where the majority of the labor force is active (agriculture, forestry and fishing) have not been strongly affected by the crisis. Moreover, available evidence suggests that impacts on non-agricultural sectors, apart from mining, have been limited so far, although some of the results of the qualitative survey suggest that workers in garments and jewelry are beginning to face cuts to wages and working hours, and that tourism has decreased. It is possible that the effects of the global crisis on Laos have been delayed, but will nonetheless be felt. Initially the effects will be felt predominantly in urban areas, with little impact on the poorest households in rural areas, particularly the most remote. However, these households may nonetheless be affected via remittances from internal migrants. Vientiane factory workers in the qualitative survey mentioned that they were able to send less money home as a result of reduced working hours and salaries.

Migration

37. The financial crisis could have severe impacts on Lao households through reductions in employment opportunities and earnings in neighboring countries and overseas. The primary destination for international migrants from Lao PDR is Thailand,²¹ although estimates of the number abroad vary, as much of the migration is informal.²² The literature provides some understanding of the nature of migration, the demographic and social profile of migrants, and the sectors that they are working in. Limited availability of paid jobs, year-round rice shortages and low wages are major push factors for Lao migrants. Wage differentials are large: Thailand's per capita GDP in 2006 was 6.1 times that of Lao PDR in PPP terms. Lack of work in the low agricultural period also drives seasonal migration. Lao migrant workers are mainly young, and come from the provinces that border with Thailand. They are generally employed in sectors where Thai workers are unwilling to work, such as domestic work, construction or agriculture.

38. Migrant workers earn higher wages, which provide direct benefits to them but also allows them to send remittances to their families and communities. According to the LECS survey (see Figure 7), 10% of Lao households in 2007/8 had received remittances in the last month. However, some of these remittances come from family members working within Lao: only 6% had received remittances from abroad. These findings broadly fit with figures from both official sources and

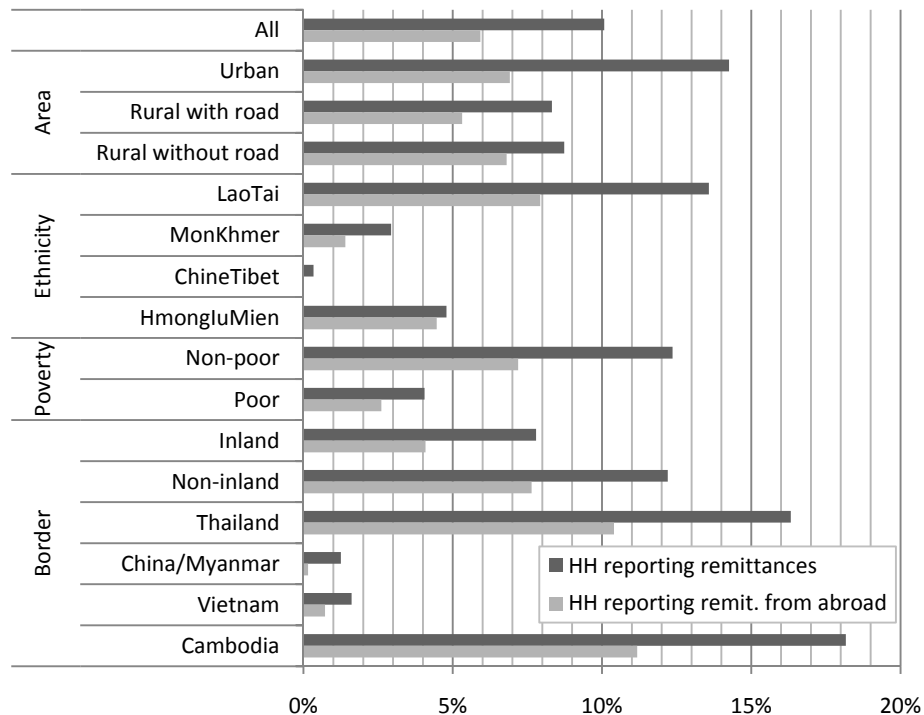
²⁰ Note that this survey deliberately targeted sectors that were expected to suffer effects of the economic crisis, which may explain the difference in results.

²¹ There are also substantial numbers of Lao migrants in developed countries. The ILO (2009) estimates that there are 143,012 Lao migrants in OECD countries including 108,100 in the US and 24,077 in France.

²² 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 to the Ministry of Interior and thereafter 105,250 of them were granted work permits by the Ministry of Labor (IOM, 2008).

case studies. Although the exact magnitude of remittances, including those received through informal channels, is unclear, both suggest that remittances are relatively unimportant in the Lao economy compared to other countries in the region.²³ Remittances are more important for some groups, particularly in urban areas and in areas bordering Thailand and Cambodia. Preliminary findings from focus group discussions carried out in a migrant sending area in the South (World Bank, 2009c) indicate that families and communities received significant support from migrants. However, the LECS analysis indicates that, overall, it is mainly the better off households who receive remittances. Only 3% of poor households reported receiving remittances from abroad.

Figure 7: Percentage of households receiving remittances in the last month, 2007/8



Source: Lao Expenditure and Consumption Survey 2007/8, weighted sample. Results from background analysis for forthcoming poverty profile; data courtesy of DOS.

39. During economic crises, migrant workers are often among the most vulnerable in terms of job losses in destination countries (IOM, 2009). Insofar as impacts on the Thai economy lead

²³ According to Migration and Remittances Factbook (World Bank, 2008b), Lao PDR received only 1 million US\$ of remittances in 2008. Jampaklay and Kittisuksathit (2009) interviewed 117 Lao migrants in Thailand in 2007. The majority sent remittances home through personal networks such as relatives (32%) or friends (20%). Only 15% relied on a formal institution. On average, migrants in the sample had sent home 13,000 baht per annum in the two years prior to the interview. The authors argue that total remittances of Lao migrants in Thailand could therefore be estimated as close to 37-40 million US\$ per annum. Even if this is taken as an upper bound, this is still a tiny fraction of GDP compared to other major sending countries in the region. For example, in 2007, remittances as percentage of GDP in 15.5 percent in Nepal, 11.6 percent in Philippines, 9.5 percent in Bangladesh, 8.1 percent in Sri Lanka, 7.9 percent in Vietnam, and 4.2 percent in Cambodia.

to wage reductions and unemployment among migrants, they can be expected to reduce remittances and increase return migration, leading to unemployment in Lao PDR.

40. So far, evidence on the impact of the crisis on migrants is limited. The Ministry of Labor and Social Welfare receives information from the provinces about return migration, which they gather from district authorities. For example, they report that 1,372 migrants have returned from Thailand to Champasack Province. However, the accuracy of these figures is unconfirmed. Further, migrants tend to come and go frequently and unofficially. It is not clear to what extent recorded movements are related to the financial crisis. Preliminary findings from focus group discussions with returned migrants (World Bank, 2009c) 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. Most of the female migrants and some of the male were planning to return to Thailand, and many young people planned to migrate. Overall, existing evidence does not indicate a significant impact on migration or remittances. This could be because Thai policy towards migration has not become notably more restrictive,²⁴ and because Lao migrants often take jobs that do not interest Thai workers. On the other hand, interviews with village heads indicate that numbers of migrants have decreased, and the State Employment Bureau Bureau indicated that workers in the electronics industry have been returning. Going forward, it will be important to monitor return migration and decreases in remittances carefully and provide support for affected households to reestablish their livelihoods as required.

Social Services and Fiscal Revenues

41. Government expenditure on education and health has not been cut relative to the pre-crisis budget. This is partly because the increase in the budget deficit has not been as large as expected, and because the government has been able to mobilize additional resources to finance planned expenditures. Furthermore, ODA does not appear to have decreased. The Ministry of Planning and Investment reports that ODA for 2008/9 was 559.17 million USD, which was 159.17 million USD above the plan. The Ministry of Education reported a slowing in ODA flows between 2006/7 and 2008/9, but predicted an increase in 2010/11. The Ministry of Health also reported stable ODA flows.

42. There is also no clear evidence of a significant decrease in use of public services. The Ministry of Education collects data twice a year on school enrollments. The data for the academic year 2008/9 shows no reduction in enrolment.²⁵ The Ministry of Health reports an increase in both outpatient and inpatient visits.²⁶ It is possible that quality has declined, or has increased more slowly because of a reduction in funding. It is also possible that, because of reduced income among middle income households, children will move from private into state schools, or

²⁴ Thai migration policy has made a strong commitment not to lay-off or repatriate migrant workers. Present economic policy emphasizes the need of the private sector to employ migrant workers in order to reduce their cost of production in labor-intensive sectors. The bilateral MoUs established between Thailand and three migrant sending countries including Lao PDR further facilitate migration. This allows 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 2009). The registration process started in June 2009 also means that migrants can work legally in certain sectors. It is nonetheless possible that firms give unofficial preference to Thai workers.

²⁵ The primary, lower and upper secondary school net enrolment ratios were 91.6%, 62.7% and 36.8% respectively in 2008/9, and drop outs from primary school were 7.5%. In 2007/8 the enrolment ratios were 89.2%, 59.2% and 37.2%, and dropouts from primary school were 7.9%.

²⁶ Visits increased from 314,160 to 351,863 and 56,921 to 60,325 respectively between 2007/8 and 2008/9

households will be restricted to lower quality health care. However, the Ministry of Education reports a steady increase in private school enrollments at every level from 2007/8 to 2008/9.

E. Social safety nets in Lao PDR

43. Social safety nets are normally understood as mechanisms that protect households against falling into poverty (or against increased deprivation if they are already poor) as a result of risks that they face. While there are a range of informal safety nets, including precautionary savings and reliance on mutual support and informal networks, this section focuses on formalized programs run by government, development agencies, or NGOs. These programs can come in many shapes and forms, including cash and in-kind transfer programs, subsidies, labor-intensive public works programs, and targeted human development programs, among others. Safety nets also often include mechanisms to ensure access to essential public services, such as school vouchers or scholarships and fee waivers for health care services or for heating in cold climates.²⁷ Although there are no universal safety nets in Laos, several programs do address vulnerability. This section summarizes provides an overview of the background and implementation arrangements of these respective programs. The section draws on information gathered from meetings with government as well as information from previous reviews of current mechanisms and institutions, including Ministry of Education et al (2009) and UNDP/UNCDF (2008).

Public and Private Sector Social Security Schemes

44. All public and some formal sector workers in Laos are covered by social security. One scheme covers civil servants. This scheme has its roots in the statutory social security system for employees in the public sector (civil servants and SOE workers), put in place during the years of central planning. It was reformed in 1993, when SOE workers were excluded, and now includes health insurance, sickness cash benefit, maternity cash benefit, birth grant, death grant, disability benefit, pension, child allowance, and unemployment benefit. The scheme covers around 7% of the population (15% if military personnel are included). Recent reforms (Decree 70/PM) have increased employee contributions (8% of salary paid by employees and 8.5% by government). These reforms are currently being piloted in Vientiane capital and Vientiane province (covering around a quarter of members), but will soon be rolled out nationally. While recent reforms comprise an important step in the right direction, the scheme currently grapples with weak administration and uncertain financial sustainability.

45. A second scheme, which covers enterprise employees, was officially established in mid-2001 in according to the Prime Minister's Decree no. 207/PM, dated 23 Dec 1999 under an autonomous Social Security Organization (SSO).²⁸ The SSO is financed through contributions from both employees (4.5% of earnings) and employers (5% of earnings), up to an income ceiling of 1,500,000 LAK, and provides a broad range of benefits.²⁹ Although the 2006 Labor Law states that all enterprises with at least one person are required to join social security, the SSO decree,

²⁷ Broader schemes, such as provision of credit, support of income generating activities, creation of community assets, and labor market programs, can also be considered safety nets. Yet, they are also components of a broader development and poverty reduction strategy, and are hence excluded in this review.

²⁸ When SOE workers were excluded from the public sector social security scheme, a 1994 labor law made SOEs responsibly for providing social security benefits for its employees.

²⁹ Benefits include health insurance, sickness cash benefit, maternity cash benefit, birth grant, death grant, disability benefit, pension, child allowance, and unemployment benefit.

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 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 2008 (SSO, 2008) – about 1.5% of the population. In part, the low coverage reflects the fact that SSO currently targets only a small fraction of the working population.³⁰ However, it is also the result of low enforcement capacity, and low human resource capacity within the SSO to stimulate enrolment and to identify non-compliant firms.

Cash transfers, including conditional cash transfers

46. Cash transfer programs aim to increase poor and vulnerable households' real incomes. For the most part, cash transfers are made to households that are identified as poor or vulnerable based on some combination of demographic, geographic, and economic characteristics (e.g. elderly without support, the disabled, or households assessed as having low income). Although cash transfers do not directly respond to shocks, they can help reduce the negative short- and long-term impacts of shocks. The availability of cash transfers can also enable households to invest in riskier livelihood strategies, knowing that they have a steady source of income if the venture fails.

47. Evaluations show that cash transfer programs can be effective in reaching the intended poor households and that they can have positive impacts on total household consumption, food consumption and child human capital. Although effective targeting is challenging, the administrative costs of cash transfer programs tend to be relatively low. However, cash transfers may reduce the incentive to work. Moreover, targeting is a challenge and some degree of mis-targeting (benefits accruing to households outside the target group) is inevitable.

48. Conditional cash transfers provide money to poor families contingent on them undertaking certain actions. They aim both to increase purchasing power and consumption and to promote investments in human capital. CCT programs in developing countries, such as Mexico's PROGRESA, have been successful in reaching the poorest households and have managed to significantly improve outcomes including education, nutrition, child labour and poverty. Evidence (i.e. Hoddinott and de Brauw, 2008) indicates that they can be more effective than unconditional transfers. However, they face many of the problems of unconditional transfers, including the difficulty of targeting. Furthermore, they rely on services of adequate quality being available.

49. There is currently no institutionalized cash transfer schemes in Laos, but a few donor-supported pilots are currently in operation. For example, the Global Fund to Fight AIDS, Tuberculosis and Malaria has supported a program of cash incentives for TB patients to promote testing and compliance with treatment regimes. Along similar lines, the WFP provides support to HIV/AIDS patients and their families at Savannakhet Provincial Hospital as an incentive to

³⁰ 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% of economic units in the country have a tax registration number. Thus, future efforts to expand enrolment to all firms with at least 10 employees, and eventually one employee, will need to look beyond the small group of tax-paying firms.

adhere to anti-retroviral treatment.³¹ Cash incentives to stimulate uptake of health services (with a focus on maternal and child health, including nutrition) will also be piloted under the new World Bank supported Community Nutrition Project.

50. In all of the pilots to date, the cash or in-kind incentives are quite small, and they do not provide chronically poor households with the means to ensure adequate consumption of food and other necessities. Given that there are a number of groups that cannot be reached through alternative safety net programs, such as workfare, the development of an institutionalized cash transfer program would be an important complement to other approaches. Further work needs to be done to assess the capacity of government to administer cash transfers, particularly at local level. It seems likely that significant increases in capacity for identifying beneficiaries and managing payments would be required. However, countries with similar capacity challenges and economic means have already established successful cash transfer programs—e.g. an elderly social pension program in Nepal, a targeted social assistance cash transfer program in Ethiopia, and a disability assistance program in Afghanistan.

Food transfers and school feeding

51. Food transfer programs aim to help the poor improve their nutritional status, either because they have been affected by shocks, or because they face chronic constraints to food security. Food transfers can be more effective than cash transfers when markets for food do not function well, but the transaction costs—both for the donors and the beneficiaries—are generally higher. Food transfers can be provided either as take-home rations or on-site meals, such as provided in school-feeding programs, and can be linked to attendance or other actions. The impact of food transfer schemes depends on the targeting, the size of the transfers and the choice of commodities. In some cases (e.g. Del Ninno and Dorosh, 2003 for Bangladesh), food transfers can have a larger positive impact on calorie consumption than a cash transfer of equivalent value. Evidence on the impact of school feeding suggests that school feeding helps reduce short term hunger and improves enrollment and attendance, but there is little strong evidence that nutrition or learning outcomes improve, partly because the capacity for “catch-up growth” after stunting during the early years is limited.

52. In Laos, unconditional food transfers, in the form of take-home rations, are provided by the WFP in response to natural disasters under the Protracted Relief and Recovery Operation (PRRO). Food relief requests are initiated by central and provincial level agencies, which are followed by an assessment by WFP field staff.³² All households in affected villages are provided with a take-home ration of 30 kg of rice per person. This ration is calculated to last 2 months, but may last longer depending on the composition of the household. In 2008 relief food was provided to 161 villages in 7 provinces, with a total of 83,600 people receiving rice.³³ A further 60,000 people received relief food after floods in August 2008 (WFP, 2009a).³⁴ Relief is currently being provided to villages affected by rat infestations in northern provinces and villages affected by flooding in the South.

³¹ In 2007 food was given to 424 patients and their families (WFP, 2007b).

³² The main coordinating responsibility lies with the central MLSW, aided by the Ministry of Foreign Affairs, NDMO, MAF, provincial disaster management committees, district MLSW, Lao Red Cross and UXO Lao.

³³ This represents approximately 1.5% of the entire Lao population.

³⁴ This represents 17% of the 350,000 people the Government of Lao PDR and Inter-Agency Standing Committee estimated to have been affected (2008).

53. Food transfers are also provided to school children under the WFP school feeding program, using a combination of on-site feeding and take-home rations. A daily fortified corn-soya blend snack is provided to primary school children. Students are also given take-home family rations of canned fish, rice and iodized salt as an incentive for their parents to send them to school. At first these rations were provided only to girls and informal borders, but this has since been expanded to cover all children.³⁵ In 2008 Phongsaly, Oudomxay, LuangNamtha, Saravanh, Sekong and Attapeu provinces were covered. The program covers 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 program targets all schools located away from district centers. In 2007 the WFP program reached 1,103 schools and 88,020 students. This is approximately 13% of all primary school students.³⁶ As the food taken home by the students reaches the entire family, this represents approximately 291,920 beneficiaries (WFP 2007b).

54. There are plans to expand school feeding under the recent Education Sector Development Framework (ESDF). However, the scope and speed of expansion is yet to be determined. A school feeding program is also in place in 3 districts in Khammouane, supported by IRD (International Relief and Development) and in 14 villages in Savannakhet, supported by the Burnet Institute.

Workfare (food-for-work, cash-for-work and food-for-training)

55. Workfare or public works programs have dual objectives: to provide a source of short-term income to poor workers and to construct or rehabilitate public infrastructure that can contribute to longer term poverty reduction.³⁷ Workfare is often used in post-crisis countries, such as Korea following the 1997 crisis, or in post-disaster situations, such as Sri Lanka after the 2005 tsunami. However, in many countries workfare also operates as a long-term, institutionalized safety net. Workfare programs can provide poor households with a source of income of last resort, thus preventing poverty or depletion of assets and human capital. If they are available as longer-term safety nets, they can serve an insurance function, allowing households to take risks on productive livelihood strategies.

56. In Lao PDR, FFW is supported by 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, households build productive assets including access roads, paddy land, irrigation systems, plantations, fishponds and terraces on sloping agricultural land.³⁸ Communities have a role in selecting types of assets to be created and the aim is for the community to achieve sustainable food security within 3 years using the assets created. Participants in the FFW programs are paid against outputs (as opposed to hours or days worked), following a schedule set by WFP (the rates are slightly different for the two programs).

³⁵ The program is implemented by the MOE and Project Steering Committees, and School Feeding Management Boards at the Provincial and District levels. The SFMBs involve local organizations such as the Lao Women's Union, MOE, MOH and Youth Union.

³⁶ The program targets primary school students only, and the number reached represents the number of primary school students in the targeted schools. In reality more children may benefit, as children often bring younger siblings with them to school. WFP (2009) estimates that the school feeding program covered around 90% of intended participants on average between 2004 and 2007.

³⁷ In this document, the terms workfare and public works are used interchangeably.

³⁸ A village can only receive 1 scheme per year, although it can be renewed for a second year, usually for maintenance purposes. The tasks usually last 3-4 months, including preparation.

57. Activities under the PRRO program are implemented as a collaboration between the MLSW, Ministry of Public Works and Transport, District and Provincial FFW Committees, MAF and regional line agencies, and district MLSW offices. Under the PRRO, districts are targeted for FFW using the District Vulnerability Analysis.³⁹ In 2008, the PRRO implemented FFW schemes in 198 villages across the country, with 30,390 participants and a total number of beneficiaries estimated at 162,500 (WFP, 2009a).⁴⁰ The LS program is implemented by NGOs. The villages under the LS are targeted by the implementing NGOs using their own criteria. In these cases, FFW functions as part of a wider livelihood program. In 2008 the WFP supported projects implemented by 6 NGO partners, plus two government implemented projects. Altogether the LS had 19,345 participants, and estimates 74,000 beneficiaries (WFP, 2009a).⁴¹ Within a targeted district there is no formal means of targeting households.

58. Food-for-training approaches have also been tried in Lao PDR. For example, WFP, in partnership with the IMG (International Management Group), provides rice to encourage women's enrolment in Maternity Waiting Homes in Saravane, Sekong and Attapeu. Working with 3 partners in 100 villages, WFP also planned to distribute 225 tonnes of rice in 2007 as support for training women in literacy and improved weaving design.

59. Cash-for-work (CFW) has already been used by a number of agencies, notably EU and CARE International in Phongsaly. WFP is also piloting Cash for Work on small scale, without changing other aspects of its FFW program. The pilot is taking place in 2 districts of Oudomxay, one with 8 villages and 2,071 beneficiaries, the other with 3 villages and 420 beneficiaries. The pilot is using Lao Postal Service as a cash transfer intermediary, although the exact payment modality varies depending on the capacity of the local LPS.⁴² A collection "fee" could be added to compensate recipients for travel expenses and time. The value of the transfer will be equivalent to the average FFW rice ration, but with a transfer fee of 4-8% (paid by WFP). However, poor functioning of food markets appears to have hindered the effectiveness of the CFW approach even in the pilot phase: one community demanded food instead of cash, so only 10% of the funds in that community were transferred as cash.

Fee waivers and scholarships

60. Fee waiver programs are designed to help poor households maintain access to health and education facilities without causing impoverishment or financial distress. They can be particularly important when household are faced with shocks that might otherwise lead them to pull children out of school or forego essential health services. However, fee waiver programs face a number of challenges, including the difficulty of targeting and loss of revenue for service providers. Furthermore, the reduction in out-of-pocket payments may not be enough to promote access to services if the poor face other costs, such as transport and lodging.

³⁹ This is based on secondary data, from various sources, for a number of indicators: including rice production, cropping diversity, livestock ownership, access to forested areas, access to roads and rivers, malaria incidence, UXO impact and 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.

⁴⁰ This represents around 3% of the Lao population, but around 11% within first priority districts. Within a village, all households are eligible for support.

⁴¹ This is 1% of the Lao population, but over 5% of the population of the first priority districts. In total the PRRO and LS schemes probably cover around 16% of the population of the first priority districts.

⁴² LPS can make financial transfers to 61/132 districts in the country as a whole, and 20 out of 35 target provinces in the North.

61. In the education sector, primary and secondary schools are supposed to be fully subsidized by government. However, parents have to finance uniforms and other costs, and are sometimes asked to help finance non-wage recurrent costs of the school. In some cases schools or village authorities exempt the poorest students from paying these informal fees at their discretion, but the extent of implementation of waivers appears to be limited. Formal scholarship programs exist only at the tertiary or vocational level.

62. Arguably, the financial costs associated with health care are particularly problematic, both because they are less predictable, but also because they can be very substantial if and when health shocks occur. In the years following the establishment of Lao P.D.R., health care was primarily funded through the government budget, with financial and in-kind support from the Soviet Union, Vietnam, and China. A limited range of services was provided for free through a small, albeit expanding, network of government facilities. Over time, limited budgetary resources and declining support from traditional partners led to a growing reliance on households and communities to finance health care. Initially, this took the form of Revolving Drug Funds (RDFs), which were established on a pilot basis in the early 1990s. Subsequently, in 1995, a national policy on user fees (Decree 52/PM), was officially adopted, stipulating which services and providers will be covered by fees and providing exemptions for defined groups.⁴³ More recently, in 2005, legislation has extended the scope of user charges to cover consultation fees and a broader range of diagnostic procedures.

63. With the growing importance of user fees, combined with the steady expansion of the private health care sector, out-of-pocket payments have come to play an increasingly important role in financing health care. According to the most recent National Health Accounts estimates, out-of-pocket expenditures accounted for around 74% of total health expenditures in 2005, or about USD13 per capita per year. These expenditures include payment of user fees in public facilities, as well as expenditures on health care and drugs from private providers (clinics, pharmacies, drug vendors, traditional practitioners, and so forth) within Laos and abroad. The heavy reliance on out-of-pocket payments results in considerable financial barriers to utilization of health services, contributing to low levels of utilization and significant health-related financial risk.

64. The Health Care Law includes provisions for health care to be provided for free to poor patients. However, in practice, these provisions are rarely implemented. In response to the growing reliance on user-fees in the health system, the government has put in place four different health insurance and safety net programs: (i) the Civil Service Health Insurance (CSHI), (ii) the Social Health Insurance Fund (SHIF), (iii) Community Based Health Insurance (CBHI), and (iv) Health Equity Funds (HEF) (see Table 3). However, coverage of these schemes remains at only around 10% of the population, so significant challenges remain in ensuring access to services and effective financial protection in the health sector.

⁴³ Although neither Decree 52 nor subsequent MOH instructions (no. 2635) specify the intended goal of the policy, there was an expectation that the formalization of user fees should make health care facilities increasingly self-reliant.

Table 3: Overview of health insurance and health protection schemes

	Civil Service Health Insurance	Social Health Insurance Fund	Community Based Health Insurance Scheme	Health Equity Funds
Responsible agency	Ministry of Labor and Social Welfare	Social Security Office (under MOLSW)	Ministry of Health	Ministry of Health
Year of establishment	1993	1999, operation began in 2001	2001 (Sissatanak district)	2003 (Nambak district)
Policy / regulatory framework	Decree 178/PM (2006)	Decree 207/PM (1999)	MOH Decree 723 (2005) MOH rules and regulations on CHBI	The Law on Health Care includes provisions for HEFs and similar mechanisms; HEF regulations have been established for the respective schemes
Beneficiaries	Civil servants, contract staff, dependents, retirees, military and public security personnel	Employees in participating enterprises, their dependents (including children under 18, or under 25 if in full time education), and retirees.	Households in CBHI districts that decide to enrol	Current HEFs pre-identify the very poor using different approaches. Coverage ranges from 3% to over 20% of catchment population; beneficiaries can also be post-identified
Coverage	Nearly 400,000 civil servants and dependents (around 7% of population); Military and public security personnel are estimated to comprise another 500,000	Approx. 80,000 (1.4% of the population)	Approx. 22,000 (0.4% of the population)	Approx. 50,000 (1% of the population)
Benefits	Comprehensive (govt. facilities), although reimbursement is often incomplete under old arrangement of patient reimbursement	Comprehensive (govt. facilities), with some restrictions (long IP stays and some specialist services)	Comprehensive (govt. facilities), with some restrictions (long IP stays and some specialist services)	Medical services in govt. facilities, drugs and other costs (incl. food allowance) at HC, district, and provincial level; transport costs
Contributions	Originally 6% of basic salary. Following recent reform, 8% of salary by employee and 8.5% by government.	4.5% of earnings from employees; 5% from employers. Out of the total 9.5% contribution, 4.4% is allocated to health benefits	Ranging from 40,000 – 150,000 Kip per person per year, depending on location and household size	No contribution

Labor market policies

65. Active labor market policies can sometimes be used to reduce the risk of unemployment and to increase workers' earning capacity. These policies work by enhancing labor supply (through training), increasing labor demand (through direct job creation through public works programs or subsidies), and improving the functioning of the labor market (through job search or employment services). Low-income countries typically rely on increasing labor demand through employment creation programs such as public works. As discussed above, Lao PDR has several localized FFW programs, but no national public works programs. However, part of the GOL's strategy to mitigate impacts of the financial crisis is to create employment through sizable public

and private expenditure. Recently, the GOL 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.

66. Several vocational training programmes work towards increasing the quality of the labor force. For example, the Ministry of Labor and Social Welfare works with mass organizations such as the Lao Women's Union, Trade Unions or the Youth Union, to provide vocational training. These programs provide training in a variety of fields, including agriculture, food processing and services. Vocational training programs are also available under the Ministry of Education and other sectoral ministries. In 2008/9 around 13,000 students were enrolled in these vocational training programs, and an additional 16,000 were receiving teacher training.⁴⁴

67. Enforcing minimum wages is an active labor market policy often implemented in developed and developing countries. The MLSW recently announced an increase in minimum wages for all formal sector workers from 290,000 kip to 348,000 kip for workers.⁴⁵ However, in practice, enforcement is difficult. In any case, the effectiveness of raising minimum wages in protecting incomes is questionable. Evidence demonstrates that if the minimum wage is set at a moderate level then it does not cause significant employment losses, while keeping low-paid workers out of poverty. However, it is generally not well targeted at the poor (see Rutkowski, 2003).

Price control: subsidies and stabilization

68. One way for governments to mitigate the impacts of increases in international commodity prices is to directly control the price of food and other commodities such as agricultural inputs. Prices can be controlled both to guarantee access to essential commodities at affordable prices and to reduce variability in prices. Prices can be kept low using open-ended, untargeted subsidies or via subsidized sales by government, which may be rationed. Alternatively, if only "inferior goods", are subsidized, some targeting is achieved, as the poorest are more likely to purchase them. A common method to achieve price stabilization is "buffering stock by the government". The government or assigned public agency sets a trigger price. When the trigger price is reached, stocks are released to meet demand and reduce prices. A price floor is set, on the other hand, to be high enough to protect farmers (Islam and Thomas, 1996). Price stability can also be achieved through the control of imports and exports.

69. There are no systematic price subsidies or subsidized food sale programs 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 government interventions in the market. The Prime Minister's *Decree on Goods Price Control* (October 2001), reaffirms the central role of the market in setting prices. However, it also states that the Ministry of Commerce is to be directly responsible to the GOL for the control of prices of consumer goods and raw materials. Goods to remain under state control include some imports, agricultural produce, industrial products, some domestic products, and natural resources for export. Amendments authorizing the Ministry of

⁴⁴ The quality and length of these courses varies.

⁴⁵ The calculation method is from collection of basic consumption of each worker in a month. Business units, manufacturers and service providers are also theoretically obliged to pay an additional 8,500 kip per worker per day for meals, meaning a total of at least 569,000 kip per month for unskilled workers, working 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.

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 average goods prices in each period, and is charged with coordinating with other agencies to ensure adequacy of supply of domestic goods and consumer demand. But it is unclear how this is achieved, and a price control management unit is yet to be set up within the Ministry of Commerce.

70. On the production side, the government of Lao PDR sets the minimum farm-gate price to ensure price stabilization. It is unclear how and whether this is enforced in practice. The government also strongly encourages private initiatives, including those by foreign investors from neighboring countries, to promote contract farming.⁴⁶ 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 need support in their ability in negotiating fair prices and enhancing their value-added products through processing, sorting and packaging.

Livelihood promotion

71. Livelihood promotion can take many forms, including development of community assets to enhance productivity and enhance access to markets. Although livelihood programs tend to be focused on long-term poverty reduction, they can also act as social safety nets, for example by providing employment opportunities in the short term.

72. There are multiple livelihood promotion projects active in Lao PDR, supported by donors and by the GOL. The Poverty Reduction Fund (PRF) is an example of a large-scale livelihood promotion project. The Fund was established in 2002 and is primarily funded by the World Bank and Swiss Agency for Development and Cooperation (SDC). The Fund contributes funding to communities as grant assistance for approved sub-projects.⁴⁷ The Fund is targeted at the poorest villages in the poorest districts and aims to address chronic poverty. However, in most cases villagers are paid only for skilled work, providing unskilled labor for free.⁴⁸ There are other livelihood promotion programs working in Lao PDR, such as the UNDP District/Village Development Fund and the MOLSW Social Assistance Programme. However, because of the fragmented nature of these programs, and the fact that they, like the PRF, aim to address chronic rather than transitory poverty, their role as a social safety net is limited.

⁴⁶ 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 for agriculture products produced under contract farming.

⁴⁷ Since 2003, a total of 208 billion Kip was approved for 2,422 subprojects in 6 provinces (Luangnamtha (3%), Huaphanh (39%), Xiengkhuang (11%), Savannakhet (20%), Saravanh (8%), and Champasack (19%)). The percentage term was calculated using the number of sub-projects. Small percentage of subprojects approved to Luang Namtha (3%) is because Luang Namtha is a new province in the PRF intervention and has therefore received only 65 approved subprojects under Cycle VI. The other five provinces have been PRF members since 2003 (Cycle I)

⁴⁸ If subcontractors are engaged by the village to carry out the project, they pay a market wage, at their discretion, for unskilled labor. Villages carrying out projects themselves, however, can pay villagers' unskilled labor only in exceptional cases (high poverty level of a specific village). In Cycle VI, 35% of infrastructure projects were carried out by communities.

Welfare programs for vulnerable groups

73. As mentioned above, children and other vulnerable groups are often particularly badly affected by shocks. There are a number of programs in Lao PDR, coordinated by the MOLSW Social Welfare Department that aim to support vulnerable children, women, and the disabled, some of which are reviewed by Ministry of Education et al. (2009). The programs include measures to protect street children, orphans, victims of domestic violence and those at risk of trafficking. However, these programs are small-scale and limited in scope. They are likely to need substantial expansion if they are to adequately cover these highly vulnerable groups.

F. Conclusions and key challenges

74. This report has shown that, despite growth and poverty reduction over the past 15 years, Lao households are highly vulnerable to seasonal fluctuations, and to agricultural shocks, natural disasters and health shocks. The food price and financial crises have highlighted other forms of vulnerability that will become more important as the Lao economy becomes more open to global markets and increasingly marketized. For a variety of reasons the impact has been limited so far, but some of the preliminary results of the qualitative survey suggest that workers in garment and other manufacturing sectors are beginning to face cuts to wages and working hours, and that tourism has declined.

75. Some groups are particularly vulnerable. The chronic poor in remote rural areas, including ethnic minority groups, remain highly vulnerable to seasonal fluctuations and natural disasters. However, households in urban areas, especially the poor and near-poor, are vulnerable to future increases in food prices if they are not accompanied by commensurate wage increases. Moreover, as the Lao economy develops, more households will rely on off-farm work or migration, making them increasingly vulnerable to domestic and global macro-shocks. For instance, migrant-sending households in the provinces bordering with Thailand and Cambodia and low paid workers in export-oriented industries or tourism are particularly vulnerable to shocks that impact on the demand for labor. When shocks materialize, children, women, the disabled and the elderly are likely to be particularly badly affected.

76. The report highlights the potential value of social safety nets, but the review of the Lao social safety net system revealed important gaps in current policies and programs. For one thing, the safety net system fails to provide protection against a number of important risks. For example, although rural households sometimes receive support in response to large-scale natural disasters, they lack support during the agricultural low-season or to deal with household-level shocks such as illness or injury. Households affected by food price increases or by economic fluctuations such as reductions in wages, unemployment or reductions in migrant remittances are also largely uncovered. And, apart from savings and family networks, most households lack any means to guarantee old age security. There are also significant gaps in geographic coverage of current programs. Many programs are limited to the most remote rural areas, and coverage is often not universal even within these regions. Other rural areas, particularly the districts along the Mekong, account for a large number of poor people, and are not reached by existing programs. This is important, as new sources of vulnerability are likely to disproportionately affect households outside of the traditional priority districts.

77. This report suggests some potential directions forwards. Expanding workfare could be an attractive strategy. Workfare programmes can provide income support to reduce negative short and long term impacts of economic shocks. They can also increase incomes in the long term and

reduce vulnerability by building the human capital of the poor and enhancing productivity through the provision of infrastructure or assets. If the wage is set appropriately they can be self-targeting, because only the poorest households will choose to take up employment. This would be an advantage in the Lao context, where capacity to carry out targeting is currently low. In addition, workfare programs can help to buffer household consumption when households have other sources of income, for example during the agricultural low season, and they can support recovery following natural disasters.⁴⁹ Lao PDR has some positive experience with food-for-work programs, funded by WFP, and this could form a basis for further expansion of workfare. However, existing programs operate on a relatively small scale, and often as a one-off response to a particular shock or event, and hence do not provide a broad-based and institutionalized safety net to protect against poverty resulting from seasonal effects or idiosyncratic shocks. While workfare is an attractive option, further work needs to be done to assess the capacity of both central and local government to implement workfare on a larger scale, and to investigate the appropriate design of such a scheme.

78. There are certain groups who will be unable to benefit from workfare, or who will need additional support. These groups include the elderly, disabled and possibly female-headed households and the very poor. Further work would be needed to determine the appropriate modality for transfers to these groups, which might include cash, food or both. Further analytical work could help to determine which demographic or other characteristics could be used for targeting. In addition, it would be necessary to assess government capacity to carry out household or individual-level targeting; almost all current programs focus on geographic targeting. Moreover, given the importance of health shocks, there is an urgent need to improve access to services and enhance the protection against high (potentially catastrophic out-of-pocket) expenditures. This can be achieved either by expanding health insurance coverage, or through direct budgetary financing of hospitals and health centers to reduce the reliance on patient contributions.

79. Finally, the role of the economic growth and development process in determining vulnerabilities needs to be more clearly understood. “Inclusive” growth that increases the incomes of the poor should have a role to play in reducing vulnerabilities. In addition, increased access to infrastructure and knowledge can help to reduce the variability of household incomes and enhance food security. This means that policies such as livelihood promotion and infrastructure development have an important role to play, in addition to traditional safety nets, in reducing vulnerability.

80. Substantial work is needed to move this agenda forwards. Implementing a comprehensive and institutionalized safety net program will require substantial investments, both to finance the program itself, and to develop the required capacity and knowledge at both local and central levels. Some programs will also require household-level targeting mechanisms, which are challenging to design, develop and implement. While there are no easy solutions, reaching consensus on priorities and policy options for addressing vulnerability in Laos is essential if recent progress in poverty reduction and economic growth is to be sustained and deepened.

⁴⁹ International experience suggests that countries which operate well-designed and well-targeted cash for work programs during normal times as part of an overall social protection strategic framework have done a lot better in coping during a disaster, as they were able to quickly expand the ongoing program (del Ninno et al., 2009).

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