

# WHAT DOES RECENT EVIDENCE TELL US ABOUT POVERTY IN LAO PDR?

## KEY TAKEAWAYS

Poverty continues to decline in Lao PDR. Recent data shows that the proportion of the population living in poverty declined to 23.4 percent in 2012/13, implying that poverty in Lao PDR has halved since 1992, but challenges lie ahead:

- First, there is a large gap between the rate of poverty reduction and that of economic growth. The high rate of GDP growth in Lao PDR over the past decade has not translated into high growth in consumption among ordinary citizens.
- Second, many households face a high risk of falling into poverty. A large number of previously non-poor people fell back into poverty even as some others moved out of poverty.
- Thirdly, many regions where significant gains in monetary poverty occurred still lag behind in human development outcomes such as secondary school enrolment, stunting and infant mortality, which are long term determinants of human well-being.

These challenges require that policy priorities should focus on:

- Making growth more inclusive by boosting incomes in sectors where the majority of people are directly engaged in (i.e. agriculture and non-farm household businesses) and harnessing revenues generated in the resource sector to improve equity in access and quality of public services,
- Providing a safety net that protects households from falling back into poverty,
- A balanced focus on monetary poverty and human development outcomes to combat multiple deprivations.

## UPDATE ON THE POVERTY STATUS IN LAO PDR

Poverty continues to decline in Lao People's Democratic Republic (PDR). Recent estimates from the Laos Expenditure and Consumption Survey (LECS 5) show that the proportion of poor people - those whose consumption is less than the national poverty line, declined by 4.3 percentage points from 27.56 percent in 2007/8 to 23.24 percent in 2012/13. As Figure 1 shows, the same trend is observed when you consider the proportion of people living on less than 1.25 PPP dollars a day. These estimates imply that poverty in Lao PDR halved from 46 percent in 1992/93 when the first LECS survey was conducted.

Other indicators support evidence of improvements in average living conditions (see Figure 2). Households are living in better houses and significantly more of them own more assets, even among the poor. More households (41 percent in 2012/13 compared to 28 percent in 2007/8) are living in houses built with bricks or concrete and more of them are living in houses with cement floors or floor tiles compared to 2007/8. Nearly 80 percent of households were connected to electricity in 2012/13 and 70 percent have access to an improved toilet. This is a significant increase especially in rural areas. Net enrollment in lower secondary school too, increased among both the poor (by 8 percentage points) and the non-poor (by 12 percentage points).

Figure 1: Trends in poverty in Lao PDR: 2007/8-2012/13

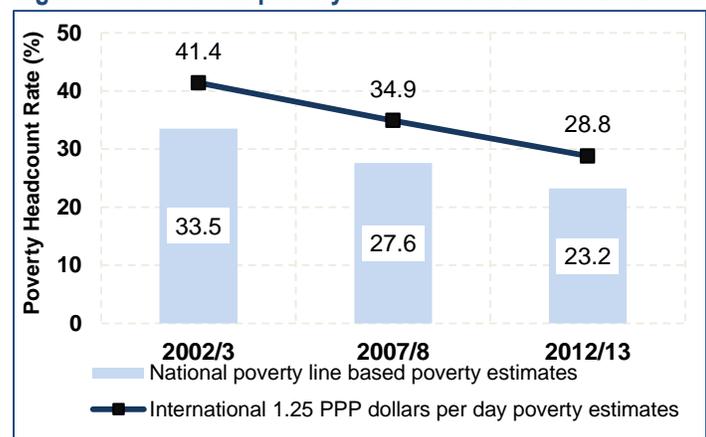
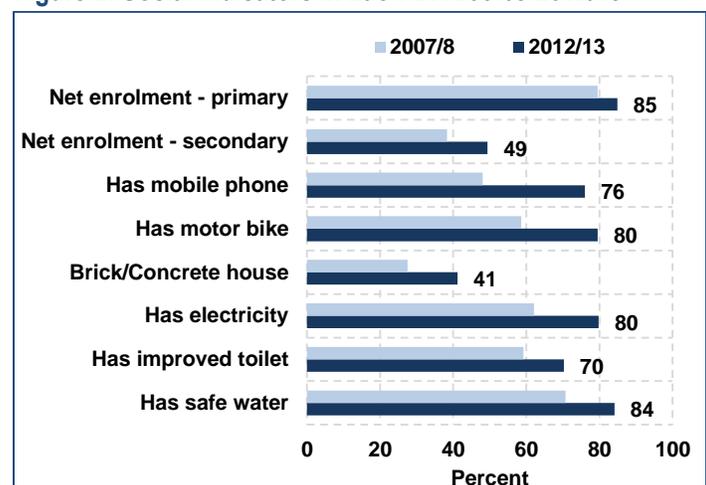


Figure 2: Social indicators in Lao PDR 2007/8-2012/13



Although life in Lao PDR is improving, consumption levels for the majority of the population are quite low by international standards (see Figure 3) and many people remain vulnerable to falling back into poverty. Two thirds of the population in Lao PDR lives on less than 2 (PPP) dollars a day, whereas only the poorest 10 percent in Vietnam and Thailand live on less than 2 PPP dollars per day. Even the richest 10 percent (excluding the very richest) on average live on less than the benchmark for the global middle class of 10 PPP dollars a day.

These aggregate improvements in welfare mask large differences between regions and socio-economic groups (Figure 4 – 5). Half of the population in Saravane and at least two out of every five people in Bokeo and Sekong live in poverty, in contrast to just 1 out of every 17 people (or 6 percent) in the capital city. Poverty is substantially higher in rural areas, at 28.6 percent, compared to 10 percent in urban areas. This gap increased over the past five years when poverty declined faster in urban areas. Now rural areas account for 87 percent of the poor compared to 80 percent before. Poverty is concentrated among minority (non-LaoTai) ethnic groups, the less educated - still a disproportionate share of them ethnic minorities, and those who primarily depend on family farming or are unemployed. However, the Chine-Tibet ethnic group has fared better in recent years, as their poverty rate significantly declined to levels close to the LaoTai group. Poverty declined faster in the North in general (except Bokeo), but rose in some provinces (Champasack and Saravane) in the South.

Figure 3: Mean per capita consumption by decile

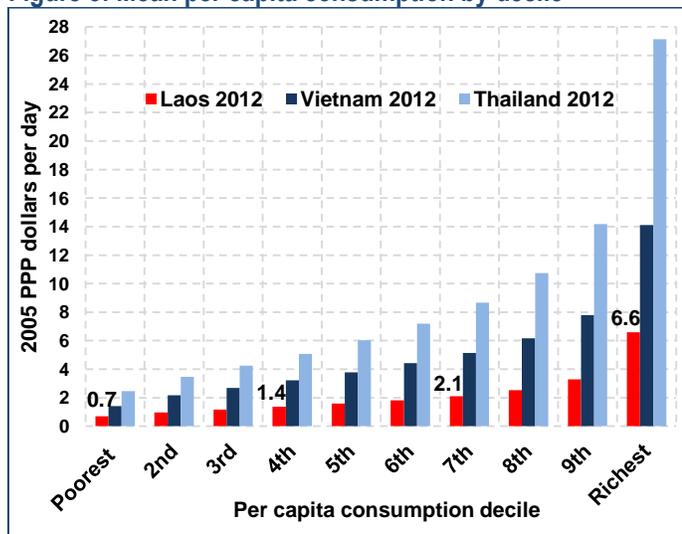


Figure 4: Poverty rate by province – 2012/13

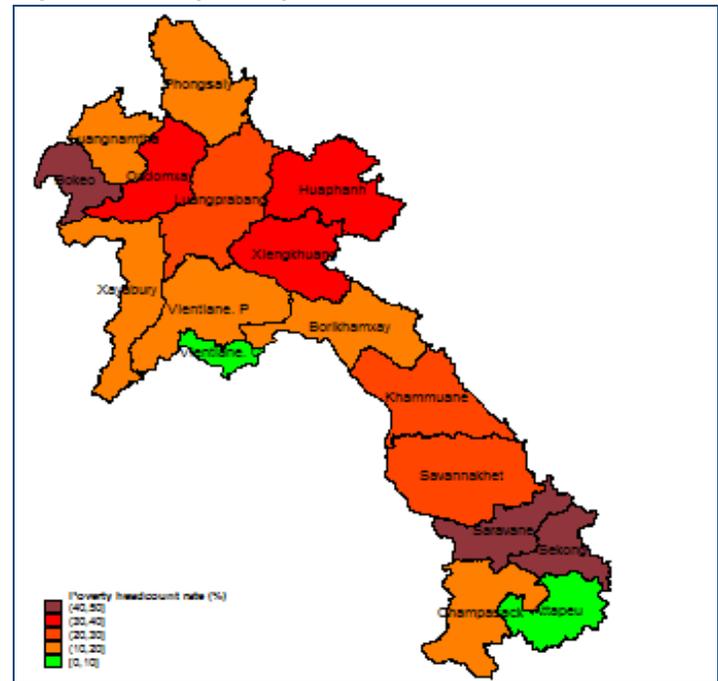
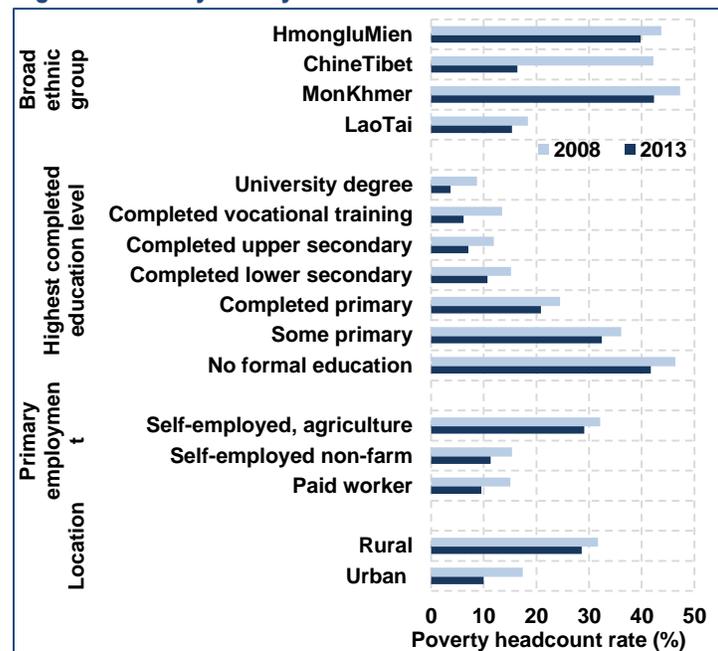


Figure 5: Poverty rate by socio-economic characteristics



Inequalities across regions and socio-economic groups are observed in other indicators too. Minorities constitute two thirds of people without formal education for example. Net secondary enrollment in Lao PDR as a whole is almost 50 percent, but it is as low as 31 percent in Phongslay and Saravane, and as high as 82 percent in Vientiane capital. Both access to improved toilets and electricity increased across the board, but only 43 percent and 59 percent of households

below the poverty line have access to improved toilets and electricity respectively, compared to 85 percent and 91 percent among households whose consumption is more than double the poverty line. Gender gaps are also evident within groups. Less than 60 percent of women in poor households can read and write, compared to over 80 percent for males.

## EMERGING CHALLENGES

The rate of poverty reduction has been slow relative to the high rate of economic growth experienced in Lao PDR in recent years - even when compared to other countries in the region (see Table 1). For every 1 percent increase in GDP per capita, poverty fell by around 0.5 percent, yet growth in other countries (except Philippines) has resulted in a proportionately higher rate of poverty reduction, even among countries with similar levels of inequality to Lao PDR.

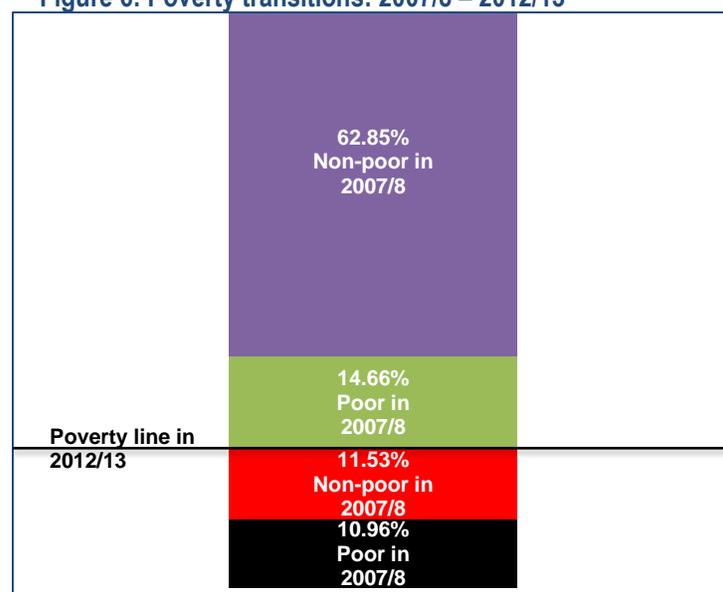
Economic growth in Lao PDR has not been matched by a proportionate growth in household consumption, contributing to the small impact of growth on poverty. At just 2 percent, growth in average consumption fell behind the rate of economic growth by four percentage points. This is indicative of slower growth in household incomes when economic growth is driven by growth in capital intensive sectors backed by foreign investment, resulting in limited opportunities for ordinary people, who only have labor to offer, to participate fully in the growth process. This was the case in Lao PDR. Consequently, growth in incomes of poor people in the country lagged behind the overall rate of economic growth.

Moreover, growth was more favorable to the non-poor than the poor, so inequality increased over the past decade. Median per capita consumption grew at 1.9 percent per annum, but average consumption among the poorest 20 percent grew by only 1 percent per annum while average per capita consumption among the richest 20 percent grew by 2.4 percent. The Gini coefficient, a measure of inequality, increased from 32.5 in 2002/3 to 36.2 in 2012/13, but much of the increase took place in the first 5 year period. The rise in inequality was mainly driven by a widening rural-urban gap and rising inequality in urban areas within and across provinces. The rural-urban gap and inequality within urban areas further increased between 2007/8 and 2012/13, but overall inequality increased by a small margin then, only because inequality in rural areas went down due to a slowdown in growth of incomes of rich people in rural areas.

Table 1: Growth elasticity of poverty

| Country     | Poverty rate (PPP2005 1.25-a-day) | Growth elasticity of poverty (PPP2005 1.25-a-day) | Annualized per capita GDP growth rate | Gini Coefficient |
|-------------|-----------------------------------|---------------------------------------------------|---------------------------------------|------------------|
| Laos        | 28.8                              | 0.5                                               | 5.9                                   | 36.4             |
| Cambodia    | 7.2                               | 5.2                                               | 3.3                                   | 28.2             |
| Indonesia   | 9.7                               | 2.4                                               | 4.5                                   | 37.2             |
| Philippines | 17.8                              | 0.8                                               | 4.2                                   | 43.1             |
| Thailand    | 0.1                               | 7.5                                               | 1.4                                   | 39.3             |
| Vietnam     | 2.9                               | 3.5                                               | 4.6                                   | 35.6             |

Figure 6: Poverty transitions: 2007/8 – 2012/13

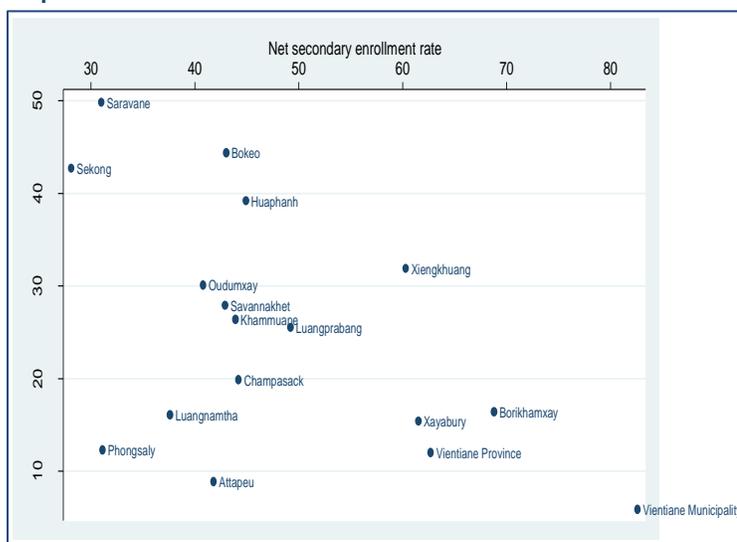


Many households are vulnerable. A large number of them fell back into poverty even as other households escaped poverty. This further slowed down the pace of poverty reduction. In fact, poverty could have been as low as 11 percent if all households who were non-poor in 2007/8 remained non-poor. Many non-poor households in Lao PDR are close to the poverty line hence vulnerable to shocks. Worse, factors like food price changes that lifted some groups out of poverty either pushed others into poverty or hindered their progress. Thus while 15 percent of people moved out of poverty between 2007/8 and 2012/13, about 11.5 percent of the population fell into poverty over this period, implying that half the people who were poor in 2012/13 were previously non-poor (Figure 6). Indeed, poverty rose overall in the South and in lowland areas, especially around the border with Cambodia. Poverty also declined much slowly among agricultural households in rural areas. This reversed the rapid drop that took place in these areas between 2002/3 and 2007/8, proving

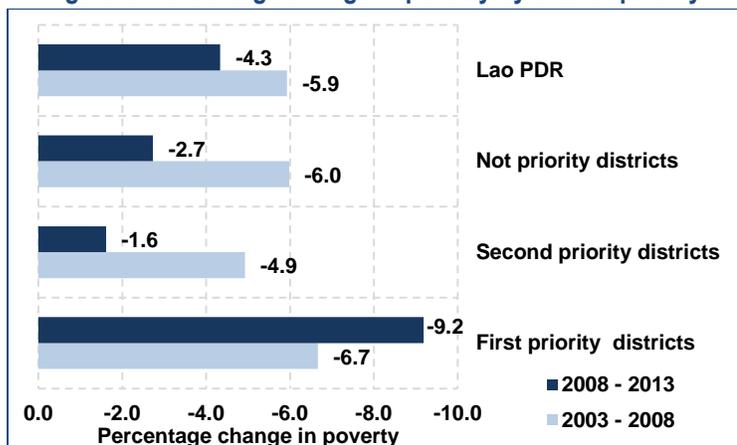
that impressive gains in poverty reduction can easily be overturned if households experience shocks in later periods.

**Human development outcomes are still lagging in provinces that saw the fastest decline in monetary poverty in recent years.** Poverty declined fastest in Northern provinces – especially among households living close to the China-Myanmar and Vietnamese borders. However, the North in general still has very high prevalence of stunting and under-five mortality and has low rates of net secondary school enrollment - just like the South. An example is Phongsaly. It had the largest decline in monetary poverty and now has the fourth lowest poverty rate. Still, it has the second lowest net secondary enrollment rate (see Figure 7) and highest stunting (61 percent) rates. Progress against monetary poverty was made but gaps in other dimensions of well-being remain large.

**Figure 7: Net secondary enrolment and poverty rate by province: 2012/13**



**Figure 8: Percentage change in poverty by district priority**



## POLICY PRIORITIES

**Recent evidence suggests that targeted poverty interventions had a significant impact on poverty.** Districts with first priority for poverty interventions experienced the largest decline in poverty between 2007/8 and 2012/13 (see Figure 8). Their poverty rate now equals that of second priority districts. However, poverty in these districts (at 34 percent) is still double the poverty rate in non-priority districts so further targeted investments are necessary. As the first priority districts caught up with second priority districts, a re-prioritization may be required too. The slower pace of poverty reduction in second priority districts in recent years is evidence that these districts may require as much investment as the first priority districts.

**Moving ahead targeted poverty interventions should be guided by the following priorities:**

**Providing a safety net to protect households from falling back into poverty and safeguard the progress made so far.**

This requires putting in place programs that provide a cushion for households that experience shocks and that either reduce income volatility or provide an insurance against such volatility by providing alternative livelihood sources during the times when households are most vulnerable.

**Tackling multiple deprivation by improving other aspects of human welfare that have long lasting effects on poverty.** Monetary poverty should not be single criteria for choosing districts to target poverty interventions. Even when monetary poverty is reduced, continued investments should be made to bridge the gap in human development outcomes like schooling and health.

**Making growth more inclusive, in order to achieve a higher rate of poverty reduction.** This can be achieved by i) boosting incomes in sectors that directly employ most of the people in Lao PDR – essentially making agriculture and household businesses more productive and profitable and ii) using revenues generated from the resource sector currently driving growth in Lao PDR to improve access and quality of public services and equity in their distribution in order to create opportunities for ordinary citizens to share and participate in the growth process ■



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**Funded by:**

**Australian Government, Department  
of Foreign Affairs and Trade**



**DFAT**

**Acknowledgements:**

**This report was written by Obert Pimhidzai. Statistics presented in this report are drawn from a Lao Poverty Profile Report produced in collaboration with the Lao Statistics Bureau, Department of Social Statistics.**