LAO DEVELOPMENT REPORT 2014

Expanding Productive Employment for Broad-Based Growth

SUMMARY

WORLD BANK GROUP
KEY MESSAGES

- Although recent media reports of a perceived “skills problem” in Lao PDR have spurred an intense focus on the role of the education sector in creating the right skills, this focus on skills overlooks more fundamental issues that are critical to the future of Lao PDR’s workforce and economy.

- In order to achieve broad-based growth and poverty reduction, Lao PDR must channel greater resources toward tackling key workforce and productivity challenges.

- Given the large majority of the population that is engaged in agriculture, boosting agricultural productivity is a top priority for improving livelihoods and reducing poverty. Higher agricultural productivity will raise farm incomes and will eventually free workers to move to higher-productivity, higher-paying sectors.

- Diversification will be critical for providing better employment opportunities for workers who are released from agriculture. Because the natural resources sector generates few jobs, greater emphasis is needed on creating an environment that helps businesses in the employment-generating manufacturing and services sectors flourish.

- At the same time, workers must be equipped with the basic skills necessary to take up the higher-productivity opportunities that are available. Reforms must focus on expanding early childhood education, ensuring literacy, and building job-relevant technical skills.
LAOS | EXPANDING EMPLOYMENT OPPORTUNITIES

While agriculture will continue to be important to Laos, expanding the manufacturing and services sectors is crucial for offering workers better job opportunities and for promoting economic growth.

THE JOB SITUATION
96,000 young people are available to join the workforce annually, in the next decade.

- Too many workers in agriculture
- Few applicants interested in manufacturing jobs
- Few applicants for both low-skilled and high-skilled jobs in manufacturing and services, even if salaries are higher

Firms recruiting for low-skilled work but didn’t receive applicants

47% LAOS
19% VIETNAM
16% YUNNAN (CHINA)

IMPROVING MANUFACTURING AND SERVICES IS AN URGENT PRIORITY

- Improve the investment climate by ensuring that laws and rules are followed, instead of doing business via "insider deals"
- Streamline and simplify business compliance
- Improve transparency in all state–public sector transactions to lessen risk and improve investor confidence
- Lower the costs of doing business

Towards a better future

- Opening up more job opportunities beyond agriculture and natural resources sectors
- Investing in manufacturing and services can lead to the availability of well-paying jobs
- Improving knowledge and skills so that workers can take up these jobs

WHY IS IT HARD FOR MANUFACTURING AND SERVICES FIRMS TO RECRUIT?

- Longer working hours
- Salaries aren’t significantly higher
- Thailand offers similar but better paid jobs

THE LACK OF WORKERS IN MANUFACTURING AND SERVICES POINTS TO DEEPER PROBLEMS

- Lao is attracting investments mostly in hydropower and mining, which generate fewer jobs
- Investors aren’t interested due to the poor investment climate, compared to other countries with similar labor costs
- Without new investment in machinery, productivity remains low. This makes it difficult for firms to offer better pay and conditions
THE REPORT’S MAIN RECOMMENDATIONS

Given that the majority of the country’s workforce is currently engaged in agriculture, raising agricultural productivity is arguably the top development priority for Lao PDR. In the shorter term, higher agricultural productivity will help generate better livelihoods for the 4.5 million Lao people living on farms. Over the longer term, increased productivity on the farms would eventually lower the need for labor, freeing up agricultural workers to move to more productive jobs in other sectors. In particular, greater attention is needed in two areas:

- **Facilitating trade in paddy and rice to encourage private investment in milling**, which would help reduce milling costs and give farmers greater incentive to increase production for export;
- **Making better use of public resources supporting rice farmers**, with a more balanced approach in allocating resources for extension activities, technology development and transfer (including good seed), and irrigation.

As agricultural productivity increases and more workers are able leave farming, the Lao economy will need to generate more attractive off-farm jobs to absorb these workers. Contrary to what media reports might suggest, Lao PDR is not facing a labor shortage, as it has a very large “reservoir” of farm workers that could potentially move to the non-agricultural sectors; rather, Lao PDR has a shortage of attractive job opportunities that make it worthwhile for a farmer to give up farming. To help create more attractive off-farm employment opportunities, barriers to doing business in Lao PDR must be removed to encourage investment and spur productivity growth in diversified sectors. In particular, action is needed on three fronts:

- **Streamlining and simplifying the business compliance and transaction costs associated with dealing with government** to create a more business-friendly environment;
- **Improving transparency in the provision of public sector services to business** through measures such as publication of all fee schedules, permits, and licensing requirements; and
- **Establishing a more predictable playing field for the private sector**, with consistent implementation of publicly available legislation, rules, and regulation and with reduced bureaucratic discretion.
LAOS: BUILDING CRITICAL KNOWLEDGE & SKILLS

Laos should invest in manufacturing and services in order to provide more jobs. At the same time, it should also invest in improving people’s knowledge and skills so that they are equipped to take up these opportunities.

**BASIC READING SKILLS MATTER**

- Laos ranked below Vietnam, Sri Lanka, and Yunnan (China) in adult literacy skills.
- 64% of the rural population did not pass a reading comprehension exam.
- Over 17% of firms said that an 'inadequately educated' workforce is their top challenge.
- 44% of children below 5 are stunted or malnourished and are likely to drop out of school.
- 40% of students in Grade 4 have not achieved basic reading fluency.

**THE STEPS OF SKILLS DEVELOPMENT**

Literacy skills are the foundation upon which other skills are developed. By not knowing how to read, adults will not learn skills that are crucial to getting a well-paying job.

- **0-3 years old**
  - Primary School
  - Secondary School
  - Post Secondary
  - Life-long Learning

**STEP 1**

Expand and strengthen early child education and development.

**STEP 2**

Ensure that all children can read by the end of grade 2. They should also gain cognitive skills (logic, memory, problem-solving, etc.).

**STEP 3**

Build job-relevant technical skills.

**DEVELOPING BASIC literacy skills by**

- Training teachers on how to teach reading properly.
- Maximizing reading time in the classroom.
- Encouraging children to read at home daily.
- Improving the availability of reading materials in the Lao language.
- Measuring reading skills at an early age.

**Toward a better future**

A workforce equipped with crucial foundational skills, like basic literacy, gets a well-paying job which leads to achieving a better quality of life.
As greater diversification generates more productive employment opportunities, it will be critical to ensure that the Lao workforce is equipped with the knowledge and skills to be able to take up these jobs. Greater priority should be placed on cultivating a workforce that possesses the basic foundational skills needed to be productive. Resources need to be focused more effectively on the critical windows of opportunity when skills are built by:

- **Expanding and strengthening early childhood development and education** to help develop school readiness skills and basic cognitive and behavioral skills, which also includes efforts to reduce chronic malnutrition which threatens cognitive development;
- **Ensuring that all children can read by the end of grade 2**, making reading a national obsession so Lao PDR can build a skilled and productive workforce; and
- **Building job-relevant technical skills**, with the Government taking on a more strategic role in vocational skills development by developing policies, setting standards, investing in training materials and instructors, improving public information about the training system, and carrying out training evaluations.

In the process of planning specific reforms in these areas, it will be critical for policies to be grounded in better information. For example, policies affecting the workforce should be based on a complete and accurate picture of labor market dynamics—what is happening, who is affected, what the implications of potential policies might be. However, crucial information on sectoral employment, migration, and other labor market indicators are lacking. Instruments such as a labor force survey could help provide essential information for policymakers to understand the key challenges and design appropriate solutions. Further work is also needed to understand the array of factors affecting the workforce-related challenges discussed above, including determining why manufacturing wages have been rising faster than labor productivity and identifying other barriers to worker mobility between jobs and sectors.
LAOS MAKING AGRICULTURE MORE PRODUCTIVE

In agriculture, Lao workers are producing fewer per hour than they would if they were working in another sector. They are also more likely to be vulnerable and poor.

Agriculture makes up 27% of the GDP.

61% of the population are farmers.

Most mills have small and obsolete equipment.

76% of families grow rice.

Most workers in Laos are farmers

Improving productivity

Encourage private investments in milling.

Invest in irrigation, technology, high-quality seeds, and farm advisory services.

Promote open trade policies.

Improve trade logistics.

Train the next generation of rice scientists and agricultural staff.

Why is productivity low?

Restrictive trade policy

Low quality seeds

Limited farm advisory services

Inadequate irrigation and water draining systems

Toward a better future

Productive farms = A better way of life for farmers.

Fewer workers are needed in the farms and they can move on to better-paying jobs.