

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

NOW HIRING

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



Toward 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



Laos 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

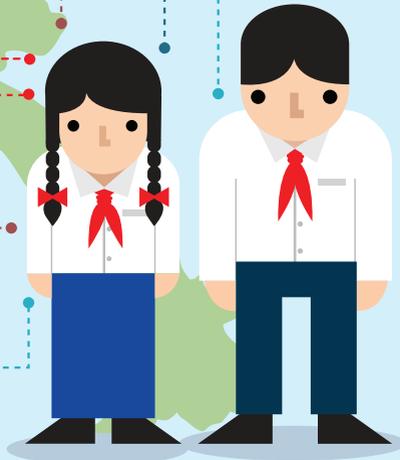
33% of the urban population did not pass a reading comprehension exam

over **17%** of firms said that an 'inadequately educated' workforce is their top challenge

Children have **Limited access** to education

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

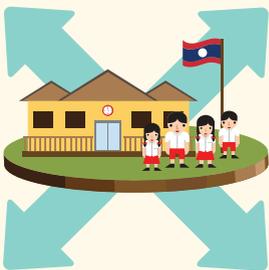
3-5 years old

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

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

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



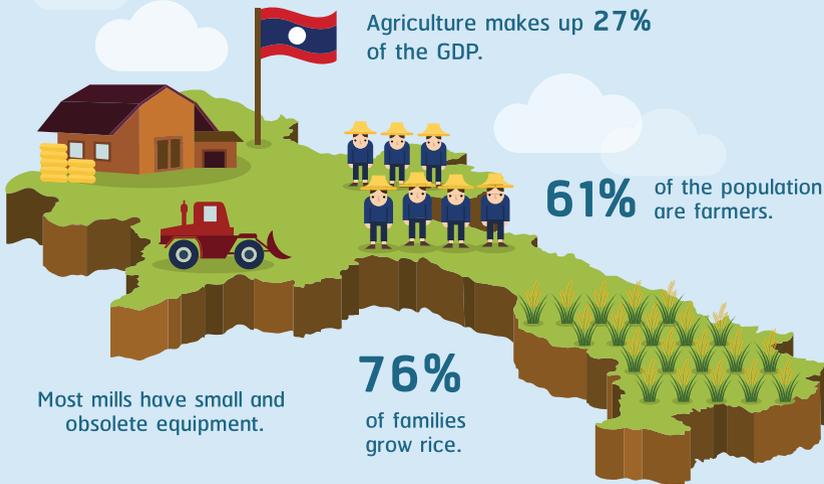
As greater diversification generates more productive employment opportunities, it will be critical to ensure that the Lao workforce is equipped with the knowledge and skills to be able to take up these jobs. Greater priority should be placed on cultivating a workforce that possesses the basic foundational 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.



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.



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