

Lao PDR Human Capital Summit 2023

Special Theme: Accelerating Learning Recovery in the Context of COVID-19

Human Capital in Lao PDR in the Context of COVID-19

1. Human capital constitutes 62.2 percent of the total wealth of Lao PDR and 64 percent of the total wealth of nations globally.¹ Relative to natural capital and produced capital, human capital — measured as the expected future earnings of the entire labor force — is the largest asset group across all income groups across all countries.² This is also true for Laos (see figure 1a). Nearly all countries that were low-income in 1995 but grew to become middle-income by 2018 had accelerated investment in accumulating human capital between 1995 and 2018. For instance, human capital per capita more than doubled from 1995 to 2018 in the current middle-income countries classified as low-income in 1995. Similar to its neighbors, Laos too increased its investment in human capital over this period, with human capital per capita tripling from US\$ 8442 in 1996 to US\$ 23,693 in 2018 (see figure 1b).³ Worldwide, the share of human capital in total wealth increases steadily with the level of development, with high-income countries having more human capital than their lower income counterparts. Development, then, is about building human capital.

Figure 1a Composition of Human Capital in Lao PDR



Figure 1b Trends in Human Capital Per Capita



2. The Government of Lao PDR recognizes the importance of building human capital. Human capital, viewed more broadly, is the knowledge, skills and health that people accumulate throughout their lives that enable them to realize their potential and be productive members of society. Laos has made important efforts to achieve the Millennium Development Goals. It was among the first to localize the Sustainable Development Goals and integrate them into its national planning framework in 2016. The National Socio-Economic Development Plan (2021-25) also lays special emphasis on improving human

¹ Lange, G. M., Wodon, Q., & Carey, K. (Eds.). (2018). *The changing wealth of nations 2018: Building a sustainable future*. World Bank Publications.

² This definition of human capital complements the definition of human capital in the Human Capital Project, but is narrower as it compares human capital with natural and produced capital in a financial wealth accounting framework. Using such a framework necessitates that the focus remain on the monetary estimates of wealth associated with human capital.

³ Lange, G. M., Wodon, Q., & Carey, K. (Eds.). (2018). *The changing wealth of nations 2018: Building a sustainable future*. World Bank Publications.

capital outcomes. In October 2019, Laos renewed its commitment to advance child rights through alignment to the *Convention on Rights of the Child@30* global pledge. In 2020, it committed to joining the World Bank's Human Capital Project. Most recently, in 2022 it committed to specific actions to transform education at the Transforming Education Summit.

3. **Laos' commitment to building human capital pre-pandemic was evident with investments translating into important gains in nutrition, health, and education outcomes.** Prevalence of stunting declined from 44 percent in 2011 to 33 percent in 2018, while the percentage of low birth-weight infants declined from 15 percent to 6.5 percent over the same period. Significant improvement has also been made in key health outcomes such as life expectancy, maternal mortality, and infant and under-5 mortality rates. The infant mortality rate decreased from 77 per 1,000 live births in 2000 to 35 in 2020, while the child (under-5) mortality rate dropped from 107 to 44. Substantial progress has also been made in the reduction of vaccine-preventable diseases. In education, enrollment rates in Laos had improved at all levels, with pre-primary enrollment rates having increased from 39 percent in 2013-14 to 59 percent in 2018-19 and 63 percent in 2020-21. Primary enrollment had been universalized before the pandemic by 2018-19.

4. **But this commitment has not been enough, with Laos ranking 111 (out of 157 countries) in the Human Capital Index.** Despite the gains in education enrolment and health in Lao PDR since the 1990s, children in Laos were lagging behind on key indicators even in 2020, when the COVID-19 pandemic began: a child born in Lao PDR today could expect to be only 46 percent as productive when he/she turns 18 years as someone who enjoyed complete education and full health.⁴ Lao's HCI ranks 111, while neighboring Thailand and Vietnam rank 65 and 48 respectively, and Indonesia is ranked 87. Despite improvements in key health outcomes, the country still has the highest child mortality level in Southeast Asia with high levels of disparities across socioeconomic groups, by ethnicity, provinces, and educational level of mothers. Each year more than 7,000 children die in Lao PDR before reaching their fifth birthday. Most of these deaths occur among poor and disadvantaged populations and are due to preventable and treatable conditions.

5. **Learning poverty — the share of 10-year-olds who cannot read an age-appropriate text — is worryingly high.** A 2019 Grade 5 learning outcomes assessment showed Lao children lagging behind those in neighboring East Asian countries with the majority of Grade 5 students still performing at the level expected to be achieved in the early years of primary education for math, reading and writing.⁵ In this study, teachers reported that 98 percent of children were not proficient in reading. In fact, Laos' low HCI relative to its neighbors is driven largely by poor schooling outcomes. While a child is expected to

⁴ Education quality remains especially poor, relative to comparator countries such as Cambodia and Vietnam, with some 42 percent of Grade 3 students not having mastered basic proficiency in Lao language. In mathematics, nearly 80 percent of Grade 3 pupils fail to demonstrate the expected skills. Lao students also fare poorly in subsequent grades: 90 percent of Grade 9 students have only basic proficiency in Lao language and more than 90 percent do not meet basic proficiency in math.

⁵ The Southeast Asia Primary Learning Metrics (SEA-PLM) 2019 which assessed learning outcomes of Grade 5 students in six southeast Asian countries shows none (0%) of Lao students assessed performed at the highest bands for mathematics, while 33% were in the lowest band, indicating a mathematical proficiency equivalent only to that expected in the first years of primary school. For reading, only 2.5% of Lao students performed at the highest band, indicating they have acquired literacy skills generally expected of children at the end of primary; while 50% were in the lowest band, indicating a reading proficiency equivalent to that expected in the first years of primary school. www.unicef.org/eap/reports/sea-plm-2019-main-regional-report

complete 10.6 years of school by age 18, when taking into account what children actually learn in Laos, this drops to just 6.3 years. Thus, 4.3 years of education are lost due to poor quality of education. Equity concerns remain high, with education inputs and learning outcomes especially low among ethnic communities. As highlighted in the Midterm Evaluation of the Education and Sports Sector Development Plan (ESSDP) (2016–2020), outcomes are the lowest among children living in rural areas, children from non-Lao-Tai backgrounds, children in the poorest quintile, and children of mothers with no education. In the Ministry of Education and Sports’ 40 priority districts, where educational outcomes lag the national average, for instance, drop-out rates were 9.4 percent versus 5.5 percent prior to the pandemic.

Table 1: HCI 2020 Estimate			
Indicator	Total	Male	Female
HCI Component 1: Survival			
Probability of survival till Age 5	0.953	0.948	0.958
HCI Component 2: School			
Expected Years of School	10.6	10.7	10.5
Harmonized Test Scores	368	363	374
HCI Component 3: Health			
Survival Rate from Age 15-60	0.822	0.798	0.847
Fraction of Children Under 5 not Stunted	0.669	0.66	0.679
Human Capital Index	0.46	0.45	0.47

Human Capital in Lao PDR Today

6. Between 2020 and 2022, Lao PDR experienced two shocks: the COVID-19 pandemic and fiscal instability. In March 2020, the COVID-19 pandemic led to the government closing all educational facilities. The government embarked on an ambitious COVID-19 vaccination program and instituted strict lockdown measures. The government met its COVID 19 vaccination targets, and while infections and cases remained low, there was a cost to this with health and educational services disrupted at an unprecedented scale. For example, the share of fully immunized children fell from 76 percent in 2019 to 69 percent in 2021. At the same time, Laos’ macroeconomic crisis came to a head, made worse by COVID-19 related disruptions to economic activity. A few months later, in February 2022, the war in Ukraine led to a fuel crisis exacerbating inflation, especially food price inflation in Laos.

7. The COVID-19 pandemic has eroded many of Laos’ gains in building human capital. While the under-five mortality was estimated at 45.5 per 1,000 live births prior to the pandemic, compared with 49.2 in 2018 and approaching the 2020 national target of 40, COVID-19 disrupted essential health services and routine immunization likely leading to a reversal of gains. The economic, food, and health systems disruptions resulting from the pandemic are expected to continue to exacerbate all forms of malnutrition.⁶ Microeconomic model projections across countries have indicated that decreases in GNI per capita are associated with large increases in child wasting. A recent study in the Lancet suggests there could be a 14.3 percent increase in the prevalence of moderate or severe wasting among children younger than 5

⁶ Lancet, 2020, ‘Impact of COVID-19 on Childhood malnutrition and nutrition related mortality’ [https://www.thelancet.com/pdfs/journals/lancet/PIIS0140-6736\(20\)31647-0.pdf](https://www.thelancet.com/pdfs/journals/lancet/PIIS0140-6736(20)31647-0.pdf) accessed on 25/11/2021

years due to predicted COVID-19-related country-specific losses in GNI per capita. This means that for Lao PDR, it is likely that up to 73,000 children under 5 could suffer from acute malnutrition each year.

8. **COVID-19 also caused unprecedented interruptions to schooling.** Data across countries, including Laos, suggests substantial drops in the number of students completing schooling and increased learning losses. After years of increasing enrolments in early childhood education, 2021-22 saw a 6 percent decrease in public enrolments and a 22 percent decrease in private enrolments in early childhood education. Universal primary education in Lao PDR, an impressive achievement prior to the pandemic, is no longer in place: in 2021-22 more than 20 percent of children who enrolled in Grade 1 did not complete the primary cycle. Drop-out rates could further increase given the socioeconomic impact of the pandemic and the fuel crisis, with these rates expected to be higher among the poor and ethnic minorities. Recent data indicate that COVID-driven school disruptions have exacerbated the severe pre-pandemic learning crisis.⁷ The loss of learning for many children could worsen already low learning outcomes and may have irreversible long-term consequences if learning recovery is not prioritized.

9. **The current macroeconomic situation in Laos, coupled with a reallocation of funding away from the social sectors to other sectors, has affected the social sector with sharp drops in financing in health and education.** Even before the COVID-19 pandemic, Laos was characterized by low levels of government budgetary spending on health and correspondingly high reliance on household out of pocket health expenditure and external assistance for health. The budget cut in 2020 has impacted health expenditures directly affecting service delivery including availability of medicines and supplies as well as recruitment and retention of sufficient and quality health workers. Spending on budget chapter 63, including national health insurance transfer and operational costs of national health programs, decreased significantly (from LAK410 billion in 2019 to LAK332 billion in 2020). In 2021, the expenditure for wages and salaries (chapter 60) declined to LAK439 billion from LAK468 billion in 2020. The density of health workers across the country was at 2.85 per 1,000 population in 2021, having declined from 3.02 in 2017 which is far below the WHO benchmark of 4.5 doctors, nurses, and midwives per 1,000 population to meet population health care needs.

10. While education's share in the budget had started to increase, albeit marginally from 13 to 14 percent, in 2020, it dropped to approximately 12 percent in 2022 against a commitment of at least 18 percent. The drop in budget comes at a time when more financing is crucial, since the country needs to invest in recovering the losses resulting from COVID-19 as well as investing in a more promising learning and skilling trajectory to remain competitive. The education sector has been affected in multiple ways, most prominently a reduction in the number of teachers to be recruited at a time when retirements far exceed recruitments. An overall situation of teacher shortage coexists with three other challenges. First, teachers are poorly prepared to teach. Second, teacher allocation to schools is inequitable; consequently, nearly 41 percent of schools in Laos have surplus teachers and 42 percent lack the required number of teachers.⁸ Third, weak teacher motivation and accountability mechanisms suggest that teacher performance is not a priority.

⁷ <https://www.worldbank.org/en/topic/education/publication/state-of-global-learning-poverty>

⁸ Data from Ministry of Education and Sports, 2020-21

11. **More needs to happen for Lao PDR to realize the gains from investing in human capital, especially given the losses resulting from COVID-19.** Future learning is at stake: unless action is taken to bring children back to school and recover learning, this generation of children risk being worse off than past and future generations. With one in two people in the population below the age of 23.5 years, and an increased share of the working age population within the population, Lao PDR is undergoing a demographic transition. The potential benefits from such a demographic transition are not automatic, and will depend on the right economic, health and education policies. The “demographic dividend” that Lao PDR will receive will depend how successful it is in enhancing the productivity of young adults over the next 10 to 20 years and how effectively it has been able to reverse the impact of COVID-19.

What Will it Take to Improve Human Capital Outcomes in Lao PDR amid COVID-19?

Careful prioritization

12. **Stages of Life When Human Capital Investments Matter the Most: There are two windows of opportunity to build human capital: early childhood and adolescence.** Children’s brains develop more rapidly in early childhood than in any other period in life: neural connections are being formed at the rate of one million connections per second — a rate never to be repeated again. This is the first window of opportunity to influence the development of children’s brains through nutrition, early stimulation and protection from violence and other harm. Negative experiences, such as exposure to violence, abuse and neglect can produce toxic stress, which when prolonged and extreme, can interfere with the development of neural connections in the brain.⁹ Laos has rightly focussed on universalizing early childhood education. However, kindergartens and early learning centers were closed through most of the 2021 school year, depriving young children of the much-needed stimulation and care such centers provide. In adolescence, the brain is being “sculpted”: experience and environment combine with genetics to shape the brains of adolescents to fit the demands placed upon them. This is the second important window of opportunity to influence the development of children’s brains – and thus, their futures. Laos should not miss these two windows of opportunity.

13. **Establishing a learning recovery program:** The RAPID Framework provides guidance on how countries can accelerate learning recovery (see Box 1). The Framework has been endorsed by multiple development partners, including the Bill and Melinda Gates Foundation, the Foreign, Commonwealth and Development Office, the World Bank, UNESCO, UNICEF and USAID. The cornerstones of the Framework are to: (1) REACH every child and retain them in school; (2) ASSESS learning levels; (3) PRIORITIZE teaching the fundamentals; (4) INCREASE catch-up learning and progress beyond what was lost; and (5) DEVELOP psychosocial health and well-being so every child is ready to learn.¹⁰

⁹ Gertler, Paul, et al., ‘Labor Market Returns to an Early Childhood Stimulation Intervention in Jamaica’, *Science*, vol. 344, no. 6187, 30 May 2014, pp. 998–1001, <<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4574862>>.

¹⁰ <https://thedocs.worldbank.org/en/doc/e52f55322528903b27f1b7e61238e416-0200022022/original/Learning-poverty-report-2022-06-21-final-V7-0-conferenceEdition.pdf>.

Box 1: Guide for Learning Recovery and Acceleration: RAPID (Reach, Assess, Prioritize, Increase, Develop)

REACH every child and retain them in school

- Reopen schools safely and keep them open
- Promote re-enrollment through back-to-school campaigns
- Provide cash transfers to poor families
- Use early warning systems to identify students at risk of dropping out

ASSESS learning levels

- Assess learning losses at the national and sub-national level
- Provide teachers with tools for classroom level measurement

PRIORITIZE teaching the fundamentals

- Adjust the curriculum across and within subjects
- Prioritize numeracy, literacy and socioemotional skills
- Focus instruction on closing the gaps between desired and actual student learning in specific subjects

INCREASE catch-up learning and progress beyond what was lost

- Support teachers continuously, build practical pedagogical and digital skills
- Use approaches that align instruction with learning needs: targeted instruction; small-group tutoring; structured pedagogy (lesson plans and teacher guides) and self-guided learning
- Extend instructional time (day, week or year)

DEVELOP psychosocial health and well-being so every child is ready to learn

- Build teachers' capacity to support their students' wellbeing and identify students in need of specialized services
- Support teacher wellbeing and resilience

Source: <https://thedocs.worldbank.org/en/doc/e52f55322528903b27f1b7e61238e416-0200022022/original/Learning-poverty-report-2022-06-21-final-V7-0-conferenceEdition.pdf>

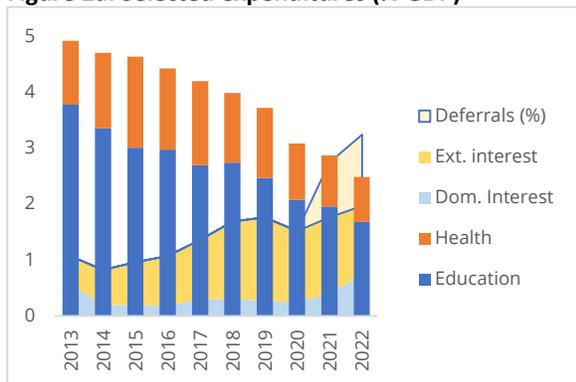
Adequate, efficient and equitable financing

14. **Lao PDR needs to invest more and better in building human capital.** Laos' human capital investments, as captured by its social sector spending, have been declining in recent years (fig 2a and 2b). This makes it difficult for Laos to meet its human capital objectives. The combined expenditure on education and health fell from 4.9 to 3.7 percent of GDP between 2013 and 2019, and then further to 2.9 percent of GDP in 2021 (fig 2a). Spending in both sectors has declined in real terms, which is likely undermining basic public service delivery and thus compounding the impacts of the Covid-19 pandemic – particularly given the limited fiscal support provided.¹¹ Spending on social assistance remains negligible, accounting for less than 0.1 percent of GDP. In the absence of recent deferrals, interest payments on public debt would have already overtaken the combined spending in the social sectors. In 2019, the levels of spending in education and health were among the lowest in the region and in the world – even more

¹¹ Additional spending or forgone revenue accounted for less than 0.1 percent of GDP since the start of the pandemic, one of the lowest levels in the world. Cambodia, Vietnam, and Thailand have spent the equivalent to 1, 6, and 15 percent of GDP, respectively (see IMF COVID-19 database).

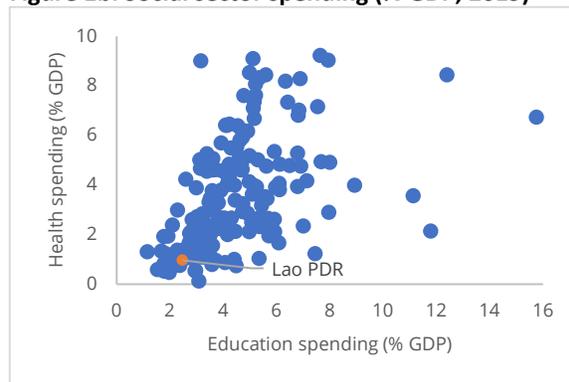
so for social assistance (fig 2b).¹² Social spending likely fell further behind international benchmarks in 2020-2022, as many countries have been able to boost spending on health, education, and social assistance to mitigate the negative economic impacts of Covid-19. The combined spending on education and health declined from 22 to 17 percent of total public expenditure between 2016 and 2020. Improving the allocative efficiency of public expenditure (by reprioritizing available resources) is crucial to enhance productivity and stimulate economic growth, particularly given the current fiscal constraints.¹³

Figure 2a: Selected expenditures (% GDP)



Source: MoF and World Bank staff calculations

Figure 1b: Social sector spending (% GDP, 2019)



Source: World Bank

15. In addition to being adequate, financing needs to be efficient and equitable. In education, over 85 percent of the budgetary allocation is used toward paying salaries, leaving very little for investments in areas such as teacher professional development or learning materials. Education outcomes are the lowest among children living in rural areas, children from non-Lao Tai backgrounds, and children in the poorest quintile. This is no surprise, as education investments are not equitable. For instance, in the government’s 40 poorest districts (Sam Sang districts), approximately 58 percent had access to early childhood care in 2019, relative to 71 percent at the national level.

Bridging the digital divide

16. **The pandemic has made it clear that those with access to digital technologies are much better equipped to weather shocks versus those without such access.** Investing in universal digital learning is also crucial to achieving Sustainable Development Goal 4. Making education systems more resilient requires significant progress on digital learning, both for remote learning – when schools are closed – and for blended learning in classrooms. It is estimated that globally US\$1.4 trillion is needed for the universalization of digital learning for the 2021-2030 period.¹⁴ As part of the COVID-19 education response, the MoES digital learning platform Khang Panya Lao (Lao wisdom warehouse) was launched in October 2021 as a supplementary learning resource, including to support learning at home. While there are now 110,000 registered users in the platform, its scale-up is hindered by infrastructure issues in Laos

¹² Average spending on education and health was 3.4 and 4.4 percent of GDP for the East Asia and Pacific region, compared to 2.5 and 1.0 percent in the Lao PDR.

¹³ Budget transparency has gradually deteriorated, as the share of ‘other’ (unallocated) spending increased from 9 to 40 percent of central level spending between 2005 and 2020 – mostly due to unreported defense and public order & safety spending.

¹⁴ [How-Much-Does-Universal-Digital-Learning-Cost.pdf \(unicef-irc.org\)](https://www.unicef-irc.org/how-much-does-universal-digital-learning-cost.pdf)

from lack of electricity in schools to high cost of internet connectivity and lack of access to devices. Digital literacy skills of teachers also need to be improved.

Effective monitoring and feedback loops

17. Better monitoring and use of data could improve implementation and outcomes. Lao PDR collects data regularly and plentifully on several socio-economic development indicators, but it lacks a proper mechanism to validate data quality, link data across different databases, and use it for decision-making. This makes it difficult to plan and budget effectively. It also makes it difficult to address bottlenecks during implementation.

Objectives of the Summit: Accelerating Learning Recovery in the Context of COVID-19 in Lao PDR

Lao PDR's Human Capital Summit 2023 will focus on accelerating learning recovery and follows the Transforming Education Summit 2022.

Objectives:

- Highlight the fundamental role human capital plays in economic growth and its role in Lao PDR.
- Generate shared commitment and accountability in government on addressing learning recovery
- Identify strategies and financing plans for COVID-19 learning recovery that are clear, actionable and effective.
- Share country experiences in key aspects of human capital development: Possible countries: Singapore (aspirational); Thailand, Vietnam (peers)

Expected outcome

- Statement on investing in human capital, including protecting social sector spending.
- Agreement on key priority actions for accelerating learning recovery

Target audience

- High-level government officials (Prime Minister's Office, Ministry of Finance, Ministry of Planning and Investment, Ministry of Education and Sports, Ministry of Health, Ministry of Labor and Social Welfare); National Assembly representatives; Sub-national representation (Vice-Governors of Provinces, PESS and DESB representatives); Development Partners; Civil Society Organizations; private sector; think tanks; academic institutions

Format and Estimated number of participants: The summit will be in hybrid format, with approximately 250 participants.