



IMPACT OF COVID-19 HOUSEHOLD FINANCIAL SECURITY

SUSTAINABLE
DEVELOPMENT
GOALS



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BACKGROUND

The global shock triggered by the COVID-19 pandemic has had a direct impact on Lao PDR's economy in 2020. Lao PDR is expected to see a growth contraction, with an expected GDP growth rate between -1 per cent and -1.8 per cent.¹ The sectors most at risk include tourism and hospitality services, manufacturing (garment sector), arts and entertainment and transportation, with indirect effects of the lockdown measures on agriculture and fisheries. Within and across industries, small and medium enterprises, the self-employed, and daily wage earners are being hit the hardest.²

Households associated with these sectors are at a high risk of losing their livelihoods or suffering catastrophic economic losses in the short-term; in the long-term there will be impacts on poverty and vulnerability.

Women in Lao PDR are more likely to work in high-risk sectors due to COVID-19 (e.g., the entertainment sector, garment industries, tourism, and related industries) and more likely to engage as daily wage, migrant, or informal workers. On average, women in Lao PDR already earn 20 per cent less in hourly wages than men, in part due to lower rates of secondary school completion and high adolescent fertility rates.³ These factors put working women and those relying on them at high risk of poverty and deprivation.

Job and income losses are most prevalent in the short to medium term for those in the tourism and manufacturing sectors due to movement restrictions and the global lockdown. For migrant workers, the loss of income may be more prolonged, and the cost of job searches higher once countries open borders.

¹ World Bank, 2020

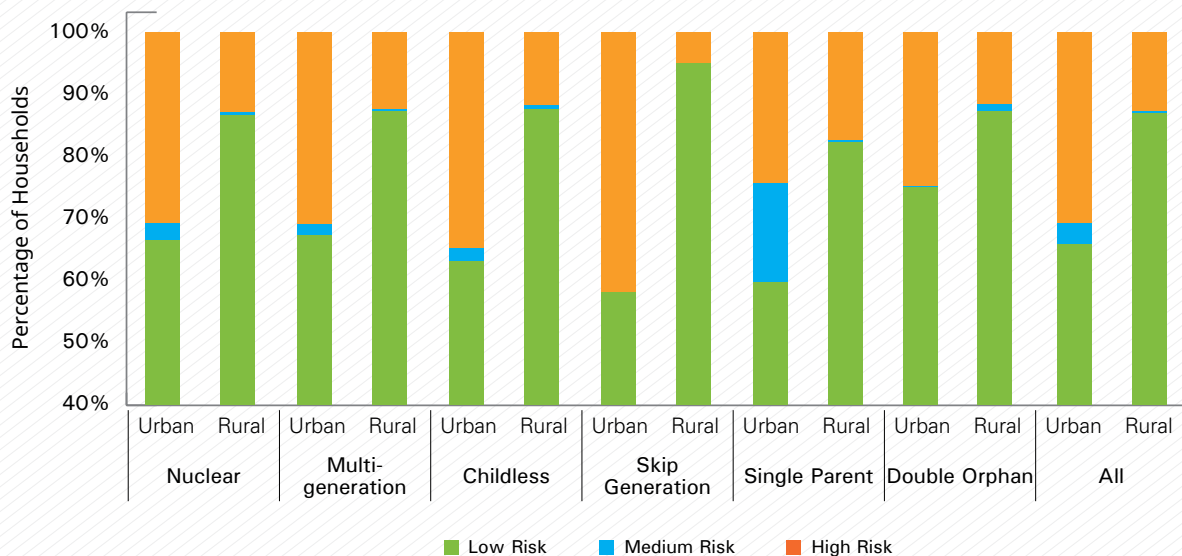
² United Nations, 2020

³ No source specified.

IMPACT

- Lao PDR is experiencing rapid job losses in tourism-related sectors such as travel, tourism and hospitality, which account for 11 per cent of total employment and 22 per cent of urban jobs.⁴
- **Using the ILO risk mapping (ILO, 2020) to categorise livelihood risks, approximately 80 per cent of households in Lao PDR remain low-risk and 18 per cent are considered high-risk.** Overall, these numbers are seen to be asymmetrically distributed across different types of households. The model suggests that rural households are generally at “low-risk” of livelihood shocks in the COVID-19 context, as most of them engage in subsistence or small-scale farming. The model does not factor risks associated with subsistence and smallholder farmers.
- **Livelihood risks are highest in urban areas in the short-term, but as the crisis prolongs, the impact on agriculture will increase.** Given the high rates of migration to urban areas and the reliance of rural households on urban remittances, especially in the north, the loss of jobs in urban areas will translate to deprivations among those living in rural areas.
- **The model shows the highest risk of loss of livelihoods among urban households, as they are more likely to work in sectors that are most affected by COVID-19.** Within that, skip-generation households in urban areas are likely to suffer the most followed by single parent households.

The graph below shows the Livelihood risk composition by different family types



- **Men comprise a larger share of the labour force, and by virtue of their strength are more likely to be affected. However, a far higher share of working women will experience livelihood shocks due to COVID-19.**
 - » The highest risk sectors – tourism and related sectors, garment manufacturing, and international migrant work – employ disproportionately high shares of women.

⁴ World Bank, 2020



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- » The urban poor, especially women and those involved in tourism and related activities (e.g., handicrafts, tuk-tuks, taxis and snack shops), which are usually small and informal, are at a heightened risk of short to medium term loss of income and employment. Until global lockdown measures ease, the revival of tourism and related sectors will be slow and limited.
- » Workers from the garment industry, a majority of which are women, are expected to be hard-hit in the immediate term. The sector has already been affected by broken European trade ties and given the high vulnerability of the jobs – often being seasonal and contractual with low wages and no labour protection – the impact on women and women-headed households will be significant in the short and medium-term.
- **Migrant workers returning from abroad (200,000 as of July), who are usually employed in low skilled jobs with low wages, have lost their jobs and have limited opportunities in Lao PDR.** The returning migrants also increase the labour supply in Lao PDR, thereby putting downward pressure on nominal wages, especially in rural areas where most of the returning workforce lives.⁵ The loss of remittance incomes will hit affected households in two ways:
 - » direct loss of remittance income, which forms a significant portion of household income; and
 - » migrant returnees place greater burden on rural employment opportunities, thereby reducing wages and increasing the likelihood of unemployment for all.

⁵ <https://www.iom.int/news/iom-partners-ministry-labour-and-social-welfare-support-migrants-affected-covid-19-funding#:~:text=According%20to%20the%20Lao%20National,by%20the%20Government%20of%20Japan.>

RECOMMENDATIONS



National government

- **Urgent and immediate income support for all or most households is necessary to mitigate long-term costs to national growth and development.** The government has extended social insurance support to 96,000 affected workers through the social insurance scheme. While commendable, these efforts are not adequate; the recipients represent only 3.1 per cent of total employment and 26 per cent of total urban wage workers.
- **The majority of the Lao PDR population was vulnerable to financial insecurity and poverty even before COVID-19.** The pandemic is exacerbating these underlying financial vulnerabilities and a large number of individuals are at risk of falling into poverty and not having access to basic food and essential care in the immediate term. These short-term deprivations can push many households into a vicious poverty trap and put great pressure on the government in the medium to long-term to overcome the poverty impact.
 - » The impact of COVID-19 is widespread and set to affect all, including the wealthy. However, at a minimum, the government should provide cash-based support to all those living below or near the poverty line.
 - » Poverty-targeting in this context, using any targeting approach, poses high risks of exclusion. At least as many individuals and households are at risk of falling into poverty, without the necessary support, as there are poor households.
 - » Universal provision or affluence testing are the two most suitable methods for humanitarian transfers where the impact is widespread.
 - » Per capita benefit provided per household may be most suitable in the current situation.
- Any cash-based support provided must consider the national landscape and prevent the exclusion of women and other marginalised groups by design and in implementation.
 - » Many vulnerable groups, including migrant workers or ethnic minority groups, are less likely to have national ID documents or proof of income or employment. Therefore, requiring these documents may automatically exclude the many in the most vulnerable groups.
 - » Women are at high-risk of losing employment and their income sources, and very likely to bear the burden of caregiving responsibilities as children stay home. Women are also less likely to have IDs or access to mobile phones or bank accounts. All delivery mechanisms must recognise and build around these bottlenecks to ensure that the support reaches women.
- **There is a need for medium to long-term cash-based support for vulnerable households.** The emerging risks will not recede once the immediate response to COVID-19 is over. The impact on livelihoods is expected to be severe in the short-term and persist in the medium to

long-term. Sectors such as tourism and manufacturing, and businesses in general, are set back by the global economic crisis. The recovery from the crisis is expected to be slow and gradual, and the return to pre-COVID levels will require timely and extensive support from governments to meet the short- and medium-term needs of citizens and prevent the reversal of development trends.

- **Now more than ever, a graduation approach to social protection will provide the greatest value.** Households living at the threshold of poverty that have lost stable income due to COVID-19 are best positioned to benefit from livelihood development programmes. A combination of cash and livelihood development programmes (e.g., savings or skills-building programmes) can mitigate the medium-term impact of COVID-19 and enable families to build resilience against such shocks in the future.
- **Encourage and implement public works and other active labour market programmes such as upskilling or job search support.** These measures will be necessary and extremely useful for rebuilding the infrastructure damaged from the 2019 floods as well as to expand national infrastructure and provide opportunities for returning migrants and others that may have lost their jobs to COVID-19. These measures can offset some of the impact of COVID-19 on livelihoods.
- **Provide business relief and encourage businesses, especially small and medium-sized enterprises (SMEs), to prevent layoffs and complete closures.** This is a critically important sector, providing employment and income to a significant share of the Lao PDR population.
- **Implement strategies for the recovery of the tourism and related sectors, resilience in agriculture, the diversification of livelihoods, and the support for informal sector workers, including migrants.** The government must implement strategies for the gradual and sustainable recovery of these key sectors and develop a mid to long-term framework that makes employees in these sectors more visible and financially secure.



Regional government

- Identify the best ways to ensure that all vulnerable individuals and households register for any cash-based government support and identify the most inclusionary delivery methods for cash-based support.
- Provide localized job matching services to enable those who have lost their jobs to find new opportunities in the short to medium term. This is especially useful in rural areas with returning migrants.



Development partners

- Support the recovery plans for a phased revival of the key sectors, as outlined above.
- Support the government to design and implement the necessary short, medium and long-term social protection measures, especially those that are shock-responsive and resilience-focused.



DISCLAIMER

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