

Poverty - Environment Initiative (PEI) Lao PDR
Issues Brief 01/2010:

**Poverty reduction and environmental management:
Joint development goals for sustainable growth***



This issues brief series is developed by the Poverty-Environment Initiative of Lao PDR to address poverty and environment issues in the current development and national planning processes. The purpose of the briefs is to provide evidence-based information and practical policy recommendations to support transformation of the Lao economy towards a sustainable pro-poor development path.

Future publications will address the following issues (amongst others):

Poverty-Environment Indicators for monitoring and evaluating sustainable growth goals

- Investment and women's economic empowerment

- Economic, social and environmental impacts of key investment sectors (Biofuels, Plantations, Mining, Forestry, Hydropower)

BRIEF In recent years, rapid influx of foreign direct investment into Lao PDR has been an important source for government revenues and a force for accelerating needed economic growth to improve livelihoods and reduce poverty.

Increasing demand for the country's abundant natural resources will further accelerate the pace of exploitation for these resources, frequently without adequate measures to prevent or mitigate their adverse social and environmental impacts.

Poverty in Lao PDR is closely linked to environmental conditions, and environmental degradation most severely impacts the poor who are least able to cope with changes.

This issues brief provides recommendations for strengthened investment and development planning. It is focused on policy options that can deliver poverty reduction and environmental management as a joint development goal, which will be necessary to achieve sustainable growth that benefits all Lao citizens for the long-term.



1. Economic Growth, Poverty Reduction and the Environmental Management

The ‘poverty-environment nexus’, defined as a series of mutually reinforcing links between poverty and environmental degradation (see Figure 1), has been a hot topic of research over the recent decade and is an issue well familiar to Lao PDR¹. Knowledge and experiences gained over the past decades strongly suggest that poverty reduction and environmental management be treated as complementary or joint development goals to best achieve an economic growth trajectory that is economically and environmentally sustainable over the long-term.

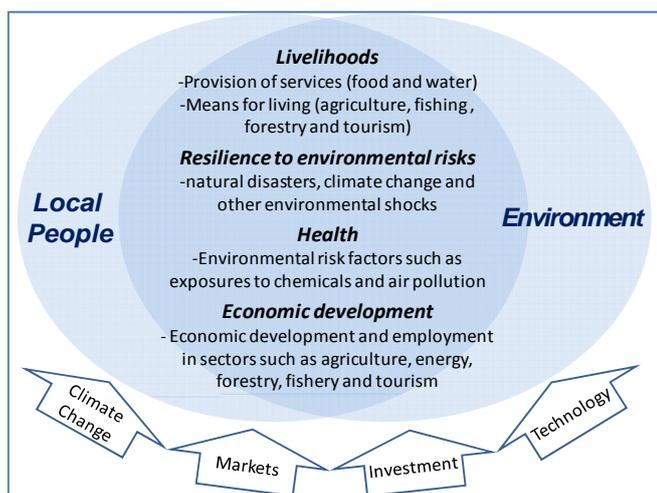


Figure 1. Poverty-environment linkage: This figure illustrates the many dimensions of a poverty-environment linkage, which goes beyond simple relationship of the environment as a basis for livelihoods. Environmental risks can have severe impacts on public health and often the poor people are the most impacted by pollution, unsafe water, exposure to toxic chemicals or environmental hazards. The rich agricultural biodiversity in Lao is not only a basis for food availability; it is also a potentially important resource for increasing resilience to climatic and other changes. Poverty-environment linkages are often exacerbated when rapid economic growth increases pressures on the natural resource base.

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¹ World Bank (2006) The Poverty-Environment Nexus: Sustainable Approaches to Poverty Reduction in Cambodia, Lao PDR and Vietnam; Dasgupta et al. (2005) *Where is the Poverty-Environment Nexus? Evidence from Cambodia, Lao PDR and Vietnam*, World Development, vol.33: 617-638.

Promoting pro-poor economic growth², i.e. enabling a pace and pattern of growth that enhances the ability of the poor to participate in, contribute to and benefit from economic growth, will be critical in achieving a sustainable trajectory out of poverty and meeting the Millennium Development Goals (MDGs). Poverty reduction, graduation from Least Developed Country status and achievement of MDGs are key targets for Lao PDR and reflected in the 7th National Socio-Economic Development Plan (NSEDP) for 2011-2015, the country’s primary development planning document.

Economic growth, however, must be closely linked to sound management of the natural capital that fuels much of the country’s development options. In economic terms, the natural resource base contributes over 50% to Lao PDR’s GDP, over 90% of total employment and 60% of exports³; additionally, it is also a principal source of income for the country’s poor.



The poor’s dependence on natural resources also makes them particularly vulnerable to environmental degradation (see Figure 1). Health impacts from pollution and declining agricultural productivity due to eroding soils, for example, are having impacts on local livelihoods and food security. In addition, changing conditions such as climate change and environmental hazards may have further regressive

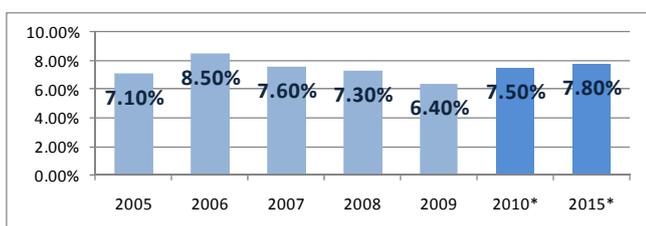
² OECD (2009) Natural Resources and Pro-Poor Growth: The Economics and Politics

³ Emerton, L (2005). Making the economic links between biodiversity and poverty reduction. The case of the Lao PDR. IUCN.

impacts because the poor are least capable of coping with their effects.

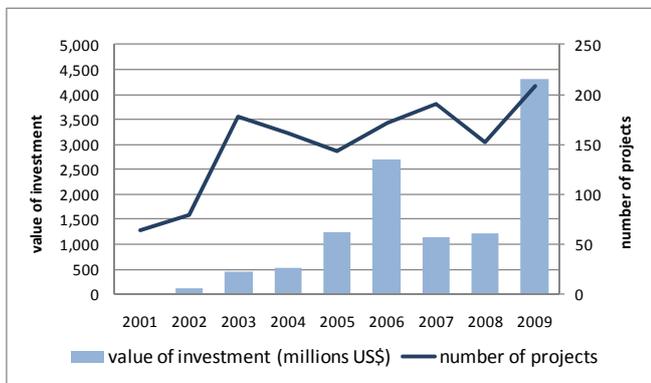
A healthy environment not only supports livelihoods but also generates a wide range of positive services that enhances human well-being at various levels. An example of a local or national-level environmental service is soil stability and watershed functioning provided by upland vegetation which also contributes to regulation of water supply to downstream needs for drinking, irrigation or hydropower generation.

Figure 2. Trend of GDP Growth in Lao PDR: Real GDP is projected to accelerate to 7.5% in 2010. (*projection by Ministry of Planning and Investment)



Lao PDR has achieved dramatic economic expansion in recent years, with average GDP growth of over 7% between 2005 and 2009 (see Figure 2). The rapid influx of foreign direct investment (FDI) into Lao PDR has been an important source for government revenues and a force for accelerating needed economic growth to improve livelihoods and reduce poverty (see Figure 3).

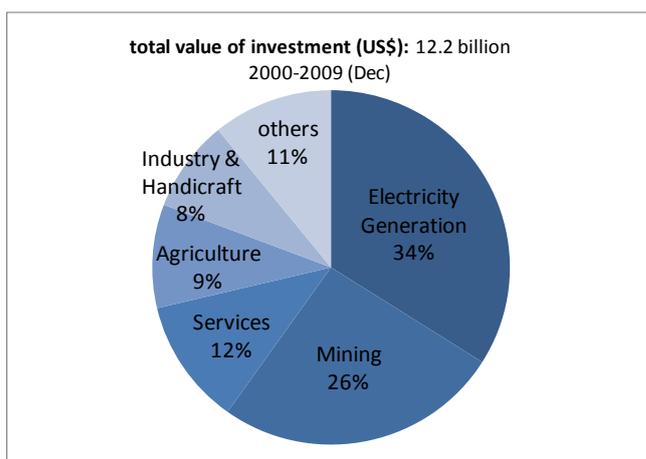
Figure 3. Investment trends in Lao PDR - Approved and implemented projects, 2001-2008: The number of approved and implemented projects has gradually risen and more than tripled since 2001. The value of investment recovered to be the highest level after a decline in 2007 and 2008. In 2009 alone 208 projects were approved & implemented, valued at approx USD 4.3 billion of FDI.



The top five sectors in terms of investment value have been hydropower electricity generation,

agriculture, mining, industry, and services (see Figure 4). Increasing demand for the country's abundant natural resources will further accelerate the pace of exploitation for these resources, frequently without adequate measures to prevent or mitigate their adverse impacts.

Figure 4. Approved Foreign Investment by sectors from 2001 - 2009 (Dec): Natural resource sector including electricity generation, mining and agriculture accounted for a largest part. Other sectors include processing industry, construction and services (trade and tourism).



While there are many assessments that provide clear evidence of how continuous decline of natural resources increases vulnerability of the poor, there is less attention on how this decline can also result in lost opportunities for sustained macroeconomic growth over the long-term. It is thus critical that the NSEDP and sectoral strategies include specific targets, actions and indicators that provide a framework for development and investment to consider poverty reduction and environmental management as joint goals.



2. Poverty-Environment policy recommendations for cross-sectoral actions

Lessons gained from poverty-environment studies⁴ and real world experiences indicate that local resource ownership, enabling conditions for adoption of conservation management and technology, and strong local institutions are key to generating increased livelihood security for the poor while also improving environmental conditions.

As such, investments and development planning in Lao PDR should consider such criteria as 1) increasing the poor's access to, and governance of, the natural resources essential to their livelihoods; 2) increasing productivity of the poor's natural resource base; 3) involving local communities in good environmental management; 4) assessing and incorporating the costs of environmental degradation into the decision-making process; and 5) ensuring adequate social and environmental safeguards to guide development and investment activities and sufficient resources for effective monitoring.

These insights can be translated into real strategies for implementation. The following are proposals of cross-cutting actions that enable consideration of poverty-environment linkages in development. Include **cross-sectoral poverty-environment indicators** in the monitoring and evaluation system of the 7th NSEDP to enable a measurement of *real* progress towards sustainability goals. They will, along with other economic, social or environmental indicators, present a holistic view of national well-being and can provide an important basis for sustainable decision-making.

- Develop **clear definition of roles and responsibilities between all agencies involved in investment management and planning** to increase effectiveness of the process. This includes strengthening coordination in the application of social and environmental criteria, including for example the Environmental and Social Impact Assessment (ESIA) process being developed at WREA.
- Ensure harmonization in legislative frameworks related to investment management and authority.
- Develop **capacity in economic valuation techniques** to enable the evaluation of environmental and social costs of investment or development projects relative to their financial benefits to feed into decisions on land use and allocation.
- Design and implement an **applied research program that examines the spatial patterns of interaction between poverty and environment**, and the study of distribution and equity in development activities.
- Create **development-oriented financing mechanisms that provide incentives** to include the poor in environmental management activities and mitigate vulnerability to hazards and climate change, such as payment for environmental service (PES) schemes, hazard risk insurance and environmental micro-financing.
- **Incorporate poverty-environment linkages as a thematic issue in the participatory planning manual** to facilitate local perspectives of environmental conditions and identify priorities for development at the district and kumban levels that directly increases economic resilience of the poor.

⁴ Barbier, E. 2000, The economic linkages between rural poverty and land degradation: some evidence from Africa, *Agriculture, Ecosystems and Environment* 82: 355–370

Comim et al, 2008. *Poverty & Environment Indicators: Report Prepared for UNDP-UNEP Poverty Environment Initiative*, St. Edmund's College, Cambridge.

Reed, D. and Tharakan, P. (2004) *Developing and Applying Poverty Environment Indicators*. Washington: WWF Macroeconomics Program Office.

World Bank, 2008, *Poverty and the Environment: Understanding linkages at the household level*. World Bank: Washington DC

3. Poverty-Environment policy recommendations specific to key sectors

3-1. Agriculture and Forestry

The Government of Lao PDR has previously raised concerns about the true economic value of commercial plantations when weighed against their environmental and social impacts. In a number of instances, plantations are exacerbating pre-existing (seasonal) food shortages, accelerating environmental degradation (e.g. degradation of soil quality and overuse of chemicals), and causing adverse social impacts (e.g. increasing livelihood insecurity to volatile market mechanisms). Policy recommendations include:

- Develop national agriculture guidelines for minimizing environmental impacts and maximizing social benefits, in coordination with MPI MAF, NLMA and WREA.
- Improve data collection and develop data management system of current plantation investments in coordination with MAF, NLMA and MPI.
- Ensure effective enforcement of the Forestry Law which prohibits the clearing of primary forest and secondary forest.
- Ensure the effective enforcement of the Water and Water Resource Management Law which prohibits clearing of watershed areas for plantation purposes.
- Promote environmentally friendly technologies and access to green markets that enhances the sustainable agricultural sector.
- Strengthen the national information and knowledge on climate change impacts on agricultural production and food security, and prioritize adaptation projects.

3-2. Land Policy, Planning and Management

The absence of a national Land Use Plan (LUP) to date or Integrated Spatial Planning (ISP) strategy with defined roles and responsibilities has led to inefficiencies and competition over roles and resources among government agencies involved in land use planning. This has resulted in uncoordinated

issuance of land concessions for various extractive activities, as land use maps and plans produced by various agencies can reflect different and potentially conflicting outcomes, and may be unrepresentative of overall government strategies and targets.

In addition, many rural households and communities remain without legal land titles, leading to land allocated to industrial concessions without adequate local participation or compensation. There is however a promising policy goal in the 7th NSEDP to ensure issuance of land titles to one million households by 2015.

Other policy recommendations include:

- Develop and implement a national strategy for ISP with clear roles and responsibilities of key agencies involved.
- Develop technical capacity for spatial data collection and analysis in all relevant government agencies, and direct analysis towards assessment of trade-offs in land allocation and investment decisions.
- Improve legislative and institutional frameworks to require all new investments to be in accordance with national, provincial and district spatial plans.
- Implement the guidelines on participatory land use planning as part of the participatory planning process at local district and kumban levels; and in land allocation decisions for investments.

3-3. Public Expenditure and Financing

A review of the public expenditure trends shows that public environment expenditures accounted for only 0.7 percent of total public expenditure, and this figure has steadily declined between 2000 and 2005.

This low level of public expenditure on environment is alarming and there is an urgent need for greater public investment to sustain the natural resource base that is currently fueling much of the economic growth in Lao PDR. Policy recommendations include:

- Carry out a review on the public environmental expenditure, to assess levels required in relation to the country's environmental priorities and poverty reduction objectives, and to strengthen the information base for streamlining and

strengthening future investments in environmental projects.

- Review the potential for Environmental Fiscal Reform, i.e. a range of taxation and pricing instruments including taxes on natural resource use, user charge, subsidy reform and other environment related charges and incentives.

3-4. Investment Planning and Management

Investment decisions can have lasting implications on development goals in the country. A strategic framework for how to promote the right types of investment and how best to maximize its benefits for local economies, environments and societies will be imperative. Policy recommendations for improved investment management include:

- Identify and implement criteria for selecting and prioritizing quality investments. Criteria should include at least the following characteristics: generate local jobs and skill development; allow for transfer of technologies; create linkages with domestic industries; employ clean technologies and internationally recognized corporate social responsibility codes of practice.
- Proactive promotion of sustainable investments like the marketing of Lao PDR as destination for sustainable investments, the identification of fiscal and non-fiscal incentives that can be implemented to attract quality investments or the awareness raising within the private sector on best practices and application of Corporate Social Responsibility systems.
- Increase transparency in the selection of investors and approval of investment proposals. Create a mechanism and rules for open bidding processes. Open and fair bidding processes are important in fostering competition and ensuring that benefits

are maximized for the country. Carry out proper due diligence and investigation of proposed investors and evaluate social/environmental trade-offs.

- Strengthen mechanisms for local/ public input into investment decisions. Increase opportunities for informed local input into investment decisions by providing local stakeholders with full information on the investment and an objective assessment of potential impacts (positive and negative).
- Monitor economic, social and environmental impacts of investments and ensure law enforcement in case of non compliance with concession or other agreements.

4. Conclusion

The current disconnect between economic growth priorities, poverty reduction strategies and environmental management in Lao PDR appears to be somewhat of a paradox; one that is also often seen in many parts of the development world. Given the demonstrated value of the natural capital base to macroeconomic growth and local livelihoods, especially for the very poorest in society; then economic policies, sectoral strategies and public resource allocation must be inherently restructured and reformed to ensure sustained growth over the long-term.

This paper provides both cross-cutting and sectoral policy recommendations for investment and development planning. These recommendations are focused on the delivery of poverty reduction and environmental management as a *joint development goal*, which will be necessary to progress on a pathway of sustainable socio-economic development.

What is PEI?

The United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP) support the Poverty-Environment Initiative (PEI), a program that aims to mainstream poverty and environmental issues into national level planning and development processes. The objective of PEI in Lao PDR is to ensure that the country's rapid economic growth generates inclusive and sustainable development. PEI supports the strengthening of institutional capacity in national development planning and private investment management, the development of guide-lines for social and environmental impact assessments, and the generation of evidence-based research on the social and environmental costs of land use decisions. The project is coordinated by the Ministry of Planning and Investment with project components managed by Department of Planning, Investment Promotion Department, National Economic Research Institute and the Department of Environmental and Social Impact Assessments of the Water Resources and Environment Administration.

www.unpei.org/programmes/country_profiles/lao-pdr.asp

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The views expressed in this publication are those of the authors and do not necessarily reflect the view of the Ministry of Planning and Investment of Lao PDR.