

Public Services and the Poor in Laos

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Summary. — Both cross sectional and panel methods of analysis for Laos confirm that for public education and health services, the poorest quintile groups receive the smallest shares of total provision of these services. Nevertheless, poor groups' shares of an increase in the level of provision—their marginal shares—are generally higher than these average shares. For primary and lower secondary education and for primary health centers, expanding the overall level of provision delivers a pattern of marginal effects that is significantly more pro-poor than average shares indicate and the degree to which the poor benefit increases with the level of provision.
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1. INTRODUCTION

This paper analyzes the extent to which four forms of public service provision, two in education and two in health, achieve the Lao government's announced objective of reaching the poorest groups with its public services. The analysis distinguishes between average and marginal participation rates and draws upon two rounds of a large household income and expenditure survey data set. The survey covers about 8,000 households, spanning the interval 2002–03 to 2007–08 and includes a panel data component.

The Lao People's Democratic Republic (subsequently Laos, for brevity) is booming. Real gross domestic product (GDP) grew at an average of almost 7% per year during 2000–11 and at 8% in 2012 and 2013 (World Bank, 2013). This growth was based largely on rapidly expanding natural resource exports and a dominant proportion of these export revenues accrues directly to the government, through government ownership of the natural resources on which they are based (Warr, Menon, & Yusuf, 2012). Public expenditure is consequently booming as well (Menon & Warr, 2013).

Figure 1 summarizes data on the recent evolution of total government expenditure and its allocation to education and health, covering the period 2000–11. As a share of GDP, total public spending increased from 7.3% to 11.2% over the same period and the proportion of this expenditure allocated to education also increased, from around 7–11%. The share of government spending allocated to health remained relatively unchanged. From just under 6% of total government expenditure in 2000, it peaked at above 9% in 2009, returning to around 6% in 2011. Given the rising share of government expenditure in GDP over the period and the growth of real GDP itself, this still suggests an increase in the absolute volume of public expenditure on health. Thus, provision of education services has expanded rapidly over this decade, along with a less pronounced expansion in the provision of health services.

But does an expansion in the total provision of public services necessarily deliver more services to the poor? And how do these effects compare with those accruing to better-off groups? A core development objective of the Lao government is to use public expenditures to deliver benefits to the poorest groups (Government of Lao PDR, 2003). Of course, this is not

the sole objective of provision of these services. The benefits received by other social groups are also relevant, along with long-run impacts on the rate of growth, through effects on productivity. Accordingly, the delivery or non-delivery of services to poor groups is one relevant performance criterion for evaluating the success or otherwise of the public programs supplying them, but not the only one.

Studies of the distributional effects of public services have traditionally focused on the shares of the total level of the public service concerned (education, health, and so forth) that are received by particular groups. This measure has come to be called average benefit incidence. It provides information of interest, but recent work has distinguished between average and marginal benefit incidence, the latter meaning, in the context of this paper, the share of an increase in the level of provision that is received by particular groups.

If the relationship between the benefit received by a particular social group and the total level of service provision was linear for all groups, average and marginal incidence would be the same. But this would not be true if the relationship was nonlinear. The nonlinear case is illustrated in Figure 2, based on a diagram discussed in Lanjouw and Ravallion (1999). The figure illustrates the hypothetical case of 'early capture' by better-off households, combined with 'late capture' by poorer households. In this hypothetical example, at low levels of total service provision the benefits go primarily to the richer households. But as the level of provision rises, an increasing proportion goes to poorer households as the richer households progressively become satiated. The essence of the diagram is that the relationship between group participation and the total level of provision is concave from below for the rich and convex from below for the poor. At a total provision of S_1 (horizontal axis), the average share of rich households in total provision is given by the slope of the ray OA and that of the poor households by the slope of OB.

In this example, the average share of the rich exceeds that of the poor. But the effects of a marginal increase in total provision are given by the slopes of the respective distribution functions at A and B, respectively. As drawn, at level of provision S_1 the marginal share of the poor households exceeds that of

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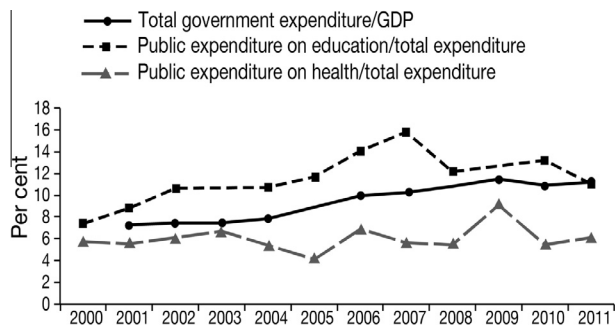


Figure 1. Total government expenditure and shares of spending on education and health, 2000–11 (%).

Source: Authors' calculations using data from Government of Lao PDR, World Bank and IMF estimates.

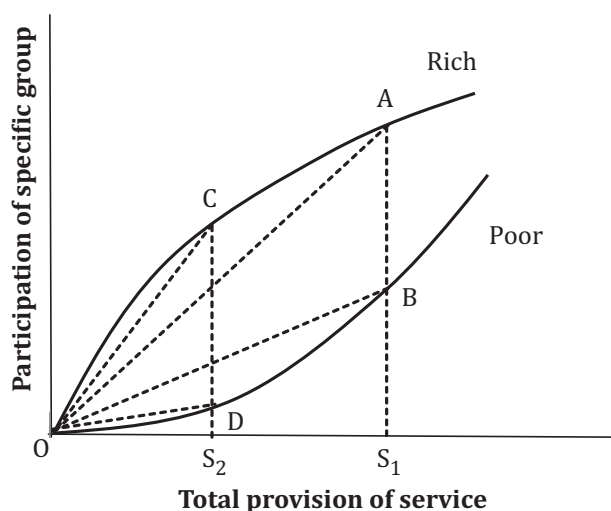


Figure 2. Distributional effects of public service provision: Early capture by the rich.

Source: Adapted by the authors from Lanjouw and Ravallion (1999).

the rich, the reverse of the ranking of their average shares. Lanjouw and Ravallion state that this is a common finding from earlier empirical studies, thus confirming the relevance of the 'early capture by the rich' model. Conversely, the hypothetical case of late capture by the rich and early capture by the poor would have the opposite implications.

Both average and marginal benefit incidence may be of interest for particular purposes, but to assess how changes in levels of provision (increases or reductions) will impact on different social groups, marginal incidence is the relevant concept. As the example shows, calculations of average benefit incidence might not provide reliable guidance for that purpose. Lanjouw and Ravallion use this framework to argue that earlier methods of benefit incidence analysis, looking only at average benefits, are potentially deceptive.

Figure 2 has a further implication, however, not discussed by Lanjouw and Ravallion, which points to a potential pitfall from marginal incidence analyses as well. Consider the lower level of provision, S_2 . A study of average and marginal benefit incidence at this point would indicate, as above, that the average shares received by the rich are higher than those of the poor, as indicated by the slopes of rays OC and OD, respectively. Nevertheless, the marginal shares of the rich are also

higher than those of the poor, as indicated by the slopes of the two schedules at points C and D, respectively. If these findings were taken to mean that expanding the level of provision of the service generates benefits mainly to the rich, this conclusion would be misleading, because the finding applies only locally.

The 'early capture' model implies that the distribution of marginal benefits from expanded provision depends on the level of provision. At low levels of provision, like S_2 , the distribution of benefits is locally pro-rich, in the sense that the rich receive a higher share of marginal provision than the poor. When the level of provision is increased, to levels like S_1 , the distribution becomes locally pro-poor. A key point is that at both levels of provision discussed above the marginal share of the poor exceeds their average share, implying that their average share is increasing as the level of provision rises. Conversely, the marginal share of the rich is less than their average share and their average share is thus declining. This is the distinguishing feature of the 'early capture' model. It is important to look at both average and marginal shares for each group and not just to compare the marginal shares for different social groups or different income categories, because the above discussion shows that this too can be deceptive.

This paper studies these issues in the context of public provision of education and health services for Laos. It utilizes data from a large household income and expenditure survey that records detailed information on the actual utilization of government-provided services, including education and health services, by individual households, along with the economic characteristics of those households. It includes a panel component. Section 2 summarizes the Lao government's policy objectives on education and health. Section 3 describes the data set to be used in the analysis of this paper and Section 4 outlines the methodology used, describing three quantitative approaches used in the literature to estimate marginal incidence, or proxies for it. Sections 5–7 present the results of applying these three methodologies to the data for Laos. Section 8 compares their findings and Section 9 concludes.

2. THE LAO GOVERNMENT'S EDUCATION AND HEALTH POLICIES

In 2001 the Lao National Assembly established its 2020 development vision and mandated the government to implement a national development plan by 2003. In its draft version this plan was known as the National Poverty Eradication Program (NPEP) and in its finalized version it was called the National Growth and Poverty Eradication Strategy (NGPES). This planning document (Government of Lao PDR, 2003) contains three focus areas. The first is to maintain macroeconomic stability and sound management of public finances. The second is the creation of an enabling environment for growth and development such as streamlining business regulation and licenses, improving governance, and the rule of law. The third focus area is improving service provision in education, health, infrastructure, and agriculture. In the education and health sectors in particular, the NGPES prioritizes increased access to education for all people and improved quality of healthcare at the grassroots level, especially in the rural and under-served areas.

(a) Policies on education

In support of the NGPES an Education Sector Development Framework (ESDF) was published, identifying three key areas of action:

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