

**Lao People's Democratic Republic**

**The Annual Report to the Committee for Development  
Policy (CDP) on the Preparation of the Smooth  
Transition Strategy**

**January 2022**

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## **1. OVERVIEW**

Graduation from the Least Developed Country Status has been a long-term objective of the Government of the Lao PDR. Since 2000, Lao PDR has emphasized its strong commitment to graduating from LDC status. This over-arching goal has been set out and mainstreamed into the Five-year National Socio-economic Development Plans (NSEDP). Particularly, the government has incorporated the Istanbul Programme of Action (IPoA) for LDCs into its 7<sup>th</sup> and 8<sup>th</sup> NSEDP, which focused on an ambitious goal of LDC graduation and the same process will be applied for the Doha Programme of Action (DPoA) and our newly adopted 9<sup>th</sup> NSEDP for 2021-2025.

Throughout the years of implementation of NSEDPs, Lao PDR has consistently made significant progress contributing to the meeting of three criteria for LDC graduation. Following the triennial review by the Committee Development Policy (CDP) in early 2021, which resulted in the recommendation for Lao PDR to be eligible for LDC graduation with extended 5-year preparatory period, the Government of Lao PDR is embarking closer to realizing its endeavour to lift the country out of the LDC category. However, there remain numerous challenges, which have been further exacerbated by the unprecedented health crisis caused by COVID-19 pandemic, its multi-dimensional impact has threatened to revert the hard-earned progress on socio-economic development over the last decade and further increased our country's existing vulnerability.

Considering that these uncertainties will be prolonged and continue at least in the next few years, which will be potentially implying a setback in all three criteria corresponding to the review for LDC graduation, it is crucial that we have to be most prepared for a quality, sustainable, and irreversible graduation. Against this backdrop, the Government of Lao PDR attaches great importance to developing a Smooth Transition Strategy (STS) that is comprehensive, practical, and achievable, through a whole-of-government approach. To date, a few round of discussion and consultation has been conducted mainly focusing on the concept note on the development process of the Smooth Transition Strategy, which was presented at the High-Level Roundtable Meeting in November 2021. As having already agreed by the National Steering Committee on LDC, the next step is to advance the development of STS.

## **2. SUMMARY OF THE PROGRESS**

### **2.1 THE NATIONAL DEVELOPMENT PLANNING PROCESS**

Management of the LDC Graduation process is led by the LDC National Steering Committee under the overall chairmanship of the Minister of Foreign Affairs, with members of the committee drawn from line ministries and supported by its Permanent Representatives to the UN in New York and in Geneva, in close coordination with Ministry of Planning and Investment

(MPI), Department of Planning for developing and monitoring national plans, namely the NSEDP, and Department of International Cooperation (DIC) as the Secretariat of the Roundtable Process.

The anticipated implications of graduation cut across the mandates of many ministries, and therefore thorough consultations throughout the process of developing and implementing the STS are essential. In particular, key ministries that would form a core consultative group include:

- **Ministry of Planning and Investment:** central role in developing and monitoring national plans and ensuring alignment with the 9<sup>th</sup> NSEDP and coordination with the SDG Secretariat for progress reporting against the SDGs (Department of Planning), as well as playing a role as the Secretariat of the Roundtable Process (Department of International Cooperation)
- **Ministry of Finance:** implications of graduation for access and terms for some concessional finance, advise on investment requirements to maintain levels on measures relevant to the GNI and EVI;
- **Ministry of Industry and Commerce:** improving productive capacity and diversifying production and trade, advise on investment requirements to maintain levels on measures relevant to the EVI;
- **Ministry of Agriculture and Forestry:** role in safeguarding livelihoods (sector which occupies the majority of the workforce) and positioning the agricultural sector within the global value chain;
- **Ministry of Health:** role to provide input and advise on investment requirements to maintain levels on measures relevant to the HAI;
- **Ministry of Education and Sport:** role to provide input and advise on investment requirements to maintain levels on measures relevant to the HAI;
- **Ministry of Natural Resources and Environment:** role of protecting and managing natural assets to reduce vulnerability and drive sustainable development;
- **Ministry of Public Works and Transport:** role of infrastructure in supporting trade diversification and productivity improvements.

The UN Agencies, Funds, and Programmes with relevant expertise pooled in the LDC Graduation support joint output group<sup>1</sup> of the new Lao PDR-UN Sustainable Development Cooperation Framework (2022-2026), technically led by DESA under the overall coordination of the United Nations Resident Coordinator's Office (UNRCO), supports MoFA through the creation of the country-based platform as outlined by the Sustainable LDC Graduation Support Facility. This work is coordinated with the Inter-agency Task Force (IATF) in New York chaired by the OHRLLS and supported by CDP.

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<sup>1</sup> DESA, UNCTAD, ILO, ITC, UNDP, UNIDO, OHRLLS and RCO

## 2.2 NATIONAL CONSULTATION AND REGIONAL/INTERNATIONAL PARTICIPATION

Following the triennial review by the Committee Development Policy (CDP) in early 2021, which resulted in the recommendation for Lao PDR to be eligible for LDC graduation with extended 5-year preparatory period, the Government of the Lao PDR has actively organized national consultation meetings and participated in both regional and international conferences and seminars as part of the effort to prepare and lay-out ground work, as well as disseminate the LDC graduation process at the national level, particularly, on the preparation of the smooth transition strategy, namely:

- **The Virtual Meeting between Minister of Foreign Affairs of Lao PDR and Executive Secretary for the United Nations Economic and Social Commission for the Asia and the Pacific (UNESCAP), 20 August 2021 (Virtually)** - the aims of the virtual meeting was to discuss Lao PDR's participations in the Ministerial Dialogue of the Regional Review and discuss the work of ESCAP, opportunities for strengthening bilateral collaboration as well as issues of mutual interests.
- **The High-level Asia-Pacific Regional Review Meeting on the Istanbul Programme of Action (IPoA) in Preparation for the Fifth United Nations Conference on the Least Developed Country (UN LDC-5), Geneva, 30 August-02 September 2021 (Virtually)** – led the delegation from the Lao PDR by H.E Minister of Foreign Affairs (Pre-recorded statement)
- **The Annual Ministerial Meeting of Least Developed Countries (LDCs), New York, 17 September 2021 (Virtually)** – led the delegation from the Lao PDR by H.E Deputy Minister of Foreign Affairs (Pre-recorded statement)
- **Stakeholder Engagement Seminar - Outcomes of the 2<sup>nd</sup> Voluntary National Review and Pre-Consultation for the 13<sup>th</sup> High-Level Round Table Meeting, 20 October 2021, virtual meeting** – the seminar was chaired by H.E Deputy-Minister of Foreign Affairs and co-chaired by the United Nations Resident Coordinator to the Lao PDR. The seminar was attended by more than 150 participants from the Government sectors, namely the National SDG-LDC focal points from line ministries and ministry-equivalent organizations; the UN agencies, civil society organizations, international non-governmental organizations, private sector and other relevant sectors.

The main objective of the seminar was to present and disseminate the outcomes of the 2nd National Voluntary Review (VNR) on the implementation of the 2030 Agenda for Sustainable Development in the Lao PDR, to different stakeholders in the society and to encourage the implement in their sector, particularly after the Government of Lao PDG

had successfully presented the voluntary report at the UN High-Level Political Forum for Sustainable Development which organized in July 2021. In addition, the seminar was aimed to provide discussion platform and encourage the participation of different stakeholders in the drafting process of the smooth transition strategy to prepare the Lao PDR graduation from the Least Developed Countries status. The outcomes of this seminar was also feed into the discussion of the 13th High-Level Round Table Meeting, which organized in mid-November 2021, as well as the Annual Meeting of the National SDG-LDC focal points by the end of this year.

- **The Technical Side-event for the 13<sup>th</sup> High-Level Round Table Meeting (HL-RTM) on LDC Graduation Smooth Transition Strategy, Vientiane, 11 November 2021** – The side event was chair by H.E Deputy Minister of Foreign and co-chaired by the United Resident Coordinator to the Lao PDR. The event was part of a series of pre-consultations convened in preparation for the 13<sup>th</sup> High-Level Round Table Meeting (HL-RTM), which scheduled to take place on 17<sup>th</sup> November 2021. The main objective of the event was to ensure that the overarching objectives of the High-Level RTM was achieved and delivered, specifically on the development of the LDC graduation Smooth Transition Strategy.

The side-event welcomed two main presentations, first with the Summary of Information on LDC Graduation for Lao PDR with the aim to provide the expected implications of graduation across the areas, namely on trade, development cooperation, and other dimensions, as well as the most important vulnerabilities as identified by relevant UN offices. The second presentation covered on the approach of developing a Smooth Transition Strategy, setting out how, in accordance to its Guidance Note, the strategy will be formulated through necessary consultative mechanisms. After each presentation, a dedicated agenda for discussion was provided for participants to seek clarifications, share additional inputs, and suggest on plans in contribution to the development of the Smooth Transition Strategy.

In addition, the outcomes from this technical side-event were later presented to the High-level RTM, with a purpose to inform and sensitize policy and decision makers across government as well as the Development Partners to the advantages of and opportunities gained from graduation, anticipated changes, and potential measures needed to address and adapt to foreseen transitions from LDC graduation, especially in terms of enhanced and continued support.

- **The 13<sup>th</sup> High-Level Round Table Meeting (HL-RTM), under the theme ‘enhancing partnership to improve the effective implementation of the 9<sup>th</sup> five-year National Socio-Economic Development Plan aiming to accelerate the country’s achievement of**

**the Sustainable Development Goals and graduation from the Least Developed Country Status in the midst of COVID-19 recovery’, on 17 November 2021, Vientiane (Virtually)**

– The Round Table is an inclusive forum for discussing and exchanging views on the implementation progress of the NSEDP in each period of time between the Government and development partners. The meeting was officially opened with an opening remark from H.E Prime Minister of Lao PDR, and Vice-Chair of the UN Sustainable Development Group, UNDP Administrator. The Meeting was later chaired by H.E Deputy Prime Ministers, Minister of Planning and Investment, and co-chaired by UN Resident Coordinator to the Lao PDR. The event was attended by high levels, senior officers, representatives from Government sectors, line ministries and ministry-equivalent organizations, development partners, UN agencies, international non-governmental and civil society organizations, and other relevant stakeholders.

The 13<sup>th</sup> Roundtable Meeting came at an important moment for Lao PDR as the country enters its first years of the implementation of the 9<sup>th</sup> NSEDP and is beginning the preparatory period for the LDC status, amid the period when Lao PDR as well as countries worldwide are confronting with the impacts from the COVID-19 pandemic. The issue were, therefore, the discussion core on this meeting. On the same note, the 13<sup>th</sup> HL-RTM represented the most recent steps in long standing processes and the product of a strong commitment by the Government of the Lao PDR, and other development partners, working together to identify key issues for the implementation of the NSEDP, 2030 Agenda, and LDC graduation efforts in a challenging time. Additionally, thinking beyond the RTM, all the stakeholders’ engagement contributed to the preparation for Lao PDR’s delegation to participate in the 5<sup>th</sup> High-Level UN Conference on LDC in 2022, at which it was presented crucial opportunity for our country to showcase its progress in the graduation process. More importantly, the conference will welcome the adoption of a new Programme of Action for LDCs for the decade of 2022 - 2031, setting for the next decade the global agenda on development support and cooperation for LDCs.

- **The Monitoring Consultation with Committee for Development Policy (CDP), 30 November 2021, Virtually** - led the delegation from the Lao PDR side was Director-General of the International Organizations, Ministry of Foreign Affairs.
- **The 1<sup>st</sup> Peer Exchange with Bangladesh and Nepal in Preparation for LDC5, on 13 December 2021, virtually** – led the delegation from the Lao PDR side was Director-General of the International Organizations, Ministry of Foreign Affairs. The event was attended by the CDP members and Secretariat; line Ministries and UN Resident Coordinator, as well as colleagues in New York and Geneva from the three countries. The meeting presented an opportunity to exchange information on preparations each

country is making for smooth transition from the LDC category, as well as discussed important support needed from trade and development partners, and helped preparing for participation in the Fifth United Nations Conference on the LDCs (LDC5) by the three countries.

- **The Annual SDG and LDC Retreat, 23-24 December 2021, Luang Prabang Province** - The meeting was honour to have a remark by H.E Vice-Minister of Foreign Affairs. The workshops was actively attended by more than 50 representatives from different sectors, including the National SDG Secretariat, National LDC Focal Point, local authorities and relevant sectors from Luang Prabang Province, namely from Foreign Affairs, Cabinet Office, Agriculture and Forestry, Trade, Education, Tourism, Union, among others.

The main objective of the workshop was to summarize the progress, its success and challenges in implementing the SDG and LDC in 2021, particularly, the aim was to exchange views on the future prospect toward building sustainable path for LDC graduation, together with laying out the concrete plans, directional and target of LDC graduation-related works in 2022's priority areas, specifically the preparation and finalization of the STS and the preparation to attend the up-coming LDC5. The meeting also took into account the on-going COVID-19 situation and its impacts to the socio-economic development; therefore, the immediate task is the recovery efforts from the impact from COVID-19 and in ensuring that the implementation of relevant development plans including the NSEDP, SDG and the LDC graduation ambitious could reach its goals and targets. Moreover, interlinked to the national development works, the workshop provided the close-up platform for consultation on the process of drafting the Lao PDR's Smooth Transition Strategy from the Least Developed Country Status by 2026. The outcome of the meeting will contribute into the 2021 Annual Report on the implementation of SDG-LDC and will be submit to the National Steering Committee at the Prime Minister Office for further guidance.

#### **UP-COMING EVENTS:**

- **The National Consultation of the National Steering Committee on the Preparation of the Smooth Transition Strategy, 25 January 2022, Vientiane (Virtually)** – the meeting will be led the Department of the International Organizations, Ministry of Foreign Affairs. The main objective of the meeting is to continue the effort in drafting the STS, by encouraging all relevant sectors, specifically the core sectors responding to the LDC graduation criteria to present their respective priorities and strategies and what would be parts of the STS.



### 3. INTERNATIONAL SUPPORT FOR GRADUATION

**On Trade Facilitation:** as of 2017, Lao PDR has signed trade bilateral agreements with Vietnam, China, Cambodia, Myanmar, Thailand, North Korea, Mongolia, Malaysia, Russia, India, Belarus, Argentina, Kuwait and Turkey. To leverage on the potential benefits of these agreements, the Government has set up institutional mechanism and carry out a number of initiatives to promote trade in the country.

Lao PDR has made tremendous progress in developing its transport infrastructure to support and facilitate the flow of trade. Around 85 percent of the rural population now live in villages with all-weather road access. Regional transport linkages have improved connectivity to neighbouring countries, leading to increased intraregional trade. Road transport accounts for nearly 90 percent of passengers, and some 81 percent of freight volumes. The train connecting China to Lao PDR under the Belt Road Initiative which has now officially operationalized is also expected to increase the trade volume to new and unprecedented level.

In addition, the recent launching of Thanaleng Dry Port and Vientiane Logistics Park in December 2021 is expected to offer comprehensive services related to freight transport and cross-border transport logistics. The projects are part of the Government's efforts to transform a landlocked country into a "land-linked" country and provide 'Land Link Transit Transport Services' for the region. This would cut the cost of logistics and increase trade competitiveness, and it is hope that it will be a significant contribution to driving economic growth for the Lao PDR.

**On International Trade:** Lao PDR is a WTO member since 2013. As part of its efforts to secure WTO membership, the Government has made legislative amendments in a number of areas, including tax, trade and intellectual property. To comply with the ASEAN Economic Cooperation (AEC) integration process by 2015, Lao PDR has also reduced many of the import tariffs to zero on goods imported from ASEAN countries. In this regard, the Government will continue to strive for zero tariffs for all imported goods from ASEAN countries and remove non-tariff barriers as many as possible to facilitate the trade movement.

In addition, since 2020 Lao PDR joined 13 other countries in the region in the formation/formalization of the Regional Comprehensive Economic Partnership (RCEP) which is now the largest free-trade bloc in the world, comprising nearly a third of all global economic activity. The Government considers trade as a driver of economic growth and job creation and the joining of RCEP as an opportunity to promote both economic and job growth through greater business within the region as well as possible skills transfer.

Since becoming the member of WTO and fully integrated into the AEC, Lao PDR has been promoting economic integration through focusing on effective implementation of goods and

services commitments at both the WTO and ASEAN levels. Recent progress includes the launch of the Lao Services Portal, which contains information related to trade and investment services; the establishment of a Regulatory Authority for the Telecommunication Sector; and the adoption of sector regulations, in particular the framework for competition, interconnection, licensing regime and spectrum management. In March 2019, Lao DPR also joined the UN Convention on Contracts for International Sales of Goods, which can elevate cross-border trade of Lao PDR and contribute to its economic growth.

**On Official Development Assistance (ODA):** As an LDC, Lao PDR has significantly relied on official development assistance (ODA) for socio-economic development. In light of the declining ODA in recent years, it has further posed challenges for Lao PDR to redefine other sources to mobilize funding and to maximize strategic allocations of development finance from different sources, such as foreign and domestic private investment as well as financial institutions, to support for the implementation of each NSEDP and sectoral development plans. Lao PDR has enjoyed an access to concessional loans from bilateral and multilateral sources as well as part of the preferences for LDCs. Given this, LDC graduation might affect Lao PDR's access to grants and concessional loans. Plus, the debt situation has become growing concern and is also considered as a threat to smooth and sustainable graduation. Hence, Lao PDR is working with its creditors on long-term debt rescheduling. As outlined in the new 9th NSEDP, the Government is also determined to adopt policies that reduce the debt burden and ensure macroeconomic stability.

#### **4. THE IMPACTS OF THE COVID-19 ON THE SOCIO-ECONOMIC DEVELOPMENT AND ITS IMPLICATION ON THE PREPARATION FOR GRADUATION FROM THE LDC CATEGORY AND ITS SMOOTH TRANSITION STRATEGY**

The on-going unprecedented health crisis caused by the COVID-19 pandemic has affected the country in term of the overall socio-economic growth, which brought about quite serious concern, despite the successful result from the 2021 triennial review. During the preparatory period (2021 - 2026) the country's economic growth may continue to encounter setbacks and slow down as well as the uncertainty on the situation.

In 2020, the overall economic growth was planned at 3.3 per cent. Until recently, agriculture has made 2.3 per cent growth, considering not so much affected by the crisis, except for those export-related agricultural products. The same for energy industry is still expected to meet the target by 3.3 per cent growth (World Bank's expectation at 0.8 per cent).

Poverty remains challenging as unemployment rate is estimated to reach 20 per cent increase due to labors' return from neighboring countries and the lockdown of businesses, companies,

and enterprises. Additionally, tourism is estimated to decline as around 200,000-300,000 people working in tourism sector lost their jobs.

COVID-19 has further imposed a serious threat to revert our decade-long progress and increased our country's vulnerability. Despite strong growth over the last decade leading to significant poverty reduction, inequalities have grown. Against the backdrop of COVID-19, during which this inequality is likely to have further increased as has been the case globally, a strong emphasis is given to the elaboration and adoption of fiscal and development policies aimed at reducing existing rural/urban and other inequalities in Lao PDR.

Furthermore, the pandemic has caused volatile commodity price shocks, supply chain disruption, loss of export earning, reduced investment and remittances, and higher unemployment, among others. For Lao PDR, the service sector, especially tourism, is one of the sectors that generates significant sources for income and employment of the country. The number of tourist arrival at the pre-COVID-19 pandemic is at the average at 4.5 million per year, but in 2020 the country has received only around 800 thousand tourists at the first few months before the lockdown, about 80 per cent decline compared to 2020, resulting in USD700 - 800 million loss. Export was drastically affected, with consequences of 15 per cent declining in the first 7 months of 2020 in comparison with the same period in 2019 due to the decreased market demand, limit on export and transportation, and lack of productive capacity. According to the survey made by World Bank (2021) on Monitoring the Impact of COVID-19 in Lao PDR, the latest key finding includes:

- The second wave of COVID-19 and its lockdown measures hit employment. Around 51% of respondents were without work or had to stop working in April–May 2021, against 17% in February–March 2021.
- Employment disruption is widespread in the services sector. More than half of workers in wholesale and retail trade and other services had to stop working or switch jobs during the lockdown.
- By May 2021, 5.5% of businesses had permanently closed, while 33% were temporarily closed. Among businesses that remained in operation, 65% experienced a fall in revenue from pre-lockdown levels.
- Around 43% of households experienced a decline in household income in March 2021 relative to before lockdown.
- The ratio of respondents who were very concerned about food insecurity for people in their community increased from 16% before the second wave arrived, to 26% during the lockdown.

Regarding external financing, foreign investments in mega projects, such as hydropower and mining, have been halted for some time by the lack of labours and strict measure on travelling. Remittances has been severely declining since a large number of around 300 thousand migrant workers returned to the country, and the unemployment rate abruptly rises from 9.4 per cent to 23.4 per cent.

Moreover, external debt remains a big challenge and the impact of the pandemic further exacerbated the existing financial constraints. As a result, it has created unfavourable effect on our financial situation, from losing revenue to wider budget deficit and increasing pressure on debt sustainability. These uncertainties will definitely continue at least in the next few years which is implied a setback in all three dimensions corresponding to the review for LDC graduation.

The advent of COVID-19 pandemic has clearly overwhelmed the achievement we have made so far, and further increased country's existing vulnerability and already undermined our ability to sustain the progress we made toward graduation. The main implication of the COVID-19 crisis on the preparation for graduation from the LDC category and its smooth transition strategy, therefore, is that the process is going to more challenging to achieve. Against this backdrop, to build back better from COVID-19 pandemic and resilience to future shocks, the new programme of action should take into account the health dimension as emerging threats and response preparedness. The post pandemic recovery should focus on debt sustainability and financial access. Otherwise, it will be very difficult for the LDCs to invest in critical areas that are most needed for continued development.

## **5. THE PREPARATION OF THE SMOOTH TRANSITION STRATEGY**

Lao PDR has kicked off the development process of the national STS through the whole-of-government approach and in consultation with all relevant stakeholders. The initial concept of the STS (*please see Annex for the Draft Concept Note of STS*) consists of the main purposes, which focus on:

1. Identifying pathways of graduation, e.g., the niche areas for targeted attention during the preparatory period;
2. Summarizing existing information on the impacts of losing LDC-specific international support measures and identify and address any remaining information gaps;
3. Identifying the parameters that will require management, e.g., international political and legally binding commitments;
4. Identifying mitigation measures for specific significant impacts of graduation; and

5. Determining the most prioritized smooth transition measures, timelines, and responsibilities, under the leadership of the National LDC Task Force Committee.

***Timeline for a smooth transition strategy development***

<i>No</i>	<i>Action</i>	<i>Timing</i>
<i>1</i>	<i>National consultation with key stakeholder on key recommendations</i>	<i>December 2021</i>
<i>2</i>	<i>Availability of Concept Note and Zero Draft</i>	<i>January 2022</i>
<i>3</i>	<i>Availability of the first draft</i>	<i>February 2022</i>
<i>4</i>	<i>National consultation on the first draft</i>	<i>March 2022 (TBC)</i>
<i>5</i>	<i>Present its first draft at LDC5</i>	<i>March 2022</i>
<i>6</i>	<i>Validation workshop with all partners</i>	<i>April 2022</i>
<i>7</i>	<i>Finalization of Strategy</i>	<i>May 2022</i>

***Focused areas in a smooth transition strategy***

Inputs made by stakeholders on priority areas to be in a smooth transition strategy, which include:

- On trade:
  - Analysis and search for new markets for exports;
  - Research on special/niche policies for Laos;
  - Economic diversifications;
  - Private sector strengthening.
- On development assistance:
  - Linkage between strategy and annual 9<sup>th</sup> NSEDP implementation plan;
  - Monetary strengthening;
  - Debt management and improved macro-economic sustainability.
- On other areas:
  - Integrated between COVID-19 recovery plan;
  - Environmental protection and increased capacity for disaster risk reduction;
  - Integrated and promotion of gender work, mother and child protection.

## ANNEX:

### A. Draft Concept Note of the Lao PDR's LDC Graduation Transition Strategy Support

#### LDC Graduation Transition Strategy Support

#### DRAFT Concept note and timeline

#### Background

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- ***National context***

The Lao PDR is at an important stage of the national development planning process. 2021 marks the conclusion of the implementation of the 8<sup>th</sup> National Socio-Economic Development Plan (8<sup>th</sup> NSEDP 2016-2020) and the commencement of the next five-year plan (9<sup>th</sup> NSEDP 2021-2025). This transition has been dominated by the challenges associated with the COVID-19 pandemic, sustainability and climate change, quality and inclusive growth, financing constraints, human capital, infrastructure development, and the planning for transition from Least Developed Country (LDC) status, which Lao PDR hopes to achieve in 2026.

- ***LDC Status and Graduation***

Least Developed Countries have low indicators of socio-economic development, with Human Development Index (HDI) scores amongst the lowest in the world. LDCs have low levels of national income, face substantial structural impediments to delivering sustainable development, and are highly vulnerable to economic and environmental shocks.

Specific international support measures associated with LDC status are designed to support efforts to address these impediments, and have included initiatives related to trade preferences, development financing (including ODA), debt relief, technical assistance, and other forms of support.

By virtue of being a group defined as those facing the most severe impediments to realising inclusive and sustainable development, LDC status also brings a set of negative connotations, including assumptions of:

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• low levels of human assets;</li><li>• low educational performance;</li><li>• limited skills levels among the labor force;</li><li>• weak governance structures and capabilities;</li><li>• high levels of corruption;</li></ul> | <ul style="list-style-type: none"><li>• high levels of debt;</li><li>• economic vulnerability;</li><li>• dependency on a few (often raw material) industries;</li><li>• low productivity;</li><li>• illicit financial flows;</li></ul> |
|---|--|

Many of these perceptions tend to impact negatively on capital investments and may sustain and even attract further negative developments, and illicit financial, human and commodity flows.

LDC Graduation on the other hand, signals that a country has overcome many of these challenges to make broad progress in raising national income, developing human assets, and reducing economic and environmental vulnerability, in accordance with internationally agreed criteria:

1. **Gross National Income – GNI** as income criterion, based on a three-year average estimate of **GNI** per capita for the period 2017-2019, based on the World Bank Atlas method (under \$1,018 for inclusion, above \$ 1,222 for graduation as applied in the 2021 triennial review).
2. **Human Assets Index - HAI** based on a Health Index (under-five mortality rate; prevalence of stunting; maternal mortality ratio) and an Education Index (gross secondary school enrollment ratio; adult literacy rate; gender parity index for gross secondary school enrollment)
3. **Economic and Environmental Vulnerability Index - EVI** based on an Economic Vulnerability Index (share of agriculture, forestry, fisheries in GDP; remoteness and landlockedness; merchandise export concentration; instability of exports of goods and services) and an Environmental Vulnerability Index (share of population in low elevation coastal zones; share of population living in dry lands; instability of agricultural production; victims of disasters)

Through addressing these challenges, an LDC paves the way to realise higher incomes and revenues, a more diversified economy with the ability to sustain and advance a more inclusive socio-economic development, which in turn would pay off in terms of greater human assets and lower economic vulnerability.

Lao PDR was included on the list of LDCs when it was first created in 1970. Since 1980, when the measuring of HDI started in earnest, Lao PDR has seen this index climb from 0.340 to 0.613 (2019), an increase of 80 per cent. Between 1990 and 2019, the life expectancy at birth increased by 14.6 years, mean years of schooling increased by 2.2 years and expected years of schooling increased by 4.3 years. Lao PDR's GNI per capita increased by 281.3 per cent in the same period.

### Gross national income (GNI) per capita\*



### Human assets index (HAI)\*

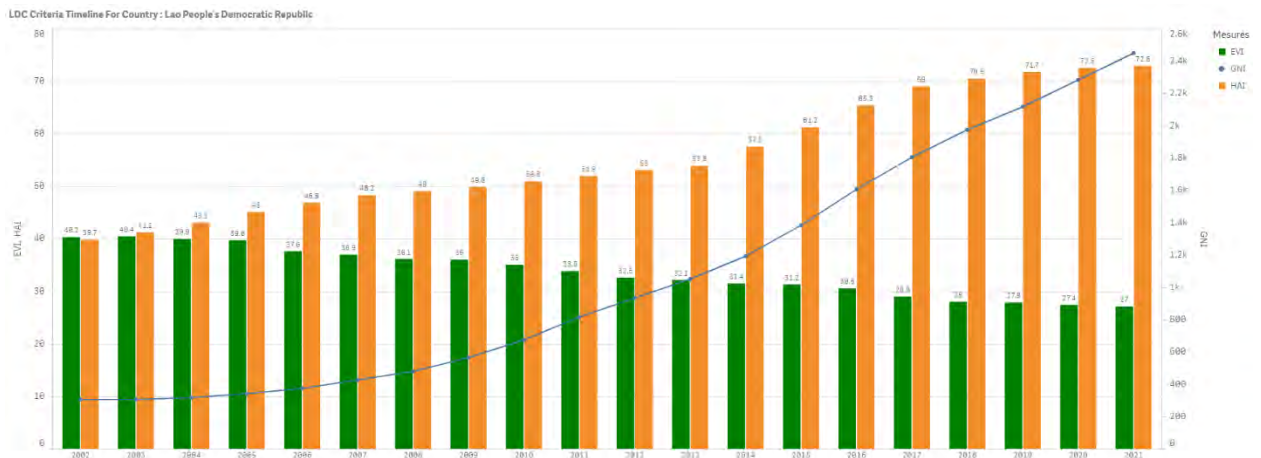


#### HAI indicators\*

<b>Under-five mortality rate</b> Value: 45.5 Index: 78.5 Source: UN IAG for Child Mortality Estimation	<b>Gross secondary school enrolment ratio</b> Value: 65.8 Index: 62.0 Source: UNESCO
<b>Prevalence of stunting</b> Value: 31.2 Index: 42.5 Source: UNICEF/WHO/World Bank Joint Child Malnutrition Estimates	<b>Adult literacy rate</b> Value: 84.7 Index: 79.5 Source: UNESCO
<b>Maternal mortality rate</b> Value: 185 Index: 84.9 Source: UN IAG for Maternal Mortality	<b>Gender parity index for gross secondary school enrolment</b> Value: 0.94 Index: 89.3 Source: UNESCO

\*Data from 2021 Triennial Review

## Economic and environmental vulnerability index (EVI)\*



- **LDC Graduation Smooth Transition Strategy (STS) - Objective**

LDC graduation has been a long-term objective of the Government of Lao PDR since 2000, guiding the prioritisation of investments to advance against the graduation criteria. Lao PDR met the graduation criteria for the first time at the 2018 Triennial Review through its performance on GNI per capita and the HAI. In the 2021 Triennial Review, it successfully met the graduation criteria in all three quantitative criteria - thereby qualifying for consideration of graduation. On 26<sup>th</sup> February 2021, the United Nations [Committee for Development Policy](#) (CDP) recommended Lao PDR for graduation with an extended 5-year preparatory period<sup>2</sup> reflecting the severe and ongoing impact of COVID-19.

<sup>2</sup> Endorsed by ECOSOC in resolution 2021/11, GA resolution pending



Graduation is therefore expected to take place in 2026, with CDP continuing to monitor progress closely throughout the preparatory period.

Graduation from LDC status will be an important national development milestone, reflecting the hard-earned achievements despite the many development challenges. Ensuring a sustainable graduation, however, will require careful management to maintain development momentum through effective response to the COVID-19 (including recovery phase), any impact sustained from the triple planetary crisis of climate change, nature and pollution, as well as any specific impacts resulting from loss of international support measures for LDCs in trade and other areas.

Specifically, to prepare for and manage the shift from LDC-status, graduating countries are encouraged to develop a national Smooth Transition Strategy (STS) in close cooperation with development and trading partners to ensure the transition from LDC-specific support 1) does not disrupt the country's development pathway, 2) that use of these support measures is optimised whilst still available, and 3) that measures are put in place during the preparatory period to ensure the optimal position at the time of graduation, including developing its productive capacities, negotiating favourable trading agreements and investing in human capital to build and sustain a diversified economy.

A well-prepared STS can help guide a sustainable and irreversible graduation process, enhanced and more coordinated support by development partners, as well as identifying investment and capacity building priorities. The Government has emphasized the criticality of a quality graduation that, in particular, addresses any fallouts as a consequence of the COVID-19 pandemic, including regular monitoring of HAI, GNI and EVI to ensure sustainable levels -- and at the minimum commensurate with the criteria, at the time of Graduation. To this end, the 9<sup>th</sup> NSEDP sets out the expectation that the Government will develop an STS in consultation with all relevant stakeholders.

The main purposes of the Transition Strategy are to:

1. Identify **pathways of Graduation**, e.g., the niche areas for targeted attention during the preparatory period;
2. Summarize **existing information on the impacts of losing LDC-specific international support measures** and identify and address any remaining information gaps;
3. Identify the **parameters that will require management**, e.g., international political and legally binding commitments;
4. Identify **mitigation measures for specific significant impacts** of graduation; and
5. Determine the most **prioritized smooth transition measures**, timelines, and responsibilities, under the leadership of the National LDC Task Force Committee.

Guided by the forthcoming Doha Programme of Action (DPoA)<sup>3</sup>, and tailored to the needs of Lao PDR, the STS will set out to operationalise the DPoA with plans to reach agreements with main bilateral and multilateral development and trading partners on smooth transition measures and an implementation plan for the STS recommended actions with agreed responsible parties and timelines clearly articulated. The STS will be made up of a comprehensive and coherent set of specific and prioritised measures in alignment with national development priorities. The key principle of the STS process is to be country-led, country-owned and using existing country systems to the extent possible.

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<sup>3</sup> Following the LDC Istanbul Plan of Action (IPoA) agreed among Member States at LDC4 the LDC Doha Plan of Action is the expected outcome document that will be agreed in January 2022 at LDC5 in Doha, Qatar.

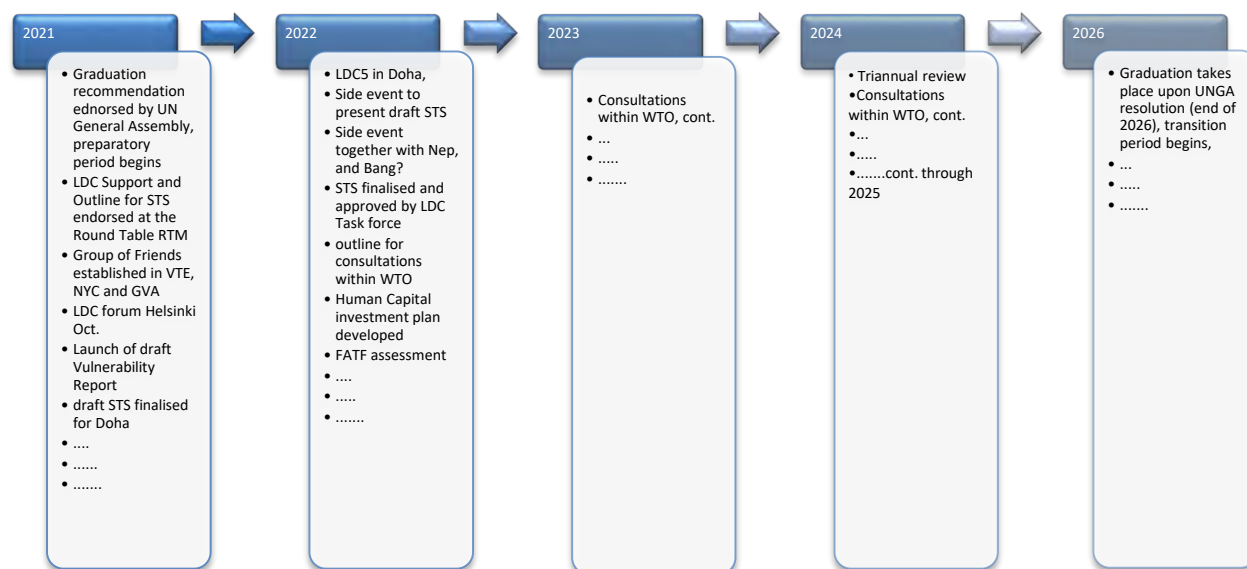
The development of the strategy will be informed by a consultative mechanism established by the Government supported by the UN, in cooperation with development and trading partners to identify and agree on the associated actions, negotiate their duration and phase-out period of the support measures that are appropriate to the country's situation.

## STS process and timeline

Under the overall annual programme cycle of national planning, the development of the STS will run in tandem with overall development priorities and should aim to:

1. Sensitize **national decision makers** across government to the advantages of and opportunities gained from graduation, anticipated changes, and potential measures needed to address and adapt to foreseen transitions from LDC graduation. This would include the steps needed to take advantage of these opportunities and manage changes in international engagements.
2. Sensitize **development partners** to the advantages of and opportunities gained from graduation, anticipated changes, and potential measures needed to address and adapt to foreseen transitions from LDC graduation, and build a constituency of supporters to help Lao PDR move smoothly through the transition period;
3. Inform, seek information from and consult with other stakeholders including **private sector and civil society** with a view to ensuring the STS is informed by their expertise and perspectives.

Across all three points, a comprehensive communications strategy should accompany the STS and ensure a collective and cohesive whole-of-government approach.



## Deliverables

Expected deliverables include:

1. **A Smooth Transition Strategy** – STS, outlining a comprehensive set of graduation support measures covering the time period 2021-2026 (and beyond) accompanied by the proposed policy direction of the LDC Task Force and whole-of-government communication on the Lao PDRs approach to LDC graduation;
2. **The establishment of a core cross-ministerial** consultative group within the LDC Task Force under the overall chairpersonship of DIO consisting of key ministries relevant to the outlined parameters of the STS, including MPI, MoF, MoIC, MAF, MoNRE, MoPWT, MoH, MoES, to support the development of the STS for consideration by the Govt;
3. **The establishment of an LDC Transition Support Group** of development and trading partners under the overall lead of the MoFA DIO supported National LDC Task Force Committee with sub-chapters established and led by the respective Permanent Representatives of Lao PDR to UN in New York and in Geneva.

## Approach

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In line with the anticipated overall approach of the NSEDP implementation:

1. Presentation of Lao PDRs approach and plans to develop the STS, including anticipated consultations, work streams, and support from development partners at the High-Level Roundtable Meeting;
2. Invitation to the LDC Transitional Support Group for stakeholder consultation throughout the process of developing the STS and the opportunity for outlining the further LDC support engagement;
3. At Doha LDC5, (Jan 2022) a presentation of the operationalisation of the Doha PoA outlining the draft Lao PDR STS;
4. Finalization and endorsement of the STS by Q1-Q2 2022

## Leadership

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Management of the LDC Graduation process is led by the LDC National Steering Committee under the overall chairmanship of the Minister of Foreign Affairs, with members of the committee drawn from line ministries and supported by its Permanent Representatives to the UN in New York and in Geneva, in close coordination with Ministry of Planning and Investment (MPI), Department of Planning for developing and monitoring national plans, namely the NSEDP, and Department of International Cooperation (DIC) as the Secretariat of the Roundtable Process.

The anticipated implications of graduation cut across the mandates of many ministries, and therefore thorough consultations throughout the process of developing and implementing the STS are essential. In particular, key ministries that would form a core consultative group include:

- **Ministry of Planning and Investment:** central role in developing and monitoring national plans and ensuring alignment with the 9<sup>th</sup> NSEDP and coordination with the SDG Secretariat for progress reporting against the SDGs (Department of Planning), as well as playing a role as the Secretariat of the Roundtable Process (Department of International Cooperation)

- **Ministry of Finance:** implications of graduation for access and terms for some concessional finance, advise on investment requirements to maintain levels on measures relevant to the GNI and EVI;
- **Ministry of Industry and Commerce:** improving productive capacity and diversifying production and trade, advise on investment requirements to maintain levels on measures relevant to the EVI;
- **Ministry of Agriculture and Forestry:** role in safeguarding livelihoods (sector which occupies the majority of the workforce) and positioning the agricultural sector within the global value chain;
- **Ministry of Health:** role to provide input and advise on investment requirements to maintain levels on measures relevant to the HAI;
- **Ministry of Education and Sport:** role to provide input and advise on investment requirements to maintain levels on measures relevant to the HAI;
- **Ministry of Natural Resources and Environment:** role of protecting and managing natural assets to reduce vulnerability and drive sustainable development;
- **Ministry of Public Works and Transport:** role of infrastructure in supporting trade diversification and productivity improvements.

The UN Agencies, Funds, and Programmes with relevant expertise pooled in the LDC Graduation support joint output group<sup>4</sup> of the new Lao PDR-UN Sustainable Development Cooperation Framework (2022-2026), technically led by DESA under the overall coordination of the United Nations Resident Coordinator's Office (UNRCO), supports MoFA through the creation of the country-based platform as outlined by the Sustainable LDC Graduation Support Facility. This work is coordinated with the Inter-agency Task Force (IATF) in New York chaired by the OHRLLS and supported by CDP.

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<sup>4</sup> DESA, UNCTAD, ILO, ITC, UNDP, UNIDO, OHRLLS and RCO