



**13<sup>TH</sup> HIGH-LEVEL  
ROUND TABLE MEETING**

Vientiane | 17 November 2021



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# **HANDBOOK**

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**CONSOLIDATED BACKGROUND DOCUMENTS**

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# INTRODUCTION



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## THE ROUNDTABLE

Each year, the Roundtable meeting provides an invaluable opportunity for all those involved in development in Lao PDR to come together and work towards addressing national development challenges and ambitions.

By providing a forum to discuss and support the design and implementation of the country's national development plans and processes, it allows participants to learn, share promising practice and build on our achievements by analysing where we are, how that has worked, and what we can do to improve.

The 13<sup>th</sup> High-Level Roundtable Meeting in 2021 comes at a particularly important moment for Lao PDR. This marks the first year of implementation of the 9<sup>th</sup> 5-year National Socio-Economic Development Plan, and the year Lao PDR was recommended for graduation from the list of the world's Least Developed Countries, with graduation itself expected in 2026.

In 2021, the Roundtable also meets under exceptional circumstances, with the COVID-19 pandemic having caused significant setbacks to development progress not just in Lao PDR, but across the world.

The measures necessary to counter the spread of COVID-19 have necessitated an unprecedented virtual High-Level Roundtable Meeting. However, meetings and background materials have been designed to still allow for meaningful exchange and dialogue on priority development issues, and to realise the overall aims of the Roundtable Process.

## OBJECTIVES



Discuss development challenges and opportunities with all relevant stakeholders.



Reinforce coherence and cohesiveness of various projects on national planning led by various parts of Government and supported by various development partners and other stakeholders.



Present and discuss the 9<sup>th</sup> NSEDP and prepare for the formulation of the LDC Graduation Smooth Transition Strategy and COVID-19 Recovery Framework.



Present milestones on the means of implementation for national priorities, especially in the context of Lao PDR's financial constraints.



Provide a platform to discuss the efficiency and quality of Official Development Assistance and development coordination mechanisms.

## STRUCTURE

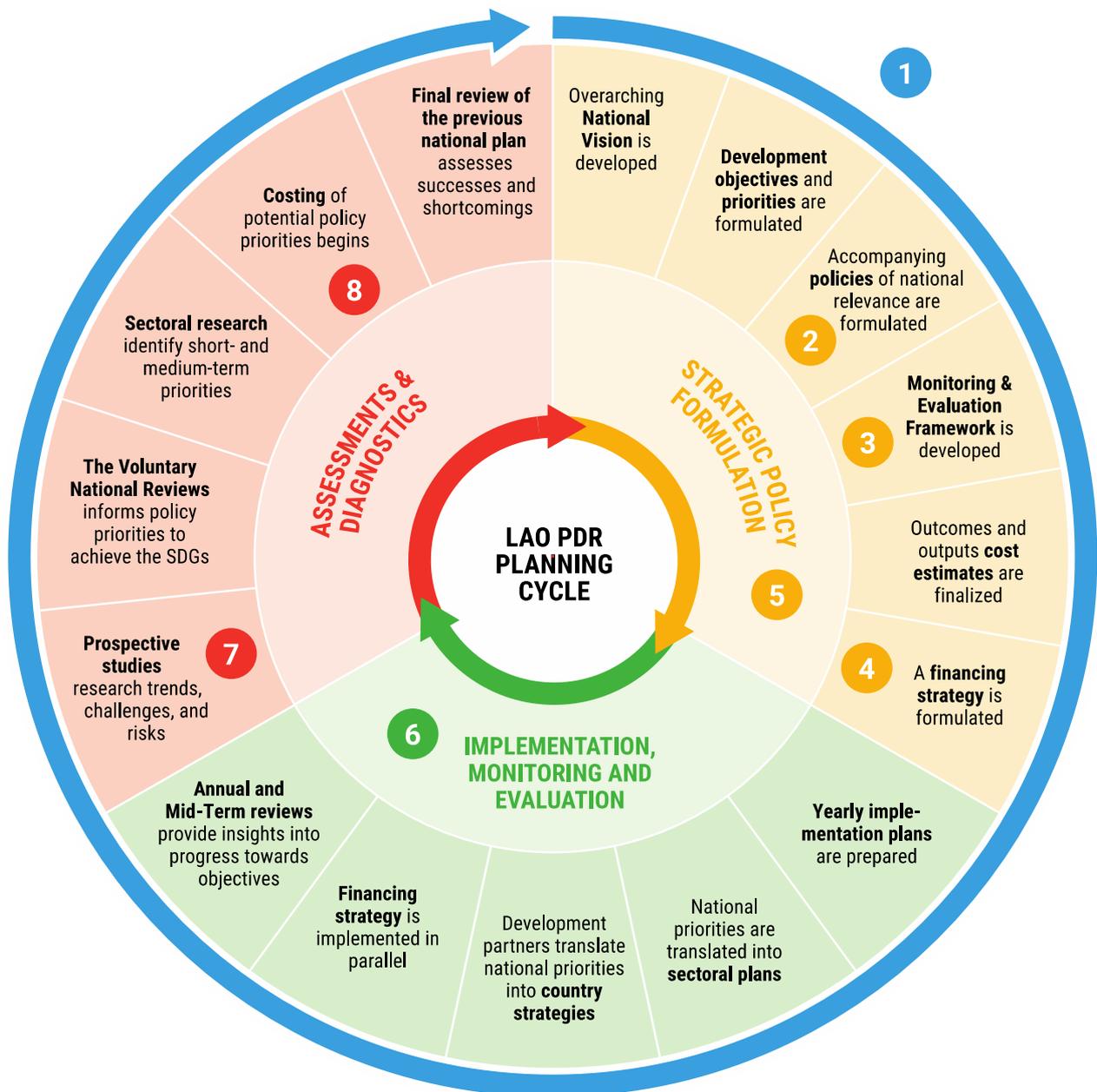
The 13<sup>th</sup> High-Level Roundtable has been organized into three main chapters:

1. **Update on Progress-** 'taking stock' of achievements and challenges related to national planning, development cooperation and the 2030 Agenda for Sustainable Development with a recap of the second Voluntary National Review (VNR) of progress towards the Sustainable Development Goals (SDGs) prepared in 2021.
2. **National Planning-** 'looking forward' to the implementation of the 9<sup>th</sup> NSEDP, plans for recovery from the impact of COVID-19, and the road ahead towards graduation from being a Least Developed Country (LDC).
3. **Development Cooperation-** 'thinking about how', reviewing ways to improve the efficiency and reach of development coordination and cooperation, through an assessment of implementation of Vientiane Declaration on Partnership for Effective Development Cooperation.

In advance of the High-Level meeting itself, a series of pre-consultations have been arranged on specific agenda items, to allow for more in-depth discussions and briefings. The outcomes of these discussions will be reflected in final presentations made to the High-Level Roundtable.

# NATIONAL PLANNING IN LAO PDR

Given the pivotal moment Lao PDR is at in national planning processes, the 13<sup>th</sup> High-Level Roundtable has been designed to facilitate constructive consultations on key elements and objectives of the national planning cycle amongst Roundtable participants.



## 1 Iterative planning

Whilst national planning can be simplified into three phases and a circular cycle, in practice relationships are more complex. For example, assessments and diagnostics are necessary not only to inform upcoming policy formulation, but also current implementation. Implementation may be interrupted by intermediate reviews and new diagnostics, which imply returning to policy formulation (as was the case with the COVID-19 pandemic).

## 2 Coordination and governance in the policy formulation phase

This entails the coordination of stakeholders from government, development partners and civil society. Identifying the most appropriate coordination mechanisms to support inclusive discussion and technical work that will support government-led policy formulation early on is critical.

## 3 The monitoring and evaluation framework

The monitoring and evaluation framework is developed during the policy formulation phase in line with the identified objectives and priorities of the national plan. A successful M&E framework contains a comprehensive set of indicators, with recent baseline value and frequent targets, as well as clear processes (e.g. who collects data? Who produces data?).

## 4 The financing strategy

A financing strategy is defined in support to the national plan, by matching available development finance with national priorities, and unlocking new sources of finance in support of national development priorities. The financing strategy is integrated, covering all sources of finance – State budget, domestic private finance, international private finance, and ODA and other official flows – and mobilizing all relevant stakeholders, including government, development partners, and civil society.

## 5 The integration of international commitments into national plans

National plans are also integrating international commitments made by countries, such as the SDGs, the Paris Agreement, the Universal Periodic Review (UPR) and the Convention on Cluster Munitions.

## 6 Coordination and governance in the implementation phase

Ensuring coordination between all stakeholders across the outcomes and outputs generates synergies, efficiency gains, and accelerates development progress. This must be supported by appropriate coordination mechanisms within sectors and beyond sectors.

## **7 Evidence-based planning**

National development planning is supported by series of assessments. These may entail research into long-term trends and transitions (e.g. climate change), research into key sectors, and assessments of available development finance and the costs of development progress. Gathering views and insights from a wide variety of stakeholders is critical in this phase.

## **8 Investment needs or costing**

The development of cost estimates supports prioritization of policies. This process is iterative and starts prior to policy formulation, part of all diagnostics, but continues throughout the planning cycle. As policy priorities are refined, so are cost estimates, which in turn, support the formulation of a financing strategy, for the appropriate matching of resources to ambitions. Costing is a difficult exercise: it requires solid data on key indicators that comprehensively cover national development priorities.

	Monday	Tuesday	Wednesday	Thursday	Friday
OCTOBER 2021	04	05	06	07	08 <b>HL-RTM RETREAT</b> 9:00-12:00
	11	12	13	14 <b>9<sup>TH</sup> NSEDP FINANCING STRATEGY STRUCTURED DIALOGUE 1</b> Financing Flows 09:00-16:00	15 <b>9<sup>TH</sup> NSEDP FINANCING STRATEGY STRUCTURED DIALOGUE 1</b> Costing 09:00-12:00
	18	19	20 <b>VNR DISSEMINATION &amp; LDC GRADUATION SMOOTH TRANSITION STRATEGY</b> 09:00-12:00	21	22 RTM Invitation and Agenda circulated
	25	26 <b>MEET THE PRESS</b> 13:30-15:30	27 <b>COVID-19 RECOVERY FRAMEWORK PRE-CONSULTATION</b> 09:00-17:00	28	29
	01 <b>VDCAP SECRETARIAT MEETING</b> 09:00-12:00	02	03	04 <b>MEETING OF CHAIRS AND CO-CHAIRS OF SWGS</b> 9:00-12:30	05
NOVEMBER 2021	08	9 <b>PATHWAYS TO SUSTAINABLE FOOD SYSTEMS</b> Launch Event 09:00-10.30	10 <b>9<sup>TH</sup> NSEDP FINANCING STRATEGY STRUCTURED DIALOGUE 2</b> Policy options 09:00-16:00	11 <b>LDC GRADUATION SMOOTH TRANSITION STRATEGY</b> 09:00-12:00	12 <b>VDCAP DISSEMINATION</b> 09:00-12:00
	15 <b>COVID-19 RECOVERY FRAMEWORK</b> 09:00-11:00	16	17 <b>HL- RTM</b> 09:00-17:00	18	19

Date	Description
<b>8 October   09:00-12:00   HL-RTM RETREAT</b>	A virtual meeting organised by the Ministry of Planning and Investment (MPI) to inform development partners on the ambitions and objectives of the 2021 HL-RTM.
<b>14-15 October   9th nsedp Financing Strategy Structured Dialogue 1 (Diagnostics)</b>	Following on the finalization of the 9 <sup>th</sup> National Socio-Economic Development Plan (NSEDP), MPI has been working with relevant partners on formulating a financing strategy comprised of practical options to ensure resources are available and accessible to finance with national development priorities. A first structured dialogue, co-chaired by MPI and the UN, is organised to validate series of diagnostics on the financing landscape of Lao PDR
<b>20 October   09:00-12:00   VNR Dissemination and LDC Graduation Transition Strategy</b>	Following on the finalization of the 2021 Voluntary National Review (VNR), presented at the High-Level Political Forum last July, the Ministry of Foreign Affairs (MoFA) organises a dissemination of results on progress towards the 2030 Agenda including reflections on limitations, data challenges, and best practices. The event, chaired by MoFA, will also be an occasion to discuss and looking forward to practical steps towards the finalization of a plan to develop a Smooth Transition Strategy (STS) strategy next year.
<b>26 October   13.30 – 15:30   Meet the Press</b>	A virtual press conference will be organized to provide media with information on the 13th HL-RTM. The conference will include briefings by Deputy Minister of Planning and Investment Mme. Phonevanh Outhavong, and UN Resident Coordinator Ms. Sara Sekkenes.
<b>27 October   09:00-17:00   COVID-19 Recovery Framework Pre-consultation</b>	With the COVID-19 pandemic, a request was made to the UN Resident Coordinators by the Deputy Prime Minister in August 2020 to establish a Taskforce to recalibrate the national plan. Five clusters of development partners and government counterparts met to discuss and review and produce background analytics and recommendations. These groups are currently updating last year's background analytical papers documenting the impacts of COVID-19 and will, throughout a full day, present and discuss initial results.
<b>1 November   09:00-12:00   VDCAP Secretariat Meeting</b>	A virtual meeting of the Vientiane Declaration on Aid Effectiveness Country Action Plan Secretariat, to review the draft report on the implementation of the Declaration.
<b>4 November   09:00-12:30   Meeting of SWG Chairs and Co-Chairs</b>	A virtual meeting of the Chairs and co-Chairs of the 10 Sector Working Groups under the Roundtable Process, to review progress and reporting ahead of the Roundtable Meeting.
<b>9 November   09:00-10.30   Pathways to Sustainable Food Systems – Launch Event</b>	A launch event will be organized to present the report Pathways to Sustainable Food Systems. This side-event aims at raising awareness on the importance of food systems for the Government and development partners.
<b>10 November   09:00-16:00   9<sup>th</sup> NSEDP Financing Strategy Structured Dialogue 2 (Financing options)</b>	A second structured dialogue, co-chaired by MPI and the UN, is organised with relevant stakeholders to discuss most relevant financing options, against the financing landscape discussed and validated at the first structure dialogue.

Date	Description
<b>11 November   09:00-12:00   LDC Graduation Smooth Transition strategy (STS)</b>	A technical side-event, co-chaired by MoFA and the UN, discusses the plans to formulate a credible and practical STS over the course of 2022.
<b>12 November   09:00-12:00   Vientiane Declaration on Aid Effectiveness (VDCAP) Dissemination</b>	A technical side-event, chaired by MPI, discusses the main findings from the VDCAP implementation mid-term review and recommendations for the improvement of development cooperation.
<b>15 November   09:00-11:00   COVID-19 Recovery Framework</b>	This technical-side event, chaired by MPI, discusses the main findings from each cluster and a workplan for the formulation of a nationwide COVID-19 plan aligned with the 9 <sup>th</sup> NSEDP.
<b>17 November   HL- RTM</b>	The HL-RTM brings together most senior decision-makers across government to discuss the national plan, COVID-19, LDC Graduation, sustainable financing for development, and development cooperation.

# SECTION 01

**Taking Stock:**

**Update on the progress**



# LAO PDR 2021 VOLUNTARY NATIONAL REVIEW ON THE IMPLEMENTATION OF THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT

Since the adoption of the 2030 Agenda for Sustainable Development Goal (SDG) in 2015, the Lao PDR have actively implemented the Agenda by integrating SDGs into the 8th and 9th Five-Year National Socio-Economic Development Plan for (2016-2020), and 2021-2025, respectively, and the Ten-Year Socio-Economic Development Strategy for (2016-2025), 2030 Vision and Green Growth Strategy. In addition, the country adopted the National Sustainable Development Goal, SDG 18: live safe from UXO and adopted 238 SDG indicators. The Lao PDR also submitted its first Voluntary National Review or known for short as VNR in 2018 in New York and the Second Review in July 2021 at the United Nations High Level Political Forum on Sustainable Development or HLPF.

## Lao PDR and the 2030 Agenda for Sustainable Development

Lao PDR is at an important stage of its national development planning process. 2020 marks the conclusion of the implementation of the 8th National Socio-Economic Development Plan (NSED 2016-2020) and the commencement of the 9th NSED 2021-2025. This transition has been dominated by the challenges associated with the COVID-19 on top of various challenges that the country has already encountered during the past two years, including sustainability and climate change, quality and inclusive growth, human capital, infrastructure development and the transition from Least Developed Country status, which Lao PDR hopes to achieve.

The Government has attached great importance to and been putting great efforts in implementing the 2030 Agenda for Sustainable Development, and has made many remarkable achievements, namely:

**The National Steering Committee (NSC) for SDGs implementation was set up in 2017 chaired by the Prime Minister, with members of the Committee from all concerned ministries and agencies.** The National SDGs Secretariat and focal points in line ministries were appointed to lead and take ownership of each SDG to ensure smooth coordination and collaboration. The National Steering Committee oversees the coordination and implementation of the SDGs through the NSED and the sectoral development plans of various ministries up to 2030, including the monitoring and evaluation of the implementation results. The Committee also appointed the National SDG Secretariat (Ministry of Foreign Affairs and Ministry of Planning and Investment) works with SDG focal points in relevant line ministries to lead and take ownership of each SDG to track the progress of SDG implementation.

**The SDG Roadmap including the SDG advocacy and communication was finalised and approved by the NSC in 2019.** The Lao SDG roadmap with timeframe till 2030 was prepared based on series of consultation with both national and international partners. It focuses on institutional strengthening and partnerships. It includes the institutional strengthening and partnerships, awareness-raising strategies, multi-

stakeholder consultations, mechanisms to create horizontal-vertical policy coherence, and budgeting and plans for monitoring, reporting and accountability.

**In 2019, 238 SDG indicators or around 80% of indicators were integrated into 9<sup>th</sup> NSEDP (2021-2025), the SDG indicators have been assigned to relevant line ministries and agencies for implementation (SDGi owners) and reporting (SDGr owners).** All SDG indicators have been assigned as relevant to nineteen different ministries and ministry-equivalent through a consultation process. Each ministry/agency owns certain SDG indicators which line within its portfolio. This setup is called “SDGi owner”. In addition, the SDG coordination/reporting matrix (each SDG has been assigned to ministries/agencies – this setup is called “SDGr owner”) has been prepared by the national SDG secretariat to encourage better coordination work across national stakeholders and this will also contribute to better advocacy work in the long run.

## 2<sup>ND</sup> Voluntary National Review

**HIGHLIGHT:** Following our first report in 2018, the 2nd report focuses on trend analysis and review of progress toward all SDGs with in-depth and detailed discussion on the selected Nine SDGs goals which align with the national development priorities.

**The VNR of the 2030 Agenda was developed based on the principle of leaving no one behind.** In partnership with UN agencies, the National SDG Secretariat conducted series of consultation with different stakeholders at different levels, including central, provincial and local authorities, UN agencies and development partners, civil society, private sector, youth and volunteer, among others.

**The VNR process builds on key recommendations from the first VNR and the conclusion of the 8<sup>th</sup> NSEDP** - Since around 60% of the 8<sup>th</sup> NSEDP indicators are linked to the SDGs and the inputs from monitoring the NSEDP – particularly the Mid-Term Review of the 8<sup>th</sup> NSEDP and its final reports have also been used. Narrative and analysis of SDG progress have also been prepared based on key recommendations from the first VNR.

**Securing data on localized SDGs in advance of the VNR has been challenging as a result of COVID-19 disruption.** However, baseline and updated data for key SDG indicators have now been available. While this second VNR provides snapshot of progress toward all SDGs, the detailed discussion is on selected SDGs (SDG 1, SDG 2, SDG 3, SDG 4, SDG 5, SDG 8, SDG 13, SDG 17 and SDG 18) which were in line with the global theme of the 2021 High Level Political Forum on Sustainable Development.

Through the implementation of the NSEDP as well as the SDGs, Lao PDR has made numbers of significant progress.

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
	<p><b>1. End poverty in all its forms everywhere</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>• Eradicating extreme poverty;</li> <li>• Implementing social protection measures; and</li> <li>• Ensuring equal access of men and women to economic resources.</li> </ul>	<ul style="list-style-type: none"> <li>• Lao PDR has been successful in reducing absolute poverty, based on the national poverty lines, from 33.5% in 2003 to 23.2% in 2013 and further to 18.6% in 2019.</li> <li>• But this downward trend will be reversed due to COVID-19 and the poverty is projected to go up to 21.5% in 2020.<sup>1</sup> It will begin to decline in subsequent years but still not meet the trend line for some years.</li> <li>• There has been an increasing trend of public investment on rural development which has been an important force contributing to the national poverty reduction efforts</li> <li>• The coverage of social protection system in the country is not adequate. The country spends only 0.7% of GDP on social protection, much less than the peers.</li> </ul>
	<p><b>2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>• Ending hunger and malnutrition;</li> <li>• Halting food insecurity, improving agricultural production, sustainable and resilient food production;</li> <li>• Correcting trade distortions, and</li> <li>• Ensuring functioning food commodity markets.</li> </ul>	<ul style="list-style-type: none"> <li>• The country ranked 87/117 in the 2020 World Hunger Index.</li> <li>• Proportion of hungry people has declined from 33% to 23% over past decade.</li> <li>• Food and nutrition insecurity has been an issue even prior to COVID-19</li> <li>• Stunting is declining but still affects nearly 33% of children under 5 years and wasting 9% which is rising. COVID-19 will increase wasting by 14.3%.<sup>2</sup></li> <li>• Children from rural areas, poorer households, ethnic groups and whose mothers are not educated were more likely to be stunted.</li> <li>• Food insecurity is unevenly distributed across districts and low-income households and farm laborers were most likely to be affected by COVID-19</li> <li>• In 2018, for children under 5 years, 21.1% were underweight (26.6% in 2012), 3.5% were overweight (2.5% in 2012), 9% were wasting (5.9% in 2012), and 33% were stunting (44% in 2012).</li> <li>• Undernutrition among general population was 18.5% in 2016.</li> </ul>

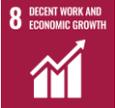
<sup>1</sup> Poverty Assessment, World Bank, September 2020.

<sup>2</sup> Rapid Assessment of Food Security and Agriculture in Lao PDR, May 2020

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
	<p><b>3. Ensure healthy lives and promote well – being for all at all ages</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>• Reducing maternal mortality;</li> <li>• Ending preventable child deaths;</li> <li>• Ending or reducing AIDS other diseases;</li> <li>• Universal health coverage, affordable essential medicines, sexual and reproductive health care;</li> <li>• Vaccine research, and</li> <li>• Access to medicines.</li> </ul>	<ul style="list-style-type: none"> <li>• Life expectancy (male and female) has increased from 66 in 2016 to 67 in 2018.</li> <li>• Significant progress has been made to reduce maternal mortality from 405 (per 100,000) in 2005 to 185 (per 100,000) in 2017.</li> <li>• Under-5 mortality has declined from 97 (per 100,000) to 46 (per 100,000) over same period.</li> <li>• The MMR and U5MR are significantly higher than the ASEAN average and in rural areas and for ethnic groups.</li> <li>• New HIV infections have declined from 1,100 in 2010 to 780 in 2019 but only 56% of PLHIV were covered by ART.</li> <li>• High out-of-pocket-expenses (45% of total health expenditure) is a major health-financing issue and can push people in poverty</li> <li>• Proportion of births in a health facility or attended by skilled personnel stood at over 64% in 2018. This ratio is much lower among ethnic groups (42.8 for Chinese-Tibetan) and in rural areas (55.8%). Among poorest quintile this ratio was 33.9%.</li> <li>• The adolescent birth rate was 83 per 1,000 women in 15-19 age group (in 2017). The rates are much higher for poorer quintiles, rural areas, ethnic groups and by education level.</li> <li>• Prevalence of tobacco use among persons 15-49 years was found to be 43.5% among males and 7.2% among females (2017).</li> <li>• Over 71% women of reproductive age currently in marriage or in union stated that their demand for modern contraceptives is satisfied-Only 48% of children received full recommended vaccination.</li> <li>• General government expenditure on health was 2.8% of GDP in 2018 (3% in 2016).</li> </ul>

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
	<p><b>4. Ensure inclusive and equitable quality education and promote life-long learning opportunities for all</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>• Universal access to free, quality pre- primary, primary and secondary education;</li> <li>• Improving vocational skills;</li> <li>• Equal access to education;</li> <li>• Expanding education facilities, scholarships, and training of teachers.</li> </ul>	<ul style="list-style-type: none"> <li>• Significant progress has been made at the primary school enrolment with minimal gender gaps.</li> <li>• However, there are major gaps in enrolment at the secondary and tertiary education.</li> <li>• The share of children (36-59 months) attending early childhood education was 45% (2018). The share is much lower in rural areas, in ethnic groups, by wealth quintiles, and mother's educational level.</li> <li>• The percentage of children out of school was 10% at primary level and 38% at upper secondary level</li> <li>• General government expenditure on education was 2.94% of GDP in 2018 down from 4% in 2013.</li> <li>• There is no precise data about the children and adults with disabilities in all levels of education.</li> <li>• Quality of education is an area for greater attention alongside with the use of technology, ICT and innovation.</li> </ul>
	<p><b>5. Achieve gender equality and empower all women and girls</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>• Eliminating discrimination and violence against women and girls;</li> <li>• Valuing unpaid care and domestic work;</li> <li>• Ensuring the full participation of women;</li> <li>• Access to reproductive health care; and</li> <li>• Equal access of women to economic resources.</li> </ul>	<ul style="list-style-type: none"> <li>• Significant progress has been made and a number of laws on gender equality have been passed.</li> <li>• Adolescent birth rates are high at 83 per 1,000 with wide variations across regions, ethnicities, and educational levels.</li> <li>• Women's share in the National Assembly in 2019 was 27.5% (31.8% for Provincial People Assembly), above the global average of 24.5%.</li> <li>• At sub-national levels and in managerial positions women's representation is much lower.</li> <li>• Women are more likely to be self-employed than being a wage worker compared to men.</li> <li>• Women are vulnerable to violence and trafficking. Proportion of ever-partnered women and girls aged 15 years and older who report having been subject to physical and sexual violence by partner/non-partner was 20.2%.</li> <li>• More efforts in local community outreach need to be enhanced in order to raise more awareness and understanding about land rights, particularly in the rural areas.</li> </ul>

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
	<p><b>6. Ensure availability and sustainable management of water and sanitation for all</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>Ensuring universal and equitable access to safe, affordable drinking water, sanitation and hygiene for all;</li> <li>Reducing pollution;</li> <li>Increasing water-use efficiency; and</li> <li>Promoting participatory management of water and sanitation services.</li> </ul>	<ul style="list-style-type: none"> <li>Water supply coverage has improved and covers over 80% of the population.</li> <li>Proportion of population using an improved drinking water source (well and stream – Nam Lin and Nam Badan) stands at 71%.</li> <li>Water quality is a concern. 18.9% of population (2017) using water for drinking (well and stream – Nam Lin and Nam Badan) free from zero e-coli sources.</li> <li>Water pollution is increasing in both urban and rural areas, and most urban areas have no wastewater treatment facilities, so inadequate sewerage facilities have accelerated the discharge of domestic liquid wastes to water bodies.</li> <li>Open defecation is practiced by 23% of population, especially in rural areas.</li> <li>About 84% of population was using an improved source of drinking water facility (97% in urban areas and 78% in rural) with wide ethnic differences.</li> <li>Wetlands provide vital environmental, economic and cultural services to the country's people and biodiversity, and are central to livelihoods of the rural population, supplying fish, fodder as well as future nature-tourism opportunities</li> <li>The Government has designated the country's first two wetlands of national significance, the Xe Champhone Wetlands and the Beung Kiat Ngong Wetlands.</li> </ul>
	<p><b>7. Ensure access to affordable, reliable, sustainable and modern energy for all</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>Ensuring universal access to affordable, reliable and modern energy services.</li> </ul>	<ul style="list-style-type: none"> <li>93% coverage of electricity. The target of 90% set by the 1st Lao Nationally Determined Contribution (NDC) in 2015 to Paris Agreement was achieved. However, urban-rural differences are observed (80.3% of the rural population and 97.4 % of the urban population).</li> <li>A number of households across the country still use fuelwood for cooking.</li> <li>To expand biofuel development, Lao PDR is creating a national program with a goal of introducing 10% biofuel in the transport sector by 2025.</li> <li>Solar power, while not the main energy source, has incredible potential to play a critical role in off-grid electric power for remote rural areas. Currently, around</li> </ul>

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
		<p>13,000 households in remote areas have been equipped with solar home systems.</p> <ul style="list-style-type: none"> <li>• Lao PDR has a high potential for renewable energy, especially from the hydropower resources, with a technical potential was estimated at around 26,000 MW.</li> <li>• The Ministry of Energy and Mines has issued a Renewable Energy Development Strategy aiming to make 30% of the country's energy sources renewable by 2025.</li> <li>• To reduce fossil fuel imports, the government has outlined a tentative vision to reach 10% of the total transport energy consumption to be derived from biofuels.</li> </ul>
	<p><b>8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>• Promoting sustained economic growth;</li> <li>• Improving resource efficiency in production and consumption;</li> <li>• Full and productive employment and decent work for all;</li> <li>• Eradicating forced and child labour and trafficking;</li> <li>• Protecting labour rights including those of migrant workers; and</li> <li>• Increasing access to financial services.</li> </ul>	<ul style="list-style-type: none"> <li>• High growth rates (between 5 and 7% during the last decade)</li> <li>• Labour force participation rate 81.3% (2019).</li> <li>• Percentage of growth in labour productivity (GDP/per person employed) was on the downward trend decreasing from 4.9% (2015) to 4.4% (2019).</li> <li>• Unemployment rate was on the rise (increasing from 2.1% in 2015 to 9.4% (10.7% male and 7.8% female).</li> <li>• Youth unemployment was at 16.1% in 2017 (7.8% male and 8.3% female) – the rate was at 18.5% in 2015 (10.1% male – 8.4% female).</li> <li>• Informal sector employment was 82.6% (2017) (42.6% female and 40% male) – the rate was at 83.8% in 2015.</li> <li>• The economy is characterized by high degree of informality (proxied by the proportion of own-account workers and contributing family workers in total employment which decreased from 80.8% in 2015 to 66.5% in 2017.</li> <li>• Percentage of children aged 5-17 in employment (“Working Children”) was estimated at 42.8% (42.4% of girls and 43.2% of boys) Percentage of financing and loans issued to SMEs was on downward trend (30.9% in 2015) to (19.45% in 2019).</li> </ul>
	<p><b>9. Build resilient infrastructure, promote inclusive and sustainable</b></p>	<ul style="list-style-type: none"> <li>• In Doing Business Index, Lao PDR ranks 154th out of 190 countries (in 2020) and at 113th place out of 131 countries under the Global Innovation Index 2020.</li> </ul>

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
	<p><b>industrialization and foster innovation</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>Affordable and equitable access to quality infrastructure;</li> <li>Employment generating industrialization;</li> <li>Access to financial services and markets;</li> <li>Innovation and technology transfer, and</li> <li>Increasing access to ICT.</li> </ul>	<ul style="list-style-type: none"> <li>The country has made excellent progress in infrastructure and now 85% of rural population lives in villages connected to all weather roads.</li> <li>Share of manufacturing value add to GDP was decreased from 8.7% in 2016 to 7.4% in 2019.</li> <li>Manufacturing employment as percentage of total employment was 6.3% (2017), increased more than double from 2015 which was 3.1%.</li> <li>Proportion of population covered by a mobile network is 95% (2019) and 45% - internet user of the total population. Households with access to the internet is 27%.</li> <li>Research and development expenditure as percentage of GDP stands at 0.09% in 2019.</li> <li>Lao PDR ranked 167 of 193 in the UN e-government index in 2020, reflecting low levels of e-government development and e-participation.</li> </ul>
	<p><b>10. Reduce inequality within and among countries</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>Promoting higher growth rates for the bottom 40 per cent;</li> <li>Promoting social, economic and political inclusion;</li> <li>Reducing inequalities in opportunities and outcomes;</li> <li>Ensuring social protection for all;</li> <li>Securing participation in economic decision making;</li> <li>Facilitating migration, and</li> <li>Reducing transaction costs for migrant remittances.</li> </ul>	<ul style="list-style-type: none"> <li>Both income and non-income inequalities have been rising - Gini coefficient, a measure on inequality, has risen from 36.6% (2013) to 38.8 (2019).</li> <li>Economic growth has been regionally imbalanced and the benefits of the growth have not been inclusive enough in term of age, sex, and the most vulnerable groups.</li> <li>Between 2013 and 2019, the growth in the incomes of the bottom 40% decile was 2.1%, which was lower than the average growth rate of 3.3%, pointing to the fact that growth was not pro-poor.</li> <li>Migration of labour force, including some migrants that are illegally smuggled into neighbouring countries have been an area of concern and further efforts are needed to address them.</li> <li>Due to COVID-19, about 100,000 migrants are likely to return to the country with loss of incomes for households for whom remittances account for up to two-thirds of the total income.</li> <li>The country received US\$ 407.19 million or 2.1% of GDP as remittances in 2019. This is likely to decline to US\$ 360.85 million in 2020 or 1.82% of GDP due to COVID-19.</li> </ul>

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
	<p><b>11. Make cities and human settlements inclusive, safe, resilient and sustainable</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>• Ensuring access to housing, basic services and public transport for all;</li> <li>• Participatory planning of human settlements;</li> <li>• Safeguarding cultural and natural heritage; and</li> <li>• Strengthening resilience to disasters.</li> </ul>	<ul style="list-style-type: none"> <li>• The share of urban population currently at 33% will go up to 47.7% by 2025.</li> <li>• Urban air pollution is an area that need an attention as 82% of it contributed by among others, burning of firewood, charcoal for cooking, and slash and burn.</li> <li>• Though Lao PDR has ambient air quality standards, however, emissions inventories are not performed routinely. Also, emissions inventory data for common pollutants such as particulate matter (PM), Sulfur dioxide (SO<sub>2</sub>), and Nitrogen dioxide (NO<sub>2</sub>) are not available.</li> <li>• Number of deaths missing persons due to natural disasters were 738 per 100,000 in 2015 and the number is estimated to be higher in recent years due to the recent disasters incurred in 2018 and 2019.</li> <li>• Three disasters in 2018 resulted in a loss of US\$371.1 million and displacement of 600,000 people.</li> <li>• While economic conditions and social problems still ranked among top household concerns, priority concerns had shifted away from flooding, inadequate drainage, and poor access roads to the need for better solid waste services, water supply, and traffic management.</li> <li>• The limited implementation of the 2011 Vientiane Urban Master Plan can be seen as a pick-and-mix – while elements supporting certain large-scale economic projects are promoted, the full planning package needs to be taken into greater consideration.</li> </ul>
	<p><b>12. Ensure sustainable consumption and production patterns</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>• Achieving sustainable management and efficient use of natural resources;</li> <li>• Improving waste management;</li> <li>• Promoting sustainable public procurement;</li> <li>• Ensuring access to information; and</li> </ul>	<ul style="list-style-type: none"> <li>• Waste collection services are incomplete, particularly in rural areas. Only 27% of households in the city have access to waste collection services (2019).</li> <li>• Natural resource management is a high priority that needs greater attention.</li> <li>• The country has embarked on the 'green growth' strategy and a circular future aimed at improving resource use efficiency and low carbon development. The Government in particular pay attention to, as mentioned in both 8th and 9<sup>th</sup> NSEDP, a model of economic, social and environmental production and consumption that aims to build a sustainable society based on a circular development.</li> </ul>

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
	<ul style="list-style-type: none"> <li>Building capacity for sustainable development.</li> </ul>	<ul style="list-style-type: none"> <li>Regulation on open burning was imposed and came into effect in 2019 specifically in Vientiane Capital. Still, household waste (organic and inorganic) is often burnt.</li> <li>Responsible consumption sits on one of the key priorities that need engagement of various stakeholders across the country. In recent years, several awareness-raising campaign or events on the reduction of single-use plastic and responsible consumption have been conducted.</li> </ul>
	<p><b>13. Take urgent action to combat climate change and its impacts</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>Strengthening resilience and adaptation to climate change and natural disasters, including in marginalized communities;</li> <li>Country's strategic engagement with the Green Climate Fund.</li> </ul>	<ul style="list-style-type: none"> <li>Lao PDR registered record increase in GHG emissions doubling between 1990 and 2000 mostly caused by land-use change and forestry.</li> <li>CO2 emissions per unit of GDP PPP went up from 1.5 to 1.8, yet is still lower than the ASEAN average of 4.2</li> <li>The country is one of the most vulnerable to floods in Southeast Asia. There have been eight major floods from 2008-2019 displacing more than 100,000 people.</li> <li>The country's technical capacity to access GCF funds is still limited.</li> <li>The 2020 updated Lao NDC commits a new unconditional GHG mitigation commitment by reducing GHG at the rate of 34% of the 2020 baseline by 2030, and will reach net zero emissions by 2050.</li> </ul>
	<p><b>14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development</b></p>	<ul style="list-style-type: none"> <li>Lao PDR has adapted Goal 14 to suit its landlocked status and covers "aquatic resources" under this goal.</li> <li>Fisheries is at subsistence level and captured mainly for food security.</li> <li>Fish Conservation Zones (FCZs) have been officially established throughout the country as a community fisheries management strategy over the past 25 years.</li> <li>Aquatic resources are under threat due to habitat degradation and water pollution.</li> <li>There is also illegal, unreported and unregulated fishing that requires a national framework.</li> </ul>
	<p><b>15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and</b></p>	<ul style="list-style-type: none"> <li>Overall forest cover declined from 70% in 1940 to 40% in 2018 (or 58% if revised definition is followed)</li> <li>The country is making steady progress on sustainable forest management, reaching nearly 110,000 ha, which has created a strong foundation for scaling up timber</li> </ul>

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
	<p><b>halt and reverse land degradation and halt biodiversity loss</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>• The sustainable management of freshwater, mountain ecosystems and forests;</li> <li>• Combatting desertification;</li> <li>• Halting biodiversity loss;</li> <li>• Combatting poaching and trafficking of protected species.</li> </ul>	<p>certification. Lao PDR is now seeing the results of stronger forest governance and the intention to solve country's problem on illegal logging, since the passage of Prime Minister Order No. 15 in May 2016, which has led to a strictly enforced ban on the export of logs and primary wood products, drastically reducing this export.</p> <ul style="list-style-type: none"> <li>• The country's target to achieve 70% forest cover by 2020, set by the 1st Lao NDC in 2015, is beyond reach and has moved to 2025.</li> <li>• Share of land area covered by protected forests area was 20% in 2015.</li> <li>• 24 National Biodiversity Conservation Areas (NBCAs) designated as protected areas that cover almost 18% of the total land area of the country.</li> <li>• Land area covered by conservation forests was 15.1%</li> <li>• Percentage of rural villages reporting land degradation was 29%.</li> <li>• Number of species threatened with extinction were 210 (in 2018).</li> <li>• Uplands and mountainous regions face threat from slash-and-burn, deforestation for major projects, logging and land and forest degradation caused by climate change.</li> </ul>
	<p><b>16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>• Reducing all forms of violence;</li> <li>• Ending violence against and trafficking of children;</li> <li>• Promoting rule of law and justice for all;</li> </ul>	<ul style="list-style-type: none"> <li>• The administration framework was updated in line with government policies including amendments to the Law on Government, the Law on Local Administration and Regulations on City and Municipality.</li> <li>• Progress has been made in establishing rule of law and ensure its compliance with international norms and standards. New important laws have recently been adopted such as the Civil Code and the Penal Code.</li> <li>• Government structure reforms have steadily progressing – restructuring of ministries, capacity building of civil servants, anti-corruption campaigns (Corruption Perceptions Index in 2020 was 134 out of 180 – scoring 29/100).</li> <li>• Lao PDR has various channels and forums on people's participation and engagement in national development process in recent time compared to a decade ago.</li> </ul>

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
	<ul style="list-style-type: none"> <li>Reducing illicit financial and arms flows, corruption and bribery;</li> <li>Developing effective institutions;</li> <li>Participation in decision making at all levels;</li> <li>Legal identity for all.</li> </ul>	<ul style="list-style-type: none"> <li>The National Assembly has provided increasingly proactive oversight of public services and aspired to increase people's participation in the decision-making process.</li> <li>A constitutional amendment adopted by the NA Ordinary Session in January 2021 was the most recent one. Nearly 73% of the member of the current NA were elected to the NA for the first time, and 27.5% of the member are women.</li> <li>Decentralization and local government are governed by the Sam Sang (Three Built Directives) proposes provinces as the strategic units, districts as the integration units for planning and budget preparation, and villages as the development units.</li> <li>Birth registration is important, not only as a goal in itself but to protect children by making it easier to trace and report them. Universal birth registration has not yet been achieved. In 2017, the percentage of children under 5 whose births had been registered with a civil authority was 73%.</li> <li>Lao PDR has a positive trend in reduction in violence against children from 79% (2011) to 70% (2017). Recently, the National Plan of Actions to address violence against children (2021-2025) was developed.</li> </ul>
	<p><b>17. Strengthen the means of implementation and revitalize the global partnership for sustainable development</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>Strengthening domestic and international resources;</li> <li>Debt sustainability;</li> <li>Technology transfer and capacity building;</li> <li>Promoting trade;</li> <li>Enhancing policy and institutional coherence;</li> <li>Respecting countries' policy space;</li> </ul>	<ul style="list-style-type: none"> <li>Partnership for Effective Development Cooperation reflects greater commitment from both the Government and partners.</li> <li>Regional and global cooperation and integration is a high priority for the Government as articulated in the 9<sup>th</sup> NSEDP.</li> <li>The country met two out of three LDC graduation criteria in 2018 and 2021 and it is on the verge of graduating out of LDC status. A longer timeframe for transition period up to five year has been granted. This means Lao PDR could be graduating out of LDC status by 2026 right after the conclusion of the 9<sup>th</sup> NSEDP (2021-2025).</li> <li>Development finance landscape has been changed and it needs greater attention due to weak global growth outlook due to COVID-19.</li> </ul>

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
	<ul style="list-style-type: none"> <li>Promoting multi-stakeholder partnerships;</li> <li>Measurements for progress, disaggregated data.</li> </ul>	<ul style="list-style-type: none"> <li>The Government's commitment to continue to effectively enhance macro-economic management and stability by maintaining a low budget deficit policy, together with a stable exchange rate and inflation below the rate of GDP growth.</li> <li>Fiscal deficit projected to be around 7% of GDP (2020) reflects a need to strengthen macroeconomic management and improve revenue collection which was around just over 70% (2020).</li> <li>Public debt is expected to rise to 69% of GDP in 2020. External debt-service payments stood at US\$1.2 billion for 2020.</li> <li>The country ranks 167/193 in the E-Government Development Index (2020) and 192/196 in broadband pricing.</li> <li>The country's Statistical Capacity Score of 67.8 was lower than the East Asia and Pacific average of 75.9 in 2019.</li> <li>Greater efforts are needed on disaggregated and quality data for evidence-based policymaking and monitoring of the national development indicators including those of SDGs and relevant development agenda such as LDC graduation and green growth.</li> </ul>
	<p><b>18. Remove the UXO obstacle to national development</b></p> <p>Targets</p> <ul style="list-style-type: none"> <li>UXO clearance</li> <li>Mine Risk Education</li> <li>Victim Assistance</li> </ul>	<ul style="list-style-type: none"> <li>Given its importance and cross-cutting impact on SDGs, Lao PDR adopted this as the National Goal.</li> <li>Clearing of UXO, rehabilitation of victims and creating economic opportunities for the affected communities have made significant progress.</li> <li>Number of reported UXO casualties declined from 302 in 2008, to 59 in 2016 to 25 in 2019.</li> <li>Percentage of registered UXO survivors mainstreamed into health, education and employment services increased from around 12% in 2015 to around 21% in 2019.</li> <li>Proportion of registered active age UXO survivors unable to earn sufficient income with access to basic income security slightly decreased from around 96% (2015) to 95% (2019) – important improvement even though the decrease is relatively small margin.</li> </ul>

SDG	Goals and Targets as per the SDG global framework	Recent Progress Update
		<ul style="list-style-type: none"> <li>• With a very high percentage of high priority hazardous areas (99.25 in 2019) remaining to be cleared, a detailed survey is under way to map all confirmed hazardous areas throughout the country. This will help improve clearance efforts in the long run.</li> <li>• The magnitude of the problem far exceeds the resources and capacities available</li> <li>• Despite its cross-cutting nature, UXO are not included in other sector plans and strategies.</li> </ul>

## The Government's strategic priorities based on key recommendations from the first VNR to accelerating the achievement of SDGs

Implementation of the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs) requires transformative, inclusive, and accountable multi-stakeholder partnerships involving not only states but also citizens, partners, and other stakeholders in order to ensure that no one is left behind. Therefore, the Government's development vision and strategies continue to be refined through broad-based participation and refinement of short and medium-term plans by sectoral ministries and provinces.

Building on lessons learnt since the adoption of the SDGs in 2015 and progresses made in various goals highlighted in the last chapter, various strategic priorities of the Government of Lao PDR in recent years have been the driving force for effective means of SDG implementation in the country. Some of key strategic priorities to help addressing key challenges from the first VNR prepared in 2018, for accelerating the achievement of SDGs in Lao PDR are:

1. Greater efforts to address inclusive and sustainable growth constraints
2. COVID-19 recovery measures
3. Macro-Economic Stability
4. Strengthening the link between the national plan and development budget
5. Central-local relations and balanced development across the country
6. Regional and international integration
7. Environmental protection and sustainable natural resources management
8. Infrastructure development
9. Creation of stronger pool of educated, skilled and productive human resources
10. Health reform
11. Poverty focused agriculture and forestry development, food self-sufficiency and agriculture production
12. Rural development

13. Improvement of and access to social protection
14. Information and protection of national traditions and cultures
15. Maintaining political stability, social peace, order, and justice
16. Public Service Improvement
17. Legal Sector/Rule of Law/UPR
18. Statistics
19. Leaving No One Behind

Notwithstanding these achievements, there remains many outstanding issues and challenges, particularly the ones posed by the **COVID-19 Outbreak** and **Climate Change** inhibiting development. Therefore, in order to continue pushing forward the implementation of the 3 dimensions of the SDGs, the graduation from **Least Developed Countries (LDC)**, and **Green Growth**, the Lao PDR has identified some key objectives for 2025, namely, to aim for per capita GDP growth of 2,888 USD, and GNI of 2,280 per capita, to reduce poverty rate to 13.9% and to aim for a forest coverage of no less than 70% of the total land area. In ensuring these above-mentioned objectives, the Lao PDR has identified 6 outcomes in its 9<sup>th</sup> Five-year NSEDP (2021-2025):

- **Outcome #1:** to realise a quality, stable and sustainable economic growth;
- **Outcome #2:** to develop high-quality human resources through promoting science and technology research and development;
- **Outcome #3:** to elevate the material and non-material living standards of the people;
- **Outcome #4:** to ensure a balanced environmental protection and natural disaster-related risk reduction;
- **Outcome #5:** to develop a resilient infrastructure through capitalising on the potentials and opportunities, and participating in cooperation frameworks and the regional and global integration; and
- **Outcome #6:** to enhance the effectiveness of public governance and administration, and promote an equal and just society strictly in accordance with the rule of law. In addition, the Government has also integrated the SDG indicators into the Five-Year Development Plan.

## Addressing challenges and way forward

### 1. Agenda 2030, NSEDP and LDC graduation

Strengthening of links between Agenda 2030 and 9<sup>th</sup> & 10<sup>th</sup> NSEDPs (2021-2025 and 2026-2030), with focus on transition and graduation from Least Developed Country status.

### 2. Horizontal and vertical integration

The Government's strong commitment to the 2030 Agenda lies within the greater involvement of line ministries and provincial authorities, making them strong ownership of SDG localization and implementation. Collaboration and coordination across line ministries and between central-local levels and across different stakeholders will be built on multi-stakeholder engagement approach, using existing mechanisms such as the Sam Sang Policy.

### 3. Data and statistics

Administrative data systems in many goals still need to be harmonized, streamlined and strengthened while enhancing institutional and statistical capacity building. Importantly, high quality and disaggregated data is essential to ensure equitable progress against SDG goals and targets. Thus, Mapping out the next steps to the next Voluntary National Review (VNR III-2024, VNR IV-2027 and Final VNR-2030) - high quality, disaggregated data is essential to ensure equitable progress against goals and targets.

Developing a focused and cost-ed plan for monitoring the SDGs which will facilitate work of Lao Statistics Bureau in partnerships with national and international partners to support SDG monitoring and reporting - while surveys and censuses provide important data for majority of SDG indicators, administrative data will be needed for some of them and the process of collecting administrative data will need to strengthened.

### 4. Integrated Financing

Reinforcing the better links between national budget and national planning using the 2030 Agenda as a driving force. It is not just about what kind of finance, and how much finance may be available, but about how it can be used most effectively to achieve development results. External public financing (e.g., ODA, South-South Cooperation, Climate Change Financing) will use in a complementary way. The use of expenditure and financial frameworks will be enhanced to ensure best planning of resources against results and ensuring better alignment of international development cooperation and other development finance and empowering the private sector to participate more fully in the sustainable development agenda.

Making financing for SDGs/ NSEDP a regular part of the Round Table dialogue. It is important to have strong links between discussion on different types of partnerships, and discussions on different types of finance. Having an overview of the overall resource envelope and the characteristics of different flows is crucial for formulating long-term strategies on the best and most catalytic use of ODA and other types of international public finance.

### 5. Partnerships for the Goals

The Government will continue working with all partners and identify practical development financing strategy needed for implementing the 2030 Agenda.

### 6. Advocacy and awareness-raising

Public awareness and communication strategy for SDG implementation are important for ensuring greater support and partnerships which are essential for the SDG realization. Therefore, it is important to promote common awareness of the 2030 Agenda and national priorities not only at national level but also local level, thus ensuring

# SECTION 02

**Looking Forward:**

**National Planning**



Photo: UNICEF

# 9<sup>TH</sup> NATIONAL SOCIO-ECONOMIC DEVELOPMENT PLAN

## Conclusion of the 8<sup>th</sup> NSEDP

### Key achievements

1. The country enjoyed political stability, steady peace and social order.
2. Significant milestone in leading the country towards graduation from Least Developed Country status.
3. SDGs and Green Growth Strategy are in line with national plan and translated into concrete actions.
4. More tangible benefits realised as a result of infrastructure development along economic corridors, enabling greater for regional and international connectivity.
5. Improved private sector investment including greater strengthening and participation of SMEs and MSMEs.
6. People's living standards improved, while poverty has steadily declined.
7. The state's organisational structure has been streamlined, in line with the actual roles and responsibilities as well as the personnel reorganisation plans of each sector.
8. Greater application of technology and innovation in key sectors.
9. Deepened and expanded regional and international cooperation.
10. Evolution of disaster risk management, climate change preparedness and mitigation.

### Shortcomings, difficulties and challenges

1. Economic growth has not been fully in line with the direction set.
2. Economic, financial, and monetary difficulties and public debt problems have not yet been proactively addressed.
3. Improvement of the investment and business environment has not been carried out in accordance with the policies and Orders issued by the Government.
4. The promotion of local entrepreneurs, especially MSMEs is not yet sufficient.
5. Optimization of national potential, advantageous geographical location and other key favourable factors, as well as leveraging new development opportunities have not yet been fully attained.
6. The modernisation process has not progressed sufficiently, and technical improvements and upgrading in many areas have not been able to meet the needs of development projects.
7. The issue of negative social trends, such as drug abuse and trafficking in persons, has not been effectively addressed. The quality of human resource development is still low, especially in the areas of education and health services.
8. Public administration and governance by the rule of law, despite the attention and effort, have not been as effective as expected.
9. There has been a lack of responsibility among some individuals, with cases of abuse of authority for direct or indirect personal gain.

### Key issues that need to be urgently addressed during the course of next five years (2021-2025)

1. Poverty alleviation and development efforts must align with the Sam Sang Directive.
2. Addressing economic vulnerabilities, especially growth that is largely dependent on the exploitation and use of natural resources.
3. Resolving financial fragility, including the issues of public debt, incomplete revenue collection and leakage, as well as budget misalignment with development needs.
4. Minimize trade deficit in order to improve monetary stability.
5. Addressing the impact of the COVID-19 outbreak, focusing on the recovery of businesses affected, unemployment, and developing skilled labour.
6. Enhancing rule of law and improving public administration and social management to tackle drug abuse, corruption, and road accidents as well as creating an enabling business environment.
7. Focus on developing quality human resources in a targeted manner, promote occupational development and build experts in specific fields linked to modernization in the era of Industry 4.0 and the post-COVID 19 new way of life (New Normal).

### The Context of the 9<sup>th</sup> National Socio-Economic Development Plan 2021-2025

The 9<sup>th</sup> Five-Year National Socio-Economic Development Plan (2021-2025) aims to implement the Resolution of the 11th Party Congress. The overall policy directions of the 9<sup>th</sup> Five-Year National Socio-Economic Development Plan (2021-2025) are to:

#### Policy direction 1

- **LDC graduation** - Continue to comprehensively prepare to lead the country out of Least Developed Country status;
- **Decent jobs, living standards and inclusiveness** - Provide people with decent jobs, and improve living standards, with inclusive, equal and fair access to benefits;
- **Political stability and peace** - Ensure political stability, building a peaceful, united, democratic, just, civilised and orderly society; and
- **Quality, sustainable and balanced growth** - Achieve socio-economic development by striking a balance between economic and social development and environmental protection, effectively implementing the National Green Growth Strategy, and progressing towards the Sustainable Development Goals;

### Policy direction 2

- **Breakthrough approach in addressing development challenges** - Achieve breakthroughs in overcoming weaknesses, shortcomings and challenges to development,
- **Effective Public Financial Management** - Address financial and monetary difficulties effectively, and
- **Disaster preparedness and mitigation to deal with all kinds of uncertainties** - Increase preparedness to deal with emerging challenges, such as the impact of the COVID-19 pandemic, climate change and international and regional uncertainties;

### Policy direction 3

- **Quality human resource development** - Develop quality human resources as an important factor in promoting socio-economic development;
- **Quality economic and sectoral reform** - create quality economic growth by reforming the economic structure in each sector and region; and
- **Technology, innovation, knowledge management** - enhance the factors that promote the potential of the country, using appropriate information and communication technologies (ICT), to create opportunities and to bolster key production and service sectors, serving as an engine for growth to gradually build a strong foundation for economic strength and self-sufficiency.

### The preparation and formulation of the 9<sup>th</sup> NSEDP paid great attention to and took great consideration of some key issues as follow:

1. Regional and international contexts
2. Local context
3. Social-Economic Development Potential
  - 3.1. Young population and modern development process
  - 3.2. Abundance of natural resources and diversity of national assets (natural resources, infrastructure and institutions)
  - 3.3. Geographical location of Lao PDR and growth of countries in Asia, including neighbouring economies
4. Application of modern science and technology
5. LDC graduation
6. Becoming Upper-middle income country
7. Sustainable Development Goals
8. Green Growth

## The Design of the 9<sup>th</sup> NSEDP

The 9<sup>th</sup> NSEDP (2021-2025) is a plan in to proactively implement the direction of the 11th Party Congress, the 2030 Vision and the 10-year Socio-Economic Development Strategy (2016-2025). It is also a plan to accommodate economic transformation toward industrialization and modernization pursuing quality,

inclusive, stable, sustainable and green economic growth. The plan was served as a main substantive input for the preparation of the Party's documentation for the 11th Party Congress.

The 9<sup>th</sup> NSEDP has four overarching directions for development: quality, focus, green and sustainable. The document is the central development framework that will assist the country in moving closer to achieving the 2030 Agenda for Sustainable Development and to the edge of LDC Graduation, while ensuring successful recovery from the COVID-19 pandemic, within planetary boundaries and other political and legal commitments made by Lao PDR. There are 25 outputs grouped under six outcomes, which are as follows: Continuous quality, stable and sustainable economic growth achieved;

1. Improved quality of human resources to meet development, research capacity, science and technology needs and create value-added production and services;
2. Enhanced wellbeing of the people;
3. Environmental protection enhanced and disaster risks reduced;
4. Engagement in regional and international cooperation and integration;
5. Public governance and administration improved, and society more equal, fair, and protected by the rule of law.

## Outcomes and outputs

### Outcome 1: Continuous quality, stable and sustainable economic growth achieved

#### Policy Directions

- **The transformation of the economic structure** in the direction of industrialisation, modernisation, and economic diversification towards production and service sectors with higher efficiency, effectiveness, and value-added potential,
  - adopting high yield technologies in agriculture,
  - upgrading industrial production capacity and
  - promoting the service industry in order to create jobs for the people.
- **Macroeconomic stability** needs to be ensured through strong financial and monetary positions, systematic alignment of fiscal and monetary policies in line with current socio-economic situation,
  - focus on reforming public financial management in a systematic and continuous manner,
  - improvements in revenue collection and expenditure control,
  - stability of the national currency, and
  - efficient channelling of available resources towards the achievement of national development priorities,
  - aimed at economic recovery from the impact of the COVID-19 pandemic after 2020.
- **Strengthen the linkages between state plans and budgets**, and efforts must be made also to ensure more targeted, quality, and effective investment;
- **Attract private sector investment** to support socio-economic development goals;

- create an enabling business environment and investment climate to enhance competitiveness and diversify the economy;
- **Develop quality, robust, and regionally and internationally competitive MSMEs; and strengthen SOEs** to be more efficient and able to fully contribute to socio-economic development

### Five Key Outputs

- Output 1: Quality and sustainable economic growth
- Output 2: Robust and stable macroeconomic management ensured
- Output 3: Investment quality and effectiveness enhanced
- Output 4: Better quality, robust and regionally and internationally competitive micro, small and medium enterprises
- Output 5: Enhanced efficiency and effectiveness of state-owned enterprises and collective economy

### Directions for Economic Structural Reforms for National Resilience

1. Improve measures to address economic and financial challenges, ensuring quality growth and sound macroeconomic stability.
2. Enhance quality and sustainability of the economic structure.
3. Deepen regional development (northern, central and southern regions) according to comparative advantages of each region.
4. Strengthen and translate national potential into economic development.
5. Encourage and strengthen local enterprises, in particular SMEs.
6. Increase efficiency and effectiveness of public investment reform.
7. Ensure targeted development of infrastructure and public utility system to enhance living standards of the citizens.
8. Protect the environment, monitor and ensure timely preparedness for disasters.

**Outcome 2: Improved quality of human resources to meet development, research capacity, science and technology needs, and create value-added production and services**

### Policy Directions

- **Quality human resource development** - Develop quality human resources to foster national development, graduation from the Least Developed Country status, and the realisation of the Sustainable Development Goals;
- **Requirement of future proof skills** - Take active measures to accommodate the requirements of regional and international integration and Industrial Revolution 4.0;
- **Research, technologies, and knowledge transfer** - Promote research and apply the results of scientific research, technologies, technical know-how and the knowledge in socio-economic development;

- **Quality of education across the country** - Improve the quality of education at all levels while creating conditions for access to education, especially in rural and remote areas;
- **A skilled and diversified workforce** - Create a skilled and diversified workforce according to market demand and the needs of economic restructuring and socio-economic development.

#### Four Key Outputs

- Output 1: More inclusive and better-quality healthcare services and nutrition
- Output 2: Improved quality of all levels of education and conditions created for access to education to support readiness for regional and international integration and Industry 4.0
- Output 3: Workforce skills and productivity improved, and job diversification, security and income opportunities increased to meet the demands of socio-economic development
- Output 4: Promoting and utilising scientific research, technology, innovation and knowledge to drive socio-economic development

### Outcome 3: Enhanced well-being of the people

#### Policy directions

- **Revised trend of the poverty reduction due to the impact of COVID19.** While poverty reduction has been driven by growth in labour income, improvements in education, and enhanced access to opportunities, the poverty rate in Lao PDR is now expected to increase to 21.5% due to the impact of COVID-19.
- **Poverty reduction and income inequality.** The decline in poverty was also accompanied by an increase in income inequalities. Poverty reduction has not been commensurate with GDP growth: a 1% growth in GDP led to only a 0.4% reduction in poverty, which went up to 0.67% in 2018-2019.
- **The resource-driven growth and job-creation.** The growth seen in Lao PDR has been capital-intensive, limiting large-scale creation of jobs, and a vast majority of households remain economically insecure.
- **Human capital development across the country.** The development of human capital in Lao PDR has tended to be unequal across locations, gender and ethnicities. As measured by Gini coefficient, inequality increased from 36.0 to 38.8 in 2018 and 2019 respectively.
- **Disparities of poverty across the country.** Poverty in rural areas was more than three times higher than in urban areas in 2018-2019. In recent years, northern and southern provinces have shown a significant decline in poverty, while the central regions have now stagnated and show the highest incidence of poverty at 21.5%, compared with 20.7% in the northern region and 17.7% in the southern region.
- **Pro-poor planning and supports to the poorest affected COVID19 and other shocks.** To address poverty and development disparities in Lao PDR, the Government's development efforts will focus on the poorest to ensure sustainable livelihoods by evenly distributing income and providing social

protection to all groups of people, especially vulnerable groups and those affected by COVID-19 and other shocks.

### Six Key Outputs

- Output 1: Poverty alleviated in rural and remote areas, and people's livelihoods, cultural values, and media work improved
- Output 2: Public utility infrastructure improved and access to public services made more inclusive and equitable
- Output 3: Equal access to socio-economic development opportunities promoted and the rights of women and children protected
- Output 4: Promote and develop youth to improve human capital and participation in the workforce
- Output 5: Expand access to more efficient social protection services for the people, including workers and self-employed individuals
- Output 6: Unexploded Ordnance (UXO) clearance progressively accelerated and more lives made safe from UXO

### Outcome 4: Environmental protection enhanced and disaster risks reduced

#### Policy Directions

- **Protection of the environment** - Socio-economic development must be associated with the protection of the environment in line with the direction of green and sustainable development.
- **Living standards of people across the country** - Improve the living standards of people in urban and rural areas
- **Use of sustainable natural resources** - Strong cooperation and coordination between the public sector, private sector, and all relevant stakeholders for efficient, effective and sustainable use of natural resources.
- **Promoting of carbon credit** - To ensure the maximum benefit of the country and its people, in particular the benefits from forest-carbon trading through green budgeting initiatives.
- **Legislation and management of Land and natural resources** - To ensure sustainability of investment projects and the management of pollution and waste
- **Climate resilience** - identify measures and conditions to build climate resilience through adaptation and mitigations
- **Green growth - Promote green growth through** targeted investments in green sectors, which will help diversification and shifting towards a more circular economy, and focus on tackling climate change by reducing pollution and greenhouse gas (GHG) emissions, along with
- **Climate change and natural disaster preparedness** - Defining a climate change response strategy, and strengthening natural disaster preparedness and timely emergency response.

### Three Key Outputs

- Output 1: Natural resources sustainably used and managed
- Output 2: Green growth promoted and actions taken towards climate change mitigation
- Output 3: Capacities for disaster prevention, management and recovery enhanced

**Outcome 5: Engagement in regional and international cooperation and integration is enhanced with robust infrastructure and effective utilisation of national potential and geographic advantages**

### Policy Directions

- **A hub for the transportation of goods and services** - Lao PDR is a country with a strong geographic advantage due to its central location and proximity to countries with strong economic growth, especially ASEAN countries and China, enabling it to potentially become a hub for the transportation of goods and services.
- **The improvement and upgrading of land, water and air connectivity** is necessary and important to enable Lao PDR to transform from a landlocked country to a country that is fully connected to the region and the rest of the world
- **Promoting economic, trade and service integration, as well as improving integration in technology, clean energy and environmental protection**, among others, under bilateral and multilateral cooperation frameworks such as: ASEAN Economic Community (AEC), World Trade Organisation (WTO) and others.
- **Implementation of trade and investment agreements** - to research and improve legislation and policy to create favourable conditions for the implementation of trade and investment agreements in a consistent and accurate manner.
- **Infrastructure connectivity** encompasses the construction of roads, railways, ports and airways to reduce travel time and transportation costs, and increase safety
- **Increase the promotion of potential sectors and cooperation** in areas (which is likely to increase post COVID-19 recovery) such as
  - Tourism
  - South-South cooperation
  - Value chains and
  - Services

### Four Key Outputs

- Output 1: Infrastructures improved for national, regional and international connectivity to facilitate production, services, trade and investment.

- Output 2: Regional and international trade and investment cooperation and integration enhanced and expanded
- Output 3: Robust regional and local development based on the potential of each region
- Output 4: Urban areas and Special Economic Zones developed into production, investment, trade and tourism bases for regional and international integration

### Outcome 6: Public governance and administration is improved, and society is equal, fair, and protected by the rule of law

#### Policy Directions

- **Good governance and rule of law** - The Government of Lao PDR continues to improve public governance and administration towards the goal of becoming an efficient and effective rule of law state.
- **Public administration reform and capacity development** - This is key to enhancing public sector capacity, especially to respond to the increasing needs and challenges resulting from COVID-19, opportunities and risks from increasing regional and international investment and economic integration.
- **Coordination and service delivery** - At the same time, the Government also needs to increase the efficiency of coordination and provision of public services.

#### Three Key Outputs

- Output 1: Enhanced efficiency of public governance and administration and deepened implementation of the Sam Sang Directive
- Output 2: Improved and harmonised coordination mechanisms and regulations within the public sector to increase efficiency
- Output 3: Ensure political stability, peace and order, unity, democracy, justice and civilisation within the society

## 9<sup>th</sup> NSEDP Implementation Arrangement

### Monitoring and Evaluation

In order to adequately monitor and evaluate progress of the 9<sup>th</sup> NSEDP, including SDG achievements and LDC, the development of a Monitoring and Evaluation (M&E) Framework was considered crucial. Currently, there are 168 key indicators of the 9<sup>th</sup> NSEDP (46 of them linked to SDG indicators and 17 of them linked to Green Growth Indicators).

**Key elements of the 9<sup>th</sup> NSEDP M&E Framework include:**

- The design of the 9<sup>th</sup> NSEDP and its M&E Framework are integrated using a logical framework
- The Output level of the NSEDP M&E Framework is the responsibility of ministries / sectors in association with implementing provinces and districts. Inter-sectoral / ministry coordination on achieving cross-sector Outputs will require strong support from coordinating ministries and other central government coordinating bodies. Therefore, both outcome and output indicators have been assigned to key Ministries concerned to ensure monitoring and reporting throughout the 9th NSEDP implementation.
- Data availability for and quality of Indicators and Targets at all M&E levels are crucial and will be improved over the course of the 9th NSEDP implementation period.

**Costing and Financing Strategy** – Please refer to the next sections of this 13<sup>th</sup> High Level Round Table Meeting Handbook

# DEVELOPING A FINANCING STRATEGY FOR THE 9<sup>TH</sup> NSEDP

## Introduction: Formulating the 9<sup>th</sup> NSEDP financing strategy

### Background

Lao PDR is entering an **important stage of its national development**, with the 9<sup>th</sup> NSEDP now finalized, which will take the country to within five years of the 2030 deadline for the achievement of the SDGs and to the edge of graduation from Least Developed Country (LDC) status, planned in 2026. Simultaneously, **access to the necessary development finance to accelerate progress is becoming increasingly challenging**, with high levels of debt, revenue collection falling short of expectations, insufficient private sector contribution to development progress, declining ODA trends, and repeated shocks stretching coping capacity. Against this backdrop, **the Government of Lao PDR, with technical assistance from the United Nations, has been working to develop a practical and realistic financing strategy to ensure that development finance is available and accessible for the achievement of the 9<sup>th</sup> NSEDP.**

**Importantly, the financing strategy does not intend to replace existing frameworks, policies, and projects to address financial constraints and needs for sustainable development.** Its main added value lies in (1) the integrated and holistic approach, looking at all sources of finance, beyond the State Budget and ODA, in support of national development priorities, and (2) its underlying ways of working, bringing all relevant stakeholders together on the critical topic of financing for development.

**The Ministry of Planning and Investment (MPI) leads this process**, with technical and coordination support from the **UN Joint Programme on Financing Efficiency**, and regular involvement from key stakeholders: Ministry of Finance, Bank of Lao PDR, International Financial Institutions, and other development partners.

### Overview of the process

The below diagram provides an overview of the entire process and timeline for the formulation of the 9<sup>th</sup> NSEDP financing strategy, which is tailored to the Lao PDR context, and aligned with the four phases of **the Integrated National Financing Framework (INFF)**.

The inception phase (phase 0) supported the dissemination of key concepts and methodologies and the development of appropriate coordination mechanisms. The diagnostics phase (phase 1) supported the development of robust diagnostics underpinning the financing strategy. The policy formulation phase (phase 2) focuses on the exploration and refinement of practical financing options, reflecting existing policies and projects, and aligned with the findings of the diagnostics undertaken. The finalization of the financing strategy is followed by its implementation, and the monitoring and evaluation of progress.

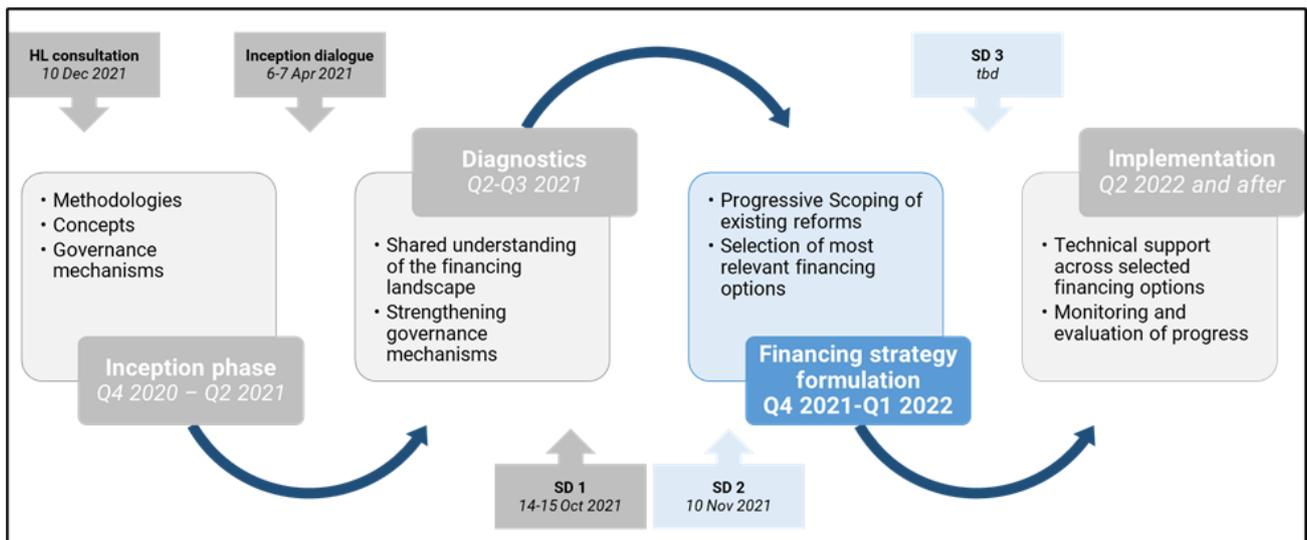


Figure 1: Formulation of the 9<sup>th</sup> NSEDP Financing Strategy

This financing strategy formulation is inspired by the Integrated National Financing Framework (INFF) approach. The latter was developed in 2015 in the Third UN Conference on Financing for Development, endorsed by Member States, as a solution to two key problems:

1. **A missing link between planning and financing development:** most national plans lack strategies to finance development priorities, implying that well-consulted financing strategies are necessary to accompany national plans.
2. **A funding gap to achieve the Sustainable Development Goals (SDGs)** and national development priorities aligned to the SDGs, implying that all sources of finance and stakeholders can better contribute to the achievement of the SDGs.

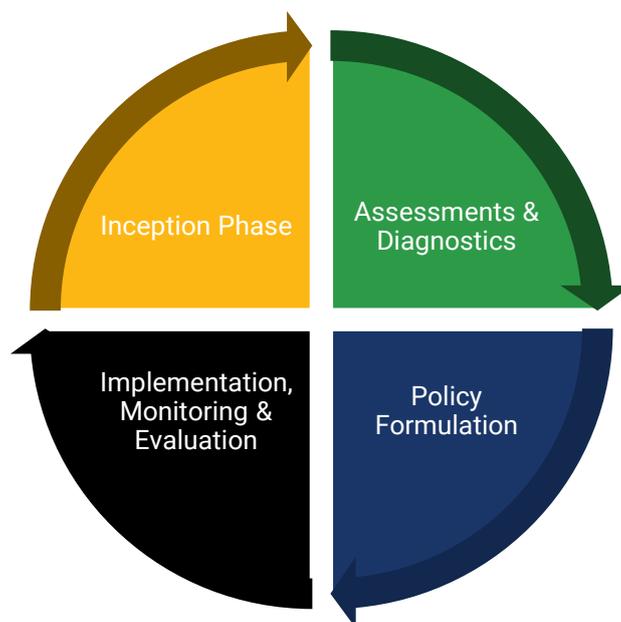


Figure 2: The INFF process

The INFF progresses through an inception phase, robust diagnostics of financial needs and opportunities, policy formulation, and implementation (see above). It also specifies ways of working, which are summarised in the infographic below:

- **Robustness of diagnostic work**, which is primarily led by ministries and UN agencies, and appropriately consulted with relevant stakeholders.
- **Integrated and holistic approach to financing for development:** all sources of finance are indeed considered: domestic public finance, international public finance (ODA and other official flows), domestic private finance, and international private finance (FDI and remittances).
- **Inclusivity of the process, engaging all relevant stakeholders across the entire financing landscape.** The process follows a threefold progression with two feedback loops. Technical leads (e.g. DoP and UNDP) undertake preparatory technical work, which is then discussed in bilateral and group meetings with most relevant stakeholders (e.g. IFIs, MoF, BoL). These meetings support the first feedback loop, as most relevant stakeholders provide technical inputs, which are then integrated to the documentation. Once most relevant stakeholders agree with the key outcomes of the phase, a structured dialogue brings a larger set of actors together for brainstorming, discussion, and validation of the outcomes of the phase. The structured dialogues therefore support the second feedback loop where stakeholder inputs and validation helps to finalize the key outcomes of a given phase (see table 1).

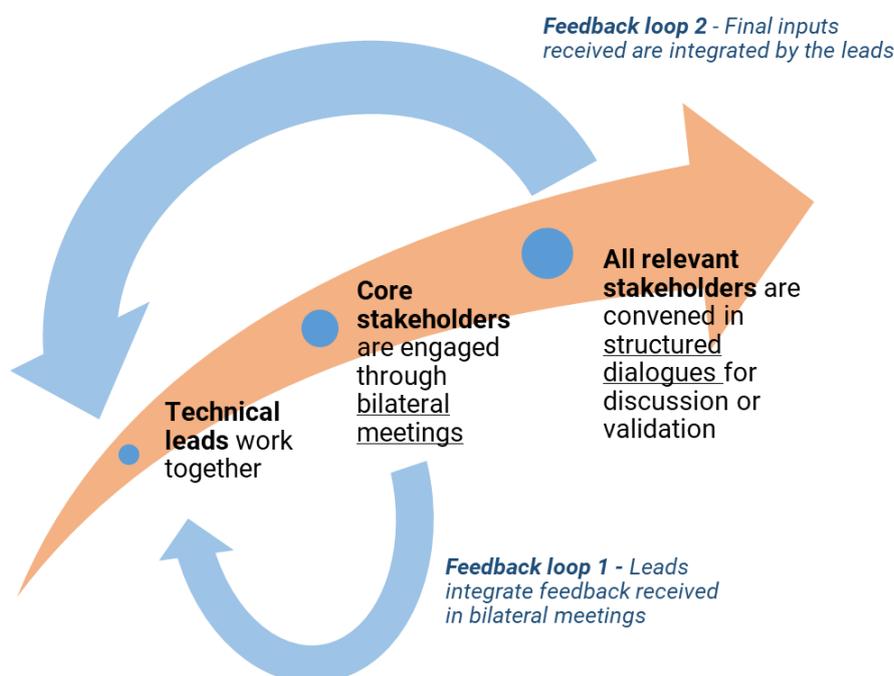


Figure 3: Ways of working

Table 1: Structured dialogues

	Dates	Topics addressed	Status and remarks
Inception dialogue	April 6 and 7, 2021	Methodologies and concepts (e.g. INFF) Coordination mechanisms	Completed Bilateral meetings took place between MPI and the UN to clarify methodologies and concepts
Structured dialogue 1: diagnostics	October 14 and 15, 2021	Investment needs across the NSEDP Resource envelope	Completed Bi and multilateral meetings took place with UN, MPI, MOF, BOL in advance of the dialogue
Structured dialogue 2: scoping policy options	November 10, 2021 (tentatively)	Financing policy areas	Ongoing Consultation workshop with government on October 28th morning Consultation meetings with World Bank, EU, IMF, ADB, UN on October 28th afternoon
Structured dialogue 3: finalizing policy options	1st Quarter 2022 (tentatively)	Advanced set of financing policy options	

### The inception phase: agreeing processes, ways of working, and research designs

The objective of the inception phase is to **practically create the conditions for the successful delivery of a financing strategy: create coordination mechanisms, agree processes and timelines, and review methodologies and key concepts.**

An inception dialogue was held in Vang Vieng in April 2021 to discuss key methodologies and concepts. In particular, the core concept of the INFF, its holistic approach and fourfold process, as well as costing methodologies and challenges, were discussed. Prior to that event, a Technical Working Group to mobilise this large group of stakeholders was created by the Deputy Prime Minister upon request of the Deputy Minister of MPI early in the year. The UN Joint Programme's Steering Committee, with an extended board including MOFA and LSB, in addition to MPI, MOF and MOH, also met in July 2021 to coordinate UN's technical support and agree on a workplan for the completion of the financing strategy.

### The diagnostics phase: understanding financing constraints and investment needs

This phase aimed to **provide all stakeholders with a set of key findings that would serve as the analytical backbone of the financing strategy.** In addition to providing robust analytics that all can agree with, this phase serves as another way to **consolidate collaborative ways of working.**

The diagnostics can be divided into two types of assessments which complement one another in painting a clear picture of the financing landscape for the achievement of the 9<sup>th</sup> NSEDP:

- **Investment needs, often referred to as “costing”**, have been estimated through 6 reviews of the literature corresponding to the 6 outcomes of the 9<sup>th</sup> NSEDP and a modelling of health costs. Due to difficulties encountered when attempting to conduct modelling of the costs of each outcome of the 9<sup>th</sup> NSEDP, a brief was developed to highlight gaps and challenges and potential solutions to ensure costing of policy priorities can take place in the future.
- **The resource envelope, often referred to as “financing”**, is estimated through the Development Finance Assessment (DFA), which analyses four sources of finance according to the Addis Ababa Action Agenda, namely: State budget, domestic private finance, international private finance, and Official Development Assistance (ODA). Two additional briefs complement the picture painted by the DFA- on climate finance and on State borrowing.

Taken together, the resource envelope and investment needs provide the financing gap, or in other words, the resources missing to achieve national development priorities.

The main findings from these various assessments were presented and agreed with some necessary data updates at a first structured dialogue on October 14 and 15, in Vientiane Capital. Representatives from MPI, MoF, MoH, BoL, various line ministries, World Bank, IMF, EU, embassies, and the UN participated.

### The financing strategy formulation phase

The formulation of the financing strategy is the most critical phase of the process. The two main objectives are to identify (1) the **most relevant financing policy options** and ensure that policies, instruments, and regulatory frameworks are coherent, sustainable and risk-informed, and (2) **needs and opportunities of technical assistance and capacity building** required to support its smooth implementation.

**The financing strategy formulation (Phase 2)** will span across Q4 2021 and Q1 2022 and includes three distinct steps (see figure 3):

- **A scoping step**, to map, identify, and discuss a draft list of financing policy areas, against the findings of the diagnostics carried out during. This step will be executed between October and November 2021. It included series of pre-consultations to discuss a preliminary scoping of financing policy areas and existing reforms and policies, and a second structured dialogue, organised ahead of the High-Level Round Table Meeting, to agree the outline of the financing strategy. A secondary objective is to reinforce coordination and ways of working between key stakeholders at the beginning of the policy formulation phase.
- **A policy formulation step**, to refine relevant policy options. This step includes more policy discussions in smaller clusters under each financing policy area, to define practical options. A more comprehensive structured dialogue (“structured dialogue 3”, see above) should take place agree, at a technical level, to agree the financing strategy.

A **validation step**, to integrate final technical-level feedback and progress towards the endorsement of the financing strategy at a high-level.

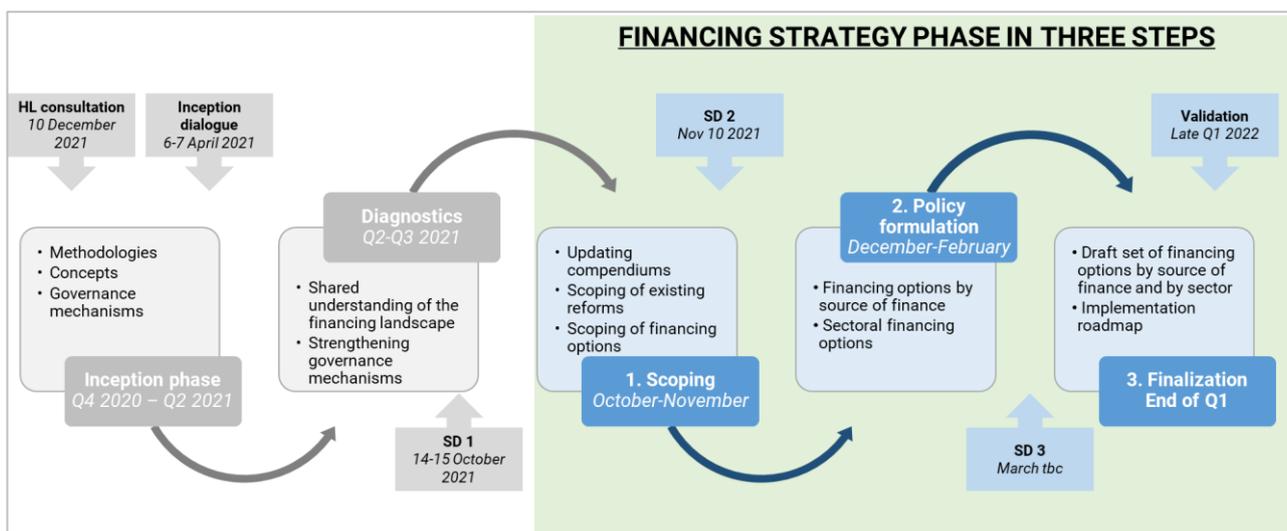


Figure 4: Zoom on the policy formulation phase (in green)

## Updated diagnostics following the first structured dialogue

As of early November 2021, all relevant stakeholders had reached a shared understanding on the financing constraints and investment needs. This section summarises the main findings of the diagnostics phase, has been updated with the feedback provided by participants, and specifies ways forward for later improvements of the quality of these diagnostics.

### Financing national development priorities

#### Documents produced

- Development Finance Assessment (DFA)
  1. Mapping of public sector resources
  2. Mapping of FDI resources
  3. Mapping of ODA resources
  4. Mapping of Domestic Private Investment and Other Resources
- Lao Sovereign and SOE Bonds analysis
- Climate Finance Analysis Brief

#### A. The Development Finance Assessment (DFA)

##### Objectives

The [DFA guidance](#) developed by UNDP provides extensive details on the role of this diagnostic tool and the Integrated National Financing Framework (INFF, see below). This approach, which is being undertaken in almost 50 countries, is essentially supporting the diagnostics phase. It is, in fact, the analytical backbone of the financing strategy. Investigating the trends of financing flows from the four different sources and their

value in the economy – State budget, domestic private sector, international private sector, and Official Development Assistance (ODA) – the DFA provides policymakers with a set of key findings and directions for the financing strategy formulation.

### **Approach, scope, and limitations**

The INFF approach categorises development finance into the following: domestic public finance, international public finance, domestic private finance, and international private finance (see table below).

The **rationale for using the INFF approach** is threefold. First, adopting the INFF approach allows key policymakers to think holistically about development finance (four sources of finance, covering the entire economy), by simple criteria (domestic/international and public/private), to **identify the most comprehensive set of relevant policy solutions**. For example, policies to support FDI in green growth (e.g., fiscal incentives) are different from policies to support public investment (e.g., budget reallocations), ODA (e.g., strengthened coordination and strategic planning with development partners), or domestic private investment (e.g., loans for SMEs) in green growth. Second, and more practically, this international classification has been agreed at the 2015 UN Conference on Financing for Development, at the same time as the AAAA. Adopting **this approach to development finance will enable cross-country comparisons** with the many countries that undertook or are undertaking DFAs. Third, adopting this approach yields the above-mentioned benefits while **aligning closely with the current Government classification**, mentioned in the 9<sup>th</sup> NSEDP. The below comparison table shows the comparison of the financing flows defined in the INFF versus the 9<sup>th</sup> NSEDP.

INFF	9 <sup>th</sup> NSEDP
<b>Domestic Public Finance</b>	<b>State Budget</b>
<ul style="list-style-type: none"> <li>• Tax revenue (direct, indirect)</li> <li>• Non-tax revenue</li> <li>• Government borrowing (loans, bonds)</li> <li>• Public enterprise revenues</li> </ul>	<ul style="list-style-type: none"> <li>• Ministerial and Provincial recurrent expenditure</li> <li>• Ministerial and Provincial capital expenditure</li> <li>• Government borrowings</li> </ul>
<b>Domestic Private Finance</b>	<b>Domestic and foreign private investment</b>
<ul style="list-style-type: none"> <li>• Private sector equity – Gross Fixed Capital Formation</li> <li>• Domestic borrowing</li> <li>• National NGOs, foundations, and faith-based organisations</li> </ul>	<ul style="list-style-type: none"> <li>• Private sector equity – Gross Fixed Capital Formation</li> <li>• International borrowing by private sector</li> <li>• Foreign Direct Investment (FDI) <ul style="list-style-type: none"> <li>○ financial flows</li> <li>○ associated commodity imports</li> </ul> </li> <li>• Foreign Portfolio investment (FPI) - immaterial</li> </ul>
<b>International Public Finance</b>	<b>Official Development Assistance</b>
<ul style="list-style-type: none"> <li>• ODA grants</li> <li>• ODA loans</li> <li>• Other official flows South-south cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• ODA grants</li> <li>• ODA loans</li> <li>• Other official flows South-south cooperation</li> </ul>
<b>International Private Finance</b>	<b>Other investments</b>
<ul style="list-style-type: none"> <li>• Foreign Direct Investment (FDI)</li> <li>• Foreign Portfolio investment (FPI) - immaterial</li> <li>• International borrowing</li> <li>• Remittances</li> </ul>	<ul style="list-style-type: none"> <li>• Remittances</li> <li>• Microfinance and Building Society (Financial Sector, not Banking Sector) net credits</li> <li>• Community contributions</li> </ul>

- International NGOs, foundations, and faith-based organisations

Most limitations in the DFA involve data availability: certain key datasets were not accessible, such as detailed breakdown of allocations in the State budget and ODA flows.

The main findings, detailed below are considered robust to any foreseeable errors or omissions in the data updates. They have been shared and discussed bilaterally with key government and development partner agencies and validated with all stakeholders during the first structured dialogue.

### **Main findings**

<b>Domestic public finance</b>	<ul style="list-style-type: none"> <li>• Revenues need to significantly increase to support the achievement of 9<sup>th</sup> NSEDP policy priorities.</li> <li>• On the spending side, there are inconsistencies between current public allocations and the 9<sup>th</sup> NSEDP policy priorities that will need to be resolved.</li> </ul>
<b>International Public Finance</b>	<ul style="list-style-type: none"> <li>• ODA heavily contributes to social sectors and should continue to be a driver of development progress throughout the 9<sup>th</sup> NSEDP.</li> <li>• The ODA Management Information System (ODA-MIS) Dashboard of MPI-DIC needs to be regularly and completely updated to inform Government on the scope, timing and focus of ODA investments.</li> <li>• The Government of Lao PDR's absorptive capacities may be a constraint to ODA's contribution to development progress and delivery strategies need to consider this.</li> <li>• It will be important to take into consideration upcoming LDC graduation, which may impact country's ability access to ODA, and link the LDC Graduation Smooth Transition Strategy and the Financing Strategy.</li> </ul>
<b>International Private Finance</b>	<ul style="list-style-type: none"> <li>• Significant policy reforms will be needed to direct future FDI in support of social sectors in the 9<sup>th</sup> NSEDP.</li> <li>• FDI inflows are likely to continue in line with regional economic growth prospects, underpinned by investments from China.</li> <li>• Reliance on a single source country without clear coordination and transparency mechanisms exposes Lao PDR to economic risks if that economy was disrupted, or the relationship was to change.</li> <li>• Foreign Portfolio Investment (FPI) fluctuated significantly over the 8th NSEDP 2016-2020. FPI is highly mobile and requires stable capital markets to be an effective source of development financing. FPI can include sale of equities in State-Owned Enterprises (SOEs), which would support Lao PDR policies for reform and subsequent divestment/ recapitalising of SOEs; and/ or State debt amortization. The sales of SOE assets also support debt servicing.</li> <li>• Remittances are primarily used for household consumption and can support the poverty alleviation and household well-being objectives of the 9<sup>th</sup> NSEDP. It was recognized that remittances are also supporting household consumption and that incentivising responsible and sustainable consumption in line with the 9<sup>th</sup> NSEDP could be envisaged.</li> </ul>

	<ul style="list-style-type: none"> <li>Further researching ways to eliminate illicit finance will be important as this would help to improve the quality of the business environment and increase the attractiveness of Lao PDR's economy.</li> </ul>
<b>Domestic Private Finance</b>	<ul style="list-style-type: none"> <li>Domestic private investment has significant potential as a source of development finance but is largely untapped.</li> <li>Lao PDR investment promotion policies focus on the attraction, retention, and growth of foreign investors.</li> <li>Efforts need to be made to stimulate domestic private investment through SME development strategies, business start-ups in Lao PDR and through more robust access to credit that stimulates investments. Credit policies to support domestic private investments will need to consider macroeconomic stabilization priorities.</li> <li>A better proxy than Gross Fixed Capital Formation will be identified to measure the potential contributions of domestic private finance.</li> </ul>

Domestic Public Finance	15.7%	State Budget	15.7%
Domestic Private Finance	21.0%	Domestic and foreign private investment	27.1%
International Public Finance	3.1%	Official Development Assistance	3.1%
International Private Finance	7.5%	Other investments	1.4%
<b>TOTAL OF ALL INFF FINANCING TYPES</b>	<b>47.30%</b>	<b>TOTAL OF ALL 9<sup>th</sup> NSEDP FINANCING TYPES</b>	<b>47.30%</b>

## B. Sovereign and SOE bonds analysis (UNCDF)

### *Objectives*

The Lao PDR Bonds Review analyses the Lao PDR government issued sovereign and State-Owned Enterprise bonds as of 2020. The report provides a succinct background to the accumulated public debt stocks and examines the appetites of investors for Lao sovereign debt. It complements the analysis undertaken in the DFA on domestic public finance (State budget).

### *Approach, scope, and limitations*

The report was generated using sources from the Government and external datasets, including MOF, BOL, Thailand Bond Market Association, LSX, SGX, and rating agencies. However, data unavailability and inconsistencies between various sources are important limitations. A series of assumptions underpin the analysis, notably that Lao PDR will be able to meet its debt service repayments, that the 9<sup>th</sup> NSEDP will require extensive level of investments, and that further downgrading of the Lao PDR's rating is averted.

### ***Main findings***

Finding 1: the impacts of bond servicing cannot be under-estimated when considering the issued bonds that are due to mature during the cycle of the 9<sup>th</sup> NSEDP. Over USD 1,700 million is due to be serviced by the government during the lifecycle of the 9<sup>th</sup> NSEDP (figure does not include unlisted bonds issued by the government and other SOEs besides EDL-Gen). With increased pressure on revenues, there is mounting pressure from debt servicing.

Finding 2: With Moody's August 2020 downgrade of Lao PDR credit rating to Caa2 from B3, the country now has the lowest credit rating in Asia without being in default. Analysis indicates that there is no market demand for a Caa2-rated Asian sovereign bonds in Thailand, Singapore, and Hong Kong, limiting the scope of borrowing as a potential source of development finance.

Finding 3: sentiment for new Lao PDR debt is weak, due to the current credit rating, and potential for default. Although debt is available, its high cost must be considered in the context of debt sustainability.

The data analysis presented in the report and the key findings are to be further validated by UNCDF and Ministry of Finance in the near future.

### **Climate finance (UNDESA)**

#### ***Objectives***

The climate finance flows analysis examines the available climate finance in Lao PDR, the sources of funding and aims to identify the challenges and opportunities for capacity building interventions to scale climate finance mobilisation and implementation in Lao PDR. It complements the analysis undertaken in the DFA across all sources of finance through a sectoral lens.

#### ***Approach, scope, and limitations***

The Lao climate finance analysis relies on primary data through key stakeholder interviews and secondary data through a review of the literature. Without a unified climate finance database in the country, quantitative data came mostly from various international climate finance funding sources.

### ***Main findings***

Finding 1: Climate finance in Lao PDR is mostly adaptation finance (71%) and majority of the climate finance mobilised are grants. This is consistent with general trends in Least Developed Countries while Middle Income Countries attract proportionately higher mitigation investments. With a high debt to GDP ratio, grants will continue to be a priority for climate finance mobilization for Lao PDR. Under such circumstances, it is necessary to explore innovative mechanisms to maximize grant utilization. One possible option is to consider leveraging grants to support private sector investment in Nationally Determined Contribution (NDC) priority sectors.

Finding 2: The review found that most climate change projects are financed by multilateral funds, UNFCCC, and non-UNFCCC, which were designed to support LDCs to shift towards low emissions and carbon resilient development. Funds which Lao PDR has not be able to access are often those that do not target LDCs and/or do not have an accessing channel outside host government countries.

Finding 3: Lao PDR so far relies on development partners that are multilateral funds' Accredited Entities (for GCF) or Implementing Entities (for AF) or Partner Agencies (GEF/LDCF). Some of the funds require the government to work with the funds' partners due to limited capacity of government entities to meet criteria

set by the funds to access funds directly. Significant time and resources are required for proposal development and in making timely submissions to these global climate funds.

**Finding 4:** Monitoring and reporting on climate finance should be a priority area. A clear overview of climate finance flows and their use will allow a targeted resourcing and planning of activities towards the NDC.

**Finding 5:** There is a need to strengthen the government's capacity in mobilizing climate finance through long-term, systematic, strategic, and continuous interventions.

## Costing national development priorities

### Documents produced

- Costing the national plan: methodologies, challenges, and opportunities
- Six literature reviews covering 9<sup>th</sup> NSEDP outcomes investment needs
  1. Continuous quality, stable and sustainable economic growth achieved
  2. Improved quality of human resources to meet development, research, capacity, science and technology needs, and create value-added production and services
  3. Enhanced wellbeing of the people
  4. Enhanced wellbeing of the people
  5. Engagement in regional and international cooperation and integration is enhanced with robust infrastructure and effective utilization of national potentials and geographic advantages
  6. Public governance and administration are improved, and society is equal, fair, and protected by rule of law
- Model Investment Case for the Health Sector (part 1 on investment needs)

### A. How to cost national development priorities (UNDP-DOP)

#### **Objectives**

At the outset, the objective was to estimate the financial cost of the achieving the outcomes and associated outputs of the 9<sup>th</sup> NSEDP (how much financial resources does it require to achieve national development priorities?). This would have allowed stakeholders to match a figure against the total value of available development finance (which is estimated in the DFA and other diagnostics undertaken), thereby identifying a financing gap, and then to use this to inform the formulation of the financing strategy.

However, due to data limitations and the timing of the finalization of the Monitoring and Evaluation Framework of the 9<sup>th</sup> NSEDP, MPI and supporting technical agencies acknowledged the difficulties of deriving sufficiently robust estimates and projections.

Therefore, to take forward the overall objective of informing the financing strategy, a decision was made to complement modelling efforts with literature reviews of global, regional and best practice estimates of costs across various sectors linked to the outcomes and associated outputs of the 9<sup>th</sup> NSEDP (see below).

To address the challenges encountered with the modelling efforts, and to develop national capacity on costing of national development priorities for the next planning cycle, this report now identifies (1) best

practices and methodologies in costing national plans and sectoral plans (2) challenges and limitations in data and current capacity, and (3) practical solutions to improve capacity.

### ***Approach, scope, and limitations***

The report is organised into three chapters. The first covers best practices and methodologies, drawing from the various methodologies agreed at the global level and implemented in other developing countries. The second identifies challenges and limitations, reflecting on the collaborative technical work done between UNDP and the Department of Planning (DoP) in the first half of 2021. The third chapter stems from matching of the gaps between the best practices and current available capacity and challenges, to identify practical ways forward.

### ***Main findings***

Finding 1: most relevant techniques to cost national development plans were not applicable in Lao PDR, due to data availability issues. Calculations could only be derived from an incomplete set of development interventions, which did not comprehensively cover output and outcome priorities.

Finding 2: it is important to position the costing exercise carefully in the planning cycle, before and throughout the policy formulation, and build consensus on the importance of the costing exercise to ensure it informs prioritisation in resource allocation.

Finding 3: it is important to define, prior to the costing exercise, its scope (which priorities to cost, at the national and subnational levels, or both) and clarify key parameters (such as the definition of the costs).

Finding 4: reviewing programmes and historical costs can support improved accuracy and reliability of the costing exercise.

Finding 5: it is important to engage experts and stakeholders early in the costing exercise to collect relevant information, discuss findings, and identify synergies and trade-offs.

## **B. Investment needs across the 9<sup>th</sup> NSEDP (UNDP-DOP)**

### ***Objectives***

Acknowledging the difficulties of modelling the financial costs of the 9<sup>th</sup> NSEDP, UNDP and the UNRCO, under guidance from MPI, decided in the summer 2021 to include specific reviews of the global, regional and national literature to estimate, quantitatively and qualitatively, investments needs across the six outcomes and associated outputs of the 9<sup>th</sup> NSEDP. This is intended to provide stakeholders with appropriate background information on the relative financial costs and the types of costs identified across the 9<sup>th</sup> NSEDP, to inform the formulation of the financing strategy and stimulate a conversation with relevant stakeholders on where funding is most needed, and why.

### ***Approach, scope, and limitations***

What we mean by “cost”: the costing briefs review two elements. The first one is financial costs, also referred to as investment needs. Simply put, these are the monetary values of the costs of achieving a specific policy priority (e.g., achieving the country’s mitigation targets will cost 2% of GDP). Implications are that these briefs do not review economic costs (e.g., climate change costs X% of GDP of Lao PDR every year), opportunity costs, costs of inaction (e.g., not investing in climate change mitigation will cost X% of GDP in ten years), or socioeconomic costs (e.g., climate change leads to X number of additional deaths through extreme weather events).

What we mean by the nature of the “costs”: this literature review allowed for comparison of costs across the 9<sup>th</sup> NSEDP. These papers identified outputs and sectors in which specific policy priorities were less financially costly because they involved, for instance, regulatory or legal changes, rather than, say, infrastructure construction. In addition, certain costs lend themselves, by nature, to be mostly born by a specific stakeholder. The public administration is for instance more engaged in governance reforms.

How we express “costs”: where possible, briefs have expressed financial costs in % of GDP per year over the duration of the 9<sup>th</sup> NSEDP, for ease of comparison.

Sources: Lao-specific literature is richer in certain outcomes than others. A few studies have indeed been able to measure the investment needs of several sub-sectors, such as education or health, or the cost of climate change mitigation. However, for sectors with limited information on Lao PDR, global or regional estimates are used to provide an indicative estimate.

The methodology chosen – literature reviews – to estimate costs limits the scope and objectives of this exercise. In particular:

Global estimates: international or cross-country estimates of costs can be useful for providing a rough gauge of costs at the country level; however, they cannot be taken too precisely. The costs of achieving climate change priorities at the global scale differ from one country to another, due to climate risk vulnerability and exposure, pollution levels, etc, as well as the efficiency of implementation of spending.

Adding costs: it is both technically challenging given data availability and varying methodologies and would provide only unreliable information to add the costs of various sectors to derive a single figure for the cost of each outcome. First, for each outcome, there are both national and global estimates. Second, while it was attempted to express each figure in percentage of GDP, the exact denominator may not be the same.

Financing/investment gap vs. total investment/financing needs: the financing gap is the required additional amount of resources to achieve a given target, beyond the current trend levels of investment, while the total investment need integrates both current trend investments and additional investments required.

### **Main findings**

#### **Outcome 1**

- The direct financial costs to the state of achieving most outputs under outcome 1 relate to the costs of administrative reforms and systems enhancements and investments, as well as the role of State-Owned Enterprises. Compared to the overall financial costs of the 9<sup>th</sup> NSEDP, the financial costs of many policy reforms are likely to be relatively modest, although implementation of SOE reforms can be costly, e.g., regarding the energy sector, and technically challenging.
- Realising the objectives set out in Outcome 1 will require many investments beyond the State budget, given the predominant role of private sector investment in driving growth. Possible measures to influence these investments could have additional financial implications for the state.
- More recent and accurate estimates of aggregate investment are required to model the historical relationship between investment and growth, and thereby approximate investment needs. Specific challenges were identified in the use of Gross Fixed Capital Formation estimates (which have been discontinued).

<p><b>Outcome 2</b></p>	<ul style="list-style-type: none"> <li>• For Lao PDR, sector plans for health and education, aligned to the 9<sup>th</sup> NSEDP, provide estimates of anticipated costs to implement initiatives designed to achieve priority outcomes. Together, health and education investment needs make approximately 4.4% of GDP per year. This is well below global estimates of resources required to achieve the corresponding SDGs. For countries in Asia-Pacific, on average 4.7% of GDP is estimated to need to be spend on health. The Education 2030 Framework for Action sets two key education finance benchmarks for Governments- to allocate 4-6% of GDP to education and/or to allocate 15-20% of public expenditure to education.</li> <li>• Expected financial costs of achieving the outputs related to skills and science &amp; technology are significantly lower.</li> </ul>
<p><b>Outcome 3</b></p>	<ul style="list-style-type: none"> <li>• The assessment by UNFPA (detailed below) found that the scale-up of Sexual and Reproductive Health and Nutrition, Maternal, New-born, Adolescents, and Child Health interventions could cost an additional USD 109.0 million more than business as usual over 2021-2030.</li> <li>• While financial resources are important, most strategies for achieving gender equality require a mix of financial investments and political commitment coupled with changes in legislation, political and administrative rules, social attitudes, and norms.</li> <li>• ILO has undertaken a costing of social protection, which found that the planned roll-out would cost around 0.1-0.15% of GDP annually.</li> <li>• The costs related to UXOs will be USD 525 million over five years, or 105 million a year, which roughly amounts to 0.5% of GDP per year.</li> </ul>
<p><b>Outcome 4</b></p>	<ul style="list-style-type: none"> <li>• According to global estimates, green and resilient infrastructure investment could reach an average 4-5% of GDP for low and middle-income countries annually. In Lao PDR, this would represent around USD 1 billion a year.</li> <li>• Biodiversity protection costs amount, globally, to 0.3% of GDP per year, which applied to Lao PDR, would represent USD 60 million a year of investments in 2020.</li> <li>• Lao PDR's 2021 Nationally Determined Contributions, aligned with the 9<sup>th</sup> NSEDP objectives, estimated that mitigation investment needs amount to USD 4.8 billion by 2030, which is around USD 500 million a year (around 2.5% GDP per year).</li> <li>• Outcome 4 also includes governance reforms, including legislative and regulatory changes and investments to promote a shift in production and consumption patterns to reduce environmental pollution, which may have more limited financial costs. These call for catalytic public investments as well as measures to (1) internalize the costs of pollution and (2) unlock private sector finance and promoting private sector to support sustainability objectives. Technical assistance and knowledge transfers are crucial in support of dedicated financial resources, which mostly originate from the public sector (both the State budget and ODA).</li> </ul>

<p><b>Outcome 5</b></p>	<ul style="list-style-type: none"> <li>The costs of realizing the transformative priorities set out under this Outcome are amongst the most expensive in the 9<sup>th</sup> NSEDP. The likely cost of Outcome 5 alone far exceeds Government capital expenditure and ODA that is likely to be available. However, the nature of these costs allows scope for greater involvement of private funds, and therefore the full cost is not expected to fall directly on the public budget. Important to recognize that trade-offs exist between concessions to attract private investment, and the need for macroeconomic stabilization set out in Outcome 1.</li> <li>Various global estimates suggest that total infrastructure investment needs for Lao PDR would be from USD 1 billion or 5% of 2020 GDP (lower World Bank estimate) to USD 2 billion or 10% of GDP (higher IMF estimate) per year over the course of the 9<sup>th</sup> NSEDP.</li> </ul>
<p><b>Outcome 6</b></p>	<ul style="list-style-type: none"> <li>Priorities of outcome 6 are mostly concerned with improving public sector efficiency and effectiveness and therefore imply a heavy reliance on public sector investment (domestic and international), as it has been the case historically.</li> <li>Governance priorities, across the entire 9<sup>th</sup> NSEDP, were estimated, to require 6% of GDP of annual investments, which amount to USD 1.2 billion in 2020 in Lao PDR.</li> <li>For low-income countries, achieving justice targets would cost USD 20 per person to provide access to basic justice services, while for middle-income countries the cost would increase to USD 64 per person. In Lao PDR, this would amount to USD 146-467 million a year, which represents around 0.7-2.5% of GDP.</li> <li>Many policy priorities are considered to require relatively low investment needs as they consist in legislative and regulatory improvements but are technically challenging.</li> </ul>

### C. Model investment case for the health sector (UNFPA-MOH)

#### **Objectives**

This workstream has two overarching objectives: identify most relevant interventions in Sexual and Reproductive Health (SRH) and Nutrition, Maternal, New-Born, Adolescents, and Child Health (NMNCAH) in Lao PDR, but also aims to set a model for evidence-based policymaking, when robust diagnostics, the costing estimates of health interventions and development returns, inform prioritization. More specifically, this project aims to estimate the costs, health impacts, and economic impacts of scaling up health interventions (the diagnostics), before developing a prioritization strategy, at both the national and provincial levels. As of September 2021, the diagnostics phase was completed and was set to inform the broader conversation on the financing strategy, specifically on the health financing front.

#### **Approach, scope, and limitations**

The Investment Case aims to estimate the financial needs, health gains, economic benefits, and benefit-cost ratios of investing in a range of SRH and NMNCAH interventions. Although outside the scope of the investment case, costs presented in this brief also include Immunization, Non-communicable diseases (NCD) and Communicable diseases (CD) obtained directly from the costing of the Essential Health Services

Package Report. The study used a mix of qualitative and quantitative methodologies to identify the costs of selected health interventions. Unit costs were calculated using the ingredients-based approach, while the sizescale of interventions were based on global literature. This assessment considers costs and benefits through to 2030, as the deadline for the SDGs, rather than only the 5 years of the 9<sup>th</sup> NSEDP.

A series of limitations must be considered:

Data issues: data for some health indicators, coverages, and economics benefits were only available nationally. Additionally, sizescale of interventions were based on global literature, while the actual impact of interventions will depend on the quality of care, which is difficult to measure.

Health financing: noting that external funding finances a significant amount of health program costs, a comprehensive fiscal space analysis for health is outside the scope of the Investment Case and this brief. It should be undertaken considering taking into account the DFA findings particularly in relation to trends in international public finance (ODA) support and recognizing the potential for leveraging international and domestic private sector investments for the health sector.

COVID-19 impact: the impacts are still uncertain on service coverage, and new evidence may ultimately change projections.

### ***Main findings***

Finding 1: full scale-up of SRHNMNACH interventions could cost an additional USD 109.0 million more than business as usual (baseline scenario) over 2021-2030.

Finding 2: this would avert 1,044,000 unintended pregnancies, 286 maternal deaths, 6,866 child deaths and 5,070 stillbirths, reduce stunting prevalence children under 5 by 5.6 percentage points, and generate USD 661.5 million in economic benefits by 2030. The benefit to cost ratio is of 6.0.

Finding 3: to reach the sectoral targets, Family Planning, followed by Child Health and Maternal Health required most investments. The greatest return on investment, across SRHNMNACH interventions, would result from investing in family planning. A positive effect may be achieved through improved coverage of NMNMACH interventions alongside increased contraceptive prevalence, as reducing unintended pregnancies can cut demand for, and the cost of, other health services.

Finding 4: investment in maternal health can have major benefits beyond simply reduced mortality, leading to lower morbidity and health complications associated with childbirth. This can also decrease downstream costs associated with these health conditions and avert complications such as loss of income, although such costs can be difficult to quantify.

Finding 5: the priority should be ensuring access to family planning services in each province. Beyond family planning, scaling up vaccines, breastfeeding promotion and HIV interventions within each province would have the greatest impact. The highest returns came from investing in provinces that had the highest mortality rates.

## The scope of the financing strategy and tentative financing policy areas

The scoping step of the policy formulation phase serves to ensure that there is a **successful transition between phase 1 (diagnostics) and phase 2 (policy formulation)** through:

- The mapping, identification, and discussion, between all relevant stakeholders, of a **draft list of financing policy areas against two key elements**: the established diagnostics of phase 1 and existing reforms and projects. Practically, this means that, by the end of this step, relevant stakeholders have agreed a draft outline for the financing strategy.
- **The strengthening of coordination and ways of working between key stakeholders at the beginning of the policy formulation phase.** It is important, as stakeholders are about to begin a critical policy formulation step, that all coordination mechanisms work, and all relevant stakeholders have the necessary forums to share their expertise and feedback in this integrated and consultative process considering all of development finance.

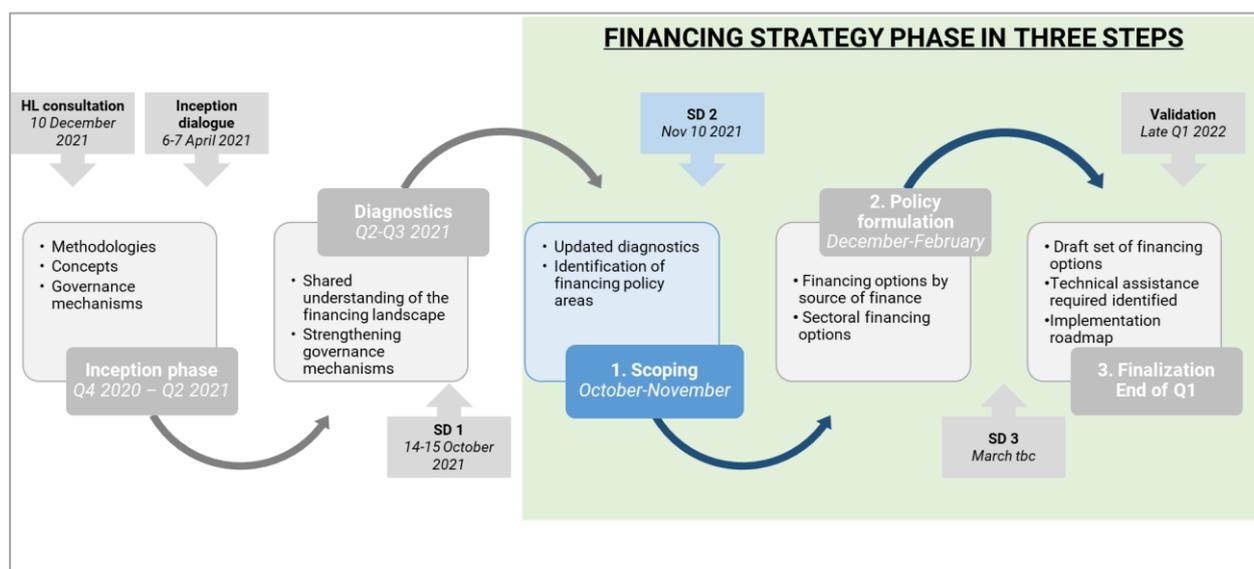


Figure 5: Scoping step

### A. Consultations undertaken to scope the financing strategy

The scoping step development was threefold:

1. **MPI, with technical support from the UN, mapped a preliminary list of financing policy areas** against the identified diagnostics presented earlier, or in other words, an outline for the financing strategy. At the first structured dialogue, a list of key findings were identified for each source of finance.
2. **MPI and the UN organised on October 28th series of meetings** to present this list and receive feedback. Government counterparts, including MPI, MoF, MoNRE, MoES, MoH, MoIC, and others, met in the morning. In the afternoon, World Bank, IMF, ADB, EU, and UN agencies (WHO, UNFPA, UNCDF, UNODC) were consulted. The list of financing policy areas was updated to reflect feedback received that day.

3. **The second structured dialogue** will be organised on November 10th. It is expected that at the end of structured dialogue 2, key stakeholders should have agreed a preliminary list of financing policy areas for exploration against the established diagnostics of phase 1 and existing reforms and projects.

## B. Objectives and scope of the financing strategy

The financing strategy's core objective is that national development priorities are appropriately financed and achieved within the expected timeframe of the 9<sup>th</sup> NSEDP. Informed by the shared understanding reached in the previous phase, this means that relevant stakeholders will aim to:

1. Identify most relevant financing policy areas and financing options and ensure that financing policies, instruments, and regulatory frameworks are coherent, sustainable, and risk-informed;
2. Identify opportunities to access technical assistance and capacity building support from development partners.

This set of agreed objectives has several implications:

**The financing strategy is not meant to replace existing frameworks, policies, and projects:** as mentioned in the introduction to this explanatory note, this means that the financing strategy builds on existing policies, projects, and initiatives led by critical stakeholders in financing for development to identify policy gaps and challenges and ensure coherence between the various financing policies, to achieve national development priorities within the expected timeframe.

**The financing strategy aims to support the achievement of the 9<sup>th</sup> NSEDP:** it looks at the financing policy areas and options achievable and realistic for the achievement of the 9<sup>th</sup> NSEDP policy priorities. 2021 is already year 1 of implementation of the 9<sup>th</sup> NSEDP, which leaves, with a likely finalization of the strategy mid-2022, around 3 years and a half of implementation.

**This implies that the financing strategy should be composed of practical and quickly implementable financing options:** considering that the objective of this financing strategy is to ensure that the 9<sup>th</sup> NSEDP policy priorities are achieved, it is crucial to focus efforts on rapidly implementable solutions which do not derail long-term financial sustainability plans, but allow for an increase in the total amount of resources available and/or a better use of existing resources.

**The financing strategy is a collective effort:** relevant stakeholders have been initially mobilized through a technical working group, in advance of the inception dialogue held in Vang Vieng in April 2021. These included most relevant ministries (such as MoF and BoL) as well as international financial institutions (such as the World Bank, ADB) and key development partners (EU, UN Agencies). Nonetheless, considering the holistic approach taken by MPI and the UN in formulating this financing strategy, there is a need to make sure that all relevant stakeholders are included. Much progress has been made to include new line ministries (such as MoES, MoH, MoNRE, MoIC) and new departments from core ministries (such as MoF's tax department). This effort must continue and considering the growing importance taken by private finance in the financing strategy, representation from the private sector, through the chambers of commerce for instance, will be necessary to ensure that all inputs are considered and policies recommended appropriate and implementable.

**The financing strategy will look at how can all sources of finance contribute to national development priorities:** the formulation of financing options will continue to be done under the INFF approach and its

key characteristics of holism, integration, and national ownership. Holism suggests that all sources of finance – domestic public, international public, domestic private, and international private – are considered. These four sources of finance will be the first four chapters of the financing strategy.

Three additional elements have been discussed and received positive feedback with key stakeholders:

**The financing strategy should try to prioritise, within practical and implementable solutions, those that require the most immediate focus:** because this financing strategy attempts to be comprehensive and cover all sources of finance, many policy areas and policy options will be discussed. As mentioned, this financing strategy should only be composed of practical and implementable options with the aim of supporting the 9<sup>th</sup> NSEDP achievement. Nonetheless, by the end of Q1 2022, it will be critical to have an even more refined list of options, ranked from most urgent and most able to unlock development finance in support of the 9<sup>th</sup> NSEDP, to least.

**Some key sectors require more specific, in-depth look:** it has been recognized by relevant stakeholders that specific sectors, namely health, education, and environmental management and climate change, required more specific sectoral insights. This is due to the acknowledgment that they face specific challenges that need to be addressed (e.g. accessing climate funds requires specific capacity building of national staff) and that the achievement of human capital and environmental priorities in the 9<sup>th</sup> NSEDP are critical for the achievement of all national development priorities. It is suggested that the financing strategy could have one specific chapter covering all key sectors.

**Some challenges are cross-cutting, such as data, information management and coordination:** even if the financing strategy would be primarily structured against the four sources of finance, key issues require consideration by all stakeholders, such as data (e.g. tracking financing flows into the economy), coordination (e.g. how to maintain, in the implementation phase, a sensible coordination of relevant stakeholders across the entire development finance landscape?) and information management (e.g. how does the data held by ministry X inform policy making in ministry Y?). These should be covered in a final chapter.

### C. Tentative financing policy areas

Financing policy areas is the expression given to the topics which have been identified by stakeholders as needing more attention in the policy formulation phase. Under these financing policy areas, with the objective to achieve national development priorities set out for 2025, stakeholders will have to identify financing options that are practical and implementable in the short-run to ensure increased access and availability of development finance or better use of existing resources.

In line with the process that was followed to identify financing policy areas, the below table summarises the potential outline of the financing strategy. It identifies tentative financing policy areas, with, for each, the related diagnostics and a brief explanation of the rationales behind its potential inclusion. The information contained in this table is the result of almost a year of work, integrating diagnostics identified through desk research, bilateral and multilateral meetings and a structured dialogue, and since then conversations held on October 28<sup>th</sup> with all relevant stakeholders, and prior and after that exercise, between MPI and the UN. The diagnostics are simplified for convenience: a longer version is accessible in the diagnostics section of this note.

Financing policy areas	Related diagnostics	Rationale for inclusion
<b>1. Domestic Public Finance</b>		
Urgently increase domestic revenue mobilization	Revenues need to increase Scope of further borrowing is constrained	Finding ways to urgently increase the revenue to GDP ratio (in particular, the tax to GDP ratio) will increase fiscal space and public investment possibilities in priority sectors. In addition, the 9 <sup>th</sup> NSEDP highlights budget balance as a key priority to achieve within the cycle. Mining and energy royalties (non-tax revenues) do not represent sustainable alternatives as they do not align with national priorities and international commitments on environmental management and climate change. Changing fiscal policy is usually a long-term endeavour, so practical and implementable solutions will need to be identified, on tax management, tax administration reform, and non-tax revenues management.
Improve expenditure management: align public investment management with the 9 <sup>th</sup> NSEDP priorities and strengthening planning and budgeting functions integration	Inconsistencies between current allocations and the NSEDP policy priorities	Investments during the 9 <sup>th</sup> NSEDP need to be prioritized in specific sectors (human capital, environment) and on specific activities that are currently under-resourced in line with the COVID-19 recovery strategy that the government and development partners are working on  Strengthening relationships between the planning and financing functions through improved information management, coordination mechanisms, and specific tools (IFMIS, budget tagging) will support more evidence-based and consulted budget allocation. Social sectors have identified challenges with budget allocations, currently below expectations. In addition, the 9 <sup>th</sup> NSEDP highlights budget balance as a key priority to achieve within the cycle.
Debt and borrowing management, including for SOEs	Scope of further borrowing is constrained Inconsistencies between allocations and policy priorities FPI can help with SOE management	Debt servicing has become an important share of the budget. Further borrowing is constrained but could be explored through specific bonds. Facilitate private sector participation for some SOEs and full divestment of ownership to private sector for selected SOEs and strengthen governance of SOEs to promote efficiency and effectiveness are identified as 9 <sup>th</sup> NSEDP policy priorities.
<b>2. International Public Finance</b>		
Improve predictability, efficiency and effectiveness of ODA	ODA contributes heavily to social sectors Better data on ODA will support more informed ODA management Absorptive capacity constrains ODA's efficiency and effectiveness	ODA has been identified as a key contributor to sustainable development. Nonetheless, there are possibilities to keep improving its efficiency and effectiveness through better coordination and strategic prioritization of sectors to invest in, based on development partners' comparative advantages. Taking into consideration absorption capacity in this prioritization will ensure that development results are sustainable. Government has also stressed that improving predictability of ODA trends and areas of focus would help with strategic prioritization.
Take advantage of LDC status and managing impacts from LDC Graduation on ODA	LDC Graduation potential impacts on ODA need to be managed	Lao PDR will be a LDC until the end of the 9 <sup>th</sup> NSEDP, which suggests taking advantage of concessional LDC-specific finance, while preparing for the next cycle, and managing potential negative trends in ODA due to graduation.
<b>3. Domestic Private Finance</b>		

Improve the business environment to unlock private finance for green and social sectors	Domestic private finance can be an important source of development finance but is largely untapped	Realising the potential importance of the domestic private sector in supporting 9 <sup>th</sup> NSEDP policy priorities, updating legislation and regulations, could give a boost to investments in key sectors. Mobilising private finance in support of national development is a long-term process but identifying practical options in the short-term has been identified as not only unlocking financial resources but also supporting 9 <sup>th</sup> NSEDP policy priorities regarding private sector development, growth, and poverty alleviation.
Support a sustainable private financial sector to stimulate the economy	Credit policies need to consider macroeconomic stabilization needs	The role of the financial sector has been identified as critical, but there are concerns with macroeconomic stabilisation and the sustainability of the financial sector. Identifying short-term financial policies that could support key investments in important sectors while ensuring the long-term sustainability and stability of the financial sector will be critical.
<b>4. International Private Finance</b>		
Diversify FDI countries of origin and improve their contributions to key sectors	Need to redirect FDI towards social sectors Need to diversify countries of origin	Realisation of FDI's limited contribution to NSEDP policy priorities, and in particular limited contribution to social sectors and the green economy, suggests that policy changes are necessary. Improved regulations and legislation could help to stimulate investments in key sectors.
Manage SEZs to balance benefits of attractiveness and fiscal costs	Revenues need to increase Need to redirect FDI towards social sectors Need to diversify countries of origin	SEZs generate attractiveness for Lao PDR but need, in order to better support the 9 <sup>th</sup> NSEDP policy priorities, ensure that FDI inflows lead to more inclusive growth creating employment for Lao citizens. In addition, SEZs generate fiscal costs through tax exemptions. Reviewing SEZs management, including tax exemptions, could lead to identifying a more sensible balance, aligned with the 9 <sup>th</sup> NSEDP objective, between revenue growth imperative, public investment in critical sectors, and attractiveness for foreign investors.
Tackling illicit finance to improve Lao PDR's international profile	Tackling illicit finance can improve the business environment and attractiveness	Illicit finance was identified as an area that requires more attention at the first structured dialogue. With Lao PDR's hope to maintain FDI flows on the same upward trend, tackling illicit finance could improve Lao PDR's investor profile, reassuring investors about the credibility of Lao PDR as an investment destination.
Facilitate remittance transfers to support poverty alleviation and sustainable consumption	Remittances play a vital role for communities	Remittances were identified as critical flows for Lao PDR's poverty reduction objectives. With the possible recovery period, suggesting easier travel and a rebound of remittances, the improvement of regulations and legislation to facilitate transfers and encouraging consumption in health, education, and green growth should be explored.
<b>5. Sectoral finance</b>		
Improve the sustainability of education and health financing	State budget allocations to key sectors are below expectations Importance of ODA in social sectors	Social sectors have repeatedly identified budget allocation as being too low to ensure that national development priorities are achieved. Identifying opportunities to achieve national development priorities within the next cycle, while improving the sustainability of health and education financing, considering the emphasis of the 9 <sup>th</sup> NSEDP on human capital development, will be critical.
Facilitating investments in green and low-carbon development	Green and climate finance largely untapped despite importance in 9 <sup>th</sup> NSEDP priorities	Studies have identified that Lao PDR does not access climate and green finance as much as it could, and that the potential is relatively untapped. Overcoming certain challenges linked to national capacity to access climate funds, or exploring opportunities to finance biodiversity, environmental management

		and climate adaptation through conventional and innovative finance will be explored.
<b>6. Cross-cutting challenges</b>		
Resolving key data gaps for the implementation and monitoring and evaluation of the financing strategy	Data issues have been identified across all sources of finance and across all financing policy areas	The diagnostics phase highlighted several data gaps that need to be improved to ensure the financing strategy is based on solid analytical grounds and to prepare for a successful implementation (e.g. ODA data, private sector flows, forecasts).
Strengthening coordination and information-sharing between all relevant stakeholders, including the private sector	Coordination and information-sharing issues identified across all sources of finance and across all relevant stakeholders	The diagnostics phase and the pre-consultations revealed that key adjustments in coordination mechanisms and information-sharing tools could help to improve budget allocations and facilitate, in the short-run, more informed, evidence-based decision-making.

# TOWARDS A COVID-19 RECOVERY FRAMEWORK

## Introduction

This chapter aims at informing and providing recommendations for a national COVID-19 Recovery Framework. The objective is the formulation of an evidence-based, up-to-date situational analysis on the reverberating effects of the COVID-19 pandemic with policy recommendations by Q2 in 2022 to help ensure a focused and successful recovery plan for Lao PDR.

The content of this chapter builds on a process that began in 2020 whilst the 9<sup>th</sup> NSEDP was still being developed. The Ministry of Planning and Investment commissioned a Multi-Stakeholder Taskforce to advise possible recalibrations of the near final development plan to ensure the validity of the NSEDP as it rolled out this year. The key recommendations from this process were taken forward and reflected in the finalisation of the National Plan.

One year later, the pandemic and its socio-economic consequences still pose a major threat. In many ways the prolonged impact has led to concerns becoming even more pressing over time. For this reason, the Ministry of Planning and Investment reactivated the Multi-Stakeholder Taskforce – this time with a focus on priority setting and practical recommendations that can build the basis for Lao PDR's COVID-19 Recovery Framework.

The work is structured and presented across the following five interlinked themes:

1. Financing for sustainable development and effective development cooperation;
2. Trade and private sector, value chains and tourism;
3. Green growth, resilience and risk management with respect to potential environmental, health, and economic shocks;
4. Manage changes and enhance policy preparedness for decent work;
5. Human capital including health and education.

Each of these workstreams produced a background document consisting of an analytical part presenting the background incl. any pre-existing challenges, an updated situational analysis and a table of recommendations of immediate actions with immediate return as well as investments needed to secure a resilient and sustainable recovery in the medium term, setting the country back on track for the implementation of the 9<sup>th</sup> NSEDP and beyond.

It is important to note that many of the recommendations under an individual workstream are in fact conducive towards the recovery in other areas. Particularly noteworthy is the Government of Lao PDR's vaccination efforts, guided by the National Deployment and Vaccination Plan (NVDP) combined with continued preventative measures and a progressively calibrated risk management approach. The strategy defined high priority target groups including front line workers, elderly and persons with co-morbidities with a gradual expansion of the programme as vaccination stocks allows, with the aim to cover 50 per cent of the total population by the end of 2021. To date, the programme has reached nearly 34 per cent of its population above 17 with the full recommended dose of vaccines and almost 46 per cent with a first dose.

The five papers, which are presented in the following chapter have carefully considered the ambitions of several national, regional and global strategic documents including the 9<sup>th</sup> National Socio-Economic Development Plan (NSEDP) itself, the ASEAN Comprehensive COVID-19 Recovery Framework developed in 2021 and the overall ambitions of the 2030 Agenda for Sustainable Development 2030, the latter also

country-tailored through the Lao PDR - UN Sustainable Development Cooperation Framework 2022-2026 (UNSDCF).



## Theme 1: Financing for Sustainable Development and Effective Development Cooperation (Macro-Fiscal Framework)

### Background Paper of the Multi-Stakeholder Taskforce to Study the Impact of COVID-19

Led by:



Supported by:



With additional contributions from BOL, CDR/MPI, ADB, IMF and Japan

### Relevance of the workstream

**Macroeconomic stability is critical to the achievement of sustainable and balanced economic development in Lao PDR.** A more stable macro-fiscal framework would help reduce uncertainty, lower borrowing costs, anchor return expectations for investments, and increase business confidence. It is particularly important for the development of the non-resource sector – as a more inclusive driver of economic growth. A rebuilding of fiscal space is critical to support the COVID-19 recovery framework and affected households and SMEs, particularly in the manufacturing, agriculture and service sectors. *All of these are important preconditions for achieving the overarching objectives of the 9<sup>th</sup> NSEDP, especially the first Outcome on Continuous Quality, Stable and Sustainable Economic Growth (Output: 1-5), and the SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation, and Infrastructure), and SDG 12 (Responsible Consumption and Production).* It further supports the other five outcomes of the 9<sup>th</sup> NSEDP and remaining 15 SDGs in Lao PDR by generating necessary financial resources, improving social outcomes, creating jobs and reducing poverty. Among other priorities, the national agenda (which has been recently endorsed by NA) focuses on resolving key macroeconomic challenges, such as revenue mobilization, public debt, monetary and exchange rate issues.

## Key impact and risks of COVID-19 on the workstream

**The recent COVID-19 outbreaks (second and third waves) have exacerbated Lao PDR's long-standing structural vulnerabilities.** Revenue collection has continued to fall while public debt has increased, the exchange rate has been under pressure pushing up the kip value of foreign currency-denominated debt, while foreign currency reserves are limited. With mounting public debt-service obligations, the country faces costly refinancing options. Financial sector vulnerabilities include declining capital to risk-weighted assets ratio (CRAR) and growing non-performing loans in some banks. *To ensure macroeconomic stability for future growth, it is important to mobilize resources to finance the public debt service payments, conduct long term debt restructuring with key bilateral lenders, improve revenue collection, increase foreign exchange liquidity and reserve buffers, enhance oversight and transparency mechanisms and reduce financial sector vulnerabilities.* Moreover, structural reforms are needed to promote trade and economic diversification along with links to regional value chains and to benefit from connectivity (railway) and regional integration. It is important to improve the business environment to attract private investment and create jobs, especially in labor-intensive non-resource sectors. Also, it is vital for GOL to invest in human capital and promote digital transformation to increase productivity and competitiveness of businesses.

### Growth and Livelihoods

**COVID-19 slowed down economic growth and reversed past development gains.** Growth began to decelerate before the pandemic: it declined from 6.3 per cent in 2018 to 5.5 per cent in 2019, before falling to just 3.3 per cent in 2020<sup>3</sup>, the lowest level in three decades. Meanwhile, public health measures to contain the pandemic were successful but also resulted in job losses and income reduction. Declining economic activity pushed the unemployment rate to 23.4 per cent, while the return of large numbers of migrants from abroad has led to a substantial loss in remittances (a major source of income for nearly 10 per cent of households) and increase in poverty rate. The Lao economy is expected to grow by between 2.5 to 3 per cent in 2021 and 4-5 per cent in 2022-2025<sup>4</sup>. Growth is unlikely to recover to pre-COVID-19 levels in the near term.

### Fiscal and Debt

**Despite reforms, domestic revenue dropped sharply, worsening the fiscal situation.** Revenue collection modernization improved through the rollout of the TaxRIS and electronic tax payment system. However, the ratio of domestic revenues to GDP has steadily fallen from 16.3 per cent of GDP in 2015 to 11.8 per cent in 2020 and estimated around 13 per cent in 2021<sup>5</sup> following recent COVID-19 outbreaks. Revenues forgone by tax exemptions to investment projects are also significant. These revenue shortfalls mean that despite significant expenditure cuts, the fiscal deficit rose from 3.2 per cent of GDP in 2019 to around 5.2 per cent of GDP in 2020 – although it is expected to decline to about 3 per cent of GDP in 2021<sup>6</sup>.

**Public sector debt increased to 72 per cent of GDP in 2020, from 67.3 per cent in 2019<sup>7</sup>.** This, however, significantly understates Lao PDR's current debt burden, given the financial health of SOEs,

<sup>3</sup> GOL/LSB estimates.

<sup>4</sup> Macro-fiscal theme team's initial estimates and projections.

<sup>5</sup> GOL (MOF/LSB) data and team's calculations.

<sup>6</sup> MOF data and team's estimates.

<sup>7</sup> Debt bulletin, MOF.

possible accumulation of arrears<sup>8</sup>, the ongoing exchange rate depreciation, and other possible actual and contingent liabilities.<sup>9</sup> In parallel, external debt service obligations increased to around US\$1.1 billion a year. The poor financial health of large SOEs such as EDL, Lao Airlines, Agricultural Promotion Bank and Lao Development Bank represent a further financial burden. Debt accumulated through investments in the power sector accounts for almost half of the public debt stock. Credit rating downgrades by Fitch and Moody's and TRIS, a growing fiscal imbalance, and limited domestic financing led to higher external borrowing costs.

**The public financial management framework is weak.** Budget monitoring is hampered by manual consolidation of expenditure below provincial level, and by the absence of systems to track resources. The absence of a unified chart of accounts hinders informed decision making. The financial information system does not provide comprehensive revenue and expenditure records. There is no comprehensive information on procurement operations by government entities. Public investment management suffers from limitations in planning capacity and the lack of observance of pre-feasibility and selection criteria.

### Monetary and Financial Sector

**Foreign reserve buffers remain inadequate and the banking sector is under pressure.** Gross reserves decreased to \$1.2 billion in July 2021 from \$1.3 billion in December 2020. A shortage of foreign currency in the official market widened the gap between the official and parallel markets to 21-22 per cent in July-August before it has moderated to about 113.4 per cent in end-October 2021, as BOL widened LAK/USD exchange rate movement of commercial bank and exchange rate bureau against the central bank reference rate to +/-1.5% from +/-0.25% that had been set since 2008. The banking sector regulatory capital adequacy ratio fell from 18.3 per cent in 2018 to 12.5 per cent in Q2-2021, above the 8 per cent minimum. Weaknesses are concentrated in two state-owned banks (LDB/APB), which are undergoing a restructuring process<sup>10</sup> but their performance is expected to improve after the restructuring, while the largest state-owned bank (BCEL) experienced a notable decline in CAR over 2020 to below 9 per cent, despite forbearance. The possible need to raise capital could lead to additional government debt.

### Outlook and Risks

**The medium term outlook is challenged by increasing downside risks.** The main external risks include: (i) slower-than-projected growth in key trading partners; and (ii) delays in vaccination rollout in the EAP region and in western countries that are critical to revived international tourism and foreign investment. In addition, key domestic risks include: (i) potential prolonged community outbreak if the increasing number of COVID-19 cases in the country is not well managed, and extended lockdown measures, which could further delay resumption in local economic activities; (ii) a weaker-than-anticipated economic recovery, which would exacerbate already poor revenue performance, keeping the fiscal deficit and public debt elevated; (iii) a deterioration in the financial status of EDL, leading to higher debt burdens on the government; (iv) prolonged implementation of credit forbearance policies, which could worsen bank balance sheets and heighten existing financial sector vulnerabilities; and (v) slippages in doing business and trade facilitation reforms,

<sup>8</sup> The Ministry of Finance recently postponed the deadline for the submission of requests by private companies for the payment of debts owed to them by government. Legitimate arrears, if found, would need to be added to the stock of PPG debt.

<sup>9</sup> In 2020, the government appointed a Committee led by the Minister of Finance and Central Bank Governor to consider selling state assets and seek repayment of loans made by BoL. Liabilities of BoL used to finance these loans should be recognized as government debt if they were incurred for non-monetary policy purposes.

which would limit benefits from better connectivity, including from the Lao-China railway; and (vi) impact from climate change and natural disaster.

**In addition, more households are at risk of falling into poverty due to declining income and job losses, as a result of the recent COVID-19 outbreaks and subsequent containment measures.**

The recent outbreaks of the pandemic have resulted in temporary but widespread losses in employment and household income. Some of these losses could become permanent if containment measures need to be in place for a long period of time. Compared to a non-COVID-19 scenario, the poverty rate (according to WB recent estimates measured at the lower-middle-income poverty line or \$3.2 (2011 PPP) a day) is expected to increase by 1.5 percentage points in 2020 and by 2.4 percentage points in 2021<sup>11</sup>. The projections suggest a total of about 170,000 additional poor in 2021 (those who were expected to be non-poor in 2021 prior to COVID-19 but are now expected to be poor in 2021).

## Ongoing measures and lessons learned

### COVID-19 Response Measures

Overall, the GOL's stimulus package is insignificant due to fiscal constraints. Key COVID-19 response measures to support affected businesses and households include: (i) tax deferrals and exemptions for affected businesses; (ii) lending (from GOL and BOL) to MSMEs to provide additional liquidity; (iii) cash transfers to affected workers covered by existing social welfare systems (only a small portion of total labour force); (iv) deferral of loan repayments; and (v) subsidy of public utility services (electricity, water and internet).

### PFM and Tax and SOEs Reforms

- **PFM and tax reforms to improve revenue and expenditure management.** GOL (i) is rolling out the new tax IT system (TaxRIS) to provincial and district tax offices across the country to improve efficiency of tax revenue collection and management; (ii) established a dedicated risk management function at the Tax Department (the risk-based audit approach) to improve the efficiency and effectiveness of audit activities and enhance tax compliance; (iii) issued instructions for implementation of the Income Tax Law and VAT Law; (iv) is upgrading the Government Financial Information System (GFIS) to expand its coverage and improve its functions; (v) is setting up a new Integrated Financial Information Management System (FMIS) to facilitate and support the budget preparation and execution process (FMIS is expected to become operational in 2024Q1, at the earliest); (vi) is improving the Chart of Accounts to provide for more comprehensive capture of the accounting information and improved reporting (vii) rolled out Personnel Information Management System (PIMS) to the 18 provinces to improve personnel and wage bill management and increase efficiency of salary payments for GOL civil servants; (viii) strengthened the capacity of the Public Procurement Division to support the implementation of the Public Procurement Law; and (ix) is taking steps towards implementing a Single Treasury Account.
- **Debt Management and transparency.** GOL/MOF has taken a very important decision to (i) limit non-concessional borrowing to contain debt since 2020; (ii) conducted bilateral negotiation on debt

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<sup>11</sup> Projection using annualized elasticity (2012-2018), based on projected GDP per capita with pass-through = 0.7 for a COVID-19 scenario and pass-through = 1 for a non-COVID-19 scenario.

restructuring to reduce debt service burden; (iii) published a debt bulletin (2020) for first time in May 2021 to increase debt transparency; (iv) consolidated external and domestic debt management functions within External Finance and Cooperation Department to improve PPG management; (v) upgraded the Debt Management and Financial Analysis System (from DMFAS 5 to DMFAS 6) and expect to fully record and report external and domestic debt data (including on-lending, guarantee and contingent liabilities) by 2022/2023. As part of implementation of the national agenda, GOL intends to complete the Strategic Plan for External Debt toward 2035 in 2022.

- **SOEs reforms and privatization** to reduce fiscal risks and raise revenue. The GOL has made some progress on restructuring major SOEs in Laos: (i) signed a concession agreement with China Southern Power Grid (CSG) on EDL's transmission system in March 2021 to establish a joint venture – Électricité du Lao Transmission Company Limited (EDL-T) – to operate the country's power grid. The deal is expected to be completed in early 2022; (ii) EDL/MEM prepared the EDL financial recovery plan and initiated actions to address financial distress and improve the EDL's cash, including: electricity tariff adjustment, PPA revision<sup>12</sup> and debt renegotiation; (iii) signed the joint venture agreement with private investors for two state-owned banks (LDB and APB); and (iv) A corporate governance and financial assessment of EDL and Lao Airlines is ongoing. The assessment will provide key recommendations and strategic options for GOL and EDL and Lao Airlines to improve its financial viability and management efficiency.

## Monetary and Financial Sector

- **Improved legal and regulatory framework.** The Law on Commercial Banks (amended in 2019) authorized BOL to supervise commercial banks including applying early intervention measures, resolutions banks in crisis, termination of banks and other rights and responsibilities under the law. Some regulations under the law have been issued recently, such as decisions on loan classification and provisioning, decision on bank products and services, decision on dormant accounts, decision on credit large exposures. Other regulations (to be issued in 2022) include: decision on Early Interventions, Bank Resolution, Prudential Measures for Banks, and Liquidity Measurement. In addition, some laws are being amended, such as law on foreign currency management, and law on payment. Key regulations under drafting stage include: Corporate Governance, Sale of Foreclosed Collateral, and Consolidated Supervision. Overall, many regulations on banking supervision have been in place but would need to be revised to align them with the laws and international best practices that suit Lao context.
- **Some progress on strengthening banking supervision, especially in the areas of risk-based supervision, early warning system, shift to BASEL II standards and IFRS.** The RBS Manual has been formally approved and is being applied for analyses and examinations. Institutional Profiles (IP) and Risk Assessment Summary (RAS) documents have been prepared for all banks and foreign bank branches (FBBs). Onsite examinations have significantly improved (IMF RBS 2020) and the early warning system is under development. Meanwhile, transition to Basel II and adoption of IFRS (international financial reporting standards) has been delayed due to the pandemic. An action plan covering both IFRS and BASEL II adoption for 2020-2025 had been drafted. Transition to IFRS will

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<sup>12</sup> PPA – Power Purchase Agreement.

follow a phased approach; banks that are ready can adopt applicable standards, while other banks will need to adopt the standards by 2028.

### Key lessons learned

- **Despite numerous reform actions taken in recent years, the overall reform progress and outcome remain limited.** This was observed in some key reform areas, such as (i) revenue mobilization (tax to GDP ratio declined continuously in recent years); (ii) SOEs reforms (especially in energy and banking sectors); (iii) business regulatory reforms (implementation of PM Decree no. 2 on doing business reforms; and operationalization of one-stop service);
- **Reforms take a long time to implement and expectations need to be managed.** For example, PFM reforms are complex in nature and politically sensitive.
- **Decision making and implementation is slow in many agencies possibly** due to low capacities, lengthy and complicated administrative procedures and bureaucracy, weak intra-departmental, intra-ministerial and inter-ministerial coordination, insufficient data sharing, slow adoption of modern communication means (e-mail and other technology), and insufficient empowerment of government employees.
- **Consideration should be given towards the sustainability of reforms.** A common theme that emerges from the implementation of PFM reform programs (IFMIS, GFIS, DMFAS and other automated systems) is that reform projects should be technically and financially sustainable. The technical sustainability arises from the generally weak technical skills capacity in the implementing agencies and the financial sustainability arises from future commitments for the government to pay license and maintenance costs (including internet) and build skills and IT capacity.
- **Government commitment, champions and consistent on-the-ground engagement with stakeholders, have emerged as one of the success factors.** These factors have contributed positively to increasing stakeholder participation and policy dialogue. They have also helped forge intragovernmental coalitions and partnerships that have made and continue to make transmitting information and messages up and down internal hierarchies and outside with the donor community feasible.
- **Donor engagement has played an important role as reform driver.** Besides the benefits of donor-provided funding and technical assistance, long-term engagements between the Government of Lao PDR and the donor community are facilitating the country's transition process towards international good practice. The support through international experts and access to regional and international practitioner networks and experience are paving the way to a gradual adaptation of international good practice.
- **There is also a need to better prioritize and sequence critical regulations,** focus on key secondary regulations and invest resources in implementation, rather than undertake a comprehensive reform program which overwhelms limited capacity.

### Synergies and trade-offs between the workstreams

The macro-fiscal issues are closely linked with other four themes in the context of funding and defining the scope and its development priorities. With current macro-fiscal challenges and limited fiscal space, it is critical for the GOL to clearly define and prioritize the development priorities of the 9<sup>th</sup> NSEDP and align them

very closely with the available (limited) budget. All five workstreams directly contribute and support implementation of the 9<sup>th</sup> NSEDP and the COVID-19 recovery framework.

## Stakeholder mapping, mitigation measures and policy recommendations

### Key mitigation measures and policy recommendations

**To restore macroeconomic stability the immediate priority would include:** (i) manage debt in a more sustainable and transparent manner; (ii) strengthen fiscal sustainability; and (iii) reduce financial sector vulnerabilities. In parallel, it would be important to ensure that the COVID pandemic is contained and that the vaccination campaign is on track to prepare for the gradual reopening of borders for travel. Following best practice, policy measures that are deployed should be monitored and assessed to determine their effectiveness and efficiency in achieving their objectives by using ex-ante and ex-post assessments as well as enhanced oversight and transparency mechanisms.

### Priority 1: Debt Management and Transparency

**Debt sustainability requires taking advantage of existing relief mechanisms and strengthening debt management and transparency.** Key measures include:

1. Limit non-concessional borrowing. Only borrow on market terms to service existing debt service obligations. Move towards longer-term concessional funding. Commercial borrowing adds pressure on GOL's debt service due to high interest rates and short maturity.
2. Restructure debt. Explore debt restructuring in the context of the Common Framework laid out by the G20, as well as with key bilateral creditors – to lower the risk of debt distress. GOL is currently negotiating with key bilateral lenders on a possible long term debt restructuring and the process should be undertaken in a more transparent manner in order to improve the country credit rating. A long-term debt restructuring will help GOL reduce its debt service burden.
3. Restructure and privatize loss-making SOEs (including SOCBs)<sup>13</sup>. Speed up SOEs reforms – including privatization – especially for large SOEs in the energy sector (EDL as well as Nam Ngum 3 hydropower project), transport (Lao Airlines), and other SOEs to raise revenue and protect further losses. The process should be transparent and competitive in order to avoid disadvantages for the state throughout the process.
4. Complete, approve and publish a debt management strategy. The strategy should underpin a rolling annual borrowing plan, comparing different sources of funding in the cost-risk space.
5. Increase debt transparency. Regularly publish an annual (possibly also quarterly) public debt bulletin—with a more comprehensive information on key debt indicators—to boost confidence in the economy and improve transparency and credit rating. MOF published a debt bulletin for first time in May 2021.

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<sup>13</sup> SOEs – state-owned enterprises; SOCBs – state-owned commercial banks.

6. Improve debt management recording and monitoring capacity. Produce complete datasets for reporting and forward-looking analysis and effectively use the upgraded recording system (DMFAS 6).
7. Strengthen coordination among BOL, MOF and MPI on: (i) analysis and processing of debt issuance, loan agreements, guarantees, on-lending; and (ii) sharing of information on future debt cash flows.
8. Identify and monitor fiscal risks. Producing a fiscal risk statement would be beneficial to identify and monitor contingent liabilities and to incorporate the risks into the debt strategy.
9. Sustainable debt financing through the local currency (LCY) bond market. Strengthen the local currency (LCY) bond market for mobilizing domestic resources to support recovery from the economic impacts of the COVID-19 pandemic. This requires a healthy banking system, a well-articulated strategy integrated with measures for greater transparency and improved management of public finance, particularly in the area of debt and cash management and establishment of a single treasury account.

**Medium-term reforms on the debt front include:** (i) develop a clear legal framework for on-lending, public guarantee and contingent liabilities; (ii) carefully assess project viability before granting on-lending and guarantees to SOE investment projects and/or projects under PPP, where public liabilities or contingent liabilities exist; and (iii) deepen domestic capital markets.

## Priority 2: Fiscal Sustainability

**Fiscal sustainability requires mobilizing revenues and improving the quality of spending.** Key immediate measures include:

1. Strengthen monitoring and management of large taxpayers including capacity building. Centralize the administration of all largest taxpayers to ensure compliance and efficiency. Build capacity to manage large taxpayers using the “group” approach, and not by individual legal entities.
2. Expand coverage of taxpayers in the TaxRIS electronic payments system. Accelerate the rollout of TaxRIS across the country to district level in near future.
3. Enhance strategic and targeted audit and enforcement. Clamp down on tax evasion and forged tax declaration report and enforce VAT, CIT and PIT through the implementation of a comprehensive risk management plan and risk-based audits.
4. Conduct a tax expenditure study to assess forgone revenues and provide inputs needed for streamlining tax incentives to reduce revenue losses, especially for large concession projects.
5. Temporarily suspend new public infrastructure projects MOUs paid through non-concessional external borrowing, to reduce fiscal and debt burdens. Promote private investment which could help revive economic activities and compliment the public investment programs.
6. Reprioritize spending and mobilize additional resources to support well-targeted social assistance, including to COVID-19 affected households and businesses.

7. The approved reduction in the VAT rate from 10 per cent to 7 per cent will hamper revenue mobilization, unless it is accompanied by offsetting measures.

**Medium-term measures are needed to streamline tax policy and strengthen budget planning.**

These include: (i) streamline and limit fiscal incentives and concessions for large investment projects, based on greater coordination among MPI, MOF and BOL; (ii) develop capacity to forecast revenues; (iii) effectively enforce the procurement law and strengthen the selection and evaluation of public investment projects; and (iv) strictly align the expenditure plan to the resource envelope.

### Priority 3: Financial Sector Stability

**Financial sector stability requires stemming the deterioration in foreign exchange liquidity and reserves, banks' balance sheets and putting in place key legal and regulatory tools to manage fallout from the crisis.** Key measures include:

1. Increase FOREX liquidity and reserve buffers by expanding exports, reduce offshore accounts of key infrastructure and mining projects and bring their export receipts into Lao banking system and reduce foreign currency outflows by promoting domestic production (for import substitution) and improving quality of services.
2. Introduce liquidity management and forecast by estimating and projecting liquidity need in particular foreign exchange (FX). This could help reduce foreign currency pressure in the market and exchange rate spreads. BOL is developing new indicators to better capture short-term FX liquidity and improve FX management.
3. Intensify monitoring of commercial bank performance, better monitoring of NPLs (based on sound and internationally accepted accounting standards) and banks' liquidity, providing timely guidance to banks on loan restructuring, while developing flexible capital restoration plans for problem banks.
4. Unwind forbearance policies in a prudent manner and based on enhanced banking supervision and coordination between BOL, MOF, MPI and industry players.
5. Finalize secondary regulations for the commercial banking law. Completion and implementation of early intervention and resolution regulations is critical to effectively address problem banks.
6. **Financial sector stability and further financial sector deepening** in the medium-term can be consolidated through: (i) adopting more risk-based supervision, transit much more to the Basel II capital framework, (ii) implementing secondary regulations for the commercial banking law, (iii) establishing an early warning system for banking supervision, (iv) strengthening operational and financial capacity in the deposit insurance scheme, and (v) developing a crisis management framework.

Table 1. Summary of key policy priorities and actions, implementation timelines and stakeholders mapping

Action/Recommendation	Period	GOL/ Ministry	Implem. Entity	Target Group	Alignment: SDGs, NSED P-9, GNA 1/ 2
<b>Priority I. Debt Management and Transparency</b>					
<b>Immediate measures</b>					
Limit/stop non-concessional borrowing (shift toward long term concessional borrowings)	From 2020 onward	MOF/GOL	EFCD	GOL/agencies	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Complete long term debt restructuring with major bilateral lenders	2022	MOF/GOL	EFCD	GOL/agencies	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Accelerate restructuring and privatization of SOEs (including SOCBs) to raise revenue and protect further losses	2021-2022	MOF/BOL/GOL/PMO	MOF/BOL/SOEs/respective agencies	SOEs/SOCBs	SDG 17, NSED P Outcome 1 Output 5, NA (MOF)
Complete, approve and publish a debt management strategy including debt service and borrowing plans	2021-2022	MOF	EFCD	GOL	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Increase debt transparency	From 2021 onward	MOF	EFCD	Public	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Improve debt management recording and monitoring capacity	2021-2022	MOF	EFCD	Debt unit	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Strengthen coordination among BOL, MOF and MPI on debt issuance and information sharing	2022-2025	MOF, BOL, MPI	EFCD, ...	SOEs, PIP projects	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Identify and monitor fiscal risks	2022-2025	MOF/MPI	MOF: EFCD, SOE Dept, MPI: DOP	SOEs, PIP projects	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)

Action/Recommendation	Period	GOL/ Ministry	Implem. Entity	Target Group	Alignment: SDGs, NSED P-9, GNA 1/
Sustainable debt financing through the local currency (LCY) bond market	2022-2025	MOF/BO L			SDG 17, NSED P Outcome 1 Output 2
<b>Medium term</b>					
Develop a clear legal framework for on-lending, public guarantee and contingent liabilities	2021-2022 ?	MOF	FPLD/EF CD	SOEs, PIP projects	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Carefully assess project viability before granting on-lending and guarantees to SOE investment projects	2022-2025	MOF/M PI/ GOL		SOEs, PIP projects	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Deepen domestic capital markets	2022-2025	MOF/BO L	FPLD/EF CDBOL	Local bond markets	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
<b>Priority II. Fiscal Sustainability (Revenue Mobilization)</b>					
<b>Immediate measures</b>					
Improve monitoring and management of large taxpayers	2022-2023	MOF	Tax Dept	Large taxpayer s	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Expand coverage of taxpayers in the TaxRIS electronic payments system. Accelerate the rollout of TaxRIS across the country by end-2021	2021-2022	MOF	Tax Dept	Taxpaye rs	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Enhance strategic and targeted audit and enforcement	2022-2025	MOF	TD	Taxpaye rs	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Conduct a tax expenditure study	2022	MOF/W B	FPLD	MOF	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)

Action/Recommendation	Period	GOL/ Ministry	Implem. Entity	Target Group	Alignment: SDGs, NSED P-9, GNA 1/
Temporarily suspend new public infrastructure projects MOUs paid through non-concessional external borrowing	2021-2025	MOF/M PI/GOL	EFCD/D OP	PIPs	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Reprioritizing spending and mobilize additional resources to support well-targeted social assistance	2022 onward	MOF/M PI	BD/FPLD , DOP/MPI	Social assistance	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
<b>Medium term</b>					
Streamline and limit fiscal incentives and concessions for large investment projects	2022-2025	MOF/M PI/GOL	FPLD/DOP/ PMO	CA projects	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Develop capacity to forecast revenues effectively	2022-2023	MOF	FPLD/BD	MOF	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Effectively enforce the procurement law and strengthen the selection and evaluation of public investment projects	2022-2025	MOF	MOF Adm Office	PIP projects	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
Strictly align the expenditure plan to the resource envelope	2022 onward	MOF/M PI	FPLD/BD , DOP/MPI	Budgeting and planning	SDG 17, NSED P Outcome 1 Output 2, GNA (MOF)
<b>Priority III. Financial Sector Stability</b>					
<b>Immediate measures</b>					
Increase FOREX liquidity and reserve buffers	2022-2025	MOIC, MPI, BOL MOF, and all relevant ministries	MOIC, MPI, BOL MOF, all relevant ministries	Private sector, key exporters	SDG 17, NSED P Outcome 1 Output 2, GNA (BOL)
Introduce liquidity management and forecast	2022-2025	BOL	MPD/BS D	Banks, PS	SDG 17, NSED P Outcome 1 Output 2, GNA (BOL)

Action/Recommendation	Period	GOL/ Ministry	Implem. Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
Intensify monitoring of commercial bank performance	2022-2025	BOL	BSD	Comm. banks (CBs)	SDG 17, NSEDP Outcome 1 Output 2, GNA (BOL)
Unwind forbearance policies in a prudent manner	2022 onward	BOL	BSD	CBs	SDG 17, NSEDP Outcome 1 Output 2, GNA (BOL)
Finalize secondary regulations for the commercial banking law	2022	BOL	BSD, BOL Working Committee Team	BOL, CBs	SDG 17, NSEDP Outcome 1 Output 2, GNA (BOL)
<b>Medium term</b>					
Adopting risk-based supervision, transit to the Basel II capital framework.	2022-2025	BOL	BSD	BOL, CBs	SDG 17, NSEDP Outcome 1 Output 2, GNA (BOL)
Establish an early warning system for banking supervision and develop a crisis management framework.	2022-2025	BOL	BSD	BOL, CBs	SDG 17, NSEDP Outcome 1 Output 2, GNA (BOL)
Strengthening operational and financial capacity in the deposit insurance scheme	2022-2025	BOL	DPO	DPO, CBs	SDG 17, NSEDP Outcome 1 Output 2, GNA (BOL)
Developing a crisis management framework	2022-2025	BOL	BSD	BOL, CBs	SDG 17, NSEDP Outcome 1 Output 2, GNA (BOL)

Note: Alignment with: SDGs (Goal – G), NSEDP-9: Outcomes (Oc) and Output (Op), GOL national agenda (GNA) 2021-2023.



## Theme 2: Trade and Private Sector, Value Chains, and Tourism

### Background Paper of the Multi-Stakeholder Taskforce to Study the Impact of COVID-19

Led by:



Supported by:



With additional contributions from FAO

#### Relevance of the workstream

A COVID-19 recovery framework for trade and private sector, value chains, and tourism can strengthen the development trajectory of Lao PDR. Addressing challenges in these areas has the potential to improve Lao PDR's macro-economic situation and leave more financial means for development efforts in other fields. A fast recovery of trade, value chains and tourism can directly contribute towards the first outcome on *Continuous quality, stable and sustainable economic growth* of the 9<sup>th</sup> National Socio-Economic Development Plan (NSEDP) and several of the SDGs including 5 on *gender equality*, 8 on *decent work and economic growth*, 9 *industry, innovation and infrastructure* and 17 on *partnerships*. It further supports the other five objectives of the 9<sup>th</sup> NSEDP and the 18 SDGs in Lao PDR by generating necessary financial resources.

It is important to acknowledge the underlying uncertainty about length and depth of the negative economic consequences, triggered by the global COVID-19 pandemic. Despite data from 2020, the outlook depends on assumptions about containment measures and the rate and effectiveness of vaccines as well as the (non-)emergence of new variants of COVID-19. These factors, and the adequate national responses, will heavily influence the economic implications of COVID-19 in Lao PDR and abroad.

The recovery of trade, including digital trade and e-commerce, private sector, value chains and tourism, will also be defined by policies imposed by other countries than Lao PDR<sup>14</sup>. This adds to the complexity and only emphasizes the need for more global cooperation and reinvigorating inclusive, networked, and effective

<sup>14</sup> [Global Trade Alert](#)

multilateralism as stated by António Guterres, the UN's Secretary-General and other world leaders advocating for leveraging multilateral finance and trade solutions, particularly for the poorest countries<sup>15,16</sup>.

### Key impact and risks of COVID-19 on the workstream

According to the business pulse survey conducted by the World Bank in April- May 2021, 72 per cent of the businesses have had to shut down temporarily since March 2020. Three main reasons for closing operations were mandated shutdown, falling demands, and health concerns. MSMEs have suffered disproportionately larger impacts on sales. Further, they are significantly less likely to be aware of, or have access to, government support, making it more difficult to recover and causing investment to reduce in 2020 and majority of firms expect investment to further decline in the next six months.

Lao PDR has undergone a structural transformation during the last decade from agriculture-based to a more diversified and industrialised economy—largely driven by the growth in hydropower and mining sectors. The share of agriculture to GDP decreased from 20 per cent in 2012 to 15.5 per cent in 2019 while the share of industry increased from 35.6 per cent to 40 per cent over the same period (ADB, 2021). Despite such a shift, agriculture remains the largest source of employment (62 per cent of total employment in 2020) and is expected to be a buffer to mitigate the impact of COVID-19, absorbing workers laid off in other sectors, including the returned migrants<sup>17</sup>. Trade and Global Value Chains

The impact of the pandemic on Lao PDR's trade and exports was less severe compared to other LDCs, as its export structure is comparably diversified<sup>18</sup>. Lao PDR's trade with its three major trading partners, China, Thailand and Viet Nam remained robust in January-May 2021. Overall, exports to these three countries increased by 39.5 per cent in January-May 2021 compared to the same period last year<sup>19</sup>.

The country's real GDP growth is estimated to increase to 3.6 per cent in 2021 compared to 0.5 per cent last year<sup>20</sup>. Employment disruptions were widespread such as in the services sector where more than half of workers in wholesale and retail trade and other services had to stop working or switch jobs during the lockdown. Some households have lost their main source of livelihoods as remittances fell due to a return of migrant workers<sup>21</sup>.

The global merchandise trade volume is expected to increase by 8.0 per cent in 2021 after falling 5.3 per cent in 2020 due to the pandemic<sup>22</sup>. This positive outlook is, however, clouded by short-term risks such as containment measures, insufficient production and distribution of vaccines or emerging vaccine-resistant strains of COVID-19<sup>23</sup>. In the medium and long term, public debt and deficits could weigh on economic growth and trade, particularly in developing countries with high debt rates such as Lao PDR.

The European Parliament passed a resolution on 10 March 2021 instructing the Commission to prepare and submit legislative proposals for EU-wide "mandatory supply chain due diligence and corporate accountability"<sup>24</sup>. The regulations could oblige companies to strengthen due diligence including the conduct

<sup>15</sup> [Our Common Agenda | United Nations](#)

<sup>16</sup> [TASK FORCE ON COVID-19 VACCINES, THERAPEUTICS, AND DIAGNOSTICS \(covid19taskforce.com\)](#)

<sup>17</sup> [Lao Economic Monitor \(World Bank August 2021\)](#)

<sup>18</sup> [CDP Comprehensive Study 2021-1.pdf \(un.org\)](#)

<sup>19</sup> [Lao-PDR-Economic-Monitor-August-2021.pdf \(worldbank.org\)](#)

<sup>20</sup> [Lao-PDR-Economic-Monitor-August-2021.pdf \(worldbank.org\)](#)

<sup>21</sup> [Monitoring the Impact of COVID-19 in Lao PDR \(worldbank.org\)](#)

<sup>22</sup> [WTO | 2021 Press Releases - World trade primed for strong but uneven recovery after COVID 19 pandemic shock - Press/876](#)

<sup>23</sup> [WTO | 2021 Press Releases - World trade primed for strong but uneven recovery after COVID 19 pandemic shock - Press/876](#)

<sup>24</sup> [Texts adopted - Corporate due diligence and corporate accountability - Wednesday, 10 March 2021 \(europa.eu\)](#)

of human rights and environmental impact assessments along the supply chain. The Commission's directive is expected to be realised in the last quarter of 2021 and could affect Lao exports to EU member states regardless of the COVID-19 situation.

### Investment and Business Environment

Global flows of foreign direct investment have been severely hit by the COVID-19 pandemic. In 2020, they fell by one third to \$1 trillion, well below the low point reached after the global financial crisis a decade ago. Greenfield investments in industry and new infrastructure investment projects in developing countries were hit especially hard<sup>25</sup>.

Being attractive for domestic and international investment and enabling the business environment is becoming even more important considering the country's critical economic situation accelerated by COVID-19. FDI flows in Lao PDR declined by 7.9 per cent in the first quarter of 2021 compared to the previous year<sup>26</sup>. Overall, foreign reserve buffers remain low especially considering the large debt-service obligations faced by Lao PDR.

Rapid growth was accompanied by limited structural transformation even before COVID-19. Laos' complex and opaque business environment and remaining barriers to regional trade and integration limit the attractiveness of Lao PDR as an investment destination. ASEAN sets the maximization of the potential of the intra-ASEAN market and broader economic integration as one of its five priorities to accelerate recovery from the economic impacts of COVID-19 in the region<sup>27</sup>.

Lao PDR experienced the consequences of international supply chain disruptions due to limited import supply of raw materials, contraction in private consumption and a reduced external demand. The garment industry was most heavily impacted with a decreasing growth rate by 14.3 per cent; beverage industry by 12.7 per cent and furniture manufacture by 9.8 per cent. Women working in the garment and electronics industries have been disproportionately affected by the impacts of COVID-19.

The fourth Cycle of Mutual Evaluations by the Asia/Pacific Group on Money Laundering (APG) constitutes an important milestone for Lao PDR independently from COVID-19. The assessment evaluates Lao PDR's compliance with international standards on anti-money laundering, counter financing of terrorism and FATF recommendations. Challenges in meeting the criteria could lead to increased monitoring and reporting obligations and potentially lead to economic repercussions. The publication date of the report has not been confirmed yet due to the pandemic situation but is expected to take place in Q3 or Q4 in 2022.

The annual high-level Public-Private Dialogue chaired by Prime Minister—the Lao Business Forum (LBF)—provides a platform for private sector in Lao PDR, domestic and foreign investors, to propose the most pressing issues impeding business operation across sectors for the government to resolve. The objectives of the LBF are to: 1) facilitate public and private sector dialogue, including participation by the broadest range of private sector companies, from domestic SMEs to foreign investors; 2) ensure consistent enforcement and transparent interpretation of laws and regulations; 3) remove the bureaucratic impediments that businesses encounter in entry and exit processes and provide feedback on business-related policies, laws and regulations that impact the private sector ; and 4) provide feedback on draft government laws and

<sup>25</sup> [World Investment Report 2021: INVESTING IN SUSTAINABLE RECOVERY \(unctad.org\)](#)

<sup>26</sup> [Lao-PDR-Economic-Monitor-August-2021.pdf \(worldbank.org\)](#)

<sup>27</sup> [ASEAN-Comprehensive-Recovery-Framework\\_Pub\\_2020\\_1.pdf](#)

regulations that could potentially impact the business community and assist the Lao government in private sector-related policy development. The 2021 LBF called for the government to address the issues of starting business and investment incentives, trade facilitation, and foreign exchange regulations<sup>28</sup>.

### Transport Infrastructure and the Lao-China Railway

Transportation and infrastructure are important to drive the country's economic development. The transport sector along with tourism and related services are struggling to recover as the second COVID-19 wave (since mid-April 2021) has reversed the initial recovery in Q1 2021<sup>29</sup>. The construction and maintenance of rural roads (especially Farm-To-Market Roads) remain an area of concern in different parts of the country as better linkages between markets and the rural population are crucial.

The Lao-China railway, as the most prominent infrastructure project, is set to operate by December 2021. Experts suggest that with the right reforms undertaken by the Government, the railway connecting Lao PDR to the vast Belt and Road Initiative (BRI) network could potentially increase aggregate income in Lao PDR by up to 21 per cent over the long term<sup>30</sup>. Especially the tourist industry and agriculture sector expect to profit. To achieve this, the government will have to undertake bold policy reforms to facilitate trade, improve connectivity, and simplify doing business. These reforms will be necessary to make the country more attractive as a new investment destination and link it to major production and consumption areas in China and the ASEAN, allowing firms to access global value chains<sup>31</sup>.

### Tourism

Tourism was one of the fastest growing sectors in Asia, including in Lao PDR, before COVID-19 hit, with various factors driving strong growth. Tourism was a major contributor to Lao economy before 2020, generating over 900\$ million in foreign exchange revenue in 2019—only lower than the mining and electricity export revenues. The pandemic brought this development to a sudden halt. On average, businesses in the accommodation sector (hotels) have suffered the largest loss in sales. Sales during the outbreak (March-April 2020) dropped by 40 per cent relative to the previous year and sales in March-April 2021 were 66 per cent lower compared to 2019<sup>32</sup>.

Going forward, the development of the tourism sector will depend on the restrictions imposed by Lao PDR for arriving tourists, the willingness to travel and the pandemic situation in neighbouring countries and advanced economies. As long as pandemic conditions keep changing in destination and transit countries, and regulations regarding the re-entry at home remain unpredictable, overall demand for long-haul tourism is expected to remain limited.

The current tourism crisis provides an opportunity to transform the relationship of tourism with nature, climate and the economy. Sustainable tourism, investments in the green economy and ensuring a fair distribution of tourism's benefits by making a concerted effort to create decent jobs for all, especially youth, women and the most vulnerable groups.

To address the challenges and prepare for recovery, the Government has prepared tourism recovery roadmap 2021-2025 which considers three recovery options: support to domestic tourism, possibility of

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<sup>28</sup> Lao Business Forum, LNCCI (<https://lncci.la/lbf/lbf-13th-2020/>)

<sup>29</sup> [Lao-PDR-Economic-Monitor-August-2021.pdf \(worldbank.org\)](https://www.worldbank.org/publications/monitor/2021/08/lao-pdr-economic-monitor-august-2021.pdf)

<sup>30</sup> [Transforming Lao PDR from a Land-locked to a Land-linked Economy \(worldbank.org\)](https://www.worldbank.org/publications/monitor/2021/08/lao-pdr-economic-monitor-august-2021.pdf)

<sup>31</sup> [Transforming Lao PDR from a Land-locked to a Land-linked Economy \(worldbank.org\)](https://www.worldbank.org/publications/monitor/2021/08/lao-pdr-economic-monitor-august-2021.pdf)

<sup>32</sup> [Lao-PDR-Economic-Monitor-August-2021.pdf \(worldbank.org\)](https://www.worldbank.org/publications/monitor/2021/08/lao-pdr-economic-monitor-august-2021.pdf)

travel bubble, and greening of the tourism. The roadmap provides comprehensive policy options for government, development partners, and the private sector to work together for better and more inclusive recovery.

## Agriculture

The agriculture sector contributes 16.5 per cent of the GDP and was the second contributor to economic growth in 2020. Key drivers of agricultural production include livestock, fishing, as well as forestry and logging<sup>33</sup>. About 62 per cent of the Lao labour force is employed in the agriculture sector. Apart from rice, which makes up half of the country's agricultural output, Lao PDR's other main trade crops include bananas, rubber, maize, coffee, citrus fruits and livestock.

The agricultural sector has grown at a rate of around 3 per cent per year over the past two decades. Much of the growth has come from promotion of domestic investment through concessions and other incentives to produce industrial and export commodities like banana, cassava, rubber and tobacco. The Agriculture Development Strategy 2025 aims for the agriculture sector to transition from predominantly subsistence to predominantly commercial production, and on transforming the sector as a main driving engine of national growth and development. While advances have been made in the commercial orientation of some value chains, like that of maize, other value chains still lag<sup>34</sup>.

However, the agricultural sector and rural areas faced a number of COVID-19 related challenges such as a huge spike in unemployment due to returning migrants (approximately 200,000 in 2021), and many families falling under the poverty line.<sup>35</sup> In addition, COVID-19 led to an initial drop in demand for food in urban markets (30 per cent for meat and 40 per cent for vegetables) impacting smallholder farm producers. In addition, reduced household incomes as a consequence of the lockdowns have led to less food sales and increased malnutrition. Additionally, agricultural value chains (i.e., maize) which export a significant part of their production to neighbouring countries like China, Thailand and Viet Nam, may be particularly affected by travelling restrictions and other policy measures negatively affecting cross-border trade.

## Digital Transformation and E-commerce

Globally, the enforcement of social distancing, lockdowns, border closures, and other measures have resulted in spikes in business-to-consumers (B2C) sales and an increase in business-to-business (B2B) e-commerce<sup>36</sup>. The dramatic rise in e-commerce amid movement restrictions induced by COVID-19 increased online retail sales' share of total retail sales from 16 per cent in 2019 to 19 per cent in 2020<sup>37</sup>. Consequently, demand has increased for internet and mobile data services. These developments increasingly appear to result in permanent shifts in behaviour.

The COVID-19 pandemic has accelerated uptake of digital technologies and e-commerce has created trade opportunities. However, a survey conducted in 23 developing countries, including Lao PDR, shows how e-commerce businesses have had very mixed performances<sup>38</sup>. A minority has flourished, but most have struggled whilst online marketplaces and platforms have done much better in terms of sales, onboarding

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<sup>33</sup> [06-07-2021\\_1625541074.pdf \(bol.gov.la\)](#)

<sup>34</sup> Analyzing the maize value chain for export in Lao People's Democratic Republic (unctad.org)

<sup>35</sup> Ministry of Labour and Social Welfare data (2021).

<sup>36</sup> [https://www.wto.org/english/tratop\\_e/covid19\\_e/ecommerce\\_report\\_e.pdf](https://www.wto.org/english/tratop_e/covid19_e/ecommerce_report_e.pdf)

<sup>37</sup> <https://unctad.org/news/global-e-commerce-jumps-267-trillion-covid-19-boosts-online-sales>

<sup>38</sup> [Covid-19 and e-commerce impact on businesses and policy responses \(unctad.org\)](#)

new sellers, and attract more customers. Differences in digital readiness have been further accentuated by the implications of COVID-19, as they hamper the ability of large parts of the world to take advantage of technologies and e-commerce solutions that rely on them<sup>39</sup>.

Whilst interest has grown over recent few years, e-commerce is not widely exploited, due in large part to underdevelopment of the telecommunications infrastructure and the low availability of digital payments solutions<sup>40</sup>. Low literacy and limited understanding of technology represent major challenges to penetration of ICT services and adoption of digital financial services in rural areas. Further growth is constrained by the lack of a full set of e-commerce laws and regulations, a situation that keeps e-commerce in the realm of informal trade<sup>41</sup>. In an effort to regulate the growing e-commerce market, the Government issued an “E-commerce decree”<sup>42</sup> which entered into force in June 2021 and contains licensing provisions for e-commerce businesses.

More needs to be done to ensure proper application and enforcement of the new regulation and building an enabling environment for a thriving digital economy. This starts from streamlining policy coordination mechanisms, in a way that the cross-cutting nature of the e-commerce development agenda is properly recognized within an inclusive institutional framework. E-commerce remains to be defined, managed, and promoted by a national policy, strategy, and regulatory framework in line with the regional strategic framework set out in the “Accelerating Inclusive Digital Transformation” pillar - Broad Strategy 4 - of the ASEAN Comprehensive Recovery Framework<sup>43</sup>. Furthermore, considering the growing participation of Lao PDR in a number of initiatives at the regional and international level, which may increasingly result in binding commitments that need substantial capacity to be implemented, there is a clear interest in building institutional capacity to reap the benefits arising from Lao PDR’s participation into these processes. Considering the number of existing initiatives and assessments, Lao PDR would profit from a Digitalisation Masterplan, to streamline activities and ensure strategic guidance.

## LDC Graduation

Within the timeframe of the 9<sup>th</sup> NSEDP, Lao PDR’s likely graduation from LDC status in 2026 could have implications for trade preferences and trade flows<sup>44</sup>. A recent study on LDC graduation highlighted the need for support measures during the transition period that are tailored toward the country context<sup>45</sup>. For Lao PDR, in particular trade relations to the EU and UK could be negatively impacted. Research suggests that Lao PDR graduation could lead to an estimated trade loss of \$102 million, corresponding to 1.2 per cent of its projected exports<sup>46</sup>.

However, the extended 5-year preparatory period combined with a transition strategy can widely mitigate the negative implications of the change in status. The UN can provide specific support to graduating countries including in the form of training, workshops, studies and support for the development of smooth transition strategies.

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<sup>39</sup> [The COVID-19 Crisis: Accentuating the Need to Bridge Digital Divides \(unctad.org\)](#)

<sup>40</sup> [Lao People’s Democratic Republic: Rapid eTrade Readiness Assessment \(unctad.org\)](#)

<sup>41</sup> [E-commerce Connectivity in ASEAN \(eria.org\)](#)

<sup>42</sup> [Laos Adopts New E-Commerce Regulation | ZICO Law](#)

<sup>43</sup> [ACRF-Implementation-Plan\\_Pub-2020.pdf \(asean.org\)](#)

<sup>44</sup> [https://umbraco.exportpotential.intracen.org/media/1181/report\\_lao-ldc-graduation\\_final-2020-08-06.pdf](https://umbraco.exportpotential.intracen.org/media/1181/report_lao-ldc-graduation_final-2020-08-06.pdf)

<sup>45</sup> [trade\\_impacts\\_of\\_ldc\\_graduation.pdf \(wto.org\)](#)

<sup>46</sup> [report\\_lao-ldc-graduation\\_final-2020-08-06.pdf \(intracen.org\)](#)

## Women and COVID-19

Globally, women are at risk of suffering more than men from the trade disruption generated by the COVID-19 pandemic<sup>47</sup>. One of the reasons for this is that a larger share of women work in sectors and types of firms that have been particularly hard-hit by the pandemic. In the Lao context, these findings have for example been confirmed in the COVID-19 Business Impact survey conducted by the Lao National Chamber of Commerce and Industry (LNCCI), which found that women are more likely to suspend business operations than men. A recent assessment of the Lao tourism sector found that indeed a larger number of female employees (40 per cent) were laid off compared with male employees (34 per cent)<sup>48</sup>.

## Implemented measures and lessons learned

### Value Chains

Several initiatives were taken to address the disrupted value chains for a number of key products. This includes coffee and maize, as well as identifying the export potential for livestock. For maize this included a mapping of the value chain and discussion of the policy implications with private and public sector stakeholders, to be followed by a gathering of maize producers and traders later in the year.

As the pandemic progressed, and lockdowns became regular features in 2021 initially in the south, gradually spreading through the entire country, the government, under the leadership of MOIC and with technical guidance from MOH has issued criteria for the safe reopening of industries, sector by sector. Several businesses have reopened completely though COVID-19 cases have spread especially within enterprises offering dormitories to their staff.

### Tourism

The Ministry of Information, Culture and Tourism launched the Lao PDR Tourism Recovery Roadmap 2021 – 2025. The objective is to economically revive the sector while adhering to necessary health measures. The roadmap foresees a strengthening of domestic tourism to at least partially compensate the loss from the halt in international arrivals. Moreover, the roadmap outlines the opportunity to implement travel bubbles – i.e., opening borders for selected countries with low infection rates to allow limited arrivals of guests. As a medium to long-term goal, the strategy focuses in establishing green and sustainable tourism in Lao PDR. A joint collaboration between the public and private sector was initiated in September 2020 to boost domestic tourism under the “Lao Travel Lao Campaign” (Lao Thiao Lao) and ended in July 2020. The campaign brought together the Ministry of Education and Sports, the Ministry of Information, Culture and Tourism, the Lao National Chamber of Commerce and Industry (LNCCI), and leading tourism and hospitality businesses to support the promotion of domestic tourism.

### Agriculture

Several initiatives were conducted to support smallholders negatively affected by the pandemic, such as raising risk awareness about COVID-19 and strengthening local capacities to manage these risks in a multi-hazard approach. In addition, smallholder farmers were supported to restore agricultural production and transformation towards resilient food systems through strengthening value chains and market access.

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<sup>47</sup> [WTO | 2020 News items -WTO report draws attention to impact of COVID-19 trade disruptions on women](#)

<sup>48</sup> [The Impact of COVID-19 on Tourism Enterprises in the Lao People's Democratic Republic: An Initial Assessment \(ADB Brief 141\)](#)

## Digital Transformation and e-commerce

The issue of building capacity to deal with e-commerce related provisions negotiated in different trade fora is particularly relevant for Lao PDR. As a member of ASEAN, Lao PDR is a signatory of the Agreement on Electronic Commerce, which has yet to enter into force, and of the Regional Comprehensive Economic Partnership (RCEP) Agreement. The latter was signed on 15 November 2020 by 10 ASEAN member states, along with Australia, China, Japan, New Zealand and South Korea, and it contains a specific e-commerce chapter.

At the multilateral level, the 12<sup>th</sup> WTO Ministerial Conference (MC12), will take place from 30 November to 3 December 2021. Expectations for the outcome of negotiations on the trade-related aspects of e-commerce are still controversial. The outcome will have implications for the governance of various dimensions of e-commerce and for the multilateral trading system as a whole. Even though with ASEAN and RCEP e-commerce agreements Lao PDR has already more experience negotiating e-commerce than other developing countries and LDCs, capacity building for trade negotiations remains relevant for Lao PDR because not only the negotiating agenda may change, but also the nature of commitments will vary from one agreement to another. Therefore, despite what experience Lao negotiators may have already gained, they will continue to need support, especially in complex regulatory issues. For example, as highlighted by the Digital Economy Report 2021<sup>49</sup>, there are some issues on the negotiating agenda, such as the treatment of cross-border data flows, where all countries, not only developing countries, still lack of full understanding of the implications of various policy measures and of trade commitments.

## Synergies and trade-offs between the workstreams

Trade and private sector, value chains, and tourism bear important implications for the other four focus areas of the COVID-19 recovery background papers.

### With financing for sustainable development:

A sound trade balance and a prosperous private sector are strong asset for the generation of financing for sustainable development. The use of national financial sources decreases the dependence on international donors and leads to a more autonomous priority setting.

### With skills development and sustainable employment:

A flourishing private sector is a promising basis for the creation and improvement of quality jobs in the country.

### With human capital:

A strong private sector and trade will only be possible with a qualified and healthy workforce. Investments in human capital, both in education of children and adolescents, but also life-long learning support will be required to reap the benefits of the demographic transition. Human capital is a precondition as well as a target for enhanced trade and value chains. The economy relies on well-educated, healthy and empowered people while the very purpose of economic achievements is the population's well-being.

### With Green Growth, Resilience and Risk Management:

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<sup>49</sup> Digital Economy Report 2021 | UNCTAD

While enhancing trade and value chains in Lao PDR, it is important to consider potential negative effects for the environment. Policies aimed at reducing CO2 emissions can increase a country's participation in global value chains, but the environmental effects of trade will depend on complementary policies and regulations<sup>50</sup>. A green growth strategy can help avoiding or mitigating possible adverse impacts of economic growth and simultaneously create new investment opportunities.

Green growth interacts with this workstream in three important ways: (i) improvement of the business environment for the private sector can increase the financing available for investment in green growth; (ii) greater regional integration can pose challenges for climate mitigation due to potential increase in GHG emissions, and risks for resilience through potential unsustainable use of natural capital; (iii) simultaneously regional integration and infrastructure projects bring opportunities contributing towards a greener economy (iv) environmentally responsible tourism would offer opportunities for investment in green infrastructure and green jobs.

### Stakeholder mapping, mitigation measures and policy recommendations

Action / Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
<b>Investment and Business Environment</b>					
Continue efforts to simplify the business environment by making it more predictable, reviewing justifications and need for all regulatory requirements, and streamline those that serve a clear policy objective. This includes simplification of operating licences, certificates and permits (as supported under the Lao Competitiveness and Trade Project), extending their validity, and improving other elements of the business environment.	Short to Medium Term	Government of Lao PDR Ministry of Industry and Commerce (MoIC)	Various	SMME	SDG 8 / NSEDP Outcome 1 Output 4
Fully implement the category B commitments under the WTO's Trade Facilitation Agreement, which Lao PDR already communicated to the Secretariat <sup>51</sup> .	Short to Medium Term	Government of Lao PDR	Government of Lao PDR	Government of Lao PDR	SDG 8 / NSEDP Outcome 5
Fast track investment in the education sector in order to meet the requirements for the job markets of the future, including by increasing transparency and predictability for potential foreign investments in the sector – while improving regulatory capacity in government.	Short to Medium Term	Ministry of Education and Sports (MoES)	Ministry of Education and Sports (MoES)	Education sector	SDG 4 / NSEDP Outcome 2

<sup>50</sup> Trade and Climate Change Nexus ([worldbank.org](http://worldbank.org))

<sup>51</sup> Lao People's Democratic Republic | TFAD - Trade Facilitation Agreement Database ([tfadatabase.org](http://tfadatabase.org))

Action / Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
Ensure compliance with international standards on anti-money laundering, counter financing of terrorism and FATF recommendations with regard to the upcoming fourth cycle of mutual evaluations by the Asia/Pacific Group on Money Laundering (APG). Non-compliance could lead to serious economic repercussions.	Short to Medium Term	Ministry of Finance (MoF)	Ministry of Finance (MoF)	Finance sector	SDG 8,16 / NSEDP Outcome 1, 6
Follow up on the EU Commission's legislative proposals for EU-wide "mandatory supply chain due diligence and corporate accountability". The legislation will bring new standards, which are likely to impact exports from Lao PDR to the EU.	Short to Medium Term	Ministry of Finance (MoF), Government of Lao PDR	Ministry of Finance (MoF), Government of Lao PDR	Trade sector	SDG 8, 13, 16 / NSEDP Outcome 1, 4, 6
Leverage the Public-Private dialogue under the Lao Business Forum as a platform to address the issues affecting the business operations	Short-medium-long term	MOIC	Chambers of commerce	Private sector	
<p>Foster regional integration by complying with the ASEAN Leader's Vision statement and the Hanoi Plan of Action and the ASEAN Comprehensive Recovery Framework as well as its implementation plan.</p> <p>In particular,</p> <p>Improve infrastructure connectivity including cargo handling equipment at rail-way stations and have sufficient road connectivity between stations and centres of production and consumption.</p> <p>Improve the regulatory framework and enforcement capacity, allowing private sector operators to provide efficient multi-modal transport services.</p> <p>Establish an efficient transit system and implementing further trade facilitation measures to reduce the costs of moving goods through (as well as into and out of) Lao PDR.</p> <p>Improve border controls for passengers to avoid lengthy delays that could undermine the attractiveness of the railway for tourists and business travellers.</p> <p>Continue to implement commitments as outlined in the ASEAN agreements on trade in goods, trade in services, investment, and movement of people.</p>	Medium to Long Term	Government of Lao PDR	Government of Lao PDR	Transport Sector, Border control, SMMEs	SDG 8 / NSEDP Outcome 1, 5

Action / Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
<p>Harmonise the current laws and regulations.</p> <p>Develop a single consolidated negative list of restrictions on foreign investments.</p> <p>Improve and streamline the screening and approval process for investments.</p> <p>Strengthen and simplify the institutional framework for investment with better intra-governmental coordination.</p> <p>Strengthen the investment protection framework for investors.</p> <p>Review gaps in implementing regional trade agreements and address them to make Lao PDR more attractive to investment from other ASEAN (and neighbour) countries.</p> <p>Review regulations of key services sectors to ensure adequate competition in such service sectors as key input for other economic sectors (telecom, transport, logistics, business services).</p> <p>Increasingly move towards the electronic delivery of government services to support the development of the digital economy.</p> <p>Maximizing potentials for SEZs and industrial parks in light of Lao-China railway.</p>	Long Term	Ministry of Planning and Investment (MPI), Ministry of Finance (MoF), Ministry of Industry and Commerce (MoIC), Government of Lao PDR	Ministry of Finance (MoF), Ministry of Industry and Commerce (MoIC), Government of Lao PDR	Private sector, investors	SDG 8 / NSEDP Outcome 1, 2
<b>Tourism</b>					
<p>Economic Relief to revive the tourism sector:</p> <ul style="list-style-type: none"> <li>- Intensify structured engagement between Government and private sector;</li> <li>- deploy tourism support package and provide businesses with liquidity</li> </ul> <p>Build confidence in travel and strengthen the sector;</p> <ul style="list-style-type: none"> <li>- Implement health protocols and communication strategy;</li> <li>- invest in market intelligence, training and digital tools and platforms;</li> <li>- strengthen brand and boost marketing to reignite travel</li> </ul> <p>c) Maximizing potentials for tourism sector in light of Lao-China railway</p>	Short to Medium Term	GoL, Ministry of Information, Culture and Tourism (MICT)	Ministry of Information, Culture and Tourism (MICT)	Tourist sector	SDG 8 / NSEDP Outcome 1

Action / Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
<b>Agriculture</b>					
Ensuring relief and stimulus packages reach the poor through support to small-holder farm production and productivity.	Short Term	GoL, Ministry for Agriculture and Forestry	GoL, Ministry for Agriculture and Forestry	Vulnerable groups and small-holder farmers	SDG 8, 10 / NSEDP Outcome 1, 3
Support for smallholders in context of COVID-19 focusing on: Raising COVID-19 risk awareness and strengthening local capacities to manage the related risks in a multi-hazard approach; Supporting the most vulnerable and COVID-19 affected smallholder farmers to restore agriculture production and livelihoods; Facilitating transformation towards resilient food systems through strengthening inclusive smallholder value chains and market access	Short to Medium Term	MAF	MAF, provincial authorities	Farming families, returnees, small-scale farmers, women	SDG 1,2,3 / NSEDP Outcome 4, Output 3
Laying the foundation for more inclusive, green and resilient recovery through supportive macro-economic and trade policies and support to research and extension services and development of inclusive agricultural development opportunities opened up by regional integration.	Medium to Long Term	GoL, Ministry for Agriculture and Forestry	GoL, Ministry for Agriculture and Forestry	Agricultural sector	SDG 8, 13, 15 / NSEDP Outcome 1, 4
<b>Digital Transformation</b>					
Conduct a Digital Maturity Assessment as a basis for the Digitalization Masterplan	Medium Term	Ministry of Technology and Communication, line ministries	Ministry of Technology and Communication	Line Ministries and Provincial branches	

Action / Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
Establish of a sound e-commerce policy framework, through the elaboration of a national e-commerce strategy and a market-led action plan focusing on the potential of e-commerce in different economic subsectors. This should be based on a holistic approach and look at key interconnected policy areas, such as ICT infrastructure and services, trade facilitation and logistics, payment solutions, the legal and regulatory framework, skills development and access to financing. This has been further stressed as preconditions to leverage e-commerce in the context of LDCs graduation efforts.	Short to Medium Term	Ministry of Planning and Investment (MPI), Ministry of Industry and Commerce (MoC) Government of Lao PDR	Ministry of Planning and Investment (MPI), Government of Lao PDR	Various sectors	SDG 8 / NSEDP Outcome 1, 2
Leveraging the lessons learned from prior experiences in negotiating trade agreements and reviewing challenges in implementing these agreements, build e-commerce related public sector capacities to deal with the complexity of issues that are discussed and negotiated at the regional and multi-lateral level, such as the ASEAN Work Programme on e-Commerce 2017-2025 (and signing of the ASEAN e-Commerce Agreement in November 2018) and the ongoing discussions within the WTO Work Programme on e-Commerce and Joint Statement Initiative.	Short to Medium Term	Ministry of Planning and Investment (MPI), Government of Lao PDR	Ministry of Planning and Investment (MPI), Government of Lao PDR	Public sector	SDG 8 / NSEDP Outcome 1, 2
<b>LDC Graduation</b>					
To mitigate the potential trade loss that could occur following LDC graduation and the phasing out of transition measures, three long term strategies for Lao exporters to mitigate the trade losses have been proposed and may be reflected respectively in the 9 <sup>th</sup> NSEDP:  a) Attaining the EU Generalized System of Preferences Plus (GSP+) rather than the standard GSP could reduce the trade loss by 70 per cent.  b) Targeted trade promotion to remove market frictions will help sectors that currently do not exhaust their export potential in certain markets.  c) Export diversification could help focus resources on alternative products and markets that offer room to increase exports and thereby compensate the graduation-induced losses.  d) Boost trade and investment outside the resource sector in order to support Lao PDR's economic recovery and drive long-term inclusive growth.	Medium to Long Term	Government of Lao PDR	Government of Lao PDR	Various	SDG 8 / NSEDP Outcome 1

Action / Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
<b>Women and COVID-19</b>					
<p>a) Provide special support systems to women who are particularly affected by COVID-19 due to job loss or other impacts.</p> <p>b) Empower women to take advantage of new business opportunities (e.g. e-commerce)</p> <p>c) Ensure that vaccines are available and accessible to the entire population. These actions must be combined with changes that will impact the employment situation of women in the present and the future.</p> <p>d) Create incentives for private sectors that are committed to increasing and improving the employability and employment of women.</p> <p>e) Close gender gaps in the development of digital skills and other key competencies to access the jobs of the future, in areas such as sustainable energy, digital economy, and green growth.</p>	Short to Medium Term	Government of Lao PDR	Government of Lao PDR	Women negatively affected by COVID-19	SDG 8, 10 / NSEDP Outcome 1, 3



## Theme 3: Manage changes and enhance policy preparedness for decent work

### Background Paper of the Multi-Stakeholder Taskforce to Study the Impact of COVID-19

Led by:



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#### Relevance the workstream

The COVID-19 crisis has affected the most disadvantaged and vulnerable disproportionately, particularly individuals in the informal economy and in insecure forms of work; those working in low-skilled jobs; migrants and those belonging to ethnic groups. Lao PDR, like other countries, is profoundly affected by the COVID-19 pandemic. In addition to the tragic loss of life and damage to people's health and communities, the pandemic has had devastating impacts on the world of work in the country. One year into the pandemic, the mix of overlapping crises with a rise in extreme poverty, social and health problems and food insecurity have driven humanitarian needs to new levels and further intensified ongoing humanitarian crises that, if left unaddressed, will have long-term impacts on fragility, risks of displacement and human suffering.

The economic and social disruption threatens the long-term livelihoods and wellbeing of Lao people inside and outside of the country. Many migrants have returned home without sufficient livelihood opportunities available, increases in unemployment, loss of income, and increased risk of exploitation, trafficking, and irregular migration of the most vulnerable. Limitations to international and national mobility and trade are deepening the socioeconomic impacts of the pandemic with job loss at alarming rates and increasing levels of inequalities and poverty, especially among migrants and affected communities. With many migrants working in the informal sectors in low- and middle-income-countries, they are the first to be left out. Reduced remittances negatively impact economies and livelihoods, affecting already vulnerable communities and exacerbating risks.

Lao PDR needs a concerted action by governments, employers' and workers' organizations, and the support from the international community and civil society organizations to advance a human-centred recovery that is inclusive, sustainable, and resilient to respond to differential effects of the COVID-19 pandemic and beyond for the achievement of social justice and decent work for all, including full, productive and freely chosen employment.

A focus on the most vulnerable amongst the migrant groups should be provided to ensure their wellbeing. These include access to health care and other essential services, social protection, safe migration pathways

for remigration, and comprehensive screening, identification, and services for victims of trafficking and those in exploitative conditions. Without these, Lao PDR will face challenges to gain and thus undermine progress towards achieving the goals of the United Nations 2030 Agenda for Sustainable Development Goals (SDGs) and the National Vision to move the country out of the list of Least Developed Countries (LDC).

### Key impact and risks of COVID-19 on the workstream

**Loss of jobs:** Prior to COVID-19 pandemic, the labour force participation rate in Lao PDR was already alarming. The 2017 National Labour Force Survey results highlighted that with the total working age population of 4.7 million (2.4 million females), the labour force participation rate was only 41 per cent (36.5 per cent female). A large proportion of Lao workers remained out of the labour force (2.8 million - female: 63.5 per cent) and undertook own-use production activities (2.5 million). Own-use production activities include subsistence food production, household chores and household care. The challenges were particularly identified among rural workers. Ninety-one per cent of workers who were outside the labour force in rural areas undertook own-use production work. Own-use production workers also tended to be young, with an average age of thirty-three.

The world of work in Lao PDR, like in all other countries in the world, has been **profoundly affected by COVID-19 pandemic**. Many people are forced to leave their jobs because of business closure, with a large number of businesses are disrupted by economic recession. A survey conducted by the UN Lao PDR among 350 SMEs (mainly in the retail sector) in six provinces in June 2020 found that 95 per cent of interviewed firms were adversely affected by the crisis, of which 71 per cent of the surveyed firms had to stop their operations. Also, in 2020, 44 per cent of surveyed enterprises had to take underemployment, temporary leave, and/or employee lay off measures due to slow down of orders. Job losses in key sectors were (i) wholesale and retail trade, repair of motor vehicles and motorcycles – 65,000; (ii) manufacturing – 46,000; (iii) construction – 24,900. Majority of those who lost their jobs were women. On top of these, approximately more than 200,000 migrants had to return in 2021 without sufficient livelihood opportunities available, increase in unemployment and loss of income. The unemployment rate was estimated to rise to more than 20 per cent in 2020. Thus, the risks of informality and working poverty is expected to rise considerably. Recovery in the labour market generally takes longer than recovery in the economy. The heightened risks of decent work deficits will likely persist.

In Lao PDR, which, as of yet belong to the group of LDC, approximately 18.3 per cent already live below the poverty line, and a large share of the population risk falling back or further into poverty and might experience greater challenges in regaining their livelihoods. Migration has been a strategy for many Lao households, particularly in rural areas for addressing household poverty, lack of jobs or underemployment for men and women.

**Loss of remittances:** As a landlocked nation sharing borders with five countries, Lao PDR is best known as an origin country in migration, and to lesser extent, a transit and destination country. Many Lao households are also dependent on remittances from migrants, estimated 9 per cent of households in Lao PDR receive remittances and it constitutes 60 per cent of their household income. In 2019, US\$285 million were received in remittances. In 2020, the estimate was at US\$271 million, representing 1.5 per cent of GDP and this did not include remittances sent through informal channels. However, most migrants sending remittances prior to COVID-19 had either stopped entirely or significantly reduced the amounts. In 2020, the World Bank estimated that remittances declined up to US\$125 million, or 0,7% of Lao GDP. As a result, many

households are now resulting to taking on debts to cover the gaps in lost income or are pushed closer towards poverty.

**Increased debt:** Increasingly Lao migrant workers are now getting into debt as a result of migration costs and recruitment fees; xenophobia; maltreatment; and to support their lives in countries of destination (after loss of income) as an alternative to returning. Debt is also undertaken to fund their return journey back to the country and through the initial months of return until they find employment. As a result, many migrants worker entered into debt with high interest rate. These people have limited financial literacy and plan, making them even more vulnerable.

**Increased vulnerability:** Women have suffered disproportionate job and income losses, while often also doing the majority of unpaid domestic care work, which underscores the need for a gender-responsive recovery. The crisis has also profoundly disrupted the education, training, and employment of young people . The crisis is causing a dramatic rise in socio-economic vulnerability, in turn raising the opportunity cost of education and fueling concerns that youth may drop out of education and training and that families might turn to child labour to make ends meet. This heightens the risks that the future labour force in Lao PDR will continue with high rates of unskilled or low skilled workers. Travel restrictions and border closing prevented many migrant workers from taking up employment in the destination country where they have contracts, and also for those who have paid high recruitment fees and costs. This can encourage undocumented migration and exposure to risks. The increased vulnerabilities of forced labour and human trafficking are heightened, specifically on the most vulnerable group.

**Compliance with labour standards:** Recovering towards a better labour market requires Lao PDR to prioritize amendment of the labour related laws, compliance with labour standards and supportive (decent) employment and wage policies. If this is not done, the gap between wages and productivity and inequalities in general will continue to increase along with growth in the Lao economy. Importantly, the challenges of poor job quality have been linked to the limited adoption and enforcement of national and international labour standards. Too many Lao workers are trapped in poor quality jobs. The 2017 National Labour Force Survey reveals that approximately 83 per cent of the total employment was in informal employment. This rate was higher among women and in the rural areas. Thus, the majority of Lao workers earn too little to escape from poverty. Securing decent employment is particularly difficult for young people and women. These labour market concerns are exacerbated by limited commitments to national and international labour standards and labour law and social protection. Labour standards can guide the management of short-term negative labour market effects. Importantly, labour standards have been increasingly included in the regional and international trade agreements.

### Implemented measures and lessons learned

**The 9<sup>th</sup> NSEDP** specifies an Outcome on sustainable, broad-based economic growth and underscores the importance of high-quality investment, and protecting and promoting micro, small and medium-sized enterprises (MSMEs). The MSME sector in Lao PDR constitutes the backbone for job creation, accounting for more than 80 per cent of employment, and contribute to gender equality and youth empowerment through business participation. Lao PDR needs to become better prepared to support the survival (and revivable) of viable MSMEs and to make them more robust.

The Lao MSME sector could play a vital role in driving an inclusive, sustainable and resilient recovery. When boosting the role of MSMEs, Lao PDR needs to strive toward full and productive employment and decent work for all. At a minimum, this will also require ensuring compliance with national labour laws to ensure that the benefits of growth and incomes generated in MSME sector will be reflected in workers wellbeing as well as contribute to the public exchequer. In addition, strengthening the tripartite cooperation and dialogue (between the government, workers' and employers' organizations) will help to improve the design and implementation of the labour market policies to complement economic and trade policies. This involves cooperating with the private sector and workers organizations on potential impacts on both businesses and workers.

**On migration governance** there remain gaps in the legislative framework governing labour migration from Lao PDR despite recent developments. During the pandemic, Lao PDR was not prepared for the sudden and massive return of Lao migrants and thus had very limited scope to reintegrate such large numbers. It does not have comprehensive migration governance policies and reintegration frameworks in place, including for skills development and recognition. In addition, migration has become much more precarious during COVID-19 and better labour protection is needed to prevent exploitation of migrant workers. The latest MoU between Thailand and Lao PDR was signed in 2016, broadening a previous agreement on labour migration to include cooperation on social security and skills development. The MoU is also attached by an implementation agreement signed in 2017. However, only a small number of Lao migrant workers migrate under the MoU because of the high fees, slow process, and administrative complexity involved. The legal changes that resulted from the adoption of Decree no. 245 on dispatching Lao workers abroad in May 2020 is a positive step, although several areas within the Decree would benefit from the development of subordinate legislation or policies that could guide a more rights-based implementation. With rapid regional and domestic infrastructure development, well-governed migration has become increasingly crucial in the country's development.

The Government has indicated commitment to ensure returnee Lao migrant workers are able to stay in-country and secure employment here. For example, through employment in Special Economic Zones (SEZs) and in development projects. However, progress made in creating job opportunities fell short of the target. In attempt to meliorate the situation, the recent 11th tenure of the Party's Central Committee adopted a resolution to systematically address issues concerning the inflation rate and debt, while creating more jobs with decent wages.

**Mobility flows:** The crisis has highlighted the dependence on international and national mobility, as well as the importance of migrant workers as an essential part of the workforce in many sectors such as health and agriculture. Through the surge of migrants returning from neighbouring countries, the importance of integrated border management and migration health is highlighted. It is therefore essential to ensure that restrictions to international migration are lifted in a coordinated manner and international mobility systems can be sustainably strengthened.

**Data collection:** Better data is key to policy success. There is a need for more and relevant and better quality employment data, to understand the transmission mechanisms of the COVID-19 crisis in labour markets, identifying who is being affected and who is not, the data of vulnerable people including migrant workers with disaggregation of working sectors, income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts. We need to assess the

actual problems and needs faced as well as understand other vulnerabilities they hold; categorizing the employment effects identified will be essential in ensuring that evidence-based policy responses really help.

**Social protection:** Lao PDR is implementing the National Social Protection Strategy (including social security, health insurance and social welfare) to expand social protection coverage nationwide. Social protection can significantly help to stabilize the wider economy and instill social stability through swift and strong social and economic policies. It is increasingly recognized as a critical strategy for poverty reduction and inclusive growth. The existing social protection system leaves a large part of the population unprotected. Recent years have seen important developments in the country. Coverage of the National Health Insurance scheme has expanded significantly. However, when the income protection component of social protection is considered, a large number of people, especially workers in informal employment and households dependent on agriculture, are not protected. They have low incomes, poor income security and working conditions, and little to no social protection in case they lose their income or fall sick.

The loss of livelihoods due to COVID-19 can push households into poverty and subject children and adolescents, especially from poor families and ethnic backgrounds, to multiple deprivations that can have long-term consequences for productivity and human capacity development. Women are also disproportionately represented among the poor and the vulnerable. They tend to be confined to more casual, insecure, and hazardous forms of work and self-employment, particularly in the informal economy, with no or limited access to social protection. With schools temporarily closed, many women have had to tend to fulltime childcare, further limiting their income generation ability. Unemployment insurance has been among the instruments used by the Government to support those who have lost their jobs. However, its coverage is limited to those working in the formal sector and unfortunately many of those working in sectors affected but not covered by Lao Social Security Organization do not have any form of protection.

Social protection can mitigate the social and economic impact on Lao people and support the economic recovery process. Considering that the social and economic impact of the crisis is expected to continue for some time, Lao PDR should prioritize public investment into implementation of the Strategy.

### **Synergies and trade-offs between the workstreams**

The actions and policies in this workstream will benefit from investments made on human capital including health and education and can have beneficial effects on trade, value chains and tourism. Stronger synergy with human capital development is sought to respond to the changing situation, the demographic reality and the demands of emerging industries and the future shape of the workforce post-COVID-19. This policy will also need to be reinforced by labour standards, supportive (decent) employment and wage policy to ensure that investments in development of human capital will benefit society and investment. In turn, such an integrated approach will in addition to improving the prospects for individuals, also contribute positively to the national economy

Coordinate decent work objectives and capacity-building assistance more closely with the trade and investment policies will widen the benefits of trade and investment and promote decent work, environmental sustainability, and sustainable enterprises in supply chains, taking into account the strong, complex and crucial links between social, trade, financial, economic and environmental policies. Policies that facilitate trade and private sector development needs to place an emphasis on gradual diversification across sectors and occupations that complement each other.

There is also great potential in developing approaches and design strategies to link with green growth, resilience, and risk management with respect to potential environmental, health, and economic shocks to build back better and cleaner. Advocating for investing greater resources to strengthen the disaster-resilience and social protection to future shocks that addresses the different needs of vulnerable groups will also be vital.

### Stakeholder mapping, mitigation measures and policy recommendations

Promoting recovery and building back better requires the government, workers', and employers' organizations to work together. Consensus-based policies are needed not only for economic recovery but also for labour market governance based on national and international labour standards. Through the focused and accelerated implementation of the 9<sup>th</sup> NSEDP, Lao PDR needs to place priority on the full, productive and freely chosen employment and decent work, the needs of the most vulnerable and hardest hit by the pandemic, and support for sustainable enterprises, jobs and incomes at the heart of strategies that are gender-responsive, to build forward better from the crisis. The implementation should be tailored to specific situations and taking into full account national circumstances including by working to the following priorities.

These priorities are also in line with the ASEAN comprehensive recovery framework that puts people at the centre, by strengthening the protection and empowerment of all people and all communities in COVID-19 recovery and beyond.

Action/Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
<b>PRIORITY 1. Strengthening social dialogue on reopening businesses, development and enforcement of national policies and legislation on wage, labour and migration governance, integrated border management, in line with international labour standards and good practices</b> <sup>52</sup>	2021-2025	MoH, MoIC, LNCCI, LFTU, LWU	MoLSW, LNCCI, LFTU, LWU	Enterprises Workers	9 <sup>th</sup> NSEDP Output 1.2; Output 1.3  SDG 8; SDG 10
<i>Immediate measures</i>					
Develop and implement standard procedures for reopening businesses and safe return to work, including improved occupational safety and health measures and conditions of work	2021-2022	MoLSW, MoH, MoIC, LNCCI, LFTU, LWU	MoLSW, MoH, MoIC, LNCCI, LFTU, LWU	GOL, Enterprises, Workers	

<sup>52</sup> Aligning with ASEAN Comprehensive Recover Framework (2d) on preparing labour policies for the new normal through social dialogues (including cross-border labour movement, work from home and other alternative work arrangements, occupational health and safety)

Action/Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
Provide support and guidance on business continuity planning in the new normal.		MoLSW, MoH, MoIC, LNCCI, LFTU, LWU	MoLSW, MoH, MoIC, LNCCI, LFTU, LWU	GOL, Enterprises, Workers	
Strengthen effective tripartite coordination and cooperation mechanism between the government, workers', and employer's organizations on labour governance.	2022	MoLSW, LNCCI, LFTU	MoLSW, LNCCI, LFTU	GoL, Enterprises, Workers	
Develop and revised labour law and related legislations for decent work and safety and healthy workplaces and safe migration	2022-2023	MoLSW, LNCCI, LFTU	MoLSW, LNCCI, LFTU	GoL, Enterprises, Workers	
Improve the effectiveness of labour inspection system to promote decent working conditions and protection of labour rights.	2022-2023	MoLSW, provincial DoLSW	MoLSW, provincial DoLSW	GoL, Enterprises, Workers	
Develop and revise migration governance policies and legislation to protect migrant rights and well-managed migration in line with the Government of Lao PDR's regional and global commitments <sup>53</sup>	2022-2023	MOFA, MoPS, MPI, MoLSW, MoES, MoH, MPWT	MoLSW,	GoL, migrants	
Strengthen system for dispatching Lao workers to work abroad to reduce irregular labour migration, including develop/revise MoUs with labour receiving countries such as Thailand and Malaysia	2022-2023	MoLSW, MoFA, MoPS, MPWT, provincial DoLSW	MoLSW, MoFA, MoPS, provincial DoLSW	GoL, Enterprises, migrants	
Promote risk communication and community engagement activities ensuring that mobility is properly considered in public health and hygiene messaging and that migrants and mobile communities have access to timely, context-specific and correct information	2022-2023				
Mainstream COVID-19 measures in mitigation, prevention and preparedness planning, including community-based disaster risk management to protect at-risk communities that are impacted by COVID-19 and simultaneously vulnerable to other disasters	2021-2023	MoLSW, MPI, MOFA, MOH	MoLSW, MPI, MOFA, MOH	All	
<i>Immediate to medium-term measures</i>					

<sup>53</sup> Global and regional commitments include Global Compact for safe, orderly, and regular migration, establishment of UN Network on Migration, implementation of ILO conventions, and commitments under ASEAN framework, etc

Action/Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
Improve policy and mechanism on labour dispute resolution	2022-2025	MoLSW, LNCCI, LFTU, Provincial DoLSW, labour court	MoLSW, LNCCI, LFTU, Provincial DoLSW, labour court	GoL, Enterprises, Workers	
Promote for forming worker representatives or unions in workplaces	2022-2025	LNCCI, LFTU	LNCCI, LFTU	Enterprises, Workers	
Develop policy and mechanism for transnational financial flows in the form of remittances or investments and regulatory requirements with the aim of facilitating the contribution of remittances to economic development	2022-2025	MoLSW, MoF, LNCCI, LFTU	MoLSW, LNCCI, LFTU	GoL, Enterprises, migrants	
Enhance existing disease surveillance systems, including community event-based surveillance, particularly among border communities, points of entry, and migrant dense areas	2022-2025	MOPS, MOH, MoLSW	MOPS, MOH, MoLSW	Migrant workers	
Assist national and local authorities at priority points of entry (POE) – through active surveillance, including health screenings, referrals, data collection, capacity development for health and immigration/border officials, and improvement of border infrastructure (including WASH infrastructure).	2022-2025	MOPS, MOH, MoLSW, LWU	MOPS, MOH, MoLSW, LWU	Migrant workers	
Enhance access to regular and safe migration pathways by migrant friendly admissions and stay procedures in Lao PDR and countries of destinations.	2022-2025	MOPS, MOH, MoLSW, MOFA, LWU	MOPS, MOH, MoLSW, MOFA, LWU	Migrant workers	
Direct assistance on protection mechanism and response such as alternative care, family tracing and reunification, case management, return assistance, service provision to persons affected by gender-based violence.	2022-2025	MoLSW, MOPS, LWU, LFTU	MoLSW, MOPS, LWU, LFTU	Migrant Workers	
<b>PRIORITY 2. Strengthening and broadening inclusive shock responsive social protection</b>	2021-2025	MPI, MoLSW,	MPI, MoLW, MoF, MoH,	All	9 <sup>th</sup> NSEDP

Action/Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
system <sup>54</sup> , continuation of essential services, with focus on vulnerable population and people at risk of exploitation <sup>55</sup>		MoF, MoH, MoAF, MoES, MoHA, LNCCI, LFTU, LWU, MoPS, OSPP	MoAF, MoES, MoHA, LNCCI, LFTU, LWU, MoPS, OSPP		Output 3.5; SDG 1.3; SDG 5
<i>Immediate measures</i>					
Develop social protection system on cash transfer by providing a cash transfer to expectant mothers and children, starting in selected poor or most affected districts.	2021-2022	MoLSW, MoAF, MoF, LWU	MoLW, MoAF, MoF, LWU	Women and children in poor households	
Extend unemployment benefits to active contributors of the Lao Social Security Organization who have been affected by the crisis by increasing the amount and duration of benefits and consider eliminating the waiting time.	2021-2023	MoLSW (LSSO)	MoLW (LSSO)	Workers	
Enable access to essential health care for all including migrants by granting universal access to essential health care, regardless of health insurance membership status	2021-2025	MoLSW (LSSO), MoH (NHIB)	MoLSW (LSSO), MoH (NHIB)	all	
<i>Immediate to medium-term measures</i>					
Promote equitable access to vaccines for vulnerable populations through continuous vaccine delivery, enhanced social mobilization activities, vaccination data management and quality to monitor access to vaccines for migrants	2022-2025	MoH	MOH	All	
Expansion of social security coverage for all formal economy workers and increase coverage of informal workers.	2022-2025	MoLSW (LSSO)	MoLW (LSSO)	Workers	
Extend the National School Meal Programme to guarantee adequate nutrition for children and households, gradually expanding to more districts.	2021-2025	MoLSW, MoES, MoF	MoLW, MoES, MoF	children	
<i>Immediate to long-term measures</i>					

<sup>54</sup> UN 2020, policy brief on developing a shock-responsive national social protection system to respond to the COVID-19 crisis in Lao PDR, at: <https://laopdr.un.org/en/107003-developing-shockresponsive-national-social-protection-system-respond-covid-19-crisis-lao-pdr>.

<sup>55</sup> Aligning with ASEAN Comprehensive Recovery Framework (2a) to further strengthening and broadening of social protection and social welfare, especially for vulnerable groups

Action/Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
Ensure sufficient and timely government budget allocation to health.	2021-2030	MoLSW, MoAF, MoF, LWU	MoLW, MoAF, MoF, LWU	Vulnerable groups	
Provision of mental health and psychosocial support self-help tools and services for vulnerable migrants and affected communities	2022-2025	MoLSW, MOPS, LWU, MOH	MoLSW	Migrant workers	
<b>PRIORITY 3. Promoting and strengthening public-private partnership on digital skills, re-skilling and upskilling, employment services and labour market information system for employment<sup>56</sup></b>	2021-2025	MoLSW, MoES, LYU, LWU, LNCCI, LFTU, TVET, Skill Dev Institutions,	MoLSW, MoES, LYU, LWU, LNCCI, LFTU, TVET, Skill Dev Institutions	TVET, Skill Dev Institutions Students, workers, enterprises	9 <sup>th</sup> NSEDP Output 2.2; Output 2.3; Output 3.4 SDG 4, SDG 8
<i>Immediate measures</i>					
Establish a mechanism for public and private collaboration for harmonized skills development	2022-2023	MoLSW, MoES, LYU, LWU, LNCCI, LFTU, TVET, Skill Dev Institutions	MoLSW, MoES, LYU, LWU, LNCCI, LFTU, TVET, Skill Dev Institutions	TVET, Skill Dev Institutions Students, workers, enterprises	
Promote public and private collaboration for skill assessment, certification and recognition system for Lao workers, including migrants	2022-2023	MoLSW, MoES, LYU, LWU, LNCCI, LFTU, TVET, Skill Dev Institutions	MoLSW, MoES, LYU, LWU, LNCCI, LFTU, TVET, Skill Dev Institutions	TVET, Skill Dev Institutions	
Engage the private sector and other relevant stakeholders to promote ethical recruitment and protection of migrant workers throughout recovery efforts; promote well-being of migrant workers during recruitment and re-migration and through comprehensive IEC and accurate information on migration policies /requirements	2022-2025	MoLSW, MOPS, MoES, LYU, LWU, Recruitment Agencies	MoLSW,	All	

<sup>56</sup> Aligning with ASEAN Comprehensive Recovery Framework (2c) to promoting human capital development, including i) promoting digital skills and literacy and 21st century skills in basic education, TVET, and higher education, and ii) reskilling and upskilling for employment, including digital skills and creating job opportunities

Action/Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
<i>Immediate to mid-term measures</i>					
Develop and implement skills standards and curriculums for different target groups to meet the needs of the labour market.	2022-2025	MoLSW, MoES, LYU, LWU, LNCCI, LFTU, TVET, Skill Dev Institutions	MoLSW, MoES, LYU, LWU, LNCCI, LFTU, TVET, Skill Dev Institutions	TVET, Skill Dev Institutions	
Develop and implement policy and mechanism for quality skilled labour development, including internship and apprenticeship learning opportunities	2022-2025	TVET, Skill Dev Institutions	TVET, Skill Dev Institutions	TVET, Skill Dev Institutions	
Develop and revise education and skills development policies and legislations along with supportive wage and employment policy to ensure better skills are rewarded through better incomes and wages and decent employment conditions	2022-2025	MoLSW, MoES, LYU, LWU, LNCCI, LFTU, TVET, Skill Dev Institutions	MoLSW, MoES, LYU, LWU, LNCCI, LFTU, TVET, Skill Dev Institutions	TVET, Skill Dev Institutions	
<b>PRIORITY 4. Strengthening the implementation of the national rural employment promotion strategy for food security and income generation that facilitates greater access to formal and decent employment and climate change resilience<sup>57</sup>.</b>	2021-2025	MPI, MoLSW, MoIC, MoAF, Provincial authority LNCCI, LFTU, LWU	MPI, MoLW, MoIC, MoAF, LNCCI, LFTU, LWU	All workers MSMEs	9 <sup>th</sup> NSEDP Output 3.1 SDG 1; SDG 5; SDG 8
<i>Immediate measures</i>					
Develop and implement policy and legislation to diversify employment opportunities across different economic sectors and link to wage for decent work.	2022-2025	MPI, MoLSW, MoIC, MoAF, Provincial authority LNCCI, LFTU, LWU	MPI, MoLW, MoIC, MoAF, LNCCI, LFTU, LWU	rural workers MSMEs	

<sup>57</sup> Aligning with ASEAN Comprehensive Recovery Framework (2b) on ensuring food security, food safety, and nutrition

Action/Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSED-9, GNA 1/
Develop capacity of provincial and district authorities to implement and report on progress of rural employment promotion strategy	2022-2024	MPI, MoLSW, MoIC, MoAF, Provincial authority LNCCI, LFTU, LWU	MPI, MoLW, MoIC, MoAF, LNCCI, LFTU, LWU	All workers MSMEs	
Establish and strengthen mechanism for public and private collaboration on rural employment and rural skill development	2022-2024	MPI, MoLSW, MoIC, MoAF, Provincial authority LNCCI, LFTU, LWU	MPI, MoLW, MoIC, MoAF, LNCCI, LFTU, LWU	All workers MSMEs	
Develop and implement policy and legislation to provide services for rural people, particularly the most vulnerable groups, including women, youth, people with disabilities, migrants and their families, to access a small credit scheme with affordable interests	2022-2023	MoIC, Provincial authority LNCCI, LFTU, LWU	MoIC, LNCCI, LFTU, LWU	All workers MSMEs	
Develop capacity of local and provincial business development service providers and financial institutions to develop and deliver gender-responsive business development and financial services to rural workers	2022-2025	MoIC, Provincial authority LNCCI, LFTU, LWU	MoIC, LNCCI, LFTU, LWU	All workers MSMEs	
Provide financial literacy training at community level in semi-rural area	2022-2025	MoIC, Provincial authority LNCCI, LFTU, LWU	MoIC, LNCCI, LFTU, LWU	All workers MSMEs	
Develop and improve capacity of provincial public employment services to provide quality support and services	2022-2025	MoLSW, Provincial DoLSW, LNCCI, LFTU, LWU	Provincial DoLSW, LNCCI, LFTU, LWU	All workers MSMEs	
<i>Immediate to mid-term measures</i>					
Develop and strengthen labour market information system and expansion of quality employment services	2022-2030	MoLSW, LNCCI, MPI (LSB)	MoLSW, LNCCI, MPI (LSB)		
Support formation of collective units and strengthening of existing production groups to perform value added functions	2022-2030	MoLSW, Provincial DoLSW, DoAF, LNCCI, LFTU, LWU			

Action/Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
PRIOTIY 5: Strengthening linkage of investment, trade and industrial policies and regulations to labour and employment policies to maximize positive and broader spill-over effect of domestic and foreign direct investment to local SMEs promotion, employment, migration and resource transfer <sup>58</sup>	2021-2025	MPI, MoIC, MoLSW, MoAF, LNCCI, LFTU, LWU, MoPS	MPI, MoLW, MoIC, MoAF, LNCCI, LFTU, LWU, MoPS	MSMEs Workers	9 <sup>th</sup> NSEDP Output 1.2; Output 1.4 SDG 1; SDG 8
<i>Immediate measures</i>					
Develop and implement policy to secure the employment of returnee migrants in Special Economic Zones (SEZs) and development projects with the guarantee of their decent works	2022-2023	MPI, MOIC, MoAF, MoLSW, LNCCI, LFTU	MPI, MOIC, MoAF, MoLSW, LNCCI, LFTU	GOL, MSMEs, Workers	
Develop a clear policy and legislation framework for investment, trade, and industrial development to promote local MSMEs and employment	2022-2023	MPI, MOIC, MoAF, MoLSW, LNCCI, LFTU	MPI, MoIC	GOL, MSMEs, Workers	
Develop a policy framework that enable Lao MSMEs to be resilient in times of crisis	2022-2023	MoIC, LNCCI, LFTU	MoIC	GoL, MSMEs, Workers	
Develop and implement MSME development policies for production and employment	2022-2023	MoIC, LNCCI, LFTU	MoIC	GoL, MSMEs, Workers	
Develop and build capacity of migrants and migrant households on family financial literacy to increase the investment and effective utilization of remittance	2022-2023	MoLSW, MOF, BOL, MoIC, LNCCI, LFTU	MoLSW	Migrant workers/households	
Support diaspora engagement and mobilization for recovery, support entrepreneurship and youth empowerment through mentorship and donations; support policies to keep remittances flowing and ensure migrants' access to financial and digital services.	2022-2023	MoLSW, MOF, BOL, MoIC, LNCCI, LFTU	MoLSW	All	
<i>Immediate to long term measures</i>					
Development of policies and mechanisms that improve remittance services to migrants to reduce global shocks such as COVID-19 and	2022-2030	MoLSW, MOF, BOL, MoIC,	MoLSW	Migrant workers	

<sup>58</sup> Aligning with ASEAN Comprehensive Recovery Framework (3g) to accelerating sectoral recovery (tourism, MSMEs) and safeguarding employment in most affected sectors

Action/Recommendation	Period	Government Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
proper utilization for development and poverty alleviation		LNCCI, LFTU			
Promote public-private partnership with financial institutions to provide financial benefits for investment of remittance and access to financial and digital services	2022-2030	MoLSW, MOF, BOL, MoIC, LNCCI, LFTU	MoLSW	Migrant Workers	
<b>PRIORITY 6: Inform response and recovery efforts by tracking the impact of COVID-19 on mobility and people on the move and strengthen evidence-based decision-making through data</b>	2021-2025	MoLSW, MPI, MOPS, MOF, BOL, MoIC, LNCCI, LFTU	MPI	All	9 <sup>th</sup> NSEDP Output 2.3 Output 3.5 SDG 8, 10, 17
<i>Immediate to long term measures</i>					
Enhance relevant data collection tools and methods to support health authorities, border officials, labour authorities, development partners and clusters/sectors and inter-cluster/inter-sector coordination mechanisms, facilitating better data exchange and having evidence-based response and assistance.	2021-2025	MoLSW, MPI, MOPS, MOH, LWU, LFTU	MPI	All	
Enhance country level mobility restrictions mapping for points of entry and in-country locations with restrictive measures in place, and report on different points assessed.	2021-2025	MOPS, MoLSW, MPI	MOPS	All	
Strengthen migration data gathering systems to ensure continuity of data collection, enhancement of analysis and forecasting capacities of governments and other partners for COVID-19 recovery. The areas of data collection and analysis include:  impact of the pandemic on migrant protection and assistance, including return and reintegration, migration patterns, criminal networks, cost for services, incidents of violence, exploitation and abuse, and apply learning in programming and future crises.  inflow and outflow mapping using flow monitoring operations with an emphasis on movements within, to and from countries and regions with higher prevalence of COVID-19.  impact of COVID-19 on decent work including the employment creation, social protection, rights at work, social dialogue, and migration for evidence-based policy response.	2021-2025	Lao Statistics Bureau LSB, MoLSW, LNCCI, LFTCU, MPI, MoH, MoPS,	LSB	All	



## Theme 4: Human Capital

### Background Paper of the Multi-Stakeholder Taskforce to Study the Impact of COVID-19

Led by:



Supported by:



With additional contributions from Child Fund Laos, UNESCO, and UNDP

#### Relevance of the workstream

A skilled Lao workforce will not be possible unless entrants to TVET and other higher education programs have significantly improved foundational skills, particularly literacy and numeracy, which requires investments in early childhood and primary education. TVET programs also need to be more relevant to the needs of both domestic and regional employers. Without this, Lao PDR will continue to lag behind other ASEAN countries.

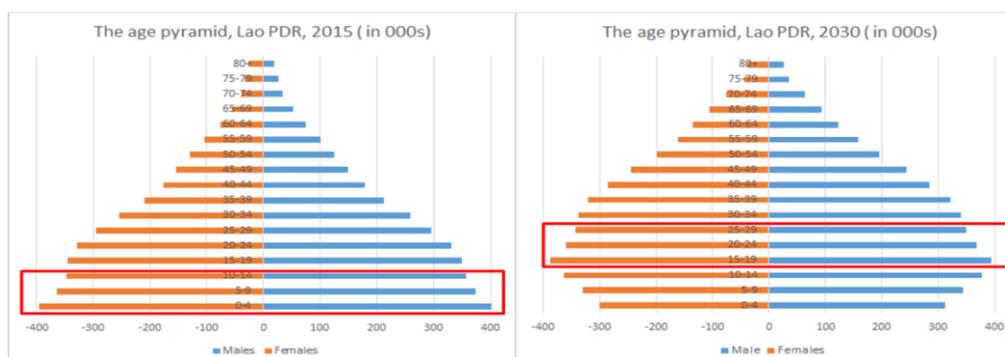
At the same time as Lao PDR faces the challenges of the COVID-19 pandemic, the country is entering a 20-year window of opportunity during which the ratio of workers with to dependents is most favorable for development progress, but economic growth needs to be inclusive to create sufficient jobs.

With growing urbanization, and ongoing large infrastructural investments which can help advance this transition if planned carefully, Lao PDR could reap the benefits of a demographic dividend, allowing faster progress towards national development priorities and the SDGs. From 2015 levels, the population is projected to increase by approximately 100,000 annually, reaching 8.1 million by 2030 adding some 80,000 to the economically active age-bracket every year – appending some 1.4 million people to the workforce by 2030.<sup>59</sup> The bulk of the new workers are the adolescents of today, half of them are girls.

In addition to efforts to shift toward a more inclusive growth model that creates more jobs, Ccritical to a demographic transition is the need to ensure this cohort has necessary capacities by maintaining investments in health, education, knowledge acquisition and skills building. The productivity of young adults depends on early life experiences of adequate nutrition, responsive care, years and quality of schooling and

<sup>59</sup> UNFPA [Population](#) and Development in Lao PDR, 2015.

learning, employment practices, access to quality healthcare -- including immunizations and reproductive health, which can impact the timing and level of childbearing and policies that make it easier for young parents, especially mothers to engage in economic activity. This also includes supporting young people with skills training and development through TVET and non-formal education. If, in this 20-year window, focused human capital investments can be achieved despite the impact of the pandemic for children, youth and females, as has been evidenced elsewhere, sustainable, economic returns can be realised over the medium to long term.



Significant progress has been made in health and education access over the past decade, yet Lao PDR's human capital remains lower than international peers, given the poor learning and health outcomes, and investments to harness the potential of the human capital and maximise the opportunity for individuals remain low.<sup>i</sup> Health, nutrition and education financing remain below the country's own commitments and SDG benchmarks. In 2020, it ranked 126<sup>th</sup> out of 173 countries on the World Bank's Human Capital Index, down from 111 in 2017. Therefore, there is a need to continue maximizing human capital development through effective and timely investments for the country to recover from the impact of COVID-19 while staying on course for the possibility to achieve a sustainable and inclusive development for all.

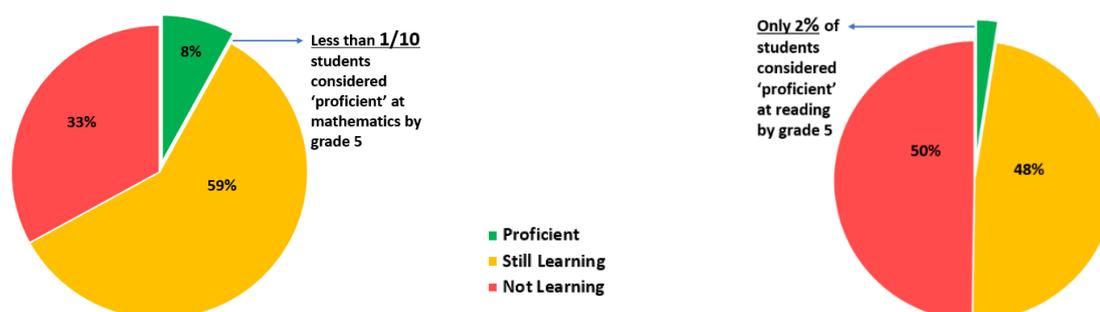
In this context, a COVID-19 recovery framework will be most effective if strategic interventions focus on the demographic reality and needs of the expected 80,000 annual new entrants to the labour force as a priority to equip them with learning, skills and knowledge through early years and adolescence. Also essential is to combine this with social protection measures geared especially towards poverty eradication, with the aim to return to the pre-pandemic trajectory, but also to leverage the potential that emanates from this unique, one time opportunity of the demographic transition towards the achievement of the 9<sup>th</sup> NSEDP targets and SDGs. In parallel, it is imperative to protect investments to realise ambitions of the sectoral plans for health and education.

### Key impact of COVID-19 on the workstream

The pandemic has posed significant challenges to the education and health systems in Lao PDR, including the delivery of nutrition services. The first wave in 2020 (albeit limited in the numbers of cases), had a significant impact on essential public health and education services. The second and the ongoing third wave have exacerbated socio-economic challenges, taxed the public health system to its limits, and disrupted all levels of schooling and Technical and Vocational Education and Training (TVET) nationwide. Across the board, the impact is greatest on the poorest quintiles, those in remote areas and those most vulnerable including those with disabilities.

**Education:** The pandemic has disrupted education systems, affecting not only the learning but also the health and well-being of children and young people. Prolonged school closures are likely leading to “learning loss” for students across all levels, which comes on top of the country’s existing “learning crisis”. Even before the pandemic, the majority of Grade 5 students were still performing at the level expected to be achieved in the early years of primary education for math, reading and writing based on a 2019 Southeast Asia Primary Learning Metrics (SEA-PLM) learning assessment of Grade 5 students in six countries<sup>60</sup>. A 2019 Grade 9/Mathayom 4 assessment of learning outcomes shows that majority of students do not have mastery of literacy and numeracy skills at the end of lower secondary which is needed to advance through the education system. Only 1% and 33% of Grade 9 students are proficient in math and Lao language, respectively.<sup>61</sup>

With the impact of COVID-19, learning outcomes for those in the first decade of life will suffer, while learning and well-being combined with more serious issues of teenage pregnancy and child marriage for adolescent girls in the second decade of life will increase and will directly impact the possibilities of a quick and sustainable economic recovery.



SEA-PLM results show that by Grade 5, Lao children are mostly not proficient in mathematics, reading and writing. Hence, they will struggle to acquire associated 21st century skills, including communication and critical thinking; and succeed in secondary education. Lao students also lag behind peers in Cambodia, Malaysia, Myanmar, Philippines and Vietnam.

The majority of schools and educational institutions have been closed since April 2021, with nearly 1.7 million learners losing the last two months of the school year 2020/21. While the 2021/22 school year started on 6 September, the majority of schools and all educational institutions across the country remain closed to in-person learning. The crisis is additionally exacerbating pre-existing education disparities by reducing the opportunities for many of the most vulnerable children, adolescents and youth to continue their learning<sup>62</sup>.

Critical impacts on education are reduced learning, which could further increase “learning poverty”<sup>63</sup>, and the de-prioritization of early childhood education as a result of further budget cuts due to the COVID-19

<sup>60</sup> [www.seaplum.org/](http://www.seaplum.org/)

<sup>61</sup> MoES, UNICEF. 2019 Grade 9 Assessment of Learning Outcomes report

<sup>62</sup> UN (2020) Policy Brief: [Education during COVID-19 and beyond](#)

<sup>63</sup> Learning poverty is defined as being unable to read and understand a simple text by age 10. This indicator brings together schooling and learning indicators: it begins with the share of children who haven’t achieved minimum reading proficiency (as measured in schools) and is adjusted by the proportion of children who are out of school (and are assumed not able to read proficiently). [www.worldbank.org/en/topic/education/brief/what-is-learning-poverty](http://www.worldbank.org/en/topic/education/brief/what-is-learning-poverty)

socioeconomic impact. This situation further exacerbates the existing learning crisis. Per the World Bank<sup>64</sup>, a child who starts school at age 4 can expect to complete 10.8 years of school by their 18th birthday, however factoring in what children actually learn, this is equivalent to only 6.4 years.



**Health and nutrition:** Data from health facilities compared to past years clearly shows a drop in the use of essential health and nutrition services, including specifically for vulnerable populations such as mothers, newborns, children and adolescents. This is expected to exacerbate existing inequities in health outcomes and access to services.

The Government's budget for health has been reduced due to economic consequences of the pandemic (estimated at 30 per cent at central level and 10 per cent at provincial level<sup>65</sup>), and as a result, equitable access for children and mothers to quality health services will be further challenged, especially for the most vulnerable, with implications for achieving the health sector's core 11 primary health care indicators.

Initial lockdown measures resulted in the cancellation of outreach services, suspension of services at health centres/clinics, and a reduction in the coverage of essential nutrition services. WHO analysis of routine monitoring data for key health services, specifically for vulnerable population including mothers, newborns, children and adolescents, indicate a significant drop in the uptake of services.<sup>ii</sup> According to 2020 data on immunization, the country experienced a decline of 4 percentage points in its measles and rubella vaccination coverage, from 83 per cent in 2019 to 79 per cent in 2020.<sup>iii</sup> DHIS data also shows the first drop since 2015 in contraceptive prevalence compared to an annual 2 per cent increase in recent years. Abortions have increased by 2 per cent, and there is an increase in maternal deaths for women aged 15-24 to 48 per cent of all maternal deaths, up from 35 per cent in 2019.<sup>iv</sup>

Food security and access to healthy diets, especially for young children, has been significantly affected during COVID-19<sup>66</sup>. In February–March 2021, 41 per cent of households ate less than before the pandemic, while 36 per cent were reported to skip a meal due to lack of money or other resources. Despite a larger increase in staple food prices in urban areas, the incidence of moderate food insecurity remains higher among rural households than in urban households and is higher among non-Lao-Tai households.

The second wave of COVID-19 resulted in widespread loss of household income, which combined with restrictions on movement and transportation disrupting farming activities, has impacted the ability of households to access and consume healthy diets. Around 14 per cent of farming households stopped farming or could not operate their farm normally in May 2021, compared to 6 per cent before the second wave<sup>67</sup>. This has resulted in soaring food prices, affecting most but especially the urban poor who rely on the

<sup>64</sup> World Bank (2018), Human Capital Report 2018 Human

<sup>65</sup> National Assembly of Lao PDR. Resolutions of the National Assembly on Approval of the report on the implementation of the state budget plan for the first 5 months of 2020 and the proposed amendment of the state budget for the year 2020, June 2020.

<sup>66</sup> UNICEF (2021) *Fed to Fail?* | UNICEF

<sup>67</sup> World Bank (2021) Lao PDR Economic Monitor. Aug 2021 [World Bank Document](#)

markets to access food<sup>68</sup>. Nutrition and mental health concerns are on the rise, especially amongst children, youth, and women, with calls to helplines and hotlines increasing. The magnitude and impact of this health issue are likely to be long term and significant.

### Anticipated risks of COVID-19 on the workstream

**Education:** Prolonged school closures due to the pandemic could result in further worsening of already low learning outcomes of Lao children and young people with limited access to online learning.<sup>69</sup> It is also expected to lead to irreversible learning loss which will reduce the future productivity and lifetime earnings of affected students. According to the ADB, the present value of these losses is estimated at US\$1.25 trillion for developing Asia (including Lao PDR), equivalent to 5.4 per cent of the region's 2020 gross domestic product (GDP)<sup>70</sup>. Globally, the World Bank also estimated a loss of US\$10 trillion in earnings over time for this generation of students whose learning has been disrupted by the pandemic.<sup>71</sup>

Further, as noted by the Education Sector Working Group, deterioration of the national budget and the share allocated to the education sector (level already insufficient) risk further deterioration on quality of education. Areas that will be impacted primarily are in training of teachers, and challenges for teachers to adapt to the new primary curriculum which is being rolled out. Quality of learning and universal primary education is at risk with access to primary teachers declining<sup>72</sup>.

Other consequences when children miss out on in-person learning include mental and psychosocial distress, risk of violence and abuse, missed school-based meals and vaccinations, and reduced development of social skills. The income shock, disruption of education, and closure of essential services and support leaves all children, particularly girls, increasingly vulnerable to teenage pregnancy, early marriage and child labour, and at higher risk of dropping out of secondary education. The impact is likely to be highest for those from non-majority ethnic groups and poor households.

The socio-economic impact of COVID-19 will likely push more families into poverty, resulting in increased drop-outs, particularly for secondary education which also threatens to extend beyond this generation<sup>73</sup>. School drops-outs were also a pre-COVID problem and ongoing multi-pronged efforts to address this should be continued and scaled up to address this issue as soon as it safe do so. UNESCO reports that pre-COVID, 4 of 10 secondary aged students were already out of school, and 2020 rates are expected to drop by an additional 5 percentage points nationally, from 63 per cent to 58 per cent. Noteworthy is also that pre-COVID, 4 of 10 adolescents were involved in child labour. Prolonged school closures and economic hardship is expected to exacerbate these numbers.

The longer schools are closed, the greater the gains made in education over the last decade could be eroded, which will in turn reduce future productivity and lifetime earnings.<sup>v</sup> This could put at risk Lao PDR's human capital development agenda, crucial for its graduation from Least Developed Country status.

<sup>68</sup> World Bank (2021) Lao PDR Economic Monitor. Aug 2021 [World Bank Document](#)

<sup>69</sup> Online learning also has limitations for use in TVET programs where hands-on practice is required.

<sup>70</sup> [www.adb.org/sites/default/files/publication/692111/ado2021-special-topic.pdf](https://www.adb.org/sites/default/files/publication/692111/ado2021-special-topic.pdf)

<sup>71</sup> <https://www.worldbank.org/en/news/press-release/2020/06/18/covid-19-could-lead-to-permanent-loss-in-learning-and-trillions-of-dollars-in-lost-earnings>

<sup>72</sup> Education Sector working group RTM paper and recommendations

<sup>73</sup> MoES EMIS Dropout Rate data for School Year 2020-21: Primary (grades 1-5): Total: 4.1% (G:3.6%; B:4.6%), GPI: 1.28; Lower Secondary (grades 6-9): Total: 10.7% (G: 10.2%, B:11.1%) GPI: 1.09; Upper Secondary (Grade 10-12): Total 9.4% (G:9.6%, B:9.2%) GPI: 0.96

### Health and Nutrition:

Due to a reduced coverage of essential health services (EHS) and uptake of EHS by communities during the pandemic, there is a high risk of failing to achieve some of the national health indicator. Moreover, Lao PDR is preparing for donor transition whilst also still contending with the pandemic. This poses a significant challenge with regards to health financing, including the fulfilment of co-financing commitments made with donors before the pandemic, with a reduced health budget during the pandemic and expectations on declining donors' support for essential health services, specifically immunization and health care for communicable diseases supported by GAVI and Global Fund, in the coming years.

Moreover, the pandemic and its socio-economic consequences can negatively impact people's mental health and well-being. Even prior to COVID-19, countries were spending less than 2 per cent of their national health budgets on mental health and struggling to meet their populations' needs. At present, issues such as bereavement, isolation, loss of income and fear are triggering mental health conditions. A survey of 130 countries – among them Lao PDR – showed that the pandemic additionally impedes access to mental health services<sup>74</sup>.

The economic, food, and health systems disruptions resulting from the pandemic are expected to continue to exacerbate all forms of malnutrition. Projections across countries indicate that decreases in GNI per capita are associated with large increases in child wasting<sup>75</sup> and recent analysis suggests there could be a 14.3 per cent increase in the prevalence of moderate or severe wasting among children younger than 5 years due to COVID-19-related predicted country-specific losses in GNI per capita<sup>76</sup>. For Lao PDR, this could translate to up to 73,000 children under 5 could suffering from acute malnutrition each year.

With global evidence suggesting that severely malnourished children under 5 are 11.6 times more likely to die than non-wasted children<sup>77</sup>, mortality in children under 5 may increase if the situation persists in the short to medium term. Further, episodes of wasting negatively affect linear growth<sup>78</sup> potentially undermining progress made on reducing levels of stunting in the past decade and affecting human capital development for decades to come.

Another very likely risk is the impact on breastfeeding rates, including reduction in breastfeeding and/or replacement with infant formula or other milks/foods. Initial vaccination drives did not allow for pregnant and lactating mothers to receive COVID-19 vaccination, although this was later changed to women in second trimester onwards being recommended to vaccinate. Further, the COVID-19 outbreak was used as an opportunity of the infant formula industry to promote breastmilk substitutes by using unfounded health claims and misguided information on breastfeeding to cultivate parents' fear and uncertainty in the context of COVID-19. Companies were also observed to actively market their products in retail facilities including offering sales discounts.

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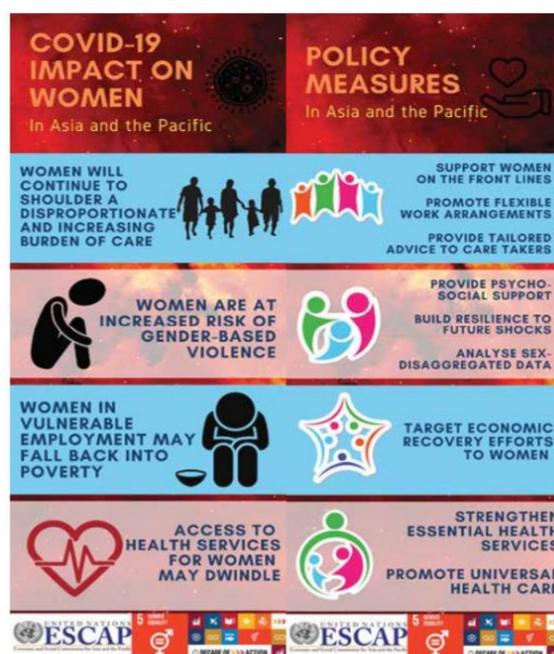
<sup>74</sup> WHO, COVID-19 disrupting mental health services in most countries, WHO survey, News release, October 2020.

<sup>75</sup> Headey D, Ruel M. The impact of economic recessions on child acute malnutrition: implications for the COVID-19 crisis. IFPRI discussion paper 01941, June, 2020. Washington, DC: International Food Policy Research, 2020

<sup>76</sup> Headey D, Heidkamp R, Osendarp S, et al. Impacts of COVID-19 on childhood malnutrition and nutrition-related mortality. *Lancet* 2020; published online July 27. [https://doi.org/10.1016/S0140-6736\(20\)31647-0](https://doi.org/10.1016/S0140-6736(20)31647-0)

<sup>77</sup> Olofin I, McDonald CM, Ezzati M, Flaxman S, Black RE, Fawzi WW, et al. Associations of suboptimal growth with all-cause and cause-specific mortality in children under five years: a pooled analysis of ten prospective studies. *PLoS One*. 2013;8(5):e64636

<sup>78</sup> Khara T, Dolan C. Technical briefing paper: Associations between wasting and stunting, policy, programming and research implications. Oxford: Emergency Nutrition Network; 2014 (<http://www.enonline.net/waststuntreview2014>)



The greater caregiving role that women and girls are expected to perform may expose them to higher risks of infection and burnout. Pregnant women and girls, and those who have just given birth, can also be particularly vulnerable to infectious diseases.

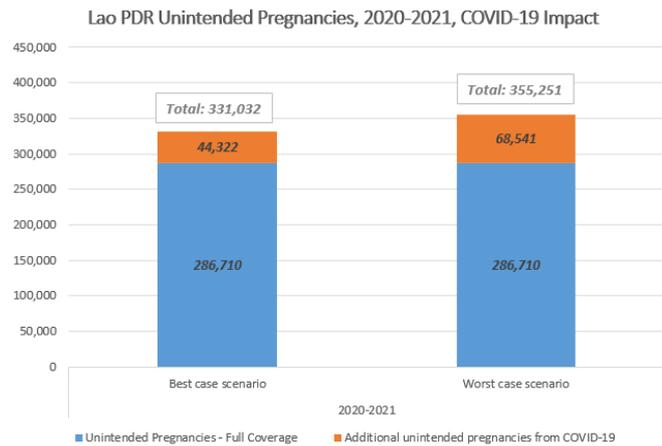
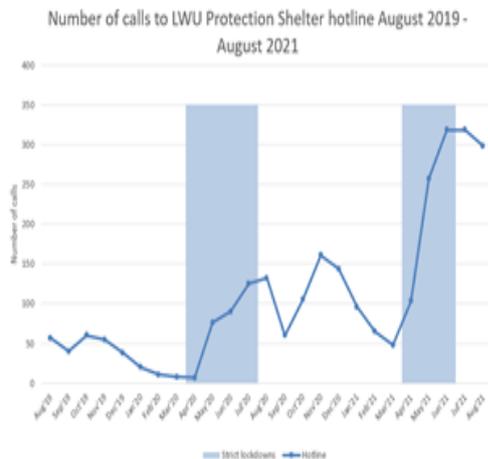
Lao PDR's health risk is moderated by a smaller share of older persons in the country, but aggravated by the risk of comorbidities and compromised immune systems and health from malnutrition.

In Lao PDR, health care delivery is predominantly a public system, with health centres and district and provincial hospitals owned and operated by the Government. The National Health Insurance scheme was introduced in 2016 to cover the informal sector population, with expansion to 17 provinces except Vientiane Capital and manages the health benefits of the National Social Security Fund for the formal sector. This scheme aims to ensure equitable access to health care and financial protection and provides free care for the poor, children under five (inpatient care), free health facility deliveries and antenatal and postnatal care. However, some families experiencing catastrophic health expenditure which lack savings rely on a range of strategies to cover medical costs, including borrowing through informal networks, reducing consumption, taking children out of school or sending them to work, or selling assets, and due to COVID19, there is higher risk that this situation will be exacerbated for the poorer families.

**Social security and personal safety:** The impact of COVID has disproportionately affected young children and families, by pushing them further into multi-dimensional poverty (UNICEF, 2021). Impacts are also noted for women who comprise 70 per cent of the health sector workforce. Additionally, nearly 86 per cent of women in Lao PDR work in the informal economy, earning less, saving less, and at greater risk of falling into poverty, with few protections against dismissal and limited access to social protection. Based on global ILO estimates, we can infer that the lockdown measures affect 3.9 million workers in Lao PDR (81 per cent of the workforce), of which 2 million are women.

While losing paid employment, women, who were taking up to four times more unpaid house chores and care work than men before the pandemic, are struggling with exponential increases in care work due to the

closure of schools requiring home schooling, and above normal domestic with a higher number of family members residing at home and domestic workers (for those who can afford) being locked down themselves. With intensified domestic arrangements, cases of gender-based violence, domestic abuse and sexual abuse of children, all appear to be increasing based on small scale data from Lao Women's Union.



## Implemented measures and lessons learned

The Government of Lao PDR responded promptly by introducing a number of effective measures to keep COVID-19 at bay, closing international borders and implementing a nationwide 'lockdown' which included the closing of schools and all educational institutions. Efforts have been made to prepare the health system for large scale community transmission including by strengthening the national capacity for surveillance testing and clinical management of COVID-19 patients. In parallel, as COVID-19 vaccines gradually became available, the Government responded with the successful roll-out of a National Deployment and Vaccination Plan (NVDP) as the main step in controlling and combating COVID-19. The programme, which followed WHO recommendations of priority groups first included elderly, those with comorbidities and front-line workers inoculated in early 2021, including schoolteachers. To date, the programme has reached 33.89 per cent of its population +17 with the full recommended dose of vaccines and 45.52 per cent have received a first dose.

**Education:** The Ministry of Education and Sports (MoES) developed an Education COVID-19 Response Plan<sup>79</sup> in May 2020 and updated the document in June 2021. Safe Schools Guidance was introduced in 2020 based on global guidance.<sup>80</sup> On September 17<sup>th</sup>, MoES issued a directive on safe school reopening. Whilst schools were still open, handwashing facilities, water connection and soaps have been provided to pre-primary, primary and secondary schools across the country as well as digital thermometers. Safe school operations checklist and protocols are being updated by MoES with MoH support. Mental Health and Psychosocial Support Guidelines for education has been developed by MoES with Ministry of Labour and Social Welfare (MoLSW), National University of Laos (NUoL) and other actors. In addition, remedial and catch-up support guidelines for children lagging behind are being formulated by MoES.

<sup>79</sup> [www.unicef.org/laos/reports/laos-pdr-education-covid-19-response-plan](http://www.unicef.org/laos/reports/laos-pdr-education-covid-19-response-plan)

<sup>80</sup> [www.unicef.org/laos/reports/covid-19-prevention-and-control-schools-lao-version](http://www.unicef.org/laos/reports/covid-19-prevention-and-control-schools-lao-version)

To support continuity of learning, when schools were ordered closed, a digital learning platform -- the MoES Khang Panya Lao<sup>81</sup> has been set-up in collaboration with various development partners. The MoES has set-up a dedicated content for the MoES Education and Sports TV Channel with educational materials developed including a special ECD TV Series, My House<sup>82</sup>. Printed textbooks and learning materials have been provided for use also as take-home materials. Guidelines for remote learning (including hybrid options, use of TV, digital, home-based learning) are under development by MoES to be followed by teacher trainings. However, access to digital learning needs to be expanded in remote areas and this requires partnerships between MoES and the Ministry of Telecommunications to engage internet service providers, as well as private sector support in provision of devices. Enhancing the capacity of teachers to adapt to this new normal of teaching as well as provision of catch-up support needs to be rolled out as soon as possible.

Two years into the COVID-19 pandemic, the biggest lesson for the Education Sector is that in-person schooling is still the most important form of learning. The interaction between teachers and students, and between students is simply too valuable to replace. Schools are also safe heavens that are crucial to children's development, safety and well-being. It is thus important for schools across the country to be supported to reopen safely as soon as possible.

**Health and nutrition:** The National COVID-19 Strategic Preparedness and Response Plan for the Health Sector 2020-2025 was finalised by the Ministry of Health (MoH) in Q3 2020, with ten pillars including Pillar 7: safeguarding the essential health services. Key interventions under this pillar focus on establishing a screening and triage system across all levels of service delivery, including timely referrals, as well as the review and redesign of service delivery of essential health services, including maternal, newborn, child and adolescent health services to optimize service delivery during the pandemic and ensure continuity of care.

An innovative Sexual and Reproductive Health (SRH) programme for supporting essential Sexual, Reproductive, Maternal, Newborn, Child and Adolescent Health (SRMNCAH) during COVID-19 to safeguard services and mitigate the impact of COVID-19 was piloted and results after six months implementation showed significant increase in the uptake of family planning, and ante- and post-natal care. With these results Luang Prabang Health Department expanded telehealth services through all 12 districts in the province. Remote care options have been for isolation and quarantine facilities and are being explored also for remote communities. Tools for remote access to SRH and youth friendly SRH include an App Noi Yakhoo, Phed Suk Sa online videos as well as telephone based counselling and information. Midwives have been re-skilled and upskilled to deliver telehealth.

The Mental Health and Psychosocial Support Guidelines were developed and endorsed by the Ministry of Health and used for trainings for healthcare workers in hospitals and mass organizations. Communication materials on mental health and psychosocial support, specifically targeting vulnerable population, have been disseminated through the Centre of Communication and Education for Health. Led by Lao Women's Union, Lao Youth Union and Vientiane Youth Centers, hotlines, helplines, and online platforms for counselling have expanded in the past year, and efforts to have systems based Mental Health and Psychosocial Support response is growing in collaboration with the NUoL and other actors. Protection services and prevention of violence efforts have been scaled up by Lao Women's Union in recognition of the increased need by women and girls due to lockdowns, school closures and economic distress. Practical tools and guidance for service

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<sup>81</sup> [Khang Panya Lao Wisdom Store \(unicef.org\)](https://www.unicef.org/laos/stories/my-house)

<sup>82</sup> <https://www.unicef.org/laos/stories/my-house>

providers to support women faced with domestic abuse have been developed and the Essential Service Package for survivors of violence is being rolled out.

At the onset of the pandemic, the MoH developed a Nutrition Response Plan incorporating the activities in the National COVID-19 Strategic Preparedness and Response Plan. The plan includes not only preventive measures for continuation of nutrition activities but also therapeutic programmes for the treatment and management of children with severe acute malnutrition. Further, a COVID-19 adaptation guidance note for continuation of essential nutrition services was developed and released early in the pandemic to promote, protect and support nutrition services. COVID-19 specific infant and young child feeding counselling materials were developed and distributed in all provinces while anthropometric equipment to support the identification of growth failure and the onset of malnutrition, as well as vitamin A, was procured and distributed to all provinces.

The COVID-19 response included prevention of the deterioration of essential child and maternal health and nutrition services by ensuring the continuity of the essential health services during the pandemic; scaling up the health system's capacity for surveillance, laboratory testing, infection prevention and control, water, sanitation and hygiene (WASH), clinical management of COVID-19 patients according to the National Clinical Management Guideline and risk communication; strengthening logistics management and procurement of PPE, critical equipment and essential commodities; COVID-19 vaccine, regular supply of vaccines for routine immunization and a Cold Chain Equipment Optimization Platform. More generally, intense efforts to engage communities for behavioral change to maximise COVID-19 prevention and response have been undertaken. The COVID-19 Taskforce at central and provincial levels have been leading multi-sector efforts including to empower communities and local governance for COVID-19 response and sustenance and uptake of essential health services during the pandemic.

Macro frameworks developed in the past two years include the development of the 9<sup>th</sup> National Social Economic Development Plan (NSED 2021-2025) and the 9<sup>th</sup> Health Sector Development Plan (2021-2025), and the Health Sector Reform Strategy 2021-2030 (draft), which prioritizes Primary Health Care (PHC) with a multi-sectoral and people centered approach with community participation, for achieving Universal Health Coverage. In 2021, MOH finalized and endorsed the Health Financing Strategy 2021-2025 which provides overall health financing strategic direction to improve sustainability, accountability, efficiency and equity in health financing. MoH updated the RMNCAH Strategy and Action Plan for 2021-2025 and the dissemination of the PHC Policy nationwide. In addition, the Community Health Systems Strengthening Action Plan for PHC was endorsed for increasing community engagement. Special attention is given to increased community engagement and participation of all ethnic groups, by strengthening the Village Health Volunteer (VHV) workforce, with special focus on increased deployment of female VHVs to deliver the 12 PHC components. The Second National Plan of Action on the Prevention and Elimination of Violence Against Women and Violence against Children (2021-2025) and the Fourth National Plan of Action on Gender Equality (2021-2025) were finalised.

Central and Provincial/District authorities, the Lao Women's Union and Lao Youth Union are working together to ensure that women health workers have adequate access to PPE, menstrual hygiene products, and psycho-social support, and that women and girls have safe access to medical treatment without discrimination, including the continuity and accessibility of SRH services. The Lao Government has developed information materials to assist diverse populations and industry adapt to operating under the new normal of the COVID-19 pandemic, ensuring that preventive measures are in place.

An innovative telehealth modality was developed and tested in three districts of Luang Prabang province. The initiative supported health facilities to implement infection control measures such as hand washing, social distancing and triage of patients. Telehealth was used to follow up on women who could not come to the health facility and to reduce the number of visits to the health facility. The Telehealth focused mainly on ante- and postnatal care, scheduled to fill gaps between facility-based and community outreach services, as well as follow up on sick children. With the second and third wave of COVID-19, the MoH trained health providers and workers in quarantine centres and isolation facilities in six more provinces in the use of telehealth. This modality allows providers to provide care and ensure that women and girls can access necessary services.<sup>vi</sup>

To strengthen the ability of the Government in controlling the promotion and use of breast milk substitutes, an Implementation Guideline was developed to enhance implementation of the national legislation. A real time monitoring tool was developed for Government inspectors to monitor and report on promotions and marketing of breastmilk substitutes at retail levels and while COVID-19 related movement restrictions has hampered its rollout, a group of master trainers have been trained, with Phongsaly province training completed in September 2021 and plans for roll out in additional provinces underway. To reassure the public that breastfeeding with appropriate precaution is not only safe even for women with suspected or confirmed cases of COVID-19, but even the recommended practice, messages around infant feeding including breastfeeding were disseminated through relevant COVID-19 public awareness campaigns. In 2021, also messages around the importance for pregnant (2nd trimester onwards) and lactating women to receive COVID-19 vaccines were included into such efforts.

### **Synergies and trade-offs between the workstreams**

As a Public Health Emergency of International Concern determined to constitute a public health risk to other states through the international spread of disease, COVID-19 has not only highlighted the need for stronger primary health care systems and resilient communities, and sustainable financing for health, but also underscored the need for whole-of-government responses urging local administrations and education and health sectors for example, to work jointly to make schools and all educational institutions safe for reopening to in-person learning, lest potentially lead to more aggravating health concerns in the longer run. With prolonged school closures having detrimental long-term effects on individual children, families, the community, and the economy alike the governance of public sector service delivery needs to ensure public health as well as education policy should both consider the need to balance health, well-being and learning of Lao children and young people.

The COVID-19 pandemic has affected human capital directly. Recovery from the pandemic will require time sensitive, targeted investments in both education and health to enable the cohorts annually entering the workforce to productively contribute by improving their prospects when reaching active age. If these investments are done with a whole-of-society approach also engaging the private sector, which will be the largest employer of the workforce, gains that can benefit the public sector and society at large can be made. Shared responsibility for staff well-being by private sector entities for health insurance, COVID-19 prevention/vaccination, special measures for female employees including SRH services, and skills building through structured regular trainee/apprenticeships can create and contribute towards a more competitive and productive economy.

To this end, labour and migration as well as value chains, trade and tourism are areas closely linked to, and dependent of the direct investments made in human capital. Beyond the human tragedies found behind lost individual opportunities, these very sectors are also, those that will suffer in the absence of a targeted, strategic and comprehensive investment in human capital.

In a context where the COVID-19 pandemic has deepened economic shocks, increasing unemployment, budget deficits and limited fiscal spaces, the policy recommendations would need to prioritize the investments with the highest return. In this regard, investment in health and education must be prioritized. For improving diets and nutritional intake of children, and reducing anemia amongst women and girls, solutions lie in coordination between agriculture, food, health, education, WASH and social protection systems. A skilled workforce is at the heart of each of these sectors. Horizontal collaboration can save costs and accelerate results.

### Stakeholder mapping, mitigation measures and policy recommendations

Two years into the pandemic, the Government of Lao PDR, as governments elsewhere, need to explore ways to balance the health, protection, and wellbeing of its people while reducing socio-economic impacts that risk driving people into poverty and averting a learning crisis for children. As vaccination rates steadily rise, and individuals and communities are empowered and educated to take more ownership of their own health and implement the public health and social measures including all preventative measures, Lao PDR needs to find this balance by optimizing prevention efforts and minimising risk and by so, effectively learning to live with COVID-19, making informed decisions about re-opening schools, essential services, and businesses.

People are more productive when they are healthier and well educated. Investments in SRH and Rights, as well as essential health services including Nutrition, Maternal, Newborn, Adolescents and Child Health services, combined with investments in Pre-primary, Primary Secondary and Tertiary Education can positively impact human capital and macroeconomic performance. Maintaining sufficient investment in human capital requires strengthening the health financing system through improving accountability, sustainability and efficiency across programs and mobilizing more resources including pro-health tax. This should be built on a stable and increased national budget, recognising anticipated donor transitions, in close collaboration and coordination with development partners based on the Health Financing Strategy and the 9<sup>th</sup> Education

Sector Development Plan (2021-2025). Similarly, educational costs should be seen as investments into the country's future.

Post-COVID-19, policy initiatives need to recognize the challenges posed by increased reliance on remote learning. Similarly, policies should address the need to reduce risk factors for non-communicable diseases, and for communicable diseases manage and deliver health services **geared** to all ages using innovations that have been piloted successfully to reach remote communities and ensure continuity of care when in person contact is not feasible. Closing equity gaps is particularly important in lagging regions, among disadvantaged minorities at the basic and higher education levels, and in child, adolescent, and maternal health.

Action / Recommendation	Period	Govt Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
<b>Immediate Priorities (within next 2 years)</b>					
<b>Education</b>					
Safe reopening of schools and all educational institutions and mitigate learning losses, include CSE provision of continuity of learning options when schools are closed.	Immediate as per Education sector working group	MoES, MoF	MoES, NUoL		SDG4 NSEDP Outcome 2 Education Sector Development Plan
Safeguard the education budget from further cuts and where possible increase allocation in cost-effective interventions with the highest impact on learning and skills development starting from early childhood education.	Immediate as per Education sector working group	MoES, MoF	MoES, NUoL		SDG4 NSEDP Outcome 2 Education Sector Development Plan
Address learning loss and support vulnerable groups (poorest quintiles, disabilities, secondary students, girls at high risk of early marriage and pregnancy) from dropping out of school through Subsidies, social protection measures CSE for out of school.	Immediate as per Education sector working group	MoES, MoF	MoES, NUoL		SDG4 NSEDP Outcome 2 Education Sector Development Plan

Action / Recommendation	Period	Govt Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
<p>Investing in tertiary, technical, vocational skills and competencies in urban and rural settings.</p> <p>Promoting digital skills and literacy and 21<sup>st</sup> century skills in basic education, TVET, and higher education, and</p> <p>Reskilling and upskilling for employment, including digital skills and creating job opportunities</p> <p>Internships, mentorships, job fairs, recruitment meet and greets, etc. need to be rapidly set up to match employers with potential recruits</p>	Immediate and through 9 <sup>th</sup> NSEDP	Multiple	Educational, Technical and Vocational training institutes to work in collaboration with private sector where the bulk of the jobs will be.	<p>Prioritise cohorts entering the workforce (approx 80,000 annual new entrants to the Lao workforce)</p> <p>Different investments required for urban and rural residents, recognising that 60 per cent of the population is rural</p>	SDG 4 NSEDP Outcome 2 and 3 Education Sector Development Plan
Improve teacher allocation policy and implementation for the whole education system to be more equitable, efficient and needs-based also taking into consideration the quota system, the prevalence of multigrade classes in primary education, and the demographic profile of Lao students.	Immediate as per Education sector working group	MoES, MoF, LSB	MoES, NUoL		SDG4 NSEDP Outcome 2 Education Sector Development Plan
Greater investment in training of the primary teacher workforce in order to take full advantage of new teaching materials and the improved pedagogy	Immediate and through the 9 <sup>th</sup> NSEDP	MoES	MoES		SDG4 NSEDP human resource development goal ESSDP

Action / Recommendation	Period	Govt Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSED-9, GNA 1/
The development of a new national primary curriculum along with new teaching and learning materials which present a major transition towards “active learning” and will have spin-off effects on the quality of education.	Through 9 <sup>th</sup> NSED-9	MoES	MoES		SDG4  NSED-9 Outcome 2  ESSDP
<b>Health &amp; Nutrition</b>					
Scale up BMS monitoring of retailers from 1 to 18 provinces and develop and roll out BMS monitoring in health facilities across the country	2021/2022	Multiple Ministries	MOH	All families particularly vulnerable populations  Retailers and health facilities  Inspectors	SDG2  NSED-9  National Plan of Action on Nutrition (NPAN)  RMNCAH action plan
Strengthen the capacity for treatment of Acute Malnutrition in priority provinces with the highest burden, including training (including roll out of online IMAM training course and training videos), roll out of monitoring and reporting tools, and invest in increased early case finding	Immediate and through the 9 <sup>th</sup> NSED-9	MOH: DHHP (CN), DHR and FDD	DHHP (CN), DHR and FDD	Acutely malnourished children  Health facility workers  Programme managers	SDG2  NSED-9  National Plan of Action on Nutrition (NPAN)  RMNCAH action plan
Strengthening primary health care to build resilient and sustainable health system and engage with other sectors and communities closely through implementation of the Health Sector Reform Strategy, the PHC policy and the Community Health Systems Strengthening Action for PHC	2021	MoH, MoHA, MoSAL, MoES, MoF, MPI, LWU, LYU, LNFT	MoH	All families particularly vulnerable populations	SDG3  NSED-9 human resource development goal  HSR, PHC Policy, RMNCAH action plan

Action / Recommendation	Period	Govt Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
Prioritize and scale up of the key essential health service package including integrated management of newborn and childhood illness, routine immunization, maternal health care and early essential newborn care, and family planning services to reduce maternal, infant and child mortality, and building capacity and planning deployment for healthcare workers especially midwives to meet the workforce requirements for the population	2021/22	MoH, MoF	MoH		SDG3 NSEDP human resource development goal RMNCAH action plan
Build resilience of health systems to respond to COVID-19 and prepare for future public health emergencies through risk informed programming including the development of programmes and tools on Disaster Risk Reduction.  Mental health and psychosocial support, hotline) which can provide MHPSS support to frontline workers, adolescents and pregnant lactating women, infant feeding counselling particular to those affected by quarantine, lockdown or other COVID-19 related movement restrictions	2021/22	Ministries (led by MoH), Center for Nutrition (CN) together with key stakeholders including DHR  Lao Midwives Association	MoLS W, MoES, MoH, NUoL, LYU, LWU, CN	Selected front line health worker experienced with supporting breastfeeding through their work; for hotline/virtual counselling service, mothers of infants and young children	SDG4 NSEDP human resource development goal RMNCAH action plan National Plan of Action for Nutrition (NPAN)
Prioritizing Essential Health Service Package implementation, programmes to reduce infant and Maternal Mortality, FP services, and building capacity and planning deployment for healthcare workers especially midwives to meet the workforce requirements for the population.	Immediate and through the 9 <sup>th</sup> NSEDP	MoH, MoF, Lao Midwives Association			

Action / Recommendation	Period	Govt Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
Take to scale remote care and telehealth approaches for use in remote communities and for ensuring continuity of essential health services.	Immediate and through the 9 <sup>th</sup> NSEDP	MoH, Lao Midwives Association	MoH	Remote Communities	
<b>Gender Equity</b>					
<p>Differential investments in the female workforce for equity.</p> <p>Allocate budget for the Gender Equality Plan and EAW plans.</p> <p>Protect SRH/FP budgets, and SRH/FP health workforce especially midwives.</p> <p>Invest to reduce disparities in sectors where women and girls are left behind or which disproportionately affect women and girls: digital divide, prevention of teenage pregnancy, secondary school drop-outs where supported by local data, and monitor Noi framework within provincial plans</p> <p>Improve access to social security, childcare, maternity leave, measures to address unpaid care burden, leave for new parents.</p>	Immediate and through the 9 <sup>th</sup> NSEDP	All Sectors NCAWMC, Lao Women's Union, Provincial Planning Departments	<p>Ministries of Planning, of Health, of Education and Sports, of Labour and Social Welfare, LWU</p> <p>Ministry of Information, Culture and Tourism, MoICT</p> <p>Private Sector</p>		<p>SDG 3, 4 and 5,</p> <p>NSEDP</p> <p>Second National Plan of Action on Preventing and Elimination of Violence Against Women and Violence against Children (2021-2025) (EAW NAP) and the Fourth National Plan of Action on Gender Equality (2021-2025)</p>
<b>Medium-Longer term priorities</b>					
<b>Education</b>					

Action / Recommendation	Period	Govt Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
Enhancing early child development and school readiness, reducing drop-out rate, and ensuring education quality and efficiency.					SDG4 NSEDP Outcome 2 ESSDP
Sustain investments in the continuous professional development of teachers starting from ECE to higher education, including Teacher Training Colleges and for ECE, primary, secondary, and tertiary.					SDG4 NSEDP Outcome 2 ESSDP
In collaboration with the e-gov center, address quality of and high internet costs to ensure and expand affordable online schooling including to consider the sufficiency of intranet to avoid international costs.		MoES	MoES, NUoL		SDG4 NSEDP human resource development goal ESSDP
<b>Health &amp; Nutrition</b>					
Strengthen the forecasting, procurement and distribution of essential nutrition commodities (including medicines, nutrition and contraceptives) steadily increasing GOL allocation for procurement of such supplies from internal budgets.	Through the 9 <sup>th</sup> NSEDP		MoH, NC (DHHP) with FDD (Medical Products Supply Centre)		SDG2 SDG3
Continued capacity building of health workers for treatment of Severe Acute Malnutrition (Integrated Management of Acute Malnutrition- IMAM) Roll out of a National online training course for IMAM.	Through the 9 <sup>th</sup> NSEDP		MoH (DHHP) and NC with FDD and other stakeholders		SDG3 National Plan of Action for Nutrition (NPAN)

Action / Recommendation	Period	Govt Unit / Ministry	Implementing Entity	Target Group	Alignment: SDGs, NSEDP-9, GNA 1/
Development of cadre of certified breastfeeding counsellors and development of virtual breastfeeding/infant feeding counselling service (e.g., hotline)	Through the 9 <sup>th</sup> NSEDP		MoH (DHHP) and NC with FDD and other stakeholders		SDG3 RMNCAH action plan
Strengthen sustainable health finance system, while ensuring equitable access to healthcare and financial protection.	As per the HSP	MoH, MoF	MoH	All families particularly vulnerable populations Health facility workers	SDG3 Health Sector Plan Health Financing Strategy NSEDP Outcome 2



## Theme 5: Green Growth, Resilience and Risk Management

### Background Paper of the Multi-Stakeholder Taskforce to Study the Impact of COVID-19

Led by:



**NIER**

Supported by:



Global  
Green Growth  
Institute

With additional contributions from FAO, UNDP, UN-Habitat, UNIDO, and UNRCO

### Relevance of workstream

Green growth, resilience and risk management are essential components in the planning and implementation of Lao PDR's medium-term COVID-19 recovery strategy embedded in the 9<sup>th</sup> National Socio-Economic Development Plan (NSEDP). Furthermore, these themes are integral elements of a new sustainable economic model required to 'build back better' in terms of mitigating greenhouse gas emissions, adapting production and consumption systems to climate change and extreme weather events, strengthening the resilience of natural capital and communities, managing disaster risks, and increasing access to green finance.

By defining and instituting a development trajectory which is based on a green growth model, mainstreams resilience and sustainability, and better addresses disaster risks, Lao PDR will improve its transition towards graduation from Least Developed Country status, which is a top national priority. In light of the cross-cutting importance of a green and sustainable development model, this workstream will contribute to the country's progress towards multiple SDGs: 1 (no poverty), 2 (zero hunger), 6 (clean water and sanitation), 7 (affordable and clean energy), 8 (decent work and economic growth), 9 (industry, innovation and infrastructure); 10 (reduced inequalities), 11 (sustainable cities and communities), 12 (responsible production and consumption), and 13 (climate action).

### Key impact and risks of COVID-19

The Lao PDR entered 2021 with significant development challenges due to its unsustainable management of natural resources, low resilience to shocks, rapid and unplanned urbanization, and weak competitiveness. The COVID-19 pandemic exacerbated the country's macroeconomic and financial vulnerabilities. Economic

growth declined from 6.3 per cent in 2018 to 3.3 per cent in 2020, the lowest level in three decades.<sup>83</sup> A second wave of COVID-19 delayed economic recovery in 2021, with consumption hard hit by the pandemic containment measures implemented since April 2021 and growth prospects downgraded. Policies to stop the spread of COVID-19 have curbed output in manufacturing, hurt growth in retail trade, transport, and tourism services, and reduced government revenue collection. Curtailed economic activity has increased joblessness, particularly among women, and reduced incomes, with households whose members have lower skills and education being hardest hit<sup>84</sup>.

Public finances remain under stress, with public and publicly guaranteed debt reported at 72 per cent of GDP in 2020<sup>85</sup>. Hence, meeting debt service obligations while providing allocations for development spending will become increasingly challenging. High debt stress is likely to continue pending significant debt restructuring and enforcement of limits on commercial borrowing. The multi-stakeholder taskforce considers growth unlikely to return to pre-COVID-19 levels in the near term.

The impacts of the pandemic are being disproportionately felt by the more vulnerable segments of the population, and the second wave of COVID-19 since April 2021 is likely to pull a large number of vulnerable households (estimated at an additional 5.2 per cent) below the poverty line, exacerbating gender and other inequalities. Women are more exposed to the economic downturn as they typically operate in the lower sections of the labor market, in more vulnerable or in informal and more exposed sectors, or as unpaid family workers with no health insurance or social security. The closure of schools and shift to digital education has disrupted the learning of children, particularly those from low-income households without access to digital tools. Vulnerable ethnic groups living in remote areas are facing high unemployment and underemployment rates, with a consequent decline in income and food security. People with disabilities are confronted with greater barriers in accessing health and social services.<sup>86</sup>

The 9<sup>th</sup> NSEDP requires macro-economic and fiscal stability to achieve resilient, green, inclusive, and sustainable growth. Investing in green growth, resilience and risk management will require substantial financial resources, both public and private. However, constrained Government revenues, which have been further weakened by the pandemic, and debt amortizations for public sector foreign currency loans, are expected to limit the amount of public funding that can be allocated to these areas in the short-term. It is therefore increasingly important to mobilize private sector investment, particularly for green growth and green job creation, while working towards medium-term improvement of macro-economic fundamentals and the fiscal position. In this context, the rapid implementation of measures to improve the business environment for private sector investment assumes heightened importance. Furthermore, considering the disproportionate impacts of the pandemic on vulnerable groups, all recovery measures need to integrate inclusion and leaving no one behind as cardinal principles.

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<sup>83</sup> Multi-stakeholder Taskforce to Study the Impact of COVID-19. 2021. Financing for Sustainable Development and Effective Development Cooperation (Macro-Fiscal Framework)

<sup>84</sup> ADB. 2021. Asian Development Outlook 2021. Manila; ADB. 2021. Asian Development Outlook Update 2021. Manila.

<sup>85</sup> Multi-stakeholder Taskforce to Study the Impact of COVID-19. 2021. Financing for Sustainable Development and Effective Development Cooperation (Macro-Fiscal Framework)

<sup>86</sup> United Nations. April 2021. Socio-economic Impact Assessment of COVID-19 in Lao PDR. Vientiane.

## Implemented measures and lessons learned

The background paper of 2020 included a series of recommendations and actions required to strengthen green growth, resilience and risk management. These can be summarized as follows:

- *Green growth*: aim for a low carbon economy with green job creation; accelerate clean energy transition; promote green bonds for renewable energy; promote green budgeting and expenditure tagging; promote sustainable waste management and circular economy models; and, encourage green infrastructure and the transitioning of industry.
- *Resilience building*: invest in local communities to protect ecosystems; strengthen biodiversity and wildlife protection and conservation; build community resilience to disaster risks and climate change in both rural and urban areas; strengthen private sector resilience and pandemic recovery measures; and, invest in resilient infrastructure and supply chains.
- *Risk management*: prioritize prevention, mitigation, and community-based risk reduction measures; promote disaster risk financing; strengthen and mainstream DRR across line ministries and sectors; use data to better determine risk and inform DRR policies and activities; and, implement measures to reduce air pollution and improve air quality.

The current analysis introduces a number of additional recommendations. In the area of green growth, it would be desirable to increase engagement with the ASEAN Comprehensive Recovery Framework, in particular Strategy 5 aimed at advancing towards a more sustainable and resilient future. To promote a transition to a more sustainable energy system, it would be necessary to understand future low carbon transformation, assess the sustainable development benefits of transformation, integrate low carbon transformation into national strategies, develop a financing strategy and pipeline of investment proposals, strengthen institutional structures for effective implementation through capacity building and tools, facilitate knowledge management and enable peer-to-peer exchanges for a common positive narrative of transition and synergies, and analyze the opportunities for green transmission of energy from Lao PDR to neighboring countries as a means to reduce the need for coal power generation in those countries. To enhance resilience, a set of actions deriving from the National Food Systems Summit Dialogue Consultations should be considered. In addition, there is scope to promote climate-resilient agriculture and nature-based solutions, integrated agriculture, good agricultural practices, and organic production systems. To improve risk management, several DRM recommendations may be updated in support of the new National DRR Strategy, and efforts can be increased to build national and subnational capacity in disaster-responsive social protection and agriculture. Gender equality and good governance are found to be important cross-cutting themes in all the three areas.

### Implementation: green growth

A number of the 2020 recommendations have been incorporated into the 9<sup>th</sup> NSEDP. To promote green growth, the 9<sup>th</sup> NSEDP includes references to the NDC, the reduction of GHG emissions, support for energy efficiency and development of renewables, the creation of green jobs across multiple sectors, the promotion of circular economy to reduce waste and pollution, the management of hazardous waste, and guidance for green infrastructure development.

Furthermore, a number of important green growth activities have been initiated: (i) finalizing the updating of the National Climate Change Strategy by the Ministry of Natural Resources and Environment (MoNRE); (ii)

introduction of Government policy to promote electric vehicles, initiation of solar power production and solar panel use by factories and off-grid households, and wind power farms; (iii) translation of the Nationally Determined Contributions (NDC) into a multi-sector action plan; (iv) embedding of the National Green Growth Strategy (NGGS) 2030 into the planning process of line ministries such as MONRE, the Ministry of Public Works and Transport (MoPWT), Ministry of Industry and Commerce (MOIC) and Ministry of Agriculture and Forestry (MAF); (v) endorsement of the National Clean Agriculture Strategy and the Green and Sustainable Agriculture Framework by MAF, which provide strategic direction for the sector implementation of the NGGS; (vi) ongoing revision of the environment law by MoNRE; (vii) collaborative work by MAF and MoNRE to create the enabling conditions for responsible business investment in forestry and agriculture; (viii) alignment of the MOF budget to support green growth through public procurement, and efforts to improve the country's credit rating to attract investors for green bonds; (ix) finalization of pandemic recovery MSME development plans by MoIC focusing on green financing, credit guarantees for SMEs, economy digitalization, and inclusive business model; (x) efforts to instill responsible and sustainable business models in the private sector by Lao National Chamber of Commerce and Industry (LNCCI); and, (xi) preparedness to leverage the Lao-China railway launch with associated private investment in sustainable timber production and export.

### **Implementation: resilience building**

To build resilience, the 9<sup>th</sup> NSEDP focuses on promoting sustainable cultural and natural tourism within a community-based landscape, with emphasis on domestic and local tourism, adaptation and resilience in agriculture and natural resources, attention to land and forest tenure, improved forest management and biodiversity protection, increased social protection including for the elderly, and the diversely abled, an improved business environment for the private sector, in particular for micro, small and medium sized enterprises, vertical integration of local production into broader value chains, and the improvement of drainage and flood control infrastructure for climate resilience purposes.

Various resilience building initiatives have been undertaken to date: (i) finalizing the updating of the National Climate Change Strategy by MoNRE, as outlined earlier; (ii) ongoing revision of the Environmental Protection Law and related regulations by MoNRE; (iii) initiatives to promote agro-biodiversity and strengthen agricultural supply chains by MAF; (iv) establishment of five national parks, and broader investment to strengthen the national protected area system and build the associated public, private and community capacities; (v) ongoing revision of the law on SME promotion and facilitation of cross-border trade; (vi) capacity strengthening of SMEs by LNCCI in business planning, accounting, and access to finance; (vii) deferring of enterprise tax payments and proposed reduction of VAT; (viii) attempts by the central bank to reduce the cost of financing for SMEs; (ix) attempts by the Lao Women's Union to identify ways to strengthen resilience through gender equality; and (x) social protection support provided by the Ministry of Labour and Social Welfare (MoLSW) and development partners to unemployed workers (primarily women), firms, and garment and textile factories. However, deeper investments in resilience and social protection have not been possible due to the weak fiscal and budgetary position, and the lack of institution preparedness, in terms of systems, capacities, and infrastructure, for rapid upscaling and deployment of interventions.

### Implementation: risk management

In the area of risk management, the 9<sup>th</sup> NSEDP outlines measures to strengthen public finance management to create fiscal space for counter-cyclical interventions and a disaster risk buffer, the establishment of a disaster management fund at central and local levels, a range of measures to prevent, reduce and/or mitigate disaster risks, the application of weather forecasting, meteorology and hydrological indicators, the building of DRM capacities at subnational levels, and measures to improve air quality and reduce haze and water pollution.

Progress has been made in the implementation of disaster risk management: (i) ongoing development of strategic environmental assessments for green growth (led by Ministry of Planning and Investment (MPI) and in the power sector (led by Ministry of Energy and Mines (MEM)); (ii) strengthening of Disaster Risk Management (DRM) through cross-sector coordination among MoLSW, Ministry of Health (MoH), MAF, Ministry of Education and Sports (MoES), MoNRE and MoPWT, although a clearer division of responsibilities is required, particularly for medical and hazardous waste management; (iii) endorsement of the National DRR Strategy by Government in 2021; (iv) capacity development on Disaster Risk Reduction (DRR) at central and local levels set up by MoLSW; (v) capacity development by MAF and MoLSW for inclusion of DRR in provincial agriculture plans; (vi) disaster relief capacity, coordination, emergency response and early warning systems strengthened by MoLSW; (vii) establishment of a national DRM fund and organization of disaster risk insurance; (viii) inclusion of DRR outcomes and indicators in MoPWT's investment plan and infrastructure maintenance; (ix) regulations issued on hazardous waste control by MoNRE; (x) increased capacity at central and local levels of MoNRE to monitor and report on air quality; and (xi) development of a National Adaptation Plan.

Progress has been more limited in the area of fiscal risk management, with the public debt management strategy and implementing regulations for the public debt management law still under preparation. However, improved management of contingent liabilities has been included as a priority in the strategic plan of the Ministry of Finance (MoF).

### Lessons learned

Lessons learned in efforts to implement the recommendations are (i) in light of the deteriorating fiscal position, actions which require incremental national budgetary expenditure in the short term are very challenging; (ii) while many of the proposed actions are reflected in the 9<sup>th</sup> NSEDP which is a planning document, and are included in the updated policies and work plans of relevant Ministries and other public institutions, their implementation could take longer than anticipated due to the effects of the pandemic; (iii) pandemic-related restrictions have elevated the importance of IT communication and digitalization; and (iv) proposed actions which are realistic, concrete and measurable have greater chances of being implemented; and (v) greater alignment is needed between the annual workplan and budget and the medium-term expenditure plan with the 9<sup>th</sup> NSEDP and its annual workplan to realize development results.

### Synergies and trade-offs among the workstreams

The Multi-Stakeholder Task Force, which aims to review the impact of the pandemic on national priorities and recommend consequent policy re-calibrations required, is structured around five main thematic areas.

The synergies between the green growth, resilience and risk management theme and each of the other four themes are outlined below.

### **Synergies with financing for sustainable development (theme 1)**

A transformation of Lao PDR's development trajectory towards a post-pandemic sustainable green growth model will require substantial financial resources from public and private sources. As such, the outcomes of policy reforms proposed by the sustainable financing workstream will significantly influence the extent to which a green growth model can be implemented. Two elements of this workstream are of particular importance: (i) ensuring macroeconomic stability by addressing fiscal, debt sustainability and exchange rate risks, and accelerating business environment reforms; (ii) improving revenue mobilization and public expenditure management, strengthening oversight mechanisms for robust monitoring, reporting and verification, and strengthening the financial sector.

### **Synergies with trade, private sector, value chains and tourism (theme 2)**

The implementation of a green growth model is intrinsically related to the post-pandemic nature and patterns of external trade, the private sector outlook, integration with regional value chains, and the shape of tourism. Green growth interacts with this workstream in three important ways: (i) improvement of the business environment for the private sector can increase the financing available for green investment; (ii) greater regional integration could either pose challenges or provide benefits for climate mitigation and resilience, depending on how such integration is managed; (iii) environmentally responsible tourism would offer opportunities for investment in green infrastructure and green jobs.

### **Synergies with skills development and sustainable employment (theme 3)**

The re-calibration of skills development required to implement a green growth model can lead to increased sustainable employment opportunities. This would have important impacts in light of the low labor force participation rate (particularly of women), the rising unemployment created by the pandemic, and the return of a significant number of migrants. In this context, investing in green growth and green jobs would inform the patterns of quality skilled workforce development, technical and vocational training, and associated labor market intermediation, and potentially improve access to job opportunities for women and returning migrants. Portability of skills and protections via harmonization of certification standards and social security would increase flexibility and productive deployment of human capital in Lao PDR and neighboring countries.

### **Synergies with human capital (theme 4)**

Inclusive and equitable investment in human capital can improve the productivity of young adults by improving early life experiences of adequate nutrition, responsive care, transition into school, learning and schooling decisions, employment practices, health policies, and gender equality. A strengthened human capital base can facilitate a transition to green growth and risk reduction and management, as quality human capital is a prerequisite in these areas.

## Stakeholder mapping, mitigation measures and policy recommendations

Action / Recommendation	Period	Government Unit / Ministry	Implementing Entity	Alignment with SDGs / national priorities
<b>Green growth:</b> aim for a low carbon economy; accelerate clean energy transition; promote green bonds for renewable energy; promote green budgeting and expenditure tagging; promote sustainable waste management; encourage green infrastructure and transitioning of industry, support the ASEAN Comprehensive Recovery Framework; explore sources of green finance for MSMEs.	9 <sup>th</sup> NSEDP period (2021-2025)	MOIC, MOF, MONRE, MAF, MPWT, MEM; LNCCI	MOIC, MOF, MONRE, MAF, MPWT, LNCCI  Supported by ADB, other IFIs, UN agencies, bilateral partners	SDG 6, 7, 11, 12, 13  9 <sup>th</sup> NSEDP Outcomes 2, 4
<b>Resilience building:</b> invest in local communities to protect ecosystems; strengthen biodiversity and wildlife protection and conservation; empower women and build community resilience to disaster risks and climate change; strengthen private sector resilience and pandemic recovery; invest in resilient infrastructure and supply chains; implement actions from the National Food Systems Summit Consultations; promote climate-resilient agriculture and nature-based solutions, good agricultural practices, and organic production systems.	9 <sup>th</sup> NSEDP period (2021-2025)	MONRE, MAF, MAF, MOIC, MLSW, MPWT	MONRE, MAF, MAF, MOIC, MLSW, MPWT  Supported by ADB, other IFIs, UN agencies, bilateral partners	SDG 1, 2, 6, 8, 10, 11, 12, 13  9 <sup>th</sup> NSEDP Outcomes 1, 3, 4
<b>Risk management.</b> promote disaster risk financing; access climate finance; strengthen and mainstream DRR and climate resilience across ministries and sectors; use data to better determine risk; implement measures to reduce air pollution and improve air quality; support new national DRR policy and build capacities for disaster-responsive social protection and agriculture; improve fiscal risk management.	9 <sup>th</sup> NSEDP period (2021-2025)	MLSW, MONRE	MLSW; MONRE  Supported by ADB, other IFIs, UN agencies, bilateral partners	SDG 13  9 <sup>th</sup> NSEDP Outcome 4

SECTION 02 | CHAPTER 04

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# LDC GRADUATION

## Smooth Transition Strategy: Draft Concept Note and Timeline

### Background

#### 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:

- |  |  |
|--|--|
| • low levels of human assets;                  | • high levels of debt;                                 |
| • low educational performance;                 | • economic vulnerability;                              |
| • limited skills levels among the labor force; | • dependency on a few (often raw material) industries; |
| • weak governance structures and capabilities; | • low productivity;                                    |
| • high levels of corruption;                   | • illicit financial flows;                             |

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.

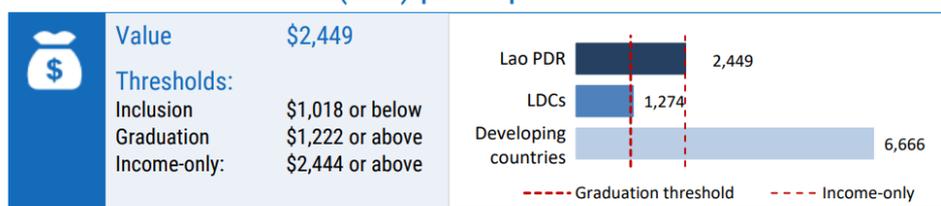
LDC Graduation on the other hand, signals that a country has overcome many of these challenges to make broad progress in raising national income, developing human assets, and reducing economic and environmental vulnerability, in accordance with internationally agreed criteria:

- 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).
- 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)
- 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 drylands; 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\*



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



#### EVI indicators\*

##### Share of agriculture, forestry and fishing in GDP

 **Value:** 17.7  
**Index:** 28.3  
**Source:** UN/DESA, Statistics Division

##### Remoteness and landlockedness

 **Value:** 55.5  
**Index:** 56.9  
**Source:** CDP

##### Merchandise export concentration

 **Value:** 0.25  
**Index:** 17.4  
**Source:** UNCTAD

##### Instability of exports of goods and services

 **Value:** 5.1  
**Index:** 10.2  
**Source:** UN/DESA, Statistics Division

##### Share of population in low elevated coastal zones

 **Value:** 0.0  
**Index:** 0.0  
**Source:** CIESIN

##### Share of population living in drylands

 **Value:** 0.0  
**Index:** 0.0  
**Source:** CDP

##### Instability of agricultural production

 **Value:** 5.2  
**Index:** 20.0  
**Source:** FAO

##### Victims of disasters

 **Value:** 2.86  
**Index:** 83.5  
**Source:** EM-DAT

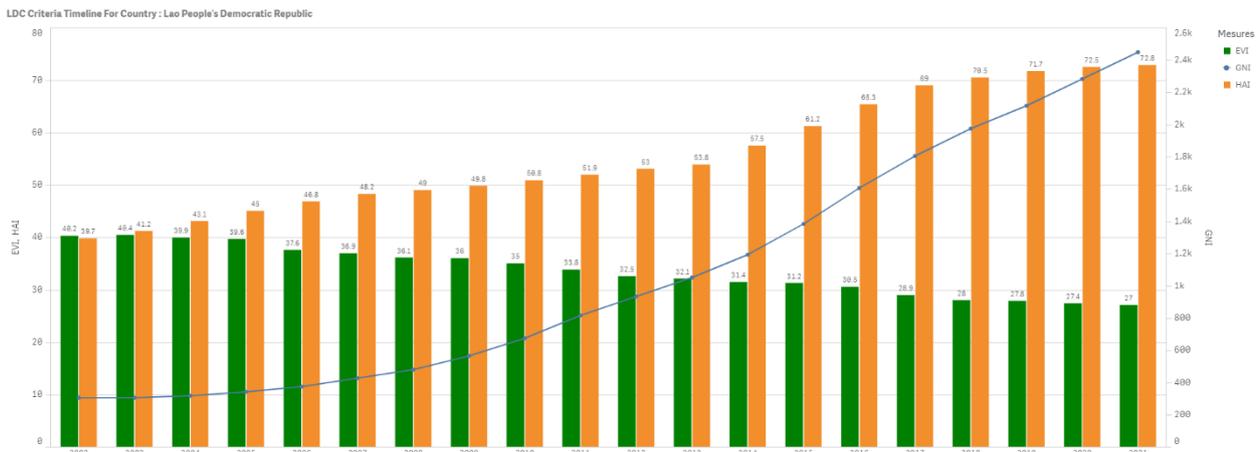
### Human assets index (HAI)\*

	<b>Value:</b> 72.8	
	<b>Thresholds</b>	
	<b>Inclusion:</b> 62.0 or below	
	<b>Graduation:</b> 66.0 or above	

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



### 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>87</sup> reflecting the severe and ongoing impact of COVID-19. Graduation is therefore expected to take place in 2026, with CDP continuing to monitor progress closely throughout the preparatory period.

<sup>87</sup> Endorsed by ECOSOC in resolution 2021/11, GA resolution pending

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>88</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>88</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.

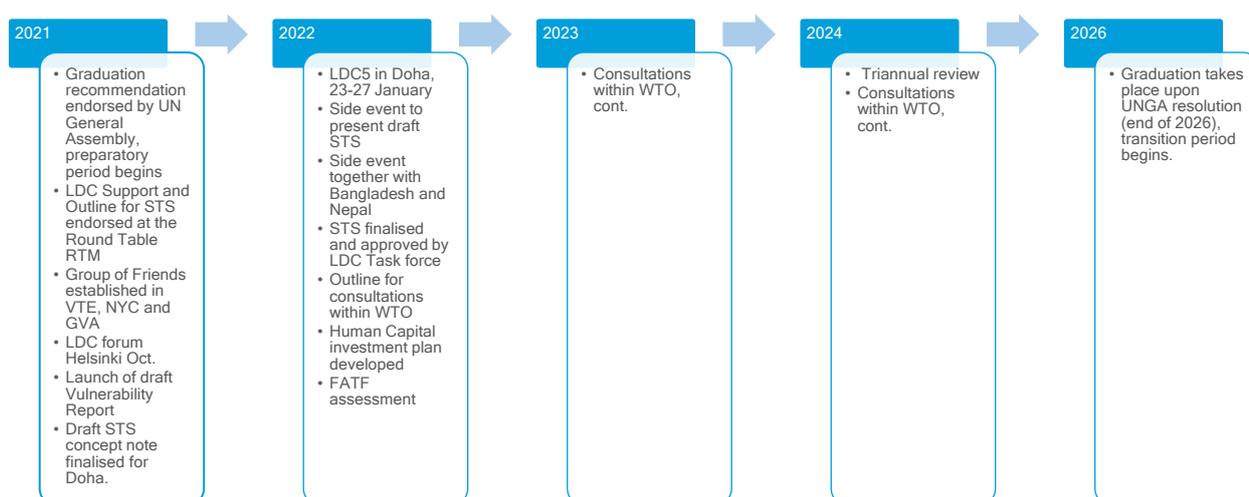
The development of the strategy will be informed by a consultative mechanism established by the Government supported by the UN, in cooperation with development and trading partners to identify and agree on the associated actions, negotiate their duration and phase-out period of the support measures that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



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

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

Management of the LDC Graduation process is led by the Department of International Organisations (DIO) of the Ministry of Foreign Affairs (MoFA) on behalf of the LDC Task Force Committee under the overall chairmanship of the Foreign Minister and supported by its Permanent Representatives to the UN in New York and in Geneva, in close coordination with the Department of International Cooperation (DIC) of MPI, which acts as the secretariat of the HL-RTM.

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;
- **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>89</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>89</sup> DESA, UNCTAD, ILO, ITC, UNDP, UNIDO, OHRLLS and RCO

## Summary of Information on LDC Graduation for Lao PDR

### Introduction

The UN Committee for Development Policy (CDP) recommended at the 2021 triennial review that Lao PDR graduate from the LDC category, noting that it met all three criteria for graduation by a considerable margin. Owing to the COVID-19 pandemic, CDP recommended that Lao PDR graduate in 2026 following an extended, five-year preparatory period, together with careful monitoring and analysis of the impacts of the pandemic and specific transition support.

This paper summarizes information from the UN Graduation Assessment for Lao PDR<sup>90</sup> and other information that Lao PDR could take into account in developing its smooth transition strategy (STS) from the LDC category with the support of the international community.

Sections 2-4 of the document address specific, mainly shorter-term impacts more directly attributable to LDC graduation, many of which are expected to be limited and manageable, although some need to be carefully considered in transition planning. Section 5 addresses broader structural issues and vulnerabilities in Lao PDR that are important to address through medium- to long-term development planning and corresponding policies. Based on this information, section 6 lists some elements that could be considered in Lao PDR's planning for smooth transition. Finally, section 7 links to more detailed information.

### Trade impacts of graduation

Lao PDR predominantly exports to other Asian countries that are either part of the Association of Southeast Asian Nations (ASEAN) Free Trade Area or have free trade agreements with ASEAN. A large share of Lao PDR's exports (e.g., natural resources) are not affected by tariffs, and other exports will continue to be exported duty-free either under these agreements or under most-favoured nation (MFN) treatment. Lao PDR benefits from special and differential treatment under the ASEAN Free Trade Area, but this is not tied to its LDC status, so no significant impacts are expected from graduation under the existing arrangement. No significant impacts from LDC graduation are expected under the Asia-Pacific Trade Agreement (APTA).

Lao PDR together with other ASEAN members signed in November 2020 the Regional Comprehensive Economic Partnership (RCEP), which includes Lao PDR's main trading partners such as China, Thailand and Viet Nam, and industrialized countries such as Australia, Japan, New Zealand, the Republic of Korea and Singapore. Among other things, RCEP includes a single rule-of-origin framework for the 15 member countries as well as measures for services liberalization. Lao PDR already receives the bulk of its foreign direct investment (FDI) from RCEP members. The UN Conference on Trade and Development (UNCTAD) notes that RCEP presents both opportunities and risks (e.g., to balance of trade and customs revenue) for Lao PDR, as described in the vulnerability profile. RCEP provides increased flexibility for LDC Parties.

The most significant impact of LDC graduation would be on trade to the European Union (EU), which accounted for approximately 6% of Lao PDR's exports over the period 2016-2018. The EU's duty-free,

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<sup>90</sup> Including an assessment by the UN Department of Economic and Social Affairs (DESA) of the likely impacts of graduation and a vulnerability profile prepared by the UN Conference on Trade and Development (UNCTAD). Links to both are included in Section 7 of this paper.

quota-free (DFQF) scheme for LDCs, Everything But Arms (EBA), contains a smooth transition provision, so that Lao PDR would still benefit for at least three years after graduation. In other words, if Lao PDR graduates in 2026, it would benefit from the EBA until 2029. Approximately 10% of exports to the EU in 2017 were to the United Kingdom (UK), which has adopted a preferential market access scheme for LDCs equivalent to EBA.

Once the smooth transition period is over, based on the current EU scheme, exports to the EU would be subject to the Generalized System of Preferences (GSP), unless Lao PDR qualifies for the more favourable GSP+ arrangements (requiring among other things ratification of 27 conventions on human rights, good governance, and sustainable development, without reservations). The EU is currently reviewing policy options for revision of the GSP scheme after the end of 2023.

The International Trade Centre (ITC) estimates LDC graduation could lead to trade losses of US\$ 102 million, corresponding to less than 1.2% of Lao PDR's projected exports, during the year of graduation,<sup>91</sup> including US\$ 73 million to the EU market. The affected products mainly concern the garment industry (US\$ 56 million according to ITC estimates), followed by sugar, footwear, and rice. Coffee is another product for which tariffs are expected to increase in several markets, according to the World Trade Organization (WTO). These losses could be compensated by product diversification and increasing export markets. For instance, ITC also estimates that an untapped export potential to China of US\$ 16.7 million could compensate the potential trade loss from apparel exports to the EU.

The Lao PDR garment industry accounted for 66% of Lao PDR exports to the EU in 2016 and 60% in 2017. Larger companies are mainly under foreign or joint venture ownership and highly export-oriented, with many companies performing cut-make-trim (CMT) operations. Unlike some natural resource sectors, the garment sector is labour intensive and therefore an important source of employment especially for women. Challenges for the industry include a lack of skilled and unskilled labour, low productivity, high lead times, high logistics costs, and lack of an upstream supply chain, with most raw materials imported from abroad (especially China and Thailand). The last point could mean garment companies struggle to meet more stringent rules of origin even under arrangements such as GSP+. Options for the sector to react to the potential loss of trade privileges include measures to enhance productivity, market diversification, product upgrading, specialization and regional collaboration.

In its report to the 2019 WTO Trade Policy Review, Lao PDR noted that after graduation it will lose flexibilities in granting export subsidies and imposing tariffs and, while at the present time this is of minor concern to Lao PDR, it would need to be considered in ensuring that industrial policies and other policies supporting economic diversification are WTO-compliant. It requested technical assistance from WTO Members in elaborating such policies.

Lao PDR will also no longer benefit from LDC-specific flexibilities under the WTO agreements. In practice this is expected to be of limited consequence as, among other reasons, Lao PDR does not currently use the LDC-specific exemption to export subsidies under the Agreement on Agriculture and the Agreement on Subsidies and Countervailing Measures. The country also appears to make little or no use of exemptions under the Agreement on Trade-Related Intellectual Property Rights (TRIPS), although this could benefit from further research.

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<sup>91</sup> As the study was conducted before the 2021 triennial review, it used 2024 as the estimated graduation date.

Graduation could also impact a few sources of trade-related capacity building and technical assistance. For instance, Lao PDR would continue to be supported by most areas of work of the Enhanced Integrated Framework (EIF) for a period of up to five years after graduation.

### Development cooperation impacts of graduation

Graduation from the LDC category is expected to have only limited impacts on development cooperation in Lao PDR. It is not expected to affect assistance by the World Bank, most United Nations system entities, GAVI – the Vaccine Alliance, the Global Fund, most official development assistance (ODA) received from OECD-DAC Members (including the United States, the European Union, Australia and New Zealand, and grants from the Republic of Korea and Japan). It is also not expected to affect South-South cooperation, which is of critical importance in the case of Lao PDR. Classification between Asian Development Bank (ADB) financing groups involves many factors, and Lao PDR's high debt level makes it less likely that LDC graduation will impact assistance.

Graduation may entail slightly higher (while still concessional) interest rates on loans granted by Japan and the Republic of Korea. It may also trigger a gradual shift from grants to soft loans by OECD partners such as Germany. In a small number of UN entities, it could lead to a reduction in the resources available for country-specific activities or requirement for a higher cost-sharing contribution. Assistance by most UN entities is based on numerous factors including a country's specific vulnerabilities and needs and the agreed partnership framework.

After graduation, Lao PDR would no longer have access to LDC-specific mechanisms for technical and financial support including the LDC Fund for climate change adaptation (projects approved up to the graduation date would be funded) and the UN Technology Bank for LDCs (following a smooth transition period of five years after graduation). Graduation could also affect Global Environment Facility (GEF) funding more generally as its System for Transparent Allocation of Resources (STAR) includes higher minimum allocation floors for LDCs; however, actual allocation depends on multiple factors and graduation itself would not lead to an automatic reduction in funding.

A gradual change in the cooperation strategies of some partners has already begun, related to the increase in the level of income in Lao PDR and other factors, rather than graduation from the LDC category itself.

### Other impacts of graduation

After graduation, Lao PDR would no longer benefit from ceilings and discounts applied to LDCs in the determination of countries' mandatory contributions to the budgets of UN system entities. The exact impact depends on factors such as Lao PDR's relative performance on indicators used by the UN to assess capacity-to-pay, relative to other Member States. If Lao PDR had not been an LDC in 2020, it was estimated that its mandatory contribution to UN system budgets would have been about US\$ 120,000 higher; there would have been no increase to its contribution to the UN Regular Budget or the regular budgets of most UN entities, but there would have been an increase to the peacekeeping budget and contributions to three agencies that adopt class-based systems of contribution. At today's rates, the largest difference would be to

the International Telecommunication Union (ITU), but in the past graduating countries have successfully requested an extension of the conditions applied to LDCs at ITU.

After graduation, Lao PDR would no longer have access to LDC-specific support for travel to attend certain international meetings. LDC support to attend meetings of the General Assembly is available for a smooth transition period of 3 years after graduation, if requested and subject to availability of funds.

### Vulnerabilities beyond graduation

While Lao PDR has made significant progress in the Economic and Environmental Vulnerability Index (EVI),<sup>92</sup> significant challenges remain with COVID-19 introducing a further layer of uncertainty, macroeconomic instability and income, jobs and fiscal revenue losses:

Lao PDR's relatively undiversified economy is highly dependent on natural resources such as hydropower, mineral and land resources and increasingly vulnerable to the effects of climate change. Some diversification within sectors such as services, agriculture and manufacturing has occurred in recent years, in particular the tentative emergence in Special Economic Zones (SEZs) of manufacturing of machinery and transport equipment and components, which has increased the share of manufacturing in total merchandise exports.

The dependence on capital-intensive natural resource activities creates vulnerabilities, among others linked with environmental impacts of mining and hydropower. These activities also have few linkages to the local economy, low capacity to generate formal employment, and make modest contributions to Government revenues. They also mean that socio-economic progress is highly dependent on and vulnerable to weather conditions and trends in electricity export prices and other commodity price volatility. The economy of Lao PDR is expected to be negatively affected by the impacts of climate change, disasters, droughts and other extreme weather events in key sectors such as agriculture and hydropower generation.

Performance on key indicators concerning competitiveness and productive capacities does not match that of many ASEAN partners. The business environment is characterized by a very high degree of informality and limited access to finance, high cost of logistics, among other constraints. Many firms—and most in SEZs—are foreign-owned and the local value-added of their activities consists mainly of employment and wages. The low labour productivity with limited Global Value Chain (GVC) participation concentrated mainly in low-value segments partly explain the modest pace of poverty reduction, rising inequalities, and the relatively limited impact of strong economic growth on health and education indicators.

The weak fiscal situation and high levels of debt also put at risk the continuity of social development and jeopardize progress achieved. Increasing debt is an important vulnerability closely linked to low levels of domestic resource mobilization. In 2018, total external debt stood at 86.8 per cent of GDP, with public external debt owed to private creditors rising sharply from zero in 2001 to 39 per cent of GDP, and the share of concessional debt decreasing from 99 per cent in 1990 to 15 per cent in 2018. Debt owed by the private sector to foreign creditors has also increased tremendously especially since 2014, a large proportion of which is concentrated in public-private partnership (PPP) investments in the hydropower sector. On the

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<sup>92</sup> CDP determines the list of LDCs and recommends countries to graduate from the category based on (1) GNI per capita; (2) a human assets index (comprising education and health indicators); and (3) the economic and environmental vulnerability index.

other hand, sectors such as education and health development in Lao PDR still rely largely on external grant funding from development partners.

A Financial Action Task Force (FATF) anti-money laundering and countering the financing of terrorism (AML/CF) assessment is taking place that may also impact the country's ability to ensure a smooth transition. Lao PDR is currently undergoing its FATF 4<sup>th</sup> Cycle Mutual Evaluation, which is being undertaken by the Asia Pacific Group on Money Laundering (APG) with the aim to adopt a Mutual Evaluation Report (MER) at the APG's next Plenary Meeting in July 2022. APR will provide an "action plan" to address deficiencies identified by the MER, and if Lao PDR is unable to meet the requirements within a 12- to 18-month timeline, the country may be designated as being subject to "increased monitoring", also known as "grey listing". A public statement to this effect by FATF or APG is very likely to have a negative reputational impact and adversely affect international financial relations such as receipt of foreign direct investment, loans and corresponding banking.

The continued presence of Unexploded Ordinance (UXO) adds to the challenges facing the country not only by causing accidents with casualties but also by reducing access to agricultural land, hindering transport networks and increasing the cost of development projects in affected areas.

At the same time, there are important opportunities to develop the domestic production sector and regional value chains (RVCs) through new infrastructure and transport links, developing human capital, and domestic resource mobilization, supported by enhancements in public institutional capacities.

Socio-economic impacts of the COVID-19 pandemic have touched the entire population and included income and job losses, macroeconomic instability and serious impacts among others on education, food security, women and girls and people with disabilities. The pandemic affected the Lao PDR economy through multiple channels including tourism, international trade, foreign investment, commodity prices, exchange rates, and lower remittances. Mostly labour-intensive sectors and those linked to global and regional value chains were affected, including the garments sector, other manufacturing, construction, tourism and travel. It is estimated that unemployment has risen from around 9% a few years ago to 23-25%, threatening to push 383,000 people back into poverty and the national poverty rate up five percentage points. 71% of micro- and small enterprises say they will not survive without support or a quick economic upturn.

For LDCs worldwide, nine of the 15 LDC indicators are expected to be most negatively affected by the COVID-19 pandemic, especially GNI per capita, human assets index (HAI) indicators, and indicators in the economic vulnerability sub-index of EVI. These impacts are expected to be most visible in the CDP's 2024 triennial review, making it important to closely monitor Lao PDR's development progress during the preparatory period.

### Elements for a smooth transition

General Assembly resolution 67/221 emphasized that a successful transition should be based on a national smooth transition strategy (STS) elaborated as a priority by each graduating country, under national leadership and with the support of the international community. The national STS should include a comprehensive set of specific and predictable measures that are in accordance with the priorities of the graduating country while taking into account its own specific structural challenges and vulnerabilities as well as its strengths. The General Assembly invited each graduating country to implement the STS as part of its

overall development strategy. It also recommended that a consultative mechanism be established by the graduating country, in cooperation with its bilateral and multilateral development and trading partners, to facilitate the preparation of the STS and the identification of the associated actions and the negotiation of their duration and phasing out for a period appropriate to the development situation of the country, and that it be integrated with other relevant consultative processes and initiatives between the graduating country and its development partners.

CDP has recommended support measures be extended to graduating LDCs in areas such as: (a) Greater access to concessional development finance, including climate finance; (b) Fulfilment of ODA commitments; (c) Support for leveraging ODA flows to access additional public and private finance; (d) Increased coordination with international financial institutions; (e) Facilitation of South-South and triangular development cooperation. It stressed the importance of a time-bound extension of preferential market access and LDC-specific special and differential treatment under the WTO for graduating countries and called for the use of the collective strength of the Groups of Least Developed Countries to amplify the voice and visibility of graduating countries. CDP also viewed additional international support, including specific support to address impacts of the pandemic, as essential for smooth transition of Lao PDR and the other countries recommended for graduation at the 2021 triennial review, in addition to the extended preparatory period and careful review of impacts of the pandemic during annual monitoring and the 2024 triennial review.

Specifically for Lao PDR's smooth transition strategy, CDP recommended that the country and its development and trading partners pay attention to the following four priority areas:

- strong debt relief and improved macroeconomic stability to reduce the high risk of debt distress;
- sustainable and inclusive structural transformation, including through accelerated economic diversification and further strengthening of regional integration;
- reduction of rural/urban and other inequalities through appropriate fiscal and development policies; and
- building of disaster resilience and reversal of environmental degradation as well as the restoration and preservation of natural resources and the rural livelihoods that depend on them, including through advancing alternative development patterns.

Regarding measures to address the mainly shorter-term, direct impacts of graduation, the UN Graduation Assessment for Lao PDR suggested the following "Draft elements for smooth transition", which was used as a background document at a country-level Meeting on Graduation Support organized by the UN Resident Coordinator's Office in Lao PDR in September 2020. They include (1) making use of the remaining periods of LDC-specific support measures strategically; (2) delaying any impacts when possible; (3) conceiving, assessing and negotiating alternatives in critical areas; (4) preparing Government, private sector and other stakeholders for the expected impacts:

- Among possible trade-related measures to be discussed within the Government and with the relevant international organizations and trade development partners are:
  - In response to the loss of LDC-specific preferential market access:
    - Engage with the EU and UK on possible solutions for market access for the period after graduation.

- The EU, WTO Secretariat, Enhanced Integrated Framework (EIF), UNCTAD, ITC and the UN Economic and Social Commission for Asia and the Pacific (ESCAP) may be able to provide additional assistance for Lao PDR to make the most of preferences for the period of remaining eligibility and to develop other competitive assets that could partially compensate for the loss of LDC-specific DFQF market access.<sup>93</sup>
- There is an ongoing effort in the context of the WTO to improve the operationalization of the services waiver. Should changes materialize that lead to greater efficacy of the waiver, Lao PDR and other graduating countries may consider requesting an extension of their eligibility to the waiver.
- o On the loss of LDC-specific special and differential treatment on obligations and flexibilities under WTO rules (other than market access):
  - The LDC Group at WTO has proposed a package of support measures that would be applied to any LDC for a uniform transition period (currently proposed as 6-9 years) following its graduation. Lao PDR should continue to engage actively with Members, bilaterally and in WTO Committees, to obtain support for addressing graduation challenges.
  - References listed in Section 7 below can shed light on possible mitigation measures. These include a review undertaken by the WTO Secretariat, in collaboration with the EIF, of WTO agreements and the implications of graduation in terms of LDCs' participation in the multilateral trading system, market access opportunities and development assistance, including insights into country specific market access analysis.
- o The issue of LDC graduation in the context of RCEP may need to be further studied with the support of UN and other development partners.
- o On trade-related capacity-building, training and technical assistance:
  - Lao PDR would need to engage with development partners to ensure programmes that are not contingent on its LDC status will be able to support the continuation of capacity-building and technical assistance in matters related to trade.
  - The one-off contribution required for membership of non-LDC developing countries to the Advisory Centre on WTO Law (ACWL) has been financed by donors for some other graduating countries.
- On development cooperation:
  - ODA commitments would need to be discussed and negotiated with partners during the elaboration of the transition strategy, to ensure that Lao PDR's specific needs and vulnerabilities are taken into account.
  - Domestic resource mobilization continues to be crucial, as well as traditional ODA, non-concessional public finance (other official flows—OOF), blended finance, and South-South cooperation. In addition, Lao PDR could take advantage of guidance and capacity-building from organizations on alternative resource mobilization. The UN Development Programme (UNDP) has worked with Lao PDR in developing capacity to access different sources of climate finance

<sup>93</sup> In its report to the 2019 WTO Trade Policy Review, the Government of Lao PDR stated its intention to negotiate with preference-granting countries a smooth transition away from the LDC preferences. It intended to seek adhesion to the EU's GSP+, recognizing the challenge of meeting its conditions and indicating that it would request an extension of the ARISE+ programme. Lao PDR would continue efforts to join the United States preferential scheme and had started to look into the feasibility of negotiations with Canada and other markets regarding market access. It would also seek further integration of its economy into the regional market and labour distribution process through the strengthening of ASEAN, ASEAN's free trade agreements with third parties (ASEAN+6) and RCEP and would seek to be excluded from the exemptions to the free trade agreements for products of interest to its export sector, in particular agricultural and agro-processed products.

including the Green Climate Fund (GCF). This will become important to compensate for no longer being eligible for the LDC Fund. It will also be important to ensure to submit proposals in time to make maximum use of existing LDC-specific provisions.

- Lao PDR could explore the potential of LDC-specific instruments such as the UN Technology Bank and the Investment Support Programme within the period of eligibility (until graduation and up to five years thereafter).
- On support for participation in international organizations and processes, Lao PDR could:
  - Request extensions of the conditions applied to LDCs regarding budget contributions at the ITU.
  - Request the three-year extension on support to participate in meetings of the United Nations General Assembly.
  - Explore with the relevant institutions possibilities for alternative support for travel to key intergovernmental meetings.

### Further information

[Committee for Development Policy \(CDP\) 2021, Comprehensive study on the impact of COVID-19 on the LDC category](#)

[Report of CDP on its twenty-third session \(22-26 February 2021\)](#)

[Yvan Decreux and Julia Spies, ITC 2020, Trade implications of Lao PDR's graduation from LDC status](#)

[UN Department of Economic and Social Affairs \(DESA\) 2020, Ex ante assessment of the impacts of the graduation of Lao PDR from the category of Least Developed Countries \(LDCs\)](#)

[UN Conference on Trade and Development \(UNCTAD\) 2021, Vulnerability Profile for Lao PDR](#)

[Trade Policy Review Report by Lao PDR \(2019\)](#)

[United Nations Lao PDR 2020, Socio-economic impact assessment of COVID-19 on Lao PDR](#)

[WTO 2020, Trade impacts of LDC graduation](#)

[WTO 2020, Trade impacts of LDC graduation—insights from country-specific market access analyses](#)

# SECTION 03

Thinking about How:

Development Cooperation



Photo: FAO

# VIENTIANE DECLARATION COUNTRY ACTION PLAN UPDATE

## Introduction

Lao PDR transitions its aid effectiveness agenda covering five principles (ownership, harmonization, alignment, managing for results and mutual accountability) (Vientiane Declaration on Aid Effective 2006) to a new partnership for effective development cooperation in 2015 by a formal adoption of a Vientiane Declaration on Partnership for Effective Development Cooperation (the Vientiane Declaration II or the Vientiane Partnership Declaration 2015-2025).

While this Declaration and the CAP do not constitute legally binding instruments, they represent a shared recognition between the Government and the Partners to further strengthen partnerships for greater development results.

In 2016, the VD Country Action Plan (VDDCAP 2015-2025) was developed to guide the implementation of the Vientiane Declaration. The VDCAP identifies concrete 14 time-bound actions that will be reviewed and reported in line with that of the global monitoring survey on global partnership for effective development (monitoring against 10 global indicators) which is carried every three years. 2021 marks mid-term implementation of the VDCAP (2015-2025). Therefore, the desk review of the VDCAP has been carried with two main objectives.

## Desk Review

This desk review aims to summarise the achievements and the lessons learnt since the adoption of the Declaration during the 12<sup>th</sup> High Level Round Table Meeting (20215). The primary purpose of the review is to reflect on the successes and challenges during the last five years (2015-2020) within the framework of the 8<sup>th</sup> NSEDP in order to identify what need to be done for further enhancing effective development cooperation in the country in light of the implementation of the new national socio-economic development plan (9<sup>th</sup> NSEDP 2021-2025). The key findings for the review are based on various monitoring and survey reports produced during the course of implementation, including the 2019 global survey on effective development cooperation, 2019 mutual accountability survey, and other relevant reports.

## Key findings and way forwards

### VDCAP Principle 1 – Ownership

#### Key action areas

- 1. National Planning Framework:** Greater aligning and tailoring development finance to the national development agenda and context through results-based planning practices
- 2. National planning and budgetary processes:** Strengthening linkages between national budget and national planning processes

### Key progress (2016-2020)

- **The quality of national development planning in Lao PDR is high (87%)** compared to 79% for all LDC countries. The assessment on the national development strategy and results framework focuses on four key dimensions: i) Lao PDR has defined priorities, targets and indicators as specified in the 8th NSEDP; ii) The 8th NSEDP also includes budget/costing information; iii) Goals and objectives of the 8th NSEDP align with SDGs and their indicators are linked 8th NSEDP reporting has been done on a regular basis.
- **Outcome and output plans.** During the VDCAP timeframe, two NSEDP were prepared (8th NSEDP (2016-2020) and 9<sup>th</sup> NSEDP (2021-2025)). Both plans were prepared based on the Result Based practices focusing on outcomes and output. These form the national development agenda which has a clear link to SDGs, LDC graduation criteria, and Green Growth.
- **A priority-setting framework to create a better link between planning and budgetary process.** During the 8th NSEDP implementation period, the Government undertook some key measures to strengthen the links between the plan and the development budget, and to improve coordination between the latter and the recurrent budget. This includes, for example, approving Budget Preparation Instructions stipulating that public expenditure must adhere to the budget plan approved by the National Assembly (NA).

### Key challenges/lessons learnt/way-forwards (2021-2025)

1. **Ensuring common understanding of M&E framework and result based planning** across stakeholders at national, sectoral and provincial levels.
2. **Coordinating government-wide and sectoral plans and ensuring budget allocation to prioritized development priorities and programs** – ensuring i) greater integration between planning, financing, and monitoring and evaluation, ii) the consistency of ministerial annual development plans, iii) technical coordination and information sharing, and iv) tracking of financial need, planned and approved budgets, and spending,)
3. **Having greater consistency in ministerial sectoral plans** - standardise these plans towards best practise examples where activities are linked to financing.

## VDCAP Principle 2 – Alignment

### Key action areas

1. **Development cooperation on budget** - ensuring ODA and other official flows are on budget which are endorsed by NA
2. **Use of Country Systems** (budget execution, financial reporting, audit and procurement) are used by partners

### Key progress (2016-2020)

- In Lao PDR, **development partners align to country priorities to a medium extent (65%)**. Breakdown of the alignment is as follow:

*Table 2: DPs' alignment with national development priorities*

DPs' alignment with national development priorities	Global survey (Lao Scores)		Average LDCs
	2017	2019	2019
Objectives	95%	96%	83%
Indicators	63%	57%	63%
Data	56%	41%	52%

- **The share of development co-operation recorded on budgets subject to parliamentary scrutiny is 24% (2019 Global Survey) (19% - 2017 Global Survey).**
- **In Lao PDR, use of country PFM systems is at 42%.** The breakdown of the use of country systems is highlighted as follow.

*Table 3: DP's use of country systems*

DP's use of country systems	Global survey (Lao score)		Average LDCs
	2017	2019	2019
Use of country's public financial management systems	22%	42%	48%
Use of country's budget execution procedures	27%	47%	49%
Use of country's financial reporting procedures	22%	63%	46%
Use of country's auditing procedures	19%	28%	52%
Use of country's procurement systems	21%	31%	45%

### Key challenges/lessons learnt/way-forwards (2021-2025)

1. **The Public Expenditure and Financial Accountability (PEFA) Assessment** – slow progress (23 out of 31 core performance indicators are scored weak performance) – greater efforts to accelerate the PFM reform initiatives.
2. **Quality assurance of the ODAMIS** - Different aid modalities have different implications for putting aid on budget. However, limited management capacity for a central ODA database (ODAMIS) has made it difficult to predict, track and align ODA behind national priorities. In particular, if the usefulness of the ODAMIS is well articulated, relevant stakeholders are more likely to commit to provide accurate, standardised and regular inputs to the ODAMIS.
3. **Confidence in the national system** - substantial reforms need to be undertaken in order to improve the quality of country systems to ultimately increase confidence in national systems. Reasons for slow adoption of country systems include weak capacity of line ministries in budget execution and financial reporting. In some cases, the Government systems are not fully functional and both Government and Partners lack confidence.

The use and strengthening of country systems should be placed within the overall context of national capacity development for sustainable outcomes - need to jointly assess key country systems, using mutually agreed diagnostic tools.

### VDCAP Principle 3 – Harmonisation and Simplification

#### Key action areas

1. **Programme Based Approaches/Sector Wide Approaches** - Adopting PBAs and SWApS to support the implementation of the NSEDPs including SDGs
2. **Donor joint efforts** - Under the Government leadership, partners coordinate their strategies and actions, simplify procedures and share information to avoid duplication

#### Key progress (2016-2020)

- **Some of the basic building blocks of PBAs and SWAp are currently in place** – UXO, trade and private sector, education, health, agriculture and rural development, governance, food and nutrition security and public financial management.
- Joint programming among 'like-minded' groups of donors - Quantitative data on share of joint mission and other analytical work by Development Partners has not been systematically recorded. However, from the 2019 global survey, percentage of joint evaluation by DPs and the Government is very high compared to other LDC countries which is around 94%.

Table 4: DPs' joint evaluation

DPs' joint evaluation (2019)	Lao score	Average LDCs
Joint evaluation	94%	60%

#### Key challenges/lessons learnt/way-forwards (2021-2025)

1. **Line ministries, the Partners and other stakeholders in Lao PDR do not share a common understanding of PBAs. Different approaches and modalities that can make more wide use of PBAs and SWAp** - clear and well-defined criteria for the development of PBAs and Sector Wide Approaches (SWApS) based on the OECD-DAC guidelines need to be documented and tailored to the Lao conditions
2. **Complementarity and a division of labour** - actively promoting complementarity and a division of labour approach across sectors has not yet been done in a coordinated manner. The SWG secretariats are also insufficiently resourced in terms of their ability to further facilitate this work.
3. **The SWGs are an appropriate mechanism to ensure relevance and coordination of analytical work** – revision of TOR of each SWG needed to ensure within and across SWG joint activities.
4. **Delegation of power from HQ to country offices** - In term of joint programming and joint efforts, at strategic level, most national and international partners at the sector level have strong commitment to create synergies across various issues and have joint work plan and objectives. However, when it comes down to implementation, it is a challenging task due to reporting requirements imposed by HQs and donor requirements.

## VDCAP Principle 4 - Inclusive Partnership for Development Results

### Key action areas

1. **Role of National Assembly and Provincial People Assemblies** - Enhancing capacities of the NA and PPA's
2. **Development Cooperation Process (RTP and SWGs)** - Advancement of the Round Table Process moving towards greater partnership for effective development cooperation
3. **Engagement of Civil Society** - Improving engagement of NPAs and INGOs in the national and provincial development process

### Key progress (2016-2020)

- **Application of the Multi-Stakeholder Partnership (MSP)** - The integration of the 2030 agenda and NSEDP has also meant changes for the latter, since the planning process (formulation, implementation and monitoring) has now to be based on SDG Multi-Stakeholder Partnership (MSP) framework.
- **Evolving of Development Cooperation –RTP and SWG** – participation of all partners and linked to national planning process (policy recommendations)
- **Governments and civil society have diverging views on the enabling environment for CSOs.** Enabling environment for civil society organisations was reported during the 2019 Global Survey as basic by government representatives and moderate by civil society organisations show commonality is the areas of space for CSO dialogue and legal and regulatory framework but different views on CSO development effectiveness and development cooperation with CSO.

### Key challenges/lessons learnt/way-forwards (2021-2025)

1. **Instituting broad-based and robust consultation mechanisms** - There is also a difference in the level of involvement and participation of the different stakeholders. More space can be given to make sure different groups of partners can make a more meaningful contribution to Lao's national development planning through different stages of planning process - informing the design, implementation and/or monitoring of national development policies.
2. **Round Table Process and SWGs (representation way of engagement vs systematic/regious process)** - The ambition of the 2030 Agenda has ignited a shift from a whole-of-government to a whole-of society approach to development. It is necessary that are rethinking and adapting traditional development cooperation/coordination mechanism (at national, sectoral and provincial levels) to be more inclusive – moving from representation way of cooperation to more active engagement and providing constructive feedbacks by not only traditional partners but also those who are not part of the OECD DAC.
3. **Under-investment in the core capacity of ministries to manage SWGs effectively and recommendation is to carry out capacity assessment for all SWGs and Sub-Sector Working Groups.** Resources from partner supported projects and programmes could be reallocated to ensure that the overall coherence and coordination functions are adequately maintained. Those SWGs where there has been higher investment in staff and finance are seen as having been most effective. SWG need assessment could then be feed into the overall national mechanism of the effective development cooperation.

## VDCAP Principle 5 Transparency, Predictability, & Mutual Accountability

### Key action areas

1. **National Budget** - Ensuring a more predictable and accountable national budget
2. **Development Cooperation Data** - Ensuring availability and public accessibility of information on development finance

### Key progress (2016-2020)

- In Lao PDR, **annual predictability of development co-operation is regarded as still low** as only 70% of co-operation disbursed as scheduled in 2019 (average for LDCs is 84%). For the medium-term predictability is too low, with 32% of co-operation (average for LDCs 66%) available in forward looking expenditure plans for the next three years.
- **In recent years, more data and figures on various sources of development finance are available through websites and official accounts of ministries concerned.** The publication of the DFAA report in 2017 and the upcoming one (to be published early 2022) highlight a commitment of the Government toward greater transparency of development finance. Specifically, on ODA and Other Official Flows, home-grown database “ODAMIS” has been established and it generates basic information on development cooperation.
- **On mutual accountability mechanisms, Lao PDR has four out of five components in place** as reported during the 2019 Mutual Accountability Survey: i) Comprehensive policy framework for development co-operation, ii) Country-level targets for government and development partners, iii) Assessments are inclusive and involve non-state actors and iv) Timely, publicly available results of assessments. The component that Lao PDR seems lacking is a regular joint assessment of progress.

### Key challenges/lessons learnt/way-forwards (2021-2025)

1. **Mutual accountability for results should be at the centre of the shared agenda where clearly defined commitments on both sides (the Government and the Partners),** the rules of engagement and how progress will be monitored can be included.
2. **Increase the predictability and transparency of development financing** - Rethink what aid should be spent on and how, in ways that are consistent with agreed international rights, norms and standards, so that aid catalyses development.
3. **Improving the transparency and quality of budgetary information** – Continue PFM reform processes and ensure that public finance information is available and accessible in a timely manner. On the Partner side, providing regular, accurate and timely information on aid activities is an important step to contribute to transparency and mutual accountability.
4. **Mutual accountability supports rather than undercuts domestic accountability institutions.** But domestic accountability and mutual accountability can reinforce each other.
5. **Mutual accountability is unlikely to be achieved through one mechanism or forum** but instead requires an integrated network of relationships, commitments and accountability systems.
6. **Regarding the predictability of assistance, it is important to ensure accuracy of ODA dataset.** This requires major efforts to collect, analyse and report on overall aid picture in the country. Bearing in mind that accurate ODA figures can actually lead to higher level of aid predictability.

## VDCAP Principle 6 – Domestic Resource Mobilization

### Key action areas

1. To the extent possible, **percentage of government contribution to development activities** funded by providers of development cooperation

### Key progress (2016-2020) and key challenges/lessons learnt/way-forwards (2021-2025)

- Domestic resource mobilization within the VD framework refers to ensuring adequate mobilization of government revenues which is required for leveraging development cooperation funds for investments in various development activities.
- **The reduced government fiscal space has meant that mainly social sectors important to leaving no-one behind have seen levels of planning government expenditure drop.** Therefore, action on government contribution to leverage development cooperation face a huge challenge. There is an on-going discussion over a mechanism to quantify government contribution (percentage) for development activities funded by providers of development cooperation. However, a plan on this work will be developed at a later stage.
- **While most Government contribution to development projects/programmes is in kind, initial discussion with the Government has been made to identify if Government's contribution could be at minimal level in cash.** The current programme that the Government's contribution is in cash is the support from the Global Fund. Some other key programmes that are on final discussions are those relating to environmental and natural resource management, transportation and public work. The discussion has also been made on the support of partners could also be linked to the Government's Public Investment Programme (PIP) which will help ensure greater ownership and service delivery at local levels.

## VDCAP Principle 7 South-South Cooperation, Triangular Cooperation & Knowledge Sharing

### Key action areas

1. **Coordination and reporting mechanism**
2. **Improving understanding the nature and modalities** through a clear coordination and reporting mechanism

### Key progress (2016-2020)

- **On the information sharing, ODA figures from south-south partners like Thailand and India are recently available** even though the information is not standardised in accordance to those reported by traditional development partners and is recorded in various forms by different counterparts. However, efforts have been made by MPI to consolidate and configure information from South-South partners through the recently established ODAMIS.
- **In term of common understanding of the South-South Cooperation (SSC) and Triangular Cooperation (TrC),** Lao PDR has seen more engagement with SS partners particularly Thailand and India. The main coordinators for SSC and TrC currently are the Ministry of Investment and Planning and Ministry of Foreign Affairs. Capacity building is ongoing to further enhance SSC and TrC and to ensure a

comprehensive national approach, national ownership, learning and sustainability, information management and inclusive partnership.

- **The country is in the process of building and strengthening an institutional arrangement and monitoring mechanism for SSC and TrC.** This will be achieved through exploring key strategic action areas and initiatives for SSC and TrC, strengthening of institution and coordination between entities, and development of national capacity.

### Key challenges/lessons learnt/way-forwards (2021-2025)

- There is no one-size-fits-all approach. **A comprehensive national approach to South-South and Triangular Cooperation**, including a clear process and content, is crucial. This should be guided and supported by a comprehensive national roadmap, a strong institutional setup and clear arrangements.
- **National ownership** is key for enhancing the effectiveness of South-South and Triangular Cooperation programmes and initiatives.
- **Horizontality and solidarity.** South-South and Triangular Cooperation requires that countries collaborate with each other as equal partners. This means that, irrespective of their different levels of development, collaboration is established voluntarily without any party linking its participation to the setting of conditions.
- **Capacity development, learning and sustainability.** Engaging in South-South and Triangular Cooperation required enhanced capacities to help establish supply and demand, improve modalities of cooperation, and better seize opportunities for knowledge and technology transfer. Where possible, local systems, expertise and resources should be used, to ensure sustainability.
- **Transparency, accountability and information management.** South-South and Triangular Cooperation works best when all partners involved have the right information and data. This will prevent overlaps, facilitate greater complementary and reduce transaction costs. Information-sharing thus needs to be improved to ensure better quality and results.
- **Inclusive partnerships.** Multi-stakeholder participation is desirable, including not only traditional OECD donors but also regional and emerging partners. Greater efforts are needed to further involve local authorities in the implementation, monitoring and reporting of development outcomes of South-South and Triangular Cooperation.

## VDCAP Principle 8 – Business as a Partner in Development

### Key action areas

#### 1. Public Private Dialogue - Coordination and reporting mechanism

### Key progress (2016-2020)

- Greater efforts to establish effective public-private dialogue (PPD) to leverage the full potential of the private sector's contribution to sustainable development. **The assessment of the quality of PPD is based on 3 building blocks (enabling context, meaningful dialogue and effective engagement) and 6 quality elements (mutual trust, readiness, relevance, inclusiveness, organisational effectiveness, and joint actions).** Based on government assessment, the score for Lao PDR was 55.59% in 2019 decreased from 60% reported in 2017.

Table 5: Assessment of public-private dialogue

Global survey	2017	2019
Government's assessment of public-private dialogue	60%	55.59%
Large firms' assessment of public-private dialogue	60%	NA
Small/medium firms' assessment of public-private dialogue	60%	NA
Trade unions' assessment of public-private dialogue	60%	NA

*Note - a revised methodology asked governments and private sector stakeholders (large private sector firms, small and medium-sized enterprises [SMEs], and trade unions) individually to rate the quality of dialogue based on four levels which were then converted to a scale of 0 to 100, with 100 representing the highest possible quality.*

### Key challenges/lessons learnt/way-forwards (2021-2025)

- 1. Stakeholders' readiness and ability to engage with one another is governments' internal co-ordination and access to financial and technical resources for both public and private stakeholders.** For the private sector, such resources are required to strengthen capacity to co-ordinate and assess the collective needs and views of the sector as a whole. For governments, such resources are required to strengthen capacity to analyse and formulate policy proposals and communicate effectively with relevant stakeholders in PPD.
- 2. Ensuring that PPD focuses on issues relevant to all stakeholders remains a challenge** - Put more efforts on finding common ground on the issues that are considered of mutual interests.
- 3. A concerted effort for PPD to include the full range of private sector actors** - Redouble efforts are needed to include the full diversity of private sector stakeholders in dialogue such as Lao Business Forum which needs to have a clearer link to the Round Table Process and that development partners should help to ensure governments have the capacity and resources to do so.
- 4. Long-term commitment to PPD (Lao Business Forum and its link to RTP likely depends on whether arrangements are institutionalised and organised towards achieving concrete results and whether dialogue leads to increased collaboration.** Currently, most recommendations from the LSB have been addressed and resolved. However, it needs time to witness concrete results.
- 5. The full potential of PPD to contribute to sustainable development, the Government can engage the private sector beyond the mechanism of PPD** - a suggestion of Triangular Cooperation (Public Private Citizen Dialogue). This could be the areas of interest during the remaining period of VDCAP.

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<sup>i</sup> The 2019 South-East Asia Primary Learning Metrics (SEA-PLM) learning outcomes assessment showed that Lao Grade 5 students show very low proficiency in reading, writing and mathematics<sup>1</sup>. The 2019 Grade 9 (end of lower secondary) Assessment of Student learning Outcomes (ASLO) tells a similar worrying picture: only 27.8 per cent of Grade 9 students acquired a “proficient level” in Lao language; and 1.1 per cent in science<sup>1</sup>. These findings clearly show the education system is facing a “learning crisis” as it is not equipping Lao children and young people with the basic literacy and numeracy skills needed for further learning and to thrive in Lao society.

<sup>ii</sup> For example, WHO reports that ANC attendance, skilled delivery, early initiation of breastfeeding and others were lower in Quarter 1, 2020 as compared to same period in 2019. DHIS data showed a drop in ANC attendance, skilled delivery in 2020 compared to same period for 2019. A model designed by the Economic Policy Research Institute, EPRI, estimated a risk of reversal in the progress made towards full ante natal care, ANC, coverage from national coverage of 62 per cent at baseline to a range of 57 per cent- 49 per cent. The impact is largest in the Central region dominated by urban centres and the capital Vientiane with a 13-percentage point drop in ANC coverage.

<sup>iii</sup> MOH DHIS2 data, Lao PDR. A total of 12,756 children were un/under-vaccinated in the first nine months of 2020, as compared to 9,538 under-vaccinated children in 2019

<sup>iv</sup> Estimated increase in unplanned pregnancies through 2020-21 from a base of 286,000 to additional 44,000-68,000. A UNFPA analysis of the potential impact of the virus in Lao PDR estimated that, for example, maternal mortality ratio could increase by 30 per cent in the best case scenario

<sup>v</sup> Prolonged school closures due to the pandemic could result in further worsening of already low learning outcomes of Lao children and young people. If not mitigated it is expected to lead to irreversible learning loss which will reduce the future productivity and lifetime earnings of affected students. According to the ADB, the present value of these losses is estimated at US\$1.25 trillion for developing Asia (including Lao PDR), equivalent to 5.4 per cent of the region’s 2020 gross domestic product (GDP). The World Bank also estimated a loss of US\$10 trillion in earnings over time for this generation of students whose learning has been disrupted by the pandemic. Source: [www.adb.org/sites/default/files/publication/692111/ado2021-special-topic.pdf](http://www.adb.org/sites/default/files/publication/692111/ado2021-special-topic.pdf)

<sup>vi</sup> <https://www.worldbank.org/en/news/press-release/2020/06/18/covid-19-could-lead-to-permanent-loss-in-learning-and-trillions-of-dollars-in-lost-earnings>

<sup>vii</sup> A study of the Efficiency and Optimization of Lao PDR’s Public Budget to Finance SDGs through the National Plan, a model investment case was prepared, identifying the most relevant and efficient interventions in the health sector, and confirming that within SRNMNCAH, Family Planning has the highest benefit-cost ratio by a significant margin. Furthermore, it can reduce the cost of other interventions due to reduced delivery/newborn care costs from unintended pregnancies averted; economic gains from workforce participation, and additional years of education for teenagers avoiding unintended pregnancies. The full scale-up of SRNMNCAH interventions could cost an additional US\$109.0 million more than business usual over 2021-2030, this can avert 1,044,000 unintended pregnancies, avert maternal and child deaths including avert 5,070 stillbirths, reduce stunting prevalence children under 5 by 5.6 percentage points, and generate US\$ 661.5 million in economic benefits by 2030 (benefit-cost ratio = 6.0).



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**VIENTIANE, LAO PDR**  
**November 2021**