

# The Lao PDR LDC Graduation Smooth Transition Strategy

## 2022-2026 with a vision to 2030

### Note

This draft STS is for discussion only

After Round Table Meeting (26<sup>th</sup> January 2023), technical consultations will be organised to go through various sections in more detail before validation workshop which will be organised ahead of Doha Conference on LDC graduation.

**LDC Secretariat, Ministry of Foreign Affairs, Government of Lao PDR**

*With the technical assistance of the United Nations*

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## **Foreword**

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## **Executive Summary**

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## **List of acronyms**

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## I. Introduction

The Least Developed Country (LDC) graduation Smooth Transition Strategy (STS) of Lao PDR was developed between November 2021 and February 2023 by the Ministry of Foreign Affairs, on behalf of the Lao PDR Government, with the contributions of a broad coalition of Ministries, and the financial and technical assistance of the United Nations Sustainable Development Cooperation Framework LDC graduation Joint Output. The development of the STS answers the UN General Assembly's call to thoroughly prepare for graduation in a changing international context and ensure continued and sustainable development progress for the people of Lao PDR beyond 2026. This introduction specifies the context in which this STS was developed, the roadmap, process, and methodology followed. It also reviews the STS' objectives, scope, and specific role in national development planning, and relationships with other key development policy frameworks.

### 1.1 A historic milestone

Lao PDR entered the LDC category when it was created, in 1971, following the General Assembly's A/RES/2768 (XXVI). At the time, the General Assembly affirmed the *“urgency of identifying the least developed among the developing countries in order to enable those countries to benefit as early as possible from the special measures in their favour adopted in the various forums”* and called on *“the international organizations within the United Nations system to take fully into account the special needs of the least developed among the developing countries when formulating their programmes of activities or selecting the projects they finance”*. From the outset, the LDC category was associated with the development of specific international support measures (ISM) to accelerate development progress for the less fortunate countries and bridge the development gap.

Despite challenges – among others, the long-term pervasive effects of war, the difficulties associated with recent independence and state-building, landlocked-ness, or a small population size – Lao PDR is on track to achieve the historic milestone of graduating from the list of LDCs. This signals the significant improvement in the lives and well-being of the Lao people that took place over the last fifty or so years, or in the words of the General Assembly: *“Graduation from the least developed country category is a major milestone for the country involved as it means that significant progress has been made towards reaching at least some of its development goals”*.

Graduation has been a national priority for the Government and the people of Lao PDR since 2000 and successive quinquennial National Socio-Economic Development Plans (NSED)P). In the words of the President of Lao PDR H.E. Mr. Thongloun Sisoulith, *“over the past 47 years of national safeguarding and development, despite facing numerous obstacles and difficulties, the Lao PDR has attained gradual achievement in many areas. The Lao PDR has enjoyed solid political stability, social order, sustained economic growth, and significant improvement in people's livelihood, thus creating favourable condition for the Lao PDR to graduate from the Least Developed Country (LDC) status by 2026”*.

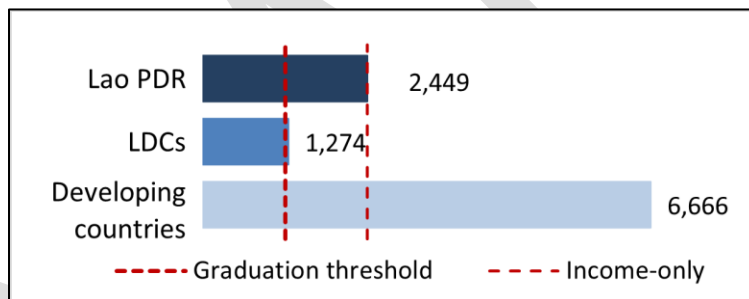
The first recognition of Lao PDR's development progress came in 2018, when the UN Committee for Development Policy (CDP) found that Lao PDR was eligible for graduation, meeting two of three criteria for graduation (the Gross National Income (GNI) and the Human Assets Index (HAI)). Furthermore, the report stated that *“the Committee welcomes the progress (...) in all three criteria, which could indicate a balanced and sustainable graduation path”*.

Following a recommendation by the CDP at its 2021 Triennial Review (E/2021/33), endorsed by the Economic and Social Council (ECOSOC) in Resolution E/RES/2021/11, Lao PDR is now set to graduate from LDC category, meeting all three graduation criteria (GNI, HAI, and the Economic and Environmental Vulnerability Index (EVI)) by a considerable margin.

However, despite meeting all three graduation criteria (see Figures 1, 2, and 3), the General Assembly “[decided] to provide Bangladesh, the Lao People’s Democratic Republic and Nepal, on an exceptional basis, with a five-year preparatory period leading to Graduation” in its resolution A/RES/76/8, thereby endorsing a CDP recommendation to thoroughly prepare for graduation in the context of a rapidly deteriorating global environment, marked by the COVID-19 pandemic.

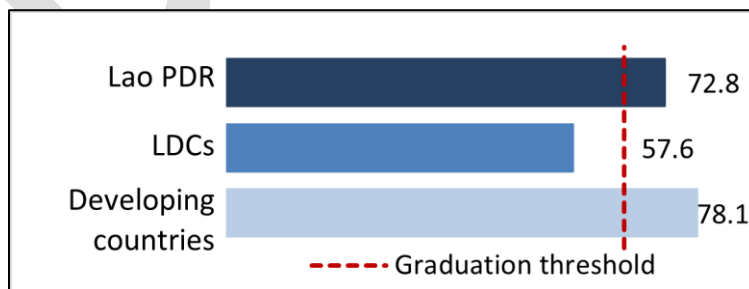
This reflects the “negative impact on the vulnerable economies of the least developed countries from the global crisis triggered by the coronavirus disease (COVID-19) pandemic, which has further disrupted the sustainable development progress of these countries” as Lao PDR is preparing to ensure that “graduating from the category of least developed countries should not result in a disruption or reversal of development plans, programmes, or projects” that would be caused by a sudden loss of international support measures the country had been relying on. During the transition period, Lao PDR would maintain access to LDC-specific ISMs.

**Figure 1 - Gross National Income (GNI) per capita**



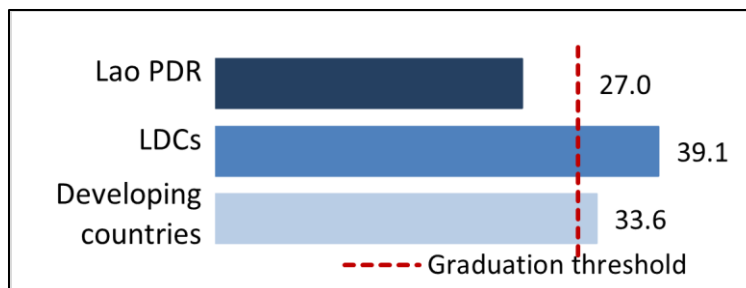
Source: CDP (2021 Triennial Review)

**Figure 2 - Human Assets Index (HAI),**



Source: CDP (2021 Triennial Review)

**Figure 3 - Economic & Environmental Vulnerability Index (EVI)**



Source: CDP (2021 Triennial Review)

## 1.2 A specific context for graduation

The recommendation by the CDP and decision to graduate by Lao PDR comes in the context of a rapidly evolving development context marked by the long-term health and broader socio-economic impacts of the COVID-19 pandemic in the country and the region, the more recent food, fertilizer, fuel, finance, and animal feed (5F) crisis triggered by the evolving situation in the regions, and the country's acute macroeconomic and financial difficulties.

Of all the three trends above-mentioned, the COVID-19 pandemic directly justified the General Assembly's decision to provide the Government of Lao PDR with an extended preparatory period. On the macroeconomic and financial side, decreasing global and national production led to a substantial deceleration of growth, which decreased to 3.3% in 2020, or its lowest level in three decades. Lower revenues during a period of economic contraction aggravated an already limited fiscal space for development investments and worsened Lao PDR's exposure to shocks, with plunging international reserves of foreign exchange. This macroeconomic and financial instability led Lao PDR to leverage natural resource extraction for revenue and development, with the difficult balancing act of maintaining the country's sustainability and climate objectives. Moreover, the private sector and the labour market suffered heavily. Disruptions of global and regional value chains, of international mobility, of tourism, and repeated lockdowns in Lao PDR had significant livelihood impacts, with important job losses. Health and education systems were greatly affected. School closures generated irreversible learning losses, while COVID-19 led to the suspension of other health services and a general deterioration of human capital outcomes. Throughout, the most vulnerable have been most impacted, with limited safety nets to halt the progression of poverty during the pandemic.

In addition to COVID-19, while disasters that have increased in the last decade due to climate change negatively affect people's lives and livelihoods along with the economy of Lao PDR, possible disasters in the future have the potential to affect the country's economy more negatively through 4F. For example, typhoon Ketsana in 2009 caused US\$94.2 million in damage. The disaster was noted to have the potential to severely retard economic development, especially in the most affected areas (Lao PDR Government, 2009). Two years later, the country was hit by Typhoon Haima in 2011, which affected nearly 90,000 people in 36 counties in four provinces and caused an estimated US\$66 million in total damage and loss. In 2018, the country was affected by three disasters in a

row; Son-Tinh storm which caused flash flooding of Xe pien-Xe Nam Noy hydroelectric saddle dam followed by Bebinca storm in August (Lao PDR Government, 2018). More than 600,000 people in 90 counties were affected, and damage and losses amounted to US\$371.1 million<sup>1</sup>.

While borders have reopened since April 2022, and positive developments have been recorded – including high vaccination rates, decreasing unemployment, and increasing tourist arrivals – Lao PDR is not back on track to achieve the national development priorities contained in the 9<sup>th</sup> NSEDP and the SDGs. Recent geopolitical developments in Europe have affected global economic prospects and built on historical economic and financial vulnerabilities to further deteriorate livelihoods, in a multifaceted crisis of Fuel, Food, Fertilizer, and Finance. The Lao kip depreciated by 62% against the USD between January and August 2022, leading to temporary fuel shortages, while prices increased by 37% in the first 10 months of 2022, largely driven by the rising costs of imports.

The Government has taken steps to mitigate and recover from the COVID-19 and the 4F crisis, through a Multi-Stakeholder Taskforce on the recalibration of the 9<sup>th</sup> NSEDP to COVID-19 in 2020. This initial exercise, in the context of the long-term impacts of COVID-19 and additional shocks, led to the formulation of the Lao PDR Resilience Framework (2023-2025), finalised at the end of 2022, and expected to inform the 9<sup>th</sup> NSEDP Mid-Term Review and Annual Implementations Plans.

Lao PDR's financial difficulties, marked by limited revenue generation and others, have been aggravated by the exogenous shocks above-mentioned to now represent a substantial obstacle to continued development progress. In particular, the recent depreciation of the kip is exacerbating an already elevated debt burden that is largely denominated in USD. This builds on years of economic growth that have primarily relied on FDI, themselves promoted by an investment regime based on fiscal exemptions. Lao PDR is currently generating insufficient revenues to meet its development needs, with debt services averaging USD 1.2 billion a year over 2022 and 2023, or more than expenditures on health and education combined.

The Government has taken steps to resolve these challenges, with firstly, the adoption of a National Agenda on Economic and Financial Difficulties (2021-2023), and secondly, the recent validation of the 9<sup>th</sup> NSEDP Financing Strategy. The latter, whose development was led by the Ministry of Planning and Investment in close collaboration with the Ministry of Finance, the Bank of Lao PDR, and line ministries, and with wide support from development partners, contains 54 actions to increase the volume of development finance to achieve the country's national development priorities. The 9<sup>th</sup> NSEDP Financing Strategy, for which implementation will begin in 2023, considers all financial flows – domestic/international and public/private. It prioritises significant reforms to fiscal policy – including the review and abolishment of tax exemptions, the sustainability of revenue generation, the realignment of the budget with national development priorities, evidence-based debt management, including through the exploration of debt relief – but also the evidence-based planning and management of ODA, the improvement of the business environment for private investments in priority sectors, and the safeguard of investments in health and education and environment and climate action, for sustainable development progress.

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<sup>1</sup> Disaster Risk Reduction in Lao PDR, Status Report 19, adpc and UNDRR

### 1.3 Objectives and role of the STS in Lao PDR's development planning

The STS is a policy framework developed to accompany the long-standing aim of Lao PDR to graduate from the LDC category, and past this important milestone, for the high-quality, green, sustainability, and focused development progress of Lao PDR (the four directions of the 9th NSEDP). It provides an inter-ministerial and multi-stakeholder platform to discuss priority reforms as well as strengthen the partnerships and cooperation required for graduation.

More specifically, the STS has a threefold objective to prepare for a **smooth, quality, and sustainable graduation**:

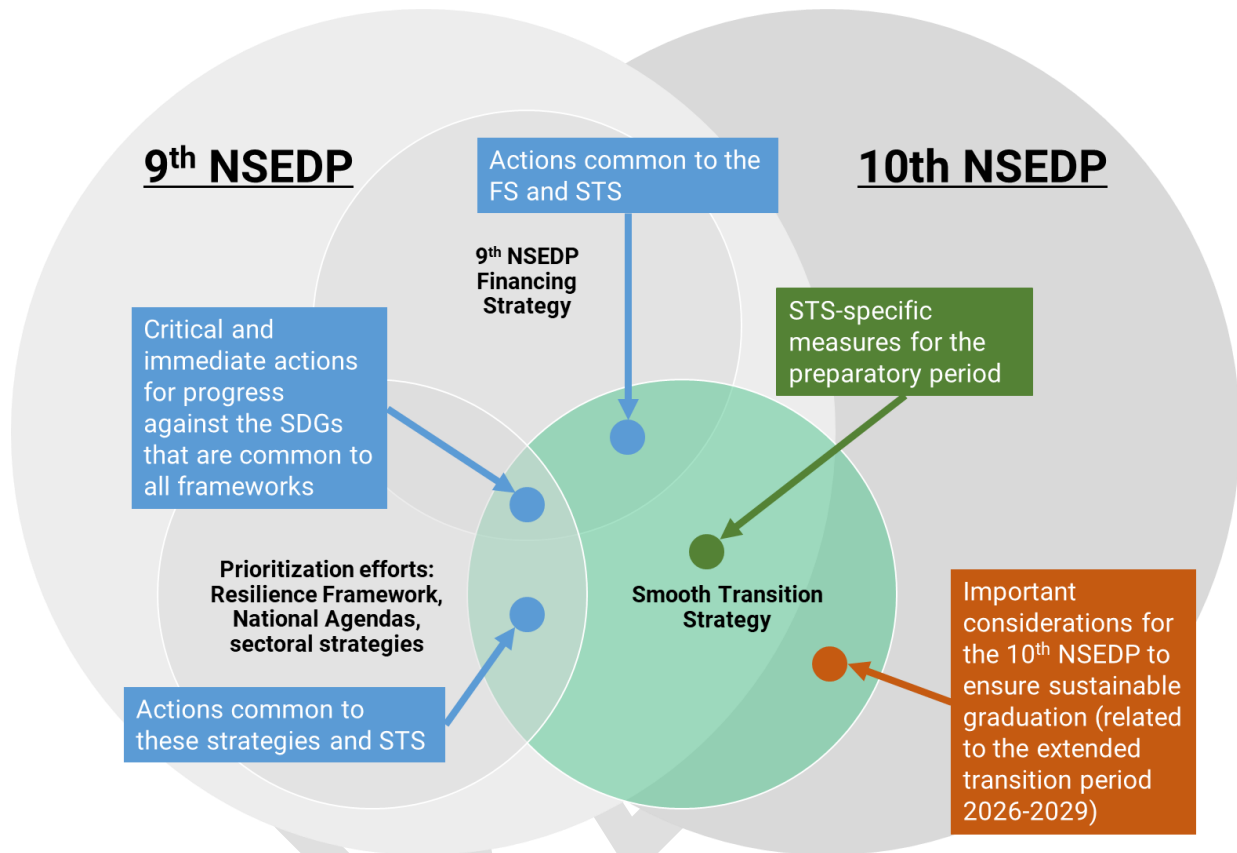
- The first objective is to ensure that Lao PDR graduates **smoothly** from the LDC category. **This means, practically, developing and implementing policies and actions, between 2023 and 2026, to mitigate the potential impacts stemming from the loss of ISMs**, so that “*graduating from the category of least developed countries [does not] result in a disruption or reversal of development plans, programmes, or projects*”, in the words of the General Assembly. **This also includes the policies and actions that can help to seize the opportunities presented by LDC graduation**, such as greater attraction for foreign investors and trade partners.
- The second objective is to maintain Lao PDR on a **quality** graduation pathway, in the context of the exogenous and internal challenges presented above: COVID-19, 5F crisis, economic and financial difficulties. These must be appropriately addressed for Lao PDR to achieve the 9<sup>th</sup> NSEDP and be in a position to graduate. **This means policies and actions that are essential between 2023 and 2026 to ensure Lao PDR graduates**, many of which are common to other central frameworks accompanying the 9<sup>th</sup> NSEDP implementation, such as the Financing Strategy, the Resilience Framework, or the National Agenda on Macroeconomic and Financial Difficulties. A related and important aim of the STS is to strengthen policy coherence and the focus of the implementation of the 9<sup>th</sup> NSEDP, by identifying, including from existing policy frameworks, the key policies and actions that need to be implemented by 2025-2026. This second objective also explains why the STS contains a Monitoring and Evaluation Framework, meant to facilitate the tracking of graduation preparations and potential changes to the development context that would justify course corrections in national development planning.
- The third objective is to ensure the **sustainability** of graduation beyond the 2026 horizon, towards 2030. **This means policy directions for the rest of the decade for continued development progress and achieving of the 2030 Agenda, which also considers assessing and managing disaster risk and accumulation through layered approaches.**

The STS therefore serves a specific purpose in national planning in Lao PDR, which is visualised in Figure 4. The Government has developed several policies to strategically deliver on the 9th NSEDP in light of the country's development challenges. This includes, as was mentioned above, the 2021-2023 National Agenda on Economic and Financial Difficulties, the formulation and recent validation of the 9th NSEDP Financing Strategy – to identify a development pathway in the context of the country's economic and financial difficulties – and the Resilience Framework, as well as other key

sectoral strategies (such as the country's Nationally Determined Contributions) – that help to prioritise and sequence policies and actions in response to the COVID-19 and 5F crisis.

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Figure 4 – Understanding the role of the STS



#### 1.4 Scope and structure

Overall, the value added of the Lao PDR’s STS for LDC graduation is therefore to plan, with a whole-of-government approach, and with all development partners, for:

- A **smooth** graduation: identify the new policies and actions that mitigate the expected impacts and seize the opportunities of graduation (in figure 4, the area with a green dot);
- A **quality** graduation: identify and monitor the progress of implementation of critical policies and actions, many of which are common to at least one other policy framework (in figure 4, the areas with a blue dot);
- A **sustainable** graduation: identify policy directions, to be considered by the 10<sup>th</sup> NSEDP, to achieve the 2030 Agenda.

As explained above, the STS is complementary to and draws from a wide variety of national frameworks that are already shaping Lao PDR’s development pathway. At an international level, the STS is also embedded in the recently adopted Doha Programme of Action for LDCs (2021-2032).

In line with those frameworks, the STS guidance, and through extensive inter-ministerial consultations, an STS structure was developed, composed of 4 thematic pillars and 9 policy areas, to answer Lao PDR’s threefold objective to deliver a smooth, quality, and sustainable graduation. Table

1 presents the STS scope as well as the alignment of its chapters and policy areas to existing policy frameworks (see annex 1 for the structure of relevant policy frameworks) and specifies the rationale for the inclusion of each policy area into the STS.

**Table 1 – STS scope**

Chapter/ theme	Alignment (non-exhaustive)	Rationale
<b>1. Macroeconomic Stability and Financial Sustainability</b>		
<b>1.1 Macroeconomic stability</b>	<ul style="list-style-type: none"> <li>▪ NSEDP Outcome 1</li> <li>▪ NSEDP Financing Strategy 1.1/1.3</li> <li>▪ Resilience Framework Pillar 1</li> <li>▪ National Agenda on Economic and Financial Difficulties</li> </ul>	If Lao PDR faces recurrent or extended macroeconomic instability – i.e., excessive currency depreciation, inflation, and deficits – then it will not achieve a smooth, quality, and sustainable graduation.
<b>1.2 Safeguarding investments in human capital, environment and climate action</b>	<ul style="list-style-type: none"> <li>▪ NSEDP Outcomes 2/4</li> <li>▪ NSEDP Financing Strategy 5.1/5.2/5.3</li> <li>▪ Resilience Framework Pillar 4</li> <li>▪ Doha PoA Priorities 1/5</li> </ul>	If Lao PDR does not urgently increase resources invested in social sectors and green growth (including environmental protection and climate action), then it will not achieve a smooth, quality, and sustainable graduation.
<b>2. Trade and Investments</b>		
<b>2.1 Trade and FDI promotion</b>	<ul style="list-style-type: none"> <li>▪ NSEDP Financing Strategy 4.1</li> <li>▪ Resilience Framework 2.a</li> <li>▪ Doha PoA Priority 4</li> </ul>	If Lao PDR does not diversify trade (in terms of partners and exports) and investment sources, then it will not achieve a smooth, quality, and sustainable graduation.
<b>2.2 Business environment for inclusive growth</b>	<ul style="list-style-type: none"> <li>▪ NSEDP Financing Strategy 3.1/4.1</li> <li>▪ Resilience Framework 2.a</li> <li>▪ Doha PoA Priority 4</li> </ul>	If Lao PDR does not create an enabling environment for quality investment, then it will not achieve a smooth, quality, and sustainable graduation.
<b>3. Human Capital Development and Structural Economic Transformation</b>		
<b>3.1 Human capital development and decent jobs</b>	<ul style="list-style-type: none"> <li>▪ NSEDP Outcomes 2/3</li> <li>▪ Resilience Framework 4</li> <li>▪ Doha PoA Priority 3</li> </ul>	If Lao PDR does not create sufficient decent jobs for the large young population, then it will not achieve a smooth, quality, and sustainable graduation.
<b>3.2 Rural development</b>	<ul style="list-style-type: none"> <li>▪ NSEDP Outcome 3</li> <li>▪ Resilience Framework 3.d</li> <li>▪ Doha PoA Priority 3</li> </ul>	If sustainable development does not take place in rural areas (where the majority of people live), then Lao PDR will not achieve a smooth, quality, and sustainable graduation.
<b>3.3 Urban development</b>	<ul style="list-style-type: none"> <li>▪ NSEDP Outcome 5</li> <li>▪ Doha PoA Priority 3</li> </ul>	If sustainable development does not take place in cities and towns (with 50% of the population expected to live in urban areas by 2030), then Lao PDR will not achieve a

		smooth, quality, and sustainable graduation.
<b>4. Climate Change and Disaster Management</b>		
<b>4.1 Integrated and climate-resilient natural resources management</b>	<ul style="list-style-type: none"> <li>▪ NSEDP Outcome 4</li> <li>▪ Resilience Framework 5</li> <li>▪ Doha PoA Priority 5</li> </ul>	If Lao PDR does not urgently shift to a sustainable management of natural resources, then it will not achieve a smooth, quality, and sustainable graduation.
<b>4.2 Climate resilience and disaster risk reduction</b>	<ul style="list-style-type: none"> <li>▪ NSEDP Outcome 4</li> <li>▪ Resilience Framework 5</li> <li>▪ Doha PoA Priority 5</li> </ul>	If Lao PDR does not urgently improve its resilience to climate change and natural disasters by supporting integrated management of disaster and climate risk with comprehensive disaster and climate risk management approach and tools, then it will not achieve a smooth, quality, and sustainable graduation.

The STS also contains a Monitoring and Evaluation chapter (Section IV), which can provide the Government of Lao PDR and international partners with, on an annual basis, data and evidence to assess the country’s progress towards a smooth, quality, and sustainable graduation. This section simultaneously focuses on monitoring the development pathway of Lao PDR (through the three graduation criteria and additional high-level indicators under each chapter of the STS), but also contains means of verification for each policy and action of the STS, to track the progress of implementation. This national Monitoring and Evaluation framework answers the call of the Doha PoA for the enhanced monitoring of graduating and graduated countries. It is linked to international mechanisms under the CDP/UNDESA, in particular the CDP’s improved annual monitoring process, which include the annual reporting of the Government to the CDP and consultation of the graduation trajectory of Lao PDR.

## 1.5 Formulation process and methodology

The 13<sup>th</sup> High-Level Round Table Meeting (RTM), which took place on 17 November 2021, launched the process of preparing the STS. At the event, the Government presented the approach that would be taken to develop the strategy and invited development partners to support this strategic planning exercise. The discussion drew on an STS Concept Note that was presented as a background paper for the RTM as well as feedback received during an RTM Technical Side Event on “*LDC Graduation: Towards a Smooth Transition Strategy*”, held on 11 November 2021.

The definition of the objectives and scope of the STS was done progressively through meetings and workshops between June and October 2022. The inclusion of key topics within the scope of the STS, including human capital development or climate change, was facilitated by a peer exchange between graduating countries (Bangladesh and Nepal) in August 2022.

The identification of the policies and actions of the STS was done primarily in preparation for, during, and following a workshop, which took place on 3-4 November 2022, to which the LDC Secretariat,

line ministries, and the UN LDC graduation Joint Output participated. Participants were asked to reflect, in plenary and in groups, upon the three objectives of the STS (a smooth, quality, and sustainable graduation), and identify policy priorities and actions as per an action matrix, presented below in table 2 and available in full in annex 2. The action matrix is the key part of the STS in that it compiles all policies and actions and categorises them according to their objective (smooth, quality, and sustainable graduation), defines their timeframe, as well as leadership roles, international assistance support, and means of verification. An important objective of the STS being to strengthen policy coherence, participants were asked to identify existing policy directions and actions from national frameworks which are implemented and would contribute to smooth, quality, and sustainable graduation, as well as necessary new actions.

**Table 2 – Structure of the action matrix**

Chapter	Policy area	Policy/ action	Objective(s)	Related policy framework	GoL lead (Ministry, Department)	DP assistance	To implement by	Means of verification
			To choose from: <ul style="list-style-type: none"> <li>▪ Quality</li> <li>▪ Smooth</li> <li>▪ Sustainable</li> </ul>	Such as: <ul style="list-style-type: none"> <li>▪ Financing Strategy</li> <li>▪ Resilience Framework</li> <li>▪ Education and Sports Sector Plan</li> </ul>				

The STS first draft was shared with line ministries and development partners for feedback ahead of the 2022 RTIM, which exceptionally took place on 26<sup>th</sup> January 2023. The STS was then validated at the RTIM and presented to development partners, to mobilise financial and technical assistance for its implementation, in the margins of the LDC V Conference that took place in Doha in March 2023. Table 3 summarises the STS formulation process.

**Table 3 – Formulation process**

Event or Activity	Date	Purpose and Outcome
Stakeholder mapping, SDG/LDC focal points meeting, analysis and initial discussion within participating ministries	June 2022	<ul style="list-style-type: none"> <li>▪ STS process mapped out</li> <li>▪ Existing analysis compiled</li> <li>• Focal points identified drawing from the Government’s existing SDG/LDC focal point networks</li> </ul>
South-South Exchange on Preparing Smooth Transition Strategies	23-25 Aug 2022	<ul style="list-style-type: none"> <li>▪ Options and good practices for STS development identified through peer exchange with other countries, especially Bangladesh and Nepal that are also scheduled to graduate in 2026</li> </ul>
Technical Government Workshop	8 Sept 2022	<ul style="list-style-type: none"> <li>▪ Initial discussion on scope, objectives, approach, possible thematic and focus areas, as well as plans for prioritization workshop</li> </ul>
Prioritization Workshop	18 Oct 2022	<ul style="list-style-type: none"> <li>▪ Priority themes and subthemes for actions under the STS -based on the necessary conditions for a smooth,</li> </ul>

		quality, and sustainable graduation-identified by participants from Government and the UN output group on LDC graduation
Drafting Workshop (“Write-shop”)	3-4 Nov 2022	<ul style="list-style-type: none"> <li>▪ STS scope refined vis-à-vis existing strategies and plans</li> <li>▪ Initial draft of the STS Action Matrix prepared through breakout groups, including priority actions (both existing and new) as well as implementation arrangements.</li> </ul>
Report to CDP	13 Nov 2022	<ul style="list-style-type: none"> <li>▪ CDP informed about progress with STS formulation in advance of the February 2023 plenary meeting</li> </ul>
RTM Implementation Meeting	26 <sup>th</sup> Jan 2023	<ul style="list-style-type: none"> <li>▪ Technical discussion between the Government and development and trade partners on national development priorities, including for graduation</li> </ul>
Detailed consultations with partners	TBD	<ul style="list-style-type: none"> <li>▪ In-depth discussion with development and trade partners to identify areas of support and seek feedback on the draft STS</li> </ul>
Validation Workshop	Mid-Feb 2023	<ul style="list-style-type: none"> <li>▪ Validation of and feedback on the draft STS by key stakeholders</li> </ul>
CDP Plenary	Feb 2023	<ul style="list-style-type: none"> <li>▪ CDP feedback obtained on the draft STS</li> </ul>
STS finalization	TBD	<ul style="list-style-type: none"> <li>▪ STS finalized based on feedback from the validation exercise</li> </ul>
STS endorsement	TBD	<ul style="list-style-type: none"> <li>▪ Endorsement by Prime Minister’s Office</li> </ul>
5 <sup>th</sup> United Nations Conference on the LDCs (LDC5) in Doha	5-9 March 2023	<ul style="list-style-type: none"> <li>• STS launched and presented to the international community</li> </ul>

## II. Diagnostics: implications of LDC Graduation

One of the STS’s three key objectives is to ensure that graduation is smooth: as per the UN General Assembly “*graduating from the category of least developed countries should not result in a disruption or reversal of development plans, programmes, or projects*”, indicating that the loss of ISMs should not affect Lao PDR’s development pathway. This chapter therefore summarises key expected impacts from LDC graduation for which specific mitigation measures needed to be identified, but also elaborates on the opportunities that can be seized from LDC graduation.

### 2.1 Expected impacts

After graduation, Lao PDR will progressively lose access to LDC-specific ISMs. These include some preferential market access treatments (e.g. Everything But Arms benefits), which have proven important for the garment sector. ISMs that Lao PDR has received also include access to some specific

sources of development finance and technical cooperation, as well as ceilings and discounts on contributions to UN entities and travel funding to international meetings.

Several studies by the UN and international partners have researched potential impacts of losing ISMs after graduation. These were integrated into an assessment of the impacts of the graduation of Lao PDR from the category of LDCs, published in 2020. Excerpts, collated in Table 4, reveal that expected impacts of LDC graduation are relatively limited for Lao PDR, as the country has historically not relied much on ISMs. Nonetheless, these impacts need to be mitigated as some limit potential opportunities (e.g. loss of EU’s preferential schemes is not an issue as it is not a large trade partner at the moment, but this could change if Lao PDR’s export profile changes) or could be practically challenging (e.g. Lao PDR could lose access to some support to take part in multilateral affairs), especially in the context of Lao PDR’s limited fiscal space.

**Table 4 – (Non-exhaustive) excerpts of the LDC graduation Impact Assessment (2020)**

Sector	Impacts
Trade	<ul style="list-style-type: none"> <li>▪ “Lao PDR predominantly exports to other Asian countries which are either part of the Association of Southeast Asian Nations (ASEAN) or have free trade agreements with ASEAN. A large share of Lao PDR’s exports will continue to be exported duty-free to these destinations either under these agreements or under most-favoured-nation (MFN) treatment, and will therefore not be affected by graduation.”</li> <li>▪ “The most significant impacts of graduation are expected to be on exports to the European Union<sup>2</sup>. LDC preferences in the EU are extended for three years after graduation. The greatest impact of the end of LDC-specific preferences would be on garments, that would face higher tariffs and need to comply with more stringent rules of origin. The expansion of the industry also faces substantial challenges that are unrelated to graduation.”</li> <li>▪ “Most exports to Japan<sup>3</sup> would continue to be exported duty-free under the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEPA). Some products would face higher tariffs.”</li> <li>▪ “A significant share of exports to Canada are duty-free under MFN rates. Exports of garments would face significant tariffs”</li> <li>▪ “graduation from the LDC category is not expected to significantly affect market access for the country’s services exports as Lao PDR has not significantly benefitted from the services waiver and is not expected to do so in the near future.”</li> <li>▪ “Lao PDR will no longer benefit from LDC-specific flexibilities under the WTO agreements. In practice, however, this is expected to be of limited consequence.”</li> </ul>

<sup>2</sup> 6% of Lao PDR’s exports, 66% of which use LDC-specific preferences

<sup>3</sup> 3% of Lao PDR’s exports

<p><b>Technical assistance (for trade)</b></p>	<ul style="list-style-type: none"> <li>▪ “After graduation and applicable smooth transition periods, access to certain trade-related capacity-building, training and technical assistance mechanisms will be restricted”</li> </ul>
<p><b>Development cooperation</b></p>	<ul style="list-style-type: none"> <li>▪ “Graduation from the LDC category is expected to have only limited impacts on development cooperation in Lao PDR. LDC graduation is not expected to affect assistance by the World Bank, most United Nations system entities, GAVI - the Vaccine Alliance, the Global Fund, most 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) or South-South cooperation”</li> <li>▪ “Graduation could trigger relatively small changes in some forms of assistance delivered by a limited number of countries and organizations. They include slightly less favourable terms on concessional loans by Japan and the Republic of Korea, a gradual shift from grants to soft loans by Germany, loss of access to the LDC Fund (climate change), the Technology Bank and the Investment Support Programme for LDCs, and a reduction in the resources available for country-specific activities or a requirement of a higher cost-sharing contribution by a very small number of United Nations system entities”</li> </ul>
<p><b>Support to participation in international forums</b></p>	<ul style="list-style-type: none"> <li>▪ After graduation, Lao PDR would no longer benefit from ceilings and discounts applied to LDCs in the determination of countries’ mandatory contributions to budgets of the UN system. The exact impact depends on both future approved budgets and the country’s relative performance on indicators used by the United Nations to assess capacity-to-pay, relative to other United Nations Member States.</li> <li>▪ Lao PDR would no longer have access to LDC-specific support for travel to attend international meetings. Support for LDCs to attend the meetings of the General Assembly are available for a smooth transition period of 3 years, if requested. The country would still benefit from travel support extended to non-LDC developing countries.</li> </ul>

## 2.2 Opportunities to seize

Graduation must be seen in the context of Lao PDR’s development goals (the 9<sup>th</sup> NSEDP) as well as longer-term aspirations, as reflected in Vision 2030, including for green, sustainable, inclusive, people-centred development. While 2026 can represent the beginning of a new phase of Lao PDR’s development journey, the country will first effectively navigate through current challenges first and appropriately plan for continued development progress, with both of which the STS can help. This requires both prioritisation and planning, both of which are undertaken through the STS formulation and implementation.

The 9<sup>th</sup> NSEDP identifies a practical benefit of graduation: the enhancement of the country’s overall international image. The story of Lao PDR as a country moving up the ladder of development can be a positive one that comes with significant advantages – an improved image and increased attention for Lao PDR can mean better access to commercial finance, more favourable credit terms for

development financing through debt, or a better position to negotiate development projects and trade deals. The Government acknowledges that such improvements, however, are not automatic. Indeed, as mentioned, Lao PDR is currently grappling with significant economic and financial difficulties, worsened by important global disruptions.

The STS therefore offers an opportunity to help focus the attention of the entire Government and development partners including other stakeholders such as private sector, civil society, south-south partners & others and focus minds on most pressing challenges that can disrupt the country's development pathway – such as limited fiscal space, environmental degradation, learning losses, inequalities. Taking decisive actions will be critical to manage these crises, get back on track with the development agenda, graduate with momentum, and further climb the development ladder. By putting Lao PDR under the spotlight, the graduation process can facilitate partnerships for the better targeting of technical and financial assistance, increase development partners' coordination, and the development of new trade and economic partnerships. In particular, maximising the use of ISMs during the preparations for graduation (and the transition period following) can, in particular, help to accelerate reforms. The Government is committed to this partnership aspect, having worked at a technical level with Bangladesh and Nepal as the three LDCs expected to graduate in 2026, and planning to engage substantively in the LDC V Conference, planned for March 2023.

The STS also provides an opportunity to plan ahead, reflect upon the development beyond graduation, and identify new guiding directions for development, effectively preparing the 10<sup>th</sup> NSEDP, marked by the end of the Global 2030 Agenda, to ensure continuity between planning cycles.

On both the short and medium-term horizons, the implementation of the STS is therefore a unique opportunity to ensure the quality and sustainability of Lao PDR's development.

### III. Policies and actions for a smooth, quality, and sustainable LDC Graduation

The STS contains series of policies and actions focused on (1) a transition without disruption (smooth), (2) a graduation with momentum (quality) and (3) continued development progress (sustainable) beyond graduation. These are structured against 4 thematic pillars and 9 policy areas, covering the entire scope of graduation issues. In this section, a brief narrative is followed by the presentation of policy priorities and actions, which were formulated during and in the aftermath of a collaborative prioritization workshop on 3-4 November 2022. In total, there are 22 action areas clustered across 4 thematic pillars and 9 policy areas as per a summary highlighted in Table 5. The full action matrix is in annex 2.

**Table 5 – Summary of action areas against 4 thematic pillars and 9 policy areas of the STS**

Pillar	Policy area	Policy/ action
1. Macroeconomic Stability and Financial Sustainability	1.1 Macroeconomic stability	<b>Action 1:</b> Rapidly increase fiscal space <b>Actions 2:</b> Alleviate the debt burden <b>Actions 3:</b> Increase the resilience of the financial sector
	1.2 Safeguarding investments in human capital and climate action	<b>Actions 4:</b> Prioritise public investments in human capital and green and climate-resilient growth <b>Actions 5:</b> Increase the volume and effectiveness of ODA support in priority sectors <b>Actions 6:</b> Incentivise private sector investments in green growth <b>Actions 7:</b> Plan the country’s participation to global affairs
2 Trade and Investments	2.2 Trade and FDI promotion	<b>Action 8:</b> Reform investment promotion and management to attract quality FDI <b>Action 9:</b> Facilitate and develop quality trade relationships <b>Action 10:</b> Enhance and promote domestic production in line with international standards
	2.3 Business environment for inclusive growth	<b>Action 11:</b> Make the business environment one of the most attractive in Southeast Asia

3 Human Capital Development and Structural Economic Transformation	3.1 Human capital development and decent jobs	<p><b>Action 12:</b> Urgently address learning poverty</p> <p><b>Action 13:</b> Ensure access to basic social protection services</p> <p><b>Action 14:</b> Improve employment opportunities and conditions</p> <p><b>Action 15:</b> Make the country an attractive ecological and cultural tourism destination</p>
	3.2 Rural development	<p><b>Action 16:</b> Greater efforts for enhancing rural development through a community-based approach essential for poverty reduction.</p> <p><b>Action 17:</b> Accelerate the transition to sustainable/resilient food systems</p>
	3.3 Urban development	<p><b>Action 18:</b> Strategically plan urbanisation</p>
4 Climate Change and Disaster Management	4.1 Integrated and climate-resilient natural resources management	<p><b>Action 19:</b> Accelerate the energy transition</p> <p><b>Action 20:</b> Manage natural resources in an integrated and sustainable way</p>
	4.2 Climate resilience and disaster risk reduction	<p><b>Action 21:</b> Accelerate disaster risk anticipation and reduction</p> <p><b>Action 22:</b> Accelerate adaptation to climate change</p>

### 3.1 Macroeconomic Stability and Financial Sustainability

#### 3.1.1 Macroeconomic stability

If Lao PDR faces recurrent or extended macroeconomic instability – i.e., excessive currency depreciation, inflation, and deficits – then it will not achieve a smooth, quality, and sustainable graduation. While macroeconomic instability will not be fuelled by graduation, managing current macroeconomic imbalances is a prerequisite to short and medium-term development progress. As of late 2022, the country is grappling with high levels of debt, rapid inflation, and currency depreciation, with global shocks building on vulnerabilities, such as a large trade deficit, limited productive capacities, a growth pattern delinked from fiscal policy, and a large informal economy. Fixing these will primarily require implementing policy decisions contained in the 9<sup>th</sup> NSEDP Financing Strategy.

**Action 1: Rapidly increase fiscal space**

- By 2025, bring the tax to GDP ratio to 14% and total revenue to GDP ratio to 17% (9<sup>th</sup> NSEDP)
- The assessment of fiscal costs and review, harmonisation, and update of the laws, regulations, and processes, to broaden the tax base and abolish and renegotiate CIT, and other fiscal exemptions (9<sup>th</sup> NSEDP Financing Strategy)
- The harmonisation of tax rates to optimise revenue generation while fostering private sector development and investments in priority sectors and green growth, including the assessment of expected revenues generated, business registrations, administrative feasibility, and impacts on livelihoods of a potential restoration of the VAT rate to 10% (9<sup>th</sup> NSEDP Financing Strategy)
- The reassessment and possible termination of all public and public-private investment projects that are not in line with the 9th NSEDP priorities or are experiencing increasing costs and delays weighing on the State budget (9<sup>th</sup> NSEDP Financing Strategy)

**Description:**

These actions, copied verbatim, are identified in the 9<sup>th</sup> NSEDP Financing Strategy and are key to realise policy objective 1.1.1 (State revenues primarily increase through a fiscal policy shift to broaden the tax base, in line with inclusive growth priorities) and 1.2.1 (2023-2025 budget allocations and public investments, at the national and local level, and in all sectors, support the achievement of the 9th NSEDP) under the 1.1 Revenue Mobilisation Policy Area of the Domestic Public Finance Chapter.

**Involved entities:**

- Fiscal Policy Department, MoF (lead);
- Tax Department, MoF;
- Investment Promotion Department, MPI

**Actions 2: Alleviate the debt burden**

- The study and exploration of multilateral debt alleviation and suspension initiatives to free fiscal space in support of development investments and provide Lao PDR with sufficient time to increase the revenue to GDP ratio (9<sup>th</sup> NSEDP Financing Strategy)
- The continuation of debt consolidation through renegotiations to (1) cancel or reduce debt repayments and/or lengthen the maturity of loans to the second half of the 2020s without losing access to future loans and (2) explore debt swaps with major creditors (9<sup>th</sup> NSEDP Financing Strategy)

**Description:**

These two actions, copied verbatim, are identified in the 9<sup>th</sup> NSEDP Financing Strategy and critical to the realisation of policy objective 1.3.1 immediate debt relief is needed to free fiscal space for development investments, under the 1.1 Revenue Mobilisation Policy Area of the Domestic Public Finance Chapter.

**Involved entities:**

- Debt Management, MoF (lead)
- MoFA

**Actions 3: Increase the resilience of the financial sector**

<ul style="list-style-type: none"> <li>▪ The acceleration of projects to strengthen financial risk management regulations and procedures and consolidate the banking sector, considering current macroeconomic and monetary risks (9<sup>th</sup> NSEDP Financing Strategy)</li> <li>▪ Integration of disaster risk and climate change risks into risk management and stress testing regulations of the financial sector</li> </ul>	
<p><b>Description:</b></p> <p>This action, copied verbatim, is identified in the 9<sup>th</sup> NSEDP Financing Strategy and critical to the realisation of policy objective 3.2.1 improve the financial sector’s sustainability and credit availability for priority investments in line with macroeconomic stabilisation priorities, under the 3.2 Financial Inclusion Policy Area, of the Domestic Private Finance Chapter.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ Commercial Banks Supervision Department and Monetary Policy Department, BoL</li> </ul>

### 3.1.2 Safeguarding investments in human capital, environment and climate action

**If Lao PDR does not urgently increase resources invested in social sectors and green growth (including environmental protection and climate action and disaster risk management), then it will not achieve a smooth, quality, and sustainable graduation.** Graduation itself is in practice only expected to have limited impacts on fiscal space for development investments – with only slightly less favourable loan conditions, pressures to co-finance certain projects from donors, and the gradual decrease in the involvement of a few UN agencies. However, with currently limited fiscal space for development, long-term trends in development assistance, although mainly not attributable to graduation, can present a significant challenge in social and climate and disaster risk reduction action, which are ODA-dependent sectors. Improving the sustainability of Lao PDR’s budget is essential to ensure the quality and sustainability of Graduation. The diagnostics prepared ahead of the 9<sup>th</sup> NSEDP Financing Strategy found that the budget was both insufficient in absolute terms and insufficiently allocated to social sectors and environment and climate action. Budget cuts to central (30%) and provincial (10%) levels from 2020 have worsened the situation in the health sector. With the increasingly frequent and intense extreme weather events, significant investments are required in both adaptation and mitigation, while the accrued utilisation of natural resources for revenue generation are jeopardizing sustainability and climate commitments. Beyond urgent climate and disaster risk action, it will be crucial to safeguard investments in wider environmental protection (e.g., improve chemicals and waste management, local level ecosystem conservation). Moreover, the learning losses from COVID-19, and the continued limited resources for recurrent expenditures have created a mismatch between the demand for quality education systems and the State’s financial capacity. The development success stories of the Republic of Korea, Vietnam, or China have showed that investments in health, education, and social protection were preconditions for continued development progress. The 9<sup>th</sup> NSEDP Financing Strategy took note of the early preparations of the STS during formulation and integrated a dedicated policy area on LDC Finance that recommended areas of focus for ODA mobilisation. This section also contains policy decisions from the Domestic Public Finance and Financing Priority Sectors chapters of the Financing Strategy.

**Actions 4: Prioritise public investments in human capital and green and climate-resilient growth**

- The simultaneous mid-term review of the 9<sup>th</sup> NSEDP, update of the Public Investment Plan currently being developed, and alignment of the Medium-Term Expenditure Framework, reviewing 2024 and 2025 budget ceilings and yearly allocations (9<sup>th</sup> NSEDP Financing Strategy)
- The review and update of regulations and processes to appraise public and private investment proposals, including the update of the investment scorecard, the systematisation of cost-benefit analyses and other evidence-based methodologies through training and technical assistance, and improvements of PPP governance and regulations. (9<sup>th</sup> NSEDP Financing Strategy)
- By 2026, increase the budget allocation to the education sector to 4-6% of GDP (or 18% of the budget) and double government spending on health (to 2% of GDP) and social protection (to 1.5% of GDP), to accelerate progress towards Universal Health Coverage and access to basic social services in accordance to national regulatory framework (Education Law, Health Financing Strategy, and National Social Protection Strategy).
- Review and increase budget allocation and public sector investment in environmental priorities (including improving management of protected areas, strengthening enforcement of environmental law, investing in waste management infrastructure and solutions) in line with additional revenue generation (exploring various methods (like budget tagging and tracking and disaster and climate risk management methods) if applicable)

**Description:**

These actions, copied verbatim, are identified in the 9<sup>th</sup> NSEDP Financing Strategy, and are critical to the realisation of policy objective 1.2.1 (2023-2025 budget allocations and public investments, at the national and local level, and in all sectors, support the achievement of the 9<sup>th</sup> NSEDP) and 1.2.2 (transparent and modern public financial management improves the allocative efficiency and 9<sup>th</sup> NSEDP-alignment of the budget) under the 1.2 Expenditure Management Policy Area, in the Domestic Public Finance chapter.

**Involved entities:**

- Planning Department, MPI (co-lead)
- State Budget Department, MPI (co-lead)
- Investment Promotion Department, MPI (co-lead)
- Planning and Finance Departments (line ministries)

**Actions 5: Increase the volume and effectiveness of ODA support in priority sectors**

- The conclusion of discussions with bilateral and multilateral partners for continued ODA and/or budget support during the 9<sup>th</sup> NSEDP cycle, conditioned to marked improvements to fiscal policy and PFM, which would generate fiscal space for co-financing in the next planning cycle (9<sup>th</sup> NSEDP Financing Strategy)
- In preparation for the LDC V Conference (5-9 March 2023), the assessment of challenges, opportunities, and best practices to mobilise ODA from multilateral funds, Technology Bank, and Investment Support Programme (9<sup>th</sup> NSEDP Financing Strategy), with a particular focus on mobilising resources from LDC-specific funds until the end of the graduation period (e.g.,

<p>Global Environment Facility Least Developed Countries Fund, Technology Bank, Investment Support Programme and other related funds).</p> <ul style="list-style-type: none"> <li>• The Smooth Transition Strategy prioritises (1) the mobilisation of technical assistance for the sustainable and resilient financing of development, (2) to adapt to and mitigate impacts for continued strategic mobilisation of development aid, (3) and finance priority sectors of green growth, climate change management, and social sectors (9<sup>th</sup> NSEDP Financing Strategy)</li> <li>• This includes organising, jointly with the United Nations in Lao PDR, within the first semester of 2023, a multi-stakeholder conference to mobilise resources and develop an inter-ministerial joint programme, supported financially and technically by development partners, to implement the 9<sup>th</sup> NSEDP Financing Strategy and the LDC Graduation STS</li> </ul>	
<p><b>Description:</b></p> <p>These actions, copied verbatim, are identified in the 9<sup>th</sup> NSEDP Financing Strategy, and are critical to the realisation of policy objectives 2.2.2 (prioritise financing sustainability in the forthcoming LDC graduation Smooth Transition Strategy) 5.1, 5.2, and 5.3, which call for the sustainable increase of budget allocations and mobilisation of private resources for the health and education sectors, and for environmental and climate action, in the Financing Priority Sectors chapter.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ International Cooperation Department, MPI</li> <li>▪ State Budget Department, MoF</li> <li>▪ Planning and Finance Departments, line ministries</li> </ul>

<p><b>Actions 6: Incentivise private sector investments in green growth</b></p> <p>The formulation of policy recommendations to incentivise investments in green growth and to create a clear taxonomy for sustainable activities, which would inform policies and actions to improve the business environment and investment promotion regime (9<sup>th</sup> NSEDP Financing Strategy)</p>	
<p><b>Description:</b></p> <p>This action, copied verbatim, is identified in the 9<sup>th</sup> NSEDP Financing Strategy, and is critical to the realisation of policy objectives 5.3.1 (Green growth and climate-resilient development are financed through sustainably increasing budget allocations, improved green budgeting, strategic mobilisation of ODA, and increasing private investments in an enabling business environment), under the Policy area 5.3 Green and Climate Finance, in the Financing Priority Sectors chapter.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ Investment Promotion Department, MPI (lead)</li> <li>▪ Planning and Cooperation Department, MOIC,</li> <li>▪ LNCCI</li> <li>▪ Financial institutions/commercial banks</li> <li>▪ Planning and Cooperation Department, MoNRE</li> </ul>

**Actions 7: Organize the continuation of LDC preferences related to Lao PDR's participation in international organizations during the transition period.**

Identify the international support measures (ISMs) for LDCs, related to participation in international organizations, that Lao PDR would like to continue benefiting from during a transition period following graduation, and make the necessary requests and arrangements in each case. This could include, among other things, requesting continued funding support to participate in meetings of the UN General Assembly, organizing payment either by Lao PDR or a donor for continued membership of the Advisory Centre on WTO Law (ACWL), and requesting continued caps and discounts on Lao PDR's contributions to organizations such as the International Telecommunication Union (ITU) during the transition period.

**Description:**

As Lao PDR is expected to progressively lose financial support from development partners to participate to international and multilateral events, it will be important to plan ahead and decide which conferences need to be attended, and translate those expectations into recurrent expenditures budgeting.

**Involved entities:**

- State Budget Department, MoF
- International Organisations Department, MoFA

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## 3.2 Quality Trade and Investments

### 3.2.1 Quality trade and investment promotion

**If Lao PDR does not diversify trade (in terms of partners and exports) and investment sources, then it will not achieve a smooth, quality, and sustainable graduation.** This policy area is equally concerned with the loss of preferential market access, which could negatively affect Lao PDR’s development, and with the prospects offered by the graduation momentum to attract quality FDI and develop mutually beneficial trade and investment relationships. Lao PDR’s investment and trade profile shows both a concentration in partners and sectors. Diversification of the trade and investment profile of Lao PDR will go hand in hand with economic transformation, diversification, and the implementation of Lao PDR’s environmental and climate priorities (please refer to 3.3 and 3.4). Nonetheless, there are important actions that need to be taken to negotiate with existing and new partners and adopt a legal and regulatory framework that stimulates quality investments and trade in line with the 9<sup>th</sup> NSEDP priorities.

<p><b>Action 8: Reform investment promotion and management to attract quality FDI</b></p> <ul style="list-style-type: none"> <li>• The multi-stakeholder formulation of a comprehensive FDI attraction and promotion strategy, which would contain (1) a FDI policy statement that clarifies Lao PDR’s strategic vision for FDI promotion and attraction, (2) the review of the Investment Promotion Law and SEZ regulations (3) the cost-benefit analysis and proposed reforms of the current incentive regime’s laws and regulations, prioritising targeted fiscal incentives for priority sectors (social sectors and green growth) and non-fiscal incentives and (4) reforms of the business environment, notably for facilitated entry and increased investor protection, all guided by international standards (9<sup>th</sup> NSEDP Financing Strategy and Investment Reform Map)</li> <li>• The support to the completion of the FATF mutual evaluation to assess Lao PDR’s shortcomings in mitigating money laundering and terrorist financing risks and curbing Illicit Financial Flows and implement resulting recommendations to improve the country’s compliance and effectiveness (9<sup>th</sup> NSEDP Financing Strategy).</li> </ul>	
<p><b>Description:</b></p> <p>The first action, copied verbatim, is identified in the 9<sup>th</sup> NSEDP Financing Strategy and a key action to realise policy objective 4.1.1 (quality FDI contributing to national development priorities increase through a focused investment promotion strategy based on non-fiscal incentives and reforms of the business environment), under policy area 4.1 Foreign Direct Investments, in the International Private Finance chapter.</p> <p>The second action, copied verbatim, is also identified in the 9<sup>th</sup> NSEDP Financing Strategy and a key action to realise policy objective 4.2.1 (completing the FATF’s Mutual Evaluation and implementing the associated action plan is a first step towards curbing illicit financial flows, increasing government revenue, and improving Lao PDR’s international profile), under policy area 4.2 Illicit Financial Flows, in the International Private Finance chapter.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ Investment Promotion Department, MPI (lead)</li> <li>▪ LNCCI</li> <li>▪ Planning Department, MPI</li> <li>▪ Fiscal Policy and Law Department, MPI</li> <li>▪ Monetary Policy department, MPI</li> <li>▪ Planning and Finance Departments, line ministries</li> </ul>

	<ul style="list-style-type: none"> <li>▪ AMLIO, BoL (lead)</li> <li>▪ FATF focal points</li> </ul>
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<p><b>Action 9: Facilitate and develop quality trade relationships</b></p> <ul style="list-style-type: none"> <li>▪ Set up and building the capacity of an inter-ministerial team of negotiators composed of economists, lawyers, and sectoral specialists, with the financial and technical assistance from development partners.</li> <li>▪ Organise joint public-private trade missions and communication campaigns, mobilising Lao embassies abroad, to promote Lao products and services, improve the country’s profile as an investment destination.</li> <li>▪ Launch a simplification of trade program covering the elimination of nuisance tariffs (minimal tariffs with high administrative costs), accelerating paperless systems, and the streamlining of non-tariff measures in line with priority markets.</li> <li>▪ By the end of the preparatory period, initiate trade negotiations for mutually beneficial, quality, and sustainable trade with the European Union, Canada, and other interested partners to both mitigate graduation impacts and further the achievement of the country’s socioeconomic objectives.</li> </ul>	
<p><b>Description:</b></p> <p>There is an opportunity to ensure that graduation is both smooth – the loss of ISMs is mitigated – and sustainable – by engaging Lao PDR into negotiations with current and potentially new trade partners. This work will require to rapidly build capacity, in an inter-ministerial setting, to ensure that Lao interests are represented in negotiations, for mutually beneficial trade relationships and the promotion of Lao goods and services. This could include the setting up of a team of negotiators, the development of a simplification of trade program, the organisation of trade and communication campaigns, all feeding into what are often decade-long negotiations.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ MoIC</li> <li>▪ Investment Promotion Department, MPI</li> <li>▪ International Organisations Department and Embassies, MoFA</li> <li>▪ Lao Business Forum</li> </ul>

<p><b>Action 10: Enhance and promote domestic production in line with international standards</b></p> <ul style="list-style-type: none"> <li>▪ Identify niche domestic products for both export and local consumption</li> <li>▪ Develop related legislation on the e-commerce and online trade platform in order to provide better management and services.</li> <li>▪ Increase production (quality and volume) for domestic and export markets, in particular the development of trade policy along the border to build sustainable markets access for import and export.</li> <li>▪ Strengthen data management in trade and industry sectors to better manage the CO2 emission from the factories and its impact to environment,</li> </ul>	
<p><b>Description:</b></p>	<p><b>Involved entities:</b></p>

<p>This is an opportunity for the country to increase domestic production for niche products that could be exported and consumed locally. It is also an opportunity for the country to manage its trade balance and increased local capacity to match international and regional demands</p>	<ul style="list-style-type: none"> <li>▪ MoIC</li> </ul>
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### 3.2.2 Business environment for inclusive growth and SMEs

**If Lao PDR does not create an enabling environment for quality investment, then it will not achieve a smooth, quality, and sustainable graduation.** Lao businesses have been strongly affected by COVID-19, and recurrent struggles with access to finance, integration into regional value chains, and productivity appear to have worsened. Improving the business environment to facilitate business creation, access to finance, linkages between national and international businesses, will be important to accelerate private sector development, in line with economic transformation (please see 3.3).

<p><b>Action 11: Make the business environment one of the most attractive in Southeast Asia</b></p>	
<ul style="list-style-type: none"> <li>▪ The quality implementation of the PM's Orders No. 02 and 03 to simplify the business environment, especially accelerating current efforts to disseminate recent regulatory changes and steps to obtain a business license through user-friendly digital platforms, and reduce informal charges (9<sup>th</sup> NSEDP Financing Strategy)</li> <li>▪ Public-private dialogues on enabling environment and incentives for MSME development in priority sectors, integration in regional and international value chains, responsible business practices, and access to finance (9<sup>th</sup> NSEDP Financing Strategy)</li> <li>▪ Developing a business environment that will reduce the impact of socio-economic disruptions caused by disasters on MSMEs and increase their resilience</li> </ul>	
<p><b>Description:</b></p> <p>The improvement of the business environment is already ongoing with the implementation of PM's Orders No. 02 and 03 and monitoring tangible improvements in the ease of doing business will be imperative to unleash private sector development. This could be accompanied by the strengthening of public-private dialogues to support MSME development. These two actions are integrating three actions of the 9<sup>th</sup> NSEDP Financing Strategy, contributing to 3.1.1 (improve the business environment to unlock domestic private finance flows in priority sectors) and 3.2.2 (increase access to finance for MSME development).</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ Enterprise Registration Department, MoIC</li> <li>▪ Planning and Cooperation Department, MoIC</li> <li>▪ SME promotion Department, MOIC</li> <li>▪ LNCCI</li> <li>▪ SME Fund, MoIC</li> </ul>

### 3.3 Structural Economic Transformation

#### 3.3.1 Human capital development and decent jobs

**If Lao PDR does not have a healthy and well-educated young population that can participate into an economy that creates sufficient decent jobs, then it will not achieve a smooth, quality, and sustainable graduation.** With a shrinking budget for health and education expenditures, falling health and nutrition outcomes due to the 5F crisis, and the learning losses stemming from COVID-19, the upward trajectory of human capital development is challenged. If restoring fiscal space for social sectors is a precondition (see to 3.1.2), significant efforts need to be put to improve the quality of lifelong learning, and in particular primary education, in a largely young population that can generate a demographic dividend for Lao PDR. The inclusivity and access to quality healthcare also requires significant improvements. A healthy and well-educated young population will only prosper if Lao PDR is also capable to accelerate decent job creation, with nearly 82,000 new entrants into the job market every year. This will require legal and regulatory changes, as well as accrued implementation of labour standards. Job creation will require to scale up support to priority sectors for Lao PDR, such as agriculture, tourism, manufacturing, and energy, in both rural and urban areas (see 3.3.2 and 3.3.3). Additionally, the expansion of social protection will ensure that shocks and crises do not translate into increasing poverty and maintain Lao PDR on a sustainable graduation pathway. These well-being considerations are particularly important for women and girls, who have suffered disproportionately from the compounded impacts of COVID-19 and the 5F crisis. In this respect, the integration of preventive Action programs into national social protection systems is vital so that no one falls behind in overall human capital development in the face of disasters such as COVID-19. With such integration, it will be possible to quickly provide assistance to the most vulnerable of society with the national social protection system in case of disaster. Ensuring a gender dimension, and more broadly, that no one is left behind in the overall human capital development of Lao PDR is imperative for a sustainable graduation and a precondition to structural economic transformation, as the success stories of the Republic of Korea and Vietnam demonstrated.

<p><b>Action 12: Urgently address learning poverty</b></p> <ul style="list-style-type: none"> <li>▪ Develop an Education Recovery action plan in line with the National Statement of Commitment to Action (prepared for the Transforming Education Summit), with sequenced expenditures to attempt to recover the learning loss.</li> <li>▪ Prioritise spending and efforts on school drop-outs, especially for girls.</li> <li>▪ The exploration of specific changes required to the laws, regulations, processes, and Charts of Accounts to facilitate centralised planning, prioritisation, and budgeting of the education sector and improved allocative efficiency of public funding, in the context of limited fiscal space (9<sup>th</sup> NSEDP Financing Strategy)</li> </ul>	
<p><b>Description:</b></p> <p>Experiences studied at the LDC graduation peer exchange (August 2022) - Republic of Korea or Vietnam – demonstrate the importance of improving the financing, quality, and access of the education system. At the recent Transforming Education Summit, Lao PDR</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ Finance Department, MoES</li> </ul>

<p>committed to “transform how the education sector is delivered and to strengthen the quality of education for all”. This action specifies Action 4, looking at the financing of human capital development.</p>	<ul style="list-style-type: none"> <li>▪ Planning Department, MoES</li> <li>▪ State Budget Department, MoF</li> </ul>
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<p><b>Action 13: Ensure access to basic social protection services</b></p>	
<ul style="list-style-type: none"> <li>• Ensure the implementation and funding of the National Social Protection Strategy, which aims to develop, further strengthen, and finance (from the State budget) the health insurance, social security, and social welfare systems, with a focus on the enrolment of vulnerable groups such as children, women, and persons with disabilities.</li> <li>• <b>Integrate anticipatory action schemes into national social protection systems.</b></li> </ul>	
<p><b>Description:</b> The STS prioritises the National Social Protection Strategy’s twofold objectives that “<i>by 2030, Lao people have access to basic social protection services</i>” and that “<i>by 2025, the social protection system will be developed gradually and aim to provide higher protection to those more in need</i>”.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ Social Welfare Department, MoLSW</li> </ul>

<p><b>Action 14: Improve employment opportunities and conditions</b></p>	
<ul style="list-style-type: none"> <li>▪ Reconsider the national curriculum to better align study options with the real economy, increasing the share of technical and vocational training and partnerships with the private sector</li> <li>▪ Develop on high-quality labor market information with progress supporting the facilitation of employment shifts that promote employment growth across and within sectors.</li> <li>▪ Provide information about the movement of labour, training for skilled labours, the structure of employment and unemployment levels.</li> <li>▪ Strengthen the enforcement of the Labour Law and Anti-Trafficking Law and ensure the implementation of the Minimum Wage Decree and explore legal and regulatory changes to improve working conditions based on best international practices.</li> </ul>	
<p><b>Description:</b> Human capital development</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ Social Welfare Department, MoLSW</li> <li>▪ Ministry of Education and Sports</li> </ul>

<p><b>Action 15: Make the country an attractive ecological and cultural tourism destination</b></p>
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Initial nationwide dialogue on the future of sustainable tourism development as a pillar of Lao PDR's structural economic transformation in Lao PDR, and the integration of tourism as a priority for the 10 <sup>th</sup> NSEDP.	
<p><b>Description:</b></p> <p>Accelerating tourism recovery and make the sector a pillar of Lao PDR's sustainable development could include the explore fiscal incentives for eco-tourism development, global standards and labels/awards that Lao businesses could align to/receive, and regulatory updates (e.g. plastic bans) in certain areas. In line with efforts to improve Lao PDR's trade, tourism promotion missions to priority markets highlighting improvements in connectivity (e.g. the LCR), administration (e-visas), and the country's natural and heritage capital. This would be boosted by work with UNESCO and other development partners to map and prioritise the promotion and protection of sites of cultural and natural heritage value for international recognition, and the thorough implementation of the Heritage Law, Museum Law, and Environmental Impact Assessment Decree.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ Ministry of Information, Culture, and Tourism</li> <li>▪ Ministry of Environment</li> <li>▪ Ministry of Agriculture</li> <li>▪ Ministry of Energy and Mines</li> <li>▪ National Heritage Committee</li> <li>▪ Lao National Tourism Association</li> </ul>

### 3.3.2 Rural development

**If sustainable development does not take place in rural areas (where the majority of people live), then it will not achieve a smooth, quality, and sustainable graduation.** Rural populations have indeed been particularly affected by COVID-19 – mobility restrictions affecting agricultural trade – and since the beginning of the 5F crisis – with more pronounced food insecurity due to rising prices of fertilisers. The economy of rural areas remains largely dependent on the extraction of natural resources, leaving Lao PDR at the bottom of regional and global value chains. Supporting a diversification and qualitative improvement of the economy of rural areas, to transform and refine the natural resources produced, but also to stimulate other key sectors, such as tourism, will be an important contribution to the overall economic transformation of Lao PDR, which can also help to bridge an important and increasing rural-urban gap. Such policy decision will require significantly scaled up strategic spatial planning, to coordinate transport, energy, investments, and resilient infrastructure development policies, in line with regional integration plans (structured by the Lao-China railway, which can help to better integrate more remote regions and overcome landlockedness), more sustainable and integrated natural resources management to curb environmental degradation and decarbonise the Lao PDR economy (see 3.4.1 and 3.4.2).

**Action 16: Greater efforts for enhancing rural development through a community-based approach essential for poverty reduction.**

- Expand rural infrastructure, roads and services have led to poverty reduction in many parts of the country

<ul style="list-style-type: none"> <li>▪ Enhance market access for agricultural produce and improve livelihood opportunities.</li> <li>▪ Promote entrepreneurship and production facilities in rural areas and encourage agglomeration economies, especially the development of small towns in rural areas, and promote rural employment and income-generating activities for poor and vulnerable households.</li> <li>▪ Strengthen local capacities through implementing the Sam Sang Policy<sup>4</sup>, improve and strengthen provincial, district and village-level capacities, promote transparency and strong leadership, and strengthen solidarity and harmonization among different ethnic groups.</li> <li>▪ Encourage “development funds” for the poorest districts, particularly village and district funds, which will provide support to households and villages to enable them to engage in income generating activities.</li> </ul>	
<p><b>Description:</b></p> <p>Within this context, rural development is central to the Government’s poverty eradication efforts as rural poverty is of prime concern and a community-based approach to its eradication is essential. The Government’s rural development strategy has two major components: 1) improving access to essential factors of development; and 2) strengthening a comprehensive, poverty-focused planning process at the district level to ensure all initiatives are mutually supportive and co-ordinated.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ Ministry of Agriculture and Forestry</li> </ul>

<p><b>Action 17: Accelerate the transition to sustainable/resilient food systems</b></p> <p>Accelerate progress towards the Agriculture Sector Development Plan’s vision to ensure safe and nutritious food for all and develop a sustainable and productive agriculture, with in particular:</p> <ul style="list-style-type: none"> <li>• Promote deforestation-free low-emissions, sustainable, and climate-resilient agriculture practices and food systems, in particular small- and medium-scale and nature-positive food production, discouraging large monocultures, and strengthen national agricultural production for the domestic market and for export, along the transport axes of Lao PDR.</li> <li>• The reduction of chemical contamination and fertilizer usage currently leading to durable environmental and health impacts, through increased literacy, strengthened enforcement of regulations, and sustainable agriculture practices.</li> <li>• Apply advanced science and technology into primary production and provide production and technical services by promoting their use, researching rice and plant seeds and animal breeds, and experimenting with new technologies to upgrade productivity;</li> </ul>
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<sup>4</sup> The Sam Sang Policy (Three Built Directives) proposes provinces as the strategic unit, districts as the integration unit, and villages as the development unit.

<ul style="list-style-type: none"> <li>• Build rice storage/warehouses to ensure food security in the event of natural disasters, food crisis and other</li> </ul>	
<p><b>Description:</b></p> <p>This action is linked to the results of the Food System Summit Dialogue in Lao PDR, which focused on four tracks: ensuring safe and nutritious food for all; boosting nature-positive food production at sufficient scales; advancing equitable livelihoods and value distribution; and building resilience to vulnerabilities, shocks, and stresses. Of all recommendations, the STS recommends prioritising the transformation of food systems anchored in the principles of sustainability, climate-resilience, and inclusive rural development, with in particular a focus on the reduction of chemical contamination.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ Ministry of Agriculture and Forestry</li> </ul>

### 3.3.3 Urban development

**If sustainable development does not take place in cities and towns (with 50% of the population expected to live in urban areas by 2030), then it will not achieve a smooth, quality, and sustainable graduation.** Lao PDR is the fastest urbanising nation of Southeast Asia and at a decisive stage in its urbanisation history. This is an opportunity – planning for sustainable urban development in safe, green, connected cities – and a risk – unmanaged urbanisation means polluted, congested, and badly connected cities exposed to natural disasters. Recent trends have indicated that compounded crises have had important negative impacts on urban poverty, which rely more on imported products, whose prices have risen, and who were more limited by COVID-19 mobility restrictions. For structural economic transformation to begin in cities by graduation, and continue beyond, a significant scale-up of sustainable urban planning will be needed, to shape cities with high productive potentials, agglomerating resilient infrastructure, skills, knowledge, resources, and high-growth activities for Lao PDR, such as industry and services. To ensure the sustainability of graduation, sustainable urban planning will also need to consider environmental, climate and disaster risk imperatives of our time, with decarbonised energy and transport solutions, sound waste management, disaster risk management and resilience to increasingly disruptive weather events.

<p><b>Action 18: Strategically plan urbanisation</b></p> <ul style="list-style-type: none"> <li>• Develop a concrete and practical national urbanisation strategy aiming at green, safe, creative, and productive cities connected to rural areas and the region through the Lao National Urban Forum.</li> <li>• Ensure that current Lao cities – Vientiane capital and the 12 other regional capitals – are all equipped with urban development plans that practically take forward the three core principles of environmental sustainability, climate change resilience, and inclusivity.</li> </ul>	
<p><b>Description:</b></p> <p>Lao PDR is experiencing a fast urbanisation trend that needs to be properly managed. Unmanaged urbanisation leads to uncoordinated and uncontrolled infrastructure growth, and often, higher crime rates, pollution, and vulnerability to natural disasters. In all countries, cities</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ MoPWT</li> <li>▪ MoNRE</li> <li>▪ All of GoL</li> </ul>

can be hubs of human creativity, decent jobs, and productive capacities, but this requires anticipatory and integrated planning at all levels: national, provincial, and local, with a consideration for regional and global integration.	
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### 3.4 Climate Change and Disaster Management

#### 3.4.1 Integrated and climate-resilient natural resources management

**If Lao PDR does not urgently shift to a sustainable management of natural resources, then it will not achieve a smooth, quality, and sustainable graduation.** The current economic growth model – heavily reliant on unsustainable use of environmental assets – remains incompatible with sustainability ambitions (the annual cost of environmental degradation is estimated at 19.3% of GDP by the World Bank). While Lao PDR’s environment will not be directly impacted by graduation – outside of the loss of access to the LDC Fund – the sustainability of graduation is heavily reliant on the environmental and climate sustainability of the country’s development pathway. Current economic and financial difficulties have for instance required a difficult balancing act between immediate financial relief – with the easing of mining licenses that generate revenues and foreign exchange – and longer-term sustainability principles enshrined in the 9<sup>th</sup> NSEDP and the National Green Growth Strategy, which can only be solved through the reorientation of fiscal policy and sustainable debt management (see 3.1.). Further, it is important to develop innovative financial tools suitable to ensure the sustainable management of natural resources. For example, it is important to develop financial instruments such as biodiversity credits, which are developed to protect biodiversity and applied in a few countries. More frequent and violent extreme weather events can build on environmental degradation to catalyse disasters that can halt or even reverse Lao PDR’s development trajectory, as was observed in other countries such as Pakistan. Investment in nature-based solutions and ecosystem services can effectively reduce disaster risk while enhancing environmental sustainability. In this regard, prioritizing nature-based solutions as effective and low-cost options against climate-related disasters such as floods, landslides and droughts is important for the smooth graduation of the Lao PDR. Further environmental degradation and nature loss are also affecting well-being outcomes, with increasing rates of chemical contamination and pollution of the soil, air, water, and food. The sustainable and integrated cost effective management of natural resources will go through improvements to the quality of environmental safeguards and regulations, as well as their implementation, and the management, in an inter-ministerial and public-private setting, of trade-offs between extraction-driven growth and the sustainability of graduation.

#### **Action 19: Accelerate the energy transition**

- Phase out coal and fossil fuels, reduce the environmental and social impact of hydroelectric energy production through enhancement and strengthened implementation of safeguards laws and regulations, and accelerate renewable energy production to reach 30% excluding large hydropower by 2025 (as per NDC), including with fiscal incentives, while eliminating subsidies on fossil fuels.

<ul style="list-style-type: none"> <li>Promote the adoption of electric vehicles (30% penetration between 2020-2030 according to the NDC) to reduce reliance on fossil fuels and reduce air pollution and associated health impacts in cities.</li> </ul>	
<p><b>Description:</b></p> <p>As suggested in the Lao PDR SDG 7 Roadmap: “<i>Phasing out coal from the power sector should be considered in order to benefit from the lower cost of electricity generation, reduce the risk of stranded assets and to align the energy transition with the global call for coal phase-out.</i>” Lao PDR’s vast solar, wind, and hydroelectric energy potential, ambitious climate change mitigation targets, as well as the benefits of relying less on imported petroleum products, justify an accelerated transition low-emissions energy generation. This includes the electrification of personal and public transportation, which is prioritised in the Lao NDC.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>MEM</li> <li>Planning Department, MPI</li> </ul>

<p><b>Action 20: Manage natural resources in an integrated and sustainable way</b></p> <ul style="list-style-type: none"> <li>The temporary halt on new resource extraction projects combined with the update of legislation, regulation, and processes for the future implementation of natural resources extraction projects in line with the inclusive, sustainable, and climate-resilient development pathway of the 9th NSEDP (9<sup>th</sup> NSEDP Financing Strategy)</li> <li>Protect the country’s diverse and economically important ecosystems including the species and genetic diversity, notably by curbing wildlife trafficking, increasing forest cover to 70% of land area (NDC) and improving forest management practices, and better resource the 24 National Protected Areas (National Biodiversity Strategy and 9<sup>th</sup> NSEDP)</li> </ul>	
<p><b>Description:</b></p> <p>The first component, copied verbatim, is identified in the 9<sup>th</sup> NSEDP Financing Strategy and a key action to realise policy objective 1.1.2 (revenue generation does not compromise the 9th NSEDP environmental sustainability directions and priorities), under policy area 1.1 Revenue Mobilisation, in the Domestic Public Finance chapter.</p> <p>The second component takes forward key priorities regarding environmental protection detailed in the National Biodiversity Strategy and the 9<sup>th</sup> NSEDP.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>MAF</li> <li>MEM</li> <li>MoNRE</li> <li>Planning Department, MPI</li> <li>Investment Promotion Department, MPI</li> <li>Disaster risk management authority</li> <li>MOIC</li> </ul>

### 3.4.2 Climate resilience and disaster risk reduction

**If Lao PDR does not urgently improve its resilience to climate change and disasters, then it will not achieve a smooth, quality, and sustainable graduation.** Lao PDR’s important climate vulnerability (the country ranks 137 out of 180 countries in the 2020 ND-Gain Index, assessing climate vulnerability and readiness to adapt and mitigate impacts, ranking 38<sup>th</sup> in the list of most vulnerable, and 142<sup>nd</sup> in the list of most ready countries) is a challenge to the sustainability of LDC graduation and continued development progress. The country is indeed projected to be among the countries most affected by climate change, with a potential 3.6°C rise by the end of the century. This, practically, means that the annual seasonal variations’ intensity and violence would be considerably increasing. Disaster risk management, adaptation and resilience to climate change will be most critical to ensure that weather events do not disrupt lives, hence human capital, and livelihood, thus interrupting the country’s socioeconomic development, in a country where 2/3 of the population depends on natural resources for their livelihoods. Adaptation and resilience will require the effective mainstreaming into all related regulations, policies and project implementation, especially on economic transformation in urban and rural areas, but also dedicated work to analyse the vulnerability of Lao PDR, its territories, and institutions, and infrastructure, and build their resilience. In addition, it is evident that countries at the graduation stage from LDC status will risk losing that status if they remain sensitive to disaster events because disasters affect all three graduation criteria negatively, particularly with the rise in the prevalence and severity of disaster events. Being caught unprepared for disasters, especially in terms of financing, will adversely affect the production capacity of countries at the graduation stage, and it will take a long time for them to return to pre-disaster production capacity. This situation may also cause the graduations to be delayed. In this respect, Disaster Risk Reduction Financial Strategy regarding the costs caused by disasters will play an important role in reducing economic and human losses by enabling the rapid mobilization of financial resources during disasters. For example, informing donors about possible damages caused by disasters in advance will speed up the mobilization of resources.

**Action 21: Accelerate disaster risk anticipation and reduction**

Develop, strengthen, and improve the disaster risk reduction financing strategy, financing of the disaster prevention system, disaster risk reduction, disaster preparedness and response, in particular through improved vulnerability and exposure mapping, weather forecasting and monitoring, and multi-hazards early warning systems

**Description:**

Climate change is expected to lead to the increased frequency and severity of extreme weather events, while further environmental degradation, and infrastructure development, increase biological (i.e., zoonotic disease) and man-made disasters risks that can halt or reverse development progress. Lao PDR remains vulnerable to climate change and disasters, ranking as the 38<sup>th</sup> most vulnerable country in the world, and only the 142<sup>nd</sup> readiest country, implying significant disaster risk. In this context, first of all, it is necessary to develop policies that will provide a business environment that will ensure that investments that prevent disasters and do not create new

**Involved entities:**

- MoLSW
- MoNRE
- Disaster risk management authority
- All GoL

<p>risks are given priority in order to strengthen the financial and economic resilience of countries against disasters. It is important to develop policies on reducing brown infrastructure investments, considering transition risks, especially when promoting green and blue infrastructure investments to increase the resilience of production capacity, and communities. Based on these, financial and economic resilience should be supported in two ways during or after any disaster. One of them is to provide the necessary liquidity to the country that will be affected by the disaster immediately after or before the disaster and to reduce economic losses by putting the production infrastructure into operation as soon as possible. The other is to make the damaged production infrastructure resilient and to reduce the costs (premiums) of financial protection tools for future disasters by reducing the damage to be seen in future disasters. Providing these supports is possible with the DRR financing strategy, which will be formed by anticipating the disaster risk costs of the countries correctly before any disasters occur. The National DRR strategy refers to important capacity (financial and human) to appropriately anticipate and reduce disasters risks and manage impacts when they materialise.</p>	
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<p><b>Action 22: Accelerate adaptation to climate change</b></p> <p>Strengthen the integration of disaster risk reduction, climate change adaptation and resilience (with a particular focus on nature-based solutions and ecosystem-based adaptation) at all levels of planning and across sectors including agriculture, public health, water management, financial sector, rural and urban development and with a particular focus on vulnerable regions and communities.</p>	
<p><b>Description:</b></p> <p>As mentioned above, Lao PDR presents a high vulnerability and a limited readiness to climate change and disasters. As a low emitter of CO<sub>2</sub>, Lao PDR's sustainable development hinges on accelerating adaptation of territories and people to a changing climate. This will include integrating disaster risk reduction, climate change considerations and resilience into public and private investments decisions, including the lending process of the financial sector, in particular in highly vulnerable sectors, such as agriculture, energy, fisheries, and health. Vulnerability mapping should help to focus efforts on key provinces and districts within Lao PDR.</p>	<p><b>Involved entities:</b></p> <ul style="list-style-type: none"> <li>▪ MoNRE</li> <li>▪ MAF</li> <li>▪ MEM</li> <li>▪ MoIC</li> <li>▪ Disaster risk management authority</li> <li>▪ All GoL</li> </ul>

## IV. Implementation arrangements

### 6.1 Governance and coordination

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

The anticipated implications of graduation cut across the mandates of all ministries concerned, and therefore thorough consultations throughout the process of developing and implementing the STS are essential. In particular, focuses of key ministries formed as a core consultative group for STS preparation and implementation are highlighted as follow:

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

In addition to the LDC National Steering Committee, Department of International Organization/ Ministry of Foreign Affairs (MoFA) leads an inter-ministerial taskforce responsible for developing the STS and it will act as a secretariat to the LDC National Steering Committee to ensure effective coordination of the STS implementation along the way. The taskforce is composed of representatives at Director General and/or Deputy Director General (in some case at division level as appropriate) from the Ministries of Planning and Investment, Finance, Industry and Commerce, Health, Education and Sports, Natural Resources and Environment, Agriculture and Forestry, Labour and Social Welfare, Lao Statistic Bureau, Institute of Development Policy Research, Lao Women's Union and

other line ministries. Four key agencies which are part of the LDC National Secretariat which are not part of the Steering Committee are Ministry of Labour and Social Welfare, Lao Statistic Bureau, Institute of Development Policy Research, Lao Women's Union. Their focuses are for the STS implementation are highlighted as follow:

- **Ministry of Labour and Social Welfare:** Adaptation of the Lao business environment to international standards, with a focus on labour rights and sustainability
- **Lao Women's Union** Gender and trade/investment: garment sector may be impacted by LDC graduation and is an important employer for women in Lao PDR
- **Lao Statistic Bureau:** data improvement and quality for long term development indicators (HAI and EVI)
- **Institute of Development Policy Research:** evidence based policy formulation, monitoring and reporting on the STS implementation.

From the UN side, the UN Sustainable Development Cooperation Framework Joint Output Group on LDC Graduation, under the leadership of the UN Resident Coordinator's Office, provides both technical and financial support to the Department of International Organizations (DIO)/MoFA. The joint output group includes membership from DESA, ILO, ITC, UNCDF, UNCITRAL, UNCTAD, UNDP, UNIDO, ESCAP, and IOM.

## **6.2 Monitoring**

The Monitoring approach of the STS is twofold:

First, the tracking of the STS implementation (annex 2), as per the STS's action matrix, which contains leadership roles, down to the department level, timelines, and means of verification. Each nominated Government lead is responsible for the collection, analysis, and reporting to the LDC Secretariat on an annual basis, ahead of the annual Round Table Meeting, which provide an opportunity to discuss national development progress in a multi-stakeholder forum and strengthen policy coherence.

Second, a core set of 12 indicators – 3 per thematic pillars of the STS (see annex 3) – is tracked to assess whether Lao PDR is on a smooth, quality, and sustainable graduation pathway. These indicators, established by the Government of Lao PDR, draw on authoritative national and international sources. A baseline (2020) and an alert threshold facilitate the reading of the development trajectory of Lao PDR and potential course corrections. They comprise the three core LDC graduation criteria, distributed across the 4 thematic pillars of the STS.

The Government of Lao PDR will take an active role in the commitments of the CDP, the General Assembly, and the LDCs through the Doha PoA for the enhanced monitoring of Graduating and graduated countries in a changing development context. The national monitoring and evaluation framework of the STS will provide evidence and data that will be used to report annually to the CDP ahead of its annual session, both on the state of development in Lao PDR, and on the progress of the STS implementation.

***(Full texts for monitoring work will be further developed after the Round Table Implementation Meeting during technical consultations with key stakeholders and it will be in line with the Enhanced Country Monitoring by CDP)***

### 6.3 Development assistance

Cooperation with development partners is an essential component of Lao PDR's approach to graduation. This is translated into implementation through:

- The mobilisation of development partners through the annual Round Table Meetings and the inclusion of graduation-relevant issues to the agenda of the Sector Working Groups, in collaboration with the Ministry of Planning and Investment, as the secretariat, starting from January 2023;
- The presentation and launch of the STS at the LDC V Conference in March 2023. It is expected that the Action Matrix is a living document through the STS implementation and that the development partners' contributions are recorded in the dedicated column (see annex 2);
- The close collaboration with the UN System (CDP, UNDESA, and OHRLLS) to monitor the development pathway of Lao PDR and the implementation of the STS (see monitoring and evaluation framework).

International support for graduation is an on-going discussion between the Government of Lao PDR and its partners. Specific needs for international support for a smooth graduation are being defined and refined against each action as part of the STS development process.

Key measures that have been discussed within the Government and with the relevant international organizations and international partners are:

- In response to the loss of LDC-specific preferential market access, the Government has engaged with the EU and UK on possible solutions for market access for the period after graduation. An effort has been made to discuss with the EU, WTO Secretariat, Enhanced Integrated Framework (EIF), UNCTAD, ITC and the UN Economic and Social Commission for Asia and the Pacific (ESCAP) who 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 (duty-free, quota-free) DFQF market access. In addition, 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.
- On the loss of LDC-specific special and differential treatment on obligations and flexibilities under WTO rules (other than market access), as the LDC Group at WTO, a proposal is to have a package of support measures that would be applied to any LDC for a uniform transition period (currently proposed as 6-9 years) following graduation. The Government of Lao PDR has been engaged actively with Members, bilaterally and in WTO Committees, to seek an opportunity to obtain support for addressing graduation challenges.

- On the issue of LDC graduation in the context of Regional Comprehensive Economic Partnership (RCEP), the Government will carry out further study to gain more understanding of the issue with the support of UN and other development partners.
- On trade-related capacity-building, training and technical assistance, the Government has engaged 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.
- On development cooperation, the Government has discussed and negotiated with various partners including, the UN, EU, ADB, Luxembourg, and Japan in 2022 to finalize cooperation frameworks where ODA commitments have been highlighted to ensure that Lao PDR's specific needs and vulnerabilities are taken into account. As such, a plan for the coming year is to prepare a country development cooperation report which capture various elements of effective development cooperation tracking supports at various levels to gain better understanding on various types of supports provided by partners.
- Another important matter is on domestic resource mobilization which continues to be crucial, as well as traditional ODA, non-concessional public finance (other official flows—OOF), blended finance, and South-South cooperation. As such, on-going discussions have been made on taking advantage of guidance and capacity-building from organizations on alternative resource mobilization. A capacity building plan to access different sources of climate finance including the Green Climate Fund (GCF) has been in the development process. This will become important to compensate for no longer being eligible for LDC-specific funds.
- In addition, the Government has also started to discuss with the UN and partners to 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, although decision has not been officially made, a few options that the Government is considering which include: a request for extension of the conditions applied to LDCs regarding budget contributions at the ITU; a request for the three-year extension on support to participate in meetings of the United Nations General Assembly and exploring with the relevant institutions possibilities for alternative support for travel to key intergovernmental meetings.

**The Government will be in a position to define specific needs for international support to implement the STS, and therefore to manage a successful and sustainable graduation, after the finalization of the STS.**

## Annex 1: Reference policy frameworks

<p><b>9<sup>th</sup> NSEDP (2021-2025)</b></p>	<p><b>Outcome 1: Sustainable economic growth</b></p> <p><b>Outcome 2: Human capital development</b></p> <p><b>Outcome 3: People’s Wellbeing</b></p> <p><b>Outcome 4: Environmental Protection and Climate Change</b></p> <p><b>Outcome 5: Regional Cooperation and Integration</b></p> <p><b>Outcome 6: Good governance and public administration</b></p>
<p><b>National Agenda on Economic and Financial Difficulties (2021-2023)</b></p>	<p><b>Action 1: Promote production for export to reduce/make up for import and create a stronger and more sustainable revenue base</b></p> <p><b>Action 2: Strengthen revenue collection</b></p> <p><b>Action 3: Promote frugality, tackle extravagance, enhance effectiveness of investment-expenditure, and address domestic-foreign debt</b></p> <p><b>Action 4: Create/ maintain monetary stability</b></p> <p><b>Action 5: enhance public management government by the rule of law</b></p>
<p><b>9<sup>th</sup> NSEDP Financing Strategy (2023-2025)</b></p>	<p><b>1. Domestic public finance</b></p> <ul style="list-style-type: none"> <li>1.1 Revenue mobilisation</li> <li>1.2 Expenditure management</li> <li>1.3 Debt Management</li> </ul> <p><b>2. International public finance</b></p> <ul style="list-style-type: none"> <li>2.1 ODA predictability, efficiency, effectiveness</li> <li>2.2 LDC Finance</li> </ul> <p><b>3. Domestic private finance</b></p> <ul style="list-style-type: none"> <li>3.1 Business environment for MSMEs</li> <li>3.2 Financial inclusion</li> </ul> <p><b>4. International private finance</b></p> <ul style="list-style-type: none"> <li>4.1 FDI</li> <li>4.2 Illicit financial flows</li> <li>4.3 Remittances</li> </ul> <p><b>5. Priority sectors</b></p> <ul style="list-style-type: none"> <li>5.1 Health finance</li> <li>5.2 Education finance</li> <li>5.3 Green and climate finance</li> </ul>

<p><b>Lao PDR Resilience Framework (2023-2025)</b></p>	<ol style="list-style-type: none"> <li>1. <b>Macro-fiscal framework</b><sup>5</sup> <ol style="list-style-type: none"> <li>a. Revenue mobilisation</li> <li>b. Debt Management</li> <li>c. Financial sector stability</li> </ol> </li> <li>2. <b>Trade, private sector, value chains, and tourism</b> <ol style="list-style-type: none"> <li>a. Investment and business environment</li> <li>b. Tourism</li> <li>c. Agriculture</li> <li>d. Digital transformation</li> </ol> </li> <li>3. <b>Decent work</b> <ol style="list-style-type: none"> <li>a. Social dialogues, legislation, labour, migration</li> <li>b. Social protection</li> <li>c. Skills development</li> <li>d. Food security and rural employment</li> <li>e. MSME development</li> <li>f. Evidence-based decision making</li> </ol> </li> <li>4. <b>Human capital</b> <ol style="list-style-type: none"> <li>a. Education</li> <li>b. Health and nutrition</li> <li>c. Gender equity</li> <li>d. Demography and data</li> </ol> </li> <li>5. <b>Green Growth, resilience and disaster risk management</b> <ol style="list-style-type: none"> <li>a. Green growth</li> <li>b. Climate change resilience</li> <li>c. Disaster risk management</li> </ol> </li> </ol>
<p><b>Doha PoA (2021-2032)</b></p>	<ol style="list-style-type: none"> <li>1. <b>Investing in people</b> in least developed countries: eradicating poverty and building capacity to leave no one behind;</li> <li>2. <b>Leveraging the power of science</b>, technology, and innovation to fight against multidimensional vulnerabilities and to achieve the SDGs;</li> <li>3. <b>Supporting structural transformation</b> as a driver of prosperity;</li> <li>4. <b>Enhancing international trade</b> of LDCs and regional integration;</li> <li>5. <b>Addressing climate change</b>, environmental degradation, recovering from COVID-19 pandemic and building resilience against future shocks;</li> <li>6. <b>Mobilizing international solidarity</b>, reinvigorated global partnerships and innovative tools and instruments: a march towards sustainable graduation.</li> </ol>

<sup>5</sup> Policies and actions taken from the 9<sup>th</sup> NSEDP Financing Strategy

## Annex 2: Action Matrix for the STS implementation

*(This session will be further developed after the Round Table Implementation Meeting during technical consultations with key stakeholders)*

Pillar	Policy area	Policy/ action	Objective	Related policy framework	GoL lead (Ministry, Department)	Development partner assistance	To implement by	Means of verification
2. Macroeconomic Stability and Financial Sustainability	1.1 Macroeconomic stability		<ul style="list-style-type: none"> <li>▪ Quality</li> <li>▪ Smooth</li> <li>▪ Sustainable</li> </ul>					
	1.2 Safeguarding investments in human capital and climate action							
5 Trade and Investments	2.2 Trade and FDI promotion							
	2.3 Business environment for inclusive growth							
6 Human Capital Development and Structural Economic Transformation	3.1 Human capital development and decent jobs							
	3.2 Rural development							

	3.3 Urban development							
7	<b>Climate Change and Disaster Management</b>	4.1 Integrated and climate-resilient natural resources management						
		4.2 Climate resilience and disaster risk reduction						

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### Annex 3: Monitoring and Evaluation Framework

*(This session will be further developed after the Round Table Implementation Meeting during technical consultations with key stakeholders)*

	Indicator	Government lead	Source	Baseline (2020)	Alert threshold	2021	2022	2023	2024	2025	2026
1. Macroeconomic Stability and Financial Sustainability	GNI										
8 Trade and Investments											
9 Human Capital Development and Structural Economic Transformation	HAI										
10 Climate Change and Disaster Management	EVI										