

pre-eligible for graduation, a country must meet at least two of the three graduation thresholds in at least two consecutive reviews of the list.

Lao PDR has not yet reached any of the three graduation thresholds. Based on the latest estimation by the UN, it is expected that, subject to continued progress in its socio-economic performance, the country might, by 2015, meet at least two of the three graduation lines, thereby becoming pre-eligible for

graduation. Should the same progress or further progress be observed in 2018, Lao PDR would become fully eligible for a loss of LDC status, and would normally be recommended for graduation, a recommendation that would subsequently be endorsed by the UN Economic and Social Council (ECOSOC) and the General Assembly. A grace period would then begin late 2018. Effective graduation would take place after this grace period.

Box 2: Criteria for LDC eligibility and graduation

There are three criteria for identifying LDCs every three years. The triennial exercise amounts to identifying cases of possible addition to the existing list of LDCs, and cases of possible graduation from that list. The three admission thresholds are established at levels distinct from the three graduation thresholds. The three criteria are as follows:

- A low income criterion, based on a three-year average estimate of the gross national income (GNI) per capita. In the 2012 review of the list, Lao PDR was estimated to have reached 77% of the US \$1,190 level set as the graduation threshold.
- A human assets weakness criterion, based on indicators of nutrition, health (child mortality), secondary school enrolment, and adult literacy. In 2012, Lao PDR had reached 93% of the graduation threshold.
- An economic vulnerability criterion, based on indicators of natural shocks, trade-related shocks, percentage of population in low-lying areas, economic concentration (production and exports), remoteness, and smallness. In 2012, Lao PDR had reached 86% of the threshold for graduation.

(Source: UNCTAD, 2012)



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THE LAO DEVELOPMENT JOURNEY TOWARD GRADUATION FROM LDC STATUS

LEAST DEVELOPED COUNTRY STATUS: WHAT IS IT?

The States designated by the United Nations as "Least Developed Countries" (LDCs), 48 countries at present, account for 12 percent of the global population, but only 0.8 percent of global wealth as measured through world GDP. The LDC category was established in 1971 to capture the needs of LDCs, notably in the form of trade-related preferential treatment and concessionary development financing for LDCs. Compared with other developing countries, LDCs are deemed to suffer from severe

structural handicaps (weak human assets; a high economic vulnerability), in many cases owing to geographical disadvantages, such as being small, remote, insular or land-locked. Special measures for LDCs (see Box 1) are designed to help overcome these constraints and achieve structural progress, the natural result of which, in the medium or long run, should be a convergence with the performance of more advanced economies, and graduation from LDC status.

Box 1: Special measures for LDCs

- Priority access to development financing and technical assistance for capacity development
- Overall trade preferences, including duty-free and quota-free market access for exports
- Flexibilities in implementation of different international agreements
- Reduced contributions to international institutions, such as to the United Nations budgets

CRITERIA FOR LDC ELIGIBILITY AND GRADUATION

The list of LDCs is reviewed every three years by the United Nations. The latest review was carried out by the UN Committee for Development Policy in March 2012. The criteria currently used for identifying potential cases of addition to, or graduation

from, the list of LDCs are described in Box 2, along with the current status of Lao PDR. In every review of the list, a specific graduation threshold is determined for each of the three criteria. The UN's graduation rule stipulates that, to be considered

NATIONAL POLICIES AND PROGRESS TOWARD GRADUATION

In a far-sighted vision in 2000, the Government had contemplated that the graduation of Lao PDR from LDC status ought to take place by 2020. This reflected a determination to undertake the necessary structural and institutional reforms to overcome

the severe constraints that had led to Lao PDR's inclusion in the LDC category in 1971. As shown in Box 2, Lao PDR has made progress toward the graduation thresholds for all three criteria.

Achieving Criterion 1: Gross National Income per capita

Sustained levels of economic growth, as achieved in recent years, will be necessary to reach the per capita income threshold. High levels of foreign direct investment (FDI), particularly in the natural resource

sector, can be expected to drive such growth. Government policies to diversify the economy beyond the extractive, natural resource-based industries are of critical importance in this regard.

Achieving Criterion 2: The Human Assets Index

Fulfilling all Millennium Development Goals by 2015 is a core aim of the Government of Lao PDR, and an essential part of the five-year development plan of the country. Progress made so far has brought Lao PDR close to the graduation threshold relevant to the human assets weakness criterion. Further progress is likely to take place, after significant increases were brought to budgetary allocations to the education

and health sectors. Special efforts are being pursued in the areas of nutrition (MDG 1), child mortality (MDG 4), secondary school enrolment (MDGs 2 and 3), and adult literacy (MDG 2). Nutrition of children and women of reproductive age is an issue of particular importance to policy-makers, and an area of coordinated and multi-faceted action on their part.

Achieving Criterion 3: The Economic Vulnerability Index

Lao PDR has made significant progress under this criterion in recent years. With regard to the issue of remoteness, considerable effort has been made through the Greater Mekong Sub-region Cooperation scheme to make Lao PDR a "land-linked" rather than land-locked country, a goal with implications for the production and trade pattern. Productive capacities are being expanded (infrastructure, private sector development, energy, science and technology) as a development "multiplier", and an essential avenue for diversifying the economy and increasing employment. Further efforts are needed to reduce the impact of

external trade shocks by improving agriculture and food security, and accelerating rural development. Government is improving public financial management and related macroeconomic policies in order to reduce dependence on Official Development Assistance (ODA) and diversify the origin of resource inflows. These policies involve, among others, mobilizing domestic resources and overseas workers' remittances. Efforts are also underway to improve environmental management, to address the effects of climate change, and to strengthen resilience through improved Disaster Risk Reduction/ Disaster Risk Management.

RATIONALE FOR PREPARING A GRADUATION STRATEGY

The progress so far achieved toward graduation has been realized through overall structural change to the economy, and through progress toward meeting the MDGs with benefits for all Lao people. While foreign direct investment, especially in the area of natural resource extraction, remains an important engine of economic transformation, Government is committed to diversifying the economy away from the primary sector, notably through increased domestic investment. It also seeks to access a wider range of aid sources, such as climate change-related finance and similar facilities. Lao PDR is also committed to joining the World

Trade Organization (WTO) in the near future and to full integration in the Association of South East Asian Nations (ASEAN) by 2015. As the development process becomes more complex and multi-faceted, the Government wishes to ensure that its review of the implementation of the current five-year development plan, and the formulation of the next five-year plan (2016-2021) comprise policies and actions to meet the LDC graduation goal. Developing a graduation strategy implies that all key elements for achieving structural progress (developing sound productive capacities) are mainstreamed in the planning process.



Box 3: Achieving Graduation with Equity and Sustainability

Before a potential graduation case is reviewed by the Committee for Development Policy, the United Nations will prepare a vulnerability profile of the country to analyze the significance and quality of the observed progress, including its equity and sustainability.

In many LDCs such as Lao PDR, there are socioeconomic inequalities between and within regions, between rural and urban areas, between genders, and within vulnerable groups. Only if equity is achieved can all Lao people, including the most vulnerable, "graduate" alongside the country as a whole.

Equity, notably through full employment and decent work opportunities, is key to achieving sustainable development. The United Nations will assess the extent to which growth in the Lao national income has been driven by natural assets, and the impact this growth has had on income distribution.

The Government will continue to monitor progress toward the MDGs, through periodic National Human Development Reports to assess the effectiveness of policies and action toward equity and sustainability. This work will be of analytical relevance to the question of progress toward graduation thresholds.

At the same time as it plans for graduation, it is important for Lao PDR to ensure that full benefit is taken of the special international support measures for LDCs. The United Nations will assess the anticipated impact of graduation on the benefits currently received by Lao PDR, and help the country ensure that continued progress is not disrupted by the loss of LDC treatment. To that end, the United Nations provides

a three-year pre-graduation grace period so that the graduating country can negotiate with its development partners modalities for preventing any disruptive loss of concessionary treatment after graduation. Some major development partners and the UN itself have already adopted "smooth transition" measures for the benefit of any graduating country. Preparing for this process will be part and parcel of the graduation strategy.

THE WAY FORWARD

Only three countries, Botswana, Cape Verde, and Maldives, have graduated so far from the LDC list. In 2011, the Fourth United Nations Conference on the Least Developed Countries was held in Istanbul, Turkey, to chart out the vision and strategy for the development of LDCs over the 2011-2020 decade. It adopted an ambitious and result-oriented Programme of Action for these countries, and called for a new landscape of international support measures in favour of LDCs (focusing, to a large extent, on developing productive capacities) based on a global new deal.

The ultimate goal of the Istanbul Programme of Action is to have at least half of LDCs meet graduation criteria by 2020. In this context, Lao PDR is in the unique situation of having paved the road for graduation as a deliberate move within the national planning process, as reflected in the 2020 strategy set out in 2000. This strategy is now being revised to enable the long-term vision to be reflected in the next development plan. The Sector Working Groups and Round Table Meetings will be key forums for discussion and action around the LDC strategy.

RESOURCES AND CONTACTS

The Ministry of Foreign Affairs (Department of International Organizations) serves as National Focal Point and Secretariat on LDCs, while technical responsibility lies with the Ministry of Planning and Investment (MPI), which has designated the National Institute

of Economic Research (NERI) as the focal point for developing the graduation strategy. Full support is being provided by the United Nations, through UNDP in Vientiane and Bangkok, with active cooperation from UNCTAD in Geneva, UNDESA in New York, and UNESCAP in Bangkok.