

The impact of COVID-19 on socio-economic development in Lao PDR

(Sitthiroth RASPHONE)

Preparation for updating Vulnerability Profile Report for Lao PDR under the situation of COVID-19 pandemic crisis

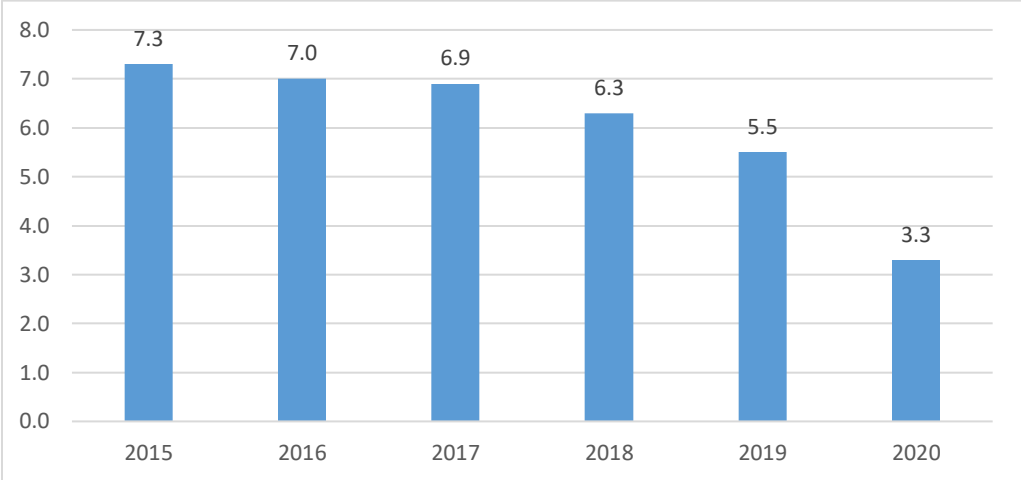
COVID 19 is an infectious disease discovered in Wuhan, China in December and speed up the spread of transmission to many countries all over the world. On 11 March 2020, the World Health Organization (WHO) declared COVID-19 as a pandemic. The Covid-19 pandemic has continued to cause unprecedented disruption economies and societies globally. The first case in Lao PDR was confirmed in late March 2020. As a result, the government of Lao PDR decided to enact nationwide lockdown measure during 30th March – 3rd May 2020 to contain and prevent the spread of COVID 19 pandemic. There are 24 confirmed cases of COVID-19 infection and no death to date. Although there has been low number of confirmed infections, the impacts highly hit socio-economic development of Lao PDR. The impact of COVID-19 even began before Lao PDR has the first confirmed case at the end of March 2020 as the health or lockdown measure enforced in neighboring countries and worldwide. National lockdown measures and the closing of international border gates have stopped the travel of foreign tourists as well as domestic tourists. Also, manufacturing sectors especially export industries were not allowed to remain daily operation and some of them lacked imported materials due to cross-border transport. Major investment projects such as Lao-China railway construction project and hydro-power construction projects were delayed. In this report, it intends to assess how the COVID-19 pandemic impacted Lao PDR's socio-economic development with implication to the graduation of Lao PDR.

1. Impact on economic Growth

Lao PDR has achieved high economic growth at average rate of 6-7 percent annually over a decade. However, its rate of economic growth has been on declining trend in past few years and it is expected the impact of COVID-19 will slow down Lao economic growth rate from 6 percent to 3.3 percent in 2020. Before the outbreak of COVID-19 pandemic, the contribution of hydro-power, construction and wholesale and retail sectors have played a significant role to GDP growth, but gradually weakened. At the same time, the growth of agriculture sector was affected by the impact of natural disasters in addition to low productivity. According to Ministry of Planning and

Investment (Lao PDR), it is forecasted that GDP will only grow approximately 3.3 percent in 2020 which is over half of GDP growth in previous years. It is expected that export industries including garment and manufacturing parts will have negative growth as a consequence of declined global demand. In addition, service sector is forecasted to have negative growth at -1.6% which went down from about 9 percent in previous years, this is because tourism and its related services are hit by the impact of COVID-19. However, the growth of hydro-power and construction sectors are expected to contribute approximately 3.5% and significantly compensate for the slowdown in other sectors especially service sector.

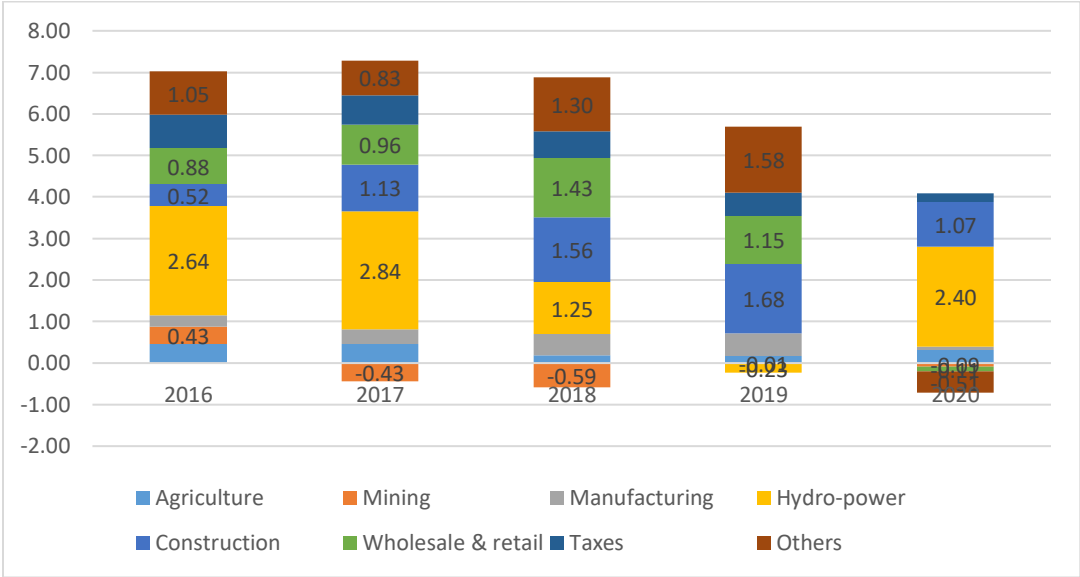
Figure 1: Economic growth (2015-2020)



Source: Lao Statistic Bureau (LSB)

Note: GDP growth in 2020 is predicted taking a consideration of COVID impact

Figure 2: sectoral contribution to economic growth (2016-2020)

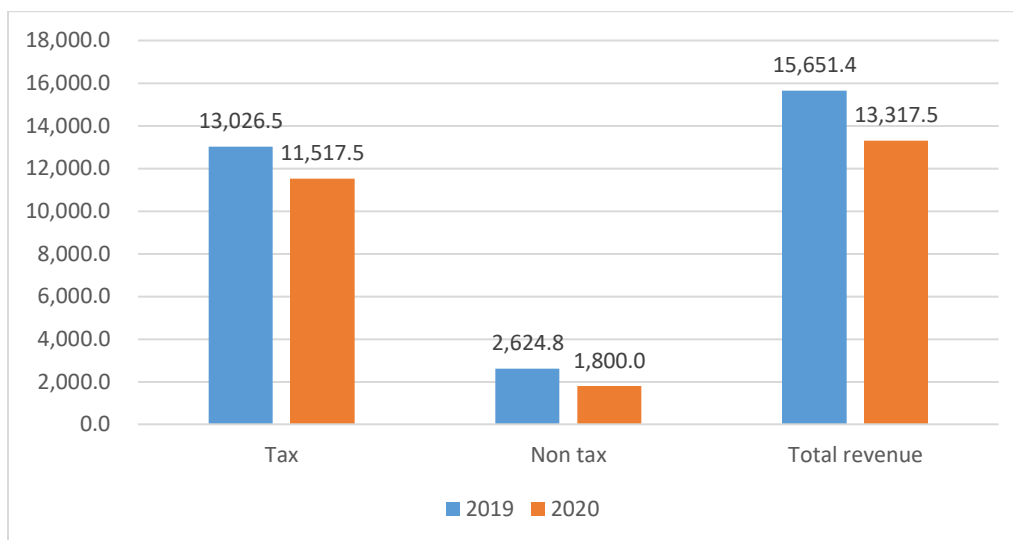


Source: Lao Statistic Bureau

2. Impact on macroeconomic stability

COVID-19 crisis has further worsened the long-standing macroeconomic vulnerabilities. During the last few years, Lao economy has the difficulty to manage the large fiscal budget deficit and current account deficits. At the same time, public debt has been rising especially foreign debt. In 2019, fiscal deficit was a little over 5 percent of GDP with the public debt at slightly over 60 percent of GDP. As for 2020, National Assembly has approved the adjustment of macroeconomic targets taking into account the impact of COVID-19 including fiscal targets. Weak performance in real sector will exacerbate Lao PDR's already weak fiscal position, further eroding fiscal space. Declining business income particularly tourism and related service sectors and manufacturing sector cause the reduction of fiscal revenue collection especially during March-July 2020 when the health preventing measures were strictly implemented. According to Ministry of Finance, revenue collection for the first 9 months of 2020 reached about 13.3 billion kip which is about 2.3 billion kip lower than same period in 2019. All main types of tax collection including profit tax, income tax, VAT and excise tax in 2020 declines compared to figure in 2019. Therefore, it is expected that fiscal revenue will reach only about 12-13 percent of GDP which drops from 15-16% of GDP in previous years. Given lower fiscal revenue, the government of Lao PDR is facing with limited fiscal space and has a policy to cut down the budget spending which dampens domestic demand together with the impact of COVID-19. Government is expected to cut spending by approximately 1.5-2 percent of GDP in 2020, by reducing both non-wage and capital spending. As a result, fiscal spending is expected to decline to around 18 percent in 2020 from 20.4 percent in 2018 and 20.2 percent in 2019. Fiscal deficit is estimated to slightly increase to about 6 percent in 2020 from 5.1 percent in 2019. With increasing trend of fiscal deficit, it is expected that public debt will rise further (over 65 percent of GDP) and the risk of debt distress remains high.

Figure 3: a comparison of fiscal revenue for 9 months between 2019 -2020 (billion Kip)



Source: Ministry of Finance (Lao PDR)

Before the outbreak of COVID-19, Lao PDR has faced with growing instabilities in balance of payment and external sector. In 2019, The current account deficit stood at 8 percent and it is estimated to increase to 11-12 percent in 2020.¹ According to Ministry of Industry and Commerce, it indicates that export value for 9 months of 2020 reached only 3,88 billion USD which is about almost 0.5 billion USD lower than one in same period of 2019 or is reduced by 12 percent. Similarly, import value over 9 months of 2020 is also reduced by 332 million USD or 9 percent compared to same period of 2019. This reduction is driven by the large drop of export value of mineral and agricultural products due to lower external demand, falling commodity price and the lockdown. It is also noted that income loss from tourism is estimated between 300-400 million which causes less foreign earning during first six months of 2020 and eventually exacerbates current account deficit. In addition, approximately half of a million of Lao labors are reported working in Thailand and nearly 200,000 Lao workers returned home since the implementing of lockdown measure by Thai government. Thus, lower remittance inflow put more pressure on net income. Given lower inflow of foreign currency earning, the level of international reserves is at low level which is conducive the challenge in managing foreign exchange rate.

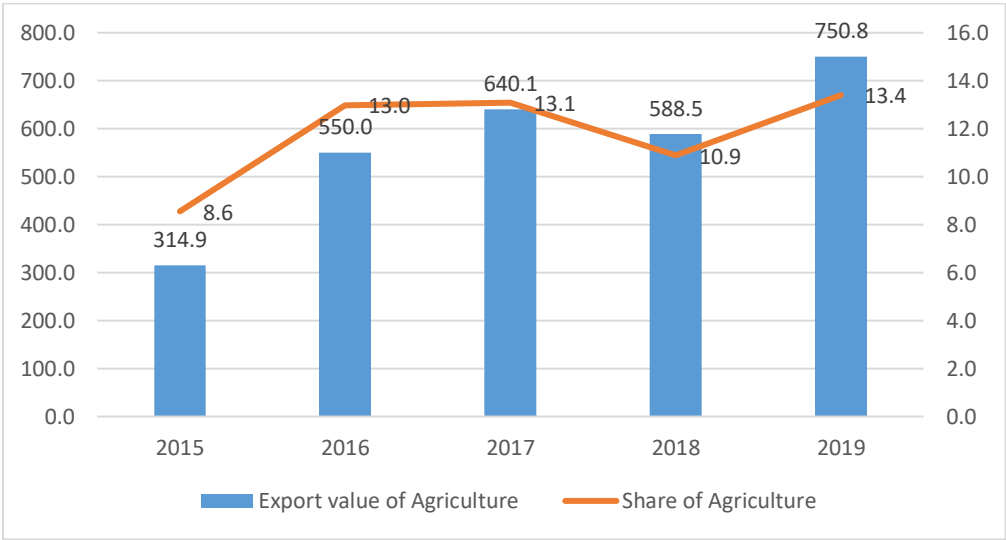
3. Impact on business and real sector

Agriculture

¹ Data based on estimation of World Bank

Approximately 70 percent of Lao population engage in agriculture for their livelihood and agriculture is very important for Lao PDR. However, its productivity is still low as the output accounts only about 16 percent of GDP in 2019. Average growth rate of agriculture during last few years was between 2-3 percent annually. During 2016-2019, export value of agriculture grew double from 315 million USD in 2015 to 750 million USD. Similarly, share of agriculture to total export value also went up from 8.6 percent in 2015 to 13.4 percent in 2019. Main agriculture export products include banana, cassava, maize, coffee and fruits which mainly export to China and Thailand. As for 2020, due to lockdown measure of neighboring countries as well as nationwide, export of cash-crops has declined especially short-term cash crops in the northern region exporting to China. From late January to May 2020, Chinese government did not allow to open international border check points, resulting in the loss of short-term cash crops such as bean, fruit and vegetables. Even after the border gates is opened for traded goods, delivery of agricultural products across border delayed for days as a result of following COVID-19 containment measures.

Figure 4: Export value of Agriculture sector (2015-2019)



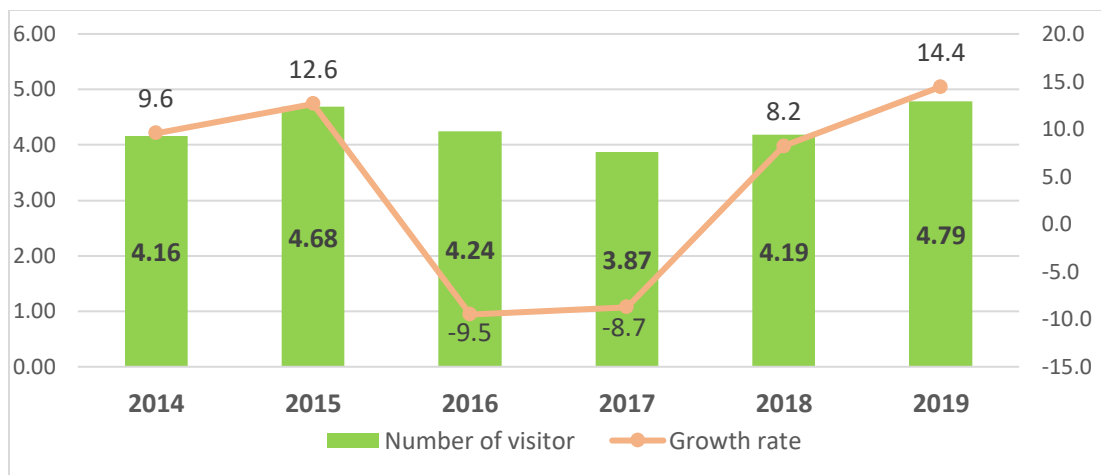
Source: Ministry of Industry and Commerce (Lao PDR)

In addition, growers of short-term cash crops especially in tourist places have experienced low sales and thus lower production, in line with the struggles of the hotel and restaurant industries. However, lockdown measure has given an opportunity for some domestic farmers to increase their production as imported crops tend to decline. For example, rice growers can sell their production more in northern provinces as the supply of imported rice is available since the lockdown.

Travel and Tourism

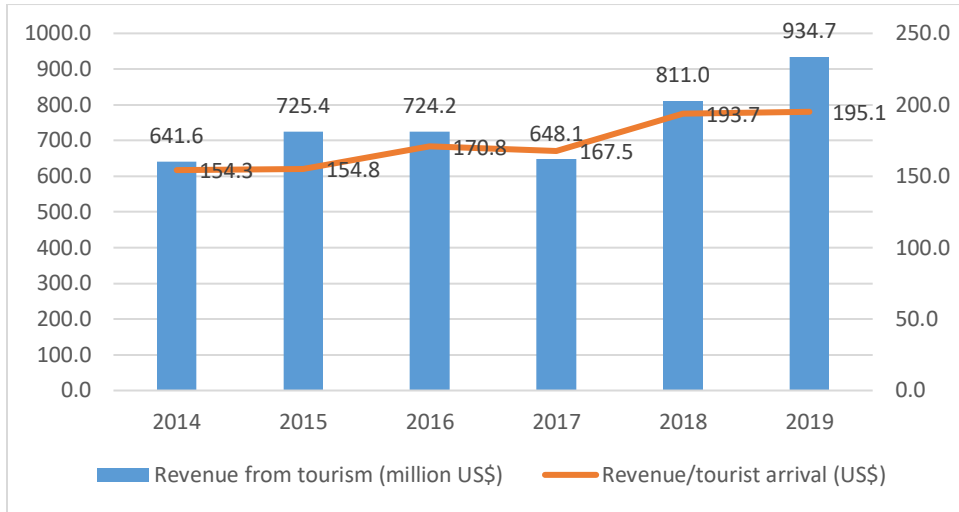
Before the outbreak of COVID-19, Lao tourism sector has rapidly grown and increasingly contributes to economic growth. It is estimated that tourism sector account about 14 percent of GDP alone on 2017. Number of foreign visitors and revenue generated from tourism sector are on increasing trend. In 2019, almost 4.8 million of international visitors made a visit to Lao PDR and tourism earned USD934 million of foreign exchange that Lao PDR needs to finance trade deficit; it ranked third after mineral exports (USD1.43 billion) and electricity exports (USD1.32 billion). Chinese tourists accounts about a quarter of total international visitors and their number have increased every year. In 2020, it is expected that number of international visitors should be roughly 4.7 million. Since late January 2020, international tourists especially Chinese tourists have sharply dropped. Only 886,447 international tourists visited Lao PDR this year and most of them came to visit Lao PDR during first quarter of 2020. A large reduction of number of international visitors results in the income loss of approximately USD 700-800 million. It is also estimated between 30,000-40,000 staffs in tourism sector are laid off and take a leave without pay.

Figure 5. Total number of International Visitors to Lao PDR (unit: million): 2014 – 19



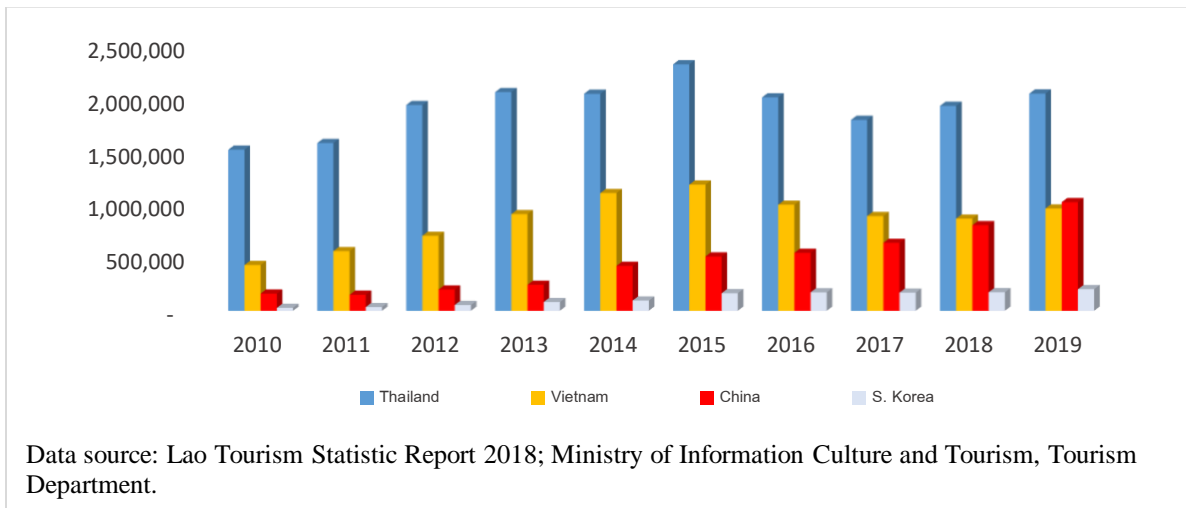
Source: Ministry of Information, Culture and Tourism

Figure 6. Total Revenue generating from tourism sector: 2014 – 19



Source: Ministry of Information, Culture and Tourism

Figure 7. Lao PDR’s Four Largest Country-Source of International Tourists: 2010 - 19



In tourism sector, travel agencies and tour operator have been affected heavily as consequence of COVID-19 pandemic, especially inbound agencies. Many staffs are asked to take a leave without pay. Tour activities in most places have been severely affected especially those providing a service for foreign tourists. Some tour operators have changed business target to domestic tourists. However, domestic market is mainly for weekend and requires tour operators to drop the price. Thus, less staffs are needed and 60-70 percent of staffs are on leave without pay.

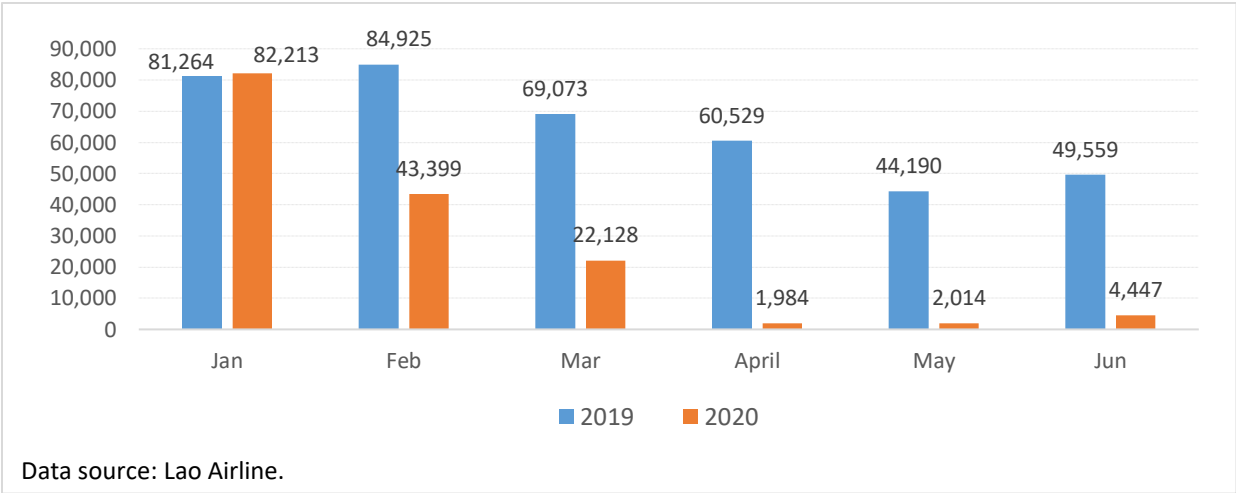
Hotels and restaurants are also severely hit by the impact of COVID-19. During the lockdown, most of hotels and restaurants were closed and their income dropped almost zero. About 70-80

percent of their staffs were laid off during that time. After lockdown measure were relaxed in May 2020, some hotels and restaurants could resume their business, but just maintain their business to survive. Many of them especially in tourist locations made a decision for closure in order to cut down the cost.

Luangprabang is the most popular destination for international tourists in Lao PDR. During the lockdown, businesses related to tourism lost around 80% of their income compared to the same period in 2019, a situation exacerbated by about 40% of hotel guests being to leave hotels at the start of the lockdown without payment. The Luangprabang Tourism Association estimates 80-90% of its members could go bankrupt without support or an improvement in the situation.

Transportation sector related to tourism is another business group that is affected by impact of COVID-19. Lao Air-line company cancelled its service for international routes since February 2020, especially flights to China and South Korea are main income sources for Lao Airline. Number of Lao Airline’s passengers drop rapidly and are not comparable to the figure in 2019. Since June 2020, government allows Lao airline to resume its business operation for domestic flight after lessening lockdown measure. However, by June 2020, passenger numbers remained at only 9% of levels recorded at the same time last year. As a result, Lao Airline is facing with 65-70% revenue loss on the same period the previous year. This year’s revenue loss has increased financial burden for Lao Airline which has already been experienced financial difficulty in previous years. Thus, over half of Lao Airline’s staffs are required to leave with pay or to reduce their working hours by paying 30 percent of regular salaries.

Figure 8. Lao Airline’s Monthly Passengers: Comparing same months in 2019 and 2020



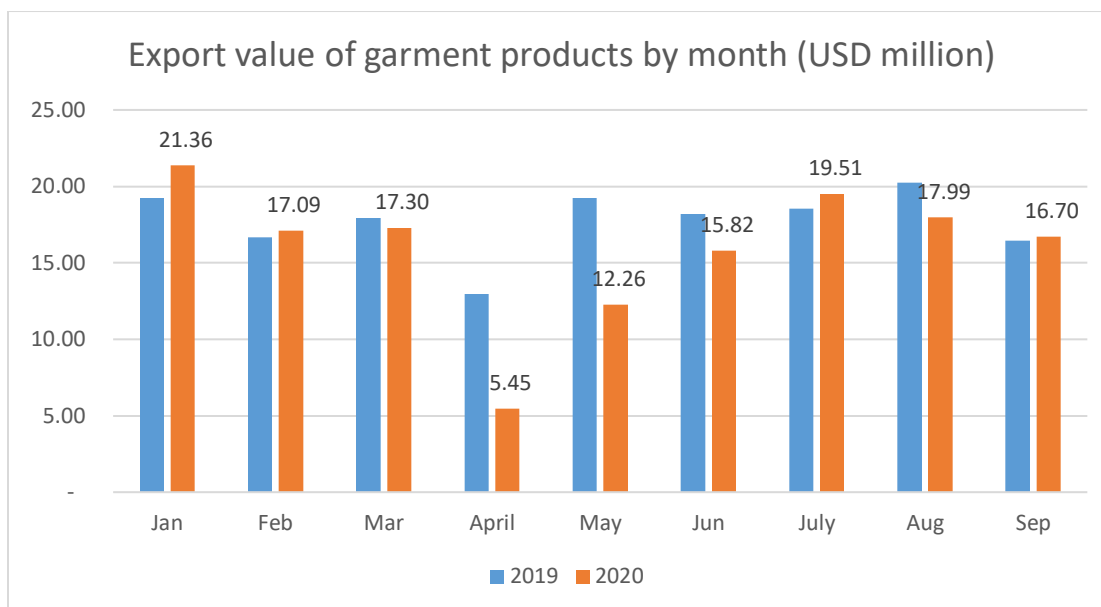
In addition, bus and taxi service especially in tourist cities such as Luangprabang were also severely affected through a reduction of passengers or visitors. Many bus operator and taxi drivers lose their income and could not pay off the loan that they borrowed to buy their vehicle. If the situation of COVID-19 still exists till next year, bus and taxi operators will go to bankruptcy.

Manufacturing

Apart from natural resource sector such as mining and hydro-power sectors, manufacturing has increasing becoming important sector in contributing to GDP growth as well as important source of employment and key export driver. Manufacturing accounted about 8-9 percent of GDP and employed about nearly 200,000 workers especially in Special Economic Zones. Major employers in manufacturing include food and beverages manufacturers, which employed 34,500 workers, accounting for 20.6 percent of manufacturing total employment; followed by garment, with 26,666 workers, accounting for 16 percent; and mineral products manufacturers, which employed 22,860 workers, accounting for 13.7 percent. Most workers in manufacturing are women, accounting for 59 percent of total employment in manufacturing.

Since January 2020, many manufacturers have faced with supply chain disruption which make it difficult for firm to obtain imported raw materials for production and delivering exports together with a contraction in global demand. Garment factory which is export oriented industry and largely employ female workers was one of manufacturing sectors to be hit by the COVID 19 pandemic as two third of their material input imported from oversea especially China and over 80 percent of garment's export deliver to EU market. According to data of Ministry of Industry and Commerce, export value of Lao garment for first 9 months of 2020 is reduced by 10 percent compared to same period in 2019. Export value of Lao garment went down rapidly from 21.3 USD million in January 2020 to 5.4 USD million in April 2020 when lockdown measure was enforced. During April 2020, most garment factories was closed due to health measure except those which can comply with health containment measure and need to commit to export order. After May 2020, export value of garment gradually increased as government relaxes restriction on the lockdown. However, garment firms all say that if COVID 19 still exist in next year, they are still at high risk for bankruptcy. Around 30,000 workers in garment/apparel industry are very risky to lose their jobs.

Figure 9. A comparison of export value of garment sector between 2019 and 2020



Source: Ministry of Industry and Commerce

In addition, many manufacturers including manufacturers of food, low-tech products (apparel, leather, furniture, wood, paper), and med- and high-tech products (chemicals, plastics, metal and non-metal products, electric machinery, and machinery) located in Special Economic Zone (SEZ) are experiencing sales and revenue contraction, operation disruption during lockdown, and laying off workers. According to UNIDO survey (June 2020) indicates that firms in SEZ are encountering with growing financial difficulties, sales reduction, and delivery related problems. The survey also indicates that firms' major concern is the inability to obtain the needed material inputs, followed by cash shortage, and inability to fulfill orders. Shortage of foreign labor is another problem faced by manufacturers located in SEZ. This is because some of firms are at stage of factory construction or setting machinery system especially Chinese invested firms, many of Chinese workers returned home for Chinese new year during January–February 2020 and could not make a travel back Lao PDR due to the lockdown measure enforced in China. Thus, the progress of investment projects in SEZ has delayed during the first six months of 2020. Moreover, the service SEZs located along Lao-China border area were severely affected, altogether laying off 81% of its 44,382 workers. The Golden Triangle SEZ, a zone dedicated to gambling and tourism, laid off 34,365 workers (85%) as its business operation were temporally ceased for 4-5 months as a result of border closure.

Mega investment projects

Two mega investment projects namely Lao-Chinese railway and Vangvieng high-way construction projects were also affected by the impact of COVID-19 pandemic. These two

investment projects could not obtain construction materials during March-May 2020 and were in shortage of workers as new batch of Chinese workers could not enter into Lao PDR. Therefore, these two project is expected to delay about two months if no further interventions are taken to speed up the progress. Fortunately, the government is able to address the problems related to supply of construction materials and availability of foreign workers on time. Thus, their operations are well on plan.

4. Impact on livelihood and employment

Lao PDR has a population of approximately 7.2 million which two third of its population live in rural areas. Active working age population accounts about 65 percent with large size of young population entering into labor force. According to Lao labor survey (2017), approximately 72 percent of active working age population engage in agriculture activities, while industry sector account about 7.5 percent of total working age population and service sector is shared about 19.5 percent. In 2017, unemployment rate is estimated about 9.2 percent with 1.94 million people in labor force (Excluding population involving in non-economic activities and subsistent production).

Table 1. The Number and Percentage Distribution of Employment in 2017 by Sex (1,000)

Categories	Both sex		Male		Female	
	x1,000	%	x1,000	%	x1,000	%
Agriculture, forestry, and fishing	551	35.8	287	34.7	264	37.1
Mining and quarrying	8	0.5	7	0.9	1	0.2
Manufacturing	140	9.1	58	7.0	82	11.5
Electricity, gas, steam and air conditioning supply	10	0.7	9	1.0	2	0.2
Water supply, sewerage, waste management, and remediation	6	0.4	5	0.6	1	0.2
Construction	83	5.4	75	9.1	8	1.1
Wholesale and retail trade, repair of motor vehicles and motorcycles	329	21.4	141	17.1	188	26.4
Transportation and storage	39	2.5	35	4.3	4	0.6
Accommodation and food service activities	41	2.6	15	1.9	25	3.6
Information and communication	8	0.5	5	0.5	4	0.5
Financial and insurance activities	11	0.7	4	0.4	7	1.0
Real estate activities	0	0.0	0	0.0	0	0.0
Professional, scientific and technical activities	4	0.2	2	0.3	2	0.2
Administrative and support service activities	11	0.7	4	0.5	6	0.9
Public administration and defense, compulsory social	156	10.2	117	14.2	39	5.5
Education	85	5.5	41	5.0	43	6.1
Human health and social work activities	22	1.5	7	0.9	15	2.1
Arts, entertainment and recreation	9	0.6	3	0.4	6	0.9
Other service activities	24	1.6	10	1.2	14	2.0
Activities of households as employers, and activities	1	0.1	0	0.0	0	0.1
Activities of extraterritorial organizations and bodies	1	0.0	1	0.1	0	0.0
Total (15+)	1,758	100	939	100	818	100

Source: the Lao PDR Labour Force Survey 2017, LSB.

Covid 19 pandemic has an impact on households in every industry or sector in economy especially tourism and related industries where over half of labors were asked to leave without pay. At the same time, labors involved in vulnerable employment in informal sector, those without contract or protection from labor law were experience high risk of losing their employment or livelihoods especially in urban area in the short-term. Thus, government is estimated that unemployment rate will be around 23.4 percent (of the estimated labor force of 2.16 million in 2020) which include those returned migrant workers from neighboring countries. Ministry of Labor and Social welfare indicates that approximately 200,000 migrant workers returned home from Thailand since March 2020 as uncertain employment situation and the containment measure in neighboring countries.

Returned migrant workers are experienced with adverse consequences - lost employment, livelihood, and incomes. Thus, the return of Lao migrant workers has directly caused Lao PDR to lost about USD 250 million in remittance based on the assumption made by World Bank (June 2020). Remittance from migrant workers are usually spent on agriculture output and education which is considered important income source to improve household's livelihood and social standing especially in rural areas.

Given higher unemployment and business disruption, poverty incidence is expected to rise in coming year if a situation of COVID-19 pandemic still exists. According to Lao Expenditure and Consumption Survey VI (2017), headcount poverty incidence is estimated 18 percent in 2018 reducing from 23 percent in 2013. Poverty has fallen faster in rural areas than urban areas and rural poverty rate dropped by 7 percent as a consequence of an improvement in farm incomes and remittance among rural households. With COVID-19 pandemic, World Bank estimated that poverty incidence will increase about two percentage point with the impact of COVID-19 pandemic or up to 214,000 people could fall into poverty, in particular large number of people live just above the poverty.

Regarding to food security, Lao Expenditure and Consumption Survey (LECS VI) shows that approximately 430,000 people or 6.2 percent of households live below food poverty line in 2017. 31.8 percent of households, or 2.2 million people, experienced mild, moderate or severe food insecurity. In 2020, COVID-19 pandemic is expected to create a threat to household food security concerning to job loss and less access to food with lower cash income. This is because, loss of income/livelihoods is expected to cause household to reduce dietary intake, consume less nutritious foods, or reduce the frequency of meals. In addition, the lockdown measure during April-May 2020 obviously causes increased disruption in food supply chains, because it restricted movement and obstructed farmers from farming; and food processes from processing food. The decrease in demand resulting from the closure of restaurants and hotels certainly damage farmers from accessing markets to sell their products. Thus, farmers in rural areas reported losing their cash income which causes households (especially lower income households) to consume less nutritious food.

However, the problem of food insecurity especially rural households go beyond COVID-19 impact. During the last ten years, agriculture production has been constrained by several natural disasters. Therefore, food security already affected thousands of people in Lao PDR due to a combination of droughts and floods in 2019 severely affecting the mass consumed paddy crop. Damage to

irrigation systems, sown land coupled with rise in the price of rice was estimated to push 67,800 people to food insecurity by early 2020.² More importantly, access to micronutrient-rich foods is likely to deteriorate for the most affected, challenging nutritional wellbeing for poor and vulnerable households

5. Impact on education and health

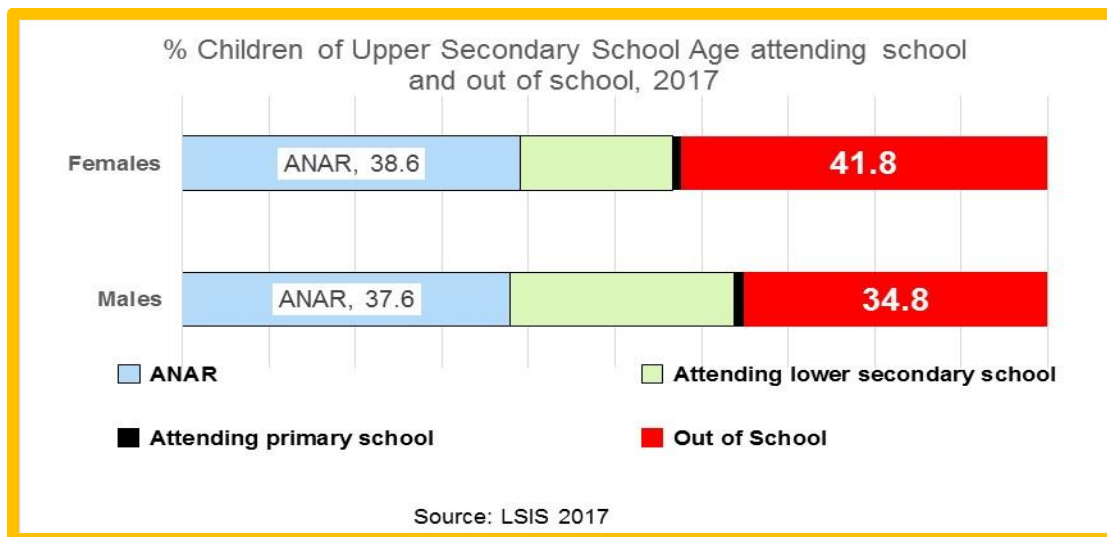
Education

All levels of school had temporarily closed nationwide between March-June 2020 to contain the spreading of COVID-19 pandemic. One month after no additional COVID 19 case was found, government announced the reopening of all levels of school across the country by 2nd week of June 2020. To catch up learning during school closure, government produced TV and radio teaching and learning program to reach out to children. However, it is still difficult for rural students to access to TV and broadcasting programs due to lack of facilities. It is thus clear that children's learning was disrupted in short term during school closure, especially resulting delay in learning. As for private schools, students were requested to communicate with their teachers and submit their assignment through internet. At present, students are back to school and all education programs are fully operated.

Importantly, it should note that Lao PDR still needs to address the issues of low coverage of early childhood education (ECE), high secondary education dropout, repetition rates and low quality of education especially in rural and ethnic communities despite progress has been made over time. As for ECE, 70% of children under the age of five in Lao PDR are not enrolled in any organised learning programmes according to Lao Social Indicator Survey II (2018). One reason for low ECE enrolment rate is due to lack of pre-school in many areas especially in rural communities. Thus, children who start primary school without participation in ECE programme are more likely to repeat the grade due to lack of readiness. In addition, approximately 17 percent of lower secondary school age children are out of school, while the proportion of out of school children for upper secondary education is more than double (38 percent) relative to lower secondary education. The situation is worse in communities that are remote, families where mothers have no education, among ethnic minority groups and poor households.

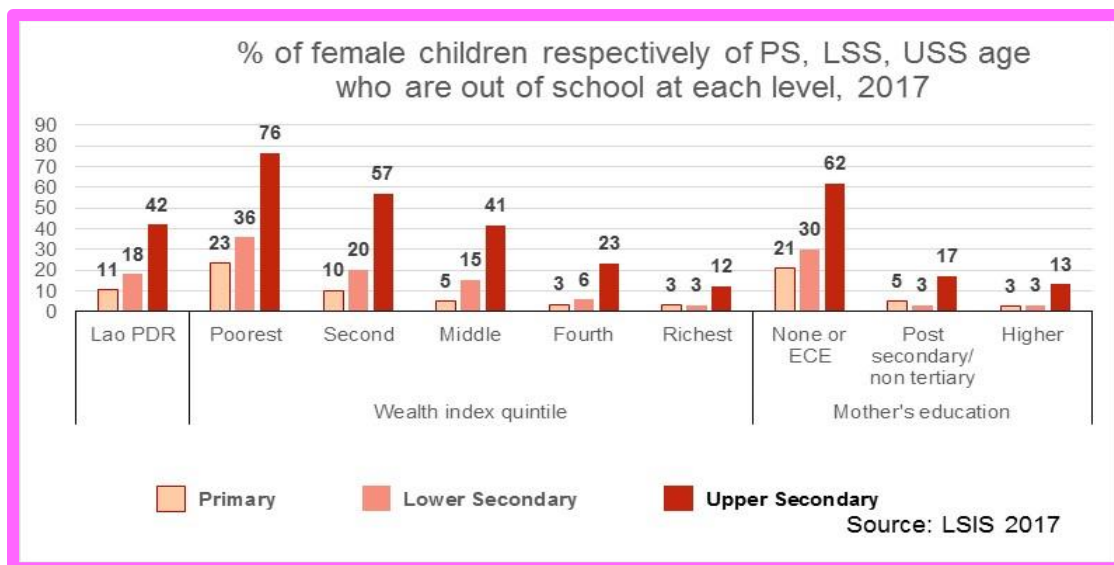
² (FAO, 2020)

Figure 10: Percentage of upper secondary school age attending school and out of school



In medium-term, if a situation of COVID 19 continues to be uncertain, the economic deprivation from COVID-19 pandemic will definitely reduce household's ability to afford their children attending school especially poor rural households. more poor families may find it necessary to withdraw children from school to help with survival activities, or school attendance will likely suffer as situations at home deteriorate. The disruption due to COVID-19 pandemic is expected to increase school dropouts, trigger poor performance and reduce the likelihood of returning to school or continuing education for many children; most of whom belong to poor and vulnerable families. It is also expected that girls continue to be at higher risk of dropping out of school as households struggle to manage finances.

Figure 11: percentage of female children who are out of school at basic education level



Health

Government of Lao PDR has taken serious concern on the outbreak of COVID-19 pandemic by implementing strong containment and prevention measure to ensure that all Lao citizen are safe from COVID-19. Notably, government is well aware that existing capability of the country's health care system may not well overcome if the outbreak of COVID-19 occurs nationwide. Thus, containment and prevention measure imposed by government was one level higher than what is supposed to be. For example; schools were temporarily closed and social events where gather large size of people were cancelled or postponed since early March 2020 before the first case of COVID-19 was confirmed on 25th March 2020. With early and swift intervention by the government, COVID-19 infection can limit only 19 cases (up to 1st August) with zero COVID-19-related loss of life and the lockdown lasted for 35 days. Later, five new cases are imported cases.

Despite Lao PDR was able to respond the spreading of COVID-19 quite well, the pandemic has caused an impact on health and access to health care service by the general population and especially the poor and vulnerable groups. As for temporary impact, rural people could not make a travel to visit medical doctors or access to health care service at main provincial hospitals and high quality hospitals in Vientiane city during lockdown period. Even there are some special for emergency cases, people need to take some time to get official travel approval because of transport restriction across provinces and districts. At the same time, there was low access to community or district healthcare facilities during first quarter of 2020 according to data from Ministry of Health. Especially less pregnant women made a visit to antenatal care and postnatal care services during lockdown period. Data from DHIS2 indicates that the coverage of antenatal care during

January-April of 2020 is 1 percent point lower than the same period in 2019. Similar situation is found for postnatal care coverage. Particularly, large reduction in access to both antenatal care and postnatal care services is observed during the lockdown period (April 2020). As for those who regularly visit medical care service in neighboring countries (Thailand and Vietnam) are not able to visit their doctor or using health care they need as border check points were closed during the lockdown. Because, some health care services in Lao PDR is substandard compared to one across border.

Table 2: annual access rate to healthcare facilities by pregnant women during January-April 2020

	ANC 1 time coverage (%)	ANC 4 times coverage (%)	PNC (3-42 days) coverage (%)	Delivery at health facility
2019	33.2	22.1	11	36,608
2020	31.7	21.1	9.4	34,832

Source: Ministry of Health, DHIS2 database

In health sector, Lao PDR has made significant progress in reducing maternal and child mortality rate and other health indicators over a decade. However, these important health indicators are still not comparable to international standard. people in rural areas without road access, who are poor and ethnic minority are still highly vulnerable regarding access to quality healthcare services. In addition, progress in combating undernutrition in children remain slow as one in three children under five years are stunting. One of reasons for slow development of some health indicators is related low public health spending. Annual budget allocation to health sector is below 1 percent of GDP or fiscal target of 9 percent of total fiscal expenditure. Given low public health spending, Lao people have to stand with high privately out of pocket (OOP) spending on healthcare. At the same time, the coverage of health insurance is not high especially vulnerable groups as only 15.4% of women aged 15-49 years, 10.3% of children aged 5-17 years and 13.7% children under the age of five years are covered by any health insurance. As a result, poor people cannot make an effort to access to healthcare services.

With a situation of COVID-19, income loss will further hinder household ability to spend on healthcare and reduce access to health facilities. Eventually, progress in health indicators related maternal and child health, WASH, nutrition and others are expected to be slow. More importantly, the pandemic crisis will continue to affect government budget revenues which later increasingly put a pressure on budget spending on social sector in particular health sector. The livelihood of

vulnerable people will be much worse off. Without strong support from development partners, Lao PDR will be in difficult position to achieve health targets under the prolonged impact of COVID-19 pandemic.

6. Policies responding to the crisis

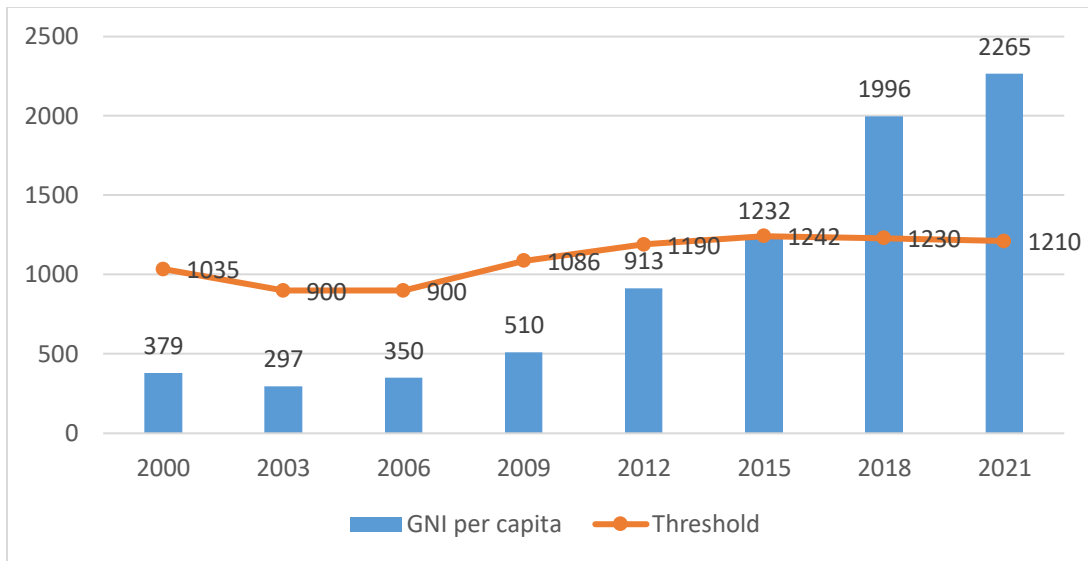
Apart from lockdown measure as already explained, government has set up ad hoc committee to address economic difficulties due to pandemic crisis. Firstly, government has released tax exemption policy for low income people who have income below 5 million kip and micro and small enterprise during April-July 2020. Also, tax payment deadline was extended for another three months in order to assist the financial situation of business enterprises. Secondly, Bank of Lao PDR (BOL) has enacted the decision no.238/BOL to supervise commercial banks to adjust interest rate and suspend the interest payment for customers who are affected by pandemic crisis for some period. At the same time, BOL has injected additional 200 billion kip to stimulate the production of Small and Medium Enterprise (SMEs) together with additional 1,800 billion kip for COVID-19 recovery fund to support domestic production and boost the economy after the lockdown period. Thirdly, Ministry of Industry and Commerce have worked closely with neighboring countries to ensure inadequate supply of necessary products such as food, household products, medical equipment and others during the lockdown period as well as to stabilize price of goods and service in domestic market since Lao PDR is small and importing economy. Along with the control of price and domestic supply, government is active to provide the guidance on how to implement health prevention measure in industrial factories and commercial sites together with following up the enforcement of health prevention rule at the industrial and service sites. Fourthly, Ministry of Labor and Social welfare has a labor policy on compensating income loss for labors who are affected by COVID-19 under the membership of social protection scheme. Furthermore, enterprises affected by COVID-19 are allowed to suspend the contributing funds into social protection scheme for another six months. As for COVID-19 affected poor households, government has organized charity events to raise funding for supporting those households including returned migrant workers for short-term period. Fifthly, households received discount price for electricity, water supply, internal and phone bill between April to June 2020. Importantly, international organizations and development partners has played significant role in providing both financial and in-kind assistance to Lao government to implementing health prevention measures

and recovering economic difficulties as well as maintain people's livelihood since the outbreak of COVID-19 in Lao PDR.

7. Implications of the crisis for graduation from LDC status

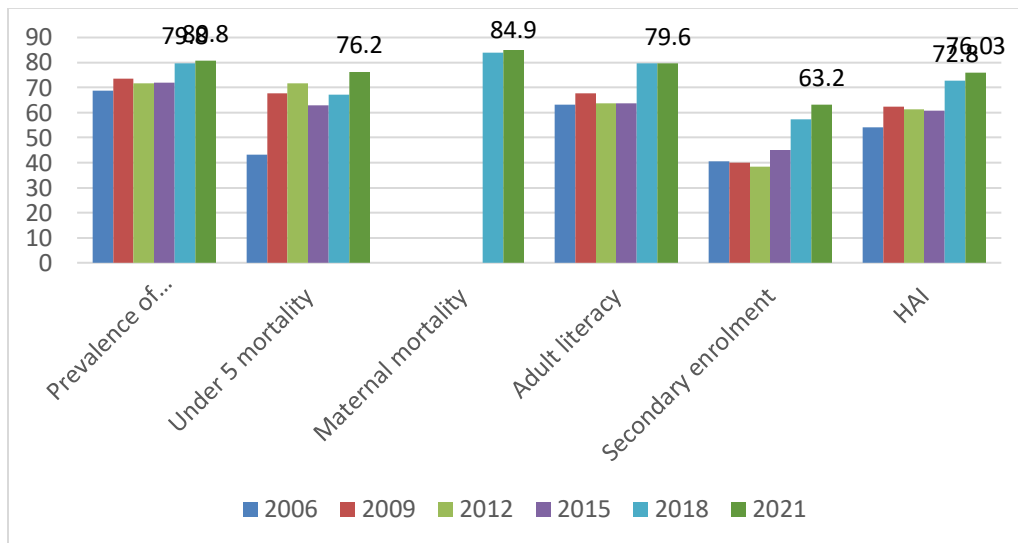
Lao PDR passed two of three LDC graduation criteria for the first time in the 2018 assessment and is more likely to pass all three criteria in the 2021 assessment by Committee for Development Policy (CDP). As for GNI per capita criteria, Lao PDR reached USD 1,996 which is higher than threshold of 1,230. With GDP growth of about 6 percent on average during last three years, Lao PDR is expected to have higher GNI per capita than USD 1,996 which allows Lao PDR to pass income criteria. In addition, Human Asset Index (HAI) for Lao PDR in the 2018 assessment was 72.8 exceeding the threshold of 66. According to CDP, there is the adjustment of sub-indexes under HAI. The prevalence of undernourishment will be replaced by stunting. In the 2018 review, prevalence of undernourishment is relatively high (79.8). However, stunting rate for Lao PDR is considered high comparing to international standard, thereby resulting lower sub-index related to nutrition perspective. Fortunately, CDP has added new sub-index of HAI so-called Gender Parity Index (GPI) which Lao PDR has performed well according to available data. Thus, it is expected that HAI for Lao PDR is more likely to stand above the threshold of 66. As for Economic Vulnerability Index (EVI), Lao PDR stood at 33.7 which is above the threshold of 32, meaning that Lao PDR could not pass EVI criteria. According CDP, sub-criteria for population size will not be considered in the 2021 review. Therefore, Lao PDR has a good position to pass EVI criteria if other EVI sub-index remain at the same place as it was in last review.

Figure 12: GNI per capita (2000-2021)



Source: Committee for Development Policy
 Note: Estimation for 2021 is based on existing data

Figure 13: HAI for Lao PDR (2000-2021)



Source: Committee for Development Policy
 Note: Estimation for 2021 is based on existing data

Considering the impact of COVID-19, Lao PDR is still facing with the difficulty to have smooth graduation with strong socio-economic foundation despite Lao PDR pass the second review continuously. A challenge for Lao PDR's graduation is related to the country's ability to move the country out from LDC list smoothly during transition period and even in the long-term. The estimation of three LDC indexes is usually based on data in three years lag behind. Thus, they are not able to measure how well the country can manage smooth graduation during transition period.

Covid-10 pandemic will definitely deteriorate national economic growth and delay the nation's economic structural transformation, which results in less employment, government revenues, eventually affecting people's likelihood especially among vulnerable groups. It should note that income inequality is rising and rural poverty incidence is high. Job loss or income loss due to COVID-19 pandemic will likely result higher poverty incidence although Lao PDR's GNI per capita exceeds CDP's income threshold.

In addition, this pandemic crisis will definitely reduce the government fiscal space and fiscal expenditure in social activities related to improving people's well-being such as education and health especially among vulnerable groups. At present, Lao PDR is encountering with high fiscal deficit and external debt which make the country in difficult position to boost national development. Together with the impact of COVID-19, Lao PDR is less likely to improve development indicators especially social indicators in coming years. Less budget spending and lower household income could lead an increase in maternal and child mortality, undernutrition, food insecurity and children's out of school rate. Thus, it is questionable for government on how effective policies or interventions take place given limited resource during transition period.

One of importance action necessary for smooth graduation is strong partnership between government and international community. To combat with COVID-19 crisis, development partners should firmly stand beside the government of Lao PDR to address the difficulty by providing continuous supports and build up the capability of the country to stand alone and improve the people's likelihood.