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This draft assessment was prepared and coordinated by the Committee for Development Policy (CDP) Secretariat. It is based on inputs from the UN country team in the Lao PDR and summaries of DESA's Impact Assessment and UNCTAD's Vulnerability Profile.¹ It benefited from comments from CDP Members, UN entities and partner organizations.²

The CDP is mandated to review every three years the LDC category based on the specific criteria (Gross National Income per capita, Human Assets Index and Economic and Environmental Vulnerability Index) and application procedures the CDP developed for this purpose. The CDP also determines threshold levels on each of the three criteria to identify the countries to be

¹ Within the overall graduation assessment, DESA and UNCTAD prepared their respective chapters which are a synthesis of DESA's impact assessment and UNCTAD's vulnerability profile. The UN country team has contributed by providing inputs on the chapter regarding the country situation. The graduation assessment draft has also been shared with relevant organizations and partners for feedback, as well as with the country graduating. The final chapter with recommendations on smooth transition may be discussed at a country-level Meeting on Graduation Support to be organized by the UNRC before the finalization of the graduation assessment as proposed by the CDP in its 2018

added to or graduated from the category. To reach eligibility for graduation, a country must reach threshold levels for graduation in two consecutive triennial reviews for at least two of the three aforementioned criteria. Alternatively, its GNI per capita must exceed at least twice the graduation threshold level if that level is deemed to be sustainable. The CDP assesses other relevant factors in its decision to recommend the country for graduation, including the information in the final version of this assessment (which will be made available before the next Triennial Review of 2021).

The Economic and Social Council (ECOSOC) must endorse the CDP's recommendation to graduate a country. In principle, a country graduates from the LDC category three years after the General Assembly takes note of the ECOSOC endorsement of the recommendation of the CDP. However, the General Assembly may grant the country a longer preparatory period. The CDP's recommendation will include a statement whether the standard three-year preparatory period is appropriate or whether country-

Social situation

Lao PDR's social situation and progress has been well documented in its voluntary national review (VNR) on the implementation of the 2030 agenda for sustainable development.¹¹ The country's VNR documents the efforts required in planning and coordination for reaching the poorest and most disadvantaged groups as well as the government's commitments. The following highlights some key aspects of the country's social situation, including on selected social issues related to the human assets index used in the identification of LDCs.

As highlighted by World Bank and ADB reports¹², while the economy of Lao PDR continued to grow at a fast pace, poverty reduction lags behind and Lao PDR's economic growth has not been particularly inclusive. The growth in consumption has benefited the richer more than the poorer segments of the population and a main concern is the unequal distribution of human development assets and income. Although the poor of Lao PDR have become better off in real terms over the past two decades, the rich have benefited more, in both proportionate and absolute terms. Also, inequality has increased within urban areas and between rural and urban areas.¹³ The fact that many people do not have steady incomes makes them susceptible to shocks and vulnerable to falling into poverty: half of the people counted as poor in 2012/13 were previously non-poor.

In order for the population, in particular the poor, to participate in new economic opportunities, additional investment in human development will be important. In this regard, a main concern for Lao PDR is the unequal distribution of human development assets and income. Furthermore, the development of human resources and skilled personnel, for policy management and the enforcement of regulation should be given priority.

In terms of gender parity, great progress has been made in Lao PDR towards girls' school attendance and gender parity in education, but deeply rooted gender inequalities continue to keep girls and boys from having equal opportunities.¹⁴

Undernutrition¹⁵ in Lao PDR shows strong inequalities across regions and groups, associated with poverty patterns. In rural areas without road access, stunting and underweight prevalence are

¹¹ See https://sustainabledevelopment.un.org/content/documents/19385Lao_Final_VNR_19_June_2018_web.pdf.
¹² Asian Development Bank (ADB). 2018. "Part I: Sustai

twice those in urban areas. The prevalence of stunting among children from the poorest households is three times higher than that in the richest households. This gap has widened in recent years, with little progress among the poorest children.

Since 2015, the Government has taken significant legislative and policy actions to improve the country's governance framework. The challenges lie primarily with their implementation and impact monitoring. Additionally, there are gaps in financing, human resources, capacity, and public participation. The Government recognizes the need to effectively address these challenges to tackle the persistent geographical disparities based on ethnicity, language, gender, age, educational attainment, disability, and social-economic status.¹⁶

Environmental issues

The main sources of fast economic expansion and growth, mining in the 2000s and hydropower sector more recently, contributed largely to environmental degradation. Most of Lao PDR's emissions of greenhouse gases have been due to land-use change and forestry.

Mining and hydropower activities have a high potential to generate negative environmental impacts and to threaten the livelihood of people living in natural and rural areas that represent 80% of the total population. A main challenge for the country will be to slow down the environmental degradation.

Lao PDR is becoming more vulnerable to climate change and disasters, with recent damage and losses due to floods and droughts estimated at 3 to 4 per cent of GDP annually.¹⁷ The Lao PDR government has expressed that it has difficulties to deal with extreme weather events and food price volatility, considered two main sources of economic insecurity and poverty.¹⁸ With the frequency and intensity of weather extremes projected to grow in Lao PDR, damage to critical infrastructure and economic losses to disasters may increase during and after the graduation process.

Reducing existing disaster risk and avoiding the creation of new risk as an unintended consequence of economic and development policies and activities, as well as adaptation to climate change, are major challenges.

The Government recognizes the importance of mitigating and adapting to environmental and climate change risks and has made significant progress in drawing basic legislation and developing policy frameworks that favor sustainable development, environmental protection and disaster risk reduction. However, a shortage of human resources, skilled personnel, and

average population growth rate, which means that if present trends continue, the number of stunted children will likely increase. For more information see <http://www.la.one.un.org/sdgs/sdg-2-zero-hunger>

¹⁶ UN Country team contribution to the Lao PDR 3rd cycle of the Universal Periodic Review.

¹⁷ <http://www.la.one.un.org/>

¹⁸ <http://www.la.one.un.org/>

Graduating LDCs may request waivers at the WTO that would provide (or extend) transition periods to phase out flexibilities or phase in obligations. Such waivers would need to be negotiated and agreed to by Members.

Trade-related capacity-building, training and technical assistance: After graduation and applicable smooth transition periods, access to certain trade-related capacity-building, training and technical assistance mechanisms will be restricted:

- Lao PDR will continue to be supported by the Enhanced Integrated Framework (EIF) for a period of 5 years after graduation in all modalities of funding except the “Sustainability Grant” which is intended to help the government fully integrate the main functions of the EIF’s support into the government structure.
- To continue to use the services of the Advisory Centre on WTO Law (ACWL), Lao PDR will have to become a member by making a one-off contribution.
- Lao PDR will have higher co-financing requirements and lower priority under the Standards and Trade Development Facility (STDF).
- Lao PDR will benefit from fewer country-specific technical capacity-building and training activities by the WTO and will no longer benefit from country-specific activities under the “China Programme” at the WTO which supports LDC participation in WTO decision-making.

Impacts on development cooperation²¹

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 official development assistance (ODA) received from OECD-DAC Members (including the United States, the European Union, Australia and New Zealand, and grants from the Republic of Korea and Japan). It is not expected to affect South-South cooperation, which is of critical importan

Graduation may trigger the following changes:

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amount of funds a single country can receive during a replenishment period (“access cap” of 10 million dollars for the current GEF replenishment period, GEF-7) and cumulatively (cumulative ceiling of 50 million dollars). By October 2019, Lao PDR had received or been granted approval for 33.90 million dollars under the LDCF and had accessed 4 million dollars from the LDCF in GEF-7, so had a 6 million dollar balance under the access cap, and a 16.10 million dollar balance under the cumulative ceiling. Lao PDR would continue to have access to the Special Climate Change Fund (SCCF), the Adaptation Fund and, more significantly, the Green Climate Fund (GCF). While Lao PDR would no longer be automatically considered among the vulnerable countries “including LDCs, SIDS and African States” that the GCF gives priority to in allocating adaptation funds, in practice several factors determine allocation, including the capacity to elaborate projects meeting fund requirements.

- After a smooth transition period of five years Lao PDR would no longer have access to the LDC Technology Bank, which provides support to LDCs on science, technology and innovation, or the Investment Support Programme for LDCs, which provides on-demand legal and professional assistance to LDC governments and eligible state-owned or private sector entities for investment-related negotiations and dispute settlement.

Finally, graduation could affect funding by the GEF (other than the LDCF) because its System for Transparent Allocation of Resources (STAR) includes higher minimum allocation floors for LDCs than non-LDCs. However, actual allocation depends on multiple factors and graduation is not expected to lead to an automatic reduction of funding.

A gradual change in the cooperation strategies of some partners has already begun, related to the increase in the level of income and other factors, but not graduation from the LDC category. For example, within the World Bank Group, Lao PDR currently receives assistance under the International Development Association (IDA) at ‘blend terms’, i.e. in form of loans with less concessional terms than other IDA credits or grants. Due to its income level, it no longer receives grants under the IDA.

Both the government and Lao PDR’

characterized by a very high incidence of informality and a mix of constraints faced by enterprises ranging from weak access to finance to unfair practices. Most of the SEZs firms are foreign-owned and the local value-added of their activities consists mainly of the wages paid to unskilled labor-force. Although, Lao PDR's export product space is suggestive of a narrow range of new and nearby products with economic gain that offer opportunities for the country to exploit strategic areas with future diversification potential, the high cost of logistics and trade facilitation, and low quality of human capital – key components of productive capacities – hamper the economy's future development prospects. Of concern are also signs that the lower-income economies of ASEAN have reached a point where their labor-intensive, export-led growth model geared mainly to attracting foreign investment no longer yields the benefits it once did.

The economy of Lao PDR is increasingly vulnerable to natural disasters and extreme weather events and is expected to be negatively affected by the impacts of climate change across key economic sectors, including agriculture and hydropower generation. For example, devastating storms in 2018 affected over 600,000 people and the cost of damaged infrastructure and economic losses, particularly in the agricultural sector, reached \$371.1 million, which corresponds to 9.6% of Lao PDR's annual budget. GDP decreased by 2.01%.²⁵ Further flooding occurred in 2019, affecting 30,999 people, and in October 2020 with over 10,000 people affected and hundreds of homes, roads, and bridges damaged, and losses in crops and livestock suffered.²⁶

The emergence of capital-intensive natural resources activities has brought risks of a deteriorating EVI as it has created other vulnerabilities: mining and hydropower activities have a high potential to generate negative environmental impacts and to threaten the livelihood of people living in natural and rural areas (which represent 80% of the total population). At the same time, disasters, in particular droughts, have the potential to negatively impact or result in the collapse of hydropower generation in the country.²⁷ In addition, these activities have few linkages to the local economy, low capacity to generate formal employment, and make modest contributions to government revenues. Instead, there has been a general trend of rising inequalities and the appearance of new vulnerabilities such as trade and investment concentration and widening labor productivity gaps with limited Global Value Chains (GVC) participation mainly concentrated in low-value segments. This explains the modest pace of

that may render riverine investments less productive.²⁸ Economic vulnerability to price fluctuation is exacerbated by rising macro-economic imbalances. The weak fiscal situation puts at risk the continuity of social development and jeopardize the progress achieved. This poses important challenges, among others, for the development of human capital and labor force whose low educational level hinders the country's competitiveness. Moreover, the continued presence of Unexploded Ordnance (UXO) adds to the challenges facing the country as it reduces the access to agricultural land, hinders transport networks, and regularly causes accidents with casualties, increasing the costs of development projects in affected areas.

These challenges underscore the importance of Lao PDR adopting a fresh and focused approach to natural resources-based development that also leverages industrial policy to diversify the economy, create an enabling environment for investment, and strengthen national capacities to mitigate and adapt to environmental shocks. Strategies focused on developing existing and building new productive capacities,²⁹ expanding the domestic production sector, including through building new/fostering existing regional value chains (RVCs) will require addressing three interdependent critical fault lines, namely infrastructure, human capital and domestic resource mobilization, supported by enhancements in public institutional capacities. This will be critical to building resilience and ensuring sustainable development.

Regarding the ACWL, the one-off contribution required for membership of non-LDC developing countries has, in some cases, been financed by donors.

On development cooperation:

- ODA commitments would need to be discussed and negotiated with partners during the elaboration of the transition strategy, to ensure that Lao PDR's specific needs and vulnerabilities are taken into account.
- Domestic resource mobilization continues to be crucial, including traditional ODA, non-concessional public finance (OOF), blended finance, and South-South cooperation. In addition, Lao PDR could take advantage of guidance and capacity-building from organizations on alternative resource mobilization. UNDP has worked with Lao PDR in developing capacity to access different sources of climate finance including the Green Climate Fund (GCF). This will become important to compensate for no longer being eligible for the LDC Fund. It will also be important to ensure to submit proposals in time to 'max out' existing LDC-specific provisions.
- Lao PDR could explore the potential of LDC-specific instruments such as the Technology Bank and the Investment Support Programme within the period of eligibility (until graduation and up to five years thereafter).

On support for participation in international organizations and processes, Lao PDR could:

- Request extensions of the conditions applied to LDCs regarding budget contributions at the ITU.
- Request the three-year extension on support to participate in meetings of the United Nations General Assembly.
- Explore with the relevant institutions possibilities for alternative support for travel to key intergovernmental meetings.