

# The Road to Graduation – Case Study of Lao PDR

Syviengxay Oraboune,  
Deputy Director General  
National Economic Research Institute (NERI), MPI

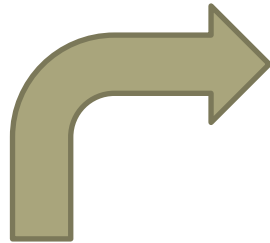
Asia-Pacific Regional Workshop on LDC Graduation Strategy  
Organized by UN-ESCAP and Royal Government of Cambodia  
Siem Reap, 4-6 December 2013

# Outline of Presentation

- Introduction:
  - Lao PDR – Its National 2020 Vision and Istanbul Plan of Action (IPoA)
  - Lao PDR National LDC Graduation Platform
  - Progress of Socioeconomic Development of Lao PDR toward LDC Graduation
- Gap, Possibility and Challenges of Lao PDR toward LDC Graduation
  - GNI per capita
  - HAI
  - EVI
- Potential Impacts from Phasing-out of LDC Special Measures
- Conclusion and Policy Implications

# Introduction

# Lao PDR's 2020 Vision and IPoA



## **2011: IPoA – Fourth UN Conference on LDC:**

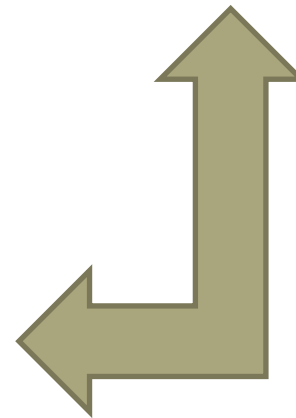
- To overcome the structural challenges of LDCs
- To enabling half the number of LDCs to meet the criteria by 2020

## **2001: National 2020 Strategy Targets:**

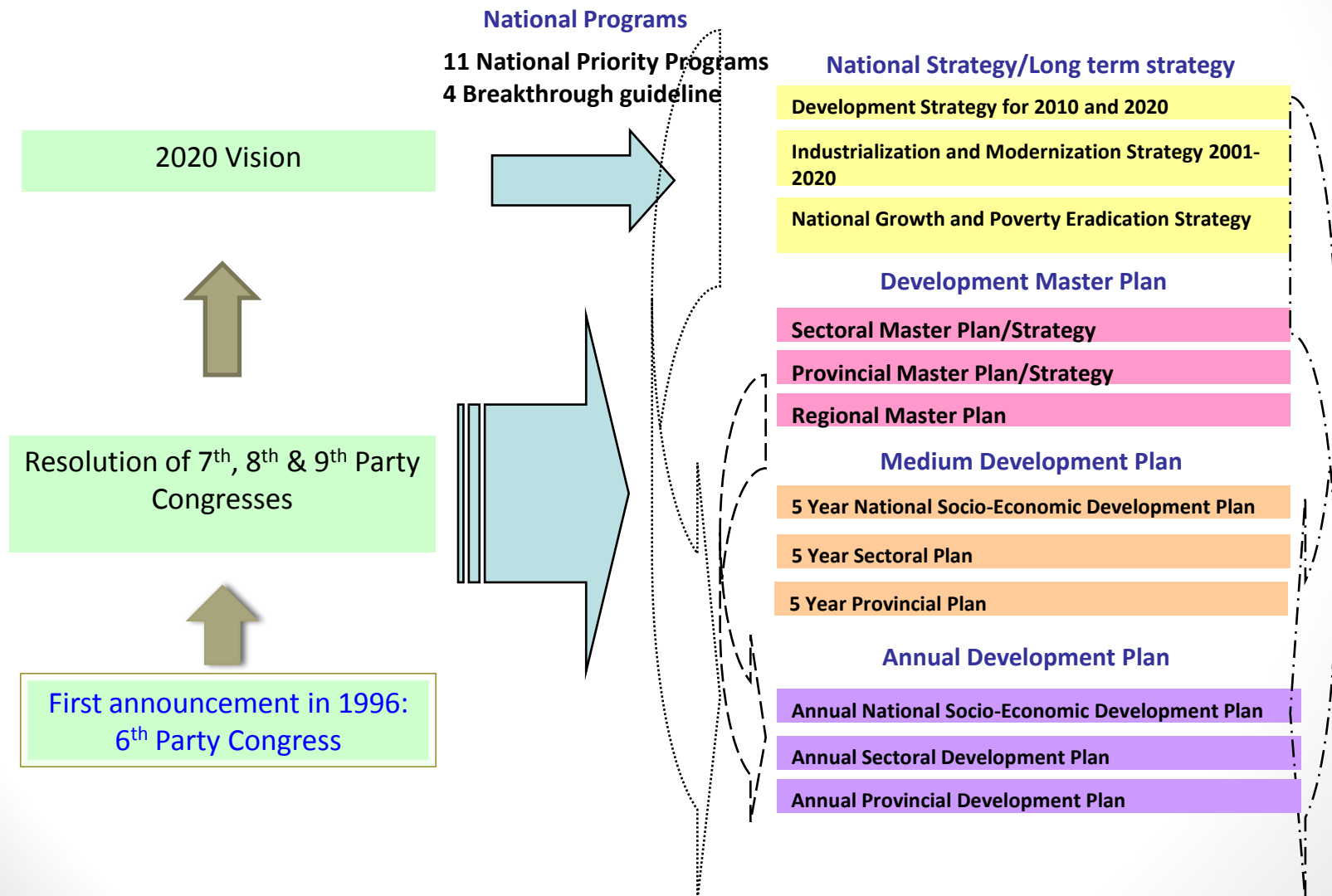
- GDP increase 5 times of 1997 with average growth rate at 7-7.5% per annum with average GNI per capita of USD1,200 – 1,500
- Adult literacy rate of over 90% and life expectancy at 70 years



**1996: Lao National Statement:** “...develop the country toward leaving out of LDC status by 2020 and reaching socio-economic development status that significantly higher than present level...”

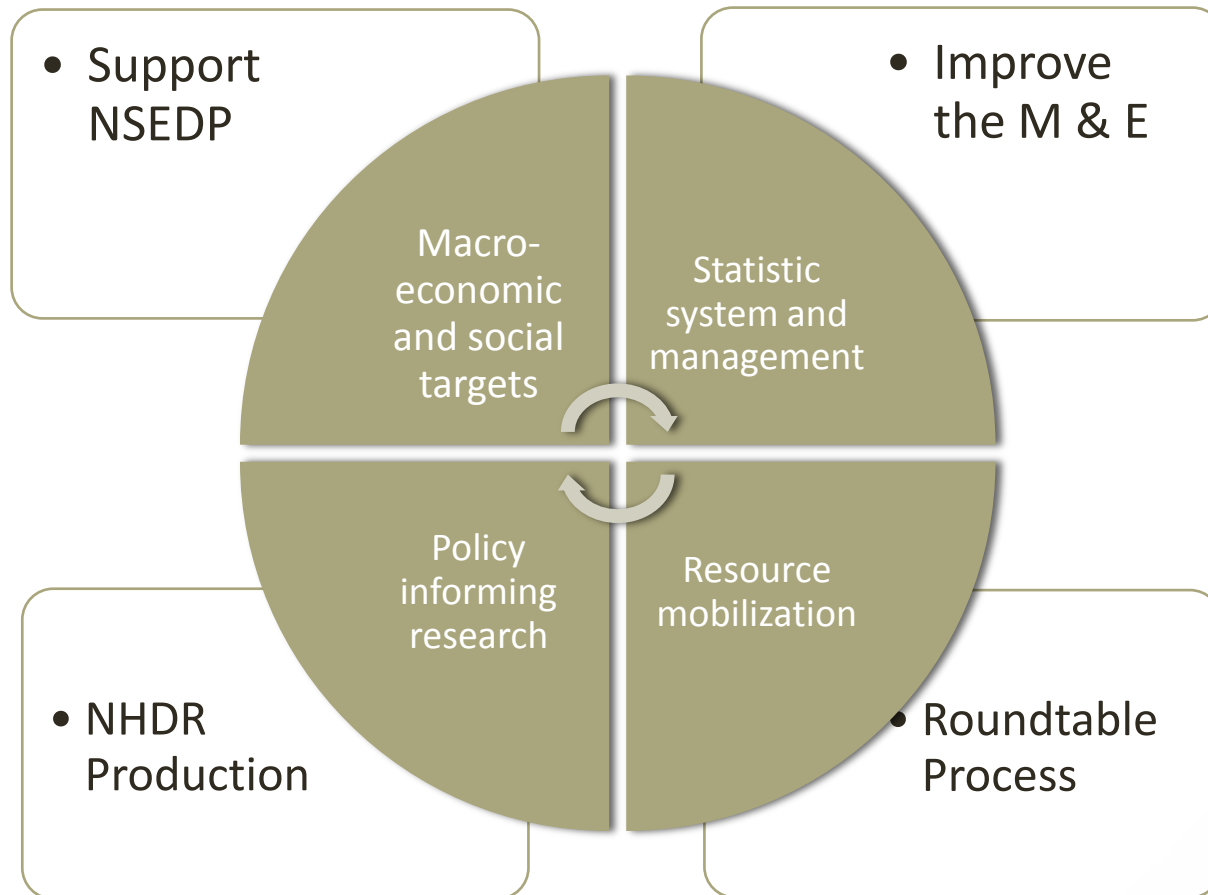


# Lao PDR's National LDC Graduation Platform



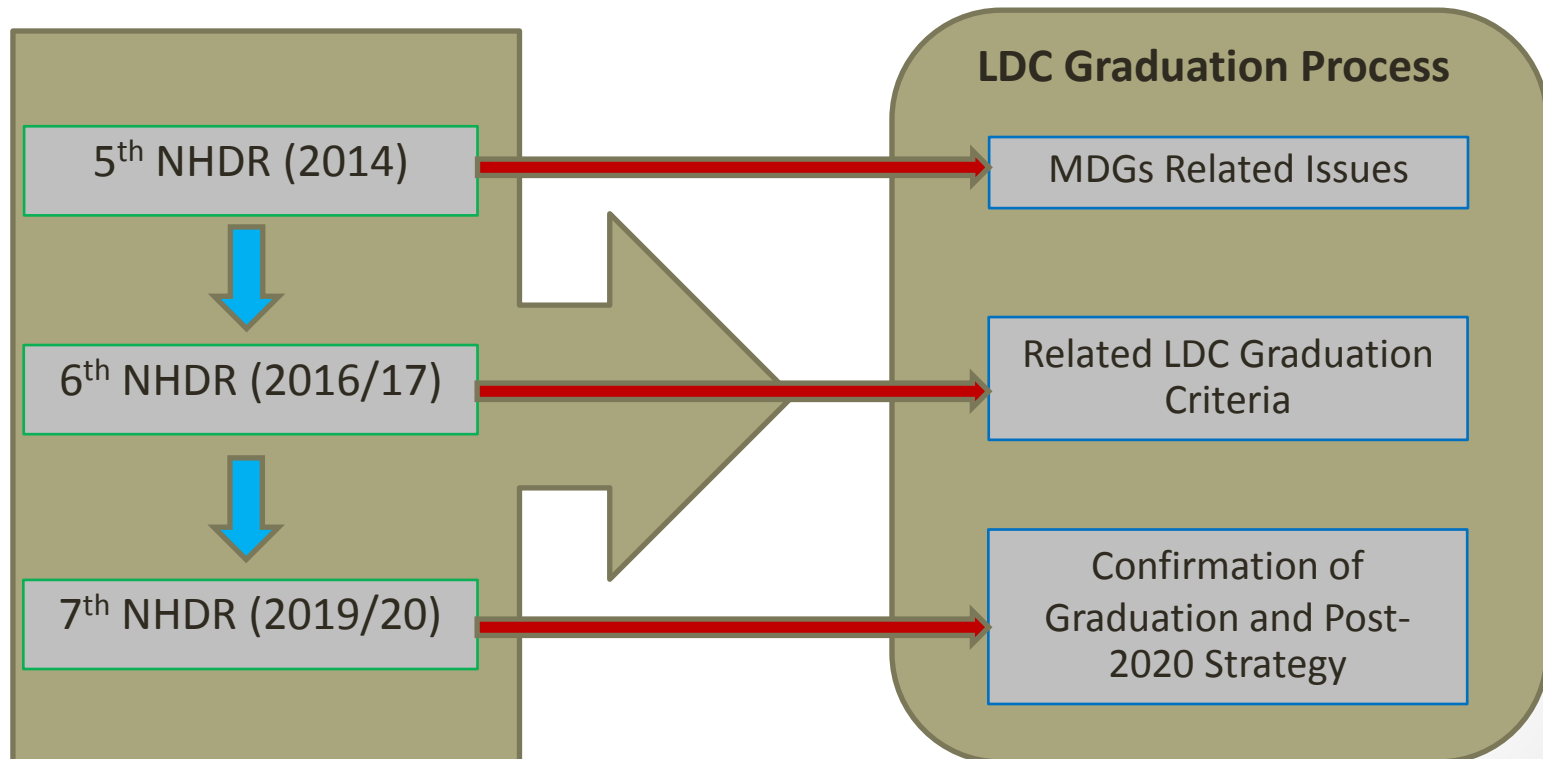
# Lao PDR's National LDC Graduation Platform (cont')

- MPI Consolidated Programme (UNDP) as a platform to support 2020 Strategy of LDC Graduation progress of the country:



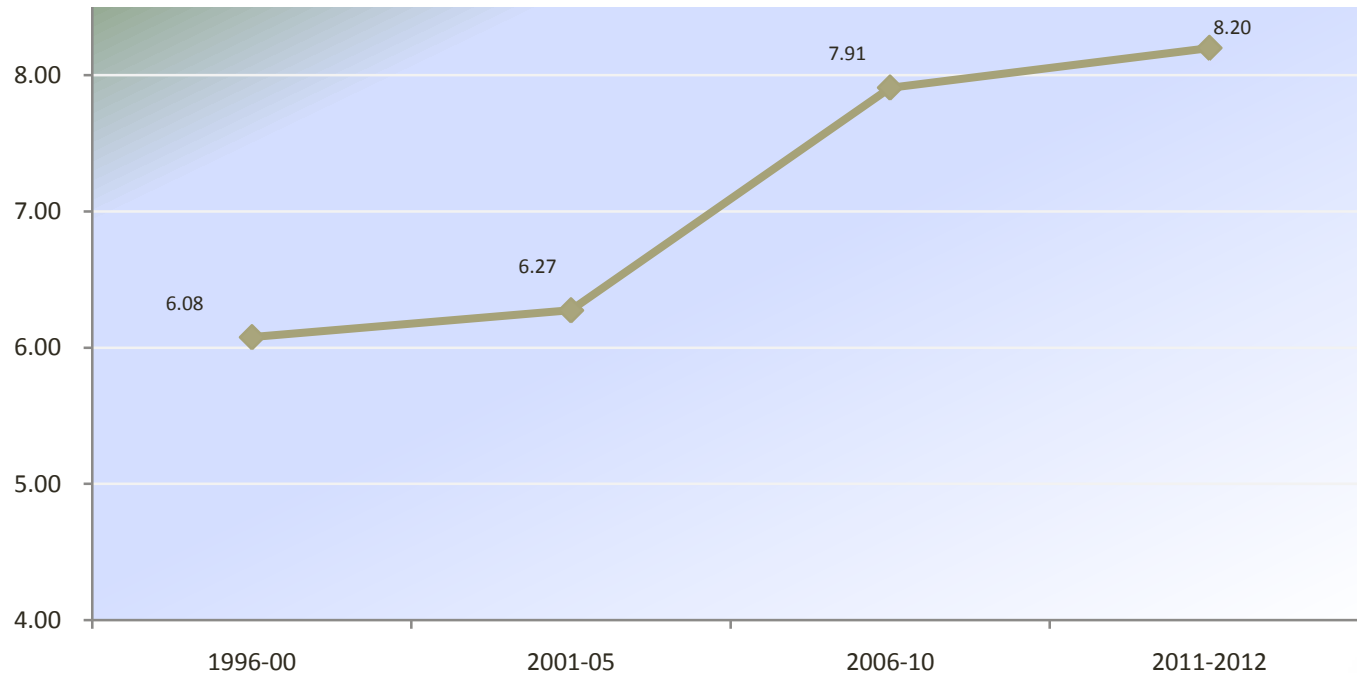
# Lao PDR's National LDC Graduation Platform (cont')

- National Human Development Report (NHDR) as a platform to monitor LDC Graduation progress of the country:



# Progress of Socioeconomic Development of Lao PDR

- GDP Growth Rate

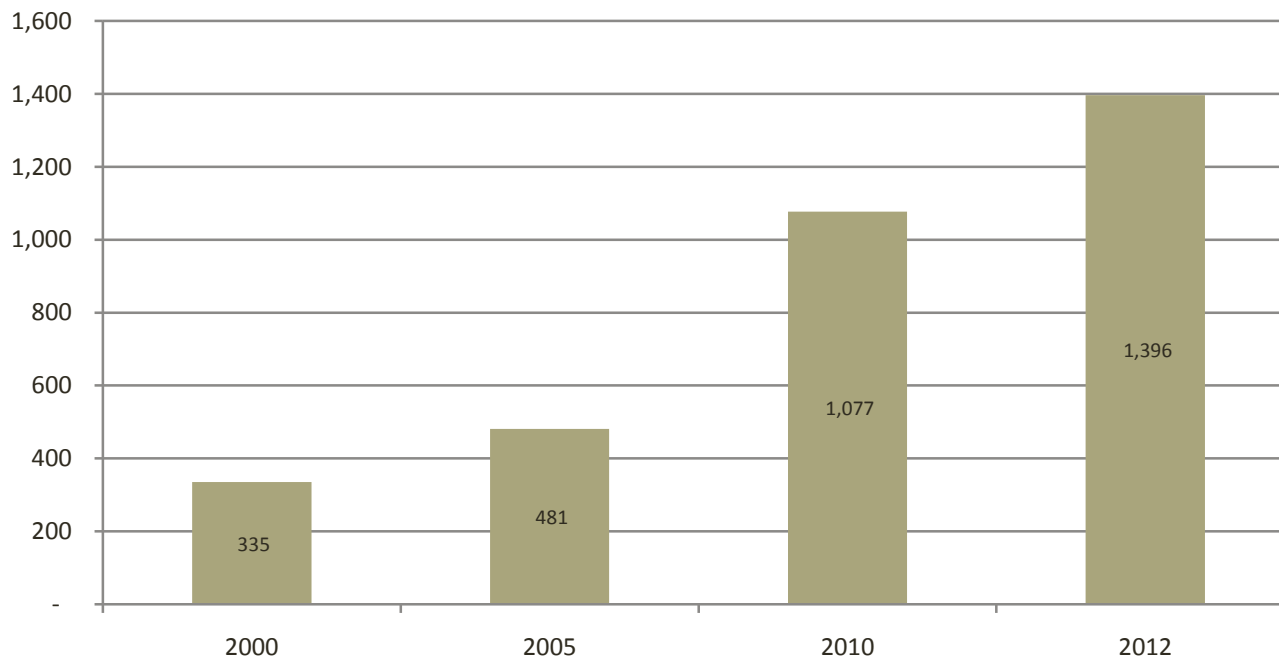


Source: Lao Statistic Bureau (LSB), National Economic Research Institute (NERI), MPI



# Progress of Socioeconomic Development of Lao PDR (cont')

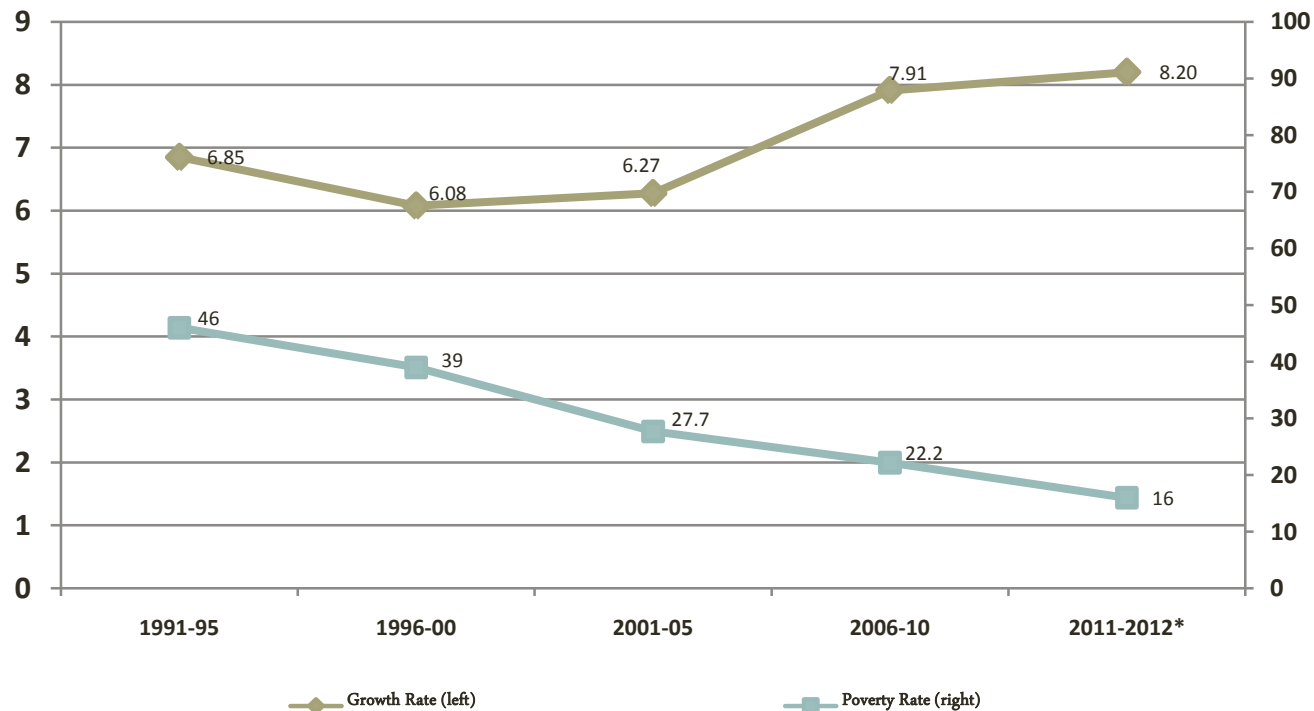
- GDP per capita



Source: LSB, NERI, MPI

# Progress of Socioeconomic Development of Lao PDR (cont')

- GDP Growth Rate and Poverty in Lao PDR (1991-2012)



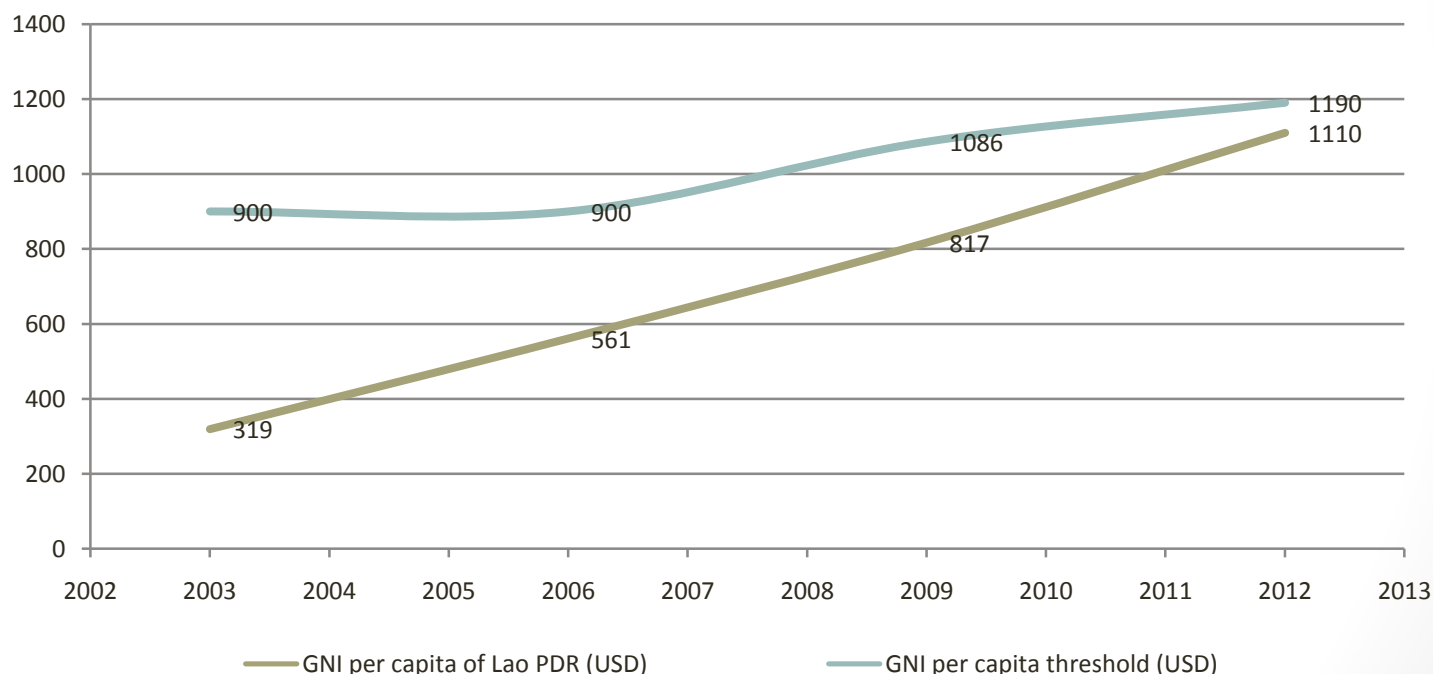
•Estimate

Source: LSB, NERI, MPI

# **Gap, Possibility and Challenges of Lao PDR toward LDC Graduation**

# GNI per capita criterion

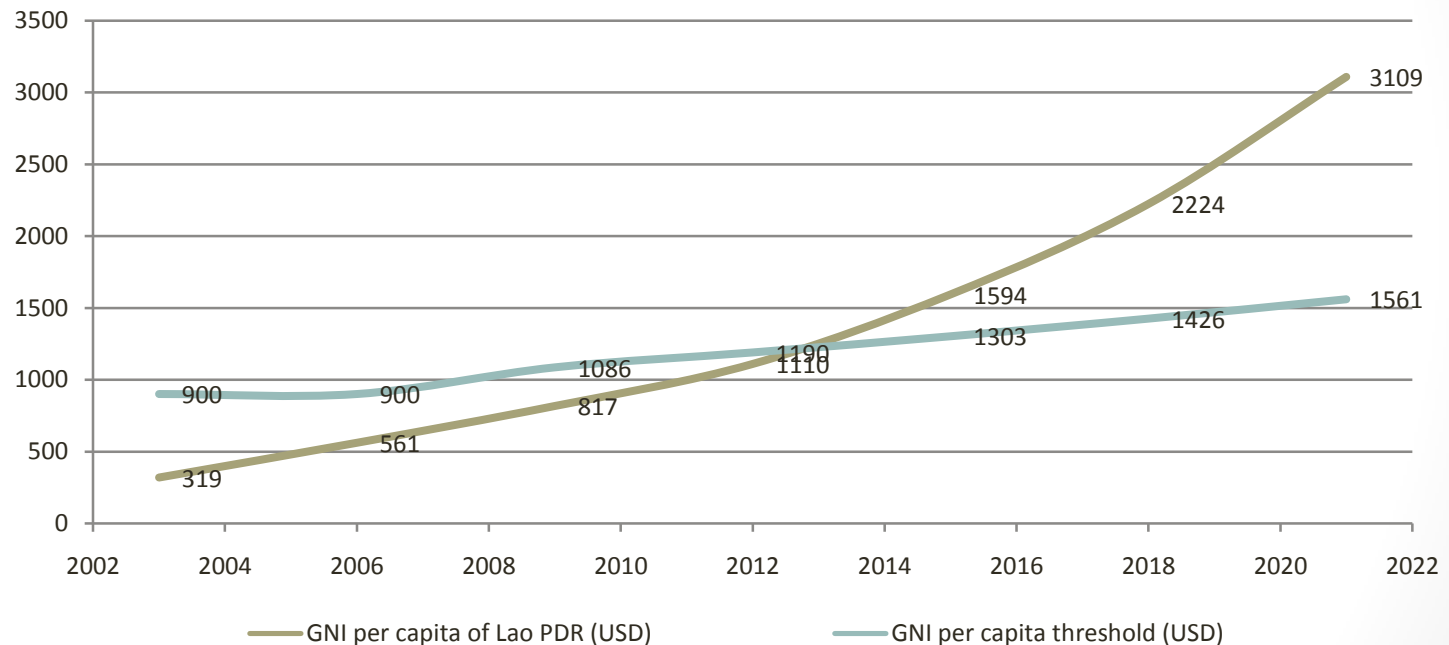
- Lao PDR's GNI per capita and LDC Graduation Threshold (2003-2012)



Remarks: the figure of GNI per capita of Lao PDR in 2012 is based on the World Development Indicator 2013, but it was the figure of 2011, which already over 90% of the threshold. However, the figure from CDP, UNDESA's website, the GNI per capita of Lao PDR is only USD913.3, which is about 77% of threshold.

# Forward looking on GNI per capita criterion

- Estimation of GNI per capita criteria and Lao PDR's GNI per capita

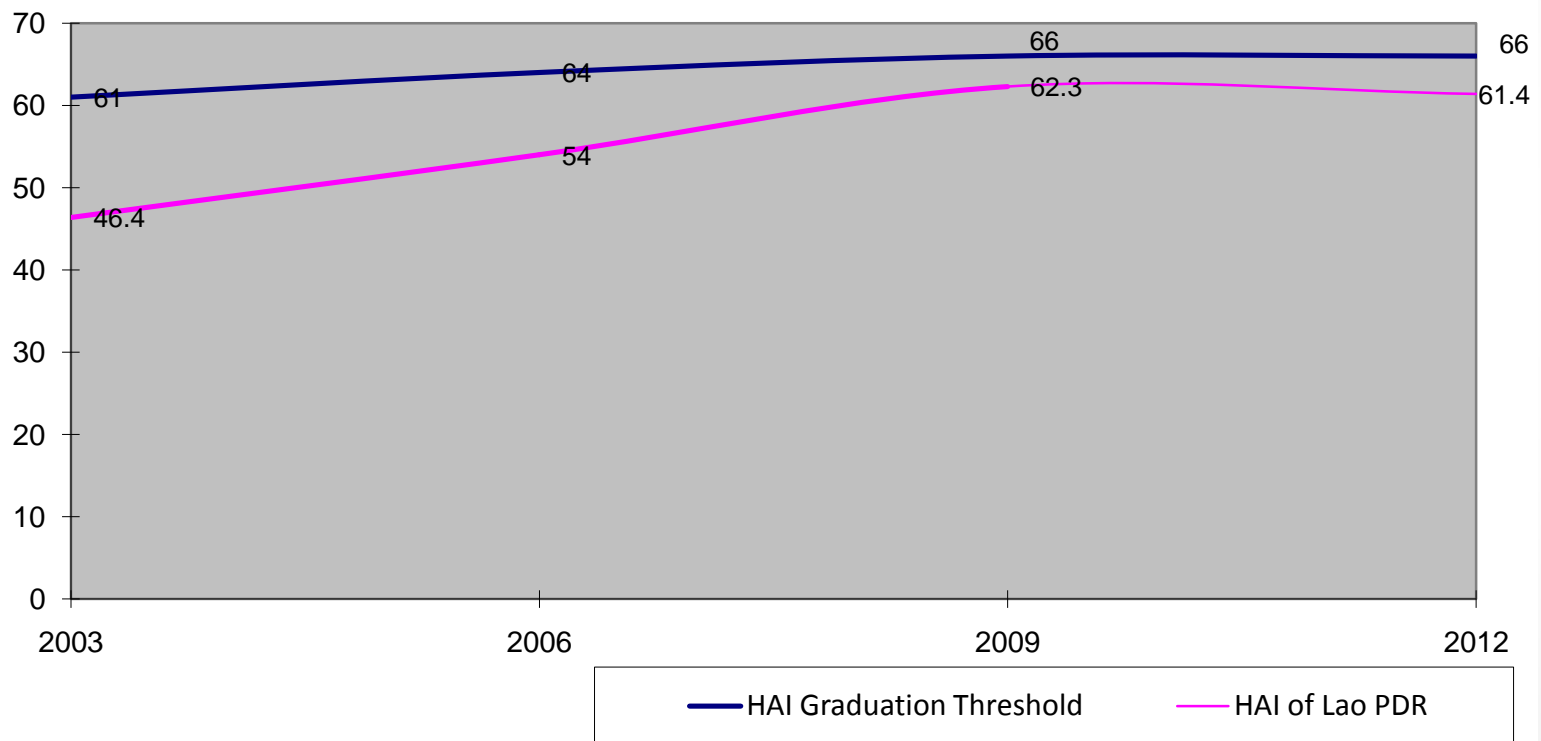


Remarks: Using WB Atlas Method to estimate the GNI per capita threshold up to 2021 with average growth rate of 2.5% per year. Using the Lao Macroeconomic Model of NERI with the assumption of GDP growth rate at 8% per year accordingly to 7<sup>th</sup> NSEDP of the country with other variables are constant.

Source: UN-CDP, World Bank, 7<sup>th</sup> NSEDP, NERI

# HAI criterion

- Lao PDR's HAI and LDC Graduation Threshold (2003-2012)

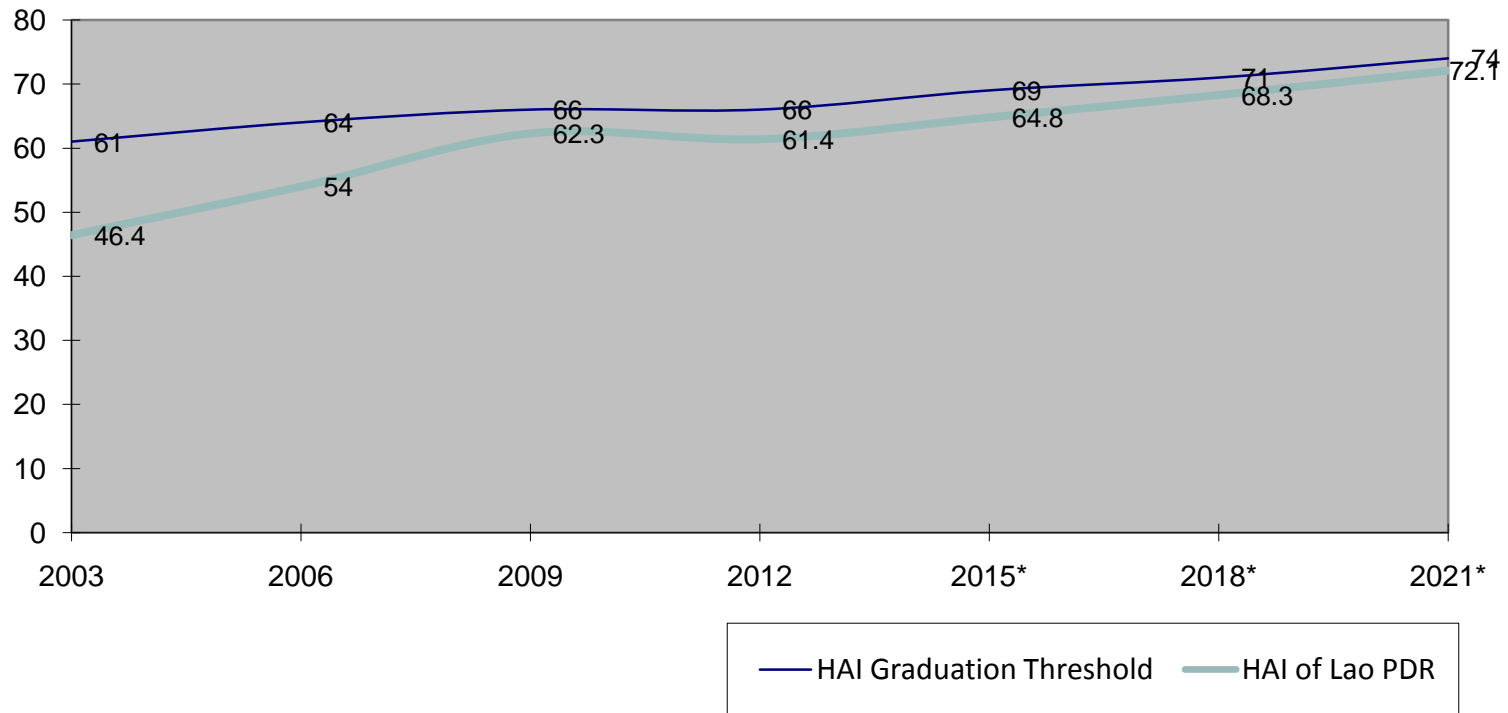


Remark: according to the figure, this criterion (HAI) score of Lao PDR already reaches 93% of the threshold.

Source: UN-CDP, DESA

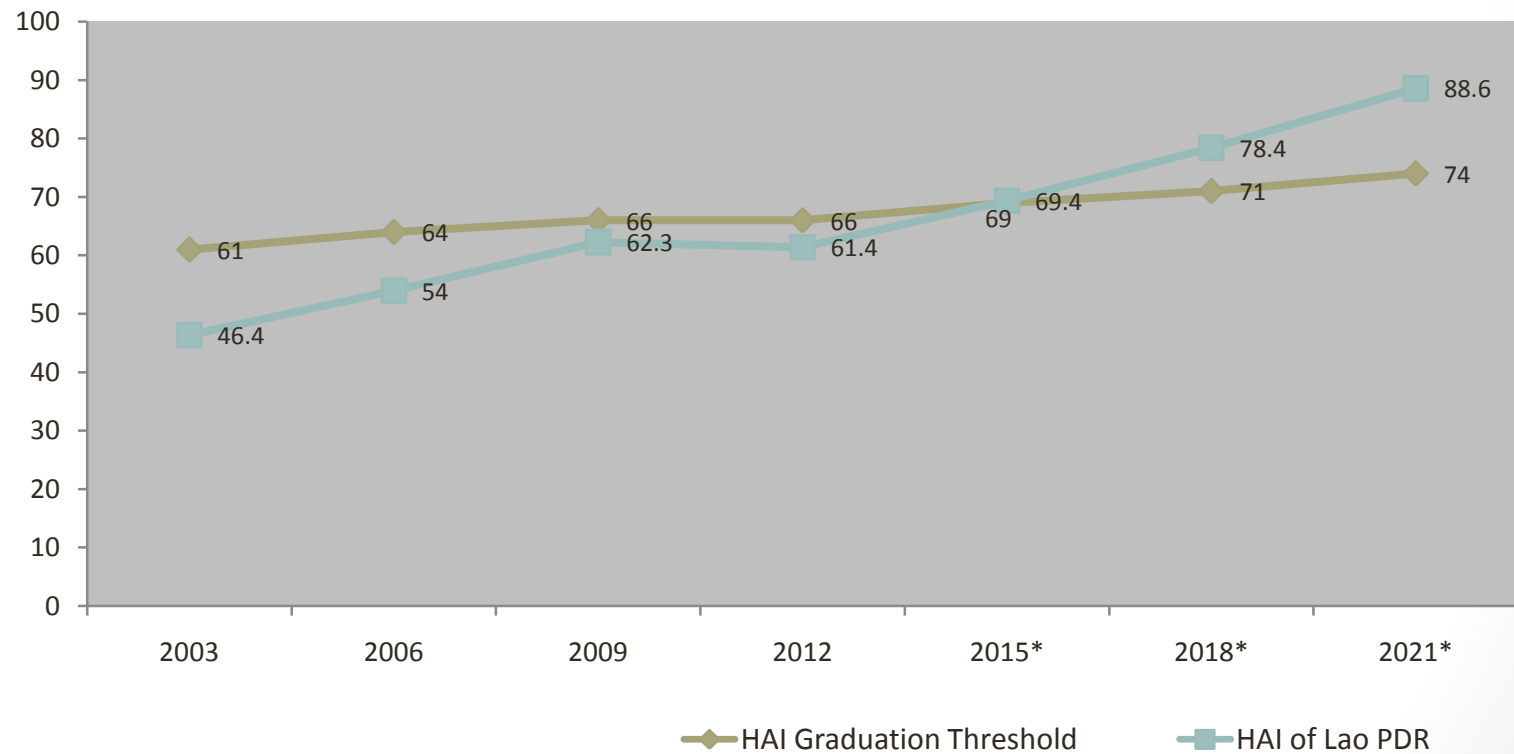
# Forward looking on HAI criterion

- Estimation of HAI criteria (at current growth rate) and rate of HAI of Lao PDR



# Forward looking on HAI criterion

- Estimation of HAI criteria (at double current growth rate) and rate of HAI of Lao PDR



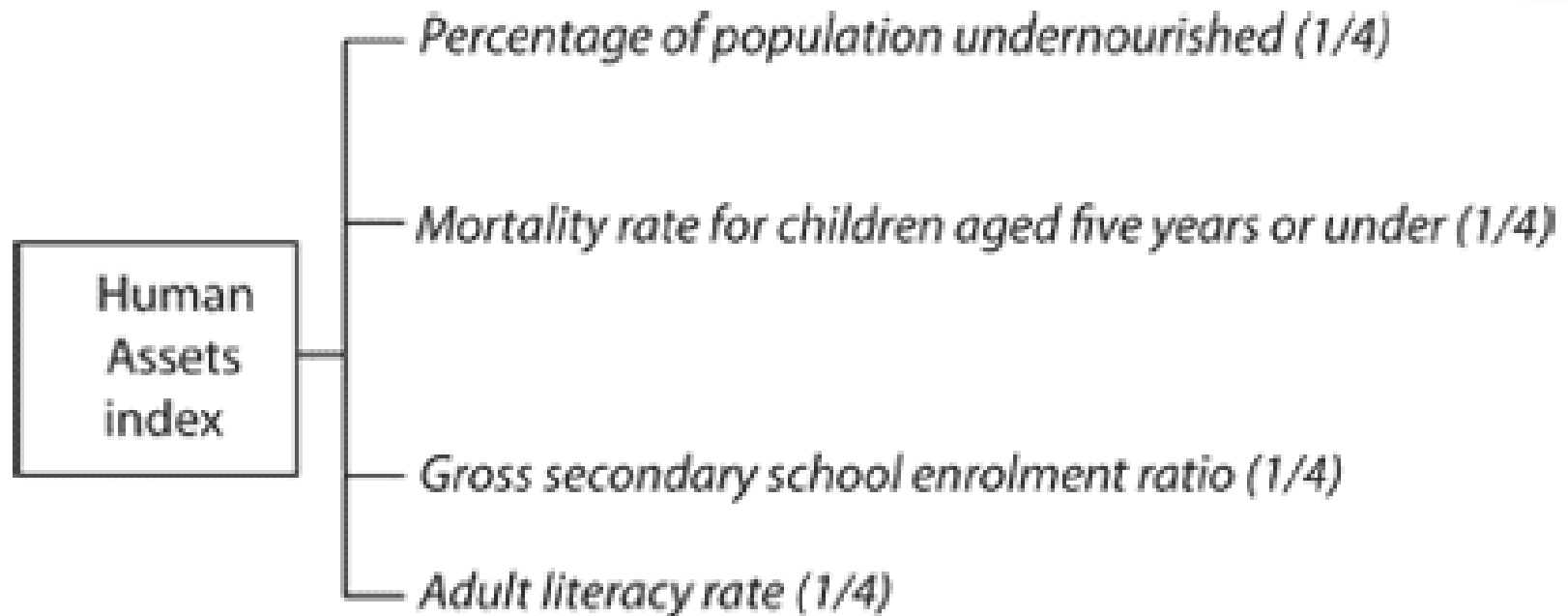
\*estimated

Source: UN-CDP, DESA



# HAI criterion and Priority Issues

- **Based on Formula:**



Numbers in parenthesis indicate the weight in the overall HAI.

# HAI criterion and Priority Issues

- And the following formula - calculating Lao PDR's HAI:

- $I = [(V - \min) / (\max - \min)] * 100$  or  $II = [(\max - V) / \max - \min] * 100$

- $HAI = 1/4 [(Population\ Undernourishment + Under\ five\ Mortality + \underline{Adult\ Literacy + Gross\ Secondary\ Enrolment})]$

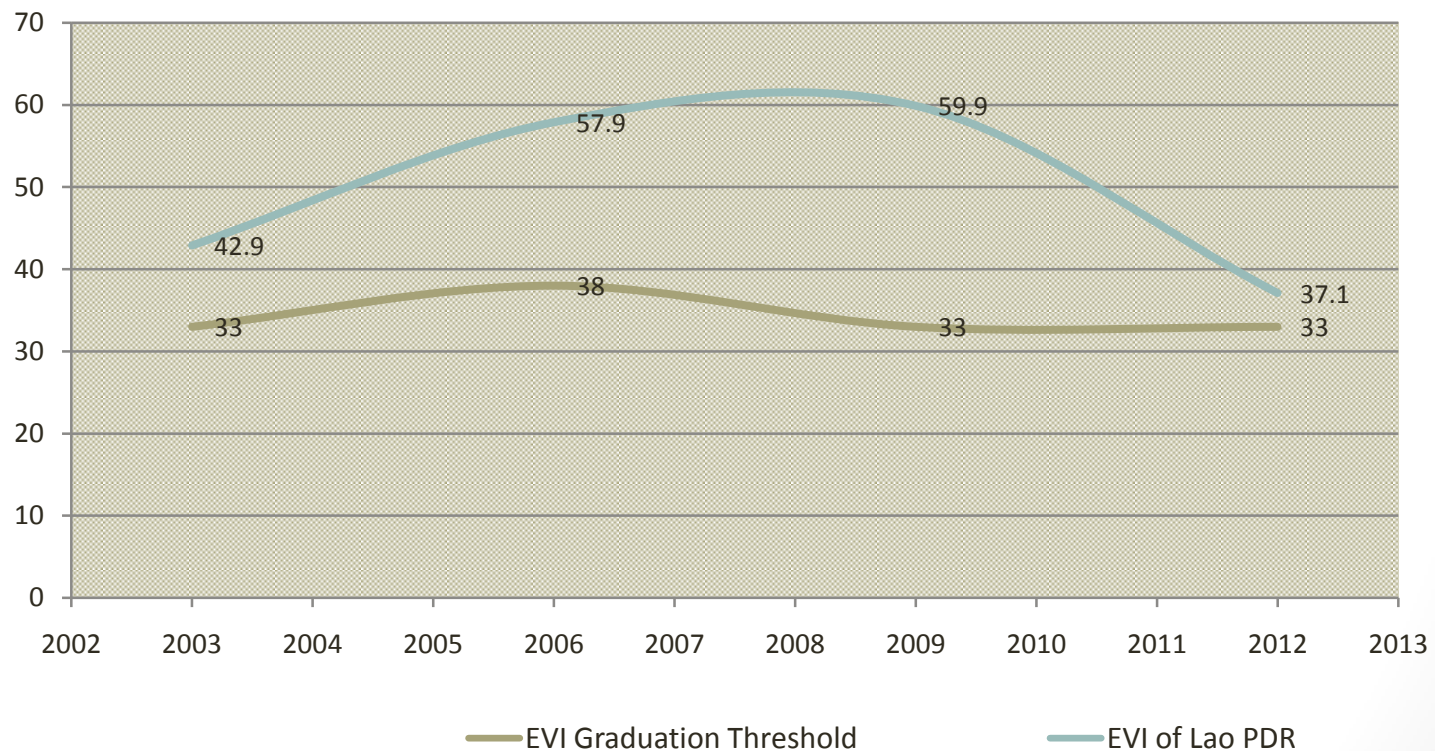
- Lao PDR: PU (22%); UFM (56.8/1000); AL (72.7%); GSE (44.7%)

- Lao PDR's HAI (2012) =  $1/4 (71.7 + 71.6 + 63.6 + 38.6) = \underline{61.4}$

- HAI Threshold (2012) = 66

# EVI criterion

- Lao PDR's EVI and LDC Graduation Threshold (2003-2012)



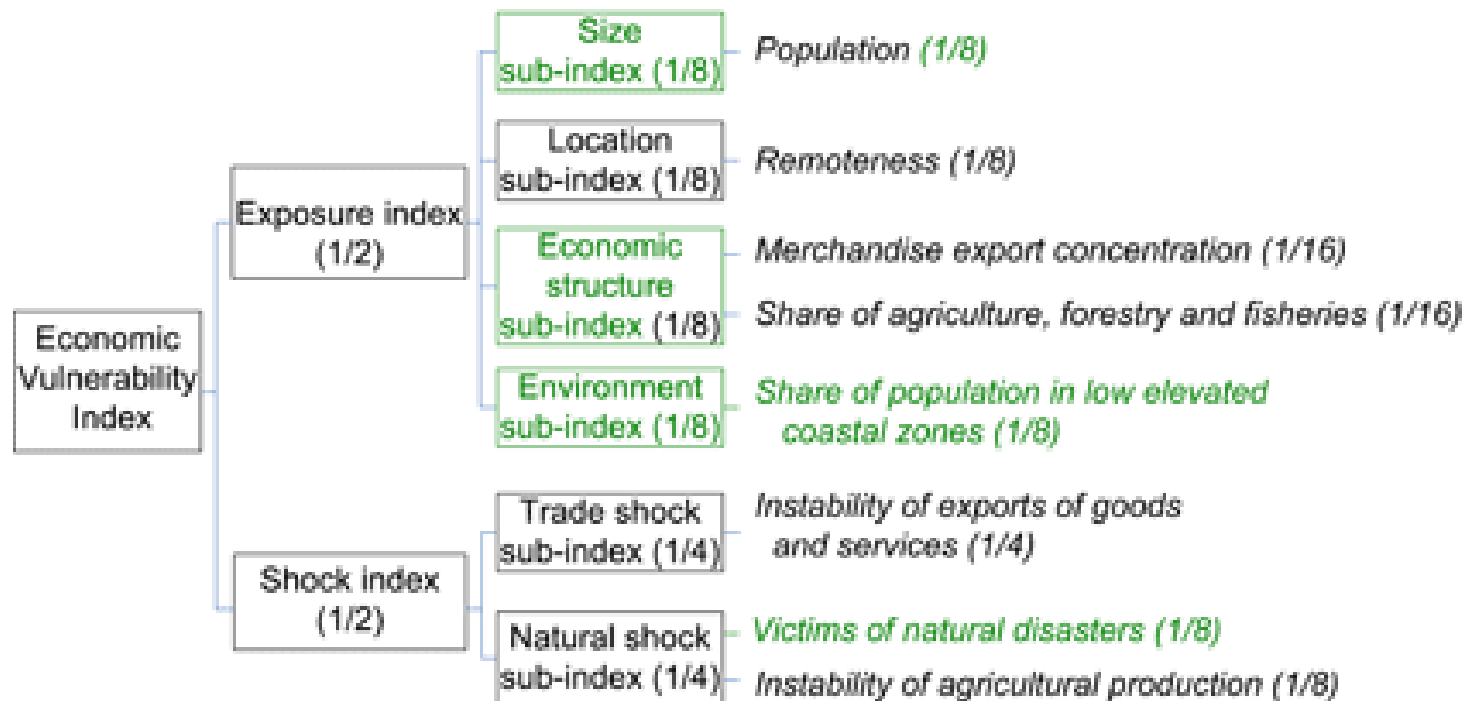
Remark: Based on the figure, the EVI score of Lao PDR is already reached 86% of the graduation threshold.

Source: UN-CDP

# EVI criterion and Priority Issues

- Based on Formula:

## Economic Vulnerability Index



Bold and green indicate change compared to the 2006/2009 EVI.  
Numbers in parenthesis indicate the weight in the overall EVI.

# EVI criterion and Priority Issues

- And the same formula – Lao PDR's EVI can be calculated:

- $I = [(V - \min) / (\max - \min)] * 100$  or  $II = [(\max - V) / \max - \min] * 100$

- $EVI = 1/2 (\text{Exposure Index} + \text{Shock Index})$

- + Exposure Index =  $1/4 [\text{Size } (\text{Pop} + \text{Remote})] + 1/8 [\text{Eco Structure } (\text{MEC} + \text{SAFF})] + 1/4 [\text{Environment } (\text{SPLECZ})]$

- + Lao PDR's Exposure Index =  $1/4 (42.5 + 64.4) + 1/8 (23.5 + 52) + 0 = \underline{36.2}$

- + Shock Index =  $1/2 [\text{Tr S } (\text{IoX})] + 1/4 [\text{Nat S } (\text{VND} + \text{IAP})]$

- + Lao PDR' Shock Index =  $1/2 (16.7) + 1/4 (92.2 - 25.9) = \underline{37.9}$

- Lao PDR's EVI =  $1/2 (36.2 + 37.9) = \underline{37.1}$

- EVI Threshold (2012) = 33

# **Potential Impacts from Phasing-out of LDC Special Measures**

# Perspective on Potential Impacts from Phasing-out

- There are about 90 special support measures to support the development efforts of LDCs including mostly on:
  - Trade preferential, and
  - Official development assistances (ODAs)

# Perspective on Trade Preferential Impacts

- Lao PDR is gradually heading to regional integration (AEC) as well as recently became full member of WTO, which has not much related to LDC status, perhaps just major impacts would only on some technical assistances.
- Even under effective integrated framework (EIF), technical assistances will continue to be provided for some times after graduation.
- For the mentioned reasons, there would not have much negative impacts on Lao PDR regarding trade preferential after graduation.



# Perspective on ODA Impacts

- There are only few bilateral and multilateral donors determine LDC status as criteria for ODA provision.
- While, major donors of Lao PDR are bilateral, which mostly focuses on providing aids for poverty reduction and MDG criteria as well as private sector development and climate change related assistance is also potential aids sources and not directly reflect LDC criteria.
- For international financial institutes, graduation might consider as advantages as they consider level of GNI per capita and debt distress to determine flows of aids, particularly in the form of loans.
- Therefore, graduation should be realized as opportunity to demonstrate the effectiveness of government policy and economic performance that will encourage a wider range of sources of development finance to be interested in supporting Lao PDR.

# **Conclusion and Policy Implications**

# Conclusion

- Based on socioeconomic development trend of the country, there is a possibility sign for Lao PDR to not only meet the graduation criteria but to be graduated by 2020/2021.
  - Only the GNI per capita criterion would also possible at twice level of the graduation threshold
- However, at current economic uncertainty as well as climate change phenomena – focusing only economic criteria (GNI per capita) alone is not certainly guarantee the graduation goal.

# Conclusion (cont')

- As it seems that Lao PDR has already been focusing on achieving two of three criteria. Though the option seems to be achieving criteria one (GNI) and two (HAI) due to its trends as well as possibility. However, as already observed other criteria's trends, hence, either focusing on other types of mix criteria such as criteria one (GNI) and three (EVI) and/or criteria two (HAI) and three (EVI) is also possible with comprehensive policy and concrete actions.

# Policy Implications

- Prepare for smooth LDC graduation:
  - In order to achieve criterion of GNI per capita – the country should continue its growth rate at not less than 7.5% per annum in average with equitable manner, and ensure that income from particularly resource-based sector contributing to human development of the country
  - To ensure the achievement of HAI – targeting the social improvement rate at double current rate is needed, particularly, priority should be given to improve education sector and more specifically on improvement of Gross Secondary School Enrolment rate is critically significant to improve the HAI.

# Policy Implications (cont')

- Prepare for smooth LDC graduation (cont'):
  - However, the country should not overlook the EVI criterion, particularly reducing structural vulnerability by gradually strengthen social and economic structures which directly related to human capital (HAI), and potentially improve capability of income earning (GNI). In order to improve the EVI criterion, the following variables are needed to be prioritized:
    - Exposure sub-index: though land-locked situation reduces the score of this index, but Lao PDR is surrounded by dynamic economies, as well as not so far to international seaports. Therefore, improvement of both physical (hard) and soft infrastructures is critically important for the country's development. Nevertheless, substantially improvement of commercialization in primary production (agriculture, forestry, fishery, etc.) is also important as to reduce country's structural vulnerability and improve this exposure sub-index.

# Policy Implications (cont')

- Prepare for smooth LDC graduation (cont'):
  - Shock sub-index: though trade shock score seems to improve significantly taking into account the proximity to main trade partners (though land-locked situation). However, the natural shock (particularly victims of natural disaster's score) seems to contribute more vulnerability to this sub-index. Therefore, prioritizing on improvement of natural disaster warning, protection as well as relieve system is significantly important for Lao PDR not only targeting to improve this sub-index score, but as means toward building up resilience nation.

# Policy Implications (cont')

- Prepare for post-LDC:
  - In order to ensure smooth transition and sustainable graduation of the country, transition strategy needed to be prepared in order to ensure avoidance adverse impacts to socioeconomic development of the country from phasing-out of special support measures of losing LDC status, and also formulating appropriate mechanism to ensure of utilizing of opportunities from the improvement of country's development.
  - Since, Lao PDR already has national 2020 Strategy, which is the key strategic document supporting LDC graduation vision of the country; reviewing and updating the strategy and taking into account all related process of LDC graduation of UN-CDP and DESA in order to ensure the consistence of national development agenda in line with international principle is significantly important.



# Policy Implications (cont')

- Prepare for post-LDC (cont'):
  - Ensure that all sectors and all levels understand clearly on LDC graduation process and other related issues including phasing-out issues. Particularly, those related sectors which potentially be affected by phasing-out of special support measures in order to formulate new sector strategy to handle with the circumstances.
  - Utilization of existing sound Round Table and Implementation Meeting (RTIM) process as key mechanism as effectively, particularly using it as main dialogue with development partners and negotiation in order to ensure the sustainable of financing sources for related sector development as well as socioeconomic development of the country as the whole.

**Thank you for your attention!?**

## References:

- Committee for Development Policy (CDP) (2008), *Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measure*, United Nations, 2008
- CDP (2003), *Local Development and Global Issues, Report of the Committee for Development Policy on the Fifth Session 7 – 11 April 2003*, United Nations, 2003
- Debapriya Bhattacharya (2009), *Bangladesh's Graduation from LDC Status – Timeline and Policy Implications*, UNCTAD, 2009
- Government of Lao PDR (GOL) (2001), *2020 Strategy*, Ministry of Planning and Investment (MPI), 2001
- GOL (2011), *7th National Socio-Economic Development Plan (NSED) (2011-2015)*, MPI, 2011
- GOL (2006), *6th National Socio-Economic Development Plan (NSED) (2011-2015)*, MPI, 2006
- GOL (2001), *5th National Socio-Economic Development Plan (NSED) (2011-2015)*, MPI, 2001
- GOL/UNDP (2012), *The Lao Development Journey toward Graduation from LDC Status* pamphlet, NHDR, 2012
- Guillaumont P. (2011), *The Concept of Structural Economic Vulnerability and its Relevance for the Identification of the Least Developed Countries and other Purposes (Nature, Measurement and Evolution)*, FERDI Policy Brief, FERDI, May 2011
- Guillaumont P. and Simonet C. (2011), *Designing and Index of Physical Vulnerability to Climate Change*, FERDI Policy Brief, FERDI, Mar 2011
- National Economic Research Institute (NERI) (2012), *Macroeconomic in 2011 and the Outlook 2012*, Annual Macroeconomic Report, NERI, June 2012
- NERI (2012), *Briefing Note on LDC Graduation Strategy Workshop in Lao PDR*, National Human Development Report Project, May 2012
- Oraboune S. (2010), *Government's Vision to Graduate from the list of Least Developed Country (LDC)*, Investment Magazine, MPI, January 2010, page 28-33
- Oraboune S. (2012), *Enhancing Lao PDR's Development toward Achieving 2020 Vision*, Lao Research Network Journal, National Economic Research Institute (NERI), June 2012
- United Nations Conference on Trade and Development (UNCTAD) (2010), *The Least Developed Countries Report 2010 – Toward A New International Development Architecture for LDCs*, United Nations, 2010
- United Nations Conference on Trade and Development (UNCTAD) (2009), *The Least Developed Countries Report 2009 – The State and Development Governance*, United Nations, 2010
- United Nations Conference on Trade and Development (UNCTAD) (2006), *The Least Developed Countries Report 2006 – Developing Productive Capacities*, United Nations, 2006
- United Nations ESCAP (2007), *Challenges of the Least Developed Countries: Governance and Trade, Least Developed Countries Series No. 8*, Economic and Social Commission for Asia and Pacific, UNESCAP, New York, 2007
- United Nations (2011), *Programme of Action for the Least Developed Countries for the Decade 2011-2020*, Fourth United Nations Conference on the Least Developed Countries, Istanbul, 9-13 May 2011
- Zhou Jin (2013), *LDC Graduation Criteria - Calculations Behind*, Poverty Reduction Unit, UNDP Lao PDR, 2013