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Lao PDR's Development toward LDC Graduation by 2020

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¹ The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of UNESCAP.

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Contents

Contents	1
1. Introduction	2
2. Overviews of socioeconomic development trend of Lao PDR.....	2
2.1. Macroeconomic Policy, Economic Growth and its Contributions	3
3. Lao PDR and its LDC Graduation Process.....	7
3.1. Review Lao PDR’s 2020 Vision and Overall Targets of 2020 Strategy.....	7
3.2. LDC Graduation Criteria and Evolution.....	8
3.3. Progress of Lao PDR on LDC Graduation and Scenario Options	19
4. Costs and Benefits Analysis of Phasing-Out LDC Status	24
5. Conclusion and Recommendations	25
References.....	27

1. Introduction

Lao People's Democratic Republic (Lao PDR) is currently among the 48 countries in the world that have been classified by the United Nations (UN) as least developed countries (LDCs). According to the UN, LDCs refer to low income countries that suffer from severe structural handicaps, including weak human assets and high economic vulnerability. In addition, geographical disadvantages including smallness, remoteness, landlocked, etc., have also been taken into account into the LDC criteria. Besides population condition, there are three main criteria to determine whether a country is to be included into LDC list, including gross national income (GNI) per capita, human asset index (HAI), and economic vulnerability index (EVI). These criteria are also applied for LDC graduation with certain thresholds set by the UN.

Lao PDR is the only landlocked country in Southeast Asian region. It is located in the center of Indochina peninsula and surrounded by five countries, namely China in the North; Myanmar in Northwest; Thailand on the West; Viet Nam on the East and Cambodia on the South. It has a population of about 6.2 million people (2012). Due to the admitted socio-economic structural vulnerability and as an attempt to develop the country, to improve social life and scale up living standards of Lao people, the government of Lao PDR announced its "2020 vision of graduating the country from LDC group list" in 1996.

Yet, not until 2000s, when 2020 Strategy was formulated, the LDC graduation process has substantially carried on. The 2020 Strategy has become the key strategic document for all sectors and all levels of the government to follow up and translate into each sector and each province accordingly. However, based on the evaluation of over a decade of implementing the Strategy, constraints and obstacles remain widespread. They include understanding LDC graduation criteria, conditions and process, which is still limited among relevant policymakers and government officers, particularly at sectoral and provincial levels. Consequently, sectoral and provincial plans often seem not in line with the Strategy.

Furthermore, some concerns on disadvantages from losing LDC status have been raised, given that Lao PDR still relies heavily on external development funds including official development assistance (ODA), trade preferential schemes, etc. Many argue that graduating from LDC status would have negative impacts on socio-economic development of the country as phasing-out LDC status would possibly reduce access to aid and other assistances from the international community, whereas Lao PDR needs for external aid is expected to continue in decades to come.

This paper aims to discuss issues related to LDC graduation of Lao PDR, particularly focusing on the vision of graduating the country from LDC status by 2020. The paper particularly discusses the criteria set by UN Committee for Development Policy (CDP) for LDC graduation, then it presents where Lao PDR is standing in order to capture the gap for reaching the graduation threshold. The paper provides policy recommendations in order to support the LDC graduation process in Lao PDR in line with the Istanbul Plan of Action (IPoA). Finally, the paper discusses the issues related to phasing-out special measures due to graduating out of LDC status. In order to capture the issues, the paper is divided into three main sections. After introduction, the paper starts with analyzing socioeconomic development of the country and presenting trends and prospects in section one. Section two discusses LDC graduation criteria, process, condition and other related issues with special focusing on Lao PDR's circumstance. Section three discusses benefits and perceived costs of graduating out of LDC status. The paper ends with conclusion and policy recommendations.

2. Overviews of socioeconomic development in Lao PDR: Trends and prospects

Since the introduction of 2020 strategy in early 2000s, Lao PDR has already completed implementing two national socio-economic development plans (NSED), the 5th NSED (2001-2005) and the 6th NSED (2006-

2010), and currently in the process of implementing the 7th NSEDP (2011-2015). Economic growth of Lao PDR shows positive sign of an average about 7.2 % in the period from 2001 to 2010 with even stronger growth during the period from 2006 to 2010 with an average of about 7.9 %. Thanks to macroeconomic stabilization, growth has continued recently with annual rate of 8.1 % and 8.3 % in 2011 and 2012 respectively. The continuity of strong growth has significantly contributed to poverty reduction in the country as poverty rate has declined by almost three quarters from about 46 % in 1992 to about 16 % in 2012.² In addition to economic growth, Lao PDR's government has also addressed social development as other key issue for socioeconomic development of the country.

However, with this strong growth performance, which significantly contributed to socio-economic development of Lao PDR, signs of vulnerability remain. These vulnerabilities would require further adjustment macroeconomic policy appropriately in the future in order to ensure its stabilization of economic growth and improve social related issues. This section discusses issues related to current performance of socio-economic development of Lao PDR, where it also raises some critical issues regarding particularly growth and its trend in near future.

2.1. Macroeconomic Policy, Economic Growth and its Contributions

To support the 2020 Strategy of graduating the country from LDC status, together with overall goal of achieving the Millennium Development Goals (MDGs), economic growth has still been stated as a significant goal for socioeconomic development of Lao PDR.³ In the past decade, economic growth of Lao PDR showed strong achievement at over 7 % in average. Despite the world economic slowdown in 2012, Lao PDR's economy has continued to grow at even stronger pace, averaging growth of 8.2 % per annum in the past two years (figure 1). Gross Domestic Product (GDP) at current prices increased from 62,026 billion Kip (USD7.75 billion) to 70,342 billion Kip (USD8.79 billion).⁴ The continuous and strong growth performance has significantly contributed to the increase of GDP per capita in Lao PDR. As shown in figure 2, the average GDP per capita reached USD 1,396 in 2012 which increased by 11.7 % from last year or over 400 % from past decade.

With current economic performance, main driver of growth includes the sharp increase of investment, particularly foreign direct investment (FDI), which increased three fold in the past decade comparing to early 2000s. The average FDI inflow was about 2 million US dollar per year in the five years from 2006 to 2010. A great improvement when compared to previous the period from 2001 to 2005, which registered about less than 0.4 million US dollars per year on average. As shown in figure 3, FDI inflows has dramatically increased since 2006 and reached its peak in 2009 during the implementation of 6th NSEDP. The FDI has continued with positive sign in the first two years of 7th NSEDP, where in terms of investment value, mining is still placed at the top of most concentrated sector of FDI, following by electricity, agriculture, service, manufacturing and handicraft, and others. With the cumulated amount from 1989 and 2012, total FDI in mining sector accounted for about 27%; following by electricity at 25%, agriculture at 12 %, manufacturing and handicraft at 8%, etc., (see Figure 4).

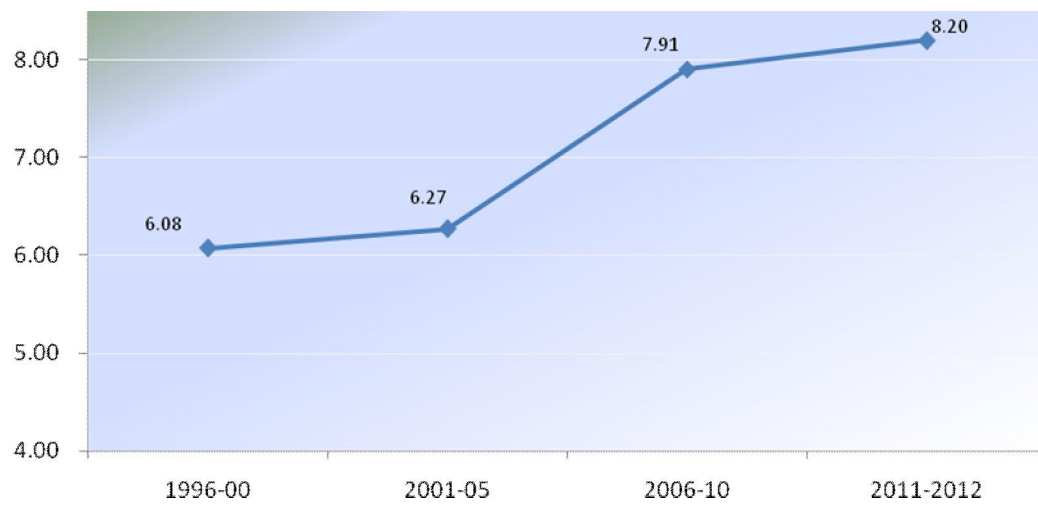
A sound management of macroeconomic policy has also been considered as significant factor for growth and development in the past decades. With appropriate mechanism, Lao PDR has been able to stabilize the inflation rate within single digit and even lower than growth rate of the country in the past decade. In addition, Bank of the Lao PDR has also able to stabilize exchange rate within the scope of plus and minus 5%. With that strong growth of the country considered as significant engine for poverty reduction of the country. Figure 5, shows the inflation rate of Lao PDR and growth rate from 2008 to 2012.

² Based on Draft Mid-term reviews of 7th NSEDP.

³ Overall objectives of 7th NSEDP includes: 1) economic growth of not less than 8% per annum, and 2) achieving MDGs.

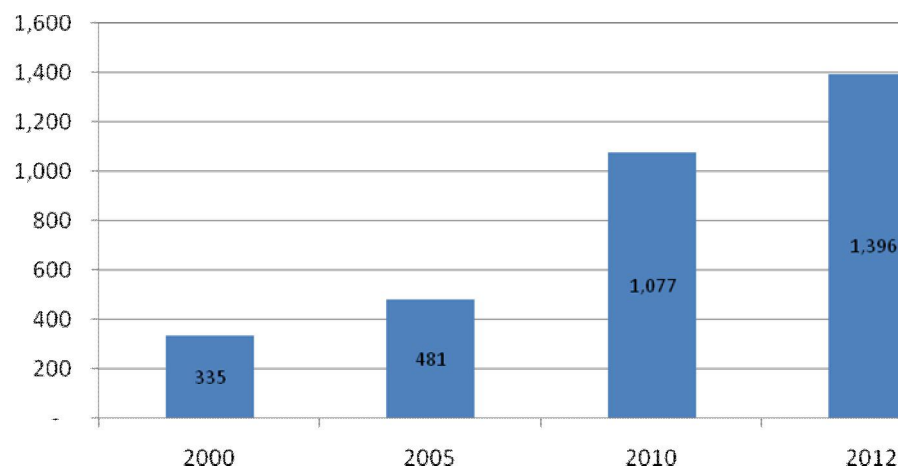
⁴ Average Exchange Rate of Lao Kip and US Dollar is about 8,000 Kip/1USD

Figure 1: Average Growth of Lao PDR (%)



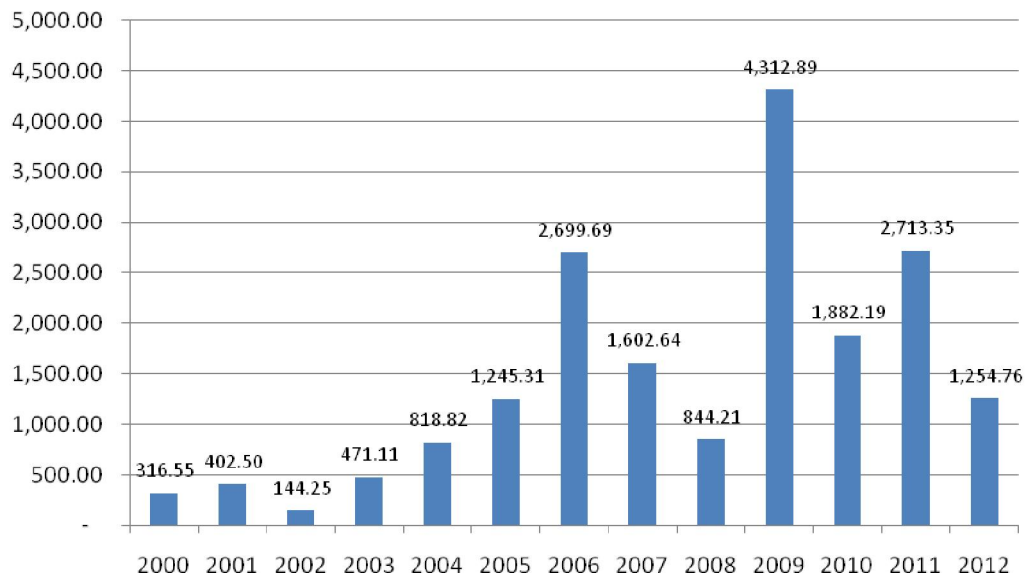
Source: Lao Statistic Bureau (LSB), National Economic Research Institute (NERI), MPI

Figure 2: GDP Per capita of Lao PDR (USD)



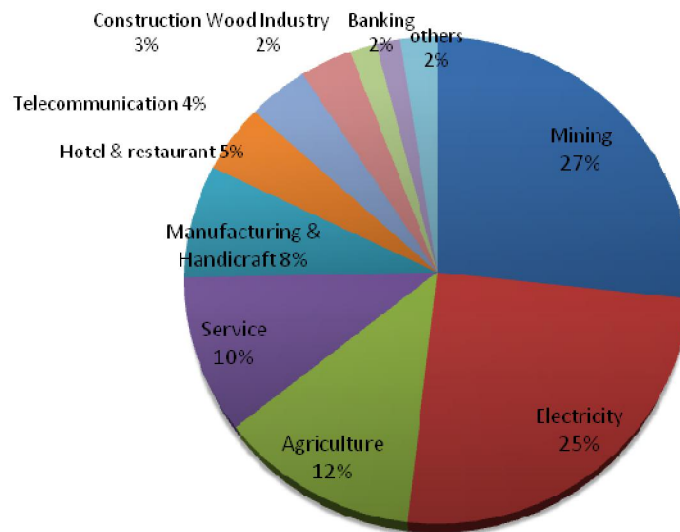
Source: LSB, NERI, MPI

Figure 3: Value of Foreign Direct Investment (FDI) Approval in Lao PDR (Million USD)



Source: Investment Promotion Department (IPD), MPI

Figure 4: Percentage of FDI by Sector in Lao PDR (1989-2012)



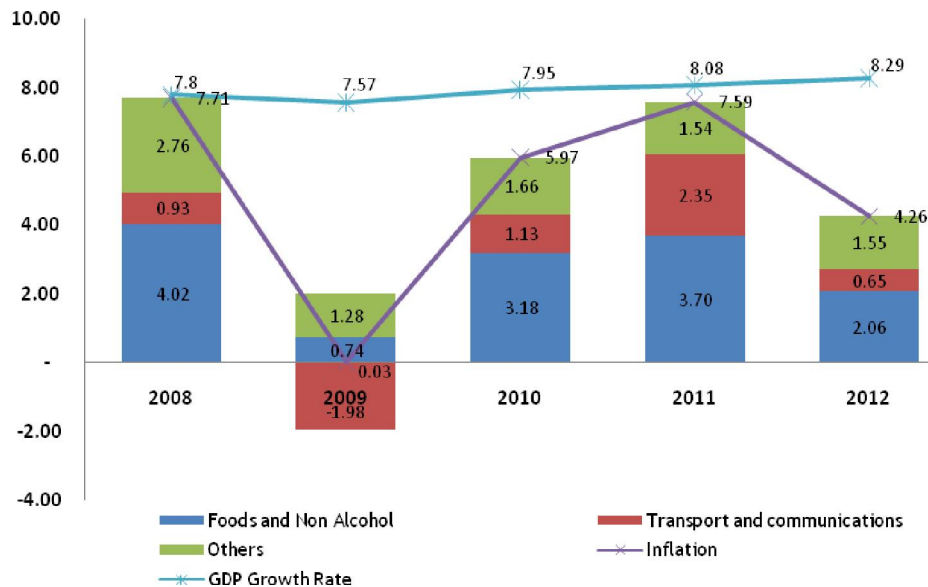
Source: Investment Promotion Department (IPD), MPI

With previous economic performance and sound macroeconomic management, socioeconomic development in Lao PDR was able to improve significantly. Poverty rate has dramatically reduced from about 46% in 1990s to

about 16%⁵ in 2012 (Figure 6). Although some MDGs targets are still at the critical stage of off-track, many of them showed significant improvements previously. Though off-track MDGs⁶ remain challenges for Lao social development, but with strong commitment and efforts of Lao PDR's related sectors or Lao government in general and with generous supports from development partners, the country is optimistic that it would be able to achieve the goals by 2015.

Positive progress of socioeconomic development of Lao PDR in the past decades has been significant a factor for Lao PDR to formulate the vision of LDC graduation. However, ensuring the right development direction toward LDC graduation requires appropriate policy, and understanding LDC-related issues including criteria, dimension and indicators, and also process of LDC graduation as well as monitoring tools necessary to help smooth the path toward LDC graduation of the country. With a positive macroeconomic performance, the question is whether that performance has prepared the country toward LDC graduation? These related issues are discussed in next section of this paper.

Figure 5: GDP Growth Rate and Inflation Rate in Lao PDR (2008-2012)

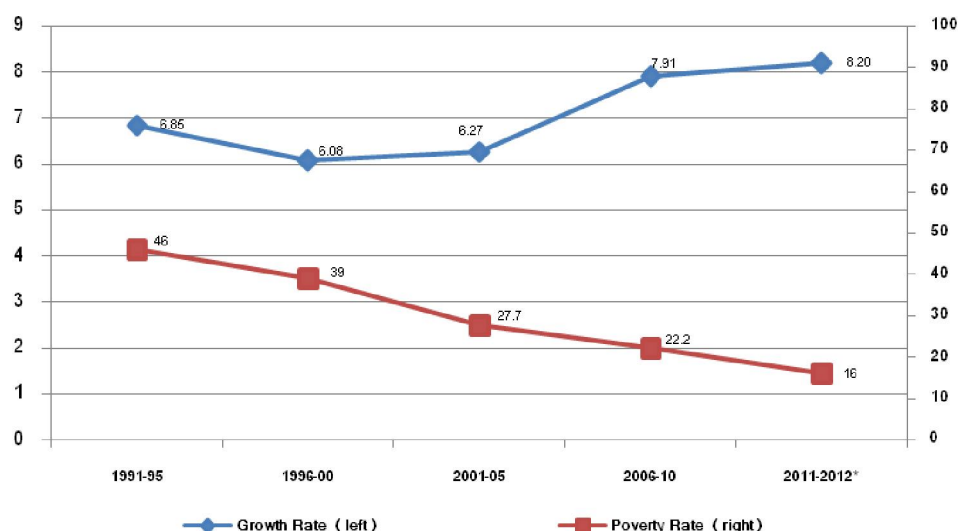


Source: LSB and NERI

⁵ Estimated figure, based on the draft mid-term review of 7th NSEDP.

⁶ Millennium Development Goals (MDGs) are significant development goals of 7th national socioeconomic development plan (7th NSEDP) of the country. Beside the global 8 goals, reducing impacts of UXO has been included as additional MDG for Lao PDR to achieve.

Figure 6: GDP Growth Rate and Poverty Rate in Lao PDR (1991-2012)



* Estimate

Source: LSB and NERI.

3. Lao PDR and its LDC Graduation Process

To understand clearly the process of LDC graduation and to capture whether the development of Lao PDR is in line with that objective, this section reviews 2020 Strategy of Lao PDR, which had been drafted in 2001, and reviews LDC-related criteria including graduation threshold and the evolution of the threshold over time, particularly based on the change of criteria as well as the triennial review of the threshold. This section also reviews country performance towards achieving the graduation thresholds. Finally, the section discusses the likelihood of Lao PDR graduation by analyzing economic performances and analyzing scenarios toward LDC graduation of the country.

3.1. Review Lao PDR's 2020 Vision and Overall Targets of 2020 Strategy

The national vision of LDC graduation toward 2020 of Lao PDR first appeared in 6th LPRP⁷ Congress in 1996: “...develop the country toward leaving out from LDC status, reaching socio-economic development status that significantly higher than present level: agriculture and industry sectors have been develop substantially toward industrialization and modernization, living standard of Lao people lift up; education and health are universal accessible, gradually integrated to regional and global integration...”. To achieve the vision, several steps had been identified by Lao PDR's government, starting from formulating related strategic documents including the 2020 Strategy, the National Strategy on Building up Country's Industrial and Modernization Factors toward 2020, the National Strategy on Turning the Country from Land-Locked Situation to a Country of Land-Linked in the Sub-region; National Growth and Poverty Eradication Strategy, etc. The first step was in line with the 5th National Socioeconomic Development Plan (5th NSEDP – 2001-2005), followed by the 6th NSEDP (2006-2010) as second step; and the third step is the combined 7th and 8th NSEDP (2011-2020). The overall development targets toward 2020 have been projected as follows:

⁷ Lao People Revolutionary Party

- Gross Domestic Product (GDP) increased 5 times of 1997 level with the value of over US\$ 7 billion, with average GDP growth rate at 7-7.5% per annum;
- By 2020, the GDP per capita reach US\$ 870;
- Agriculture sector growth rate at 4-5% annually in average, Industry Growth at 10-12% and Service sector at 10-11% annually in average;
- Average Public Investment Rate at 10-12% of GDP;
- Total Investment accounted for about 20-25% of GDP; and
- Total Investment up to 2020 is about US\$ 28-30 billion.

An important question is: Given the mentioned targets of socioeconomic development of the country, would it be possible for Lao PDR to be able to graduate the country from LDC status by 2020? In fact, at current stage, Lao PDR has already achieved the early macro targets, but why Lao PDR has still been classified as LDC status? In order to understand that, next sub-section discusses issues related to LDC and LDC graduation including criteria and conditions.

3.2. LDC Graduation Criteria and Evolution

✓ What Are Least Developed Countries (LDCs)?

The United Nations Committee for Development Policy (UN-CDP) defines least developed countries as countries with low income and affected by low social and economic structure, which constitute obstacles for the development of those countries. Three dimensions have been identified to classify a country as LDC: 1) income, using Gross National Income (GNI) per capita as a measurement; 2) human asset dimension, measured by the Human Asset Index (HAI), which is based on two sub-dimensions - health and education; and 3) economic vulnerability dimension measured by Economic Vulnerability Index (EVI), which is based on two sub-dimensions - exposure and structural vulnerability. These three dimensions have been translated into three criteria for determination of LDC including GNI per capita, HAI and EVI.

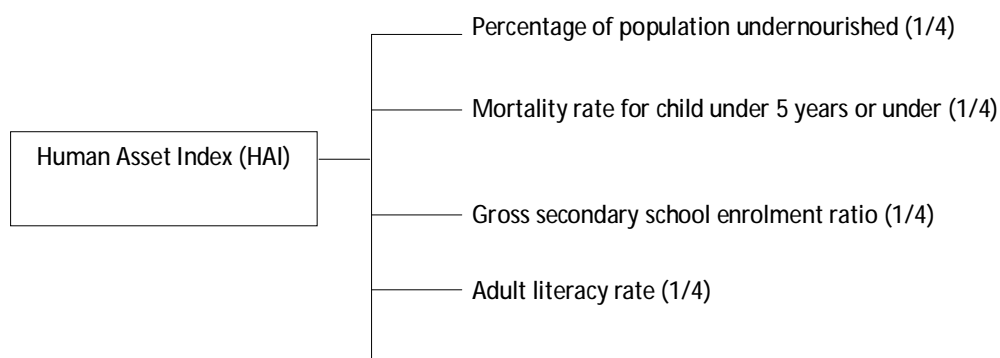
✓ How to Classify LDC?

Based on the three dimensions listed above, CDP uses GNI per capita, HAI and EVI as the main indicators to classify a country as LDC. The threshold of each criterion is determined by CDP based on triennial reviews as the average of the world socio-economic indicators changes over time.

- GNI per capita: this criteria is based on the World Bank (WB) classification of low income country, so that the GNI per capita threshold of LDC inclusion is the threshold for low income country classification of the WB. Based on 2012 reviews, current GNI per capita threshold for LDC inclusion is USD 992.

- HAI: it is an index indicating level of human capital development of a country. HAI is an index of four indicators of health and education dimensions. There are two indicators of health sector including indicator of undernourishment and child mortality rate. Education sector indicators included are school enrolment and adult literacy. The four indicators are equally weighted as shown in chart 1. Based on the CDP triennial review in 2012, the current HAI threshold is 60.

Chart 1: Structure of HAI



Source: CDP

- EVI: it is a composite index to measure vulnerability structural characteristics of a country that would make it prone to be affected by shocks (resilience). In this regard, EVI does not take into account vulnerabilities that result from economic policy choices made in the recent past and which are of a conjectural nature (UN DESA, 2012). EVI is an equally weighted composite index of two indices, exposure index and shock index.

+ Exposure index indicates exogenous structures of a country, which composes of four sub-indices including size measured by indicators of population; location measured by remoteness; economic structure measured by merchandise export concentration and share of agriculture, forestry and fisheries; and environment measured by share of population in low elevated coastal zones.

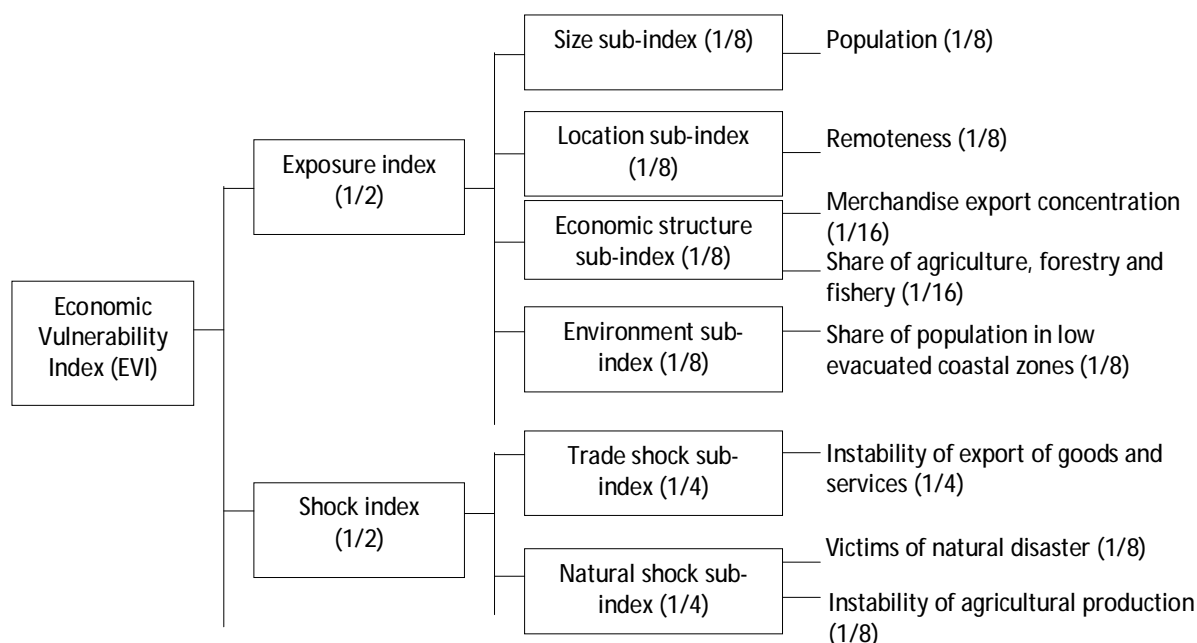
+ Shock index is a composite index of two sub-indices including trade shock measured by indicators of instability of exports of goods and services; and natural shock measured by victims of natural disasters and instability of agricultural production (Chart 2). Based on triennial review of CDP in 2012, current EVI threshold is 36.

Population size is both a component of the EVI and a condition that determines whether a country should be eligible for least developed status. In 1991, the CDP ruled that countries with a population exceeding 75 million should not be considered for inclusion in the list of least developed countries. The population cut-off does not apply to countries that were on the list when the parameter was introduced. Additionally, population size is not a criterion for graduation (UN DESA, 2012).

✓ **LDC Inclusion Process**

CDP conducts triennial reviews and determines threshold for LDC criteria and list out all countries eligible to be included in the list of LDC. After that the UN Department of Economic and Social Affairs - UN DESA make a report to government of related countries that has been recommended to be included in the list of LDC with the social and economic evaluation report attached. Related governments may issue an acceptance letter without any objection and CDP reports to Economic and Social Council (ECOSOC) to be approved in the UN General Assembly at later stage. However, if receiving any objection letter from related government regarding the assessment, UN DESA takes note and would not include that country into LDC list to report to ECOSOC (Chart 3).

Chart 2: EVI Structure and Indicators



Source: CDP

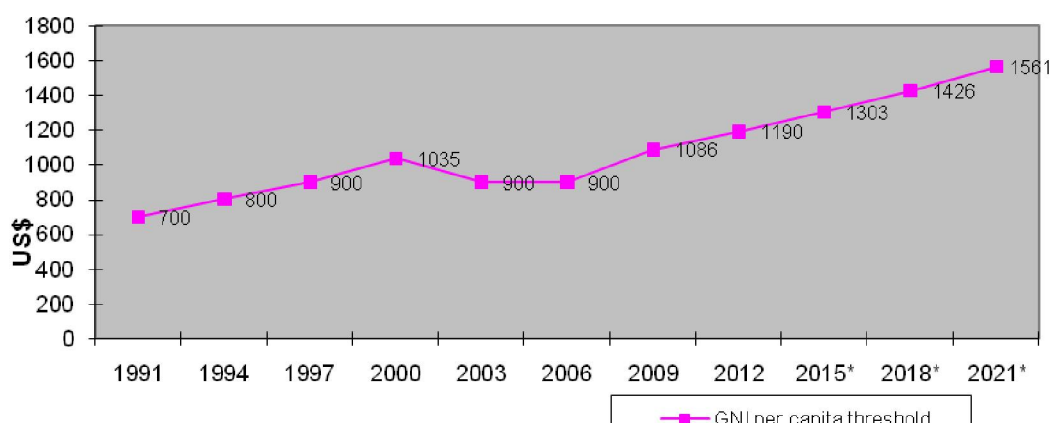
✓ LDC Graduation Criteria

CDP is also responsible for review and recommend eligible countries to be graduated from LDC status. The criteria for LDC graduation are also based on those three LDC criteria, GNI per capita, HAI, and EVI.

- **GNI per capita criteria**

Similarly as the LDC inclusion criteria, CDP uses WB classification of low income country threshold, where the graduation threshold is 20% higher than the inclusion threshold. Based on the 2012 review, the graduation threshold of GNI per capita criteria is USD 1,190. Figure 7, shows the change of GNI per capita threshold in 20 years from about US\$ 700 in 1991 to US\$ 1,190 in 2012. Looking at the trend of the increase of the threshold which is about 2-3% increase over time, by using atlas method we may estimate the possible threshold in near future as shown in Figure 7.

Figure 7: Trend of GNI per capita Threshold for Graduation (1991-2012)



*estimate;

Marks: 2000, 1997, 1994 and 1991 is GDP per capita; from 2003 onward is GNI per capita;

Source: CDP, UNCTAD

- **HAI criteria**

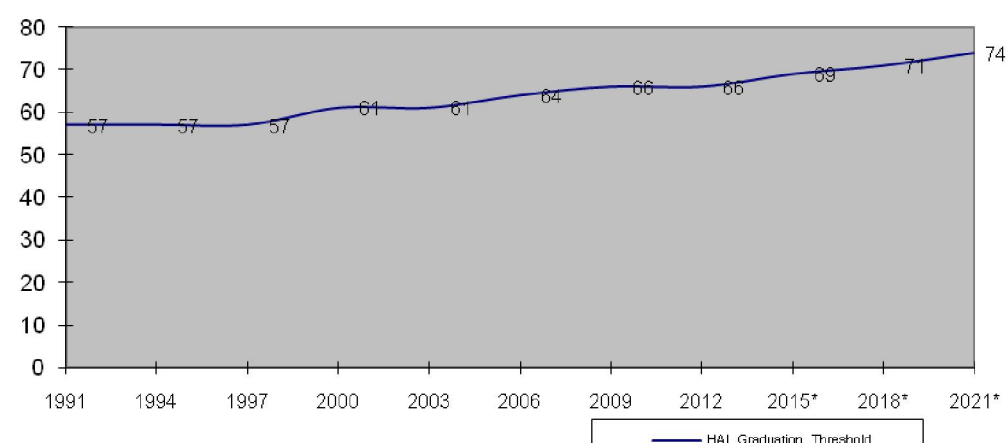
From 1991, the HAI threshold for LDC graduation increased from 57 to 66 in 2012, with an average increase of about 0.5-0.6% per year (Figure 8). Based on the estimation of UNCTAD as well as the actual change of the threshold over the past twenty years and by previous estimate of scholars, the future thresholds of HAI might be estimated as shown in Figure 8. Indicators used for HAI calculation are changing over time based on recommendation from CDP. Previously, there was only adult literacy rate indicators used for educational dimension to calculate this index, but since 1990, the health dimension was integrated into this index in order to measure human capital development. Chart 4 shows the changes of dimension and indicators for calculating HAI over time.

- **EVI Criteria**

Economic vulnerability index is a significant evaluation step of CDP expert group as this assessment shows social and economic stability status of a country. The threshold of EVI as the latest reviews of 2012 is 33. The criteria have also been revised from time to time and it is frequently compared to other criteria. During 1991-1997, the criteria used economic diversification index (EDI) to measure the third criterion of LDC graduation. However, since 2000 this criterion has been measured by EVI instead. Figure 9 shows the change of EVI in previous reviews.

The composition of indicators to calculate EVI has also changed over time. In 1992, the EVI was calculated based on two dimensions of economic structure and shocks, which was calculated using five indicators. In 2005, two more indicators had been included and since 2011 one more indicator was added resulting in the current eight indicators used for calculating EVI. Chart 5 shows the change of EVI dimension and indicators from time to time. This criterion has changed its indicators substantially and it is possible that it continue changing in the future. Therefore, estimation of its future threshold might be difficult to do.

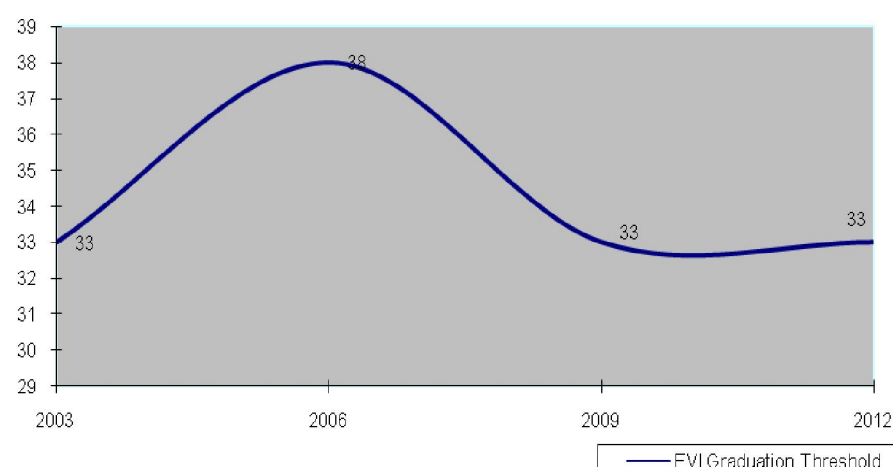
Figure 8: Trend of HAI (1991-2012)



Source: UNDP, UNCTAD.

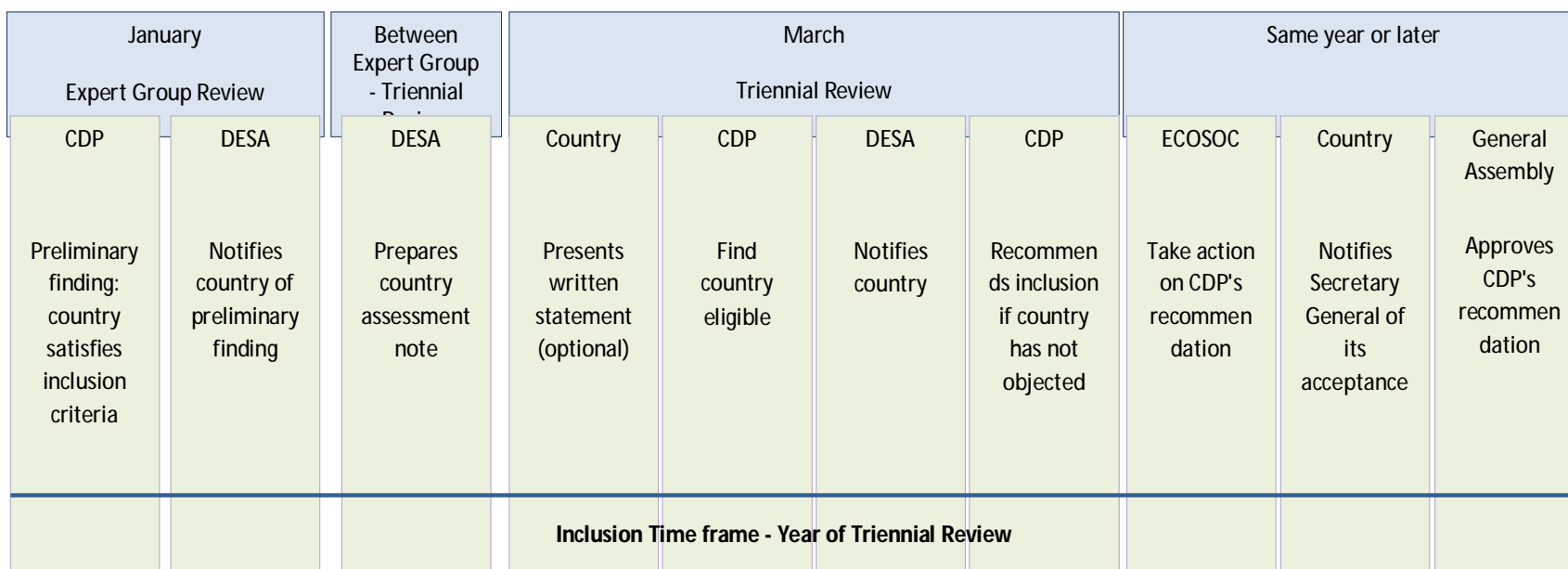
Note: Based on earlier estimation of Debapriya Bhattachanrya (2009), with the increasing trend of 4.5% per year of HAI, the HAI graduation threshold for 2012, 2015, 2018 and 2021 might be 69, 71, 74 and 77 respectively. However, due to the previous triennial review in 2012, HAI stayed at the same score of 66. We estimate the increase of HAI with the same score in near future and starting from 69 for next review and so on.

Figure 9: Trend of EVI value



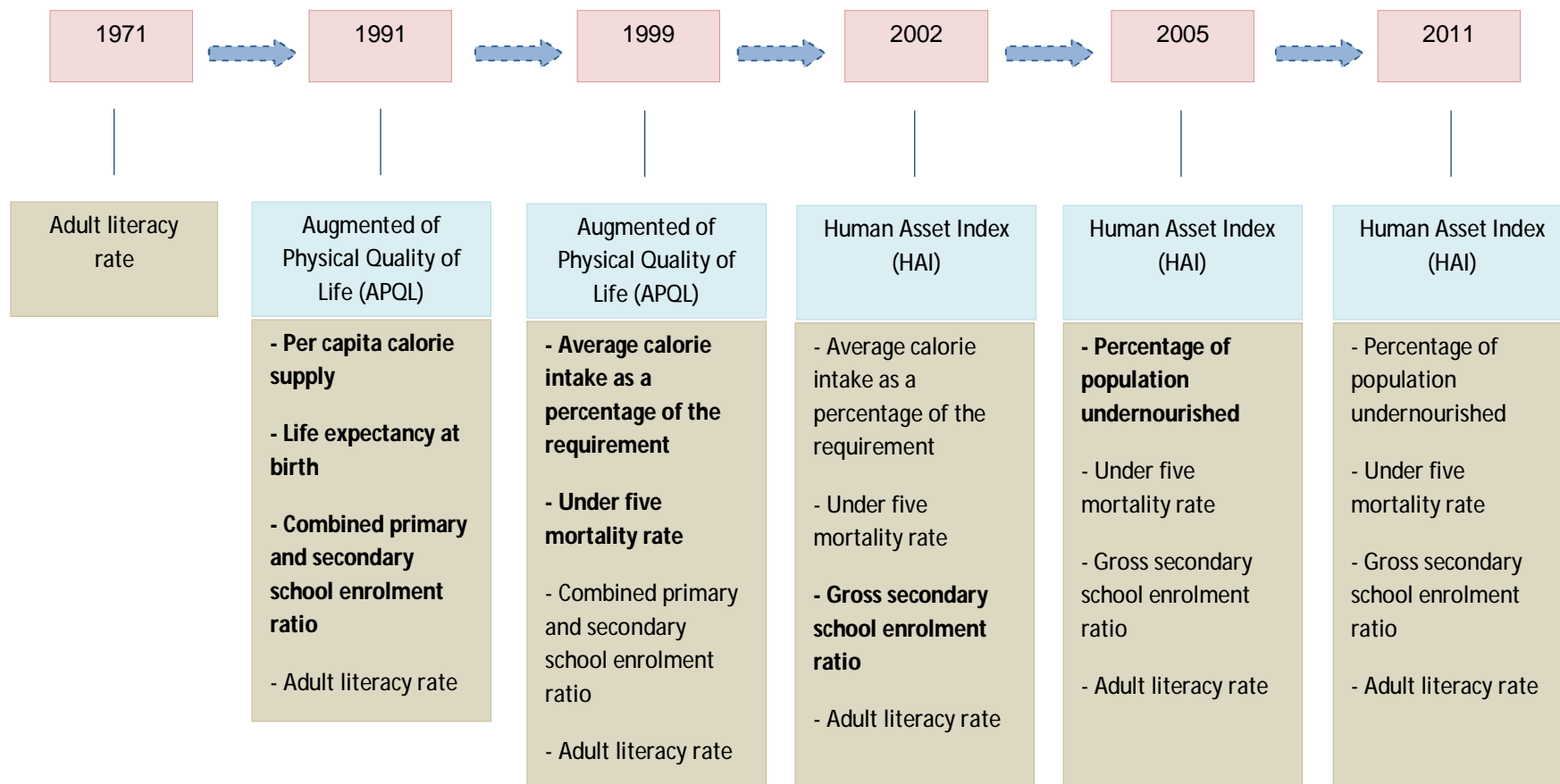
Source: UN-CDP

Chart 3: LDC Inclusion Process and Timeframe



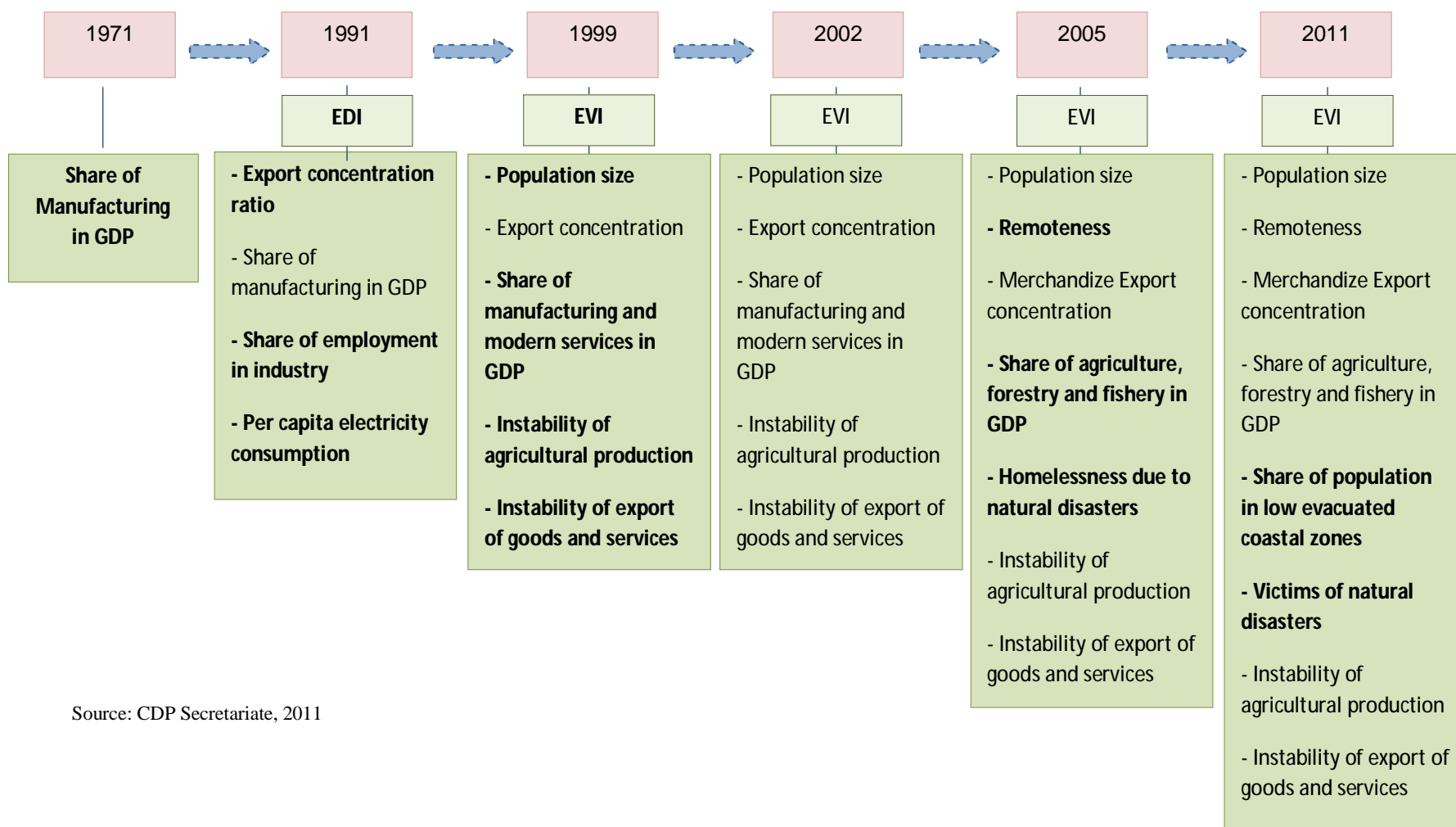
Source: LDC Handbook, CDP, ECOSOC, 2008

Chart 4: Dimension and Indicator Evolution of HAI (1971-2011)



Source: CDP Secretariat, 2011

Chart 5: EVI Dimension and Indicator Evolution (1971-2011)



Source: CDP Secretariate, 2011

✓ LDC Graduation Conditions

There are two ways to be eligible for LDC graduation as set by the CDP: 1) achieving two of the three criteria thresholds; or 2) the country's GNI double the level of GNI per capita threshold. For example, the review of 2006 found that Equatorial Guinea's GNI per capita reached US\$ 3,400, which was four times threshold. Though based on the other criteria Equatorial Guinea was not eligible for graduation, with such level of GNI per capita the country was recommended to be graduated from the LDC list.⁸

Nevertheless, a country to be classified for graduation a country must be found eligible for two consecutive triennial reviews. Cape Verde, for example, was firstly found eligible and was taken noted in 20 December 2004. In next triennial review, the country had continued to be eligible, and Cape Verde graduated from LDC status in 20 December 2007. The same occurred with the graduation of Botswana, which was first found eligible in 1991 and was approved to be graduated from LDC status in 1994, after two consecutive triennial reviews.

This rule is to avoid the risk of the country to have negative impacts from graduating and ensure the smooth graduation. Maldives, for example, was first found eligible for graduation in 2004 at the same year as Cape Verde, but the country was hit by the 2004 Tsunami, ECOSOC realized that the country was still at a risky situation, so that the time for graduation was extended until January 2011.⁹ In 2006, Samoa was also found eligible but ECOSOC conducted a review again before approved in January 2007. Three year later, in UN General Assembly on 17 December 2010, the country was approved to be graduated from LDC status.¹⁰ However, the triennial review in 2010 found that Samoa was still at risk to natural disasters in Pacific ocean and ECOSOC postponed the graduation of Samoa to 2014.

Since the first classification of LDC in 1971 up until now, there are only 4 countries have already been approved to graduate from LDC list: including Botswana in 1994, Cape Verde in 2007, Maldives in 2011 and Samoa which schedule to be out of the LDC list in 2014.

✓ LDC Graduation Detemination Process

A country to be eligible for graduation will have to be evaluated in three criteria from CDP. After the first found, principally, a country would need another three years before official approved. At the year of first finding, CDP will issue a report of triennial review and the UN DESA will notify the country that it was found eligible. At the same time, United Nations Conference on Trade and Development (UNCTAD) will conduct a vulnerability profile of the country to review economic and social situation of the country in comparison with CDP information. However, vulnerability profile is broader than EVI which was assessed, calculated and reported by CDP.

After the country found eligible for graduation received notification from DESA, it can comment to CDP review and report. If the in next triennial review the country is found again eligible, the ECOSEC will recommend to General Assembly and take note. In between, to ensure smooth graduation, the country must prepare LDC transition strategy with continue follow up by CDP. Also as the Resolution No. 59/209 as stated in the transition strategy, the country will continue to receive assistance and been follow up until fully graduated (Chart 6).

As observed, the graduation process has more steps than inclusion. It requires two consecutive eligible triennial reviews. For inclusion, a country could immediately be included after the review found it eligible and there were no objections from the country. However, for graduation, there is no requirement for comments from the eligible country. Table 1 compares LDC inclusion and graduation processes.

⁸ 8th CDP Meeting(20CE24 March 2006) and its report no. 13 (E/2006/33) reported to ECOSOC.

⁹ Resolution No. 60/33 of UN General Assembly,30 November 2005.

¹⁰ Resolution No. 62/97 of UN General Assembly, 17 December 2010.

Therefore, a country which aims to graduate requires formulating a concrete graduation strategy, particularly for a designed time need to take into account the threshold eligibility at least for 5 or 6 years before hand. A transition strategy for LDC graduation needs to be prepared to ensure smooth transition and sustainability of the graduation.

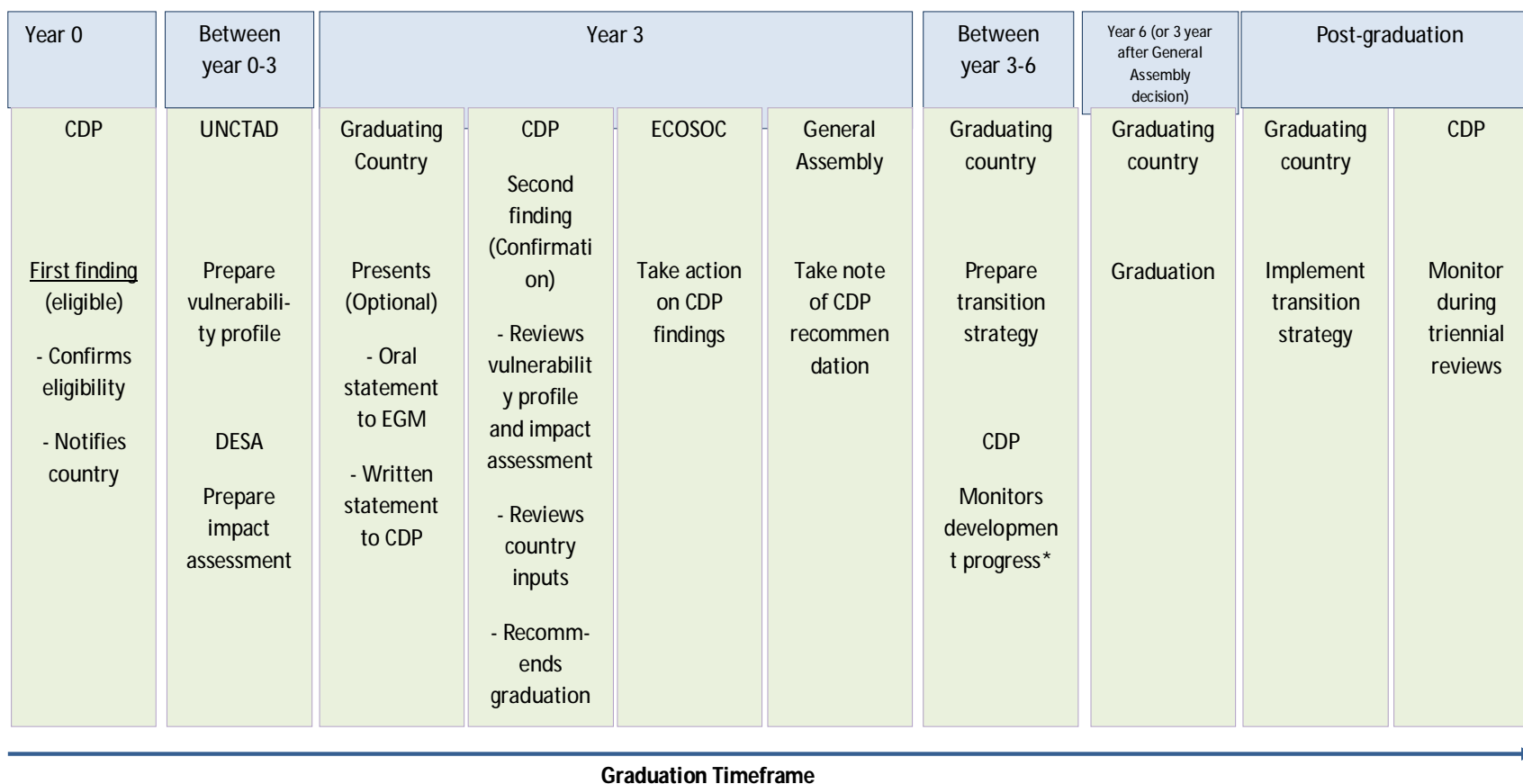
Table 1: Comparison between Inclusion and Graduation Criteria and Conditions

	Inclusion	Graduation
<u>Criteria:</u>		
Number of criteria to met	Three	Two*
Threshold of criteria	Established at each review	Higher than inclusion
Population threshold	Smaller than 75 million	Not relevant
Eligibility	Determine once	Determine twice (over consecutive reviews)
Timing	Effective immediately	Preparatory period (three years)
Approval by country	Required	Not required

* Except in case GNI per capita is at least twice the graduation threshold level

Source: CDP, ECOSOC

Chart 6: LDC Graduation Process



Source: CDP, ECOSOC, 2008

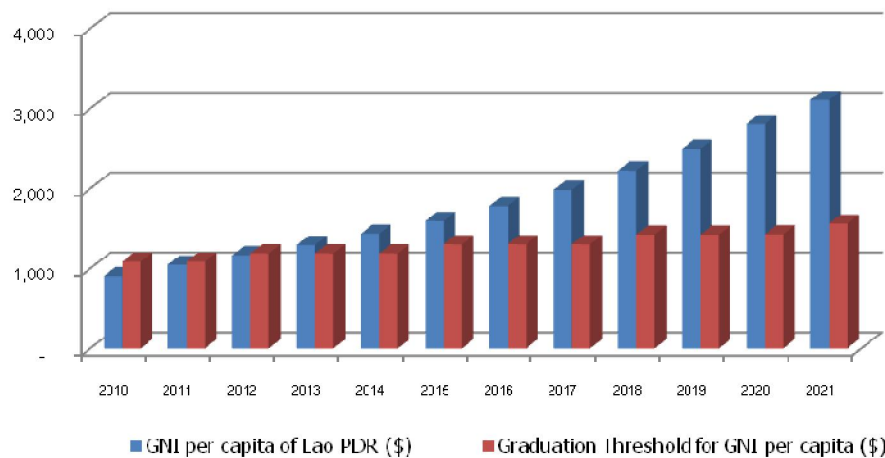
3.3. Progress of Lao PDR on LDC Graduation and Scenario Options

This sub-section assesses the progress in Lao PDR to achieve the threshold of each criterion of LDC graduation and discuss the conditions for Lao PDR to be able to reach the national goal of LDC graduation by 2020.

- GNI per capita of Lao PDR

At national level, there is still not GNI statistics available but taking into account outflow and inflow transfers, it was estimated that GNI is about 15% less than GDP, which is in line with the estimation of the WB. Based on the latest triennial review of CPD in 2012, GNI per capita criterion of Lao PDR already accounted for over 90% of the graduation threshold. It is about USD1,110¹¹ and the threshold is USD1,190 (Figure 10). By forecasting GNI growth with the assumption that the 7th NSEDP has been implemented successfully (with growth rate at 8% per year),¹² then we estimated that the first finding of eligible for Lao PDR on GNI criterion in 2013 or 2014. Also if this progress continues consecutively toward 2020, we find that the GNI per capita of Lao PDR could possibly double the threshold level. Based on that forecast, it seems possible for Lao PDR to be able to eligible for graduation by 2020 taking into account only the possibility to achieve double GNI per capita threshold criterion condition. However, this might not be a sustainable approach taking into account the current world socio-economic situation. Therefore, aiming to achieve other criteria might be a better choice for a country for graduating as well as to ensure smooth graduation and sustainable development of the country.

Figure 10: GNI per capita of Lao PDR and its trend in comparison with the Threshold toward 2020/21



Source: Using NERI model to forecast the growth and GNI of Lao PDR with continuous growth rate at 8% per year.

- HAI of Lao PDR

Based on the reviews of CDP over the past 10 years, the HAI of Lao PDR has progressively improved thanks to the social development of the country as well as the progress toward achieving the Millennium Development Goals (MDGs). In 2003, Lao PDR's HAI was 46.4, it has been increased to 54 and 62.3 in 2006 and 2009

¹¹ Based on WB data at World Development Indicator 2013, GNI per capita of Lao PDR in 2011 was about US\$ 1,110.

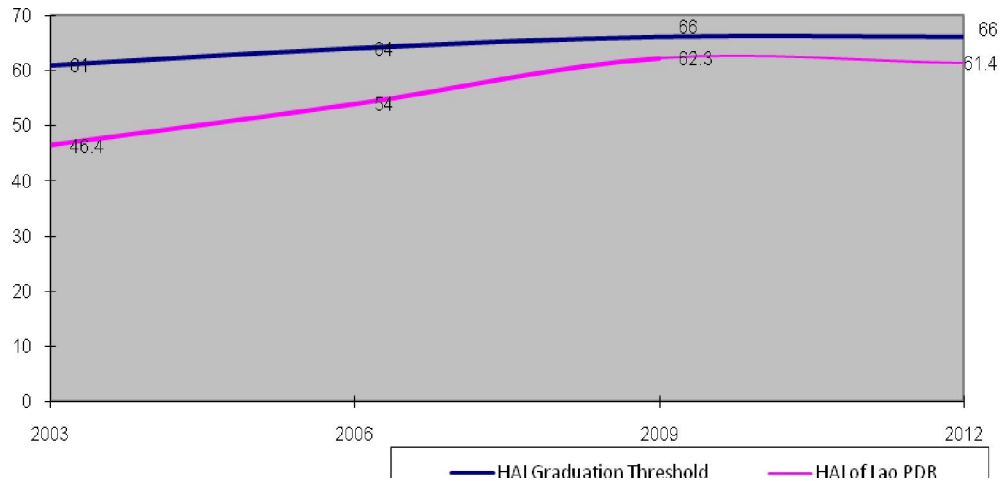
However, at UN DESA website, the GNI per capita for Lao PDR is only US\$ 913.3 which is only about 77% of the threshold.

¹² Though the actual development in previous year as base on mid-term reviews of the 7th NSEDP, the average growth rate was about 8.2%.

respectively, though it has slightly declined to 61.4 in 2012 review (Figure 11). HAI seems to be the criteria in which the country had made most progress, where in 2012 it already reached about 93% of the graduation threshold.

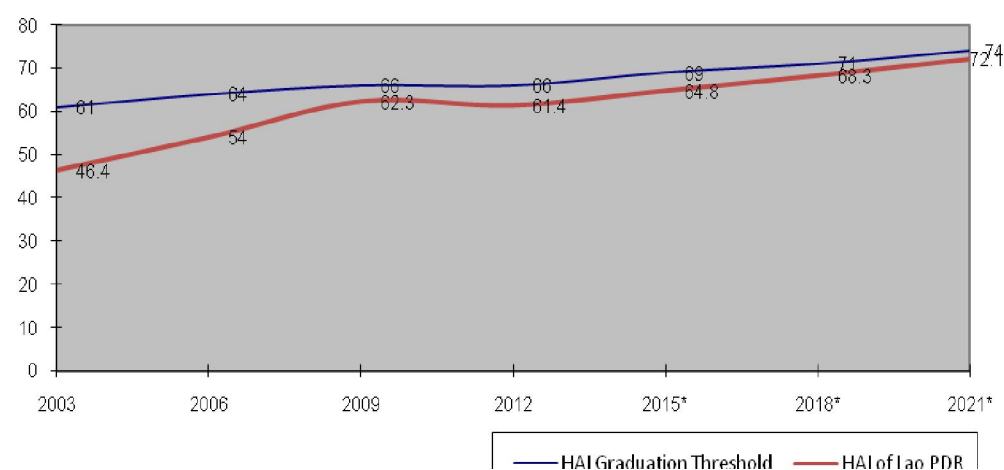
Previous estimates by of UNCTAD show that the rise of HAI might be about 4.5% per year, but based on the increase of Lao PDR's HAI of about 5.5% in average over the past 10 years, and assuming that Lao PDR keeps the same improving progress at 5.5% increase of its HAI, we estimate that Lao PDR could reach the threshold only after 2020 (Figure 12). However, if the country's development policy gives more priority on social development particularly on achieving MDGs with aiming at the average improvement at double the rate of the current progressive rate, the country could potentially achieve this HAI threshold in 2015 (Figure 13). Therefore, aiming at improvement of social sector, particularly focusing on those off-track MDGs and all MDGs as the whole with faster rate of improvement at double current rate would benefit for Lao PDR to be able to reach the threshold at earlier stage before enter into graduation process as discussed earlier.

Figure 11: HAI Threshold and Progress of Lao PDR



Source: UN-CDP, DESA

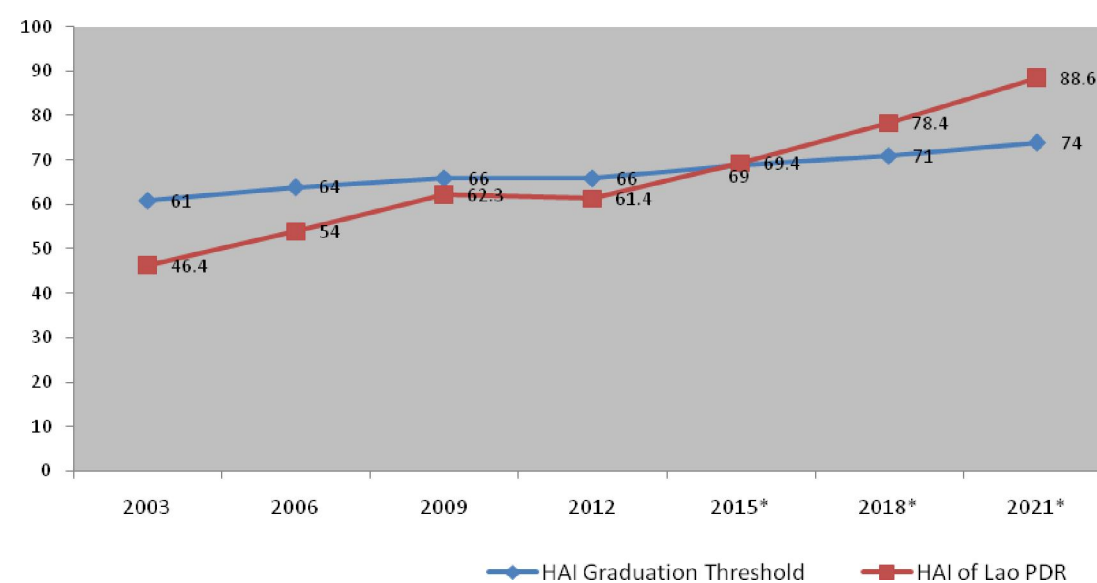
Figure 12: HAI of Lao PDR with Increase Rate at 5.5%(at current trend) and the Threshold



*estimated

Source: UN-CDP, DESA

Figure 13: Scenario of Lao PDR's HAI with Improvement Rate of Double Current Rate in Comparison with Threshold



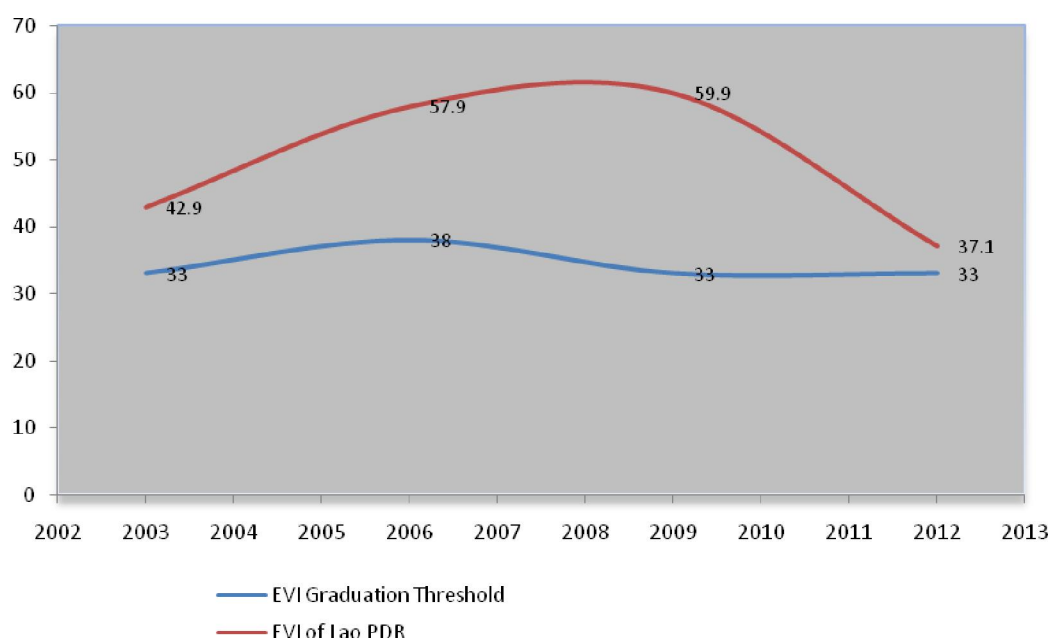
Source: UN-CDP, DESA

-EVI of Lao PDR

Looking at EVI evolution in early and mid-2000s, Lao PDR's EVI graduation criteria seemed to be a challenge to achieve as the gap between the actual figure of Lao PDR and the threshold was widening. However, due to the evolution of indicators of EVI over time as well as the interpretation of some specific dimension of measuring sub-indices of EVI, situation has change. Previously It was considered that remoteness, since Lao PDR is a land-locked country, was the biggest obstacle for Lao PDR to access to world market, and so the score of remoteness of the country was low. However, major trading partners of Lao PDR are just cross border to reach. Acknowledging that fact, an adjustment on the score on remoteness dimension improved the EVI of Lao PDR as the whole in 2012. Currently, as the latest triennial review of CDP in 2012, the EVI of Lao PDR is 37.1 or already reached about 86% of the threshold (Figure 14).

Since, the dimension and indicators of this index often change, it is complicated and difficult to estimate the change of this criterion threshold in the future. However, taking into account this criterion as a goal to achieve is also significant for the country toward improvement of country's resilience to shocks.

Figure 14: Lao PDR's EVI evolution in Comparison with Threshold



Source: CPD, UN, 2009

Based on previous review, Lao PDR has progressively improved in all criteria including GNI per capita (over 90% of threshold)¹³; HAI (93% of threshold); and EVI (89% of threshold). Since, Lao PDR aims to graduate the country from LDC status by 2020, and taking into account the condition of achieving two of the three criteria to be eligible and the fact that the criterion of EVI seems to be difficult to estimate, a possible strategy is to aim at achieving the two criteria of GNI per capita and HAI. Based on early estimates, GNI per capita level of

¹³Based on WB's World Development Indicator 2013, however, at UN DESA website, the GNI per capita for Lao PDR is only US\$ 913.3 which is only about 77% of the threshold

Lao PDR could potentially have been reached eligible level since 2013 or 2014. Given that the next triennial review of CDP will be in 2015, then the first finding of eligible for GNI per capita could be in 2015. As the implementation of NSEDPs is positively progressing, the next triennial review in 2018 could also consecutively be found eligible. As the forecast the trend will continue in 2020, this means that for the first criterion would have no difficult for Lao PDR in the condition of the NSEDP is on track.

Regarding the criterion of HAI, based on the normal improvement in the past decades of 5.5% per year, the first finding for eligibility could be sometime near 2020 and so the process of graduation would start beyond 2020. However, if the country speeded up the social development, particularly to ensure that those off-track MDGs could be improved and achieved as schedule at least at double improvement rate, the HAI of Lao PDR could firstly be found in 2015. Based on the forecast with the improvement it would consecutively be eligible in 2018 triennial review, and so in 2021.

Taking into account these two criteria. Both have potential to meet the threshold and condition together in 2015 and consecutively in 2018 and continue in 2021 of future triennial reviews. In principle, and conditional to good future performance on HAI, Lao PDR could be able to achieve two of three criteria and be eligible and officially approved for graduation from LDC list in General Assembly in 2021, or even earlier with specially session if the socioeconomic development has significantly proved positive progress continuously.

Moreover, even looking at GNI per capita alone shows another possible condition to determine eligible for graduation as discussed earlier. The progress of socioeconomic development of Lao PDR shows that the GNI per capita of Lao PDR could reach the threshold earlier than other criteria (in 2013 or 2014). With continuing of NSEDP implementation with positive progress, the GNI per capita could be double the threshold in 2019 or 2020. Taking into account the graduation condition of GNI per capita at double the threshold level, then in 2020 or even earlier, Lao PDR could be considered to be graduated. Table 2, identifies possible scenarios toward graduating from LDC status.

As the analysis above shows, Lao PDR could be graduated from LDC status by 2020 or at least 2021 based on both GNI per capita and HAI thresholds. Achieving two (first and second criteria) of three criteria is possible if speeding up the development of social sector with appropriate level is needed. Particularly, ensuring that those off-track MDGs could be solved and be achievable by 2015. Moreover, based on the condition of double threshold level of GNI per capita, it is also possible that the country graduate if positive progress of NSEDP implementation continues.

Although Lao PDR seems to have high potential for LDC graduation, keeping the positive pace of socioeconomic development of the country, particularly the implementation of NSEDP, is crucial to ensure the country could smoothly develop and fully be graduated from LDC status. However, investment requirement for NSEDP is huge and external funding sources are extremely significant. With the graduation, is there any effect of phasing out of special support measures which could potentially impacts on socioeconomic development of the country in the future as many agues and concerns? This will be discussed in next section.

Table 2: Macroeconomic Scenarios for LDC Graduation Eligibility for Lao PDR toward 2020

Scenarios	1	2	3
Description	2 out of 3 criteria (1 st and 2 nd criteria), 2 nd criterion improve at current rate of 5.5%	2 out of 3 criteria (1 st and 2 nd criteria), 2 nd criterion improve at double current rate	Twice GNI per capita Threshold

Possible finding first time	After 2020	2015	2019 or 2020
Possible to be taken note by ECOSOC	After 2020	2018	
Possible Approved by UN GA	After 2020	2020 or 2021	2020
Possible Graduation	After 2020	2020 or 2021	Immediately after found
Condition	At current development stage	Achieved MDGs with sustainable manner	Achieved NSEDP Targets

Source: Author estimate from 7th NSEDP and 2020 Strategy

4. Costs and Benefits Analysis of Phasing-Out LDC Status

This section discusses how graduating out of LDC status might affect special support measures from international community to LDCs, and so would potentially affect the implementation of the NSEDP. The section also discusses the opportunities for development finance that Lao PDR could potentially benefit from the graduated status.

There are about 90 special measures to support the development efforts of LDCs.¹⁴ These include measures on trade preferential as well as official development assistance (ODA). Potentially, LDC graduation may result in the cessation of those support measures, which could have a considerable impact, particularly to implement priority development programs of the country. Therefore, Lao PDR need to assess the possible impacts of the potential phasing out as well as to prepare a strategy on how to be prepared for that circumstance.

Regarding trade preferential measures, Lao PDR is seeking ways to diversify export products and destinations. However, at current stage only few export products benefit from those measures, particularly garment products, mostly in terms of duty-free, quota-free access to major markets by virtue of LDC status. However, it is not foreseen that graduation will have a major opposing impact on exports, since regional integration particularly ASEAN Economic Community (AEC) is likely to take place soon. Also, the recent becoming full member of world trade organization (WTO), which is not much related to LDC and only technical assistance might be minimal issues of concern. Looking at this situation, there is not much negative impacts to Lao PDR regarding trade preference, even for under enhanced integrated framework (EIF), technical assistance will continue to be provided after the graduation for some time. Improving negotiation capacity of Lao PDR with other trade partners might be a recommended action to be substantially implemented in order to ensure that Lao PDR will continue to benefit in the post-LDC.

Regarding ODA, very few bilateral and multilateral donors determine how much aid they provide based on LDC status (only few UN agencies are required to provide additional support to LDCs, and there are three special UN funds for LDC only).¹⁵ Based on statistic, major donors of Lao PDR are bilateral, which mostly focuses on providing aids for poverty reduction and MDG criteria. Private sector development and climate change related assistance are also potential aids sources and they do not directly reflect LDC criteria. For international financial

¹⁴ Briefing note on Development of LDC Graduation Strategy of Lao PDR Workshop, May 2012

¹⁵ Briefing Note of LDC Graduation Strategy Workshop, May 2012, Vientiane, Lao PDR

institutions (IFIs), graduation might consider an advantage as they consider level of GNI per capita and debt distress to determine flows of aids, particularly in the form of loans. The IFIs and UN also access additional funding from bilateral and other sources for special purposes that are not subject to the same lending criteria and hence, widening the sources of ODA.

From the mentioned point of practices, therefore, graduation should be considered as an opportunity to demonstrate the effectiveness of government policy and economic performance that will open up a wider range of sources of development finance in supporting Lao PDR. However, in order to ensure to take full advantages, Lao PDR needs to have a comprehensive financing policy, particularly at current stage. The Round Table and Implementation Meeting process (RTIM), which acts as effective aid mobilization mechanism of the country, could be used to promote dialogue with development partners and discuss any adjustments needed in the post-LDC of the country, to ensure that Lao PDR can sustain financial sources for future development of the country.

5. Conclusion and Recommendations

Based on the country's socioeconomic development performance, Lao PDR is likely to be graduated from LDC status in few years to come. The graduation seems not to have many adverse impacts on particularly development finances of the country, but rather opportunity might be diversified as the improvement of GNI per capita and debt stabilization will increase channel for Lao PDR to access lending from international financial institutes as well as bilateral sources. However, having a concrete strategy at early stage is to ensure on-track graduation, smooth transition as well as sustainable development of the country in post-LDC. Following is recommendations to be considered to be prepared.

- **Preparation for smooth LDC Graduation Process**

- Based on the macroeconomic analysis above, Lao PDR seems to soon be eligible for graduation if the socioeconomic of the country continues positive performance as in the 7th NSEDP. The GNI per capita criterion per se could eventually make the country be eligible for graduation by 2020 regarding the GNI per capita double the threshold. However, Lao PDR should not only focus on income criterion alone, but other criteria should also be taken into account to ensure sustainability of the country's development.
- Priority focusing on achieving two out of three criteria for graduating eligibility is recommended. The first criterion of GNI per capita and second criterion of HAI should be selected as focusing factors for country graduation. Since, HAI criterion shows the most progressive than other criteria, but previous triennial review of CDP saw that HAI of Lao PDR has slight been dropped from 62.3 in 2009 to 61.4 in 2012; also MDGs progress report showed signs of off-track MDGs that might affect the issues. Therefore, enhancing progressive improvement of this human capital development is necessary for Lao PDR, as this would help improve country's productivity and so potentially to improve income of people. The improvement of human capability would also help reducing vulnerability or economic vulnerability index of third criterion of LDC graduation.
- Nevertheless, augmenting national resilience or reducing vulnerability of the country has to be taken into account from this stage. Since the trend of EVI criterion of Lao PDR has been sharply improved in latest triennial review of CDP, due to improvement of indicators for assessment of the criterion. Reducing vulnerability is crucial for the country to be capable to handle with current uncertainty to external shocks including economic uncertainty and natural disaster particularly in this climate change phenomena. This is to ensure the country's development in sustainable manner toward building resilience nation.

- **Preparation for post-LDC**

- In order to ensure smooth transition and sustainable graduation of the country, transition strategy need to be prepared in order to avoid adverse impacts to socioeconomic development of the country from phasing-out of special support measures of graduating out of LDC status, and also

formulating appropriate mechanism to benefit from 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; it is significantly important 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.
- Since LDC graduation has already been pronounced in most of policy documents in Lao PDR, ensuring that all sectors and all levels understand clearly the LDC graduation process and other related issues including phasing-out issues is needed. 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.
- Nevertheless, in order to sustain development finance of the country, utilization of existing sound Round Table and Implementation Meeting (RTIM) process is significant. It is therefore recommended to use RTIM as a key mechanism effectively, particularly as a main dialogue forum with development partners, to ensure the sustainable of financing sources for related sector development as well as socioeconomic development of the country as the whole.
- Last but not the least, searching domestic financing sources is crucial by carefully study and develop appropriate approach and mechanism such as public-private-partnership (PPP) approach, etc., to ensure that all stakeholders contribute to socioeconomic development of the country as well as the LDC graduation, integration and industrialization process of the country.

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