



Session 3 Financial Strategy in Closing Graduation Gap for Lao PDR

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Introduction

- Lao Government strongly commits to stimulate the country development toward graduation from LDC status by 2020.
- The country has moved ahead on supporting economic growth with balancing social development toward achieve MDGs by 2015.
- Even overall socio-economic development of the country has progressively embraced, but challenges remain as some MDGs are still in vulnerable situation. The recent budget sakes show vulnerable sign toward achieving LDC graduation goal.
- Nevertheless, overall socio-economic situation seems address more pressures as the relative approach may not guarantee the progress toward LDC graduation. Furthermore, time lag of data using for LDC assessment may not actually show current progress of LDCs.
- Ensuring financial sources to finance MDGs as the most important variables for LDC graduation is crucially significant.

Objectives of the study

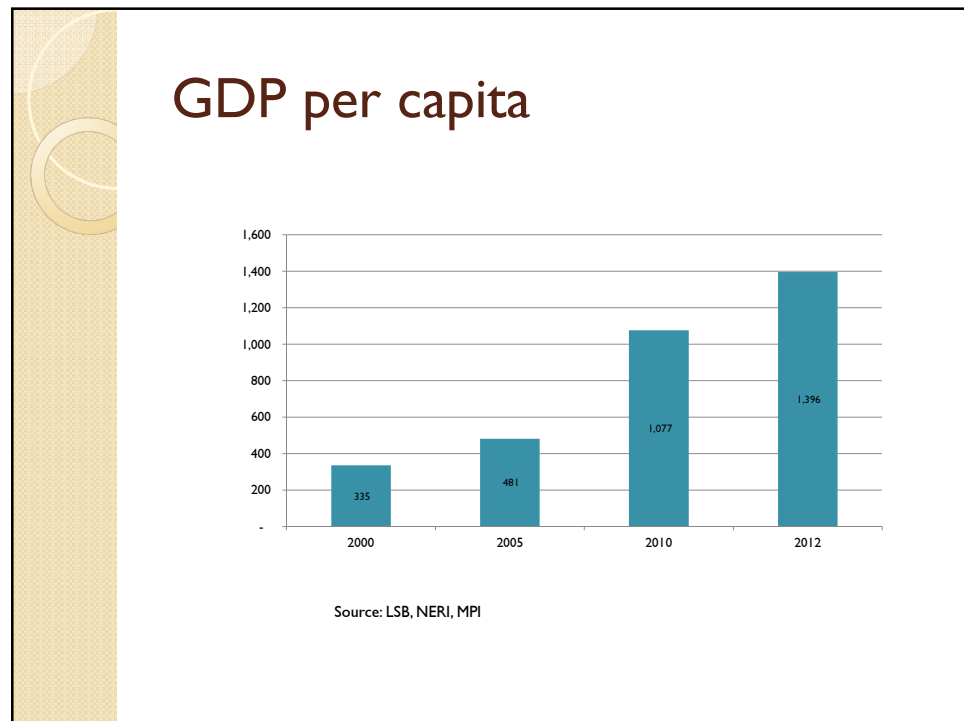
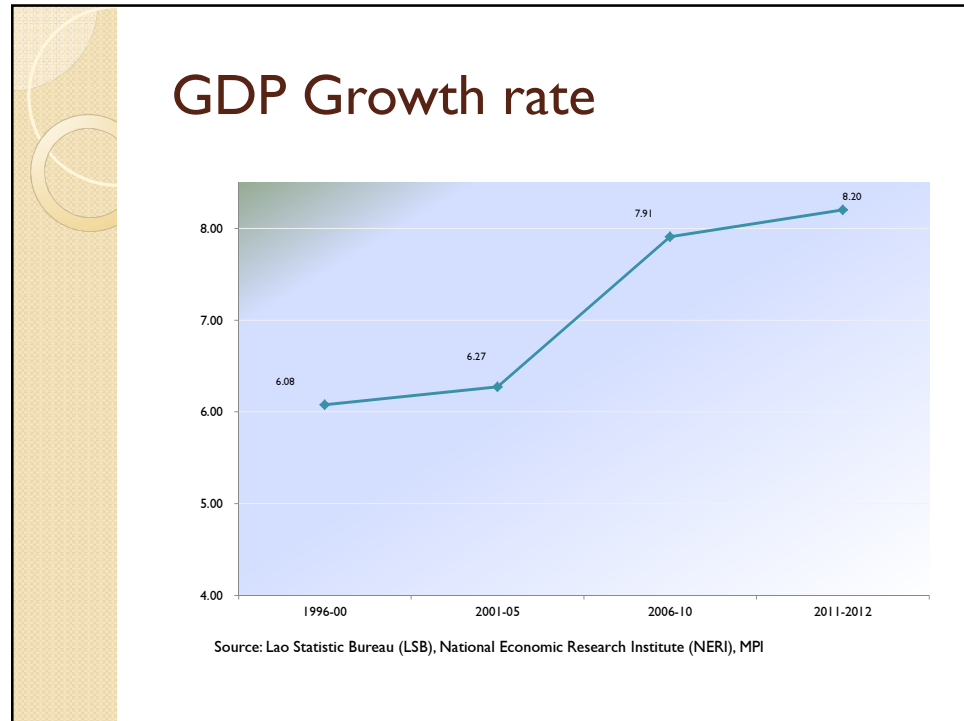
- Review the progress of socio-economic performance of the country.
- Review the progress and address challenged toward LDC graduation of the country.
- Forecast financial needs for closing the graduation gap of the country.
- Propose strategy toward ensuring financial sources for Lao PDR to finance related issues on closing graduation gap of the country.

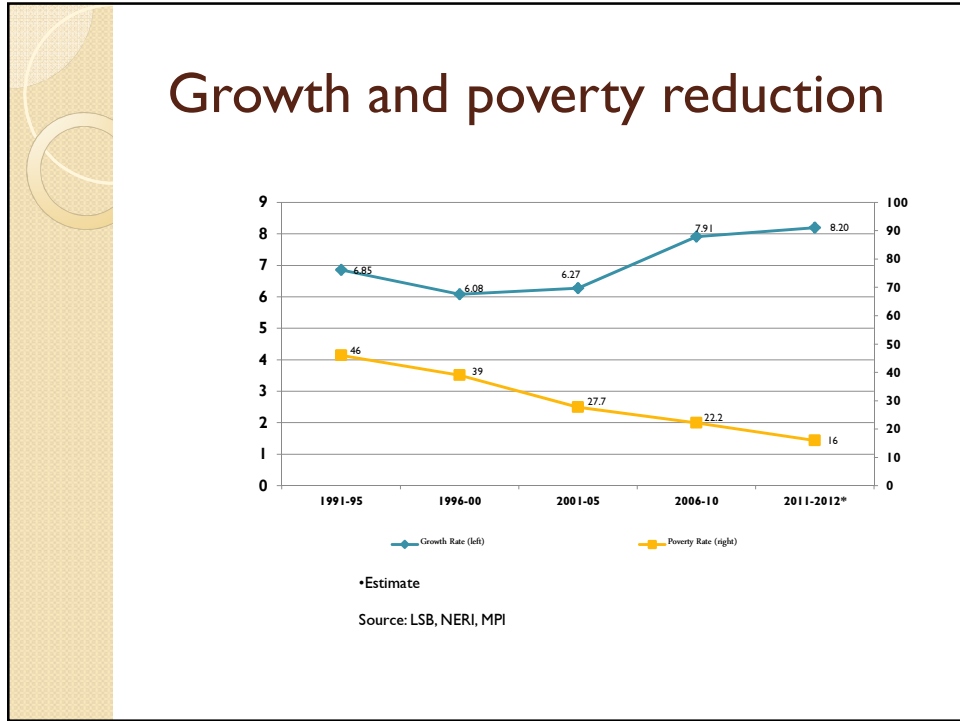
Methodology

- Vary:
 - Review secondary data for socio-economic and MDGs related performances.
 - Review from relative approach data from CDP in comparison with estimation the trend by absolute approach owing Atlas method for calculation using average growth rate trend as an estimation.
 - Based on previous secondary data, estimating the trend also with absolute approach and using Atlas method in forecasting the financial need.

Preliminary findings (I)

(Socio-economic Performance)



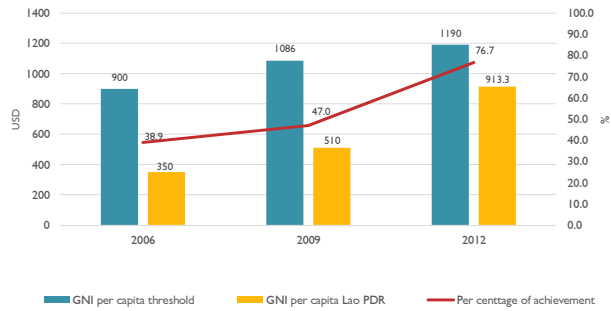


Preliminary findings (2)

(LDC Graduation Progress)
Based on CDP (2012)

Gross National Income (GNI) per capita

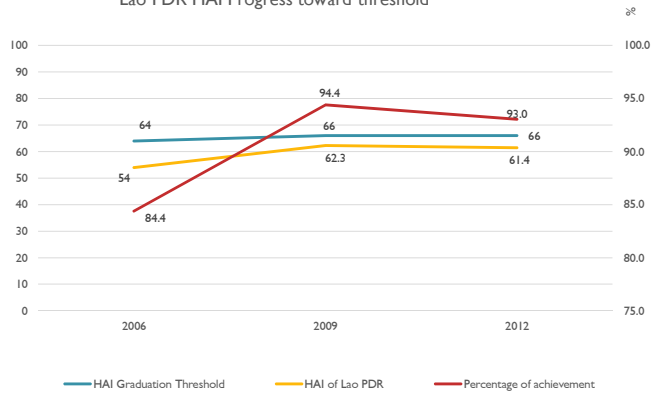
Progress of Lao GNI per capita toward achieving the threshold



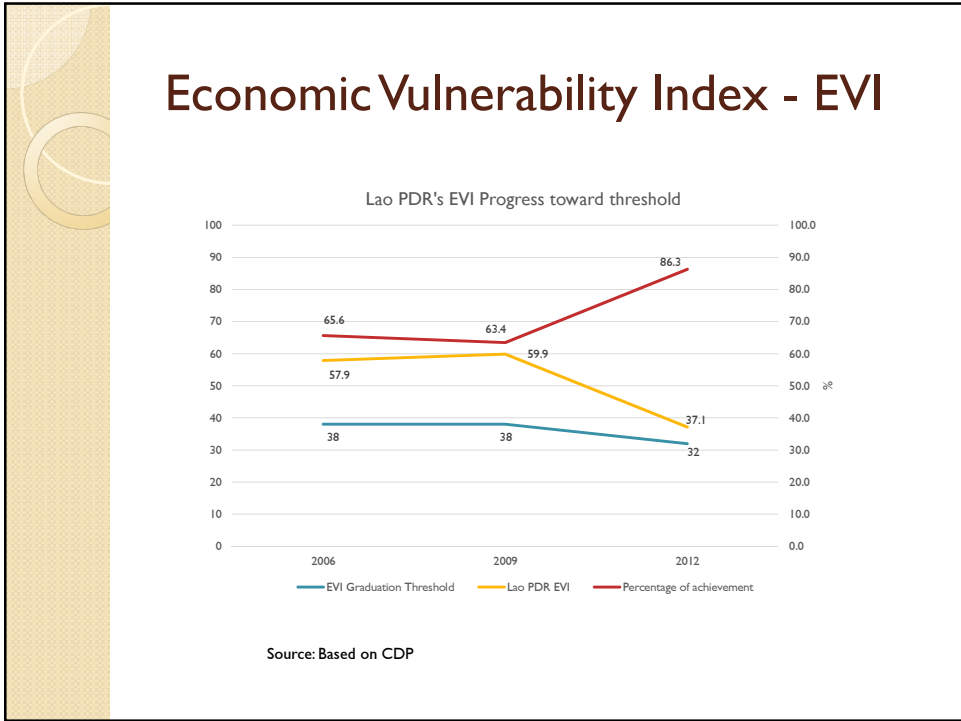
Source: Based on CDP

Human Asset Index - HAI

Lao PDR HAI Progress toward threshold



Source: Based on CDP



Preliminary findings (3)

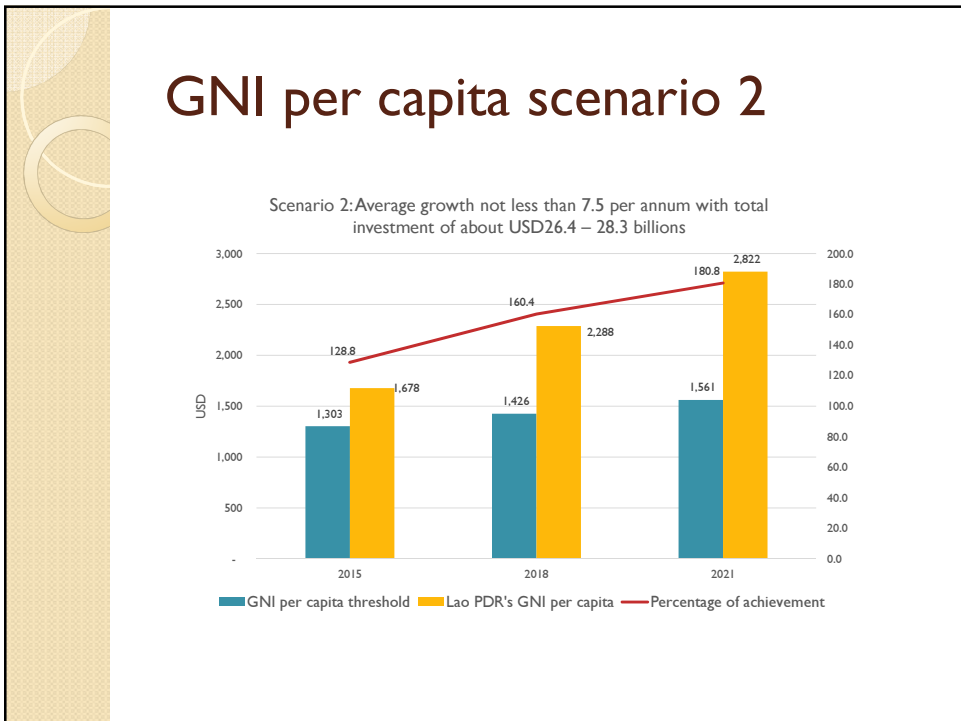
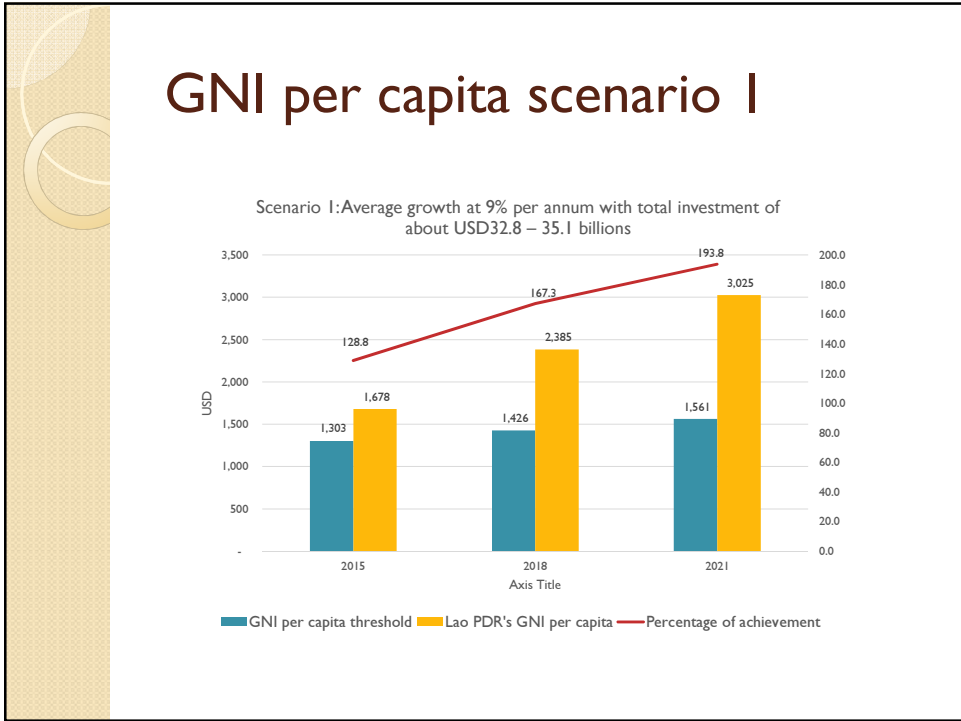
(Projection for Financial Needs to
Close graduation Gap)

GNI per capita (1)

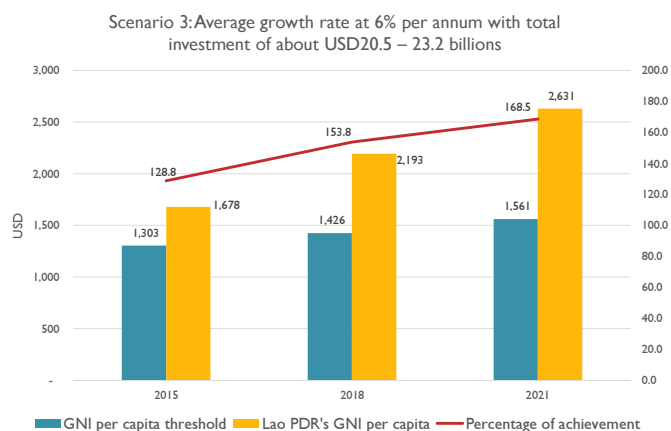
- Despite the time lag of data, by using CDP's data, Lao PDR has achieved almost 77% of the threshold, the gap is 23%.
- Applying Atlas method with the average increase of about 2.5% per annum (1991-2012, optimistically), the threshold estimation up to 2021 are USD1,303 (2015); USD1,426 (2018); and 1,561 (2021).
- The estimation of financial needs to close GNI per capita graduation gap is not only to meet the threshold, but rather to achieve this threshold in sustainable manner.
- Assuming that Lao PDR is able to achieve its 7th NSEDP (National Socio-Economic Development Plan) goals, the financial needs for 8th NSEDP (2016-2020) is estimated as follow:

GNI per capita (2)

- Three scenarios for 8th NSEDP
 - Scenario 1 – keeping average growth at 9% per annum, the total investment need for total five-year is USD32.7 – 35.1 billion (ICOR 4). With this scenario, by 2020, Lao PDR's GNI reach nearly twice GNI per capita of the threshold, but the required investment of double the 7th NSEDP.
 - Scenario 2 – economic growth not less than 7.5% per annum in average, total investment requirement would be about USD26.4 – 28.3 billions (ICOR 4). This scenario's result is not so different from the first one.
 - Scenario 3 – economic growth at 6% per annum, total investment need is USD20.5 – 23.2 billions (ICOR 4). This scenario might reduce potential toward 2030 vision to reach upper middle income group.



GNI per capita scenario 3



Human Asset Index – HAI (I)

- Based on CPD, Lao PDR's HAI in 2012 has already achieved about 93% of the threshold, or it remains only about 7% to close the gap.
- One of reasons might derive from the progress of MDGs in Lao PDR.
- Observing that in 2009 review, Lao PDR's HAI had already achieve almost 95% of the threshold, but in 2012, it was slightly declined to 93%. This might not imply that Lao PDR worsen up the situation, but due to the relative approach, the relative figure of Lao PDR has slightly declined, which meant that the progress of Lao PDR's HAI was relatively slower than the progress in other countries.

Human Asset Index – HAI (2)

- Applying Atlas method with the average increase of about 0.5-0.6% per annum (1991-2012), the threshold estimation up to 2021 are 69 (2015); 71 (2018); and 74 (2021).
- The financial needs to close the graduation gap of HAI criterion is directly related to the achievement of MDGs as most of the components of HAI are interrelated to those of MDGs'
- Therefore, the previous MDGs exercise would be taken into account as baseline to further estimate the after period of post 2015.

Human Asset Index – HAI (3)

- **Calculation of Lao PDR's HAI (2012):**

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

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

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

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

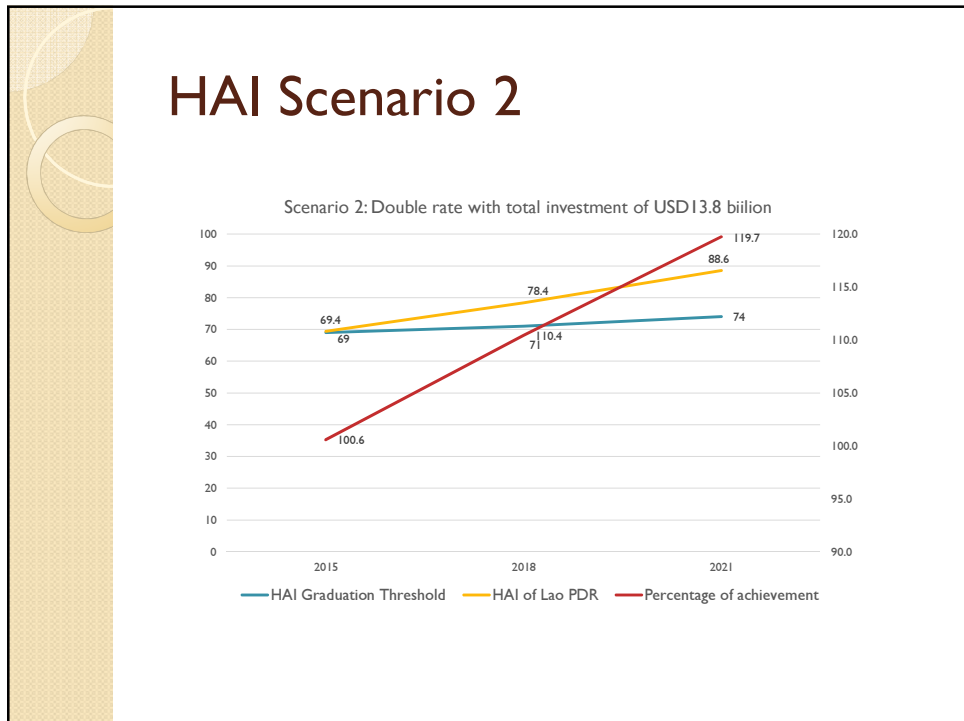
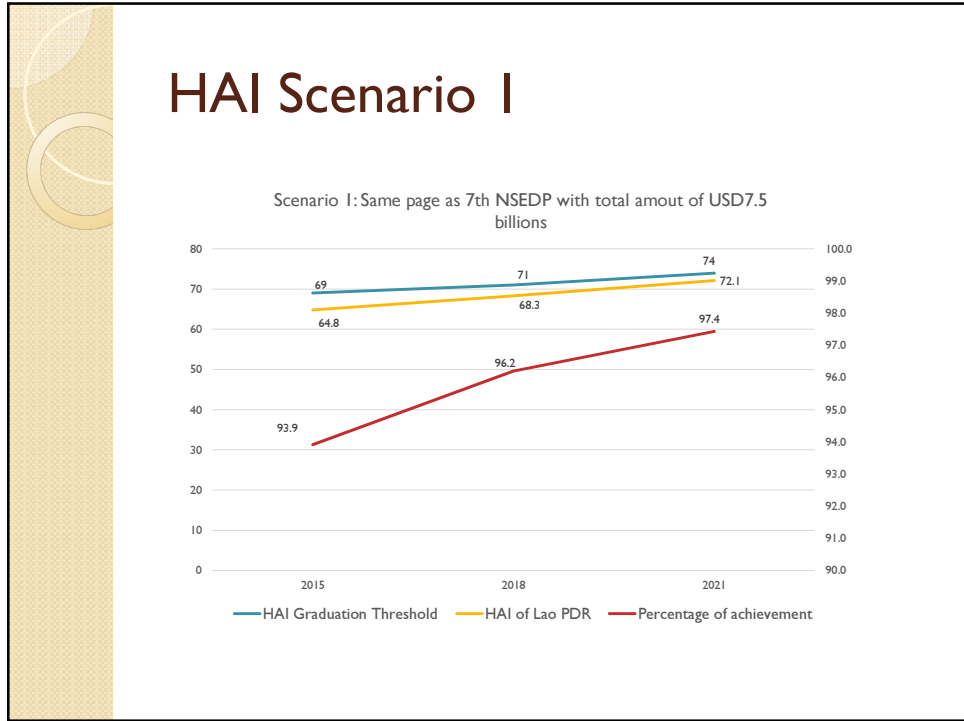
- HAI Threshold (2012) = 66

Human Asset Index – HAI (4)

- Based on the calculation, critical compositors of Lao PDR's HAI are mostly in education sector including:
 - Adult literacy rate, which its score was 63.3 or about 2.7 less than the overall threshold score.
 - Gross secondary school enrolment rate had very low score of only 38.6 or about 27.4 lower than the overall threshold score.

Human Asset Index – HAI (5)

- Two scenarios for closing graduation gap of HAI criterion:
 - Scenario 1: based on the previous financial estimation for MDGs costing with total amount of about USD6.3 billion or about USD1.2 billion remaining plus additional USD6.3 billion during 2016-2020 to keep pace of social development. Total amount need is USD7.5 billion.
 - Scenario 2: previous MDGs costs plus additional fund at double rate of the previous period, particularly priority allocated to adult literacy and gross secondary school enrolment, which is not MDGs ($1.2 + 12.6 = \text{USD}13.8 \text{ billion}$)



Economic Vulnerability Index – EVI

(1)

- The 2012 review (CPD), the Lao PDR's EVI was 37.1 which is already about 86.3% achievement to the threshold (32) or about 13.7% remaining gap.
- This criterion is actually really related to economic stability of the country as well as the country's resilience toward natural disaster in particular.
- Despite, the goal of economic growth to achieve criterion of GNI per capita with sustainable manner is also an ultimate goal for 8th NSEDP.
- Considering the calculation score of Lao PDR's score in 2012 – 4 main issues are needed to be addressed as to reduce vulnerability of the country including population, remoteness, share of fishery, forestry and agriculture products, and victims of natural disasters.

Economic Vulnerability Index – EVI

(2)

- **Calculation of Lao PDR's EVI (2012)**

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

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

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

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

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

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

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

$$\text{EVI Threshold (2012)} = 32$$

Economic Vulnerability Index – EVI

(3)

- There is impossible to deal with population issue, but the other 3 issues (2 component of exposure index, and 1 of shock index) are possibly to address.
- Achieving 8th NSEDP, which is more focus on green and inclusive growth would seem to contribute for closing EVI graduation criterion.
- The most possibly estimation of financial needs to close the gap of EVI graduation criterion is to achieve 8th NSEDP with total investment requirement of USD26.4 – 28.3 billions with keep growth rate at not less than 7.5 and allocate more on social and environmental issues.

Estimation of financial needs (I)

- Since each criterion of the three are interrelated, as growth rate would more or less improve financial capability to improve social sector. While improving human capacity which is a significant social development would crucially an important variable for reducing vulnerability and resilience. Nevertheless, the human capital improved, economic return would also surplus.
- Based on scenarios above, the scenario 2 or GNI per capita plus scenario 2 of the HAI might be the most suitable with total investment requirement of about USD26.4 – 28.3 billion.

Estimation of financial needs (2)

- However, in order to ensure to close the graduation gap of all three criteria and based on the scenarios, the proposed allocation is as follow:
 - Economic sector (25%): USD 6.7 – 7.1 b
 - Social sector (45%): USD 11.8 – 12.7 b
 - Infrastructure sector (30%) USD 7.9 – 8.5 b
- Total:(100%) USD26.4 – 28.3 b

Thank you very much for your
kind attention.