



**United
Nations**

Committee for
Development
Policy

CDP2023/PLEN/9.a

Committee for Development Policy 25th Plenary Session

United Nations
20-24 February 2023
UNHQ Headquarters, New York
Conference Room 8

Monitoring of countries graduating and
graduated from the LDC category:
Lao People's Democratic Republic

**SUSTAINABLE
DEVELOPMENT GOALS**

Contents

Summary 2

Macroeconomic situation 2

LDC criteria and supplementary indicators..... 4

Data gap 4

Smooth transition, national plan and country specific factors..... 4

Annex 1: Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs
(2023 or latest available year) 6

Annex 2: Government report on Smooth Transition 7

Summary

Lao PDR had robust economic growth, averaging over six per cent per annum over 2015-2019, but the growth trend slowed down significantly due to the COVID-19 pandemic, and the recovery is still slow. The massive devaluation of the national currency and high inflation in 2022 as well as lingering negative impacts of the COVID-19 added difficulties for the country to maintain macroeconomic stability and manage the national debt, owing to high volume of loans contracted for large scale infrastructure projects, large fiscal deficit due to the low tax revenue and social expenditure during the COVID-19 pandemic.

The Government of Lao PDR participated actively in the annual monitoring by submitting the national draft report on STS and also attending the CDP consultation meeting, showing the preparation of the STS is well on track. The CDP suggests a careful review of data gap for the country, in particular in the area of debt. The Government also made repeated requests for in-person assistance on EMM, particularly crisis monitoring indicators.

Macroeconomic situation

During 2016-2019, the Lao PDR's GDP grew by 5-7 per cent annually. In 2020, the economy was hit hard by the COVID-19 pandemic. The GDP growth rate decreased to 3.3 per cent in 2020¹ and 3.5 per cent in 2021². The GDP growth is estimated to have fallen further to 2.1 per cent in 2022, according to DESA.³ The government balance decreased to -5.6 per cent of GDP in 2020. Lao PDR's tax-to-GDP ratio is only 10.8 per cent (2019).⁴

Due mostly to its budgetary fragility, the Lao PDR has challenges to address in the financing. The nation's debt-to-GDP ratio is conservatively estimated between 55 and 68.2 per cent in 2020, depending on sources⁵, due to the vast number of loans secured for big-scale infrastructure projects. It is estimated to have reached over 107 per cent in 2022. The possibility of sovereign default also remains elevated. In 2020, Lao PDR's credit rating was reduced to "CCC", which has been downgraded to "CCC-" in Aug 2022.⁶ The government chose to undertake fiscal consolidation to reduce the burden of debt. Given the high-level amount of repayments due in 2022 (\$861 million) and 2023 (\$854 million), it is expected that China, which accounts for 42 per cent of the public and publicly guaranteed debt (PPG), has and would continue to partly defer its obligations.

For coming years, the recovery may be supported by rising private consumption and exports.⁷ In particular, the December 2021 inauguration of the Lao PDR-China railway and power exports is expected to support economic recovery. In addition, the Lao PDR is anticipated to attract businesses seeking low-cost, labour-intensive manufacturing. However, most of its service exports, tourism, will stay below pre-pandemic levels until 2024.

¹ UNSD, National Accounts Statistics: Analysis of Main Aggregates (AMA) database

² UN DESA. World Economic Situation and Prospects 2023

³ UN DESA. World Economic Situation and Prospects 2023

⁴ CEIC. Lao PDR Tax Revenue: per cent of GDP. See: <https://www.ceicdata.com/en/indicator/Lao-PDR/tax-revenue-of-gdp>

⁵ Trading economics, <https://tradingeconomics.com/Lao-PDR/government-debt-to-gdp>

and Statista. Lao PDR: National debt in relation to GDP from 2016 to 2026.

<https://www.statista.com/statistics/804959/national-debt-of-Lao-PDR-in-relation-to-gross-domestic-product-gdp/>

⁶ Fitch Ratings. <https://www.fitchratings.com/entity/laos-93737890#ratings>

⁷ Economist Intelligence Unit. Lao PDR country report. See:

https://country.eiu.com/FileHandler.ashx?issue_id=1252635708&mode=pdf

Table 1. Selected macroeconomic data for Lao PDR, 2016-2021

Indicator	2016	2017	2018	2019	2020	2021
GDP growth rate (per cent, constant price)	7.0	6.9	6.2	5.5	3.3	3.5
Inflation rate (%)	1.6	0.8	2.0	3.3	5.1	4.0
Government revenue (billions of national currency)	20,716.3	22,925.0	24,758.3	25,143.5	21,780.9	24,798.0
Government expenditure (billions of national currency)	26,990.0	30,675.6	31,865.7	30,600.2	31,162.9	31,309.6
Government balance (billions of national currency)	-6,273.7	-7,750.6	-7,107.4	-5,456.6	-9,382.0	-6,511.7
Government balance (per cent of GDP)	-4.9	-5.5	-4.7	-3.3	-5.6	-3.6
Net ODA received (millions of US dollars)	399.5	480.4	588.7	621.6	529.1	569.2
Balance of Payments (millions of US dollars)						
Current Account	-1,384.7	-1,259.8	-1,648.9	-1,319.6	-231.0	446.6
Goods, Credit (Exports)	4,244.8	4,873.2	5,407.8	5,805.9	6,114.9	7,694.5
Goods, Debit (Imports)	5,372.4	5,667.3	6,314.6	6,271.9	5,370.4	6,275.0
Balance on Goods	-1,127.6	-794.2	-906.8	-466.0	744.5	1,419.5
Services, Credit (Exports)	834.9	780.6	985.4	1,179.2	346.2	125.3
Services, Debit (Imports)	1,022.4	1,116.4	1,249.4	1,246.3	445.5	252.0
Balance on Services	-187.6	-335.8	-264.0	-67.0	-99.3	-126.7
Balance on Goods and Services	-1,315.2	-1,130.0	-1,170.8	-533.0	645.2	1,292.8
Balance on Income	-324.7	-446.4	-785.7	-1,084.5	-1,128.1	-1,072.2
Balance on Current Transfers	255.1	316.6	307.6	297.9	251.9	226.0
Capital Account	22.0	21.8	12.5	14.9	12.6	2.4
Financial Account	-2,705.3	-1,962.2	-2,335.0	-1,819.4	-760.1	-365.2
Direct investment (net)	-920.1	-1,683.4	-1,358.0	-755.5	-967.7	-1,071.9
Portfolio investment (net)	-513.9	-326.1	-521.9	41.3	256.5	310.2
Financial derivatives (other than reserves) and employee stock options	...	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-1,102.5	-167.5	-313.6	-1,229.6	-368.1	445.1
Reserve assets	-168.8	214.7	-141.5	124.5	319.2	-48.6
Reserves (months of imports)	1.6	1.8	1.4	1.5	2.4	2.3

Source: GDP growth is from UN DESA, WESP 2023 for 2021 data and UNSD for 2016-2020 data. Inflation is from UN DESA, WESP 2023. Government balance is from IMF, World Economic Outlook Database. Net ODA is from OECD, OECD.Stat. All external sector indicators are from IMF, Balance of Payment Data Reports.

LDC criteria and supplementary indicators

The latest three-year average (2019-2021) GNI per capita of Lao PDR reaches \$2,539 in 2023, over two times the graduation threshold of \$1,222 which is established at the 2021 triennial review. The EVI score for 2023 improved to 26.9, meeting the threshold level of 32 or lower. The country's HAI has risen to 74.2, which is far over the graduation level of 66. Lao PDR appears to be a balanced growth path on all of the LDC criteria. However, the massive currency depreciation might lead in the coming years to declining per capita income in United States dollar terms.

Table 2. Indicators for LDC identification, Lao PDR, 2019-2023

Year	GNI per capita	EVI	HAI
2019	2,101.5	27.9	72.1
2020	2,269.0	27.7	73.0
2021	2,409.7	27.5	73.6
2022	2,506.1	27.1	74.3
2023	2,538.9	26.9	74.2

Source: CDP Secretariat Time series estimates (LDC criteria) dataset (2002-2023), available at <https://bit.ly/LDC-data>

Notes: a) Year refers to the year of a (actual or hypothetical) review. The timeliness of source data varies by indicator; generally, criteria capture data up to two years prior to a review. See the 'read me' in the source as well as the data sheet (Annex 1) for details on original data sources.

b) Data for 2021 might differ from official triennial review data and previous monitoring reports due to data revisions.

Additional graduation indicators reveal certain areas requiring work (see table 3). The debt data vary a lot by data sources, depending on the measurement methodology, but external debt and debt service in general have been at a high level and are expected to rise in the coming years. A substantial proportion of the labour force is employed in agriculture, indicating that the country's transition is having little effect on the employment structure.

Table 3. Selected supplementary graduation indicators, Lao PDR, 2018-2021.

Indicator	2018	2019	2020	2021
External debt (% of GNI)	89.5	93.9	97.6	97.2
Total debt servicing (% of exports and primary income)	13.5	11.5	10.5	9.1
Share of employment in agriculture	60.1	59.2	58.8	58.1

Source: CDP Secretariat, Supplementary graduation indicators

Data gap

In 2019, latest data, the total statistical capacity index for Lao PDR was 62.2, which was somewhat below the average for lower middle-income nations (66.4). While methodology and availability ratings lag below middle-income nations, the frequency of the provided data is greater.

Smooth transition, national plan and country specific factors

On 24 November 2021, the United Nations General Assembly adopted the resolution regarding Lao PDR's graduation from the LDC category. The country is set to graduate in 2026, after a preparation phase of five years.

The participation rate of Lao PDR in monitoring exercise is 100 per cent. It attended a consultation meeting and submitted annual report to CDP, both in 2022 and 2023 monitoring. Graduation has been a national

priority for the Government and the people of Lao PDR and successive National Socio-Economic Development Plans (NSEDP).

Exports of natural resources have driven fast economic expansion in the Lao PDR. The economy is primarily dependent on a few industries, including hydropower, mining, and forestry. Electricity has become a vital aspect of the Lao PDR's economy, accounting for 29.8 per cent of exports in 2020. Meanwhile, the building of hydroelectric dams on the Mekong River increased the country's debt load. In the next years, the repayment of current debt will be a key burden for Lao PDR. Moreover, environmental problems and upstream dams in China pose a danger to the electric power business, necessitating economic diversification.

Lao PDR has submitted its yearly report on the preparation of the STS. In 2022, Lao PDR reached several milestones in preparing for STS: 1) Formalizing technical team, comprising all line ministries and UN county team; 2) LDC focal point meeting - Identification of four thematic areas of the STS (30th June 2022, with focuses on Financial resilience and sustainability, Trade and connectivity, Economic transformation, and Climate change and disaster management; 3) South-South Exchange with other graduation countries (22nd – 24th August 2022); 4) Internal Government meeting to discuss proposed policy areas clustered around four thematic areas of the STS (8th September 2022); 5) Prioritization workshop (18th October 2022) and writeshop (3rd-4th November 2022).

On 21 November 2022, the CDP held a virtual consultation with the Government of Lao PDR. Government representatives, CDP members, and UN agencies participated in the meeting. The country provided an overview of the preparations made and planned for the graduation. The government had 13 roundtable discussions on the development of STS in 2022. Inter-ministerial consultations were organized in August 2022 in Bangkok, to facilitate the finalization of the STS. As of January 2023, zero draft of the STS has been prepared and circulated to relevant entities for comments and suggestions.

While borders have reopened since April 2022, and positive developments have been recorded (such as high vaccination rates, decreasing unemployment, and increasing tourism) – Lao PDR is not back on track to achieve the national development priorities contained in the 9th NSEDP and the SDGs.

Also, as mentioned in their STS draft, the war in Ukraine has affected global economic prospects in a multifaceted crisis of fuel, food, fertilizer, and finance. The Lao kip depreciated by 62 per cent against the USD between January and August 2022, leading to temporary fuel shortages, while prices increased by 37 per cent in the first 10 months of 2022, largely driven by the rising costs of imports. The Government has taken steps to mitigate and recover from COVID-19 and the multiple crisis, through a Multi-Stakeholder Taskforce on the recalibration of the 9th NSEDP to COVID-19 in 2020.

Overall, Lao PDR's financial difficulties, including high levels of debt and the effects of the current multiple global crises, represent a challenge for a continued development progress. The Government requested continued support from UN system and an exchange of dialogue with other LDCs.

Annex 2: Government report on Smooth Transition



Lao People's Democratic Republic
The Annual Report to the Committee for Development
Policy (CDP) on the Preparation of the Smooth
Transition Strategy

November 2022

Prepared by
Department of International Organizations
Ministry of Foreign Affairs
Chair of the National SDG and LDC Secretariat

Table of Contents

1. Background.....	2
2. Progress since the 2021 report on the STS preparation	4
2.1 Process and consultations.....	4
2.2 Content and key thematic areas.....	7
3. International support for graduation from the LDC category.....	12
4. Impacts of COVID-19 and implications for preparations for graduation.....	15
Annex - Summary of South-South Exchange Workshop (Bangkok, 22-24 August 2022).....	7

1. Background

Graduation Approach

The United Nations Committee for Development Policy (CDP) recommended Lao PDR for graduation in 2021 after the country met the necessary LDC graduation criteria at the second triennial review. Recognizing the exceptional circumstances induced by the COVID-19 pandemic, the Committee at the time recommended an extended five-year preparatory period, instead of the standard three years. This means Lao PDR's is expected to graduate from LDC status in 2026.

To make full use of this extended preparatory period, Lao PDR is committed to prioritising the development of a tailored Smooth Transition Strategy (STS) to identify, monitor, and guide the steps necessary to ensure that graduation from the LDC category does not disrupt the country's development progress, and that its sustainable development can in fact accelerate following graduation.

Lao PDR Development Frameworks

The 9th National Socio-Economic Development Plan (NSEDP) sets the overall framework for national development through the end of 2025, defining goals to be achieved across 6 outcomes and 25 outputs as well as an over-arching vision for green, sustainable, quality, and focused development.

For the first time, the 9th NSEDP has been accompanied with a Financing Strategy defining 54 specific actions to mobilize resources and strengthen the alignment between available resources and national development priorities. The 9th NSEDP Financing Strategy was finalized in October 2022 and is awaiting final endorsement by Government.

The 10th NSEDP is expected, similarly, to set the overall framework for the following 5 years through to 2030, coinciding with the deadline for the 2030 Agenda and Sustainable Development Goals (SDGs) as well as Lao PDR's Vision 2030, and encompassing the expected transition period for LDC graduation.

Given the unprecedented shocks that have occurred during the implementation of the 9th NSEDP, the Ministry of Planning and Investment with the support of a multi-stakeholder taskforce, is leading the development of a Resilience Framework that will prioritize specific actions to respond the socio-economic consequences of COVID-19 and the current Food, Energy, and Financing Crisis, and strengthen resilience to future shocks. The Resilience Framework has been finalized and prioritises 73 actions to support the realisation of 9th NSEDP priorities (identified actions are consistent with the Financing Strategy). The Resilience Framework will be mainstreamed into core 9th NSEDP management processes, including its Mid-Term Review in 2023.

Overarching national plans are complemented by sector- and ministry-specific plans. Development partner coordination takes place through 10 Sector Working Groups, and an annual Round Table Meeting bringing together all parties.

Lao PDR STS Scope

In the context of a clearly articulated national development vision and well-specified existing prioritisation frameworks, the STS will serve as the comprehensive framework to ensure Lao PDR is prepared for a quality, sustainable graduation. As such, it will identify all of the actions considered necessary to ensure a smooth graduation and continued development thereafter.

The recommendation for LDC graduation triggering the start of the preparatory period occurred during the 9th NSEDP period, whilst graduation itself and the following transition period are expected

(DRAFT FOR DISCUSSION ONLY)

to take place under the 10th NSEDP. The STS will therefore differentiate between specific measures to be implemented during the preparatory period (broadly until the end of 2025 under the 9th NSEDP) to pave the way for a smooth transition, and continued development progress after graduation and during the transition period (broadly from 2026 onwards under the 10th NSEDP).

However, the majority of actions necessary for this, in particular for the preparatory period, coincide with the actions necessary to achieve Lao PDR's vision for development more generally, irrespective of LDC graduation. Therefore, many actions are already designated in existing strategic frameworks. Actions identified in the STS are therefore divided into two groups:

- a. Actions necessary for a smooth and sustainable graduation that **are** already articulated in existing frameworks. These will be monitored as part of the STS to ensure that the National Secretariat has assurance that implementation of the actions is proceeding as necessary ahead of the graduation date.
- b. Actions necessary for a smooth and sustainable graduation that **are not** already specified in existing national frameworks. These will be implemented as part of an STS-specific action plan overseen by the National Committee.

For each action, the STS will also identify important areas of support needed from the international community to address the country's ongoing vulnerabilities and manage a smooth graduation.

2. Progress since the 2021 report on the STS preparation

2.1 Process and consultations

As reported in the 2021 Annual Report to the CDP on the Preparation of the STS, the Government of Lao PDR expressed its intention during the 13th High-Level Round Table Meeting organised in November 2021 to develop an STS to:

- mitigate impacts from graduation;
- manage current shocks negatively affecting development progress; and
- accelerate policies for sustainable and irreversible graduation.

Since then, key milestones in STS preparation are as follows (*Please refer to Figure 1 for overall process of the STS preparation*):

a. Formalizing technical team

The Ministry of Foreign Affairs (MoFA) leads an inter-ministerial taskforce responsible for developing the STS. The taskforce is composed of the Ministries of Planning and Investment, Finance, Industry and Commerce, Health, Education and Sports, Natural Resources and Environment, Agriculture and Forestry Lao Statistic Bureau, Institute of Development Policy Research, Lao Women Union and other line ministries (Ministry of Finance., Ministry of Industry and Commerce, Ministry of Agriculture and Forestry, Ministry of Health, Ministry of Education and Sport, Ministry of Natural Resources and Environment, Ministry of Public Works and Transport, and Ministry of Labour and Social Welfares)

From the UN side, the UN Sustainable Development Cooperation Framework Joint Output Group on LDC Graduation, under the leadership of the UN Resident Coordinator's Office, provides both technical and financial support to the Department of International Organizations (DIO)/MoFA. The joint output group includes membership from DESA, ILO, ITC, UNCDF, UNCITRAL, UNCTAD, UNDP, UNIDO, ESCAP, and IOM.

To provide secretariat support to this setup, an international consultant and a national consultant have been recruited and are working with the LDC National Secretariat led by DIO/MoFA, Department of Planning/MPI and Lao Statistics Bureau/MPI since May 2022.

With the establishment of the technical team, the LDC National Secretariat has been regularly meeting to identify priorities and measures to include in the STS. In March 2022, a general consensus was reached that the STS needs to be aligned with the Doha Programme of Action and the STS preparation needs to be completed prior to the Fifth United Nations Conference on the LDCs (LDC V) (Doha Conference on LDCs) scheduled to be organised in March 2023.

b. LDC focal point meeting - Identification of four thematic areas of the STS (30th June 2022)

On June 30th, 2022, the SDG/LDC focal points met and discussed the STS process. At this meeting, the focal points identified four thematic focus areas for the STS (see section 2.2 for details of the rationale for inclusion of each):

- Financial resilience and sustainability;
- Trade and connectivity;
- Economic transformation;

- Climate change and disaster management.

c. South-South Exchange with other graduation countries (22nd – 24th August 2022)

In late August 2022, a delegation of the Lao Government led by the Director General of the Department of International Organisation of MoFA joined Bangladeshi and Nepali counterparts for a three-day learning and peer exchange workshop for graduating LDCs of the 2021 cohort in Thailand. This was supported by DESA, ESCAP, OHRLLS, and the UNRCOs in the three countries.

This exchange served to both share information and insights on how each country is preparing for graduation, identify possible areas for collaboration or joint advocacy, and to seek expert advice on preparations for graduation.

Emerging priorities for the STS for Lao PDR from the discussions included:

- Addressing financing/fiscal challenges (in particular through the 9th NSEDP Financing Strategy);
- Strategic planning and collaboration for continued investment in social sectors;
- Beginning negotiations with key trade partners for trade and FDI negotiations;
- Formulation of a clear trade and investment promotion strategy;
- Adaptation of the Lao business environment to international standards, with a focus on labour rights and sustainability; and
- Mobilization of green and climate finance to accelerate the transition to climate-resilient development.

d. Internal Government meeting to discuss proposed policy areas clustered around four thematic areas of the STS (8th September 2022).

Through regular inter-ministerial consultations, the National Secretariat (under MoFA leadership) identified a tentative list of 16 priority areas clustered around the four main themes for the Smooth Transition Strategy. Through these consultations, the aim is also to ensure common understanding across Line Ministries on key priorities fed into the STS and how STS can complement other strategies and frameworks.

e. Prioritization workshop (18th October 2022) and writeshop (3rd-4th November 2022)

A prioritization workshop attended by representatives from Government line ministries and the UN joint output group under the Lao PDR-UN Sustainable Development Cooperation Framework on LDC graduation to refine and prioritize the focused areas to be included in the STS under each of the thematic areas. This workshop also served to refine and ensure common understanding of the scope of the STS, and in particular how it relates to other existing frameworks.

Following the prioritization workshop, the list of focused areas to be included was refined to 9 across the 4 thematic areas:

1. Financial resilience and sustainability
 - 1.1 Macroeconomic stability
 - 1.2 Investments in social sectors and green growth

(DRAFT FOR DISCUSSION ONLY)

(If Lao PDR faces recurrent or extended macroeconomic instability – i.e. excessive currency depreciation, inflation, and deficits – and does not urgently increase resources invested in social sectors and green growth, then it will not achieve a quality graduation)

2. Trade and connectivity

- 2.1 Quality trade and foreign investment promotion
- 2.2 Business environment for inclusive growth

(If Lao PDR does not diversify trade (in terms of partners and exports) and investment sources, and does not create an enabling environment for quality investment then it will not achieve a quality graduation)

3. Economic transformation

- 3.1 Decent jobs
- 3.2 Rural development
- 3.3 Urban development

(If Lao PDR does not create sufficient decent jobs for the large young population, does not take place in rural areas (where the majority of people live), then it will not achieve a quality graduation)

4. Climate change and disaster management

- 4.1 Integrated climate-resilient natural resources management
- 4.2 Climate resilience and disaster risk reduction

(If Lao PDR does not urgently shift to a sustainable management of natural resources, and does not urgently improve its resilience to climate change and natural disasters, then it will not achieve a quality graduation)

This was followed by a writeshop, attended by representatives of government ministries and the UN joint output group, during which specific actions were identified under the different elements of the STS scope for each of the focused areas.

The writeshop also served to further advance the design of the STS to ensure that it is coherent with the existing structures and frameworks in the country, whilst still adding value by identifying any actions necessary for a smooth graduation that had not yet been defined, and building the foundations of a monitoring framework to track the implementation of existing priority actions necessary for a smooth graduation.

Next steps

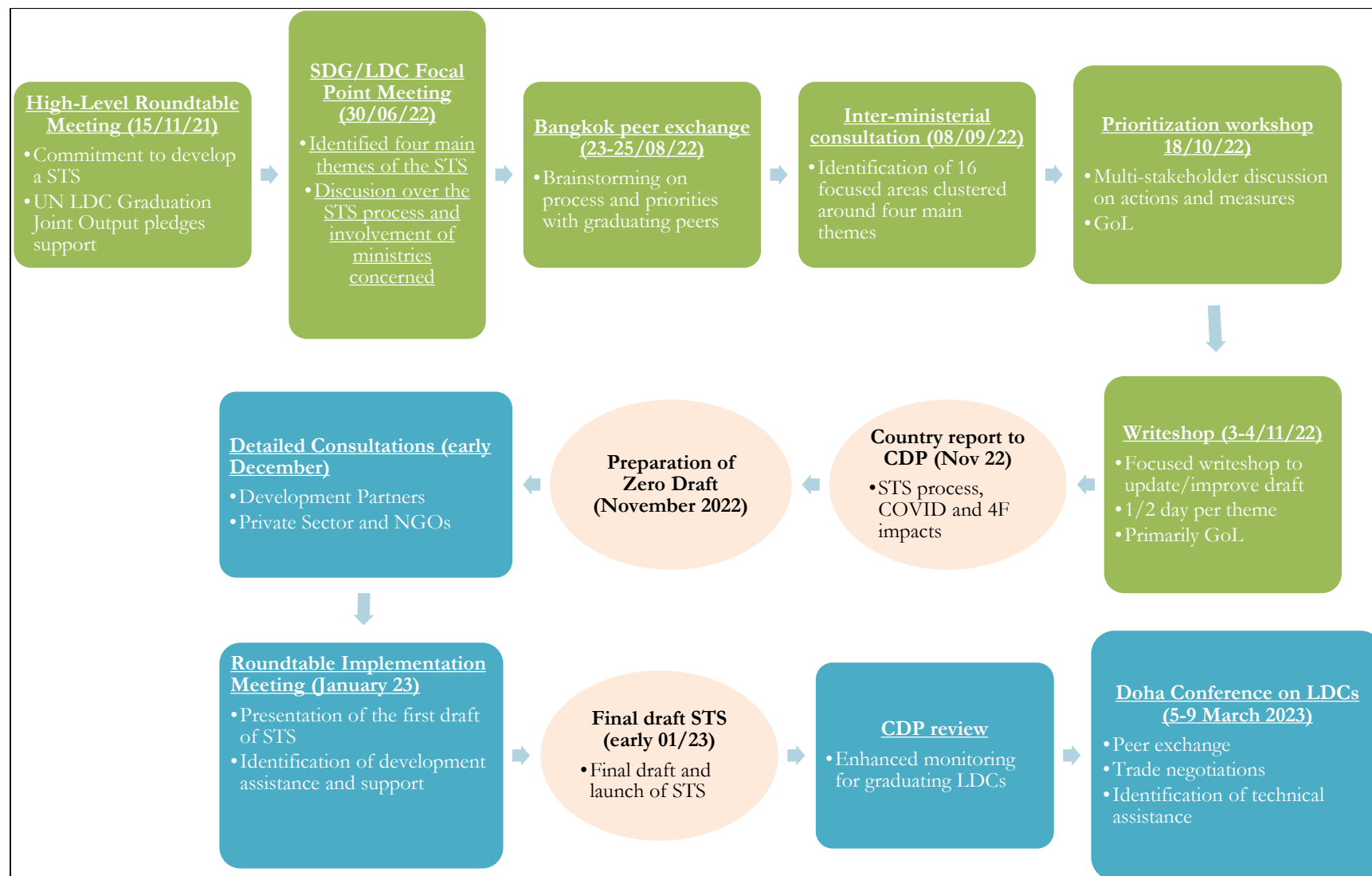
Drafting of the STS is being led by the National Secretariat, using the agreed framework and drawing on inputs provided over the course of previous meetings and consultations.

(DRAFT FOR DISCUSSION ONLY)

The zero draft of the STS is planned to be shared with all stakeholders during the upcoming Round Table Implementation Meeting which is scheduled to take place in Vientiane on sometimes January 2023.

Following this initial presentation, more detailed consultations are planned with development partners, private sector and CSOs. The final version of the STS is planned to be ready ahead of the LDC V Doha Conference.

Figure 1 – Summary of STS preparatory process in Lao PDR



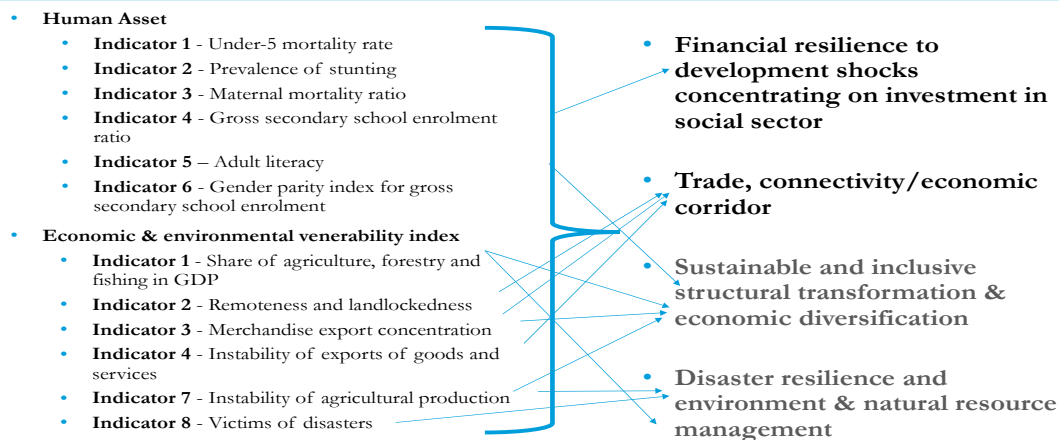
2.2 Content and key thematic areas

The STS covers a broad subject matter, which underlines the importance of a whole-of-Government approach engaging different sectors. This approach allows for appropriate identification and incorporation of existing frameworks and actions relevant to managing a smooth and quality graduation.

The four thematic areas of the STS were identified based on the challenges and issues that the country has been facing in relation to specific elements of the LDC criteria. See Figure 2 for the link between the thematic areas of the STS and key LDC criteria.

Figure 2:

Key thematic areas emerging from looking at the statistics



Within this thematic coverage, the STS would include a very targeted list of actions, derived from the 9th NSEDP (including its Financing Strategy as appropriate), sector strategies, and the draft Resilience Framework, that will be prioritised by the national SDG/LDC Secretariat for greater national priority and international support.

As such, to guide identification of key practical actions for STS, initial actions have been proposed as per Table 1 below. These actions, clustered around four thematic areas, are subject to further review and prioritization.

Table 1 – Four thematic issues and nine focused areas of the STS and proposed actions clustered around them.

Thematic issues	Focused area	Proposed actions
1. Increasing national financial resilience to development shocks and concentrating on social sector	1.1 Macroeconomic stability 1.2 Investments in social sectors and green growth	<u>A starting point is to come up with existing actions from existing frameworks. More actions will be added after writeshop and consultations with partners while preparing a zero draft of the STS.</u> Financing Strategy <ul style="list-style-type: none"> No 1: (...) broaden the tax base and abolish and renegotiate CIT and other fiscal exemptions

(DRAFT FOR DISCUSSION ONLY)

Thematic issues	Focused area	Proposed actions
		<ul style="list-style-type: none"> • No 5: The harmonisation of tax rates to optimise revenue generation (...) • No 10: The reassessment and possible termination of all public and public-private investment projects that are not in line with the 9th NSEDP priorities or are experiencing increasing costs and delays weighing on the State budget • No 12: The update of the State Budget Law, [other laws] to facilitate the formulation, execution, and monitoring of budget and investment plans in line with national development priorities • No 13: The review and update of regulations and processes to appraise public and private investment proposals (...) • No 17: The study and exploration of multilateral debt alleviation and suspension initiatives to free fiscal space in support of development investments and provide Lao PDR with sufficient time to increase the revenue to GDP ratio • No 18: (...) (1) cancel or reduce debt repayments and/or lengthen the maturity of loans to the second half of the 2020s without losing access to future loans and (2) explore debt swaps (...) • No 30: The STS prioritises (1) the mobilisation of technical assistance for the sustainable and resilient financing of development, (2) to adapt to and mitigate impacts for continued strategic mobilisation of development aid, • No 46: The conclusion of discussions with bilateral and multilateral partners (e.g. GAVI) for continued ODA and/or budget support during the 9th NSEDP cycle, conditioned to marked improvements to fiscal policy and PFM, which would generate fiscal space for co-financing in the next planning cycle <p><u>New actions (to be documented)</u></p>
<p><u>Rationale</u></p> <ul style="list-style-type: none"> • If Lao PDR faces recurrent or extended macroeconomic instability – i.e. excessive currency depreciation, inflation, and deficits – then it will not achieve a quality graduation. • If Lao PDR does not urgently increase resources invested in social sectors and green growth, then it will not achieve a quality graduation. • Graduation preparatory period extend from the regular 3 years to 5 years due to the impact of COVID-19 and the need to ensure recovery for sustainable graduation. • Areas prioritized in the 9th NSEDP Financing Strategy and Resilience Framework • Covers the first of four areas CDP recommended Lao PDR's STS on improved macroeconomic stability and other measures to address various shocks • 9th NSEDP calls for STS to include careful analysis and consultation on potential implications for availability of concessional resources (with health and education funding two areas highlighted by the Financing Strategy) and to address rural/urban and other inequalities 		
<p>2. Maximizing the value of trade agreements and connectivity & economic corridors</p>	<p>2.1 Quality trade and foreign investment promotion</p>	<p>Financing Strategy</p> <ul style="list-style-type: none"> • No 31: The quality implementation of the PM's Orders No. 02 and 03 to simplify the business environment, especially accelerating current efforts to

(DRAFT FOR DISCUSSION ONLY)

Thematic issues	Focused area	Proposed actions
	2.2 Business environment for inclusive growth	<p>disseminate recent regulatory changes and steps to obtain a business license through user-friendly digital platforms, and reduce informal charges</p> <ul style="list-style-type: none"> • No 36: The multi-stakeholder formulation of a comprehensive FDI attraction and promotion strategy, which would contain (1) a FDI policy statement that clarifies Lao PDR’s strategic vision for FDI promotion and attraction, (2) the review of the Investment Promotion Law and SEZ regulations (3) the cost-benefit analysis and proposed reforms of the current incentive regime’s laws and regulations, prioritising targeted fiscal incentives for priority sectors (social sectors and green growth) and non-fiscal incentives and (4) reforms of the business environment, notably for facilitated entry and increased investor protection, all guided by international standards • No 39: The support to the completion of the Financial Action Task Force (FATF) mutual evaluation to assess Lao PDR’s shortcomings in mitigating money laundering and terrorist financing risks and curbing IFF and implement resulting recommendations to improve the country’s compliance and effectiveness <p><u>New actions (to be documented)</u></p>
<p><u>Rationale</u></p> <ul style="list-style-type: none"> • If Lao PDR does not diversify trade (in terms of partners and exports) and investment sources, then it will not achieve a quality graduation • If Lao PDR does not create an enabling environment for quality investment, then it will not achieve a quality graduation. • Linked among others with Outcome 5 under the 9th NSEDP and private finance objectives under the NSEDP Financing Strategy • Strengthening regional integration is a key element of national strategies for economic diversification, necessary for sustainable long-term development. • Regulatory and transport costs, logistics and finance availability are often significant factors in comparison to trade preferences. • Relates to second area CDP recommended to cover “...further strengthening of regional integration”. 		
3. Sustainable and inclusive structural transformation & economic diversification	3.1 Decent jobs 3.2 Rural Development 3.3 Urban Development	<p>Financing Strategy</p> <ul style="list-style-type: none"> • No 29: In preparation for the LDC V Conference (5-9 March 2023), the assessment of challenges, opportunities, and best practices to mobilise ODA from multilateral funds, Technology Bank, and Investment Support Programme <p>Resilience Framework</p> <ul style="list-style-type: none"> • P4/C1: Address learning loss and support vulnerable groups (poorest quintiles, disabilities, secondary students, girls at high risk of early marriage and pregnancy) • P4/C1: Improve the alignment of the curriculum to address the digital, technical and soft skills required by the labour market • P4/C1: Enhance the apprenticeship programme with the required skills and knowledge for adolescents so

(DRAFT FOR DISCUSSION ONLY)

Thematic issues	Focused area	Proposed actions
		<p>that they can transition into the demands of the modern workforce</p> <ul style="list-style-type: none"> • P4/C2: Strengthen governance for enhanced multi-sectoral coordination in the health sector and beyond to meet the current and future health needs based on lessons from the pandemic. • P4/C3: Improve access to social security, childcare, parental leave, measures to address unpaid care burden <p><u>New actions (to be documented)</u></p>
<p><u>Rationale</u></p> <ul style="list-style-type: none"> • If Lao PDR does not create sufficient decent jobs for the large young population, then it will not achieve a quality graduation. • If sustainable development does not take place in rural areas (where the majority of people live), then it will not achieve a quality graduation. • If sustainable development does not take place in cities and towns (with 50% of the population expected to live in urban areas by 2030), then it will not achieve a quality graduation. • Relates to second and third areas CDP recommended the Lao PDR STS to cover: “Sustainable and inclusive structural transformation, including through accelerated economic diversification and further strengthening of regional integration” and “Reduction of rural/urban and other inequalities through appropriate fiscal and development policies” • Linked among others with Outcome 1 of the 9th NSEDP 		
<p>4. Building disaster resilience and environment & natural resource management</p>	<p>4.1 Integrated and climate-resilient natural resources management</p> <p>4.2 Climate resilience and disaster risk reduction</p>	<p>Financing Strategy:</p> <ul style="list-style-type: none"> • No 8: The temporary halt on new resource extraction projects combined with the update of legislation, regulation, and processes for the future implementation of natural resources extraction projects in line with the inclusive, sustainable, and climate-resilient development pathway of the 9th NSEDP • No 30: The STS (...) (3) and finance priority sectors of green growth, climate change adaptation, mitigation, and social sectors • No 53: The capacity development of national funds and establishment of the Environment Protection Fund (EPF) as the first Accredited Entity for Lao PDR, combined with strengthened collaboration between development partners currently accredited to vertical funds, for strategic green ODA programmes and projects <p>Resilience Framework:</p> <ul style="list-style-type: none"> • P1/C1: Enhancement of local capacity to support the green growth agenda • P1/C2: Invest in systems and tools to support monitoring and forecasting in advance of natural hazards, integrated within regional decision-support systems • P1/C4: Build capacities for disaster-responsive agriculture <p><u>New actions (to be documented)</u></p>

(DRAFT FOR DISCUSSION ONLY)

Thematic issues	Focused area	Proposed actions
<p><u>Rationale</u></p> <ul style="list-style-type: none">• If Lao PDR does not urgently shift to a sustainable management of natural resources, then it will not achieve a quality graduation.• If Lao PDR does not urgently improve its resilience to climate change and natural disasters, then it will not achieve a quality graduation.• Relates to fourth area CDP recommended the Lao PDR STS to cover: “Building of disaster resilience and reversal of environmental degradation as well as the restoration and preservation of natural resources and the rural livelihoods that depend on them, including through advancing alternative development patterns”• Linked especially with 9th NSEDP Outcome 4 and Lao PDR Resilience Framework• Green and climate finance highlighted as a priority sector (together with education and health) in the NSEDP Financing Strategy		

3. International support for graduation from the LDC category

Background

- **Trade** - Lao PDR predominantly exports to other Asian countries that are either part of the Association of Southeast Asian Nations (ASEAN) Free Trade Area or have free trade agreements with ASEAN. A large share of Lao PDR's exports (e.g., natural resources) are not affected by tariffs, and other exports will continue to be exported duty-free either under these agreements or under most-favoured nation (MFN) treatment. Lao PDR benefits from special and differential treatment under the ASEAN Free Trade Area, but this is not tied to its LDC status, so no significant impacts are expected from graduation under the existing arrangement. No significant impacts from LDC graduation are expected under the Asia-Pacific Trade Agreement (APTA).
- The most significant impact of LDC graduation would be on trade to the European Union (EU). The EU's duty-free, quota-free (DFQF) scheme for LDCs, Everything But Arms (EBA), contains a smooth transition provision, so that Lao PDR would still benefit for at least three years after graduation. In other words, if Lao PDR graduates in 2026, it would benefit from the EBA until 2029.
- **Development cooperation** - Graduation from the LDC category is expected to have only limited impacts on development cooperation in Lao PDR. It 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 also not expected to affect South-South cooperation, which is of critical importance in the case of Lao PDR. Classification between Asian Development Bank (ADB) financing groups involves many factors, and Lao PDR's high debt level makes it less likely that LDC graduation will impact assistance.
- Graduation may entail slightly higher (while still concessional) interest rates on loans granted by Japan and the Republic of Korea. It may also trigger a gradual shift from grants to soft loans by OECD partners such as Germany. In a small number of UN entities, it could lead to a reduction in the resources available for country-specific activities or requirement for a higher cost-sharing contribution. Assistance by most UN entities is based on numerous factors including a country's specific vulnerabilities and needs and the agreed partnership framework.
- After graduation, Lao PDR would no longer have access to LDC-specific mechanisms for technical and financial support including the LDC Fund for climate change adaptation (projects approved up to the graduation date would be funded) and the UN Technology Bank for LDCs (following a smooth transition period of five years after graduation). Graduation could also affect Global Environment Facility (GEF) funding more generally as its System for Transparent Allocation of Resources includes higher minimum allocation floors for LDCs; however, actual allocation depends on multiple factors and graduation itself would not lead to an automatic reduction in funding.

International support for graduation is an on-going discussion between the Government of Lao PDR and its partners. Specific needs for international support for a smooth graduation are being defined and refined against each action as part of the STS development process.

During the 13th High Level Round Table Meeting in 2021, development partners collectively expressed their support for Lao graduation from the LDC status.

(DRAFT FOR DISCUSSION ONLY)

Key measures that have been discussed within the Government and with the relevant international organizations and international partners are:

- In response to the loss of LDC-specific preferential market access, the Government has engaged with the EU and UK on possible solutions for market access for the period after graduation. An effort has been made to discuss with the EU, WTO Secretariat, Enhanced Integrated Framework (EIF), UNCTAD, ITC and the UN Economic and Social Commission for Asia and the Pacific (ESCAP) who may be able to provide additional assistance for Lao PDR to make the most of preferences for the period of remaining eligibility and to develop other competitive assets that could partially compensate for the loss of LDC-specific (duty-free, quota-free) DFQF market access. In addition, there is an ongoing effort in the context of the WTO to improve the operationalization of the services waiver. Should changes materialize that lead to greater efficacy of the waiver, Lao PDR and other graduating countries may consider requesting an extension of their eligibility to the waiver.
- On the loss of LDC-specific special and differential treatment on obligations and flexibilities under WTO rules (other than market access), as the LDC Group at WTO has proposed a package of support measures that would be applied to any LDC for a uniform transition period (currently proposed as 6-9 years) following graduation. The Government of Lao PDR has been engaged actively with Members, bilaterally and in WTO Committees, to seek an opportunity to obtain support for addressing graduation challenges.
- On the issue of LDC graduation in the context of Regional Comprehensive Economic Partnership (RCEP), the Government will carry out further study to gain more understanding of the issue with the support of UN and other development partners.
- On trade-related capacity-building, training and technical assistance, the Government has engaged with development partners to ensure programmes that are not contingent on its LDC status will be able to support the continuation of capacity-building and technical assistance in matters related to trade.
- On development cooperation, the Government has discussed and negotiated with various partners including, the UN, EU, ADB, Luxembourg, and Japan 2022 to finalize cooperation frameworks where ODA commitments have been highlighted to ensure that Lao PDR's specific needs and vulnerabilities are taken into account. As such, a plan for the coming year is to prepare a country development cooperation report which capture various elements of effective development cooperation tracking supports at various levels to gain better understanding on various types of supports provided by partners.
- Another important matter is on domestic resource mobilization which continues to be crucial, as well as traditional ODA, non-concessional public finance (other official flows—OOF), blended finance, and South-South cooperation. As such, on-going discussions have been made on taking advantage of guidance and capacity-building from organizations on alternative resource mobilization. A capacity building plan to access different sources of climate finance including the Green Climate Fund (GCF) has been in the development process. This will become important to compensate for no longer being eligible for LDC-specific funds.
- In addition, the Government has also started to discuss with the UN and partners to explore the potential of LDC-specific instruments such as the UN Technology Bank and the Investment Support Programme within the period of eligibility (until graduation and up to five years thereafter).

(DRAFT FOR DISCUSSION ONLY)

- On support for participation in international organizations and processes, although decision has not been officially made, a few options that the Government is considering which include: a request for extension of the conditions applied to LDCs regarding budget contributions at the ITU; a request for the three-year extension on support to participate in meetings of the United Nations General Assembly and exploring with the relevant institutions possibilities for alternative support for travel to key intergovernmental meetings.

The Government will be in a position to define specific needs for international support to implement the STS, and therefore to manage a successful and sustainable graduation, following the finalization of the STS.

4. Impacts of COVID-19 and implications for preparations for graduation

COVID-19 and restrictions to contain the spread of the pandemic have exacerbated a number of Lao PDR's long-standing structural vulnerabilities and other challenges a broad range of areas.

The CDP recommended Lao PDR for graduation in 2021, but recognizing the exceptional circumstances induced by the COVID-19, the Committee at the time recommended an extended five-year preparatory period, instead of the standard three years. This means Lao PDR's is expected to graduate from LDC status in 2026. However, with the unfolding challenges imposed by the impacts of COVID-19 and other difficulties, graduation by this timeframe has become extremely difficult. As such, a request for revisiting the graduation timeframe might be an option keeping STS preparation in sight.

According to the recent Lao Resilience Framework (2022), some of key issues are highlighted as follow:

- **COVID-19 and the macro-fiscal environment**

COVID-19 slowed down economic growth and has possibly even to some extent reversed past development gains. Growth began to decelerate before the pandemic: declining from 6.3% in 2018 to 5.5% in 2019, before falling further to 3.3% in 2020, the lowest level in three decades. Meanwhile, public health measures succeeded in slowing the spread of the pandemic, but also resulted in job losses and income reductions as many sectors were severely obstructed. Declining economic activity pushed the unemployment rate to 23.4%, while the return of large numbers of migrants led to a substantial loss in remittances (a major source of income for nearly 10% of households)¹, and an increase in the poverty rate. The ADB (2022) projects that the Lao economy will grow by 2.5% in 2022 and 3.5% in 2023.² According to the Asian Development Outlook (2022), most businesses returned to normal operations in the first half of the year, and international tourist arrivals have increased. Volatile prices, particularly for petroleum products, have increased the cost of living, resulting in a softening of domestic consumption. Sharp increases in the prices of fertilizers, animal feed, food, and fuel discouraged activity in agriculture and manufacturing. These trends delay economic recovery.

- **COVID-19 and its effects on trade and private sector, value chains, and tourism**

The complex and somewhat opaque business environment and barriers to regional trade and integration limit the attractiveness of Lao PDR as an investment destination. The COVID-19 pandemic exacerbated trading challenges with international supply chain disruptions, contraction in private consumption, and a reduced external demand. The garment industry was heavily impacted with a growth rate decreasing by 14.3%; beverage industry by 12.7 % and furniture manufacture by 9.8 %. Women working in the garment and electronics industries have been disproportionately affected. The tourism sector was deemed a major contributor to the Lao PDR economy before 2020, generating over USD900 million in foreign exchange revenue in 2019. The pandemic brought this development to a sudden halt— businesses in the accommodation sector (hotels) have suffered the largest loss in sales.

- **COVID-19 and its effects on enhanced policy preparedness for decent work**

¹ Background Paper of the Multi-Stakeholder Taskforce to Study the Impact of COVID-19: Financing for Sustainable Development and Effective Development Cooperation (Macro-Fiscal Framework). November 2021.

²Asian Development Bank. *Supply Disruptions, Rising Prices Delay Lao PDR's Economic Recovery* <https://www.adb.org/news/supply-disruptions-rising-prices-delay-lao-pdr-economic-recovery-adb#:~:text=News%20Release%20%7C%202021%20September%202022&text=The%20update%20of%20ADB%27s%20flagship,%25%20from%203.7%25%20for%202023>, accessed October 4, 2022

(DRAFT FOR DISCUSSION ONLY)

COVID-19 affected the most disadvantaged and vulnerable disproportionately, particularly individuals in the informal economy and in insecure work, those working in low-skilled jobs, migrants and those belonging to ethnic groups (ILO 2021).³ There is a high dependence upon remittances. Most migrants sending remittances prior to COVID-19 had either stopped entirely or significantly reduced the amounts. In 2020, the World Bank estimated that remittances declined with up to USD125 million, or 0.7% of GDP. The pandemic heightened the risk of vulnerability among major demographic groups—women and youth. Women experienced disproportionate job and income losses, combined with increased unpaid domestic care responsibilities. Many youths experienced disruptions to their schooling, training, and work.

- **COVID-19 and its impact on human capital**

The education and health systems were greatly impacted by the COVID-19 pandemic. Like in other countries, school closures led to learning losses and likely worsened already low learning outcomes which may have irreversible long-term consequences if learning recovery is not prioritized. A 2019 Grade 5 assessment of learning outcomes showed Lao children are lagging behind those in neighbouring Southeast Asian countries with majority of Grade 5 students still performing at the level expected to be achieved in the early years of primary education for math, reading and writing.⁴ The shift to remote learning entailed learning loss for many. The pandemic situation exacerbated pre-existing education disparities by reducing the opportunities for many of the most vulnerable children, adolescents, and youth to continue their learning. National budgetary allocations for health and education services were reduced because of the economic and social demands of the pandemic. National lockdown measures and social distances protocols caused cancellation of outreach services, suspension of services at health centres/clinics, and a reduction in the coverage of essential nutrition services. Data from WHO revealed declining health outcomes during the pandemic. Firstly, the country experienced a decline of 4 percentage points in its measles and rubella vaccination coverage, from 83 % in 2019 to 79 % in 2020. Secondly, there was a reduction in contraceptive prevalence. Thirdly, abortions increased by 2 % and an increase in maternal deaths for women aged 15-24 to 48% of all maternal deaths, up from 35% in 2019.⁵ These impacts were greatest within the poorest consumption quintiles, persons residing in the most remote areas and those most vulnerable including those with disabilities.

- **COVID-19 and Green Growth, Resilience to Climate Change and Disaster Risk Management**

Lock down measures implemented globally to restrict the transmission of the coronavirus resulted in positive effects for the environment. According to Verma and Prakash (2020)⁶ minimal activity from industrial sites, factories and construction sectors improved air quality. Moreso, aviation emissions, which accounted for 2.4% of global CO₂ emissions in 2018, dropped significantly. Furthermore, following the lesser demand of power in industries, use of fossil fuels or conventional energy sources were lowered considerably. The pressure on ecosystems was also lowered. In several large cities, inhabitants experienced a clear sky and clear river water and a variety of birds were again seen in the localities. Additionally, the pollution level in tourist spots such as forests, sea beaches were reported lessened.

³ International Labour Organization. *Global call to action for a human-centred recovery from the COVID-19 crisis that is inclusive, sustainable and resilience*, https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_806092.pdf, accessed August 15, 2022

⁴ UNICEF. (2022). SEA-PLM 2019 Main Regional Report Children's learning in 6 Southeast Asian countries, <https://www.unicef.org/eap/media/7356/file/SEAPLM%202019%20Main%20Regional%20Report.pdf>, accessed October 29, 2022

⁵ UN, COVID 19 Recovery Background papers

⁶ Verma, Ashok K. and Prakash, Sadguru (2020). *Journal of Global Biosciences*. DOI: www.mutagens.co.in/jgb/vol.09/05/090506.pdf

(DRAFT FOR DISCUSSION ONLY)

In Lao PDR, there are different observations pertaining to improved air quality because of the lockdown measures implemented during the pandemic. USAID (2020, p.21)⁷ reported that there was a reduction in slash-and-burn agriculture and reduced vehicle emissions, resulting in better air quality (USAID 2020, p. 21). There has however also been evidence that COVID-19 actually increased local pressures on the environment, as travel restrictions on traders and loss of remittances from returning migrant workers increased communities' reliance on natural resources to meet food and income needs.⁸ Additionally, both domestic demand and export demand for electricity increased during the second half of 2020 and an overall increase of 33 % was expected by the end of 2020. This resulted in an interest in diversification of the energy mix to increase non-hydro renewable energy sources. This has also been associated with the need to mitigate the effects of lower rainfall resulting from climate change which has led the government to incorporate a different energy mix and supply diversification into Lao PDR's Integrated Resource and Resilience Planning process. Such a diversification in Lao PDR can however reversely also increase resilience to COVID-19 effects due to operating costs and tariffs governing renewable energy (USAID 2020).⁹

The 9th NSEDP requires macro-economic and fiscal stability to achieve resilient, green, inclusive, and sustainable growth. Investing in green growth, climate change resilience and disaster risk management will require substantial financial resources, both public and private. Environmental implications from COVID-19 in the medium to long-term could be detrimental. In the wake of drained government coffers to contain the pandemic and economic slowdown resulting in further reduction in government revenue which in turn affect the ability to service debt and other vital spending needs, the government has again turned to natural resources extraction and upfront payments for mining concessions as a short to medium term coping mechanism. In this context, the rapid implementation of measures to improve the business environment for private sector investment assumes heightened importance.

⁷ USAID. Final Report USAID/LAO PDR COVID-19 Assessment https://pdf.usaid.gov/pdf_docs/PA00XS7K.pdf accessed August 8, 2022

⁸ Rieger, Ricarda (2020) *Covid-19: Cleaner Air, well not in Laos*, <https://www.undp.org/laopdr/blog/covid-19-cleaner-air-well-not-laos> October 6, 2022

⁹ Ibid

(DRAFT FOR DISCUSSION ONLY)

**Annex - Summary of South-South Exchange Workshop (Bangkok,
22-24 August 2022)**



South-South Exchange on Preparing Smooth Transition Strategies:

Graduating cohort of 2021

Chairs' summary

Bangkok, 25 August 2022

FINAL DRAFT

Background

In February 2021, the Committee for Development Policy of the United Nations (CDP) recommended Bangladesh, Lao People's Democratic Republic (PDR), and Nepal for graduation from Least Developed Country (LDC) status. Recognizing the exceptional circumstances induced by the COVID-19, the Committee at the time recommended that all three countries be afforded an extended five-year preparatory period, in place of the standard 3 years¹⁰.

LDC graduation generally brings both challenges and opportunities. For the three graduating countries (graduating cohort of 2021), additional challenges were expected to arise from the COVID-19 pandemic and hence, they were provided with additional two years of preparatory period. These challenges have now been further compounded by the lingering global economic slowdown induced by the pandemic and further global challenges associated with the war in Ukraine. This has led to a fuel, fertilizer, food, and finance crisis in many parts of the world and further financial difficulties triggered by commensurate accelerations in inflation. For countries with significant US dollar denominated debts, there is the additional challenge of dwindling foreign currency stocks coupled with a depreciation of national tenders against major foreign currencies.

The three countries are expected to use the preparatory period to develop their Smooth Transition Strategies (STS), drawing on DESA's Smooth Transition Strategy Guidance Note and to implement them to manage the implications of graduation, ensure that development momentum is maintained, prevent disruptions to their development progress and ensure sustainable graduation.

At this juncture, along with UN agencies and experts in the areas of LDC graduation, the graduating cohort of 2021, all from the Asia region, came together to discuss, exchange views, and advise on opportunities, and areas of common concern for the preparation and implementation of their STS.

This South-South Exchange offered an opportunity to discuss *how* to develop and *what* actions to promote in the STS to manage the next steps in the development pathways of the three countries. The event was marked by an open collegial space for a frank exchange of views and mutual learning—and underscored that apart from the global imperative to tackle the triple planetary crisis on biodiversity loss, environmental degradation and climate change, the STS need to be tailored to the country specific contexts.

The South-South Exchange saw national representation from the government, private sector, research institutes and civil society organizations joined by experts from the UN Development System, multilateral organizations that included the Enhanced Integrated Framework (EIF), and International Trade Center (ITC), partners such as the European Union, and representatives from the Republic of Korea and Viet Nam. This broad and inclusive participation showcased good practice and possible pathways ahead, but also highlighted the many trade-offs that must be addressed to ensure a sustainable, irreversible, and quality LDC graduation. This underlined the necessity to approach the LDC graduation from, not only a whole of government, but a whole of society point of view.

To this end, this Chairs' summary represents a broad set of views and should not be seen as an endorsement by the participants. Rather, it highlights preparations already underway by the three countries and the range of considerations that the countries need to address and weigh against the many development priorities, sectors, and needs of their entire populations including those most at risk of being left behind due to the impacts of graduation.

The South-South Exchange on Preparing for Smooth Transition Strategies: Graduating Cohort of 2021 included the efforts to secure enhanced support as called for by the CDP. Drawing from the presentations and discussions in the plenaries and technical sessions, this document summarizes key takeaways from the workshop.

¹⁰ This recommendation was subsequently endorsed, in June 2021, by the United Nations Economic and Social Council (ECOSOC) and in November 2021, the UN General Assembly adopted resolution A/RES/76/8 'Graduation of Bangladesh, the Lao People's Democratic Republic and Nepal from the least developed country category' where it took note of their graduation from the LDC status.

(DRAFT FOR DISCUSSION ONLY)

The South-South Exchange workshop involved a discussion on consistent and coherent collaboration and support from the UN Development System, Multilateral Development Banks, regional organizations, and development partners in line with the recently adopted [Doha Programme of Action](#) (DPoA)¹¹ and earlier resolutions adopted by the United Nations General Assembly and the Economic and Social Council.

Further information about the workshop, including background note and presentations can be accessed at <https://www.un.org/ohrlls/events/south-south-exchange-preparing-smooth-transition-strategies-graduating-cohort-2021>.

¹¹ DPoA manifests a new generation of renewed and strengthened commitments between the least developed countries and their development partners, including the private sector, civil society, and governments at all levels. The final text of the DPoA was adopted during the first part of the LDC5 conference on March 17, 2022 and endorsed by the General Assembly through resolution A/76/258 on April 1 2022.

SECTION 1: STS APPROACH AND PROCESS

Technical Session 1: Sustainable Graduation - Investing in People and Leaving No One Behind

While preparing for smooth transition, the graduating cohort of 2021 also faces multiple crises, calling for flexibility and adaptability of smooth transition strategies. The intention to use the graduation momentum as a platform to ensure continued progress towards development goals was flagged.

It was suggested that Smooth Transition Strategies (STS) can take various forms but should derive from agreed national priorities as set out in respective national plans as well as subnational development and sectoral strategies and national integrated financing frameworks that are focused on achieving the SDGs.

In preparing STS, support can be requested from the iGRAD (Sustainable Graduation Support Facility) to seek i) guidance for strategic policy and technical advice and ii) connect countries to partners with required expertise when additional analysis on the impact of graduation and smooth transition measures is requested to inform the preparation of the STS. Other in-country vehicles for support include the UN – Bangladesh UN Sustainable Development Cooperation Framework (UNSDCF); the Lao PDR – UNSDCF 2022-2026; and the forthcoming Nepal – UNSDCF 2023-2027.

Based on the experience presented of the Republic of Korea it was indicated that political will, leadership and social consensus are vital for the formulation and results-focused implementation of realistic smooth transition strategies, achieving better outcomes and leaving no one behind.

Many participants flagged that significant investment in social protection, health and education over time will build the human capacity needed that can help countries to successfully tap into export markets for high value-added commodities. To leverage the benefits of the fourth industrial revolution and move into high-tech sectors, it was suggested to prepare the next generation of labour force with the diversified skills sets needed and derived from an improved formal education and other technical and vocational training opportunities.

As main drivers for implementing change and adapting to new requirements, private sector involvement in the design of STS is critical. Likewise, to ensure equity and leave no one behind, the role of civil society is crucial.

Smooth transition measures should be designed to address the possible adverse graduation impacts and may include 1) making use of existing and relevant LDC-specific International Support Measures (ISM), and 2) seeking extensions or changes in terms, conditions and/or modalities of existing ISMs through bilateral and multilateral negotiations with development and trading partners. Through iGRAD, support for addressing the loss of LDC-specific ISMs can be provided by: i) facilitating access to LDC specific capacity building programmes in priority areas related to LDC graduation; and ii) strengthening capacity of government officials to prepare and engage in negotiations advocating for extended LDC-specific ISMs, such as trade preferences and LDC-specific special and differential treatment under WTO agreements.

Smooth transition measures should also be designed to create advantages of emerging opportunities stemming from existing national or sectoral strategies, policies, policy programmes and reforms underway. Through iGRAD, support can be requested by graduating and graduated countries for improving the ability to access non-LDC specific support. Such support can be in the form of i) policy analyses; ii) assessments of funding opportunities in line with national development strategies; and iii) support in accessing non-LDC specific assistance in areas such as innovative financing, Aid for Trade, technology transfer, climate funding and innovative disaster risk reduction solutions.

The importance of monitoring the implementation of smooth transition strategies and integrating it with existing monitoring frameworks, including for monitoring progress towards reaching the SDGs, and of providing feedback to international support systems was also highlighted.

(DRAFT FOR DISCUSSION ONLY)

The meeting agreed on the usefulness of continued facilitation of South-South collaboration, dialogue and sharing country as well as region-specific knowledge and experience.

In this regard, the meeting requested the RCOs of the 3 countries to use the opportunity provided by the upcoming global meeting of RCs in October, in New York, in collaboration with UNDESA, the CDP, OHRLLS and other relevant partners, to raise attention about the outcome of this South-South Exchange and to propose that, in coordination with the Inter Agency Task Force on LDC graduation, future South-South Exchange meetings could be explored with all graduating and graduated countries.

(DRAFT FOR DISCUSSION ONLY)

SECTION 2: IMPACTS OF GRADUATION AND SMOOTH TRANSITION MEASURES

Technical Session 2: Preferential Market Access and Intellectual Property Rights (IPR)

It was suggested that while the extension of trade related international support measures can provide support for a smooth transition, domestic reforms are needed to foster structural transformation for enhancing competitiveness and to create social dialogue, which can be supported by development partners. The private sector has an important role to play including through public-private partnerships.

Thus, it would be important to promote policies that increase the competitiveness of domestic producers, including risk-informed investments in productive capacity to expand the local enterprise base, strengthen quality standards, and provide micro and small enterprises with the support they need to integrate into regional and global value chains. Access to quality education, including digital skills and lifelong learning are key in this respect.

It was suggested to continue advocating for the proposals of the LDC group at the WTO to extend preferential treatment, including the TRIPS waiver, which are still under negotiation.

A thorough analysis of the potential loss of trade preferences is needed as a basis for negotiations with trading partners, for which the UN provides tools, including the ESCAP TINA. This includes impacts of regional integration.

It was also highlighted that enhanced FDI can contribute to increasing exports and technology transfer. This can be achieved through increasing budget allocations and investments in education and human capital, improving the investment climate, including through legislation and lighter administrative procedures, and promoting linkages with the domestic private sector.

Technical Session 3: Product and Market Diversification in the Context of LDC Graduation

Graduating countries can access tools to estimate loss of market access and identify potential opportunities post-graduation, which were developed by the ITC and applied to Lao PDR and Nepal. Export potential can be identified, including for alternative products, markets, and where trade can be increased in selected markets, and where countries can concentrate efforts to improve market access. In addition to the potential, other factors and so-called non-trade issues, including compliance with international standards, wherefore the costs for its realization and impacts such as on the environment need to be considered.

It was also suggested that diversifying markets and products to reduce export concentration, can be promoted through trade facilitation, which can reduce trading costs significantly. Paperless trade and e-commerce are options to be considered. The services sector can also play an important role in product diversification. It was flagged that support to graduating countries via the EIF facility can be used up to 2031 by the 2021 cohort.

It was suggested to mobilize international support to strengthen and finance capacity development plans of trade and investment related government institutions. This includes capacity building for the analysis of the effects of trade agreements as well as negotiations of trade and investment agreements.

Capacity building and specific policy support for export sectors would benefit from a particular focus on Small and Medium-sized Enterprises (SMEs). The reskilling, upskilling and formalisation of the (often informal) workforce would support the adoption of frontier technologies.

Potential areas for collaboration between the three countries were identified, including regional production network, reskilling and upskilling and partnership for improved research and development (R&D) facilities that help in enhancing compliance capacities for Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) measures.

Technical Session 4: Graduation, Good Governance and Meeting International Standards for Trade

(DRAFT FOR DISCUSSION ONLY)

It was indicated that meeting international trade standards that promote compliance with human rights, labour laws, environmental standards etc. will become even more crucial in the future, to participate in global value chains. All three countries have pursued wide ranging reforms to comply with international conventions, with many more in the pipeline. The private sector has a significant role to play in fulfilling these requirements.

Compliance has costs but they induce businesses to pursue positive changes and often extract higher prices. However, for SMEs, compliance is challenging, often requires additional investments on training and qualitative upgrades of production lines and need to be supported.

The Generalised Scheme of Preferences (GSP) of the EU has been utilized widely. A new GSP scheme for the period 2024-2034 will include some changes in access and conditionalities. Countries upon graduation and exhausting the transition period of 3 years for Everything But Arms (EBA) will no longer be eligible to benefit from it and may consider applying for GSP+. While *GSP+* gives developing countries a special incentive to pursue sustainable development and good governance, the challenges in accessing it, were highlighted.

It was also stressed that price negotiation and ethical purchasing practices are critical and that there is a misconception that minimum wage affects price competitiveness. It was suggested that there needs to be uniformity in the code of conduct by buyers and stability of conditionalities. Furthermore, the protection of workers should be a shared responsibility between sellers and buyers of export products and fair prices need to be achieved.

The example of the Republic of Korea shows that exporting can be a conditioning factor to upgrade, including improved working conditions of women, reducing working hours, and different levels of productivity across sectors, companies' sizes, and other processes of streamlining standards which promote the uplifting of entire communities. In this regard, the [Tripartite Constituency](#) supported by the International Labour Organisation (ILO) with government, employer, and worker representatives was suggested a forum in which governments and social partners of the economy of its Member States can freely and openly debate and elaborate labour standards and policies.

Furthermore, successful transformation depends on the capacities to create a viable market economy. This requires strong democratic policies and practices, especially within the area of industrialization for economic growth.

Technical Session 5: Climate Change and LDC Graduation

All three countries are highly climate-vulnerable and all three have committed to nationally determined contributions (NDCs) through the Paris Agreement under the [UN Framework Convention on Climate Change](#) (UNFCCC). Ongoing climate change risks will continue to pose increasing threats to the development pathways of the three countries increasing the risks of regression. While the need for climate action will increase over time, graduating countries' access to climate finance might not. In this context, the panelists highlighted the development and diversification opportunities that climate action could bring for graduating LDCs. Increased energy efficiency and transition to renewable energy can bring significant savings and lower production cost. New technologies for harvesting geo-thermal energy and hydrogen can make use of existing fossil fuel infrastructure. The green economy and sustainable transition have the potential to create millions of new jobs while diversifying the production base of these economies. While product diversification, specifically export diversification is an imperative for graduating LDCs, service diversification for utilities could bring gains of similar or larger scale.

Participants of all three countries agreed that access to adaptation and mitigation finance, must continue to be concessional after graduation. Further, applications to [the Green Climate Fund](#) (GCF) and [Global Environment Facility](#) (GEF) needs to be simplified and made faster.

(DRAFT FOR DISCUSSION ONLY)

The private sector participants indicated strong interest in renewable energy. They suggested that cross border environmental projects and regional energy markets could be explored.

There was also consensus that transferring technology for climate mitigation and adaptation should be further prioritized by the international community. In this context integrating disaster risk reduction into the STS in order to promote the sustainability of development progress, could be considered.

Technical session 6: Effective Management of Development Finance during Graduation

The necessity of multi-stakeholder, inclusive, and holistic approaches to financing for development was emphasized, in particular in the context of a funding gap for the SDGs, and in most sectors. All development partners, including IFIs, need to be well integrated into the integrated national financing frameworks (INFF) process for policy coherence and legitimacy.

The financing gap for SDGs and national development priorities requires action through fiscal policy, debt- and expenditure management, and continued Official Development Assistance (ODA) support, but increasingly through the further alignment of private sector investments with national development priorities.

All countries have shown that tailored approaches are needed: Bangladesh, Lao PDR, and Nepal have integrated specific diagnostics or even strategies addressing priority sectors, such as social sectors, or climate change and environmental protection. Representatives working in social sectors and green growth highlighted the necessity to maintain ODA in these critical sectors, which would include dedicated technical assistance for capacity development, but also from the private sector, implying improvements to business environment.

Countries highlighted the challenges of ensuring the process remains inclusive, representing all sectors, and stakeholders.

On the integration of the STS and the INFF, countries mentioned the importance of the STS to include as smooth transition measures access to targeted technical assistance for financing sustainable transition and graduation plans.

Part of the value added of the INFF resides in its adaptability to new contexts: the overall approaches to making the best possible use of all resource flows to achieve development goals can be applied in countries facing diverse situations and challenges, and to managing the implications of transitions.

Monitoring progress on the integration of planning and financing (the financing strategies) and successful implementation will be critical moving forward.

In line with DPoA, through iGRAD, capacity building in the form of policy and technical advisory services to operationalize INFFs can be requested. Support can also be provided covering the full range of potential sources of financing across [the Addis Ababa Action Agenda](#) (AAAA). Furthermore, as a repository and clearinghouse of initiatives and projects in pursuit of graduating and graduated countries, assistance can be provided in facilitating access to finance. In country vehicles also include INFF processes led by the Government with support from development partners and associated efforts under the SDG Fund¹².

Technical session 7: Domestic Resource Mobilization

It was suggested that domestic resource mobilization needs to be understood more broadly than taxation, including the actions and engagement of local governments as well as fees and domestic bond issues.

The conversation shows that fiscal space is important for continued development progress, but with varying degrees among the countries, depending on the strength and SDG-alignment of the private sector to date.

¹² For more information, see <https://www.inff.org>, and <https://www.sdgfund.org/programmes>

(DRAFT FOR DISCUSSION ONLY)

Challenges of tax exemptions in Bangladesh and Lao PDR, were also covered in the conversation, and ways to simultaneously ensure growth and sufficient fiscal space.

Technical assistance that could be mobilised through the LDC Graduation platform revolved around support to Public Finance Management reforms, notably to fill data gaps with regards to a large informal sector, and capacity development and modernisation of the tax administration.

“Sin taxes”, in particular environmental fiscal reform, were mentioned as a way to mobilise additional resources and address environmental and climate challenges.

It was suggested that strengthening revenue collection and enforcement of fiscal law and regulations as well as fiscal policy that protects growth and vulnerable groups is critical.

To improve the accountability, transparency, and efficiency of public investments at the same time as broadening the tax base, it was highlighted that it is important to ensure that increasing government revenues directly translate into development returns, and to ensure a broad consensus on the essential need and common good of paying tax.

SECTION 3: STS ROADMAP AND PRIORITY ACTION PLAN

Technical Session 8: Prioritising Smooth Transition Measures and Identifying Implementation Modalities

Presentations by the delegations of Bangladesh, Lao PDR and Nepal featured many commonalities:

- For smooth transition, challenges of graduation as well as opportunities need to be analysed and addressed to make graduation irreversible and to further accelerate development progress beyond graduation.
- Policy solutions for smooth transition should be based on practical evidence supported by data;
- While preparations for a smooth transition strategy need to be led by government, other stakeholders - local and external need to be involved in its design and implementation;
- It is important to develop a flexible, practical, focused, and country-tailored STS, managing impacts of COVID and current but also potential future crises;
- Structural transformation through enhancing productivity which are closely linked to export and market diversification is critical;
- Safeguarding investments in social sectors building human capital, social protection and social resilience to shocks, are necessary;
- Adaptation and mitigation to climate change can be reflected in smooth transition strategies; and
- Financing mechanisms for implementable smooth transition strategies are a priority, including mobilization of domestic resources.

Areas for potential collaboration were also identified:

- Continuation of ISMs beyond graduation can be raised in the international forums - WTO, UN system, COP 27, LDC5 in Doha, etc.;
- Access to different forms of finance needs to be enhanced and used efficiently;
- Regional integration for boosting trade and enhancing human capital to make best utilization of existing ISMs; and
- Networking among the graduating cohort of 2021 and other graduated and graduating countries.