Towards Sustainable Graduation of South Asian LDCs in the aftermath of COVID-19: Challenges, Prospects and Policy Lessons
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Executive summary

Three of the least developed countries (LDCs) of South Asia - Bangladesh, Bhutan, and Nepal - are currently at various progressive stages of graduation from LDC status. LDC graduation will bring about a significant milestone in their development journey and new opportunities along with it, while also posing certain challenges with respect to meeting the demands of sustainable transition into the next stages of socio-economic development. Upon graduation, certain entitlements and international support measures (ISMs) accorded to them as LDCs will gradually become unavailable after specific transition periods. Some of these ISMs - provided by way of market access privileges and various special and differential treatment (S&D&T) provisions with respect to trade, concessions and priority access to development financing, and other modes of developmental support – have been of notable assistance to South Asian LDCs to varying degrees. Hence, new coping strategies are required to maintain the course of sustainable development during and after the graduation process, keeping in view the eventual loss of access to ISMs.

Prepared as part of the UNESCAP Framework on Socio-Economic Response to COVID-19, and also under UNESCAP’s mandate for supporting countries with special needs in the Asia-Pacific region, this paper points out that South Asian LDCs have important avenues and options to enhance preparedness for graduation, utilizing the transition period, through focused planning, domestic institutional reforms, strong governance, continual pursuit of economic diversification and structural transformation, building public and private capacities, expansion and diversification of trade structures, infrastructural and technological upgradation, consolidating and securing development financing sources, and by harnessing global partnerships for development. While expected loss of access to trade-related ISMs raises certain concerns, particularly for Bangladesh and Nepal, policy recourses at various fronts can be potentially employed to protect trade interests.

However, the outbreak of COVID-19 pandemic and its pervasive socio-economic impacts may have adverse consequences for planning and preparations for graduation, with disproportionately larger effects expected for LDCs with inherent weaker coping capacities. The devastations caused and uncertainties cast by the ongoing crisis, the full extent of which is yet to be known, may exacerbate pre-existing vulnerabilities of LDCs and slow down their recovery. This unprecedented situation calls for due considerations in the graduation processes and timelines, allowing for adequate flexibilities and additional transitional support as required by graduating LDCs to overcome the challenges posed by the pandemic.

Pathways of South Asian LDCs towards graduation

High economic growth rates, which laid the foundation for progress of South Asian LDCs towards graduation, needs to be sustained. All the three countries have maintained fairly consistent GDP growth rates of above 6% per annum during the last decade, barring a few exceptional years, placing them among the fastest growing LDCs. They have also been largely successful in translating high growth into socio-economic development with notable progress in poverty reduction and other outcomes by way of steady improvements in education, health and overall human capital development indicators. Given the importance of continuation of the high growth trajectories for smooth transition, it is of concern that COVID-19 outbreak is now expected to cause a detraction from the trends of the recent past.

Structural transformation remains an unfinished agenda. South Asian LDCs, as is case for a large majority of LDCs world over, continue to face several structural impediments and handicaps. A critical aspect of poverty cycles is inadequate mobility of labor from agriculture to other productive sectors. Inability to effectuate economic diversification at a faster rate, and thereby create opportunities in manufacturing and services sectors, leads to perpetuation of high dependence on primary sectors and low value-added extractive industries. Such structural imbalances affect delivery of public services in rural agrarian localities, prolonging penetration of measures to enhance productivity including infusion of mechanization and agricultural technology, and thereby slowing down the rate of improvement in rural livelihoods. Growth in non-agricultural sectors need to be more broad-based and diversified, with policies to close skill mismatches and thereby facilitate labor mobility across sectors.

Accelerated actions required for closing development gaps and achieving the SDGs. As a broad-based development process, LDC graduation shares many commonalities in terms of both content and approach, and hence is closely linked, with the SDGs and the Istanbul Programme of Action (IPoA). The progress report on SDGs shows that South Asia
is lagging behind in most of the key goals and targets, with the progress rates of LDCs of the region observed to be slower than developing countries. Persisting gaps are observed also on most of the LDC specific targets and actions under the SDGs, such as doubling the share of LDCs in global exports by 2020. In order to stay on course for the 2030 Sustainable Development Agenda, South Asian LDCs must fast-track their actions for economic productivity, full employment and decent work, affordable and equitable access to reliable infrastructure, while improving resilience to disasters and climate change. Policy interventions in these areas have significant overlaps with social spending, human development, public welfare programmes and safety nets that are closely associated with preparedness for LDC graduation.

**Development financing constraints remain as a critical challenge for sustainable graduation.**

Expansion of financing portfolios is essential for South Asian LDCs against widening resource gaps. Assessments of resource requirements for aligning the SDGs with national planning, with closely associated linkages to LDC graduation, reveal that targets far exceed current resource pool. Hence a diversification strategy needs to be adopted with the budget outlay to be augmented with a variety of sources including domestic private sources and external funding streams. Improving the financing portfolio with an optimal mix of domestic and external sources is also critical in the context of evolving international development finance landscape, as there has been a gradual decline in the flow of concessional finance to LDCs. The composition of various external financing streams available to LDCs - from ODA, debt instruments, FDI, portfolio investments, remittances, and blended finance – are changing significantly.

Persistent structural issues and stagnation in productivity slows down efforts to broaden income base and affect the ability to scale-up public revenue and private capital expenditure in South Asian LDCs. General structural features, with dominance of agriculture and informal sectors which are often less amenable to taxation, have constrained expansion of tax base. Inefficiencies and leakages in the tax systems obstruct improvements in tax-to-GDP ratios. Moreover, the outlook for growth of foreign inflows, particularly FDI and remittances, is considerably dampened by the COVID-19 outbreak, potentially causing a major setback for expansion of development financing portfolios in the near term for South Asian LDCs. Development financing prospects are at risks also due to change in priorities, such as dealing with the health distress and job losses due to lockdowns, forcing LDCs to divert funds to relief measures including direct income support, subsidies and tax relief with direct implications for both revenue and expenditure sides.

**COVID-19 threatens sustainable graduation pathways of South Asian LDCs in multiple ways.**

High dependence of South Asian LDCs on some of the key sectors which are substantially impacted by exposure to the pandemic, including trade-oriented manufacturing and key services sectors of tourism and travel etc. These dominant sectors are also generally labor-intensive, comprising mostly of informal sector and small and medium enterprises (SMEs) with low operational margins and without adequate insurance coverage. Given the criticality of trade for graduation, subdued global demand for prolonged periods could cause serious disruptions to preparations for adaptation following loss of trade...
related ISMs, and this may warrant continuation of some of the ISMS and additional transitional support.

Impacts on trade and remittances flow are expected to trigger deterioration of the current account, while unpredictable market conditions and loss of investor confidence may affect FDI and short-term financial inflows to LDCs. This coupled with increasing burden on domestic resources for COVID-19 relief measures and falling tax revenues may constrict social sector spending, which could in turn spiral into other domestic fiscal and monetary management issues with both short-term and long-term implications for development planning. Redeployment of resources to deal with the immediate health emergency and economic recovery would have a direct impact on the planned outlay for meeting the investment requirements of transition for the coming years. Moreover, the intemporal nature of COVID-19 impacts, reasonably expecting some of the negative developmental setbacks to surface with a delayed timeline and/or spread over many years, may pose difficulties for graduation assessments and processes as well.

**Policy Priorities for Sustainable Transition from LDC Status**

Regardless of the differences in their endowments and projected post-graduation scenarios, there are many common reform themes applicable to all the three South Asian LDCs; on building trade capacities, continuation of economic diversification and structural reforms, enhancing job creation and social security, improving the financing mix and alignment of national planning with the SDGs. It is important that the momentum of reformative actions in these areas is maintained for ensuring smooth transition from LDC status. However, given that post COVID-19 conditions may weaken capacity for domestic reforms, adversely affect resource mobilization, change spending priorities and impose continued dependency on ISMs, South Asian LDCs also need to reposition their respective graduation strategies, planning and processes. A renewed approach need not imply a substantial departure from conventional pathways. Rather, it entails weighing of the new constraints posed by the pandemic against their potential effects on existing planning framework. A select set of priorities in this regard may be as follows:

**Containing the COVID-19 crisis and its adverse development impacts:** The immediate priority is to focus on steps to arrest the health crisis, to save lives and minimize the damages to national economic and social security. A sequential path may be followed for easing of commercial activities from imposed restrictions, accompanied by measures aimed at economic revival including fiscal stimulus and monetary measures to ease liquidity and credit flows. Depending on the evolving magnitude of the crisis, further increase in fiscal support may be required, with recent assessments by UESCAP based on the current outlook suggesting desirable levels of 11% for Bangladesh and 9% for Nepal. As this would put additional stress on the resources at their disposal, both measures to expand fiscal space and mobilization of international support are required to sustain adequate fund infusion for recovery.

**Sustaining trade-led development prospects:** Graduation entails certain necessary measures to adapt to new trading conditions for all the three South Asian LDCs, broadly covering external market access and domestic supply-side reforms, which needs to be pursued simultaneously to guard against market access losses. Priorities in this regard includes; (a) negotiations with strategic trading partners to protect market access interests, and to secure transitional support and extension of ISMs for sufficient period of time following graduation, including seeking continued preferences in SAFTA as LDC which was given earlier to Maldives; (b) deepening partnerships through RTAs for market access expansion and trade diversification keeping the long-term interests in view, preferably with a sectoral focus as in the case of textile and garment exports of Bangladesh which is singled out as the biggest concern among LDC graduation challenges; (c) efforts to utilize intra-regional trade opportunities with South Asian trading partners, which remains highly underexploited for South Asian LDCs; (d) measures to protect trade interests of graduating LDCs at the multilateral level, in key areas such as LDC specific provisions with respect to DFQF market access, usage of non-agricultural export subsidies, TRIPS waiver in the interest of domestic pharmaceutical industries etc., possibly through joint efforts by the LDC Group members at the WTO; (e) effective implementation of trade facilitation reforms for reducing costs and improving competitiveness; (f) policy reforms and infrastructural investments to improve transport connectivity and trade logistics services, (g) tapping into services trade opportunities, and (h) continued pursuit of export diversification and a spectrum of supply-side reforms aimed at building long-term trade capacities.

**Sustaining structural reforms and development financing:** One of the main priorities for South Asian LDCs is to continue structural reforms, for modernization of the agricultural sector, expansion of the productive base of industry and build on sector specific competencies in key services sectors. There are many avenues for sustaining external support for agrarian reforms, and projects with mutually supportive outcomes between farm and no-farm sectors have greater chances to attract financing from donor agencies and partners. South Asian LDCs must strive to prioritize such projects for ODA allocations and call for strategic support and channeling of ODA
resources to the recently graduating LDCs in order to assist them in sustainable transition.

Support measures and instruments should also be used to address supply-side constraints which cripple growth of labour-intensive manufacturing. Priorities in this regard include (a) effective utilisation of transition period to employ ISMs for the development of institutional and technological capabilities, and for bridging skilling gaps and the digital divide; (b) exploiting alternative development support measures and financing instruments, tapping into global partnerships, under the guidance of the consultative group to be formed for guiding smooth transition; (c) efforts for diversifying and expanding the financing portfolio, including by attracting project-based financing support, such as in the case of projects linked with infrastructure and climate actions, under concessional loans and grants from Multilateral Development Banks; and (d) utilizing improved credit rating and prospects of FDI and other streams of commercial fund inflows.

Synergizing LDC graduation with the SDGs and preparing for UNLDC-V: Realignment of national development policy framework with SDGs, which is an ongoing process in South Asian LDCs, also involves integrating graduation challenges with national SDG programming. Trade as an enabler of development is a major cross-cutting theme in the ongoing LDC graduation process and in the alignment of national development priorities with SDGs. An important opportunity in this regard is the upcoming Fifth UN Conference on the LDCs (UNLDC-V), scheduled for January 2022, which will lead to comprehensive Programme of Action for LDCs. Supporting LDC graduation being one of the main built-in goals, reform priorities for structural transformation, enhancement of productive capacities and building infrastructure, including for sustainable energy, should be given due importance with emphasis on channels of implementation and international support mobilization in the new Programme of Action.

Administrative reforms for whole-of-government approach to sustainable transition: Given that the multidimensionality of both LDC graduation and implementation of the SDGs require a unified approach to planning, efficient coordination between various ministries and departments within the national governance framework is needed. The national task force formed by Bangladesh, chaired by the Principal Coordinator for SDG Affairs at the Prime Minister’s Office, to implement the roadmap for LDC graduation with the involvement and participation of different ministries/departments is an example. This could provide learning for Bhutan and Nepal, as similar administrative reforms are underway in both countries. Effective coordination, placing graduation in the broader light of the pursuit of SDGs, can potentially improve governance structures, avoid duplication of efforts and optimal usage of resources.

Cooperation between graduating LDCs: With many common challenges and prospects emerging out of their respective graduation scenarios, and similarities in reform requirements, it would be beneficial for South Asian LDCs to collaborate and cooperate amongst themselves in areas of mutual interest, particularly in the context of common positions at international fora for extension of concession and continuation of ISMs. The three countries can also cooperate to exploit mutual trade complementarities between them, especially in energy (electricity) trade. They have opportunities to work together to improve economic and political environment in the subregion, and to enable deeper integration with each other utilizing India’s territory and vibrant economy as a conduit and catalyst.

External assistance for capacity building: Several multilateral organizations and development partners such as UNESCOP provides technical assistance and capacity-building opportunities for graduating LDCs. Such programmes cover a wide spectrum of areas covering trade related reforms and numerous other areas pertaining to sustainable development such as sectoral issues, productivity, skilling, entrepreneurial, labor market reforms, SME development, technology, connectivity and infrastructure, financial inclusion, resource mobilization etc.

Leveraging global support for building back better: The devastations caused by COVID-19 outbreak has inspired mobilization of support for the most vulnerable countries at the global level. As the coverage of many of the support packages, including the COVID-19 Response and Recovery Fund being mobilized by the United Nations Development System (UNDS), gives due importance to the special needs of LDCs and has significant overlaps with LDC graduation concerns as well, they offer opportunities to recover stronger from the pandemic and get back on track for sustainable graduation.

Considerations for graduation timeline post COVID-19: The devastations caused by COVID-19 outbreak also holds certain critical implications for the current timelines for graduation, in terms of the procedures ahead. The complexity of the pandemic’s influence on development parameters may necessitate reconsideration of the current graduation timelines and processes with due considerations of, (a) possibilities of prolonged containment period and recovery, (b) potential intertemporal socio-economic impacts, (c) extended time that may be required for country specific situation analyses, consultations with domestic stakeholders and external development
partners, preparation of revised transition support framework, and needs assessment for continuation of ISMs (d) utilization plan for international COVID-19 relief being mobilized for LDCs, and (e) assessment of long-term resource requirements against projections of financing gaps.

Giving primacy to long term sustainability of graduation, adequate flexibilities in the processes may be desirable during the next CDP meeting scheduled in February 2021, such as (a) deferment of recommendation for graduation to the 2024 triennial review; and/or (b) extension of transitional support measures for an additional period of three years. The South Asian LDCs can thus avail longer transition periods, before graduation becomes effective, if demanded so by their respective paths of recovery. However, pursuit of these options needs a consultative process with the graduating LDCs and relevant stakeholders.
1. Introduction

1.1 LDC graduation: A milestone to productive transformation

The category of the least developed countries (LDCs) was established in 1971 by the United Nations General Assembly1 as a group of low-income developing countries facing unique challenges to sustainable development due to severe structural impediments and vulnerabilities, which would require special assistance and support measures. A composite metric consisting of various economic, social and environmental vulnerability indicators is used to classify countries as LDCs and to assess their eligibility to graduate from LDC status. Though the original principle of identifying LDCs as “low-income countries that face structural handicaps” has been kept unchanged, the criteria have undergone changes over time to reflect improvements in data availability and the evolution in development theory and practice.2 Since its inception, more countries have joined the category than have left it,3 indicating the difficulties of prevailing upon the extreme vulnerabilities and structural weaknesses LDCs suffer from. Graduation of a country from LDC status is therefore a significant breakthrough, opening new sustainable development pathways.

The United Nations Conferences on Least Developed Countries held once in ten years since 1981 have reviewed the status of development of LDCs and adopted programmes of action to assist them to accelerate their progress. The Fourth UN Conference on the Least Developed Countries, held in Istanbul, Turkey, in May 2011, adopted the Programme of Action for the Least Developed Countries for the Decade 2011-2020, also known as the Istanbul Programme of Action (IPoA), that charts out the international community’s vision and strategy for the sustainable development of LDCs for the Decade 2011-2020 with a focus on developing their productive capacities. It specifically aimed to enable half of the LDCs to meet the criteria for graduation, which is closely related to the objective to achieve sustained, equitable and inclusive economic growth in LDCs to at least a level of 7 percent annually.4

Graduation from LDC indicates the progressive development achievements of a country on various fronts. However it also brings certain challenges, as the graduating country eventually loses access to certain privileges and International Support Measures (ISMs) which were earlier available to it.5 Among expected impacts, perhaps the single most critical one for most of the LDCs would be by way of not being eligible for unilateral and non-reciprocal trade preferences granted under Duty-Free Quota-Free (DFQF) schemes that are offered to LDCs by various developed and developing trading partners. In addition, graduated LDCs losses entitlements for several flexibilities that are allowed by way of special and differential (S&D) treatments under WTO agreements and future negotiations as well as under various preferential/free trade agreements (PTAs/FTAs) they are part of. The loss of LDC preferential market access upon graduation will impact countries differently, depending on their utilization of preference schemes, productive capacity, export structure and markets. In order to continue their path of sustainable development, they will be required to retain their market shares, diversify markets and products and maintain the course of structural transformation.

1.2 Graduation of South Asian LDCs6

Maldives was the first South Asian LDC to graduate in 2011. Out of the remaining four LDCs, three - Bangladesh, Bhutan, and Nepal - are currently at various stages of graduation. The term ‘South Asian LDCs’ is used in the subsequent sections of this report to refer to these three countries. All the three countries struggle against stifling disadvantages: Bangladesh with the highest poverty headcount among LDCs, and Bhutan and Nepal as mountainous landlocked countries. They are also found to be highly sensitive to environmental and disaster risks and they started with low baseline development indicators and continue to have structural issues7 to deal with in varying degrees. Bhutan and Nepal took the first step towards graduation by meeting two out of the three criteria8 - Per capita GNI, Economic Vulnerability Index (EVI),9 and Human Assets Index (HAI) – in the triennial review of 2015 conducted by the Committee for Development Policy (CDP) of the United Nations.10

As per the stipulated rule, Bhutan cleared the thresholds for Per capita GNI and HAI, and Nepal for EVI and HAI. Upon meeting the criteria consecutively for a second time in the triennial review of 2018, both countries became eligible for recommendation for graduation (Table 1).
However, upon their request, the stages of progress in the graduation process have been deferred for both countries. Nepal cited economic vulnerabilities against the backdrop of recovery from the devastating earthquake of 2015. Accordingly, graduation may become effective from 2024, following a transition period of 3 years after next triennial review of 2021. Bhutan wished graduation to become effective by 2023, to coincide with the conclusion of the ongoing 12th national five-year plan, which envisages policy programmes to ensure a smooth transition from LDC status. Bangladesh has qualified for the first time in the triennial review of 2018, by meeting all the three graduation criteria, and will be recommended for graduation with a three-year transition period, if the country qualifies for a second consecutive time in the forthcoming review in February 2021.

Graduation of South Asian LDCs signifies a gradual developmental transformation taking shape in the subregion. As a subregion with enormous development challenges, accounting for almost one-third of the global population suffering from poverty and hunger, progress milestones achieved by Bangladesh, Bhutan and Nepal send positive signals. These countries can now look forward to participating and contributing to regional cooperation for sustainable development from the vantage point of being developing countries. However, they must first confront difficulties of the new policy environment that graduation entails and make the transition effective and tenable.

The three graduating LDCs of South Asia have varying degrees dependence on trade for their development - Bangladesh being the largest exporter among LDCs, Bhutan on export of hydropower, and Nepal on tourism and other services exports (particularly ICT and remittance receipt though mode 4 of services exports). Unilateral and non-reciprocal trade preferences currently availed by them as LDCs have played a critical role in their progress so far. Since Bangladesh and Nepal are also the WTO members, graduation will bring additional challenges to them in terms of eventual loss of LDC waivers and exceptions provided under various WTO Agreements. Potential changes in existing market access conditions and access to ISMs post-graduation therefore would necessitate new coping strategies for the South Asian LDCs, with implications for their overall development planning.

### Table 1

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita GNI</th>
<th>Human Assets Index (HAI)</th>
<th>Economic Vulnerability Index (EVI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>$1274</td>
<td>73.2</td>
<td>25.2</td>
</tr>
<tr>
<td>Bhutan</td>
<td>$2401</td>
<td>72.9</td>
<td>36.3</td>
</tr>
<tr>
<td>Nepal</td>
<td>$745</td>
<td>71.2</td>
<td>25.1</td>
</tr>
</tbody>
</table>

Source: Committee for Development Policy, United Nation, 2019

Notes: Bhutan and Nepal met the criteria for the second consecutive time and Bangladesh for the first time in the triennial review of 2018.

### 1.3 LDC graduation and global development agenda: The Istanbul Programme of Action and the Sustainable Development Goals

As a broad-based development process, LDC graduation shares many commonalities in terms of both approach to policy planning and development goals under the Istanbul Programme of Action (IPoA) and the 2030 Agenda comprising 17 Sustainable Development Goals (SDGs). As the principal vision and strategy of the international community for sustainable development of LDCs, the IPoA has very close overlaps with LDC graduation, having set one of its overarching goals as ‘enabling half the number of LDCs to meet the criteria for graduation’. IPoA’s eight interlinked priority areas including productive capacity, agriculture, food security, trade, social development, environmental risks and development financing are integral to actions for meeting the graduation criteria.
The SDGs have a broader coverage, subsuming most of the key IPoA targets, with many of its 169 targets covering LDC specific action points explicitly (Annex Table 1). A mapping exercise conducted by UNESCAP finds highly complementary and symbiotic relationship between IPoA and SDGs to the extent that the IPoA could provide guidance on planning for the SDGs, justifying simultaneous implementation of both agendas (with a particular focus on their common aspects) to enhance effectiveness and lower implementation costs.\(^{14}\)

Comprehending the close linkages between the triad of LDC graduation, SDGs and IPoA (Box 1) is critical at least for two reasons; (1) the linkages presents opportunities for synergies by way of policy alignment at the national level resulting in better allocation and utilization of planning resources, (2) the linkages allow graduation planning at the national level to benefit from international cooperation for development, collective actions and external assistance provisioned under the SDGs and IPoA, particularly global partnerships under the SDGs (Goal 17) and commitments of development partners under the IPoA (109 actions for development partners).

Initiatives have been undertaken by South Asian LDCs to bring forth alignment of graduation strategies with the implementation of SDGs and IPoA. All three countries have made efforts to integrate SDGs/IPoA targets into national development strategies. Bangladesh utilized the beginning of the ongoing 7th Five Year Plan (FYP 2016-20), immediately following the adoption of the 2030 Agenda in 2015, to build SDG framework into planning strategies, giving the country an early start. Accordingly, all the 17 goals were integrated into the 7th Plan, with 14 goals thematically fully aligned and 3 goals (Goal 14, Goal 16 and Goal 17) partially aligned.\(^{15}\) Weaving into further long-term planning, Bangladesh’s second perspective plan 2021-2041 (PP41), which will be implemented through the cycles of the 8th and 9th FYPs, has integrated a set of targets for achievement of the SDGs and smooth transition from LDC to upper middle-income country (UMIC) status.

According to a Rapid Integrated Assessment of Bhutan’s 11th Five Year Plan (FYP 2013-18), 134 SDGs targets were aligned with the indicators of the 11th FYP. In continuation, the National Key Result Areas (NKRAs) and Key Performance Indicators (KPIs) of the current 12th Plan (2019-23) are strongly aligned to all the 17 Goals.\(^{16}\) Nepal, one of the first countries to prepare a preliminary SDGs Report in 2015, has incorporated SDGs/IPoA targets into the 14th and 15th national periodic plans and sectoral strategies which have been in implementation successively since 2016.\(^{17}\)

Recognizing that SDGs implementation requires effective coordination among different administrative agencies, Bangladesh created a special institutional mechanism to coordinate implementation of the SDGs. Similar administrative arrangements are underway in Bhutan and Nepal. National Planning Commission (NPC) is assigned as a custodian of SDGs in Nepal.\(^{18}\) In recent reviews, scope for further improvements in integration of targets in national planning process and development of institutional mechanism have been recognized. South Asian LDCs have also raised issues of financing gaps, cooperation on STI, continuation of trade-related ISMs, and special assistance and support for climate change related measures in the respective stock-taking exercises for IPoA implementation conducted in 2019.\(^{19}\)

<table>
<thead>
<tr>
<th>Box 1</th>
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<tbody>
<tr>
<td><strong>Linkages of LDC Graduation with SDGs and IPoA</strong></td>
</tr>
</tbody>
</table>

LDC graduation relates with the SDGs and IPoA in complex ways, with commonalities cutting across numerous goals, targets and actions. They are thematically linked by the underpinning principles of sustainable development, by way of structural transformation, improved productive capacities and social and environmental stability. Detailed mapping exercises shows that as many as 94 of the 196 SDG targets may be deemed as supportive of attaining the 3 graduation indicators, some of them related to more than one indicator.\(^{20}\) At least 60 specific targets are found to be linked to the income criterion (per capita GNI) while a minimum of 17 and 31 targets have strong causality towards the HAI and EVI criteria respectively. Furthermore, at least 50 SDG targets are aligned with six broad areas of ‘graduation-plus’ strategies prescribed by UNCTAD, namely rural transformation, industrial policy, STI, finance, macroeconomic policy and employment generation.\(^{21}\)

Similar matching exercise finds that about 83 SDG targets are potentially linked with the 47 goals and targets, and actions (126 actions for LDCs, 109 actions for development partners and 16 joint actions) under the eight priority areas of the IPoA. Several of the commitments and measurable deliverables for LDCs under the SDGs emanate from IPoA, such as 7% target for economic growth rate, doubling of the share of LDCs exports in global exports by 2020, commitment to ensure timely implementation of duty-free, quota-free (DFQF) market access for all LDCs, enhanced flow of ODA resources by 2015 and Aid for trade, investment promotion for LDCs by development partners, and technology transfers to LDCs including through a technology bank.
For developing and integrated approach to policy planning, it is important to comprehend the varying degrees of network strengths and directions of causalities between targets of the three pillars of LDC graduation, the SDGs and IPoA. While planning for certain common targets aids the achievement of thresholds of graduation indices, some of the underlying policy actions for the achievement of graduation indices are contributory to correspondingly linked SDGs/IPoA targets (Figure 1). Certain SDGs/IPoA targets share a mutually reinforcing relationship with graduation indices, bound by bidirectional causality. For instance, progress made in term of raising income (per capita GNI) and reducing economic vulnerability (EVI) support the common goal of eradication of hunger, which in turn positively influences human development indicators underpinning the corresponding graduation criterion of HAI. A deeper understanding of the bearings of relations between SDGs/IPoA targets and graduation indicators would enable design and implementation of effective national strategies.

![Figure 1](Image)

**Examples of Causal Linkages between SDGs and IPoA Targets with Graduation Indicators**

<table>
<thead>
<tr>
<th>Select common targets of SDGs and IPoA on food security, agriculture, trade and education</th>
<th>LDC Graduation Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eradication of hunger [SDGs: 2.1, 2.2; IPoA: 59.a]</td>
<td>p.c.GNI</td>
</tr>
<tr>
<td>Improving agricultural productivity and promoting sustainable agricultural practices [SDGs: 2.3; IPoA: 60.2.a]</td>
<td></td>
</tr>
<tr>
<td>Doubling the share of LDCs’ exports in global exports [SDGs: 17.11; IPoA: 65.a]</td>
<td></td>
</tr>
<tr>
<td>Maintain GDP growth in LDCs at least by 7 per cent per annum [SDGs: 8.1; IPoA: Objectives 28.a]</td>
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<td>Diversification of export products and markets [SDGs: 8.2; IPoA: 66.2.c]</td>
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<tr>
<td>Implementation of trade-related technical assistance and capacity building [SDGs: 8.2; IPoA: 63.3.e]</td>
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<tr>
<td>Universal access to free primary education [SDGs: 4.1; IPoA: 73.a]</td>
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<td>Eliminate gender disparities in education [SDGs:4.5, IPoA: 73.c]</td>
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Source: UNESCAP based on UN-OHRLLS (2016) and Khatun et al (2019)

The assessment report of the United Nations on implementation of IPoA, as the Programme approaches the end of its term in 2020, acknowledges unfinished development goals, continuing problems in structural reforms and environmental vulnerabilities faced by LDCs. The Fifth United Nations Conference on LDCs (UNLDC-V) scheduled for January 2022 at Doha, Qatar, provides an opportunity for South Asian LDCs to protect their interests and fulfill their expectations by contributing to the framing of a comprehensive programme successive to the IPoA. Based on the preliminary findings of the review of IPoA at the Asia-Pacific regional level, it has been suggested that the next programme of action should have strong links to implementation of the SDGs in LDCs, with a set of priority areas founded on building productive capacities, promoting structural transformation and leveraging regional cooperation.

The 8th Ministerial Conference of the LDCs, held in 2019 as a preparatory to UNLDC-V, called for a new programme of action “gaining on the lessons learned and replicating best practices from the IPoA, and also from the first five years of SDGs implementation in LDCs.” Furthermore, South Asian LDCs also need to harness global development partnerships, along with domestic policy and institutional reforms, to address the remaining gaps in building synergies between LDC graduation and the SDGs. Towards this, the ongoing ‘Decade of Action’ for accelerating the implementation of the 2030 Development Agenda offers new possibilities.
1.4 Implications of the COVID-19 outbreak for LDC graduation

The COVID-19 outbreak has led to devastation of global proportions, the full extent of which is unknown as of yet as its spread remains uncontained at the time of writing of this report. Multiple accounts of tracking the impacts of the pandemic confirms that South Asia is entering a recessionary phase, as is the world economy at large. A comprehensive socio-economic impact assessment of South Asia’s situation by UNESCAP indicates negative economic growth and massive job losses threatening to pull back millions into poverty. The study estimated that in South Asia as many as 132 million people could be pushed into extreme ($1.9/day) poverty in South Asia, bulk of them being in India followed by Bangladesh, Pakistan, Nepal and Sri Lanka. This means reversal of gains in poverty reduction of a whole decade. With their inherent vulnerabilities and limited capacities and resources to mitigate the impacts of the pandemic, LDCs are expected to be affected disproportionately.

Along with rest of the world, South Asian LDCs were forced to impose restrictive measures during the early stages of the pandemic. Though steps were taken to minimize disruptions to essential goods and medical supplies, closing of international borders and restricting cross-border transportation have disrupted their supply chains, saw many export orders getting cancelled, many export-oriented factories closed and employees losing their jobs. The fact that some of the most severely, directly and immediately impacted sectors are of vital importance to South Asian LDCs is of grave concern, particularly tourism for Bhutan and Nepal, and textile and garment exports for Bangladesh. Damages caused to these key drivers would have a domino effect cutting across all sectors of their economies and sections of their population.

Socio-economic fallouts of the pandemic would have serious consequences for LDC graduation, as it may pull down various indicators for graduation, however the data will not be available for February 2021 review. Estimates forecasts rise in income and wealth inequalities, downturn in trade and economic growth, which would widen existing development gaps. Sharp fall in domestic incomes, remittances – a significant source of revenue for both Bangladesh and Nepal – and foreign investments can disrupt their development financing outlay and transition strategies. Uncertain recovery path ahead casts doubts over graduation assessment processes and timelines. The CDP has acknowledged potential hurdles raised by the pandemic for preparations of LDCs that are graduating and those to be considered for graduation at the next triennial review of 2021. Additional country level reviews taking account of COVID-19 impacts are proposed, especially for the 5 LDCs poised for meeting the criteria for a second consecutive review, including Bangladesh and Nepal, however lack of empirical data may not give a clear picture. At the same time, the deep rooted and multifaceted issues raised by the pandemic threatens the sustainability of graduation, even for those LDCs including Bhutan which are in advanced stages of graduation. Potential implications of COVID-19 for graduation of South Asian LDCs are examined in greater detail in subsequent chapters of this report, drawing out certain essential considerations for the steps ahead.

1.5 Organization of the paper

This report is organized as follows: Chapter 2 discusses the development pathways that led South Asian LDCs to the graduation process, remaining development gaps including the those in the way of achieving SDGs which they would need to address going forward, and broad implications of loss of different categories of ISMs. Chapters 3 and 4 deals implications of graduation for trade and development financing respectively, as two of the most critical areas. The chapters also cover how COVID-19 potentially affects the status quo of policy paradigms with respect to trade and development financing. Chapter 5 examines the overall potential impacts of COVID-19 for the sustainability of graduation for South Asian LDCs, as well as the implications for graduation processes and timelines. Chapter 6 discusses the policy priorities for preparedness for graduation in the emerging context.
2. Pathways of South Asian LDCs towards Graduation: Opportunities and Challenges

2.1 Steady progress in translating economic growth into development outcomes

High economic growth rates laid the foundation for progress of South Asian LDCs towards graduation. All the three countries have maintained fairly consistent GDP growth rates around 6 percent per annum during the last decade, barring a few exceptional years (Figure 2). Rising up from 3.8% in 2002, Bangladesh’s GDP growth has stayed consistently above 6% since 2010 and from 2016 onwards the growth rates crossed 7%, making it one of the fastest growing economies among large LDCs. Though Bhutan experienced some fluctuations, average annual growth rate has stayed above 6% since 2008. Nepal’s GDP growth rate strongly rebounded to 7.9% in 2017, following a sharp decline in 2016 due to losses to the tune US$ 7 billion (close to 40% of GDP) post 2015 earthquake. GDP growth rates for 2019 showed more than 7% growth for Bangladesh and more than 6% for both Bhutan and Nepal. Although advanced projections for 2020 before COVID-19 revealed high likelihood of a continuation of the high growth trends of the recent past for all the three countries, COVID-19 outbreak is now expected to cause a detraction from that trend.

All the three countries evidently succeeded in translating high growth into socio-economic development. Poverty headcount and rate (% of population) has been reduced sharply. Both Bangladesh and Nepal have brought down poverty ratios ($1.9 poverty line) below 15%. Bhutan has reduced poverty rate to less than 2%. Outcomes are also visible in terms of better education, health and overall human capital development. All of these improved their Human Development Index scores over the last two decades. The rate of improvement has been sharper in terms of the Human Assets Index (used for LDC graduation assessments) which focuses on select health and education indicators (Figure 3). Between 1990 and 2017, Bangladesh’s life expectancy at birth increased by 14.4 years, mean years of schooling increased by 3 years and expected years of schooling increased by 5.8 years. The last two decades also saw steady decline in child mortality rates (Figure 4) and increase in rates of enrollment into higher education (Figure 5), particularly for Bhutan where secondary school enrollment ratio tripled from 30 percent in 2000 to 90 percent by 2018.

There are also examples, among South Asian LDCs, of higher rates of progress in socio-economic indicators achieved with relatively lower economic growth rates. While Nepal’s economy grew slowest amongst the South Asian countries, it recorded the second-fastest (after Sri Lanka) poverty reduction rate in recent times, accompanied by remarkable improvements in indicators such as gross secondary school enrollment rate and access to electricity. Examples of such inclusive development paradigm are visible in all the three countries, providing directions going forward.

![Figure 2: Annual growth rates of real GDP](source: UNESCAP using World Development Indicators; 2019a - advanced estimates as of 10 March 2020 from UNESCAP (2020a))
Figure 3: Progress in Human Development - Human Asset Index (HAI)

Source: UN/CDP Triennial Review Dataset 2018

Figure 4: Under-5 Mortality Rate (per 1000 live births)

Source: UN/CDP Triennial Review Dataset 2018

Figure 5: Secondary School Enrollment Ratio (Gross %)

Source: UN/CDP Triennial Review Dataset 2018

2.2 Addressing the structural imbalances: an unfinished agenda

Despite impressive improvements, closing the development gaps in terms of multidimensional poverty reduction, sustainable livelihoods, public services, infrastructure, energy, resources, climate action and financing for development remain as big challenges for them. South Asian LDCs, as is case for a large majority of LDCs world over, continue to face several structural impediments and handicaps in addressing policy issues pertaining to these diverse expanses of governance. A critical aspect of poverty cycles in LDCs is commonly prevalent factors which prevent mobility of labor from agriculture to other productive sectors.

A large majority, amounting to about two-thirds of total work force of LDCs, is employed in agriculture, especially in smallholder farming, which suffers from chronically low levels of labor productivity. Inability to effectuate economic diversification at a fast rate, and thereby create opportunities in manufacturing and services sectors, leads to perpetuation of high dependence on primary sectors and low value added extractive industries. This hurts prospects for upward mobility of labor. In South Asian LDCs these shares are even larger, with close to 40% in Bangladesh to about 70% in Nepal (Figure 6). At the same time, the share of primary sectors in GDP in these countries are dwindling.

Growing disproportionality between dependency on primary sectors and income generated from it (Figure 7), and resultant disguised unemployment in itself is a major impediment to effectiveness of development planning. The structural imbalance created by this scenario is self-perpetuating to a large extent, affecting effective delivery of public services in rural agrarian localities, prolonging penetration of measures to enhance productivity including infusion of mechanization and agricultural technology, and thereby slowing down the rate of improvement in rural livelihoods. At the same time absorption of excess agrarian workforce into manufacturing and services sectors has not been commensurate with relative growth in those sectors.
Industry has grown faster in Bhutan and Bangladesh than in Nepal, predominantly driven by mineral based industries in Bhutan and select export-oriented industries in Bangladesh, especially textiles and pharmaceuticals. The share of services in GDP has grown for all three countries, more so for Nepal where services sector’s share increased from 34.7% in 2000 to 51.4% in 2018 driven by surge in ICT-led services industries (Figure 6). However, services sector growth in these countries have been noted to be predominantly driven by services industries with low labor productivity, and hence such growth has had limited impacts in terms of improvements to income security and standard of living. While growth in non-agricultural sectors need to be more broad-based and diversified in all three countries, such growth can only follow carefully planned policies to close skill mismatches and thereby facilitate labor mobility across sectors.

2.3 Accelerated actions required for closing development gaps and achieving the SDGs

The progress report on SDGs for the Asia-Pacific region sends a cautionary message that accelerated actions are required to meet all the target by 2030. While South Asia has made good progress on some of the goals including SDG 4 (education), and SDG 7 (energy), the subregion’s overall progress across all goals has been uneven (Figure 8). South Asia is lagging behind in certain key goals and targets including access to drinking water and basic sanitation, zero hunger, reduction of income inequality, achieving gender equality and promoting climate action. With widespread adverse impacts on socio-economic conditions and consequent likely diversion of spending away from programmes dedicated to the achievement of various SDGs, the COVID-19 pandemic may further decelerate the progress of countries. With their inherent vulnerabilities and special development challenges, the progress rates of LDCs of the region have been observed to be slower than developing countries. Majority of the Asia-Pacific countries with multidimensional poverty of over 30% are LDCs, including Bangladesh and Nepal. Persisting gaps are observed also on most of the LDC specific targets and actions under the SDGs. For instance, doubling the share of LDCs in global exports by 2020 (SDG 17.11) now appears clear that will remain unattained for most of the LDCs. From 2010 to 2018, while Bangladesh and Nepal registered an increase of 66.4% and 28.2% respectively in their share of world exports, Bhutan’s share declined by 15%. With the expected disproportionate impact of COVID-19 on LDC exports, South Asian LDCs may further regress away from the target. Due to inherent capacity constraints, lack of adequate infrastructure at borders, underdeveloped transport and logistics systems, and general trade facilitation gaps, LDCs are ill-equipped to tread recovery paths for their broken trade supply chains faster than other countries.

In order to stay on course for the 2030 Sustainable Development Agenda, South Asian LDCs must fast-track their actions for economic productivity, full employment and decent work, affordable and equitable access to reliable infrastructure, while improving resilience to disasters and climate change. Policy recourses for closing the SDG gaps have very close overlaps with social spending, human development, public welfare programmes and safety.
nets that are closely associated with preparedness for LDC graduation. South Asian LDCs have to steadily increasing budgetary commitments on public services, key sectors of education and health, food and energy security, and welfare programmes aimed at reducing inequalities and deprivations. In this regard, the priority areas for SDGs identified for South Asia subregion are of particular relevance to graduating LDCs of the subregion.40

![Figure 8: SDG Progress in South Asia, 2019](source: UNESCAP SDG Gateway, Accessed at: [https://data.unescap.org/data-analysis/sdg-progress](https://data.unescap.org/data-analysis/sdg-progress)

### 2.4 Coping with loss of international support measures after graduation

Graduation entails eventual loss of access to a wide range of development assistance and support measures, collectively referred to as International Support Measures (ISMs), that are exclusively available to LDCs. Broadly, ISMs are categorized into (i) trade related measures, (ii) development assistance measures, and (ii) general support measures predominantly aimed at promoting participation of LDCs in international institutions and forums.

It is to be noted that there are certain measures under each of these categories which are not strictly tied to LDCs status, especially many development assistance measures which are offered based one or more of several factors such as income levels (distinct from graduation thresholds), special needs and vulnerabilities, bilateral ties with donor countries etc., and therefore will continue to be available after graduation until the underlying terms of such measures are met. Also, adjustments that are required to cope with withdrawal of ISMs depend on the relative importance of such measures for the concerned LDC, which vary widely among LDCs based on their respective endowments and profile of utilization of ISMs.41

#### Trade related measures

Trade related support measures aim at increasing the share of LDCs’s exports, especially through unconditional, unilateral and non-reciprocal market access in goods and services. These measures broadly include, (a) unilateral market access for goods, services and service suppliers originating from LDCs under the WTO, (b) flexibilities on many WTO agreements under the special and differential treatment (S&DT) provisions, (c) trade related technical assistance and capacity-building programmes and (d) special and differential
treatment under the bilateral or regional preferential or free trade agreements (RTAs/PTAs/FTAs) that they are party to.

At a multilateral level, the first unilateral market access was given under the Generalized System of Preferences (GSP), where selected products originating in developing countries, including LDCs, were granted reduced or zero tariff rates over the MFN rates of duties. The least developed countries received special and preferential treatment for a wider coverage of products and deeper tariff cuts. Subsequently, in WTO a Duty-Free Quota-Free Scheme (DFQF) was agreed for LDCs, under which both developed country members and developing country members (that declare themselves in a position to do so) are to provide DFQF market access for at least 97% of products originating from LDCs. However, developing country benefactors were accorded flexibility with respect to coverage and phasing in of their respective DFQF schemes. There are many developing countries which are now granting DFQF to LDCs.42

An important part of market access privileges available to LDCs is by way of flexibilities and relaxations in rules of origin applicable to them. One of the prominent examples is the relaxation with respect to clothing exports by way of single stage transformation (from fabric to clothing) allowed to LDCs, instead of double stage transformation (from fibers to fabric to clothing), provided by benefactors such as EU, Canada and Japan, which led to substantial improvements in utilization of such GSP/DFQF schemes by LDCs.

WTO members have made progress of making the preferential rules of origin simple, transparent and more accessible for LDCs. WTO Decisions on preferential rules of origin, containing detailed provisions with regard to the assessment of substantial transformation, cumulation possibilities, documentary requirements and transparency, are highly significant in this regard.42 However, this is an issue which is work in progress in WTO.

The “Operationalization of the Waiver Concerning Preferential Treatment to Services and Service Suppliers of Least developed countries” allows WTO members to grant preferential treatment related to market access in services and service suppliers from LDC members. Following submission of a collective request by LDCs identifying sectors and modes of particular export interest to them, around 5144 WTO members (both developed and developing) have notified offers for preferential treatment to LDC services and service suppliers.

Currently all the South Asian LDCs are beneficiaries of DFQF on goods and services waiver in terms of market access, with greater benefits derived from DFQF market access for goods exports. The three graduating LDCs may lose getting preferential market access under DFQF once they graduate and hence their exports might be negatively impacted depending on the markets they are exporting and schemes that they are using for preferential market access. Therefore, the impact of graduation on three LDCs will vary.

For Bangladesh, textiles and apparel is its major exports and the largest market is EU to which is exporting under the Everything But Arms (DFQF) Scheme of EU. Bangladesh, as the single largest exporter among LDCs with a concentrated export structure and heavy reliance on DFQF scheme of EU, is expected to be affected the most among South Asian LDCs upon graduation. However, upon graduation, Bangladesh will continue to get the preferential market access in EU under the GSP scheme for developing countries, which will allow some preferential market access but not duty free. To avail a higher margin of preferences, Bangladesh will have to consider complying with the conditions prescribed under the GSP+ schemes (compliance to labour and environmental obligations) which will require change in applicable domestic policies and rules.45

The anticipated loss of preferential market access under DFQF for Bhutan and Nepal are far less impactful, since their export utilization of DFQF is relatively low, more so in the case of Bhutan. For Bhutan, with a very high concentration of exports to India under the bilateral preferential trade agreement and a negligible share of exports to trading partners outside the South Asia region, the impact of graduation on its existing exports is expected to be comparatively lower, though the country’s global export diversification and expansion prospects may get affected. Nepal’s exports are also highly concentrated in India and these exports are mostly covered under the bilateral preferential treaty on trade, which will not be impacted by Nepal’s graduation from LDC status. However, a sizable volume of Nepal’s exports to the EU is under risk.46

The WTO agreements provides many flexibilities to LDCs under its S&DT provisions. These flexibilities will be toned down or withdrawn upon graduation and they may still enjoy some flexibilities that are available to developing countries, but the degrees would vary as per the agreements. The main areas of concern are; (a) termination of exemptions from complying with IPR rules under the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement flexibility for LDCs, (b) loss of flexibility to provide certain export subsidies on agricultural products until 2030 under the Agreement on Agriculture (AoA)47 (c) exemptions related to investments under the Trade Related Investment Measures (TRIMS) agreement, (d) exemption from
prohibition of export subsidies for non-agricultural goods under the Agreement on Subsidies and Countervailing Measures (ASCM). Any potential changes in exemptions or waivers on services trade rules are not projected to have any major impact on prospects for services exports.

Bangladesh and Nepal provide subsidies to their non-agricultural exports and, upon graduation, many of their subsidy schemes will have to be either withdrawn or modified. Besides LDCs, exemption from export subsidy prohibition under SCM are applied to a list of countries with GNI per capita below US$ 1,000 (in constant 1990 dollars). The LDC Group in the WTO has submitted a proposal to also allow graduated LDCs that are below this income threshold to remain eligible for providing non-agricultural export subsidies (Bangladesh and Nepal are currently below this limit).

The LDC members of the WTO are allowed to maintain maximum flexibility in their approach to patenting pharmaceutical products until 1 January 2033, or until such a date on which they cease to be a LDC. This may create certain challenges to graduating LDCs as the transition period may not be sufficient to prepare the pharmaceutical industry to come out of flexibility under Articles 70.8 and 70.9 of TRIPS. There is also some ambiguity if the TRIPS flexibility will be available during transition period or not, as technically a country has ceased to be LDC, therefore a clarity on this issue will be important for graduating LDCs.

This is particularly significant for Bangladesh as the country would need to fully comply with the TRIPS agreement in pharmaceutical products when it graduates. It would not benefit from the full extent of the longer transition period that has been granted to LDCs, nor from any further extensions of that period. Around a fifth of pharmaceuticals produced in the country are patented in other countries, made possible by the waiver, which allows LDCs to produce patented drugs without first asking patent holders. The government would need to provide the minimum standard of protection for pharmaceutical patents (20 years) and adapt other aspects of TRIPS, including national sectoral legislation.

Some of these changes could impact Bangladesh’s growing pharma industry, which supplies 98 per cent of domestic demand and exports to many other developing and developed countries providing low-cost drugs for consumers and public health systems. Recent research reveals potential negative impacts of the withdrawal of TRIPS waiver for Bangladesh’s pharmaceutical industry and have recommended concerted actions for securing an extension of transition period for graduating LDCs.

TRIMS exemptions are noted to have generally extremely low utilization rates among LDCs, and as such their termination is not highly consequential. Relevant TRIMS clauses are in any case set to be phased out by 2020.

Bhutan had applied for WTO membership and is an observer in WTO. Not being a full-fledged member, it does not enjoy any of the waivers/flexibilities under the WTO S&DT provisions. However, its accession to WTO might be impacted due to the graduation. The WTO LDC accession guidelines aim at streamlining and facilitating LDCs’ accession to the WTO, for instance by asking WTO members to exercise restraint in seeking concessions from acceding LDCs. The process of its accession is currently inactive, and it is not yet known when the accession negotiations will resume. However, since the date on which Bhutan is likely to be graduated is almost decided and its accession does not seem to be finalized before that, its accession will happen with a developing country status. Thus, Bhutan may have to undertake more stringent obligations in WTO to accede since the above guidelines will no longer hold good for Bhutan after graduation.

**Development assistance**

A wide portfolio of financial and technical assistance is provided to support diverse sustainable development requirements of LDCs ranging from addressing structural imbalances, delivery of public services, and infrastructural development to environmental and climate action measures. A predominant share of various development assistance funds and programmes are delivered through the vehicle of Official Development Assistance (ODA) consisting of grants, concessional loans and untied aid.

Most of ODA originates from multilateral development banks and members of the Development Assistance Committee (DAC) of the Organization for Economic Co-Operation and Development (OECD), with a longstanding commitment to provide assistance to the equivalent of 0.15 to 0.20% of their respective GNI. ODA allocations are not strictly tied to LDC status in most cases, and major multilateral donors have their own formal eligibility criteria for concessional windows.

Other major instruments contributing to development assistance include, (a) UN Capital Development Fund (UNCDF), (b) Technology Bank for LDCs, (c) Investment Support Programme for LDCs (ISP/LDCs) which provides legal aid for investment-related negotiations and dispute settlement, and (d) Special programmes and terms for LDCs in the United Nations system.

Graduation will entail the loss of certain other LDC-specific mechanisms as well for technical or financial
support, which are not expected to have a major effect. Implications of graduation in terms of changes in sources of external development assistance channelized to social spending has been often raised as a concern. However, as discussed in the subsequent sections of this report, the likelihood of drastic cuts in external development assistance is not expected in the bilateral context as mostly they are governed by the bilateral relations between the donor and recipient countries and avenues for alternative sources would also remain open.

In the context of generally declining share of Official Development Assistance (ODA) in all the three countries as well as socio-economic achievement made during recent times against reducing relative significance of net ODA, possibilities of gradual shift to diverse financing sources to offset any losses are evident for South Asian LDCs.

**General support measures**

General measures include (a) caps and discounts on the contribution of LDCs to the United Nations system budgets, (b) travel support for LDC delegates in intergovernmental meetings, and (c) training programmes for diplomats. Besides these, LDCs are provided numerous services under various programmes to enable better information flow, informed policy analysis and advocacy.

Graduated LDCs would no longer benefit from ceilings and discounts for contributions to budgets of the UN system and from LDC-specific support for travel to UN meetings. However, due to the relatively low income levels, contribution rate to UN budgets are not expected to increase much after graduation.

### 2.5 Natural disaster risks to sustainable graduation

Among emerging challenges, environmental risks are of particular significance to South Asian LDCs. Bhutan and Nepal, as mountainous countries, are highly sensitive to extreme weather events, while Bangladesh currently ranks among the Asia-Pacific countries with highest proportion of annual average loss (AAL) due to floods and is grouped among regional countries with highest flood risks. Some of the harmful effects of climate change are already manifested along the large transboundary riverine system (the Ganges–Brahmaputra–Meghna basin) shared by Bangladesh, Bhutan and Nepal by way of droughts and flash floods. Maintaining the efficiency and productivity of climate sensitive agricultural systems will need to preserve the productive base of natural resources and ecosystem services, while increasing the capacity to withstand risks, shocks and climate variability.

Combating climate change require a departure from the conventional approaches, with substantial reconfiguration needed in policy planning and financing for mitigation and adaptation, particularly in terms of developing technological capabilities and capacities. Scaling-up of public support needed to battle climate impacts can be expected to cause additional drain on development funds at the disposal of South Asian LDCs. Intensification of climate change impacts poses high risks of reversal of development process. Furthermore, irregularities observed in the natural habitat, its triggers, onset, and possible impacts are not yet sufficiently understood, making planning for preparedness extremely difficult.
3. Graduation and Trade-led Development Prospects

3.1 Threats to trade-led development
Impact of graduation on future prospects of trade has attracted greater attention, as trade has been mainstreamed as a key enabler of development in LDCs and hence loss of trade related ISMs has high stakes. As highlighted in earlier chapters of this report, while the SDGs set the target of doubling the share of LDCs global exports by 2020 (SDG 17 target 17.11), the Istanbul Programme of Action (IPoA) recognizes trade as a key action point in accomplishing its target to enable half of the LDCs to graduate by 2020. It is now certain that the target of doubling the share of global exports is not going to be met by the South Asian LDCs.

South Asian LDCs have been steadily expanding their trade bases which contributed significantly to their growth and development. With annual exports of goods and services at US$ 44 billion in 2018, Bangladesh accounts for close to one-fifth of the total LDC exports and is by far the largest exporter among LDCs. Bangladesh’s aggregate exports have grown more than 6 times during 2000-18. Though volume of exports of goods and services are comparatively much lower for Bhutan (US$ 0.8 billion) and Nepal (US$ 2.6 billion), trade has grown at healthy rate resulting in doubling of export volumes over the last decade. Goods (merchandise) exports account for bulk of the aggregate exports (more than 80%) for Bangladesh and Bhutan, while exports of services account for a major share (68%) in Nepal’s total exports, driven by steep growth in telecommunication services and tourism.

The near-term prospects of maintaining high trade growth and utilizing it as an engine of growth is in peril following the COVID-19 outbreak, which has put global trade in turmoil. A major concern is the predominance of SMEs in the industrial composition of trade-oriented sectors of South Asian LDCs. Their exposure to the pandemic with low resilience could potentially erode a significant portion of the productive capacity and thereby cause difficulties for speedy recovery. Prolonged demand shortages may put marginal firms out of operation and thereby could deepen the crisis with devastating consequences. A recent survey by International Trade Centre (ITC) in the context of COVID-19 among MSMEs from countries including Bangladesh and Bhutan, found 55% of the studied firms were strongly impacted, especially newly established and women-led enterprises.

Though South Asian LDCs have been improving along the learning curve, their trade patterns expose underlying vulnerabilities, which the periodic triennial assessments for graduation may not necessarily have captured effectively. In fact, only two aspects of trade - merchandise exports concentration and instability of exports of goods and services as components of the composite EVI criterion – are considered for graduation assessment, leaving out its structural composition and other determinants of long-term trade prospects. While Bhutan failed to meet the EVI threshold in the triennial review of 2018, having both high levels of concentration and instability, Bangladesh and Nepal also exhibited trade vulnerabilities. Impacts of graduation on trade assumes special significance for the three South Asian LDCs in this context, especially in post-COVID-19 period.

3.2 Key lessons from trade trends
Growth of exports of goods and services has been mostly proportionate to the growth in national income for the three South Asian LDCs. The share of aggregate exports in GDP in the three countries ranges from about 10% (for Nepal) to 30% (for Bhutan) and has remained stable or marginally improved over the last two decades except for intermittent fluctuations experienced by Bhutan. Growth in exports have influenced productivity improvements in backward linked industries and also have had strong links with improvement of livelihoods around industrial clusters. Therefore, relatively low exports to GDP ratios underestimate the importance of trade for South Asian LDCs. While it is clear that trade-led development in the three countries needs to be sustained and elevated to a higher growth path, there are certain features of their trade patterns which stand in the way as highlighted in the following sections.

High concentration of products and markets in exports
Exports of South Asian LDCs are found to be highly concentrated in select set of products and destination markets, comparatively more so for market concentration than product concentration (Figures 9 and 10). There are some distinctive features as to why trade flows of the three countries tend to be less diversified that potential or desired levels, with implications for their respective future trade diversification strategies. Bangladesh’s export basket is dominated by garments and clothing sector.
which accounts for about 86%, and if allied textile products such as fabrics, yarn and fibers are added up, the entire textiles sector constitute well more than 90% of exports (Figure 11). The dominance of textile and garments sector is such that it masks growth in exports of certain other key products such as pharmaceuticals in recent times, owing to comparatively low volumes. This over-reliance on certain sector can have serious implications post-graduation.

Figure 9: Export Market Diversification

Figure 10: Export Product Diversification

Source: UNESCAP based on World Integrated Trade Solution (WITS) Database
Note: Market diversification is represented by Market Penetration Index and product diversification is represented by inverse of Product Concentration Index.

Figure 11: Product Composition of Bangladesh’s Exports

Source: UNESCAP based on World Integrated Trade Solution (WITS) Database

The phenomenal growth of export-oriented textile and clothing industry is aided to a large extent by European Union’s (EU’s) Everything But Arms (EBA) Scheme (EU’s DFQF Scheme for LDCs), the terms of which have been much more favorable than those of other benefactors such as US, Canada and Australia. Relaxed EBA rules of origin for LDCs since 2011 have further made it easy for the garment exporters of Bangladesh to export to EU. The rise of garment manufacturing is not driven by domestic resources (raw materials), unlike in the case of Bhutan and Nepal, and Bangladesh relies on India and China in its neighborhood for imports of raw materials for the garment industry. Furthermore, relative ease of connectivity with facilitative port infrastructure as a coastal country, comparatively shorter distance to EU markets and proximate access to the busy Asia-Europe shipping channels and operators helped in shaping up long term build-up of competency in clothing oriented on a bilateral integration with EU. As a result, EU has come to become the single largest destination market for Bangladesh, accounting for 55 % of its exports (Figure 12).
By contrast, product and market concentration in Nepal and Bhutan is dictated by their landlocked status, and natural resource endowments, wherein currently accessible connectivity is almost entirely through the territory of India. Both countries have high dependency on Indian market for both their exports and imports (Figures 12 and 13). This is particularly so for Bhutan as India accounts for about 93% of its exports and close to 80% of its imports. Bhutan’s exports product structure, excluding exports of electricity (measured among merchandise exports), is also highly concentrated along its natural resource base, comprising of iron ore based and other metal ores and minerals by 54% and mineral fuels and inorganic chemicals by 21%. Nepal’s exported products and markets are relatively more diversified, compared to Bhutan, with India accounting for only close to 60% of its exports. Nepal’s exports are also predominantly reliant on resource base, though to a lesser extent that Bhutan, with agricultural items (coffee, tea, spices, oil, resins etc.), metal and chemical based items constituting more than 50%. Nepal has however managed to rise up the ladder to some extent in the textile supply chains, with a basket of textile products (apparel, clothing accessories, carpets, yarns and fibers) accounting for slightly more than 25% of its exports. A significant share of textile exports and certain other products, together comprising close to USD100 million (about 13% of exports) are bound for EU, enjoying LDC preferences, implying certain expected losses from preference erosion, post-graduation.

It is also important to note that all these three LDCs are members of SAFTA and are getting better tariff preferences as LDC in other SAARC markets including India. Given that India has liberalized maximum tariff lines for LDCs of SAARC (except 25 items, rest all items are duty free for imports from SAARC LDCs), most of Bangladesh’s exports, especially textiles, goes to India under SAFTA. However, for Bhutan and Nepal their bilateral agreement on trade with India is more liberal than SAFTA and thus most of their preferential exports to India goes under the bilateral FTA. Given that upon graduation, the bilateral FTA’s provisions will remain unchanged, Bhutan and Nepal will not face any challenge in getting preferential market access to India. However, graduation will create challenge to Bangladesh as most of clothing sector is not in India’s tariff liberalization schedule for non-LDC members of SAFTA. Thus, Bangladesh will have to export to India under the applied rate of duties. At the same time in order to export under SAFTA these three LDCs will have to comply with a stricter rules of origin (40% value added content as against existing 30%) and in a future review of agreement for further liberalization, they may have to offer more concessions than what they have offered under SAFTA. Thus, they would need to prepare their future market access strategy to India and other South Asian markets post-graduation.

In this regard, it is important to note that Article 12 of SAFTA provides for a “Special Provision for Maldives” which states, “Notwithstanding the potential or actual graduation of Maldives from the status of a Least Developed Country, it shall be accorded in this Agreement and in any subsequent contractual undertakings thereof treatment no less favorable than that provided for the Least Developed Contracting States.” Even under APTA fourth round negotiations, Sri Lanka, a non-LDC, was allowed greater flexibility (to commit lower levels of commitment in tariff liberalization) than other non-LDC members. It will be useful for South Asian LDCs to explore the possibility of negotiating the extension of LDC treatment under SAFTA.
Bangladesh and India are also members of Asia Pacific Trade Agreement (APTA) and GSTP (the utilization is negligible). APTA has other members like China, Republic of Korea and Sri Lanka, and has S&D treatment for LDCs. Graduation may also mean losing LDC preferences in markets such as China and Republic of Korea to certain extent as the items on which preferences will be available will be reduced, the margin of preference will also be reduced and Bangladesh will have to comply with a higher value addition (45% instead of 35% for LDCs) to avail preferences. For Bangladesh, it may be important to discuss in APTA now for adding a clause similar to Article 12 of SAFTA to continue getting same preferences in some of the largest economies of Asia.

Comparatively higher reliance on LDC preferences for a single product would mean possibly higher readjustments costs for Bangladesh in terms of sustaining market access. Though their export baskets are relatively more diversified, Bhutan and Nepal require reform measures for moving to higher value-added manufacturing from resource-based product structure. Both countries also face steeper challenges in terms of connectivity and trade cost reforms with their landlocked status. Changes in external support flows for improving connectivity infrastructure and trade facilitation through Aid-for-Trade and allied instruments would therefore be much more sensitive for Bhutan and Nepal.

**High trade costs and supply constraints**

Persistently high trade costs cast a dent on export expansion prospects of South Asian LDCs. *Ad valorem* trade costs (percentage of domestic value of exported costs) of South Asian LDCs are much higher than ideal benchmarks. Intra-regional trade costs in the South Asia region in general is found to be among the highest in the world at close to 121%, compared to less than 80% in Southeast Asia (Figure 15). Despite sharing a long land border, close proximity of maritime transport infrastructure, and feasible connectivity through inland waterways, bilateral trade cost of Bangladesh with India is found to be 46% points higher than that of Vietnam, a comparatively distant trading partner. At 121%, the Bangladesh-India bilateral scenario is even comparable to bilateral trade cost with far distant trading partners such as the EU and US (Figure 14). Bhutan and Nepal's trade costs with all other trading partners are additive to their bilateral trade costs with India (close to 100% for both countries), as India provides transit for their external market access, and are prohibitively high.

High international trade costs are a severe impediment to export diversification and growth. As a coastal country with better access to international cargo shipping than its peers, Bangladesh’s trade costs are mostly owing to lack of infrastructure support leading to inefficiencies in domestic supply chain and trade logistics. Dictated by their landlocked status, connectivity and better transit terms and facilities are more sensitive for Bhutan and Nepal. With these inherent disadvantages, South Asian LDCs would inevitably need improved efficiencies in domestic supply chains and production networks to offset such disadvantages and generate external competitiveness. However, they fare poorly in most of the comparative indices available on trade facilitation and conducive business environment. Bangladesh and Nepal are ranked 105 and 108 respectively in the Global Competitiveness Index (GCI). Though Bhutan fares better in GCI, its relative positions in ranking based on indices of Ease of Doing Business and Logistic Performance (LPI) are among the lower rungs and comparable to other landlocked LDCs. Future trade prospects for the three countries would depend critically on how underlying facilities, logistic services, transit systems and practices are improved.

**Underutilization of existing export expansion potential**

South Asian LDCs have high underutilized trade potential, especially with regional trading partners. Opportunities remain underexploited due to inherent problems in supply capacities and inefficiencies in the supply chains, as discussed in the preceding sections. Estimations show that South Asian LDCs export to many markets at shares less than predicted levels based on ideal benchmarks. Nepal's potential global exports, for instance, was found to be up to US$ 2.31 billion for 2017, while actual exports for the year was less than one-third of this figure. Similar estimates by UNESCAP show exploitation of intra-regional trade potential by South Asian LDCs also remain low, with the highest unexploited export potential (as a share of potential exports) found for Bangladesh (93.1%) and Nepal (76.17%).

The nature of connectedness of currently exported products with global product space (drawing interlinkages of products and sectors) shows that the product composition export baskets of Bhutan and Nepal currently occupy low end nodes of the product space, but with high scope for integration into highly value added and prominent traded sectors. The dominant resource based export sectors of both countries are suitably located within the economic complexity atlas to generate export expansion into related sectors. Bangladesh’s export basket in the product space reflects significant exporting activities in the textile and clothing cluster, however with relatively lower scope for further expansion in the textile sector alone. Underutilization of trade potential reflects promising future prospects for diversification and growth with concerted capacity building.
3.3 Graduation and issues of preferential market access erosion under DFQF

General assessment of losing preferential market access to their major trading partners (especially due to their LDC status) indicate differential impacts for South Asian LDCs based on the mode and type of access. Most prominently highlighted case is that of the clothing and leather industry’s market share in EU, primarily of Bangladesh because of the sheer size of volume and the sector’s relative importance in Bangladesh’s economy, and to some extent that of Nepal. This is due to the unilateral preferential market access given by EU under the EBA. Mostly in other markets, either the existing terms of preferential access and their utilization have not been significant enough or prospects exists for securing preferential access under bilateral terms after graduation. After graduation these LDCs can either get preferential market access to EU or other developed country markets at a less preferential terms (by utilizing the GSP Scheme for developing countries) or through a reciprocal free trade agreement.

Among major benefactors of South Asian LDCs in terms of tariff preferences – India, China, EU, US, Canada and Australia – the developed country trading partners offer separate tariff preferences to developing countries under their GSP schemes, which are however less preferential than their DFQF schemes. LDCs have opportunities to retain certain preferential margins even after graduation in the developed countries market under the related GSP Schemes.

On the contrary India’s and China’s respective DFQF schemes will automatically terminate for graduated LDCs and since they do not give GSP, these LDCs will get preferential market access only through the regional or bilateral trade agreements. China’s DFQF’s withdrawal is expected to generate certain negative impacts, though minimal in relative terms as the current levels of China bound export volumes of South Asian LDCs are low. One estimate for Nepal projects market loss impacts amounting to 11.45% of exports to China, translating to US$2.5 million (way below 0.5% of total exports) (Table 2). India’s Duty-Free Tariff Preference Scheme (which is its DFQF for LDCs) has been operational since 2008 and covers 94.1% tariff lines, covering all LDCs.

The exports of Nepal and Bhutan to India are having better coverage and zero duty market access under respective bilateral agreements with India, which will continue even after graduation. Bangladesh’s utilization rate of zero duty preference under SAFTA for exports to India has been comparatively low, though the trend is changing with increasing growth of exports to India in recent times.

With respect to post-graduation access in developed country partners, a case that stands out for South Asian LDCs is that of Bangladesh’s textile exports to EU. Bangladesh is one of the largest beneficiaries of EU’s Everything but Arms (EBA) provisions offered to LDCs which provide duty free quota free access covering 98.7% tariff lines including textiles and clothing products. Bangladesh is reported to have a current utilisation rate of close to 95% under EBA.

Source: ESCAP-World Bank Trade Cost Database
Note: Figures for latest available years. Trade costs calculated on ad valorem basis. SAARC-4: Bangladesh, India, Pakistan, Sri Lanka; ASEAN-7: Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam; EU-7: Austria, Belgium, France, Germany, the Netherlands, Spain, United Kingdom; East Asia-3: China, Japan, Republic of Korea
for its textile exports. Upon graduation, Bangladesh may be eligible for EU’s standard GSP (which is available to developing countries), however under higher (though preferential, less than MFN) tariffs, more stringent rules of origin (ROOs), and certain other conditions. Even this modest scenario is estimated to result possible export losses to the tune of USD 1.6 billion in EU’s market alone, which is close to 5% of the country’s aggregate exports (Table 3). Nepal is also expected to be negatively impacted upon graduation in the EU market due to withdrawal of EBA, with projections under modest scenarios (securing standard GSP after graduation) amounting to potential losses worth US$ 6 million (close to 6% of exports to EU) (Table 2). Another related estimate puts Nepal’s expected loss in goods exports in EU (10.3%) and US (10.8%) markets as the highest expected impacts.

### Table 2: Tariff Implications and Estimated Impact on Nepal’s Export Earnings

<table>
<thead>
<tr>
<th>Partner Country</th>
<th>Current Exports (Million US$)</th>
<th>Scenarios</th>
<th>Changes in Exports due to loss tariff preferences (Millions $)</th>
<th>Percent of fall in exports (%)</th>
<th>Possible loss of export receipts (Million US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>8.25</td>
<td>Nepal gets GPT</td>
<td>-0.6</td>
<td>-7.25</td>
<td>0.59</td>
</tr>
<tr>
<td>China</td>
<td>22.33</td>
<td>Nepal pays MFN tariff</td>
<td>-2.56</td>
<td>-11.45</td>
<td>2.55</td>
</tr>
<tr>
<td>EU</td>
<td>101.51</td>
<td>Nepal secures GSP plus</td>
<td>-0.06</td>
<td>-0.06</td>
<td>0.06</td>
</tr>
<tr>
<td>EU</td>
<td>101.51</td>
<td>Nepal gets standard GSP</td>
<td>-6.05</td>
<td>-5.96</td>
<td>6.05</td>
</tr>
<tr>
<td>USA</td>
<td>91.85</td>
<td>Nepal gets GSP applicable for BDCs</td>
<td>-0.32</td>
<td>-0.34</td>
<td>0.31</td>
</tr>
<tr>
<td>USA</td>
<td>91.85</td>
<td>Nepal pays MFN tariff</td>
<td>-1.06</td>
<td>-1.16</td>
<td>1.07</td>
</tr>
</tbody>
</table>

Source: Razzaque (2020b)

In the US market, any significant effect is not expected from LDC graduation, since Bangladesh’s most important products (clothing) are not covered by the LDC-specific preference scheme and also the US DFQF Scheme does not have 97% coverage, as stipulated in the WTO DFQF decision. Moreover, Bangladesh has been suspended from the GSP scheme (including preferential tariffs for LDCs) since 2013 due to labor safety issues. Among other developed country markets, in Canada, Japan and Australia, the standard GSP does not cover an important part of Bangladesh’s exports, which will face most favored nation (MFN) tariffs or GSP for developing countries on other export items. Moreover, in some countries such as Canada and Australia, Bangladesh would no longer be able to use more relaxed rules of origin for LDCs, making it more difficult to use preferences for the tariff lines covered by the standard GSPs than it is to use GSP for LDCs.

### Table 3: Bangladesh’s Potential Loss to Apparel Export Earnings

<table>
<thead>
<tr>
<th>Partner Country</th>
<th>Apparel Exports (average of 2015-17) (Million US$)</th>
<th>Scenarios</th>
<th>Average tariff faced (%)</th>
<th>Possible loss of export receipts (Million US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>16,808</td>
<td>Bangladesh received Standard GSP</td>
<td>9.5</td>
<td>1,602</td>
</tr>
<tr>
<td>Canada</td>
<td>1,030</td>
<td>Bangladesh received GPT for developing countries</td>
<td>17.0</td>
<td>175</td>
</tr>
<tr>
<td>Australia</td>
<td>574</td>
<td>Bangladesh faced MFN tariffs</td>
<td>5.0</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>18,411</td>
<td>Post-graduation most likely tariff regimes in individual markets</td>
<td>9.6</td>
<td>1,806</td>
</tr>
</tbody>
</table>

Source: Razzaque (2018) as quoted in UN/CDP (2018a)
Recent assessments by the WTO confirms earlier projections that, among graduating LDCs, Bangladesh faces the biggest threat of export market loss due to the predominance of clothing and textiles sectors in its export basket. Using its own set of modelling assumptions, the analysis reveals possible aggregate export decline by 14.3% for Bangladesh, translating to losses up to US$ 5.4 billion (Table 4).

<table>
<thead>
<tr>
<th>Country</th>
<th>Initial Exports (US$ million)</th>
<th>Change in Exports (US$ million)</th>
<th>Percentage change</th>
<th>Effective tariff change (in percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>37,633.73</td>
<td>-5,372.28</td>
<td>-14.3</td>
<td>5.73</td>
</tr>
<tr>
<td>Bhutan</td>
<td>295.87</td>
<td>-4.25</td>
<td>-1.4</td>
<td>0.26</td>
</tr>
<tr>
<td>Nepal</td>
<td>812.79</td>
<td>-20.14</td>
<td>-2.5</td>
<td>0.90</td>
</tr>
</tbody>
</table>

Source: WTO (2020e)

3.4 Responding to trade challenges of graduation

To confront the changes in trading environment following graduation, South Asia LDCs need to simultaneously pursue a two-pronged approach; (i) open negotiations with select trading partners to protect and retain favorable terms of market access, and efforts for greater engagement with potential markets though existing and new RTAs/PTAs, and (ii) pursue of domestic reforms to bring in investments to enhance diversification, productivity and competitiveness of trade oriented sectors. Both these approaches assume even more significance and urgency in the context of the devastating impact of COVID-19 outbreak on global trade.

As regards negotiations for favorable market access terms, engagement with EU is critical for both Bangladesh and Nepal. While both countries may qualify for GSP Plus following the expiry of the three-year transitional period for EBA after graduation becomes effective, its onerous and stringent ROO requirements would affect their exports. One of the proposals is that of extending the ROO terms of EBA to graduated LDCs for a longer adaptation period. As the current tenure of GSP is coming to an end in 2023, the consultative process initiated by EU for the design of new rules provides an opportunity to raise the concerns of graduating LDCs as a group, especially given the longer readjustment time that LDC may require in the post-COVID-19 period. It is also important to seek longer transition periods from other key preference granting countries as the current terms do not allow even a three-year transition period by most such countries.

Towards expanding their trade relations, it is also important to enhance participation in bilateral and regional trade agreements with select countries and groups. Currently, South Asian LDCs are signatories to only a select few RTAs/FTAs. Greater participation in trade negotiations is important not only for market expansion and trade diversification but also for streamlining domestic reforms, compliance with standards, specialization, boosting trade related investments and building domestic negotiating capital. All the three South Asian LDCs have massive trade expansion opportunities capitalizing the growth poles of India and China, integrating into value chains within the neighborhood and by seeking technical assistance. Underutilized trade potential with SAFTA trading partners provides the context for greater intra-regional market access within South Asia. The FTA being negotiated under BIMSTEC, a regional grouping in which all the three South Asian LDCs are members, offers opportunities to link with dynamic markets of Southeast Asia, since Myanmar and Thailand are also members of the group.

A significant part of the ongoing reforms in South Asian LDCs for streamlining trade procedures and practices, improving connectivity and logistics and allied measures for overall capacity-building in trade are currently carried out with external assistance. The WTO’s trade-related technical assistance (TRTA), and activities and financial support for trade capacity channelized through the EIF Secretariat, are important in this regard. Over the last two decades, more than half of the activities under TRTA were utilized for LDCs. Different channels of Aid-for-Trade funding, having overlaps with ODA and funding streams under the Enhanced Integrated Framework (EIF) - a multi-donor programme which supports LDCs (and recent graduates) to increase their participation in the international trading system – have been utilized for transport and storage systems, business services, banking, agriculture and tourism, besides for general trade facilitation measures and regulatory reforms. However, graduation is not expected to trigger a sudden decline in Aid-for-Trade financing. The EIF provides for a transition period of 5 years and have inbuilt
provisions for continuing certain forms of assistance even after the transition period.\textsuperscript{89}

Transport and trade facilitation fall in the core domain of expertise of several multilateral development agencies and intergovernmental organizations to which South Asian LDCs are party to, and they offer numerous programmes which are unrelated to LDC status and involve minimal or no cost for access. Currently, all the three graduating LDCs of South Asia benefit from the connectivity projects under the SASEC programme of ADB, and customs reforms packages under the guidance of UNCTAD and WCO. UNESCAP offers several technical assistance programmes on various aspects of trade facilitation, particularly for synchronization of trade procedures and adoption of electronic platforms as integral part of the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific.\textsuperscript{90}

Similarly, a number of inland cross-border transport corridor development projects are underway in South Asia, with multilateral assistance aimed at operationalizing multimodal corridors to replace the currently inefficient transport systems.\textsuperscript{91} Full functioning of regional corridors in South Asia is at present more repressed by shortcomings in transport services than in transport infrastructure. UNESCAP is a major contributor to the pool of intergovernmental assistance programmes through a comprehensive regional corridor design developed by connecting key segments of the larger Asian Highway (AH) and Trans-Asian Railway (TAR) networks, with Dry Ports as transshipment interface between road and rail links - serviced by respective intergovernmental agreements. Implementation of these three components of the regional transport network are facilitated by specific regional transport facilitation frameworks developed for each component, containing models, technical standards, best practices and operational guidelines.\textsuperscript{92} Special needs and capacity constraints of LDCs are have been considered in these projects and programmes, and graduation will not have any impact on these avenues of external assistance.

South Asian LDCs would also retain certain forms of external support that are required to improve firm level capacities. Given that SMEs operating on thin profit margins will face greater exposure to the risks of preference erosion, targeted efforts are required to ensure their survival.\textsuperscript{93} Various entrepreneurship development programmes, firm level training and capacity-building for improving managerial skills, value-addition, diversification, compliance with stands etc. are offered with the assistance of specialized international development agencies.\textsuperscript{94} Such assistance programmes are also offered mostly without taking LDC status as an eligibility criterion, and will be accessible post-graduation.
4. Graduation and Development Financing

4.1 Towards a diversified financing portfolio and integrated utilization strategy

Inadequacies of financing have been a long-standing obstacle facing LDCs in the execution of their development plans. Recognizing this constraint, the IPOA and SDGs have laid out action plans to improve access to financial sources to cater to the special needs and priorities of LDCs. Despite measures to enhance domestic financial resource mobilization as well as a steady increase in dependence of LDCs on external financing sources, including ODA, FDI, debt relief packages, climate financing, project based soft loans and a variety of funding streams, closing financing gaps continues to be a major challenge. Graduating LDCs face an additional challenge of potential changes in their financing portfolios, with pressure on reducing reliance on external sources, while having to deal with ever increasing burden on budgetary spending. It is of concern that COVID-19 outbreak adds to the existing spending commitments.

LDCs received US$52 billion worth of gross ODA disbursements by 2018 (roughly 27 per cent of total ODA flows), in addition to other bilateral official flows which not recorded under ODA.\textsuperscript{95} Disbursement so far falls short of the targets of 0.2% of ODA/GNI target set under Goal 17.2 of the SDGs, leaving infrastructure and social spending on critical areas of human development underfunded.\textsuperscript{96} Consequently, LDCs have been required to resort to alternative sources, concessional and non-concessional debt instruments and domestic mobilization strategies for maintaining fund flows. To meet rising requirements, traditional sources must be combined with new innovative solutions, sources and financial instruments, while taking efforts to improve efficiency of utilization.

Diversification of financing portfolios is essential for South Asian LDCs against widening resource gaps. Against the backdrop of aligning the SDGs with national planning, it was estimated that Bangladesh would require additional spending of about US$ 928.5 billion between 2017-30 to meet the SDGs, which roughly translates into annual average of US$ 66.3 billion (at constant 2015-16 prices), equivalent to 18.5% of GDP.\textsuperscript{97} The estimate is consistent with ESCAP’s findings,\textsuperscript{98} and compares to an average of 16% for all Asia-Pacific LDCs and 10% for all South Asian countries. Funding commitments of this proportion are beyond the reach of the current resource pool of South Asian LDCs.\textsuperscript{99} The requirement of Bangladesh is more than twice the domestic tax revenues in 2017 (8.2% of GDP) and hence a diversification strategy was adopted with the budget outlay to be augmented with a variety of sources including domestic private sources and external funding streams.\textsuperscript{100}

Efficient allocation of spending and investments is equally important as diversification of sources. Given the broad-based nature of reform requirements for meeting the graduation criteria and building post-graduation resilience, and their overlaps with the SDGs, there is immense scope for improving the efficiency and targeting of fund allocation. This may be carried out by mapping out the links between potential sources of funds and avenues and utilization, through channels consisting of institutions, intermediaries, and financial instruments (Figure 16). Strategies based on such mapping would help to leverage alternative sources in a better way, while enabling synergies between graduation and larger goals of sustainable development.

4.2 Avenues of financing for sustainable graduation

Improving the financing portfolio with an optimal mix of domestic and external sources is critical from the point of view of prudent macroeconomic management in LDCs and from an administrative perspective. It has been noted in the context of balance-of-payments problems faced by many LDCs that ODA and other external sources should be supplemented by domestic financing, albeit without putting undue pressure on domestic public debt.\textsuperscript{101} Synergies between foreign and domestic financing sources demands a coordinated regulatory environment with positive implications for both streams of fund flows. An effective diversification strategy would need supportive institutional and regulatory frameworks for transparent and secure investment climate. Facilitative regulatory frameworks and partnerships with public financial institutions are required for attracting domestic and foreign private sector investors. Regulatory reforms induced by external finance can thus have an impact on the quality of public financial institutions and services.

Progressive steps to improve financing portfolios are underway in South Asian LDCs, inspired by an urgency to scale-up financing against ambitious targets, preparation for self-reliance against anticipated changes in external financing following
graduation, and in view of the gradual evolution of international development finance landscape. In the latter case, there has been a general decline in the aggregate volume of external financial flows to developing countries and LDCs in recent times, following rapid rise in early 2000s, particularly in the FDI and project-based funding components of external private investments. The relative shares of various external finance components available to LDCs—ODA, debt instruments, FDI, portfolio investments, remittances, and blended finance—are also changing significantly. The prospects of South Asian LDCs has to be assessed in the light of these emerging trends.

Figure 16
A schematic view of the sources of financing for closing the graduation gaps

Source: UNESCAP (2014)

**Enhancing domestic resource mobilization**
Raising the level of development financing from domestic sources has been a persistent challenge for LDCs, inherently linked to their structural issues. Sluggish progress in channelizing investments into technological upgradation and productivity improvement in turn slow down broadening of income base and affect the ability to scale-up public revenue and private capital expenditure. General structural features of LDCs, with dominance of agriculture and informal sectors which are often less amenable to taxation, has been a hindrance to expansion of tax base. In addition, inefficiencies and leakages in the tax systems have left low responsiveness of tax revenue to GDP growth in many LDCs with weak tax enforcement.

Despite multiple challenges, tax revenue share of GDP of LDCs has increased from about 11% in 2000 to marginally above 18% in 2018. Among South Asian LDCs, while mobilization of tax revenues has been relatively impressive for Nepal, the other two countries—Bangladesh and Bhutan—have experienced stagnation in tax/GDP ratios (Figure 17). Bhutan has experienced fluctuation in tax mobilization rates over the last decade, with improvements exhibited in recent years placing the country above South Asian Average. Bangladesh has one of the lowest tax/GDP ratios in South Asia, with only marginal increase over last two decades, explained by variabilities in sub-components of aggregate receipts. The relative share of import duty, the second largest source of tax revenue, has been on the decline over the last two decades. While this trend, a result of trade reforms which could have certain other positive influences by way of trade restructuring, other major tax sources (value added tax, direct taxes and supplementary duties) have improved though at a slower pace than desirable.
The scope for improvement in broadening and deepening tax base is high for South Asian LDCs. There has been a significant shift in the composition of taxes in LDCs over the years, moving to broadly defined consumer and income taxes, which led to gradual expansion of their fiscal space. A two-pronged reform approach of improving the composition to include progressive wealth-based tax components and enhancing the efficiency of tax systems should be adopted. As regards the former, the disruptions in economic activities and expected income loss caused by COVID-19 is likely to have a negative impact on revenue collection through all sources in the immediate future. The latter case of efficiency enhancing systemic measures of rationalization of tax structures, institutional reforms, simplification of procedures, usage of e-platforms, digital payer registration systems and improved auditory practices must be pursued in the interest of long-term benefits.

From the perspective of fending off debt vulnerabilities, expansion of private capital investments in the composition of domestic financing portfolio is necessary to avoid over reliance on debt instruments and domestic borrowing. This requires regulatory interventions to broaden and deepen local banking and financial systems, and capital markets. Bangladesh and Nepal have been maintaining a relatively healthy saving rates, averaging above the larger LDC group and lower middle-income country (LMICs) group, though Bangladesh’s saving rate has shown a downward trend in the last few years (Figure 18). This trend underscores the penetration of rural retail banking in both countries, as well as an indication of the functioning of instruments and incentives promoting savings, mobilization of domestic savings by the banking sector is not commensurate with trends in capital investments.

While South Asian LDCs have also broadly maintained trends above averages of LDCs in terms of fixed capital formation (Figure 19), understandably, the source of their fixed capital financing has been more diverse with significant presence of ODA and external concessional loans. Wide fluctuations experienced by Bhutan is due to periodic external funds flowing predominantly into large hydropower power projects. Subdued role of domestic banking in infrastructure financing is found among other South Asian countries as well, partly owing to conventionally followed banking practices, priority sector lending requirements imposed on them and/or stressed balance sheets. With facilitative co-financing instruments, flexibilities and guarantees, participation of retail banks in infrastructure financing can be enhanced, enabling better conversion rate of savings into fixed capital assets.

Strategic coordination of monetary and fiscal policies strengthens channels of domestic credit and creates ideal conditions for private capital investments to thrive. Going by the investment patterns, Non-Bank Financial Institutions (NBFIs) also turn out to be an importance source of financing for industry and trade in South Asian LDCs. They can play a complementary role, with more diversified products and services, in meeting the fast evolving requirements of development financing.

As a key alternative mode of financing, public-private partnerships (PPPs) have been ventured into, notably in Bangladesh and Nepal, with mixed results. Business environment for PPPs, enabling private participants across sectors, is noted to have met challenges of inadequate instruments and vehicles for PPPs, issues of risk and revenue sharing mechanisms, bankability of projects, regulatory transparency, narrow investor base etc. All the three countries have a wide spectrum of issues to tackle in order to generate a credible pipeline of PPP projects beyond those in the energy sector.
The role of microfinancing is of particular importance to LDCs with underdeveloped domestic financial systems, as demonstrated by successful examples from Bangladesh. Exponential growth in micro credit in Bangladesh, since the establishment of the Grameen Bank in 1983, has facilitated steady and healthy fund flows into SMEs and rural sectors, kick-starting a revolutionary development transformation in the country.108 The Government of Bangladesh supports private microcredit institutions through more than 250 partner NGOs, benefitting about 8 million borrowers, of which women investors and women led enterprises constitutes a majority.109

Another key aspect of public resource mobilization is that of streamlining the expenditure side through budgetary reforms. Integrating spending components with common objectives, as in the case of various graduation and SDGs targets, advanced fiscal projections and timely implementation of projects can significantly improve fiscal prudence. Non-tax revenues (administrative fees and charges, profits, dividends and interest), though commands only a minor share in total receipt of South Asian LDCs with limited scope for substantial expansion in the short-run, should also see a gradual rise commensurate with improvements in economic conditions.

Prospects of external sources
Aggregate inflows from external sources has increased substantially for LDCs, with comparative weightage of remittances, FDI and external debt increasing compared to ODA and other sources of development aid.110 South Asian LDCs have been largely following this general trend. However, the outlook for growth of commercial fund inflows, particularly FDI and remittances, is considerably dampened by the COVID-19 outbreak. This is a major setback for expansion of development financing portfolios in the near term for South Asian LDCs. Strong economic dynamism has contributed to declining aid dependency. The share of net ODA receipts in central government expenditures has declined for most of the LDCs, being less than 30% in countries including Bangladesh and Bhutan. Correspondingly, ODA receipts measured in per capita terms also slowed down to an average of US$ 60 since 2010.111

Long term downward trend in net ODA receipts are already visible for all the three South Asian LDCs (Figures 20 and 21), with its economic significance gradually falling below the average for LDCs. Nevertheless, ODA remains an important source of external finance, as challenges in attracting market-based external sources persists. It still plays a significant role in areas such as health, infrastructure and education.112 ODA receipts channelized to social and economic infrastructure and services and productive sectors in South Asian LDCs remain above 70 %, more than the average for LDCs (Figure 22). Aid-for-trade allocations are channelized predominantly to transport and energy sectors in South Asian LDCs (Figure 23). Improved alignment between sectoral allocations of ODA and development priorities needs can reduce the pressure of rising public debt considerably.113
Graduation, by itself, is unlikely to result in immediate substantial changes in the composition of development finance available to South Asian LDCs, although it may entail certain implications for the terms of access. Bangladesh passed the World Bank’s lower middle-income threshold in 2015, which triggered a gradual change in its development assistance. As part of this evolution, foreign assistance by some partners is moving away from direct intervention, towards greater emphasis on building national capacities and technical training. These changes are due to the country’s development progress and stronger public-sector capacity, as well as to agency-wide policies. A major part of development assistance offered under bilateral terms are likely to continue in the form of project specific grants.

In fact, LDC status tend to have far less bearing on aid allocations than is generally assumed, the top recipients of ODA being non-LDCs, and are mostly based on bilateral political relationships as well as specific needs of recipient countries and also on donors’ strategic and political considerations,
especially in the case of bilateral grants and concessional loans. Prominent multilateral development partners of South Asian LDCs - the World Bank, Asian Development Bank (ADB), the European Union institutions, and United Nations agencies funds and programmes - follow income-based definitions above graduation threshold as eligibility criteria for many funding streams. Donor responses (from both multilateral as well as bilateral) reported for Nepal, for instance, show that LDC graduation will unlikely to make any significant changes to aid allocation to the country.

Trends of FDI inflows for the three graduating countries of South Asia have also not been impressive, as they have been averaging below LDCs as a group in attracting FDI (Figure 24). Bhutan registered fluctuations in FDI inflows, spiked by investments flowing into hydropower projects in intermittent years. Remittances has been a key growing source of external financing for Bangladesh and Nepal. Bangladesh is the eighth highest remittance receiving country in the world, while Nepal has recorded substantial growth in remittances since 2000 with the share of remittances in GDP rose from 2 per cent to a staggering 30 per cent by 2015 (Figure 25). Remittances contribute to upliftment of rural economy, rising household consumption, due to dominant trends of rural outflow of migrant workers. However, such migration has its waysides as it is indicative of structural and productivity issues with causes and consequences for 'low-growth, high-migration' traps. Besides sharp decline in inward flow of remittances following COVID-19 outbreak, both Bangladesh and Nepal face socio-economic consequences of returnee migrants, including issues of their reintegration and access to social safety nets.

![Figure 24](image1.png)

**Figure 24**
Net FDI Inflows (% of GDP)

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**Blended financing**

The rapid rise of blended financing, a combination of concessional public finance with non-concessional private finance, has the potential to open up new possibilities of LDCs with its advantages over PPPs in terms of broader sectoral coverage and flexibilities. Blending allows flexibility to donors to mix with capital investments flowing into existing projects and offers potential advantages of co-ownership, responsibility sharing and lower credit risks. Though its market is growing fast, the potential of blended financing opportunities remains underutilized in LDCs. Between 2012 and 2017, LDCs received only 6% of blended funding streams (approximately US$ 9.3 billion), whereas over 70% went to middle-income countries. The fund flows so far have also been observed to be largely skewed with top five LDC recipients, including Bangladesh, accounting about 44% of total flows during 2012-17.

However, blended finance has the potential to help bridge the huge financing deficit in delivering the SDGs, estimated at about US$ 2.5 trillion per year. Donor countries, international development banks and development finance institutions are increasingly favoring this modality, with OECD reporting active involvement of at least 17 of its 23 DAC members in blended financing operations. Energy, and financial services constitute the most prominent sectors currently attracting blended inflows, and spacing is observed to be increasing with new entrants and interests in a range of sectors.

Future developments as a dependable option requires a commonly accepted framework for
understanding and organizing blended finance. The OECD DAC Blended Finance Principles is a step forward in this direction. In order to improve the effectiveness of this mode of financing, LDCs, donors and intermediaries should come together for careful structuring of blended projects, design of instruments for partnerships, avoid fragmentation, address market barriers, encourage local ownership, and improve targeting through strong monitoring mechanisms.\textsuperscript{122}

**Multilateral development finance institutions**

LDCs have historically benefited from investments channeled by development finance institutions (DFIs), especially countries with strong growth potential. Graduating LDCs are likely to see sustained involvement of such institutions as investment sources, which are evidenced to have supported job growth and labour productivity across recipient countries.\textsuperscript{123} There has been a steady and healthy growth in concessional finance, the main mode of fund devolution of multilateral DFIs, improving liquidity and commercial viability for critical sectors. The World Bank’s portfolio of concessional loans disbursed to LDCs more than tripled between 2011 and 2017, making up roughly half of all ODA loans granted to LDCs.\textsuperscript{124}

Multilateral development banks (MDBs) have been an important source of financing for a variety of development projects in South Asian LDCs, particularly on physical infrastructure. Along with traditional investors including the World Bank, Asian Development Bank (ADB) and the Islamic Development Bank (IDB), newly established institutions such as the New Development Bank (NDB)\textsuperscript{125} and the Asian Infrastructure Investment Bank (AIIB) are emerging as new sources for closing financing gaps. As one of its founding members, Bangladesh is the largest beneficiary of IDB’s development financing among its 57 members. As founding members of the AIIB, South Asian countries are emerging as its prominent borrowers, together accounting for around 46% of approvals in numbers or magnitudes of loans portfolio issued over 2016-2019.\textsuperscript{126} Projects worth US$ 405 million in magnitude were approved for Bangladesh during this period, with focus on energy generation and distribution, including improving electric distribution system and expansion, helping millions of rural households, natural gas infrastructure and efficiency and a green field gas-based power plant.\textsuperscript{127}

A notable emerging trend is growing collaborative ventures between MDBs as well as with other stakeholders including the private sector. Many of the AIIB’s early projects were undertaken in partnership with the existing MDBs, drawing on their experiences and fostering synergies. The ADBs SASEC projects on infrastructure, covering all the three South Asian LDCs, benefits from similar partnerships.\textsuperscript{128} The SAARC Development Fund (SDF) established in 2010, headquartered in Thimphu, Bhutan, provides funding under social, economic and infrastructure development windows and has several co-financing projects augmenting the modest resources at its disposal.\textsuperscript{129} The combined role of MDBs in infrastructure financing in developing Asia, excluding China and India, stood above 10% in 2015, an increasing share of which is flowing to emerging economies and LDCs.\textsuperscript{130} Inter-agency collaboration can help MDBs in responding to the needs of South Asian LDCs in a better way.

**South-South cooperation and global partnerships**

Growing intensification of South–South and triangular cooperation expands the development finance landscape of LDCs. While the concept lacks a cohesive framework and well-defined structure, making it difficult to measure and keep track of, its growing presence and influence is well evident. The size of flows broadly categorized under South-South cooperation is estimated to have exceeded US$ 20 billion by 2018.\textsuperscript{131} It is having a visible impact on both financing and technical assistance, assuming a variety of roles cutting across infrastructural investments, knowledge sharing, training and capacity building and technology transfer.\textsuperscript{132} In order to structure and streamline the funding and cooperation streams, an action plan was adopted in 2017, which serves as a strategic guide for United Nations system’s efforts on promoting South-South cooperation.\textsuperscript{133} Proximity and traditional ties to two of the heavyweights among sources of South-South flows, China and India, provides South Asian LDCs unique advantages in this regard.

South-South cooperation is now an important constituent of the larger canvas of global partnerships, galvanizing the contributions of various actors in the global South towards the implementation of the SDGs. The specific provisions for LDCs under Goal 17 of the SDGs - ODA allocation commitments, trade and investment promotion, operationalization of technology bank – goes beyond the ambit of financing alone, and so does the evolving nature of global partnerships. While the progress on these commitments has been slower than desired pace, ongoing efforts to strengthen global partnership and specific components of it relevant for LDCs will have a decisive influence on development financing for LDCs. Implementation of the comprehensive financing framework under the Addis Ababa Action Agenda (AAAA), outcome of the 2015 International Conference on Financing for Development, will dictate how global partnerships will grow content and relevance for LDCs. Recognizing that translating global partnership interests into country level policies priorities needs substantial
improvement, an LDC finance facilitation mechanism (FFM) has been proposed by UNCTAD.\textsuperscript{134} Initiatives for better coordination and improved access of LDCs to support being mobilized under global partnerships should be an agenda for LDCs in the upcoming UNLDC-V.

4.3 Implications of COVID-19 for financing

Widespread disruption to the global economy as a whole is likely to cause a major setback for development financing, potentially affecting all prospective sources of LDCs across the board. The combined effect of shrinking fund flows through all channels could lead to severe financing deficiency. Tax and on-tax revenue sources are projected to decline commensurate with drop in national income. While some of the losses are likely to be short-term in nature as income generating streams bounce back post-pandemic, revenue sources tied to sectors in extreme distress may take time to recover, causing negative revenue effects to last for several years. Revival of private capital financing will also depend on the pace of domestic economic recovery.

Established streams of development financing are equally at risks due to change in priorities and possible diversions in expenditure patterns. Immediate priorities of dealing with the health distress and job losses due to lockdowns are forcing LDCs to divert funds to relief packages. Many LDCs have also adopted emergency support programs constituting of direct income support, subsidies and tax relief with direct implications for both revenue and expenditure sides.

Supply-side effects are expected to have similar sustained shocks on international commercial fund inflows through both current and capital accounts. Sudden and sharp drop in exports revenue and remittances, both major sources of income for both Bangladesh and Nepal, will result in a fall in current account inflows. Early projections indicate an expected decline in remittances flow to LDCs by more than 20%.\textsuperscript{135} On the other hand, weak economic outlook in the near-term may discourage FDI and other modes of capital account inflows.

An encouraging development amidst worrying outlook on financing is the quick mobilization of the international community in offering relief measures to countries and regions in distress, with a particular focus on LDCs. At the global level the UN is leading relief measures through the United Nations COVID-19 Response and Recovery Fund, an inter-agency funding mechanism established to support low- and middle-income countries in addressing health distress and socio-economic recovery.\textsuperscript{136} The financial requirements of the Fund are projected at US$2 billion, with half of the outlay expected during the first 9 months of its operation, and expected upward revisions depending on the unfolding crisis. The Global Humanitarian Response Plan (HRP) further lays out the mode of cooperation between the UN agencies and and their partners.\textsuperscript{137}

Complementing these efforts, leading international financial institutions including the International Monetary Fund (IMF), the World Bank, Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), New Development Bank have initiated both unilateral and coordinated COVID-19 financial relief measures, some of which are of particular relevance to South Asian LDCs. The fast track COVID-19 support extended by the World Bank brings a combined entitlement of US$ 134 million to the three South Asian LDCs. Emergency response programme of the ADB provides an outlay of US$ 250 million for Nepal, and US$20 million for Bhutan. IMF has extended $244 million under Rapid Credit Facility (RCF) and $488 million Rapid Financing Instrument (RFI) to Bangladesh. Nepal and Bhutan are allocated with US$ 214 million US$ 28.9 million under RCF.\textsuperscript{138}

At the regional level, several initiatives have been undertaken under the umbrella of SAARC, the most prominent of them being a contributory COVID-19 Emergency Fund with a current corpus of US$ 21.8 million. In addition, the SAARC Development Fund (SDF) has allocated $5 million for COVID-19 related projects in the subregion. The allocations under various COVID-19 relief programmes are likely to increase, especially in the eventuality of deepening crisis. Though relief allocations may not be sufficient enough to cover for project loss of financing from conventional sources, they could provide the much-needed lifeline for dealing with the immediate priorities. In order to ensure optimal outcomes, recipient countries will have to develop appropriate resource redeployment and utilization plans.

4.4 Responding to the development financing challenges of graduation

Ability to diversify and deepen their financing portfolios will be defining for South Asian LDCs in terms of securing reliable and adequate development financing for sustainable graduation. They have been making gradual progress towards improving public fund mobilization and increasing domestic private capital investments, accompanied by measures to attract commercial investments from external sources against a gradual decline in aid dependency. The COVID-19 outbreak comes a big blow to diversification strategies with its adverse impacts expected to diminish prospects of fund mobilization from all the key financing sources and options at their disposal – both domestic and external. It also forces redeployment of financial resources due to
completions of addressing the immediate health crisis and socio-economic emergencies.

In order to maintain their graduation trajectory, despite the expected near-term setbacks to revenue generation, domestic resource mobilization reforms should be sustained, particularly in terms of improving the regulatory environment and facilitative instruments for encouraging private capital investments. Emergency fiscal measures, ease of credit and liquidity, targeted assistance to SMEs, and facilitating microcredit would influence economic recovery and in turn gradual revival of traditional revenue sources. A key resource pool for South Asian LDCs is investments at concessional rates from MDBs channelized to infrastructure and construction, which would help faster recovery. Along with PPPs, emerging tools of blended financing can help better mobilization of private capital, though such funds generally tend to cater to large scale projects because of the high transaction costs involved in organizing and managing pooled investments. Preparedness by way of improved investment climate and creditworthiness are necessary to revive FDI inflows. An equally important aspect under the circumstances is streamlining of expenditure outlay.

International cooperation is vital for revival and sustenance of financing strategies and planning in the current context. Short-term rise in aid requirements are likely for South Asian LDCs. External aid and financial assistance being mobilized as part of COVID-19 relief measures by MDBs, intergovernmental organizations and development partners are vital sources to meet the emergency resource requirements. However, a well-developed utilization strategy is required to ensure that deployment of such funds is aligned with development priorities. In the coming years LDC commitments by the international development community, South-South cooperation and global partnerships catered to the specific needs of LDCs will assume greater importance. Assertive and proactive engagements with development partners is required to ensure that the systemic issues of financing faced by graduating LDCs are accounted for in reframing global commitments, especially in the new LDC Programme of Action.
5. Implications of COVID-19 for Graduation Prospects of South Asian LDCs

5.1 COVID-19 and development trajectories of LDCs

The COVID-19 outbreak has undeniably cast a shadow over world development prospects for the near future, and it threatens to undo progress achieved over several years in the recent past. Disruptions caused by the pandemic, the full extent of which is yet to unravel, might result in the worst recession the world has experienced since the Great Depression of 1930s. Early projections indicate that the world economy is likely to face a negative growth rate ranging between of -2.3% to -4.8% in 2020, with a warning that the fall could be steeper depending on the duration of the pandemic and the extend of demand shocks it causes. World trade is projected to fall by between 13% and 32% in 2020. With steep decline of global manufacturing and services output within a very short span of time causing massive unemployment, accompanied by the largest fall in global commodity prices on record (-20.4% between February and March 2020), the nature of this crisis is unlike any other the world has seen in a long time.

LDCs face very high socio-economic risks, as the pandemic strikes indiscriminately but with disproportionately larger effects on countries and regions with weak coping capacities. Given the inadequacies of public health systems and resource bases to contain the pandemic and mitigate economic losses, the ongoing crisis could exacerbate pre-existing vulnerabilities of LDCs. Deeper impacts also imply possibly slower recovery for LDCs, as experienced during the 2008 global financial crisis following which LDCs, particularly small island LDCs, took longer time to bounce back from external demand shocks.

After a slow start, the number of infections is rising fast in LDCs. The total cases in LDCs increased by more than 20 times within about two months to reach 0.15 million patients by 10 June 2020, with Bangladesh alone registering more 50% of the cases. With lower spending on health at about 2% of GDP per annum, rapid spread of COVID-19 overwhelms the health systems of LDCs. On an average LDCs have less than the half number of hospital beds per citizen (113 beds per 100,000), compared to developing countries and around 80% below the capacity of developed countries. Furthermore, an estimated 47% of deaths in LDCs are caused by communicable diseases and nutritional conditions, compared to 22% globally, increasing the comorbidity risks of COVID-19. Public health distress in LDCs is now growing along with economic hardships as the aftereffects of lockdown measures are increasingly evident.

Following rise in cases, LDCs also resorted to emergency lockdown measures affecting commerce, with aggregate stringency levels only marginally less than that of rest of the world. More than two-thirds of the 47 LDCs have recorded restrictive measures by June 2020, the economic aftereffects of which are beginning to emerge.

For many LDCs such as Bhutan and Nepal, risks are significantly larger also because of their relatively higher dependency on key services sectors including travel and tourism which are among worst affected by COVID-19 outbreak. For countries such as Bangladesh, direct impact of the pandemic on trade-oriented manufacturing, and ripple effects through linked industries and services sectors, raises severe risks. Besides tourism and hospitality, traditional services sectors which are dominant in LDCs are also generally labor-intensive, comprising mostly of informal sector and small and medium enterprises (SMEs) which are at high risks as operators with low margins and without adequate insurance coverage.

By mid-March 2020, when imposition of restrictive transport measures world-wide was still in the early stages, world services trade index had declined by 3.2 percentage points. Transport and tourism being among the sectors with highest impact. It is to be noted in this context that LDCs entered the crisis with an already troubled trade scenario, registering a decline in the value exports of goods and services by 1.6 per cent in 2019, a greater decline than that of world exports (1.2 per cent) in the same period. Downturn in trade following the pandemic is therefore likely to be even more severe for LDCs than for rest of the world.

Impacts on trade and remittances flow are expected to trigger deterioration of the current account balance as well as overall balance of payments of LDCs. Unpredictable market conditions and loss of investor confidence may affect FDI and short-term financial inflows to LDCs. This coupled with increasing burden on domestic resources for COVID-19 relief measures and falling tax revenues may constrict social sector...
spending, which could in turn spiral into other domestic fiscal and monetary management issues with both short-term and long-term implications for development planning. Net food importing LDCs are additionally faced with possibilities of food inflation.

5.2 Potential impacts on graduation of South Asian LDCs

Economic aftereffects of COVID-19 restrictions are surfacing in South Asian LDCs as well, embedded with risks to their graduation strategies. The pandemic can potentially affect their near-term graduation prospects in various ways. A recent report by UNESCAP on socio-economic impacts of COVID-19 in South Asia indicates that the subregional economy is likely to shrink for the first time in four decades with underlying channels of impact straddling across sectors. Both demand and supply-side shocks triggered by the lockdown measures resulted in massive job losses, with nearly 140 million estimated jobs losses in the five largest South Asian countries including Bangladesh and Nepal. This would have sweeping negative effects on all aspects of economic and social life in the subregion. Though the extend of impacts may vary across countries, the Report points out several critical areas of concern which are of particular relevance to the LDCs of the subregion.

Firstly, some of the most evident and hardest impacts of COVID-19 are on sectors which are highly sensitive to LDCs. In the case of Bangladesh, the direct negative impacts on the merchandise exports sector stand out in particular. Cancellations of export orders within the first few months of the pandemic is projected to have led to revenue losses of around US$ 3 billion, affecting about 2.17 million workers, with possible deeper impact of still unfolding demand shock scenarios. For Nepal and Bhutan, the shockwaves from a standstill in the travel and tourism sector transmitted through forward and backward linkages could have devastating effects on their economy. A recent assessment for Bhutan reveals that COVID-19 impacts on tourism and allied sectors is already deep, widespread and cross-cutting, given than for an overwhelming majority of households derive their major source of income from tourism and about 74% of such households reported drop in income by more than 50%.

Secondly, socio-economic impacts of COVID-19 are expected to affect LDCs disproportionately, with a large share of population reliant on marginal, informal and threatened livelihoods, without adequate social protection cover. Historically, pandemics are observed to have caused widening inequalities and distributional imbalances between individuals and groups based on differences in education levels, health status and other given endowments. Similar channels acting though endowment differences can also cause widening inequalities between countries. The pandemic would cause larger effects on countries and regions with weak coping capacities as in the case of LDCs. South Asia faces COVID-19 with low levels of preparedness compared to developed regions and most other developing regions, not only in terms of public health infrastructure, but also in terms of indicators of access to basic amenities and connectivity. Among South Asian LDCs, though Bhutan fares better with levels of select indicators of health facilities, access to infrastructure and digital connectivity above South Asian averages, the country’s preparedness gauged in terms of these indicators is far below global benchmarks.

Implications for LDC graduation process

The pervasive nature of the adverse socio-economic impacts of COVID-19, affecting all sectors and sections of the population, would have definitive procedural consequences for graduation assessment. Many qualifying LDCs face the risk of slipping back below the threshold levels on one or more of the three indicators. However, such manifestations COVID-19 impacts though graduation indicators may likely happen with time lags, and they may last for many years. It is imperative that the LDC graduation assessment process henceforth accounts for such potential intertemporal impacts on indicators. While expected negative growth rates would have a direct impact on per capita GNI, it is difficult to project the potential effects on HAI and EVI because of the composite nature of the indices. Certain subcomponents of both indices, such as ‘percentage of undernourished population’ in HAI and ‘Instability of exports of goods and services’ in EVI are highly sensitive and responsive to COVID-19 impacts, certain other subcomponents of both indices are likely to have slow and delayed impact.

With a projected negative growth in GDP in 2019-20, the per capita GNI is expected to decline for all the South Asian LDCs in the current year. Bhutan is currently well above the income threshold but falls short of the stipulated threshold levels for income only criteria. However, prolonged stagnation in income levels could pull back progress achieved on human development, consequently affecting the sub-indicators that constitute HAI. Though the stage of process of Bhutan’s graduation has advanced and is not tied to the forthcoming review, risks to sustainability and their implications for transition support for the country remains critical. Bangladesh faces the possibility of a short-term set back as the country is currently only marginally above the graduation threshold on per capita GNI ($1274 against threshold od $1230). Nepal is currently below the threshold for per capita GNI and the near-term prospects for qualifying on income criteria is at risk.
On HAI, all the three South Asian LDCs are above threshold by a significant margin. However, sustained access limitations triggered by lower income and rise in poverty could generate an intertemporal negative effect on sub-indicators of health, education and food security. The composite effect may put persistent downward pressure on HAI for years even after the initial economic shock induced by the pandemic wears off. Similarly, the nature and extent of the composite impact on EVI are hard to predict. While Bhutan falls short of the stipulated threshold levels for EVI, high volatility in exports experienced currently may aggravate exposure to trade vulnerabilities for both Bangladesh and Nepal, especially as this component measure is likely to remain unstable in the coming years as a fall out of the pandemic.

Issues of graduation assessment brought forth by the pandemic may be seen in conjunction with the recognition that the assessment framework needs a revisit. The process led by CDP has already undertaken appraisals of the current graduation criteria, exploring alternative or additional indicators suitable for inclusion in line with the agreed principles of methodological robustness and data availability, resulting certain suggested changes. Accordingly, modifications are brought to HAI, and EVI, the latter now referred to as the Economic and Environmental Vulnerability Index. The Committee also decided to enhance the graduation framework by introducing a set of supplementary graduation indicators, to capture vulnerabilities that are not fully captured by EVI. The upcoming review may bring additional consideration of whether these new definitions and flexibilities can address the procedural issues raised by COVID-19.

**Threats to sustainability of graduation**

The intemporal nature of COVID-19 impacts, reasonably expecting some of the negative developmental setbacks to surface with a delayed timeline and/or spread over many years, would pose difficulties for upcoming assessments scheduled for 2021. This is especially so due to the unpredictability of the duration of restrictive measures forced by the pandemic. Intertemporal impacts essentially imply enhanced risk to sustainability of graduation for most of the LDCs. An objective assessment based on graduation indicators therefore may not reveal the true nature of exposure to vulnerabilities for the next few years.

Although CDP acknowledges that 2019 figures (to be taken for February 2021 review) will not be reflective of COVID-19 impacts and therefore the 2021 review will be complemented with “additional information in the form of supplementary graduation indicators and country-specific analysis, including information on Covid-19 and its impacts, in consultation with countries concerned.” It is also stated that, drawing upon the additional assessment on COVID-19 impacts, steps will be taken to propose priorities and support measures to those countries recommended for graduation. This may entail longer readjustment times and continuation of ISMs for a longer period for recovery.

The social sector spending outlays for LDCs are expected to increase/change substantially in the coming years, putting unexpected additional strain on existing financial resources, while sharp fall in domestic income and fund flows from external sources would impact revenue generation at least at in the near term. Enhancing and deepening the financing mix therefore would meet with considerable difficulties for LDCs. This unprecedented situation should necessarily have implications for the conceptualization of ISMs and the terms of the entitlements of graduating LDCs to ISMs.

### 5.3 Responding to graduation challenges posed by COVID-19

**Addressing the health crisis**
The immediate priority of LDCs is to focus on steps to arrest the health crisis, to save lives and minimize the damages to national economic and social security. With modest response capacity to health emergencies, assistance from the global community is critical for providing relief to stressed fiscal space, covering for shortage of trained health workers and improving access to medical supplies. While global humanitarian assistance being mobilized in the aftermath of the pandemic recognizes the special needs of LDCs, collective actions from LDCs are necessary for ensure better targeting, as is evident in the case of medical supplies. The communication by Chad at the WTO, on behalf of the LDC group, seeking urgent trade measures to prevent export restrictions on medical supplies critical for COVID-19 is a case in point. Though South Asian LDCs have taken emergent measures to remove import taxes and barriers on critical medical supplies, export restrictions could pose hurdles for them along with all import dependent LDCs. Weaknesses if the health systems exposed by the pandemic also urges beginning of a log-term buildup of capacities, including investments into health infrastructure, stronger regulatory systems for accessible health insurance, market control for ensuring affordable medicines and medical care supplies, and adequate deployment of human resources in health care sector.

**Emergency fiscal relief measures**
To minimize the impact of economic depression on preparedness for graduation, LDCs are taking measures to funnel liquidity to ailing sectors and designing relief packages as part of fiscal responses.
In this regard, more commitments would be required in view of the growing magnitude of the crisis. The fiscal relief packages announced by LDCs in the initial stages amounted to less than 1% of their combined GDP, far less compared to developing country averages, with some among them including South Asian LDCs emerging as outliers with bigger packages. At the time of reporting, Bhutan’s and Bangladesh’s fiscal stimulus package amounted to 3.5% and 14% of their GDP respectively. Based on the current outlook, UNESCAP estimates for South Asia indicates that LDCs of the subregion may have to scale-up their respective economic stimulus measures, with projected desirable levels of 11% for Bangladesh and 9% for Nepal.

**Leveraging international support**

Interventions at the domestic level and external support are needed in equal measure to ensure recovery of LDCs from burgeoning economic crisis. International assistance mobilized and offered by multiple sources including agencies, funds and programmes of the United Nations, multilateral development banks, NGOs, development partners and donors, could be utilized to supplement domestic fiscal measures. COVID-19 financial assistance offered by the World Bank and the ADB to South Asian LDCs so far amount to about US$ 400 million, besides the Rapid Credit Facility (RCF) offered to the three countries by IMF to the tune of US$ 487 million in aggregate. Most of the members of the OECD Development Assistance Committee (DAC) have pledged increase in ODA outlay to help LDCs deal with the crisis. Optimal utilization of international support entails careful considerations of case-by-case sectoral resource reallocation requirements.

**Reassessment of graduation strategies and timeline**

The uncertainties raised by COVID-19 are expected to influence the development parameters of LDCs in complex ways, potentially altering the course of their progress. For graduating LDCs, this would mean that the status quo of their respective transition strategies would no longer be valid, as needs assessment of ISMs would now be required to account for the damages caused by the pandemic. As discussed in the previous sections, COVID-19 poses questions on the adequacy of the current graduation assessment framework and on the sustainability of graduation. For instance, the anticipatory COVID-19 impact analysis for Bangladesh conducted by a multi-agency Needs Assessment Working Group (NAWG) highlights medium to long term planning requirements with implications for existing resource allocation projections. Graduating LDCs would need to undertake a comprehensive reassessment of their respective national socio-economic situation.

For critically trade dependent countries such as Bangladesh, downturn in the global trade outlook would substantially change its current positions related to trade related ISMs. Apart from reframing national planning and coping strategies, national level situation analyses in the light of COVID-19 are also essential for informing the graduation process, allowing coordination between LDCs for collective positions regarding additional flexibilities and assistance over existing support packages for transition. New information would also enable donor countries, agencies and coordinators to improve post-graduation assistance. However, national situation analyses would need continued revisions until the full effects of the ongoing pandemic is known. LDCs would also require enough time to frame and execute utilization plans for COVID-19 related external financial assistance entitlements. The necessity of reassessments and the practical difficulties of conduct of such assessments against constantly evolving nature of the prolonged pandemic would have a bearing on graduation timelines as per the current schedule. The review in February 2021 will be important for not only South Asian but other LDCs which will be graduating in coming years, and innovative and flexible approaches need to be taken in exploring the transition periods and process of graduation.
6. Policy Priorities for Sustainable Transition from LDC Status

6.1 Need for a renewed approach to graduation

Prior to the onset of COVID-19 outbreak, South Asian LDCs were on the path of progress on preparations to ensure a smooth transition from LDC status through domestic and external policy reforms, utilization of support for transition and by opening negotiations in critical areas with key trade and development partners. Their transition strategies typically entailed a mix of: (a) domestic reforms for building productive capacities, economic diversification, human resource development, and structural transformation for long term resilience, and (b) negotiations for continued ISMs and S&DT in critical sectors for a sufficient period. As has been observed in this report, the pervasive nature of the pandemic tends to exert a course changing influence on the status quo of most of the policy parameters of South Asian LDCs in the runup to their graduation. Redeployment of resources to deal with the immediate health emergency and economic recovery would have a direct impact on the planned outlay for meeting the investment requirements of transition for the next few years.

Given that post COVID-19 conditions may weaken capacity for domestic reforms, adversely affect resource mobilization, change spending priorities and impose continued dependency on ISMs, South Asian LDCs need to reconsider their respective graduation strategies, planning and processes. A renewed approach need not imply a substantial departure from conventional pathways. Rather, it entails weighing of the new constraints posed by the pandemic against their potential effects on existing planning framework. Regardless of the differences in their endowments and projected post-graduation scenarios, there are many common reform themes applicable to all the three South Asian LDCs: on building trade capacities, continuation of economic diversification and structural reforms, enhancing job creation and social security, improving the financing mix and alignment of national planning with the SDGs. It is important that the momentum of reformative actions in these areas is maintained.

Certain implications of the pandemic for graduation processes and timelines cannot be overlooked. First and foremost are the uncertainties regarding duration of the pandemic itself and its sectoral impacts. Given the criticality of trade for graduation, subdued global demand for prolonged periods could cause serious disruptions to preparations for adaptation following loss of trade related ISMs. Furthermore, certain key global actions and commitments – including LDC specific targets under the SDG 17, the ongoing preparatory stages for UNLDC-V for a new Programme of Action etc. - that are critical for sustainable transition of graduating LDCs would require reframing in the context of COVID-19 with implications for graduation timelines. Country level situation analyses, important for providing inputs to renewal of global commitments, in the near-term is made difficult by potential intertemporal impacts on trade and other key sectors.

The foremost priority in the current context is to focus on emergency measures to contain the health crisis and prevent its socio-economic impacts from escalating further. In terms of maintaining the transitional path, on the trade front, all three South Asian LDCs countries should simultaneously pursue a two-pronged approach: (i) open negotiations with select trading partners on sectors with expected negative impacts to protect and retain favorable terms of access, and efforts for greater engagement with potential markets though existing and new RTAs/PTAs, and (ii) continue pursuit of domestic reforms to enhance diversification, productivity and competitiveness of trade oriented sectors which can help to offset short-term preferential market access losses and ensure long-term stability and sustenance in terms of future trade prospects. In pursuit of structural reforms, South Asian LDCs must take advantage of development cooperation and non-trade ISMs available during the transition period, improve resource mobilization and diversify the financing mix and build on global partnerships.

6.2 Containing the COVID-19 crisis and its adverse development impacts

The immediate priority is to focus on steps to arrest the health crisis, to save lives and minimize the damages to national economic and social security. Countries of the Asia-Pacific region are generally following a sequential path of lockdown measures for contain the spread of the virus, to gradual easing of commercial activities, followed by macroeconomic stimulus. South Asian LDCs are following such a sequential path. In response to the health crisis, following lockdown measures, all the three countries took steps to exempt duty and taxes on imports of
South Asian LDCs are also adopting measures aimed at economic revival including fiscal stimulus and monetary measures to ease liquidity and credit flows. The size of fiscal stimulus packages announced so far varies widely across countries in the Asia-Pacific region, ranging from 0.1% to more than 20% of GDP, with a median of about 2.8 per cent. Among South Asian LDCs, by May 2020, Bhutan formulated a fiscal stimulus of 14%. Bangladesh's initial allocation of US$ 588 million stimulus for export-oriented industries, were ramped up with additional stimulus of more than US$9 billion amounting to about 3.5%. Depending on the evolving magnitude of the crisis, further increase in fiscal support may be required, with recent assessments by UESCAP based on the current outlook suggesting desirable levels of 11% for Bangladesh and 9% for Nepal. As this would put additional stress on the resources at their disposal, both measures to expand fiscal space and mobilization of international support are required to sustain adequate fund infusion for recovery.

6.3 Sustaining trade-led development prospects

Though the potential impacts of loss of LDC specific trade preferences and trade related ISMs are expected to be of varying degrees for South Asian LDCs, depending on their respective composition of exports and trading partners, graduation entails certain necessary measures to adapt to new trading conditions for all the three countries. Expected losses of existing export volumes is estimated to be the highest for Bangladesh among all the graduating LDCs. Though the losses expected for Bhutan and Nepal are comparatively lesser in absolute terms, such losses can cause ripple effects through inter-industry linkages within their comparatively smaller economies. There are several policy areas, covering external market access and domestic supply-side reforms, which needs to be pursued simultaneously to guard against market access losses.

Greater engagement with key trading partners to secure market access and sufficient transition period for trade related support measures

Against predicted export shocks due loss of trade preferences South Asian LDCs should also begin to open negotiations with strategic trading partners to protect their trading interests. Deepening partnerships through RTAs is of strategic importance as trade expansion and diversification is one of the unavoidable long-term targets for South Asian LDCs. This particularly so for Bangladesh, as the case of its textile and garment exports is singled out as the biggest concern among the scenarios for graduation. Currently, South Asian LDCs are signatories to only a select few RTAs/FTAs reflecting their low negotiating capital and relative inexperience in negotiating bilateral/plurilateral trade agreements. Increasing participation in reciprocal trade agreements with key partners is important not only to retain preferential market access but also to be able to address issues relating to non-tariff measures, trade remedies, dispute settlement, standards, customs cooperation etc. in the context of growing complexities of trade agreements. South Asian LDCs are yet to engage in any trade-plus agreements with the scope of comprehensive economic partnership.

Relative merits of various FTA/RTA options should be evaluated to prioritize and streamline negotiations. Negotiations should also aim to secure longer transition periods for streamlining domestic subsidies, cash transfers and other incentives currently provided to exporters. This applies in particular for Bangladesh and Nepal, and the most sensitive of such bilateral relations is with EU, with respect to the textile sector in particular. Keeping alive negotiating channels will help to convey potential adverse impacts on domestic economy and learn about expected revisions to the terms of the GSP scheme. The EU has commenced a consultative process of review of the GSP regulation for the period after the end of its tenure in 2023. The preliminary graduation assessment recommends Bangladesh to explore various alternatives post the transition period of EBA including special bilateral terms.

Exploit regional trade opportunities

Trade integration with regional trading partner remains comparatively very low and highly underexploited for South Asian LDCs. Regional exports have remained stagnant at around 2.5% of total exports over the last two decades for Bangladesh, while the country is observed to have the highest utilized export potential with regional trading partners amongst South Asian countries. UNESCAP's estimates based on a gravity model for the subregion shows unexploited intra-regional export potential of 93% for Bangladesh, 76% for Nepal and 9% for Bhutan. For Bhutan and Nepal, their respective trade potentials with countries in the neighborhood is overshadowed by trade with India. Overwhelming share of bilateral trade relations with India also understate the opportunities that are available to integrate into production networks within the region. A large part of regional imports is constituted by raw cotton, agricultural inputs, and metals and minerals, which are sectors with very high potential to form regional value chains. Evidences show that high growth of Asia-Pacific LDCs in general, with a few exceptions, is predominantly driven by exports of intermediate goods to large markets within the region. Expanding the scope of Article 12 of SAFTA - by which Maldives has been accorded LDC treatment and eligibility to LDC...
provisions following graduation of the country in 2011 - for all graduating LDCs of the subregion could provide them with useful transitional support.

Regional trade integration within South Asia is also important against the backdrop of growing uncertainties and volatility in the external market environment. It can open up new avenues for South Asian LDCs to make progress towards product diversification, form part of regional value chains, and proceed with reforms related to easing of trade procedures under regional cooperation frameworks. While market access gains at the regional level may not be sufficient for offsetting trade losses in traditional markets, building better trade relations with regional trading partners can be beneficial in terms of building trade related capacities. This can help to enhance preparedness for engagements at a broader level. It can also help to develop institutional capacities to deal with trade-plus issues. As new age RTAs are setting new templates for the global trading system to follow, wider domestic reforms, broader compliance and regulatory convergence would become minimum expectations in agreements of the future. Regional cooperation is also essential for implementing many of the trade facilitation reforms as they require greater level of regulatory harmonization.

**Policy recourses at the multilateral level (WTO rules)**

Withdrawal of LDC exemptions from the usage of non-agricultural export subsidies under the SCM Agreement and certain types of agricultural export subsidies under the AOA are the main areas of concern for Bangladesh and Nepal as WTO members. Regarding non-agricultural export subsidies, both countries may continue to pursue an LDC Group proposal in the WTO to allow graduated LDCs which fall under a particular income threshold to sustain usage of such subsidies, as is currently the case for a specific list of developing countries. Termination of TRIPS waiver and its impact on thriving pharmaceutical industry is another special concern for both countries. However, further clarity regarding application of S&DT provisions on recently graduated countries is awaited, but given the present state of negotiations in WTO, it does not seem that a consensus on this issue will reach soon. As prominent members of the LDC Group in the WTO, both countries have options of proceeding concerted proposals through the Group for extension of certain exemptions, particularly regarding export subsidies. A recent policy paper published by UN/CDP urges Bangladesh to pursue for extension of the transition period at the WTO TRIPS Council, while seeking the support of other LDCs for a joint submission to this effect, as applicable to all graduating LDCs. 177

As regards protecting market access interests at the multilateral level, a priority for graduating LDCs is engagement with the WTO membership on ways to smoothen the loss of LDC specific provisions with a view to obtain sufficient transition periods for phasing out DFQF market access and preferential rules of origin. The LDC Services waiver allows WTO members to grant preferential treatment to services and service suppliers originating from LDC members. After graduation they will not get the preferential market access from the 51 WTO members who have notified this scheme (till 30 October 2019). Given the growing significance of services industries, discussions on access to favorable market access terms to recently graduated LDCs may also be pursued through the LDC Group.

In fact, the LDC group in the WTO is initiating a submission for the 12th Ministerial Conference scheduled for June 2021, soliciting for an extended period to continue ISMs beyond graduation and allow privileges to graduated nations in terms of various S&DT, exemptions, and waivers under various WTO agreements until they expire. It is imperative that the submission receives due considerations from the WTO membership. 178

Regarding access to technical assistance and capacity-building mechanisms related to trade coordinated and provided by the WTO secretariat, South Asian LDCs have avenues left, as such programmes are also provided on a need basis non-LDC developing countries.

**Implementation of trade facilitation reforms**

A quintessential policy message for South Asian LDCs for realization of their well-recognized potentials in goods and services trade and formation of regional supply chains is that of trade facilitation. The future directions of intraregional economic integration critically depend on how successful they become in implementing trade facilitation measures - defined as measures to reduce/remove non-tariff, institutional, administrative, technical and procedural barriers to trade. Explaining high trade costs experienced in the subregion, South Asia turned out to be on the lower rungs amongst Asia-Pacific subregions in terms of implementation of trade facilitation measures according to periodic surveys conducted by UNESCAP. 179

South Asian LDCs have high scope for leveraging various trade facilitation support programmes, with are not tied to LDC status and hence will be available post-graduation, for competitiveness for its export-oriented sectors. Perhaps the most important trade facilitation requirement concerning them is synchronization of trade procedures and adoption of electronic platforms. Bangladesh has signed the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific facilitated by UNESCAP in 2017. This programme
covers periodic monitoring of progress made in various components of cross-border paperless trade and training for utilizing a comprehensive implementation toolkit. At the regional level, UNESCAP also supports Member States in implementation of the WTO Trade Facilitation Agreement (TFA) through workshops capacity building exercises.

The Asia-Pacific Trade Facilitation Forum (APTFF) and the Regional Organizations Cooperation Mechanism (ROC-TF) are related platforms co-hosted by UNESCAP for exchanging information, experiences and practices for trade facilitation in Asia-Pacific, identify priority areas for regional cooperation, and learn about new tools and services which can increase the efficiency of cross-border transactions. According to the UN Global Survey on Trade Facilitation and Paperless Trade, jointly conducted by five United Nations Regional Commissions, Bangladesh has made significant progress in the trade facilitation implementation, by increasing implementation rate from 35% in 2017 to 55% in 2019.

**Improving transport and trade logistics**

Efficiency gains in transport and trade logistics can significantly enhance price competency of exports of South Asian LDCs. Improvements in connectivity and logistics along the supply chains require procedural and regulatory reforms as much as capital investments on infrastructure. The blueprint of a multimodal international transport network for Southern Asia developed through a series of consultations held by UNESCAP, joining together various key segments of the Asia Highway and Trans-Asian Rail Network, offers viable options for LDCs of the subregion to connect with large inter-regional land transport networks. It allows better transit options and port access to landlocked LDCs, Bhutan and Nepal.

Commercial assessment shows that transport facilitation along the network can potentially halve the current carriage costs under modest assumptions. Operationalization of a container rail service between Kolkata (India) and Dhaka (Bangladesh), an integral part of the corridor, is identified as one of the most beneficial segments of the corridor. Recent assessments conducted by UNESCAP in the wake of COVID-19 shows that the transport restrictions imposed during the pandemic exposed many operational issues and bottlenecks, requiring urgent facilitative measures including modernized electronic documentation, cargo tracking, inspection and clearance systems.

Multilateral support extended in the form of intergovernmental treaties on regional transport, policy research, technical assistance, transport and trade facilitation tools, including the guides and training materials for business process analysis, simplification and automation of trade and transport documents etc. are available post-graduation, besides transport infrastructure financing. The domain expertise of organizations such as UNESCAP and ADB remain at the disposal of South Asian LDCs. To assist member countries in modernizing freight transport systems and services, UNESCAP provides resource pools and expertise consisting of transport facilitation models, best practices and regional frameworks for operationalization of regional road (Asian Highways), rail (Trans-Asian Railways) and dry ports networks. These frameworks cover wider application of new technologies, harmonized standards, infrastructural requirements, and legal, institutional and regulatory reform measures. Aid flows to the transport sector are guided by international commitments flowing from the target of providing ‘access to safe, affordable, accessible and sustainable transport systems for all’ under the SDGs and guided by key intergovernmental resolutions such as commitments reaffirming continued assistance for transit transport under the Vienna Programme of Action for Landlocked Developing Countries.

**Pursuing export diversification and supply-side reforms**

As in the case of transport and trade procedures, untied assistance is also available to address firm level bottlenecks, which is a major aspect of supply-side constraints in LDCs. Domestic reforms for long term build-up of trade capacities is inevitable for sustenance, irrespective of post-graduation impacts, considering the fast-changing external environment. Potential impacts on the textile and garments industry, for instance, need to be considered in the context of general challenges faced by the industry, including technological changes, changing standards, emergence of new competitors. It is imperative for South Asian LDCs to diversify their export baskets and explore new markets. Efforts for diversification will be benefited by greater participation in product value chains, skill and technology enhancement and improvements in operative efficiencies with far reaching impacts in terms of reducing economic vulnerability of LDCs.

A predominant share of manufacturing capacity in LDCs is found in small-scale units (SMEs), which suffer from low survival rates due resource constraints. Recent assessments show that such constraints are more severe with respect to lack of managerial/entrepreneurial skills, market information, connect and network compared to lack of access to capital and raw materials. Many capacity-building aspects related to entrepreneurship development and managerial soft-skills are provided in the form of training, grants and technical assistance without
large capital investment requirements under initiatives led by specialized international development agencies such as UNCTAD, ITC and WTO. South Asian LDCs can utilize such sources to improve firm level performance and promote managerial skills, value-addition, diversification, compliance with standards, build market connect and networks among the large pool of SMEs in the unorganized sector.

**Exploit services trade opportunities**
South Asian LDCs have had rapid growth in certain key service sectors with improving sector specific competencies. While transport and telecommunications have been the main contributing sectors in rise in export earnings for Bangladesh, registering annual overall growth rate of about 46% in 2019, travel and tourism, and telecommunications are keys sectors for Bhutan and Nepal. All countries exhibit high potential in ICT services with possibilities of integration into forward linked sectors in neighboring India. Unlike in the case of merchandise trade, services exports of the three countries are not currently subjected to preferential access terms, implying minimal impact of graduation. Dynamic growth in services can complement merchandise trade in many ways and also help to offset negative impacts in the latter to a large extent.

**6.4 Sustaining structural reforms and development financing**
One of the main priorities for South Asian LDCs is to continue structural reforms, for modernization of the agricultural sector, expansion of the productive base of industry and build on sector specific competencies in key services sectors. Transformative changes are particularly required in the rural agrarian sectors. Diversification of the rural economy, with spillover effects also for rural non-farm activities, can provide stability to domestic agricultural markets, improve prospects of fund flows into agricultural investment, and thereby improve the tradability of agricultural products, reduce risks, enhance opportunities for greater value addition, and help dependents to diversify their income sources. There are many avenues for sustaining external support for agrarian reforms, and project with mutually supportive outcomes between farm and no-farm sectors have greater chances to attract financing from donor agencies and partners. South Asian LDCs must strive to prioritize such projects for ODA allocations. It is important to call for strategic support and channeling of ODA resources to the recently graduating LDCs for development financing in order to assist them in sustainable transition. Support measures and instruments should also be used to address supply-side constraints which cripple growth of labour-intensive manufacturing.

**Effective utilisation of transition period**
Several ISMs will be available for extended periods of time after graduation comes into effect. A transition period of 5 years will be allowed before withdrawing access to Investment Support Programme for LDCs, LDC Technology Bank, access to the Least Developed Countries Fund (LDCF) for climate change financing etc. Support available during the transition period, such as that of the United Nations Capital Development Fund (UNCDF), should be used to develop institutional and technological capabilities, bridging knowledge gaps and digital divide, skilling and human resource development, and building statistical capacities for informed decision making.

**Exploiting alternative development support measures and instruments (global partnerships)**
South Asian LDCs must explore alternative financing options, under the guidance of the consultative group to be formed for guiding smooth transition. Unattained commitments undertaken by the ODA donors, pledges by the International community under the successive LDC Programmes of Action and options available under the Global Partnership for SDGs (Goal 17) must be pursued in the consultations following graduation. Bangladesh conducts consultative process with development partners through Local Consultative Group (LCG), Bangladesh Development Forum (BDF) and related platforms. Corresponding platforms are also held for Bhutan and Nepal. Increasing global pool of climate finance and instruments such as the Green Climate Fund (GCF) are also critical sources for South Asian LDCs.

**Diversifying and expanding the financing portfolio**
Development financing gaps, a longstanding obstacle facing LDCs, may further be widened by the COVID-19 outbreak. The pandemic is likely to affect fund flows through all sources for South Asian LDCs, sharp falls in remittances and export earnings already experienced being highly critical for Bangladesh and Nepal. Among domestic sources, both tax and non-tax revenue sources are projected to decline, along with private capital investments. Similarly, key modes of external commercial funding sources including remittances, FDI inflows, external debt and portfolio investments etc. are also expected to be affected, impacting expansion of financing portfolios. Prospects of revival will be tied to the pace of economic recovery.

Diversification of the financing portfolio assumes more importance than ever before, also given the potential changes to development financing options in the context of graduation. Though certain specific form of development support will be available, the general nature and terms of external financing are gradually changing and may undergo further changes in the aftermath of COVID-19. South Asian LDCs will
have to resort to more focused project-based financing support, such as in the case of projects linked with infrastructure and climate actions. Increasing scope for infrastructural funding under concessional loans and grants from Multilateral Development Banks is an important prospect. Enhancing accessibility of LDCs to low-cost development financing and technology transfer must be an integral part of the mobilization of post-COVID-19 global support for building back.

South Asian LDCs will also have to raise levels and channels of domestic resource mobilization to offset shortages from external sources. This will be helpful in streamlining fund raising and utilization, gradually improve self-reliance. Reforms for improving efficiency of the tax system needs to be sustained, such as in the case of a comprehensive revamp in tax structure in Bhutan by introducing a single GST tax rate to replace the multiple rate sales tax and customs duty, along with key amendments to simplify direct taxes. The scope of private capital investment remains largely underexploited. With strong governance and improvement in business climate, the three countries can raise a targeted pipeline of PPP projects. Bangladesh has strong foundations in microcredit, a critical alternative model to public welfare financing which Bhutan and Nepal can benefit from. Despite declining dependency in South Asian LDCs, ODA remains critical source of development financing, and may assume greater relevance in the post-COVID-19 era. However, efforts are needed to align ODA with priorities of sustainable graduation, without restrictive conditionalities and allowing for flow into development of productive capacities.

**Capitalise on improved credit rating and prospects of FDI inflows**

One of the most apparent advantage is that graduation from the LDC status would send strong market signals, possibly improving credit ratings and thereby aiding FDI inflows. However, domestic reforms for enabling a reliable and conducive regulatory environment is necessary to attract FDI inflows, especially in the context of the expected dampening effect of COVID-19 on FDI inflows in the near term.\(^{194}\) South Asian LDCs must utilize the opportunity to encourage FDI inflows tied with technology-transfer to ensure maximum spillover effects in terms of skill upgrading, improving productivity and better management practices. The role of FDI in expanding exports and promoting export diversification is so prominent from the experience of many Asian developing countries including, Cambodia, China, Malaysia, and Vietnam. Spillover effects can also benefit local firms operating in backward linked industries, facilitating their industrial upgrading and enhanced participation in production networks.

As FDI inflows to South Asia grew by a healthy 4% in 2018 to US$ 54 billion, corresponding numbers of Bangladesh stood out with 68% growth to reach a record level of US$ 3.6 billion, predominantly driven by investments flowing into power generation and into labor-intensive ready-made garments sector.\(^{195}\) The World Investment Report of 2019 recognizes high potential for SEZs established through public-private partnerships in Bangladesh in attracting FDI, particularly from neighboring India.\(^{196}\) Incentive structures, predictability and transparency of terms and lower risks have enabled special zones and industrial parks as key nodes of FDI destinations in many Asian LDCs. Given the importance of textiles and garments in their economy, Bangladesh and Nepal will also require to look for possible options of how they will be able to continue producing these items and exporting them in cased the developed countries or their competitors start using AI in garment production. The advantage of having cheap labour will then be gone and many workers in these factories will be unemployed, should Bangladesh and Nepal upgrade technology for using AI in their production.

### 6.5 Synergizing LDC graduation with the SDGs and preparing for UNLDC-V

LDC Graduation is closely linked to the SDGs. Several of the sub-indices taken into consideration for graduation criteria are directly linked to SDGs.\(^ {197}\) Realignment of national development policy framework with SDGs, which is an ongoing process in South Asian LDCs, also involves integrating graduation challenges with national SDG programming. Trade as an enabler of development is a major cross-cutting theme in the ongoing LDC graduation process and in the alignment of national development priorities with SDGs. An important opportunity in this regard is the upcoming Fifth UN Conference on the LDCs (UNLDC-V), scheduled for January 2022, which will lead to comprehensive programme successive to the IPoA. Supporting LDC graduation being one of the main built-in goals, the participatory process leading upto UNLDC-V will take into account potential areas of synergies with graduation targets and the SDGs, and ways to streamline reforms and secure financing through international partnerships and coalitions.

The reform priorities under the IPoA for structural transformation, enhancement of productive capacities and building infrastructure, including for sustainable energy, continue to remain relevant for LDCs, and therefore must be given due importance with emphasis on channels of implementation and international support mobilization in the new Programme of Action. This is critical for effectively confronting the gaps in implementation of the IPOA. Overreliance on a narrow base of primary products,
lack of capital and technological skills, institutional challenges, constraints to upgrade to a higher value chain and high cost of logistics are priority issues to be tackled to prevent erosion of competitive advantage of LDCs.

The process of Voluntary National Reviews (VNRs) under the SDGs is an important national exercise which can benefit graduation strategies in many ways. As a comprehensive national level evaluation process, respective VNRs of South Asian LDCs would identify all relevant country priorities for SDGs having cross-cutting elements with LDC graduation. It helps in strengthening policy coherence, encourage multi stakeholder partnerships, explore financing options and ways to pool resources for implementation of the SDGs. The VNR processes are highly important opportunities for developing integrated plans for SDGs and LDC graduation.196

6.6 Administrative reforms for whole-of-government approach to sustainable transition

Preparing and executing transition strategies require cooperation and coordination between various ministries and departments within the national governance framework, especially given that the multidimensionality of both LDC graduation and implementation of the SDGs require such a unified approach to planning. Bangladesh has established a national task force chaired by the Principal Coordinator for SDG Affairs at the Prime Minister’s Office, to implement the roadmap for LDC graduation and a core group of government entities (the LDC core group) involved in graduation strategies,199 designating focal points in different ministries which conducted assessments of impacts within their areas of work. These administrative bodies further complement the functioning of the SDG Coordinator. This in turn effectively supports integration of sustainable graduation with planning exercises for the country’s SDG implementation strategy, while ensuring a whole-of-government approach is followed for both the broad goals. Similarly, Bangladesh’s strategy for transitioning out of the LDC category is embedded in its broader planning for transition to the group of middle-income countries.

The model followed by Bangladesh is a good practice that Bhutan and Nepal may consider following. Both countries have initiated institutional reforms aimed at inter-ministerial coordination and cooperation in various forms. In Bhutan, sustainable graduation is adopted as integral part of the ongoing 12th Five Year Plan (2018-23), with enabling role played by the Gross National Happiness Commission (GNHC) in coordinating implementation of graduation strategies. The leading role played by the National Planning Commission (NPC) spearheads graduation plans in close coordination with relevant ministries/departments in Nepal. Formalizing these initiatives with respective specially empowered task forces or administrative bodies, placing graduation in the broader light of the pursuit of SDGs, can potentially improve governance structures, avoid duplication of efforts and optimal usage of resources.

6.7 Cooperation between graduating LDCs

With many common challenges and prospects emerging out of their respective graduation scenarios, and similarities in reform requirements, it would be beneficial for South Asian LDCs to collaborate and cooperate amongst themselves in areas of mutual interest. Given the importance of South-South cooperation and triangular cooperation in SDGs, support from other South Asian countries will be beneficial as the graduating countries have historical linkages with them. The UNESCAP led workshop series in 2019 brought together stakeholders from all the three countries for enabling cross-learning from each other’s experiences. It helped to place the general approach to graduation in the three countries, institutional reforms that are being undertaken and preparatory stages in a comparative perspective.

Effective delivery of public services, welfare programmes and social safety nets is perhaps the most critical common theme for South Asian LDCs, while being among the weakest area of reforms in the three countries due to various reasons including literacy gaps, level of financial inclusion, lack of penetration of delivery mechanisms into backward districts, poor coverage of civil registration and resultant issues of targeting etc. Sharing experiences and cross-learning can provide valuable insights for improving beneficiary targeting, outreach, and depth and efficiency of coverage of public welfare programmes and social safety nets.

Joint consultations through the workshops also brought out the importance of jointly pursuing certain key policy options available for them, the most critical among them being common positions at international fora for extension of concession and continuation of ISMs wherever they are most needed. The three countries can also cooperate to exploit mutual trade complementarities between them, especially in energy (electricity) trade. Modal results have shown that Bhutan and Nepal holds unexploited bilateral export opportunities with Bangladesh, amounting to at least 53 % and 92 % respectively of their potential exports to Bangladesh.200 All three countries should work together to improve economic and political conditions in eastern South Asia, to enable deeper integration with each other utilizing India’s territory and vibrant economy as a conduit and catalyst.
6.8 Capacity building assistance for graduating LDCs of South Asia

A series of consultations held by UNESCAP in 2019 helped to identify several areas requiring capacity building assistance by South Asian LDCs in the context of their graduation. With respect to trade, besides loss of preferential market access and special trade privileges, lack of effective reciprocal RTAs/FTAs to protect trade interests, lack of sufficient trade negotiation skills, capacity constraints related to compliance with standards, lack of market/product diversification, and diminishing export competitiveness due to inadequate trade facilitation measures emerges are critical areas needing support in the context of graduation. Apart from the challenges directly related to trade, sectoral issues of falling agricultural productivity, skill-mismatches in the labor market, low profitability of small-scale manufacturers and exporters, insufficient investments in skill-development and R&D, investment gaps in infrastructure, low level of financial inclusion, high capital borrowing costs, limitations of resource mobilization, and lack of entrepreneurial skills were identified as some of the additional challenges pertaining to overall sustainable development. Giving due considerations to the proposals from the consultations, technical assistance and capacity-building programmes will be conducted on select priority areas in collaboration with development partners, national governments and other key stakeholders (Annex 2).

6.9 Leveraging global support for building back better

The devastations caused by COVID-19 outbreak inspires the global community to come together in support of most vulnerable countries and communities. The integrated support package being mobilized by the United Nations Development System (UNDS), in the form of a comprehensive socio-economic response framework including the United Nations COVID-19 Response and Recovery Fund, gives due priority to the needs of LDCs. At the Asia-Pacific level, UNESCAP has developed a similar support framework, catering to the rebuilding needs of countries of the region, aligned with global framework. With an over-arching principle of supporting efforts to “build back better”, the framework includes sustainable and inclusive economic recovery, building resilience in supply chains and supporting SMEs in its focus streams of work. The coverage of these frameworks has significant overlaps with graduation concerns of South Asian LDCs and their implementation in the coming year must be taken advantage of to recover stronger from the pandemic and getting back on track for sustainable graduation.

6.10 Considerations for graduation timeline post COVID-19

The devastations caused by COVID-19 outbreak also holds certain critical implications for the current timelines for graduation, in terms of the procedures ahead. With weak coping capacities, understandably, LDCs are likely to require longer recovery time due to the strain on resources in dealing with the immediate health crisis and its socio-economic fallout. Some of the most affected economic drivers of South Asian LDCs – such as tourism for Bhutan and Nepal and merchandise exports for Bangladesh – are also sectors which are expected to experience prolonged demand depression, potentially causing negative effects to last over the years. Though external support is being mobilized and channelized to LDCs, developing and executing appropriate utilization plans would take time, so would their results to take shape. Longer expected recovery warrants certain flexibilities to be introduced to the schedule of graduation procedures.

As observed in the previous chapters of this report, South Asian LDCs face the risk of slipping back below thresholds of one or more of the graduation indicators. Recognizing the data limitations and procedural difficulties of conducting the forthcoming triennial review, the CDP has proposed additional country level assessments, taking cognizance of COVID-19 impacts, especially for the 5 LDCs poised for meeting the criteria for a second consecutive review and thereby becoming eligible for recommendation for graduation, including Bangladesh and Nepal. The complexity of the pandemic’s influence on development parameters may necessitate reconsideration of the current graduation timelines and processes with due considerations of; (a) possibilities of prolonged containment period for the pandemic posing difficulties for useful projection of impacts, (b) potential intertemporal socio-economic impacts which may take effect with a delayed timeline and/or spread over many years, (c) extended time that may likely be required for conducting country specific situation analyses, consultations with domestic stakeholders and external development partners, preparation of revised transition support framework, and needs assessment for continuation of ISMs (d) utilization plan for international COVID-19 relief being mobilized for LDCs, and (e) assessment of long-term resource requirements against projections of financing gaps.

As was discussed earlier, the meeting of CDP in February 2021 will be important and perhaps a path breaking too due to the decision it might take on the issue of graduation, especially in the background of COVID-19. Countries were allowed deferment in their graduation due to extraordinary national calamities. This global pandemic which has gone beyond health
and impacted all aspects of society have pushed the progress towards achieving SDGs and other economic factors backwards, a meeting of CDP will surely factor this unprecedented situation in mind. In this context, exploring possibilities to ensure primacy to long term sustainability of graduation, adequate flexibilities in the processes may be desirable. These could be in the forms of:

(a) Deferment of recommendation for graduation to the 2024 triennial review: A deferment of the recommendation to 2024 triennial review would allow for more accurate stock taking of the full extent of the negative impacts of the pandemic, and subsequently better-informed projections on transitional support requirements; or

(b) Extension of transitional support measures for an additional period of three years: Alternatively, a three-year additional transition period following recommendation for graduation for qualifying LDCs may be provided, subjected to periodic country specific assessments. Graduating countries can thus avail longer transition periods, before graduation becomes effective, if demanded so by their respective paths of recovery.

However, pursuit of these options needs a consultative process with the graduating LDCs and relevant stakeholders. Besides being a necessity to overcome the impacts of the COVID-19 outbreak, for most graduating LDCs, extended transitional support measures would also allow for synchronizing graduation period with the tenure of the 2030 Development Agenda.
The least developed country (LDC) category was conceived in the context of the first United Nations Development Decade (1960–70). The Committee for Development Policy (UN/CDP) (known as Committee for Development Planning during 1965–1998), a subsidiary advisory body of the Economic and Social Council (ECOSOC) under the United Nations Secretariat, played a critical role in the establishment of the LDC category. See United Nations (2018a).


3 The initial list of LDCs proposed by the Committee for Development Planning contained 25 countries. 28 additional countries were added throughout the years, and only 5 countries have managed to graduate. As of 2019, there are 47 countries remaining in the category.


5 A significant part of the general external support package, grouped as Official Development Assistance (ODA) may also undergo gradual changes, though not necessarily as an immediate aftereffect of graduation as ODA is not exclusively provided for LDCs.

6 The term ‘South Asian LDCs’ used in the subsequent sections of this report refers only to the three countries from the region – Bangladesh, Bhutan and Nepal – which are currently in progressive stages of LDC graduation, and excludes Maldives (graduation became effective in 2011) and Afghanistan (yet to qualify for graduation process).

7 Structural issues include, but not limited to, disproportionality between growth, composition and dependency for livelihoods on broad constituents of aggregate economic activities (agriculture, industry and services).

8 An LDC is found eligible to be recommended for graduation after meeting the stipulated graduation criteria in two consecutive triennial reviews by the Committee for Development Policy (UN/CDP). Following the recommendation and its endorsements, a preparatory transition period of 3 years is granted before graduation becomes effective. Timeline of the process consumes a minimum of 6 years. For detailed description of the graduation process and its various stages, criteria and procedures, see United Nations (2018a).

9 In 2020, the UN/CDP adopted reformulation of EVI into the Economic and Environmental Vulnerability Index, while the abbreviation remains unchanged. See UN/CDP (2020a).

10 The identification of LDCs is based on three criteria: per capita gross national income (GNI), human assets and economic vulnerability to external shocks. The latter two are measured by two indices of structural impediments, namely the human assets index (HAI) and the economic vulnerability index (EVI). To reach eligibility for graduation, a country must reach threshold levels for graduation in two consecutive triennial reviews for at least two of the aforementioned three criteria, or its GNI per capita must exceed at least twice the threshold level ($2,460 at the 2018 triennial review) and the likelihood that the level of GNI per capita is sustainable must be deemed high. See United Nations (2018a).

11 IPOA is the fourth successive Programme of Action for LDCs, since the first Programme was instituted in 1981 by the first United Nations Conference on LDCs (United Nations, 2018a). The Programmes addresses special needs of LDCs on a comprehensive range of development topics. Decisions on continuation of the Programmes beyond the tenure of IPOA (2011–2020) are expected from the 5th United Nations Conference on LDCs (UNLDC-V) scheduled for January 2022.


13 The broad thematic areas of the IPOA are: a) Productive capacity; b) Agriculture, food security and rural development; c) Trade; d) Commodities; e) Human and social development; f) Multiple crises and other emerging challenges; g) Mobilizing financial resources for development and capacity-building; and h) Good governance at all levels. See United Nations (2011).

14 UNESCAP (2016).


16 Bhutan’s current national development plan (12th FYP) focuses on “consolidation, coordination and collaboration” to ensure a strong basis for the continued pursuit of the SDGs. See Government of Bhutan (2019).


18 Government of Nepal also created institutional mechanism to drive SDGs agenda - 1) Steering committee chaired by the Prime Minister and 2) Implementation and Coordination Committee chaired by the Vice chair of NPC.

19 National end-of-term review reports also provides overviews of national level policies and initiatives on IPOA in conjunction with allied initiatives on SDGs and LDC graduation. See Government of Bangladesh (2019), Government of Bhutan (2019) and Government of Nepal (2019).

20 Khatun et al. (2019). The analysis is further substantiated by network strength between SDGs targets and graduation indicators, whereby the direction and strength of relationships between various targets and indicators are found to vary widely. Also see UN-OHRLLS (2016) for a detailed mapping of synergies between the IPOA targets, SDGs and graduation indicators.

21 See UNCTAD (2016) for discussions on ‘graduation-plus’ indicators.


24 United Nations (2019b)

25 UNESCAP SSWA (2020a).


28 This Report is primarily based on a series of consultative regional workshops on the theme of ‘Sustainable Graduation and SDGs’ conducted by UNESCAP with the support of governments of the three graduating LDCs of South Asia (information and documents, including presentations on various topics
discussed at the workshops are available from respective webpages: Dhaka, Bangladesh (April 2019); Thimphu, Bhutan (October 2019); and Kathmandu, Nepal (October 2019). The consultations were held with the aim of assisting South Asian LDCs in navigating the challenges and opportunities of graduation. Since then, the premises of preparations graduation and the spectrum of policy issues and solutions stands substantially changed by the outbreak of the COVID-19 pandemic and its pervasive socio-economic impacts. The Report places graduation of South Asian LDCs in this emerging context.

29 UNESCAP (2020a).
30 Ibid.
31 UNDP (2018). During the same period, Bangladesh’s HDI value increased from 0.387to 0.608, an increase of 57.1%.
32 Share of population with access to electricity crossed 90% in Nepal by 2016, rising from less than 30 per cent in early 2000s, registering one of the fastest improvements recorded.
33 UNESCAP (2019a) and UNCTAD (2016).
34 A general defining feature of LDCs is low labor productivity. In 2016 averages of gross value-added per employee in Asian LDCs was only 20% of that in other developing Asian countries. Labor productivity levels have only evolved incrementally, or even stagnated, in many Asian LDCs (UNESCAP, 2019a).
35 Tendencies of risk aversion inherent in extreme poverty inflicted rural areas and sectors interact with the extreme uncertainties of agricultural yields, output and income, which limit the adoption of new technologies and practices that could raise labor productivity and household incomes. See UNCTAD (2018a).
36 The slow pace of structural transformation in LDCs can have a drag on productivity. As many of the Asia-Pacific LDCs continued to focus on expanding their existing industries, including extractive sectors, inhibiting structural transformation that allows employment to shift to more productive and advanced sectors. See UNESCAP (2019a).
37 Ibid.
38 UNESCAP (2020b).
39 Ibid.
40 Priority actions for achieving SDGs identified by UNESCAP SSWA (2018b) include job creation through sustainable industrialization; closing the gaps in basic infrastructure; providing universal access to education and health; universal social protection and financial inclusion; addressing food security and hunger with sustainable agriculture; promoting gender equality and women’s entrepreneurship; and enhancing environmental sustainability through low-carbon, climate-resilient pathways to development.
41 Many pledges for supporting LDCs have not been binding in nature, affecting implementation to the fullest extent. LDCs are also noted to have been unable to fully utilize available ISMS due to certain inherent capacity constraints. Also, implications arising from graduation will depend not only on any benefits that a graduating LDC has been making use of, but also on those which have to be forgone because of its transition from the group of LDCs. See Razzaque (2020b).
42 See WTO (2020e) for an overview of non-reciprocal LDC preference schemes, including various GSP and DFOF schemes, offered by WTO member states.
43 Ibid.
44 Till 30 October 2019, 51 WTO members — both developed and developing countries — have notified preferences under the Services Waiver. These members together account for 86% of global GDP and 86% of global trade. Available at: https://www.wto.org/english/news_e/news19_e/serv_30oct19_e.htm
45 Eligibility to GSP+ also include vulnerability criteria, i.e. import share in the EU needs to be below 6.5% (relative to imports from all GSP countries) and Bangladesh currently have a higher import share. However, EU’s GSP scheme is under review and provisions may undergo changes after the tenure of the current scheme expires in 2023.
46 See WTO (2020f) for post-graduation country-specific market access implications for Nepal.
47 In agriculture, the main concern relates to loss of flexibilities in the export competition decision. In particular, the flexibility for LDCs and NFIDCs to provide certain export subsidies (i.e. to reduce the costs of marketing exports, costs of international transport and freight as well as internal transport and freight charges) until 2030.
48 In addition to these areas, there certain other aspects of considerable relevance for South Asian LDCs as WTO members. For instance, after graduation, they would no longer be considered for special procedures for LDCs under Article 24 of the Dispute Settlement Understanding (DSU), and country would need to join the Advisory Centre on WTO Law (ACWL) to use its services. See Priyadarshi (2019) for detailed discussion on WTO related implications for LDCs.
49 The 2011 decision adopted by the members of the World Trade Organisation (WTO) known as the ‘services waiver’ allows WTO members to grant market access preferences in services to LDCs by exempting them from the obligation of extending equal treatment to all members. Considering that there exist hardly any current market access preferences on services enjoyed exclusively by LDCs, graduation is not expected to have significant impacts on services exports.
50 Nepal does not currently enjoy AoA exemptions as per its accession package negotiated post-AoA (Nepal acceded WTO agreements as a full member only in 2004).
52 Decision of the Sub-committee on LDCs of the WTO WT/COMTD/LDC/21 (2012), WT/L/508.
53 Majority of the ODA benefactors are yet to fulfill this commitment. ODA from DAC countries to LDCs expressed as a percentage of provider countries’ gross national income remained at 0.09 per cent (OECD 2018).
54 However, many door countries and groups take into account threshold level of GNI per capita as an eligibility criterion, which is close to the LCD graduation threshold.
55 This include special targeting of LDCs in UN led programmes and grants, including commitments for agencies such as UNDP and UNICEF to allocate a higher share of resources to LDCs.
56 For instance, net ODA receipts have declined for Nepal from about 12 per cent of GDP in 1990 to just above 5 per cent in 2017.
57 For instance, Bangladesh’s financial contributions to the UN system is expected increase by around 5 to 5.5 million dollars annually as per current rates and budgets.
58 See UN/CDP (2018a, 2018b and 2018c).
59 As with most LDCs, South Asian LDCs are characterized by a high level of vulnerability to environmental threats owing to exposure to multidimensional impacts of climate change; less resilient
infrastructure and heavy reliance on natural resources and rain-fed agriculture. See UNCTAD (2016).

62 See UNESCAP (2019c).

63 Projection of climate scenarios for the year 2050 reveals that the likelihood of food insecurity due to climate change is found to be the largest in South Asian countries. See UNESCAP (2017).

64 See UNESCAP (2017).

65 See Ratna (2019).

66 Bangladesh is expected to be most affected by loss of trade preferences among Asia-Pacific LDCs. Accounts for about 53% of the aggregate exports of Asia-Pacific LDCs. ITC (2020).

67 See UN/CDP (2018b).

68 Export/GDP ratio is close to 15% for Bangladesh.

69 Though both countries share long borders with China, facilitative cross-border trade routes are hardly available because of the inaccessible Himalayan terrain. However, unlike Bhutan, Nepal engages in minor border trade through select access points with China.

70 See UN/CDP (2018b).

71 Details of provision of the Agreement and progress in negotiations are accessible from UNESCAP’s resource portal on APTA, available at: https://www.unescap.org/apta

72 Bhutan exhibits significantly higher trade costs with distant trading partners compared to Nepal, as the latter reaps benefits of higher scale advantages in its transit terms and arrangements, with higher trade volumes.

73 While Bangladesh rose 7 places in the 2018 Global Competitiveness Index from 2017, it is ranked the lowest amongst its East and South Asian neighbors in the World Bank Ease of Doing Business Ranking 2018. The country’s World Bank Logistics Performance Index score has dropped over the last two years, signaling a significant concern for local and foreign investors. See Razzaque (2020a and 2020b) for comparisons for Bhutan and Nepal in competitiveness indices.

74 See Razzaque (2020b).

75 See UNESCAP SSSA (2018a).

76 Razzaque (2020a and 2020b) analyses export potential against relative position of exported products in the global product space, which depicts a map of all export items (also known as the economic complexity atlas) to indicate how individual products are linked to one another.

77 China’s DFQF is operational since 2010 with a currently expanded 97% coverage for 24 LDCs countries (41 beneficiaries in total). South Asian enjoys 60% coverage in terms of tariff lines. However, current utilization rates and export market shares are low (less than 3% for South Asian LDCs).

78 Nepal and Bhutan yet to join DFTP as beneficiaries of tariff elimination under SAFTA, and bilateral agreement with India with comparable or better market access terms. See Ratna (2019).

79 The EU’s Generalized System of Preferences (GSP) contains three arrangements: a general arrangement (standard GSP), a special incentive arrangement for sustainable development and good governance (GSP+), and a special arrangement for LDCs (Everything but Arms - EBA).

80 See Ratna and Xue (2019).

81 Under EBA, Bangladeshi garments currently benefit from the single transformation rule for LDCs, whereby products qualify for preferential treatment if only one form of product alteration is undertaken in the country as opposed to the double transformation rule for non-LDCs, whereby two stages of conversion are required. Subsectors such as woven garments may be affected by application of the double transformation rule (UN/CDP 2018a).

82 In EU, Bangladesh would remain eligible for duty-free quota free market access under the Everything But Arms (EBA) scheme for a period of 3 years after graduation. It is of concern that certain key products originating from Bangladesh may not qualify to be eligible for standard GSP as they are likely to fail to meet the eligibility criterion of being under stipulated threshold market share in total imports of such products to EU. The current tenure of EU’s GSP scheme will come to an end in 2023 and the renewed terms of market access may not be favourable for Bangladesh. Though there are possibilities, in principle, to access GSP+ scheme offered by EU post-graduation, Bangladesh does not fully meet the currently specified eligibility criteria.

83 See Pandey (2019).

84 WTO (2020)

85 Though it might be difficult for Bangladesh to obtain access to GSP Plus, since its import share in the EU is above the threshold of the vulnerability criterion therein, specific accession terms are subjected to changes as the current GSP scheme is under review.

86 As part of the ongoing review of EU’s GSP, a broad-based consultation process has been initiated, including consultations with various governmental and private sector stakeholder groups from beneficiary countries. Details of the review process are available from: http://www.gsp-study.eu/en/

87 Razzaque (2020b).

88 WTO (2020e)

89 Even though LDC may not receive priorities in allocations, EIF support is provided on a need basis to a great extent in most funding streams.

90 The Agreement is facilitated by the United Nations Network of Experts for Paperless Trade and Transport in Asia and the Pacific (UNNEXT) established by the UN ESCAP and UNECE in 2009. Resources related to paperless related programmes are available at: https://unnext.unescap.org/

91 South Asia is heavily reliant on road transport, accounting for more than 90% of inland international cargo movement, while the potential of inland rail remains grossly underutilized. Roadways are presently facilitated by Land Customs Stations (LCSs) at borders, which suffer from several infrastructural and procedural bottlenecks, principally owing to highly inefficient transshipment requirements. For an exposition, see UNESCAP SSSWA (2018a), and ADB and ADBI (2013).

92 Resources on UNESCAP’s work on AH, TAR and Dry Ports network are accessible at: https://www.unescap.org/our-work/transport. Also see integrated multimodal transport network developed for Asia-Pacific, available at: https://www.unescap.org/resources/integrated-map-ah-tar-dry-ports-international-importance

93 For instance, in the case of Bangladesh’s garment industry, it is observed that Impacts are likely to be distributed unevenly depending on firm sizes, wherein the larger and more resourceful companies have higher likelihood of adapting, while smaller units which already on thin margins would be the hardest hit (UN/CDP, 2018).
reduced access to concessional financing upon graduation seems to be exaggerated. See (UNDP 2016)

99 See UNCTAD (2018a) for a comprehensive assessment of issues faced by LDCs related to firm level capacities and support programmes available for LDCs.
98 Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) as reported in UNCTAD (2019a).
97 Government of Bangladesh (2017). Estimates of spending requirements is based on two scenarios for the growth rate: a ‘business as usual’ (BAU) scenario with GDP growing at 7 percent per year, and an extended growth scenario in which the GDP growth rate increases gradually over time to reach 9 percent in 2030. Considering the more conservative BAU scenario, the average annual cost of achieving the SDGs in Bangladesh amounts to 18.5 percent of the GDP.
96 ODA flows to LDCs have expanded only marginally since the adoption of IPoA, increasing at 3 per cent per year (UNCTAD, 2019a).
95 Availability of external finance to LDCs has increased significantly, from $24 billion in 2000, to $163 billion by 2017 (UNCTAD, 2019a).
94 Concerns over the costs of graduation in terms of reduced access to concessional financing upon graduation seem to be exaggerated. See (UNDP 2016)
93 Bangladesh is already seeing an increase in the ratio of loans to grants in total bilateral ODA, which partially reflects the increase in lending by Japan. After graduation, Bangladesh would no longer be granted special terms for LDCs under Japan’s ODA loans, but it would still have access to ODA loans under slightly less favourable terms.
92 See Razzaque (2020a)
91 UN/CDP (2018c)
90 See World Bank (2017).
89 Conceptualization in the Addis Ababa Action Agenda. The OECD adopts a broader definition as ‘the strategic use of development finance for the mobilization of additional finance towards the SDGs in developing countries’ (OECD, 2018c).
88 Figures out of all total private finance mobilized by official development finance interventions (OECD and UNCDF, 2019).
87 10 of the donor countries reported well established programmes and a range of blended financing instruments (OECD, 2018c).
86 As a member of the BRICS group of countries, India is one of the founding partners of the NDB, established in 2015 and headquartered in Shanghai.
85 India leads South Asian countries with as many as 9 approvals accounting for US$ 2.17 billion in loans (UNESCAP SSWA, 2019a).
84 By 2019, SASEC countries have implemented 55 regional projects worth over $12.5 billion in the energy, economic corridor development, transport, trade facilitation, and information and communications technology sectors.
83 As of March 2020, SDF is implementing over 90 projects deployed across South Asia, with a cumulative fund commitment under the three funding windows of about US$ 198.23 million. SDF has working relationship with various Multinational Development Banks, International Financial Institutions, Regional banks, MSME Banks, SME Banks, Chamber of Commerce and Industries, Trade and Investment Promotion Agencies.
82 ADB (2017).
80 UNCTAD (2019a).
79 In November 2017, the South-South cooperation action plan was adopted at the twenty-third meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change. The action plan is coordinated by the Office for South-South Cooperation South–South the United Nations (UNESCAP SSWA, 2019a).
78 UN- OHRLS COVID-19 updates, How are the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States being impacted?
77 The Fund contributes to financing the three objectives of the UN Secretary General’s Call for Solidarity: (1) Tackle the health emergency; (2) Focus on the social impact, and the economic response and recovery; and (3) Help countries recover better (United Nations, 2020b).
76 The COVID-19 Global HRP is a joint effort by members of the Inter-Agency Standing Committee (IASC), including...
UN. other international organizations and NGOs with a humanitarian mandate (United Nations, 2020c).

Information compiled from various sources, as reported in UNESCAP SSWA (2020a).

Assessment report prepared by 36 international organizations, under the aegis of the Committee for the Coordination of Statistical Activities (CCSA, 2020).

Preliminary independent estimates by various international organizations roughly fall within this range [See IMF (2020), United Nations (2020a), and UNESCAP (2020a)], with the caveat that the decline could be steeper depending on the severity and time span of the pandemic until its containment.

WTO (2020a).

CSSA (2020). Year-on-year fall in global production and manufacturing output of at least 9% is recorded for the first 3 months

UNDESA (2020).

COVID-19 Update: Status for the 47 LDCS, UN/CDP Secretariat (updated daily). Though LDCs account for less than 1% share of global cases, low figures may partly be due to LDCs’ lack of testing capacity (UNDESA, 2020).

UNDESA (2020). LDCs have on average 0.6 nurses and midwives, 0.3 physicians and 1.1 hospital beds per 1,000 population, compared to 8 nurses and midwives, 2.9 physicians and 4.7 hospital beds for every 1,000 population in OECD countries. See The COVID-19 Scourge: How affected are the Least Developed Countries?, blogpost by Debapriya Bhattacharya and Fareha Raida Islam, OECD Development Matters, 23 April 2020.


COVID-19 pandemic caused a 22% fall in international tourist arrivals during the first 3 months of 2020, and the crisis could lead to an annual decline of between 60% and 80% depending on the easing of travel restrictions (UNWTO, 2020).

WTO (2020b).

Though there could be overlaps between emergency COVID-19 relief measures and planned social sector spending, as reflected in the relief measures announced by many countries, budget plan for structured and continued programmes are likely to be affected in the short-term.


UNESCAP SSWA (2020a). Estimates based on the UNESCAP-SANEM Model for South Asia, taking into account requirements of economic revival, social protection and public health infrastructure.

Compiled from various sources, as reported in UNESCAP SSWA (2020a). See chapter 5 for detailed discussion.

CARE Bangladesh (2020).

Bhutan facilitated provision of working capital to distributors at subsidized interest rates. See World Bank (2020) for a summary of early fiscal and monetary measures taken by South Asian countries in response to the pandemic.


UNESCAP-SSWA (2020a).

The Report recommends South Asian countries to explore measures including through reorienting the public expenditure, public borrowing, imposing COVID-cess where possible, and by exploiting the opportunities provided by low crude prices, besides enhancing fiscal space in the medium term through improved tax-to-GDP ratios, tax compliance, expanding the tax base and through new and innovative taxes.

Out of the five enforced trade agreements of Bangladesh, including Asia-Pacific Trade Agreement (APTA), Global System of Trade Preferences (GSTP), Group of 8 Preferential Trade Agreement (D-8 PTA), Protocol on Trade Negotiations (PTN), and South Asian Free Trade Area (SAFTA) and SAARC Agreement on
Trade in Services (SATIS), four are partial scope agreements with limited coverage.

174 Under current rules, it is unclear whether Bangladesh could, in principle and even if it came to ratify all necessary conventions, be considered for the GSP+ in the EU, given the high share of its exports in the total exports under the EU's GSP scheme. The EU regulations on GSP, including GSP+, will be reviewed before Bangladesh's graduation as per the current time line (UN/CDP, 2018a).

175 UNESCAP SSWA (2018a).

176 Exports of APLDCs to EU has steadily grown, however the share of countries other than Bangladesh and Cambodia remains very low in volume. Terms of preferential access (product coverage, cumulation rules etc.) offered by large markets within the region have been more favorable for APLDC access, hence higher utilization rates (George, 2019).

177 See Gay and Gallagher (2020).

178 Rahman and Bhattacharya (2020) argues that LDCs will need to mobilize the support of the various other broad-based groups in the WTO (e.g., G-90 and ACP, which include both LDC and non-LDC members) for generating a critical mass of support in favor of issues of interest to graduating LDCs at MC12.

179 See UNESCAP (2017 d).

180 According to the UN Global Survey on Trade Facilitation and Paperless Trade, jointly conducted by five United Nations Regional Commissions, Bangladesh has made significant progress in the trade facilitation implementation, by increasing implementation rate from 35% in 2017 to 55% in 2019.

181 The WTO Trade Facilitation Agreement (TFA) which offers opportunities to streamline reforms for upgrading trade documentation and inspection procedures, and expediting the movement, release and clearance of goods, including goods in transit.

182 See proposals for TIPI-BM road corridor and ITI-DKD container rail corridor UNESCAP SSWA (2018a).

183 UNESCAP SSWA (2019b). The study shows that activation of end-to-end rail service along the rail corridor (ITI-DKD-Y) route, along with multimodal transit linkages to landlocked countries at strategic terminals in the route, can maximize traffic volumes and revenues. Comparing with existing alternative transport options, which often involve circuitous carriage ways and transshipment delays, usage of even partial segments of the ITI-DKD-Y Corridor can lead to cost reduction to the tune of US$ 1122 per container (twenty-foot equivalent unit).

184 The implementation of this segment is currently in progress, with a container rail trial run between Kolkata and Dhaka held in April 2018.

185 UNESCAP SSWA (2020b).

186 Ibid.

187 Examples are Regional Action Programme for Sustainable Transport Connectivity in Asia and the Pacific adopted by UNESCAP member states (See Declaration of the 3rd Session of the Ministerial Conference on Transport, 2016), and UNESCAP Resolution 75/1.

188 Graduation may not be the most significant challenge the industry faces in the coming years, as textile industry is undergoing underlying changes in geographical patterns of trade flows, exposure to stringent environmental standards, labor reforms in major exports etc. (UN/CDP 2018a).

189 Keane (2020).

190 Entrepreneurship development has important implications for LDCs, recognized by the Programme of Action for the Least Developed Countries for the Decade 2011–2020 and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development as a key avenue to private sector development and employment generation (UNCTAD 2018a).

191 A consultative group comprising of developed country donors, international development agencies, and other major benefactors is constituted to assist LDCs in transition.

192 See UN/CDP (2018a).

193 GCF is a financial mechanism under the UNFCCC which helps fund climate finance investment in low-emission, climate-resilient development.

194 Global foreign direct investment (FDI) flows are forecast to decrease by up to 40% in 2020 (UNCTAD, 2020).

195 UNCTAD (2019a)

196 Ibid.

197 Most prominent examples are linkages of Goals 3 (good health and well-being) with Human Asset Index (HAI) and linkages of Goals 1 (elimination of poverty), 11 (sustainable urbanization) and 13 (climate action) with the Economic Vulnerability Index (EVI).

198 CDP has initiated research on and analysis of VNFRs of LDCs since 2017, in the context of graduation assessments, to have better understanding of cross-cutting issues and regulatory reform principles (UN/CDP 2018d). Also see Ahmed (2019).


200 Bangladesh’s unexploited bilateral export potential with both Bhutan and Nepal are found to be above 90 %. See UNESCAP SSWA (2018a).

201 A significant proportion of the UN’s existing US$17.8 billion portfolio of sustainable development programmes across all the Sustainable Development Goals (SDGs) will be adjusted and expanded towards COVID19 related needs (United Nations, 2019d).

202 UNESCAP (2020c).
Towards Sustainable Graduation of South Asian LDCs in the aftermath of COVID-19: Challenges, Prospects and Policy Lessons has been prepared as a part of the UNESCAP Framework on Socio-Economic Response to COVID-19 and as an initiative for supporting Countries with Special Needs in the Asia-Pacific region.

It has been prepared by UNESCAP-SSWA team led by Nagesh Kumar, Director, and comprising of Rajan Sudesh Ratna and Joseph George.

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### Annexes

#### Annex 1

**LDC specific provisions in the SDGs**

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<tr>
<td>1.a</td>
<td>Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions.</td>
</tr>
<tr>
<td>2.a</td>
<td>Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular least developed countries.</td>
</tr>
<tr>
<td>3.c</td>
<td>Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries, especially in least developed countries.</td>
</tr>
<tr>
<td>4.b</td>
<td>By 2020, substantially expand globally the number of scholarships available to developing countries, in particular least developed countries, for enrolment in higher education, including vocational training and information and communications technology, technical, engineering and scientific programmes, in developed countries and other developing countries.</td>
</tr>
<tr>
<td>4.c</td>
<td>By 2030, substantially increase the supply of qualified teachers, including through international cooperation for teacher training in developing countries, especially least developed countries and small island developing States.</td>
</tr>
<tr>
<td>7.b</td>
<td>By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States and landlocked developing countries, in accordance with their respective programmes of support.</td>
</tr>
<tr>
<td>8.1</td>
<td>Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries.</td>
</tr>
<tr>
<td>8.a</td>
<td>Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-related Technical Assistance to least Developed Countries.</td>
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<tr>
<td>9.2</td>
<td>Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.</td>
</tr>
<tr>
<td>9.a</td>
<td>Facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States.</td>
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<tr>
<td>10.a</td>
<td>Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements.</td>
</tr>
<tr>
<td>10.b</td>
<td>Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries...in accordance with their national plans and programmes.</td>
</tr>
<tr>
<td>11.c</td>
<td>Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials.</td>
</tr>
<tr>
<td>13.b</td>
<td>Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities.</td>
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<tr>
<td>14.6</td>
<td>By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation.</td>
</tr>
<tr>
<td>14.7</td>
<td>By 2030, increase the economic benefits to small island developing States and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism.</td>
</tr>
<tr>
<td>14.a</td>
<td>Increase scientific knowledge, develop research capacity and transfer marine technology, taking into account the Intergovernmental Oceanographic Commission Criteria and Guidelines on the Transfer of Marine Technology, in order to improve ocean health and to enhance the contribution of marine biodiversity to the development of developing countries, in particular small island developing States and least developed countries.</td>
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</table>

**17.2** Developed countries to implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA/GNI) to developing countries and 0.15 to 0.20 per cent of ODA/GNI to least developed countries; ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to least developed countries.

**17.5** Adopt and implement investment promotion regimes for least developed countries.

**17.8** Fully operationalize the technology bank and science, technology and innovation capacity-building mechanism for least developed countries by 2017 and enhance the use of enabling technology, in particular information and communications technology.

**17.11** Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries’ share of global exports by 2020.

**17.12** Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access.

**17.18** By 2020, enhance capacity-building support to developing countries, including for least developed countries and small island developing States, to increase significantly the availability of high-quality, timely and reliable data disaggregated by income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts.
Annex 2

Technical Assistance and Capacity-Building Support

The series of regional workshops conducted by UESCAP acknowledged knowledge gaps and capacity constraints in each of the three South Asian LDCs in formulating evidence-based policies to address the challenges of graduation. Through group discussions, participants identified a wide spectrum of reform areas which require external technical and capacity building support. Some of the key areas with respect to (i) research, (ii) policy advisory, and (iii) training are summarized as follows:

Summary of technical assistance requirements

<table>
<thead>
<tr>
<th>Research</th>
<th>Policy Advisory</th>
<th>Training</th>
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<tbody>
<tr>
<td>Sectoral graduation impact assessment</td>
<td>Policy options for sustain access to EU market through GSP+ or other alternative preference schemes</td>
<td>Trade negotiations skills for multilateral and FTA/RTA negotiations</td>
</tr>
<tr>
<td>Trade prospects analyses, including scope for product and market diversification</td>
<td>Areas and priorities for RTA/FTA negotiations</td>
<td>Capacity-building workshops for officials on graduation challenges and coping strategies</td>
</tr>
<tr>
<td>Scope for FTA/RTA engagements</td>
<td>Measures to improve export competitiveness</td>
<td>Knowledge sharing with graduating LDCs</td>
</tr>
<tr>
<td>Feasibility studies on prospects for enhancing value-addition and participation in GVCs</td>
<td>Measures to improve data and statistical capacity</td>
<td>Workshops for private sector on export prospects, compliance, upgradation, product diversification and value-addition</td>
</tr>
<tr>
<td>Institutional capacity gap analysis for private and public sectors</td>
<td>Measures to improve environmental sustainability</td>
<td>Training on statistical and data-analysis capacities as well as knowledge and training on modelling and policy analysis tools</td>
</tr>
<tr>
<td>Impact of new technologies on employment generation</td>
<td>Strategies to vocational training to keep up with the rapid advancements in technology and with the future of job opportunities</td>
<td>Training on industrial skill, certification, entrepreneurship development and management</td>
</tr>
<tr>
<td>Ways to strengthen market access through south-south cooperation</td>
<td>Effective utilisation of ISMs available during the preparation and transition period and post-graduation</td>
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<tr>
<td>Comprehensive studies on regulatory requirements to address challenges of graduation</td>
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</table>

Some of the key topics for research and technical assistance, to be carried out through cooperation and collaboration between the graduating countries and other development partners, are highlighted as below. The specific areas of support and proposed activities are to be decided in consultation with target countries and partners.

Preference erosion and market access

As has been stated earlier, the biggest challenge the graduating LDCs will face relates to loss of unilateral preferential market access to their top markets. In order to retain their market access, graduating LDCs will require sufficient transition period during which policies need to be implemented which can ensure market access even after graduation. At the same time, in certain cases, they may be required to explore RTAs/FTAs with such countries.

Following LDC graduation, many of the S&DT provisions of the WTO will be phased out. It is important to understand existing export promotion schemes, which are allowed as LDCs, but will need to be either withdrawn or modified in view of WTO ASCM post-graduation. Graduating LDCs also need to discipline their export incentives during the transition period so that the industry gets a longer period of transition for structural adjustment and remain competitive even after graduation.

Activities:

(i) A detailed study may be required to identify countries with which the graduating countries must have RTA/FTA to ensure that there is minimal effect of preference erosion of DFOQ. This study must also identify the broad contours of the RTAs/FTAs. The findings of the studies can be then disseminated to the graduating LDCs and if required a facilitation of negotiations with identified markets can also be initiated.

(ii) A study on these LDCs’ foreign trade policies, focusing on their existing export promotion measures may be carried out. The study should then determine which of these schemes will need to be withdrawn or modified after graduation, based on which necessary actions for streamlining domestic measures can be considered.

Sectoral Studies and Workshops

Textile and garments sector is expected to be the most affected sector due to loss of trade preferences following graduation for South Asian LDCs (Bangladesh and Nepal), with estimates projecting a minimum loss of 6 to 12% of their current export revenues for both countries. The extent of impact critically depends on the post-graduation terms of access both countries are able to secure in their most important trading destinations, particularly EU. Key options available for both countries,
more than one of which may have be pursued simultaneously, are to: (a) open negotiations with EU to secure at least ‘Standard GSP’ terms, if not GSP+ available on good governance indicators; (b) begin negotiations with EU to secure a bilateral package customized to the special needs of both countries; (c) open similar negotiations with other major benefactors such as Canada, Australia and US; (d) conduct a comprehensive sectoral analysis to explore global market potential and find market diversification strategies to offset losses in existing markets.

**Activities:**

(i) A detailed sectoral study may be required on textile and garments sector, covering: (a) global market outlook for the sector, emerging competitors and major trends and patterns, (b) relative market position and profile of Bangladesh and Nepal and future prospects in the absence of LDC preferences, (c) way forward in terms of negotiations with key trading partners and scope for market diversification.

(ii) The findings of study and policy recommendations may be presented through organisation of workshop(s) involving government, private stakeholders, think tanks etc.to sensitize stakeholders regarding market access challenges and policy remedies.

**Capacity-building Workshop on Trade Facilitation Reforms for South Asian LDCs**

Irrespective of the effect of loss of LDC preferences, South Asian countries will have to initiate supply-side reforms to build long-term competencies. It was highlighted that trade facilitation reforms can potentially reduce cost drastically and can help to offset loss of preferential access to a great extent. Expertise of UNESCAP and development partners on trade facilitation can be utilized. One of the potential areas of support offered is with respect to the implementation of the Framework Agreement on cross-border paperless trade.

**Activities:**

(i) A special training session for the three countries may be conducted on UNESCAP Framework Agreement on cross-border paperless trade, introducing UNNExT tools and packages which will facilitate accession and ratification of the Agreement as a focus theme and expected outcome.

(ii) A focused joint session for Bhutan and Nepal on transit issues and facilitation in New Delhi with Government of India participation, especially in the context of new developments taking place in this areas such as through transit containers with e-sealing etc. from Indian ports, and also in the context of the bilateral trade and transit agreement both countries have with India.

**Stakeholders’ Meet on Interim Measures for Graduating LDCs from South Asia**

UN CDP/DESA facilitates a consultative mechanism for each graduating LDC to bring together donor countries, international organizations and other development partners. All three countries currently have such forums initiated for them. UNESCAP, besides being a participant, play a role in bringing in the aspects of graduation related to SDG 17. This is in line with UNESCAP’s mandate, while the need for synergies between graduation and SDGs has been highlighted in a major way through the workshop series of 2019.

**Activities:**

(i) A background paper may be prepared on the special relevance and prospects of Goal 17 for graduating LDCs from South Asia. The paper may focus on all the avenues and options available for the three countries under FfD and how they can potentially replace ODA and other development financing related ISMs following graduation.

**Source:** UNESCAP SSWA