

A GUIDE TO LEAST DEVELOPED COUNTRY GRADUATION

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UN-OHRLLS

Least Developed Countries
Landlocked Developing Countries
Small Island Developing States

United Nations Office of the High Commissioner for Human Rights
Human Rights and Development Division



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INTRODUCTION

Meeting the criteria for graduation out of the category of Least Developed Countries (LDCs) represents a pivotal moment in the sustainable development continuum of these countries. Enabling countries to meet the criteria for graduation and ensuring that they receive adequate support to leverage graduation into a positive force for sustainable development is one of the priorities of the Doha Programme of Action for the least developed countries (DPoA) for the decade 2022-2031.

Graduation from the LDCs category is different from graduation processes outside the United Nations, such as from the International Development Association (IDA) at the World Bank, or the graduation from the list of Official Development Assistance (ODA) recipient countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). In the UN context, countries have the ability to influence the process and several refinements have been introduced over time to the LDC criteria and the graduation procedures.

Transitioning out of the LDC category can be a complex path with important implications that need to be fully analyzed. Challenges arise as the country stands to lose LDC-specific benefits and favorable arrangements. However, the impact of the loss of such benefits depends on how effectively the country had been using those benefits before graduation. Furthermore, most graduated countries will remain vulnerable, especially to the impacts of climate change, natural disasters and other shocks and crises. Therefore, the Doha Programme of Action has urged all development partners to strengthen their support for graduation and smooth transition so as to minimize disruption in the sustainable development trajectory of graduating and recently graduated countries.

This guide provides a succinct but comprehensive overview of the graduation process for LDCs, including graduation criteria and preparatory steps. It also provides additional sources of information and support.



THE LEAST DEVELOPED COUNTRY CATEGORY

The category of least developed countries was established in 1971 by the UN General Assembly. It was created to attract special international support for the most vulnerable and disadvantaged members of the United Nations. Initially made up of 25 countries, the category grew to 49 countries by 2003. Currently, 46 countries form the category of least developed countries, with 16 at some stage of the graduation process.

The Istanbul Programme of Action for the LDCs for the decade 2011-2020 was the first global framework to contain a fully-fledged chapter on graduation and smooth transition, recognizing that more concerted efforts and support were needed if the overall objective to overcome the structural challenges faced by the LDCs and enable graduation from the LDC category was to be achieved.

The COVID-19 pandemic has laid bare the LDCs' longstanding vulnerabilities and jeopardized their sustainable development gains; as it continues to unfold world-wide, it is now thwarting their recovery efforts and may derail progress towards graduation.

The recently adopted Doha Programme of Action for the LDCs for the decade 2022-2031 contains a key target for 15 additional LDCs to meet the criteria for graduation by 2031. Particular attention should be given to ensuring a smooth transition of graduating countries that is consistent with their national development strategy and takes into account their development situation. "Smooth transition" refers to the period after the effective graduation from the LDC category has already taken place.

As of 2021, based on statistical data from 2017 to 2019, prior to the COVID-19 pandemic, the number of LDCs meeting the criteria for graduation had increased significantly, marking undeniable success.



THE LEGAL FRAMEWORK

The Doha Programme of Action set enabling graduation from the LDC category among its overarching goals on Paragraph 14 and it is one of the six key focus areas. Enabling sustainable and irreversible graduation constitutes a key priority of the international community and, thus, it is reflected accordingly across the DPoA. Paragraph 183 calls for avoiding an abrupt reduction of the trade preferences accorded to a country as a result of the loss of its LDC status. It invites development and trading partners to reduce trade preferences in a phased manner.

The DPoA has set the target of enabling 15 additional countries to meet the criteria for graduation by 2031. The DPoA asks for providing specific support measures to recently graduated countries and it explicitly calls for better planning and coordination of transition finance by ODA providers during the preparatory period and the post-graduation phase.

The DPoA welcomes the work of the IATF on LDC graduation, led by OHRLLS, to provide strengthened and coordinated United Nations system-wide support to the countries graduating from the category. The DPoA invites the Office to advocate for appropriate predictable and additional incentives and support measures for graduating and recently graduated countries, and to mobilize additional international support for the implementation of the smooth transition strategies.

The DPoA also invites all relevant United Nations entities to collaborate under the inter-agency task force and develop operational guidelines for their support to LDCs, including assistance to graduating countries.

Furthermore, the DPoA welcomes the establishment of a Sustainable Graduation Support Facility by OHRLLS, as Chair of the IATF, and the Department of Economic and Social Affairs, as Secretariat for the Committee for Development Policy. The Facility is a country-led global platform that responds to the increasing demand from graduating and recent graduated LDCs for dedicated capacity development in the form of policy and technical advisory services in preparing and managing graduation and a smooth transition towards sustainable development.

In addition, several GA resolutions define different aspects related to the graduation process and the support that trade and development partners should extend to these countries to avoid falling back into the LDC category. Some of the key provisions are highlighted on page 4.





THE COMMITTEE FOR DEVELOPMENT POLICY (CDP)

The CDP is a subsidiary advisory body of ECOSOC. It advises ECOSOC on a wide range of emerging economic, social and environmental issues. Every three years, the CDP is mandated to undertake a review of the list of LDCs, on the basis of which it advises ECOSOC which countries should be added to or graduated from the LDC list. Although the CDP may recommend a country for graduation from the LDC category, the process of graduation is not automatic. The CDP recommendation must undergo approval by ECOSOC and then by the General Assembly, with the latter deciding on the length of the preparatory period before effective graduation. The CDP also develops the criteria for identifying LDCs and is mandated to keep the criteria under review. Additionally, the CDP monitors the development progress of countries that have graduated or are graduating from the LDC list.

The CDP is composed of 24 members who are nominated in their personal capacity by the Secretary-General and are appointed by ECOSOC for a period of three years. Membership is geared to reflect a wide range of development experience as well as geographical and gender balance. The CDP is served by a Secretariat within the United Nations Department of Economic and Social Affairs (DESA).

GA resolution 59/209	<ul style="list-style-type: none"> • Governs the graduation process and the roles of the decision-making actors in this process (the CDP, the Economic and Social Council (ECOSOC) and the GA).
GA resolution 59/209, 65/286, 67/221	<ul style="list-style-type: none"> • Emphasize that graduation should not disrupt the development progress of the country. The resolutions further indicate that LDC-specific support should only be phased out in a gradual and predictable manner, and that LDC preferential market access is to be extended to graduated countries for a number of years.
GA resolution 68/224, 69/231 & 73/242	<ul style="list-style-type: none"> • Request all relevant organizations of the UN system, led by the Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS), to extend necessary support to LDCs that aspire to graduate in the elaboration of their graduation and transition strategy.
GA resolution 67/221	<ul style="list-style-type: none"> • Calls on development partners to make efforts so that their bilateral and multilateral assistance support the national transition strategy of the country for some time after graduation. • Invites development partners to consider LDC indicators (GNI per capita, HAI and EVI) as part of their criteria for allocating ODA. This would constitute a built-in smooth transition measure and make the allocation of ODA more stable and predictable.
GA resolution 59/209 & 73/242	<ul style="list-style-type: none"> • Recommend that graduating countries establish, in cooperation with bilateral and multilateral development and trading partners, a consultative mechanism to facilitate the preparation of the transition strategy and the identification of the associated actions. • Reiterate the invitation for the members of the World Trade Organization (WTO) to extend existing special and differential treatment available to LDCs in accordance with the development situation of those countries.
GA resolution 73/242	<ul style="list-style-type: none"> • Invites LDCs and development partners to integrate graduation and smooth transition strategies into their respective national development and aid strategies, as appropriate, including capacity-building and technical assistance to diversify sources of financing. • Invites all development partners to strengthen their support for graduation and smooth transition so as to minimize disruption in the development trajectory of graduating and recently graduated “countries.”

A GRADUATION HISTORY OVERVIEW

Until the adoption of the IPoA in 2011, only three countries had graduated out of the LDC category: Botswana (1994), Cabo Verde (2007) and the Maldives (2011). Progress towards graduation accelerated since then. Samoa graduated in January 2014, Equatorial Guinea in June 2017 and Vanuatu in December 2020.

Currently, there are a total of 16 countries that are at some stage in the graduation process:

- [1] Bhutan will graduate in 2023,
- [2] Angola, [3] São Tomé e Príncipe, and [4] Solomon Islands will graduate in 2024 and

- [5] Bangladesh, [6] Lao People's Democratic Republic, and [7] Nepal will graduate in 2026.

While [8] Kiribati and [9] Tuvalu were recommended for graduation by the CDP, ECOSOC will reconsider its recommendation at its session in 2024.

A decision on [10] Myanmar and [11] Timor-Leste was deferred by the CDP to 2024.

In addition, five countries, namely [12] Cambodia, [13] Comoros, [14] Djibouti, [15] Senegal, and [16] Zambia, met the graduation criteria for the first time in the CDP review in 2021.



THE LDC CRITERIA AND PROCESS FOR GRADUATION

Countries in this category are identified as low-income countries confronting severe structural impediments to sustainable development. The LDC criteria therefore relate to levels of per capita income, human assets and economic and environmental vulnerability to external shocks.

1

**Gross national income (GNI)
per capita**

The CDP is mandated by the General Assembly and ECOSOC to review the LDC category every three years and make recommendations on inclusion and graduation of eligible countries. The CDP determines threshold levels on each of the three criteria to identify the countries to be added to or graduated from the category. The thresholds for graduation are higher than those for inclusion.

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.

A country may also be found eligible for graduation, based on the "income-only criterion," when it records a sufficiently high level of GNI per capita that is two times the graduation threshold, while continuing to have low human assets and being highly vulnerable, if that income level is deemed to be sustainable.

In 2021 the graduation threshold was set at \$1,222 and the income-only graduation threshold at \$2,444.

2

Human Assets Index (HAI)

The standard process determined by General Assembly Resolution 59/209 in 2004 prescribes a three-year period between meeting the graduation criteria for the second time and the date of effective graduation. Due to various difficulties confronted by these countries, the General Assembly has granted exceptional extensions of the preparatory period for several graduating countries.

After a country has become eligible for graduation for the first time, a Graduation Assessment is produced. This is based on an analysis of how a change in status and subsequent loss of LDC-specific benefits will impact the country, carried out by UNDESA, and a vulnerability profile compiled by the United Nations Conference on Trade and Development (UNCTAD). The Graduation Assessment also includes inputs by other UN entities, in particular the UN Country Teams, as well as forward-looking elements that could be considered for a smooth transition strategy.

3

**Economic and Environmental
vulnerability index (EVI)**

A CDP member is appointed as country rapporteur to ensure dedicated attention within the Committee. At the following triennial review, if the country is found eligible for the second time, the CDP deliberation is based not just on the Graduation Assessment, but also on country presentation and statement, including a supplementary set of graduation indicators. The latter were introduced into the graduation framework in order to provide the Committee and the countries with an additional screening tool for identifying sustainable development challenges and describing vulnerabilities not fully captured by the LDC criteria. The Committee also committed to including in any graduation recommendation a statement regarding whether the standard three-year preparatory period is sufficient or whether a longer period, not exceeding five years, is necessary for a smooth transition.

The process is therefore not automatic but rather evaluated on a case-by-case basis. For example, in 2018, the CDP “found that Nepal and Timor-Leste fulfilled the criteria for graduation for the second consecutive time. However, owing to concerns about the sustainability of their development progress, the [CDP] deferred its decision on recommendations for the graduation of these countries to the 2021 triennial review.”

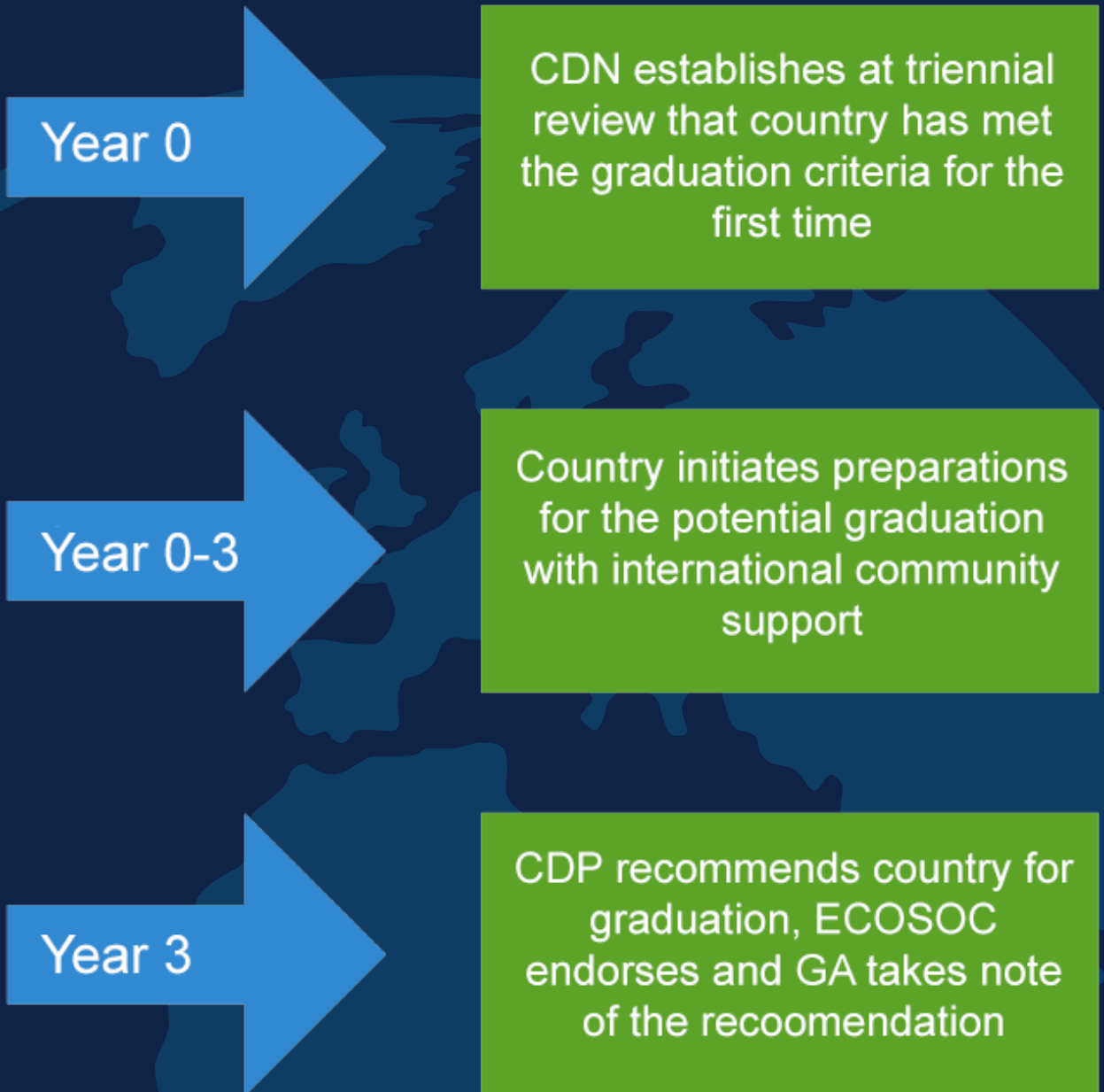
The CDP’s recommendation of graduation is then submitted for ECOSOC’s endorsement, and finally submitted for final decision by the GA. Generally, a country graduates from the LDC category three years after the adoption of the GA resolution taking note of ECOSOC’s endorsement of the CDP’s recommendation. However, under exceptional circumstances the GA can grant the country a longer preparatory period. For example, in 2018, the GA “[decided] to provide Sao Tome e Principe, on an exceptional basis, with an additional preparatory period of three years before the start of the three-year preparatory period leading to graduation, [...] so as to enable it to enact necessary internal reforms and align its transition strategy with its national development plan.”

In a more recent example, the CDP found that a five-year preparatory period was necessary for all countries recommended for graduation at the 2021 triennial review to effectively prepare for a smooth transition, as those countries will need to prepare for graduation while planning for a post-COVID-19 recovery and implementing policies and strategies to reverse the economic and social damage incurred by the COVID-19 shock. That same year, the General Assembly decided that Bangladesh, the Lao People’s Democratic Republic and Nepal be graduated after a five year preparatory period leading to graduation (GA Res 76/8).

During the entire preparatory period, the country remains on the list of LDCs and continues to benefit from the special support measures associated with LDC status. The country is expected to establish a consultative mechanism and formulate a smooth transition strategy in cooperation with its development and trading partners and the support of the UN IATF. A country-level graduation focal point should be appointed, preferably the senior government official who is the existing national focal point for IPOA implementation. The smooth transition strategy is to be implemented once the country has graduated and is no longer an LDC.

The next section describes the steps in the graduation process starting when a country meets the criteria for graduation for the first time.

THE GRADUATION PROCESS BASIC TIMELINE



Year 3-6

Country prepares for graduation and smooth transition with international community support

Year 6

EFFECTIVE GRADUATION

Year 6+

Country implements smooth transition strategy; phasing out of LDC-specific measures

BEFORE GRADUATION

FORMULATING A SMOOTH TRANSITION STRATEGY

After a country has been recommended for graduation by the UN GA, it enters a preparatory period which takes three years at a minimum. During this preparatory period, the country is still an LDC and, as such, is fully entitled to all benefits associated with the category. At any time in the graduation process, each graduating LDC can request specific graduation support to UN-OHRLLS, which will coordinate the services of Inter-Agency Task Force and the Sustainable Graduation Support Facility.

It is recommended for the graduating country to establish a consultative mechanism and formulate a smooth transition strategy. The main purpose of the consultative mechanism is

to bring together the key development and trading partners to facilitate the preparation of the transition strategy and to identify the necessary actions. If requested by the graduating country, the UN Resident Coordinator and the UN Country Team should provide support to the consultative mechanism (as per GA Res. 59/209). It is further recommended that other relevant consultative mechanisms operating in the country (for instance, under the auspices of the International Monetary Fund (IMF) and the World Bank) incorporate the implications of graduation and smooth transition decisions in their activities in the country (GA Res. 67/221).



The smooth transition strategy to be prepared during the preparatory period should include a set of specific and predictable measures to address the possible impacts of withdrawal of LDC-specific support measures. A Guidance Note on Smooth Transition Strategy is available for download in English and Portuguese. The smooth transition strategy plays a key role in ensuring that countries will be able to fully adapt to the changing circumstances that arise due to the phase-out or withdrawal of LDC-specific support and to maintain their development trajectory with a view to achieving the Sustainable Development Goals (SDGs) by 2030. Therefore, the potential impacts of graduation and the steps to be taken need to be analyzed carefully in cooperation with the development and trading partners.

Vanuatu effectively graduated on December 4, 2020. The Government adopted its smooth transition strategy in July 2020. Full implementation of the existing National Sustainable Development Plan, titled "Vanuatu 2030, The People's Plan," is highlighted as a most important priority for the country. The smooth transition strategy outlines complementary LDC-specific actions that are grouped in eight specific themes, namely trade, private sector development and productive capacity, infrastructure, macroeconomic stability, and finance, strengthening of national systems, including planning, budgeting, and monitoring, aid coordination and monitoring, statistical systems and data, and institutional and staff capacity development.



CASE STUDY

PREPARATIONS FOR A SMOOTH GRADUATION IN LAO PDR

In 2021, Lao PDR was one of three countries recommended for graduation from least developed status, paving the way for the fulfilment of a longstanding national development objective set out in successive national plans. In the midst of the COVID-19 pandemic, the Committee for Development Policy recognized the heightened challenges and increased uncertainty faced by the country, and therefore recommended an expected date of graduation of 2026 – giving Lao PDR 5 years to prepare for a smooth transition.

Recognizing the challenges of preparing for a quality, sustainable, and irreversible graduation in this context, even with the extended preparatory period, the Government has prioritized the development of a Smooth Transition Strategy (STS) early in 2022. The aim is to set out a plan that is comprehensive, practical, and achievable, complementing the 9th National Socio-Economic Development Plan and its financing strategy (2021-2025), and the planned COVID-19 recovery framework, with a specific focus on laying the foundations for a successful graduation.

Given the broad implications of graduation, cutting across the mandates of many different ministries, a whole-of-government approach is considered essential. As such, the Government has established a LDC National Steering Committee chaired by the Minister of Foreign Affairs, with membership from the Ministries of Planning and Investment; Finance; Commerce and Industry; Agriculture and Forestry; Health; Education and Sport; Natural Resources and

Environment; and Public Works and Transport; as well as close engagement with the Lao PDR Permanent Representatives in New York and Geneva (as the representative to the WTO).

This inclusive approach was further advanced through the presentation of a concept note for the development of the STS to the 13th High-Level Roundtable Meeting in November 2021. This once-every-5-years forum, opened by H.E. the Prime Minister, chaired by H.E. the Deputy Prime Minister, and co-chaired by the UN Resident Coordinator, brought together a broad cross-section of senior Government representatives and development partners, laying the foundations for the coalition it is hoped will help to deliver a successful graduation.

In the same spirit, partnerships have also been built with Bangladesh and Nepal, both of which are preparing for graduation over the same timeframe, to explore opportunities for peer learning and joint activities.

In leading the preparations for graduation, the Government has underlined that enhanced international support, in line with commitments, is essential over the coming years. To that end, the UN has established a dedicated LDC graduation support joint output group under the new UN-Lao PDR Sustainable Development Cooperation Framework (2022-2026), bringing together the work of seven different UN agencies to provide more integrated and effective support to the development and implementation of the STS.

The STS will be developed in 2022 through a consultative and evidence-based formulation process. A structured series of technical-level workshops and consultations should generate the buy-in and engagement necessary for a comprehensive STS, and later, a collaborative, efficient, and effective implementation. The identification of practical and goal-oriented policies and actions will be based upon series of diagnostics, including various graduation assessments, and will derive from the 9th NSEDP, and be closely aligned with the COVID-19 recovery framework, the 9th NSEDP financing strategy, and regional and international integration efforts. This evidence-based and country-owned approach will ensure that key obstacles to Lao PDR's irreversible graduation, such as its vulnerability to environmental

degradation and climate change, increasingly limited development finance, expected trade and ODA impacts, are properly addressed in the STS through concrete solutions.

In the midst of the unprecedented global socio-economic fallout generated by the COVID-19 pandemic, Lao PDR now stands at the edge of an historic development achievement. The Government is leading the way in the pro-active development of practical STS to make the most of the preparatory period available, bringing in all of the relevant stakeholders. However, the successful realization of a smooth graduation will require engagement with all development actors – domestic and international – and for that the contributions of all will be necessary.



THE UN INTER-AGENCY TASK FORCE ON LDC GRADUATION AND THE SUSTAINABLE GRADUATION SUPPORT FACILITY

The IATF was established by OHRRLLS in 2017 in order to improve coordinated support for countries preparing to graduate from LDC status. The IATF, chaired by the Director of OHRRLLS, brings together many UN agencies and other international and regional organizations that support LDCs to work more collaboratively and in concert with graduating countries in order to ensure a smooth transition process.

The IATF's goal is to assist LDCs in the graduation pipeline by supporting their formulation of smooth transition strategies; this process calls for the IATF to clearly convey what graduation entails and to support a country's graduation preparation based on its unique development needs and goals. The first two Joint UN Workshops on Graduation Support took place in fall 2019 in São Tomé e Príncipe and in the Solomon Islands. Both LDCs are scheduled to graduate in 2024. These workshops invited the Government as well as other stakeholders such as civil society and private sector to focus on the upcoming graduation and its concrete policy implications. The workshops are intended as one step in the continued support offered by the UN System to graduating countries.

Within the UN system, the IATF aims to generate awareness and political support for graduating LDCs so that other countries understand the challenges that graduating countries face even after they are no longer classified as an LDC. By doing so, development and trading partners will have a deeper understanding of how best to support a smooth and sustainable transition for graduating LDCs that will not disrupt the trajectory of their development.

Additionally, in an effort to bring together and enhance new and existing efforts and to integrate graduation-related advisory services, OHRRLLS and DESA/CDP Secretariat have established a Sustainable Graduation Support Facility. The

Facility is a country-led global platform that responds to the increasing demand from graduating and recent graduated LDCs for dedicated capacity development in the form of policy and technical advisory services in preparing and managing graduation and a smooth transition towards sustainable development. At the start, the Facility will offer a suite of dedicated capacity-building support in the form of policy and technical advisory services across six specific lines:

- addressing the loss of existing LDC-specific international support measures (ISMs);
- improving the ability of graduating and graduated LDCs to access non-LDC-specific support;
- preparing and implementing national smooth transition strategies (STS);
- assistance in accessing financing transition and beyond;
- facilitating South-South Cooperation, dialogue and sharing country as well as region-specific knowledge and experience; and
- ensuring effective participation in the monitoring process of the CDP.

The IATF, through the Facility, is designed to be responsive to the unique needs of LDCs in the graduation pipeline and to boost collaboration between agencies, donors and graduating LDCs. Thus, the IATF looks forward to supporting graduating LDCs in the new decade ahead.

AFTER GRADUATION

Member States have repeatedly recognized the need to couple the graduation of a country from the category of Least Developed Countries with measures to prevent jeopardizing the development path of the graduating country. International support measures should be phased out in a manner consistent with the smooth transition strategy and in accordance with the country's particular development situation.

SMOOTH TRANSITION MEASURES

The importance of extending international support to graduating LDCs for a smooth transition out of the category is well recognized by the international community. General Assembly Resolution 67/221 from 2012 set out specific measures that the international community must take in support of these countries. The DPoA recognized the need for enhanced support to countries before and after graduation, through appropriate, predictable, additional, and demand-driven incentives and support measures, including in the following areas:

- Technical assistance in preparing and implementing a smooth transition strategy, including capacity development and technical assistance in the analysis and identification of support needs;
- Legal assistance to negotiate market access after trade preferences that are granted on the basis of Least Developed Countries status end;

- Availability of credit ratings and risk management measures, including through the Multilateral Investment Guarantee Agency;
- Technical assistance to negotiate market access after trade preferences that are granted based on Least Developed Countries status end;
- Technical assistance to build and strengthen intellectual property rights systems of Least Developed Countries to enable them to comply with obligations related to intellectual property after graduation;
- Consider extending access to dedicated funds for addressing adverse impacts of climate change and vertical funds such as the Gavi Alliance, Aid for Trade and Technology Bank for the Least Developed Countries for graduated countries for a fixed period and in a predictable manner.



Indeed, the need for specific and targeted support for the graduating LDCs has become even more important with the increasingly diversified characteristics in terms of the size and economic structure of the countries slated for graduation. Many of the graduating LDCs and potential graduates during this decade will be economically larger and more dependent on global trade, which could make the trade costs of graduation more severe than for most graduates to date. In addition, decades of progress achieved by the graduating LDCs are challenged by the devastating impact of the COVID-19 pandemic, with many countries burdened with large and even prolonged socio-economic costs.

So far only a limited number of development partners, including the United Nations system, provide such smooth transition measures to all graduating countries in the areas of access to funds, trade preferences and travel benefits. Examples of existing smooth transition measures include:

- LDC travel support to attend the General Assembly sessions at UN HQ in New York can be extended for a period appropriate to the development situation of the country and for a maximum of three years (GA Res 65/286).
- Technology Bank for LDCs support to countries is extended for five years after graduation.
- UN Capital Development Fund's existing support to graduating LDCs is extended for three years after graduation, with the potential to extend a further two years with a 50/50 funding approach.
- The benefits under the European Union Everything but Arms (EBA) initiative have been extended, since 2012, for a transitional period of three years after graduation as a general smooth transition measure applying to all graduating LDCs.
- The Enhanced Integrated Framework programs of assistance for the LDCs remain available for a period of five years after graduation.

Other support measures to LDCs include caps on UN budget contributions. Most graduated LDCs are also entitled to an 80 per cent discount rate on contributions to the UN peacekeeping operations.

However, in many cases, smooth transition measures do not exist and there is a clear need to enhance or extend existing mechanisms in order to better support the graduating countries, as the support provided while in the LDC category may change.

OTHER TRADE SUPPORT MEASURES

After a country graduates from the LDC category – and in many cases after a smooth transition period – it generally retains access to standard Generalized System of Preferences programs in developed countries, in addition to other preferential terms resulting from bilateral or regional agreements. Furthermore, some key LDC exports (such as oil and minerals) face zero most-favored-nation tariffs in major markets and will therefore not be affected by graduation.

World Trade Organization (WTO) rules have some in-built mechanisms that can support WTO members graduated from the LDC status, to address their trade-related challenges resulting from graduation. They include: submitting a request for a waiver from WTO obligations; extending transition periods; addressing specific problems through the work of WTO Committees; and better monitoring of graduation-related implications through the Trade Policy Review Mechanism. In a November 2020 communication to the WTO General Council, the LDC Group submitted a proposal on an effective smooth transition mechanism for graduating countries. The proposal seeks a twelve-year extension of the LDC-specific special and

differential treatment and technical assistance, capacity building programs and facilities in the WTO for graduated countries (WTO document WT/GC/W/807).

With respect to access to the European Union market, following the transitional period of three years after graduation, the countries would no longer benefit from the EBA arrangement. They are then considered under the standard Generalized System of Preferences arrangement. Graduated LDCs that have ratified and effectively implement 27 conventions spanning issues of human and labor rights, environmental protection and good governance, are eligible for the GSP Plus, which provides more generous tariff preferences than under the standard system. Graduated countries that are part of the African, Caribbean and Pacific Group of States and have signed economic partnership agreements with the European Union can maintain duty-free, quota-free market access.

In preparation for the upcoming review of the EU's GSP scheme, the European Commission is exploring options to support countries graduating from the EBA arrangement. One of the options under discussion is whether the transition period for graduating from the EBA arrangement could be extended to five years to give more time for countries to implement reforms (including to qualify for GSP+) and for firms to take investment decisions. This would be particularly beneficial to Asian graduating LDCs.

PACER Plus, a reciprocal arrangement amongst Pacific countries including Australia, New Zealand and eight of the Pacific Island countries, allows for duty free quota free market access, but obliges Pacific Island members to reduce import tariffs over time and to liberalize incoming services trade and investment. The tariff reduction schedule is slower for the three LDC signatories – Solomon Islands, Tuvalu and Kiribati – with reductions beginning in 2028 unless the country graduates from LDC status. "Year 1 LDC" for tariff reductions will be the calendar year following that of the date of its LDC graduation. For example, with Solomon Islands scheduled to graduate in

2024, tariff reductions could begin in 2025. Most tariffs would be at zero by 2032 and tariffs on all goods would be removed by 2047.

DEVELOPMENT AND CLIMATE FINANCE

After LDC graduation, countries continue to have access to external support, but its forms and modalities vary. Most development partners indicate that Least Developed Country status is not a main criterion for official development assistance allocation. Therefore, such assistance to graduated countries is not expected to change because of graduation. However, some donors might switch from grants to concessional loans or increase interest rates for concessional loans.

Furthermore, graduated countries may still be able to access development financing that is not determined by LDC status, such as multilateral loans from international financial institutions (e.g., World Bank, regional development banks). However, the modalities of development finance extended by official bilateral donors could change after graduation.

For example, the Development Assistance Committee of the OECD recommends member countries to offer an average grant element in ODA to LDCs at either 90 per cent of donor's annual commitments to all LDCs or at least 86% of its commitment to individual countries over a period of three years. Some grants may thus become less common and loan concessionality less generous once a country graduates. Therefore, reduction of assistance funding needs to be addressed in a country's smooth transition strategy.

The World Bank Group's International Development Association (IDA) provides zero to low-interest loans to the poorest and most vulnerable countries. Eligibility for IDA allocations depend on a country's relative poverty, defined as GNI per capita below an established threshold and updated annually (\$1,185 in 2021), and the absence of creditworthiness. IDA has its own graduation process: IDA graduation becomes effective only every 3 years, in line with IDA cycles, after an examination of the country-specific situation. IDA also supports several small island economies that are above the operational cut-off, owing to its small state exception. As of March 2022, all LDCs, except for Angola, were eligible to receive IDA resources (including blend countries). Of the six LDCs graduated thus far, only two (Botswana and Equatorial Guinea) are also IDA graduates.

In addition to its traditional lending, the International Monetary Fund provides loans to eligible Low-Income Countries (LICs) through the Poverty Reduction and Growth Trust (PRGT), which has three concessional lending facilities: the Extended Credit Facility (ECF); the Standby Credit Facility (SCF); and the Rapid Credit Facility (RCF). Member countries may receive repeated disbursements over a (limited) period in case of recurring or ongoing balance of payments needs. Eligibility for PRGT lending is closely aligned with IDA-eligibility, and the only LDC that is currently not PRGT eligible is Angola. Countries that have graduated from the LDC category, except for Botswana and Equatorial Guinea, all currently remain PRGT eligible, and it is expected that other LDCs will remain eligible even as they reach the UN threshold.

Access to climate change finance is especially important for graduated countries, as they often remain highly vulnerable to the effects of climate change. Access to the Least Developed Countries Fund under the Global Environment Facility will be discontinued with graduation, but countries already in a funding cycle when they graduate will continue to receive those funds until their

cycle is complete. The Green Climate Fund Board uses minimum allocation floors for Least Developed Countries, small island developing States and African States. In its 2020-2023 Strategic Plan, the Board continues to aim for a floor of 50 per cent of the adaptation allocation for these vulnerable countries. Thus, after graduation, small island developing States and/or African Least Developed Countries will retain their access to the Green Climate Fund.

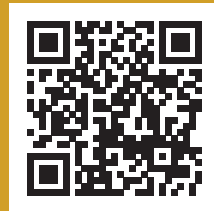
Graduation from the LDC category results in varying levels of phasing-out of LDC-specific support measures, particularly in the areas of financial assistance, international trade, and other general support measures. However, not all benefits and support measures are impacted negatively by graduation. In this regard, a nationally owned comprehensive smooth transition strategy to adjust to the phasing-out of the benefits that a country enjoys as an LDC will play a crucial role in the success of its graduation process. Graduation also comes with other new opportunities and potential, including a perception of a more conducive business environment and better creditworthiness. LDCs and their development partners should seize the momentum that comes with graduation to propel these graduating countries towards achieving the goals and targets of the 2030 Agenda for Sustainable Development.

TO CONCLUDE

Graduation offers a variety of new opportunities and potential, as well as challenges. Nevertheless, graduation should not be seen as an end but rather as a way to achieve structural change, poverty eradication and economic diversification in LDCs and thereby contribute to the achievement of a country's unique development goals as well as the general goals of the IPoA and the 2030 Agenda for Sustainable Development.

Graduation efforts must be driven by the goals and leadership of LDCs themselves. To ensure that LDCs achieve sustainable and transformational graduation, their efforts need to be supported by development and trading partners in a spirit of shared responsibility and mutual accountability. In order to enable more LDCs to meet the criteria for graduation, strengthened and more focused support will be needed in the next decade.

FURTHER INFORMATION



UN-OHRLLS: www.un.org/ohrlls/graduation-ldcs

Committee for Development Policy: <https://www.un.org/development/desa/dpad/our-work/committee-for-development-policy.html>

International Support Measures: <https://www.un.org/ldcportal/>

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supporting
Least Developed Countries
Landlocked Developing Countries
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United Nations Office of the High Representative for Least Developed Countries,
Landlocked Developing Countries and Small Island Developing States

The United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) supports groups of vulnerable countries in the United Nations System. The 47 Least Developed Countries, 32 Landlocked Developing Countries and 38 Small Island Developing States have their own special challenges. Least Developed Countries represent the poorest and most vulnerable segment of the international community.

UN-OHRLLS helps coordinate and implement the Istanbul Programme of Action which assists Least Developed Countries in areas including economic growth, poverty reduction and meeting targets laid out in the Sustainable Development Goals. UN-OHRLLS chairs the UN Inter-Agency Task Force on Graduation and plays a coordination role in regard to the UN system support in the elaboration of the graduation and transition strategies in countries aspiring to graduate from Least Developed Country status.

