A GUIDE TO LEAST DEVELOPED COUNTRY GRADUATION

UN-OHRLSS
Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
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INTRODUCTION

When a country graduates from the Least Developed Country (LDC) category, this achievement can be viewed as the successful culmination and implementation of various national and global strategies and partnerships.

Each graduation constitutes an extraordinary success not only for the countries themselves, but also for the United Nations and for development cooperation by the international community.

Despite this, graduation has to be considered in the larger context of development. It is not only about reaching the ‘cut-off points’ of the three graduation criteria, but should be based on a holistic approach towards equitable and sustainable development, with full ownership and leadership of the process by the respective LDC.

This publication provides a quick, but comprehensive, overview of the graduation process, including graduation criteria. It provides readers with sources of further information and support.
The category of least developed countries was officially established in 1971 by the UN General Assembly with a view to attracting special international support for the most vulnerable and disadvantaged members of the United Nations family. There are currently 47 countries in the LDC category; 33 in Africa, 13 in Asia and the Pacific and 1 in Latin America. The identification of LDCs is based on three criteria:

1. **Per capita gross national income (GNI p.c.)**
2. **Human assets index**
3. **Economic vulnerability index**

The overarching goal of the Istanbul Programme of Action (IPoA) for the Least Developed Countries for the Decade 2011-2020, is to overcome the structural challenges faced by the least developed countries in order to eradicate poverty, achieve internationally agreed-upon development goals and enable graduation from the least developed country category. The Programme of Action was adopted at the Fourth United Nations Conference on the Least Developed Countries, held in Istanbul, Turkey, in 2011 and sets an ambitious objective of enabling half of the least developed countries to meet the criteria for graduation by 2020. The IPoA is also the first global programme of action for the least developed countries to contain a full-fledged chapter on graduation and smooth transition, in recognition of the need to do more in this area, if the overarching goal is to be attained.

As the decade 2011-2020 draws to an end, the number of LDCs, which have already met the criteria for graduation has increased significantly and more countries are expected to fulfill the criteria at the next triennial review of the Committee for Development Policy (CDP) in March 2018. Despite recent progress, concerted and revitalized efforts will be required for half of the LDCs to meet the criteria for graduation by 2020. Particular attention should be given to the smooth transition of countries graduating from least developed country status, consistent with their transition strategy and taking into account each country’s particular development situation. ‘Smooth transition’ refers to the period after the effective graduation from the LDC category, which can vary in length. The strategy to be prepared for this period aims at ensuring that graduation should not disrupt the development progress of the country.
LEGAL FRAMEWORK

The Istanbul Programme of Action sets an ambitious objective of enabling half of the least developed countries to meet the criteria for graduation by 2020.

Least developed countries and their development partners were urged by the Political Declaration of the Midterm Review of the IPoA to undertake more concerted and ambitious efforts to achieve the criteria for graduation. The Political Declaration also encouraged development and trading partners and the United Nations system to continue supporting the implementation of smooth transition strategies and to avoid any abrupt reductions in either official development assistance or technical assistance provided to the graduated countries.

In addition, several UN General Assembly resolutions highlight different aspects related to the graduation process and the support that trade and development partners should extend to these countries to avoid re-entering the LDC category. Some of the key paragraphs are highlighted on the right:
General Assembly resolution 59/209

• Governs the graduation process and the roles of the decision-making actors in this process (the Committee for Development Policy, the Economic and Social Council and the General Assembly).

General Assembly resolutions 59/209 & 67/221

• 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. LDC preferential market access is to be extended to graduated countries for a number of years.

General Assembly resolution 68/224

• Requested all relevant organizations of the United Nations system, led by the Office of the High Representative, to extend necessary support to least developed countries that aspired to graduate in the elaboration of their graduation and transition strategy. This request was also repeated in RES/69/231.

General Assembly resolution 67/221

• Called 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.

• Also invited development partners to consider least developed country indicators, gross national income per capita, the human assets index and the economic vulnerability index as part of their criteria for allocating official development assistance. This would constitute a built-in smooth transition measure and make the allocation of official development assistance more stable and predictable.

General Assembly resolution 59/209

• Recommends that the graduating country establish, in cooperation with its 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.

• Reiterates its invitation for the members of WTO to extend existing special and differential treatment available to LDCs in accordance with the development situation of those countries.
A SHORT HISTORY OF GRADUATION FROM THE LDC CATEGORY

After the creation of the LDC category in 1971 progress made by countries towards graduation was slow until the adoption of the Istanbul Programme of Action in 2011. Only three countries graduated during this period: Botswana (1994), Cabo Verde (2007) and Maldives (2011). However, progress towards graduation has accelerated since 2011.

Samoa graduated in January 2014 and Equatorial Guinea in June 2017. Vanuatu is scheduled to graduate in 2020, following a deferral due to the devastation caused by a tropical cyclone. Although Tuvalu was recommended for graduation by the CDP in 2012, the Economic and Social Council deferred a decision on its graduation until 2018. Angola and Kiribati met the graduation thresholds for the second time in 2015. A recommendation on the graduation of Kiribati was deferred by the CDP to the 2018 triennial review. The Council endorsed the recommendation of the CDP on Angola’s graduation, and Angola is now scheduled to graduate in 2021. Five additional least developed countries met the graduation thresholds for the first time in 2015: Bhutan, Nepal, Sao Tome and Principe, Solomon Islands and Timor-Leste.

In addition, 14 LDCs met at least one criterion for graduation in 2015: Bangladesh (EVI), Benin (EVI), Cambodia (HAI), Democratic Republic of Congo (EVI), Djibouti (GNI), Ethiopia (EVI), Guinea (EVI), Lesotho (GNI), Mauritania (GNI), Myanmar (HAI), Sudan (GNI), Tanzania (EVI), Uganda (EVI), and Zambia (GNI).

The next triennial review by the Committee for Development Policy will take place in March 2018. It is anticipated that an increasing number of LDCs will meet one or two of the criteria for graduation during this review.
THE COMMITTEE FOR DEVELOPMENT POLICY (CDP)

The CDP is a subsidiary advisory body of the United Nations Economic and Social Council (ECOSOC). It advises ECOSOC on a wide range of emerging economic, social and environmental issues. Every three years 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. The CDP also developed the criteria for identifying LDCs and is mandated to keep the criteria under review. Additionally, CDP monitors the development progress of countries that have graduated or are graduating from the LDC list.

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.
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).

1. **Income Criterion**
   - Based on the latest available three-year average of GNI per capita as a single indicator for the income criterion. In order to further improve the comparability of GNI per capita, the CDP will convert fiscal year GNI data into calendar year for countries where fiscal years are different from calendar years and only fiscal year GNI data are available, whenever feasible (in the 2018 triennial review the thresholds of under $1,025 for inclusion and above $1,230 for graduation will be applied).

2. **Human Assets Index (HAI)**
   - Based on indicators of:
     - Health
       - Percentage of population undernourished
       - Under-five mortality rate
       - Maternal mortality rate
     - Education
       - Gross secondary school enrollment ratio
       - Adult literacy rate

3. **Economic Vulnerability Index (EVI)**
   - Based on indicators of:
     - Population size
     - Remoteness
     - Merchandise export concentration
     - Share of agriculture, hunting, forestry and fishing
     - Share of population in low elevated coastal zones
     - Instability of exports of goods and services
     - Victims of natural disasters
     - Instability of agricultural production

For more detailed description on the LDC criteria and the indicators used: [https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html](https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html)
In the triennial review process, the CDP is mandated to review the LDC category based on the specific criteria and application procedures as well as monitor the progress of graduated LDCs. The CDP also 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 for inclusion. In the identification process, the HAI and EVI thresholds are fixed by the CDP.

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.

After a country has become eligible for graduation for the first time, an ex-ante impact assessment and a vulnerability profile are produced by DESA and UNCTAD respectively, and delivered to the CDP as inputs for its deliberations at the next triennial review. If the country meets the criteria at two successive triennial reviews, the CDP may recommend the country for graduation. However, the process is not mechanical and takes the ex-ante impact assessment, the vulnerability profile as well as the views of the country into account.

A country graduates from the LDC category three years after the General Assembly takes note of the ECOSOC endorsement of the recommendation of the CDP. However, under exceptional circumstances the General Assembly can grant the country a longer preparatory period. During this period, the country remains on the list of LDCs and continues to benefit from the special support measures associated with LDC status. The smooth transition strategy is to be implemented only after the actual graduation of the country. The below infographic describes the steps for graduation after the country meets the criteria for graduation for the first time.1

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1For a detailed discussion of LDC graduation process, criteria and support measures, see the CDP’s LDC Handbook (available at https://www.un.org/development/desa/dpad/publication/committee-for-development-policy-handbook-on-the-least-developed-country-category-inclusion-graduation-and-special-support-measures-second-edition/)
YEAR 0
1ST TRIENNIAL REVIEW

• Country meets the criteria for graduation for the first time and CDP finds country eligible

YEAR 3
2ND TRIENNIAL REVIEW

• Country meets the criteria for graduation for the second time and CDP confirms the eligibility
• CDP submits recommendation for graduation to ECOSOC, taking into account graduation criteria and additional information (country statements, DESA assessment and UNCTAD profile)
• ECOSOC endorses the CDP recommendation
• UN General Assembly takes note of the CDP recommendation

YEAR 0–3

• A vulnerability profile of the country is prepared by UNCTAD
• Ex-ante impact assessment is prepared by UN-DESA
• Country provides comments on drafts of the UNCTAD profile and the DESA assessment (optional). Country may present its view on graduation at the CDP expert group meeting preceding the second triennial review

GRADUATION PROCESS

YEAR 6 GRADUATION

- Graduation becomes effective, country is no longer in the LDC category

2024

YEAR 3–6

- Graduating country establishes consultative mechanism, prepares smooth transition strategy and optionally reports to the CDP on the preparation of the strategy with assistance from UN System
- Development and trading partners participate in consultative mechanism and provide targeted assistance
- CDP monitors development progress of the country during the period and reports annually to ECOSOC

YEAR 6+

- Graduated country implements and monitors the transition strategy and voluntarily submits progress reports to CDP on implementation
- CDP monitors development progress of graduated country and reports to ECOSOC
- Development and trading partners and the UN system support the implementation of the transition strategy, avoiding abrupt reduction of LDC-specific support
**DURING GRADUATION**

Preparing a smooth transition strategy

After the country has been recommended for graduation, it enters a transition period to prepare for graduation, which normally takes three years. During this transition period, the country is still an LDC and as such, is fully entitled to all benefits associated with the category. Specific tools exist to support graduating LDCs in this regard and it is recommended that the country establish a consultative mechanism and prepare 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 United Nations Resident Coordinator and the United Nations 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 IMF and the World Bank) should 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 this transition period should include a set of specific and predictable measures to address the possible impacts of withdrawal of LDC specific support measures. The smooth transition strategy plays a key role in ensuring that countries will be able to fully adapt to the changing circumstances arising from the erosion 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 analysed carefully, in cooperation with the development partners. The comprehensive smooth transition strategy needs to take into account an LDC’s own specific structural challenges and vulnerabilities as well as its strengths.

These measures have proven to be helpful in countries preparing for graduation. Cabo Verde, graduated in 2007, established a consultative mechanism called a Transition Support Group (Groupe d’Appui à la Transition), which met regularly both before and after graduation. The group consisted of government representatives and multilateral and bilateral donors, including African Development Bank, World Bank, European Union, UN system, Austria, China, Spain, US, France, the Netherlands, Luxembourg and Portugal. Also Brazil, Japan, OECD and IMF participated as observer members.

Angola, scheduled to graduate in 2021, took the decision to combine its National Consultative Committee for LDC Graduation with their Committee on the Sustainable Development Goals. The draft terms of reference, written with the support of the UNDP country office, include several steps, aiming to prioritise human assets and economic vulnerability. The Committee will mainstream and align the LDC graduation roadmap and SDGs into the National Plan and into the national budget steering committee as well as linking with various national stakeholders. The roadmap also details a monitoring and evaluation unit and working groups.
The main international support measures for least developed countries can be grouped under three categories: official development assistance, measures related to trade and other measures. The intensity and approach in phasing out of LDC specific support depends on the category support.

Despite the goal of allocating 0.15 to 0.2 per cent of GNI as official development assistance to least developed countries, there are no clear provisions for the allocation of official development assistance among least developed countries. It is well established that donors do not consistently allocate aid according to the needs and capacities of recipient countries, but use other factors for country allocations. In general, bilateral assistance appears to be guided by humanitarian, economic or political considerations and not by country categories or least developed country criteria. Therefore, graduation from the LDC category will not necessarily impact official development assistance flows. In 2015, 72 per cent of total official development assistance was allocated to countries that do not have least developed country status.

The trade related support measures are more impacted by graduation from the LDC category as trading partners have committed to providing trade preferences through duty-free, quota-free market access (DFQF) for least developed countries. Therefore, it is critical for the graduating country to carry out a thorough analysis prior to graduation on the impacts of the erosion of LDC trade benefits. During this process, the existing trade related smooth transition measures also need to be taken into account.

Since 2012, the European Union has applied a general smooth transition measure that extends the DFQF benefits under the Everything but Arms initiative for a transitional period of at least three years for countries that graduate from the least developed country category. After the transitional period, the European Union can grant “GSP+” (Generalized Scheme of Preferences) status, which provides full removal of EU customs tariffs on over 66 per cent of product tariff lines, when the country ratifies and implements 27 conventions related to human- and labour rights, environmental protection and good governance.

To provide further trade related support to the graduating countries, the General Assembly has invited trading partners that have not established procedures for extending or phasing out preferential market access, duty-free and quota-free treatment, to clarify in a predictable manner, as a general measure or at the consultative mechanism, their position with regard to the extension of the least developed country-specific preferences, the number of years of the extension or the details concerning the gradual phasing out of the measures. It is hoped that an increasing number of partners will consider this and start assisting in creating sustainable graduation and growth path for these countries.

It is also worth underlining that the graduating LDCs may continue benefiting from various other trade agreements and benefits, including regional free trade agreements. For example, Kiribati, Solomon Islands and Tuvalu can access markets in Australia and New Zealand for most products on a preferential basis owing to their membership in the South Pacific Regional Trade and Economic Cooperation Agreement.

Other existing smooth transition measures come in various different shapes and formats. The Enhanced Integrated

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2 For a catalogue of international support measures, see www.un.org/ldcportal.
Framework (EIF), for example, will automatically continue assisting LDCs that graduate for three years after graduation in building trade capacity and, subject to justification and approval by the Board of the Framework, another two years. Also, the recently established Technology Bank for Least Developed Countries will continue supporting countries after graduation in developing their science, innovation and technology sectors at least five years after graduation. Similarly, Global Environment Facility’s (GEF) Least Developed Countries Fund, will continue supporting a limited number of projects after graduation, if a national adaptation programme of action is prepared before the country graduates. Also, the United Nations Capital Development Fund continues their support to graduated countries and has recently prepared a 3+2 year strategy to support smooth transition for graduating LDCs.

The other measures of support to LDCs include, for example, travel assistance and caps on UN budget contributions. Travel-related support to the LDCs for attending the UN General Assembly, if requested, 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). This support was applied to Cabo Verde and Maldives when they graduated. As regards the contributions to the UN budget, the graduated country loses the LDC cap on the regular UN budget as well as a 90 per cent discount on contributions to the peacekeeping operation budget.

Not all international organisations and financing institutions use the LDC category and criteria for aid and credit allocation. For example, eligibility for World Bank’s International Development Association (IDA) allocations depend on a country’s relative poverty, defined as GNI per capita below an established threshold and updated annually ($1,165 in fiscal year 2018). However, IDA graduation only becomes effective every 3 years in line with the IDA cycles. IDA also supports several small island economies that are above the operational cut-off due to its small state exception. Currently, 75 countries are eligible to receive IDA resources. Out of the 5 LDCs graduated so far, only 2 (Botswana and Equatorial Guinea) are also IDA graduates.

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 a successful graduation process. In addition, graduation also comes with other new opportunities and potentials, including an increased perception of a more conducive business environment and better creditworthiness. Therefore, the momentum that comes with graduation can propel these countries towards achieving the goals and targets of the 2030 Agenda for Sustainable Development.
CASE STUDY–SAMOA

Samoa graduated from the LDC category in January 2014. In 2017, its GNI per capita is estimated at $4,079 and it is likely to be sustained at the current level. Samoa has also continued to maintain high levels of human capital as measured by the HAI (94.4 in 2017). However, Samoa remains vulnerable and the EVI score has stayed at the same level of 41.1 in 2017, well above the graduation threshold of 32 or lower established at the 2015 triennial review. The Government of Samoa still continues to engage with its trading and development partners to minimize possible negative impacts of graduation. The smooth transition strategy is implemented as an integral part of the Strategy for the Development of Samoa 2016/2017–2019/2020: “Accelerating Sustainable Development and Broadening Opportunities for All.” Samoa has been receiving smooth transition support, including:

• A slight increase in Official Development Assistance levels in 2016. However the Government reported that there is evidence of risk aversion, with some of the development partners opting to channel their aid through multilateral institutions, in particular the financial institutions.

• Duty free treatment, China has granted a transition period of three years since Samoa’s graduation from LDC status on 1st January 2014. The extension has ended, but there have been discussions towards a free trade agreement with China.

• A transition period for the EU’s duty-free, quota-free Everything But Arms arrangement until 1 January 2019, after which normal tariffs will apply. Samoa is currently negotiating with the EU a comprehensive Economic Partnership Agreement for Pacific Countries.

• Support from the EIF, particularly for trade facilitation and implementation of institutional reforms for the trade commerce and manufacturing sector. The Trade Sector Support Programme was approved in April 2014, and the DTIS update project started in September 2015.

• Samoa gained access to the UNFCCC LDCF after graduation. A climate change adaption and disaster risk reduction project ($12 million grant) was approved under the LDCF in October 2014. A flood management project was approved under the Green Climate Fund in December 2016 ($58 million grant).
TO CONCLUDE

Graduation brings with it a variety of new opportunities and potentials as well as challenges. Nevertheless, it should not be seen as an end, but should rather be viewed as a way to achieve structural change, poverty eradication and economic diversification in least developed countries and thereby contribute to the achievement of the goals of the Istanbul Programme of Action and the 2030 Agenda for Sustainable Development.

Efforts towards graduation need to be underpinned by ownership and leadership of the least developed countries, given that the primary responsibility for development lies with the countries themselves. To ensure that LDCs achieve sustainable and transformational graduation, their efforts need to be supported by the development and trading partners in a spirit of shared responsibility and mutual accountability. In order to meet the ambitious objective of the Istanbul Programme of Action of enabling half of the least developed countries to meet the criteria for graduation by 2020, strengthened and more focused support is needed in this regard.

FURTHER INFORMATION

UN-OHRLLS: unohrrls.org/about-ldcs
International Support Measures: un.org/ldcportal
Further resources: unohrrls.org/graduation-ldcs

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The United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLSS) supports groups of vulnerable countries in the United Nations System. The 47 Least Developed Countries, 32 Landlocked Developing Countries and 58 Small Island Developing States have their own special challenges. Least Developed Countries represent the poorest and most vulnerable segment of the international community. Due to an over reliance on few primary commodities as a major source of earnings, they are typically highly vulnerable to external trade shocks.

UN-OHRLSS 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-OHRLSS 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.