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Implementation, effectiveness and added value of smooth transition measures and graduation support

Report of the Secretary-General

Advance Unedited Text

Summary

The present report is submitted pursuant to General Assembly Resolution 70/216, which requests the Secretary-General to submit to the General Assembly at its seventy-third session a progress report on the implementation, effectiveness and added value of smooth transition measures, including initiatives taken by the United Nations system to support countries during their graduation from the least developed country category. Further, General Assembly Resolution 72/231 requested to cover in this report both graduating and recently graduated countries, including ways that graduated countries can be supported in their development path.

1. Introduction

The overarching goal of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020 (IPoA) is to overcome their structural challenges to eradicate poverty, achieve internationally agreed development goals and enable graduation from the LDC category. Specifically, the IPoA set an ambitious objective of enabling half the number of then 48 LDCs to meet the criteria for graduation by 2020.

Recent developments in regard to graduation from the Least Developed Country (LDC) category are encouraging and indicate that national and global efforts for poverty eradication and sustainable development are bearing fruit. Graduation from the LDC category can be seen as a milestone in the ongoing development process of the countries concerned. It is the result of many factors including the successful implementation of various national and global strategies and partnerships.

The latest triennial review of the LDC category by the Committee for Development Policy (CDP) took place in March 2018 (E/2018/33, Supplement No. 13). It was a historic occasion with a total of twelve LDCs meeting the criteria. Four countries—Bhutan, Kiribati, São Tomé and Príncipe and Solomon Islands—were recommended for graduation from the LDC list, which is significant particularly when considering that over the past forty-seven years, only five countries have graduated and two are scheduled to graduate. In addition, Bangladesh, Lao PDR and Myanmar met the graduation criteria for the first time, and will be considered for graduation in 2021.

While graduation marks an outstanding achievement that should serve as a solid foundation for further inclusive and sustainable development as expressed in the 2030 Agenda for Sustainable Development, it also entails challenges, as the country may lose LDC-specific benefits and favourable arrangements. However, the impact of the loss of LDC-specific benefits depends on how effectively the country has been using the benefits before graduation. Further, most graduated countries will remain vulnerable, especially to climate change, natural disasters and other shocks and crises, posing serious challenges for sustaining their growth and development trajectory.

A smooth transition strategy can be a vital tool for ensuring that graduating countries are eased into a path of sustainable graduation. This includes mapping out potential loss of benefits, identifying effective responses, and adjusting institutional and legal frameworks to comply with international obligations. While the graduated countries have the primary responsibility to continue on a path of sustainable development, strengthened global partnerships are crucial, and development partners have a critical role to play in supporting sustainable graduation and smooth transition.

This report analyses developments in both graduating and recently graduated countries, and how these countries can be supported on their development path. The report also tracks progress on the implementation, effectiveness and added value of smooth transition measures, which are the extension of LDC specific support for a limited time after actual graduation, including initiatives undertaken by the United Nations system to support countries during their graduation from the LDC category.

2. Progress towards graduation

A brief history of graduation from the LDC category

The category of LDCs 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[1] in the LDC category; 33 in Africa, 13 in Asia and the Pacific and 1 in Latin America.

The Istanbul Programme of Action sets an ambitious objective of enabling half of the LDCs to meet the criteria for graduation by 2020, making it the first global programme of action for the LDCs to contain a chapter on graduation and smooth transition. The political declaration[2] of the Comprehensive High-level Midterm Review of the Implementation of the IPoA, held in 2016, recognised and welcomed the progress made towards meeting the criteria for graduation by 2020, while expressing some concern about limited graduation so far. It also notes that based on current trends, concerted and revitalized efforts will be required. Particular attention should be given to the smooth transition of countries graduating from LDC status, consistent with their transition strategy, and taking into account each country's particular development situation.

As the Decade 2011-2020 draws to an end, the number of LDCs, which have already met the criteria for graduation, has increased significantly. To date, only five countries have graduated from the LDC category; Botswana (1994), Cabo Verde (2007), Maldives (2011), Samoa (2014) and Equatorial Guinea (2017). Vanuatu and Angola are scheduled to graduate in 2020 and 2021 respectively. Vanuatu's graduation has been postponed following a deferral due to the devastation caused by a tropical cyclone. Angola was also granted an additional period of two years before the start of the three-year preparatory period leading to graduation, as Angola's commodity-dependent economy continued to be highly vulnerable to price fluctuations. Tuvalu was recommended for graduation by the CDP in 2012. However, the Economic and Social Council deferred a decision on its graduation until 2018. Kiribati met the graduation thresholds for the second time in 2015. A recommendation on the graduation of Kiribati was deferred by the Committee to the 2018 triennial review, when the Committee recommended the country for graduation, while noting its extreme vulnerability to climate change and other environmental shocks.

As a growing number of LDCs are meeting the criteria for graduation, it is important for the international community to pay increased attention to graduation and smooth transition processes, thus ensuring sustainable development and the irreversibility of graduation. This is in line with the 2030 Agenda for Sustainable Development targeting all dimensions of

[1] https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf
[2] http://unohrlls.org/custom-content/uploads/2016/09/A_CONF.228_3.pdf

sustainable development with a special focus on the least developed countries under the headline "Leaving no one behind".

Overview of the graduation criteria and process

The identification of LDCs is based on three criteria: per capita gross national income (GNI), human assets and economic vulnerability to external shocks.[3] The latter two are measured by two indices of structural impediments, namely the human assets index (HAI) and the economic vulnerability index (EVI). The same three criteria are used for determining graduation from the LDC category.

- **Income criterion**, based on the latest available three-year average of GNI per capita as a single indicator for the income criterion. It is expressed in United States dollar, using the World Bank Atlas method to convert national currencies.
- **Human Assets Index (HAI)** based on indicators of: (a) health: percentage of population undernourished; (b) health: under-five mortality rate; (c) health: maternal mortality rate; (d) education: gross secondary school enrolment ratio; and (e) adult literacy rate.
- **Economic Vulnerability Index (EVI)** based on indicators of: (a) population size; (b) remoteness; (c) merchandise export concentration; (d) share of agriculture, hunting, forestry and fishing; (e) share of population in low elevated coastal zones; (f) instability of exports of goods and services; (g) victims of natural disasters; and (h) instability of agricultural production.

Graduation Thresholds: 2018 Triennial Review[4]:

Gross National Income (GNI) per capita	**Human Assets Index** (HAI)	**Economic Vulnerability Index** (EVI)
GNI per capita: $1,230 or above Income-only: $2,460 or above	66 or above	32 or below

The CDP is mandated to review the LDC category based on the above criteria and application procedures as well as monitor the progress of graduated LDCs. The thresholds for graduation determined by the Committee are more stringent than 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, 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

[3] For details see https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html and the LDC Handbook (link to second edition, third edition under preparation).

[4] *For details see: https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html*

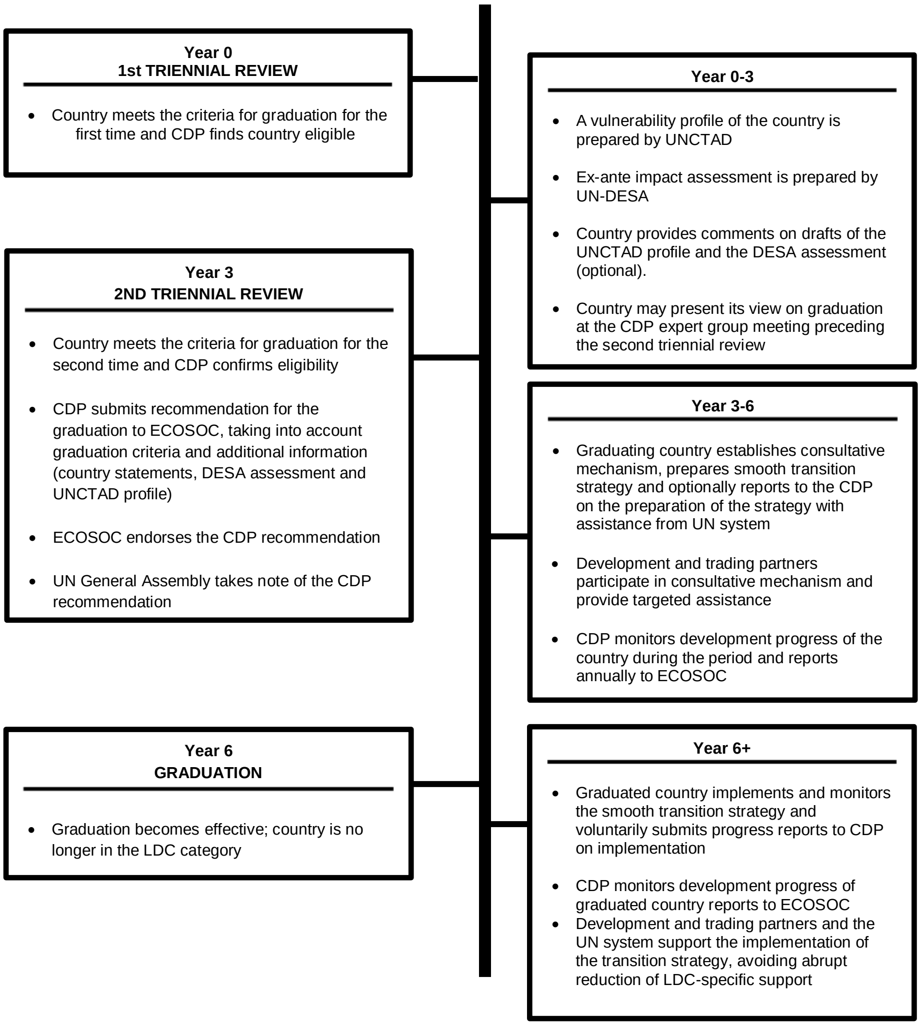
submitted to the Committee as inputs for its deliberations at the next triennial review. If the country meets the criteria for the second time, the CDP may recommend the country for graduation. The process is not automatic and takes into account the ex-ante impact assessment, the vulnerability profile as well as the views of the country.

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. This applied to the last three resolutions on graduation (Equatorial Guinea, Angola and Vanuatu). In addition, the General Assembly may extend the preparatory period, for example in case of major natural disasters (as in the case of the Maldives, Samoa and Vanuatu). During this preparatory period, the country remains on the list of LDCs. Smooth transition refers to the period after the effective graduation from the LDC category, and can vary in length. The strategy to be prepared for this period aims at ensuring that graduation does not disrupt the development progress of the country. The smooth transition strategy is prepared before graduation with the support of a consultative mechanism. However, there is no clear intergovernmental follow-up mechanism for its implementation.

Figure 1 below describes the steps for graduation after a country meets the criteria for graduation for the first time.[5]

[5] For details see the 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/)

GRADUATION PROCESS



Countries on track for graduation

The 2018 triennial review of the list of LDCs was a milestone in the history of the LDC category, with an unprecedented number of countries meeting the graduation criteria.[6]

The countries that met the graduation criteria for the second time in 2018 were Bhutan, São Tomé and Príncipe, Solomon Islands, Nepal and Timor-Leste, and Kiribati for the third consecutive time. The CDP recommended Bhutan, São Tomé and Príncipe, Solomon Islands and Kiribati for graduation, whereas it deferred the decision on the graduation of Nepal and Timor-Leste for the next review due to concerns about the sustainability of their development progress.

[6] CDP Report (http://undocs.org/en/E/2018/33).

Bangladesh, Lao People's Democratic Republic and Myanmar fulfilled the graduation criteria for the first time in 2018, with Bangladesh and Myanmar meeting all 3 graduation thresholds. They will need to meet the criteria for a second time at the next triennial review in 2021 to become eligible for graduation, which will then likely happen in 2024.

In addition to the countries meeting the thresholds in 2018, an increasing number of LDCs are approaching the graduation thresholds. For example, Lesotho and Togo, both met one criteria and came close to meeting another. In 2018, 17 countries met income criteria up from 14 in 2015. As regards human assets index, the number of countries meeting the threshold increased from 9 to 12 from 2015 to 2018. Progress has been slower in regard to the economic vulnerability index, which is currently met by only 9 LDCs.

Also in the 2018 review, five countries met the income-only criteria. Three of them were among countries that ranked the highest scores in the economic vulnerability index, signalling that despite graduation from the LDC category certain vulnerabilities will remain and require continued support.

Charting a course towards LDC graduation

LDC graduation needs to be considered in the larger context of development. It is not only about meeting the graduation thresholds, but should be based on a long-term and holistic approach towards equitable and sustainable development, with full ownership and leadership of the process by the respective LDC. This approach would allow countries to graduate with momentum propelling them towards sustainable development trajectory and achievement of the SDGs.

The key to graduation with momentum is the development of productive capacities, which will lead into structural transformation and economic growth, making the economies and societies more resilient to exogenous shocks. In expanding productive capacities for sustainable development, the need for integrated policies across five broad policy areas: (I) development governance; (II) social policy; (III) macroeconomic and financial policies; (IV) industrial and sectoral policies; and (V) international support, has been highlighted.[7]

Some common elements can be identified as key accelerators for establishing strong foundations for a continued structural transformation. These include focusing on rural transformation, which remains a key priority for many LDCs. Enhanced science, technology and innovation capacities, access to energy and use of innovative finance instruments also play a key part in building stronger foundation for LDCs, allowing LDCs to move from lower- to higher-productivity sectors and activities, absorb and adapt innovative technologies, and diversify their economic structures.[8] The Technology Bank for LDCs will provide further support to LDCs in this regard.

[7] CDP: Expanding Productive Capacity, 2017

[8] UNCTAD, Least Developed Countries Report, 2016

Also, information and communication technology (ICT) can address critical development challenges, and present an important tool to speed up graduation processes. Nine out of the twelve LDCs that are in the graduation process have been identified as ‘high LDC performers’ in terms of Internet access, affordability and skills.[9]

There is no “one size fits all” path to graduation. Some countries that recently graduated or are on track for graduation have chosen the path characterized by development of productive capacities, structural transformation and diversification of the economic structure, as in the case of two manufactures exporters (Bangladesh and Bhutan).[10]

Yet, different pathways also exist. Several of the countries on track for graduation are services exporters, which indicates the significant role that services exports play for progress towards graduation. For example, tourism was developed particularly by the SIDS LDCs, but also Nepal. Similarly, fuel extraction has been an important driver for graduation in Angola, Equatorial Guinea and Timor-Leste, all based on the income-only criterion, indicating limited progress towards human assets and reducing vulnerability through diversification.[11]

3. Preparing for graduation

After being recommended for graduation, a country enters a graduation preparation period, which normally takes three years. During this period, the country remains fully entitled to all benefits associated with the category, and is recommended to establish a consultative mechanism to prepare a smooth transition strategy.

The purpose of the consultative mechanism is to bring together the main 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 (A/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 (A/RES/ 67/221).

The smooth transition strategy should include a set of specific and predictable measures to mitigate the potential impacts of withdrawal of LDC-specific support measures. It should build on a country´s specific structural challenges and vulnerabilities as well as its strengths. 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 keep

[9] ITU and UN-OHRLLS report: Achieving universal and affordable Internet in the least developed countries, 2018
[10] UNCTAD, Least Developed Countries Report, 2016
[11] UNCTAD, Least Developed Countries Report, 2016

their development trajectory with a view to achieving the 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.

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, which met regularly before and after graduation. The group consisted of Government representatives and multilateral and bilateral donors.

Samoa graduated on 1 January 2014. Samoa started to prepare its smooth transition strategy in 2012, and it has been implemented as an integral part of the Strategy for the Development of Samoa (SDS) 2012-2016, and continued in SDS 2016-2020. The SDS was developed through a consultative process, involving a broad range of stakeholders. In this context the government continues to strengthen coordination of external resources and a revised Aid Policy was launched. Samoa is also exploring the possibility of free trade arrangements with Asian trading partners.

Angola, scheduled to graduate in 2021, is considering the option of using the National Development Plan and the Angola Vision for the follow-up on the LDC Graduation Process, instead of creating a new National Consultative Committee for LDC. In 2017, the Government of Angola prepared a 10-step LDC graduation road map to preparing the smooth transition strategy. Due to recent political changes, the Government has yet to implement the initial steps in the preparation of the transition strategy.

Vanuatu, scheduled to graduate in 2020, has recently established a National Coordinating Committee for implementation of a smooth transition strategy. In 2018, the Committee, along with its development partners, plans to formulate strategies and policy interventions to address impacts of LDC graduation.

Several development partners have indicated interest in participating in consultative mechanisms. For example, Germany's bilateral development cooperation will take into account the challenges and opportunities arising from graduation, so that support will be tailored to the country context and aligned with transition strategy.

Some development partners are providing trade-related technical assistance to graduating LDCs in support of their smooth transition strategies. For example, New Zealand began discussing the potential impact of Samoa's graduation at an early stage. Specific trade-related support measures included assistance during Samoa's accession to the WTO, and customs policy and sector support. New Zealand also supported private sector development, a priority identified by the Government of Samoa. Similarly, EU's Joint Programming Document for 2016-2020 for Lao People's Democratic Republic is aligned with the 8th National Socio-Economic Development Plan, which is the main transition strategy to attain LDC graduation.

The impact assessments for the countries, which met the graduation criteria for the second time in 2018, provide insights to the upcoming challenges these countries will face once they move out of the category. The impact assessment is prepared during the period between the two triennial reviews, for each eligible country. It analyses the effects of the withdrawal of international support measures (ISMs) granted specifically to LDCs. ISMs are expected to be withdrawn or phased out after graduation and any applicable smooth transition period. The ISMs that LDCs benefit from can be divided in three categories: 1) trade related, 2) development assistance, and 3) general support.[12]

The termination of the trade-related support measures that LDCs benefit from constitutes the most direct loss from graduation. However, the impact of that loss also varies by country depending on the main trading partner, export products, trade facilitation reforms carried out and other trade agreements in place. The loss of preferential market access requires careful consideration from the graduating country, to address and mitigate possible negative impacts, for instance, through diversifying the export sector.

For example, in São Tomé and Príncipe cocoa beans account for up to 95% of exports. The export of cocoa beans would not be affected by the withdrawal of LDC specific trade preferences due to the zero most favoured nation tariff applied by the main trading partners of São Tomé. However, the loss of LDC-specific preferences may make it more difficult for São Tomé and Príncipe to add value to cocoa production and develop other potential export products, like fish and seafood, which could face higher tariffs in potential markets. This impact would be mitigated in the EU if São Tomé and Príncipe joins the EU’s Generalised System of Preferences (GSP+) scheme.[13]

Solomon Islands face a more mixed picture regarding loss of LDC-specific trade benefits. The main export products are logs and timber, palm oil, gold and fish. Graduation would have no impact on the main export of Solomon Islands, logs, most of which are exported to China, where logs do not face import tariffs. The main export challenge facing Solomon Islands in coming years is therefore domestic supply rather than market access. Solomon Islands can expect to maintain Duty Free-Quota Free (DFQF) access for all products to Australia and New Zealand under the Pacific Agreement on Closer Economic Relations (PACER Plus).[14] Similar to São Tomé and Príncipe, Solomon Islands could maintain DFQF market access to the EU for all existing exports and most potential exports, if it were to qualify the GSP+ scheme, which requires the beneficiary country to implement a set of core international conventions on human and labour rights, sustainable development and good governance.

There are other trade related measures available for LDCs, such as the global intellectual property system, under the WTO's TRIPS Agreement, which grants specific waivers for LDCs

[12] The general support is discussed more in detail in chapter 4.

[13] Ex-ante Impact Assessment of likely Consequences of Graduation of São Tomé and Príncipe from the Least Developed Country Category, Committee for Development Policy 20th Plenary Session

[14] Ex-ante Impact Assessment of likely Consequences of Graduation of Solomon Islands from the Least Developed Country Category, Committee for Development Policy 20th Plenary Session

under article 66.1. This waiver has since been extended to July 2021, and to 1 January 2033 in the case of pharmaceutical products, or until such a date on which they cease to be a least developed country Member, whichever date is earlier.[15] No specific smooth transition measures are in place in this regard. The effects of the obligation to implement the TRIPS Agreement depends on the specific situation of each country.

Analysis of the impact assessments of Bhutan, Kiribati, Nepal, São Tomé and Príncipe, Solomon Islands, Nepal and Timor-Leste also shows that even if the majority of these countries remain highly dependent on international cooperation, no significant changes are expected in the development assistance delivered by the development partners. For example, Solomon Island's biggest donors, Australia and New Zealand, have stated that Solomon Island's graduation would not lead to a reduction of Official Development Assistance (ODA).

4. Smooth transition measures

Existing smooth transition measures

General Assembly resolutions 59/209 and 67/221 calls on development partners to make efforts so that their bilateral and multilateral strategies and aid programmes support the national smooth transition strategy of the country for some time after graduation.

The Ministerial Declaration of the Midterm Review of the IPoA emphasizes that a successful transition needs to be based on a national smooth transition strategy, elaborated by each graduated country. It also encourages development and trading partners and the United Nations system to continue their support for the implementation of transition strategies for the LDCs, as well as for smooth transition for graduated countries and to avoid any abrupt reductions in either ODA or technical assistance provided to the graduated countries. In addition, it invites development and trading partners to consider extending to the graduated country trade preferences previously made available for LDCs, or reducing them in a phased manner in order to avoid adverse development impact on such country, on a bilateral basis.

A limited number of development partners, including the UN system, provide such smooth transition measures to all graduating countries in the areas of access to funds, trade preferences and travel benefits.

The Technology Bank for the LDCs, which was established in 2016 (A/71/363), aims to support LDCs in strengthening their science, technology and innovation capacities and accessing appropriate technologies. The beneficiaries of the activities of the Technology Bank are all LDCs and countries graduating from the LDC category by decision of the General Assembly. Graduated countries will be able to benefit for a period of five years after the date of graduation.

[15] Decision of the Council for TRIPS of the WTO IP/C/64 (2013) and WTO General Council Decision WT/l/971 and Decision of the Council for TRIPS IP/C/73 (2015)

LDC-special and differential treatment provided in the World Trade Organization (WTO) Agreements would usually end with graduation. Graduating LDCs have the possibility to negotiate special arrangements with Members in any area where they require additional time. To benefit from special transition periods or technical support following graduation, LDCs must put forward the requisite proposals for consideration by the WTO membership.

Some preference-granting Members provide graduating LDCs with extended periods for duty-free market access. For example, the European Union has applied, since 2012, a general smooth transition measure which extends the benefits under the Everything but Arms (EBA) Initiative for a transitional period of three years after graduation.

In December 2016, the Enhanced Integrated Framework (EIF) Board decision reconfirmed that the graduated countries continue to access EIF support for a period of five years following graduation. So far, the EIF has supported all graduated countries, except Botswana. For example, Equatorial Guinea is at the start of the EIF process and is currently undertaking a Diagnostic Trade Integration Study (DTIS).

As part of its Strategic Framework 2018-2021, the United Nations Capital Development Fund (UNCDF) has articulated its new smooth transition support. The approach is demand driven, time-bound and aims at ensuring that existing programmes can be completed. During the first 3 years after graduation, programmes will be funded as they were prior to graduation with the possibility of extension by additional 2 years, which would involve cost sharing.

The United Nations Framework Convention on Climate Change (UNFCCC) has launched a process to examine the support and flexibility provided to the LDCs under the Convention and the Paris Agreement and on how the provisions can assist the LDCs in making a smooth transition from LDC status, in the light of Res. A/67/221.[16]

In 2011 the General Assembly, in its resolution 65/286, decided to extend the benefit of travel-support to attend General Assembly sessions, if requested, within existing resources, to graduated LDCs for a period appropriate to the development situation of the country and for a maximum of three years. In addition, some UN agencies provide an extension of travel benefits after graduation, but usually subject to availability of funding, for example International Telecommunication Union (ITU) fellowships to attend meetings.

Resolution A/RES/67/221 invites development partners to take into account the LDC criteria for aid allocation, avoiding abrupt changes. The European Union has done this to some extent, but overall the implementation of this provision has been limited.

UN System support towards the graduation process

[16] https://unfccc.int/sites/default/files/resource/docs/2017/sbi/eng/19.pdf?download.

In its resolutions 68/224 and 69/231, the General Assembly requested all relevant organizations of the United Nations system, led by OHRLLS, to extend necessary support to LDCs that aspired to graduate in the elaboration of their graduation and smooth transition strategy. UN system entities provided support to all graduating and graduated countries in the form of workshops for various countries to exchange experiences as well as targeted missions to specific countries. For example, a joint mission to Angola was undertaken by several UN agencies in 2016 to support the preparation of a smooth transition strategy.

OHRLLS jointly with the Government of Bangladesh organised a meeting on "Achieving Sustainable Graduation", in Dhaka in 2017. The meeting assessed the potential impacts of graduation, necessary preparations to fully adapt to the changing circumstances arising from the erosion of LDC specific support and how to accelerate the momentum of graduation to maintain the development trajectory of the country with a view to achieving the SDGs by 2030. The outcome of the meeting is reflected in the Co-Chair's summary.[17]

ESCAP co-organized with the Royal Government of Bhutan a regional capacity building workshop on Formulating National Policies and Strategies in Preparation for Graduation from the LDC Category, in Thimphu in November 2017.

At the end of 2017, OHRLLS established an Inter-Agency Task Force on Graduation and Smooth Transition (IATF) with the objective to provide strengthened and coordinated UN system-wide support to the countries graduating from the LDC category. The Task Force meets on a regular basis to provide concrete support.

The Secretariat of the CDP has developed a web-based platform, known as Gradjet, which provides information and analysis on graduation as well as tailored analysis and background information on activities, which graduating governments might wish to undertake before, during and after graduation.

The CDP also monitors the development progress of countries that have graduated, in consultation with the Governments of those countries. Monitoring occurs on a yearly basis for a period of three years after graduation becomes effective, and triennially thereafter, as a complement to two triennial reviews of the LDC category.[18] However, the reports prepared by the graduated countries are not discussed by the international community.

The Maafikiano declaration of 2016 calls on UNCTAD to assist LDCs to progress towards and prepare for graduation from the LDC category, including strategies for facilitating a smooth transition, a clear understanding of the post-graduation environment and challenges and of the need to build productive capacities, and promote the structural transformation necessary for sustainable graduation.

[17] http://unohrlls.org/custom-content/uploads/2017/12/Co-chairs-summary_13Dec.pdf
[18] General Assembly resolution 67/221

Overall, smooth transition measures provided to all graduated countries are limited in scope and there are clear indications that more support for smooth transition is needed to alleviate concerns of countries recommended for graduation. As smooth transition support is mainly based on negotiations between the graduating country and its development partners, it depends on sufficient negotiating skills of the graduating country.

Not all graduating and graduated countries have established a consultative mechanism and/or developed a smooth transition strategy. Furthermore, smooth transition measures are a continuation of ISMs for a limited period of time, but are not designed to address the possible new challenges of graduated countries. Thus, both more comprehensive smooth transition measures as well as additional support after graduation are needed.

5. General support that can be accessed after graduation

Development and climate finance

After graduation, countries will continue to have access to external support but forms and modalities may vary. Most development partners indicate that LDC status is not a main criterion for ODA allocation and thus ODA to graduated countries is not expected to change because of graduation from the LDC category. However, some donors might switch from grants to concessional loans or increase interest rates for concessional loans.

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's 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) and the absence of creditworthiness. IDA graduation only becomes effective every 3 years in line with the IDA cycles after examining the country-specific situation. IDA also supports several small island economies that are above the operational cut-off due to its small state exception. As of May 2018, all LDCs except for Angola are eligible to receive IDA resources (including blend countries).[19] Out of the 5 LDCs graduated so far, only 2 (Botswana and Equatorial Guinea) are also IDA graduates.

Access to climate change finance is especially important for graduated countries as they often remain highly vulnerable to the effects of climate change. While access to the LDCF under the GEF will be discontinued with graduation, access to the Green Climate Fund (GCF) will continue. The GCF Board uses minimum allocation floors for LDCs, SIDS and African States. At its 6th meeting, the GCF Board decided to aim for a floor of fifty per cent of the adaptation allocation for these vulnerable countries. Thus, SIDS and/or African LDCs will retain their access to the GCF, which is expected to be the largest dedicated climate fund, after graduation. For example, Samoa received a USD 58 million grant from the GCF for a flood management and control project in 2016.

[19] See: http://ida.worldbank.org/about/borrowing-countries

Trade related support

After a country graduates from the LDC category - and in many cases after a smooth transition period - it generally retains access to standard GSP programmes in developed countries, in addition to other preferential terms resulting from bilateral or regional agreements, as described below. Furthermore, some key LDC exports (e.g. oil and minerals) face zero MFN tariffs in major markets and will thus not be affected by graduation.

With respect to access to the EU market, following the transitional period of three years after graduation, the countries would no longer benefit from the EBA arrangement. They would come under the standard GSP arrangement unless a more advantageous preferential market access arrangement were to be concluded. Graduated LDCs that have ratified and effectively implement the 27 GSP+ relevant conventions spanning human and labor rights, environmental protection and good governance are eligible for GSP+, which provides more generous tariff preferences than under Standard GSP.[20] Graduated countries that are part of the African, Caribbean, and Pacific Group of States (ACP) and have signed Economic Partnership Agreements with the EU can maintain DFQF market access.

Pacific islands used to have duty and quota-free access to Australia and New Zealand through the South Pacific Area Regional Trade and Economic Cooperation Agreement (SPARTECA) irrespective of their LDC status. The Pacific Agreement on Closer Economic Relations (PACER) Plus, a reciprocal arrangement which still needs to enter into force, maintains this market access but obliges Pacific island members to reduce import tariffs over time and to liberalise incoming services trade and investment in addition to Aid for Trade provisions.

Several African countries continue to benefit from preferential access to the US market through the African Growth and Opportunity Act (AGOA), which is not linked to LDC status, including Angola, Cabo Verde and Sao Tome and Príncipe.

While such general market access is likely to provide some benefits for graduated countries, making use of more general preferential schemes (under the GPS) greatly relies upon the ability of graduated LDCs to compete with other developing countries, which is often constrained by their limited institutional, human and productive capacities.

Hence, it is necessary to help graduating LDCs adjust to the competitive international trading environment. Phasing out LDC preferences in a gradual manner and extending the existing S&D treatment provisions available to LDCs for an appropriate period are some of the calls made by the international community to help the graduating LDCs integrate in global trade.

As more and more LDCs meet the criteria of graduation, the LDC graduation issues are likely to receive more attention in the WTO. The LDC Group recently made a submission in which it seeks WTO Members to permit graduated LDCs to continue to provide export subsidies for

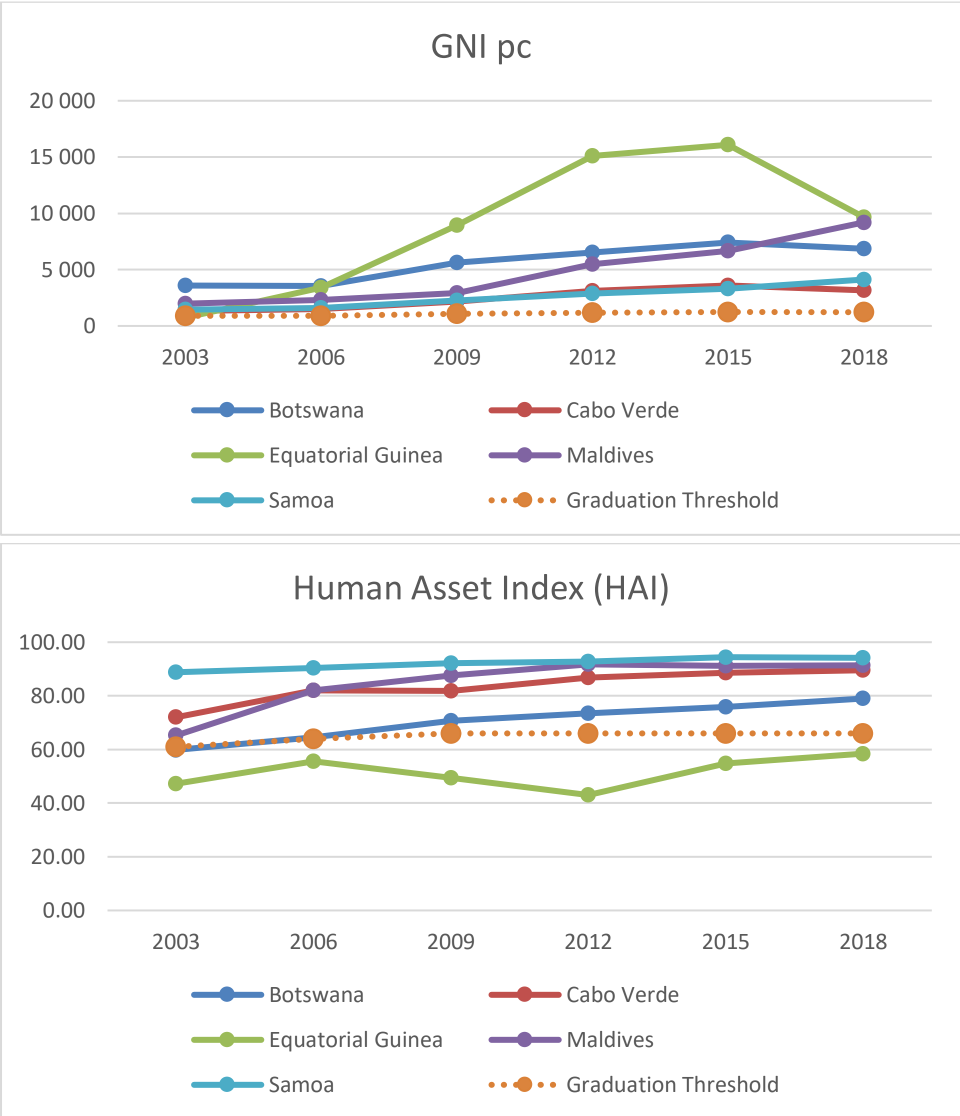
[20] Countries that are classified by the World Bank as upper-middle income countries for three consecutive years are neither eligible for GSP nor GSP+ once they lose their LDC status and EBA preferences.

industrial products under the Agreement on Subsidies and Countervailing Measures. Also, the LDC Trade Ministers' Declaration, adopted during WTO's Ministerial Conference held in December in 2017, requested trading partners to take positive actions for LDC graduation; and identified some measures for consideration by WTO Members.[21]

6. The Experience of Graduated Countries

With respect to the graduation criteria the 5 graduated countries[22] mostly continued their trajectories towards higher GNI per capita, higher human assets and lower economic vulnerability (Figure 2).[23]

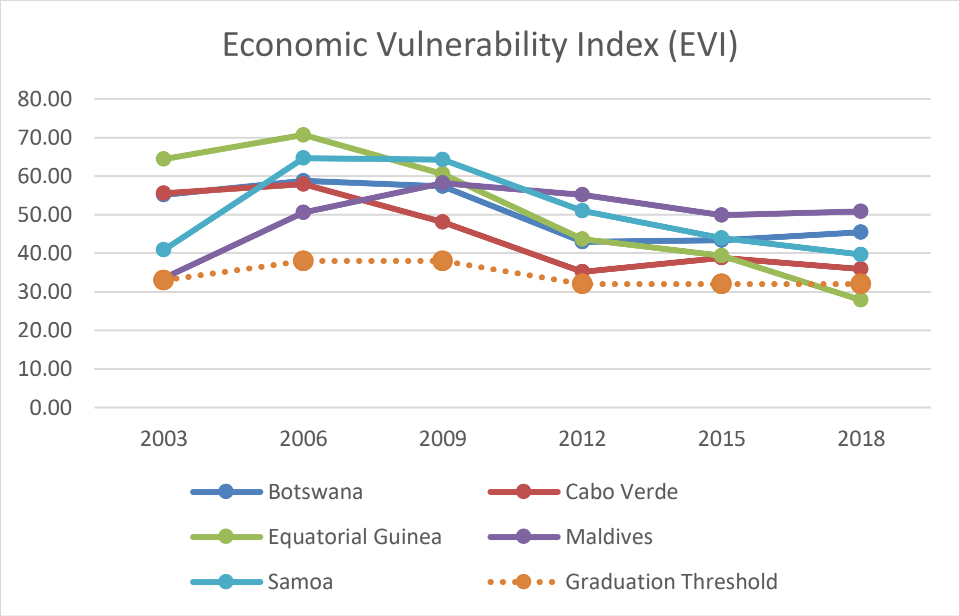
Figure 2: LDC criteria in graduated countries, 2003 – 2018



[21] WTO documents WT/GC/W/742 and WT/MIN(17)/40

[22] As Equatorial Guinea graduated only in June 2017, there is no data available for the period after graduation and thus it is not covered in the following analysis.

[23] See CDP website: https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-data-retrieval.html.



Source: DESA/CDP website, for a description of the indices see page

When Botswana graduated in 1994, there were no procedures in place towards support for graduation or smooth transition. Even with relatively high GNI p.c. and HAI values Botswana remains vulnerable, with an EVI above the graduation threshold, due to its small population, remoteness and export concentration. The share of exports in GDP increased from 48% in 1994 to 61% in 1997 and remained close to or above 50% until 2008. ODA to Botswana stayed relatively flat after graduation and fluctuated heavily after 2000.

Cabo Verde, which graduated in 2007, also continued its development progress. Its GNI per capita continued to increase and its high HAI score is close to the maximum, while its EVI score remains still slightly above the graduation threshold in 2018, mainly driven by the small population. ODA to Cabo Verde increased significantly between 2007 and 2010, followed by a decline from 2011 to 2016 to levels before 2007. The share of exports in GDP declined from 45% in 2006 to 31% in 2009 but thereafter increased to around 40% from 2012 to 2014. The share of Foreign Direct Investment (FDI) in GDP started to increase after 1994 but fluctuated widely. The stock of external debt of Cabo Verde started to increase in 2009 (44%) and reached 100% of GNI in 2015. Cabo Verde has been classified as being at high risk of debt distress by the IMF and World Bank. Thus, Cabo Verde is currently facing some difficulties related to access to financing for development.

The CDP first recommended graduation of the Maldives in 2000 and the General Assembly took note of its graduation in 2004. In 2015 the Assembly decided to defer its graduation to 2011, due to a tsunami. Afterwards, GNI per capita continued to increase after graduation reaching more than 7 times the graduation threshold in 2018. However, the EVI remained well above the graduation threshold, reflecting structural challenges of small size, remoteness and high exposure to climate change. Overall, development progress in the Maldives seems not to have been affected by graduation.

ODA to the Maldives remained in the same range as before graduation and even slightly increased since 2013. However, its composition changed with a higher share from non-OECD DAC donors, including China, India and Saudi Arabia. The share of exports in GDP remained stable at around 86-90% from 2012 to 2014 (when access to the EBA stopped) and afterwards declined to around 80%. At the end of 2017 the Maldives signed a free trade agreement with China. The share of FDI in GDP in the Maldives spiked in 2011 and remained above the average before graduation thereafter. Thus, the Maldives access to financing for development seems to have not been significantly affected by graduation. However, the country is rated as being at high risk of debt distress.

Samoa graduated on 1 January 2014, after the General Assembly decided to postpone its graduation originally foreseen in December 2010, due to a tsunami that hit the country in 2009. GNI per capita and HAI values continued to increase after graduation. The EVI score declined slightly after graduation but remains well above the graduation threshold.

ODA to Samoa increased significantly in 2010 and remained at a higher level after graduation. The share of exports in GDP continued to remain stable after graduation but at a low level of below 30%. This might partly occur because several key export products like coconut oil can be exported to the EU at zero percent tariff rates under the GSP. However, the share of debt servicing in total exports increased from 6% in 2013 to 9.4% in 2015 and remained high, implying a high risk of debt distress.

From the experiences of the graduated countries it can be concluded that their development progress has continued, mainly with respect to GNI per capita and HAI. However, they remain highly vulnerable, as indicated by their EVI scores above the graduation threshold. While the graduated countries continued to have access to external support, including ODA, there have been changes in modalities. For example, increasing loans from multilateral financial institutions and emerging bilateral donors have the potential to increase the level of external debt. The three SIDS out of the five graduated countries are rated as being at high risk of debt distress.

While the development progress of graduated countries has continued supported by development partners there remains uncertainty of graduating countries with respect to the effects of graduation, indicating that more country-specific analysis and support is needed.

7. Dedicated support for graduation

As graduation from the LDC category marks the achievement of an important milestone, the graduated countries should not be penalized for their progress. Resolution ESCAP/74/L.4 recognizes that the graduation process of LDCs should be coupled with an appropriate package of incentives and support measures in order not to jeopardize their development progress. Therefore, specific support should be provided by the international community, in line with the priorities of the graduating country. This may include technical assistance and policy advice to support the implementation of the smooth transition strategies to ensure continued economic diversification and structural transformation, to address post-graduation challenges as well as to support progress towards achieving the SDGs. These new and dedicated support measures would be additional and complementary to the smooth transition measures. Such support would send a strong signal to LDCs that graduation is an accomplishment and the international community stands ready to support the transition to the next level of development.

Whilst specific support should be tailored to the needs of the graduating country,the following measures could be components of a dedicated support package:

- More in-depth analysis of potential impacts of graduation and identification of additional support is required to address the challenges of graduation. The preparation of early impact assessments soon after a country is found eligible for graduation for the first time (instead of just before the subsequent triennial review by the CDP) could be a first step in this respect, but additional analysis might be needed to address challenges of transitioning to the next stage of development.
- Capacity building can enhance access to new sources of financing, including blended financing of domestic and international resources. There is evidence that LDCs and graduated countries face challenges in accessing specific funds available to them, for example climate change finance. This could include centralised information on available sources of concessional finance and dedicated support for the preparation of bankable projects in priority sectors. Various funding sources, including the private sector and funds allocated by countries under South-South and triangular cooperation could be covered.
- As the availability of grants is expected to decline for graduated countries there is a need to increase access to other means of financing, including private finance, green bond financing and GDP-indexed bonds. Credit ratings and risk management measures, including through Multilateral Investment Guarantee Agency (MIGA), can be helpful in this respect. The awareness of credit rating and other relevant agencies about graduation of countries from the LDCs category needs to be raised, in order to reflect progress achieved. In addition, the debt sustainability of graduated countries needs to be addressed, for example through the use of debt swaps, as several of the graduated countries are at high risk of debt distress.
- Graduating countries also need specific support to reap the potential benefits of trade. This could include capacity building for exporters to navigate different types of market access as well as for government officials, for example, to negotiate trade agreements to enable countries to tap into new markets. In addition, legal and technical assistance could be provided to access non-LDC specific trade preferences, such as the EU GSP+.
- Bringing together various stakeholders, including development and trading partners as well as the private sector, would provide a platform for countries about to graduate to showcase progress and investment opportunities, for example an improved business environment and increased institutional capacity. This platform can be used to attract various sources of finance, including FDI.

- Support to graduating countries in costing, funding and monitoring the implementation of SDGs, covering all 17 Goals, should be provided, with particular attention on social development issues that have huge impact on a sustainable graduation.
- Enhanced technical assistance to LDCs to build and strengthen their intellectual property rights systems would enable them to comply with IP related obligations after graduation. The implementation of the IP regime should be an integral part of the national smooth transition strategy, taking into account national circumstances, and assistance in this regard should be extended to the graduating country at an early stage.

8. Conclusions

Never before have so many countries been identified for graduation at a single triennial review of the CDP as in 2018. The increased number of countries crossing the graduation thresholds reflects the considerable socio-economic progress achieved. However, to meet the IPoA target, graduation has to further accelerate and thus continued and revitalized efforts will be required. LDCs need continued dedicated international support as agreed in the IPoA to accelerate the implementation of all its priority areas and achieving the Sustainable Development Goals. In addition to increasing ODA, the use of trade preferences should be enhanced through the reduction of non-tariff barriers, including more flexible rules of origin.

Graduation from the LDC category is not a mechanical process. Ex-ante impact assessment prepared by UN-DESA, vulnerability profile prepared by UNCTAD as well as the views of the country are all taken into account when CDP considers whether to recommend the country for graduation. Countries recommended for graduation should build on the progress achieved, using new opportunities from transitioning to the next phase of development.

However, graduated countries continue to face various challenges due to vulnerabilities to various crisis and shocks. It is important to ensure that exiting from the LDC category does not disrupt the development of graduating country. To ensure sustainable and irreversible graduation, particular attention should be given to the smooth transition of countries graduating from LDC status, consistent with their transition strategy, and taking into account each country's particular development situation. Development partners have a key role to play in providing capacity building to support graduating countries' efforts to adjust to post-graduation realities.

While the provisions in General Assembly resolution 67/221 have provided a solid basis for a more predictable graduation and smooth transition not much progress in its implementation has occurred since 2015.[24] Against the increase in numbers of LDCs reaching the graduation thresholds and taking into account their continued vulnerabilities, more smooth transition measures need to be provided in a predictable manner.

[24] In 2015 the last Report of the Secretary-General on Implementation, effectiveness and added value of smooth transition measures (A/70/292) was prepared.

Graduation and smooth transition strategies should be integrated into national development and donors' aid strategies. The cycle of preparation of such strategies needs to be taken into account at an early stage in the graduation process. Countries that are found eligible for graduation are recommended to establish a consultative mechanism to prepare their transition strategy as early as possible, engaging all relevant donors and stakeholders. The strategy should be sufficiently flexible to adjust to the new challenges that may arise during the process, as well as to ensure policy coherence. It should be based on careful analysis of how the loss of LDC specific ISMs will impact the country's economy and pave the way for sustainable graduation.

Development partners should apply the LDC criteria, namely, the gross national income per capita, the human assets index and the economic vulnerability index, to their process of aid allocation, including after graduation. Doing so would constitute built-in smooth transition and make the allocation of official development assistance more stable and predictable.

United Nations entities that have committed to allocating a certain percentage of their resources to LDCs need to consider the extension of such support to graduated countries and gradual phasing-out in a predictable manner for a fixed time period and applied in accordance with the specific development situation of each graduating country. The UNDS also need to extend necessary support to graduating country in preparation of its smooth transition strategy, as well as its implementation and follow-up.

Efforts should be made to ensure that the recent General Assembly resolution on the repositioning of the United Nations development system further supports the smooth transition process, by ensuring that the revitalized United Development Assistance Framework fully takes this into account, that the reinvigorated role of the Resident Coordinator plays the facilitator part intended by the General Assembly resolutions, and that the United Nations country team composition and efforts are oriented towards supporting the graduation process.

In order to enhance the effectiveness of smooth transition measures, monitoring and follow-up on these measures need to be further strengthened. Member States may consider undertaking intergovernmental follow-up and monitoring of implementation of the smooth transition strategies for graduated countries under the auspices of ECOSOC for certain period of time after graduation.

Integrated, institutionalised and predictable financial and technical assistance for graduated countries should compensate for the phasing out of LDC specific support. This could include support for increasing domestic resource mobilisation, strengthening domestic capital markets, diversifying exports and building capacity to enhance resilience to external shocks and natural disasters.

The IATF on graduation as well as the CDP and other actors should continue working on identifying dedicated support to address the specific challenges of transitioning from one phase of development towards the next through graduation.

Finally, strengthening of support towards graduation and beyond needs to be reflected in the next Programme of Action for the LDCs in order to further accelerate progress and to ensure that all LDCs take dedicated steps towards approaching the graduation criteria.