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## Seventy-sixth session

Item 22 (a) of the provisional agenda\*

**Groups of countries in special situations: follow-up to  
the Fourth United Nations conference on the Least  
Developed Countries**

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

### **Report of the Secretary-General**

#### *Summary*

The present report is submitted pursuant to resolution [73/242](#), by which the General Assembly requested the Secretary-General to submit to the Assembly at its seventy-sixth session a progress report on the implementation, effectiveness and added value of smooth transition measures covering both graduating and recently graduated countries, including new and dedicated support measures to graduated countries in moving forward on their development path and initiatives taken by the United Nations system to support countries during their graduation from the least developed country category.

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\* [A/76/150](#).



## I. Introduction

1. The Fifth United Nations Conference on the Least Developed Countries, which will take place in Doha, Qatar, from 23 to 27 January 2022, marks the fiftieth anniversary of the establishment of the category of least developed countries. Countries in this category are identified as low-income countries confronting severe structural impediments to sustainable development. From an initial 25 least developed countries in 1971, the category grew to 50 countries in 2003. In December 2020, membership in the least developed country category fell to 46. The countries that have graduated from the category are Vanuatu (2020), Equatorial Guinea (2017), Samoa (2014), Maldives (2011), Cabo Verde (2007) and Botswana (1994).

2. Over the past two decades, least developed countries have reduced poverty and implemented some structural changes. However, the gap between least developed countries and other developing countries has not narrowed nearly enough, confirming that least developed countries continue to face more severe obstacles to sustainable growth than other developing countries.

3. As the decade of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011–2020 comes to an end, the coronavirus disease (COVID-19) pandemic has laid bare the longstanding vulnerabilities of least developed countries and, as it continues to unfold worldwide, jeopardizes their development gains.

4. The 2021 triennial review by the Committee for Development Policy found, based on statistical data from 2017 to 2019, that a growing number of least developed countries had recorded notable progress against the graduation criteria, making them eligible for graduation from the category.

5. The present report analyses recent developments in the graduation process and how graduating and graduated countries can be supported on their path to sustainable development.<sup>1</sup> The report also tracks progress on the implementation, effectiveness and added value of smooth transition measures, namely, the extension of support offered to least developed countries for a limited time after graduation, including initiatives undertaken by the United Nations system to support countries during their graduation from the least developed country category.

## II. Progress towards graduation in an uncertain world

6. A country is eligible for graduation from the least developed country category if it meets two of the three graduation criteria at two consecutive triennial reviews by the Committee for Development Policy. The three criteria are related to: (a) the per capita gross national income, (b) the human assets index and (c) the economic vulnerability index.<sup>2</sup> Based on the income-only criterion, a country may also be found eligible for graduation when it records a sufficiently high level of gross national income per capita of twice the graduation threshold, if that income level is deemed to be sustainable, while continuing to have low human assets and being highly vulnerable. At the 2021 review, the graduation threshold was set at \$1,222 and the income-only graduation threshold at \$2,444. The standard process set out in General Assembly resolution 59/209 prescribes a three-year period between the meeting of the graduation criteria for the second time and the date of effective graduation. Owing to various difficulties confronted by these countries, the General Assembly has granted exceptional extensions of transition periods for several graduating countries.

<sup>1</sup> For the previous report of the Secretary-General on this theme, see [A/73/291](#).

<sup>2</sup> For a description of those three criteria, see the website of the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States at [www.un.org/ohrls/content/ldc-category](http://www.un.org/ohrls/content/ldc-category).

7. Over the last 10 years, 20 out of 50 least developed countries and recently graduated countries<sup>3</sup> have met the graduation criteria. This is a remarkable success, first and foremost by those countries, but also by the international community, even though it falls slightly short of the overall objective of the Istanbul Programme of Action of having half of the least developed countries meet the graduation criteria. In comparison, over the previous decade (2000–2010), only seven least developed countries had met the graduation criteria.<sup>4</sup> Progress towards actual graduation has also been accelerating, though still at a low rate: four countries graduated between 2011 and 2021, compared with one country between 2000 and 2010.

8. Currently, there are four countries scheduled to graduate from the least developed country category: Bhutan in 2023, and Angola, Sao Tome and Principe and Solomon Islands in 2024. In 2021, the Economic and Social Council gave its endorsement for graduation in 2026 to Bangladesh, the Lao People's Democratic Republic and Nepal. While Kiribati and Tuvalu were recommended for graduation by the Committee for Development Policy, the Economic and Social Council agreed to reconsider its recommendation in 2024. A decision on Myanmar and Timor-Leste was deferred by the Committee to 2024. In addition, five countries (Cambodia, Comoros, Djibouti, Senegal and Zambia) met the graduation criteria for the first time in the Committee review in 2021. For the current composition of the least developed country category, including a timeline of inclusions and graduations to date, see the table below:

**Composition of the least developed country category, including a timeline of inclusions and graduations to date**

<i>Programme of Action for least developed countries</i>	<i>Year</i>	<i>Inclusion in/graduation from least developed country category</i>	<i>Country</i>
Istanbul Programme of Action (2011–2021)	2020	Graduation	Vanuatu
	2017	Graduation	Equatorial Guinea
	2014	Graduation	Samoa
	2012	Inclusion	South Sudan
	2011	Graduation	Maldives
Brussels Programme of Action (2001–2011)	2007	Graduation	Cabo Verde
	2003	Inclusion	Timor-Leste
	2000	Inclusion	Senegal
Paris Programme of Action (1990–2001)	1994	Graduation	Botswana
	1994	Inclusion	Angola, Eritrea
	1991	Inclusion	Cambodia, Democratic Republic of the Congo, Madagascar, Solomon Islands, Zambia

<sup>3</sup> The 46 least developed countries, as well as 4 recently graduated countries, add up to a total of 50. Of the current 46 least developed countries, 16 have met the graduation criteria at least once.

<sup>4</sup> These were Cabo Verde, Maldives, Samoa, Equatorial Guinea, Tuvalu, Vanuatu and Kiribati. Kiribati met the criteria in 2006, but not in 2009.

<i>Programme of Action for least developed countries</i>	<i>Year</i>	<i>Inclusion in/graduation from least developed country category</i>	<i>Country</i>
	1990	Inclusion	Liberia
Substantial New Programme of Action (1980–1990)	1988	Inclusion	Mozambique
	1987	Inclusion	Myanmar
	1986	Inclusion	Kiribati, Mauritania, Tuvalu
	1985	Inclusion	Vanuatu
	1982	Inclusion	Djibouti, Equatorial Guinea, Sao Tome and Principe, Sierra Leone, Togo
	1981	Inclusion	Guinea-Bissau
International Development Strategy for the second United Nations Development Decade, incorporating special measures in favour of the least developed countries	1977	Inclusion	Cabo Verde, Comoros
	1975	Inclusion	Bangladesh, Central African Republic, Gambia
Creation of the least developed country category (1971)	1971	Inclusion	Afghanistan, Benin, Bhutan, Botswana, Burkina Faso, Burundi, Chad, Ethiopia, Guinea, Haiti, Lao People's Democratic Republic, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Samoa, Somalia, Sudan, Uganda, United Republic of Tanzania, Yemen

9. While graduation signifies an important achievement in the development continuum of least developed countries, the associated challenges often raise significant concerns, as the countries are set to lose benefits specific to least developed countries and other favourable arrangements. However, the impact of the loss of such benefits depends on how effectively the country had been using the benefits before graduation.

10. Furthermore, very few countries graduate having met the economic vulnerability index thresholds, which leaves them very vulnerable, especially to the impacts of climate change, natural disasters and other shocks and crises. This poses serious challenges to their sustainable growth and development trajectory and requires concerted efforts to ensure that graduating countries have sustainable graduation and a smooth transition. Under the Istanbul Programme of Action, important improvements were made to the support provided to least developed countries for achieving development progress and therefore graduation.<sup>5</sup> With the need to build back better from the COVID-19 pandemic, the upcoming decade will be critical in ensuring that graduations are successful and sustainable. It is equally important that the new Programme of Action to be adopted at the Fifth United Nations

<sup>5</sup> Report of the Secretary-General on the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020 (A/76/71-E/2021/13).

Conference on the Least Developed Countries enables least developed countries that are not yet qualified for graduation to make sufficient progress towards the Sustainable Development Goals during the upcoming decade and ultimately move out of the least developed countries category.

11. Formulating and implementing a national smooth-transition strategy is the primary tool for ensuring that graduating countries are eased into a path of sustainable graduation. This strategy includes mapping out any potential loss of benefits, identifying effective responses and adjusting institutional and legal frameworks to comply with international obligations. The United Nations system at the country, regional and global levels and cooperation between trade and development partners have a critical role to play in supporting sustainable graduation and smooth transition. In response to graduating countries' demands, a smooth transition strategy guidance note has been prepared by the Committee for Development Policy secretariat of the Department of Economic and Social Affairs to help graduating countries prepare their national smooth-transition strategies.

12. In order to develop policies that facilitate successful graduations, it is important to assess the reasons that might prolong graduation processes. The General Assembly has granted several extensions of preparatory periods before graduation, mainly as a result of significant external shocks derailing the socioeconomic progress of the graduating countries. The ongoing COVID-19 pandemic is the most recent and clearest example. The pandemic continues to have severe negative development impacts on least developed countries, including the risk of reversing the progress towards sustainable development made by such countries, which affects graduation prospects.

13. The Committee for Development Policy, meeting amid the ongoing health and socioeconomic crises, recommended Bangladesh, the Lao People's Democratic Republic and Nepal for graduation after an extended preparatory period of five years before graduation. Such an extended preparatory period is necessary, as those countries will need to prepare for graduation while planning for a post-pandemic recovery and implementing policies and strategies to reverse the economic and social damages incurred by the COVID-19 shock. A smooth transition by these countries out of the least developed countries category will also require careful monitoring and analysis of the impacts of the pandemic and specific transition support.<sup>6</sup> That view, expressed by the Committee for Development Policy in its recommendation, was subsequently endorsed by the Economic and Social Council in its resolution 2021/11, wherein the Council recommended that the General Assembly decide that the graduations of Bangladesh, the Lao People's Democratic Republic and Nepal become effective five years after the General Assembly takes note of the recommendations to graduate these countries. The Council also noted that, should the Assembly decide on a five-year preparatory period for those three countries, the Committee for Development Policy would determine at its 2024 triennial review whether that period had been adequate to manage the effects of COVID-19 and would make any recommendations, including regarding whether a further extension would be necessary. This provision adds additional reassurance to graduating least developed countries that their development process will not be disrupted or reversed because of graduation from the category.

14. The Committee also included COVID-19 impacts in its justification for deferring a possible recommendation on Timor-Leste. The Economic and Social Council referred to the impacts of the pandemic to explain its deferment until 2024 of consideration of graduation for Kiribati and Tuvalu, while the General Assembly, in resolution 75/259, included the pandemic as a reason for extending the preparatory

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<sup>6</sup> See *Official Records of the Economic and Social Council, 2021, Supplement No. 13 (E/2021/33)*.

period for Angola until 2024. COVID-19 also increases the risk that countries that met the graduation criteria in 2021 might no longer meet them in 2024. The significant negative impacts of the pandemic on sustainable development are also expected to delay the graduation aspirations of all other least developed countries.

15. Of the four countries that graduated in the past decade, three had their preparatory period extended by three years through a General Assembly resolution because of major disasters (tsunamis in Maldives in 2005 and Samoa in 2010 and a cyclone in Vanuatu in 2015). The Committee for Development Policy also referred to the 2015 earthquake in Nepal when deferring a graduation recommendation at the 2018 triennial review. This highlights the importance of disaster risk reduction for sustainable graduation from the least developed countries category.

### III. Enhancements to the graduation criteria and process

16. The least developed country graduation criteria were refined by the Committee for Development Policy in 2020 after a multi-year comprehensive review that was mandated in 2017 by the General Assembly and the Economic and Social Council. The review simplified the structure of the three criteria and increased the recognition of gender inequities, malnutrition and environmental vulnerabilities.<sup>7</sup>

17. In 2020, the Committee also introduced process improvements with a view to reducing information deficits and uncertainties during the graduation process. Impact assessments prepared by the Department of Economic and Social Affairs and vulnerability profiles prepared by the United Nations Conference on Trade and Development (UNCTAD) are being consolidated into one common “graduation assessment” to be enhanced by inputs from other United Nations entities, in particular the United Nations country teams, and including elements that could be considered for a smooth transition strategy.

18. A Committee member is appointed as country rapporteur to ensure dedicated attention within the Committee. A set of supplementary graduation indicators has been 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 criteria for least developed countries. Together with the criteria refinements, the new supplementary graduation indicators also further align the least developed country graduation framework with the 2030 Agenda for Sustainable Development. 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.

19. The inter-agency task force on least developed country graduation, led since 2017 by the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, has been instrumental in enhancing United Nations support for graduation, focusing attention on the graduating countries and avoiding duplication of efforts. Chaired by the director of the Office of the High Representative, the inter-agency task force works to continuously enhance coordinated United Nations system-wide support to graduating countries, in close cooperation with the United Nations resident coordinators and country teams, soon after a least developed country is found to meet the graduation criteria for the first time. Recent examples of such consultations were held with the resident coordinators in Senegal, Cambodia, Djibouti, the Comoros and Zambia. The resident coordinator offices are then asked to follow up with the

<sup>7</sup> See *Official Records of the Economic and Social Council, 2020, Supplement No. 13 (E/2020/33)*.

concerned Government counterparts, and further consultations may be organized based on demand. Such consultations are proving useful in reducing uncertainties in the face of the graduation process.

20. Furthermore, the Committee for Development Policy has recently proposed actions for the international community in order to make the monitoring of graduation more effective, after having noticed that participation by graduating and graduated countries in its monitoring mechanism, as requested in General Assembly resolution [67/221](#) and recurring Economic and Social Council resolutions on Committee for Development Policy reports, was low.<sup>8</sup> The monitoring of graduation has become more urgent in recent years, as many of the graduating and graduated countries have suffered from crises and emergencies originating from external economic shocks, pandemics, humanitarian crises or natural disasters. Constant monitoring, early warning systems, building resilience and formulating prompt and effective response policies at the national and global levels have therefore become key issues for countries in the management of the transition out of the least developed country category.

21. Proposed actions include the establishment of a crisis response process within the monitoring mechanism to react to crises and emergencies taking place during the annual monitoring cycle. Such actions would enable the Committee to conduct an analysis of the impacts of the crisis or emergency on smooth transition and to recommend actions in consultation with the country concerned and relevant members of the inter-agency task force. Possible responses include round-table meetings of development and trading partners convened by the United Nations resident coordinator and the suggestion that the General Assembly extend the preparatory period. The crisis response process could be triggered upon request by the country itself, the resident coordinator or the Committee or could be triggered by data involving specific crisis indicators and thresholds. The existing crisis management expertise of the United Nations system and other international entities should be mobilized to avoid duplication of efforts. The coverage contained in the annual monitoring reports prepared by the secretariat of the Committee for Development Policy should be expanded through increased cooperation with the Office of the High Representative and its network of least developed country national focal points, United Nations country teams, United Nations regional commissions and members of the inter-agency task force, as well as on increased capacity-building in graduating and graduated countries and utilization of virtual meetings. Capacity should be increased within the secretariat of the Committee for Development Policy and other members of the inter-agency task force for analysis and identification of support needs. Finally, a segment of the Development Cooperation Forum could be dedicated to least developed country graduation support with a view to strengthening regular monitoring and heightening attention in cases of crisis.

#### **IV. The graduation experiences of graduating and recently graduated countries**

22. In its resolution [67/221](#), the General Assembly emphasized that a successful transition needed to be based on the national smooth transition strategy elaborated as a priority by each graduating country, during the period between the date the recommendation that the country be graduated is taken note of by the Assembly and the effective graduation date, under national leadership, involving all stakeholders of the Programme of Action for the Least Developed Countries. Furthermore, graduated countries were invited to prepare reports on smooth transition after graduation.

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<sup>8</sup> See, most recently, [E/RES/2021/11](#).

23. Since late 2019, the Government of Angola has demonstrated interest in preparing a smooth transition strategy assisted by the technical cooperation activities of the Department of Economic and Social Affairs, and, more recently, by the inter-agency task force team led by the Office of the High Representative. In view of the impacts of the COVID-19 pandemic and the mounting debt issues affecting the country, in December 2020 the Government informed the Chair of the Committee of its intention to request an additional period of time to prepare its smooth transition strategy. In its resolution 75/259, the General Assembly expressed deep concern at the prolonged economic recession that Angola had been confronting and at its socioeconomic vulnerabilities exacerbated by the global crisis triggered by the COVID-19 pandemic. In view of that, the General Assembly decided to provide Angola, on an exceptional basis, with an additional preparatory period of three years before its effective date of graduation. Angola is scheduled to graduate on 12 February 2024.

24. Bhutan, which is scheduled to graduate on 13 December 2023, has started preparations for a smooth transition with the support of the United Nations system and has reported to the Committee for Development Policy on its initial steps in the preparation of the transition strategy. The smooth transition of Bhutan from the least developed countries category is premised on the full implementation of its Twelfth Five Year Plan (2018–2023). It plans for appropriate actions to address challenges posed by graduation and the impacts of the COVID-19. The Government has initiated consultations with the United Nations system through the United Nations resident coordinator in Bhutan and UNCTAD to draft the smooth transition strategy. As a contribution towards the national process of drafting that strategy, UNCTAD prepared a white paper outlining key elements for consideration by the Government, the country's development and trading partners and other stakeholders.

25. Sao Tome and Principe is scheduled to graduate on 13 December 2024. In 2019, the Government expressed strong interest in receiving assistance from the United Nations system on preparing a smooth transition strategy. Responding to that demand, a joint mission was organized in September 2019 by the inter-agency task force. The Government is committed to establishing a road map to prepare the transition strategy with the support of the United Nations Development Programme, the Department of Economic and Social Affairs and the Office of the High Representative. The Government is also seeking to reactivate its accession process to the World Trade Organization (WTO) while it is still a least developed country.

26. Solomon Islands is also scheduled to graduate on 13 December 2024. The government has begun to proactively negotiate with development and trading partners to fully counteract any emerging vulnerabilities and challenges. United Nations support to Solomon Islands began with a workshop in October 2019, organized by the inter-agency task force on least developed country graduation, and a joint support programme that was developed at a dedicated follow-up session with the United Nations resident coordinator and submitted to the Government. Solomon Islands joined the interim economic partnership agreement between the European Union and Pacific Island economies in 2020. The Government is also pursuing trade agreements with a number of other trading partners, including China.

27. Vanuatu effectively graduated on 4 December 2020. In July 2020, it adopted its smooth transition strategy, in which full implementation of the existing national sustainable development plan, "Vanuatu 2030: the People's Plan", is highlighted as a most important priority for the country. The smooth transition strategy outlines complementary actions specific to least developed countries 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.

## V. Smooth transition measures

28. The importance of extending international support to graduating least developing countries for a smooth transition out of the category is well recognized by the international community. The Istanbul Programme of Action provides a clear road map on how and when such measures need to be implemented, while General Assembly resolution 67/221 set out specific measures that the international community must take in support of those countries. However, the need for specific and targeted support for graduating least developed countries has become even more important with the increasingly diverse sizes and economic structures of the countries slated for graduation. During the upcoming decade, many of the graduating countries and potential graduates 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 least developed countries are challenged by the devastating impact of the COVID-19 pandemic, which has burdened many countries with large and prolonged socioeconomic costs.

29. In formulating their smooth transition strategies, graduating countries should consider the extent to which they are utilizing and benefiting from support measures specific to least developed countries, as these will be lost either upon graduation or, if a smooth transition measure applies, three or five years after graduation. Examples of existing smooth transition measures include, for instance, the extension of least developed country travel support to attend sessions of the General Assembly. The Technology Bank for the Least Developed Countries extends its support to countries for five years after graduation, and the United Nations Capital Development Fund continues existing support to graduating least developed countries for three years after graduation, with the potential to extend for an additional two years with a 50/50 funding approach. The graduating countries should also provide monitoring reports annually to the Committee for Development Policy and seek the support of the inter-agency task force (discussed further in section VII, below) which coordinates United Nations system support for graduating least developed countries.

30. In many cases, however, 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 least developed country category may change. The analysis in the following subsections addresses changes in access to trade support measures and to development and climate finance.

### Trade support measures

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

32. WTO rules have several in-built mechanisms that can assist WTO members that have graduated from least developed country status in addressing their trade-related challenges resulting from graduation. They include:<sup>9</sup> 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

<sup>9</sup> See WTO report available at: [www.wto.org/english/res\\_e/booksp\\_e/trade\\_impacts\\_of\\_ldc\\_graduation.pdf](http://www.wto.org/english/res_e/booksp_e/trade_impacts_of_ldc_graduation.pdf).

communication to the WTO General Council (WT/GC/W/807), the Group of Least Developed Countries submitted a proposal for an effective smooth transition mechanism for graduating countries. The proposal seeks a 12-year extension of special and differential treatment and technical assistance, capacity-building programmes and facilities for least developed countries provided under the WTO system for graduated countries.

33. The Enhanced Integrated Framework<sup>10</sup> programmes of assistance for least developed countries remain available for a period of five years after graduation and customized WTO trade-related technical assistance could be designed to assist graduating least developed countries.

34. With respect to access to the European Union market, following the three-year post-graduation transitional period countries would no longer benefit from the Everything but Arms initiative. They are then considered under the standard Generalized System of Preferences arrangement. Graduated least developed countries that have ratified and effectively implemented 27 conventions covering issues such as human and labour rights, environmental protection and good governance are eligible for the Generalized System of Preferences Plus scheme, which provides more generous tariff preferences than under the standard system.<sup>11</sup> Graduated countries that are part of the African, Caribbean and Pacific Group of States and that have signed economic partnership agreements with the European Union may maintain duty-free, quota-free market access.

35. In preparation for the upcoming review of the European Union's Generalized System of Preferences scheme, the European Commission<sup>12</sup> is exploring options to support countries graduating from the Everything but Arms initiative. One of the options under discussion is whether the transition period for graduating from that arrangement could be extended to five years to give more time for countries to implement reforms (including to qualify for the Generalized System of Preferences Plus) and for firms to take investment decisions. This would be particularly beneficial to graduating least developed countries in Asia.

36. The Pacific Agreement on Closer Economic Relations (PACER) Plus, a reciprocal arrangement among 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.<sup>13</sup> The tariff reduction schedule is slower for the three least developed country signatories – Solomon Islands, Tuvalu and Kiribati – with reductions beginning in 2028 unless the country graduates from least developed country status. “Year 1 LDC” for tariff reductions will be the calendar year following that of the date of its graduation. For example, with Solomon Islands scheduled to graduate in 2024, tariff reductions could begin in 2025. Most tariffs would fall to zero by 2032 and tariffs on all goods would be removed by 2047.

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<sup>10</sup> The Enhanced Integrated Framework partnership of 51 countries, 24 donors and 8 partner agencies works closely with Governments, development organizations and civil society to assist least developed countries use trade as an engine for development and poverty reduction ([www.enhancedif.org/en](http://www.enhancedif.org/en)).

<sup>11</sup> Countries that are classified by the World Bank as upper middle-income countries for three consecutive years are eligible for neither the Generalized System of Preferences nor the Generalized System of Preferences Plus once they lose their status as least developed countries and Everything but Arms preferences.

<sup>12</sup> See the study by the European Commission at: [www.trade.ec.europa.eu/doclib/docs/2021/june/tradoc\\_159599.pdf](http://www.trade.ec.europa.eu/doclib/docs/2021/june/tradoc_159599.pdf).

<sup>13</sup> See <https://www.un.org/ldcportal/pacer-plus/>.

## Development and climate finance

37. After graduation, countries will continue to have access to external support, but its forms and modalities may vary. Most development partners indicate that least developed country status is not a main criterion for official development assistance (ODA) 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.

38. The International Development Association of the World Bank provides zero- to low-interest loans to the poorest and most vulnerable countries. Eligibility for International Development Association allocations depends on a country's relative poverty, defined as gross national income per capita below an established threshold and updated annually (\$1,185 in fiscal year 2021) and the absence of creditworthiness. The International Development Association has its own graduation process: graduation becomes effective only every three years, in line with Association cycles, after an examination of the country-specific situation. The Association also supports several small island economies that are above the operational cut-off, owing to its small state exception. As of July 2021, all least developed countries, with the exception of Angola, were eligible to receive Association resources (including blend countries).<sup>14</sup> Of the six least developed countries graduated thus far, only two (Botswana and Equatorial Guinea) are also Association graduates.

39. In addition to its traditional lending, the International Monetary Fund (IMF) provides loans to eligible low-income countries through the Poverty Reduction and Growth Trust, which has three concessional lending facilities: the Extended Credit Facility, the Standby Credit Facility and the Rapid Credit Facility. Member countries may receive repeated disbursements over a (limited) period in case of recurring or ongoing balance of payments needs. Eligibility for Poverty Reduction and Growth Trust lending is closely aligned with International Development Association eligibility, and the only least developed country that is currently not eligible is Angola.<sup>15</sup> Countries that have graduated from the least developed country category, with the exception of Botswana and Equatorial Guinea, all currently remain eligible, and it is expected that other least developed countries will remain eligible, even if they meet the graduation criteria.

40. 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 Least Developed Countries Fund under the Global Environment Facility will be discontinued with graduation, 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.

<sup>14</sup> See the list, available at: <http://ida.worldbank.org/about/borrowing-countries>.

<sup>15</sup> For more information on IMF support to low-income countries, see: [www.imf.org/en/About/Factsheets/IMF-Support-for-Low-Income-Countries](http://www.imf.org/en/About/Factsheets/IMF-Support-for-Low-Income-Countries) and [www.imf.org/en/Publications/Policy-Papers/Issues/2020/03/16/Eligibility-to-Use-the-Fund-s-Facilities-for-Concessional-Financing-2020-49267](http://www.imf.org/en/Publications/Policy-Papers/Issues/2020/03/16/Eligibility-to-Use-the-Fund-s-Facilities-for-Concessional-Financing-2020-49267).

## VI. Graduation and transition finance challenges

41. The graduation process demonstrates that a country is on a credible development path and has achieved sustained improvements across a range of key socioeconomic and environmental indicators. Graduation is a positive sign that may open up new financing opportunities by raising the country's profile and reducing risk perceptions among lenders and investors. However, as discussed above, graduation also comes with financing challenges that the country and its development partners need to anticipate and address in order to avoid important financing gaps and development setbacks.

42. The impact of graduation is difficult to assess in isolation from other transition processes. Graduation is one of many formal and informal transition processes that developing countries encounter as they develop. This means that graduating countries must often deal with the simultaneous impact of several transition processes, including graduation from an income group or the loss of eligibility to specific concessional windows. The transition out of Global Alliance for Vaccines and Immunization support is an example of a graduation process that frequently occurs close to, or concurrently with, graduation. Of the four countries already scheduled to graduate from the least developed country category by 2024, two (Angola and Bhutan) have recently transitioned out of Global Alliance support, while the other two (Sao Tome and Principe and Solomon Islands) are already in the Global Alliance's accelerated transition phase. If not compensated by a proportional increase in government expenditure or private saving (out-of-pocket expenditure),<sup>16</sup> the phasing out of Global Alliance support could put these countries in a delicate situation at a time when they are confronting the impact of the COVID-19 pandemic.

43. It is essential to build the economic resilience of graduating least developed countries and ensure that they are able to withstand and recover from shocks, through careful preparation and support. The COVID-19 crisis is a stark reminder that development is a non-linear process. Despite their best efforts to follow a path towards sustainable development, developing countries frequently face the effects of external shocks that affect their access to finance and their capacity to maintain fiscal sustainability. Given the structural vulnerabilities they share with other least developed countries, graduating and recently graduated countries are at particular risk of experiencing development setbacks. Examples include Angola, which transitioned back from upper-middle to lower-middle income status in 2017 at the end of the oil boom, or small island developing States, which are frequently affected by climate-related events.<sup>17</sup>

44. Least developed countries struggle more than other countries to mobilize domestic resources and private investment. While all countries rely heavily on external concessional finance at early stages of their development, domestic resources and private finance tend to progressively replace those as countries develop. In the specific case of least developed countries, however, achieving a smooth transition often presents a challenge: even as they move up the income ladder and approach graduation, they remain highly reliant on ODA. This is partly explained by the difficulty of mobilizing alternative sources of finance. Tax revenues are on average lower in least developed countries than in other developing countries at similar levels

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<sup>16</sup> OECD, "Financing transition in the health sector: What can Development Assistance Committee members do?", OECD Development Policy Papers, No. 37 (Paris, 2021). Available at: <https://doi.org/10.1787/0d16fad8-en>.

<sup>17</sup> Cécilia Piemonte and Abdoulaye Fabregas, "Solomon Islands transition finance country diagnostic: Preparing for graduation from Least Developed Country (LDC) status", OECD Development Co-operation Working Papers, No. 86 (Paris, OECD Publishing, 2020). Available at: <https://doi.org/10.1787/a4739684-en>.

of development.<sup>18</sup> Least developed countries also face significant challenges in attracting external private financing. Between 2012 and 2018, for example, a mere 6 per cent of private finance mobilized by official development finance interventions targeted least developed countries.<sup>19</sup> Careful planning from the Governments of least developed countries and their development partners is required in order to ensure that graduating countries are able to mobilize other sources of finance beyond ODA, since this impacts their capacity to achieve a sustainable transition over the long term.

45. Some sectors are particularly prone to financing gaps and require specific attention from graduating countries and their development partners. Transition finance challenges are sector-specific: the substitution of concessional finance with other financing sources takes place at different stages of development, depending on the characteristics of each sector. For example, production, infrastructure, financial services and business sectors are relatively attractive to non-concessional finance and are less affected by the disengagement of concessional finance. At the other end of the spectrum, social sectors, such as health or education, are rarely able to attract private capital flows that compensate the phasing out of ODA. This creates a risk of financing gaps in key development areas, with potentially long-lasting impacts on the development prospects of these countries. This finding highlights the need for early investment from the Governments of least developed countries and their development partners in building domestic capacity and creating markets in selected sectors.

46. Achieving a balance between sustained growth and debt sustainability is a common challenge faced by least developed countries<sup>20</sup> as well as recent graduates.<sup>21</sup> The COVID-19 pandemic has amplified this risk. As of June 2021, 21 least developed countries were in debt distress or at high risk of debt distress, compared with only 16 in 2018.<sup>22</sup> Faced with growing funding needs and a significant revenue shortfall, many least developed countries experienced a rapid deterioration of their debt situation. More technical assistance and capacity-building efforts should be made to avoid this debt trap and ensure that access to financial markets does not lead to unsustainable financing strategies with too many and overly complex instruments and modalities to choose from.

47. The COVID-19 crisis increases risks associated with graduation. Poorer countries, which are projected to experience a greater rise in poverty levels, could bear the brunt of the social crisis and face the risk of long-term development setbacks. This is in contrast with the V-shaped recovery expected in richer countries. The crisis has magnified the financing challenges already present in developing contexts: Governments of developing countries have had to cope with the compounded impact of increased financing needs to address the health and economic impact of the pandemic and a sudden drop in financial resources. According to the Organisation for

<sup>18</sup> OECD Factsheet, “External financing to Least Developed Countries (LDCs): where we stand” (2020). Available at: <https://www.oecd.org/dac/financing-sustainable-development/Fact-sheet-external-financing-to-LDCs-2020.pdf>.

<sup>19</sup> OECD and United Nations Capital Development Fund, *Blended Finance in the Least Developed Countries 2020: Supporting a Resilient COVID-19 Recovery* (Paris, OECD Publishing, 2020). Available at: <https://doi.org/10.1787/57620d04-en>.

<sup>20</sup> Jieun Kim and others, “Transition Finance Challenges for Commodity-based Least Developed Countries: The example of Zambia”, OECD Development Co-operation Working Papers, No. 49 (Paris, OECD Publishing, 2018). Available at: <https://doi.org/10.1787/feb640fe-en>.

<sup>21</sup> Rachel Morris, Oliver Cattaneo and Konstantin Poensgen, “Cabo Verde Transition Finance Country Pilot”, OECD Development Co-operation Working Papers, No. 46 (Paris, OECD Publishing, 2018). Available at: <https://doi.org/10.1787/1affcac6-en>.

<sup>22</sup> IMF, “List of LIC DSAs for PRGT-Eligible Countries, as of August 01, 2018”. Available at: <https://mronline.org/wp-content/uploads/2018/09/DSAlist.pdf>.

Economic Co-operation and Development (OECD),<sup>23</sup> external private finance (such as remittances, foreign direct investment, portfolio flows, etc.) to developing countries dropped by \$700 billion in 2020 (a 60 per cent greater drop than that following the global financial crisis). As a result, the financing gap for achieving the Sustainable Development Goals in developing countries by 2030 is estimated to have increased by 50 per cent, to \$3.7 trillion. While least developed countries benefitted from increased resources from bilateral donors, the World Bank, IMF and others, this was not sufficient to fill the increasing gap.<sup>24</sup> Likewise, least developed countries would only be eligible to receive 2.26 per cent, amounting to \$14.7 billion, of any new allocations of special drawing rights in 2021.

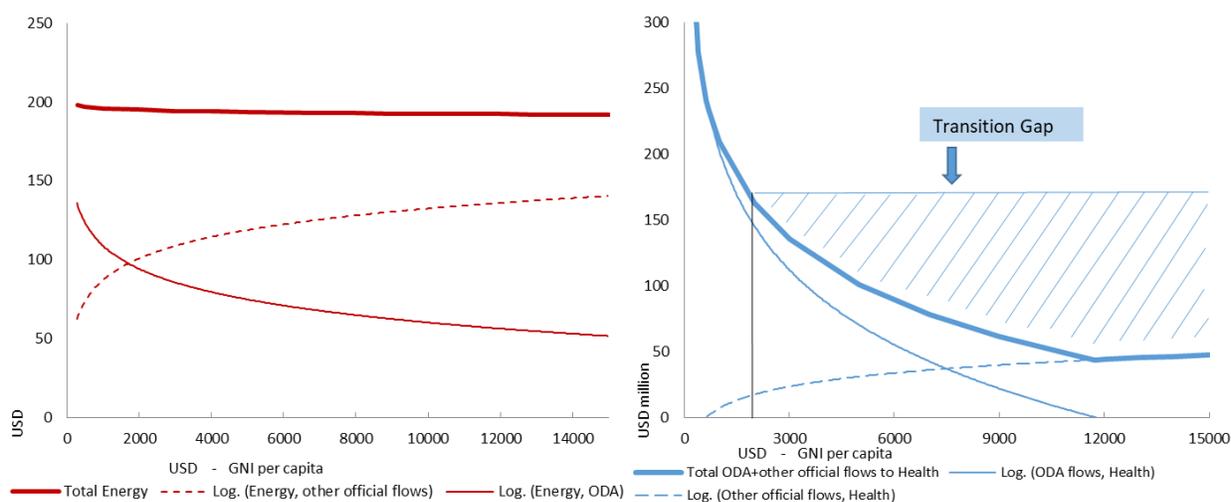
48. ODA alone will not compensate the drop in external financing in least developed countries. According to preliminary ODA figures, in 2020 net bilateral aid flows to least developed countries from members of the Development Assistance Committee of OECD grew by 1.8 per cent in real terms compared to 2019, reaching \$34 billion. While donors' efforts to increase their financial support to least developed countries while coping with the effects of the pandemic in their countries are commendable, this slight increase in ODA flows will not make up for the drop in other financing sources (see box below).

### The health sector may suffer from important financing gaps at early stages of development

Illustrating how official development flows – ODA and other official flows – are deployed along the development continuum may help identify sectoral financial specificities. As sketched in the figure below, the substitution between ODA and other official flows may result in either a financing surplus or a financing gap.

**There is no financial gap in energy, while the transition gap in the health sector seems deep and permanent**

Million United States dollar commitments, 2012–16 average, 2016 prices



Source: Cécilia Piemonte and others, “Transition Finance: Introducing a new concept”, OECD Development Co-operation Working Papers (Paris, OECD Publishing, 2019). Available at: <https://doi.org/10.1787/2dad64fb-en>.

<sup>23</sup> OECD, *Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet* (Paris, 2020). Available at: <https://doi.org/10.1787/e3c30a9a-en>.

<sup>24</sup> For example, IMF offered debt service relief to 27 of the poorest countries, all but one (Tajikistan) of which were least developed countries, through the Catastrophe Containment and Relief Trust. That debt service relief amounted to about \$500 million for the first year up to April 2021.

In the energy sector (left panel of the above figure), there is a perfect substitution of ODA by other official flows, with a constant level of financing throughout the transition spectrum, from low- to high-income levels. In the case of the health sector, however (right panel), an extremely wide transition gap results from the sum of both flows. Development partners should be particularly vigilant when such a picture emerges. Indeed, high dependence on ODA increases the acuteness of transition finance challenges and the need to deploy resilience measures.<sup>a</sup>

<sup>a</sup> Olivier Cattaneo and Cécilia Piemonte, “Transition Finance Compendium: Challenges and recommendations for the Development Assistance Committee”, OECD Development Co-operation Working Papers, No. 94 (Paris, OECD Publishing, 2021). Available at: <https://doi.org/10.1787/90f219b1-en>.

49. In line with the integrated national financing frameworks of the United Nations, graduating and recently graduated least developed countries should design holistic and dynamic financing strategies that take transition finance challenges into account. Such financing strategies should take into consideration the respective roles and comparative advantages of different financing sources and partners, as well as the evolution of their roles across different transition stages. They should also exploit the diversity of bilateral and multilateral development partners’ portfolios to ensure complementarity and optimal use of official development finance. Of the 16 least developed countries in the graduation pipeline, 12 are at some stage of the integrated national financing frameworks process.

50. There is a need for targeted technical assistance and capacity-building to help countries avoid the risk that key transition milestones, such as graduation, will result in financing gaps or debt traps. Such support would be particularly useful in assisting graduating countries and recent graduates in navigating the complex financing for sustainable development landscape and assessing and reviewing their financing options in the light of their evolving circumstances. It would also ensure that these countries will avoid common financing hurdles, particularly decisions that may constrain their future access to finance or, in the worst-case scenario, lead to situations of financial distress. Particular areas in which least developed countries could benefit from such support include the application for financing opportunities offered by green funds and the design of creative debt relief schemes with the potential to help these countries achieve a green recovery, such as debt-for-nature or debt-for-climate swaps.

51. Careful transition planning is crucial for ensuring the resilience of development cooperation efforts and effects in graduating least developed countries. Transition planning should help secure the progressive diversification and substitution of financing sources at each stage of a country’s transition by including an early focus on strengthening domestic resource mobilization and promoting private investment and market creation. Transition planning should also involve securing the qualities of development finance, i.e. the principles of aid effectiveness, by working together with the private sector to increase development gains from trade and investment and creating the conditions for sustainable and inclusive private-sector led financing. This could be achieved through specific work to improve the development effectiveness of foreign direct investment while ensuring spillover effects to the local economy or to reinforce the development dimensions of global value chains.

## **VII. Coordinated United Nations system support for graduation**

52. Graduating and graduated countries will need to prepare a national smooth transition strategy in cooperation with development and trading partners, including partners from the South. They will need to do so with targeted and coordinated assistance, including through the use of the smooth transition strategy guidance note

and dedicated capacity-building support from the United Nations system, as recommended by the General Assembly. The preparation of the strategy is seen as the basis for a successful transition that ensures that the phasing out of support measures for least developed countries does not disrupt a country's development.

53. As described under section III, the inter-agency task force aims to generate awareness and political support for graduating countries so that other countries better understand the challenges faced after graduation. At the requests of countries, the inter-agency task force has rallied the system and other relevant international and regional partners around country-level joint workshops that ensure broad participation from multiple stakeholders, including main development partners, civil society and private sector representatives interested in learning more about the changes associated with graduation and about government plans. Joint workshops were organized in Sao Tome and Principe and Solomon Islands in 2019.<sup>25</sup> For each of these graduating countries, the task force also organized dedicated virtual sessions with the United Nations resident coordinators with a view to drawing up joint work programmes of support that will assist the Governments in their formulation of smooth transition strategies.

54. Under the umbrella of the inter-agency task force, a sustainable graduation support facility has been designed, piloted and introduced during the preparatory process for the Fifth United Nations Conference on the Least Developed Countries by the Committee for Development Policy secretariat in collaboration with the Office of the High Representative in order to respond to increasing demands from graduating and recently graduated least developed countries. The facility involves dedicated capacity development and technical advisory support in preparing and managing graduation and a smooth transition towards sustainable development in a post-COVID-19 environment. It is in line with the 2020 Committee for Development Policy report to the Economic and Social Council (E/2020/33) articulating the need for concrete action in accessing and/or extending existing and new support measures from development and trading partners for graduating and graduated countries. It is also a response to the Secretary-General's road map for financing the 2030 Agenda for Sustainable Development.

55. The facility will offer a suite of dedicated capacity-building support and technical advisory services across six main service offering lines: (a) addressing the loss of existing international support measures specific to least developed countries; (b) improving the ability of graduating and graduated countries to access support that is not specific to least developed countries; (c) preparing and implementing a smooth transition strategy; (d) assistance in accessing transition financing; (e) facilitating South-South cooperation, dialogue and sharing of country-specific and region-specific knowledge and experience; and (f) ensuring effective participation in the monitoring process of the Committee for Development Policy.

56. These services have been informed by the responses received from the 46 least developed countries via an e-survey on capacity development needs administered from May to July 2021 by the secretariat of the Committee for Development Policy and the Office of the High Representative. They will be continually enhanced and informed by the experiences of the countries that have utilized the services, ensuring that the facility will remain relevant to the changing needs of newly graduating and graduated countries.

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<sup>25</sup> See the website of the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States at: <https://www.un.org/ohrlls/content/graduation-task-force>.

57. With eligibility for the facility tied to meeting the graduation criteria, least developed countries that meet the criteria in 2024 or 2027 would also have their needs prioritized by facility partners in the upcoming decade. Initially, there will be a focus on the 16 graduating and recently graduated countries, as well as on countries that meet the graduation criteria under the Committee for Development Policy review and that clearly articulate graduation as a key priority in their medium- to long-term development plans and policies. These countries could, with available resources, access the services offered under the facility by making an official written request to the Department of Economic and Social Affairs and the Office of the High Representative.

58. Countries, along with key facility partners, have the opportunity to select and co-design the country-specific solutions that they need under each service offering and that reflect their absorptive capacity. These may vary from country to country and, where needs are shared, South-South joint work across countries will be considered. The services will address the most critical constraints facing graduating and graduated least developed countries and will be time-bound for each country that is supported. Five of the six services offered are being piloted in Vanuatu by the Department of Economic and Social Affairs in collaboration with the Economic and Social Commission for Asia and the Pacific.

59. Services offered by the facility will be delivered by the Department of Economic and Social Affairs, as secretariat of the Committee for Development Policy, in collaboration with the Office of the High Representative, the resident coordinators, country teams, regional commissions and other United Nations entities and non-United Nations entities, most of whom are members of the inter-agency task force. This would help to strengthen and streamline a more efficient and integrated service delivery. The facility will contribute to the work of the inter-agency task force and enhance coordinated United Nations system-wide support to graduating and graduated countries.

60. The success of the facility requires a reinvigorated global partnership. The facility will require, and is exploring, potential partnerships to bring together innovative graduation-related capacity-building and advisory support specific to the needs of the 16 graduating countries. Voluntary funding will also need to be secured and managed effectively and efficiently. The partnerships that are being considered are with those partners already working with the respective countries and that are in areas directly linked to the nature of the services to be provided through the facility. These partnerships fall under four main categories: (a) policy and technical advisory, (b) financial, (c) investment and (d) loans and private sector. With an enormous need for technology capabilities and transfer, private actors in the technology and infrastructure sector are key to these partnerships to ensure the sustainable and resilient graduation of all countries.

## VIII. Conclusions and recommendations

**61. With a record number of least developed countries meeting the graduation thresholds, it is essential that the necessary conditions are in place to ensure that graduation leads to sustained economic growth and prosperity. There is a need for enhanced smooth transition measures and coordinated support programmes from trade and development partners addressing the specific vulnerabilities of the graduating countries.**

**62. All existing smooth transition measures should be further enhanced and extended. Trade and development partners, including the United Nations system, that are not yet extending their least-developed-country-specific support measures to graduated countries are invited to do so urgently.**

63. Graduating least developed countries require support measures tailored to each country context. Countries, given their different stages of development, productive capacities and capacity for policy analysis and action in various areas including trade, intellectual property rights, technology transfer, know-how and innovative development financing require new, concrete, specific and dedicated support measures. Where common needs emerge, South-South solutions and regional mechanisms could be considered that promote expertise from the South to help countries prepare for sustainable graduation and smooth transition. Technical and financial support from the international community, especially the development and trading partners of graduating and graduated countries, will be instrumental.

64. Furthermore, the Fifth United Nations Conference on the Least Developed Countries, to be held in Doha in January 2022 represents a critical opportunity for the international community to adopt new and improved international support measures for graduating least developed countries, particularly with respect to access to concessional finance and facilitating innovative financing mechanisms and instruments, including access to climate finance and climate facilities, enhancing trade, including access to markets and the flexible implementation of intellectual protection regimes under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

65. The Fifth United Nations Conference will also provide a forum for seeking a strengthened United Nations system-wide approach, coordinated by the Office of the High Representative in close cooperation with the resident coordinators, to respond effectively to increased demand for United Nations system support on the part of least developed countries meeting the graduation criteria.

66. A reinvigorated global partnership is needed in support of the work of the inter-agency task force to provide tailored, country-specific support to graduating countries. The inter-agency task force should continue to organize, at the request of countries, joint United Nations country workshops in close collaboration with the United Nations resident coordinators, the country teams and other partners, including key development partners, civil society and the private sector. The facility should coordinate the provision of on-demand country-specific technical support and advisory services regarding the steps involved in establishing consultative mechanisms and in preparing smooth transition strategies. Such support should also include greater clarity on the transition process, particularly regarding the type and extent of support that countries may receive after graduation and national policies that the countries should pursue, and increased support to address institutional capacity constraints, improve good governance. Technical support and capacity-building for trade and financial negotiations should also be provided.

67. Targeted technical assistance and capacity-building should be provided to help graduating and recently graduated countries avoid the risks associated with key transition milestones – such as graduation – from resulting in financing gaps or debt traps. The objective of such support should be to help these countries navigate the complex financing for sustainable development landscape and to identify the partners and instruments that are best fit for purpose at different stages of transition.

68. Careful transition planning is crucial to ensuring the resilience of development cooperation efforts and development outcomes in graduating least developed countries. Transition planning should help secure the progressive diversification and substitution of financing sources at each stage of a country's transition by including an early focus on strengthening domestic resource mobilization and promoting private investment and market creation.

**69. Member States may wish to consider dedicating a regular segment of the Development Cooperation Forum to least developed country graduation and transition finance challenges in order to strengthen partnerships, provide a space for regular monitoring and heighten attention in cases of crisis.**

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