



COMMUNICATION FROM CHAD ON BEHALF OF THE LDC GROUP TO THE GENERAL COUNCIL

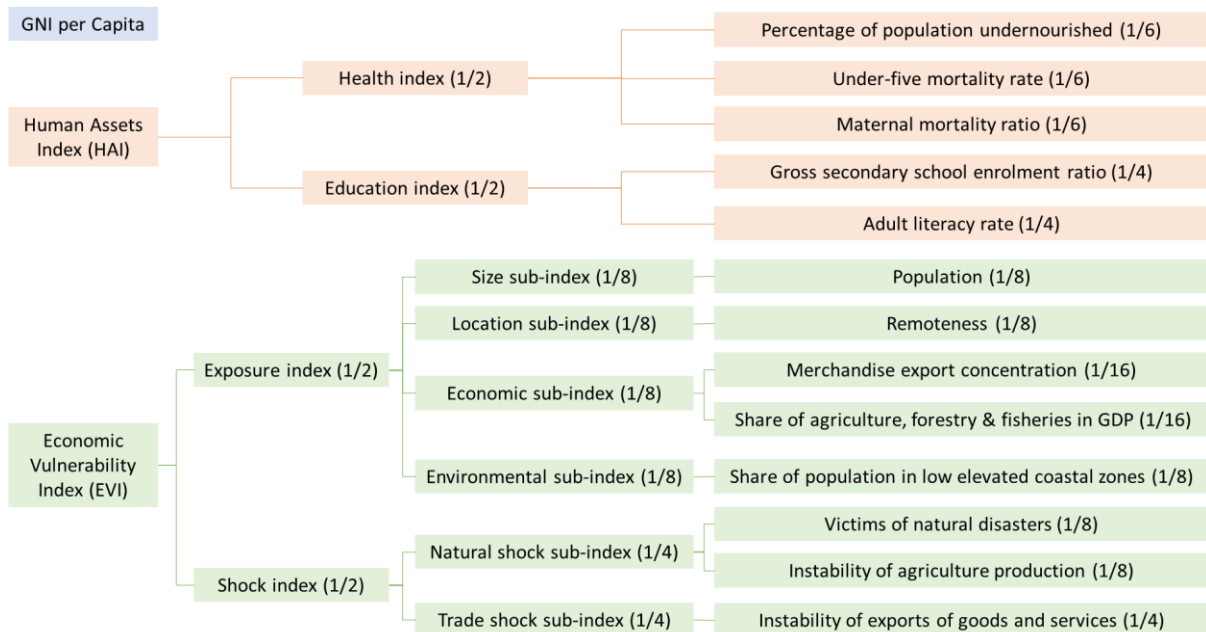
The following communication, dated 16 November 2020, is being circulated at the request of the delegation of Chad on behalf of the LDC Group.

LDC GRADUATION FACT SHEET

THE LDC CATEGORY IN A NUTSHELL

1. LDCs suffer from common structural challenges including low income levels, high vulnerability to external shocks, and weak human assets. In turn, these handicaps hamper LDC productive capacities, trade performances and development prospects.
2. The definition of LDCs is based on three criteria developed and regularly reviewed by the Committee for Development Policy (CDP) - a subsidiary advisory body of the United Nations Economic and Social Council (ECOSOC).
3. These include the Gross National Income (GNI) per capita, the Human Asset Index (HAI) and the Economic Vulnerability Index (see figure 1 for a list of indicators used to measure these criteria).

Figure 1: LDC criteria as of the 2018 triennial review



Inclusion in and graduation from the LDC category

4. Countries are eligible to enter or leave the LDC category if they meet the inclusion or graduation thresholds defined by the CDP.

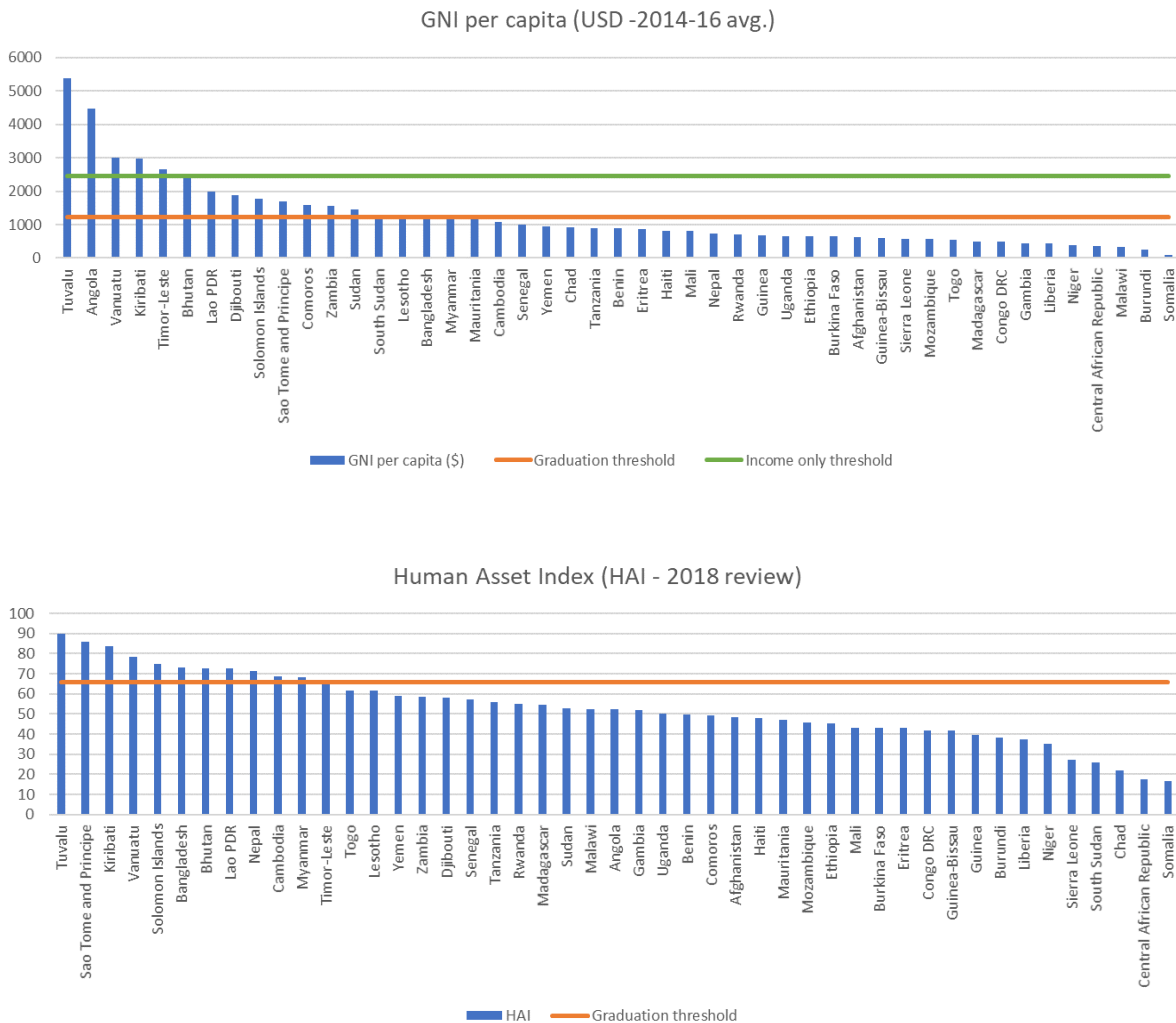
5. To be included, a country must meet each of the three inclusion criteria during one triennial review and its population must be lower than 75 million.

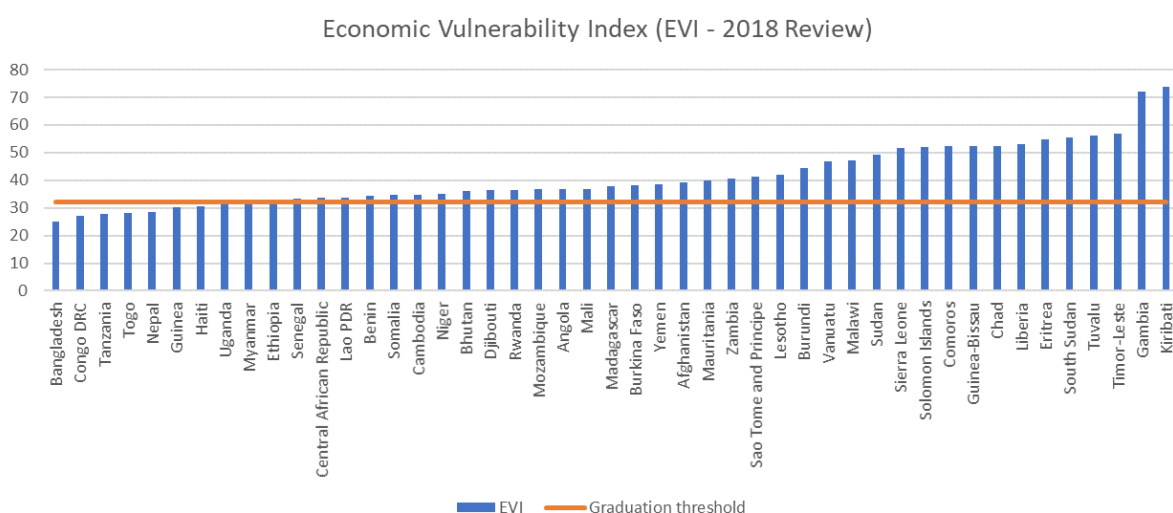
6. To graduate, a country must meet at least two of the three graduation thresholds in two consecutive triennial reviews. Countries can also graduate based on the income-only criteria if their GNI per capita is at least twice the graduation threshold in two consecutive reviews.

Table 1: Inclusion and graduation thresholds as defined by the 2018 Review

Criteria	Inclusion Threshold	Graduation Threshold
Gross national income (GNI) per capita	Three-year average of GNI per capita lower than USD 1,025	Set at 20% above the inclusion threshold: USD 1,230 The income only graduation threshold is twice the graduation threshold: USD 2'460 or above
Human Asset Index (HAI)	60 or below	Set at 10% above the inclusion threshold: 66 or above
Economic Vulnerability Index (EVI)	36 or above	Set at 10% below the inclusion threshold: 32 or below

Figure 2: LDCs performance under the three criteria in the 2018 review





Source: Elaboration based on data by the UNCDP available at: <https://www.un.org/development/desa/dpad/least-developed-country-category/lcd-data-retrieval.html>

The Graduation Process

7. The Istanbul Programme of Action (IPoA) for the period 2011-2021 sets, for the first time, the goal of "enabling half the number of least developed countries to meet the criteria for graduation by 2020".

8. When an LDC meets the graduation criteria for two consecutive triennial reviews, the CDP may recommend it for graduation based on an *ex-ante* impact assessment, a vulnerability profile and taking into account the position of the country concerned.

9. Once endorsed by the ECOSOC, the UN General Assembly (GA) takes note of the CDP recommendation and the graduation becomes effective three years later.

10. Under exceptional circumstances, the General Assembly may grant an additional transition period during which the country remains in the LDC category.

11. Currently **12 LDCs are scheduled for graduation** and **another 13 have already met one criterion** in the 2018 triennial review and may soon become eligible to graduate.

Table 2: Schedule for graduating LDCs

LDC	Expected year of graduation	Graduation criteria met			
		GNI per capita only	GNI per capita	HAI	EVI
Vanuatu	2020	X	X	X	
Angola	2021	X	X		
Bhutan	2023		X	X	
Sao Tomé and Príncipe	2024		X	X	
Solomon Islands	2024		X	X	
Bangladesh	2024		X	X	X
Lao PDR	2024		X	X	
Myanmar	2024		X	X	X
Nepal	2024		X	X	X
Timor Leste	2024	X	X	X	
Tuvalu*	Not scheduled	X	X	X	
Kiribati*	Under review	X	X	X	

* Not WTO Members or observers.

Source: UNCDP.

Table 3: LDCs meeting one graduation criterion in the 2018 triennial review

GNI	EVI	HAI
Djibouti	Democratic Republic of the Congo	Cambodia
Comoros	United Republic of Tanzania	
Zambia	Togo	
Sudan	Guinea	
South Sudan	Haiti	
Lesotho	Uganda	

Source: UNCDP.

International Support measures

12. To help overcome their structural impediments, LDCs benefit from specific international support measures (ISM) targeting their handicaps and vulnerabilities.

13. In the area of trade, these include, among others, enhanced technical assistance, preferential market access and special and differential treatment (S&DT) provisions in WTO rules.

14. While graduation represents a significant achievement, leaving the LDC category also implies that graduating countries lose access to the LDC-specific ISM, which contribute to their socio-economic development.

15. This has prompted calls for supporting graduating countries with additional targeted measures after losing their LDC status as an incentive to graduate and enable them to adjust to their new status.

A "smooth transition" to facilitate graduation

16. In recognition of this need, the UN General Assembly introduced the principle of 'smooth transition'¹ to ensure that graduation does not cause disruption in the development progress of the country concerned.

17. In particular, the GA calls for LDC-specific ISM to be phased out in a gradual and predictable manner following the final exit of countries from the list.

18. The COVID-19 outbreak significantly reinforces the need for such a smooth graduation process as the pandemic risks undoing many of LDCs' development achievements so far (see box 1).

19. To date, there is no clarity on the length of time for the transition period. Furthermore, smooth transition arrangements lack formal and binding procedures that are applicable to all LDC-specific ISM across the board².

20. In practice, the extent to which LDCs can retain access to relevant ISM depend therefore on their ability to negotiate ISM extensions bilaterally or multilaterally with development and trade partners.

¹ For further details, see UN resolution A/RES/59/209; A/RES/65/286; or A/RES/67/221.

² See Tesfachew, T. (2018). Support for post-graduation soft-landing of LDCs: Implications in the context of the WTO. Geneva: CUTS International, Geneva.

Box 1: LDC Graduation and the COVID-19 Pandemic

According to UN/DESA, the COVID-19 pandemic threatens to undo many of LDCs' progress achieved towards sustainable development over recent decades. As of mid-October 2020, the WHO reported nearly 880,000 cases and more than 15,000 deaths affecting LDCs. By putting national health systems under stress, the virus affects graduating LDCs performance under the Human Asset Index. Exports are also likely to face sharp declines. Prices for primary commodities have already gone down, as have revenues from tourism or remittances. Finally, manufactured goods have suffered from disruptions in value chains, for example in sectors like textiles and clothing. All these impacts will affect jobs, income and savings in graduating LDCs and will be reflected in increased economic vulnerability and declines in GNI. Some LDCs may opt for delaying their graduations under those circumstances but for those who decide to go ahead, the risk of falling back into the LDC category may be significant in the absence of effective smooth transition measures.

"Smooth graduation" in the WTO context

21. Paragraph 16 of the General Assembly Resolution adopted on 21 December 2012 on smooth transition for countries graduating from the list of least developed countries (A/RES/67/221) focuses specifically on trade-related ISM and invites all Members of the WTO:

"to consider extending to graduated countries the existing special and differential treatment measures and exemptions available to least developed countries for a period appropriate to the development situation of the country".

22. Paragraphs 17 and 18 of the same Resolution also invite the trading partners of LDCs to establish procedures for extending or phasing out preferential market access, and LDC-specific funds to continue providing technical assistance to graduated countries over a certain period of time.

23. In practice - with the exception of the Enhanced Integrated Framework (EIF) - there are no formal WTO procedures for smooth transition.

24. After leaving the category, graduating countries would normally lose access to all trade-related support measures and flexibilities granted to them, unless they request a waiver which must be approved by the whole membership. This puts graduating LDCs in a difficult situation, not least given their economic vulnerabilities and their limited negotiating capacity.

Trade-related international support measures (ISMs) in favour of LDCs

25. Trade-related ISM can be broadly organized under three categories:

- **Unilateral trade preferences in favour of LDCs** (e.g. in the form of duty-free quota free (DFQF) market access or through the WTO services waiver).
 - Most developed Members and a growing number of developing Members have implemented DFQF schemes covering all or nearly all tariff lines with only a few exceptions.
 - Empirical analysis shows that LDCs use and benefit significantly from DFQF schemes when these provide a comprehensive product coverage combined with flexible rules of origin³.
 - Most preferential schemes do not include any specific smooth transition or phasing out mechanism for graduated LDCs.

³ See Klasen S., I. Martínez-Zarzoso, F. Nowak-Lehmann and M. Bruckner (2016) "Trade preferences for LDCs. Are they effective? Preliminary econometric evidence. CDP Policy Review Series. United Nations, New York, or Elliot, K.A. (2015) "Trade Preferences for the Least Developed Countries: Opportunities Not Panaceas". E15 Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum.

- Only the EU and Turkey provide a transition period of at least 3 years from the date of graduation and, in the case of the EU, additional periods have been granted in the past.
- **Special and differential treatment in WTO Agreements and relevant decisions**
 - A recent report on "Trade impacts of LDC graduation" published jointly by the WTO and the Enhanced Integrated Framework (EIF) provides a detailed overview of the LDC specific S&DT provisions in WTO Agreements and relevant Ministerial or General Council Decisions⁴.
 - While some of these provisions are in the form of best endeavour provisions, several are potentially significant from a development perspective.
 - These include, the extension of the implementation periods of the TRIPS agreement, the right to maintain and allow time limited measures deviating from TRIMS obligations, or the goods and services benchmarks under the accession decision.
 - LDCs also enjoy some flexibility in terms of frequency of WTO notifications, for example, in the area of domestic support notifications.
 - Most of these provisions are the result of decisions, by the General Council or the Ministerial Conferences, taken after 1994. Any smooth transition arrangement in the WTO should therefore also include Ministerial, General Council, and other relevant decisions in addition to S&DT provision in WTO agreements.
- **LDC-specific technical assistance facilities and funding mechanism**
 - The main channel of LDC-specific support is the Enhanced Integrated Framework (EIF).
 - Other facilities include, the Standards and Trade Development Facility (STDF), which requires lower co-financing requirement from LDCs for technical assistance, or WTO programmes targeting LDCs such as the Geneva-based Introduction Course for LDCs.
 - So far, only the EIF allows for smooth transition arrangements, with graduated countries having access to EIF benefits for a period of five years after leaving the LDC category.

Conclusion

26. LDCs leaving the category will lose access to most trade-related support measures, and this may hamper their sustainable graduation.

27. While they may ask for a time-limited waiver under certain WTO obligations, this request will have to be accepted by the rest of the WTO membership.

28. Such process is particularly burdensome for LDCs with limited negotiating capacities and leverage in international negotiations.

29. Given the potentially high cost associated with the loss of key trade-related ISM at a time where the world is affected by a global pandemic, it is not surprising that several LDCs have been reluctant to graduate.

30. Addressing this concern in the WTO could consist in securing *ex ante*, that LDC specific support measures would continue to apply after graduation for a certain amount of time, to be negotiated, and would be phased out progressively.

⁴ See tables 39 and 40 available at https://www.wto.org/english/news_e/news20_e/rese_08may20_e.pdf.

31. Such an approach would be consistent with UN resolution A/RES/67/221.
 32. It would also enhance predictability and confidence for those LDCs about to graduate.
 33. In practice it will be difficult to establish a hierarchy among LDC-specific ISM provisions and decide *ex ante* which one should be extended or discontinued.
 34. For this reason, an *ex ante* extension of LDC specific provisions should cover all LDC specific S&DT provisions in WTO Agreements, and any Ministerial, General Council or other Relevant WTO Decisions and benefit equally all graduating LDCs.
 35. It would represent a significant deliverable for LDCs and send a strong signal in support of LDCs by the multilateral trading system.
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