



LDC5 5TH UNITED NATIONS CONFERENCE ON THE LEAST DEVELOPED COUNTRIES



**United
Nations**

Committee for
Development
Policy

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Session 3: Supporting sustainable graduation: making graduation irreversible and a steppingstone to achieve the SDGs (Day 2 – 31 August 2021, Geneva time: 11:10–13:15)

Sustainable graduation out of the least developed country (LDC) category has been at the forefront of leaders' and policymakers' minds. Sixteen countries are at various stages of the graduation pathway and/or recently graduated, of which ten are from the Asia-Pacific region.

While there are mixed perspectives on graduation across LDCs in the region, it has never been more apparent, than at this juncture, that sound and bold leadership in countries is of paramount importance in committing to and effectively graduating.

Irreversible and sustainable graduation is possible as evident in the case of countries that have graduated in the last two decades, despite some having their graduation stalled due to the occurrences of natural disasters. Their experiences highlight that while there is a loss of some international support measures (ISMs), they have made real advancements and are at the next stage of their development, exploring innovative approaches and benefiting from new investments. Countries ownership in undertaking the necessary reforms and effective implementation of policy and programmatic reforms including effective utilization of development cooperation to achieve the necessary human, economic and environmental progress and to meet the graduation criteria cannot be overemphasised. Effective leadership and private sector engagement are key. Furthermore, having strong relations with development and trading partners and the wider international community is instrumental.

Vanuatu recently demonstrated this boldness and determination to graduate even in the face of double adversities – negative impacts of the Covid-19 pandemic and tropical cyclone Harold. Similarly, Bangladesh, Lao People's Democratic Republic and Nepal have shown the same determination and boldness to graduate - in the face of the prolonged Covid-19 pandemic with its new variants.

Graduation signals considerable progress a country has made against economic, social and environmental development indicators and some level of resilience to shocks and crises. It also signifies a determination for a better standard of living for their people and nation. Graduation is and should be celebrated.

It does not, however, imply that graduated countries are immediately without development and political challenges and vulnerabilities. Instead, moving out of the LDC category provides an innate maturity and confidence that graduated countries embrace in taking their countries

forward and in forging enhanced partnerships to tackle ongoing and new challenges and macroeconomic shocks. In fact, graduating countries whilst committed to graduating, have major concerns with regards to the impact of graduation due to the loss of LDC-specific ISMs simultaneously compounded and brought forward by the negative socio-economic impacts of the Covid-19 pandemic.

Major concerns, challenges and vulnerabilities raised by graduating countries

Vulnerabilities of graduating countries stem not only from being LDCs but also as small island developing states (SIDS) such as Kiribati, Solomon Islands, Tuvalu and Vanuatu and as landlocked countries (LLDCs) such as Bhutan, Lao PDR and Nepal. Therefore, it is necessary to look at their vulnerabilities from an interconnected lens. Four major areas of such interconnected vulnerabilities are highlighted below:

Economic vulnerability in the form of limited resilience and fiscal capacity of graduating countries to respond to shocks such as the collapse of global demand have been laid bare by the ongoing Covid-19 pandemic. LDCs especially graduating and graduated countries from the Asia-Pacific region are concerned that the precarious global outlook will have huge implications on their preparations for a smooth transition out of LDC status and sustainable graduation that is irreversible. Six¹ of the graduating and graduated countries from the Asia-Pacific region face high to moderate risks of external debt distress of which two² are also facing high overall debt distress.³ A heavy reliance on ISMs for structural transformation and the development of new industries such as the garment manufacturing in countries like Bangladesh⁴ and Cambodia and pharmaceuticals in Bangladesh is now also proving to be a source of economic vulnerability. Tourism is the economic backbone of a number of Asia-Pacific graduating countries and remittances are a key source of income for some – both are vulnerable to the prolonged Covid-19 pandemic. Significant trickle-down effects are being felt by households of workers in these industries and are likely to undo the reductions made to date in poverty. Trade-related ISMs, in particular those related to intellectual property rights and potentially causing disruption post-graduation, need to be reviewed and for relevant providers to consider extended transition periods. The unprecedented health shock requires unprecedented measures, not only in the health sector but also in the economic and social sectors.

Climate, disaster and environmental challenges may not be adequately addressed post-graduation due to limited access to funding, technical assistance and inadequate technology transfer. While graduating LDCs that are also SIDS are a priority under the Green Climate Fund, non-SIDS would face limitations. In the meantime, Covid-19 has exacerbated the situation and posed new challenges for humanitarian responses to natural disasters as witnessed in the Solomon Islands and Vanuatu in 2020. Covid-19 is unlikely to be the last such external shock and new challenges may emerge including those that are transboundary in nature compounding countries' vulnerabilities. Most graduating SIDS will not meet the vulnerability threshold of the LDC criteria for some time to come.

Underdeveloped infrastructure across key sectors such as power and energy, water, transport, communication, education and health, and digital technology and connectivity critical for structural transformation, economic diversification and private sector development, remain – are significant and require huge resourcing.

¹ High risk - Kiribati, Lao PDR and Tuvalu; moderate risk – Bhutan, Solomon Islands and Vanuatu

² Kiribati and Lao PDR

³ [Debt Service Suspension Initiative \(worldbank.org\)](https://www.worldbank.org/)

⁴ Bangladesh is the largest economy and exporter among all the LDCs. Its share of exports that uses LDC-specific preferences is 70%, therefore, is likely to be the graduating country to face the greatest impact.

Unmet development financing needs that require a long-term focus, and predictable, flexible and innovative sources to achieve the 2030 Sustainable Development Agenda and Goals as well as sustainable and irreversible graduation are a major concern. A lack of access to finance, amongst other things, has constrained private sector development in many LDCs especially remote SIDS and LLDCs including small and medium sized enterprise start-ups advancing further. Covid-19 related supply chain disruptions and lower market demand have resulted in closure of businesses, reduction in business capacity and declining business revenue. There is a need for extended access to concessional development finance as well as diversified innovative sources of development finance. These should match the needs of graduating and graduated countries and the stages of private sector, business and entrepreneurship development.

Dedicated Support for Sustainable and Irreversible Graduation

To ensure that graduation is sustainable and irreversible, dedicated capacity development support tailored for each country's needs is necessary.

Capacity development support to help graduating and graduated countries to access concessional ODA, innovative financing, de-risking financing and investments for trade, climate action and disaster risk reduction, access to markets and flexible implementation of intellectual property protection regimes are key to avoid the risks associated with LDC graduation.

However, such dedicated capacity development support is missing and is a critical gap.

To address this gap, the UN Committee for Development Policy (CDP) through its secretariat in the Department for Economic and Social Affairs (UN DESA) has in the last three years joined efforts with the Office of the High Representative of least developed countries, landlocked developing countries and small islands developing states (OHRLLS) as Chair of the UN Inter Agency Task Force on LDC Graduation and ESCAP, to design and pilot an LDC Sustainable Graduation Support Facility (SGSF). This is to support graduating and graduated countries in the next decade from falling back into the LDC category and to ensure they advance progressively towards long-term sustainable development. The SGSF is an incentive-based and time-bound support facility that integrates new and existing measures of capacity development support in the form of policy and technical advisory services dedicated for graduating and graduated countries.

The SGSF offers a suite of dedicated capacity development support in six main areas: 1) addressing the loss of existing LDC-specific international support measures (ISMs); 2) improving the ability of graduating and graduated LDCs to access non-LDC-specific support; 3) preparing and implementing national smooth transition strategies (STS); 4) assistance in accessing transition financing and beyond; 5) facilitating South-South Cooperation, dialogue and sharing country as well as region-specific knowledge and experience; and 6) ensuring effective participation in the monitoring process of the CDP.

Clearly the role of the international community is imperative. It calls for a reinvigorated forward looking global partnership that offers fully resourced new and incentive-based, dedicated and time-bound support measures to support graduating and graduated countries to embed the basic fundamentals for risk-informed sustainable graduation and to build resilience to future economic, environmental and social shocks so that graduation is irreversible. It requires the urgent attention and support of key development and trading partners and the wider international community.

The Fifth United Conference on LDCs (LDC5) is a unique opportunity to carve out a more concrete, targeted, integrated and innovative but achievable new programme of action for the new decade. The new programme of action with concrete measures such as the SGSF, can be the key steppingstone for graduating and graduated countries to achieve the SDGs in the last mile.

OUTLINE OF SESSION 3

OBJECTIVE: This session will provide key perspectives from graduating and recently graduated countries from the Asia-Pacific region to the LDC5 PrepCom Intergovernmental process related to improved and concrete support to graduating and graduated countries. It will draw from a discussion during the session on the following key issues and question:

- Major concerns/fears, challenges and vulnerabilities of graduating and recently graduated countries from the Asia-Pacific region.
- How can the Sustainable Graduation Support Facility (SGSF) help these countries address their fears/concerns, challenges and vulnerabilities and the critical gap that exists - dedicated capacity development support for graduating and graduated countries?
- Concrete support measures that need to form part of the new programme of action - necessary to help these countries build their capacity and resilience to achieve sustainable and irreversible graduation over the next ten years.

Guiding Questions

Speakers, panelists and participants when intervening should be guided by the following four key questions:

1. The lack of policy, technical, and administrative capacity have been identified as the key challenges that graduating LDCs face in navigating their way in the post-graduation landscape. How useful is the support that the graduating/graduated countries receive in building the capacities of both the public and private sectors in engaging complex negotiations with external partners, in particular on trade related issues?
2. Many graduating countries have, in their post-Covid-19 recovery plans, articulated quite ambitious programmes to introduce major institutional and policy changes to stimulate more inclusive growth, making the countries more attractive to foreign investors. What specific support could the UN and other development partners extend to these countries, to ensure that graduation is a rewarding experience?
3. To what extent has Covid-19 exacerbated the challenges associated with graduating from the LDC category, in particular on the financing landscape? How can development partners support them in addressing financing challenges and what are the opportunities for scaling up innovative financing in the era of Covid-19?
4. Vulnerability, especially the climate related vulnerabilities among the graduating countries, is considered as an inherent condition. And building resilience has been regarded as the strategy in coping with vulnerability. What are the specific opportunities for building resilience, especially climate resilient infrastructure, and how are the development partners responding to support the countries in building resilience?

SESSION FORMAT: The plenary session will be organized as a hybrid of in-person and virtual combination of keynote addresses, a presentation and an interactive panel discussion moderated by Mr. Taffere Tesfachew, Chair of the UN Committee for Development Policy (CDP) Sub-Group on LDCs. It will be held on Zoom and simultaneous interpretation in English and French will be provided.

Agenda

Introductory remarks by co-chairs:

- Vice-Chair of the UN Committee for Development Policy, Ms. Sakiko Fukuda-Parr
- Government of Vanuatu, Permanent Representative to the UN and other international organizations in Geneva, H.E. Mr. Sumbue Antas

Remarks by keynote speakers

- Government of the Royal Kingdom of Bhutan, Minister of Foreign Affairs, H.E Lyonpo (Dr.) Tandi Dorji
- Government of Bangladesh, Secretary for Economic Relations Division, Ministry of Finance, Ms. Fatima Yasmin

Panel discussion:

Moderated by the Chair of the UN Committee for Development Policy Sub-Group on LDCs, Mr. Taffere Tesfachew.

Presentation by Assistant Secretary-General for Economic Development and Chief Economist, UN Department for Economic and Social Affairs, Mr. Elliott Harris.

Panellists:

- Member of the UN Committee for Development Policy and Distinguished Fellow, Centre for Policy Dialogue, Mr. Debrapriya Bhattacharya
- UN Development Programme Director of Bureau for Policy and Programme Support, Mr. Haoliang Xu

Lead Discussants:

- Government of Lao People's Democratic Republic (tbc)
- European Commission, Advisor to the Director, DG Trade, Mr. Nikolaos Zaimis
- UN Capital Development Fund Executive Secretary, Ms. Preeti Sinha
- Organization for Economic Cooperation and Development Head of Policy Analysis and Strategy Unit, Mr. Olivier Cattaneo

Interactive Discussion

Q&A

Closing remarks

Assistant Secretary-General for Economic Development and Chief Economist, UN Department for Economic and Social Affairs, Mr. Elliott Harris

SESSION ORGANISER: CDP Secretariat. **Contact:** Ms. Mereseini Bower, Inter-Regional Adviser, CDP Secretariat (mereseini.bower@un.org)