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Ex-ante Impact Assessment of likely
Consequences of Graduation of
Timor-Leste
from the Least Developed Country Category

**SUSTAINABLE
DEVELOPMENT GOALS**

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Summary and conclusions

Timor-Leste was considered by the Committee for Development Policy (CDP) to be eligible for graduation from the category of least developed countries (LDCs) for the first time in 2015, based on its per capita income. It will be assessed for the second time at the CDP's triennial review in March 2018, when the CDP may decide to recommend its graduation to the Economic and Social Council (ECOSOC).

This **ex-ante impact assessment for Timor-Leste (see information in the sidebar)**, prepared at the request of the CDP for consideration at the 2018 triennial review, assesses the probable impact of the loss, upon graduation from the LDC category, of support measures relating to international trade; development cooperation; and other general support. The assessment is not an analysis of the country's development challenges. The main conclusions are summarized follows.

Trade

Market access – goods. Upon graduation, and in some cases after transition periods, Timor-Leste would no longer benefit from LDC-specific preferential market access schemes. This would not impact, or would impact only marginally, Timor-Leste's main current export products, crude oil and gas and coffee. It is not expected to significantly impact Timor-Leste's capacity to export these products to new geographic markets or to export products that are currently being considered as potential export products to countries that have been its major trade partners to date. It may, however, affect the access of products currently being considered as potential export products to some markets, such as India and China, which are not currently major destinations for exports from Timor-Leste. Accession to the WTO and to ASEAN would mitigate those impacts. Timor-Leste remains challenged by a high dependence on the oil and gas industry, which faces uncertain prospects, and by a very limited non-oil export base.

WHAT ARE EX-ANTE IMPACT ASSESSMENTS IN THE CONTEXT OF GRADUATION FROM THE LDC CATEGORY?

To graduate from LDC status, a country needs to be found eligible for graduation, based on criteria determined by the UN General Assembly, in two successive triennial reviews conducted by the Committee for Development Policy (CDP).

After a country is found eligible for the first time, the CDP requests that the United Nations Department of Economic and Social Affairs (UNDESA) prepare an ex-ante assessment of the expected impacts for the country of no longer having access to international support measures for least developed countries (LDCs).

This assessment is used, along with a "vulnerability profile" prepared by the United Nations Conference on Trade and Development (UNCTAD), the views of the concerned Government and other relevant information, as an input for the CDP's decision on whether to recommend the country for graduation once it is found eligible for a second time.

Market access – services. The WTO services waiver allows WTO members to grant market access preferences in services for LDCs. The operationalization of this agreement is still incipient and does not yet allow for a full analysis of its likely practical implications for Timor-Leste. Preliminary assessments on the mechanism suggest no major impacts given the nature of the preferences being given and of the services provided by Timor-Leste.

WTO accession. Timor-Leste has started the process for accession to the WTO. After graduation, WTO guidelines and benchmarks for LDC accession would no longer apply as references in the negotiation of the terms of accession by Timor-Leste. The country would also no longer have access to LDC-specific support for accession. Once a member of the WTO, Timor-Leste would not benefit from special arrangements under the WTO agreements and decisions. It could benefit from transition mechanisms for some of these elements and would continue to have access to support measures and preferential treatment granted to non-LDC developing countries.

Trade-related capacity building (Aid for Trade). The main Aid for Trade instrument that is specifically geared at LDCs is the Enhanced Integrated Framework (EIF), which represents a relatively small share of Aid for Trade flows to Timor-Leste. The country would be eligible for support from the EIF for a period of up to five years after graduation.

Development cooperation

The most significant development cooperation programmes for Timor-Leste are based on criteria other than LDC status. Timor-Leste will lose access to certain specific mechanisms and funds, but will retain access to significant alternative ones that are either not limited to specific categories of developing countries or also prioritize Small Island Developing States (SIDS). The most significant sources of funding for climate change are not contingent on LDC status. Timor-Leste will have access to the LDC Technology Bank for a period of up to 5 years after graduation. Among the main development partners:

- Australia informed UNDESA that it “does not envisage that the graduation of Timor-Leste from LDC status will result in a discontinuation of development assistance or technical cooperation” and that it would continue to support Timor-Leste in its development and economic priorities, including support for WTO accession.
- Portugal informed UNDESA that it does not anticipate any change in the national assistance allocation or technical cooperation granted to Timor-Leste as a result of graduation from the LDC category.
- Brazil informed the UNDESA that graduation would not affect south-south cooperation mechanisms.
- The EU informed UNDESA that while there may be a reduction of grant-based aid for countries that are on a sustained growth path or are able to generate sufficient resources of their own, it considered that countries graduating from LDC status were unlikely to be in this position immediately after graduation. The EU would address specific situations and vulnerabilities in future programming cycles.
- The World Bank group does not use the LDC category as a determinant in its operations. Timor-Leste is considered a “blend country” as it is still eligible for the

resources of the International Development Association (IDA) and is also considered creditworthy for some IBRD borrowing, and is transitioning into IBRD-only status. This transition does not depend on graduation.

- No major change is expected in programmes delivered by the United Nations system entities as a result of graduation from LDC status alone, as these entities continue to address, in the fulfilment of their respective mandates, countries' specific challenges.

Timor-Leste will no longer be eligible for certain specific mechanisms and funds (in some cases after a transition period), such as the Least-Developed Countries Fund (LDCF), aimed at addressing the special needs of LDCs under the United Nations Framework Convention on Climate Change, or the Technology Bank for LDCs. It will continue to have access to other instruments not limited to LDCs such as the Green Climate Fund. It will also continue to be given priority under certain frameworks as a Small Island Developing States (SIDS).

General support measures

Graduation will not impact Timor-Leste's contributions to the United Nations regular budget and will minimally impact its contributions to the peacekeeping budget and the budgets of a small number of UN entities. Some forms of general support, such as some scholarships and fellowships, as well as travel assistance to UN meetings and activities may be discontinued. Timor-Leste would continue to have access to mechanisms dedicated to other developing countries and particularly to SIDS.

1. Background, scope and resources

Timor-Leste was found eligible for graduation from the least developed country (LDC) category for the first time during the triennial review of the Committee for Development Policy (CDP) in 2015, based on its per capita income.¹ According to established procedures (see Box 1), this report responds to the request by the CDP for the United Nations Department of Economic and Social Affairs (UNDESA) to conduct an ex-ante assessment of the expected impacts for Timor-Leste of no longer having access to international support measures for LDCs. The report will be considered by the CDP when it reviews Timor-Leste's eligibility for graduation for the second time during the 2018 triennial review.

Scope of the impact assessment. The purpose of the ex-ante impact assessment is to examine the likely consequences of graduation for countries' economic growth and development. It identifies potential risk factors or challenges that countries may face after graduating in view of the possible change in the nature of support received by development and trading partners by evaluating the direct effects of graduation on the main international support measures (ISMs) extended to LDCs. Support measures fall into three main areas: i) international trade; ii) development cooperation; and iii) other general support (related to United Nations funding, support for travel to official meetings, and scholarships and research grants).²

The analysis considers only concrete support measures that are made available to the country concerned exclusively on basis of its LDC status. In international trade, the analysis first identifies products of interest on the basis of current bilateral trade flows and relevant policy documents. Then, it assesses to which extent these products benefit from LDC-specific preferential market access and how market access conditions would change after a possible graduation. If applicable, it also considers the impact of graduation on obligations within the World Trade Organizations and regional trading arrangements as well as the impact on Aid-for-Trade support. The impact of graduation on development cooperation is assessed in two steps. First, the assessment identifies major partners on basis of current development cooperation inflows and projects. Subsequently, and on basis of development cooperation policies and country-specific information from individual development partners, it identifies whether belonging to the LDC category is likely to significantly influence cooperation programmes or limits access to specific instruments. The impact of graduation on contributions to United Nations organizations is assessed by considering the hypothetical contributions a country would have to make to the most recent budget if the country did not have LDC status.

Graduation also has potential benefits, such as a heightened sense of national progress that accompanies a move out of the official lowest rung of the development ladder; and

¹ United Nations Committee for Development Policy, Report on the seventeenth session (23-27 March 2015) of the Committee for Development Policy (E/2015/33, Supplement No. 13).

² A comprehensive catalogue of LDC-specific international support measures is available at <http://www.un.org/ldcportal>.

increased political standing in regional and international institutions. It would be difficult and potentially misleading to attempt to reliably establish and quantify the significance of these factors for individual countries and their consequences for economic growth and development. Therefore, these issues are not addressed in the assessment. Graduation may potentially also affect access to and conditions in financial markets. However, there is currently no evidence from publicly available documents or empirical studies that international rating agencies, international banks or investors include LDC status per se as one of their decision criteria.

Main sources. Sources used in this assessment include official data, relevant documents and studies published by the government, regional and international organisations and other relevant institutions. Information was specifically requested from the main development and trading partners of all LDCs to be considered for graduation by the CDP in 2018 on support measures, including the amount and/or type of preferences, benefits and assistance, as well as on the likely changes in those support measures should the country's graduation be confirmed.³ UN DESA is very grateful to those Governments and institutions that participated and contributed to this exercise.

The draft report of the ex-ante impact assessment was circulated to the Government of Timor-Leste for comments before being finalized for submission to the CDP Expert Group Meeting (EGM) consultations on 1-2 February 2018. The response is contained in Annex I.

³ Responses were received from Australia, Austria, Brazil, the European Union, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, Portugal and Thailand as well as from the Enhanced Integrated Framework (EIF), the Global Environment Facility (GEF), the International Labour Organization (ILO), the International Telecommunication Union (ITU), the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the secretariat of the United Nations Framework Convention on Climate Change (UNFCCC), the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations Population Fund (UNFPA), the United Nations Children's Fund (Unicef), UN Volunteers, the World Food Programme (WFP) and the World Trade Organization (WTO) (as of November 21).

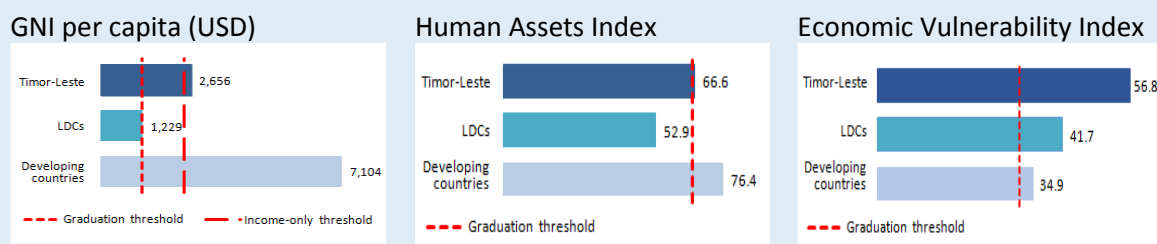
Box 1. Eligibility for graduation and the process towards graduation

A country becomes **eligible** for graduation from the LDC category when it meets any **two of three criteria** in two consecutive **triennial reviews** conducted by the CDP. In the 2018 review, the criteria are as follows:

- GNI per capita of USD 1,230 or above (also referred to as the income threshold)
- Human Assets Index of 66 or above*
- Economic Vulnerability Index of 32 or below*

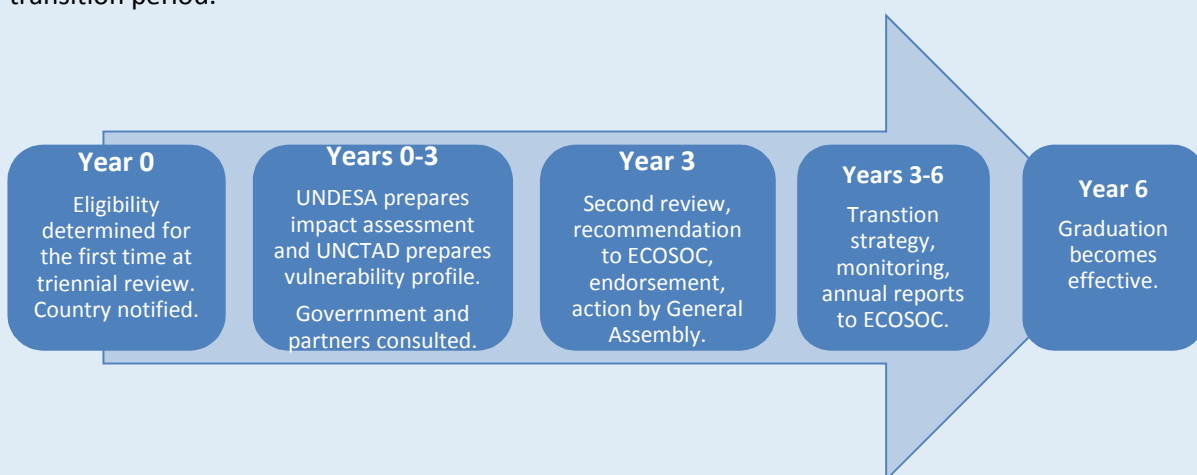
Alternatively, a country may become eligible for graduation if its GNI per capita is more than double the income threshold during two consecutive reviews.

Timor-Leste's eligibility. At the time of the 2015 review, Timor-Leste's GNI per capita was USD 3,767 (more than twice the income threshold at the time, of USD1,242). At the 2018 review, Timor-Leste's GNI per capita is USD 2,656 (more than twice the new graduation threshold of USD 1,230) and its human assets index (HAI) score is 66.6 (exceeding the graduation threshold of 66.0) Although Timor-Leste's vulnerability index remains above the maximum threshold of 32.0, meeting the income and, in 2018, the human assets index (HAI) criteria is sufficient for the country to have met the eligibility criteria on both reviews.



Data based on the 2018 triennial review

The process towards graduation. After the CDP recommends graduation, ECOSOC endorses and the General Assembly takes note of the recommendation. Graduation becomes effective three years after action by the General Assembly. Exceptionally, the General Assembly may decide on a longer transition period.



*For information on the composition of the indexes, see

<https://www.un.org/development/desa/dpad/least-developed-country-category/lcd-criteria.html>

2. Trade-related support measures

The main trade-related support measures to LDCs include preferential access to markets (section 2.2); special conditions of accession to the WTO and special treatment related to the implementation of WTO commitments after accession (section 2.3); and capacity-building related to trade (section 2.4). As background information, the following section provides an overview of Timor-Leste's export structure.

2.1 Overview of Timor-Leste's export structure

Note on data: *The analysis in this section is based on four sources of data: (i) Balance of payments: oil and gas is produced through production sharing agreements and revenues from the oil and gas industry – petroleum taxes, royalties and oil and gas profits – are required by law to be transferred to the Petroleum Fund. In the balance of payments, these revenues are recorded as primary income (not as exports of goods), along with revenues from the Fund's investments; (ii) National accounts: oil and gas exports are recorded as exports of goods in the national accounts, together with non-oil exports, which enables a comparison of the scale of oil versus non-oil exports as well as the identification of major export sectors (Government of Timor-Leste, 2016); (iii) International merchandise trade statistics published by the Government: export statistics based on customs data are published in annual reports and contain more detailed information on export products (Government of Timor-Leste, 2014, 2015a); (iv) UN Comtrade: this source does not allow for the separation of exports from re-exports and is used here as a complement to information on main export destinations (see Table A.1 in the Annex). There are apparent inconsistencies between the three sources of data, attributable to conceptual and methodological differences. Nonetheless, the combination of the different sources provides a sufficiently coherent picture to serve as a basis for the analysis on the impacts of graduation and particularly on the lifting of LDC-specific preferences, below.*

Main exports

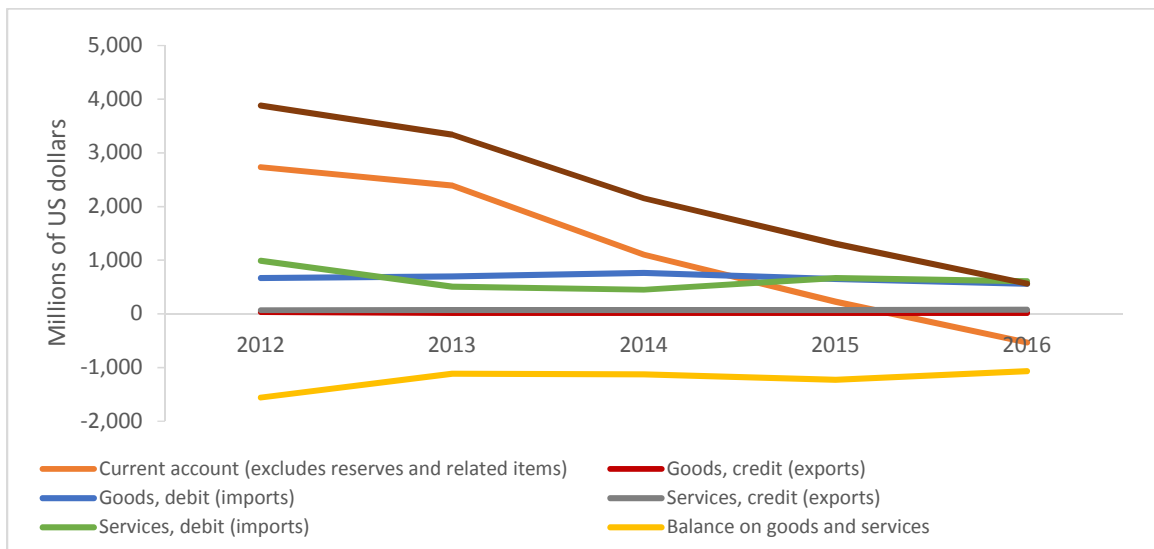
Timor-Leste's exports are highly concentrated. Oil and gas exports account for approximately 99% of total exports as recorded in the national accounts (Table 1) and the oil and gas industry has been Timor-Leste's leading source of revenue. There has been a sharp decline in production and therefore revenues since 2012. In the balance of payments, this is reflected as a fall in primary income, leading the current account to be negative for the first time in 2016 (IMF, 2016) (see Figure 1). The outlook of the oil and gas industry is uncertain. Known oil and gas reserves are expected to be depleted over the course of the next decade. Production from new onshore projects is still uncertain, as are prospects for the development of the Greater Sunrise oil and gas field, the object of talks with Australia which were not concluded at the time of writing (Government of Timor-Leste, 2017; EIU, 2017).

Table 1: Timor-Leste’s exports of goods as recorded in the national accounts, 2010-2015 (percentages)

	2010	2011	2012	2013	2014	2015
Petroleum oil and gases	99.3	99.3	99.0	99.5	99.6	98.6
Crops and vegetables	0.7	0.6	0.9	0.4	0.4	1.4
Wood and wood products	0.0	0.0	0.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0

Source: Timor-Leste’s National Accounts 2010-2015, Statistics and Analysis (Government of Timor-Leste, 2016), accessed September 2017.

Figure 1. Timor-Leste: selected elements of the current account (millions of United States dollars)



Source: based on data extracted from IMF (<http://data.imf.org>), accessed October 2017.

Timor-Leste’s balance of non-oil goods and services exports has been persistently negative due to the weak non-oil export base and high dependence on imports. Non-oil exports are also highly concentrated. According to external trade statistics, coffee has accounted for between 96% and 99% of non-oil exports since 2010, with the exception of 2012 when the country recorded sizeable teak wood exports, not repeated since (Table 2). Small exports of aluminum, candlenut and sandalwood have been recorded in external trade data.

Table 2: Timor-Leste: non-oil export products as recorded in external trade statistics, 2010-2015 (percentages)

	2010	2011	2012	2013	2014	2015
Coffee	97.6	95.7	61.2	98.7	99.3	97.5
Aluminum	0.1	0.1	0.1	0.2	0.1	0.2
Teak wood	1.9	0.7	35.6	0.1	0	0
Candlenut	0.4	0.3	0.4	0.9	0.6	2.3
Sandalwood	0	3.2	2.7	0	0	0

Source: External Trade Statistics yearly publications. General Directorate for Statistics. <http://www.statistics.gov.tl/>, accessed September 2017.

Oil and gas has been exported mainly to other Asian markets (Singapore, Republic of Korea, Thailand, Japan – see Table A.1 in the Annex). The main destinations for non-oil merchandise exports in recent years have been the EU and the United States (see Table 3).

Table 3: Main destinations of Timor-Leste’s main non-oil export products, 2013-2015 (in thousands of United States dollars and percentages)

	2013	2014	2015	Total 2013-2015 (thousands of US dollars)	Share 2013-2015 (%)
European Union	7,922	10,384	3,436	21,742	53.0
United States	5,830	1,356	5,150	12,336	30.1
Japan	1,025	855	529	2,409	5.9
Australia	539	416	534	1,489	3.6
Republic of Korea	149	473	245	867	2.1
Others	586	383	1,179	2,148	5

Source: External Trade Statistics yearly publications. General Directorate for Statistics. <http://www.statistics.gov.tl/>, accessed September 2017.

As for services, national accounts data show that travel is the main component, with export amounts comparable to coffee exports. Tourism a priority in the country’s Strategic Development Plan.

Main potential exports

Given the uncertain prospects and the limitations of an oil-based economy as the basis for sustainable, inclusive growth, development of the non-oil economy (including the expansion and diversification of non-oil exports) is a critical component of the Timor-Leste’s Strategic Development Plan 2011-2030 (Government of Timor-Leste, 2011) and of its Roadmap for implementation of the 2030 Agenda on Sustainable Development and the Sustainable Development Goals (SDP) (Government of Timor-Leste, 2017). The main products identified as potential export products by the Diagnostic Trade Integration Study (DTIS) conducted in 2010 (World Bank, 2011) and in the Strategic Development Plan for

2011-2016 (Government of Timor-Leste, 2011) are in agriculture and fisheries: fish; coconuts; cashew nuts; hazelnuts; groundnuts; ginger; black pepper; vanilla; cloves; and cocoa beans.⁴ In services, the main targeted sector is tourism. The government has, with resources from the Petroleum Fund and development partners, invested in infrastructure intended to help overcome structural barriers to diversification across sectors.

In parallel, and as the country also addresses the long-term sustainability of its petroleum and gas production, it is investing in infrastructure for the expansion of the industry including through the development of refining capacity. The state-owned oil company, Timor GAP, has been entrusted with the development of a large-scale project which includes the construction of a refinery and petrochemical complex and a liquefied natural gas plant. In a first stage, the refinery is expected to produce diesel, gasoline, LPG and Naphtha (Timor GAP, 2016).

2.2 Preferential market access

Developed countries and several developing countries grant preferential market access to goods and services from LDCs. The practical significance of these measures, and therefore of their withdrawal upon graduation, depends on what the graduating country exports and where to. Graduation has no impact on exports of products and services that do not benefit from LDC-specific preferences, or on exports to markets that do not grant LDC-specific preferences. The following paragraphs discuss the applicability of market preferences for Timor-Leste and expected changes once the country graduates from the LDC category.

Preferential market access – trade in goods

Background: *The Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries (known as the “enabling clause”) adopted under the General Agreement on Tariffs and Trade (GATT) in 1979 allows developed countries to extend more favourable, non-reciprocal, treatment to the exports of developing countries in general, and deeper margins of preferences for LDCs. The clause forms the legal basis for the Generalised System of Preferences (GSP) and for LDC-specific schemes within those systems. In 1999, WTO members adopted a waiver that allows developing countries to extend preferential treatment to imports from LDCs. In 2005, at the Sixth Ministerial Conference in Hong Kong, WTO members committed to further improving market access conditions for LDCs, providing duty-free, quota-free (DFQF) market access. As a result, developed countries and several developing countries have LDC-specific preferential arrangements. When a country graduates from the LDC category, it no longer benefits from the LDC-specific preferences other than those for which a transitional scheme is in place to ensure*

⁴ The DTIS and the SDP refer to the development of a light manufacturing industry. A special economic zone – the Special Social Market Economic Zone – was established in 2014 in the enclave of Oé-cusse as a pilot initiative, under a concept that integrates economic, social and environmental aspects (EIU, 2017; UNDP/Special Administrative Zone of Oé-Cusse/ZEESM TL, 2017). There is no clear specification of targeted export products.

a smooth transition out of the category. In developed countries, the country would normally have access to the standard GSP, in addition to any other preferential terms resulting from bilateral or regional agreements. In developing countries, if no bilateral or regional agreements are in place, MFN terms apply to members of the WTO and, in practice, are often extended to others. When this is not the case, general tariff rates apply.

The impact of the withdrawal of LDC-specific preferential market access for goods can be assessed by identifying the significance, in terms of the share of the graduating LDC's total exports, of markets granting such preferences; the tariff schemes that will apply once those preferences no longer apply; and the implications of this change on the tariffs applicable to the country's main exports. Given Timor-Leste's diversification exports, it is useful to also assess impacts on potential geographic markets and potential export products.

Approximately 47% of oil and gas exports and at least 95% of non-oil exports (see Tables 3 and A.1) are to markets that grant LDC-specific preferences. The changes in applicable schemes upon graduation in the main markets would be follows:

- There would be no change in Singapore.
- In the Republic of Korea and Thailand, after graduation Timor-Leste would no longer benefit from preferential tariffs for LDCs and would instead face the MFN tariff.
- In Japan, the United States and Canada, after graduation Timor Leste would no longer have access to the LDC GSP and would instead benefit from the standard GSP.
- In the EU, products from Timor-Leste currently benefit from the "Everything-But-Arms" (EBA) scheme, which grants full duty-free and quota-free access to the EU Single Market for all products except arms and munitions. Upon graduation, and after a transition period of three years, the country would accede to the standard GSP.⁵ It could also be eligible for the Special Arrangement for Sustainable Development and Good Governance (GSP+), provided it ratify and implement 27 conventions on human rights, labour rights, environmental protection and good governance. GSP+ grants preferences additional to the GSP and ensures duty free access for a significant number of products.⁶ Where the GSP does not apply, Timor-Leste would face the MFN tariff.
- In Australia, Timor-Leste has duty-free, quota-free access under an agreement that has been in effect since 2003. The Australian government informed UNDESA that it does not anticipate that Timor-Leste's graduation from the LDC category would affect this. Australia's MFN tariff for Timor-Leste's three main export products is zero.

Among the countries that do not appear as major destinations for exports overall, but do feature as the main markets for Timor-Leste's smaller exports (see Table A.1), Malaysia and Indonesia do not yet grant LDC-specific preferences; in India, MFN rates would apply

⁵ Regulation (EU) No. 978/2012 of the European Parliament and of the Council of 25 October, 2012, regulates the GSP scheme, refers to the transitional period.
http://trade.ec.europa.eu/doclib/docs/2012/october/tradoc_150025.pdf

⁶ Timor-Leste has ratified or acceded to 18 of the 27 instruments.

instead of LDC-specific preferential rates. In China LDC-specific preferential rates are in place for a certain number of products (UNCTAD, 2016). Upon graduation, and as a non-member of the WTO, Timor-Leste would face the general duty rates.

→ **Impacts of the changes in tariff schemes on current export products**

Table 4 summarizes the expected impacts of graduation on tariffs applicable to Timor-Leste's main export products. Products other than oil and gas and coffee, exported only in small quantities are considered below together with potential export products. The table shows that graduation would have no significant impacts in the current markets since either the applicable MFN tariff is zero, the product is not covered by the LDC-specific preferential scheme or the expected change in tariff is small. No significant impacts are expected either for Timor-Leste's capacity to diversify exports of these same products into new geographic markets. The three major commodities face MFN tariffs of zero, or relatively small tariffs, in most significant markets.

Table 4 Tariffs under LDC-specific market access schemes and default schemes for main exports recorded for 2010-2015 (only countries where graduation would change the applicable scheme)

	2709 Crude oil	2711 Petroleum gases/gaseous hydrocarbons	0901 Coffee
Main destinations	Singapore 60% Republic of Korea 22% Thailand 13% Japan 5%	Japan 56% Republic of Korea 44%	European Union 60% United States 8% Canada 8% Japan 8% Australia 4%
Republic of Korea: Preferential tariff for LDCs→MFN	3→3 ⁷	0→1.1	1.61→5.1
Thailand: Preferential tariff for LDCs→MFN	0→0 (MFN=0)	0→0 (MFN=0)	0→0 (MFN=0)
Japan: LDC GSP→GSP	0→0 (MFN=0)	0→1.1	0→3.3/0 MFN=0 for 090111
EU: LDC GSP (EBA) →GSP/GSP+	0→0 (MFN=0)	0→0 (MFN=0)	0→3.1/0 MFN=0 for 090111
USA: LDC GSP→GSP	0→0 (MFN=0)	0→0 (MFN=0)	0→0.06+.002USD/Kg. MFN=0 for all products exported by Timor-Leste
Canada: LDC GSP→GSP	0→0 (MFN=0)	0→0	0→0 (MFN=0)

Source: UNCTAD Trade Analysis Information System (TRAINS) and UN Comtrade, accessed August 2017. Average tariffs are indicated unless otherwise specified. Shaded cells correspond to markets that are already among the main destinations for Timor-Leste's exports of these products. Singapore and Australia are not featured as no change is expected in the applicable tariff scheme.

⁷ See UNCTAD (2013).

→ Impact on potential exports

Table 5 shows expected changes in tariffs applicable to the products identified as potential export products in the Diagnostic Trade Integration Study (DTIS) undertaken in 2010 (World Bank, 2011) and in the Strategic Development Plan for 2011-2030 (Government of Timor-Leste, 2011).⁸ The table also considers products under HS 2710, as likely products of the refining infrastructure currently under development (petroleum gases are addressed above); and aluminium, teak, sandalwood and nuts, products exported so far in small quantities and to limited range of markets. The countries considered are those to which Timor-Leste has exported products other than oil and gas (either registered in UN Comtrade or in External Trade Statistics), and for which graduation will lead to a change in the currently applicable scheme.

Graduation would not significantly affect the tariffs faced by products in most of the countries that have been major destinations of Timor-Leste's non-oil exports (EU, US, Japan, Canada), with the exception of fish (HS03) in the EU, which would face an average tariff of 7%, unless Timor-Leste joins the GSP+. As noted above, exports to Australia are not affected.

In the Republic of Korea, certain products including fish, coconuts and certain types of nuts and certain types of spices would face higher tariffs.

The most significant tariff increases would be in markets which are not currently major destinations for exports from Timor-Leste, India and China. The default regime for non-WTO members in these countries is the MFN and the general duty rate, respectively. If Timor-Leste accedes to the WTO, it would face the MFN rates in China rather than the general duty rates, reducing the applicable tariffs. Moreover, Timor-Leste has applied for membership in ASEAN. Should the country join ASEAN, and having met the applicable conditions, it would benefit from substantially more favourable access to the ASEAN markets and to those with whom ASEAN has free trade agreements.⁹

⁸ The documents have also referred to the development of a light manufacturing industry with no clear specification of products. A special economic zone – the Special Social Market Economic Zone – was established in 2014 in the enclave of Oé-cusse as a pilot initiative, under a concept that integrates economic, social and environmental aspects. While, if successful, this endeavour could foment exports of a wider range of goods including manufactures, there is no evidence to date of results in this direction (EIU, 2017; UNDP/Special Administrative Zone of Oé-Cusse/ZEESM TL, 2017). UNDP/Special Administrative Zone of Oé-Cusse/ZEESM TL (2017), "Special Administrative Region of Oé-Cusse Ambeno – An Alternative Development Model for Timor Leste". http://www.tl.undp.org/content/dam/timorleste/docs/reports/DG/UNDP%20Report_ZEESM_FINAL%2020-7.pdf

⁹ The ASEAN-China Free Trade Area, the ASEAN-India Free Trade Area and the ASEAN-Republic of Korea Free Trade Area came into force in 2010.

Table 5. Tariff differences with and without LDC-specific preferences: potential exports (simple average tariffs unless otherwise indicated)

	European Union	United States	Japan	Republic of Korea	Canada	China	India
03 Fish and seafood	0→7/0.045 ¹⁰	0→0.1	2.1→5.7	9.5→16.3	0→0.4	0→52.8	0→30
0801 Coconuts and cashew nuts	0→0/0	0→0	0→0	0→23.7	0→0	0→67.5	11.5→51.5
0802 Hazelnut and groundnuts (specifically 080221 and 080222)	0→0/0	0→1.5	0→0	0→8	0→0	0→70	0→30
0904 Black pepper (specifically 090411)	0→0/0	0→0	0→0	8→8	0→0	0→70	55.7→65.5
0905 Vanilla	0→2.1/0	0→0	0→0	0→8	0→0	0→50	30→30
0907 Cloves	0→2.8/0	0→0	0→0	0→8	0→0	0→14	0→35
0910 Ginger (specifically 091011 and 091012)	0→0/0	0→0	0→2	377.3→377.3	0→0	0→50	25.5→30
1211 Perfume plants (sandalwood)	0→0/0	0→0	0→0	0→8 for all products covered by LDC preference	0→0	0.5→30.2	0→15.3
1801 Cocoa beans	0→0/0	0→0	0/0	0→5	0→0	0→30	21.3→30
2710 Petroleum oils, not crude	0→0/0	0→0	0→0	5.7→5.7	0→0	0→18.7	2.1→4.9
4403 Wood	0→0/0	0→0	0→0	0→0	0→0	15.1→15.1	0→5
7602 Aluminum (scrap)	0→0/0	0→0	0→0	0→0	0→0	14→14	0→15

Source: UNCTAD Trade Analysis Information System (TRAINS), accessed September 2017. NA indicates that LDC-specific preferences do not apply. Shaded cells correspond to markets to which Timor-Leste has exported in the past, albeit in small quantities. Numbers in **bold** indicate those product/market combinations where tariffs would increase more than 5%.

¹⁰ GSP+ tariffs are zero for most of this 2-digit product group. The exceptions are some types of shrimp and prawns.

Preferential market access – trade in services

Background: In 2011, members of the WTO adopted a decision on preferential treatment to services and services suppliers of LDCs, known as the services waiver. The decision exempts WTO members from the obligation of treating all members equally and allows them to grant market access preferences in services for LDCs. At the Nairobi Ministerial Conference in December 2015, the waiver was extended to December 2030 (WTO, T/MIN(15)/48). In 2013, the Bali Ministerial Decision established steps to promote the operationalization of the decision. In 2014 the LDC group submitted the “LDC collective request”, identifying the sectors and modes of supply of particular interest to them (WTO S/C/W/356). By October 2017, the WTO had received notifications from 23 countries indicating sectors and modes of supply where they intend to provide preferential treatment to LDC services and service suppliers. The EU had signaled its intention to notify.¹¹

Upon graduation, Timor-Leste would no longer have access to preferential treatment under the services waiver. The implementation of the waiver is incipient, and there is still significant uncertainty regarding its practical implications and its effectiveness, and therefore of the effects of no longer having access to it. Among others, there are uncertainties regarding the extent to which notified preferences effectively exceed MFN treatment or GATS schedules and the degree of liberalization. Preliminary assessments suggest that for Timor-Leste’s main service export sector, tourism, preferences granted under Mode 2 are of little significance since few restrictions are in place regardless of the preferences. In mode 4, where preferences may be of greater relevance by facilitating the marketing initiatives in key (through participation in trade fairs or the presence of agency operators), preferences granted are few (Rodriguez et al. 2016). Research on the constraints to service exports in LDCs suggests that supply-side constraints may be more significant than the lack of preferential market access in services (Sauvé and Ward, 2016).

In its communication to UNDESA, the WTO stated that LDCs can obtain transition periods in the application of the services waiver through a consultative process with the preference-granting WTO members.

2.3 WTO accession and obligations

Timor-Leste is not a member of the WTO. The country has observer status and the Working Party was established on 7 December 2016 to evaluate its application for membership. The Memorandum on the foreign trade regime of Timor-Leste was submitted in June 2017.

¹¹ As at September 2017, notifications had been received from Panama, Turkey, Thailand, Uruguay, Canada, South Africa, Liechtenstein, Brazil, Iceland, Chile, India, United States, Mexico, EU (signaled intention to notify), Japan, Switzerland, New Zealand, Hong Kong (China), the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, Singapore, China, Republic of Korea, Norway, Australia (https://docs.wto.org/dol2fe/Pages/FE_Browse/FE_B_009.aspx?TopLevel=8660#/)

LDCs that are members of the WTO benefit from special considerations in the implementation of the WTO agreements. These “special and differential treatment” (SDT) provisions fall into five main categories: (i) increased market access, (ii) safeguarding of the interests of LDCs, (iii) increased flexibility for LDCs in rules and disciplines governing trade measures, (iv) extension of longer transitional periods to LDCs, and (v) provision of technical assistance.¹² SDTs cover various areas including agriculture, investment, intellectual property rights and rules of origin. After graduation from LDC status, differential treatment in the observance of WTO disciplines would in principle not be extended after graduation and any applicable transition periods which, as confirmed to UNDESA by the WTO would depend on negotiations with other members.

For LDCs that, like Timor-Leste, are in the process of joining the WTO, the terms of accession – including deadlines for complying with WTO obligations and other SDT provisions – will be the outcome of negotiations with WTO members. Newly acceding LDCs may have access to a smaller range of SDTs than founding members. For example, Nepal (which acceded to the WTO in 2004) and Lao PDR (which acceded in 2013) waived their right to the general transition periods for implementation of the TRIPS agreement, accepting a shorter transition period, while Liberia (which acceded in 2016), obtained no transition period.

Since 2002, among other measures contained in the Guidelines for the Accession of LDCs adopted by the General Council, WTO members have been encouraged to exercise restraint in seeking market access concessions and commitments on trade in goods and services from acceding LDCs in these processes, among other measures. In 2012, the guidelines were strengthened with the adoption of benchmarks on goods and services and additional elements on special and differential treatment, transition periods, transparency, and technical assistance (ICTSD, 2012).¹³ These guidelines and parameters would apply to the accession process up until graduation and possibly a transition period.¹⁴

Regarding support for accession, upon graduation and any applicable transition periods, Timor-Leste would in principle no longer be eligible for LDC-specific technical assistance and capacity-building for accession and post-accession, including programmes under the Enhanced Integrated Framework (EIF – see the section on “Aid for Trade” below), China’s “Least-Developed Countries (LDCs) and Accessions Programme” (the ‘China Programme’), aimed at strengthening LDCs’ participation in the WTO and at assisting acceding

¹² Some of the provisions are no longer applicable. For example, the longer period extended to LDCs for implementing certain WTO agreements has expired.

¹³ W T/COMTD/LDC/W/55/Rev.2

¹⁴ General Assembly Resolution 59/209, which referred to the smooth transition for countries graduating from the list of LDCs, invited Members of the WTO “to consider extending to a graduated country, as appropriate, the existing special and differential treatment and exemptions available to least developed countries for a period appropriate to the development situation”. The invitation was reiterated in Resolution 67/221.

governments in joining the WTO and the WTO's support for post-accession implementation in LDC's (UNCTAD/WTO, 2016).¹⁵

The WTO recalled, in its communication to UNDESA, that graduated LDCs that are WTO members will continue to benefit from a range of special and differential treatment provisions that apply to developing country members.

2.4 Trade-related capacity building (Aid for Trade)

Aid for Trade, a component of Official Development Assistance (ODA – see section 3) directed specifically at helping developing countries overcome trade-related constraints, is delivered through multiple bilateral, regional and multilateral channels. In 2015, Timor-Leste received approximately USD 69 million in Aid for Trade as measured by the OECD (OECD/WTO, 2017).

The principal instrument for delivery of Aid for Trade specifically geared at LDCs is the Enhanced Integrated Framework (EIF), a multi-donor programme that supports countries through analytical work, institutional support, and productive capacity building projects.¹⁶ Timor-Leste has received assistance from the EIF, jointly with the World Bank, on economic diversification and expansion of non-oil exports – for instance through the elaboration of the DTIS in 2010 – and on strengthening national ownership for Aid for Trade delivery (EIF, 2013). A total budget of USD 50,000 was approved for Timor-Leste in 2010. The EIF secretariat has informed UNDESA that Timor-Leste is eligible to undertake EIF institutional support and productive capacity-building and that a new institutional support project is expected to start in 2018. Graduation of Timor-Leste from the LDC category will not immediately affect its access to the EIF, as smooth transition provisions are in effect that grant graduating countries access to EIF benefits for up to five years after graduation. The EIF has, in fact, supported four graduated countries (EIF, no date).

As for bilateral and multilateral Aid for Trade beyond the EIF, no consolidated information was available on the main sources of Aid for Trade to Timor-Leste. It is likely that the impact of graduation on Aid for Trade will reflect the broader development cooperation strategies for the country, discussed in the next section. In general, while several donors have expressed their intention to address the specific needs of LDCs, Aid for Trade is by no means limited to LDCs. Twenty-seven percent of the 300 billion dollars disbursed as Aid for Trade since the beginning of the WTO's Aid for Trade Initiative went to LDCs (OECD/WTO, 2017). The European Union has informed UNDESA that it is reviewing its Aid for Trade policy. The 2007 EU Strategy on Aid for Trade referred to supporting LDCs but was not exclusively directed at LDCs.

¹⁵ See information on the China programme at https://www.wto.org/english/thewto_e/acc_e/china_programme_e.htm

¹⁶ Additional information is available at <http://www.enhancedif.org/en>, <http://www.enhancedif.org/en/funding> and www.un.org/ldcportal. Under the EIF, Tier 1 funds can be used to fund the preparation of Diagnostic Trade Integration Study (DTIS) and to provide support to National Implementation Units. Tier 2 funds are available to finance priority small-scale projects to build up trade-related and supply-side capacities.

In sum, graduation from LDC status would imply loss of access to the EIF after a transition period. The amounts disbursed to date under the EIF are small compared to the total received as Aid for Trade.

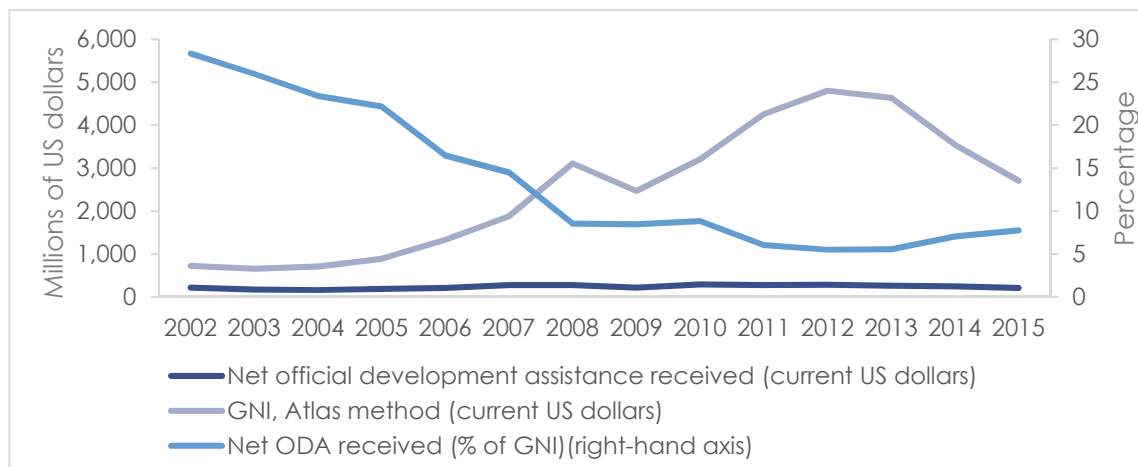
3. Development cooperation

This section addresses 1) official development assistance (ODA) and south-south cooperation; and 2) assistance in specific areas. Important elements of the context in which development cooperation strategies are and will be deployed in the period until 2030 are the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda, both of which recognize the specific challenges of LDCs but also of SIDS, among other categories. For Timor-Leste, another key instrument is the New Deal for Engagement in Fragile States (Government of Timor-Leste, 2015b). Cooperation programmes are anchored in Timor-Leste’s Strategic Development Programme 2011-2030.

3.1 Official Development Assistance (ODA) and South-South cooperation

Official development assistance (ODA) as recorded by the OECD includes flows reported by its members and by multilateral institutions. Timor-Leste received USD 212.3 million in net ODA in 2015.¹⁷ The ratio of net received ODA to GNI was 7.7 in 2015, down from 28.3 in 2002. The decrease in this ratio is attributable principally to the increase in GNI (see Figure 2).¹⁸

Figure 2. ODA to Timor Leste, 2002 to 2015 (millions of United States dollars and percentage of GNI)



Source: World Bank national accounts data and OECD National Accounts data files, accessed July 2017 <https://data.worldbank.org/indicator/NY.GNP.ATLS.CD?end=2014&locations=TL&start=2000>.

¹⁷ OECDStat, <http://stats.oecd.org/>

¹⁸ World Bank DataBank, <https://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS?locations=TL>

Bilateral flows

Australia has been the largest source of ODA, as recorded by the OECD, to Timor-Leste over the last decade, accounting for 34% of total ODA flows and 42% of bilateral flows from OECD countries. Australia has informed UNDESA that it “does not envisage that the graduation of Timor-Leste from LDC status will result in a discontinuation of development assistance or technical cooperation” and that it would continue to support Timor-Leste in its development and economic priorities, including support for WTO accession.

Portugal, the United States and Japan were the next largest bilateral donors. Portuguese cooperation with Timor-Leste is founded on historic and linguistic ties. Portugal UNDESA that it does not anticipate any change in the national assistance allocation or technical cooperation granted to Timor-Leste as a result of graduation from the LDC category.

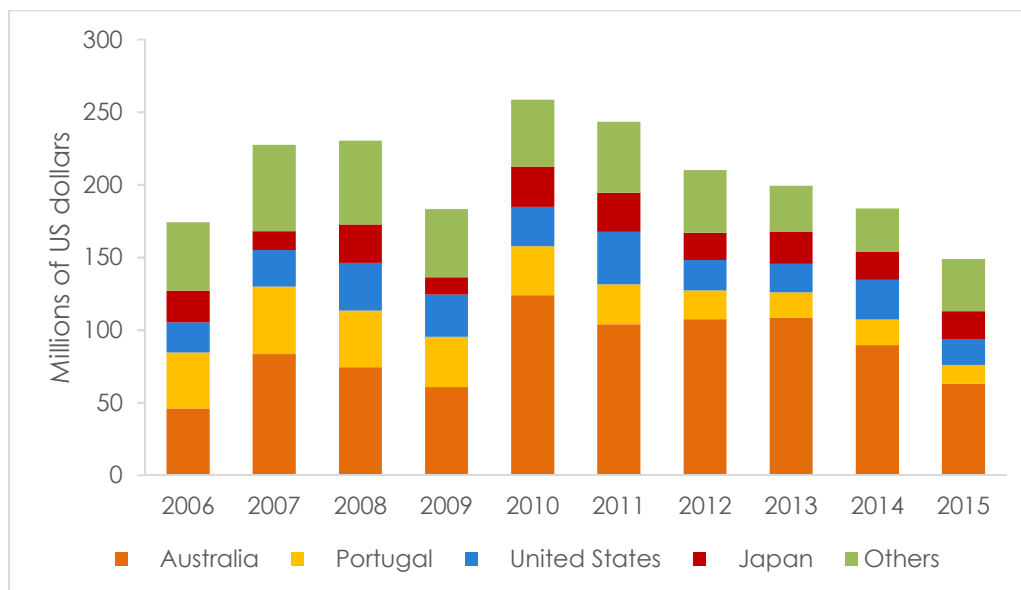
Information on the websites of the USAID and of the Japan International Cooperation (JICA) on ongoing cooperation with Timor-Leste do not indicate LDC status as a determinant (JICA, 2017, USAID, 2013). Graduation may trigger a shift in the financial instruments used to deliver ODA, from grants to loans or towards different terms for loans.¹⁹

There is no consolidated source of information on ODA flows from non-OECD countries comparable to the OECD Development Assistance Committee. Other than the OECD, countries, the Aid Transparency Portal²⁰ run by Timor-Leste’s Ministry of Finance indicates Brazil, as a significant development partner. Brazil informed UNDESA that graduation would not affect south-south cooperation mechanisms.

¹⁹ For example for Japan’s ODA Loans, the most favourable terms (interest rate, repayment period, grace period, conditions for procurement) apply to low-income (GNI of under USD 1025) LDCs. Second most favourable terms apply to LDCs that are not considered low-income and non-LDC low-income countries. Upon graduation, Timor-Leste would not be eligible for loans under this category. See Terms and Conditions of Japanese ODA Loans, effective from April 1, 2017. https://www.jica.go.jp/english/our_work/types_of_assistance/oda_loans/standard/2017_1.html; and OECDStat.

²⁰ <https://aidtransparency.gov.tl/portal/>

Figure 3: Bilateral ODA from OECD countries to Timor-Leste, 2006-2015 (millions of United States dollars)



Source: OECDStat, accessed July 2017.

Among other donors that provided information to UNDESA,

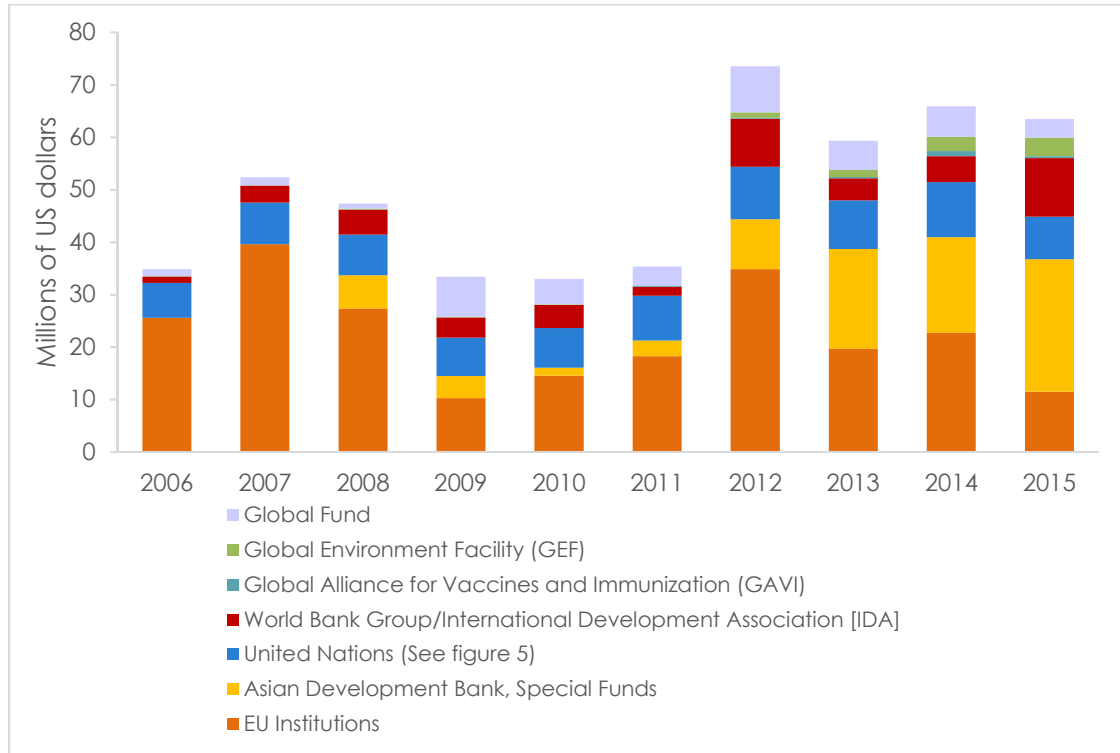
- Germany stated that the focus of its bilateral cooperation with Timor-Leste is on technical cooperation and that no major changes are expected after graduation, as it considers that despite the increase in GNI/capita generated by oil and gas exploration, the country would still face “all major development constraints of an LDC”. Generally, belonging or not to the LDC category does not affect a country’s inclusion in the list of partner countries for German bilateral development cooperation. It may result in changing terms for financial cooperation, with a shift from grants to a greater share of loans, with grants still applying in certain areas.
- Thailand informed UNDESA that its development cooperation “is not initiated on the basis of partner countries’ status, but rather on their actual needs” and that possible graduation of Timor-Leste from LDC status “would neither affect Thailand’s policy in providing development cooperation (...) nor the continuation of existing cooperation”.
- Ireland informed that graduation from LDC status would not have any implications on the continuation of development assistance or technical cooperation.
- New Zealand stated it did not anticipate any significant reduction in development assistance to or technical cooperation with Timor-Leste regardless of LDC status.

Multilateral flows

The main multilateral donors to Timor-Leste in terms of the quantity of flows over 2006-2015 have been European Union Institutions (45% of all multilateral flows), the Asian Development Bank (Special Funds) (17%) and the United Nations entities as a group (17%). Other major donors were the International Development Association (IDA) of the

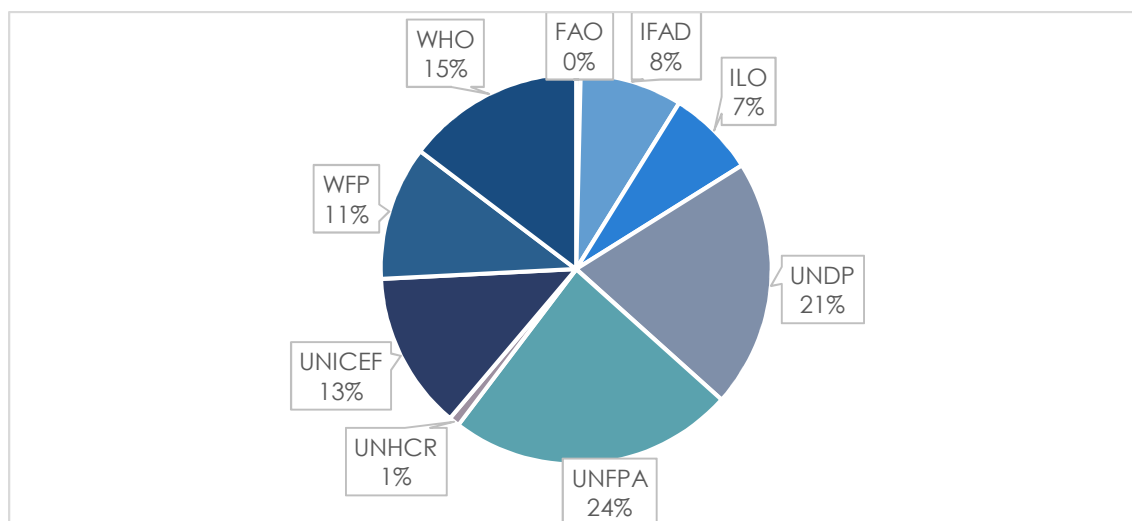
World Bank Group, the Global Fund, and the Global Environment Facility (Figure 4). Among entities of the United Nations system, those having disbursed the largest amount of financial resources over 2011-2015 are UNFPA, UNDP and WHO (Figure 5).

Figure 4: Multilateral flows to Timor-Leste, 2006-2015 (millions of United States dollars)



Source: OECDStat, accessed July 2017.

Figure 5: Assistance from United Nations System entities to Timor-Leste, 2011-2015 (%)



Source: OECDStat, accessed July 2017. Based on total net ODA

The potential impact of graduation from LDC status on the major donors is summarized in Table 6. While graduating from LDC status may lead to changes in the type of assistance granted, most organizations do not rely exclusively on LDC status as a criterion for the allocation of aid and will consider countries' particular vulnerabilities and challenges. Timor-Leste is included under other priority groups, including SIDS.

It is important to note that UN system entities and divisions within the United Nations Secretariat provide assistance to LDCs in forms that are not necessarily reflected in ODA flows, such as analysis and policy advice, advocacy and certain forms of training and capacity building. While, upon graduation, countries may no longer benefit from efforts dedicated specifically to LDCs, in compliance with the request from the United Nations General Assembly, these organizations provide specific support to countries graduating from the LDC category, including by addressing specific challenges arising from the transition out of the category.²¹ In their replies to UNDESA, UNCTAD, UNDP and OHRLS confirmed that they will provide specific support to countries graduating from the LDC category. UNDESA itself also undertakes capacity building activities for countries in the process of graduation from the LDC category.

Table 6. Summary of post-graduation prospects for major multilateral development partners

European Union	As per communication from the European Commission, there may be a reduction of grant-based aid for countries that are on a sustained growth path or are able to generate sufficient resources of their own. The EU considered that countries graduating from LDC status are unlikely to be in this position immediately after graduation and would address specific situations and vulnerabilities in future programming cycles.
Asian Development Bank	No indication that LDC status would be determinant in the allocation of funds. ²²
World Bank Group	The World Bank group does not use the LDC category as a determinant in its operations. Timor-Leste is considered a "blend country" as it is still eligible for the resources of the International Development Association (IDA) and is also considered creditworthy for some IBRD borrowing, and is transitioning into IBRD-only status. This transition does not depend on graduation.
UNFPA	LDC status per se is not a UNFPA Country Classification indicator so a change in LDC status would not automatically trigger changes to UNFPA assistance.
UNDP	UNDP has a board-determined requirement to allocate 60% of its regular budget to LDCs. Timor-Leste's exclusion from this priority group may lead to a reduction in the allocation of funds from the UNDP budget, although the exact impact cannot be established at this stage in the graduation process. UNDP informed UNDESA of its main areas of support to Timor-Leste, which include consolidating the transition out of the legacy of the DPKO mission; engaging in high-level policy advice at the Prime Minister's office on SDG implementation, having just concluded an SDG Roadmap using the MAPS; technical support and advisory services on several areas related to the economic diversification including the industrial policy, financial inclusion research and policy, entrepreneurship and youth employability schemes;

²¹ General Assembly resolution A/RES/71/243, para 40 available at <http://undocs.org/A/RES/71/243>

²² Asian Development Bank Member Fact Sheet, <https://www.adb.org/sites/default/files/publication/27804/tim-2016.pdf>; ADB (2016), Country Partnership Strategy, Timor-Leste, 2016-2020.

	programmes directed at youth, governance, government efficiency, development finance, social protection, environment and natural resources.
UNICEF	UNICEF considers that in fulfilling the pledge contained in the 2030 Agenda to “leave no one behind”, it must focus on the hardest to reach children whether or not they are in LDCs, and many are not. Therefore, UNICEF’s “focus on giving every child and equal chance in life does not change while a country graduates from the list of LDCs”. UNICEF is required by its Executive Board to allocate 60% of its regular resources to LDCs and 50% to sub-Saharan Africa countries. ²³ Timor-Leste would not longer belong to this focus group. However, the impact, for a single country, of leaving the focus group cannot be measured ex ante as numerous criteria and factors determine the scope and scale of development assistance programmes.
WHO	The latest available Cooperation Strategy of the WHO with Timor-Leste (2015-2019) does not refer to LDC status. ²⁴
IFAD	IFAD applies criteria on per capita income rather than LDC status.
WFP	WFP considers criteria other than LDC status in the allocation of its funding. WFP informed the CDP Secretariat that it would implement a number of activities under its new Country-Strategic Plan 2018-2020 across various ministries and departments. WFP will continue to support graduating countries according to their needs and priorities, within available resources.
UNESCO	UNESCO, stated, in its communication to UNDESA, that it continues to support countries that have graduated from the LDC category, and particularly that it works to address the specific challenges of SIDS.
ILO	The Decent Work Country Programme for Timor-Leste 2016-2020 does not refer to LDC status ²⁵
Others	<ul style="list-style-type: none"> • The Global Fund, which mobilizes and invests funds aiming at ending AIDS, tuberculosis and malaria as epidemics. Eligibility is based on GNI and an official disease burden index.²⁶ • LDC status is not a criterion for allocation of funds from the Global Environment Facility in general. However, the GEF administers LDC-specific funds for climate change (see below). • Support from the Global Alliance for Vaccines and Immunizations (GAVI) is not limited to LDCs. • Cooperation under the Community of Portuguese Language Speaking Countries (CPLP) is generally not country-specific and rather focuses on programmes that jointly benefit its members including capacity-building and sharing of experiences and best practices in a wide range of issue areas. This is not contingent on LDC status. • UN Volunteers informed UNDESA that it does not expect significant impact after graduation for volunteers funded by partner countries. A significant reduction in UNDP’s budget could lead to the reduction of the number of UN volunteers funded. They are currently 26 in total. • UNCDF: The United Nations Capital Development Fund (UNCDF) supports LDCs in providing “last mile” finance models that unlock public and private resources to reduce poverty and support local economic development. It currently does not operate in Timor-Leste

²³ https://www.unicef.org/about/execboard/files/RBB-RR-EB_presentation-20Jan2017.pdf and https://www.unicef.org/about/execboard/files/2017-EB4-Results-based_budgeting-20Dec16.pdf

²⁴ <http://www.who.int/countries/tls/en/> and

http://apps.who.int/iris/bitstream/10665/136890/1/ccsbrief_tls_en.pdf?ua=1

²⁵ ILO, http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-jakarta/documents/publication/wcms_505116.pdf

²⁶ https://www.theglobalfund.org/media/5601/core_eligiblecountries2017_list_en.pdf

3.2 Cooperation in specific areas: climate and technology

Climate change commitments and finance

Specific support measures for LDCs were agreed upon during the seventh Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC) in 2001. An LDC work programme was established and the Least Developed Countries Fund (LDCF), to be managed by the Global Environment Facility (GEF), was created to support its implementation, which included the preparation and implementation of National Adaptation Programmes of Action (NAPAs), designed to enable LDCs to communicate their urgent and immediate adaptation needs. Timor-Leste submitted its NAPA to the UNFCCC in 2011. Use of the LDCF has since been expanded to include the elaboration of the National Adaptation Plans (NAPs) in LDCs. NAPs build on the NAPAs and provide a means to address medium and long-term adaptation.²⁷

After graduation, Timor-Leste would not be eligible to receive new funding under the LDCF. Ongoing projects and those approved before and up until graduation would continue to receive funding to ensure their full implementation. Graduated LDCs have access, for the elaboration and implementation of their NAPs, to the Special Climate Change Fund (SCCF) also created in 2001 and open to all developing countries and, more significantly, to the Green Climate Fund (GCF). The GCF was created in 2010 and is expected to be the largest dedicated climate fund. The GCF's governing instrument, approved by the COP in 2011, determines that it take into consideration, in the allocation of resources for adaptation, the "urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States", using minimum allocation floors. The fund aims for a floor of 50% of adaptation funds to be allocated to these countries. Upon graduation, Timor-Leste would still qualify for the GCF as a developing country and would still be included in the group of countries considered particularly vulnerable to the adverse effects of climate change as a SIDS.^{28,29} According to the UNFCCC, the overall impact on access to adaptation support for LDCs that graduate is likely to be minimal, given that the GCF does not have funding windows exclusive to LDCs and that support is available to all developing countries. As at May 2017, 10.2 billion dollars had been pledged for the Green Climate Fund, compared to 1.2 of the LDCF and 0.4 for the SCCF.³⁰

Also in 2001, an LDC expert group (LEG) was created to provide guidance and advise on the preparation and implementation strategies for NAPAs, as well as the other elements of the LDC work programme. The mandate of the LEG was also expanded to provide guidance and support to the formulation and implementation of NAPs. The UNFCCC

²⁷ There have been six approved projects for Timor-Leste under the LDCF for a total grant amount of USD 24.6 million and co-financing of USD 295 million. These are, or have been, executed by the Asian Development Bank and UNDP. Information extracted from <https://www.thegef.org/projects>.

²⁸ www.greenclimatefund.org and Green Climate Fund, 2016.

²⁹ According to information provided by the GCF to UNDESA, there is currently one readiness support project under execution in Timor-Leste under the GCF for a total of USD 300,000.

³⁰ <http://www.climatefundsupdate.org/data>

secretariat clarified that the modalities used in technical support to the LDCs under the UNFCCC through the work of the LEG, which include technical guidance materials, training workshops and related events, will always remain available and accessible to other interested developing countries.”

The Paris Agreement refers to LDCs among broader categories of countries that should be given particular attention because they are particularly vulnerable to the adverse effects of climate change and/or have significant capacity constraints. All clauses that apply to LDCs in the agreement also apply to SIDS, a category to which Timor-Leste belongs.³¹

Technology: LDC Technology Bank

The Programme of Action for the Least Developed Countries for the Decade 2011-2020 (Istanbul Programme of Action or IPOA) called for the establishment of a “Technology Bank and Science, Technology and Information supporting mechanism, dedicated to least developed countries which would help improve least developed countries’ scientific research and innovation base, promote networking among researchers and research institutions, help least developed countries access and utilize critical technologies, and draw together bilateral initiatives and support by multilateral institutions and the private sector, building on the existing international initiatives.” The Technology Bank was officially established in January 2017³² and operationalized in September 2017. It is still early in the process to assess its effectiveness and therefore the impacts of loss of access. After graduation, Timor-Leste would continue to have access to the LDC Technology Bank for a period of five years.

In sum, while graduation may trigger changes in some aspects of assistance delivered to Timor-Leste, it is not expected to significantly alter the development programmes of major partners, which will continue to address its specific challenges and vulnerabilities. The major sources of financing are not currently limited to LDCs.

³¹ Article 9.4 states that “The provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation.” Article 9.9 states “The institutions serving this Agreement, including the operating entities of the Financial Mechanism of the Convention, shall aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing States, in the context of their national climate strategies and plans.” Article 11.1 states “Capacity-building under this Agreement should enhance the capacity and ability of developing country Parties, in particular countries with the least capacity, such as the least developed countries, and those that are particularly vulnerable to the adverse effects of climate change, such as small island developing States, to take effective climate change action, (...)”.

³² A/Res/71/251

4. General support measures

4.1 Ceilings and discounts on the contribution to the United Nations system budgets

According to the Charter of the United Nations, all Member States have the obligation to bear the expenses of the UN, as apportioned by the General Assembly. LDCs benefit from ceilings, special rates and discounts. The main components are the regular budget, the peacekeeping budget, the budget of UN tribunals and the budgets of entities of the UN system other than the Secretariat.

Regular budget of the United Nations

Each country's contribution to the **regular budget** is determined based on capacity to pay, translated into specific criteria that consider gross national income, debt-burden, and per capita income, among others. General Assembly Resolution [70/245](#) of 23 December 2015 determines the elements and criteria to be applied in the definition of the scale of assessments for the period from 2016 to 2018, as well as the scale itself. A minimum assessment rate is defined at .001% of the UN regular budget and a maximum at 22%. The maximum rate for LDCs, however, is .01%.³³

Timor-Leste is assessed at a rate of .003% for the period from 2016 to 2018, which is equivalent to the floor and substantially below the ceiling rate of 0.01% applicable to LDCs.³⁴ Loss of LDC status would therefore not, under equivalent criteria, affect the applicable assessment rate. For 2017, the amount of the assessment was USD 83,296.³⁵

Peacekeeping

The rates of assessment for **peacekeeping operations** are based on the scale of assessments for the regular budget adjusted by a premium in the case of permanent members of the Security Council and discounts in the case of all countries with per capita gross national product below the Member State average. Member States are grouped into levels based on per capita GNI, with larger discounts applying for the levels of countries with lower incomes. LDCs are entitled to the greatest discount, of 90%.³⁶ Should equivalent criteria be in place when Timor-Leste graduates, the applicable discount would be 80% (there would be no change in the assessment rate, as explained

³³ General Assembly resolution 70/245. http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/245

³⁴ Report of the Committee on Contributions, Seventy-Seventh Session (5-23 June, 2017). Document A/72/11. http://www.un.org/ga/search/view_doc.asp?symbol=A/72/11

³⁵ The information is confirmed by communications received from the Committee on Contributions Secretariat within UN Department of Management on 20 June 2017.

³⁶ For the period 2016-2017, the applicable levels of contribution are defined in resolution 70/246. See also General Assembly Resolution 55/235; United Nations (2015), Implementation of General Assembly resolutions 55/235 and 55/236 (A/70/331/Add.1) and Addendum to the report of the Secretary-General ([A/70/331/Add.1](#), annex), adopted by the Assembly in resolution [70/246](#) of 23 December 2015.

above).³⁷ Applied to the peacekeeping budget for the period from July 2017 to June 2018, the difference would amount to USD 20,410.³⁸

United Nations Mechanism for International Criminal Tribunals

The United Nations Mechanism for International Criminal Tribunals was established in 2010 to fulfill the residual functions of the International Criminal Tribunal for Rwanda and the International Criminal Tribunal for the Former Yugoslavia, which have now both ended their operations. Half of the budget of the Residual Mechanism is paid for by Member States based on the scale of assessments applicable to the regular budget of the United Nations and half in accordance with the rates of assessment applicable to peacekeeping operations (resolutions [52/217](#) and [52/218](#)). As discussed above, the first component is not affected by LDC graduation in the case Timor-Leste. As for the second, and focusing on the contributions to the Residual Mechanism, graduation today would imply an increased contribution of USD 92.

Other UN agencies and entities

The assessment rates of FAO, ILO, UNESCO, UNIDO and WHO and others are based on the assessment rates of the UN regular budget, described above, and as for the regular budget, graduation would not impact the amount due by Timor-Leste (see Table 7).

The assessment systems for WIPO and ITU are based on classes of contributions, with LDCs contributing at the lowest levels. Graduation would mean the country would no longer be entitled to contribute at these lowest classes, which would imply an increase in contributions. The ITU Council can authorize an LDC graduate to continue to contribute at the lowest classes, and all LDCs that have graduated since 2007 continue to do so.

Table 7. Timor-Leste's contributions to the budgets of United Nations System entities*

UN entity	Methodology	LDC provisions	Rate with LDC status	Rate without LDC status	Impact of loss of LDC status
UN regular budget	UN scale of assessments	Ceiling of 0.01%	0.003%	0.003%	No impact
Peace-keeping	Based on UN scale of assessments with discount according to income level	Discount level J (90% discount)	0.0003%	0.0006%	Contribution increase for 2017/2018 budget: USD 20,410
Criminal Tribunals	Calculated as 50% UN regular budget and 50% Peacekeeping budget	Peacekeeping discount level J applies to 50% of the budget	0.00165%	0.00180%	Contribution increase for 2017 budget: USD 100.6

³⁷ For the period from 2016 to 2018, non-LDCs with per capita GNI under USD 9,861 have a discount rate of 80% (Resolution 70/246).

³⁸ Calculated based on the total budget of \$6.8 billion for the fiscal year 1 July 2017 - 30 June 2018 (A/C.5/71/24).

CTBTO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.003%	0.003%	No impact
FAO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.003%	0.003%	No impact
ICC	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.005%	0.005%	No impact
ILO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.003%	0.003%	No impact
IOM	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.0032%	0.0032%	No impact
ISBA	Based on UN scale of assessments adjusted to entity membership and floor contribution of 0.01%	Ceiling of 0.01%	0.01%	0.01%	No impact
ITLOS	Based on UN scale of assessments adjusted to entity membership and floor contribution of 0.01%	Ceiling of 0.01%	0.01%	0.01%	No impact
ITU	Voluntary selection of class of contribution	Special class of 1/8 or 1/16 units	1/16 units	1/4 units	Possible contribution increase for 2017 budget: CHF: 59,625 (see text above)
OPCW	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.003%	0.003%	No impact
UNESCO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.003%	0.003%	No impact
UNIDO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.003%	0.003%	No impact
WHO	Based on UN scale of assessments adjusted to entity membership	Ceiling of 0.01%	0.003%	0.003%	No Impact
WIPO	Assessment based on 14 different classes of contribution	STer class	1/32 units	1/16 units	Contribution increase for 2017 budget: CHF 1,424

* The list of abbreviations can be found at the end of this document.

4.2 Support for travel to participate in United Nations meetings

The United Nations offers travel support for up to five representatives of each Member State designated as an LDC to attend the regular sessions of the General Assembly.³⁹ Since 2012, the amounts disbursed in connection with this support measure have varied between USD 25,100 and 49,900.⁴⁰ After graduation, travel support to attend the UN General Assembly sessions may be extended for up to three years subject to the availability of funds.⁴¹

Other UN entities also support travel of LDC representatives participating international conferences, which Timor-Leste would no longer be entitled to after graduation.⁴² However, in some cases, travel support is also extended to other categories of countries, including SIDS.

4.3 Fellowships and research grants

A number of institutions provide scholarships, fellowships and research grants targeted at researchers from LDCs.⁴³ No consolidated information is available at this time on the use of these benefits by nationals of Timor-Leste. Support for research will be available through other instruments after graduation, including fellowships and grants for nationals of developing countries or categories thereof.

³⁹ United Nations (1991), Rules governing payment of travel expenses and subsistence allowances in respect of members of organs or subsidiary organs of the United Nations (ST/SGB/107/Rev.6). Available from <http://documents-dds-ny.un.org/doc/UNDOC/GEN/NS0/000/21/img/NS000021.pdf?OpenElement>

⁴⁰ Information provided by the Department of Management of the United Nations.

⁴¹ United Nations (2011), Implementing the smooth transition strategy for countries graduating from the list of least developed countries (A/RES/65/286)

⁴² For more information, see <https://www.un.org/ldcportal/category/general-support-isms/>

⁴³ A comprehensive list of grants and scholarships are available at <https://www.un.org/ldcportal/category/general-support-isms/>

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Annex I: Response by the Government of Timor-Leste



Permanent Mission of the Democratic Republic of Timor-Leste to the United Nations

NV/UN/02/2018

New York, 10 of January 2018

Dear Mr Mollerus,

First and foremost, allow me to wish you a prosperous and joyful year of 2018. I hope that 2018 will be a successful year for you and your committee.

Following the letter sent by your office on November 27th of 2017 regarding the graduation of Timor-Leste from LDCs status, I am pleased to inform that, Timor-Leste has looked into the assessment prepared by the United Nations Department of Economic and Social Affairs of the Secretariat of the Committee for Development Policy.

Timor-Leste welcomes the report and noted with appreciation the findings of the committee, concerning the triennial assessment for the LDCs graduation. However, despite the consistent growth of the national income, Timor-Leste has been facing major challenges for diversifying its current oil and gas dependent economy, which continues to possess uncertain prospects for an equitable and sustainable development of the country. Furthermore, the strong dependency we have on this source of revenue has created economic vulnerability of the country due to the uncertainty of the oil and gas market at the global level.

In this regard, Timor-Leste would like to request the consideration of the Committee to not recommend its graduation from the LDCs status. By doing so, this will allow Timor-Leste to fully implement and achieve the goals of the 2030 Agenda for Sustainable Development and simultaneously the implementation of Timor-Leste's National Strategic Development Plan 2011-2030.

Please accept the assurances of our highest consideration.

A handwritten signature in blue ink, appearing to read 'M.H. Pires'.

Maria Helena Pires

Ambassador, Permanent Representative

Mr. Roland Mollerus,
Chief
Secretariat of the Committee for Development Policy, DESA
United Nations

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Annex II: Tables

Table A.1 Main destinations of Timor Leste's exports, according to UN Comtrade data, 2010-2015

HS Code	Commodity	Value (USD millions) 2010-2015	Share of total (%)	Top destinations
Top exports as recorded in UN Comtrade				
2709	Petroleum oils and oils obtained from bituminous minerals; crude	1,140	81%	Singapore 60% Republic of Korea 22% Thailand 13% Japan 5%
2711	Petroleum gases and other gaseous hydrocarbons	151	9%	Japan 56% Republic of Korea 44%
0901	Coffee, whether or not roasted or decaffeinated; husks and skins; coffee substitutes containing coffee in any proportion	106	6%	European Union 60% United States 8% Canada 8% Japan 8% Australia 4%
Other exports also recorded in government trade statistics*				
7602	Aluminium; waste and scrap	2.61	0.15%	Malaysia 50% Singapore 37% India 12%
1211	Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh, chilled, frozen or dried, whether or not cut, crushed or powdered	1.39	0.08%	Malaysia 99%
4403	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared	1.02	0.06%	China 89% Malaysia 6% Indonesia 4%

Source: UN Comtrade, accessed September 2017. Destination data extracted through the Observatory for Economic Complexity.

* Products also recorded in the External Trade Statistics yearly publications. General Directorate for Statistics. <http://www.statistics.gov.tl/>, accessed September 2017.

Table A.2. Timor-Leste: bilateral ODA flows from OECD countries, 2006-2015 (net disbursements in current prices, millions of US Dollars)

Donor	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average (2006-2015)
Australia	46.08	83.35	74.48	60.71	124.01	103.87	107.48	108.57	89.64	62.98	86.12
Austria	0.06	0.05	0.15	0.08	0.11	0.02	0.05	0.02	..	..	0.07
Canada	1.81	3.24	1.75	2.02	1.13	1.3	0.29	0.3	0.52	0.3	1.27
Czech Republic	..	..	0.04	0.03	..	..	..	..	..	..	0.04
Denmark	0.27	0.21	..	..	..	..	..	0.17	..	..	0.22
Finland	2.39	0.56	0.62	0.52	0.73	0.67	0.87	0.73	0.83	0.43	0.84
France	0.08	0.5	0.52	0.13	0.12	0.17	0.24	0.25	0.56	0.49	0.31
Germany	5.38	6.24	6.66	5.63	9.42	8.02	8.23	7.88	7.89	7.29	7.26
Greece	0.01	0.05	..	..	..	..	..	..	..	..	0.03
Ireland	9.32	8.35	10.81	7.37	6.15	4.78	5.43	..	0.14	..	6.54
Israel	..	..	..	..	..	0.01	..	..	..	..	0.01
Italy	..	..	1.65	..	0.76	0.01	0.65	1.15	0.02	0.07	0.62
Japan	21.83	13.07	26.45	11.88	27.67	26.86	18.84	22.17	19.17	19.26	20.72
Korea	0.57	1.36	2.18	1.77	1.82	7.02	7.55	3.6	4.02	9.01	3.89
Luxembourg	..	..	..	..	0.01	..	..	..	..	..	0.01
Netherlands	0.23	..	..	..	..	..	..	..	..	..	0.23
New Zealand	5.2	3.15	5.1	5.1	6.58	7.93	8.32	9.19	10.8	14.91	7.63
Norway	14.52	13.45	7.67	8.51	7.82	8.17	7.71	5.56	4.51	2.92	8.08
Poland	..	..	..	..	..	..	..	0.01	0.01	0.01	0.01
Portugal	38.5	46.64	38.99	34.64	33.66	27.65	19.72	17.33	17.68	12.97	28.78
Spain	0.79	11.41	13.96	10.82	6.02	5.69	1.54	1.54	0	..	5.75
Sweden	1.61	6.43	6.03	4.59	4.84	4.7	1.73	0.87	0.34	0.14	3.13
Switzerland	0.75	0.44	0.26	0.04	..	..	0.06	..	..	..	0.31
Thailand	0.04	0.03	0.07	0.08	0.37	0.27	0.23	0.07	0.28	0.22	0.17
Turkey	..	..	..	0.11	..	..	..	..	..	..	0.11
United Arab Emirates	..	..	..	..	0.12	..	..	0.01	..	0.01	0.05
United Kingdom	4.21	4	0.23	0.11	..	0.07	0.21	0.11	0.07	0.1	1.01
United States	20.64	25.06	32.74	29.07	27.14	36.15	20.96	19.74	27.15	17.76	25.64

Source: OECDstat, accessed July 2017.

Table A.3 Timor-Leste: multilateral ODA flows, 2006-2015 (net disbursements in current prices, millions of US Dollars)

Donor	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average (2006-2015)
EU Institutions	25.59	39.58	27.37	10.26	14.55	18.25	34.84	19.66	22.69	11.5	22.43
Asian Development Bank, (AsDB Special Funds)	..	..	6.35	4.2	1.51	2.99	9.55	19.03	18.25	25.24	10.89
United Nations, Total	6.64	7.94	7.7	7.36	7.55	8.56	9.95	9.26	10.51	8.12	8.36
FAO	..	..	..	..	..	..	..	0.17	..	..	0.17
IFAD	..	..	..	..	..	..	0.76	0.56	2.37	0.24	0.98
ILO	..	..	..	..	..	..	0.64	0.93	0.62	1.18	0.84
UNAIDS	0	0.13	..	0.06	..	..	..	..	..	..	0.06
UNDP	2.51	1.93	2.51	2.59	2.15	1.76	2.56	1.87	2.28	1.06	2.12
UNFPA	1.42	1.73	1.97	2.67	3.03	2.74	2.61	1.84	2.04	1.74	2.18
UNHCR	..	0.56	0.11	0.09	0.1	0.4	0.01	..	..	..	0.21
UNICEF	1.6	2.15	1.12	1.12	1.24	1.05	0.84	1.5	1.21	1.44	1.33
UN Peacebuilding Fund [UNPBF]	..	..	..	0.21	0.78	0.01	..	..	..	..	0.33
UNTA	0.92	1.37	0.51	..	..	..	..	..	..	..	0.93
WFP	0.19	0.07	1.48	0.62	0.25	1.41	1.22	1.55	0.86	0.12	0.78
WHO	..	..	..	..	..	1.19	1.31	0.84	1.13	2.34	1.36
World Bank Group (IDA)	1.21	3.25	4.78	3.81	4.4	1.67	9.18	4.2	4.96	11.17	4.86
GAVI	..	..	..	..	..	0.26	0.16	0.29	0.95	0.35	0.40
GEF	0.07	0.07	0.16	0.16	0.16	..	1.04	1.32	2.77	3.56	1.03
Global Fund	1.34	1.53	0.98	7.6	4.81	3.62	8.82	5.53	5.77	3.49	4.35

Source: OECDstat, accessed July 2017.

List of abbreviations

CDP	Committee for Development Policy
CTBTO	Comprehensive Nuclear-Test-Ban Treaty
DAC	Development Assistance Committee
DESA	Department of Economic and Social Affairs
DFQF	Duty-free, quota-free
EIF	Enhanced Integrated Framework
EU	European Union
EVI	Economic vulnerability index
ECOSOC	Economic and Social Council
FAO	Food and Agriculture Organization
GATT	Global Agreement on Tariffs and Trade
GAVI	Global Alliance for Vaccines and Immunization
GEF	Global Environment Facility
GNI	Gross national income
GSP	Generalised System of Preferences
HAI	Human assets index
HS	Harmonized Commodity Description and Coding System (Harmonized System)
IAEA	International Atomic Energy Agency
ICC	International Criminal Court
IDA	International Development Association
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
ISBA	International Seabed Authority
ISM	International support measures
ITLOS	International Tribunal for the Law of the Sea
ITU	International Telecommunication Union
LDC	Least developed country
MFN	Most favoured nation
OECD	Organization for Economic Co-operation and Development
ODA	Official development assistance
OHRRLLS	Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
OPCW	Organization for the Prohibition of Chemical weapons
SIDS	Small Island Developing States
UNCTAD	United Nations Conference on Trade and Development
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Fund
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNTA	United Nations Regular Programme for Technical Assistance
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization