

EXECUTIVE SUMMARY

This flagship report is a comprehensive assessment of where the Least Developed Countries (LDCs) stand, a year into the COVID-19 pandemic. The state of LDCs requires urgent attention and action from LDCs governments, development partners, the private sector and civil society alike. This report provides recommendations where such actions are most needed—from investment in people to sustainable structural transformation and the use of technologies to the mobilization of finance. These recommendations go well beyond recovery from COVID-19, but their implementation would ensure that LDCs can build back better and at the same time enhance sustainable resilience to future shocks and accelerate the achievement of their development goals.

Due to their multiple, long-standing structural impediments to sustainable development, including low human development and high vulnerabilities, LDCs were severely affected by COVID-19—directly and indirectly—in all priority areas of the IPoA. COVID-19 has not only taken a toll on health and livelihoods but also significantly affected international trade, through collapsing commodity prices, disruption of regional and global value chains for manufacturing and a virtual standstill of international tourism, leading to a sharp reduction in GDP growth and a rise in poverty, food and nutrition insecurity, and inequality. The pandemic has laid bare and further exacerbated pre-existing inequalities within and between countries and it is expected that the effects of COVID-19 will jeopardize LDCs' progress towards sustainable development for years to come.

With the Istanbul Programme of Action for the LDCs (IPoA) nearing its end and the next programme of action to be agreed by UN member countries in Doha, Qatar in January 2022, it is a crucial moment to take stock of progress and challenges of the last ten years, while thinking ahead to the next ten year programme of action for the LDCs, which coincides with the last ten years of the Sustainable Development Goals (SDGs).

THE SPREAD OF COVID-19 AND DIRECT HEALTH EFFECTS

The impact of COVID-19 in LDCs has not been as great in absolute numbers as in many other countries, but due to weak health systems, gaps in social safety nets, scarce resources, and other compounding factors, the impact has been felt deeply. Investments must be made in all these areas and special attention must be paid to providing access to vaccines, in order to come out of this pandemic safely and build more resilient systems to withstand future shocks.

While COVID-19 cases seemed relatively low in LDCs at the beginning of the pandemic, they picked up in several countries towards the end of 2020. Towards end of March 2021 LDCs had more than 1.8 million COVID-19 cases. Among those most affected in their national health consequences, many are countries which compounded the COVID-19 crisis with an already critical political situation or the effects of other shocks.

Long ignored risks, such as the underinvestment in health and gaps in social safety nets, have heightened vulnerabilities in LDCs. Closing the gaps in water, sanitation and hygiene, which are among the cheapest measures, is critical to containing the spread of COVID-19 and other diseases. While health systems are weak and access to equipment for containment and protection very limited, several LDCs were able to build on experiences from previous epidemics in containing the spread of COVID-19 and produce face masks, hand sanitizers and other protective and medical equipment. However, the diversion of scarce funds to deal with COVID-19 affected other health services, including other essential vaccination programmes, disproportionately affecting the poor.

Main recommendations

- For public health policy in LDCs, testing, isolating and contact tracing all need to be increased. It will also be crucial to ensure that flexible responses are driven by high quality real-time data.
- LDCs' health care systems must be strengthened and better funded. The delivery of essential health services must be protected to avoid disruptions to other priority health services that should instead be assured even during acute phases of the pandemic.
- Adequate, affordable, and rapid access to new diagnostics and treatments should be ensured in support of pandemic responses and recovery efforts by LDC Governments.
- Effective COVID-19 vaccines should be global public goods and their equitable access must be ensured for everyone, everywhere through the full funding of the COVID-19 Vaccines Global Access (COVAX) Facility.

THE CONSEQUENCES OF COVID-19 ON WELLBEING

In addition to health effects, COVID-19 has brought about significant disruption in everyday life, with wider socio-economic implications. Even before the pandemic, the rate of extreme poverty in LDCs, measured as the population living

below US\$1.90 per day, had only declined slowly in LDCs and was about 35.1 percent in 2018. Indications from the impact of COVID-19 on poverty show an upward trend, wiping out years of progress made in alleviating poverty.

Wages and employment of a large number of workers in LDCs were affected by the pandemic. As most workers in LDCs are in the informal economy, the lockdown affected them disproportionately as they have little cash reserves, no access to teleworking and weak social protection systems, and many were forced to maintain their working routines out of economic necessity. Due to their over-representation in labour-intensive low-skilled activities, women were most severely affected.

The COVID-19 pandemic caused an unprecedented disruption of education provision in LDCs, which was already low before the pandemic. The combination of being out of school and the loss of family livelihoods caused by the pandemic may leave girls especially vulnerable and exacerbate exclusion and inequality. These losses will likely accumulate into large and permanent learning losses as many children fall behind during school closures and never catch up.

While several LDCs have increased utilization of e-education and remote learning platforms, these depend heavily on access to electricity, Internet access, digital skills, online tools and access to appropriate devices. Thus, learning inequalities are widening—between developed and developing countries and between the rich and the poor in the same country.

Main recommendations

- The expansion of social protection programs, including cash transfers, has an important role to play in pandemic response and to support the generation of inclusive growth. Specific measures should be tailored towards women workers with care responsibilities at home, families that may resort to child labour as a coping strategy, as well as other vulnerable subgroups. For persons with disabilities it is essential to remove barriers to enrolling in social protection schemes, such as lack of accessible information.
- It will be important for LDCs to promote a job-rich recovery. Additionally, avoiding premature withdrawal of policy support, such as unemployment benefits and programmes to reskill and upskill will help to build back better after the pandemic. There is also a need to prepare for the future of work, especially in light of on-going technological transformation.
- Producing accessible digital and media resources based on the curriculum will not only allow a quicker response, but their use in ordinary times can also enrich learning

opportunities for children in and out of school. Furthermore, it is important to build teachers' capacity to manage a remote 'virtual' classroom, improve their presentation techniques, train them to tailor follow-up sessions with caregivers and blend technology effectively into their lessons.

EFFECTS OF COVID-19 ON FOOD SECURITY, NUTRITION, AND AGRICULTURE IN THE LDCs

Most LDCs were affected by COVID-19 at a time when food security was already under threat and they were heavily affected by the disruptions of supply chains and increasing food prices. Poor nutrition and undernourishment have become increasingly localized in the LDCs, with 35.11 percent of the world's share in 2019. Since low-income households tend to spend a higher proportion of their income on food, the impact on their nutrition and food security can be significant. Logistic disruptions, loss of income, loss of school feeding programmes due to disruptions in school systems, and other associated impacts could likely have lifelong consequences for children in the LDCs as a result of greater difficulties in accessing an adequate diet.

Central to the COVID-19 response is providing services in rural areas and strengthening governance mechanisms adapted to the specific challenges that COVID poses to the agricultural sector.

The process of agricultural transformation and nutrition transition, accelerated by the changes brought by the pandemic, could represent an opportunity to support poverty eradication and, at the same time, promote better nutrition and health-related outcomes.

Main recommendations

- A substantial scale-up of resources is required as supporting smallholder agriculture can trigger structural transformation in the agriculture of the LDCs.
- Promoting diversification of agricultural productions, integrated farming systems, and eco-system-based strategies that combine productivity with the conservation and enhancement of natural capital can be fruitful.
- Extension services can play a crucial role in supporting smallholder agriculture. Support to promote the adoption of sustainable practices, such as eco-labels, certification systems, and other norms, can facilitate the integration of poor farmers into the food value chain.
- Develop financial instruments targeting producers' organisations like credit guarantee funds that can support investment plans and increase productivity

- Increased infrastructure development, better irrigation systems and facilities for technological solutions can support farmers in accessing information, markets and adding value to their products

TRADE AND PRODUCTIVE CAPACITY WERE HIT HARD

The value of LDC merchandise exports declined 16 percent in the first half of 2020, more than the drop in world exports, due to the temporary decline in commodity prices and disruptions of supply chains. This further reduced the LDC share in global trade, which was already below 1 percent and well below the IPoA target. Sectors that are specifically affected include textiles and clothing, where factories closed due to cancellation of orders, and tourism, which came to a virtual standstill in many LDCs.

The recently launched African Continental Free Trade Agreement (AfCFTA) provides additional market access opportunities for African LDCs and is expected to spur accelerated industrialization through diversified productive capacities.

Micro, small and medium enterprises (MSMEs) constitute over 90 percent of firms in most LDCs, and more than 75 percent of them are estimated to be informal. MSMEs are 'overrepresented' in some of the sectors most affected by COVID-19, such as non-food manufacturing, accommodation and food services, retail and wholesale trade, travel, and transport. MSMEs often lack the resilience, flexibility and safety nets to deal with the adjustment costs triggered by the COVID-19-induced demand and supply shocks. These firms may be the first ones to exit while economies are locked down, or if the effects of the pandemic linger over a long period.

Many LDC governments provided short-term, 'survivalist' measures (such as wage support programs and credit support), designed to alleviate the immediate hardships facing MSMEs, but less were able to implement growth-oriented structural policies (such as measures to support innovation, training and redeployment, and streamlined regulations).

Access to clean, affordable energy will be critical to any attempt at building sustainable productive capacity. Energy transition investment can help reinvigorate the economy, support the recovery phase, and create a wide range of jobs. The recent rapid decline of renewable power generation costs is setting records and rendering renewable power to be the cheapest source of electricity in many LDCs. By placing renewable energy at the core of post-COVID green recovery plans, governments can signal long-term public commitment to the industry, boosting investor confidence and scaling up investments needed for renewable energy development.

Main recommendations

- LDC governments should continue to facilitate MSMEs' access to finance beyond the crisis. They can do this by setting up credit guarantee schemes, by encouraging banks to set aside dedicated funds to lend to MSMEs and by keeping the cost of credit low.
- The diversification of LDCs exports and integration into regional and global value chains, which would reduce their economic vulnerability can be promoted through enhanced duty-free quota-free market access, including by other developing countries as well as the implementation of trade facilitation measures.
- LDCs need to strengthen institutions dedicated to renewable energy policy, regulation, and standardization to drive change at the required scale and pace.
- LDCs need enhanced access to different sources of financing as well as dedicated support to build capacity and assist developers in the preparation of bankable renewable energy projects.

MACROECONOMIC INDICATORS DETERIORATED IN ALL LDCs

On average, GDP in LDCs is estimated to have declined by 1.3 percent in 2020, which is well below previous rates and the IPoA target of 7 percent. It is expected that the recovery in LDCs will be slower than in other countries due to their structural vulnerabilities and exposure to multiple shocks at the same time.

The effects of COVID-19 are expected to lead to a significant decline in government revenue in most LDCs both in absolute terms and a share of GDP. At the same time, most LDCs have increased spending to address the health, social and economic challenges. However, the size of announced fiscal packages in most LDCs is much lower than in other developing countries, as many governments face fiscal constraints. LDCs collectively only managed to increase direct and indirect fiscal support by 2.6 percent of their GDP in 2020, while the size of the stimulus for the developed countries averaged 15.8 percent of their much larger GDP.

Due to the nature of the COVID-19 crisis, the associated loss of growth and investment, as well as deterioration of a country's external position and debt position, depend not only on the conventional macroeconomic policy instruments but crucially on the effectiveness of public health measures as well as economic and social support to households and enterprises.

Main recommendations

- LDCs need to reform their tax systems to make them more equitable and enhance their effectiveness.
- International support for tax reforms through capacity building and training is also crucial.
- International cooperation in combatting corporate tax avoidance needs to be enhanced to ensure LDCs are able to effectively tax cross-border activity and offshore assets.

THE ROLE OF SCIENCE, TECHNOLOGY AND INNOVATION (STI) DURING A PANDEMIC

Digital technologies have great potential to bring economic and social development benefits to LDCs. For that to happen, considerable effort is required to empower and equip LDC governments and the private sector with the capacity to leverage it in areas ranging from tele-working, e-education, telemedicine, to digital finance. Ensuring universal equitable access requires emphasis on digital infrastructure and technologies both during the pandemic response and recovery phases, and during the resiliency-building efforts.

Governments can learn from each other to improve the strategic co-ordination of different policy bodies related to COVID-19 research and innovation. Collective solutions that provide a 'one-stop shop' for the centralization of information on funding opportunities can help ensure that appropriate conditions for collaborative research and sharing of preliminary research findings and data are in place to reap their full benefits.

Main recommendations

- Extending digital technologies to remote areas, such as connecting the rural-urban supply chains, can be cost-effective and can fight pockets of informality and poverty in rural areas. This would also strengthen rural-urban linkages and drive rural transformation, if intermediate cities serve as transmission hubs.
- Invest in digital education and skills development to close the digital divide and increase human capacity so that LDCs will be able to reap the benefits of digital transformation.
- Digital fluency and life-long-learning systems will be required, especially in local environments that provide the required knowledge and adaptation possibilities for entrepreneurs.
- A whole-of-government approach, involving multi-sector and multi-partner co-ordination mechanisms is needed to leverage science, technology and innovation for LDCs.

Financing to Address the COVID-19 Crisis and Prepare for a Sustainable Recovery

External flows to the LDCs from remittances, Foreign Direct Investment (FDI), and Official Development Assistance (ODA) have seen a sharp decline during the COVID-19 pandemic. LDCs have the greatest need and the least access to development finance, and at the same time, the number of countries at risk of debt-crisis is rising. Solutions that look at long-term investment needs and sustainable development are required.

While remittances to LDCs had been increasing rapidly before the pandemic, they declined by around 2 percentage points in 2020. For other external flows like FDI and ODA the declining trend accelerated. At the same time debt levels were rising and LDCs accessed more non-concessional finance.

COVID-19 led to a sharp decline in FDI, including in sectors that are crucial for a sustainable recovery. Thus, investment promotion strategies need to be adapted to new sustainable development opportunities during the recovery after COVID-19, including resetting priorities and targeting investment and business activities supporting the SDGs as well as attracting impact investors facilitating green and digital investment.

Due to the rapidly increasing financing needs ODA is now needed more than ever by LDCs. But there are serious risks that overall ODA might be reduced over the coming years, partly due to lower GNI of development partners, and that LDCs will not be spared from this decline. Meeting the ODA commitments by DAC donors to provide 0.15-0.2 percent of their GNI to LDCs would significantly increase the availability of finance for a sustainable recovery.

While the Debt Service Suspension Initiative, in which 30 LDCs participated, provided much needed liquidity, its scope has been limited. Sustainable solutions to the debt challenges of LDCs need to include debt relief. The COVID-19 crisis highlights gaps in the current international sovereign debt restructuring architecture that should be addressed as soon as possible in order to reduce the likelihood of future crises.

Main recommendations

- LDC specific ODA targets need to be met and at least 50 percent of ODA should be allocated to the LDCs. Enhancing its quality should include alignment with country priorities in line with the SDGs.
- Blended finance investments need to increasingly focus on risk reduction by investing in projects and sectors that increase resilience of economies and societies to future crises and contribute towards achieving the SDGs.

- In order to significantly enhance FDI in LDCs measures to promote investment need to be strengthened, ranging from investment guarantees and insurance schemes to capacity building for Investment Promotion Agencies.
- LDCs can augment South-South cooperation by translating their solidarity into strategic partnerships to make inroads in priority areas in order to embark on sustainable and inclusive recovery.
- Debt solutions such as debt-stock reductions and swift debt-restructuring should be considered. Official creditors could apply better terms to their current and future credits to LDCs, including a broad range of state contingent element to help countries better manage various future shocks. Debt relief should be integrated in a broader strategy that takes investment needs for long-term sustainable development into consideration. Technical assistance and capacity building for LDCs should be provided to strengthen their debt management.

RESILIENCE PACKAGE FOR RECOVERY AND PREPAREDNESS FOR FUTURE SHOCKS

LDCs are severely impacted by the direct and indirect effects of COVID-19 in the achievement of all SDGs, which are often compounded by other shocks—from climate risks to conflict. If the spread of the pandemic and its debilitating impacts are not properly managed, the pre-existing conditions of LDCs, described above, will further worsen, leading to even higher vulnerabilities. Similar to the global financial crisis, the impacts of COVID-19 are likely to last longer in LDCs, even after the pandemic is contained.

This situation calls for building resilience in such a way that the systems are able to absorb threats and maintain their inherent structure and behavior and improve system function and capacity to counter disruptions and help avert systemic collapse. Countries need to design systems, including infrastructure, supply chains, economic, financial and public health systems, that are dynamic, smart and resilient. This can bring additional benefits on top of addressing the impacts of COVID-19 by making the national economic system stronger and resilient.

Given the depth, breadth and complexity of challenges that the LDCs have been facing in the context of various hazards and shocks, there is no silver bullet that can address all of them. A dedicated multi-hazard early warning system and a comprehensive multi-hazard crises mitigation and resilience

building mechanism for LDCs including its terms of reference, institutional mechanism and funding modalities could contribute to such efforts.

Main recommendations

- A multi-hazard early warning system is an important tool to mitigate the impacts of various hazards to a greater extent. With its four diverse key elements—risk knowledge, monitoring and warning service, dissemination and communication, and response capability—this system will support LDCs to better position themselves against shocks and crises. LDCs need support to develop and implement modern multi-hazard early warning systems at the national and regional levels.
- Building resilience against various potential covariate shocks and crises is the first line of defense to protect lives and livelihoods of the people.
- The international community should consider establishing a comprehensive multi-hazard crises mitigation and resilience building mechanism for LDCs by leveraging existing measures and initiatives. A number of measures, including financial, regulatory and institutional, need to put in place to establish and operationalize this mechanism for LDCs.
- It is crucial for LDCs to secure fast-tracked and easy access to various risk mitigation and resilience-building funds at the regional and global levels, including funding for adaptation to climate change; and to get access to adequate bilateral financial and technical support for ex-ante and ex-post measures in this respect.

As the international community gathers around preparations for the Fifth UN Conference on the Least Developed Countries (LDC5), in the midst of continued uncertainties surrounding the pandemic duration, building back better has now become a central policy objective as a shared responsibility requiring strong global solidarity. New integrated approaches that go beyond the actions agreed in the IPoA and Sustainable Development Goals (SDGs) are needed to build systemic resilience to future shocks in all LDCs, through mechanisms that allow them to deal with risks associated to various types of shocks, both in terms of preparedness and recovery. This means going beyond increased support for LDCs and focusing on the creation of opportunities for LDCs to take the leadership in their own development and the building of inclusive societies.

RÉSUMÉ

Ce rapport phare est une évaluation intégrale de la situation des pays les moins avancés (PMA), un an après le début de la pandémie de Covid-19. La situation des PMA exige une attention et des mesures urgentes de la part des gouvernements des PMA, des partenaires de développement, du secteur privé et de la société civile. Ce rapport fournit des recommandations là où ces actions sont les plus indispensables – de l'investissement dans les personnes à la transformation structurelle durable et de l'utilisation des technologies à la mobilisation des financements. Ces recommandations vont bien au-delà du redressement après Covid-19, mais leur mise en œuvre permettrait aux PMA de mieux se reconstruire tout en renforçant leur résistance durable aux chocs futurs et en accélérant la réalisation de leurs objectifs de développement.

En raison de leurs multiples obstacles structurels de longue date au développement durable, notamment leur faible développement humain et leur vulnérabilité élevée, les PMA ont été gravement touchés par la Covid-19 – directement et indirectement – dans tous les domaines prioritaires du Programme d'action d'Istanbul (IPoA). La Covid-19 n'a pas seulement fait des ravages sur la santé et les moyens de subsistance, mais a également fortement affecté le commerce international, grâce à l'effondrement des prix des produits de base, la perturbation des chaînes de valeur régionales et mondiales pour l'industrie manufacturière, et un quasi-arrêt du tourisme international, entraînant une forte réduction de la croissance du PIB et une augmentation de la pauvreté, des inégalités et de l'insécurité alimentaire et nutritionnelle. La pandémie a mis à nu et a exacerbé les inégalités préexistantes au sein des pays ainsi qu'entre ces derniers, et l'on s'attend à ce que l'impact de la Covid-19 compromette les progrès des PMA vers le développement durable pour les années à venir.

Alors que le Programme d'Action d'Istanbul pour les PMA touche à sa fin et que le prochain programme d'action doit être approuvé par les états membres de l'ONU à Doha, au Qatar, en janvier 2022, c'est un moment crucial pour faire le point sur les progrès et les défis des dix dernières années, tout en réfléchissant au prochain programme d'action décennal pour les PMA, qui coïncide avec les dix dernières années des Objectifs de développement durable (ODD).

LA PROPAGATION DE LA COVID-19 ET LES EFFETS DIRECTS SUR LA SANTÉ

L'effet de la Covid-19 sur les PMA n'a pas été aussi important en chiffres absolus que dans de nombreux autres pays, mais en raison de la faiblesse des systèmes de santé, des lacunes

des filets de sécurité sociale, de la pénurie des ressources et d'autres facteurs aggravants, son impact a été profondément ressenti. Des investissements doivent être réalisés dans tous ces domaines et une attention particulière doit être accordée à l'accès aux vaccins, afin de sortir de cette pandémie en toute sécurité et de construire des systèmes plus résilients pour résister aux chocs futurs.

Alors que les cas de Covid-19 semblaient relativement faibles dans les PMA au début de la pandémie, ils ont augmenté dans plusieurs pays vers la fin 2020. Vers la fin mars 2021, les PMA comptaient plus de 1,8 million de cas de Covid-19. Parmi les pays les plus touchés dans leurs conséquences sanitaires nationales, beaucoup sont des pays qui ont dû faire face à la crise du Covid-19 avec une situation politique déjà critique, ou d'effets d'autres chocs.

Des risques longtemps ignorés, tels que le sous-investissement dans la santé et les lacunes des filets de sécurité sociale, ont accentué les vulnérabilités des PMA. Comblant les lacunes en matière d'eau, d'assainissement et d'hygiène – qui sont parmi les mesures les moins coûteuses – est essentiel pour contenir la propagation de la Covid-19 et d'autres maladies. Alors que les systèmes de santé sont faibles et que l'accès aux équipements de confinement et de protection est très limité, plusieurs PMA ont pu s'appuyer sur les expériences des épidémies précédentes pour contenir la propagation de la Covid-19 et produire des masques de protection, des désinfectants pour les mains et d'autre équipement médical et de protection. Cependant, le détournement des rares fonds pour faire face à la Covid-19 a affecté d'autres services de santé, notamment d'autres programmes de vaccination essentiels, touchant de manière disproportionnée les pauvres.

Principales recommandations :

- Pour la politique de santé publique dans les PMA, le dépistage, l'isolement et la recherche des contacts doivent tous être renforcés. Il sera également crucial de veiller à ce que les réponses flexibles soient guidées par des données en temps réel de haute qualité.
- Les systèmes de soins de santé des PMA doivent être renforcés et mieux financés. La prestation des services de santé essentiels doit être protégée afin d'éviter toute perturbation des autres services de santé prioritaires, qui devraient au contraire être assurés même pendant les phases critiques de la pandémie.
- Un accès adéquat, abordable et rapide aux nouveaux diagnostics et traitements devrait être assuré pour soutenir