CDP2018/PLEN/5

# Committee for Development Policy
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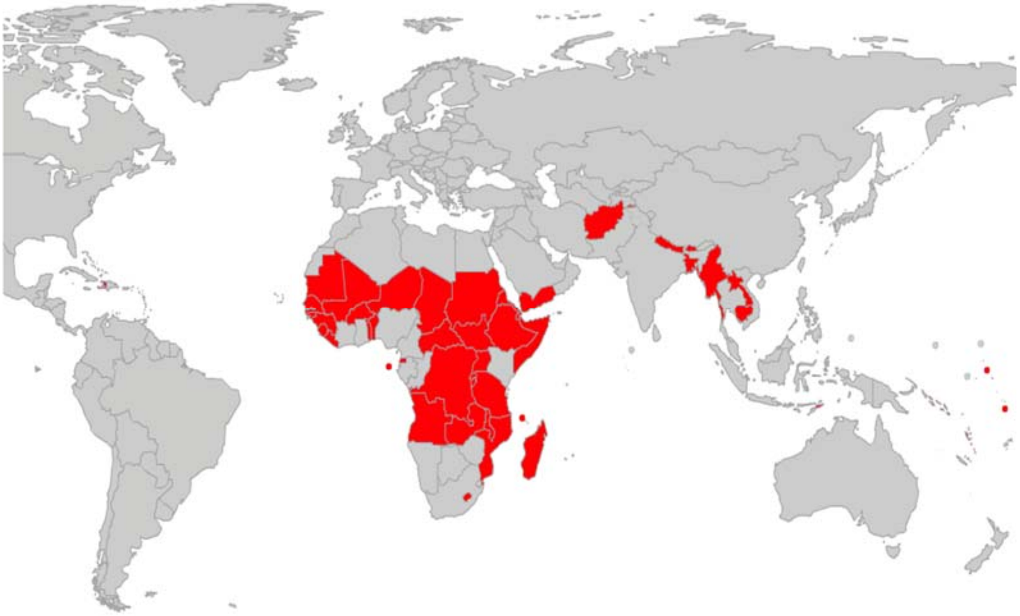
# Summary of Impact Assessments



# CDP2018/PLEN/5 Bhutan, Kiribati, Nepal, São Tomé and Príncipe, Solomon Islands and Timor-Leste

A summary of the assessments undertaken by the United Nations Department of Economic and Social Affairs (UNDESA) at the request of the Committee for Development Policy (CDP)

February 2018

## Impact assessments: background and scope

**This document contains summaries of the assessments prepared by the United Nations Department of Economic and Social Affairs (UNDESA), at the request of the Committee for Development Policy (CDP), on the potential impact of graduation from the least developed country (LDC) category for six countries: Bhutan, Kiribati, Nepal, São Tomé and Príncipe, Solomon Islands and Timor-Leste.**

The first step for a country to graduate from the LDC category is for it to meet the eligibility criteria (see the next page) at two successive triennial reviews conducted by the CDP. During the period between the two reviews, UNDESA prepares, at the request of the CDP, an assessment of the expected impacts, for each eligible country, of no longer having access to international support measures granted specifically to LDCs. These are referred to as impact assessments.

When a country is found to meet the eligibility criteria for a second time, the CDP may recommend its graduation to the Economic and Social Council (ECOSOC). The impact assessments are used, along with vulnerability profiles prepared by the United Nations Conference on Trade and Development (UNCTAD), the views of the concerned government, and any other relevant information, to make this decision. ECOSOC may then endorse the CDP's recommendation and the General Assembly takes note. Graduation becomes effective in principle three years after action by the General Assembly. The General Assembly may, however, decide on longer transition periods on an exceptional basis.

The impact assessments analyse the effects of the withdrawal of international support measures (ISMs) granted specifically to LDCs, which are expected to be withdrawn or phased out after graduation and any applicable "smooth transition" periods ("smooth transition" periods aim at ensuring that graduation does not lead to disruptions in development progress, plans, programmes and projects).

ISMs include measures related to international trade; development cooperation; contributions to the funding of the United Nations system, support for travel to official meetings, scholarships and research grants.

While graduation may potentially have benefits, these are not related to specific measures and cannot be reliably assessed ex ante.

The impact assessments use official data, documents and studies published by governments, regional and international organizations and other institutions. Information was specifically requested from the main development and trading partners of all countries considered, and a draft document was sent to the respective governments for comments.

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# Eligibility criteria for graduating from the LDC category

The identification of the LDCs is based on three criteria: (a) gross national income (GNI) per capita as an indicator of income-generating capacity; (b) the human assets index (HAI) as an indicator of human capital; and (c) the economic vulnerability index (EVI) as an indicator of structural vulnerability to economic and environmental shocks.

To graduate from the category, countries must exceed thresholds for two of the three criteria (in the case of economic vulnerability, this means achieving an EVI that is below the threshold), or alternatively, their GNI per capita must be greater than twice the graduation threshold (the "income- only" criterion).

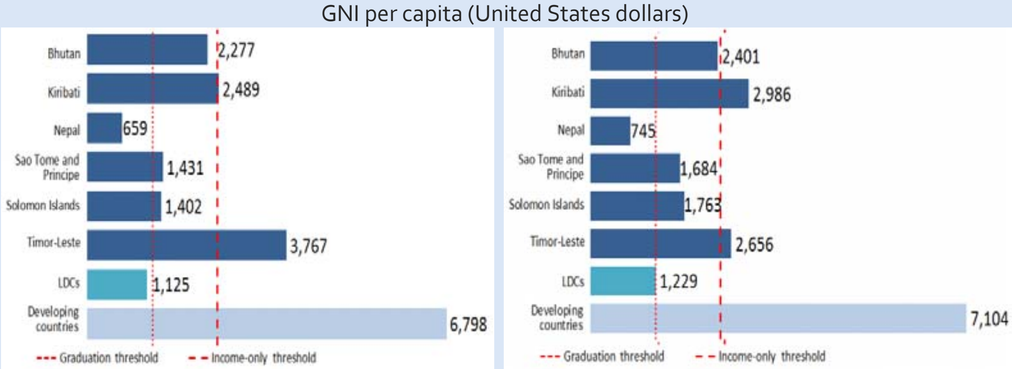
The table below shows the thresholds for the 2015 review and 2018 reviews.

| | 2015 | 2018 |
|---|---|---|
| **GNI per capita** | USD 1,242 or above (USD 2,484 for the "income-only" criterion) | USD 1,230 or above (USD 2,460 for the income-only criterion) |
| **Human Assets Index** | 66 or above | |
| **Economic Vulnerability Index** | 32 or below | |

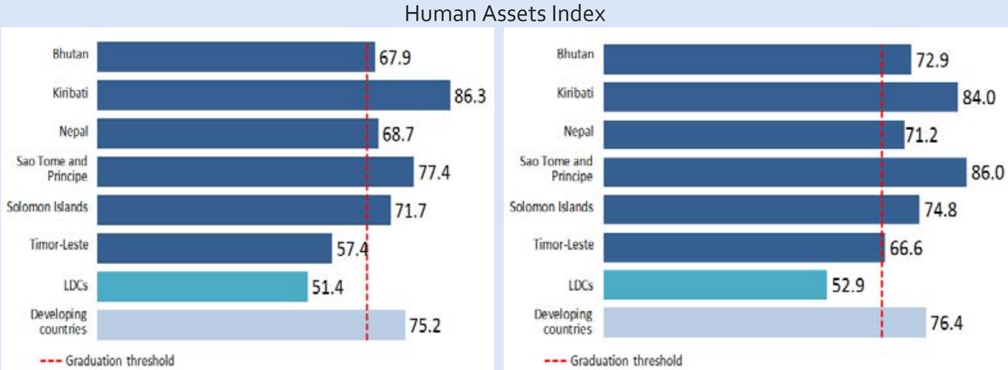
The six countries currently under review performed as follows against these criteria:

**2015** **2018**

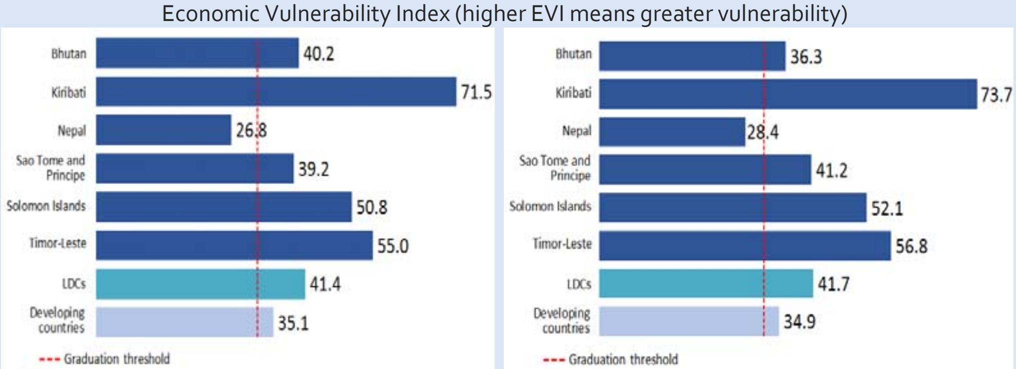
GNI per capita (United States dollars)




Human Assets Index




Economic Vulnerability Index (higher EVI means greater vulnerability)




## For more information on eligibility criteria, see:

Committee for Development Policy (2015), Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures, Second Edition. http://bit.ly/ldchandbook2

See also:

General information on the LDC category and graduation (CDP website): http://bit.ly/leastdeveloped

Information on support measures for LDCs in the LDC Portal: un.org/ldcportal/

Country-specific information for the 2015 triennial review:

*The Least Developed Country Category – 2015 Country Snapshots*

bit.ly/CDP_2015_Country_Snapshots

**Past and ongoing graduation processes**

Botswana – graduated in 1994
Cabo Verde – graduated in 2007
Maldives – graduated in 2011
Samoa – graduated in 2014
Equatorial Guinea – graduated in 2017
Vanuatu – due to graduate in 2020
Angola – due to graduate in 2021
Tuvalu – recommended for graduation in 2015, ECOSOC deferred consideration to 2018
**Kiribati – found eligible in 2006, 2012, 2015. CDP deferred decision on graduation to 2018.**
**Bhutan – found eligible for the first time in 2015**
**Nepal– found eligible for the first time in 2015**
**São Tomé and Príncipe– found eligible for the first time in 2015**
**Solomon Islands– found eligible for the first time in 2015**
**Timor-Leste– found eligible for the first time in 2015**

# Support measures and elements considered in the impact assessments

The impact assessments cover trade, development cooperation, United Nations System funding contributions and travel support, and support for research and scholarships.

The CDP's Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures, Second Edition (October 2015, available at bit.ly/ldchandbook2) contains a comprehensive overview of international support measures. These are also catalogued in the LDC Portal un.org/ldcportal.

## Trade-related support measures

The main trade-related support measures to LDCs are (i) preferential access to export markets; and (ii) special and differential treatment in the implementation of World Trade Organisation (WTO) commitments and in accession to the WTO. Impact assessments consider the implications of the withdrawal of these support measures for each country. Aid for trade is addressed under "development cooperation", below.

### Preferential market access.

**Trade in goods:** Developed countries apply Generalised Systems of Preference (GSP) schemes for developing countries (under which more favourable tariffs are applied to developing countries), and more favourable schemes for LDCs, which usually provide for duty free quota free access and greater product coverage (GSP for LDCs). Several developing countries also apply preferential tariffs to LDCs. When a country graduates from the LDC category, and in many cases after a "smooth transition" period, it normally loses access to the LDC-specific conditions, retaining, in developed countries, access to standard GSPs, in addition to any other preferential terms resulting from bilateral or regional agreements. In the USA, African countries continue to benefit from the African Growth and Opportunity Act (AGOA), which is not LDC-specific. In the European Union, LDC graduates that meet certain eligibility requirements, including the ratification and implementation of 27 conventions on human rights, labour rights, environmental protection and good governance, may apply to join the Special Arrangement for Sustainable Development and Good Governance (GSP+) (see table below). In developing countries, unless 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.

**Tariff schemes before and after graduation, largest world importers (2016) that grant LDC-specific preferences**

| | LDC-specific schemes | Schemes applicable after graduation* |
|---|---|---|
| **European Union** | Everything But Arms | Standard GSP or GSP+ (after 3-year smooth transition) |
| **United States** | GSP for LDCs | Standard GSP; AGOA (for African states) |
| **China** | Preferential tariffs for LDCs | MFN for WTO members, general duty rates for non-members |
| **Japan** | GSP for LDCs | Standard GSP |
| **Canada** | GSP for LDCs | Standard GSP |
| **Republic of Korea** | Preferential tariffs for LDCs | MFN |
| **India** | Preferential tariffs for LDCs | MFN |
| **Switzerland** | GSP for LDCs | Standard GSP |
| **Russia** | GSP for LDCs | Standard GSP |
| **Turkey** | Aligned with EU | Aligned with EU |
| **Australia** | GSP for LDCs | Standard GSP |

*In many cases, smooth transition periods apply. Specific conditions for certain LDCs may apply.

It is worth noting that some key LDC exports are not covered by LDC-specific schemes as they face zero MFN tariffs, and are thus not affected by graduation.

The impact assessments identify the country's main export products and likely exports as it tries to diversify. The assessments then identify the main and potential destinations and the impact of the withdrawal of LDC-specific preferences on the tariffs applied to these products.

**Trade in services**: The services waiver adopted in 2011 allows WTO members to grant LDCs market access preferences in services. By December 2017, the WTO had received notifications from 24 countries indicating sectors and modes of supply where they intend to provide preferential treatment to LDC services and service suppliers. The implementation of the waiver is still in its early stages. Preliminary assessments suggest that for many LDCs, preferences may be of little significance. Within those limitations, the impact assessments identify any likely impacts of no longer benefitting from the services waiver based on each country´s services exports.

### WTO accession and special and differential treatment in the implementation of WTO commitments

LDCs that are already members of the WTO, such as Nepal and Solomon Islands, benefit from special considerations in the implementation of the WTO agreements. After LDC graduation, LDC-specific special and differential treatment in the observance of WTO disciplines is in principle no longer available. Transition periods depend on negotiations with other members.

For countries in the process of joining the WTO, such as Bhutan, São Tomé and Príncipe and Timor-Leste, the terms of accession, including deadlines for complying with WTO obligations and other SDT provisions, are the object of negotiations with WTO members. The Guidelines for the Accession of LDCs adopted by the General Council in 2002 and strengthened in 2012, encourage WTO members to exercise restraint in seeking market access concessions and commitments on trade in goods and services from acceding LDCs, among other requirements. The Guidelines do not apply after a country has graduated. Furthermore, after graduation and any applicable transition periods, countries are no longer eligible for LDC-specific technical assistance and capacity-building for accession and post-accession.

## Development cooperation

Impact assessments address the likely impact of graduation on bilateral and multilateral cooperation and the significance of the withdrawal of LDC-specific mechanisms.

### Bilateral cooperation

Developed countries have committed to dedicating the equivalent of 0.15-0.20% of their GNI to ODA in LDCs and to providing ODA to LDCs essentially in the form of grants. Where aid is delivered also in the form of loans, preferential conditions may apply to LDCs (e.g., Japan's ODA Loans and the concessional loans provided by the Economic Development Cooperation Fund of the Republic of Korea; Germany provides LDCs with grant-only support in their financial cooperation programmes, but resorts to concessional loans for most projects in non-LDC developing countries). There are also LDC-specific commitments to refrain from tying aid to the purchase of goods and services of donor countries.

However, belonging to the LDC category is at most one of many relevant factors in the determination of aid allocation and the development of bilateral cooperation programmes. Historical and cultural ties, or specific vulnerabilities such as insularity, being landlocked, conflict-affected or in a post-conflict situation are taken into consideration. All donors consulted for this report have affirmed that they would continue to support countries after graduation in overcoming their specific challenges and meeting development objectives.

LDC status is generally not a determinant of south-south cooperation.

Information on the policies and expected changes in assistance, if any, of specific partner countries are contained in the country-specific summaries below.

## Multilateral cooperation: development banks and international organizations

Development banks, international financial institutions and United Nations system entities often consider, in the determination of priorities and the allocation of resources and assistance, criteria that are part of the defining criteria of the LDC category, such as levels of income per capita, but not LDC status in and of itself. For example, among multilateral financial institutions, the International Development Association (IDA) of the World Bank Group and the African Development Fund (the concessional window of the African Development Bank Group) use GNI per capita to determine eligibility for their funds.

Belonging to the LDC category is generally not a condition in the delivery of technical assistance by the United Nations development system. Most United Nations entities will continue to support graduated countries through their transition periods and beyond, even though some organizations have board-determined requirements to allocate a certain percentage of their regular budgets to LDCs.

Several UN system organizations, including UNDESA, provide specific support to countries that are in the process of graduating from the LDC category, to contribute to a smooth transition.

The table below summarizes general post-graduation prospects of major multilateral partners and international organizations working with the six countries considered. Bilateral cooperation by major partners is addressed on a country-by-country basis in the summaries.

**Post-graduation perspectives of multilateral development partners**

| | |
|---|---|
| **African Development Bank Group** | No impact expected. Eligibility for the African Development Fund is determined based on GNI per capita and lack of creditworthiness. |
| **Asian Development Bank** | No impact expected. Eligibility for the Asian Development Fund is based on income and risk of debt distress. |
| **European Union** | No impact expected as a direct result of graduation. The EU stated, in its communication to UNDESA, that 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, but that the countries graduating from LDC status are unlikely to be in this position immediately after graduation. Future programming cycles would consider specific situations and vulnerabilities. |
| **IFAD** | No impact expected. In determining the allocation of its resources, IFAD considers national per capita income, rural population, and the relative performance of countries in establishing a conducive institutional and policy framework for sustainable rural development. |
| **ILO** | No impact expected. ILO's cooperation programmes do not depend on LDC status. |
| **IMF** | No impact expected. Do not consider LDC status |
| **UNDP** | UNDP has indicated that resource allocation may be affected after graduation. UNDP has a board-determined requirement to allocate 60% of its regular budget to LDCs. Whereas the exact impact of graduation on the allocation of UNDP funds to each country is not measurable at the current stage of the graduation process, the exclusion from the priority groups (LDCs and low-income countries) may lead to a reduction in the allocation from the UNDP budget. |
| **UNESCO** | No impact expected. UNESCO stated that it continues to support countries that have graduated from the LDC category. |
| **UNFPA** | No impact expected. UNFPA's Country Classification System considers GNI, Maternal Mortality Ratio, humanitarian risk and population size, but LDC status per se is not a UNFPA Country Classification indicator. |
| **UNICEF** | UNICEF is required by its Executive Board to allocate 60% of its regular resources to LDCs and 50% to sub-Saharan African countries. The impact, for a single country, of leaving the LDC category cannot be measured ex ante as numerous criteria and factors determine the scope and scale of development assistance programmes. UNICEF stated that fulfilling the pledge contained in the 2030 Agenda to "leave no one behind" requires focusing 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". |
| **WFP** | No impact expected. WFP considers criteria other than LDC status in the allocation of its funding. |
| **WHO** | No impact expected. Cooperation strategies are not defined by LDC status. |
| **World Bank Group** | No impact expected. The World Bank group does not use the LDC category as a determinant in its operations. Eligibility for the International Development Association takes into account GNI per capita. |
| **Others** | LDC status is not a criterion for allocation of funds from the Global Environment Facility (GEF) in general. However, the GEF administers one LDC-specific fund for climate change (see below).<br>Eligibility for the Global Fund (which mobilizes and invests funds aiming at ending AIDS, tuberculosis and malaria) is based on GNI and an official disease burden index (no impact from graduation expected).<br>Eligibility for support from the Global Alliance for Vaccines and Immunizations (GAVI) is based on income per capita (no impact from graduation expected). |

Sources: Survey of the United Nations Development System Organizations Concerning the Reasons and Consequences of the Non-Application of the Least Developed Country Category (2016); responses to specific information requests in preparation for the impact assessments (2017); and institutional websites.

## LDC-specific instruments

After any applicable transition periods, graduated LDCs lose access to instruments specifically designed for LDCs. Impact assessments review the significance of these changes considering country circumstances and alternative support measures.

Least Developed Countries Fund (LDCF). The LDCF was created under the United Nations Framework Convention on Climate Change (UNFCCC) to support the implementation of the LDC programme under the convention. Ongoing projects and those approved up until graduation continue to receive funding until their full implementation. Graduated LDCs, like other developing countries, have access to the Special Climate Change Fund (SCCF) and to the Green Climate Fund (GCF). The GCF, created in 2010, 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 a minimum allocation floor of 50 % of adaptation funds flowing to these countries, but no funding windows exclusive to LDCs. According to the UNFCCC, the overall impact on access to adaptation support for graduating LDCs is likely to be minimal.

Technology Bank. The Technology Bank for LDCs was created as a result of the call in the Istanbul Programme of Action (IPOA) for a "supporting mechanism, dedicated to least developed countries which would help improve LDCs' scientific research and innovation base, promote networking among researchers and research institutions, help LDCs 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 2017 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, former LDCs would continue to have access to the LDC Technology Bank for a period of five years.

Aid for Trade and the Enhanced Integrated Framework. Aid for Trade is a component of ODA directed specifically at helping developing countries overcome trade-related constraints. It is delivered through multiple bilateral, regional and multilateral channels. 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. The EIF accounts for a relatively small share of total Aid for Trade flows, most of which do not consider LDC status as a condition for assistance. The EIF extends its assistance to former LDCs for a period of up to five years after graduation

United Nations Capital Development Fund (UNCDF). The UNCDF supports LDCs in providing "last mile" finance models that unlock public and private resources to reduce poverty and support local economic development. It invests in financial inclusion and local development finance. UNCDF's smooth transition strategy includes ensuring that programmes are fully funded for an additional three years after graduation and co-funded with the government on a 50/50 basis for an additional 2 years.

## United Nations system funding and travel support

**Contributions to UN system funding:** LDCs benefit from ceilings, special rates and discounts on their assessed contributions to the United Nations regular budget, peacekeeping operations, the UN Mechanism for International Criminal Tribunals and United Nations System agencies and other entities. Contributions to the UN regular budget are determined based on gross national income, debt-burden, and per capita income, among other criteria. LDC´s contributions are capped at 0.01% of the budget, while the maximum contribution for other countries is 22%. In practice, many LDCs countries contribute well below the 0.01% ceiling and graduation therefore does not affect their contributions to the regular budget and the entities that use the same contributions scale (see table below). Contributions for several entities are based on the same scale. Contributions to peacekeeping operations and part of the contributions to the UN Mechanism for the International Criminal Tribunals are based on the regular budget scale discounted by a certain percentage depending on income level. LDCs benefit from a higher discount rate (see table). The assessment systems for WIPO and ITU are based on classes of contributions, with LDCs contributing at the lowest levels. Upon graduation, countries are no longer entitled to contribute at these lowest levels. In the case of ITU, 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.

**Contributions to United Nations system regular budgets**

| UN entity | How contributions are calculated | LDC provisions and impact of graduation |
|---|---|---|
| UN regular budget | Scale of assessments based on GNI, debt burden, per capita income and other criteria. | Ceiling of 0.01% (many countries contribute below the ceiling regardless of LDC status). |
| Funding of peace-keeping operations | UN scale of assessments with discount according to income level | 90% discount on UN scale. After graduation, countries with GNI per capita below USD 9,861 have an 80% discount. |
| UN Mechanism for International Criminal Tribunals | 50% of the contribution is calculated based on the UN scale of assessments and 50% on the rate used for the peacekeeping budget | As above, for UN regular budget and funding of peace-keeping operations. |
| CTBTO, FAO, IAEA, ICC, ILO, IOM, ISBA, ITLOS, OPCW, UNESCO, WHO* | Based on UN scale of assessments, adjusted to entity membership | Ceiling of 0.01% |
| UNIDO | Based on UN scale of assessments adjusted to more restricted membership by applying a coefficient. | The coefficient is not applied to LDCs whose rate may exceed 0.01 per cent. |
| ITU | Voluntary selection of a class of contribution based on shares or multiples of an annual unit of contribution of CHF 318,000. | Only LDCs can opt for the lowest classes of contribution (1/8 or 1/16). ITU Council can authorize a country to continue to contribute at lowest classes. |
| WIPO | Assessment based on 14 classes of contribution | Only LDCs can contribute at the lowest class. |

*Please see the list at the end of this report for full organization names.

**Travel support.** The United Nations and some of its organizations offer travel support for LDCs to participate in official meetings. For example, financing is available for representatives of LDCs to attend the regular sessions of the General Assembly, which can be extended for up to three years after graduation. The LDC Portal (www.un.org/ldcportal/) contains examples. After graduation and applicable transition periods, this support is no longer available. Some modalities of travel support are also extended to other categories of countries.

## Scholarships, support for research

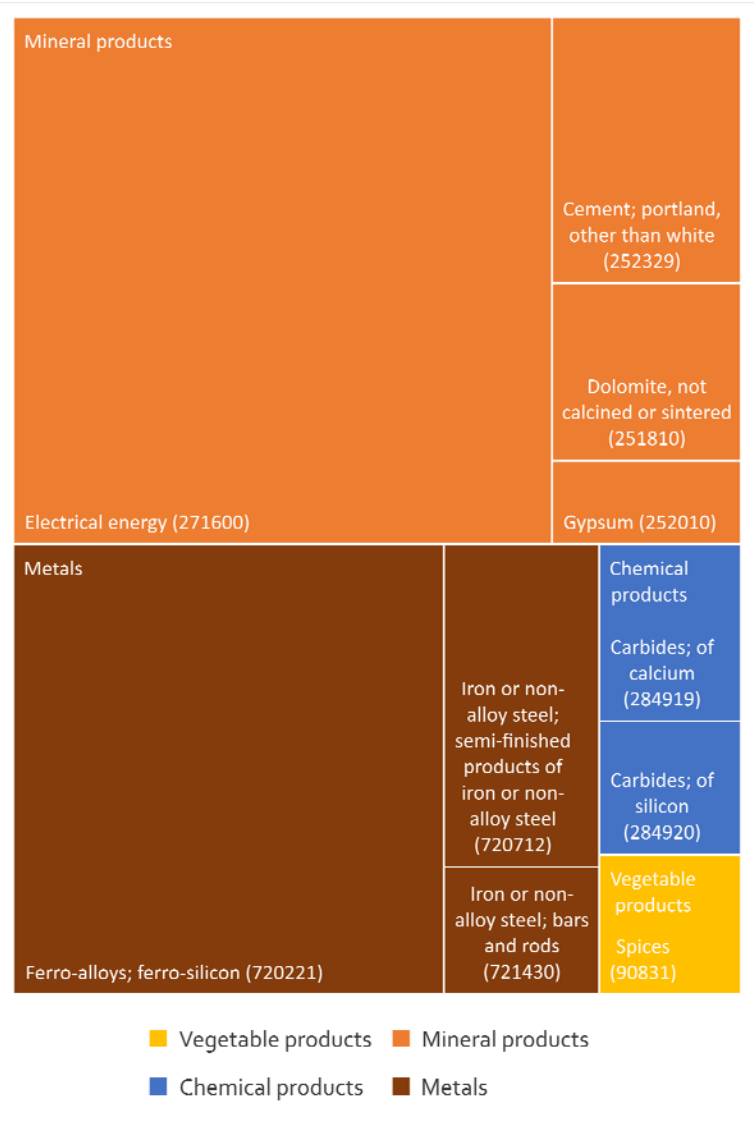
Some institutions provide financial support for research and scholarships for nationals of LDCs. Where possible, impact assessments provide information on the recent use of these instruments.

# Summary of ex ante impact assessment for Bhutan

## Trade-related support measures

**Market access – goods.** Bhutan's main export is electrical energy, followed by ferro-silicon. At a broader product level, mineral products account for a majority of the total export, followed by metals and chemical products. India is the top destination for almost all the main exports of Bhutan. Bangladesh is a major destination for cardamom, and imports some cement products from Bhutan. A few European countries import ferro-silicon products.

**Top 10 commodity exports, 2013-2015 average**




In addition to its inclusion in LDC-specific preference schemes, Bhutan receives market access concessions to LDCs through the Agreement on a South Asian Free Trade Area (SAFTA). Moreover, Bhutan signed bilateral free trade agreements with India, the top destination market for most of Bhutan's exports, and Bangladesh. The possible impact of graduation on tariffs would be as follows:

Bangladesh is one of the main destinations for cardamom, dolomite and gypsum. These products face zero tariffs under the bilateral agreement and are thus not affected by graduation. Given the narrow range of preferential products under SAFTA, there would be no significant impact of graduation on tariffs faced in Bangladesh.

Ferro-silicon exports to the EU are not likely to experience a substantial change in tariffs after graduation. The average tariff would increase slightly from zero to 2.2 per cent, without much variation within that product group.

In the case of India, tariffs based on the Agreement on Trade, Commerce and Transit are applied to all exports from Bhutan, regardless of Bhutan's LDC status. Graduation will have no impact on most of Bhutan's major export products, such as cardamom, cement, silicon, ferro-alloy products.

Nepal is among the main destinations for gypsum, which is not covered by SAFTA-LDC or SAFTA. The tariff rate on gypsum will remain at 5 per cent, the MFN rate, regardless of Bhutan's LDC status.

For current major export products, diversifying into other markets is not likely to be affected by a possible loss of preferential tariffs. In the EU, tariff rates under GSP would still be zero for cardamom and cement products, for instance. In the case of Thailand, the tariff rates are either not covered by GSP-LDC (cardamom and cement), or are zero under the MFN regime (dolomite, gypsum, and silicon).

On the other hand, Bhutan's efforts to diversify may be limited by the possible increase in duties after graduation. For example, should Bhutan graduate, it will lose eligibility for the EBA (GSP-LDC) of the EU after a transition period, and become eligible for regular GSP. EU tariff changes after Bhutan's graduation are generally high for agricultural products.

MFN tariff rates imposed by Japan and Thailand on many agricultural products are significantly higher than those under GSP-LDC schemes. Bhutan may find difficulties in exporting dairy, honey, vegetables and fruits to Japan and Thailand if it loses trade preferences after graduation.

**Market access – services.** Service exports, especially professional services and tourism have been gaining in importance, and have been identified as export sectors with significant potential. Should Bhutan graduate, it might lose an opportunity to benefit from the World Trade Organisation (WTO) Service Waiver which aims to facilitate preferential market access in service sector for LDCs, but the impact is unclear at this moment. Full implementation of WTO obligations may bring additional costs for the country in terms of reduced policy space, but the impact is not quantitatively measurable at this point as Bhutan is still in the process of WTO accession.

**WTO accession.** Bhutan established its first working party for WTO accession discussions in 1999 and was granted observer status in the same year. Bhutan made substantial progress in preparing the accession package. However, the Government deferred accession which, as of November 2017, has not been completed. As an acceding country, Bhutan would need to negotiate specific transition periods to comply with WTO principles.

**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 Bhutan. The country would be eligible for support from the EIF for a period of up to five years after graduation.

## Development cooperation

Bhutan's dependence on foreign aid is significant, but most of the current support will likely remain unaffected by the country's graduation from the LDC category. Replies by major donor countries suggest that most development support to the country will not be affected by a change in Bhutan's LDC status. Bhutan benefits from development loans with concessional rates by Japan, and interest rates may increase for the projects approved after the country graduates from the LDC category.

Financial assistance and technical support by the ADB and the World Bank, the main external financing sources for Bhutan, would not be influenced by the possible graduation.

Graduation may have a negative impact on the country's access to LDCF from the UNFCCC. Bhutan will retain access to other funds from the GEF and the GCF, but will be excluded from the priority group of the GCF.

## General support measures

Graduation will not impact Bhutan´s contributions to the United Nations regular budget and the budgets of most other United Nations organizations; it will minimally impact its contributions to the peacekeeping budget and the budgets of a small number of UN entities.

After a transition period of three years after graduation, Bhutan will no longer be eligible for funds supporting travel of representatives to the official meetings of the UN General Assembly.

The country and its nationals may no longer benefit from other forms of support for travel to participate in international forums or from certain scholarships and fellowships. It would continue to have access to mechanisms dedicated to other developing countries.

**Summary of impact of Bhutan's graduation from LDC category**

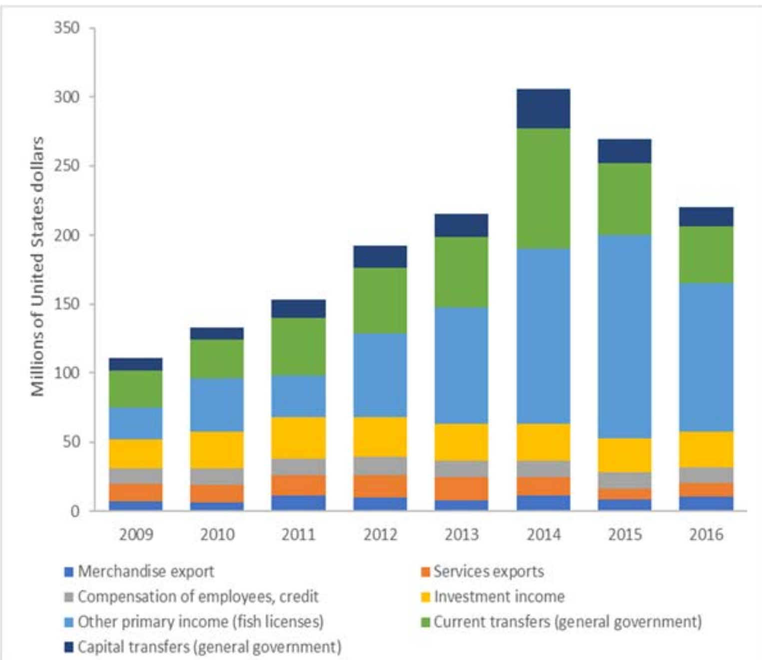
| Category | Transmission channel | Possible change | Possible result |
|---|---|---|---|
| **Trade** | Export of major products to main destinations | No or minor changes in Bangladesh, India, and Nepal. | Tariff rates remains the same due to the duty-free access to India, the bilateral agreement with Bangladesh, and SAFTA. |
| | Diversification of major products to new markets | No or minor change in EU, Japan, Thailand and United States. | Tariff rates remains the same due to the coverage of GSP-LDC and low MFN rates. |
| | Diversification to other products | No tariff increase in Bangladesh, India and Nepal.<br>Significant increase in tariff rates in EU, Japan and Thailand for dairy, vegetable and fruits. | Difficulties in diversifying into dairy, vegetable, and fruit to export to EU, Japan and Thailand due to higher tariffs. |
| | Export of service | Service Waiver no longer applied. | Unclear |
| | Trade related capacity building | Losing eligibility for EIF, and not counted in AfT for LDCs. | 5 years of transition for EIF |
| | WTO obligations | TFA, TRIPS and others | Unclear. Will be determined in the accession process. |
| **Development Cooperation** | Bilateral flows | Reduced ODA associated with LDC status | No indication of abrupt changes following graduation. Possible changes in the terms for the loans of Japan. |
| | Multilateral flows | Reduced budget associated with LDC status | Most entities indicate that no change is expected.<br>Lose access to LDCF. Retain access GEF. Retain access to GCF (but not in the priority group).<br>Lose access to UNCDF after a transition period. |
| | Private flows | FDI attracted by trade preference can decrease after a loss of preference.<br>FDI can increase, as credit rating improves and risk is reduced. | Unclear.<br>FDI increased in graduated countries. |
| **General support** | Contribution to UN system budgets | Contribution ceiling for LDCs is removed, but current rate is 0.001%, the floor. | Peace keeping budget up by $6,800.<br>WIPO budget up by CHF 1,424. |
| | Travel support | No longer eligible for support. | UN GA 3 years of smooth transition.<br>Self-financed travel, or no representation. |
| | Scholarship and research | Not eligible for grants for applications from LDCs | Not significant. Most allow non-LDC applications |

# Summary of ex ante impact assessment for Kiribati

## Trade-related support measures

Kiribati has only very limited exports of goods and services, largely a consequence of its remoteness, limited productive capacities and lack of resources such as land or freshwater. The resulting high demand for imports to satisfy consumption needs is partly covered by income from Kiribati nationals working abroad (as seafarer and as participants in seasonal worker schemes in Australia and New Zealand), proceeds from sovereign saving funds and donor support (see below). However, Kiribati's main source of external financing are international fishing licenses, which have significantly increased with the introduction of the vessel day scheme in the Pacific. The licenses are not related to LDC status and, therefore, will not be affected by a possible graduation.

**Kiribati – Main sources of external financing**




Source: IMF Data, Balance of Payments Statistics, accessed 2 Oct 2017.

### Preferential market access

**Market access – goods.** Kiribati's limited merchandise exports consist of almost exclusively of fish and coconut products. Coconut products are primarily exported to various Asian and Oceanian economies. Fish products are mainly exported to the United States, Japan, Australia and other regional economies. Recent development strategies in Kiribati focus on fish processing as the main growth sector of the economy. After the completion of an onshore processing plant in 2012 by a joint venture between the Government of Kiribati and Chinese and Fijian companies, exports of tuna fillets and similar products to Japan and United States have shown substantial growth in recent years, rising from to USD 0.6 million to USD 5.7 million. Whereas Kiribati does currently not export fish products to the European Union, it has recently cleared market access barriers for exporting sustainable Marine Stewardship Council (MSC) certified tuna and has attracted commitments for foreign direct investment (FDI) to serve the large EU market utilizing LDC benefits.

A possible graduation from the LDC category would have the following likely impacts on market access for Kiribati:

- No impact on exports to Australia, as Kiribati will be able to export duty and quota free under the PACER Plus agreement.
- No impact on exports to the Unites States, as the relevant products are duty free under MFN.
- Some impact on exporting processed fish to Japan, as average tariffs on processed fish (HS 0304) will raise from 1.9 per cent to 4.5 per cent. Within that heading, tariffs for tuna will increase from 0 per cent under the LDC preferences to 3.5 per cent under MFN (fish products being generally excluded from the regular GSP program of Japan). Based on previous graduation cases, tariff increases will become effective shortly after graduation.
- Possibly significant impact on the potential to export processed fish to the EU. The EU applies a three-year transition period before the preferential access under its 'Everything-but-Arms' initiative. After graduation, Kiribati's export would face general GSP rates. Tuna fillets and related products would face tariffs of 10 per cent. In principal, Kiribati may apply to receive GSP + treatment, which would reduce tariffs on fish products back to zero. However, it would need to ratify and implement 27 conventions related to human- and labour rights, environmental protection and good governance, which may require additional capacity in the country.
- Possible significant impact on the potential to export processed fish to the Republic of Korea, with an increase in tariffs to between 10 and 20 per cent. Republic of Korea is the fourth largest market of processed tuna, but currently not explicitly targeted by Kiribati.
- No significant impact on exports to other current Asian markets. Only Thailand and Taiwan Province of China have preferential schemes for LDCs in place, but these generally do not cover products of interest to Kiribati. Malaysia, Philippines and Viet Nam do not grant LDC preferences; exports to Fiji are duty-free under the Pacific Island Countries Trade Agreement (PICTA); and China, Hong Kong is a duty-free destination for all countries.

**Market access – services.** Kiribati's main targeted services export is tourism. The nature and current stage of operationalization of the WTO services waiver does not allow for a full analysis of the implications of the withdrawal of those preferences upon graduation. Preliminary assessments on the mechanism suggest no major impacts.

Graduation will not impact income generation from compensation of employees working abroad (which constitute a services export under the trade in services concept underlying the GATS, but is not counted as services export under national accounts conventions). The seasonal worker schemes of Australia and New Zealand do not depend on LDC status; Australia confirmed that they are expanding access to the Australian labour market for Kiribati workers. Moreover, there are no preferences in place for Kiribati seafarers and fishing crews.

### Special and differential treatment in the implementation of WTO commitments

Kiribati is neither a member of the WTO nor has it requested to accede to the WTO. Consequently, graduation would have no impact on obligations under global trading arrangements.

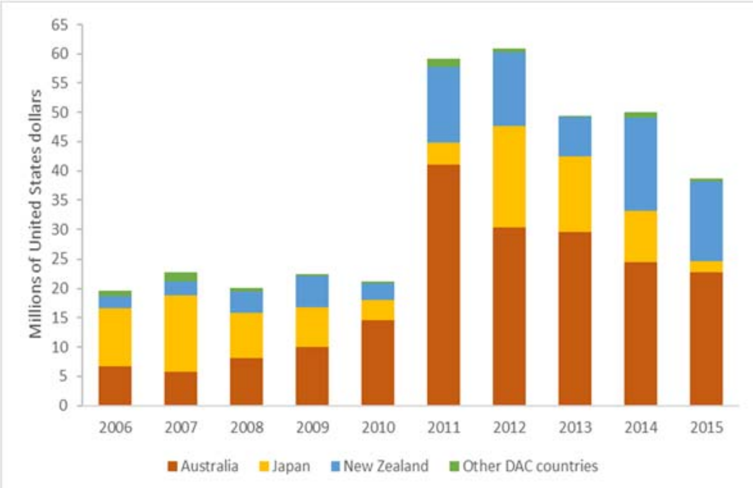
## Development cooperation

Kiribati remains highly dependent on international cooperation, but no major changes are expected in cooperation programmes delivered by the main development partners:

**Bilateral ODA**

- Australia and New Zealand replied to UN DESA that graduation would not lead to a reduction in ODA to Kiribati.
- Japan's allocation of ODA does not depend on LDC status. LDC status affects the interest rates for ODA loans, but all support to Kiribati is on grant basis and hence not affected by graduation.

**Bilateral ODA from OECD/DAC countries to Kiribati, 2006-2015**




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

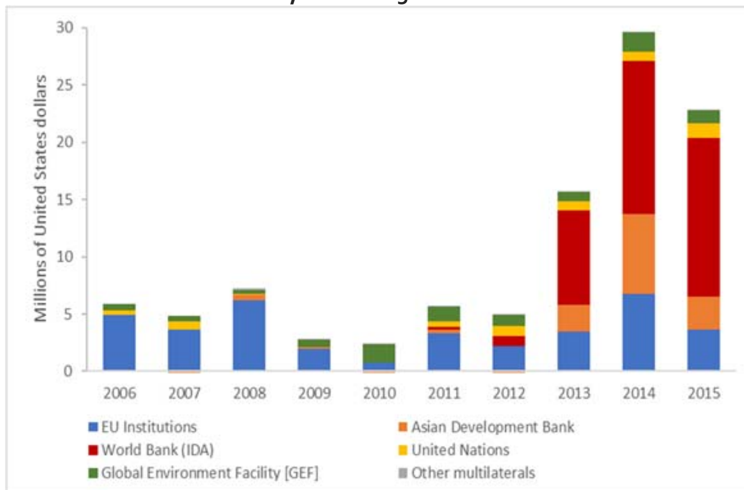
**Multilateral ODA**

- Funding from the World Bank Group, and from the Asian Development Bank does not depend on the LDC category and is not expected to be affected. Kiribati will continue to be eligible for the small island economies exception to access concessional financing from the World Bank's International Development Association (IDA), which recently significantly enhanced its support to small States.
- The EU may gradually reduce grant-based aid for countries that are on a sustained growth path or are able to generate sufficient resources of their own, but in its communication to UNDESA it stated that it did not consider any of the countries being considered for graduation from LDC status likely to be in this position immediately after graduation and would address specific situations and vulnerabilities in future programming cycles.
- As for funding from the GEF, only that related to the LDCF could be affected (see below).
- Graduation is not likely to significantly affect most United Nations system entities' financial and technical support to Kiribati. IFAD, ILO, UNICEF, UNESCO and WHO either do not use LDC status in their allocation or confirmed their continuing support to the country. However, UNDP informed UNDESA that Kiribati would face a significant reduction in the allocation from UNDP cresources.
- A number of United Nations entities (DESA, OHRLLS, UNCTAD, UNCDF, UNESCO) would be in the position to offer graduation-specific support.

**LDC-specific mechanisms**

- Least-Developed Countries Fund (LDCF) (climate change): after graduation, Kiribati would not be eligible to receive new funding under the LDCF. Projects approved before and up until graduation would continue to receive funding to ensure the full implementation of the project. As at October 2017, there was one ongoing project and one awaiting approval. Kiribati will continue to be eligible for funds from the Special Climate Change Fund (SCCF) and the Green Climate Fund (GCF). The country would still be included in the group of countries considered particularly vulnerable to the adverse effects of climate change as a SIDS.
- Technology Bank for LDCs: after graduation, Kiribati would continue to have access to the LDC Technology Bank for a period of five years.
- Enhanced Integrated Framework (Aid for Trade): In Kiribati, the EIF has supported the preparation of the DTIS (2010) and is currently implementing an institutional capacity-building project to mainstream trade strategies and policies. Graduation will not immediately affect 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 UNCDF currently has no projects in Kiribati.

**Multilateral ODA to Kiribati, 2006-2015**




Source: OECDStat, accessed July 2017, based on total net ODA

## United Nations system funding, and travel support

Graduation will not impact Kiribati's contributions to the United Nations regular budget and most other United Nations organizations (CTBTO, FAO, ILO, ISBA, ITLOS, OPCW, UNESCO, UNIDO, and WHO). It will have a small impact on its contributions to the peacekeeping budget and the budgets of a small number of UN entities (see table below).

After a transition period of up to five years after graduation, Kiribati will no longer be eligible for funds supporting travel of representatives to the official meetings of the UN General Assembly. The country may no longer benefit from other forms of support for travel to participate in international forums. It may continue to have access to mechanisms dedicated to other developing countries and particularly to SIDS.

**Expected increase in contributions to the budgets of United Nations System entities upon graduation (based on current budgets)**

| | |
|---|---|
| **Peace-keeping** | **Increase (applied to 2017/2018 budget would imply an increase of USD 6,803)** |
| **UN Mechanism for International Criminal Tribunals** | Marginal increase (criteria applied to 2017 budget would imply an increase of USD 33.5) |
| **ITU** | Increase (applied to 2017 budget, CHF 59,625) unless ITU Council authorizes contribution at lower classes. |
| **WIPO** | Increase (applied to 2017 budget, CHF 1,424) |

*See list of acronyms on the last page of this document.

## Scholarships, support for research

No consolidated information is available on the use by nationals of Kiribati of LDC-specific financial support for research or scholarships.

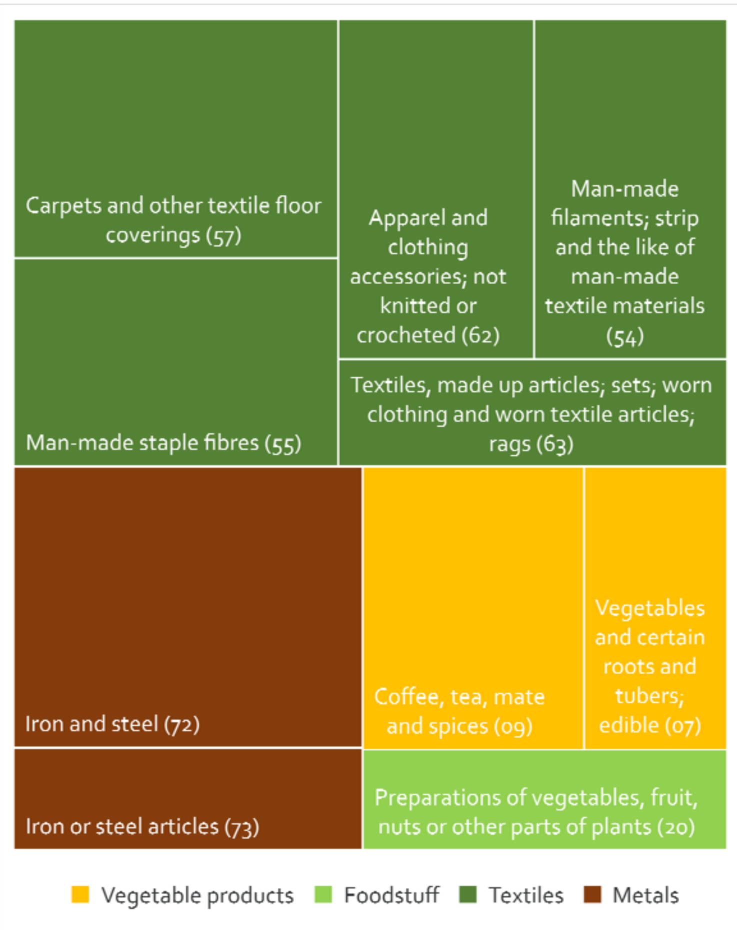
# Summary of ex ante impact assessment for Nepal

## Trade -related support measures

**Market access – goods.** Iron and steel were the top exports of Nepal, accounting for about 10.1 per cent of total exports in 2009-2015. Carpets made up 8.3 per cent of total exports, while coffee and tea, man-made staple fibres, man-made textile materials, and apparel and clothing accessories accounted for about 7 per cent each. Looking at broader product categories, textiles and related products are the most important exports (34 per cent), followed by agro-products, and iron materials. For an LDC, Nepal's merchandise exports are relatively diversified.

India has imported most of Nepal's coffee and tea, preparations of vegetables, textile materials, staple fibres, other textile articles, and iron and steel. Bangladesh was a major importer of edible vegetables. For carpets and apparel, the United States, Germany, and other EU countries are major destinations. Turkey imported some of the staple fibres, and China is becoming an important trading partner.

**Top 10 commodity exports, 2009-2015 average**




Upon graduation, Nepal may lose the trade preference for some of the products in a few markets.

- Bangladesh is one of the main destinations of edible vegetables and Lentils are the main export product in this product group. Given that lentils would continue to face zero tariffs (not covered by SAFTA but zero tariff under MFN), and also given the narrow range of preferential products under SAFTA, graduation would have no significant impact.
- Carpet exports to Canada may face a higher tariff after graduation, depending on the types of the carpet. Under Canada's GSP-LDC, all products are duty free. Under the regular GSP for non-LDCs, some will remain at zero per cent, but some will be taxed. Current carpet export by Nepal to Canada is the ones knotted of wool or fine animal hair, and, after graduation, the tariff rate will remain at zero for hand knotted carpet, but it will jump to 10 per cent for machine knotted carpet.
- The trade preferences granted by the EU are highly utilized by Nepal: among the Nepalese exports that were eligible for EU's preferential scheme, 92 per cent benefited from the preference in 2015. Notably, all apparel exports, of which EU is one of the main destinations, entered the EU market under preferential trade schemes. Should Nepal graduate, it will lose eligibility for EBA after a transition period, and would become eligible for GSP. It may also be possible for Nepal to qualify for the GSP+ scheme, if it meets some additional conditions. The change may imply some tariff rises for a few major products. Apparel and clothing accessories, for instance, will face a higher tariff rate on average under EU's GSP scheme when Nepal is no longer eligible for EBA.
- In the case of India, tariffs based on the Indo-Nepal Treaty of Trade are applied to all exports from Nepal, regardless of Nepal's LDC status. There will be no impact of the graduation on most of Nepal's major export products.
- Turkey is among the main destinations for vegetables and yarn. The coverage of GSP of Turkey for the vegetable product group is very low, and therefore not much impact of graduation is expected.
- While the United States is one of the main destinations for some of Nepal's exports products, the impact of the possible loss of preference is unlikely to be large. First, the utilization rate of preference is low. In 2015, only 6 per cent of Nepalese exports entered the US market under the GSP LDC scheme. The bilateral free trade agreement between US and Nepal covers only a handful of products, and the trade value under the bilateral scheme has been merely $173,000 per month on average since May 2017. Current carpet exports by Nepal to United States are of knotted wool or fine animal hair ones, not covered by GSP-LDC, with zero or low MFN rates. Likewise, the coverage of GSP-LDC is low for apparel and clothing articles.
- Nepal may be constrained in diversifying into other markets when preferential tariffs are no longer applied. Exports of edible vegetables, for example, won't be significantly affected by Nepal's graduation because the main destination markets, Bangladesh and Turkey, would not change the tariff based on LDC status. Diversifying to new markets, such as China, EU, or Japan, could be difficult as tariff rates increase from zero to 9-34 per cent on average.
- Nepal's effort to diversify export products may be limited by possible increase in duties applied to its priority potential products after its graduation. For example, the average MFN tariff rates imposed on oil and herb products are 8.9 per cent in China, 7 per cent in Canada and EU, and 55.5 per cent in Japan, significantly higher than the preferential rates for LDCs. Nepal may find difficulties in exporting leather products to China or Japan, if it loses trade preference after graduation. Similarly, footwear exports may be negatively affected by LDC graduation as their duty rate may increase by 5-65 percentage points in Canada, China, EU, Japan, Turkey and United States.

**Market access – services.** Service exports, especially professional services and tourism, have been gaining importance in Nepalese economy, and have been identified as export sectors with huge potential. 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 Nepal. Preliminary assessments on the mechanism suggest no major impacts.

**WTO obligations.** Nepal has been a member of WTO since 2004. As a recently acceded country, some of the special and differential treatments are not applicable to Nepal. E.g., the country waived its right to the general transition period for LDCs under the TRIPS agreement. Nepal has implemented the obligations under its terms of accession and thus, the graduation from the LDC category is unlikely to result in significant direct implementation costs.

**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 Nepal. The country would be eligible for support from the EIF for a period of up to five years after graduation.

## Development cooperation

- Nepal's dependence on foreign aid is significant, but most of the current support will likely remain unaffected by the country's graduation from the LDC category. Replies by major bilateral partners suggest that most development support to the country will not be affected by a change in Nepal's LDC status, although the forms of Germany's aid to Nepal might change from grants to loans, and terms of Japan and the Republic of Korea's development loans may become less favorable.
- With respect to multilateral development partners, financial assistance and technical support by the ADB, IMF, and the World Bank, the main external financing sources for Nepal, would not be influenced by the possible graduation. Graduation may have a negative impact on the country's access to LDCF, but Nepal remains eligible for funds from the GEF and the GCF.

## General support measures

- Graduation will not impact Nepal´s contributions to the United Nations regular budget and the budgets of most other United Nations organizations; it will minimally impact its contributions to the peacekeeping budget and the budgets of a small number of UN entities.
- After a transition period of three years after graduation, Nepal will no longer be eligible for funds supporting travel of representatives to the official meetings of the UN General Assembly.
- The country and its nationals may no longer benefit from other forms of support for travel to participate in international forums or from certain scholarships and fellowships. It would continue to have access to mechanisms dedicated to other developing countries.

**Summary of impact of Nepal's graduation from LDC category**

| Category | Transmission channel | Possible change | Possible result |
|---|---|---|---|
| Trade | Export of major products to main destinations | No or minor changes for Bangladesh, India, Turkey and USA.<br>Tariff rise in Canada (carpet), EU (carpet and apparel). | Demand for carpet and apparel may decrease, especially in EU. |
| | Diversification of major products to new markets | Tariff rise in Canada (vegetables, textile), China (vegetables, coffee, textile, carpet, steel), EU (vegetables, textile), Japan (vegetables, textile), and Turkey (textile). | Difficulties in diversifying into new markets with higher tariffs. |
| | Diversification to other products | No or minor change for Bangladesh, India and USA.<br>Tariff rise in Canada (herb, footwear), China (herb, plastic, leather, footwear), EU (herb, footwear), Japan (herb, leather, footwear), and Turkey (footwear). | Difficulties in diversifying into new sectors with higher tariffs. |
| | Export of service | Service Waiver no longer applied. | Not clear |
| | Trade related capacity building | Losing eligibility for EIF, and not counted in AfT for LDCs. | 5 years of transition for EIF |
| | WTO obligations | TFA, TRIPS and others | No impact |
| Development Cooperation | Bilateral flows | Reduced ODA associated with LDC status | No indication of abrupt changes following graduation. Possible changes in the forms (Germany) and the terms for the loans (Japan and Korea). |
| | Multilateral flows | Reduced budget associated with LDC status | Indication of no changes. Support on smooth transition by a few entities. |
| | Private flows | FDI attracted by trade preference can decrease after a loss of preference.<br>FDI can increase, as credit rating improves and risk is reduced. | Not clear.<br>FDI increased in graduated countries. |
| General support | Contribution to UN system budgets | Contribution ceiling for LDCs is removed, but current rate is 0.006%, below the ceiling. | Peace keeping budget increase by $40, 819.<br>WIPO budget increase by CHF I,424. |
| | Travel support | No longer eligible for support. | UN GA 3 years of smooth transition.<br>Self-financed travel, or no representation. |
| | Scholarship and research | Not eligible for grants for applications from LDCs | Not significant. Most allow non-LDC applications |

# Summary of ex ante impact assessment of São Tomé and Príncipe

## Trade-related support measures

### Preferential market access

**Market access – goods.** São Tomé and Príncipe´s exports are exceptionally concentrated both in terms of product and of geographic market. Cocoa beans account for up to 95% of exports according to government estimates (and an estimated annual average of 5.6 million US dollars for 2006-2015), and the European Union is by far the main destination. São Tomé and Príncipe is seeking to diversify and expand its exports. A significant potential change in the structure of its merchandise exports could come from the beginning of petroleum production, the outlook of which is nonetheless currently uncertain. Beyond oil, the country's diversification strategy for merchandise exports focuses on expanding and moving to higher value-added segments in agriculture and fisheries. Products being considered are processed cocoa products; white pepper; and fish. The Diagnostic Trade Integration Study (DTIS) Update published in 2013 under the framework of the EIF identified export potential also in coffee, palm oil, high-value exotic flowers and tropical fruit.

Upon graduation, São Tomé and Príncipe would benefit from the standard GSP in most developed countries. In the EU, the country could also apply for the GSP+ (it has already ratified almost all of the required conventions), and in the United States it would continue to benefit from AGOA. In developing countries, it would no longer benefit from preferential tariffs for LDCs and would face the MFN tariff in most cases, and, not being a member of the WTO, the general duty rate in China, with which it has only recently re-established economic ties.

Exports of cocoa beans would not be affected by the withdrawal of LDC-specific preferences in the countries to which São Tomé and Príncipe has exported in the last ten years, since in these markets the MFN tariff is zero. Similarly, most of its other exports, such as pepper, coffee, and coconut/copra oil would either continue to enter the EU market duty free or be subject to relatively small tariffs; and would continue to enter other markets such as the United States duty free. However, loss of LDC-specific preferences may make it more difficult for São Tomé and Príncipe to expand into higher value-added segment of the cocoa value chain. Notably, chocolate and certain other food preparations containing cocoa (classified under HS1806) would face significantly higher tariffs in the EU, in Switzerland (both markets that have imported these products from São Tomé and Príncipe in the past) and in certain potential markets such as Japan. Though accounting for only approximately 2-3% of current exports, this is the country´s second largest export product (excluding re-exports). Tariffs on chocolate in the United States, which has been the destination of increasing shares of exports, would remain unchanged (see table below).

Other potential export products such as fish and seafood would face higher tariffs in the EU. This impact would be mitigated in the EU if São Tomé and Príncipe joins the GSP+. Tariffs for these products in the United States market would not be affected. Should petroleum production materialize, crude oil would face an MFN tariff of zero in most markets, regardless of LDC status

**Market access – services.** São Tomé and Príncipe´s main service export is tourism. Service exports surpassed service imports for the first time in 2015, and in 2016 widely surpassed the export of goods. São Tomé and Príncipe´s diversification strategy is also strongly focused on services. The nature and current stage of operationalization of the WTO services waiver, does not allow for a full analysis of the implications of the withdrawal of those preferences upon graduation. Preliminary assessments on the mechanism suggest no major impacts.

### Special and differential treatment in the implementation of WTO commitments

São Tomé and Príncipe presented a request for accession to the WTO in 2005. The process has not advanced substantially since. Graduation would imply that WTO guidelines and benchmarks for LDC accession would no longer apply as references in the negotiation of the terms of accession and that São Tomé and Príncipe would no longer have access to LDC-specific support for accession. Once a member of the WTO, LDC-specific differential treatment in the observance of WTO disciplines would in principle not be extended after graduation and any applicable transition periods would depend on negotiations with other members.

**Tariffs under LDC-specific market access schemes and default schemes for main export products recorded for 2006-2015 (**averages, unless otherwise indicated)

| | Main export destinations 2006-2015 | European Union | United States | Switzerland |
|---|---|---|---|---|
| Tariff schemes before and after graduation | -- | EBA→GSP or GSP+ | LDC GSP→AGOA and GSP | LDC GSP→GSP |
| 1801 Cocoa beans | EU 93% | 0/0/0 | 0/0 | 0/0 |
| 1806 Chocolate and other food preparations containing cocoa | EU 77%<br>USA 15%<br>Switzerland 3% | EBA: 0<br>GSP:<br>180610 (sweetened cocoa powder):<br>Ad valorem range 2.80- 4.50,<br>Specific range EUR 25.20-31.40 EUR/100kg<br>Other products including chocolate:<br>Ad valorem range 4.80-10.70<br>Specific: Agricultural component max 18.7% + reduced additional tariff on sugar<br>GSP+: Ad valorem=0, specific as in GSP | 7.9/7.9 | LDC GSP: 0<br>GSP:<br>Ad valorem: 2-222%<br>Specific: CHF 11-670/100kg<br>(simple average 23.6+CHF 76/100kg) |
| 0904 Pepper | EU 63%<br>Gabon 37% | 0/1.5/0<br>0/0/0 for 090411 | 0/0 | 0/0 |
| 0901 Coffee | EU 90%<br>Switzerland 2% | 0/3.1/0<br>0/0/0 for 090111 | 0/0 | 0/0 |
| 1513 Coconut (copra), palm kernel or babassu oil and fractions thereof | EU 97% | 0/4.1/0 | 0/0 | 0/0 |

Source: UNCTAD Trade Analysis Information System (TRAINS). Average tariffs are indicated unless otherwise specified.

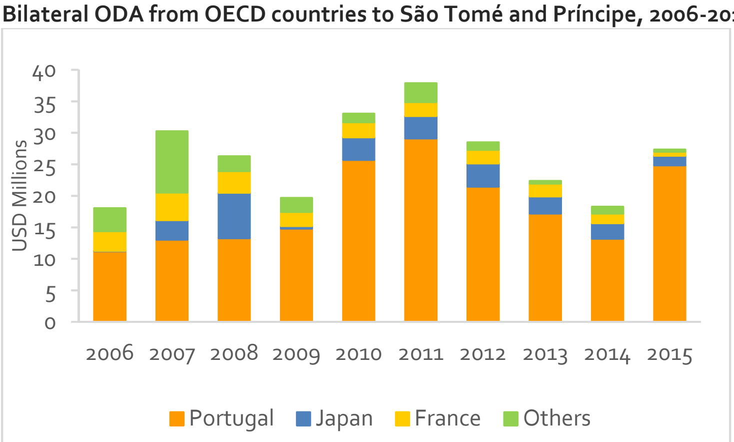
## Development cooperation

São Tomé and Príncipe remains highly dependent on international cooperation, but no major changes are expected in cooperation programmes delivered by the main development partners:

**Bilateral ODA**

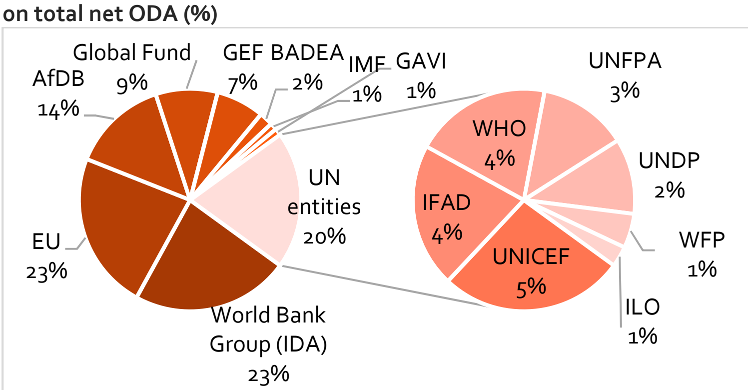
- Portugal has been by far the largest source of ODA to São Tomé and Príncipe over the last decade (see figure below). Portugal informed UNDESA that it does not anticipate any change in the national assistance allocation or technical cooperation granted to São Tomé and Príncipe as a result of graduation from the LDC category.
- Brazil, a major south-south cooperation partner for São Tomé and Príncipe, informed UNDESA that graduation would not affect its south-south cooperation programmes.

**Bilateral ODA from OECD countries to São Tomé and Príncipe, 2006-2015**




Source: OECDStat, accessed July 2017.

**São Tomé and Príncipe's main multilateral development partners, based on total net ODA (%)**




Source: OECDStat, accessed July 2017.

**Multilateral ODA**

- Funding from major partners (see figure above) including the World Bank Group/IDA, the African Development Bank/African Development Fund, Global Fund, GAVI and IMF does not depend on the LDC category and is not expected to be affected. The EU may gradually reduce grant-based aid for countries that are on a sustained growth path or are able to generate sufficient resources of their own, but in its communication to UNDESA it stated that it did not consider any of the countries being considered for graduation from LDC status likely to be in this position immediately after graduation and would address specific situations and vulnerabilities in future programming cycles.
- As for funding from the GEF, only that related to the LDCF could be affected (see below).
- Graduation is not likely to significantly affect United Nations system entities' financial and technical support to São Tomé and Príncipe. The country will no longer be in the category prioritized by UNDP's requirement to allocate 60% of its regular budget to LDCs. UNDP informed UNDESA that graduation would affect resource allocation to São Tomé and Príncipe. UNDP accounted for 2% of flows of ODA to the country from multilateral institutions between 2006 and 2015. All other UN entities confirmed their continuing support to São Tomé and Príncipe and/or do not use the LDC category in their funding allocation.

**LDC-specific mechanisms**

- Least-Developed Countries Fund (LDCF) (climate change): after graduation, São Tomé and Príncipe would not be eligible to receive new funding under the LDCF. Projects approved before and up until graduation would continue to receive funding to ensure the full implementation of the project. As at October 2017, there were two ongoing projects. São Tomé and Príncipe will continue to be eligible for funds from the Special Climate Change Fund (SCCF) and the Green Climate Fund (GCF). The country would still be included in the group of countries considered particularly vulnerable to the adverse effects of climate change as both a SIDS and an African State.
- Technology Bank for LDCs: after graduation, São Tomé and Príncipe would continue to have access to the LDC Technology Bank for a period of five years.
- Enhanced Integrated Framework (Aid for Trade): In São Tomé and Príncipe, the EIF has supported the preparation of the DTIS (2006) and DTIS Update (2013) and WTO accession, and has provided technical assistance to establish an enabling environment for business development and capacity building at the Ministry of Commerce. The total approved budget for São Tomé and Príncipe under the EIF was for USD 200,000, for the period 2008-2014, a small fraction of total Aid for Trade received by the country. The EIF secretariat informed UNDESA that São Tomé and Príncipe is embarking on an institutional support project in 2018. Graduation will not immediately affect 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 UNCDF currently has no projects in São Tomé and Príncipe.

## United Nations system funding, and travel support

Graduation will not impact São Tomé and Príncipe´s contributions to the United Nations regular budget and the budget of most other United Nations organizations; it will have a small impact on its contributions to the peacekeeping budget and the budgets of a small number of UN entities (see table below).

After a transition period of up to five years after graduation, São Tomé and Príncipe will no longer be eligible for funds supporting travel of representatives to the official meetings of the UN General Assembly. The country may no longer benefit from other forms of support for travel to participate in international forums. It may continue to have access to mechanisms dedicated to other developing countries and particularly to SIDS and African states.

**Expected increase in contributions to the budgets of United Nations System entities upon graduation (based on current budgets)**

| | |
|---|---|
| Peace-keeping | Increase (applied to 2017/2018 budget would imply an increase of USD 6,803) |
| UN Mechanism for International Criminal Tribunals | Marginal increase (criteria applied to 2017 budget would imply an increase of USD 33.5) |
| ITU | Increase (applied to 2017 budget, CHF 59,625) unless ITU Council may authorize contribution at lower classes. |
| WIPO | Increase (applied to 2017 budget, CHF 1,424) |

*See list of acronyms on the last page of this document.

## Scholarships, support for research

No consolidated information is available on the use by nationals of São Tomé and Príncipe of LDC-specific financial support for research or scholarships.

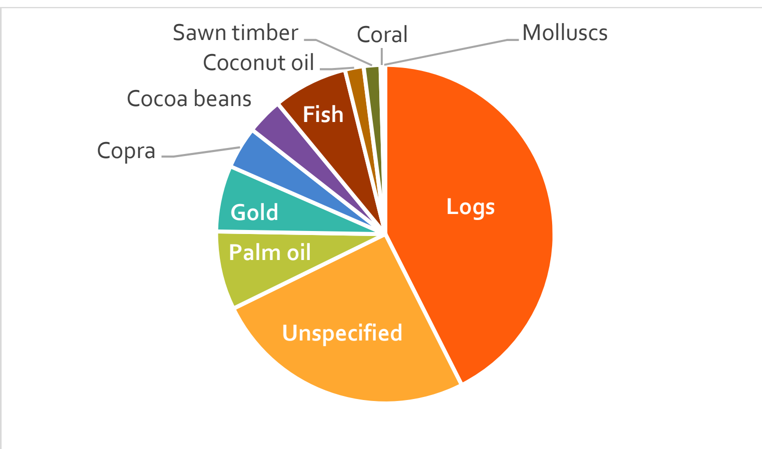
# Summary of ex ante impact assessment for Solomon Islands

## Trade-related support measures

Solomon Islands's four largest exports are logs and timber, palm oil, gold and fish. Timber and fish have a long history of export although gold is a relatively recent, and volatile, addition. Logging has historically comprised around two-thirds of exports, a sixth of government revenue (principally via an export tax) and a third of foreign exchange earnings. Although some limited supply remains, the ongoing depletion of natural forest resources means that the industry is in terminal decline (something which is simultaneously an environmental problem). The main export challenge facing Solomon Islands in coming years is therefore domestic supply and conservation rather than market access. The government has prioritised export diversification, in addition to the development of mining. New sources of export growth may be found in the services sector, although tourism is still relatively small despite potential existing in the abundance of natural attractions and the country's proximity to Australia.

By country, China is Solomon Islands' top export partner, accounting for nearly half of all exports (mostly logs) according to Comtrade statistics, but 61% of all exports as shown by mirror data. Australia was a distant second according to Comtrade, although mirror data relegate Australia to third as an export destination behind the EU. Exports to the EU were almost a tenth of the total according to both sources. Statistical problems aside, the main outstanding export trend has been a major shift away from Europe toward Asia and China over the past decade or more.

### Main commodity exports, average 2006-2015




Note: Mirror data suggest that logs are 70% of exports
Source: UN Comtrade, accessed 4 August 2017

### Preferential market access

Upon graduation, in developed countries Solomon Islands would receive GSP treatment or accede to programmes that grant more favourable terms than the GSP. In developing countries, in general no other preferential arrangements are in place unless bilateral or regional agreements apply. More specifically, among major trade partners:

China, the major trade partner, is not recognized by Solomon Islands, so the country does not have access to its DFQF scheme. Graduation from LDC status would have limited impact. Log tariffs are in any case zero on China's MFN scheme. Hong Kong, China, is duty-free for all countries and products.

The EU, which was the second largest export destination, provides the European Union (EU) 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 typically three years, Solomon Islands could accede to the GSP or, if it ratified and implemented 27 international conventions on human and labour rights, environmental protection and good governance, it could join the Special Arrangement for Sustainable Development and Good Governance (GSP+), which grants preferences additional to the GSP. GSP+ membership is not guaranteed. For all of Solomon Islands' existing and potential exports except rice (1006) and vegetable oil cake (2306), EU tariffs are zero. Fish products (0302, 0303) would face a tariff increase to 6.6% under GSP although would remain duty-free under GSP+. Dried or smoked fish (0305) would incur an increase to 9.5% under GSP but would be duty free under GSP+. It is worth taking note of cooked tuna loins (16041416), which are an important output of the national domestic fishing industry and have value-adding and employment benefits, but are currently largely unrecorded in the national export data of Solomon Islands. According to mirror data, HS1604, prepared or preserved fish, has formed an increasing proportion of total exports in recent years. A further option would be to negotiate an Economic Partnership Agreement (EPA) with the EU, an outcome which looked unlikely at the time of writing.

Solomon Islands has benefited from the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), under which Australia and New Zealand grant duty-free, quota-free market access. Between 6% and 9% of exports went to Australia from 2005-2016 depending on the data source, a large proportion of which was gold from the now-closed Gold Ridge mine. Solomon Islands is a signatory of the Pacific Agreement on Closer Economic Relations (PACER Plus), which will accord duty-free, quota free market access to Australia and New Zealand irrespective of LDC status.

The Philippines does not provide DFQF for LDCs. It is the destination for 2-7% of Solomon Islands exports, mostly logs (HS4403) and copra (1203), alongside very small volumes of cocoa beans and sawn timber.

Thailand, where Solomon Islands sends 3-5% of its exports, provides duty-free quota free market access to LDCs for certain products, and upon graduation it can be expected that Solomon Islands would no longer benefit. However, MFN tariffs on frozen tuna (for which Thailand is the largest market in the World) are MFN zero and tariffs on other frozen fish are excluded from the LDC preference scheme. Most tariffs on potential and existing products are the same with and without LDC preferences. Canned tuna (1604) exports from Solomon Islands, which may be affected by graduation, appear to be misreported, and show up only in mirror data.

The Republic of Korea accounted for 2% of exports (mostly logs). The Republic of Korea is the fourth largest market for processed tuna, and it is possible that Solomon Islands could export processed tuna to this destination, in which case higher tariffs could be expected.

Malaysia, where Solomon Islands sent 2% of exports, mostly logs, has no DFQF scheme for LDCs so no impact is expected here.

India, to which Solomon Islands has sent a small proportion of its exports (logs, sawn timber and copra), has a DFQF scheme but as of October 2017 Solomon Islands was not a beneficiary.

Japan grants DFQF to LDCs. Solomon Islands would be expected to move on to the GSP scheme, which would primarily affect logs, sawn timber and fresh, dried and frozen fish (0302, 0303 and 0305) as well as canned tuna (1604) if it was exported to Japan. Average tariffs on processed fish (HS 0304) would rise from 1.9 per cent to 4.5 per cent. Within that heading, tuna tariffs would increase from 0 per cent under the LDC preferences to 3.5 per cent under MFN (fish products generally being excluded from Japan's regular GSP program). Based on previous graduation cases, tariff increases will become effective shortly after graduation.

**Market access – services.** Solomon Islands's main services export is tourism, which appears unlikely to be impacted by the services waiver. The current stage of operationalization of the WTO services waiver does not allow a full analysis of the withdrawal of those preferences upon graduation. Preliminary assessments on the mechanism suggest no major impact.

### Special and differential treatment in the implementation of WTO commitments

Solomon Islands has been a member of the WTO since 1996 and benefits from special and differential (SDT) treatment. Two areas in which possible impacts may be felt are the agreements on trade facilitation and intellectual property. Under the trade facilitation agreement LDCs can follow their own implementation schedule of the individual provisions in the agreement and to request technical assistance and capacity building support. In general, although these areas are worth noting, it is unlikely that the loss of SDT will have a decisive economic impact.

Under the TRIPS agreement, LDCs have not been required to implement the Agreement other than Article 3 (national treatment), Article 4 (MFN treatment) and Article 5 (precedence of WIPO procedures), until 1 July 2021. Solomon Islands has not enacted any IP legislation to implement the TRIPS Agreement nor has it made any notifications. After graduation it would have to implement TRIPS, although cost estimates are unavailable and it is not clear that other WTO members would demand full implementation.

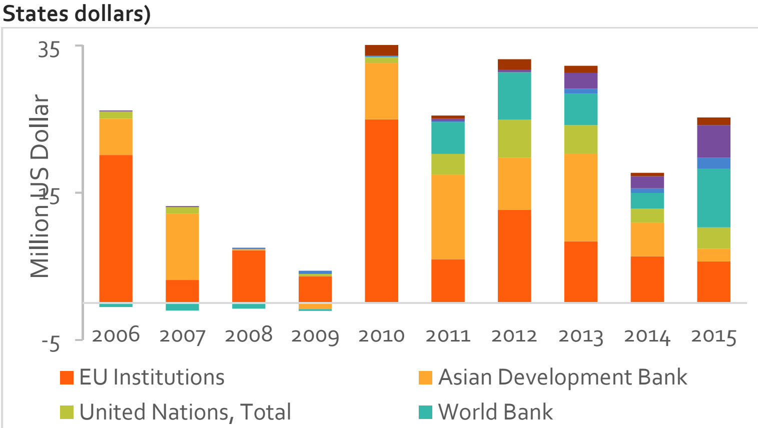
## Development cooperation

Solomon Islands remains highly dependent on international cooperation, and no major changes are expected in cooperation programmes delivered by the main development partners:

Australia is the biggest official bilateral donor, providing 74% of all DAC bilateral aid in 2015. Australia and New Zealand, the second biggest donor, stated to UN DESA that graduation would not lead to a reduction in ODA to Solomon Islands. Japan's allocation of ODA does not depend on LDC status.

Traditionally the EU has been the main multilateral donor, focusing on rural development and capacity building, the environment, HIV/Aids and gender issues. As the figure below shows, however, multilateral aid from this source declined along with other flows between 2006 and 2009. Multilateral inflows were at their peak in 2010, mainly driven by an increase in EU financing, following which they again declined, but remained higher than in 2009. Asian Development Bank and World Bank Group International Development Association loans formed an increasing share from 2011 onwards, associated with major infrastructure projects on Guadalcanal. Neither the EU, ADB nor the World Bank are anticipated to reduce their funding directly as a result of graduation.

**Multilateral flows to Solomon Islands, 2006-2015 (millions of United States dollars)**




Source: OECDStat, based on total net ODA

**LDC-specific mechanisms**

- Upon graduation, Solomon Islands would not only still qualify for the GCF as a developing country but also still be included in the group of countries considered particularly vulnerable to the adverse effects of climate change as a SIDS. According to information provided by the GCF secretariat to the CDP secretariat, the GCF board had approved funding of $86 million (a $70 million loan and a $16 million grant for the access road) for the Tina River Hydropower Development Project on Guadalcanal. The UNFCCC, states that the overall impact on access to adaptation support for LDCs that graduate is likely to be minimal
- After graduation, Solomon Islands would continue to have access to the LDC Technology Bank for a period of five years.
- Graduation of Solomon Islands from the LDC category will not immediately affect its access to the Enhanced Integrated Framework for Trade, since smooth transition provisions automatically grant graduating countries access to EIF benefits for three years after graduation and for an additional two years subject to justification and approval by the EIF Board. This would mean loss of access to the EIF five years after graduation if the two-year extension was requested. In Solomon Islands, the EIF has supported the preparation of the DTIS (2009) and technical assistance, the first National Trade Policy Framework in 2015, as well as with institutional (US$1.2 million) and tourism support (US$1.5 million).

## United Nations system funding, and travel support

Graduation will not impact Solomon Islands´s contributions to the United Nations regular budget and most other United Nations organizations (CTBTO, FAO, ILO, ISBA, ITLOS, OPCW, UNESCO, UNIDO, and WHO). It will have a small impact on its contributions to the peacekeeping budget and the budgets of a small number of UN entities (see table below).

After a transition period of up to five years after graduation, Solomon Islands will no longer be eligible for funds supporting travel of representatives to the official meetings of the UN General Assembly. The country may no longer benefit from other forms of support for travel to participate in international forums. It may continue to have access to mechanisms dedicated to other developing countries and particularly to SIDS.

**Expected increase in contributions to the budgets of United Nations System entities upon graduation (based on current budgets)**

| | |
|---|---|
| Peace-keeping | Increase (applied to 2017/2018 budget would imply an increase of USD 6,803) |
| UN Mechanism for International Criminal Tribunals | Marginal increase (criteria applied to 2017 budget would imply an increase of USD 33.5) |
| ITU | Increase (applied to 2017 budget, CHF 59,625) unless ITU Council authorizes contribution at lower classes. |
| WIPO | Increase (applied to 2017 budget, CHF 1,424) |

*See list of acronyms on the last page of this document.

### Scholarships, support for research

No consolidated information is available on the use by nationals of Solomon Islands of LDC-specific financial support for research or scholarships.

# Summary of ex ante impact assessment for Timor-Leste

## Trade-related support measures

### Preferential market access

**Market access – goods.** Oil and gas account for 99% of Timor-Leste's merchandise exports as recorded in the national accounts, and coffee is estimated to account for an equivalent share of non-oil exports.

The main destinations of oil and gas from Timor-Leste have been Asian markets, with Singapore (which has no specific regime for LDCs) accounting for over 60% of exports over the last decade. The European Union and the United States together account for over 80% of non-oil exports. Access to these markets for these products would not, or would only marginally, be affected by graduation, as either the applicable MFN tariff is zero, the product in question 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.

**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%<br>Rep. of Korea 22%<br>Thailand 13%<br>Japan 5% | Japan 56%<br>Rep. of Korea 44% | European Union 60%<br>United States 8%<br>Canada 8%<br>Japan 8%<br>Australia 4% |
| Rep. of Korea: | 3→ 3 | 0→1.1 | 1.61→5.1 |
| Thailand | 0→0 | 0→0 | 0→0 |
| Japan | 0→0 | 0→1.1 | 0→3.33<br>MFN=0 for 090111 |
| EU | 0→0 | 0→0 | 0→3.1/0<br>MFN=0 for 090111 |
| USA | 0→0 | 0→0 | 0→0.06+.002USD/Kg<br>MFN=0 for all products exported by Timor-Leste within this category |
| Canada | 0→0 | 0→0 | 0→0 |

Source: UNCTAD Trade Analysis Information System (TRAINS). Average tariffs are indicated unless otherwise specified.

The future of Timor-Leste's oil and gas industry faces significant uncertainties, and the country is investing in diversifying its exports. Potential merchandise exports being considered are agricultural and fish products. Graduation would not significantly affect the tariffs faced by these 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+. It could affect tariffs applicable in other markets, particularly in Asia. Joining the WTO and ASEAN, both of which are under way, would ensure better market access conditions in potential markets. The government of Australia informed UNDESA that it does not expect the agreement that grants Timor-Leste's products duty-free, quota-free access since 2003 to be affected by graduation.

**Market access – services.** Timor-Leste´s main export service sector is tourism. The nature and current stage of operationalization of the WTO "services waiver", does not allow for a full analysis of the implications of the withdrawal of those preferences upon graduation. Preliminary assessments on the mechanism suggest no major impacts.

### Special and differential treatment in the implementation of WTO commitments

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, LDC-specific differential treatment in the observance of WTO disciplines would in principle not be extended after graduation and any applicable transition periods would depend on negotiations with other members.

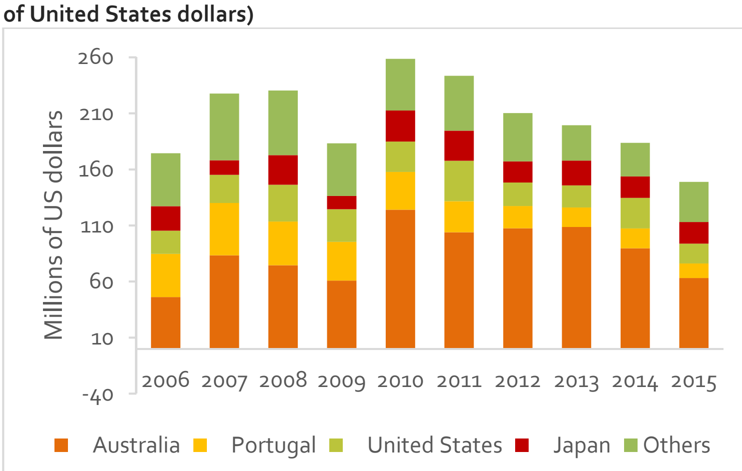
## Development cooperation

No major changes are expected in cooperation programmes delivered by the main development partners to Timor-Leste:

**Bilateral ODA**

- 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, a major south-south cooperation partner for Timor-Leste, informed UNDESA that graduation would not affect its south-south cooperation programmes.

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



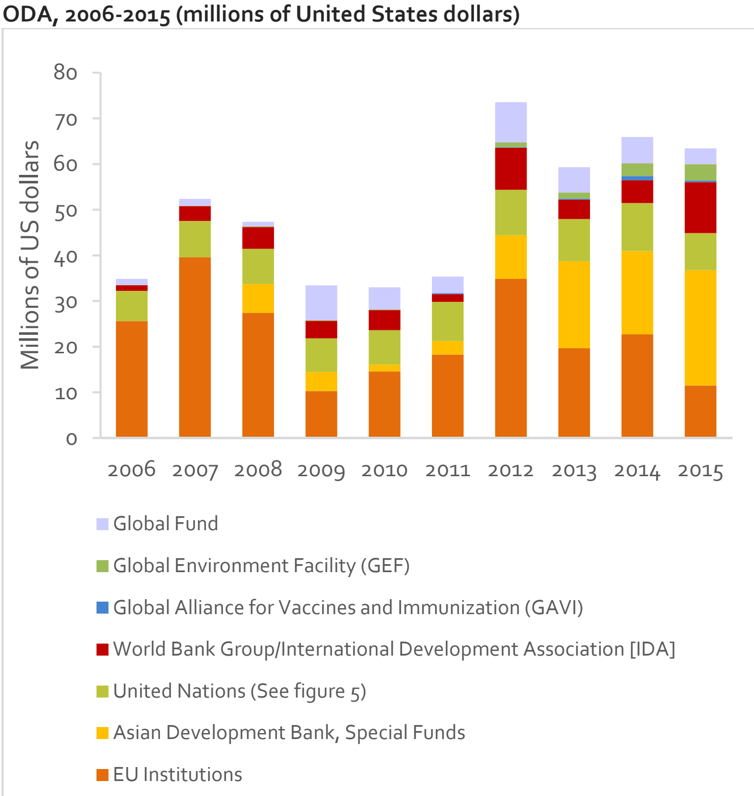

Source: OECDStat, accessed July 2017.

**Multilateral ODA and United Nations assistance**

Funding from major partners (see figure above) including the Asian Development Bank, the EU, the World Bank Group/IDA, the Global Fund and GAVI does not depend on the LDC category and is not expected to be affected.

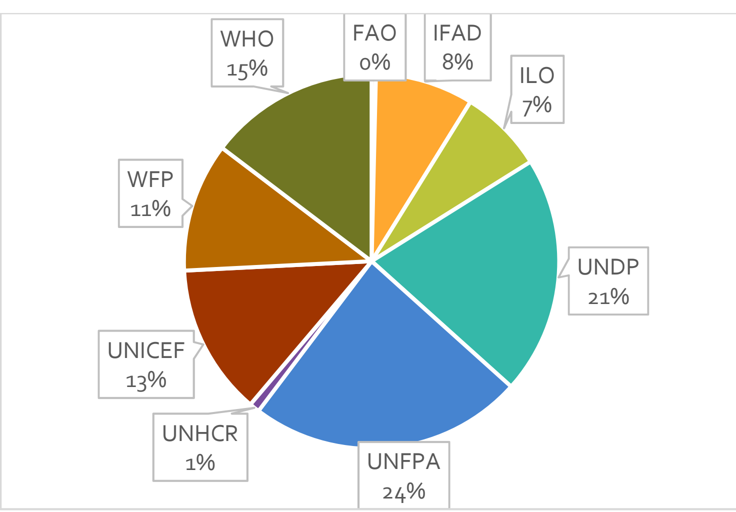
- As for funding from the GEF, only that related to the LDCF could be affected (see below).
- No major change is expected in programmes delivered by the United Nations system entities as a result of graduation from LDC status alone, as these entities will continue to address, in the fulfilment of their respective mandates, Timor-Leste's specific challenges.

**Timor Leste's main multilateral development partners, based on total net ODA, 2006-2015 (millions of United States dollars)**




Source: OECDStat, accessed July 2017.

**Assistance from United Nations System entities to Timor-Leste, 2011-2015 (Percentages)**




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

**LDC-specific mechanisms**

- Least-Developed Countries Fund (LDCF) (climate change): after graduation, Timor-Leste would not be eligible to receive new funding under the LDCF. Projects approved before and up until graduation would continue to receive funding to ensure the full implementation of the project. Timor-Leste will continue to be eligible for funds from the Special Climate Change Fund (SCCF) and the Green Climate Fund (GCF). The country would still be included in the group of countries considered particularly vulnerable to the adverse effects of climate change as a SIDS.
- Technology Bank for LDCs: after graduation, Timor-Leste would continue to have access to the LDC Technology Bank for a period of five years.
- Enhanced Integrated Framework (Aid for Trade): Timor-Leste has received assistance from the EIF 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. 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 for 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 UNCDF currently has no projects in Timor-Leste.

## United Nations system funding, and travel support

Graduation will not impact Timor-Leste's to the United Nations regular budget and the budgets of most other United Nations organizations; it will have a small impact on its contributions to the peacekeeping budget and the budgets of a small number of UN entities (see table below).

After a transition period of up to five years after graduation, São Tomé and Príncipe will no longer be eligible for funds supporting travel of representatives to the official meetings of the UN General Assembly. The country may no longer benefit from other forms of support for travel to participate in international forums. It may continue to have access to mechanisms dedicated to other developing countries and particularly to SIDS.

**Expected increase in contributions to the budgets of United Nations System entities upon graduation (indicative, based on current budgets)**

| | |
|---|---|
| **Peace-keeping** | **Increase (applied to 2017/2018 budget would imply an increase of USD 6,803)** |
| **UN Mechanism for International Criminal Tribunals** | Marginal increase (criteria applied to 2017 budget would imply an increase of USD 33.5) |
| **ITU** | Increase (applied to 2017 budget, CHF 59,625) unless ITU Council authorizes contribution at lower classes. |
| **WIPO** | Increase (applied to 2017 budget, CHF 1,424) |

*See list of acronyms on the last page of this document.

### Scholarships, support for research

No consolidated information is available on the use, by nationals of Timor-Leste, of LDC-specific financial support for research or scholarships.

# 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 |
| OHRLLS | 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 |
| UNFPA | United Nations Population Fund |
| 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 |
| WFP | World Food Programme |
| WHO | World Health Organization |
| WIPO | World Intellectual Property Organization |
| WTO | World Trade Organization |