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Smooth Transition Strategy



GUIDANCE NOTE



DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS

SMOOTH TRANSITION STRATEGY
Guidance Note 2021



**United
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Table of contents

Acknowledgements	1
Acronyms	2
Background	3
STS Introduction	10
STS Section 1	11
STS APPROACH AND PROCESS	
STS Section 2	19
IMPACTS OF GRADUATION AND SMOOTH TRANSITION MEASURES	
STS Section 3	26
PRIORITIZED SMOOTH TRANSITION MEASURES AND IMPLEMENTATION MODALITIES	
STS Section 4	28
STS ROADMAP	
Annexes	30



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Acronyms

AfT

Aid for Trade





CCA	Common Country Assessment
CDP	United Nations Committee for Development Policy
CSO	Civil Society Organizations
DFAT	Government of Australia's Department of Foreign Affairs and Trade
DFQF	Duty free quota free
DTIS	Diagnostic Trade Integration Study
ECOSOC	Economic and Social Council
EIF	Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
GDP	Gross Domestic Product
IATF	Inter-Agency Task Force on Least Developed Country Graduation
ISM	LDC-specific International Support Measures
LDC	Least Developed Country
LDC-IV	Fourth United Nations Conference on Least Developed Countries
LDC-V	Fifth United Nations Conference on Least Developed Countries
NCC	Government of Vanuatu National Coordinating Committee
NGOs	Non-Government Organizations
ODI	Overseas Development Institute
OECD	Organization for Economic Co-operation and Development
OECD-DAC	OECD - Development Assistance Committee
UN-OHRLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
SDGs	Sustainable Development Goals
STS	Smooth Transition Strategy
STIA	Science Technology Innovation Assessment
STPR	Science Technology Innovation Policy Review
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department for Economic and Social Affairs
UNDP	United Nations Development Programme
UNSDCF	United Nations Sustainable Development Cooperation Framework
WTO	World Trade Organization

Background

A national smooth transition strategy (STS) prepared by a graduating Least Developed Country (LDC) in cooperation with development and trading partners and with targeted assistance from the United Nations (UN) system is recommended by the General Assembly. It is seen as the basis for a successful transition¹ that ensures the phasing out of LDC-specific support does not disrupt a country's development. The General Assembly suggests that the national STS should include a comprehensive and coherent set of specific and predictable measures that are in accordance with the priorities of the graduating country while taking into account its own strengths, specific structural challenges and vulnerabilities and be implemented as part of the country's overall development strategy. It will help a graduating country to prepare for graduation and smooth transition, navigate the post-graduation landscape in pursuit of achieving its national sustainable development priorities and the 2030 development agenda.

Graduation marks a juncture where an LDC shifts from economic dependence and reliance on the LDC-specific international support measures to self-reliance. It denotes that an LDC has risen sufficiently from reliance on LDC-specific international support measures in the form of concessionary treatment by development and trading partners in addressing low income and limited economic growth, commodity dependence thus vulnerability to exogenous shocks and weak productive bases and limited export diversification resulting in high import content in consumption and production and persistent current account deficits.

Graduation is to be regarded in the context of a country's broader and long-term development framework and aspirations in which higher economic growth leads to enhanced productive capacities and structural transformation as well as its resilience to both endogenous and exogenous shocks. It marks the start of a new phase of its development journey as a developing country.

Integrating LDC graduation and STS into a country's long-term national development and development financing strategies, as appropriate, including capacity-building and technical assistance to diversify sources of financing is also requested by the UN General Assembly in its follow-up to the Fourth UN Conference on the Least Developed Countries (LDC-IV). This ensures sustainability and an ongoing momentum.

As a starting point, a graduating country is encouraged to fully understand the impact of graduation and the vulnerabilities that will linger beyond graduation and to identify what specific measures will be required. A review of existing national and relevant sector plans would help a country identify what mitigating measures are already reflected and additional specific measures that are needed. The STS does not need to be a separate document but can be an integral part of other national and local strategies. It is important that the preparation of the STS does not create a burden for already stretched national capacities.

Among the main purposes of the STS is the agreement with the main bilateral and multilateral development and trading partners on smooth transition measures. Where some of these measures require extended access or transitional periods, the timing of when the STS is being prepared, validated and implemented is crucial as the smooth transition measures need to be negotiated in time - ideally to begin immediately upon graduation becoming effective. Having an implementation plan or matrix for the STS recommended actions with agreed responsible parties and timelines clearly

¹ Transition period is from the date the country's graduation becomes effective to the date all international support measures are phased out or transitional periods have concluded.



articulated, is critical. A smooth transition is only possible if the STS is fully implemented and in a timely manner.

Existing national consultative and decision-making mechanisms should be utilized to facilitate a country's preparation for graduation including preparing the STS. In the absence of existing mechanisms an inclusive consultative mechanism should be established. Whichever mechanism is employed, it should have 'whole-of-government' leadership. It should also be inclusive and in cooperation with a country's bilateral and multilateral development and trading partners. Such a mechanism would help the country and its partners identify upfront, the LDC-specific international support measures that require negotiating access to and phasing out or transitional periods appropriate to the development situation of the country. It needs to be integrated with other relevant consultative processes and initiatives between the graduating country and its development partners.

The importance of providing smooth transition and graduation support for countries graduating from the LDC category is highlighted by the UN Committee for Development Policy (CDP) in its 2019 Report to the Economic and Social Council (ECOSOC). While graduation is a milestone in development progress, the CDP highlighted that graduated countries continue to face the risk of external shocks and challenges – the Coronavirus (Covid-19) pandemic is a case in point. These should be taken into account systematically to ensure a smooth transition. Thus, the CDP has called for the strengthening of smooth transition provisions, an improved graduation process, enhanced and more coordinated support by the UN entities, additional efforts by graduating countries and their trading and development partners and dedicated capacity building.

The UN Inter-Agency Task Force (IATF) on LDC graduation established by OHRLLS in late 2017 aims to generate awareness and political support for graduating LDCs so other countries better understand the challenges faced by graduating countries, post-graduation. Chaired by the OHRLLS Director, the IATF works to continuously enhance the coordinated UN system-wide support to graduating countries. In 2019, the IATF provided collaborated support and contributed to the graduation process in São Tomé and Príncipe and the Solomon Islands. Both countries are scheduled to graduate in 2024. Recognizing that the coordinated agency support for LDCs is crucial during the transition from the current Istanbul Programme of Action (IPoA) to a new programme of action, the IATF is designed to be responsive to the unique needs of each LDC and boosts collaboration between UN agencies, international and regional organizations, development and trading partners in tandem with other graduating countries in order to ensure a smooth transition process.²

This STS guidance note, developed by UNDESA as the CDP Secretariat, is in response to the recommendations of the General Assembly³ and the follow-up actions proposed by the CDP on strengthening smooth transition measures and dedicated capacity building to help graduating and graduated countries prepare their STS.⁴ It also informs graduating LDCs and their development partners about the best way to assist such countries following graduation.

The STS guidance note comprises of an introduction and four main sections: 1) Approach and Process; 2) Impacts of Graduation and Smooth Transition Measures; 3) Prioritized Smooth Transition Measures and Implementation Modalities; and 4) Roadmap. Each section comprises of some guidance notes and questions. The STS guidance note should only be seen as a guideline to help countries prepare and

² <http://unohrlls.org/un-iatf-on-graduation-support/>

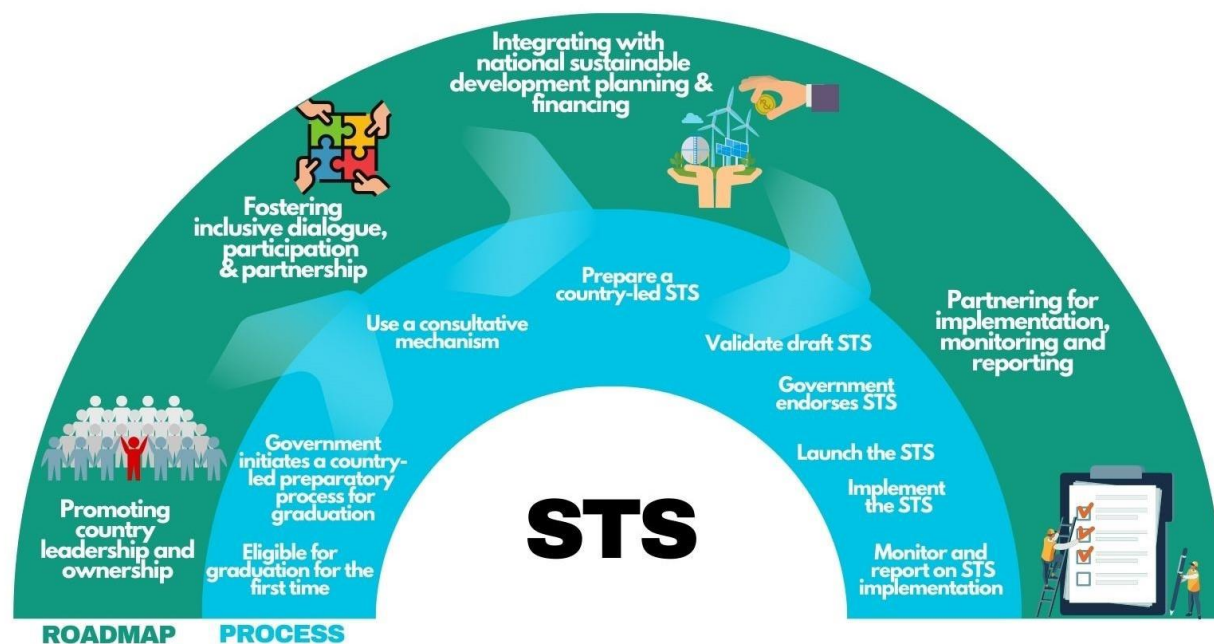
³ Resolution adopted by the UN General Assembly on 21 December 2012 ([A/RES/67/221](#))

⁴ CDP Annual Report 2019 ([E/2019/33](#); paragraphs 62 and 63)

write up their STS. It is not meant to be a blueprint. A country's STS will largely depend on where a country is at – development context, goals and priorities and graduation process.

STS Process and Roadmap

Figure a. STS Process and Roadmap



A mix of internal and external sources of data and reports were used to inform the analysis and assessments made in this report. These are drawn from a combination of literature review, questionnaires and interviews.

Which countries have completed an STS?

Figure b. Where are STS being prepared?



Graduated countries in the last ten years have had varied experiences. Cabo Verde graduated from LDC status on 20 December 2007. In the lead up to graduation, a budget support group (BSG) comprising of Government and development partners was created in 2005 for greater alignment and harmonization of donor support to the country's Growth and Poverty Reduction Strategy. A donor transition support group called GAT (*Groupe d'Appui à la Transition*)⁵ was set up by the Government to prepare a transition strategy to adjust to the eventual phasing out of the LDC-specific support measures. The GAT, in June 2007, adopted a declaration supporting Cabo Verde's socioeconomic transformation agenda.

Maldives which was recommended for graduation by the CDP and endorsed by the General Assembly on December 20, 2004 was exceptionally deferred to graduate on January 1, 2011 due to the devastating impact of the tsunami which struck the country on December 26, 2004. The Government of Maldives, in 2008, successfully negotiated with the European Union (EU) an important systemic measure of smooth transition, namely the automatic extension of duty-free quota-free (DFQF) access to the EU market ("Everything But Arms" treatment) for any ex-LDC for a period of three years after graduation. The Government also considered it necessary to reflect on its smooth transition strategy in anticipation

⁵ <https://www.gradjet.org/wp-content/uploads/2018/02/Cabo-Verde-smooth-transition-strategy.pdf>

of the 2011 exit and sought advice from different international organizations. In 2009, UNCTAD and ESCAP submitted to the Government, a joint mission report which examined the structure of Maldives fish exports and highlighted the international competition the country would soon have to face after losing LDC treatment. The report recommended the Government of Maldives to contemplate seeking from the EU, in due course, a second three-year extension of DFQF access to the EU market to prolong the systemically granted initial three-year extension (this plea did not eventually bear fruit).

In 2011, Maldives, jointly with Cabo Verde, persuaded the General Assembly to adopt a smooth transition measure regarding travel-related support by the UN Secretariat for national delegations' participation in important UN events: a (non-renewable) three-year extension of this long-standing benefit to LDCs would be granted to any new ex-LDC which would request such extension. In doing so, Maldives and Cabo Verde were first to negotiate and obtain a systemic measure of smooth transition for graduating countries in the United Nations, and first to benefit from such a concession.

Samoa, which graduated in January 2014 chose to focus on fully implementing the Strategy for the Development of Samoa (SDS 2016/17-2019/20) and the country's investments related to the SDGs, the SAMOA Pathway, the Paris Agreement, and the Sendai Framework for Disaster Risk Reduction. The SDS already included STS specific measures, thus Samoa viewed smooth transition as best assured if the country fully implemented its SDS.

Equatorial Guinea, graduated, in June 2017 and has yet to submit a report to the CDP on its implementation of a smooth transition strategy since its graduation.

Vanuatu which was the most recent to graduate in December 2020 and in the midst of the global Covid-19 pandemic, is the only country to date that has completed an STS as a separate document. It has been led by the Government's National Coordinating Committee (NCC) with technical and financial support from ESCAP, UNCTAD and UNDESA. The STS was validated in October 2019 by a wide group of national stakeholders and the international community, endorsed by the NCC in December 2019 and approved by the Council of Ministers on July 9, 2020. Vanuatu has further sought UNDESA support to make an early start in implementing its STS from August 2020, even before graduation became effective in December 2020.

In 2019, a number of LDCs that have been recommended for graduation have started preparing an STS while others resumed preparatory work. Angola, scheduled to graduate effective February 12, 2021 resumed its work on preparing for graduation with technical cooperation from UNDESA and requested the UN General Assembly for an additional preparatory period of 3 years due to the impact of Covid-19 on the country and to allow it time to initiate graduation preparations for a smooth transition strategy with the support of its development and trade partners. This was approved and Angola will graduate effective February 12, 2024. Bhutan, for the first time in 2021, reported to the CDP, progress it has made in implementing the initial steps in its preparation of an STS. Bhutan, scheduled to graduate in 2023 has incorporated economic diversification, job creation and addressing climate related vulnerabilities as priority areas to ensure that with the implementation of its 12th National Development Plan ([TWELVE-FIVE-YEAR-WEB-VERSION.pdf](#)) as an LDC, it graduates with a strong resilient economy. Aligning the graduation timeframe with the country's planning process may be a useful strategy for other countries. It allows the country to start its new development plan cycle with the first year commencing as a graduated country. Private sector role and the importance of pursuing economic diplomacy to explore mutually beneficial bilateral and multilateral partnerships are

emphasized by the Prime Minister in his report to Parliament on the ‘State of the Nation’.⁶ Given that Bhutan’s 12th National Development Plan ends in 2023, the year in which its graduation becomes effective, it has undertaken to develop a smooth transition strategy for implementation during the transition period. São Tomé and Príncipe, scheduled to graduate in 2024 is establishing a road map to prepare a transition strategy with support from the IATF led by OHRLLS. The Solomon Islands, scheduled to graduate in December 2024, also assisted by the IATF, has started its process in preparing for graduation and has a roadmap. It has already negotiated alternative arrangements for duty-free quota-free access (DFQF) with the European Union (EU) which would counteract the withdrawal of LDC-specific preferences.

Tuvalu and Kiribati were both assessed as meeting the graduation criteria for at least two consecutive triennial reviews and recommended by the CDP for graduation (in 2012 and 2018 respectively). In 2021, ECOSOC deferred its consideration of these recommendations to 2024 on an exceptional basis, “recognizing the unprecedented socio-economic impacts of the COVID-19 global pandemic”. The CDP will continue to consult with both countries. This, however, does not imply that the two countries are in the process of preparing their STS. The two countries have highlighted their significant economic and environmental vulnerabilities in particular to climate risks, hence are of the view that they are not ready for graduation as they believe their countries remain economically dependent and reliant on the LDC-specific international support measures and not resilient to external shocks.

During the 2021 CDP triennial review, five countries met the criteria for graduation out of LDC category, for a second time and are encouraged to prepare an STS. While Bangladesh, Lao People’s Democratic Republic (PDR) and Nepal have been recommended for graduation by the CDP, decisions on Myanmar and Timor-Leste have been deferred to the 2024 triennial review. The CDP had deep concerns with the state of emergency imposed in Myanmar by the military on February 1, 2021 which will have negative impacts on the country’s development progress and its ability to prepare for graduation. For Timor-Leste, the CDP noted that while the country is meeting the Gross National Income (GNI) threshold, its declining per capita income, increasing future prospect uncertainties related to expected depletion of oil and gas fields, underperforming public investments and exceptionally high levels of stunting are risks that could adversely affect the countries graduation preparations and smooth and sustainable graduation.⁷

Also, in 2021, 5 LDCs have fulfilled the graduation thresholds for the first time: Cambodia (HAI, EVI and GNI); Comoros (GNI and HAI - marginally); Djibouti (Income-only GNI); Senegal (GNI and HAI - marginally); and Zambia (GNI and HAI - marginally).⁸

⁶ <https://www.cabinet.gov.bt/wp-content/uploads/2019/07/State-of-Nation-for-web.pdf>

⁷ E/2021/33 CDP-2021-33.pdf (un.org)

⁸ E/2021/33 CDP-2021-33.pdf (un.org)



STS Guidance

1.

SECTION 1

STS Approach
and Process

2.

SECTION 2

Impacts of Graduation
and
Smooth Transition Measures

3.

SECTION 3

Prioritized Smooth
Transition Measures
and Implementation Modalities

4.

SECTION 4

STS Roadmap

Instructions

A country can use this section of the guidance note and subsequent sections to prepare and write up its STS. A simple set of instructions is provided below:

1. At the beginning of each of the subsequent sections some guidance and a set of guiding questions are provided to help a country complete that section of the STS.
2. Once a country goes through the guidance and questions, it can delete the guidance and questions and write its own inputs to the STS in this guidance note itself.
3. At the end of each section, an STS Completion Tracker will appear to help navigate a country from one section to the next – with completed sections highlighted.
4. A country may wish to add more sections or title the sections differently. This is possible as the STS guidance is only a guide and not intended to be a blueprint.



STS: Introduction

Guidance: The main purpose of this section in a country's STS is to provide a background which puts the country's graduation and STS in context. It could briefly highlight where the country is at in its development pathway, the implications of LDC graduation, and the integration of the STS and preparation for graduation into the country's macroeconomic framework. It could underscore the role of structural transformation and related domestic policies on productive capacities, entrepreneurship, industrial policy, science, technology, innovation and regional and global integration.

It also outlines where a country is at in terms of the graduation process, an overview of the process undertaken by the country in preparing its STS and key stakeholders consulted and engaged to inform and to validate the STS.

An introduction would outline the key features or sections of the STS, key partners and expected timeline. It introduces the key headlines from the various sections of the STS in particular the key smooth transition measures that the country has prioritized to ensure it effectively mitigates any adverse impacts of graduation and transitions smoothly post-graduation when the transitional period for all LDC-specific International Support Measures (ISMs) have concluded. It emphasizes the importance of having an implementation plan and the full implementation of prioritized measures and key recommendations of the STS.

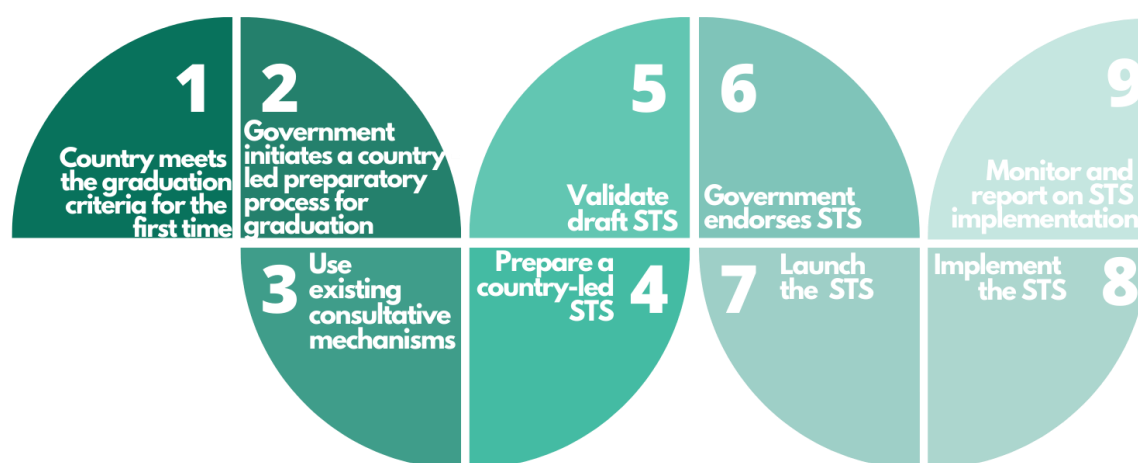


STS Section 1.

Approach and Process

Guidance: The main purpose of this section is for a country to carefully consider the approach and process it will take in preparing its STS. A number of key items need to be considered. A country could draw on its graduation assessment prepared by UN DESA and other UN entities (including a DESA impact assessment and UNCTAD vulnerability profile) that may already articulate possible ‘Elements of an STS’. A set of guiding questions are also provided to assist a country in determining the most appropriate approach and steps in the STS process that are relevant to its country context. The STS process outlined in this guidance note involves nine steps. The first step is the only one where an assessment, decision or recommendation is made by the UN CDP, ECOSOC and/or General Assembly. The remaining seven steps are primarily the responsibility of the country – country led and owned.

Figure 1.1. STS Process



Principles of the STS Process

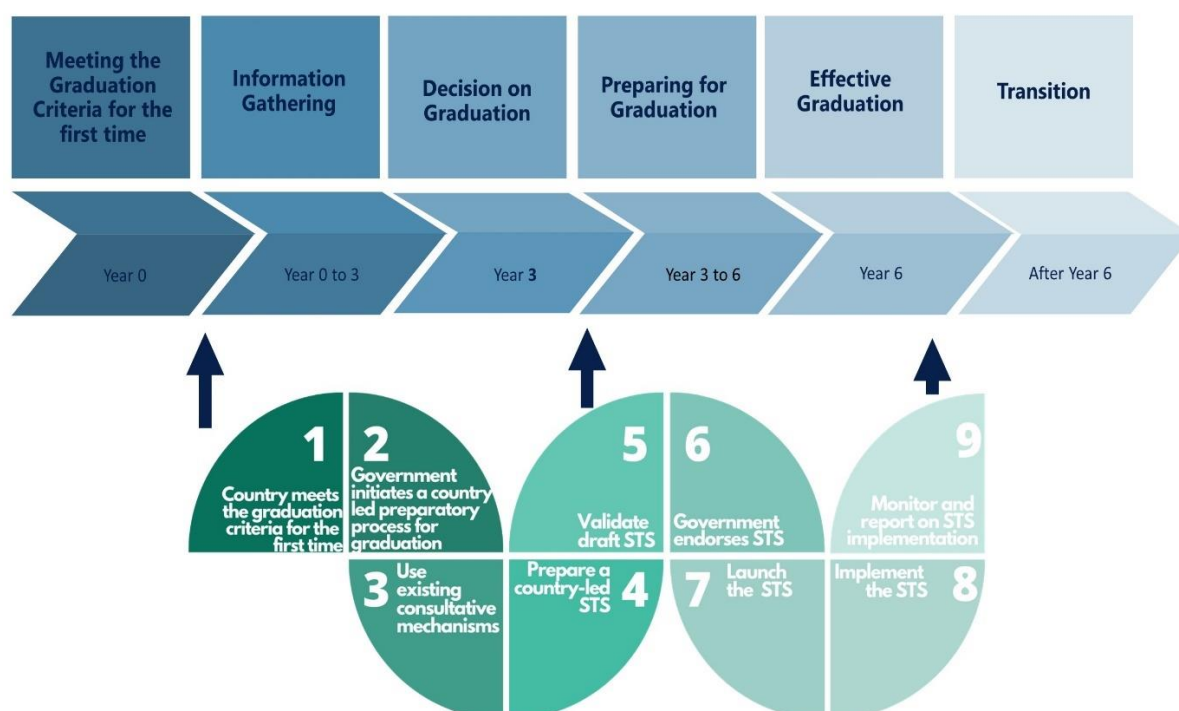
Two main principles guide the STS process:

1. Country-led, country owned and using existing country systems to the extent possible.
2. International community support is country-demand driven, timely and of high quality.

Given that the STS is about preparing a country beyond graduation and towards achieving sustainable development, the nine principles espoused in the 2030 Agenda Declaration (see [A/RES/70/1](#), para 74) and agreed to by Member States should also guide the STS process:

1. Voluntary and country-led, taking into account different national realities, capacities and levels of development and will respect policy space and priorities. As national ownership is key to achieving sustainable development, the outcome from national-level processes will be the foundation for reviews at the regional and global levels, given that the global review will be primarily based on national official data sources.
2. Track progress in implementing the universal Goals and targets, including the means of implementation, in all countries in a manner which respects their universal, integrated and interrelated nature and the three dimensions of sustainable development.
3. Maintain a longer-term orientation, identify achievements, challenges, gaps and critical success factors and support the country needs in making informed policy choices. Helps mobilize the necessary means of implementation and partnerships and supports the identification of solutions and best practices and promotes the coordination and effectiveness of the international development system.
4. Open, inclusive, participatory and transparent for all people and will support reporting by all relevant stakeholders.
5. People-centred, gender-sensitive, respect human rights and have a particular focus on the poorest, most vulnerable and those furthest behind.
6. Builds on existing platforms and processes, where these exist, avoids duplication and responds to national circumstances, capacities, needs and priorities. It will evolve over time, taking into account emerging issues and the development of new methodologies, and will minimize the reporting burden on national administrations.
7. Rigorous and based on evidence, informed by country-led evaluations and data which is high-quality, accessible, timely, reliable and disaggregated by income, sex, age, race, ethnicity, migration status, disability and geographic location and other characteristics relevant in national contexts.
8. Requires enhanced capacity-building support including the strengthening of national data systems and evaluation programmes.
9. Benefits from the active support of the United Nations system and other multilateral institutions.

Figure 1.2. Graduation Process and Timeline – where does the STS Process kick in?



It is important to note that the STS process is closely linked to the LDC graduation process. Therefore, the graduation process is described in this guidance note to help countries note the stages in the graduation process and timeline where it is recommended that a country commences its STS preparation process with coordinated support from the international community.

Graduation Process and Timeline

Graduation from the LDC category is a multi-year process involving different stages and multiple actors, thereby providing the country and its international partners with the time needed to adapt to its new status as a non-LDC developing country and minimizing the risk of premature graduations.⁹ Though graduation does not depend on the Government's consent, the process ensures that the views of the country are taken into consideration in the decision on the country's graduation.

Details of the graduation process and timeline can be found in the CDP LDC Handbook.¹⁰

What is provided here is a summary of a standard, graduation process, consisting of six main stages (see Figure 1.2 above):

⁹ UN Committee for Development Policy, 2021. LDC Handbook

¹⁰ UN Committee for Development Policy, 2021. LDC Handbook

1. **First Triennial Review** (Year 0) - CDP establishes at triennial review that a country is meeting the graduation criteria for the first time. The CDP notifies the Government of its findings in writing, includes the finding in its report to ECOSOC and requests UNCTAD to prepare a “vulnerability profile” and UN DESA to prepare an “ex ante impact assessment”. It also requests these documents, enriched by additional inputs, to be consolidated into a graduation assessment.
2. **Information Gathering Period** (between Year 0 and 3) – country initiates preparation for possible graduation with international community support. This is when information on the implications of graduation on the country due to loss of LDC-specific international support measures are gathered and analyzed. A country may initiate the preparatory process for LDC graduation including using existing consultative mechanisms for inclusive dialogue and for preparing its smooth transition strategy.
3. **Decision on Graduation** (Year 3) – CDP recommends country for graduation, ECOSOC endorses, and General Assembly takes note. At this stage, the CDP confirms a country is meeting the graduation criteria a second time, reviews additional information and consults with the country. If a country is subsequently recommended for graduation by the CDP, this decision has to be endorsed by the ECOSOC and taken note by the UN General Assembly. The UN General Assembly would also determine the length of preparatory period for graduation.
4. **Preparatory Period** (between Years 3 and 6) – country prepares for graduation and smooth transition with international community support. While the standard period is 3 years, the UN General Assembly can grant longer periods. The CDP resolved to include in its graduation narrative a statement proposing the standard 3-year preparatory period or longer up to a maximum of 5 years based on country-specific factors.¹¹ The country continues its preparation for LDC graduation including preparing its STS, Development and trading partners are invited to extend certain LDC-specific international support measures for a limited time, to phase out these measures in a gradual manner and to provide specific support for graduation that form a key part of the specific measures for a country’s smooth transition strategy. A country may begin implementing its STS if it chooses to and with the full support of development and trading partners.
5. **Effective Graduation** (Year 6) – country effectively graduates on the date decided by the UN General Assembly and begins its journey as a non-LDC. There is no obligation for any action by the country itself. The country is no longer on the official list of LDCs maintained by UN DESA.
6. **Transition** (after Year 6) – Country implements its smooth transition strategy and phasing out of ISMs begins. Implementation of STS may even commence earlier, before, Year 6. The CDP continues to monitor the country’s development progress and monitors the implementation of the transition strategy, in consultation with the country and based on reports received by the

¹¹ CDP Plenary 2020 Report (E/2020/33; paragraph 52)



country. The monitoring is conducted annually for three years after graduation and then triennially thereafter to two triennial reviews.

There is no fixed standard length of time for the extension of LDC-specific support measures nor for the provision of graduation specific support, as the length of an extension or provision of specific graduation support, if any, is determined by the provider of support (e.g., the EU EBA has currently a three-year extension). The monitoring by the CDP after graduation lasts for seven to nine years, depending on the date of graduation.

Post-graduation or beyond graduation is the period after a country has effectively graduated and is no longer in the LDC category. This is the transition period and beyond.

Smooth Transition Strategy Process

Step 1: Country meets the LDC Graduation Criteria the first time. After the CDP finds a country meeting the graduation criteria the first time, the country is notified by UN DESA. UN DESA prepares before the subsequent Triennial Review of the CDP, an ex-ante assessment, UNCTAD prepares a vulnerability profile, and the conclusions of these assessments, along with inputs from the UN Country Team (UNCT) and the Inter Agency Task Force (IATF) on LDC graduation are considered in a “graduation assessment.” A key part of the process of preparing the graduation assessments is that DESA solicits and reflects country inputs and more importantly holds a national meeting to ensure the government, relevant private sector players and other key stakeholders fully understand the impact of the loss of ISMs due to graduation, the lingering vulnerabilities beyond graduation and possible key elements of a smooth transition strategy. A country should then start the preparations for an STS – taking ownership and leadership of the process. In the past, graduating countries only started preparing their STS after being recommended for graduation by the General Assembly. However, from 2019, the CDP has indicated the need for countries to start the thinking and process of preparing an STS from as early as the first time it meets the LDC graduation criteria. The General Assembly recommends that a country prepares a smooth transition strategy.

Step 2: Government initiates a country-led preparatory process for LDC graduation This is a first critical step where Government prioritizes LDC graduation at the highest level through its political leadership and supported through ‘whole of government’ policy leadership, technical analysis and private sector and non-government actors’ contribution as experts in their fields. It is imperative that a Government-led dialogue with key players from the private sector and NGOs considers and determines how best to integrate LDC graduation in its existing national plans, policies and medium-term budgetary framework but also the planning, budgeting, monitoring and reporting processes. Strategic engagement of the international community at the outset and the Government having clarity on the support it will need throughout the graduation process are essential.

Step 3: Use existing consultative mechanism to facilitate the preparation of the STS. A national consultative mechanism does not need to be a newly created mechanism. A graduating country should utilize existing national consultative mechanisms. Only when no appropriate mechanisms exist, is a country encouraged to establish a new and dedicated consultative mechanism for LDC graduation. An existing or new mechanism needs to be integrated with other relevant consultative processes and initiatives between the graduating country and its development partners.

A country should ensure that an existing or newly established mechanism has ‘whole of government’ leadership and is inclusive. The consultative mechanism could have two key components: a) national and local stakeholders – government, think tanks, private sector, civil society and other actors; and b) international partners – bilateral, multilateral and regional partners as well as external private sector, philanthropies and international non-government organizations (INGOs). Having a component of the mechanism dedicated to national and local consultations allows the voices and interests of different segments and groupings within the country to be heard and considered in preparing the STS and the process itself.

Based on the government’s sound understanding of the impact of the loss of ISMs, long-term vulnerabilities and elements of an STS highlighted in its graduation assessment, a country could conduct a stakeholder mapping to then select national and international stakeholders as members of the consultative mechanism.

A consultative and inclusive mechanism that is in cooperation with its bilateral and multilateral development and trading partners would help the country and its partners identify associated actions and the negotiation of their duration and phasing out for a period appropriate to the development situation of the country. A key purpose of the STS is the agreement with development and trading partners on smooth transition measures – existing and new. Negotiations required could be undertaken at bilateral level if more conducive than in the larger international consultative mechanism.

A country can call on the UN system through its country presence via the UN Resident Coordinator and the UN Country Team for support. Further support from the IATF on LDC Graduation is available, upon request.

Step 4: Prepare a country-led STS. This is with support from the international community. To ensure a country-owned and quality STS, it is important that a country considers the strategic objective of the STS, approach to developing and implementing the STS, the key elements or features of the strategy and ensuring an inclusive and participatory engagement process. Ample time should be spent on section 2 of the STS as it requires thorough analysis of the impacts of graduation and identification of mitigating measures that are needed to transition smoothly beyond graduation. These become the smooth transition measures once they are negotiated with and agreed by development and trading partners. The draft STS should be shared with all stakeholders invited to the validation workshop, well before the workshop. Sharing the draft STS a month before (as a minimum) allows in-depth comments and feedback to be provided that would add value to the draft STS, although, this may vary from country to country. Based on comments received, a revised draft STS is prepared for validation by the Government and a wide and inclusive spectrum of stakeholders.

Step 5: Validate draft STS. A government or country-led validation workshop should be organized and facilitated through the consultative mechanism. If the STS is being prepared as part of the formulation of a medium to long-term national development plan, the validation would form part of the validation of the national development plan, hence 2 to 3 days be required and would include smaller thematic group discussions besides the plenary discussions/validation. If the STS is being prepared as a separate document, then 1 or 2 full days would be required to make the discussions meaningful. This of course will depend on the objective determined by each country. If all comments have been received and reflected in a revised STS, then half a day would work. If, however, stakeholders’ comments and feedback are being sought and to be provided during the validation then a country should consider a full day validation workshop to allow adequate discussion of each section of the draft STS and the recommended specific measures for implementation.



Step 6: Government endorses the STS. The validated STS should be endorsed by the government to give it the legitimacy for implementation and support from the international community. Responsibility for the implementation of the STS recommended actions or specific measures are to be clearly assigned within the Government and with indicative timeframes. Ideally, the STS should be endorsed well in advance of the date on which graduation becomes effective. Implementation of the STS should start as soon as possible. This is particularly important if the Government needs to initiate negotiations with bilateral partners. These need to be considered by a graduating country when preparing its overall STS roadmap and timeline including the commencement date for implementation of the strategy.

Step 7: Launch the STS. This can be as a stand-alone event or as part of a bigger event for which the STS is a key component or the STS is a contribution. It should be seen as the opportunity to promote the key messages underpinning the importance of a smooth transition beyond graduation and one which requires commitment by all.

Step 8: Implement the STS. Countries are encouraged as invited by the General Assembly to implement the STS as part of their overall development strategy and to incorporate it into future policies and strategies and the action matrix of the Diagnostic Trade Integration Studies under the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (EIF).¹²

Furthermore, the recent UN development reform provides an opportunity for seeking synergies with the Common Country Assessment (CCA) and a country's UN Sustainable Development Cooperation Framework (UNSDCF). Likewise, linkages can be identified with a country's Voluntary National Review (VNR), Diagnostic Trade Integration Study (DTIS), WTO Trade Policy Review, its poverty reduction and growth strategy and national development strategy. Elements of an STS can be incorporated into these documents, depending on the stage of each.

Resources required for the STS implementation could also be reflected in a country's medium-term budget or fiscal framework and its external resource mobilization strategy as well as reflected by development and trading partners in their own multi-year funding mechanisms.

Based on the STS specific smooth transition measures and implementation modalities, the sequencing of those measures and support required would determine the way in which the STS is implemented and would be outlined in a country's STS under Section 3 – Prioritized Smooth Transition Measures and Implementation Modalities.

Step 9: Monitor and report on the STS implementation. If a country's STS is well integrated into its national sustainable development plan and budget, then monitoring of the STS should also be embedded in a country's monitoring and evaluation framework for its national plan and budget. Annual monitoring and reporting on implementation of the STS should form part of existing national and sectoral monitoring and reporting as well as a country's integral reporting requirements to the CDP – annually for the first three years after graduation becomes effective as well as for two consecutive triennial reviews.

It is also useful for a country to develop a brief advocacy and communication strategy as a tool for high-levels of government to use in raising awareness, garnering support across the country and strengthening key partnerships for the country's smooth transition beyond graduation.

¹² General Assembly resolution 67/221 of 26 March 2013; paragraph 11

Guiding Questions

1. Has the country been identified by the CDP as meeting the graduation criteria for the first time and is it preparing for the second triennial review?
2. Where is the country at, in terms of its national sustainable development plan – early, mid or final year of the plan period? If in the final year, then the STS could form part of the new national sustainable development plan and medium-term fiscal framework and need not be a separate strategy.
3. What other development plans are in place or planned where the STS can be integrated?
4. Which Government agencies will be responsible for the leadership and ownership of the transition strategy?
3. Are there existing national consultative or policy and decision-making mechanisms that could be used for the purposes of LDC graduation and preparing an STS?
4. Has the government mapped existing national and local level mechanisms to help inform the decision on which mechanism would be most appropriate and if a new consultative mechanism should be established?
5. Is the country planning to assess its own capacity building needs and identify advisory/technical/financial assistance required of the international community? Has the country identified the international agencies/development partners which can provide such assistance?
6. Who will inform the STS – strategic selection of stakeholders but also inclusive?
7. What forms of engagement will be used? High-level dialogue, technical analysis and effective participation in all steps or only at key milestones?
8. Will peer-to-peer learning from graduated and graduating countries' experiences be employed?



STS Completion Tracker

you should have completed this section.

1.

SECTION 1

STS Approach
and Process

2.

SECTION 2

Impacts of Graduation
and
Smooth Transition Measures

3.

SECTION 3

Prioritized Smooth
Transition Measures
and Implementation Modalities

4.

SECTION 4

STS Roadmap



DESA

Secretariat for the Committee for Development Policy

18



STS Section 2.

Impacts of Graduation and Smooth Transition Measures

Guidance: The main purpose of this section of the STS is to clarify the impact of losing the LDC-specific ISMs due to LDC graduation, areas where specific impacts are anticipated, and specific measures a country needs to implement to ensure smooth transition beyond graduation. This section could have two key components:

1. **Impacts of Graduation.** Using the graduation assessment¹³ for the country if provided by the UN CDP/DESA or in its place an ex-ante impact assessment by UN DESA and a vulnerability profile by UNCTAD as well as other relevant existing analyses, assessments and studies, determine the most significant impacts of graduation for the country, due to the loss to LDC-specific international support measures (ISMs).
2. **Smooth Transition Measures:** For each significant impact listed in (1) above, identify specific mitigation measures. These include: a) fully implementing existing national or sectoral strategies, policies, policy programmes and reforms that are underway that would better prepare the country to mitigate the adverse graduation impacts and take advantage of emerging opportunities; b) making full use of existing ISMs; c) seeking extensions, deferment and/or changes in terms, conditions and/or modalities of existing ISMs through bilateral negotiations with trading and development partners; d) compensating for loss of ISMs; and e) developing the required capacity to utilize “new and improved support measures” including on productive capacities that maybe offered by the international community.

This section is at the core of the strategy and instrumental in helping a country draw from various assessments, analyses, diagnostics and studies and to piece together and prioritize those impacts of graduation it must address as well as the smooth transition measures that need to be fully implemented within the transition period to minimize the potential adverse impact on a graduating country’s development trajectory.

This section provides a holistic basis for a strategic and inclusive dialogue among government leaders, policy and decision makers, private sector and civil society actors, development partners and the general public.

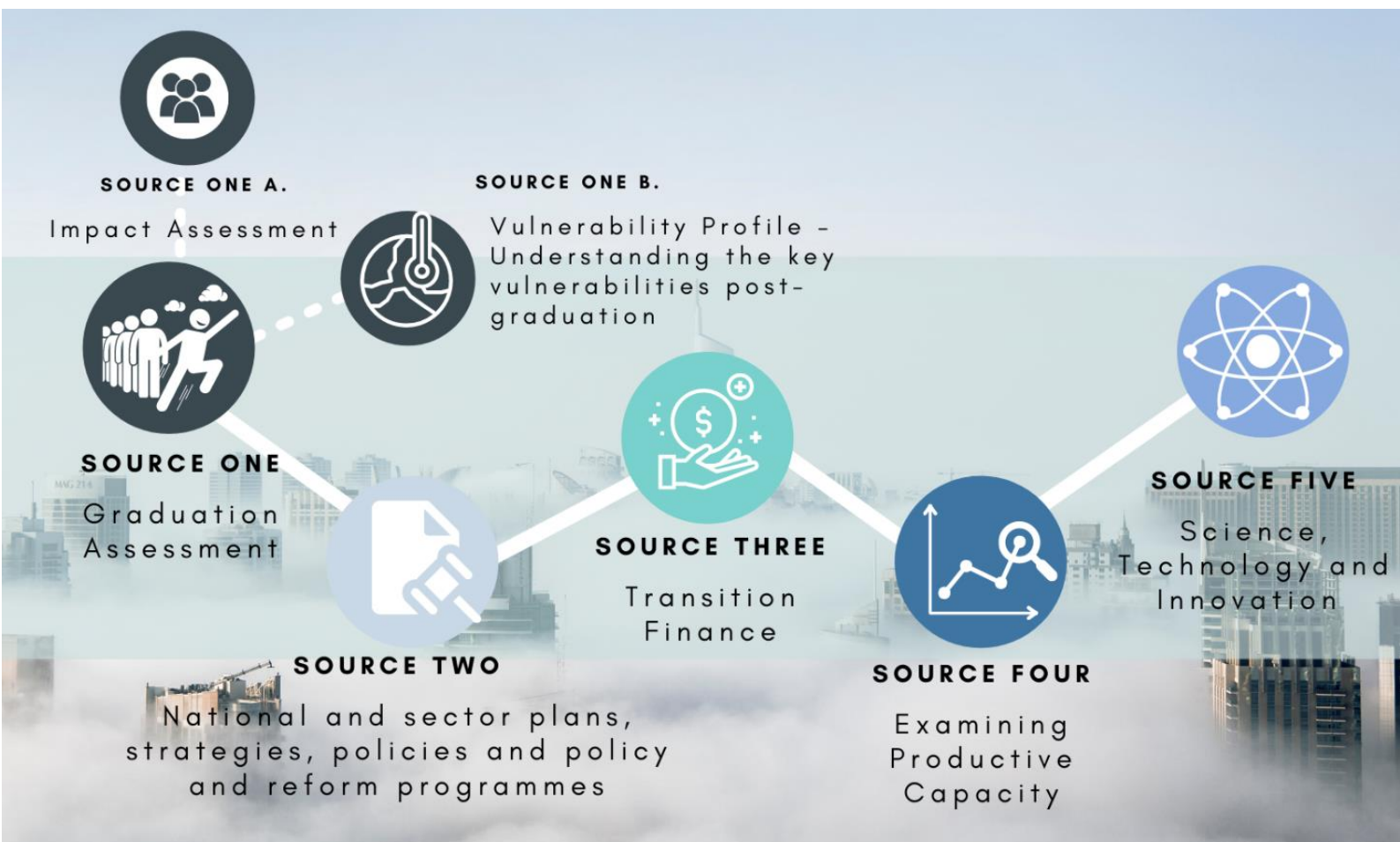
Rather than undertake new analyses, a country is encouraged to draw from existing assessments, studies or diagnostics to inform this section of its STS. If existing analyses and information are inadequate or outdated, a country may wish to conduct additional assessments or analyses, depending on where a country is at in its development pathway and graduation process, the nature of the impacts

¹³ Prior to 2020, graduating LDCs like Bhutan, Solomon Islands and Bangladesh do not have a graduation assessment prepared by the UN CDP but an impact assessment prepared by DESA and a vulnerability profile conducted by UNCTAD.



of graduation and available resources. Figure 2 provides five such assessments and diagnostics as possible sources of information.

Figure 2. Five Key Sources of Information



Source One – Graduation Assessment: It is essential for a country to fully understand and clearly articulate the expected loss of LDC-specific ISMs, impact channels and the implications for the country. Identifying targeted measures that must be undertaken to cushion the impact and determining which impacts and mitigating measures need to be included in the STS are critical. In the past after an LDC has been identified as eligible for graduation the first time, UNDESA would prepare an ex-ante impact assessment and UNCTAD would conduct a vulnerability profile. In an effort to have a consolidated United Nations voice and appraisal regarding graduation from the LDC category, the CDP in 2019 recommended that the CDP Secretariat with various UN entities prepares a graduation assessment. It further recommended the CDP Secretariat pilot the graduation assessments in Lao PDR and Myanmar – both having met the eligibility criteria for the first time in 2018.

Preserving the respective strengths and integrity of the impact assessments prepared by DESA and the vulnerability profiles prepared by UNCTAD, the graduation assessment incorporates additional inputs

from the UN country teams and the members of the IATF on LDC graduation. It involves an early start for the analysis (shortly after a country meets the graduation criteria for the first time) and country consultations. The CDP will also continue to review the implementation of other process-related aspects of improved assistance for graduating and graduated least developed countries.

Source One A - Ex ante impact assessment (IA): prepared by DESA for the country would be the main source of information. It would already benefit from inputs from the country itself and its development and trading partners. A country could draw from the IA and identify the major impacts of graduation that may disrupt its development progress post-graduation. It should highlight the direct impact channels of the withdrawal of LDC-specific ISMs upon graduation and any applicable “smooth transition” mechanisms.. The impact could be categorized into three main groups: a) Trade – market access for goods and services as well as other special and different treatment (S&D) provisions under the WTO agreements; b) development cooperation – ODA sector type and trends, aid for trade (AfT) and climate finance; and c) support for participation in the UN system entities and processes and scholarships.

Source One B – Vulnerability Profile: The new generation of vulnerability profiles prepared by UNCTAD provide a sound assessment of structural progress (or lack thereof) and inform the decisions of the CDP. The vulnerability profile will be structured along four pillars. The first two pillars provide a background of the country’s economic and development situations. They further compare values of indicators used in the CDP triennial review with national statistics. While the first two pillars adopt a largely descriptive and backward focus, subsequent pillars assume a more forward-looking approach.

Source Two - National and sector policies, plans and reform programmes: A country may refer to these sources and identify specific smooth transition measures that are already reflected and may decide that those are adequate. A country may choose to allocate additional resources where necessary. In addition, a country after reviewing such sources of information, may identify additional targeted measures which could be further integrated into the same sources when the opportunity arises – a mid-term review or the formulation of a new national or sector plan, policy, etc.

Source Three – Transition Finance: A country may decide that it needs to rethink the financing of its sustainable development including its smooth transition measures and when ISMs previously enjoyed are no longer available. A country may consider using one or a number of the following tools that are available, depending on its specific objective(s):

- a) **Development Finance Assessment (DFA):** This is an assessment whereby a country wishes to broaden its sources of development financing or enhance the synergies and effectiveness of existing and new sources. A DFA examines the taxonomy of various sources of domestic and external development financing (existing and new) including innovative instruments that it may tap into. The DFA also analyses and identifies the policy, institutional arrangements, reforms and capacity enhancement a country requires to effectively access such sources including the management, reporting and accountability requirements. DFAs are country-led with technical support from UNDP in partnership with other UN entities and development partners (bilateral and multilateral). A country may choose to focus its DFA specifically on development areas that are negatively affected by the loss of LDC-specific funding sources due to graduation and propose alternative or new sources. A country that has already conducted



a DFA, may simply refer to it as a useful source of information and update it, if deemed necessary for preparing its STS.

- b) Integrated National Financing Framework (INFF): These build on DFAs and provide a framework for financing a country's national sustainable development plans and priorities and the SDGs. It provides an integrated layout of how the implementation of a country's national plan will be financed drawing on a full taxonomy of public and private sources as well as domestic and external. An INFF promotes the utilization of resources in way that maximize the benefits of integrating or synergizing sources as well as their utilization and management to enhance the quality, depth and coverage of the development impact. Countries are increasingly making these INFFs risk informed. Where a country has an INFF, it may wish to identify elements of the INFF that contribute to the country's graduation out of the LDC category and smooth transition towards sustainable development. A country could include these measures as part of the smooth transition measures under Section 2 of its STS. INFFs are conducted with technical support from UNDP as well as DESA.
- c) Transition Finance Country Diagnostic (TFCD): A TFCD is conducted with technical and financial support from the OECD-DAC. A country could refer to its TFCD if one has been conducted. It may wish to draw on the evidence-based analysis and recommendations for a smooth transition finance journey towards sustainable development. The TFCD may also provide ways on how best development partners can effectively support a graduating LDC that may also be a landlocked or small island developing state (SIDS).

Source Four – Examining Productive Capacities: If a country wishes to include key productive capacity gaps that need to be addressed during the transition period, it could draw on existing productive capacities assessments that have been conducted either at national, sectoral or industry level. If a country is interested in diagnosing productive capacities, it can consider several ways as follows:

- a) CDP Note on 'Expanding Productive Capacities': Lessons learned from graduating LDCs - offers a combination of five areas of integrated policies and 3 pathways and implications for expanding productive capacities.
- b) Diagnostic Trade Integration Studies (DTIS) of the EEIF: Provides analysis and identifies the supply side constraints that are hampering the integration of an LDC into the multilateral trading system and the mainstreaming of a trade policy and trade issues into a country's poverty reduction strategy and national development plan. A country's DTIS would include a section on the analysis and assessment of the macroeconomic environment and how it relates to the main binding constraints in developing a country's productive and trade capacities. A DTIS would also include an action matrix which a country can refer to as it would contain specific trade and private sector related policies and actions. Therefore it is a useful source of information on examining productive capacities.
- c) Growth Identification and Facilitation Framework (GIFF): is a practical tool that is designed to help policymakers in catching-up developing countries such as the LDCs to develop feasible

and sharply focused policies in an effort to enable leaders to identify and unlock the latent comparative advantage to achieve structural transformation. At the heart of the GIFF is the principle that developing countries should not focus on what they do not have but what they do have in an effort to unleash their latent comparative advantages. (see GIFF studies conducted via CDP projects in Nepal¹⁴ and Uganda¹⁵)

- d) Istanbul Programme of Action: provides seven indicators and suggests productive capacities goals and targets, in accordance with national development policies and strategies.
- e) OECD Development Centre production transformation policy reviews (PTPR)¹⁶: are policy assessment and guidance tools based on a five-pillar framework and peer-learning. Carried out on demand, the entire review may take over eighteen months.. The PTPR offers a framework to identify actionable policy choices to promote development through structural transformation, based on comparative assessment of a country's assets, upgrading potential and priorities.
- f) Productive Capacities Index (PCI)¹⁷: An UNCTAD tool, it provides the state of development of productive capacities and its different elements. The PCI which has eight proponents can be used to identify any missing data with a view to incorporating and measuring productive capacities in development planning. The UNCTAD LDC reports also provide a comprehensive and authoritative source of socio-economic analysis and data on LDCs.

Because the productive capacities analyses in themselves take time (6-18 months), rather than undertake one as part of preparing a STS, if not already undertaken, a country may consider including it as a specific measure to be undertaken as part of implementing the STS or as part of a sector strategy or the national sustainable development plan, as it may cut across a number of sectors.

Source Five – Science, Technology and Innovation (STI): The recent Covid-19 pandemic revealed an enormous gap in developing countries' capacity to use existing technology as well as a lack of infrastructure and software to deliver basic and essential public and private services in situations such as the lockdowns and travel restrictions. A country may wish to draw on the following assessments and reviews:

- a) Science Technology and Innovation Assessments (STIA): if one has been conducted with support from OHRLLS. A country yet to conduct an STIA may wish to do so and focus the assessment on helping the country to assess its readiness for a smooth transition beyond graduation and into a future where digital technology and transformation are likely to play an increasing role.

¹⁴ <https://www.un.org/development/desa/dpad/publication/background-paper-35-applying-the-growth-identification-and-facilitation-framework-to-nepal/>

¹⁵ https://www.un.org/en/development/desa/policy/cdp/cdp_background_papers/bp2016_32.pdf

¹⁶ Production Transformation Policy Reviews (PTPRs) - OECD

¹⁷ <https://unctad.org/topic/least-developed-countries/productive-capacities-index>



- b) Science Technology and Innovation Policy Review (STIPR): this is a key component of strengthening the technological capabilities of developing countries which are critical for the achievement of the 2030 Agenda for Sustainable Development. It requires focused national effort backed by international support. STIPR is an authoritative source on STI produced by the UNCTAD – the focal point within the UN on STI for development. The reviews are undertaken by UNCTAD at the request of a country. It helps a country's STI stakeholders identify the major strengths and weaknesses of their innovation systems and establish strategic priorities for its development.

More details on each of the five sources of information are provided in Annex 2.

Guiding Questions

1. What policy and institutional reforms are currently underway or planned that are related to graduation out of LDC category and smooth transition?
2. What are the trends in the country's utilization of LDC-specific ISMs?
3. Has an assessment been made to identify the policies that would require a change or new policies/legislations that need to be brought in? If so what capacity building support would be required?
4. Is further in-depth analysis required to help identify areas and sectors where continued or additional international support is needed?
5. Is there consensus on the negotiation areas to be prioritized?
6. Are the impact assessment and vulnerability profile recent or outdated? If outdated, they may need to be updated.



STS Completion Tracker

you should have completed this section.

1.

SECTION 1

STS Approach
and Process

2.

SECTION 2

Impacts of Graduation
and
Smooth Transition Measures

3.

SECTION 3

Prioritized Smooth
Transition Measures
and Implementation Modalities

4.

SECTION 4

STS Roadmap



DESA

Secretariat for the Committee for Development Policy



STS Section 3. Prioritized Smooth Transition Measures and Implementation Modalities

Guidance: For this section, it is recommended that a graduating country discusses the smooth transition measures listed in Section 2 of the STS through the consultative mechanism and agree on those that are to be prioritized for implementation under this section. This section of the STS should have two key components:

1. Prioritized smooth transition measures – under which each priority measure is listed.
2. Implementation modalities – succinctly outlining how each or a group of smooth transition measures will be implemented.

To determine which smooth transition measures are to be prioritized, a country may consider the following:

- Importance of each smooth transition measure;
- Feasibility of obtaining it;
- Link with impacts of LDC graduation;
- Implementable within the strategy period; and
- Whether national capacity exists to use the measure (and if so, then what resources are required, and time needed to develop such capacity).

A country may decide to adopt a single, or multiple modalities for implementing its STS. This depends on the type of STS it prepares. A country may choose a single modality where it integrates the STS into the national sustainable development plan and financing budget and is implemented as part of that framework including monitoring and reporting. If the STS is a strategy that is documented on its own, a country may opt for a single modality but where the STS is implemented separately.

A country may choose a suite of modalities especially where the STS is prepared as a separate document, but the impacts of graduation are being addressed through a combination of smooth transition measures implemented as part of a country's national sustainable development plan and financing framework and those not reflected in the existing framework, hence implemented separately under the STS.

A country's capacity strengths and needs as well as additional support required to implement the smooth transition measures should be considered, when deciding on the implementation modalities. These could include support to:

- Prepare for compensation of loss of LDC-specific ISMs including securing resources for maintaining progress in human asset and income and more broadly achieving the SDGs.

- Seek assistance for mobilization of additional resources including access to domestic resource mobilization mechanisms.
- Explore new exporting opportunities – new products and services, new markets.
- Seek development and trading partners assistance including the UN for targeted capacity building, policy advisory and technical assistance including for trade and ODA related negotiations.
- Promote trade related capacity building, infrastructure investment and improved business environment to attract FDI for export competitiveness and diversification.
- Enhance data collection and management to better analyze and address challenges related to LDC graduation.
- Create a monitoring mechanism which ensures that all the agreed points in STS are implemented in a timely manner. Issue based identification of national focal agencies (who should be made responsible to implement them) should also be finalised.

A table with details on the prioritized smooth transition measures and implementation modalities including responsible agencies, potential partnerships and timelines could be provided as an annex. (See an example of a table in Annex 3.1 and from the Vanuatu STS in Annex 3.2)

Guiding Questions

1. What are the LDC-specific International Support Measures that are being used by the country?
2. What are the modalities for implementation being considered?
3. What specific capacity building support will be required?
4. For the specific capacity building support identified in (3) above, are there any existing providers with the relevant expertise? Are there any preferred partners of choice?

STS Completion Tracker

you should have completed this section.



1.

SECTION 1

STS Approach and Process

2.

SECTION 2

Impacts of Graduation and Smooth Transition Measures

3.

SECTION 3

Prioritized Smooth Transition Measures and Implementation Modalities

4.

SECTION 4

STS Roadmap



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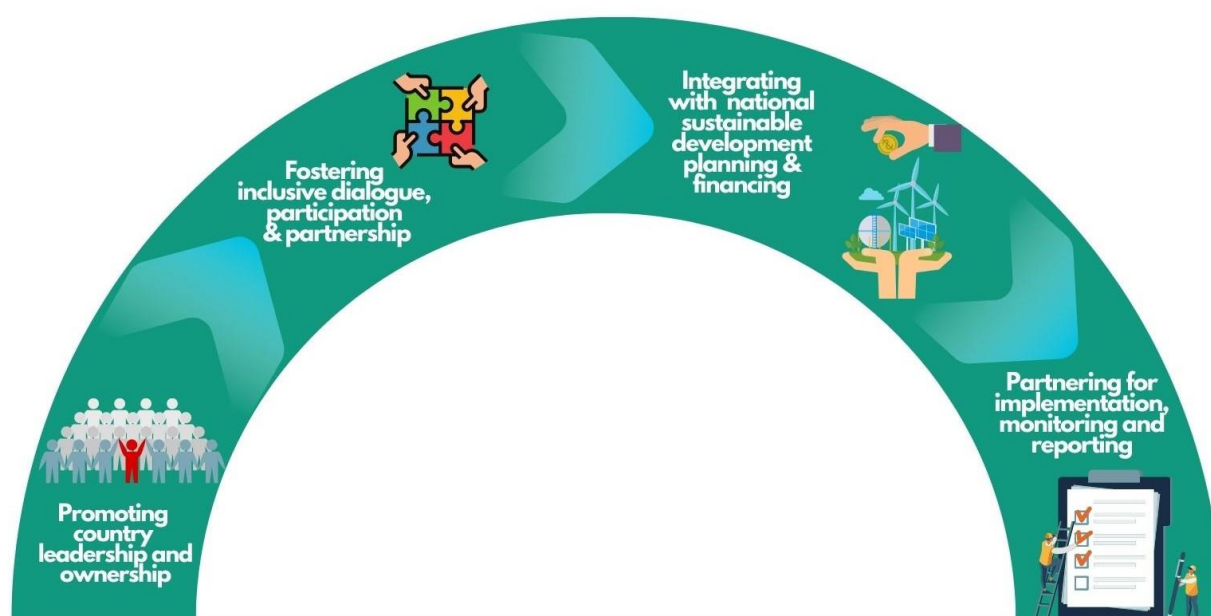
26



STS Section 4. STS Roadmap

Guidance: A roadmap provides the overarching strategic guidance to ensure the STS is implemented successfully and smooth transition is achieved. This guidance note provides an STS roadmap that also serves as a high-level communication tool to articulate the strategic thinking behind the STS and the four major milestones required to achieve the goal of smooth transition. The STS roadmap allows a country to navigate from start (preparing) to finish (implementation) – linking the STS and its proposed four sections, the eight steps in the STS process (see figure 1.1) and the four strategic milestones of the roadmap.

Figure 4. STS Roadmap



Roadmap - four milestones:

- 1. Promoting country leadership and ownership.** Prioritizing LDC graduation at the political level is essential, as emphasized by the CDP. Ensuring that the CDP assessment of the country as eligible for graduation the first time, makes preparation for graduation a priority for the country - at the highest level and supported within the country through Government political leadership, whole of government policy leadership and private sector and non-government actors' contribution as experts in their fields. It is important that the consultative mechanism is led and chaired by the Ministry or institute responsible for planning and finance. Such an arrangement would ensure that the deliberations and decisions taken by the consultative mechanism feed into the Government agenda and decision-making process. It is highly

recommended that non-state actors engaged in the consultative mechanism also feed the decisions of the consultative mechanism to the non-government bodies with which they are affiliated including business councils and financial institutions that operate in the country and facilitate trade related transactions. Expert advice and support from the IATF on LDC graduation and other development partners through professional and technical staff can complement a country's own efforts – via the country-led and owned consultative mechanism.

2. **Fostering inclusive dialogue, effective participation and partnership.** The importance of an inclusive dialogue and genuine participation of a wide section of national and local stakeholders cannot be overemphasized. It is imperative for the necessary buy-in at all levels to ensure the successful implementation of the STS. This milestone will be achieved when Steps 1 and 2 of the STS process are completed. However, the consultative mechanism needs to work effectively throughout until the STS is endorsed by the Government and fully implemented.
3. **Integrating STS with national sustainable development planning and financing.** This can be achieved if the STS is situated within a country's medium and long-term national sustainable development plans, policy formulation and decision-making processes. At the same time, it must be embedded in a country's medium-term fiscal policy framework and annual budgeting decision-making processes. This second milestone of the roadmap will be achieved when Steps 2 and 3 of the STS process are completed. If a country has developed its STS as part of its plans and budget then it would already be integrated. If a separate document is created where the STS contains specific implementation measures, then these need to be reflected in the relevant government ministries and departments' multi-year or annual work plans to ensure that human, financial and other required resources are appropriately planned and allocated for when they are needed.
4. **Partnering for implementation, monitoring and reporting.** Strong partnerships with predictable and reliable support are essential for the effective implementation, monitoring and reporting of the STS. An integrated approach to the STS implementation, monitoring and reporting is highly recommended for greater impact in terms of development results and outcomes and for greater effectiveness and efficiency. Unless key government and non-government actors come to the table and are part of the consultative mechanism, strengthening the links to the national plan, targeted sector policies and resource allocation, successful implementation of the STS may not happen.

STS Completion Tracker

you should have completed this section.



1.

SECTION 1

STS Approach
and Process

2.

SECTION 2

Impacts of Graduation
and
Smooth Transition Measures

3.

SECTION 3

Prioritized Smooth
Transition Measures
and Implementation Modalities

4.

SECTION 4

STS Roadmap



DESA

Secretariat for the Committee for Development Policy

28

Annexes

Annex A. Example of the Contents of an STS

Introduction

Section 1

STS APPROACH AND PROCESS

Section 2

IMPACTS OF GRADUATION AND SMOOTH TRANSITION MEASURES

- Impacts of Graduation
 - Significant impacts;
 - Specific industries and sectors as well as groups of population likely to be most affected
- Smooth Transition Measures
 - a) implementing existing national and sectoral strategies, policies and programmes and reforms;
 - b) making full use of the existing support measures;
 - c) seeking extensions or delays;
 - d) compensation;
 - e) negotiating changes in terms, conditions and/or modalities of existing support measures; and
 - f) adapting possibly with the international community providing “new and improved support measures”.

Section 3

PRIORITIZED SMOOTH TRANSITION MEASURES AND IMPLEMENTATION MODALITIES

- Prepare for compensation of loss of international support measures, including securing resources for achieving the SDGs as well as alternative trade preferences with major trading partners.
- Seek assistance for mobilization of additional resources, for example access domestic resource mobilization, including if a country is a SIDS - using special provision.
- Explore new exporting opportunities – new products and services, new markets.
- Seek UN, regional and sub-regional organizations’ assistance for targeted capacity development including for trade and ODA related negotiations.
- Promote trade capacity building, infrastructure investment and improved business environment to attract FDI for export competitiveness and diversification.
- Enhance data collection and management to better analyze and address challenges.

Section 4

STS ROADMAP

Annex 1. Example of STS Section 1: Approach and Process

Vanuatu Approach to Developing the Smooth Transition Strategy

The Government of Vanuatu in recognition of the scheduled 4th December 2020 graduation from the LDC status, mobilized the requisite measures and strategies.

In March 2016, the Council of Ministers (COM) endorsed the establishment of a National Coordinating Committee (NCC) comprised of various relevant stakeholders to coordinate the development of a smooth transition strategy. In addition, Secretariat to the NCC was established to develop effective transition strategies, coordinate efforts and facilitate consultations with national stakeholders.



This Strategy was informed by various stakeholder consultations, including COM, NCC members, meetings in six provincial centres and a national validation workshop held in October 2019. More so, a CDP ex-ante assessment, a UNESCAP funded study in 2018, and studies¹⁸ conducted in 2019 (on external financing and domestic resources mobilization, and trade impacts) to provide further evidence. Technical support was provided by UNESCAP to prepare the Strategy. Peer learning from the experience of the Government of Samoa also informed the Strategy.

As the NSDP remains the master strategy for Vanuatu's development, this Smooth Transition Strategy targets supplementary measures to mitigate any impact due to LDC graduation. An implementation matrix, appended, provides specific actions which are needed. Measures to implement the NSDP and LDC graduation concerns will form an integral part of the Government's planning and budgetary processes and will guide development partner support. Additional and ongoing development partner support and national implementation, both pre and post-graduation, is anticipated to mitigate impact due to graduation from LDC status and ensure smooth transition.

¹⁸ Three separate studies prepared by Daniel Gay, Derek Brian and Nik Soni, with support from the Enhanced Integrated Framework for LDCs and UNESCAP.

Annex 2. STS Section 2. Impacts of Graduation and Smooth Transition Measures

Five Key Sources of Information

 <p>Source One: Graduation Assessment</p>	 <p>A. Impact Assessment – Identifying the most significant impacts of graduation and sectors, industries and action likely be most affected</p>
<p>A country needs to take stock of all the LDC-specific measures it has utilized, identify which are expected to end upon graduation becoming effective, which measures are still available after graduation and the period specified and which a country wishes to negotiate for an extended period.</p> <p>A key part is to fully understand and clearly articulate the expected loss of LDC-specific international support measures (ISMs), impact channels and the implications for the country. Identify the mitigating measures that must be undertaken to cushion the impact and determine which impacts and mitigating measures need to be included in the STS.</p> <p>An impact assessment (IA) prepared by DESA for the country would be the main source of information and already benefited from inputs from the country and its development and trading partners. A country could draw from the IA and identify the major impacts of graduation that may disrupt its development progress post-graduation and during the transition period. It should highlight the direct impact channels of the withdrawal of LDC-specific ISMs upon graduation and any applicable “smooth transition” mechanisms, that are exclusive to LDCs. The impact could be categorized into three main groups: a) Trade – market access for goods and services as well as other special and different treatment (S&D) provisions under the WTO agreements; b) development cooperation – ODA sector type and trends, aid for trade (AFT) and climate finance; and c) support for participation in the UN system entities and processes and scholarships.</p> <p>On (a) Trade, this section should highlight trade trends, extent of current and potential product specialization and export diversification and impact of loss of LDC-specific trade support measures on a country’s development outcomes. Specific action-oriented mitigating measures for: i) negotiating extensions of existing preferences; ii) negotiating new ones; and iii) different actions that need to be taken multilaterally (WTO) are to be identified, trade partners for which these are relevant are stated.</p> <p>In addition, highlight the specific sectors and groups of population that would be significantly affected and propose mitigating measures specific to each impact channel that need to be included in the STS.</p> <p>On (b), a country should determine what are the impacts of graduation on development outcomes supported by LDC-specific ODA measures. It can analyze the selection criteria and conditions of ODA funding for each development partner, identify those that will change as a consequence of graduation, the phasing out period and the implications on the targeted sector or development outcomes that benefit from such ODA sources and partners. Propose mitigating measures, which could include: i) making full use of existing allocations under the LDC Fund and any other LDC-specific funding sources within the applicable time; ii) negotiating certain conditions for each</p>	

funding type, modality and focus by donor; iii) identifying alternative and innovative sources of development financing; and iv) what policy and technical advisory support is required to make these happen. Consider developing a realistic plan to address any possible shortfalls in key sectors – possibly health, education and climate/environment.

On (c), UN contributions and support, a country could highlight which UN budget contributions would increase due to graduation and where the country would no longer be benefiting from UN funded participation in meetings and events. The implications in any medium-term development outcome or on its financial resources need to be articulated. In this section, a country should also propose key mitigating measures such as alternative source(s) of funding for the higher contribution to the UN and cost to continue its participation in the UN system entities and processes which are viewed of importance to the country.



Source One: Graduation Assessment



B. Vulnerability Profile – Understanding the key vulnerabilities post-graduation.

A country should consider the key vulnerabilities starting with those related to the LDC graduation criteria that are profiled in the country's vulnerability profile conducted by UNCTAD. The new generation of vulnerability profiles explore the extent to which pre-qualification from graduation is synonymous with genuine structural economic progress, a necessary condition for objectivity in the decision to reclassify a country. A sound assessment of structural progress (or lack thereof) will not only guide the CDP towards a well-informed decision, it will also increase the awareness of key relevant issues in each country. They will be structured along four pillars. The first two pillars provide a background of the country's economic and development situations. They further compare values of indicators used in the CDP triennial review with national statistics. While the first two pillars adopt a largely descriptive and backward focus, subsequent pillars assume a more forward-looking approach.

Accordingly, the vulnerability assessment for economically, socially, and environmentally sustainable development beyond graduation undertaken in latter pillars will be based on the five 'Ps' of the 2030 Agenda—People, Planet, Prosperity, Peace, and Partnerships. Past versions of the vulnerability profiles will thus be augmented by pressure test analyses of the implications of, for example, the degree of informality in the economy, levels of inclusivity, gender imbalance, the vibrancy of small and medium-sized enterprises, and the prevalence of transformative intersectoral linkages.

Critical vulnerabilities a country wishes to address during the transition are to be specified in this section. Specific and predictable mitigating measures to reduce such vulnerabilities are to be outlined. Important to highlight vulnerabilities faced by a country not covered by the Economic and Environmental Vulnerability Index (EVI) and by the supplementary indicators prepared by UN DESA, as well as other structural features of relevance for a graduating LDCs especially if the STS is being prepared after being identified as eligible for graduation a first time but before the second eligibility.

In identifying mitigating measures, a country could also discuss its readiness and resilience to manage such vulnerabilities beyond graduation. Improvements to existing LDC-support measures in terms of certain modalities and any new assistance required should also be analyzed and included.



Source Two: National and sector plans, strategies, policies and policy and reform programmes

A country needs to situate the STS within its own national sustainable development goals, priorities and plans. Use existing analyses on LDC graduation and its impact on the country's development progress to identify measures within existing plans, strategies, fiscal frameworks and budgets, policies and policy and reform programmes that are being implemented. Specify the significant impact of graduation that each identified measure will help mitigate and contribute to a smooth transition out of LDC category and beyond graduation. The mitigating measures identified under this source should form part of smooth transition measures highlighted under Section 2 of a country's STS.

A country could also look at regional priorities and regional solutions and mechanisms which directly link to LDC-specific support measures or development outcomes that benefit from such measures. These could be considered as smooth transition measures.



Source Three: Transition Finance

If a country has conducted a Development Finance Assessment (DFA) with support from UNDP, it may consider any key findings or recommendations that relate to LDC graduation and financing a country's transition out of the LDC category. In particular, analysis in the DFA that directly relate to the loss of LDC-specific funding sources due to graduation and propose alternative or new sources. For example, if the DFA highlights that graduation will lead to a quantified reduction in a certain concessional loan and its implications on development outcomes in a target sector, these need to be captured and discussed in the country's STS under Section 2 for the component on significant impacts of graduation. Any new or innovative development finance sources that a country may tap into as alternative sources and beyond graduation could be considered and included as smooth transition measures under Section 2 of its STS.

For a country that has yet to conduct a DFA, it is an assessment whereby a country wishes to broaden its sources of development financing or enhance the synergies and effectiveness of existing and new sources. A DFA examines the taxonomy of various sources of domestic and external development financing (existing and new) including innovative instruments that it may tap into. The DFA also analyses and identifies the policy, institutional arrangements, reforms and capacity enhancement a country requires to effectively access such sources including the management, reporting and accountability requirements. DFAs are country-led with technical support from UNDP in partnership with other UN entities and development partners (bilateral and multilateral). A country may choose to focus its DFA specifically on development areas that are negatively affected by the loss of LDC-specific funding sources due to graduation and propose alternative or new sources. A country that has already conducted a DFA, may simply refer to it as a useful source of information and update it, if deemed necessary for preparing its STS.

In addition, where a country has used the DFA to develop an Integrated National Financing Framework (INFF), it could also identify elements of the INFF that contribute to the country's smooth transition out

of LDC category and beyond graduation. A country could include these measures as part of the smooth transition measures under Section 2 of its STS.

If a country has conducted a Transition Finance Country Diagnostic (TFCD) with support from the OECD-DAC, it may wish to draw on the evidence-based analysis and recommendations for a smooth transition finance journey towards sustainable development. The TFCD may also provide ways on how best development partners can effectively support a graduating LDC that may also be a landlocked or small island developing state (SIDS).



Source Four: Examining Productive Capacities

If a country wishes to include key productive capacities gaps that need to be addressed during the transition period, it could draw on existing productive capacities assessments that have been conducted either at national, sectoral or industry level. A country's Diagnostic Trade Integration Studies (DTIS) is one of many sources on productive capacities.

If a country is interested in diagnosing productive capacities, it can consider several ways as follows:

- a) *CDP Note on 'Expanding Productive Capacities: Lessons Learned from Graduating Least Developed Countries'* - offers a combination of five areas of integrated policies and 3 pathways and implications for expanding productive capacities.
- b) *Istanbul Programme of Action* - provides seven indicators and suggests productive capacities goals and targets, in accordance with national development policies and strategies.
- c) *Growth Identification and Facilitation Framework (GIFF)* – is a practical tool that is designed to help policymakers in catching-up developing countries such as the LDCs to develop feasible and sharply focused policies in an effort to enable leaders to identify and unlock the latent comparative advantage to achieve structural transformation. At the heart of the GIFF is the principle that developing countries should not focus on what they do not have but what they do have in an effort to unleash their latent comparative advantages. (see GIFF studies conducted via CDP projects in Nepal and Uganda)
- d) *OECD Development Centre production transformation policy reviews* - are policy assessment and guidance tools based on peer-learning and a five-pillar framework. Carried out on demand over eight months to a year. They offer a framework to identify actionable policy choices to promote development through structural transformation, based on comparative assessment of countries' assets, upgrading potential and priorities.
- e) *UNCTAD Productive Capacities Index (PCI)* - provides the state of development of productive capacities and its different elements. The PCI which has eight proponents, can be used to identify any missing data with a view to incorporating and measuring productive capacities in development planning. The UNCTAD LDC reports also provide a comprehensive and authoritative source of socio-economic analysis and data on LDCs.

Because the productive capacities analysis in themselves take time (6-12 months), rather than undertake one as part of preparing a STS, a country may consider including it as a specific measure to be undertaken as part of implementing the STS or as part of a sector strategy or the national sustainable development plan as it may cut across a number of sectors.



Source Five: Science, Technology and Innovation

The recent Covid-19 pandemic revealed an enormous gap in developing countries' capacity to use existing technology as well as a lack of infrastructure and software to deliver basic and essential public and private services in situations such as the lockdowns and travel restrictions.

A country may wish to draw on the following assessments and reviews:

- a) *Science Technology and Innovation Assessments (STIA)* if one has been conducted with support from OHRLLS. A country yet to conduct an STIA may wish to do so and geared towards helping a country to assess its readiness for a smooth transition beyond graduation and into a future where digital technology and transformation will play a big role.
- b) *Science Technology and Innovation Policy Reviews (STIPR)* is an authoritative source on STI produced by the UNCTAD. The reviews are undertaken by UNCTAD at the request of a country. It helps a country's STI stakeholders identify the major strengths and weaknesses of their innovation systems and establish strategic priorities for its development. UNCTAD's policy analysis, consensus-building and technical cooperation help strengthen technological and innovation capabilities in developing countries, improve innovation performance and embed STI within the national development strategy.

Annex 3.1 STS Section 3. Prioritized Smooth Transition Measures and Smooth Transition Modalities

Table of Prioritized Smooth Transition Measures and Implementation Modalities

Impact	Smooth Transition Measure	Implementation Modality	Specific Actions	Responsible Agency	Supporting Agencies & Partners	Timeframe
1. Trade	1.1 Ratify trade partnership X	As part of strategy on external trade in the 2018-2022 national plan, budget and M&E framework	Reflect in 3-year Corporate Plans and Budgets for Ministry of Foreign Affairs and Trade, Ministry of Commerce and Ministry of Fisheries, Forestry and Agriculture.	Ministry of Foreign Affairs and External Trade.	Ministry of Commerce Ministry of Fisheries, Forestry and Agriculture. Development Partner Y	2020-2022
2.						
3.						
4.						

Annex 3.2. STS Section 3. Prioritized Smooth Transition Measures and Smooth Transition Modalities

Vanuatu STS – Table of specific measures to ensure smooth transition

ISSUE	ACTIONS	RESPONSIBLE MINISTRY	SUPPORTING AGENCIES	TIME FRAME
1. Trade	1.1 Initiate formal discussions with Japan to seek zero duty transition period for beef. 1.2 Negotiate and establish a bilateral trade and investment agreement with Japan for ongoing market access.	Ministry of Foreign Affairs and External Trade.	Ministry of Trade, Tourism, commerce and Ni Vanuatu Business. Ministry of Agriculture, Quarantine, Forestry and Fisheries, Trades Negotiation working group	2020-2021
	1.3 Initiate formal request with the European Union to provide a three-year extension of EBA ¹⁹ before moving to the Generalised Systems of Preferences (GSP).	Ministry of Foreign Affairs and External Trade.	Department of Trade and Industry, Trade negotiation working groups	2020
	1.4 Ratify trade agreement with New Caledonia.	Ministry of Foreign Affairs and External Trade.	Trade Negotiation Working Group ²⁰ .	2020
	1.5 Ratify PACER Plus.	Ministry of Foreign Affairs and External Trade.	Trade Negotiation Working Group	2020
	1.6 Initiate formal discussions with China to seek zero duty transition period for Noni and Kava.	Ministry of Foreign Affairs and External Trade.	Ministry of Foreign Affairs and External Trade.	2020-2021

¹⁹ Everything But Arms

²⁰ Working group includes representative from MFEM, MAQFF, VCCI, department of industries

	1.7 Explore potential to establish a bilateral trade and investment agreement with China for ongoing market access.		Ministry of Agriculture, Quarantine, Forestry and Fisheries, Trade negotiation working group.	
	1.8 Implement the Trade Policy Framework priorities.	Ministry of Trade, Tourism, Commerce and Ni Vanuatu Business.	Ministry of Trade, Tourism, Commerce and Ni Vanuatu Business, Trade negotiation working group.	2020-2021
	1.9 Implement relevant recommendations identified in the 2018 WTO review report. 1.10 Confirm critical post-graduation obligations, and initiate formal discussions in relevant WTO bodies, including jointly with the LDC group, to seek transition periods for and specific waivers from those obligations. 1.11 Implement the WTO trade facilitation agreement.	Ministry of Trade, Tourism, Commerce and Ni Vanuatu Business. Department of Custom and Inland revenue	Ministry of Foreign Affairs and External Trade, Trade. negotiation working group Trade facilitation committee.	2020 - ongoing
	1.12 Implementation of Labour mobility policy	Labour department	Immigration department, Department of external trades, MALFFB,	2020

			MTCCNB, Reserve Bank of Vanuatu (RBV)	
	1.13 Seek a 5-year transition period from the Enhanced Integrated Framework (EIF) for LDCs.	Ministry of Foreign Affairs and External Trade	Ministry of Trade, Tourism, Commerce and Ni Vanuatu Business	2020-2021
2. Private sector development and trade productive capacity	2.1 Undertake policy reforms to improve business environment. (refer to Trade Policy Framework)	Ministry of Trade, Tourism, Commerce and Ni Vanuatu Business	Ministry of Finance and Economic Management, Vanuatu Investment Authority (VIPA)	2020 - ongoing
	2.2 Address productive capacity for primary produce and supply side constraints to enable trade. (refer to Overarching Productive Sector Policy (OPSP))		Ministry of Agriculture, Quarantine, Forestry and Fisheries, MIPU	
	2.3 Reduce cost of doing business, including utility costs. (Refer to Trade Policy Framework (TPF)).	Ministry of Trade, Tourism, Commerce and Ni Vanuatu Business	Ministry of Finance and Economic Management Utilities Regulatory Authority, Reserve Bank of Vanuatu (RBV)	2020
	2.4 Improve and strengthen value adding in goods and services including tourism, cocoa, coffee, kava, noni and coconut oil. (refer to TPF & OPSP)	Ministry of Trade, Tourism, Commerce and Ni Vanuatu Business	Department of Industries, VCCI, MAQFFB,	2021



3. Macroeconomic stability and finance	3.1 Assess all available climate funds to determine how these can be best integrated into the broader national development objectives and public finance management systems.	MFEM & RBV	MCC	2020 - ongoing
	3.2 Develop an external resource mobilization strategy.	Ministry of the Prime Minister	Ministry of Foreign Affairs and External Trades (MOFAICET), Department of Finance, DSPPAC	2020
4. Strengthening of national systems including planning, budgeting, and monitoring	4.1 Improve linkages between government ministry corporate plans and department's business plans, with the budget to fund priorities identified in the NSDP and the LDC Strategy. 4.2 Strengthened and improve regular monitoring and evaluation of the NSDP and LDC Strategy to ensure policy and partner support for improved implementation.	Ministry of the Prime Minister MFEM	All Government Ministers and Departments	2020 – ongoing
5. Aid coordination	5.1 Fully implement the Aid Management Policy to enable effective coordination of donor funds linked to LDC graduation and NSDP priorities and actions.	Ministry of the Prime Minister	Department of Strategic Policy Planning and Aid Coordination	2020 – ongoing
6. Statistical systems and data	6.1 Fully implement the Vanuatu National Strategy for the Development of Statistics.	Ministry of Finance and Economic Management	RBV, VIPA, VFSC, VNPF, Line Departments.	2020 - ongoing

7. Communication Strategy	1.1 Develop a national communication strategy (Conduct a national communication campaign (develop a theme or message, host a celebration event, compose short media clips on graduation, hold public forum, and circulate FAQs, media coverage).	Ministry of the Prime Minister	Relevant Ministries and Departments.	2020 - ongoing
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