LDC Graduation

Transition Finance Toolkit

TRANSITION PROCESS

Year 0
- CDP confirms criteria is met, DESA notifies the country

Year 0-3
- UNCTAD vulnerability profile; DESA impact assessment

Year 3
- CDP confirms consecutive meeting of graduation criteria
- UN Member States endorse CDP recommendation
- Consultative mechanism established, targeted assistance, CDP monitors

Year 3-6
- Graduation becomes effective. Prepare national transition strategy

Year 6
- Graduation

Graduation Criteria

Two of the three criteria must be met for two consecutive triennial reviews:

a. GNI per capita > LIC threshold (currently USD 1,222)
b. Human Asset Index (HAI) > 66
c. Economic Vulnerability Index (EVI) < 32

Alternatively a country can graduate when its GNI per capita is twice as high as the LIC threshold (currently USD 2,444).

Administrative Implications

Graduating countries are expected to:

- Prepare a national transition strategy.
- Establish a consultative mechanism.
- Provide progress reports to the Committee for Development Policy (CDP) after graduating.

Countries cease to benefit from the OECD Development Assistance Committee (DAC) recommendation on untying Official development assistance (ODA).

Concessionality

Once a country graduates from the Least developed countries (LDC) category, the minimum grant element of ODA loans decreases unless it remains classified as LIC. The greater the grant element, the more favourable the lending conditions for the borrower.

Change in Grant Element

<table>
<thead>
<tr>
<th>Category</th>
<th>Grant Element</th>
</tr>
</thead>
<tbody>
<tr>
<td>LDCs</td>
<td>45%</td>
</tr>
<tr>
<td>Other LICs</td>
<td>45%</td>
</tr>
<tr>
<td>Other LMICs</td>
<td>15%</td>
</tr>
<tr>
<td>Other UMICs</td>
<td>10%</td>
</tr>
</tbody>
</table>

Note: The grant element is calculated using differentiated discount rates.

Other Implications

Graduating countries lose differential treatments applicable to LDCs sometimes after a transition period (e.g. World Trade Organisation obligations, regional agreements, market access).

External Financing Mix

<table>
<thead>
<tr>
<th></th>
<th>LDC</th>
<th>Non-LDC</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>OOF</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Remittances</td>
<td>56%</td>
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</tr>
</tbody>
</table>

Note: Updated July 2021

There are currently 46 Least Developed Countries including:
- 25 LICs, 20 LMICs and 1 UMIC.

Average GNI per capita
- LDC: $1,075 (2020)
- Average HDI
  - LDC: 0.3 (2018)
  - Non-LDC: 0.6 (2018)

Recent & Scheduled Graduates


Key Resources

- Cabo Verde Transition Finance Pilot
- Solomon Islands Transition Finance Pilot
- Gradjet portal
- The Transition Finance Toolkit