



The impact of COVID-19 on the LDC category*

SUMMARY

The Committee reviewed its analysis of the impact of COVID-19 on the least developed country category. While many of the least developed countries have managed to limit the immediate health crisis caused by the pandemic, they have been hit hard by the socioeconomic crisis. Insufficient fiscal space, pre-existing high debt levels and dwindling private external financing have severely limited the fiscal response of

many least developed countries. With economic growth weakened even in the medium term and inequalities rising, achieving the Goals becomes even more elusive for many of them than before the pandemic. While the countries graduating or recommended for graduation remain on track, least developed countries that are falling behind may see their graduation postponed further.

RECOMMENDATIONS

The Committee recommends that the Council call upon Member States and international organizations to accord priority access to special modalities for least developed countries within the support measures proposed to address the impacts of COVID-19, including those outlined in paragraph 1 above. As priorities, this should entail the following:

(a) Least developed countries should be accorded access to vaccines at zero or minimal cost. Populations in least developed countries should be accorded priority in the distribution and administration of vaccines, as placing their populations at the end of the queue violates the principle of reaching the furthest behind first. Given the successful health policies adopted by many least developed countries during the crisis, international support to their public health systems should include support for shared learning activities;

(b) Financial support to least developed countries to address the pandemic should be provided mainly in the form of grants. Debt relief is essential and, for highly-indebted least developed countries, resources should also be provided for multilateral debt relief. Least developed countries should be given access

to new global insurance mechanisms addressing both the current pandemic and future pandemics and other zero or minimal cost. ODA remains a critical source of finance for least developed countries. Developed countries must therefore take urgent steps to provide 0.2 per cent of their gross national income as ODA to least developed countries. Access to climate change financing needs to be scaled up and provided beyond possible graduations from the least developed country category. The pandemic also underscores the urgency of extending the transition period provided for least developed country members of WTO under article 66 (1) of the TRIPS Agreement, as recently proposed by Chad on behalf of the Group of Least Developed Countries; global threats, particularly non-linear climate risks, at

(c) Support should be provided for a sustainable and inclusive transformation of the economies of least developed countries, including through building productive capacities in the health and education sectors, investing in digital infrastructure, developing science, technology and innovation capabilities, designing and implementing green industrial policies, and pursuing the diversification of economic and export structures.

* Excerpt from Committee for Development Policy, Report on the twenty-third session, See Official Records of the Economic and Social Council, 2021, Supplement No. 13 (E/2021/33)

As mandated by the Economic and Social Council in resolution 2020/10, the Committee undertook a comprehensive study on the impact of COVID-19 on the least developed country category. The full study will be made available on the Committee's website.

Available data indicate that, overall, the COVID-19 pandemic has spread less rapidly and less severely in least developed countries than in the rest of the world. One of the main reasons for this has been the early and effective health response taken by many least developed countries, despite their limited resources. However, demographic factors, such as the higher proportion of young people, and data limitations could also partly explain this situation, and the picture could change during new waves of the pandemic.

The socioeconomic fallout of the pandemic has been more devastating for least developed countries than the health shock. Limited export diversification has heightened the vulnerability of least developed countries to the impact of the pandemic on global trade. International tourism remains at a standstill almost one year into the crisis, with severe impacts on employment in many least developed countries. Manufacturing exports have improved more recently, but it is still too early to understand the resilience of the rebound. Unstable demand and falling prices of commodities such as oil and gas have led to balance of payments problems and other adverse impacts in several least developed countries.

The financial situation in least developed countries has become more challenging, with a fall in foreign direct investment and remittances, and almost half of these countries are at high risk of, or already in, debt distress. Limited fiscal space meant that the fiscal response of most least developed countries to the pandemic was inadequate. The Debt Service Suspension Initiative of the Group of 20 countries has alleviated financial pressures in some least developed countries but is clearly insufficient. In their fiscal responses to date, developed economies have spent in per capita terms nearly 580 times more than least developed countries.

The COVID-19 pandemic has severely affected economic growth in least developed countries. A partial rebound is forecast in 2021, but nearly all least developed countries will experience weaker medium-term growth than was projected before the pandemic, leading to a setback in living standards.

After nearly twenty five years of consistent poverty reduction, the pandemic is expected to reverse that global trend for the first time since 1996. In least developed countries, the aggregate poverty incidence is expected to have increased by 2.4 percentage points, to

almost 39 per cent, in 2020. The economic downturn caused by the pandemic will also push those already in extreme poverty into deeper destitution. The prospects of eradicating extreme poverty by 2030 are therefore even slimmer than before the pandemic.

The pandemic is also expected to worsen inequalities. In least developed countries, women and girls have been more affected by the economic and social fallout of COVID-19, as they rely more on the informal sector and have been burdened by an increase in unpaid care work. The impacts are not just economic in nature. The shift of funds to pandemic response efforts is hampering women's access to sexual and reproductive health services, while violence against women, including domestic violence, has increased around the world.

The pandemic risks causing significant disruption to health services in least developed countries, potentially reversing progress in combating diseases, addressing malnutrition and reducing mortality rates. COVID-19 has also highlighted the great inequities in access to the technologies required for remote learning and digital education, disproportionately affecting poorer communities. Overall, COVID-19 will stall progress towards the achievement of the Sustainable Development Goals, or even reverse years of progress, in many least developed countries.

Owing to its severe impacts on development, COVID-19 may also affect graduation from the least developed country category. Nevertheless, most countries that are already graduating or that were recommended for graduation at the 2021 triennial review appear to be at a low risk, if any, of falling back below graduation thresholds. The negative impacts are likely to be more severe for least developed countries that are below or only marginally above graduation thresholds, meaning that their aspirations to graduate may not be fulfilled for years.

Considering the vulnerabilities of least developed countries exposed by the COVID-19 crisis and the longer-term implications, international support will be essential not only in responding to immediate recovery needs, but also in accelerating structural transformation and the development of resilience towards external shocks. The upcoming Fifth United Nations Conference on the Least Developed Countries provides a timely opportunity to advance such support, but efforts are needed at all relevant international platforms. The four areas that require particular attention are set out below.

First, a smooth transition for graduating countries from the least developed country category, during and after the pandemic, requires special attention and additional

support, as outlined in the present report (see chapters VI and VII).

Second, as indicated by the Secretary-General, vaccines must be seen as a global public good – people’s vaccines – available and affordable to all, and ensuring that least developed countries are not once again left behind.

Third, the provision of effective debt relief must be part of enhanced financial support for least developed countries. The Debt Service Suspension Initiative provided short-term relief and more fiscal space in least developed countries but has proven insufficient, and the suspension of debt servicing merely postpones rather

than addresses the challenge. Other financial and technical support to least developed countries by bilateral and, in particular, multilateral development partners has been critical, but needs to be significantly scaled up.

Fourth, recovery from the pandemic must be accompanied by renewed efforts to achieve the sustainable and inclusive transformation of the economies of least developed countries. Such efforts should be organized within the framework proposed by the Committee: “Expanding productive capacities for sustainable development” (see chapter VII).