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Tailored, multidimensional and coherent:

TOWARDS A RENEWED EU PARTNERSHIP WITH LEAST DEVELOPED COUNTRIES

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The COVID-19 pandemic has dramatically affected life for citizens in the world's poorest countries, wiping out years of progress in poverty reduction. Rising food, fuel and fertiliser prices caused by the war in Ukraine will further worsen the situation. Recently, the fifth United Nations conference on the least developed countries (LDCs), and the adoption of the Doha Programme of Action for LDCs 2022-2031, highlighted the need for renewed and strengthened commitments by LDCs and their development partners to achieve a sustainable recovery and development.

Now fully equipped with its Global Europe instrument for international and development cooperation, the European Union (EU) is seeking to renew its partnerships in a more strategic, coherent and policy-driven approach. In this context, the French Presidency of the Council of the EU has initiated a reflection on how to renew the EU's partnership with LDCs, which this paper aims to feed into.

Rather than defining a specific EU policy that is targeted at LDCs per se, there is a need for a more tailored approach that better addresses their specific needs and overlapping vulnerabilities – especially in the area of development cooperation and development finance. These tailored policies should be accompanied by measures in other policy domains which are crucial for LDCs, notably in trade, climate and food security. In that regard, enhancing policy coherence for development is an essential principle for a renewed cooperation and partnership with LDCs.

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Acronyms

ACfTA	African Continental Free Trade Area
AFT	Aid for trade
BASIC	Brazil, South Africa, India and China
CBAM	Carbon Border Adjustment Mechanism
CODEV-PI	Council Working Party on Development Cooperation and International Partnerships
COVID-19	Coronavirus disease 2019
CPP	Climate Prosperity Plans
DiE	Deutsches Institut für Entwicklungspolitik
DRC	Danish Refugee Council
EAG	External Action Guarantee
EBA	Everything-But-Arms
EC	European Commission
ECDPM	European Centre for Development Policy Management
EFSD+	European Fund for Sustainable Development Plus
ESCAP	Economic and Social Commission for Asia and the Pacific
ETR	Ecological threat register
EU	European Union
EVI	Economic and Environmental Vulnerability Index
FERDI	Fondation pour les Études et Recherches sur le Développement International
FTA	Free trade agreement
GDP	Gross domestic product
GNI	Gross National Income

GSP	Generalised system of preferences
GSSS	Green, social, sustainable and sustainability-linked
HPG	Humanitarian Policy Group
ICRC	International Committee of the Red Cross
IDDRI	Institut du Développement Durable et des Relations Internationales
IEEP	Institute for European Environmental Policy
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
LDC	Least developed country
LIC	Low income country
LMIC	Lower middle-income country
MDB	Multilateral development bank
MIC	Middle income country
MIP	Multi-annual indicative programme
MPI	Multidimensional Poverty Index
MTS	Multilateral trading system
MVI	Multidimensional Vulnerability Index
NDC	Nationally Determined Contributions
NDICI	Neighbourhood, Development and International Cooperation Instrument
ODA	Official development assistance
ODI	Overseas Development Institute
OECD DAC	The Organisation for Economic Co-operation and Development's Development Assistance Committee
OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
OPHI	Oxford Poverty and Human Development Initiative
PCD	Policy coherence for development
PVCCI	Index of Physical Vulnerability to Climate Change
SDG	Sustainable Development Goal
SIDS	Small island developing states
SIPRI	Stockholm International Peace Research Institute
SME	Small and medium-sized enterprise
SPS	Sanitary and phytosanitary
TBT	Technical barriers to trade
UMIC	Upper middle income country
UN	United Nations
UNCDF	UN Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UN-DESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
USD	United States Dollar
UVI	Universal Vulnerability Index
WASH	Water, health and sanitation
WTO	World Trade Organisation

1. Introduction

The COVID-19 pandemic has dramatically worsened life for citizens in the world's poorest countries, wiping out years of progress in poverty reduction. According to the latest figures and reports from the World Bank, the United Nations (UN) and United Nations Conference on Trade and Development (UNCTAD), most least developed countries (LDCs) will take several years to return to pre-pandemic paths of growth and human development, especially in terms of education, nutrition and health. For LDCs, the long-term impact of COVID-19 and its related fiscal, economic and human consequences will largely depend on the extent of international support. It now appears that fallout from the war in Ukraine will have a further negative impact on the global economic environment and also on key issues such as food security.

The UN LDC-5 conference, initially due to take place in January 2022 in Doha (Qatar), was postponed due to the COVID-19 restrictions. It will be held in two parts: the first part was in March 2022 at the UN Headquarters in New York to adopt the new Doha Programme of Action (UN 2022a) for LDCs for the decade 2022-2031, and the second part will take place in March 2023 in Doha at the high political level. This will be an important opportunity for the international community and the European Union (EU) to renew their cooperation and approach towards LDCs.

In this context, the French Presidency of the Council of the EU has initiated a reflection on how to renew the EU's partnership with LDCs, with a view to the adoption of Council Conclusions by EU development ministers.

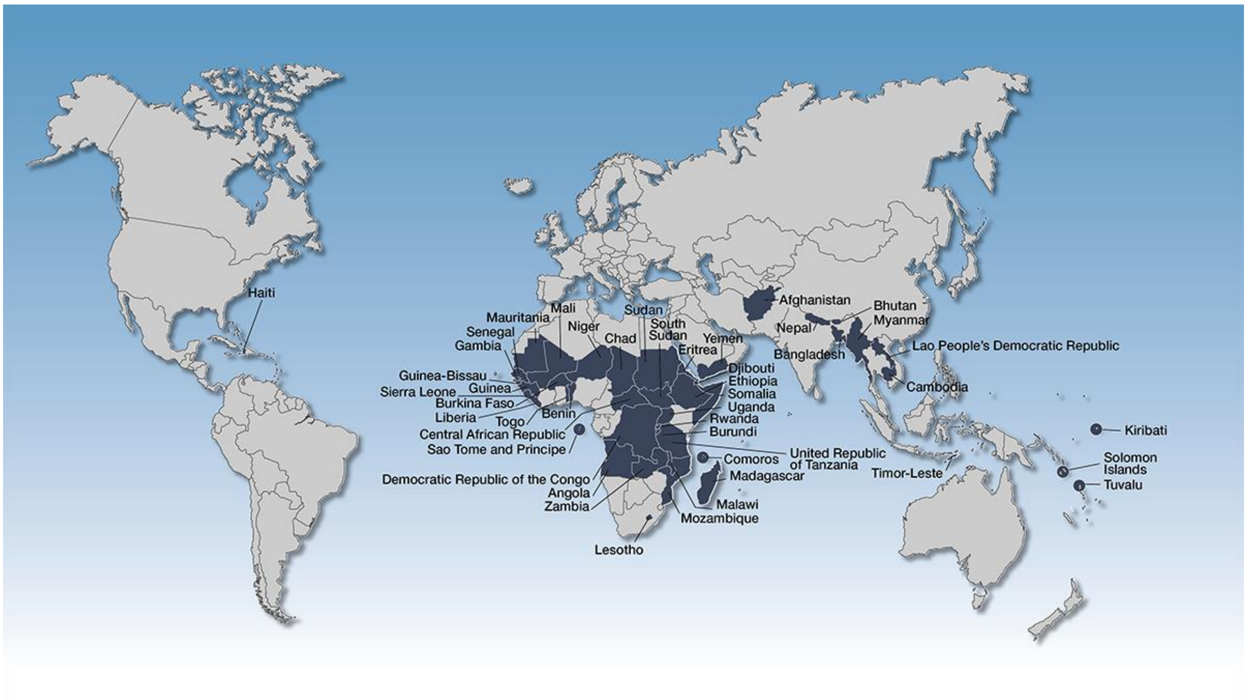
In this paper, we argue that there is a need for a more coherent and strategic cooperation with LDCs, notably by taking or strengthening measures in the area of development cooperation and development finance so that they better respond to the needs, specificities and multiple vulnerabilities of LDCs. Furthermore, targeted policy measures in the areas of development cooperation and development finance must be accompanied in a coherent and complementary manner by specific measures in other policy domains that are crucial for LDCs, notably in trade and climate.

2. A more tailored, multidimensional and coherent cooperation with LDCs

While both the European Consensus on Development and the Global Europe regulation respectively state that EU development cooperation should be targeted in priority to countries *"where the need is greatest and where it can have* most *impact"*, and that the resource allocation process should give priority to *"countries most in need, in particular the LDCs, low income countries, countries in a situation of crisis, post-crisis, or fragility and vulnerability, including small islands developing states and landlocked developing countries",* the EU doesn't have a specific focus on LDCs as a category per se within its development policy.

LDCs are a diverse group of countries with different political and economic contexts, defining the challenges and opportunities they face. Geographically, a vast majority of LDCs, 33 of 46 in total, are located in sub-Saharan Africa.

Figure 1: Map of least developed countries



Source: UNCTAD n.d.

Our analysis doesn't suggest a need for a dedicated EU policy for LDCs per se. Indeed, the EU's country-specific approach is supposed to take into account the specific needs and circumstances of poor, fragile and vulnerable countries. Furthermore, a number of elements are already in place in order to cater for the specificity of LDCs, be it in terms of EU aid commitments, development objectives and differentiated approaches. Yet, is this country-specific approach sufficient? Are there risks that the challenges and specificities encountered by poorer, more vulnerable and fragile countries, in particular, among the LDCs, get diluted in an increasingly broad and interest-driven EU development policy? How can the EU better use its development cooperation approach and instruments for LDCs, and what other policy areas are relevant to consider as well?

In this paper, we argue that what is needed is greater coherence and consistency and a better aligned policy approach towards poorer, fragile and more vulnerable countries. There is a need for a more coherent and tailored cooperation with LDCs whereby the EU makes optimal use of its new Global Europe instrument and policy-driven approach for international and development cooperation. This implies not only taking or reinforcing specific measures in the area of development cooperation and development finance, but also beyond, notably in the areas of trade and climate which are critical for LDCs.

3. Development cooperation

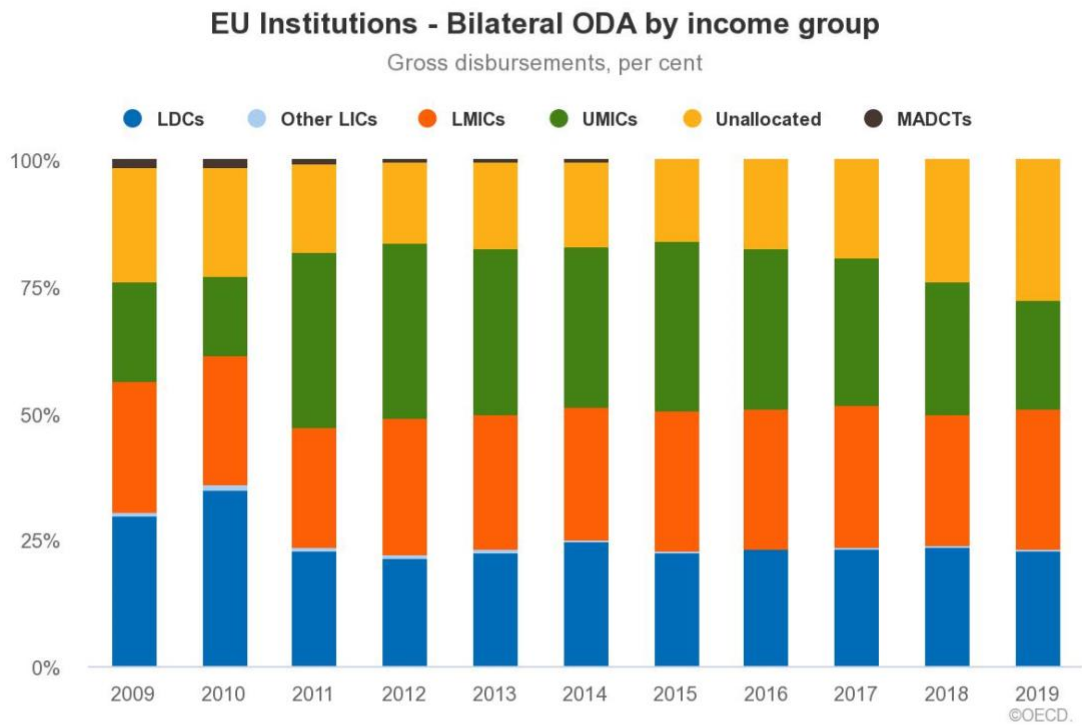
3.1. Honouring official development assistance (ODA) commitments and strengthening support to address the long-term impact of COVID-19 in LDCs

With the NDICI/Global Europe regulation, the EU reconfirmed its collective commitment to reach 0.15% - 0.20% of Gross National Income (GNI) as ODA to LDCs in the short term, and to reach 0.20% by 2030. However, the EU is collectively off-track to meet these ODA commitments to LDCs, as ODA to LDCs currently stands at 0.10% of EU GNI.

Reaching this target will require dedicated and concerted efforts by the EU and its member states to ensure priority is given to LDCs' needs in its approaches and resource allocation process.

The EU ODA has historically predominantly targeted middle income countries (MICs). In 2019, almost half (49%) of bilateral ODA of the EU institutions went to MICs. In the same year, EU institutions' aid amounted to €15.8 billion, of which €7.7 billion went to MICs and €3.7 to LDCs (23.,1%). Only two of the top 10 ODA recipients from EU institutions were LDCs in 2019. This situation is largely due to the priority given to the EU neighbourhood countries under the European Neighbourhood Policy (Di Ciommo and Sergejeff 2021). The Russian war in Ukraine will most likely further reinforce this trend as the EU's attention will focus on its neighbourhood. Without a dedicated focus on LDCs, the risk is that there will be a decline rather than an increase in the share of ODA they receive, and many of them risk becoming aid orphans.

Figure 2: EU ODA per income group of countries (2009 - 2019)



Source: OECD-DAC 2021a

The Aidwatch report by CONCORD points out that there is room to increase ODA for LDCs. In 2019, roughly 27% of bilateral ODA from the EU institutions was allocated to LDCs.[1] In the case of member states, there is a huge level of variation in terms of ODA allocation to LDCs, being anywhere between 9 and 38% of the total bilateral ODA (CONCORD 2021). Responding to the Ukraine crisis, rising in-donor refugee costs, as well as the desire for the EU to be a geopolitical player, collaborating with influential countries may further push the EU away from LDCs. Hence the need for further efforts to honour commitments to LDCs.

[1] Due to a different timing of data analysis and slightly different methodological choices, CONCORD has come to a slightly different result than ECDPM. CONCORD has only calculated a percentage of the bilateral aid, and thus excluded 'unallocated' ODA.

The COVID-19 pandemic has posed severe challenges to many LDCs. Although the immediate health consequences have been less severe than in many high income countries, the socio-economic consequences to LDCs have been huge. Often the impact of COVID-19 to the poorest countries has been underestimated because limited direct mortality has kept them outside the international spotlight (Alkire et al. 2021). The high levels of indebtedness and limited financial space have hindered the fiscal response to the pandemic in LDCs (UN 2021). The pandemic is expected to further increase the poverty in LDCs both in terms of numbers and severity, which highlights the role of inclusive growth in the pandemic recovery (UNCTAD 2021a; UN OHRLLS 2021). The pandemic has affected livelihoods, for instance, by halting travel, investment and tourism, and impacting remittances (Assa and Meddeb 2021). LDCs stand out from other developed and developing countries during the Covid-19 pandemic because of their reduced resilience, and diminished capacity to react to major exogenous shocks (UNCTAD 2021a). The countries are generally characterised by weak health systems, gaps in social safety nets, which contribute to diminished resilience and aggravate the impact of the socio-economic crisis hitting particularly already vulnerable groups (UN-OHRLLS 2021; UN ESCAP 2021).

The crises arising from the COVID-19 shock have reversed the achieved progress on several dimensions of development, particularly with respect to poverty, hunger, education and health. The pandemic has also widened existing inequalities, particularly those related to gender and social groups (UNCTAD 2021a). The pandemic has also further hampered the prospects of economic growth for these countries. Already before the pandemic, the progress in terms of economic growth in LDCs has been mixed. Only a handful (7) of LDCs have outperformed the world's average growth in per capita GDP in the 50-year time horizon, while almost half of the LDCs have, in fact, further fallen behind (UNCTAD 2021a).

The repercussions of the Russian war in Ukraine will further hit poorer countries, with rising food and fertiliser prices, higher commodity and energy prices, higher inflation, the retreat of globalisation and a looming spate of debt crises (Bogmans et al. 2022; UN 2022b; Estevão 2022).

3.2. Placing a stronger emphasis on human development

In terms of priority areas, and given the huge needs in human capital, a strong focus on human development is needed in LDCs, notably in basic services such as health and education.

In general, human capital is seen as a factor that contributes to the increased resilience of the country against the vulnerability to external shocks. Low levels of human capital contribute to structural and societal vulnerability and reduce the opportunities for the economy and population to respond to external shocks. The low levels of human capital, as measured in education and health, exacerbate the effects of shocks, by lowering the resilience of countries. But this is also true the other way around: external shocks and crises also disrupt human capital accumulation as has been shown by the COVID-19 pandemic (see for example, Assa and Pasanen 2021; Commonwealth Secretariat 2021). Thus, investing in human capital accumulation, also for marginalised groups, can contribute to increased resilience to external shocks.

Our analysis suggests that human development is one of the EU priorities in most of the multi-annual indicative programmes (MIPs) for LDCs for the period 2021-2027. Yet, there is great variety in terms of how much this represents in the financial allocations compared to other priority areas. Human development is also an essential dimension to promote the productive capacities, the institutional capacities and governance in LDCs, which are priority areas for quality and inclusive job creation and sustainable structural transformation. Education and skills development should consequently be given greater priority in LDCs, as a precondition to strengthening local capacities more generally.

In its programming process, the EU has also widely acknowledged the interlinkages between human capital and resilience. From our analysis, it appears that human development or human capital is either a distinct priority or mainstreamed throughout the MIPs in the majority of sub-Saharan LDCs. Particularly education is very prominent in many MIPs of LDCs, quite likely due to the particular spending target on education. Social inclusion is also often mentioned, health to a lesser extent, which is surprising as in the wake of the COVID-19 pandemic there was a realisation of the importance of strong health systems (Veron and Sergejeff 2021).

According to our preliminary analysis of some sub-Saharan African countries, vulnerability to external shocks indeed plays a part in terms of how the EU is approaching human development, yet, these links are not very elaborated. For instance, in South Sudan, the MIP notes that the context of extreme fragility, together with vulnerability to environmental shocks, affects the livelihoods and human development in the country. Consequently, the MIP explicitly recognises the role of education as a prerequisite for the EU's geopolitical priorities in green transition, peace, and job creation. In Burundi, education and skills development is seen as a way to increase the abilities of the population to respond to climate-related shocks and in Rwanda, improved human capital is seen as a key to adaptation to climate change. Although the link between human development and vulnerabilities in terms of climate change and violent conflict are mentioned, the MIPs however, do not reflect these synergies or how to fully exploit them.

Under the new European Fund for Sustainable Development Plus (EFSD+), which combines development finance, guarantees, technical assistance and grants under the Global Europe instrument, a specific investment window is dedicated to human development. It principally aims to encourage and support European financial institutions for development to undertake operations in health, education, social protection, culture and nutrition, encouraging public-private partnerships. Our initial analysis of MIPs suggests that some human development-type investments are mainly envisaged in the sectors of water, health and sanitation (WASH) in general, as well as skills development and technical and vocational training. Linked to human development, there are also opportunities envisaged to use EFSD+ for digital connectivity and infrastructure.

3.3. Understanding and acting upon the multidimensional vulnerabilities of LDCs

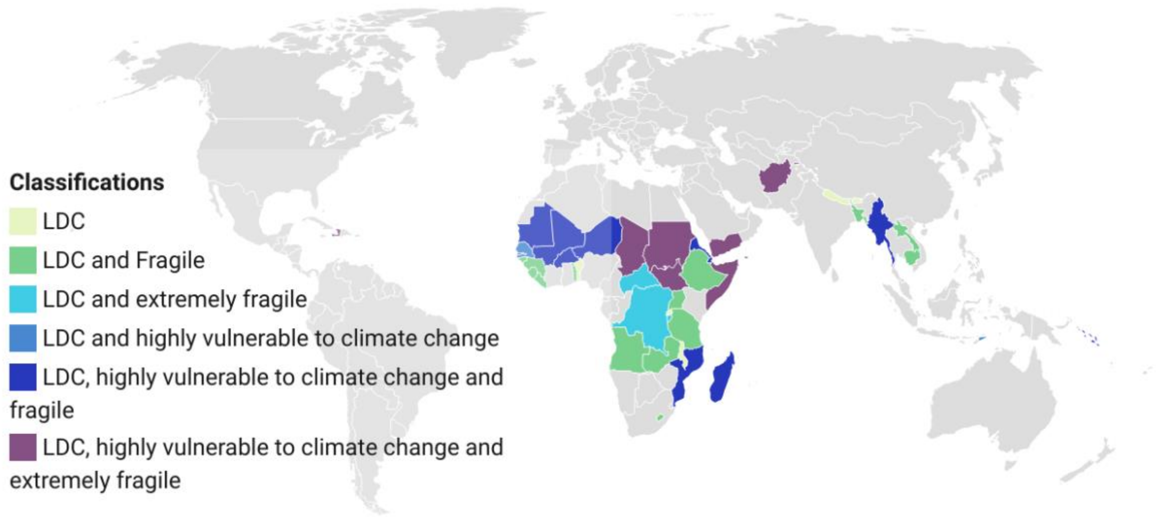
The LDC category covers a wide range of situations characterised by multiple and overlapping vulnerabilities. LDCs situations often overlap with fragility and ecological threats: half of LDCs (23) combine high levels of ecological threats and are fragile or extremely fragile. This calls for considering poorer, fragile and more vulnerable countries in a more integrated manner, explicitly acknowledging and acting upon the multidimensional character of their vulnerabilities.

Mapping overlapping vulnerabilities of LDCs

LDCs are vulnerable in many different aspects beyond economic and social factors. Many LDCs are also struggling with the impacts of climate change and violent conflict. Multidimensional understanding of vulnerability to crises is already ingrained, to some extent, in the definition of LDCs, which comprises three dimensions: income, human assets and economic and environmental vulnerability (UN-DESA n.d.). However, looking at specific vulnerabilities and their overlaps gives more nuance to the understanding of the challenges posed to LDCs.

The map below clearly indicates that the LDCs are often vulnerable to several different kinds of threats. The map combines information on LDC status, fragility and vulnerability to climate change. The map also shows that the vast majority of LDCs are either struggling with fragility, or vulnerability to climate change, or often both. And 18 LDCs face overlapping challenges in terms of fragility and vulnerability to climate change.

Figure 3: Map of overlapping vulnerabilities of LDCs



Source: Map created by ECDPM based on the OECD-DAC list of ODA recipients (OECD 2021), OECD States of fragility report (OECD 2020) and FERDI (FERDI 2018). In this map, countries assigned a score of 53.6 or above in PVCCI are classified as having a high level of climate vulnerability. This follows the classifications by FERDI (FERDI 2018 p. 22) that divided the analysed countries into 4 categories, for which 53.6 is the lowest threshold of the second highest category.

Box 1: Measuring vulnerability to climate change

There is a wealth of indices that cover vulnerabilities to the effects of climate change using sets of varying indicators, often related to temperature anomalies, varying patterns of rainfall or food risks. However, measuring vulnerabilities to climate change is a challenging task. By definition, vulnerability not only indicates the expected effects of climate change but also the ability to cope with these effects (see for example IPCC and FERDI for conceptual discussion). IPCC produces a wealth of data and predictions to discuss climate change and assess its effects on countries, including an interactive map that shows how climate conditions are expected to change around the world. However, it doesn't fit our purposes very well, due to a lack of easy-to-use country-level indices that cover multiple effects and sources of vulnerability to climate change.

Therefore, this paper uses the Physical Vulnerabilities to Climate Change Index (PVCCI) created by FERDI, which focuses on only physical vulnerabilities of climate change, and thus leaving out indicators that are more related to political or socio-economic factors, which makes it independent from policy choices of each country (Feindouno and Guillaumont 2019. The PVCCI measures aspects such as drought, rainfall, temperatures, storms, and flooding (Feindouno and Guillaumont 2019).

Another useful index for country-level comparisons is the Ecological Threat Register (ETR) produced by the Institute for Economics and Peace. The ETR measures the ecological threats each country faces in five dimensions, namely food risk, water risk, rapid population growth, temperature anomalies and natural disasters in a scale from 1 to 5. This way, it gives a rather simple overview of climate risks in LDCs. However, it covers fewer countries than PVCCI. Nevertheless, our initial analysis of differences in these indices shows that they do come to roughly the same conclusions, and give similar assessments of vulnerability, with only a few exceptions.

In the past decade, it has become widely understood that there are interlinkages between the vulnerabilities related to climate change and conflict. Although the direct link between climate change and conflict has been widely contested, climate change can exacerbate conflicts indirectly. Climate change can be one of the several factors exacerbating existing conflicts through, for instance, competition over land and water resources. Climate change also affects many known drivers of conflict, such as low per capita income growth (Peters et al. 2021; SIPRI 2016). Yet, the role that climate change plays in conflicts is complex and highly context-specific, and also depends on the ability of the society to respond to stress (SIPRI 2016). For instance, effective institutions can play a key role in preventing civil unrest and conflicts. Strengthening governance and institutions can have a key effect in mitigating conflicts driven by climate-related issues such as water scarcity or rising food prices. Government engagement in risk assessments, regulation and planning for food production and distribution on national and international levels, helps to reduce the risk of conflicts stemming from food prices and shortages (SIPRI 2016).

The interlinkages between climate change and conflict are not thus necessarily the strongest in the areas most impacted by climate-related shocks, but in the areas that are the least resilient to climate and man-made crises (Peters et al. 2019). Climate vulnerability is reinforced by economic shocks, social aspects and other factors of fragility (Desmidt et al. 2021). In particular, governance is a key part of the interplay between climate change and conflict, as it can create inequalities or increase the existing inequalities that worsen the effects of climate change, particularly in the vulnerable groups in society (Tarif 2022). These contexts tend to include LDCs, that don't necessarily have the adequate institutions and governing structures in place to adapt and mitigate risks, or protect the population (ODI 2019). Indeed, LDCs are particularly vulnerable to exogenous shocks, because of their limited ability to adapt to them, which accentuates competition for resources. Weak governance structures also provide armed groups with opportunities, while increasing climate vulnerability, feeding local grievances and thus driving violent conflicts (Tarif 2022). On the other hand, violent conflict can lead to the destruction of energy and water resources and can hinder the capacity of a state to respond to climate change (Wong and Cao 2022). Thus, not only climate change can contribute to conflicts, but conflicts can also hamper climate action (UNDP 2020).

Towards a multidimensional understanding of vulnerability

The map above illustrates the multidimensional nature of the vulnerabilities of LDCs. To better illustrate multidimensional vulnerabilities, beyond economic measures, the UN has come up with the Multidimensional Vulnerability Index (MVI),[2] which recognises the overlapping challenges that LDCs and small island developing states (SIDS) face. The MVI notes that many SIDSs are more vulnerable than their income level would indicate (Assa and Meddeb 2021). The Economic Vulnerability Index (EVI), which is used as a part of the LDC graduation criteria, was also significantly revised in 2020, and renamed the *E*conomic and Environmental Vulnerability Index, to better include the challenges stemming from environmental and climate change-related factors. Based on combining several existing indices, the Commonwealth has also created a Universal Vulnerability Index (UVI) that broadly takes into account economic, environmental, as well as, social and political vulnerabilities but also factors adding to the country's resilience (Commonwealth Secretariat 2021).

As expected, several indices highlight the multidimensional vulnerability of LDCs. For instance, over 60% of LDCs are extremely or highly vulnerable according to UVI criteria. The link between income level and vulnerability is evident, as over 70% of LICs are considered extremely or highly vulnerable, as opposed to roughly 30% of LMICs and 20% of UMICs (Commonwealth Secretariat 2021). Discussions are also currently ongoing at the UN level on how to better tailor international support to the most vulnerable countries, including by using a multidimensional vulnerability index (Guillaumont et al. 2021) to guide development funds to vulnerable countries.

[2] The MVI comprises 4 types of sets of indicators, including financial vulnerability, economic vulnerability, geographic vulnerability (for example, remote location) and environmental vulnerability.

One recommendation for the EU is to better use these multidimensional vulnerability indexes in its aid allocation criteria and consider the multiple vulnerabilities of LDCs in its aid allocation formula. Peer learning, including at the regional level, as well as sharing of good practices among Team Europe players should be encouraged to this end.

4. Development finance

Development finance is significantly boosted under the Neighbourhood, Development and International Cooperation Instrument (NDICI)/Global Europe), with the EFSD+ and the External Action Guarantee (EAG). One of the objectives is to leverage more sustainable and impactful investment, including in poorer and more vulnerable countries. Yet, this may not be easy to achieve, in particular in LDCs. As indicated by the OECD-UNCDF report on blended finance in LDCs (OECD-UNCDF 2020), globally too little (only 6%) of private finance is mobilised by official development finance in LDCs. Moreover, the focus on social infrastructure (water supply and sanitation, health and population, social services, et cetera) remains extremely limited (7% of overall private finance mobilised in LDCs).[3]

4.1. Adapting the EU's financial instruments to the specific needs and capacities of LDCs

Our main recommendation is to adapt the EU's innovative financial tools and blended finance mechanisms to the specific needs and capacities of LDCs.

Adopting a more tailored approach to blended finance and investment promotion in LDCs implies a context-specific approach that takes better into account the specific needs and vulnerabilities of LDCs. This means adopting clear, transparent and simple processes (for instance, single-entry point/focal points, standardised processes easily replicable). It also means putting a greater emphasis on helping to develop pipelines of bankable projects in a portfolio approach, when necessary with sufficient technical assistance, as well as supporting regulatory and policy frameworks in an integrated manner.

The EU should also put greater emphasis on development finance in social sectors for LDCs, which face tight budget constraints to address great vulnerabilities of their population.

Besides development finance provided by the EU through its instruments and financial institutions for development, the EU and its member states should also put greater emphasis on ways to accompany and support LDCs to engage more effectively in attracting, deploying and scaling development finance. LDCs can engage in blended finance with their public resources, and issue green, social, sustainable and sustainability-linked (GSSS) bonds. To do so effectively, they may need additional insights and guidance on how to establish and scale development (blended) finance, including by strengthening their public development banks and institutions. They need to be able to tackle capacity challenges, support domestic financial ecosystems and market development, help identify finance solutions to reach the 'last mile', ensure proper governance and accountability, and promote the scaling up of domestic and international development finance through systemic and transformational approaches.

4.2. Embedding the EU's financial tools in broader development cooperation approaches

A greater emphasis should be put on the coordination and integration of development finance in broader development approaches and instruments (such as grants and policy dialogues), well embedded in development cooperation in a Team Europe approach. Adopting a tailored approach for development finance in poorer and more

[3] See OECD scoping note on 'Scaling up blended finance in developing countries and LDCs', 15 February 2022 (forthcoming).

fragile countries, in the form of a specific window or specific focus would be highly desirable. The Commission had initially envisaged a "sustainable and impact investing window" of the EFSD+, which could have helped place a stronger emphasis on impact investment in poorer countries. In the final proposal, adopted by the EFSD+ Strategic Board in 2022, the window has been adjusted to focus on sustainable finance instead, with a strong focus on sustainability-related financial instruments, but no particular focus on impact investing. This is somewhat of concern, in particular, if social and sustainability-linked investments in poorer countries are not given sufficient focus in a tailored approach. It will, therefore, be important for the EFSD+ Strategic and Operational Board to ensure that, as stated in the geographic guidelines of the EFSD+ window, "LDCs/fragile/landlocked and conflict affected countries will be given particular attention".

Greater risk-bearing capacity and management (for example, through guarantees, as well as political and reputational risk mitigation approaches), lower expectations on leveraging ratio, greater focus on development impact and more technical assistance, could help stimulate the development of a greater pipeline of projects with greater impact in LDCs.

4.3. Measuring and countering the risk of indebtedness

Specific attention should also be paid to avoiding debt trap and debt crisis in LDCs that comes with increased use of loans and blended operations, including thorough debt sustainability analyses and support. The global inflationary pressures and the Russian war in Ukraine further increase the debt vulnerability of some developing countries, which, combined with a food security crisis, could quickly turn into a debt crisis for poorer countries.

5. Trade

Beyond development cooperation and development finance, trade is a key dimension of the development agenda and preferential treatment for poorer countries. The LDC's category is explicitly recognised in the World Trade Organisation (WTO)'s Multilateral Trading System (MTS) and in the EU trade regime, in particular, in its generalised system of preferences (GSP), with the Everything-But-Arms (EBA) scheme which provides duty-free and quota-free market access to LDCs. Besides preferential treatment, aid for trade (AfT) is also a key component to help developing countries take advantage of trade opportunities. In its 2017 Joint Aid for Trade Strategy (EC 2017), the EU has set the target of reaching 25% of total EU AfT to LDCs by 2030. But since 2017, the share of AfT to LDCs by the EU and its member states has stagnated at 15% (EU 2021). This suggests that beyond setting targets, more coordinated and active approaches must be adopted.

5.1. Going beyond trade preferences towards LDCs for effective market access

Our main recommendation is on the need to go beyond tariff preferences towards LDCs and work more on the necessary accompanying measures to support the productive capacities of LDCs, as well as their effective access to EU and global markets and value chains.

As the EU seeks to strengthen the sustainability dimensions of its trade regime (GSP and EU FTAs) and adopts a number of unilateral measures and regulations to promote environmental, human rights, governance and other due diligence issues, the EU should pay greater attention to the possible undesirable effects, such as de facto reducing the access to the EU market of businesses and traders (in particular, SMEs) from poorer and more vulnerable countries, which may not necessarily have the capacity to integrate the rising EU standard requirements into their approaches, or comply with all of them. The EU can accompany and provide tailored support measures to help LDCs meet the higher standards of the EU, on due diligence, environment as well as more traditional trade-related measures, such as technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) requirements.

Supporting LDCs integration into international and regional trade can also be an effective way to ensure that poorer countries reap the benefits of trade. The Team Europe initiative set up to support the implementation of the African Continental Free Trade Area (ACfTA) is a concrete example of the supportive role the EU can play, including at a normative level. The EU can also support the participation and inclusion of developing countries, and in particular, the poorer ones, in WTO negotiations and reform agenda, and in particular, in plurilateral initiatives and agreements.

Box 2: Addressing the potential negative impact of the EU Carbon Adjustment Border Mechanism

The potential negative impact on LDCs exports of the EU Carbon Border Adjustment Mechanism (CBAM) should also be carefully assessed and mitigated, as in the case of aluminium imports (Brandi 2021) from Mozambique and Cameroon, Guinea and Sierra Leone for instance, as well as steel from Zimbabwe and Zambia. Unfairly, several LDCs look set to be more impacted than BASIC countries – Brazil, South Africa, India and China – for aluminium: Mozambique looks set to be impacted more strongly than China, and Cameroon more strongly than India (IEEP et al. 2021). The costs of compliance to CBAM might be relatively more burdensome for LDCs which have weaker capacities and limited resources (Brandi 2021).

Many LDCs and other climate vulnerable countries may prefer to embrace the need for supply chain modernisation, rather than being exempted and potentially locked into carbon-intensive economic models through an exemption from CBAM. Financial, technological and capacity-building support for Nationally Determined Contributions (NDCs) and Climate Prosperity Plans (CPPs), when existing, is the priority for many such countries (Keane et al. 2021). Instead of waiving CBAM obligations to LDCs and SIDS, therefore, it may make more sense to focus on the use of CBAM revenues and other measures – such as Aid for Trade – to support the low carbon transition in these and other climate vulnerable countries (IEEP et al. 2021).

Although the idea of devoting part of the proceeds of the CBAM to a particular group of countries outside the EU does not appear in the European Commission's legislative proposal and in the version circulated by the French Presidency of the EU, there remains a clear need, of both substantial and symbolic nature, to channel back from the EU budget, a substantive share to support the transition in countries which are among the least responsible for causing the climate crisis yet worst affected by it.

More broadly, the EU should also support a just and socially-responsible transition to green energy that responds to the rapid economic development and industrialisation ambitions of LDCs. This should be done notably by promoting technology transfer and long-term investment strategies for green development pathways. The EU and LDCs could converge around a narrative focused on energy for industrialisation and green economic diversification, notably in Africa. While timelines and sequences of action might differ from country to country, the EU should invest in building capacity to enable LDC countries to produce visions, strategies and plans to avoid being locked into unsustainable development choices. Consistency should be aimed for, between short-term needs and long-term sustainability, both on the social wellbeing and jobs side of the equation and on the environmental pressures and risks side.

Besides, EU support to LDCs should also encompass trade beyond goods, such as (financial) services, digitalisation and e-commerce, data protection and sharing, and movement of professionals, where LDCs may face even more hurdles than other developing countries, due to their weaker capacities. Yet, these dimensions are critical as well for their structural development, including in a more digital global context.

5.2. Accompanying the LDC graduation process towards a smooth transition path

Every three years, the UN reviews the list of countries that should be classified as LDCs and which should graduate out of the LDC category. Over the next 4 years, seven LDCs[4] are scheduled for graduation. The EU should also accompany the LDCs in their graduation process, so as to prepare them and ensure a smooth transition and phasing-out process of trade-related support measures.

This implies setting up an explicit framework to identify preparation actions pre-graduation and adjustment measures post-graduation, to ensure the sustainability of the process, as suggested by UNCTAD (2021b). It should include an assessment and potential transition phase to assess and remedy any potential loss of preferential market access, as in the case of the proposed new EU GSP, which aims to foster a transition from EBA to GSP+ for LDCs. Or the negotiation or adoption of free trade agreements, as could be the case for some African LDCs with the economic partnership agreements, in East and West Africa, for instance.

Enhancing domestic production capacities and investment for structural transformation, with a specific attention to more vulnerable sectors in the graduation process would also be warranted.

6. Climate and food security

LDCs are primarily agricultural economies and are among the most vulnerable countries to climate change. Support for climate adaptation and strengthening the resilience of agricultural systems is of direct concern to them.

6.1. Strengthening support and increasing finance for climate adaptation

To materialise its ambition set in the Green Deal, and especially the EU Adaptation Strategy, the EU, a signatory of the Paris Agreement, should play a stronger role in supporting LDCs in terms of support for climate adaptation.

LDCs, notably in Africa, are primarily agricultural economies with nearly 70% of the population engaged in agriculture. The vast majority of the Nationally Determined Contributions (NDCs) of LDCs refer to the need for adaptation in the agricultural sector. On top of climate impacts, these agricultural systems have been affected by restrictive measures as a response to the COVID-19 pandemic, particularly in terms of decreased labour mobility, the lesser availability of inputs and reduced access to finance. Therefore, in line with LDCs' priority given to adaptation in increasingly weakening agricultural systems, the EU should align its development cooperation instruments with LDCs priorities and particularly, accelerate climate adaptation to strengthen agricultural systems in LDCs.

Structural economic transformation and development can be part of the solution to reduce vulnerability. However, if not planned and designed to be climate proof, structural economic transformation could reinforce vulnerability – for instance, if it leads to the spatial concentration of activities on the coasts exposed to sea level change. This highlights the fact that climate adaptation is not only a local issue, but also a macroeconomic concern. Joint efforts are needed that link economic transformation, employment and the vulnerability of communities and countries as a whole.

[4] 2023: Bhutan; 2024: Angola, São Tomé and Príncipe, Solomon Islands; 2026: Bangladesh, Lao People's Democratic Republic, Nepal.

More consideration should be given to climate adaptation, both in terms of funding and capacity-building to adapt to climate change and foster adaptive capacity and to strengthen resilience to climate impacts in LDCs. Needs are especially important in the areas of knowledge and skills development at the institutional level to address gaps in climate change adaptation planning, and facilitate countries' direct access to international climate change financing.

At the COP26 in Glasgow, finance was at the centre of discussions. While developed countries reaffirmed their responsibility to fulfil their pledges, the slow and inadequate delivery of climate finance also showed the gap between bold pledges and follow-through actions (by developed countries). More than a decade ago, developed countries had pledged to provide $100 billion by 2020, but this is unlikely to be put in place before 2023. The Glasgow Climate Pact further urged developed countries to double their collective provision of climate finance for adaptation, taking it from the current 25% to the envisaged 50% share of global climate finance - against the target of $100 billion. While the EU collectively is the biggest contributor (Di Ciommo and Ahairwe 2021) of public climate finance to developing countries, increased public finance is needed to foster climate adaptation in poorer and more vulnerable countries, including from member states, so as to rebalance mitigation-adaptation funding.

This will also require a greater synergy between development finance and other instruments and actions, such as grants and policy dialogues, without which, leveraging more public and private finance for climate adaptation and resilience will not be easy. Capacity-building is specifically critical to be able to translate NDC priorities into bankable projects and programmes and develop financing strategies and investment plans.

Furthermore, there is a need for a full assessment of the current costs of climate impacts, though this may not be something that all LDCs countries can measure or compute at present. In this sense, Multilateral Development Banks (MDBs) could lead the way in helping to quantify those costs, as part of an effort to jointly push progress on a more concrete Global Goal on Adaptation.

6.2. Enhancing policy coherence and the food-water-climate nexus

Food insecurity in the world has increased in recent years, especially in LDCs, and the war in Ukraine threatens to cause a global food crisis. The war is affecting the global food system thus contributing to hunger and to instability in already fragile regions (Knaepen and Dekeyser 2022), especially in LDCs in Africa that rely heavily on the commodities and inputs exported from Russia and Ukraine. These dynamics are taking place against the backdrop of the climate and ecological crises, including weather phenomena and droughts. In many LDCs, continued population growth and rapid urbanisation are also putting pressure on land, forestry and water resources. The interconnected nature of food, water and climate call for stronger policy coherence in addressing these areas in a nexus approach.

While the EU is embarking on transformative initiatives such as the European Green Deal, the Farm to Fork Strategy and the Global Gateway, a forward-looking European development policy with a renewed commitment towards LDCs, in Africa and other regions, should better integrate policy interconnections that shape food security and nutrition outcomes. The EU and some of its member states have acquired solid experience in policy coherence for development (PCD), notably for food security, while policy coherence (Sustainable Development Goal (SDG) 17) is critical for the implementation of the SDGs and for "leaving no one behind".

In particular, the domestic and external ambitions of the Farm to Fork Strategy, and food systems abroad can result in incoherent policies and actions towards LDCs. The EU should therefore analyse and act upon the likely impact of the Farm to Fork Strategy on LDCs' food systems (Dekeyser and Woolfrey 2021), in order to maximise sustainability benefits for the EU food systems and food systems in LDCs. In doing so, it is important not only to consider agricultural and economic sectors but also those relating to climate, water and social policies.

7. Conclusion and main recommendations for the EU

In order to renew the EU's partnership with LDCs, various measures ought to be taken or strengthened in the area of development cooperation and development finance, as well as in other related policy areas such as trade and climate, which have a strong impact on LDCs. Adopting more tailored approaches to LDCs may be a way for the EU to respond in a more coherent and integrated manner to some of their common challenges.

In the area of development cooperation and development finance, while existing aid commitments and policy priorities must be pursued, there is also a need for a stronger focus on addressing the multidimensional vulnerabilities of poorer countries (including LDCs), as well as a long-term approach to investments and support measures aimed at strengthening their resilience and supporting structural transformation of their economies in a sustainable manner. With its new Global Europe instrument and policy-driven approach, the EU has the possibility and responsibility to address these in a coherent and strategic manner, including by building on Team Europe Initiatives.

Other measures need to be taken as well as in trade and climate policies, which are paramount for LDCs. In particular, there is a need to support LDCs beyond the existing trade preferences and to help them through accompanying measures to meet the higher standards of the EU, including on due diligence and non-tariff barriers. Of note, the potential negative impact of the EU Carbon Border Adjustment Mechanism (CBAM) on LDCs exports should also be carefully assessed and mitigated through targeted support. LDCs also need support in terms of climate adaptation as well as in managing the transition to a green economy.

Table 1: Main recommendations in key policy areas for a renewed EU partnership with LDCs

Development cooperation	1. Honouring ODA commitments and strengthening support to address the long-term impact of COVID-19 in LDCs. 2. Placing a stronger emphasis on human development. 3. Understanding and acting upon the multidimensional vulnerabilities of LDCs.
Development finance	1. Adapting the EU's financial instruments to the specific needs and capacities of LDCs. 2. Embedding the EU's financial tools in broader development cooperation approaches. 3. Measuring and countering the risk of indebtedness.
Trade	1. Going beyond trade preferences towards LDCs for effective market access. 2. Accompanying the LDC graduation process towards a smooth transition path.
Climate and food security	1. Strengthening support and increasing finance for climate adaptation. 2. Enhancing policy coherence and the food-water-climate nexus.

Coherence and alignment between EU development cooperation, finance, trade and climate policies are essential. In that regard, policy coherence for development remains an important principle of EU development policy and matters, perhaps even more when it comes to the cooperation and partnership with LDCs.

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