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**Strengthening smooth transition
from the least developed country category***Background report by the Secretariat of the Committee for Development Policy (CDP)*

Abstract

This report makes some preliminary suggestions for actions to be taken by the international development community and the graduating countries to strengthen the process of preparing for graduation from the least developed country (LDC) category. The report also offers concrete proposals for addressing in a systematic manner, the current concerns among LDCs about the ad-hoc nature of the extension and phasing out of measures provided by certain development and trading partners.

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Strengthening smooth transition from the Least Developed Country category

1. Introduction

The Fourth UN Conference on LDCs, held in Istanbul in May 2011, adopted the Istanbul Programme of Action (IPoA) for the Least Developed Countries for the Decade 2011-2020. The overarching goal of the Programme of Action is to overcome the structural challenges faced by the LDCs in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category. The Programme of Action also sets an ambitious goal of enabling half the number of LDCs to meet the criteria for graduation by 2020.

As a follow up to the Fourth UN Conference on LDCs, the Committee for Development Policy (CDP) will review the existing smooth transition mechanisms as specified in General Assembly resolution 59/209 (Annex 1) to identify how they can be further strengthened or improved and better monitored. The work by the Committee will also feed into the recent General Assembly Resolution on implementing the smooth transition strategies for countries graduating from the list of LDCs, in which the GA urges the Committee to pay particular attention to the effectiveness of smooth transition for graduated countries and to report thereon to the Economic and Social Council at its substantive session. In addition to the resolutions directly addressing the CDP, the work of the Committee in this area may also feed into the other inter-governmental process related to smooth transition recently initiated by the General Assembly (see Annex 2).

The purpose of this report is to provide a background to the current experience with smooth transition from the LDC category, to present preliminary recommendations on how to improve the smooth transition process of LDCs from the category, and to reflect on how to facilitate the gradual phasing out of LDC-specific international support measures. Section 2 of the report gives a brief overview of the existing smooth transition framework and the experiences from recently graduated and graduating countries. Section 3 suggests areas where processes could be strengthened so as to facilitate graduation from the LDC category. Section 4 identifies LDC-specific support measures requiring continued attention from development partners and suggestions for improved procedures for phasing out their support. Section 5 concludes.

This report has been prepared by the Secretariat of the Committee for Development Policy as an input to the Committee's discussions on this subject at its next plenary meeting during 12-16 March 2012. As such, it does not necessarily reflect the views of the Committee. Recommendations by the Committee will be included in its annual report to the Economic and Social Council.

2. Graduating from the LDC category

The LDC category was created due to the recognition of the need to alleviate the problems of underdevelopment of those developing countries that were persistently falling behind and to attract special international support measures for helping the least developed among the developing countries to address those problems. Graduation from the LDC category inherently means that a country has reached a level of development that no longer requires LDC-specific support from the international community. In this regard, lack of access to

these LDC-specific support measures should not prevent the country from having access to other forms of support available to all developing countries.

Currently, the major support measures extended by the international community vary among development and trading partners but often fall within one of the following areas: (a) international trade, such as LDC-specific preferential market access and LDC-specific special and differential treatment provisions in WTO agreements; (b) official development assistance, including development financing and technical cooperation specifically designed for and targeted at the LDCs by multilateral and bilateral donors; and, (c) other forms of assistance, such as travel-related benefits and special discounts in country assessments to the financing of some international organizations.¹

The possibility of losing access to the support measures available to the category causes a great deal of concern among countries meeting the eligibility criteria for graduation, particularly among those countries that feel that support available outside the LDC category is insufficient or does not meet their specific needs. The graduation of small-island developing states (SIDS) is a case in point.

Uncertainty about what the LDC-specific support measures are exactly and how the international community will approach development cooperation with countries leaving the category complicates acceptance of graduation. It introduces delays in the intergovernmental process, which inevitably raises questions about fairness in the application of rules as well as undermines the credibility of the category.

Specific procedures and principles were introduced by the United Nations (General Assembly resolution 59/209²) to provide a better understanding of the process of graduation and to guide graduating countries and their trading and development partners through the transition from the category to avoid disruptions and reversal in the progress achieved by the graduated country (see Annex 1). While these procedures have been a welcome and much needed development, they seem not to have been enough to assuage the concerns of graduating countries, and need to be further strengthened and enhanced.

Since the adoption of resolution 59/209, two countries graduated from the category (Cape Verde and Maldives). A third country is earmarked for graduation in 2014 (Samoa), while the General Assembly still has to act on the recommendation to graduate Equatorial Guinea. Additionally, Vanuatu and Tuvalu are currently being considered for graduation by the CDP.

The experience accumulated with these country cases – though still recent and incomplete, as described in Annex 3 – points to two main areas for improvement. The first area relates to procedures adopted to assist countries in preparing and implementing their transition strategies. The second area relates to the orderly phasing out of LDC-specific support measures. Both areas are not comprehensively addressed in resolution 59/2009. Moreover, the resolution itself appears to be only partially implemented.

The experiences of Cape Verde, Maldives and Samoa in these two areas are summarized in Table 1. The table provides an overview of the operational paragraphs of General Assembly resolution 59/209 and the corresponding actions taken by graduating LDCs and their development and trading partners. It shows the differences in the preparations for smooth transition among the three countries and the support received

1 Committee for Development Policy, Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures, United Nations publication, Sales No. E.07.II.A.9; and UN-DESA, The Least Developed Countries Information Portal (<http://www.un.org/ldcportal>).

2 General Assembly resolution [A/RES/59/209](#) on the smooth transition strategy for countries graduating from the list of Least Developed Countries.

from multilateral and bilateral development and trading partners. Aspects requiring additional attention from the international community to make smooth transition a well functioning process will be further discussed in section 3 below.

Table 1. Assessment of the implementation of the provisions of GA Resolution 59/209

RES 59/209 paragraph and topic		Cape Verde	Maldives	Samoa
4	Transition strategy prepared	Written document prepared by Government	No written document prepared by Government	No written document prepared by Government
5	Establishment of consultative mechanism	Yes	No formal mechanism	Unknown
6	Support from UNDP to consultative mechanism	Yes	--	Unknown
7	Development partners' support to the transition strategy and avoidance of abrupt reductions in support	Scaled down assistance: Austria, Germany, the Netherlands; Maintained assistance: Luxemburg, Spain, USA, UN travel benefits can still be requested for up to 3 years; Changed orientation: AfDB, Portugal, World Bank. Unknown: other partners	Maintained assistance: UN travel benefits. Unknown: other partners	Not yet known
8	Continuation/extension of LDC-specific trade preferences	Ongoing: Australia, Canada, New Zealand, Norway; 4 years: EU, Switzerland and Turkey; 2 years: USA; No: Japan	Ongoing: EU, Australia, Canada, New Zealand, Norway, Switzerland, Turkey; 6 months: Japan; Not applicable: USA	At least 3 years: EU, Turkey; Not yet known: Australia, Canada, New Zealand, Norway, Switzerland, Japan, USA
9	WTO extension/phase out of LDC-specific SDTs	No	No	Not yet known
10	EIF extension/phase out	Yes	Yes	Not yet known but entitled to
11	Inform SG of the implementation of transition strategy	Yes but only once Dec 07, before effective graduation	No	Not applicable
12	CDP monitoring of graduated countries	Yes: 2009, 2012	Yes: 2012	Not applicable

3. Incentives and strengthening the smooth transition process

In article 14 of the Istanbul Declaration, Member States “[...] recognize that the graduation process of least developed countries should be coupled with an appropriate package of incentives and support measures so that the development process of the graduated country will not be jeopardized. In this context, [Member States] will work on the development and implementation of smooth transition strategies for graduating and graduated least developed countries.[...]”

Article 14 contains two contradictory messages: the first one refers to the need for a package of incentives, which implies the introduction of a new set of measures in support of graduated and gradating countries. The subsequent sentence, however, seems to confine the idea of incentives to the development and implementation of smooth transition strategies. The Istanbul Plan of Action calls for an *ad hoc* working group on the General Assembly to be established “to further study and strengthen the smooth transition process” but makes no further reference to incentives for graduation. Are incentives necessary?

On the one hand, the recognition that a country is no longer lagging behind in the group of developing countries and has made considerable progress in some crucial areas should be considered a big enough incentive. It reflects international recognition of the achievement of an important stepping stone in a country's development efforts. Naturally, such an accomplishment should not be interpreted as the limit or pinnacle of what that country can achieve as seen by the actions constantly being undertaken by all developing countries to improve the welfare of their populations. The fact that the country met certain critical thresholds should therefore be celebrated, and not a cause for apprehension.

On the other hand, from an LDC perspective, graduation may not be consistent with an incentive-compatible system that tries to maximize the country's developmental efforts. If an LDC improves its economic or social situation, international support may be withdrawn – at least support that is LDC specific. Even if the amount of support to be withdrawn is small, a graduating country appears to be losing rather than gaining support as a result of developmental progress. At the same time, LDC-specific support was given to address LDC-specific handicaps. If those LDC-specific handicaps become less binding, the need for LDC-specific support becomes less evident. In this regard, graduating from the list does not imply that support will cease, rather that the nature of that support should evolve according to countries' needs.

Albeit recent experience with the smooth transition has been limited, it is possible to argue that in the case of Cape Verde, there was not a sudden or sizeable loss of support. While many development partners made no formal commitments regarding the graduation process, in practice, donors adopted a smooth transition and phased out their LDC-related measures in a gradual fashion. Moreover, Cape Verde did not suffer a large or sudden “shock” from a loss of support and consequently did not need a complex strategy or an extensive programme of activities to respond to its new status.

If graduation is currently approached with concern and anxiety, this is largely due to the fact that countries do not have clarity as to what part of the support that they are currently receiving is LDC-specific, or what support they will be receiving from their development and trading partners in the future. Thus, the main issue is not so much to create additional incentives for graduation – which among other things could lead to the unnecessary creation of another category of countries with associated measures – but: i) to improve and clarify the rules of engagement with development partners after graduation; and, ii) to adjust those rules to the situation of the country, that may still require support as a developing country, although it is no longer an LDC. These are the elements that need to be strengthened in the transition strategy. The following actions are recommended.

3.1. Improved understanding of available LDC-specific support measures can facilitate the preparation of a smooth transition strategy

LDC-specific support and smooth transition measures are offered by a wide range of development and trading partners, and these measures change over time. Currently, a centralized source of information is made available through the DESA LDC Information Portal at www.un.org/ldcportal.

- A central source of information cataloguing all LDC-specific international support measures, their utilization and related transition measures should facilitate the process of developing a smooth transition strategy and could be further supported by all partners by providing, on a regular basis, accurate information about the support and transition measures they offer to LDCs.

A country has to meet the graduation criteria in two subsequent triennial reviews of the list of LDCs before being recommended for graduation by the CDP. Currently, as an input to the CDP decision-making

process, DESA prepares an ex-ante impact assessment on the likely impact of the withdrawal of LDC-specific measures for countries which met the criteria for graduation at the previous triennial review of the LDC category. The report is circulated to the country concerned, which is invited to make comments on the report. This can be considered as a step towards a better understanding of LDC-specific measures available to the country, and of their relevance for removing obstacles to development. However, experience has shown that support often combines LDC-specific and country-specific elements of development assistance. This complicates the process of disentangling LDC-specific support from assistance extended to developing countries independently of their particular status, and compounds the complexity of assessing the impact of graduation to some extent.

- A possible way of improving understanding of the LDC-specific support measures while also strengthening the usefulness of the impact assessments for the countries concerned is to circulate the DESA report to the relevant UN Regional Commission³ and to the UN resident coordinator and invite them to give their views on and complement the report. This would not only allow the country and some of its main partners to have a common understanding of the possible implications of an eventual graduation, but also draw attention to the need to elaborate a transition strategy should the country be recommended for graduation. In this regard, it is important that a precise timeline be established for drafts to be circulated and commented on for this exercise to be useful.

3.2. Enhanced inter-agency technical assistance for smooth transition preparation

On the basis of available information, it seems there is some delay in countries taking the necessary steps to start the consultations and preparations for their transition strategy, and in establishing a consultative mechanism (see paragraphs 4 and 5 of resolution 59/209). Part of this delay could be due to lack of institutional and technical capacity, which includes not having a clear understanding of procedures as well as implications of future graduation. Additional support may be needed from the UN system.

- According to 59/209 the country can *request* support of the UN Resident Coordinator and the UN country team (paragraph 5). While the process has to be country-led and country-owned, as called for in resolution 59/209, as well as in the Paris, Accra and Busan Declarations, support could be instead *offered* by the Resident Coordinator (once his/her office is informed about the GA decision to graduate the country). It would be also useful if the Resident Coordinator formally informs the CDP that he/she contacted the country with a view to discussing the implications of graduation and setting in motion the preparations of its transition strategy.
- In line with the above, a “Graduation Capacity Building Programme” could be established by UNDP as a formal mechanism which can be called on by LDCs for technical assistance and capacity-building activities related to preparing a transition strategy. After graduation, programmes such as the one suggested below could prove useful to assist countries in the first years of graduation.

3.3. Stronger commitment by partners is needed to reassure the graduating and graduated countries that they will continue to receive the support appropriate to their development situation

It is important to recognize that graduating LDCs’ needs change over time and that the nature of the required support changes as well; but this recognition has to be clearly specified. The consultative mechanism,

³ Currently the Regional Commissions (as well as UNCTAD) are invited to the CDP EGM preparing for the triennial review of the list of LDCs.

the elaboration of the transition strategy and its monitoring can go a long way in providing countries with such assurances, particularly if the process has the participation of multilateral organizations and is followed up by the relevant intergovernmental process in an effective way. Additionally, smooth transition needs to be mainstreamed in the approaches and strategies of development partners even if they do not offer LDC-specific support. For example, debt sustainability assessments carried under the HIPC initiative framework (which is not an LDC-specific programme but has a few LDCs as beneficiaries) should take into account potential impacts of graduation on export revenues (due to the possible loss of preferential market access by a graduated country) and on future financial assistance inflows.

- A standard procedure could be put in place to invite development and trading partners to the consultative mechanism. For instance, based on the information provided by the impact assessment and other sources, the graduating country, in collaboration with the UNDP country office could be requested to send out an official invitation to all relevant development and trading partners to a meeting of the consultative mechanism within six months after the General Assembly takes note of the recommendation of the CDP to graduate a country. In this regard, expeditious action by the General Assembly (similar to the timeline subscribed to ECOSOC in resolution 59/209, paragraph 3d, on the CDP recommendation would contribute to the removal of uncertainties regarding graduation and lead to a timely start of preparations for transition from the category.
- The meetings of the consultative mechanism should take stock of the country's development partnership, further develop a common understanding of the elements in the partnership that are LDC-specific, and lead to recommendations that can be used as an input to the transition strategy, including identifying preliminary actions that need to be taken by the relevant parties involved.
- To clarify and strengthen commitments of continuous support made by partners, a transition strategy template can be developed. The template could also facilitate the graduating countries' information gathering related to LDC-specific support from development and trading partners. The template will focus on the current LDC-specific international support measures provided by partners (as identified by DESA's impact assessment – prepared and complemented – where applicable, by development and trading partners) as well as the partners' available plans for extending and/or phasing out their support.
- The template may also be a useful tool for facilitating the identification of gaps and areas of support requiring additional attention by partners.
- Improved coherence is needed. Smooth transition should be taken into account and mainstreamed in approaches and strategies also by development partners not offering LDC specific support.

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