CONCEPT NOTE

1. Background

The Fourth UN Conference on the Least Developed Countries (LDCs), held in Istanbul from 9-13 May 2011, adopted the Istanbul Declaration and Istanbul Programme of Action (IPoA) for the LDCs for the Decade 2011-2020. The overarching goal of the IPoA 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 LDC category. (para. 27). The IPoA also sets an ambitious goal of “enabling half the number of LDCs to meet the criteria for graduation by 2020.” (para. 28):

The IPoA is the first global programme of action for LDCs containing a full-fledged chapter on "graduation and smooth transition" (chapter VI), recognising the need to do more in this area if the overarching goal is to be achieved.

The Istanbul Declaration recognizes “that the graduation process of LDCs 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”. Member States agreed “to work on the development and implementation of smooth transition strategies for graduating and graduated LDCs.” (Istanbul Declaration, para. 14)

Building on GA resolution 59/209, the IPoA states that “the measures and benefits associated with the LDC membership status need to be phased out consistent with their smooth transition strategy, taking into account each country’s particular development situation.” (IPoA, para. 141). It further elaborates that “it is crucial for graduating countries to take the lead in the development of smooth transition strategies with the support of their development and trading partners. Development and trading partners, including the United Nations system, should continue to support the implementation of the transition strategy and avoid any abrupt reductions in financial and technical assistance and should consider extending trade preferences to the graduated country, on a bilateral basis.” (IPoA, para. 142).

2. The graduation process

According to General Assembly Resolution 59/209, the process before an LDC graduates from the list takes a period of at least six years, from the first triennial review by the Committee for Development Policy (CDP) where it is found to meet the graduation criteria to the actual graduation.

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## Graduation Time Frame

<table>
<thead>
<tr>
<th>Year</th>
<th>Activity</th>
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<tbody>
<tr>
<td>Year 0</td>
<td>CDP first finding of eligibility (country is notified)</td>
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<tr>
<td>Year 0 to 3</td>
<td>UNCTAD prepares <strong>Vulnerability Profile</strong> assessing the extent of external economic and natural shocks on the economic performance and economic structure of the country under review, and</td>
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<td>DESA prepares <strong>Impact Assessment</strong> of the likely consequences of graduation on economic growth and development</td>
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<tr>
<td>Year 3</td>
<td>CDP second finding of eligibility (reviews vulnerability profile, impact assessment and country inputs)</td>
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<td></td>
<td>CDP recommends graduation</td>
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<td></td>
<td>ECOSOC takes action on CDP findings</td>
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<td></td>
<td><strong>General Assembly</strong> takes note of CDP recommendation – graduation to take place after 3 years</td>
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<tr>
<td>Year 3 to 6</td>
<td>Graduating country prepares smooth transition strategy in cooperation with development and trading partners with support from UN system (establishment of consultative mechanism)</td>
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<tr>
<td>Year 6</td>
<td>Country graduates from the LDC category</td>
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<tr>
<td>Post-Graduation</td>
<td>Graduated country implements smooth transition strategy</td>
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<td>Graduated country, with support of consultative mechanism, monitors implementation of the smooth transition strategy and keeps UN SG informed</td>
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<td>CDP monitors development progress of graduated country during triennial reviews</td>
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A country graduates from the LDC category three years after the GA takes note of the recommendation of the CDP. During this three-year period, the country remains on the list of LDCs and continues to benefit from the special support measures associated with LDC status. The smooth transition strategy is to be implemented only after the actual graduation of the country.

Only three countries have so far graduated from the list: Botswana (1994), Cape Verde (2007) and Maldives (2011). Samoa has been recommended for graduation and is expected to graduate from the category in 2014. The over-riding objective of the IPoA is for graduation to become the rule rather than the exception, i.e. for all LDCs to achieve the success so far achieved only by few. Indeed graduation from LDC status is a highly commendable occurrence, one that reflects a country’s success in achieving a major development milestone, including significant progress towards reaching some of their development goals, such as increased per capita income, strengthened human capacities and reduced economic vulnerability. However, unfortunately graduation is often viewed primarily from the point of view of a loss of benefits. It is important to bear in mind that graduation brings with it a variety of new opportunities and potentials. It signals to private and public partners that durable improvement has

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3 At the upcoming 2012 triennial review, and as a follow up to the Istanbul Conference, the CDP is expected to undertake a review and assessment of current practices and provisions associated with the smooth transition process so as to identify and propose possible concrete actions to further strengthen existing mechanisms.

4 Equatorial Guinea has also been recommended for graduation but as of now the GA has not yet taken note of the endorsement by ECOSOC.
occurred thereby opening new promising economic prospects. Graduation points to a reduced level of risk for investors and higher creditworthiness, which could lead to better access to private development finance. Not being an LDC any longer is often also associated with a more favourable perception of the business environment conducive to increased private investment, particularly FDI. There are also many options for financial and technical assistance as well as preferential market access available to non-LDCs.

Nevertheless, it is widely recognized that an adequate period of continued special international support is desirable, and likely to be critical, to enable graduating LDCs to sustain their socio-economic progress. The need for a “smooth transition with a view to avoiding disruption to their development plans, programmes and projects” was identified by the General Assembly as early as 1991 (resolution 46/206).

3. Smooth Transition: Guidelines and Existing Measures

A UN framework for facilitating smooth transition strategies for the benefit of graduating countries was put in place in 2004 (resolution 59/209). During the 3-year pre-graduation period (year 3 to 6 in the time frame above), it is recommended that the country prepares a transition strategy for the period after graduation with a view to adjusting to the phasing-out of LDC-specific support measures and to identify actions by all stakeholders, based on the country’s development situation.

To this end an ad hoc consultative mechanism should be established by the Government of the graduating country and supported, upon request, through the UN Resident Coordinator and UN Country Office. The mechanism should be a country-level nationally owned process. The country’s bilateral and multilateral development and trading partners are expected to participate actively. The objective is to identify the actions in the areas of trade, development finance and technical cooperation that should be considered to ensure that the country’s development progress is not reversed. UNCTAD and the respective UN Regional Commissions have been supporting graduating countries in the formulation and adoption of a smooth transition strategy by analyzing the extent to which retaining LDC-specific treatment is deemed vital for the continuation of the development progress, on a sector-by-sector or product-by-product basis.

Broad international support measures of smooth transition were identified by the GA in resolution 59/209 with a view to enabling graduating countries to identify the scope of the phasing out. Development partners are urged to support the implementation of the transition strategy and to avoid abrupt disruptions to the assistance provided to the country. Trading partners are invited to continue to extend trade preferences or to phase them out in a gradual manner. WTO members should consider extending to a graduated country, as appropriate, the existing special and differential treatment (SDT) and exemptions available to LDCs for a period appropriate to the development situation.

Existing smooth transition measures, which have been granted to graduated countries, include inter alia:

- Extension of duty-free quota-free (DFQF) market access through the Everything But Arms Initiative of the European Union for at least three additional years after graduation by the EU;

- Extension of access to the Enhanced Integrated Framework to graduated countries for three years. A possible extension for a longer period of time might be considered on a case by case basis by the Board;

- Extension of access to GEF-LDCF (Global Environment Facility, Least Developed Country Fund) for projects already in the pipeline (capped at $7 million per country);
- Extension of UN travel-related support to graduated countries for a period appropriate to the development situation of the country and for a maximum of three years (OP 4, resolution A/RES/65/213).

The implementation of the smooth transition strategy is to be monitored by the graduated country with support of the consultative mechanism. The CDP monitors development progress of the graduated country during the triennial reviews as per General Assembly resolution 59/209.

4. Possible Way Forward

There is a general perception that the smooth transition process needs to be strengthened with a view to provide additional reassurance for graduating LDCs that they can envisage their further development process with confidence and that LDC-specific support will be phased out gradually, with due consideration of national conditions.

Additional specific recommendations on the continuation / gradual phasing out of benefits by development partners for graduated countries could be considered, inter alia, in the following areas:

- support for the establishment of a consultative mechanism to facilitate the preparation of the national transition strategy as a basis for the identification of transitional actions and measures;
- access of graduated countries to LDCs-dedicated programmes of the UN agencies, funds and programmes;
- extension of DFQF market access to graduated countries for a transition period by other preference-giving trading partners;
- extension of existing special treatment for LDCs by WTO Member States to graduated countries;
- level of support (technical assistance, capacity enhancement, ODA) provided to graduated countries by development partners;

Most importantly, as with all development strategies, it is essential to strengthen country ownership in the formulation and implementation of smooth transition strategies so as to ensure that these are attuned to national conditions and circumstances.

Monitoring mechanisms of smooth transition strategies should be reinforced to guarantee timely and full implementation of the agreed concrete measures.