



**On smooth transition
and how to make it effective**

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Ad Hoc Ended Working Group
to Further Study and Strengthen the Smooth Transition Process for
the Countries Graduating from the Least Developed Country Category
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Introduction

- 3rd meeting, after two very substantive other ones
- In particular, a comprehensive report from the CDP Secretariat
- The topic of this presentation cannot be to cover all the issues, but is rather to focus on what seems to me the most important
- First, by re-setting the basic framework of « smooth transition »
- Second, by classifying its possible components and identifying what could be the priorities within each category
- Third, by examining the process of the smooth transition, its limitations and how it calls for other international measures



Five basic framework of smooth transition in five points

- **What does it mean to be an LDC?**
- **How has the issue of graduation been raised?**
- **How has the concept of smooth transition emerged?**
- **How has smooth transition become a post-graduation issue?**
- **How a new approach to graduation may impact smooth transition**



What does it mean to be an LDC?

- LDCS have been designed as low income countries suffering the most from structural handicaps to economic growth
- They are identified from three criteria, GNIpc, and two indicators of structural handicaps, low human capital (HAI) and high vulnerability (EVI), three criteria complementary for inclusion
- Countries facing these 2 kinds of handicaps jointly are supposed to be «caught in a trap»
- To be pushed and moved « out of trap » they need international support measures, as well as enhanced ownership ,



How has the issue of graduation been raised?

- Graduation not even considered during the twenty first years of the category
- Introduced in 1991, with several precautions taken before an LDC be recommended for graduation:
 - not only one, but two criteria should no longer be met (asymmetry)
 - with margins between inclusion and graduation thresholds (since 2005, GNIpc with a broader margin may be the only one criterion)
 - at 2 consecutive triennial reviews (first applied in 1994)
 - and, since 2004, the graduation being effective only 3 more years after the endorsement of the recommendation (3 cases)



How has the concept of smooth transition emerged?

- Born with the principle of graduation in 1991: « need for a smooth transition of the countries graduating out of the group of LDCs, with a view to avoiding disruption of their development plans, programmes and projects»
- A meaning different from the present one: referred to the « transitional period » after the first finding of eligibility and the 2d, preceding the decision
- Concern about « smooth transition » reiterated by ECOSOC in 2000 about Maldives: focus on a possible extension of the « transition period » *before* graduation
- « smooth transition » considered of «paramount importance» by CDP in 2002 and implied « redefining the range of benefits desirable for the graduating countries »
- Clarified by the resolution of 2004,



Smooth transition as clarified by the 2004 GA resolution

- A second three year period added to that between the 2 findings of eligibility by the CDP (and initially called smooth transition)...
- ...beginning after the GA has taken note of the recommendation of graduation by the CDP: graduation becomes effective 3 year later, then 6 years after the first finding of eligibility
- During this second 3 year period, since the country is still an LDC, the real transition has not yet begun and not to be smoothed,
- But during this pre-graduation period a smooth transition has to be to *prepared* for the period following the graduation
- Transition should thus be made smoother thanks to the transition period following the finding of eligibility to graduation



May new trends in graduation impact smooth transition?

- Attitudes towards graduation have progressively changed
- Ignored until 1991
- Resistance to implementation from 1997 (first eligibility of Vanuatu), then from 2000 to 2004 (Maldives and to a less extent Cape Verde), then from 2006 to 2009 (Samoa recommended), then again with Eq. Guinea...
- Resistance has led to the extension of the period preceding effective graduation and to underline the vulnerability of graduating countries, all SIDS, although a high level of HK allows them to register a high rate of economic growth
- On the other hand the IPoA set the goal of reducing by half the number of LDCs in 10 years, what implies that the smooth transition will not be only a SIDS issue
- And some LDCs begin to express the will to anticipate eligibility and to consider voluntary graduation, probably with smooth transition...



Classifying measures, identifying priorities for smooth transition

- **Binary versus continuous measures**
- **Binary measures: scope and limits of postponement**
- **Continuous or progressive measures: smoothing by relying on criteria**
- **Using LDCs identification criteria as aid allocation criteria**



Binary versus continuous measures

- LDC status, as any category membership, is binary: a country is or is not an LDC, whereas the criteria on which the status relies are continuous
- The issue of smooth transition raised by support measures designed with regard to membership rather than to criteria
- Measures legally linked to membership are to disappear after graduation ; they can only be temporally postponed,
- On the opposite, support measures for LDCs taken on a case by case basis can be more easily adapted to the criteria to make the transition smoother



Binary measures: scope and limits of postponement

- Broad scope for temporary postponement, but postponing all measures would lead to postpone graduation itself
- Priority postponements include:
 - market access, as done by EU with EBA for Maldives and CV, for 3 years (possible extension to other markets?)
 - special funding, as done for EIF (possible extension to LDC Fund of GEF?)
 - LDC specific travel funds and travel benefits, as done for UN GA meetings (extension to other UN meetings? Or using continuous criteria?)



Binary measures: are some of them smoothable?

- Some possibilities
- As noted, travel funds: benefits, rather than to be linked to the category membership, could be designed according to the size of the public budget
- Special and differential treatment provisions at WTO: rules needed for an orderly phase out of the LDC-specific SDTs
- Earmarking of resources in favour of LDCs by multilateral organizations (UNDP, UNICEF): progressive decrease?



Continuous or progressive measures: smoothing by relying on criteria

- The principle: to make the transition less abrupt by using continuous criteria rather than the status of LDC: dampening the category approach (of support measures) by a criteria approach (instead of creating a new category approach with specific benefits)
- Possible application to tariff reduction for LDCs, if not too low...
- Clearer application to aid allocation, where there is no amount previously dedicated to specific LDCs, but only a global target



Using LDCs identification criteria as aid allocation criteria

- Important present debate about the reform of aid allocation criteria, in particular when a formula is used, such as the PBA by the MDBs
- Taking into account the 3 criteria used for the identification of LDCs (GNIpc, HAI, EVI) as aid allocation criteria presents several advantages
- Benefits the LDCs as a whole
- Makes the transition smoother for the graduating countries, in particular the vulnerable ones
- Promotes ownership (more than the PBA)
- And more generally meets general principles of equity , effectiveness and transparency



Previous support given to the proposal and the international agenda

- Move of ideas in favour of taking into account structural vulnerability for aid allocation
- UN SG report to the *Development Cooperation Forum* in 2008, then again in 2010,
- *Joint Ministerial Declaration* on Debt Sustainability, from Commonwealth and OIF, 2009, followed by more recent positions from Commonwealth and Zone franc Finance Ministers
- Initiative and a study of the *AfDB* 2009 on this possibility, recently reactivated
- Growing consensus for needs to govern aid allocation, and policy/fragility to govern aid modalities



The smooth transition process and beyond: domestic and international interactions

- **The transition strategy, a domestic process**
- **A consultative mechanism**
- **An international monitoring of the transition process**

- **The risks ahead, with regard to the loss of the LDC status**
- **The risks ahead, to be addressed, beyond the LDC membership, in particular climate change**



First, the transition strategy, a domestic process

- The graduated country , thanks to the ownership of its graduation, can take advantage of it
- Transition made smoother by ownership: graduation used as a signal of a new phase of development « out of the trap »: this should be the main « incentive » referred to by the IPoA
- The « transition strategy to adjust the phasing out », the country is invited to prepare (§ 4 of the 59/209) is a domestic task
- Possibility to supply technical assistance in that perspective, but no more legitimate than the TA to remaining LDCs
- Needed: maximum use of the information available, in particular through the LDC Information Portal of DESA , the impact assessments prepared for the CDP recommendations,...
- ...and the mobilization of the UN system and development partners



Second, a consultative mechanism

- Recommended by the GA res 59/209 (§5), and formally set up by Cape Verde
- Cooperation with development partners
 - not only needed to obtain in a consistent way the implementation of the transition measures, as classified above
 - but also to insure that other international schemes not specifically designed for LDCs and/or graduating countries, but appropriate to address the issues of graduation, such as the « aid for trade » are well mobilized in the transition context
- Specific role the UN system to assist and coordonate (UNDP, UN Resident Coordinator and UN country team)



Third, an international monitoring of the transition process

- Again the Res. 59/209 invited the graduated country « to closely monitor with the support of the consultative mechanism, the implementation of the transition strategy and to keep the SG informed on a regular basis»
- This monitoring should also be a part of the monitoring of the IPoA, as requested from OHRLLS, UNCTAD, UNDSA, UN Regional Commissions, etc. (and it could be a task of the *LDCIV Monitor*)
- Special mandate given to CDP to monitor the *development progress* of the graduated countries (the outcome) at the triennial reviews following graduation, as done in 2009 for CV and 2012 for Cape Verde and Maldives



The risks ahead, with regard to the loss of the LDC status

- Risk resulting from the loss of membership benefits: not a risk to come back to inclusion eligibility and LDC status and probably not a significant risk of lasting « disruption of progress »: if the benefits lost were so high, they should have led to more countries eligible to graduation...
- Still risks of recurrent shocks associated to a high level of economic vulnerability, always likely to have negative lasting and sometimes cumulative effects
- But because the graduating countries have a middle income level and a relatively high HAI, they are more resilient than the remaining LDCs and the risks they face are not differing from those faced by other equally vulnerable LMICs



The risks ahead, to be addressed, beyond the LDC membership

- Two issues raised that concern not only the graduating countries, but also other highly vulnerable countries
- The adequacy and effectiveness of the present schemes of *compensatory financing of exogenous shocks*, either external or natural: progresses have been registered, but adequacy still debated
- The need to address the *vulnerability to climate change* by an appropriate allocation of the resources for adaptation
- Can be done using an index of physical vulnerability to climate change, as set up at Ferdi, complementary to EVI and evidencing a high level of this vulnerability in countries graduated or likely to be so



Vulnerability to climate change, a long term major issue for many graduating countries, rather a smooth transition issue

- High level of the PVCCI in LDCs, even more in LDCs-SIDS, as it is the case for EVI
- Climatic vulnerability indeed partly taken into account in EVI, as reflecting the present occurrence of natural recurrent shocks
- But the physical vulnerability to climate change is different, referring to long term change in the probability of shocks, either *progressively* (through the rise of the sea level or desertification) or by the *intensification* of recurrent shocks
- It also calls for different measures



Conclusion

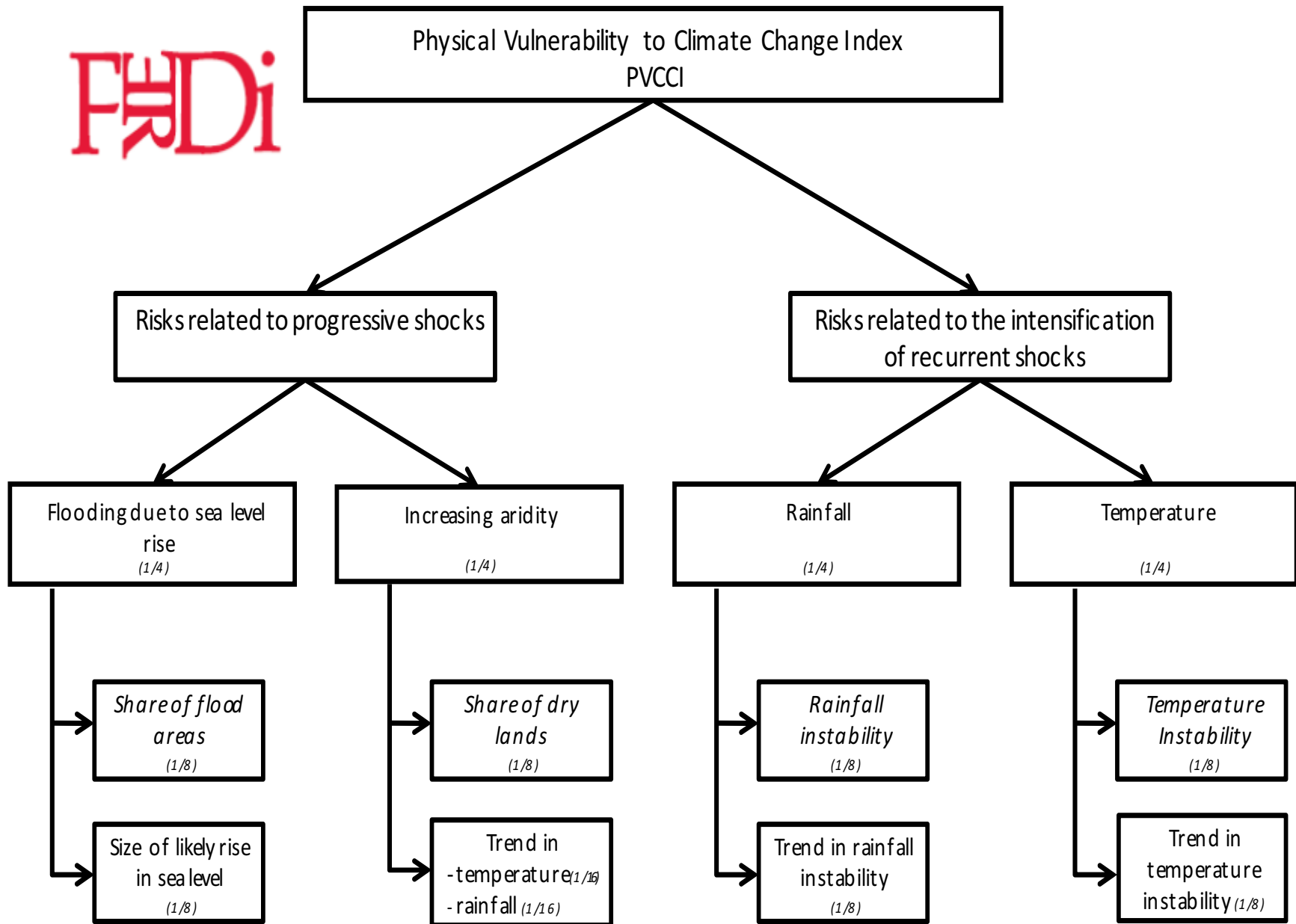
- Smooth transition, a challenge for the presently graduating countries, mainly SIDS former LDCs
- Also a challenge for the expected bulk of new graduating ones in the IPoA framework
- And an opportunity to put on the international agenda broader and needed reforms, related to the treatment of various kinds of structural vulnerabilities such as the criteria of geographical allocation
 - of development assistance, through EVI;
 - of the resources for adaptation to climate change, through a physical index of vulnerability

FWDi

thanks

F&Dⁱ

F&Di



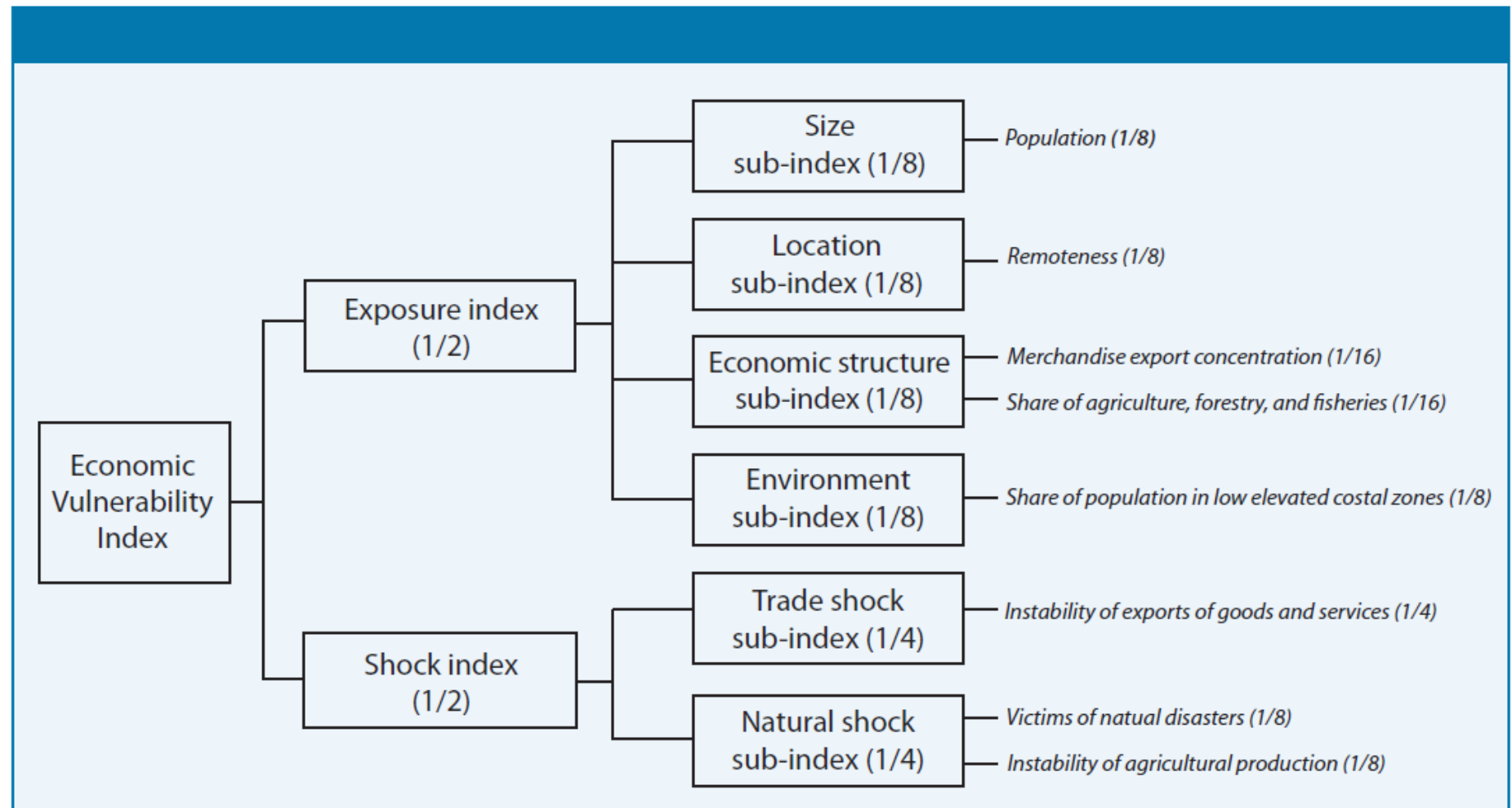
NB. The boxes corresponding to the two last rows of the graph respectively refer to exposure components (*in italics*) and to size of the shocks components

PVCCI in several groups of developing countries

| group of countries | number of countries | Mean | Median | Standard Deviation |
|---|----------------------------|-------------|---------------|---------------------------|
| All Developing countries (DCs) | 116 | 36.43 | 35.89 | 6.77 |
| Least Developed Countries (LDCs) | 46 | 38.28 | 38.38 | 8.04 |
| All Developing countries non LDCs | 72 | 35.48 | 34.77 | 6.30 |
| Low and Lower Middle Income countries | 84 | 37.64 | 37.21 | 7.13 |
| Low and LMI countries non LDCs | 39 | 36.66 | 36.72 | 5.92 |
| Small Islands Developing States (SIDS) | 29 | 38.00 | 34.60 | 9.42 |
| SIDS non LDCs | 18 | 35.98 | 34.29 | 7.51 |
| SIDS-LDCs | 11 | 40.19 | 38.67 | 11.85 |
| Landlocked Developing Countries (LLDCs) | 27 | 37.14 | 36.87 | 6.24 |
| LLDCs non LDCs | 11 | 39.43 | 40.09 | 4.96 |
| LLDCs-LDCs | 16 | 35.56 | 33.52 | 6.67 |

Composition of the Economic Vulnerability Index (EVI)

Numbers in parenthesis indicate the weight in the overall EVI.



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