GENERAL ASSEMBLY

AD HOC OPEN ENDED WORKING GROUP

TO FURTHER STUDY AND STRENGTHEN THE SMOOTH TRANSITION PROCESS FOR THE COUNTRIES GRADUATING FROM THE LEAST DEVELOPED COUNTRY CATEGORY

SUMMARY RECORD - FIRST SUBSTANTIVE MEETING

16 February 2012, Conference Room 6 (NLB)

The first substantive meeting of the Ad Hoc Working Group was convened on 16 February 2012, with a view to taking stock of the current situation regarding LDC-specific international support measures as well as existing smooth transition measures. The meeting considered LDCs' concerns related to the phase-out of those measures. Two graduated countries, namely Botswana and Cape Verde, presented their national experiences. The meeting also benefited from three presentations by experts. There was an open and free-flowing exchange of views among delegations. The meeting was very well attended with about eighty representatives participating.

The meeting was co-chaired by Ambassador Jan Grauls, Permanent Representative of Belgium, and Ambassador Brian Bowler, Permanent Representative of Malawi.

In their introductory remarks, the Co-Chairs recalled that there was a general perception that the smooth transition process needed to be strengthened and underscored a thorough understanding of existing support measures and the impact their withdrawal would have for countries meeting the criteria for graduation was needed to make recommendations for their extension during the transition period. They looked forward to start gathering concrete recommendations on how to improve the smooth transition process, which would be reflected in the report of the working group. The Co-chairs stressed that these recommendations would be used as a basis in drafting a new resolution to be adopted at the next General Assembly session with a view to reassuring graduating LDCs so that they could envisage their further development process with confidence, with LDC-specific support being phased out gradually, if it could not be maintained, with due consideration of country-specific conditions.

Introductory presentations and interactive exchange

H.E. Mr. Charles T. Ntwaagae, Permanent Representative of the Republic of Botswana, briefly recalled the history of his country's impressive economic and social development since it gained independence in 1966. Revenue from diamonds accounted for 75% of Botswana's export earnings and contributed to ensuring a GDP growth rate of 9.8% during the period 1966-2004. While diamonds had played a major part in Botswana's economic fortunes, the Ambassador emphasized the critical importance of maintaining a stable political and macro-economic environment, with prudent and transparent management of public resources as one of his country's greatest strengths. Ambassador Ntwaagae stated that since Botswana graduated out of the LDC category in 1994, a number of challenges continued to face his country, including economic diversification, poverty and unemployment. He then pointed to the impacts of graduation, such as loss of LDC-specific market access opportunities and ineligibility for grants, soft loans and other concessionary sources of funding. However he also underscored a number of positive consequences that Botswana had enjoyed since graduating from the LDC category. These included gaining policy space to independently determine and pursue national development priorities, the enhanced ability to access international capital markets and to attract foreign direct investment flows, and the opportunity for creativity and innovation in the management of the country's development path. He encouraged all LDCs to view graduation as a landmark in their development, without which they would risk continued marginalization from the world economy. In conclusion, the Ambassador recommended that trade preferences and S&D treatment in WTO agreements be maintained for graduating countries and phased out gradually.

Ms. Edna Barreto, Minister Plenipotentiary, Permanent Mission of the Republic of Cape Verde, stated that her country had been making remarkably good progress towards achieving several MDGs and had graduated from the LDC category effective on 1 January 2008. Notwithstanding its relatively high per capita income, she stressed that the Cape Verde's economy still remained extremely vulnerable to external shocks, limited by its insularity and aridness of its soil, constrained by lack of natural resources, mainly concentrated on the tourism sector and excessively dependent on the fluctuations of ODA and remittances from its large Diaspora. As for the smooth transition process, Ms. Barreto stated that in mid-2006 her government had established a "Grupo de Apoio à Transição", which included all of its major development partners, namely Austria, Spain, USA, China, France, Luxembourg, Netherlands, Portugal, African Development Bank, World Bank, European Commission and United Nations System, with a view to ensuring international support to Cape Verde's smooth exit from the LDC category. She acknowledged that the contribution of international partners had been crucial to Cape Verde's transition from LDC status and continued to remain extremely important in the years following its graduation, given the structural handicaps that her country could not properly address on its own. Ms. Barreto called attention to the fact that graduation had not dramatically changed, either favorably or unfavorably, those structural handicaps. However, she reaffirmed her country's ambition to build a developed economy and that graduation had put Cape Verde in a better position to seize new opportunities to formulate and implement a transformational agenda to forge its future sustainability through the creation of innovative mechanisms of resource mobilization to finance infrastructure, the development of an information society, and the upgrading of its human resources. She concluded by stressing that success should not be punished and that the international community should support graduation within a framework of development sustainability where development constraints could be addressed where and when needed.

The Permanent Representative of Nepal, speaking on behalf of the LDC Group, stated that LDC status and benefits should be phased out taking into account each country's particular development situation and vulnerabilities, as outlined in the Istanbul Programme of Action. He stressed that the UNCTAD vulnerability profiles and the DESA ex-ante impact assessments should be prepared in a thorough and exhaustive manner. Furthermore he stated that ODA support should be maintained to ensure uninterrupted progress towards the graduating country's new status. Similarly, access to UN and other international organizations' LDC-specific funds should be extended for a considerable period of time. The Permanent Representative of Nepal underscored that the existing smooth transition process should be accompanied by strengthened support measures that would serve as incentives to LDCs to make decisive steps towards graduation with enhanced confidence.

The representative of Maldives, the most recently graduated country, underscored the inadequacy of the current smooth transition process. He stated that the Maldivian economy was still very young and driven by a world class tourism sector that was inextricably linked to the natural environment and durability of their fragile ecosystem. He added that, as SIDS, the Maldives faced well known vulnerabilities that required greater recognition by the international community. Relative prosperity was accompanied by continued vulnerability to external shocks and high infrastructure development costs. He called for the official recognition of the SIDS category at the United Nations. He then stressed that smooth transition should include trade preferences, technical assistance, developmental financing as well as UN support. In the case of the Maldives, the generous extension of the EU EBA trade preferences had not been mirrored by other development partners. He also pointed to the need to continuously reassess the smooth transition to ensure it remained relevant and effective.

The Permanent Representative of the Solomon Islands recalled that the graduation of both the Maldives and Samoa had been postponed after their tsunamis. While that had been much appreciated, he stressed that the high levels of vulnerability of SIDS remained unchanged after graduation and that the working group's recommendations should include measures to build graduating countries' resilience. He stated that LDCs relied on UN support for many of their development issues and a strong UN country presence was needed in all LDCs. However, he noted that in the case of the Pacific islands not all LDCs had full UN Country Office presence. The representative also underscored the importance of ODA multi year programming to ensure greater predictability and that all issues related to smooth transition process needed to be settled before graduation.

The representative of Australia highlighted the particular development challenges confronting small island LDCs. He noted that these countries had few long term development prospects, as well as limited options to raise public revenue, high costs of delivering services and acute vulnerability to climate change and natural disasters. He stressed that aid accounted for a significant share of government expenditure of these countries, which inflated per capita income figures, therefore leading to a misrepresentation of the growth prospects for those countries. He noted that, even though they featured among the top ten LDCs on the economic vulnerability index in 2009, five small island LDCs had either graduated, were in the process of graduation, or were likely to be found eligible for graduation in the coming years. He put forward Kiribati and Tuvalu as cases in point, stressing that their fundamental reliance on development assistance would continue for the foreseeable future. He added that in both cases, the negative risks associated with graduation were likely to outweigh the positive impacts leading to what would be a graduation in name only, one that did not reflect the reality of a country's development situation. He suggested that the true situation of small island states be given important consideration in the deliberations of the working group and that the full scope of impacts involved in graduation be identified, along with options to reduce and mitigate identified risks. He concluded by stressing that transition strategies needed to be realistic and especially long term to reflect the reality of each country's situation so as to ensure that graduation remained a long-lasting achievement.

The representative of the European Union noted that EU regarded graduation as a challenging but positive process and was determined to accompany LDCs in reaching the objective they set for themselves. He called on all development and trading partners to align themselves with the level of preferences and predictability in the transition phase offered by the EU. He recalled the EU's commitment to predictable market access, in particular by maintaining the EBA duty- and quota-free (DFQF) preferences for an additional three-year period after graduation, following which the general GSP regime would provide a significant level of tariff preferences. He also stated that the EU was committed to discuss and revise, as appropriate, with the graduating countries, bilateral strategies and aid programmes to ensure that they fully support the transition strategies. In the case of Cape Verde, the representative recalled how, during the additional 3 years of EBA preferences, the country ratified and implemented core international conventions to qualify for GSP+ which entered into force immediately after the end of EBA in December 2011 so as to avoid abrupt disruptions. In the case of Botswana, he noted that DFQF access would continue with the entry into force of the Economic Partnership Agreement. He concluded by stressing that the EU bilateral partnership could be jointly adapted to reflect the opportunities and challenges of graduation.

The representative of Malawi noted that that graduation should be an inspiration and there was a need for a global institutionalized mechanism for smooth transition. She also briefly discussed Malawi's growth strategy.

The Permanent Representative of Samoa stressed that graduation would not take away SIDS-specific vulnerabilities. His government was in the process of gathering information to compile a matrix of all assistance received by Samoa in order to put a value to it and compare it with the national budget. He underscored the importance of partnerships and Samoa's commitment to be very transparent about what will be required for his country to sustain graduation beyond 2014.

The representative of Zambia noted that there was uncertainty about what was really provided to graduating countries. She stressed that both graduating countries and development partners should be held accountable and that the issue of developing productive capacity should be considered as a matter of priority.

Expert presentations and interactive discussions

Special measures for LDCs and implications of graduation in the area of trade

In her presentation, Ms. Annet Blank of the WTO reviewed some of the avenues open to graduating LDCs in order to obtain a smooth transition in the area of trade and in conformity with WTO rules. She identified three potential areas, namely nonreciprocal preferential market access; extension of other special treatment measures for LDCs by WTO Members; and level of support (technical assistance, capacity building) provided to graduating countries by development partners. As for non-reciprocal preferential market access she noted that this could be extended unilaterally, however doing so would legally violate the MFN rule. While noting that as long as no WTO member complained there would be no legal action against that extension, she pointed to the possibility of launching a diplomatic campaign to obtain a blanket, time-bound waiver that could cover for example all S&D measures, including, but not limited to market access measures, extended for a transitional period to graduated LDCs. Ms. Blank also mentioned the accession negotiations to the WTO, during which LDCs and their trading partners could agree on specific extensions of S&D treatment through transitional arrangements. She noted that such negotiations recently coincided with the graduation process of Cape Verde and Samoa. In the case of Cape Verde, she recalled that its Protocol of Accession contained a number of transition periods applicable to rules on subsidies, TRIPS and SPS. However Ms. Blank noted that the time-coincidence between accession to the WTO and graduation from the LDC category was hard to come by. She then mentioned the Small and Vulnerable Economies (SVEs), which were not formally a category in the WTO, as another avenue that could de facto offer more flexible measures to graduating LDCs in any successful conclusion of the Doha Development Agenda (DDA), without necessarily depending only on transitional arrangements in the WTO. As an example, she referred to the draft negotiating texts on Market Access negotiations and on Agriculture negotiations which provided for tariff/subsidy cuts for SVEs which were less than those proposed for other developing countries. Furthermore, she discussed the WTO Trade Policy Review as an effective platform where graduating countries could draw WTO Members' attention to the implications of graduation, thereby providing an opportunity to raise awareness and argue their case with their trading partners. Ms. Blank also underscored the crucial importance of technical assistance and capacity building in increasing capacities to carry out economic and legal reforms and in supporting efforts to enhance productive capacities to become more competitive in the international market place. As for the Enhanced Integrated Framework (EIF), she recalled that the EIF Board had decided to extend access to the EIF to graduated LDCs for three years, with possibility of extending such initiatives for a longer period of time on a case by case basis. Cape Verde, Maldives and Samoa stood to continue to benefit from the EIF. In order to ensure increased chances of success, she suggested to all LDCs to give high visibility to their national development strategies and trade being mainstreamed so as to help identify the demand against which Aid-for-Trade support could be aligned. Hence, graduating LDCs were advised to consider their national development strategies not only as their national policy reform tool, but also as the analytical framework in which their aid for trade support needs were being mainstreamed.

During the interactive exchange following Ms. Blank's presentation, a number of delegations intervened. The Permanent Representative of the Solomon Islands underscored the need to strengthen the statistical capacity of LDC governments. The representative of China stated that his country was the biggest export market for LDCs and asked a clarification about the early harvest package for LDCs in the DDA. He stressed the need to thoroughly assess the real benefits of existing trade preferences for LDCs and the impact of their withdrawal. He noted that many LDCs were commodity dependent and that International support was needed to help LDCs benefit from their comparative advantage and upgrade their position in global production chains. He announced that as of end-2011 China granted DFQF access to 97% of LDCs exports and stated that after graduation, China's bilateral trade with Maldives had increased by 100% and trade preferences had been extended.

Special measures for LDCs and implications of graduation in the areas of financial support and technical assistance

In his presentation, Mr. Rob Vos of DESA examined the level of financial and technical assistance support received by LDCs that would be expected to be phased after graduation, particularly ODA, budget caps for LDC contributions to regular budget (UN Secretariat, ILO, UNIDO, IPU, WMO), special travel funds and other (such as research, policy analysis and advice, advocacy and support to relevant intergovernmental processes). As for ODA, he stated that only 10 out of 23 DAC donors had met the target of 0.15% of GNI as ODA to LDCs, leaving an absolute delivery gap against commitments of between $20 and $40 billion in 2010. As for multilateral donors, he stressed that the World Bank, IMF and regional MDBs did not target LDCs specifically, while some UN agencies did - for instance UNICEF devoted at least 60% of its regular resources to assisting LDCs. He added that generally LDCs received more preference from multilateral than bilateral donors. Mr. Vos stated that in most cases the LDC status was not relevant per se but LDC characteristics (low income, low human assets) were taken into account, as shown by the fact that ODA allocation favored poorer LDCs and those with a low HAI, whereas allocation was not responsive to the EVI. He also drew attention to the CDP Secretariat's LDC Information Portal as a consolidated platform containing all relevant information related to the international support measures specifically made available for the LDC category, with a view to improve LDCs' capacity to access information on existing support measures, make use of such measures and therefore build capacity in graduating countries in preparing strategies for a smooth transition. As for the specific impact of graduation on ODA flows he stated that there was uncertainty, as no defined mechanisms for phasing out of ODA support existed, with few exceptions. However he stressed that since ODA supply came primarily independently of LDC status, there would be in principle no specific impact. As for travel benefits, he recalled that the General Assembly had adopted a decision to extend up to 3 years after graduation the travel benefits for attending GA meetings. As for the UN budget caps, there were no provisions. Finally, he recalled that with graduation, after a transition period, the needs of the country would be expected to have changed - therefore the country would no longer require LDC-specific support, it would require “non-LDC support”. He concluded that the key was to have well defined national development strategies to overcome structural bottlenecks and align international support to help cope with inevitable or unmovable vulnerabilities.

During the interactive exchange following Mr. Vos’ presentation, a number of delegations intervened. The representative of Costa Rica sought clarification about the phasing out of support in terms of policy advice and analysis for graduated countries. He underscored the need to re-think incentives to graduation so as to reduce resistance. Ambassador Grauls asked Mr. Vos what monitoring and/or corrective measures could be adopted to allow LDCs to more fully utilize available support measures. Mr. Vos clarified that policy advice would not be completely phased out, but rather would evolve and respond to the different needs of the graduated country. He added that underutilization of financial support was difficult to determine and that the LDC Portal had been established to monitor and provide information on this matter. Finally he stated that certainty about what would happen to support measures after graduation would be the best possible incentive for graduation.

Existing smooth transition measures

In his presentation, Mr. Taffere Tesfachew of UNCTAD assessed the state of play of smooth transition measures and the shortcomings of international support measures, such as trade preferences. He clarified the role of each of the stakeholders in the smooth transition process. The United Nations provided the framework for smooth transition, including an assessment of the post-graduation needs, position papers to help graduating countries negotiate with their partners, and monitoring of progress in the transition phase. The UN Resident Coordinator served as a front-line office to mobilize relevant UN entities and foster national ownership of the process. He noted that the second year of the pre-graduation phase was the ideal point in time to start the analytical work while the third year should be dedicated to the negotiation of smooth transition measures. He stressed that the UN had done its part in making the transition more systemic and predictable, for example through the extension of travel-related support. However more could be done. As for the development partners, he noted that, in addition to the EU, a total of 22 countries had introduced initiatives, at global and regional levels, to improve market access for LDCs and their extension in favour of graduating countries would help strengthen the smooth transition process. Concerning the role of graduating countries, Mr. Tesfachew stated that both Cape Verde and Maldives had taken full ownership of the process. An inventory of existing international support measures should be made by graduating countries so as to identify those measures that they could afford to lose, those they wanted to be extended for a transition period and, hypothetically, those additional support measures that they believed as desirable for smooth transition but were never offered before. Such inventory would constitute the basis for determining the country’s negotiating strategy. Mr. Tesfachew also presented an analysis of the development path followed by 8 countries that, during the previous 16 years, have met the graduation criteria, namely Cape Verde, Maldives, Samoa, Kiribati, Tuvalu, Vanuatu, Equatorial Guinea and Angola. He observed that all these cases were either small island LDCs (6) or oil-exporting LDCs (2). Tourism (dominant in the SIDS) and oil were export activities that were not subject to trade tariffs, therefore DFQF access or S&D treatment in WTO had not been critical factors in their economic growth. Based on that, Mr Tesfachew called for a differentiated approach to smooth transition. For the SIDS, he noted that the most relevant support measures were ODA, technical support in attracting investment, climate-change projects and funding and the financing of regional public goods type of projects. He added that even after graduation, SIDS-specific support measures were needed to help them address their structural vulnerabilities. In contrast, he stated that for the oil-rich graduating countries, ODA was not a concern, while technical assistance to strengthen their institutional capacities was needed. He concluded by stressing that the right mix of desirable concessions needed to be designed by each graduating country in cooperation with its partners and in line with its national development strategies.

During the interactive exchange following Mr. Tesfachew's presentation, a number of delegations intervened. The Permanent Representative of Tuvalu noted that his country had been earmarked for graduation and expressed its strong reservations. While he appreciated the application of the graduation criteria across-the-board, he believed that other issues needed to enter the equation. He stressed Tuvalu's need for a guarantee by the international community that existing benefits would be continued. He noted that for the past 33 years Tuvalu had made every effort to attract foreign direct investment without any success, because investments were simply not viable and the islands were too far away from world markets. He therefore stated the same situation would continue after Tuvalu's graduation. The representative of Australia agreed on the need for a differentiated approach to the smooth transition process, one that would take into account the special vulnerabilities of SIDS. He went further to note that not all SIDS faced the same issues and while tourism was an important sector for Maldives and Samoa, it had not played a catalytic role in the development of either Tuvalu or Kiribati. In the case of these two small island LDCs, he noted that ODA was crucial. There A case by case analysis was needed. The Permanent Representative of Samoa underscored the importance of timing which could differ from country to country. He confirmed that his country was in the process of preparing a 4-year national development strategy and that it made sense to develop Samoa's smooth transition strategy in close connection. The representative of the Solomon Islands supported the need for SIDS-specific criteria that would take into account their vulnerability to climate change, environmental disasters. Support measures were needed to facilitate investment in infrastructure projects to create a viable economy in SIDS. The representative of Zambia raised the need for special measures to address the vulnerabilities of landlocked LDCs. Mr. Tesfachew clarified that, while small island LDCs should all legitimately aspire to graduation, they faced eminent structural challenges and those needed to be more fully considered. As for the landlocked LDCs he mentioned that at the forthcoming UNCTAD XIII meeting in Doha, the Laos PDR was expected to present its roadmap to graduation in the context of an event on the implementation of the IPoA and that included a strong transit transport component. Mr. Vos clarified that the LDC Portal would be enhanced and re-launched in the near future to include more information on LDC-specific international support measures. He added that starting in 2007 the CDP had been taking into account country-specific ex ante impact assessments. The representative of Morocco sought a clarification on what value added could the working group give to LDCs beyond the issue of smooth transition.