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

<u>SUMMARY RECORD - FOURTH SUBSTANTIVE MEETING</u>

8 May 2012, Conference Room 3 (NLB)

During the morning session of its fourth substantive meeting, which was convened on 8 May 2012, the Ad Hoc Working Group continued its consideration of the challenges and opportunities in the preparation and implementation of transition strategies by graduating and graduated countries. The first presentation was made by H.E. Mr. Ali'ioaiga Feturi Elisaia, Permanent Representative of Samoa, on its ongoing experience as a graduating country. The meeting also benefited from presentations by UN System representatives, namely Mr. Siphosami Malunga, Senior Advisor, Regional Bureau for Africa, UNDP, Mr. Pierre Encontre, Chief, Special Programmes, Division for Africa, Least Developed Countries and Special Programmes, UNCTAD, and two experts from the World Bank, Mr. Ivar Andersen, Lead Operations Officer, IDA Resource Mobilization Department, and Mr. John Wilson. Lead Economist, Development Economics Research Group. The meeting was very well attended by about 70 participants and presentations were followed by an open exchange of views among delegations.

The meeting was co-chaired by Ambassador Brian Bowler, Permanent Representative of Malawi, and Ambassador Jan Grauls, Permanent Representative of Belgium. Ambassador Anwarul K. Chowdhury also attended on behalf of the President of the General Assembly.

In the afternoon session, the Co-Chairs presented their draft list of recommendations summarizing the vast array of concrete proposals that have been put forward by Member States during the substantive meetings of the working group on how to strengthen the smooth transition process and boost the confidence of future graduating countries on continued development support from the international community. Several delegations shared their general and more specific comments of the draft list. The co-Chairs welcomed all comments and announced that these would be considered in the revised version of the draft recommendations. The Co-Chairs also announced that the next and last meeting of the working group would be held in early June, with a view to endorsing the draft report of the working group.

Presentations and interactive exchange

<u>The Permanent Representative of Samoa</u> stressed the importance of seeing Samoa's transition strategy as a way of turning challenges into opportunities through genuine partnerships. He briefly recalled the history of Samoa's approaching graduation and pointed to both the global economic crisis and the 2009

tsunami as the contributing causes of its deferral to January 2014. He noted that Samoa had started the first phase of the preparation of an effective transition strategy which would ultimately allow for a comprehensive and focused dialogue with Samoa's development partners in order to identify the benefits, support and trade preferences that could be retained after graduation, as well as the gaps in the level of assistance required against those pledged. The first half of 2012 would be focused on building an inventory of the full range of benefits Samoa received as LDC, with the assistance of UN-OHRLLS and UNCTAD. The second half of 2012 would be dedicated to the preparation of the actual transition strategy based on national multi-stakeholder consultations. The strategy would be shared with partners in early 2013 and roundtables or partnership meetings between Samoa and all its development and trading partners would be held in the second part of 2013 in order the partners to present their feedback in terms of their ongoing support to Samoa in the post-graduation period. In concluding, the Permanent Representative informed the meeting that, as part of the overall transition strategy, his government's request to UNDP to be considered as a "Delivering As One" country had been approved and that preparations for a One Programme in Samoa would start in 2013.

Mr. Siphosami Malunga, Senior Advisor, Regional Bureau for Africa, UNDP, presented a detailed overview of the support provided by UNDP, as coordinator of the UN System at country level, during the graduation and smooth transition from LDC status in Cape Verde and Maldives. For both countries he highlighted their small island status pointing to their economic fragility and vulnerability. In the case of Cape Verde, substantive support was provided to the development and elaboration of a smooth exit strategy, including the establishment of a Support Group for Transition (GAT) comprising multilateral and bilateral donors, and the facilitation of informal aid coordination and policy dialogue with all resident partners. Mr. Malunga noted that UN system support to Cape Verde continued under the "Delivering As One" initiative. He identified lessons learned from the transition process, including the importance of more effectively monitoring the implementation of the strategy as well as continuously assessing the vulnerability to climate change, natural disasters and external shocks. In the case of Maldives, he stated that UNDP coordinated the support to the government for the development of a smooth transition strategy provided by UNESCAP and UNCTAD. In late 2008 UNESCAP reviewed the government strategy in the context of economic and social challenges facing the country and the emerging global economic crisis. A further assessment was carried out in 2009 by UNCTAD and UNESCAP in consultation with UNDP to help government establish a national coordination mechanism and outline a plan of action for key areas such as trade and investment, and environmental vulnerability. UNDP also assisted the government in organizing a donor conference, the Maldives Partnership Forum, in March 2009, with participation by many multilateral and bilateral and foreign investment partners. This proved to be a useful platform for the country to strengthen dialogue with donors and partners on its development challenges, including implications of graduation. In concluding he stressed the peculiar vulnerabilities of SIDS, the need for early engagement in the smooth transition process, based on assessments of implications and genuine partnerships with multilateral and bilateral donors, as well as the importance of political stability and good governance, on one hand, and continuous support, on the other hand, to enable graduating countries to manage vulnerability and adapt to changing economic environment.

During the following exchange of views, the representative of Luxembourg recalled that his government had participated in the consultative mechanism set by Cape Verde and committed to progressively increase its ODA to Cape Verde, including through budget support. He added that his government recognized the special situation and needs of SIDS. The Permanent Representative of Costa Rica asked what percentage of the public budget in a country as Samoa was allocated to public defense. The Permanent Representative of Samoa replied that his country had no army.

In his presentation, Mr. Pierre Encontre of UNCTAD called for the need to provide strategic support to graduating countries with the aim to articulate the best possible options for future treatment of these countries as they leave the LDC category, taking into account their individual country needs. He briefly recalled the special high-level event held on 24 April 2012 during UNCTAD XIII in Doha, Qatar, on the implementation of the Instabul Programme, focusing on "Graduation and structural transformation". He believed that attention should be paid beyond the point of "smooth landing", as the rest of the journey, after the end of the transition period, was what mattered for a graduated country. He underscored the need to move forward towards some reasonable special treatment for SIDS.

During the following exchange of views, the representative of New Zealand noted that the ongoing Rio+20 negotiations covered many issues related to the specific vulnerabilities of LDCs and SIDS. She wondered whether it would be possible to integrate these various strands of work. Mr. Diarra, High Representative for LDCs, LLDCs and SIDS, stated that, especially at the beginning of the process, the delegations of Cape Verde and Maldives had expressed that support to graduating countries was limited and that the assessment of their situation not sufficient. He stressed the need for specifics to be taken into account in discussing the transition strategy with partners, while it was important to remain focused on the core mandate of the working group, as mandated by the IPoA.

In his presentation, Mr. Ivar Andersen of the World Bank presented an overview of the International Development Association (IDA), as one of the largest sources of assistance for the world's 81 poorest countries. He noted that the LDC category showed a great overlap with the low-income countries category, which included 47 LDCs - all except Equatorial Guinea. He recalled that IDA was set up as a revolving fund, with resources coming largely from contributions by donor member countries. IDA credits were given on concessional terms, carrying zero or very low interest charge and with repayments stretched over 25 to 40 years. The other lending arm of the Bank was the International Bank for Reconstruction and Development (IBRD), which served middle-income countries. Mr. Andersen noted that IDA funds are allocated to recipient countries based on performance through a formula that also gives weight to relative poverty. Among the 81 eligible countries, 54 were IDA-only. There are also a number of "blend" countries, which have access both to IBRD and to IDA financing. Some large blend countries, i.e. India and Pakistan, have capped IDA allocations, including because they have access to other sources of financing. Mr. Andersen also noted that IDA supported 13 small island economies, which have per capita incomes above the operational cutoff of $1175 for IDA resources. Finally, several countries were unable to access new IDA resources because they are not current on their obligations to IDA. He added that countries exceeding the threshold for 2 years were considered for graduation from IDA. Vulnerability and access to other sources of financing were carefully assessed to avoid cases of graduated countries sliding back. The Bank's support to graduating countries was directed inter alia at improving creditworthiness. Following graduation, countries would need to accelerate repayments to IDA. Over IDA history, a total of 36 countries have graduated from IDA; of these 28 remain IBRD-only. Mr. Andersen concluded by announcing that a paper on IDA graduation policy was under preparation for discussion at the IDA16 Mid-Term Review in November 2012.

During the following exchange of views, Mr. Diarra stressed that performance should not be the only criteria for allocation of IDA resources. He noted that LDCs were extremely disadvantaged because of low institutional capacity and that the LDC criteria could be used to guide the Bank's allocation. The representative of Morocco asked about progress in the aid effectiveness agenda for LDCs. Mr. Andersen noted that several criteria existed for aid allocation but donors insisted on using performance as a basis so as to maximize results. He added that there might be problems with poverty datasets which usually dated back several years and their accuracy could not be confirmed. Allocation to bad performers could also lead to perverse incentives, such as punishing good performers. Furthermore, if non-LDC countries were excluded, this could lead to a shrinking overall envelope, since IDA was based on financing requirements. As for aid effectiveness, Mr. Andersen expressed his view that the trend was going in the opposite direction to the one set in Paris. He stated that aid was getting more fragmented, less harmonized and chopped up in ever smaller projects. In addition, emerging donors were not fully participating in international efforts at aid coordination.

Mr. John Wilson of the World Bank focused his presentation on the importance of reducing trade transaction costs and facilitating trade flows as key in allowing LDCs to move up the ladder. He highlighted the role of international trade as an engine capable to drive economic advances and pull people out of poverty. This was in line with LDCs' priority to better integrate into the global trading system. Indeed LDCs had been able to seize trade opportunities, as seen in the increase in trade shares. He referred to the recently adopted World Bank Group Strategy on Trade and to fresh research results that pointed to potentially high rates of return of aid targeted on trade facilitation. He concluded by stating that LDCs stood to gain substantially from a more targeted trade facilitation agenda and that the Bank had initiated a focused partnership with the UN system with a view to increase the knowledge base.

During the following exchange of views, the representative of Morocco noted that it was difficult for LDCs to access financial assistance given the Bank's conditionalities. The Permanent Representative of Costa Rica asked whether the World Bank had analyzed the limits of trade as driver of development for LDCs and especially SIDS, which had less trade opportunities, and whether alternatives had been explored. The representative of Australia enquired on the role of regional factors for graduating/ed countries and noted that reducing the cost of remittance flows was on the G-20 agenda. Mr. Diarra noted that there was great imbalance in Aid for Trade allocations with LDCs only receiving about 20 per cent of such flows. Mr. Wilson agreed that the majority of AFT flows was directed to other developing countries and that this could be corrected if trade facilitation received more attention by LDCs. Mr. Andersen noted that the presence of many donors in each country, with different procedures and requirements, constituted a tax on already low local capacity. He stated that each IDA country got an allocation and that it was up to the recipient country to decide how to allocate resources for investment loans or budget support and that demand for budget support was declining. Countries were more interested in using IDA loans for infrastructure development than for expenditure support. He stated that the Bank provided technical assistance to countries in the preparation of projects and that allocation did not depend on capacity. He noted that cases where allocation was not fully used were rare, mainly related to conflict situations. The Permanent Representative of Samoa believed that regional factors were very important for graduating countries as the regional community would be better aware of any specific situation, challenge and need of its LDC members. Samoa had taken ownership of its graduation and planning accordingly. He believed that the discussion about SIDS special treatment was to be taken up in another forum and that building genuine partnerships for Samoa's future was most important at the moment. The UNCTAD representative added that the Pacific regional dimension was very important for its SIDS members but it added complexity.