

Supporting Smooth Transition Processes from LDC Status in Cape Verde and The Maldives



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The Role of the UNDP

**Presentation to the Fourth Ad Hoc Open Ended Working
Group Meeting; 8 May, 2012**

Presentation Outline



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- 1. Context**
- 2. Challenges**
- 3. UN Support**
- 4. Lessons**
- 5. Conclusions**

The Case of Cape Verde

Context



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- ❖ Archipelago-4004km sq.km
- ❖ Population of 500.000
- ❖ Export oriented economy which disappeared during the period of economic crisis has started to improve since 2010
- ❖ Low domestic production of food (20%) and limited natural resources
- ❖ Emerging tourism sector- service based economy
- ❖ Strong external dependence of economy: ODA 17% of GDP; remittances remain high → this to a large extent increase vulnerability to external shocks
- ❖ Real GDP average 5% (2000-2010) - real estate & tourism are important drivers.
- ❖ Development Vision: Economic Transformation Strategy (ETS). Growth and Poverty Reduction Strategy II (2008-2011) focus on “Transformation Agenda”

Challenges

- ❖ **Archipelagic make-up**; territorial discontinuity
- ❖ **Food security**: Limited arable land; low levels of domestic food production (20%)
- ❖ **Economy fragility** and **vulnerability** due to exogenous and endogenous factors incl. risk of decline of ODA and remittances from emigrants; need to diversify economy and integrate sectors (agriculture & local manufacturing and tourism and construction)
 - ❖ **Implications and impact of global financial & economic crises** including **Eurozone**. Portugal & Spain +remittances
- ❖ **High levels of youth unemployment**; low level of education and formal qualification
- ❖ **Weak infrastructure**: (energy, water, transp. assoc. with 9 inhabited islands but hopefully the PIP could change the landscape.
- ❖ Improving quality of life in effective and sustainable manner
- ❖ **Absence of mechanism to report** to international community and Committee for Development Policy
- ❖ **Financing for development**: limited ability to compete for and raise external funding
- ❖ **Threats of illegal drug and human trafficking**



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UNDP Support



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- ❖ **Strategy for smooth graduation:** GA Res A/59/209, Dec 2004 sets out requirement for graduating countries to develop strategy for smooth transition to avoid the possible consequences of abrupt reductions of the ODA, technical assistance and loss of the benefits of LDC status
- ❖ **Mainstreaming Trade into National Developments Plans:** As one of 6 UN agencies of Enhanced Integrated Framework (EIF) with bilateral donors- through network of country office based officers and advisors. (Tier 1: trade enabling blocks and Tier 2: implementation of priority projects) coordinated by UNCTAD
- ❖ **Development & Elaboration of smooth exit strategy (2005)**
- ❖ **Establishment of Support Group for Transition (GAT)** comprising multilateral and bilateral donors
- ❖ **Facilitation of policy dialogue** to i) present graduation strategy to international community (Oct 2006), ii) review elaborated/second documents, iii) formulation and approval of Declaration by GAT and Govt. (June 2007)

UNDP Support (cont.)



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- ❖ **Facilitation of informal aid coordination** with all resident partners for the graduation of Cape Verde to encourage partners to continue to support
- ❖ **Development of Key Studies** as recommended by Committee for Development Policy e.g. the Diagnostic Trade Integration Study ((DTIS)
- ❖ **Development of Debt Strategy and Advocacy Support for Debt Alleviation.**
- ❖ **Development of Report to the SG on graduation process**
- ❖ **Development and implementation of specific programme of interventions** over the years to meet the transition programme.
- ❖ **Delivering as One Country with One Programme focusing on** i) Good Governance, ii) Promotion of Growth and Economic Opportunities, iii) Environment, Energy, Disaster Prevention and Response and iv) Human Capital and Social Protection

Lessons



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- 1. Monitoring the strategy is as important as developing it.** GAT did well on the first part of the recommendation (strategy preparation) but not so well on the second (monitoring).
- 2. Define clearly the period of transition.** It should be clear that it is 3 years before and 3 years after.
- 3. Provide extended period of monitored transition.** Proposal include extending transition period until country exits “vulnerability zone.” Failed graduation would have serious political and economic impact
- 4. Vulnerability assessment should be continuous:** Assessment of vulnerability of CV was done before global financial and economic crisis which increased vulnerability due to exposure to shocks
- 5. Clearly define and effectively implement M&E mechanism** to ensure clear accountabilities
- 6. Consider peculiarity of SIDS.** So far most graduating countries are SIDS with vulnerability to **climate change (especially natural disasters) and external shocks and the associated vulnerabilities.**

The Case of Maldives

Context



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- ECOSOC endorsed decision for Maldives to graduate in December 2007 following a 3 year transition period
- UNGA granted exceptional 3 year moratorium to Maldives due to tsunami to provide breathing space for post disaster recovery and reconstruction
- Moratorium ended in 2007 and in 2008 Maldives entered transition period
- In 2008, discussions held with Government of Maldives on possible deferment or extension of 3 year period in light of country's difficult difficult fiscal situation which affected development prospects and plans
- Deferment not encouraged by UNCTAD as financial situation would not be viewed as exceptional situation like the tsunami in 2005.
- Government of Maldives declared in May 2009 that it is gearing towards preparations for graduation from LDC status by 2011

Challenges

- ❖ **International Trade:** Loss of preferential access to EU and Japan Market for fish exports and multi-lateral trade agreements such as WTO and SAARC negotiations. EU however extended tariff concessions to 2014. Maldives will need to seek similar concessions from Japan, Sri Lanka, Thailand and other south-south trade
- ❖ **Development Finance/ODA:** Possible reduction in allocations particularly grant allocations by donors is expected. Therefor it is important for the country to engage with donors and strengthen partnerships to address vulnerability issues despite graduation
- ❖ **Additional Costs:** Maldives is expected to incur additional costs of travel to UN, WTO and increase its contribution to the budget of the UN and UN bodies



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- ❖ **Assessment and Development of Transition Strategy:**
Coordinating with other UN agencies (UNESCAP and UNCTAD) with regards to assessing implications of graduation on Maldives and developing a smooth transition strategy to address the issues relate to graduation-
- ✓ UNESCAP reviewed government strategy in context of economic and social challenges facing the country and the emerging global economic crisis (Dec 2008)
- ✓ Further assessment carried out by UNCTAD, UNESCAP in consultation with UNDP (2009) to help government develop transition strategy and i) establish national coordination mechanism, ii) outline plan of action for key areas such as trade and investment, and iii) environmental vulnerability

UNDP Support (cont.)



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- ❖ **Facilitation of Donor Engagement:** UNDP assisted the government to organize a donor conference, the Maldives Partnership Forum (March 2009) with participation by many multilateral and bilateral and foreign investment partners.

- ❖ **Integrated Framework for Trade Related Assistance:** UNDP assisted the Govt. to compile the Diagnostic Trade Integration Study (DTIS) in 2006. UNDP is assisting the Govt. to implement recommendations of the study including:
 - ✓ strengthening the national trade policy coordination mechanism
 - ✓ building national capacity for trade issues
 - ✓ development of a trade information system
 - ✓ technical advice to government on its service negotiations in SAARC/WTO

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- ❖ **Rapid Economic and Poverty Assessment** . At the request of new government in November 2008 UNDP conducted a **rapid economic and poverty assessment (REPA)** to determine the country's macro-economic situation. Report identified critical economic and poverty challenges and recommended streamlining public sector expenditure to manage the fiscal crises.
- ❖ **Govt's Medium Term Expenditure Framework** developed in 2008 addressed the recommendations from the REPA in order to achieve fiscal adjustment and macro-economic stability within 3 years. Translated into Strategic Operational Action Plan taking into account transition strategy. Also helped develop Framework for Managing for Devpt Results (MfDR)
- ❖ **Study on the impact of the global financial crisis** on the economic and poverty situation with support from the UNDP Asia Pacific Regional Centre. The study helped the Govt to address the global crisis while taking into account the implications of the graduation.

Lessons



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- ❖ Dialogue Forum have proved a useful platform for the country to strengthen dialogue with donors and partners on the country's development challenges including implications of graduation.
- ❖ Need for government to take account of limited timeframe available for country to access EIF related funds before graduation. Ministry of Economic Development has been able to access the EIF and is implementing EIF project
- ❖ Emphasis should be placed on results, and impact rather than outputs and activities

Conclusion



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- ❖ Early engagement is key
- ❖ Assessment or studies to determine implications provide useful basis for developing a transition strategy
- ❖ UNDP support in developing a transition strategy has proved crucial
- ❖ Multi-lateral and bilateral donor engagement and coherence on the smooth transition is important.
- ❖ Support is required every step of the way to enable graduating countries to manage vulnerability and adapt to changing economic environment
- ❖ Technical support especially in trade related issues has been crucial
- ❖ Political stability and good governance are important factors
- ❖ SIDS are peculiarly vulnerable



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