



General Assembly

Distr.: Limited
12 December 2011
Original: English

Advance unedited version

Sixty-sixth session

Agenda Item 22 (a) *

Groups of countries in special situations: Follow-up to the Fourth United Nations Conference on the Least Developed Countries

Draft decision submitted by the President of the General Assembly

Ad hoc Working Group of the General Assembly on the Smooth Transition Strategy for Countries Graduating from the List of Least Developed Countries

The General Assembly,

Recalling its resolutions 65/280 of 17 June 2011 and 65/286 of 29 June 2011,

Decides to adopt the annexed terms of reference of the Ad hoc Working Group of the General Assembly on the smooth transition strategy for countries graduating from the list of least developed countries.

* In order for the General Assembly to take action on the present proposal, it will be necessary to resume consideration of sub-item (a) of agenda item 22 and to consider it directly in plenary.

Annex

Terms of reference of the Ad hoc Working Group of the General Assembly on the smooth transition strategy for countries graduating from the list of least developed countries

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 Least Developed Countries for the Decade 2011-2020. “The overarching goal of the Programme of Action for the decade 2011-2020 is to overcome the structural challenges faced by the least developed countries in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category.” (paragraph 27). The Programme of Action also sets an ambitious goal of “enabling half the number of least developed countries to meet the criteria for graduation by 2020.” (paragraph 28):

The Istanbul Programme of Action is based on commitments, accountability and partnership between least developed countries and their development partners to pursue or undertake action toward fulfilment of the above-described goal. This implies supportive and integrated policies in a wide range of relevant economic, social and environmental areas. The IPoA is the first global programme of action for LDCs containing a full-fledged chapter on "graduation and smooth transition" (chapter VI), in addition to a specific objective regarding graduation prospects (paragraph 28).

The LDC category was initially established in 1971 by the General Assembly. Since that time, the eligibility criteria for LDCs which consist of Gross national income (GNI) per capita; a human assets index (HAI); and an economic vulnerability index (EVI) have been periodically refined by Committee for Development Policy (CDP). The indicators used to assess the criteria to identify countries belonging to the LDC category reflect a measurement of long-term structural weaknesses. The selected indicators are sufficiently stable over time to minimize the likelihood of easy reversibility of status from LDC to non-LDC and vice versa owing to dramatic fluctuations in any single criterion.

With the establishment of graduation rules in 1991, additional principles were adopted to ensure that graduation takes place only after a country’s development prospects have significantly improved and the graduated country can sustain its development path. There is, therefore, an intentional asymmetry between the inclusion and graduation criteria, which can be summarized as follows (based on CDP Handbook):

- Thresholds for graduation are established at a higher level than those for inclusion;
- In order to be eligible for graduation, a country must cease to meet not just one, but two out of the three inclusion criteria¹;

plenary meeting.

¹ If the criteria were applied symmetrically, ceasing to meet one single criterion would be enough for a country to be considered eligible for graduation.

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- Eligibility for inclusion is ascertained once, whereas eligibility for graduation has to be observed over two consecutive triennial reviews;
 - Inclusion requires approval from the country concerned, whereas graduation does not.

The main benefits received by LDCs

The implementation of the special support measures for LDCs differs among the various development partners, including bilateral donors and multilateral organizations.

Official Development Aid: Support measures in the area of bilateral development financing, technical cooperation and other forms of assistance usually involve voluntary commitments made by donor countries. The target of providing 0.15 per cent of GNP as official development assistance (ODA) to LDCs as a group, has only been met by 9 OECD-DAC donors by 2009. The higher threshold of 0.2 per cent has only been met by 7 donors and on average OECD members provided 0.10 % of GNI to LDCs in 2009 up from 0.05 during 1999. However, there are no targets for individual.

Market access: LDCs exports benefit from a number of preferential trading schemes such as the European Union's Everything But Arms (EBA) initiative, which provides duty-free quota-free (DFQF) market access to all products from all LDCs. The EU has also recently established more favourable rules of origin for LDCs using trade preferences as compared to other developing countries. Most other developed countries also accord preferential treatment for products originating from LDCs but with some products exempted. Other initiatives include the United States' AGOA for most African countries. In addition, a number of developing countries such as China, India Brazil and Turkey have started to provide preferential treatment to products from LDCs.

Special and differential treatment related to World Trade Organization obligations: LDCs that are members of the WTO may benefit from special treatment with respect to WTO obligations safeguarding the interests of LDCs including through increased flexibility for LDCs in rules and disciplines governing trade measures, the extension of longer transitional periods to LDCs, and the provision of technical assistance. LDCs should also benefit from differential treatment with respect to WTO accession.

Support measures related to capacity-building: The Enhanced Integrated framework (EIF) was designed to assist the LDCs in developing the necessary capacities in the area of trade, including improving upon their supply response to trade opportunities and better integrating themselves into the multilateral trading system. Various UN departments and agencies also provide capacity-building activities for LDCs.

Specific measures by the UN system: Several organizations of the United Nations system give particular attention to the development challenges of LDCs through specifically targeted technical cooperation programmes, or by earmarking a proportion of their budgets for LDCs. This share has increased over the past decade with a number of agencies providing more than half of their expenditures for programmes in LDCs. Thus 5 LDCs are among the top 10 recipients of UN development support (see A/66/79-E/2011/107).

In addition, the United Nations provides financial support for the participation of representatives of LDCs in annual sessions of the General Assembly. Likewise a number of United Nations organizations and conventions have established voluntary financial mechanisms to fund the participation of LDCs in their processes. Furthermore LDC contributions to the regular budget of the United Nations are capped at 0.01 per cent of the total United Nations budget.²

The appraisal of these support measures before and during the Istanbul Conference has led to the conclusion that while support measures had been stepped up in various areas their impact on socioeconomic development in

² This cap is applied regardless of their national income or other factors determining a Member State's assessment rate. A minimum contribution of 0.001 per cent is, however, required. Every LDC is also entitled to a 90 per cent discount in their contributions to peacekeeping operations.

LDCs has been limited and varies considerably by country. Thus the implications of losing access to LDC specific support measures after graduation need to be assessed for each country.

The graduation process

According to General Assembly Resolution 59/209, the process before an LDC actually graduates from the list takes at least six years. With regard to meeting the criteria for graduation, each LDC is considered by the CDP in its triennial reviews³ and only after a country has been found eligible for graduation in two consecutive reviews the CDP may recommend the country for graduation in its report to ECOSOC. After a country has met the criteria for graduation for the first time, UNCTAD prepares vulnerability profile and DESA prepares ex-ante impact assessment report on the identified country.

A country is only recommended for graduation after the second review when the two Reports for those countries deemed eligible for graduation, indicate that their development prospects are sustainable. The Economic and Social Council, in turn, takes action on the recommendation of the Committee for Development Policy at its first substantive session transmit its decision to the General Assembly and the General Assembly takes note of the recommendation. A country graduates from the list of LDCs three years after the GA takes note of the recommendations of the CDP. During this three-year period, the country remains on the list of least developed countries and will maintain the advantages associated with membership on that list. The smooth transition period only starts after the actual graduation of the country.

Graduation from the LDC status represents the achievement of a major milestone for LDCs, including significant progress towards reaching at least some of their development goals as reflected in increased per capita income and human capacities. In four decades of LDC history, only three countries have graduated from LDC status, namely, Botswana (1994), Cape Verde (2007), and Maldives (2011). Samoa has been recommended for graduation and is anticipated to graduate from the category in 2014.⁴

While graduated countries lose access to the specific support measures for LDCs, graduation also comes with new opportunities and potentials. Thus incentives to graduate need to be strengthened. Graduated countries will continue to have access to general support measures for developing countries to move further towards sustainable development and attaining the MDGs for example. In addition, middle-income country status confers the advantage of better access to international capital markets. It is also associated with a more favourable perception of the business environment conducive to increased private investment, particularly FDI. In case the graduating country is relatively large, the new middle-income country could provide a gateway for investment in neighbouring countries and thus acting as a catalyst for growth, employment creation and poverty reduction in the region.

Existing provisions for the smooth transition of graduating LDCs

To ensure that the graduation from the list of least developed countries should not result in a disruption of development plans, programmes and projects, General Assembly resolution 59/209 stresses the need for a smooth transition for graduating countries. In the same resolution the guidelines for the preparation of the smooth transition strategy and graduation from the LDC category are outlined. Among other provisions, the resolution specifically invites the Government of the country to be graduated from the category to establish a consultative mechanism, in cooperation with its trading and bilateral and multilateral development partners, to facilitate the preparation of a transition strategy to adjust to the phasing out of the advantages associated with the LDC

³ The next triennial review is scheduled for 2012.

⁴ Equatorial Guinea has also been recommended for graduation but as of now the GA has not taken note of the endorsement by ECOSOC.

category and the identification of associated actions. UNCTAD has been supporting countries earmarked for graduation toward the formulation and adoption of a smooth transition strategy by analyzing the extent to which retaining LDC treatment is deemed vital for the continuation of development progress, on a sector-by-sector or product-by-product basis.

Resolution 59/209 also invites the country, once it graduates from the category, to closely monitor, with the support of the consultative mechanism, the implementation of the transition strategy and to keep the Secretary-General informed on a regular basis. The resolution urges development partners 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. It also invited all WTO members to consider extending to a graduated country, as appropriate, the existing special and differential treatment and exemptions available to LDCs for a period appropriate to the development situation.

As mandated by resolution 59/209, and reiterated by resolution A/65/L.66/Rev.1 the CDP monitors the development progress of graduated LDCs as a complement of its triennial review of the list of the LDC category. At the upcoming 2012 triennial review, and as a follow up to the Istanbul Conference, the Committee is also undertaking a review and assessment of the current practices and provisions associated with the smooth transition process so as to identify and propose possible concrete actions to further strengthen existing mechanisms.

The recently graduated countries expressed their concerns that the existing smooth transition strategy has not been working in practice for the reason that there is no common understanding of what it means, and there is no clear idea of who is responsible for it. The smooth transition strategy also lacks any concrete legislative mandate or guidelines for the development partners to continue their support and development assistance to the graduated country. It rather leaves the responsibility to the graduated country to negotiate with their development partners to ensure that LDC benefits and privileges were not abruptly discontinued. The graduated countries have also expressed their frustration that they had received little support from UN or other international organizations either in terms of capacity-building, advice or in terms of other important and concrete issues.

While expressing their appreciation to the development partners for extension of some of the LDC benefits to the graduated country, graduated countries expressed their concerns that these measures were taken on an ad-hoc, rather than a systematic manner and the benefits were granted by some partners and not by all.

Further more, since the Istanbul Programme of Action has set an ambitious goal of enabling half the number of least developed countries to meet the criteria for graduation by 2020, smooth transition process therefore needs to be strengthened in such a way that it extends a sense of assurance to the graduating countries that they will not abruptly be thrown out from all the benefits they were entitled as being LDCs.

It is therefore strongly felt by many, both LDCs and their development partners that the existing process should be strengthened so that future graduating countries will not face the immense challenges and uncertainties which the recently graduated countries have faced. It is also important to clarify what precisely graduation, and who is responsible for what.

During a side event to the Second Committee of the 65th session of the United Nations General Assembly on "Enhanced International Support and Smooth Transition of LDCs towards Graduation" organised by OHRLLS, concrete smooth transition measures, which have been granted to graduated LDCs, were discussed. These include the extension of DFQF market access through EBA for three additional years after graduation by the EU. Likewise the Board of the Enhanced Integrated Framework has decided to extend access to the programme to graduated countries by three years. A possible extension for a longer period of time of these kind of initiatives might be considered on a case by case basis by the Board. In June 2011 resolution A/65/L.66/Rev.1 decided to

extend the travel related support, within existing resources, to graduated LDCs for a period appropriate to the development situation of the country and for a maximum of three years (OP 4).

Mandate for the establishment of a working group on smooth transition

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

The IPoA, building on General assembly resolution 59/209, states that “the measures and benefits associated with the least developed country membership status need to be phased out consistent with their smooth transition strategy, taking into account each country’s particular development situation.” (IPoA, paragraph 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, paragraph 142). To further study and strengthen the smooth transition process the IPoA invited the General Assembly to establish an ad hoc working group (IPoA, paragraph 143).

Objectives of the Working Group

The general objective of the ad hoc working group should be to strengthen the smooth transition process and to facilitate the widest possible consensus between graduating or graduated countries and their development partners to provide additional reassurance for LDCs that they will not fall back in their development process.

In order to prepare a smooth transition strategy an analysis of what measures will not be available any longer and what the likely impact of this will be, needs to be carried out in a country-specific manner. Thus the working group should look at the process that leads to smooth transition for graduating countries in general and make recommendations how all stakeholders can contribute to making this process more effective and to providing additional incentives for graduation. The role of the working group could also be to offer recommendations on how to support graduating countries' efforts to effectively tap into the benefits associated with their new status.

The working group could also make proposals on how to retain the special support measures for a graduated LDC for a longer period of time in order to avoid negative impact from abrupt end of preferential treatment accorded to the least developed countries. Most importantly, the proposal would ensure smooth transition for graduating countries, since the risk that international assistance would drop significantly after graduation would be reduced.

Specific objectives of the deliberations of the working group could be to:

- Review the existing smooth transition strategy including the concessions and measures that have been granted by the development partners to graduating or graduated countries;
- Analyse the potential impacts of losing access to LDC specific support measures by graduating country both in terms of benefits and obligations

- Assess the challenges faced by LDCs and development partners, including international organisations, in negotiating and implementing smooth transition measures, including the determination of the smooth transition period;

- Provide recommendations on how the incentives provided by smooth transition strategies and their implementation could be improved;

Make specific recommendations on the continuation of benefits in some of critical areas by all development partners for the graduating countries and phasing them out in a gradual manner consistent with countries development situations and needs in a structured manner.

Organisation

The working group should be established by the General Assembly under the auspices of the President of the General Assembly, who might consider designating two co-facilitators, one from an LDC and one from a development partner. The core of the working group will consist of LDCs, key development partners as well as other developing and key countries, with equitable geographical balance. In view of the open-ended nature of the group, other interested Member States should also participate in the deliberations of the Working Group to make substantive contributions. The active participation of countries which graduated recently or which have been recommended for graduation will be crucial to share their experiences with the negotiation of smooth transition strategies.

The working group may hold an organisational meeting to discuss its work programme. The working group will hold as many meetings as deemed necessary by the co-facilitators. The working group should also draw on a number of experts, including from the UN system, the WTO and other financial and development institutions as well as academia. These experts will be invited to make presentations for the benefit of members of the working group. The working group should also draw on relevant reference documents, for example reports and documents prepared by UN-DESA, CDP and UNCTAD. The working group should prepare recommendations on improving the smooth transition process to the 67th session of the General Assembly with a view to tabling a new resolution on the topic.
