

**Sixteenth Plenary Session of the Committee for Development Policy
New York, 24 – 28 March 2014**

**Note by the Secretariat on
Monitoring of Graduating Countries from the Category of Least Developed
Countries**

Vanuatu

I. Background

Equatorial Guinea and Vanuatu are earmarked for graduation, following the recommendations by the CDP which were endorsed by ECOSOC in 2009 and 2012, respectively, and taken note of by the General Assembly in December 2013 (A/RES/68/18). General Assembly resolution A/67/221 invites the Governments of countries that are graduating from the LDC category to report annually to the CDP on the preparation of the transition strategy.

In this note, the Secretariat presents a brief monitoring to provide an update on current conditions of both countries, for CDP's deliberation as requested by ECOSOC in its resolution 2013/20. Governments will be invited to submit reports to CDP on the overview of the preparation of smooth transition strategy later in the year, following GA resolution 67/221. Table 1 presents the time line for monitoring reports on both countries.

Table 1. Time line for monitoring reports: Equatorial Guinea and Vanuatu

Date	Equatorial Guinea	Vanuatu	Relevant GA resolution
December 2012	Current reporting system introduced	Current reporting system introduced	67/221 adopted
March 2014	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
December 2014	Country report to be submitted to CDP (as a graduating country)	Country report to be submitted to CDP (as a graduating country)	67/221
March 2015	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	2013/20 ^A
December 2015	Country report to be submitted to CDP (as a graduating country)	Country report to be submitted to CDP (as a graduating country)	67/221
March 2016	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
December 2016	Country report to be submitted to CDP (as a graduating country)	Country report to be submitted to CDP (as a graduating country)	67/221
March 2017	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
<i>June 2017</i>	<i>Equatorial Guinea graduates</i>		<i>68/18</i>
<i>December 2017</i>		<i>Vanuatu graduates</i>	<i>68/18</i>
December 2017	Country report to be submitted to CDP (as a graduated country, #1)	Country report to be submitted to CDP (as a graduating country) ^B	67/221
March 2018	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
December 2018	Country report to be submitted to CDP (as a graduated country, #2)	Country report to be submitted to CDP (as a graduated country, #1)	67/221
March 2019	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
December 2019	Country report to be submitted to CDP (as a graduated country, #3)	Country report to be submitted to CDP (as a graduated country, #2)	67/221
March 2020	CDP annual monitoring report to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
December 2020	Country report to be submitted to CDP	Country report to be submitted to CDP (as a graduated country, #3)	67/221
March 2021	Report to be submitted as a complement to triennial review to ECOSOC	CDP annual monitoring report to ECOSOC	67/221
December 2023	Country report to be submitted to CDP	Country report to be submitted to CDP	67/221
March 2024	Report to be submitted as a complement to triennial review to ECOSOC	Report to be submitted as a complement to triennial review to ECOSOC	67/221
December 2026		Country report to be submitted to CDP	67/221
December 2027		Report to be submitted as a complement to triennial review to ECOSOC	67/221

Source: CDP Secretariat.

^A ECOSOC Resolution.

^B Vanuatu reports as a graduating country, covering the year 2017 for most of which it is still a graduating country. See the case of Samoa (CDP/2014/PLEN/7).

II. Monitoring development progress of Vanuatu

Background

Vanuatu was recommended for graduation by the Committee in 2012 on the basis that the country met two of the three graduation criteria (GNI and HAI). The country was also eligible for graduation under the “income only” criterion, as its GNI per capita exceeded twice the graduation threshold.¹ Responding to the Committee’s findings, the Government of Vanuatu stated that the country would make best use of the transition period to put in place the necessary policy interventions to address possible negative impacts of the graduation. The Government, however, stressed that Vanuatu remains very vulnerable due to its smallness, susceptibility to external economic shocks and exposure to recurring natural disasters, which are not necessarily effectively addressed by LDC support measures. In that regard, the Government requested the UN to ensure that proper international support measures be provided to SIDS graduating from LDC category, in order to address SIDS specific vulnerabilities.²

The Council endorsed the recommendation for graduation by the Committee in 2012 (E//2012/32). In 2013, the General assembly took note of the recommendation by the CDP that Vanuatu be graduated from the LDC category (A/68/18). The General Assembly also decided to provide Vanuatu, on an exceptional basis, with an additional preparatory period of one year, before the start of the three-year preparatory period leading to graduation. Therefore, Vanuatu is scheduled to graduate on 4 December 2017 (see table 1).

Recent macroeconomic developments

While the performance of the Vanuatu economy has been volatile in recent years, no signs of deterioration of development progress have been observed during the monitoring period, while the medium-term prospects are broadly favorable for the country. Annual economic growth is estimated to be 3.3 per cent in 2013, and accelerated to above 4 per cent in 2014-2018, driven largely by construction of infrastructure and other facilities.³ The public debt is forecast to be around two per cent of GDP in 2014-2018.⁴

The current account deficit is at 6.2 per cent of GDP in 2013 due to a widening merchandise trade deficit, and likely to persist for some years to come. The deficit in the balance of goods remained around 24 per cent of GDP in 2009-2012. It is likely that merchandise import will be further boosted by Vanuatu’s accession to the WTO in 2012.⁵ But the overall impact is not clear, as prices for certain imported goods – including consumer durables and beverages - will also decline due to the scheduled tariff reduction.⁶

¹ CDP, Report on the fourteenth session, 2012 (E/2012/33).

² Statement by Vanuatu representative on Vanuatu’s graduation from LDC at the fourteenth session of the CDP, January 17, 2012.

³ IMF, Vanuatu: 2013 Article IV consultation.

⁴ IMF, World Economic Outlook Database, October 2013.

⁵ IMF, Balance of Payment database, accessed February 2014.

⁶ Economic Intelligence Unit, Country Report: Vanuatu, February 2014.

Contrary to the trend in the balance of goods, there was a significant surplus in the balance of service in recent years, around 21 per cent of GDP in 2009-2012, owing to a steady growth in tourism sector.⁷ Tourism will continue to contribute to economic expansion over the medium term, as economic prospects in Australia and New Zealand, two important sources of tourists for the local economy, are expected to be favorable.⁸

Developments related to indicators in the LDC criteria

Vanuatu continued to improve its scores of indicators included in the LDC criteria. The country's GNI per capita was \$2,771 in 2011/2012, 2.3 times higher the graduation threshold established at the 2012 triennial review (\$1,190).⁹ According to preliminary estimates by UN/DESA, HAI indicators have also improved. Under-5 mortality rate decreased from 19 per 1,000 live births in 2010 to 18 per 1,000 live births in 2012.¹⁰ Literacy rate increased slightly from 82 per cent to 83 per cent, and gross secondary school enrolment rate increased from 55 per cent to 60 per cent between the 2012 triennial review and 2013.¹¹

Preparation of the smooth transition strategy

The 2011 ex-ante impact analysis by UN/DESA¹² identified potential adverse impacts of graduation of Vanuatu in two areas: preferential treatment in trade and development finance. In the area of trade, Vanuatu would lose benefits from LDC-specific preferential treatment affecting, in particular, market access of its exports of tuna and beef to Japan, and its copra exports to European Union, especially Belgium. While there are smooth transition provisions in place for exports to EU under EBA provisions, LDC-specific preferential treatments granted by Japan are not anticipated to be extended beyond graduation.

The recent accession to WTO is also likely to bring impacts on the country's trade balance in view of liberalization commitments which should be fulfilled in a short time period. Vanuatu has agreed to fully apply all WTO provisions and did not require recourse to any transitional period except on intellectual property and on the publication of trade information.¹³ Vanuatu has also made specific commitments on 10 services sectors, which accounts for three-quarters of Vanuatu's GDP. The cost of adjustment may be substantial, but it may be difficult to identify these impacts separate from the impacts of the loss of LDC-specific preferential treatments following the graduation.

⁷ IMF, Balance of Payment database, accessed February 2014.

⁸ Economic Intelligence Unit, Country Report: Vanuatu, February 2014.

⁹ World Bank, World Development Indicators, accessed February 2014. The graduation threshold in 2012 triennial review was established based on 2009-2011 data.

¹⁰ UN Inter-agency Group for Child Mortality Estimation, CME Info, accessed March 2014. Available from <http://www.childmortality.org>.

¹¹ Estimates are based on UN Inter-agency Group for Child Mortality Estimation, CME Info, and UNESCO, Institute for Statistics, accessed February 2014.

¹² UN DESA, Ex-ante impact assessment of likely consequences of graduation of Vanuatu from the least developed country category, 2011 (CDP/2012/PLEN/10a).

¹³ WTO, Member Information: Vanuatu. Available from http://www.wto.org/english/news_e/news11_e/acc_vut_02may11_e.htm

With respect to development finance, while the country will lose access to certain LDC-specific funds, such as GEF-LDCF and the EIF Trust Fund, after a transition period, the country's development partners indicated that support extended to Vanuatu would continue in the event of its graduation from the list of LDCs. However, Australia, which provides more than 60 per cent of the ODA to Vanuatu¹⁴, recently announced an aid budget cut, resulting in a slight reduction of bilateral program assistance specific to Vanuatu by \$1 million from \$42 million in 2012/13 to \$41 million in 2013/14.¹⁵ The impact of a 2 per cent reduction of ODA from Australia to Vanuatu is not likely to be substantial, but potential changes in aid flows due to donors' budgetary constraints may be difficult to be disentangled from the impacts of graduation on development finance in future monitoring exercises.

It is recommended that Vanuatu initiate the preparation of its smooth transition strategy as early as possible, to minimize potential adverse impacts in above mentioned areas. Measures to strengthen disaster risk management should be also explored, as Vanuatu is highly vulnerable to natural disasters, experiencing annual loss estimated at 6.6 per cent of its GDP due to earthquakes and tropical cyclones.¹⁶ In 2013, Vanuatu joined the Pacific Catastrophe Risk Insurance Pilot Program, a two-year pilot program which provides immediate funding for recovery in case a major natural disaster occurs, and this type of mechanism should be integrated in the smooth transition strategy.¹⁷

¹⁴ Based on 2011/2012 average. OECD, Aid at a glance: Vanuatu. Available from <http://www.oecd.org/countries/vanuatu/VUT.JPG>

¹⁵ Australian Government, Department of Foreign Affairs and Trade, Five billion dollar aid budget to focus on the region, 2014. Available from <http://aid.dfat.gov.au/publications/pages/five-billion-dollar-aid-budget-to-focus-on-the-region.aspx>

¹⁶ World Bank, Pacific Catastrophe Risk Assessment and Financing Initiative, Country Risk Profile: Vanuatu, 2011. Available from <http://siteresources.worldbank.org/EXTDISASTER/Resources/Vanuatu.pdf>

¹⁷ World Bank, Pacific Catastrophe Risk Insurance Pilot Program: Overview. Available from <http://www.worldbank.org/projects/P133255/pacific-catastrophe-risk-insurance-pilot-program?lang=en>