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Sustainable development

Ensuring a smooth transition of countries graduating from least developed country status

Report of the Secretary-General

I. Introduction

1. In its resolution 2000/34 of 28 July 2000, the Economic and Social Council requested the Secretary-General "to report on the progress achieved in the implementation of paragraph 4 of General Assembly resolution 46/206, and to make recommendations on additional measures that can be taken to ensure a smooth transition from least developed country status for graduating countries". The present report responds to that request to the extent possible at the present time.

II. Graduation and transition from the list of the least developed countries

2. The Committee for Development Policy has been mandated to identify those developing countries that should be considered "the least developed". This involves identifying both possible new additions to the list of the least developed countries and candidates for removal from the list — that is, countries that have successfully "graduated" to a higher level of development. The present criteria for being added to or removed from the list are set out in the Committee's report on its second session.[1]

3. In paragraph 4 of its resolution 46/206 of 20 December 1991, the General Assembly "stresses that there is need for a smooth transition of the countries graduating out of the group of least developed countries, with a view to avoiding disruption to their development plans, programmes and projects, and invites Governments, international organizations and other concerned parties to take appropriate steps to ensure such a smooth transition". The resolution also states, in its paragraph 5, "that the graduation of a country will be completed following a

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transition period of three years, which will commence immediately after the General Assembly has taken note of the finding of the Committee for Development Planning [later renamed the Committee for Development Policy] to graduate that country".

III. The period of transition from least developed country status

4. At its third session, the Committee for Development Policy noted that the transition period specified in paragraph 5 of General Assembly resolution 46/206 might be interpreted differently from the smooth transition referred to in paragraph 4 of Council resolution 2000/34. The Committee is of the view that the General Assembly refers to a "pre-graduation" transition period, whereas the Council refers to the consequences of graduation and thus to a "post-graduation" transition. The Committee also expressed the view that the "pre-graduation" transition period begins immediately after the General Assembly takes note of the Committee's initial recommendation to graduate a country. It is thus the three-year period between the initial recommendation and the General Assembly's decision to graduate a country, on the basis of a reconfirmation arising from the second consecutive triennial review by the Committee. The "post-graduation" transition, on the other hand, would cover an unspecified period after the second consecutive recommendation of the Committee to graduate a country is endorsed by the General Assembly.

5. These two interpretations of the transition period have different policy implications. A smooth pre-graduation transition would involve measures to prepare a least developed country for the possible loss of benefits that it might suffer were it confirmed for graduation at the end of the three-year transition period. In the case of post-graduation transition, a smooth transition would relate to the removal of benefits after graduation and, in particular, to whether the removal should be gradual or immediate.

IV. Benefits associated with least developed country status

6. The major benefits associated with least developed country status are believed to fall into three main areas: multilateral trade; finance for development; and technical cooperation.

7. Compared to other developing countries, the least developed countries have always benefited from specific advantages under the Generalized System of Preferences (GSP) of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). Under GSP, a developed country can grant non-reciprocal duty concessions to imports from developing countries. Each importing country determines its own system, including product coverage and the volume of imports affected. Some developed countries, such as New Zealand, Norway and Switzerland, extend GSP benefits to all products originating from the least developed countries. Further benefits will be obtained in the context of the European Union's recently announced "Everything but Arms" initiative, which is aimed at rescinding quotas and duties on all products except military weapons from all of the least developed countries, although full liberalization of sugar, rice and bananas will not become effective until 2006-2009, depending on the commodity. It has been argued, however, that preferential schemes, such as GSP, have had only limited

success in generating significant export growth or improving the trade shares of beneficiaries.[2]

8. Benefits in the area of finance for development tend to involve voluntary commitments made by developed countries. In the Programme of Action for the Least Developed Countries for the 1990s, all donors that had previously pledged to reach the target of 0.15 per cent of gross domestic product (GDP) as official development assistance (ODA) to the least developed countries restated their commitment. In addition, donor countries that had already reached the 0.15-per-cent target were invited to intensify their efforts to reach 0.20 per cent by 2000. In the final declaration of the Third United Nations Conference on the Least Developed Countries (Brussels, Belgium, 14-20 May 2001), donors agreed "to meet expeditiously the targets of 0.15 per cent or 0.20 per cent of GDP as ODA to LDCs [the least developed countries] as agreed".[3] In addition, the Declaration undertook to improve aid effectiveness and to implement a recommendation made by member States of the Organisation for Economic Cooperation and Development (OECD) on untying ODA to the least developed countries.

9. With regard to benefits in the area of technical cooperation, an integrated framework for trade-related technical assistance, including strengthening of human and institutional capacities, is currently in place to assist the least developed countries in their trade activities. The integrated framework — which is jointly managed by WTO, the World Bank, the United Nations Conference on Trade and Development, the International Monetary Fund, the United Nations Development Programme and the International Trade Centre — aims at maximizing the benefits that the least developed countries can derive from the technical assistance provided by those institutions.

V. The case of Botswana

10. Botswana is the only country to have graduated from least developed country status. The 1991 triennial review carried out by the Committee found that it met the criteria for graduation. The General Assembly, in its resolution 46/206, took note of the Committee's recommendation to graduate Botswana and decided that its graduation would be completed following a transition period of three years, in accordance with paragraph 5 of the resolution. The country was graduated in 1994, following the two consecutive triennial reviews in which it met the criteria for graduation. Its pre-graduation transition thus covered the period 1991-1994, whereas its post-graduation transition occurred after 1994.

11. Botswana's total net receipts of ODA fell from $136 million in 1991 to $89 million in 1994 but rose to $122 million in 1997 (in current prices) (see table 1). However, global ODA flows (that is, to all countries) also decreased between 1991 and 1997. The share of Botswana in the reduced total ODA flows fell between 1991 and 1994 but, by 1997, was higher than in 1991. Similarly, its share in total net ODA flows to sub-Saharan Africa dropped from 0.77 per cent in 1991 to 0.47 per cent in 1994 but rose to 0.86 per cent by 1997. There is no information on changes in trade preferences, but Botswana's exports fell from $2,328 million in 1991 to $2,285 million in 1994 and rose to $2,824 million by 1997 (in constant 1995 prices) (see table 2). Its share of the total value of sub-Saharan African exports (in current

prices) fell from 2.82 per cent in 1991 to 2.75 per cent in 1994 and 1.9 per cent in 1999.

12. The particular case of Botswana is insufficient to draw conclusions about the consequences of the loss of least developed country status, because there are many other factors responsible for variations in aid and export receipts. One of the reasons for Botswana's graduation may have been that it was a special case in terms of its export base. The consequences of graduation, therefore, cannot be specified without a more detailed examination of the nature of the post-graduation transition. This would require information from donors and trading partners on existing benefits to potential graduation candidates and on changes that might occur as a result of graduation.

VI. Recommendations to the Council

13. With regard to the two different interpretations of the transition period, it is recommended that the Council maintain the three-year pre-graduation transition period but also stress the importance of the "post-graduation" transition period as crucial for maintaining the positive development prospects of the country.

14. Available information suggests that there is no well-defined set of benefits available to or received by countries designated as the least developed. The benefits vary among donors and are generally related to trade preferences and to the volume of ODA, but the Secretariat does not have detailed information on the specific benefits offered by industrial countries. It is, therefore, impossible, at the present time, to make concrete recommendations on additional measures that could be taken to ensure a smooth transition for graduating countries. Nevertheless, it is recommended that the benefits available to the graduated country should be reduced gradually, according to the specific needs of the country, rather than immediately. It is possible, however, to envisage that such recommendations would probably need to be shaped on a case-by-case basis and thus targeted at different least developed countries.

15. The Committee for Development Policy has suggested that relevant development partners and multilateral organizations should be requested to make available information on their likely response to a country's graduation, before the fourth session of the Committee (April 2002). Such information should include measures to be taken with regard to loss of benefits in the areas of trade, financial aid and technical assistance. If such information is made available, the Secretariat would be in a position to evaluate the potential consequences of graduation more precisely and to identify concrete measures that could be taken to ensure a smooth transition.

Notes

[1] See *Official Records of the Economic and Social Council, 2000, Supplement No. 13* (E/2000/33).

[2] See World Trade Organization, "Market access for the least developed countries: Where are the obstacles?" (WT/LDC/HL/19), paper prepared by the OECD secretariat, 21 October 1997.

[3] See A/CONF.191/L.20, para. 8.

Table 1
Official development assistance (ODA) to Botswana, 1990-1999

(Millions of United States dollars)

Aid recipient	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Botswana	148	136	114	134	89	90	75	122	106	61
Sub-Saharan Africa	17 452	17 697	19 122	17 361	18 894	18 387	16 083	14 214	13 569	12 006
World	57 282	61 865	61 437	56 809	60 929	59 610	56 400	48 296	50 212	51 568
Percentage share of Botswana in total ODA	0.26	0.22	0.19	0.24	0.15	0.15	0.13	0.25	0.21	0.12
Percentage share of Botswana in ODA to sub-Saharan Africa	0.85	0.77	0.60	0.77	0.47	0.49	0.46	0.86	0.78	0.51

Source: Organisation for Economic Cooperation and Development, *Development Cooperation* (various years).

Table 2
Botswana's international trade, 1990-1998

(*Millions of United States dollars*)

	Imports, current prices			*Imports, current prices*[a]			*Exports, current prices*			*Exports, current prices*[a]		
Year[a]	*Botswana*	*Sub-Saharan Africa*	*Share (%)*	*Botswana*	*Sub-Saharan Africa*	*Share (%)*	*Botswana*	*Sub-Saharan Africa*	*Share (%)*	*Botswana*	*Sub-Saharan Africa*	*Share (%)*
1990	1 887	72 759	2.59	2 213	77 159	2.87	2 087	78 388	2.66	2 217	74 412	2.98
1991	1 805	73 380	2.46	2 046	78 864	2.59	2 091	74 013	2.82	2 295	74 482	3.08
1992	1 724	81 549	2.11	1 885	79 439	2.37	1 998	78 276	2.55	2 140	74 396	2.88
1993	1 562	76 154	2.05	1 716	81 933	2.09	1 960	71 595	2.74	2 112	76 854	2.75
1994	1 597	80 251	1.99	1 705	84 716	2.01	2 124	77 229	2.75	2 253	80 666	2.79
1995	1 765	94 226	1.87	1 765	94 121	1.88	2 435	87 429	2.78	2 435	87 418	2.79
1996	1 792	95 409	1.88	1 927	101 742	1.89	2 657	96 403	2.76	2 835	96 562	2.94
1997	1 766	103 370	1.71	1 945	108 131	1.80	2 210	96 837	2.28	2 785	100 843	2.76
1998	1 646	99 260	1.66	1 971	110 289	1.79	1 705	86 652	1.97	2 610	103 856	2.51
1999	1 982	99 692	1.99	2 044	111 526	1.83	1 650	87 079	1.90	2 448	103 890	2.36

Source: World Bank, *World Development Indicators, 2001* (CD-ROM).
[a] The base year for constant prices is 1995.