Vanuatu Ministry of Tourism, Trade, Industry, Commerce and Ni-Vanuatu Business (MTTICNVB)

Graduation Strategy

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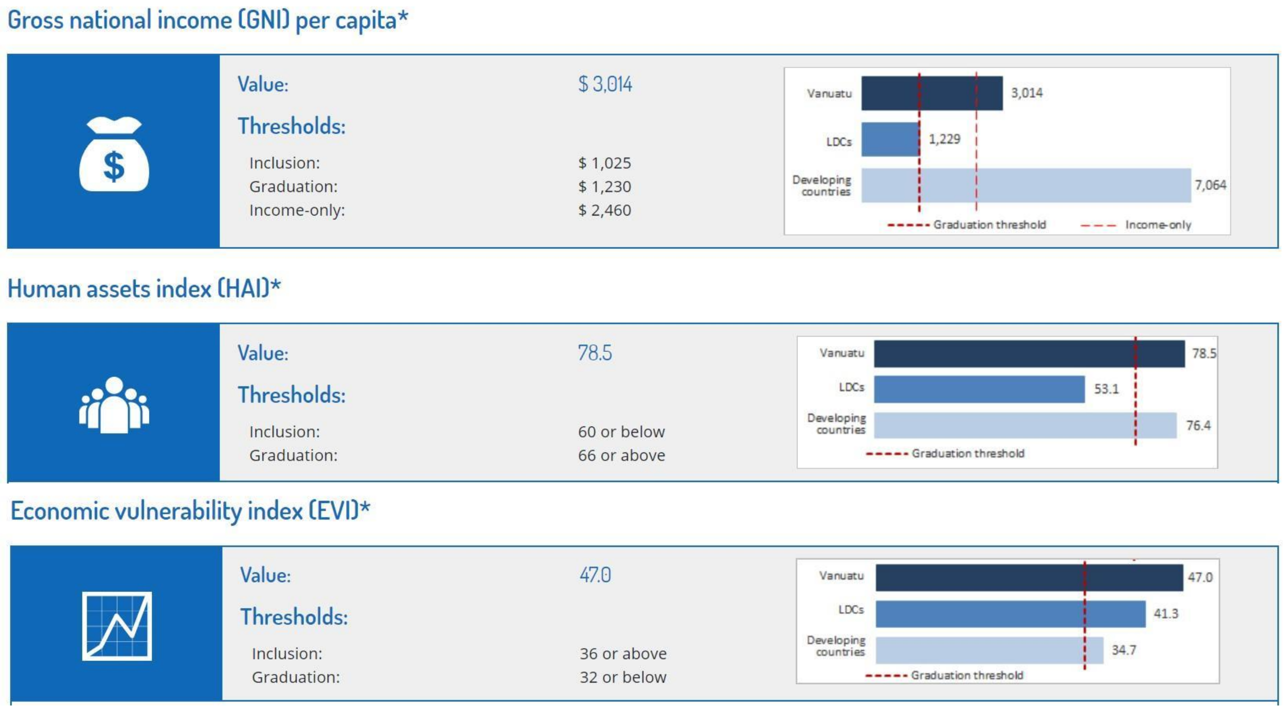
1. Introduction

Vanuatu was recommended for graduation from the least developed country (LDC) category at the 2012 triennial review of the UN Committee for Development Policy (CDP), having several years before moved above the thresholds for graduation.[1] The recommendation was approved by the UN Economic and Social Council (ECOSOC) and the General Assembly. Following cyclone Pam in 2015 a three-year extension was granted, with graduation scheduled for December 2020.

Vanuatu's graduation is above all a success story, reflecting development progress in the near 40 years since independence. Among other achievements, health and education have improved markedly. Real economic output per head has risen significantly in the last 20 years. As indicators of broad-based progress in human development, these are major accomplishments, to be celebrated both at home and abroad. Vanuatu is only the sixth country recommended to leave the category since it was created in 1971, in effect climbing above the 'bottom rung' of the development ladder. Only one other Pacific island country out of the four LDCs – Samoa – has so far graduated. Vanuatu will become the third LDC to have left the category in Asia and the subcontinent, following the Maldives and Samoa. Amid this positive domestic and international environment, Vanuatu's image is likely to improve, in turn building national and overseas perceptions of the country and possibly even helping attract incoming investment.

Figure 1. Vanuatu and the LDC criteria



Source: UN CDP

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[1] The UN LDC category is assessed using three criteria: human assets, economic vulnerability and gross national income per capita. Countries must meet two of the three criteria at two consecutive triennial reviews of the CDP to be considered for graduation. The CDP sends its recommendations to ECOSOC for endorsement. The decision is then referred to the UN General Assembly.

Vanuatu exceeded the thresholds for graduation on two of the three LDC criteria, namely the human assets index and the income per capita criterion, for more than two consecutive triennial reviews of the CDP. As shown in figure 1, per capita GNI on a purchasing power parity basis using the World Bank Atlas method, is US$3,014, well above the threshold of US$1,230. The human assets index is 78.5 – well above the threshold of 66. Vanuatu's score of 47 on the vulnerability threshold is very high, however (the lower the more stable), compared with the threshold of 32 or below. Vulnerability will remain high for many years to come.

Whilst graduation can be seen positively, it also means the loss of benefits associated with membership of the LDC group, limited though they are. These international support measures consist of trade preferences, official development assistance and other items such as travel grants for UN meetings, scholarships and reduced budgetary contributions to UN entities.[2] The draft Vanuatu smooth transition strategy and the UN impact assessment (CDP 2012) make clear that the impact of losing these benefits will be minimal. The implications are mostly well analysed and various national stakeholders are beginning to understand them.[3] The government is developing a strategy, of which the current study is a part, to try and mitigate the challenges. The main issue for the government will be to communicate the impact of graduation and mitigate any impacts, turning the situation to the national advantage. Vanuatu will remain vulnerable for many years, and associated policy measures to tackle this vulnerability will be important. It will be crucial to prepare properly in order to achieve a smooth transition through and beyond graduation. Maximising the positive sentiment surrounding graduation – particularly among investors – will necessitate strategic government initiatives and will not occur spontaneously.

This study, at the request of the Ministry of Tourism, Trade, Commerce, Industry, and Ni-Vanuatu Business (MTTICNVB), is an attempt to outline the Ministry's strategy for graduation, and is intended for input into the national graduation strategy developed by the Prime Minister's office, which in turn feeds into Vanuatu 2030: The People's Plan. The study aims to complement policies across the productive sectors, including the Agriculture Sector Policy (2015-2030), Livestock Policy (2015-2030), Fruits and Vegetables Strategy (2017-2027), National Coconut Strategy (2016-2025), Forest Policy (2013-2023), National Kava Strategy (2016-2025), National Cooperatives Policy (2017-2022), and Strategic Tourism Action Plan (2013-2018). Some analysis of LDC graduation has already been done, including UNDESA (2012), ESCAP (2019) and the National Graduation Strategy (2019), so this report does not attempt a comprehensive review of the cost and benefits of graduation; rather, in places, it updates earlier analysis using the latest data and refines the discussion in certain areas strictly related to trade, proposing measures concerning trade integration. The study first looks at the impact of graduation on trade, focusing on the possible impact of graduation on tariffs. The second section discusses the impact of integration into the global economy relating to Official Development Assistance (ODA), Aid for Trade (AFT), the World Trade Organisation (WTO) and investment promotion. The final section outlines some measures aimed at maximising the potential of graduation and mitigating its impact. The study was drafted at the behest of the MTTCINVB, but its recommendations go beyond solely this Ministry.

2. Impact on trade

2.1 Services

It is first worth considering any impact on services, Vanuatu's biggest export and the main source of economic growth in the last 15-20 years. The recently approved WTO services waiver allows members to grant special market access for services exports from LDCs. WTO members can in effect discriminate in favour of the services exports of LDCs. For example the waiver would allow a host country receiving the exports of an LDC in an industry such as insurance services to deviate from normal WTO rules allowing the LDC company to establish business premises, invest, sell across borders or hire workers under conditions for which other countries

[2] A full list of international support measures can be found at: www.un.org/ldcportal

[3] Vanuatu's 2012 LDC graduation impact assessment is at: https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/PDFs/Least_Developed_Countries_Resolutions_and_Reports/ia_vanuatu_nov2011.pdf.

are ineligible. However since the services agreement has not yet been fully operationalized, and Vanuatu's services exports and foreign investments are small, the loss of this preference will be very limited. Few LDCs have managed so far to make use of the waiver, even those with substantial services exports. The waiver is in any case less relevant to tourism.

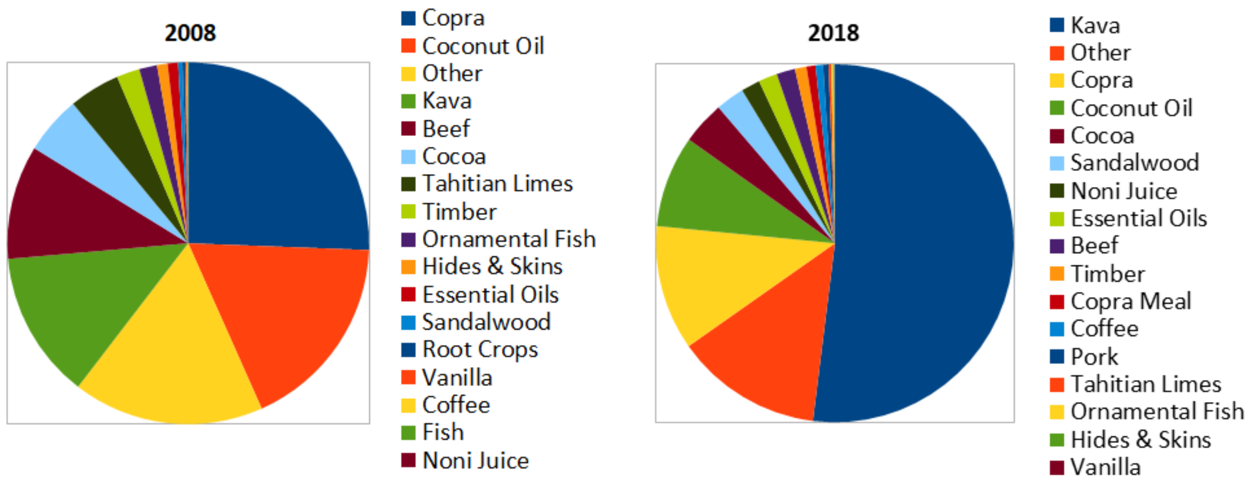
2.2 Goods

The main expected impact of graduation on trade is via the loss of access to preferences for LDC exports. However the implications here, too, are expected to be minor. With its small and volatile export base, Vanuatu exports a variety of products to a number of different destinations year by year. Many of the main preference-granting countries and regions, such as the EU, are not major export destinations. In the cases where the tariff increases, the margin is mostly small. Goods exports are also very low by value, comprising only around 4% of GDP in 2018. For comparison, the proportion was 10% in the early 2000s. Any such minor impacts can in principle be mitigated through trade agreements or extensions of existing arrangements, as discussed later in this study.

As an example of Vanuatu's export volatility, the most recent data show that exports of Noni juice, mostly to China, jumped to VT82.7 million in 2018 from VT1.0 million in 2017, almost all of which was exported to New Caledonia. Kava exports to China grew from VT 43 million to VT129 million in 2018. Sandalwood exports to Hong Kong were also high, at VT75 million, and this is apparently a market with considerable potential. Hong Kong is a duty-free port so LDC graduation is expected to have no impact. Timber exports to China were VT 420m in 2017 but exports of rosewood – which formed the vast bulk of this figure - have since been banned due to sustainability concerns. Figure 2, showing data from 2008 and 2018, shows that in 2018 kava had become by far the biggest export by value, comprising 52% of exports, followed by copra at 11% and coconut oil at 8%.

Looking at the total data in the 11 years from 2008 onwards, copra formed the single biggest export product, at 21.5% of the total, followed by kava (17.8%), other exports, coconut oil (15.6%), beef (7.3%), cocoa (6.2%) and a range of products including ornamental and other fish, sandalwood, timber, copra meal and others. The following figure shows that most obvious export trend between 2008 and 2018 has been a major shift toward kava, with copra and coconut oil each comprising a proportionately smaller share of the total over time, although there are very large fluctuations within this time period, largely driven by changes in the global price. Because of the growth of kava, exports have become less diversified.

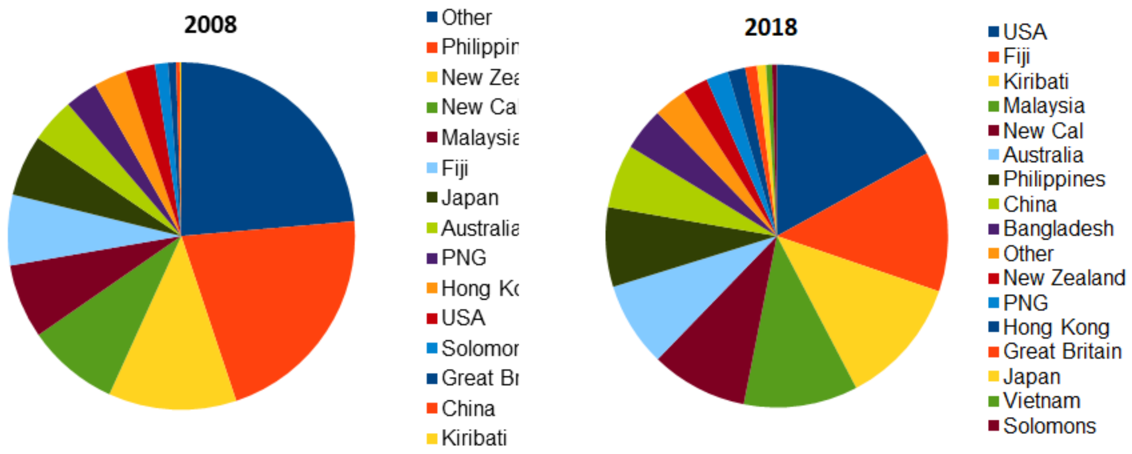
Figure 2. Total exports by value, 2008 and 18



Source: MTTICNVB

Over the most recent two years the United States became a key market for Vanuatu's exports, accounting for 19.1% of the total, followed by Fiji (14.5%) and Kiribati (13.6%). Exports to all three countries were mainly kava. Malaysia was the next biggest export destination at 12.2%, followed by New Caledonia (10%), the Philippines (8.4%) and China (6.8%), a country to which exports are growing rapidly. In contrast to the trend toward product specialisation, Vanuatu's export basket has become more diversified by destination, largely because kava is sent to a greater number of destinations than copra or coconut oil.

Figure 3: Value of key exports to major trading partners, 2008-18



Source: MTTICNVB

The following table summarises the main export products during 2018, including values and relevant duties for 89% of goods exported during the year, and all goods which may be subject to a tariff after graduation. As shown in the table, LDC graduation will affect tariffs on only exports of kava to China, beef to Japan and Noni juice to China. Coconut oil exports to Taiwan may incur a tariff increase from 0% to 4% but this is a minimal increase in a small market. For all other products and markets, graduation will have no impact either because another trade relationship is in place, the most favoured nation (MFN) rate is zero or because the destination market has no LDC scheme.[4] The overall tariff-related impact of graduation on current exports is thus expected to be negligible.

4. Multiplying tariff by product value and summing the total for the three products, the simple implied tariff value would amount to US$405,329 (approximately VT 50 million). However this is a very rough calculation with little real-world significance. It is likely that this sum would be divided between importer and exporter (the importer may in effect pay the difference), and it is possible that trade diversion could occur, with the exporter choosing another, duty-free market, such as Melanesia or the wider Pacific region.

Table 1: Main export products and applicable duties, 2018

Product	Value, US$ million	Proportion of total annual exports	Main destinations	Value, US$ million	Proportion of total	Applicable duty
Kava	21.6	59%	United States	6.7	31%	0% for all countries.
			Fiji	5.2	24%	0% MSGTA rate
			Kiribati	5.0	23%	0% for all countries
			New Caledonia	3.4	16%	5% MFN tariff, no LDC rate
			China	**1.1**	**5%**	**13% MFN tariff, 0% LDC rate**
Copra	4.7	13%	Philippines	3.1	66%	10% MFN tariff, no LDC rate
			Bangladesh	1.6	33%	5% for all countries
Coconut oil	3.4	9%	Malaysia	3.2	92%	5% general tariff, no LDC rate
Cocoa	1.6	4%	Malaysia	1.3	83%	0% for all countries
Beef/veal	0.7	2%	**Japan**	**0.4**	**51%**	**38.5% MFN tariff, 0% LDC rate**
			Solomon Islands	0.1	21%	0% MSGTA rate
			Papua New Guinea	0.1	19%	0% MSGTA rate
Noni juice	0.7	2%	**China**	**0.6**	**89%**	**20% MFN tariff, 0% LDC rate**

Sources: ESCAP (2019); Vanuatu MTTCNVB
Exchange rate 7 October 2019: 1 VUV = 0.0085 USD

Finally, and as pointed out in the TPFU (section 4.3), LDC graduation has few implications for free trade agreements (FTAs). The Melanesian Spearhead Group Trade Agreement (MSGTA) allows LDCs one extra year to begin duty reductions for infant industries. The Pacific Island Countries Trade Agreement (PICTA) notes that the LDCs and Small Island States (SIS) have special circumstances, and this is captured in several provisions. LDCs and SIS have two extra years (already lapsed) for the liberalization of non-excepted products and one extra year for excepted products (2021 instead of 2020). Longer periods of protection exist under the developing industry provisions and the emergency action provisions. Specific provisions also ensure the participation of LDCs and SIS in the Rules of Origin Committee established under the agreement.

3. Mitigating measures for smooth integration into the global economy

For the few existing and future export products affected by graduation, mitigation measures should consist of the extension of existing preferential access to major existing and potential future markets – such as the EU, China and Japan – as well as negotiations toward new trade and investment agreements with China and Japan, either bilaterally or as part of a Pacific bloc. It will remain important not to focus only on the current exports on which a tariff may be levied, i.e. kava and noni exports to China, and beef to Japan, but on emerging exports. Trade agreements which cover all possible Vanuatu products, even if not currently exported, will be better than those addressing only the few tariff lines of current relevance.

3.1 Potential export products and destinations

Fish is among the products with biggest export potential, with the launch of the Sino-Van fisheries processing plant in October 2019. Since the closure of the Palekula fisheries base in 1987 all fish caught in Vanuatu waters was landed in Fiji or elsewhere rather than being processed domestically. The new plant is reported to be capable of processing the entire Vanuatu catch, which in recent years has been as high as 10,000 tonnes per year according to Forum Fisheries Agency data, with 2017 a record year. The Tuna Management Policy amendment, once passed, requires vessels to offload in Vanuatu all tuna caught in Vanuatu waters. At the upper end, using the latest average prices for Albacore, Yellowfin and Bigeye, this implies annual exports with a potential value of $80 million. A mid-range scenario is 7,400 tonnes, the average catch volume for last 10 years. Even the most pessimistic scenario of 4,000 tonnes exported at historical average prices amounts to US$32 million, 3.6% of GDP, a sum which would be worth around 80% of total current annual exports. Whatever the reality, it will be important to ensure that tariffs do not obstruct fish exports.

Initial exports are reported as being destined for the United States and New Zealand. Exports to New Zealand currently fall under SPARTECA and will be conducted under PACER Plus, if it is ratified, so graduation will have no impact on exports to that market.[5] Tuna exports to the United States face a zero MFN rate.

Tariffs on relevant fish exports to China are between 5% and 7%, so in the event of exports to that market it is highly likely that the exporter and any Chinese importer would seek some form of bilateral arrangement. It would be in Vanuatu's interests to leverage this relationship to secure a continuation of duty-free arrangements across the board, possibly through an extension of the existing GSP scheme and an FTA or bilateral thereafter. Fish exports to Europe are unlikely, but products under HS0302 and HS0303 would face a tariff increase from 0 to 6.6% without alternative arrangement such as an Interim Economic Partnership Arrangement (IEPA) or

[5] https://dailypost.vu/news/vanuatu-to-export-tons-of-tuna-weekly/article_a065bc16-f77b-11e9-a219-fb84c9337033.html

Generalised System of Preferences Plus (GSP+). Higher value-added fish products tend to incur a higher tariff. For example tariffs on dried or smoked fish (HS0305), currently exported from Solomon Islands (not currently in Sino-Van's plans), would rise from zero to 9.5% without an IEPA or GSP+. There are no plans to export fish to Thailand, a global tuna trading hub, although the LDC rate is zero and the general import tariff for relevant exports would be 3.5%.

An upturn in kava exports to Europe is another possibility in the event of relaxation of existing restrictions in that market. International kava prices have risen substantially in recent years and domestic supply is rising in response. Exports are at real historic highs even compared with the boom of the late 1990s, when exports peaked at VT 888 million in 1998. Without alternative arrangements, after the expected three-year extension of Everything But Arms (EBA) until 2023 the relevant EU tariff on kava would be 12.8%. The United Kingdom has suggested in a trade White Paper that in the event of leaving the EU it would continue existing concessions for LDCs as well as arrangements similar to the EU GSP and GSP+.

3.2 Official Development Assistance

In addition to trade preferences, developed nations have pledged to prioritise assistance to LDCs, to untie aid and to provide a fixed proportion of assistance to LDCs as grants rather than loans.[6] Development assistance in graduating countries might therefore, in theory, be expected to fall. In reality this will not be the case in Vanuatu. All relevant donors state that they will not reduce ODA, a commitment which is borne out by an examination of the historical ODA trends in graduating countries. This section examines the surrounding issues.

In the 2030 Agenda for Sustainable Development; the Addis Ababa Action Agenda; and the Programme of Action for the Least Developed Countries for the Decade 2011-2020, developed countries reiterated their commitment to provide the equivalent of 0.15 to 0.20% of their gross national income (GNI) in the form of ODA to LDCs.[7]

In 2001 the members of the Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) adopted a Recommendation on Untying Official Development Assistance to the Least Developed Countries, subsequently amending the recommendation to include heavily indebted poor countries (HIPCs).[8]

The 1978 OECD/DAC Recommendation on the Terms and Conditions of Aid proposes that the average grant element in ODA to LDCs should be either 90% of a given donor's annual commitment to all LDCs, or at least 86% of the donor's commitments to each individual LDC over a three-year period. In 2016, 93% of ODA flows from DAC countries to LDCs were in the form of grants, compared to 85% for all developing countries.

In practice, however, in 2018 only five of the 30 DAC countries fulfilled the 0.15%-0.20% GNI commitment. All but five DAC countries also fail to meet the broader 0.7% GNI target for

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[6] The following analysis draws on the CDP LDC graduation impact assessments and research for a draft WTO study: 'LDC Graduation and the WTO: Assisting LDCs to Address the Trade-Related Implications of Graduation from LDC Status: International Support Measures in the area of Development Cooperation' 2019, WTO, Geneva.

[7] ODA is defined as follows: "Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent discount rate). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries ("bilateral ODA") and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions. Lending by export credit agencies—with the pure purpose of export promotion—is excluded." Source: https://www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm

[8] Untied aid is ODA for which the associated goods and services may be fully and freely procured in substantially all countries. Source: http://www.acdi-cida.gc.ca/INET/IMAGES.NSF/vLUImages/Internal%20Audits/$file/Tied-Untied%20Aid.pdf

development assistance to the developing country group as a whole. Development assistance after LDC graduation therefore is not falling as expected in the run-up to graduation, nor afterward. The data on ODA and AFT flows even suggest the opposite -- that graduating countries are experiencing an *increase* in aid, in several cases even after they have been identified for graduation.

For the OECD, all countries classified as low- and middle-income according to the World Bank are eligible for ODA, with the exception of G8 members, EU members and countries with a firm date for entry into the EU. Graduation from ODA eligibility occurs when a country is found to have exceeded the high-income threshold for three consecutive years. The high-income threshold is currently USD 12,376. This implies that Vanuatu would remain eligible for ODA for some time – potentially for at least 50 years at historic average growth per capita income growth rates and assuming no change in the threshold.

Current trends emphasise the reality that aid disbursements are determined by other criteria. Some countries met the LDC target only because of strategic focuses on a region, low-income countries, or specific vulnerabilities. A similar situation applies to commitments on grant aid and to untied aid, for which some countries do not yet fulfil the pledge to LDCs. Because non-DAC and south-south donors mostly do not use the LDC criteria in aid allocation, graduation *per* se is unlikely to affect development cooperation with these countries. Some DAC donors and multilateral entities are unable to make decisions far enough in advance to be able to state with certainty whether or not graduation will result in a reduction in development assistance.

Official communications by relevant donor partners to the UN also indicate that ODA is unlikely to be affected by graduation and that these donor partners will mostly continue to support Vanuatu after graduation. The three top official donors refer to the national plan in their strategy papers on Vanuatu and state their commitment to focusing their aid programmes on supporting the country's prioritized national goals. None of the donors' strategy papers mention LDC status as a reason for their assistance. These countries (together with Japan and the United States) have their own criteria for development assistance which do not depend on the LDC criteria. In consultations for this study, no key donor said it would reduce funding on the basis of LDC graduation. All donors maintained that they would continue supporting Vanuatu in the long term.

- The 11th European Development Fund (EDF) Vanuatu Value Chain Programme (VaVaC) is not LDC-contingent, and aims at contributing to poverty reduction and improved livelihoods through equitable and broad based sustainable economic growth of the rural economy. The EU's donor relationship via future EDFs is likely to continue irrespective of graduation.
- When determining the eligibility for access to concessional and interest-free loans, the Asian Development Bank (ADB) takes into account levels of per-capita GNI, together with the availability of commercial capital flows on reasonable terms and development of socio-economic institutions. While LDC criterion is one of the factors in considering ADB-eligibility, the criterion itself does not directly determine the eligibility. Graduation thus does not affect ADB's strategy for the country.
- Both Australia and New Zealand confirmed in response to enquiries both for the current project and from UNDESA that they intended to continue providing ODA for reasons other than LDC status, and that they had a long-term commitment to the country.
- China is a non-DAC donor and therefore categorised under 'Other Official Flows' rather than ODA. China does not take the LDC category into account in its lending and grant-allocation decisions.
- Official development assistance by France – a leading donor in the past — has been decreasing in recent years, reflecting the changes in France's overall aid strategy. In response to a UN inquiry, the government indicated that France-Vanuatu aid operations are based on

economic, social and cultural cooperation and thus graduation will not affect the support provided to Vanuatu.

- As indicated in its reply to the CDP Secretariat both in 2008 and 2011, Japan has developed its own criteria for ODA allocation and Vanuatu's graduation will not immediately affect the development aid it extends to that country. In general, graduated countries would face higher interest rates on yen loans beyond the special rate applied to LDCs. Japan's aid to Vanuatu, however, has comprised only grants and technical cooperation. No loans have been extended.
- The United States of America has officially stated that UN designations do not affect its ODA policies. The Government of the United States stated in its communication to UNDESA that graduation from LDC status would not impact Peace Corps programmes in Vanuatu. The Peace Corps agreement between the two countries was concluded in 1989 and currently over 80 volunteers are in the country.

In sum, the major donors are highly likely to maintain the overall framework for their aid policies towards the country. Graduation will have no impact on the overall aid policies of bilateral donors, largely because donors have their own criteria and priorities for aid provisions.

3.3 ODA trends

From 2008-17 Vanuatu's ODA receipts rose slightly less than the average for graduating LDCs, at 9.5% in total over the decade, reaching US$103.8 million in 2017, the latest year for which OECD data are available. ODA rose to US$160.4 million in 2015, the year of cyclone Pam, before declining. The biggest official donor in 2017 remained Australia, with US$45.4 million, followed by Japan on US$28.9 million, then New Zealand, the International Development Association of the World Bank (IDA) and the Asian Development Bank (ADB)**.** China is unofficially reported as having committed US$11.1 million in development assistance from 2016-17.[9]

For cross-reference it is also helpful to look at comparator countries. As shown in the following figure, most graduating countries experience an increase in ODA in the run-up to and after graduation. Samoa, which graduated in 2014, saw the biggest increase among recent graduates. The group of 12 countries identified for actual or potential graduation ('graduating countries' in the figure) saw a bigger increase in ODA over the decade than Vanuatu, although Vanuatu ended the decade with a larger increase in ODA than Cabo Verde and Maldives, with annual ODA having declined somewhat since a notable increase in 2015 due to cyclone Pam. The overall modest increase in ODA to Vanuatu during the decade could be taken positively: there is less to lose in the unlikely event of donors beginning to withdraw. There is also no obvious trend toward the reduction of ODA as graduation approaches. ODA may continue function to partly as a source of stability, helping counteract some of the sources of vulnerability from which the country will continue to suffer.

Figure 4: ODA, selected countries, rebased to 100 in 2008

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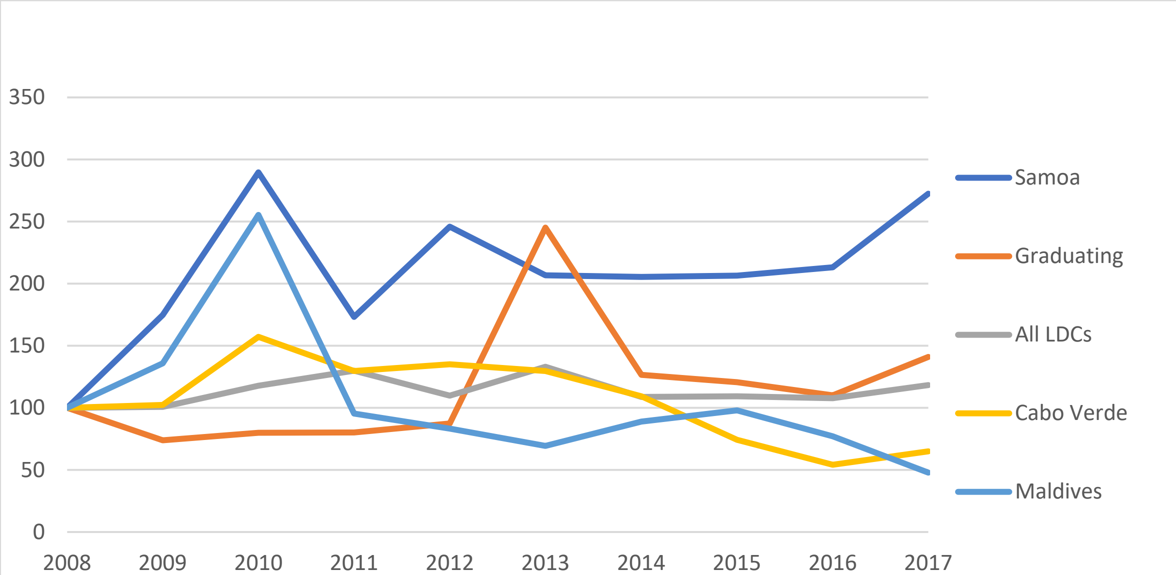
9 https://www.theguardian.com/world/2018/aug/08/huge-increase-in-chinese-aid-pledged-to-pacific



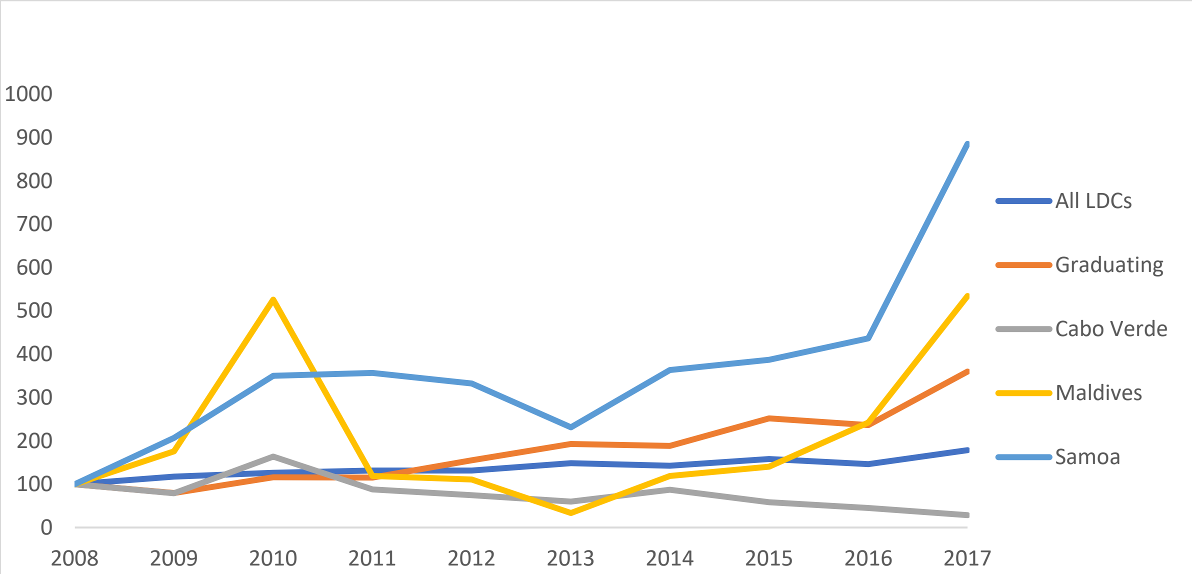
Data source: OECD

3.4 Aid for Trade

The main Aid for Trade instrument dedicated exclusively for LDCs is the Enhanced Integrated Framework (EIF), which, though very important, represents a relatively small share of Aid for Trade (AFT) flows to Vanuatu. The country would be eligible for support from the EIF for a period of up to five years after graduation unless alternative arrangements are made. Other AFT programme components are not linked to Vanuatu's LDC status.

Vanuatu saw a rise in AFT of 39% to US$65.3 million from 2008 to 2017 (much higher than the increase in ODA), with transport and storage accounting for three-quarters of AFT inflows during 2017. On a sectoral basis trade policies and regulation experienced the biggest proportionate increase, reflecting the importance of the EIF, while AFT to communications fell the most. The upturn in AFT to graduating countries like Vanuatu, may, as for ODA, be a sign that donor partners wish to invest in rapidly-growing countries that have better absorptive capacity and a need for infrastructure, or which have fewer or less pressing humanitarian or externally-financed social priorities than other LDCs. This observation is supported by the fact that transport and storage saw the biggest sectoral increase in AFT to graduating countries over the decade, forming the biggest single share of AFT in Vanuatu. Social sectors, in comparison, saw a decline in Vanuatu and in graduating LDCs in general.

Figure 5: AFT, selected countries, rebased to 100 in 2008



Data source: OECD

3.5 WTO implications

It is important to distinguish between WTO compliance in general from LDC graduation. Meeting WTO commitments in general has little connection with LDC graduation. It is for the government to determine its strategy vis-à-vis WTO notifications and obligations, whether or not it is an LDC. The primary impact of graduation is expected via the loss of special and differential treatment (S&D), which allows LDCs derogations from certain WTO rules, or delays in applying rules. The following table summarises the relevant provisions and states the impact on Vanuatu. The only obvious related implication would be loss of access to the Advisory Centre for WTO Law (ACWL), which is free for LDCs. It is suggested that the government or a donor pay the one-off CHF 81,000 membership fee to remain a member in perpetuity. Vanuatu would also have to undertake Trade Policy Reviews more often, but the impact of this is limited, and the review process may only mean a slightly increased administrative burden.

Table 1: Special and differential treatment to LDCs under WTO agreements and related decisions

Agreement/Decision	Support measure	Impact on Vanuatu
Understanding on the Balance-of-Payments Provisions of General Agreement on Tariffs and Trade (GATT)	LDCs may use simplified procedures when invoking trade restrictions for balance-of-payment reasons (paragraph 8)	None, given that trade restrictions unlikely for balance-of-payments reasons.
Agreement on Agriculture	LDCs and net food importing developing countries may provide certain export subsidies until the end of 2030 (article 9.4 of the Agreement on Agriculture, Ministerial Decision of 19 December 2015 (WT/MIN(15)/45-WT/L/980), G/AG/5/Rev.10)	None (no export subsidies).
	Longer repayment periods for export financing support (WT/MIN(15)/45-WT/L/980)	None.
	Less frequent notifications to WTO regarding domestic support (every two years instead of every year) (G/AG/2)	Limited impact.
Sanitary and	Priority for technical assistance (article 9.1). The	Potential small impact from

Phytosanitary (SPS) Measures	Standards and Trade Development Facility (STDF) has a target of dedicating at least 40% of total project financing allocated to LDCs or Other Low-Income Countries (STDF Operational Rules)	reduced access to STDF.
	Lower co-financing requirement for technical assistance. Beneficiaries from LDCs and OLICs contribute at least 10% of the requested STDF contribution to a project, as opposed to 20% for lower-middle-income countries and 60% for upper-middle-income countries (STDF Operational Rules)	As above.
Agreement on Subsidies and Countervailing Measures	LDCs (and other countries with GNI per capita below $1,000 in constant 1990 dollars) are exempted from the prohibition of export subsidies (article 27.2 and Annex VII of the Agreement and paragraph 10.1 of the Doha Ministerial Decision on Implementation-Related Issues and Concerns (WT/MIN(01)/17))	No export subsidies. LDC extension expired end-2018.
Trade Facilitation Agreeement	Longer notification time frames: until 22 February 2020 for category B measures; until 22 February 2021 for indicative dates and definitive dates; by 22 August 2022 for category C measures (articles 15 and 16)	Category B extension expires by the time of graduation.
	Longer deadlines under the early warning mechanism, in case an LDC has difficulties in implementing categories B and C measures (article 17)	
	Longer time frame (4 years rather than 18 months) for new implementation dates for measures shifted from category B to category C before approval from the Trade Facilitation Committee is required (article 19)	
	Longer grace period from dispute settlement (until 22 February 2023 for category A measures, and 8 years from the date of implementation of category B or C measures (article 20)	
Trade Related Aspects of Intellectual Property Rights	Exemption from applying all substantive TRIPS standards until 2021 (article 66.1, latest extension IP/C/64)	General TRIPS waiver for LDCs expires immediately after graduation. No impact unless extension negotiated.
	Exemption from providing protection for pharmaceutical patents, from providing the possibility of filing mailbox applications and from granting exclusive marketing rights until 2033 (IP/C/73 and WT/L/971)	No domestic pharmaceuticals industry.
	Waiver from notification requirements for issuing compulsory licenses for exports of pharmaceutical products to LDCs or other countries with insufficient manufacturing capacities in the pharmaceutical sector (article 31 bis)	As above.
Dispute Settlement Understanding (DSU)	Article 24 of the DSU refers to “special procedures involving LDCs”. WTO Members are to “exercise due restraint both in raising matters involving LDCs and in asking for compensation or seeking authorization to suspend concessions or other obligations if nullification or impairment is found to result from a measure taken by an LDC” (24.1). LDCs can request the Director-General of the WTO or the Chairman of the Dispute Settlement Body to provide their good offices, conciliation and mediation services for settling disputes (24.2).	Potential impact in the event of a dispute, although disputes are highly unlikely.
	Related: the Advisory Centre on WTO Law (ACWL) provides Legal advice, support during WTO dispute settlement and training. LDCs have access to these services whether or not they have joined as members.	It may be worth paying the one-off membership fee of CHF 81,000 to join the ACWL or negotiating payment by a donor.

Trade Policy Review Mechanism	LDCs may have a longer period between trade policy reviews than other countries (longer than the 6 years that apply to countries that are not among the 20 largest in terms of share of world trade) (Annex 3 of the Uruguay Round Agreements)	Limited impact.
Trade-Related Investment Measures	Annex F of the Declaration of the Sixth WTO Ministerial Conference allowed LDCs to maintain, on a temporary basis, existing measures that deviated from their obligations under the TRIMs Agreement. The provision applied to measures that were notified within a two-year period, which were then allowed to continue for another seven years. LDCs were also allowed to introduce new measures that deviated from their obligations under the TRIMs Agreement under certain conditions. All measures are to be phased out by year 2020.	No LDC has notified any TRIMS measure. S&D provision expires by the time Vanuatu graduates.

Source: CDP secretariat, based on the texts of WTO agreements and decisions and information provided by the WTO secretariat.

3.6 Investment promotion

Graduation will have very limited direct impact on investment. However with strong promotion and investor support, graduation may be turned to the national advantage, leveraging the positive international sentiment surrounding the country before and after December 2020.

To complement the National Investment Policy Statement (2019), investment promotion plans for a small number of specific sectors and products should be put in place, using modern techniques of investment promotion and investor targeting. Some possible sectors and products are discussed below. In addition, investment promotion should be linked with an industrial park or zone, such as the proposed area in south Santo, which appears to be at a fledgling stage. Measures should be enacted to incentivise investors to transfer knowledge, such as through joint venture schemes or minimum employment requirements.

The government should also leverage any means at its disposal to persuade potential foreign players to invest in priority products. At USUS$150,000 plus fees, a Vanuatu passport is one of the cheapest in the world, and investors are not currently obliged even to visit the country, still less invest there. Vanuatu passports appear to be in such demand that the government could perhaps leverage this interest by obliging buyers to invest a certain sum in priority products or geographical areas. The United States and United Kingdom each require wealthy foreigners buying passports to make large investments. At the time of writing the passport scheme was under government review, partly because of EU concerns that the system was being 'misused'.[10] Requiring passport purchasers to show physical presence or invest would help ease such concerns and reduce foreign pressure over the longer term to end the scheme.

An industrial park or special economic zone (SEZ) can be used to target recommended sectors or sub-sectors in a specific geographical locale using appropriate incentives and policies. The main reason for using zones, particularly in LDCs, is that addressing infrastructure, regulatory regimes or trade logistics is easier in a single physical location than in the whole country. Often, nationwide 'horizontal' policy initiatives fail – such as improvements to the entire business environment – because they try to achieve too much in too large an area. SEZs, which are specific and dedicated to a small number of sectors, can be relatively easier to run properly and offer a useful opportunity to learn about what works and what doesn't.

[10] *Financial Times*, 23 October 2019: "Vanuatu reviews 'passports for sale' scheme over EU worries" https://www.ft.com/content/2f7744ea-f490-11e9-b018-3ef8794b17c6

The term SEZ encompasses industrial parks, export processing zones, science and innovation parks, free ports and others. SEZs: (i) are in a geographically specific area, usually physically secured; (ii) have a single management or administration; (iii) offer benefits for companies in the zone; and (iv) have a separate, duty-free customs area and streamlined procedures.[11]

Zones have had enormous success in some contexts, most notably China, where the original four coastal SEZs were later expanded across the country and formed the basis of the country's industrial transformation. Yet in some regions, particularly sub-Saharan Africa, they have fallen short of their objectives or failed outright. Contextual adaption is extremely important. Although SEZs must be adapted to local circumstances, World Bank research suggests that five broad features stand out.[12]

- A robust legal and regulation framework and strong institutions, including effective one-stop-shop services. It is important to avoid 'one-more-stop shops' which only add to the administrative burden. Some Ministries may have to be convinced to surrender power to the zone authority, which requires political leadership from above.
- Strong government support as part of the national development strategy. Zones will not work unless government is committed to their success.
- A prototype design for broader national reforms. Some countries which benefited from zones, particularly China, used them as a way of experimenting with policies on a small scale before broadening out lessons to the wider economy.
- A strategic location with sound infrastructure. Zone positioning is crucial, and zones must be near transport infrastructure – in Vanuatu's case, near the ports and/or airport.
- Strong commercial viability and significant economic and social returns. Many zones failed because they were ill thought-out and propped up by inappropriate incentives. Zone activity must be orientated toward commercial success in the medium term, if not immediately.

While SEZs have often succeeded, many do not provide corresponding social and urban services such as health and education or public transport to accommodate their increasing population. Some SEZs are at a distance from their host cities, operating as isolated enclaves with few cultural and leisure activities. Such zones struggle to attract high quality talents and investments, and face challenges in sustaining growth or upgrading their industrial structures. To mitigate these problems, the new generation of zones in China is now encouraged to integrate with urban planning and development, with good public services and urban amenities.[13] In addition, several zones around the world have ended up as low-wage areas with few linkages to the wider economy. The long-term entrenchment of labour and environmental exploitation is contrary to development and sustainable structural transformation.

World Bank research shows that many SEZs in Africa have failed, with perhaps the best performing those in Egypt, Kenya, Madagascar, Mauritius and possibly Ghana. Key lessons from African experience include:

- SEZs must built and launched with a proper legal, regulatory and institutional framework.
- The cost of doing business must be low enough to attract investors.

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[11] FIAS. 2008. Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development. Washington, DC: World Bank.

[12] Zheng, D. Z (2015) Global Experiences with Special Economic Zones: Focus on China and Africa' Washington, World Bank. http://documents.worldbank.org/curated/en/810281468186872492/pdf/WPS7240.pdf

[13] Zheng, p.10

- The zone must be built into national development strategy or based on strong demand from business.
- Infrastructure must be good enough. Power, gas, roads, ports, and telecom are the key constraints. Strong commitment from government and active participation of the private sector are crucial.
- Zone management and operational know-how are critical. Zone developers, including the relevant government agencies, may not have experience in zone management and operations and may be unable to identify suitable partners for zone management and operations. Often this management expertise may be brought in from abroad. Managers must be given the power and authority to run the zone efficiently.
- Government ownership and policy consistency must be strong. Strong, long-term government commitment is crucial for success.
- Governments must live up to commitments to provide promised compensation for land acquisition and resettlement, so as to allow zones to develop over the long term.

Two priorities to complement the development of such a zone, and to be carried out by the Vanuatu Investment Promotion Agency (VIPA) are investor targeting (see box) and aftercare. Aftercare, or corporate development support, involves looking after investors when they are in the country as part of a long–term strategic relationship involving carefully-cultivated, often personal, relationships. Both of these activities are conducive to trade development, since foreign investors and diaspora often bring with them new techniques, contacts and access to international supply chains. It is unlikely that the products chosen for investor targeting, as discussed in the next section, will be exported by ni-Vanuatu companies without foreign or diaspora investment.

Box: Investor targeting

Investor targeting, in part a process of screening, starts with a wide range of possible investors, sectors and projects and through a coherent logical series of steps screens out those which are less appropriate. A manageable number of prospective investors remain that can then be approached with a view to introducing and negotiating investment.

Most of the initial steps in investor targeting are simply finer and finer information screens, a process of matching potential investors, sectors and projects to specific informational criteria to find the best matches. Those best matches then move on to a finer screen, involving the investors with the highest possible likelihood of investing.

Five main principles distinguish targeting from more general investment promotion:

1. Active identification of specific investment projects
2. Careful planning and management of investor search programmes
3. Investigation of specific corporate priorities
4. Confidential promotion to specific corporate executives
5. Delivery through a single agency leadership, management and co-ordination

Some other countries explicitly target specific sectors or even Transnational Corporations (TNCs). The state government of Penang in Malaysia played a very pro-active role by knocking on doors and extending special invitations to foreign investors that seemed to fit especially well in the development of the local enterprise cluster, with a special emphasis on the first set of TNCs pioneers which quickly made the location known worldwide.

Experience shows that the strategic attraction of specific types of FDI is far from easy. South Africa made efforts to target FDI in specific sectors and to encourage domestic economic activities around these strategic firms. With the exception of a Motor Industry Development Programme, however, the results were modest. In some cases it has not been possible to attract the envisaged foreign investments while in others no substantial forward and backward linkages have been built.

Some countries develop an integrated strategy using investment promotion agencies that combine marketing and company targeting with aftercare and product development. Trade and Investment South Africa (TISA) seeks to establish linkages with larger foreign-based firms in order to find export markets for SMEs. TISA staff have a mandate to encourage TNCs that they deal with to source locally and work with the main national SME development agency to facilitate such opportunities.

Investor targeting involves:

1. Active identification of specific investment projects

The rationale for a proactive approach is that:

- Investment projects can be pursued that match the country's needs and capabilities
- Targeting raises the understanding of business processes in IPAs and government
- The development of target sectors can benefit local companies and institutions
- It builds a business based partnership with potential and present TNCs

2. Carefully planned and managed investor search programmes

A distinctive feature is the process of identifying the sectors, companies, projects and benefits associated with a positive national partnership with international investors. It helps to plan targeting through the eyes and perceptions of international investors.

3. Investigation of specific corporate priorities

Targeting also involves devising and developing a project in relation to the known business priorities and processes of a specific company. It is not simply meeting with a company to suggest investing in Cape Verde, but rather a thoughtful contribution to the company's business priorities for the region.

4. Confidential promotion to specific corporate executives

A fourth feature is to identify the specific corporate executive or group of executives with the remit and authority to accept projects for evaluation and to authorize investment. This does not involve a general promotion to corporate public relations executives, regional sales staff or engineers. Targeting programmes are usually confidential, invisible and only known about when successful projects are commissioned.

Source: UNCTAD

In addition, and to complement zoning, investor targeting and aftercare, Vanuatu should follow discussions at the WTO on investment facilitation, one of the new issues which may be added to the WTO agenda, and which will be discussed at MC12 in June 2020. Vanuatu may wish to form a position on investment facilitation in advance of MC12, whether or not the government supported bringing investment facilitation into the WTO agenda (and acknowledging the regional position, which is that a new investment facilitation agreement is not a priority and would lead to unnecessary complication). Investment facilitation is the process of improving the environment for incoming investment by better applying existing rules and regulations, easing the proves of business establishment and enabling investors to expand their operations.

Investment facilitation is about helping countries to put into practice existing processes, and improving predictability, stability and transparency rather than primarily the attraction of new investment or changing the investment regime. The reduction of red tape and bureaucracy are major objectives. Discussions at the WTO, currently underway, focus on identifying and developing the elements that could form the basis of an Agreement, as well as outreach activities to engage more members in the development of such a framework. Elements under consideration include: transparency and predictability of investment regulations, efficiency and streamlining of administrative procedures, and international cooperation, including capacity-building and technical assistance.

3.7 Products

The TPFU highlights potential new opportunities for export, many of which may be suitable for incoming FDI, in fair trade accreditation of the coconut sector and new non-oil products such as coconut water, coconut milk and coconut sugar, desiccated coconut and other non-food products (coconut shell charcoal, activated carbon, coir etc.); pineapple, root crops, tomatoes, and Tahitian lime, various kava products including kava powder and oil. China may represent an important market destination for kava, as noted in a 2014 PHAMA study, and as indicated by the rise in export to that destination in 2018.[14] Incoming Chinese investment is rising rapidly, and it will remain important for Vanuatu to leverage this investment not just as a source of finance, but for know-how and commercial/marketing expertise.

As reported in the National Investment Policy Statement (2019), investment opportunities exist in value-added processing for the domestic market as well as export. Products identified include coconut (virgin coconut oil, cosmetics, tender coconut water, planks and furniture), cocoa (single origin powder, butter and speciality chocolate), coffee, kava (powdered and juice forms), tamanu nuts (oil), canarium nuts (dried and roasted snacks, oil) and spices (vanilla, pepper, turmeric, ginger, chili).

The recent comparative advantage study completed by the Asian Development Bank (2019) has implications for investment strategy, indicating areas suitable for both export and domestic production. In some cases it contradicts the NIDS and TPF, finding that areas with strong comparative advantage were found in several sub-sectors including:

- Locally marketed fresh produce and root crops, which are the main pillars of Vanuatu's food security and experience strong demand in the urban markets.
- Some high value perennial crops such as Tahitian limes, vanilla and kava. Tahitian limes and vanilla present high value niche market opportunities.
- Pigs and poultry also rank well due to strong domestic demand for animal products.

Sub-sectors with weaker comparative advantage include:

- Cereals, including maize and rice – low value import substitutes which Vanuatu cannot produce economically due to lack of scale.
- Several of the traditional export commodities including coconut, cocoa and coffee; as well as pepper, which is a potential export. These were once the mainstay of the cash economy in rural areas but their comparative advantage has weakened due to the long-term decline in real global prices and lack of investment in production and processing technologies.
- Beef cattle, where productivity remains very low, despite rising prices.

[14] http://phama.com.au/wp-content/uploads/2017/05/PHAMA-TR078-Exploring-the-Potential-for-Developing-Exports-of-Kava-to-China.pdf

Table 2: Summary of focus products in recent reports

NIDS	Comparative advantage study	TPF
● Coconut (virgin coconut oil, cosmetics, tender coconut water, planks and furniture) ● Cocoa (single origin powder, butter and speciality chocolate) ● Coffee ● Kava (powdered and juice forms) ● Tamanu nuts (oil) ● Canarium nuts (dried and roasted snacks, oil) ● Spices (vanilla, pepper, turmeric, ginger, chili)	**Strong CA:** ● Locally marketed fresh produce and root crops. ● Some high value perennial crops such as Tahitian limes, vanilla and kava. ● Pigs and poultry **Weaker CA:** ● Cereals, including maize and rice ● Coconut, cocoa and coffee; as well as pepper ● Beef	● Fair trade coconut ● New non-oil products such as coconut water, coconut milk and coconut sugar, desiccated coconut and other non-food products (coconut shell charcoal, activated carbon, coir etc.) ● Pineapple ● Root crops ● Tomatoes ● Tahitian lime ● Various kava products including kava powder and oil

It is for the MTTICNVB and VIPA to decide which products it promotes for investment, and for which purposes; either domestic supply or export. Each will require a different approach – for example tourism investors or long-term foreign residents-turned entrepreneurs with knowledge of local conditions have developed products such as soap and tomato sauce aimed at the domestic and tourism markets. New investors, perhaps incentivised to invest as part of the passport scheme, might be more likely to export. In the first place the TPFU should determine priorities. It is worth pointing out, however, that the NIDS and TPFU somewhat contradict the ADB Comparative Advantage Study in that coconut, cocoa and coffee are found to have weaker comparative advantage (although it is acknowledged that the NIDS and TPFU focus on value addition and niche processing of coconut and cocoa). Key high-value products which stand out across all three studies include Tahitian limes, kava and associated products, and vanilla.

3.8 Generalised System of Preferences Plus (GSP+)

Vanuatu currently exports very little to the EU, so graduation will have no immediate impact on exports to that region. The EU as a formality grants a three-year extension to the Everything But Arms (EBA) programme, which would guarantee duty-free, quota-free market access until 2023. However as a back-up policy it may be worth securing arrangements for market access to Europe in the event of an increase in exports of fish, kava, or products discussed in the previous section. If no alternative arrangements are considered, and unless alternatives are negotiated such as an IEPA, products would enter the EU under the standard GSP or most favoured nation (MFN) terms.

One of the most straightforward ways of securing continued market access without making concessions would be the EU's Special Arrangement for Sustainable Development and Good Governance (GSP+). GSP+ is not only non-reciprocal, meaning that it carries no tariff or trade liberalisation implications on the Vanuatu side, but it is also a way of avoiding the MFN clause in the Interim Economic Partnership Agreement (IEPA), which commits Vanuatu to extending anything agreed with one party to other nations or regions. Eight countries currently receive GSP+, including one former LDC, Cabo Verde. These countries are Armenia, Bolivia, Cabo Verde, Kyrgyzstan, Mongolia, Pakistan, The Philippines and Sri Lanka. Bangladesh is reported to be considering the scheme after it graduates in 2024. GSP+ grants duty free access to 66 per cent of EU tariff lines (in addition to products that are subject to zero MFN duties). Countries must ratify 27 conventions on human rights, labour rights, environmental protection and good governance as a condition for eligibility. Vanuatu has passed all except the following three:

- Convention on the Prevention and Punishment of the Crime of Genocide (1948)
- International Convention on the Elimination of All Forms of Racial Discrimination (1965)
- International Covenant on Economic and Social Cultural Rights (1966)

The EU continuously monitors GSP+ beneficiary countries' effective implementation of the 27 conventions, including exchanges of information, dialogue and visits. Various stakeholders are involved, including civil society. The European Commission publishes a report every two years outlining the progress made by beneficiary countries in implementing the conventions. Countries applying for GSP+ must not "have formulated reservations which are prohibited by these conventions" and must effectively implement the conventions. Once a country is granted GSP+, the EU checks that the beneficiary country abides by its commitments, conducting a continuous dialogue on compliance. That dialogue is based on a scorecard featuring information received from the beneficiary countries and international monitoring bodies and from other sources, including civil society, social partners, businesses, the European Parliament and the Council. The EU organises regular GSP+ monitoring visits to each beneficiary countries to meet all stakeholders. Beneficiaries are expected to demonstrate that they make serious efforts towards tackling the issues set out in the scorecard. The GSP+ dialogue feeds into the public GSP report, which the Commission must present to the European Parliament and to the Council every two years. The report contains a detailed assessment of each beneficiary's situation under the 27 conventions.

4. Graduation action plan

All actions relating to graduation should be coordinated with existing processes and strategies including the National Smooth Transition Strategy of the Vanuatu LDC graduation National Coordinating Committee (NCC)**,** the National Sustainable Development Plan 2030 (NSDP) and the Trade Policy Framework (TPF). The following is a list of activities to be undertaken in the short- to medium-term.

4.1 Enact graduation-related recommendations in Trade Policy Framework

In the first instance the recommendations of the TPFU on graduation should be undertaken, namely:

a. Initiate formal discussions with Japan to seek zero duty transition period for beef

b. Secure a Trade and Investment Framework Agreement with Japan (bilaterally or regionally)

c. Confirm critical post-graduation obligations, and initiate formal discussions in relevant WTO bodies, including jointly with the LDC group, to seek transition periods for and specific waivers from those obligations

d. Strengthen capacity of VanIPO

e. Strengthen capacity of the Department of External Trade, including filling all vacant positions

f. Seek a 5-year transition period from the EIF

g. Increase fundraising efforts towards non-LDC climate/environment facilities and funds

h. Increase efforts to mobilize commercial finance through ODA – blended finance

i. Develop and distribute briefs including consistent messages to support fundraising by all government agencies, and based on the critical challenges of Vanuatu – graduation, SIDS status, and environmental vulnerability

j. Determine the increase in membership fees for international organizations after graduation, and set aside adequate budget to face the increase k. Formally engage with all international organizations providing general support measures to Vanuatu to seek transition periods after graduation, based on UNGA resolution 67/221. l. Prioritize budget allocation for international travel to/engagement with international organizations

Where relevant, several of these TPFU recommendations are discussed further below. A number of other, broader recommendations are also appropriate to the MTTICNVB.

4.2 Learn lessons from other smooth transition cases

While Vanuatu is well advanced along the process of graduation, and institutional mechanisms have already been put in place (mainly the NCC), some lessons may still be learnt from previous and ongoing graduation cases, including Bhutan, Samoa, Cabo Verde and Angola. There is also no specified format for the transition strategy. Samoa decided that "the best transition strategy following graduation would be to ensure that it was able to fully implement its national development strategy". It integrated the issue of graduation into the Strategy for the Development of Samoa (SDS 2016-2020) as well as into its efforts in relation to the Sustainable Development Goals (SDGs), the SAMOA Pathway, the Paris Agreement, and Disaster Risk Reduction Framework.[15] Bhutan made a similar decision, incorporating its smooth transition strategy into the latest five-year plan (2018-23), with graduation taking place in 2023, at the end of this period.

To facilitate the preparation of the transition strategy and the identification of associated actions, the General Assembly recommended that graduating countries establish a consultative mechanism with development and trade partners, which could be supported, if requested, by the UN country team; and that the consultative mechanism be integrated with other relevant consultative processes and initiatives between the graduating country and its development partners.[16] Cabo Verde, for example, set up a donor support group (Grupo de Apoio à Transição (GAT)) to prepare a transition strategy to adjust to the phasing out of the support measures associated with LDC membership, as well as a Budget Support Group composed of Government entities and multilateral and bilateral donors to align and harmonize donor support around the Growth and Poverty Reduction Strategy.[17] Furthermore, graduating countries may request targeted assistance from the United Nations system, including for capacity-building, to support the formulation and implementation of the transition strategy.

The governments of graduated and graduating countries have established coordinating structures to manage the preparation and implementation of the transition strategy. For example Angola, which in 2021 will be the next LDC to graduate after Vanuatu, combined its National Consultative Committee for LDC Graduation with its Committee on the Sustainable Development Goals. The Committee will mainstream and align the LDC graduation roadmap and SDGs into the National Plan and into the national budget steering committee and connect to various national stakeholders.

[15] "Final Report on Smooth Transition Strategy, Samoa, 2017" by the Government of Samoa, submitted to the CDP in December 2017.

[16] "Monitoring the progress of graduated countries Cape Verde". Committee for Development Policy, Expert Group Meeting, Review of the list of least developed countries, New York, 16-17 January 2011 (CDP2012/PLEN/11). See also Gradjet (www.gradjet.org).

[17] Resolution 67/221 of 21 December 2012.

Organizations within the UN system support countries through the process of graduation within their respective areas of work and mandates, and in coordination with each other through a task force on graduation and smooth transition. General Assembly Resolution 71/243 (21 December 2016) on the Quadrennial Comprehensive Policy Review of the operational activities for development of the United Nations system (QCPR) "requests the United Nations development system to provide assistance to graduating countries in the formulation and implementation of their national transition strategies and to consider country-specific support for graduated countries for a fixed period of time and in a predictable manner," and ECOSOC Resolution 2017/29 "requests the entities of the United Nations development system to provide assistance to graduating countries in the formulation and implementation of their national transition strategies and to consider country-specific support for graduated countries for a fixed period of time and in a predictable manner".

4.3 Continue to place emphasis on building productive capacity

As recognised in the TPFU and NSDP, by far the biggest challenge remains building domestic production rather than securing international market access – although the latter should obviously remain part of the Ministry's strategy. The development of productive capacity is increasingly recognised as the critical challenge for trade development in LDCs.[18] Productive capacity comprises the productive resources (natural, human, physical and financial), entrepreneurial and institutional capabilities, and production linkages which together determine the capacity of a country to increase production and diversify. Expanding productive capacity is an important part of achieving the sustainable development goals (SDGs) (particularly SDGs 8 and 9).

It will remain critical not to allow trade agreements to displace national efforts to build productive capacity; in other words trade negotiations should not be seen as synonymous with trade policy, which has a wider definition. This will have implications for the amount of time and resources expended on trade agreements and negotiations. Vanuatu incurred enormous time and resources during nearly two decades as a member of new trade agreements or negotiating regional agreements such as the Pacific Agreement on Closer Economic Relations (PACER+), which is not yet ratified, its predecessor PACER, as well as PICTA, the MSG TA and the EPA, not to mention joining the WTO, a period during which goods trade has contributed less and less to the economy. Although clearly market access is important, and it would be a mistake to neglect trade agreements, goods trade has declined in relative terms not because of a lack of attention to external trade agreements; rather the country has a comparative advantage in tourism and national supply capabilities are limited. Building sustainable productive capacity should be a priority.

Because graduation is a waypoint, not an endpoint, the government may wish to continue to measure progress against the LDC criteria even after graduation – not least because the UN CDP continues to monitor graduated countries for up to a decade afterwards. Links exist between expanding productive capacity and progress on the LDC criteria, although the relationship is not deterministic. Increased productive capacity for sustainable development raises production, which in turn can increase income. Building productive capacity in a way that harnesses positive synergies with social outcomes directly increases human assets, moving a country through and beyond the graduation threshold. Effective industrial and trade policies, supportive macroeconomic and financial policies and international support through preferential market access and other means will lead to increased exports, overall economic diversification and better

[18] eg. Gay, D. (2018) Lessons learned from structural transformation in least developed countries, OECD, http://bit.ly/2Ho7czP, Committee for Development Policy (2018) Lessons Learned in Developing Productive Capacity: Fourteen Case Studies, UN Committee for Development Policy Background Paper No. 37; Committee for Development Policy (2017) , UN Committee for Development Policy Policy Note.

integration into the world economy. A reduction in export concentration and export instability will improve the Economic Vulnerability Index (EVI) score.

4.4 Continue to consult and inform stakeholders

Although the impacts of graduation are expected to be limited, it will still be important for the MTTCINVB to keep private sector and civil society stakeholders informed and to understand their views. For example a briefing with the Vanuatu Chamber of Commerce and Industry in October 2019 was the first time that several members reported having been given a full appraisal of the implications of graduation. If nothing else, such consultations and information sessions will reduce misinformation and avoid unnecessary complications in the run-up to December 2020 and afterwards. This activity should be linked with activity 4.7 on communications, below.

The UN recommends that a support group composed by the government and participating multilateral and bilateral donors to be formed to align and harmonize donor support around the transition strategy. If this is the NCC, the MTTCINVB should continue to facilitate its activities as far as possible. If required, governments can request support from the UN to facilitate the consultative process (although this does not seem to be relevant in the Vanuatu case). Even if the impact of graduation on ODA is limited, the government should continue to actively engage with the international community and be in constant dialogue with development partners to mitigate any possible unintended impacts. Development partners have a responsibility to ensure that their activities do not abruptly end following graduation or put vital programmes at risk. South-south cooperation is an increasingly important part of graduation, and it may be worth considering consultations with recently gradated countries or LDCs close to the graduation threshold.

The use of participatory techniques and public consultations is critical to all kinds of policymaking, not just LDC graduation. There is widespread recognition that participation brings political, legal and social benefits, improves compliance and reduces the risks of opposition. Participation can be costly but it is usually worthwhile. Stakeholders need to be kept up to date and made aware of the consequences of graduation. This should include the likely impact of graduation on different parties, how to mitigate any impact and what to negotiate as part of smooth transition. Companies likely to be affected by the loss of trade preferences need to know in advance what this might mean for their exports, and they and government need to plan accordingly.

Consultations fall into the following groups: (i) Between government agencies (i.e. line ministries and specialized agencies like customs); (ii) Informal consultation with the representatives of interest groups (e.g. trade unions, associations of entrepreneurs), civil society and representatives from the population most affected; (iii) Formal and extensive public consultations, including opinion polls and consultative referendums.

Donors may also be considered as stakeholders since they often conduct their own research into the national development situation and can bring important analytical and policy insights. Their continued involvement ensures that graduation remains viable over the long term and that a smooth transition strategy can be developed.

Consultations may take two forms: firstly, with individual stakeholders such as companies that stand to be affected for example by the loss of duty-free, quota-free market access. These consultations may need to be private if they concern confidential information. Secondly, it may be necessary to conduct public consultations or information sessions to allow various parties to debate or come to resolutions over any controversial issues.

The views of companies that stand to lose need to be taken into account to safeguard jobs and wages. If an NGO operating in a rural area stands to lose aid as a donor pulls out, then its operations may need to be supported. The budget of certain Ministries may be affected by the loss of travel assistance to UN meetings, and the needs of that Ministry may need to be accommodated. These issues need to be incorporated into development planning.

4.5 Secure continued preferential market access

As with 4.1, the priority here should be to follow the recommendations in the TPFU. Acknowledging the importance of productive capacity, and the limited impact of tariff changes, it will be important to seek continued market access for the limited number of goods affected by LDC graduation, as well as maintaining openness for any possible future exports. The strategy should be, where possible, to pursue multilateral or regional agreements for all exports affected by LDC graduation, rather than only to pursue bilaterals on a small number of export products, and to link trade and investment in a single bilateral agreement.

China: Vanuatu should consider requesting a three-year extension of China's GSP scheme, as Samoa did until the end of 2017. This could probably be achieved through a simple government request in writing. At the time of writing Samoa was also reported to be in talks over a Free Trade Agreement (FTA) with China. It may be worth following Samoa's example, including aid and investment in the agreement if appropriate, given China's increasing presence.

Japan: Samoa also sought to extend its duty-free arrangements with Japan for noni juice, fish and organic products such as honey, vanilla and cocoa. As noted in the TPFU, Vanuatu could try to seek a zero duty transition period from Japan. A bilateral arrangement with Japan would protect beef from any collateral damage from future measures aimed at other countries, like the 2017 - 2018 tariff spike. As with China this could be linked to aid and investment. This may prove difficult, given that recently graduated countries such as Samoa and Maldives failed to secure such an arrangement. Establishing a simple trade arrangement aimed at providing a formal but flexible forum for the discussion of important trade issues can be explored. Trade and Investment Framework Agreement (TIFAs) provide this option, and this is something that Vanuatu may consider, either individually or regionally with the other Pacific Islands.

Europe: Apply for GSP+, as discussed above, passing the three conventions remaining necessary for membership, namely the Convention on the Prevention and Punishment of the Crime of Genocide (1948); the International Convention on the Elimination of All Forms of Racial Discrimination (1965); the International Covenant on Economic and Social Cultural Rights (1966). As a secondary strategy, consider an Interim Economic Partnership Agreement (IEPA), a strategy which brings with it considerable costs in the form of national tariff reductions and the most-favoured nation (MFN) clause, which would in effect prevent Vanuatu from narrowing down an agreement to only particular items of interest with a single region or country.

4.6 Contribute to reporting to UN Committee for Development Policy (CDP)

In its advisory capacity the CDP reports to the ECOSOC annually on the progress of graduating countries based on information provided by the countries as well as selected development indicators. In the autumn of each year the CDP communicates a request to the country to report, by December 31st of the same year, their progress with smooth transition. The suggested content for country reporting includes details on the consultative mechanism such as committee members, meeting schedules and UN support. The countries should also report to the CDP about the phase-out of International Support Measures (ISMs), commitments of development partners and key issues in their achievement of their smooth transition strategies. It will be important for the MTTICNVB to ensure the full incorporation of trade-related concerns in this report. This could include a very simple summary of trade trends by product and destination; goods affected by tariffs; progress on trade agreements and negotiations; and any domestic concerns on trade-related ODA and AFT not reported in official OECD data.

4.7 Conduct national communications campaign

A communications strategy is a broad roadmap intended to facilitate effective dissemination of information. It is essentially a model which can be used for dealing with different audiences and stakeholders, and which helps with the selection of appropriate tools. It also functions as a form of policy that gives way to a tangible and practical means of reaching out to a target group with a certain message. The underlying principle behind such a strategy is that communication is fluid, and has to be fashioned to meet certain circumstances as well as the sender's interests.

Communication should not happen haphazardly; it must be organized and built around specific goals – in this case to ensure that LDC graduation is understood by key stakeholders and, where relevant, the wider public, as a success story, with few disadvantages – but that those affected should be made fully aware of the implications. A good communications strategy allows the user to better control messages, improves planning, removes doubt, and involves a wide range of people.

The accurate communication of facts and analysis on LDC graduation in Vanuatu will be essential in order to avoid unnecessary public or private sector reaction. A very simple campaign would consist of a straightforward list of activities conducted in the run-up to, and after, December 2020.

If funds permit, a communications manager could be recruited by DSPPAC or the MTTCINVB for a period of six months to a year to lead and coordinate the following activities, which could form the basis of a terms of reference. National activities should be linked to those at the international level, discussed in the next sub-section. The communications campaign could first consider the identification of one or more spokespersons who can talk to the press and public about the issues. Target audiences could also be identified, such as Ministers, policymakers, ambassadors, the general public, UN agencies and donors and particular media outlets.

The following simple list should involve clear lines of responsibility and timelines:

- Led by the NCC and DSSPAC, develop a simple positive slogan or message celebrating graduation and linked to the 40^{th} independence anniversary in 2020. This item should be included in the agenda for the forthcoming independence celebration committee. Timeline: immediate/ ongoing.
- Hold a national celebration event. Lessons can be learnt here from the example of Bangladesh, which held a country-wide celebration in early 2018 after the country met the criteria for the first time, led by the Prime Minister. Timeline: mid-2020.
- Consider composing a series of short, simple briefs, with the main facts about graduation, translated to Bislama, for use and distribution online and in media and publicity activities. This could be done immediately for use throughout 2020.
- The NCC/ MTTICNVB could brief members of parliament and hold a half-day briefing session for the Council of Ministers during the first half of 2020, ideally before the election in March. A simplified version of the PowerPoint presentation accompanying this report could be used.
- Led by DSSPAC, hold a public forum on LDC graduation in the first half of 2020.
- Circulate the list of Frequently Asked Questions (FAQs) on LDC graduation publicly, in English, French and Bislama again in the first, second and third quarters of 2020.
- Conduct regular press, TV, radio and social media activities. An initial interview was done on VBTC, broadcast on Friday 11 October. VBTC is interested in following the story. Contacts are: tfitzgerald@vbtc.vu, brnzdaniel23@gmail.com. Media releases should also be sent to the Daily Post. Communications might also be conveyed via social media, such as the Yumi Toktok Stret Facebook group.
- Consider conducting a radio talkshow programme about graduation, stating the basic facts.

4.8 Build international support

An increased presence on the international stage can improve Vanuatu's standing and possibly even help boost private sector opportunities, raising inward investment. Although it may be argued that celebrating graduation internationally would signal that the 'job is done', and that donor and multilateral support is no longer needed, in reality the international community is well aware of the ongoing challenges facing small island developing states and others. Donor commitment to development in the Pacific region, SIDS, and climate change, is clear. It is also better to engage actively as a progressive and forward-looking manner rather than to remain passive. If, as suggested in section 3.3, donors see greater opportunity in fast-growing LDCs with absorptive capacity and growing technical capacity, and donors invest correspondingly, then it does no harm to celebrate the achievement of graduation internationally.

- Seek the support of UN Office of the High Representatives for Landlocked, Least Developed Countries and Small Island Developing States (OHRLLS) and the Inter Agency Taskforce (IATF) on LDC graduation to help with international communications.
- Link LDC graduation to the Sustainable Development Goals (SDGs) so as to promote a positive international image.
- Use the annual Voluntary National Review (VNR) process to build Vanuatu's standing on the international stage and potentially attract investment.
- Advocate for continued post-graduation support at the Enhanced Integrated Framework (EIF), including at least the five-year extension of support until 2025.
- Collaborate with other graduating LDCs such as Angola, Bangladesh, Bhutan, , Cambodia, Lao PDR, Nepal, Myanmar, Sao Tome and Principe, Solomon Islands and Timor Leste. Consider forming a group of like-minded graduating or graduated LDCs in international forums including the WTO.
- Contact the World Investment Promotion Agency (WIPA) concerning publicity activities for investment.
- Use other international forums such as the UNGA, SIDS Review processes, UNCTAD15 in Barbados 2020, LDC5 in March 2021 in Qatar, to advocate for continuous development support for former LDCs.

4.9 Lobby for post-graduation assistance

Leaving the LDC category is obviously far from the end of the story.[19] A range of development challenges remain, and new ones may emerge, particularly related to climate change. Vulnerability is a particular issue: none of the graduating small island developing states, such as Vanuatu, will meet the vulnerability threshold of the LDC criteria for some years to come, if ever.

Vanuatu will also remain lower middle-income for several years, a fact which is likely to ensure donors' continued attention and commitment – and donors that do not take the LDC category into account are likely to seek new and innovative ways of supporting such countries. Vanuatu's latest reported per capita income using the Atlas method in current prices (not PPP) is US$2,970. The current threshold for upper-middle income status is US$3,895, a level which would be reached in 2025 at the historic annual average nominal per capita income growth rate of 4.25% unless the threshold changes. As noted earlier, at this growth rate, assuming the threshold does not change, it would take over half a century to reach high income status.

[19] The following analysis draws on work drafted for the WTO in 2019 entitled "LDC Graduation and the WTO: Assisting LDCs to Address the Trade-Related Implications of Graduation from LDC Status" "International Support Measures in the area of Development Cooperation".

Economic volatility, such as during the 2008 global economic crisis, will continue to affect Vanuatu more than developed and other developing countries. The impact of systemic issues such as tax havens, carbon emissions, agricultural subsidies and immigration restrictions far outweigh existing international support or any measure of development cooperation that might eventuate in the foreseeable future. These priorities should be taken into account in international lobbying activities.

Most governments in the graduating LDCs are moving toward a more self-financed path, one which is less reliant on external assistance. Existing smooth transition measures, whilst welcome, mostly amount to a phasing out of support rather than positive new measures to assist countries in their next phase of development.

It would be rational, therefore, for graduating LDC governments such as Vanuatu first and foremost to navigate the post-graduation landscape via renewed engagement with multilateral economic institutions and mechanisms, particularly those which best facilitate the relationship with the global economy and which address systemic, global issues. A commitment by LDC and developed-country governments to building on and improving existing multilateral arrangements concerning the least-advantaged countries in trade, finance, tax, immigration, agriculture and the environment would best complement this renewed focus. In mitigating the impact of graduation it is also important to link issues such as trade policy, financing and ODA rather than to deal with these issues separately.

In support of these broader international aims, the Vanuatu Government would be well-advised to support and prioritise solidarity with like-minded or similar countries with a view to negotiating collective post-graduation benefits.

Addressing the loss of LDC-specific benefits

As noted above, it may be possible to request the extension of certain LDC-specific international support measures including European Union (EU) duty-free, quota-free (DFQF) status under the Everything But Arms (EBA) initiative; financial support from the EIF (Enhanced Integrated Framework), particularly for trade facilitation and implementation of institutional reforms for the trade commerce and manufacturing sector; continued ODA assistance in the form of grants and concessional loans from bilateral and multilateral partners, especially in the event of natural disasters to which LDCs are permanently exposed; UN travel assistance to participate in UN meetings, if needed. A donor should be found to pay the one-off fee for joining the ACWL.

Graduation-related financing requirements for the implementation of the national plan should be identified, together with options available to meet these financing needs. This could be linked to potential new support measures following graduation, discussed below. If appropriate, a systematic list of financing requirements could be presented to donors, centring around the new post-graduation landscape.

A list of priority donors and trading partners needs to be compiled, and negotiations undertaken well in advance with a view to maintaining existing development cooperation and also compensating for any tariff preference losses, or extending them. Addressing development finance and tariffs together in any bilateral negotiations is likely to result in a stronger negotiated outcome.

Vanuatu does not have a sovereign bond rating with any of the main agencies. Some governments have expressed the belief that the loss of LDC-specific privileges may be mitigated by an improvement in creditworthiness as a result of graduation, and that ratings agencies may correspondingly assign sovereign bond ratings or improve them where they exist. Informal discussions with ratings agencies, however, confirm that UN LDC graduation *per se* is not taken into account during ratings decisions, although some of the LDC criteria may be used, such as income per capita.[20] It is quite possible, if difficult to quantify, that the general perception of progress implied by graduation might improve the appearance of creditworthiness. In Vanuatu this is unlikely in the near term.

New potential support measures

As well as measures to mitigate the loss of LDC-specific benefits, new ideas for support could be explored at the international level, possibly under the next LDC Programme of Action 2020-30, as well as in other arenas such as the Addis Ababa Action Agenda. An ambitious proposal suggested informally on the sidelines of the 7th WTO Aid for Trade Global Review from 3-5 July 2019, was to create a multilateral fund for former LDCs which have graduated in the current millennium or will graduate in coming years. The fund could encompass financing requirements linked to graduation – particularly the ongoing need for public-financed infrastructure – and smoothing the post-graduation pathway, as well as tackling the economic and environmental vulnerability from which most graduating and former LDCs continue to suffer. An opportune moment could be the launch of the 2020 LDC Programme of Action in Doha, 2021, immediately following graduation, and a suitable platform for soliciting donor contributions. Whilst donor fatigue is acknowledged, and fungibility is a key concern, such a fund may be a useful conduit or focal point through which donor partners concerned about graduation could centralise and coordinate funds. Some of the proposals or themes set out below could be financed from such a fund, or separately.

Public finance: Building public revenues is one of the main challenges for former LDCs and for LDCs close to graduation. Broadening the tax base is a fundamental part of developing countries' attempts to self-finance future development and to reducing reliance on international development assistance. Graduating countries may wish to use graduation as an opportunity to renew calls for dedicated capacity-development assistance in this area. Ongoing multilateral efforts to stem tax revenue leakages, to ensure banking transparency and to reform tax havens are at least as important as domestic measures to improve revenue collection.

Technology transfer and transfer of know-how: In addition to continued access to the technology bank for LDCs, the tacit nature of production knowledge means there is a need to send knowledgeable technicians and managers from suitable countries to graduating and former LDCs – many of which are undergoing structural transformation and are at a point when technology transfer is particularly important. Intellectual property, physical technology and capital equipment, although vital, cannot substitute for or operate independently from the know-how and expertise embodied in management personnel. Corporate or management transfer schemes may be explored, as well as south-south or north-south private-sector technical assistance for strategic industries. Technology transfer should prioritise existing, viable, businesses, but may be extended to new opportunities and even, sustainable 'fourth industrial revolution' technologies such as 3D printing, complementary currencies and artificial intelligence.

Cash transfers: Given that absorptive capacity for aid is already limited in Vanuatu, it may make sense to request a considerable proportion of future post-graduation development assistance in the form of unconditional direct cash transfers for marginalised people. Several interviewees for the current study raised the valid concern that they 'do not receive the US$3,017 in per capita GNI'. The use of aggregate statistics hides the reality that Vanuatu is a very unequal society, and that graduation does not reflect a large improvement in lifestyles for the majority of

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[20] Moody's sovereign ratings methodologies are here: https://www.moodys.com/Pages/HowMoodysRatesSovereigns.aspx. S&P's methodology is here: https://www.spratings.com/documents/20184/4432051/Sovereign+Rating+Methodology/5f8c852c-108d-46d2-add1-4c20c3304725

people, particularly those living in new urban settlements without access to land, and those living outside Port Vila and Santo.

Some government ministries already struggle to spend new donor funds because they have a small number of administrative staff and limited infrastructure. Any new injection of donor assistance or leveraged private-sector funds risks only exacerbating this challenge. Research suggests that existing cash transfer schemes have been highly successful, reducing monetary poverty, raising school attendance, stimulating health service use and improving dietary diversity, reducing child labour and increasing women's decision-making power.[21] They also target the marginalised and lead to more equitable and just outcomes, forming a valuable social safety net for the vulnerable, who tend to form a larger share of the population in graduating LDCs, which themselves remain disproportionately vulnerable compared with other developing countries.[22] 130 low- and middle income countries implement at least one non-contributory unconditional cash transfer programme, either government or donor funded, or both. Cash transfer schemes operated by OECD donors such as the United Kingdom DfID have achieved important successes with poor populations in developing countries such as Bangladesh[23] and Kenya. The United Kingdom has committed to doubling its use of cash transfers in humanitarian assistance by 2025.[24]

Dedicated policymaking support for graduating and former LDCs: A sufficient critical mass of graduating countries exists to achieve synergies in policy analysis. Quality, relevant technical advice is already emerging from prominent think tanks and institutions in the global south. For most graduating LDCs, such as Vanuatu, good technical advice is critical, and many would benefit from increased cooperation with countries which have recently undergone or are currently undergoing similar experiences. For example Bangladesh's Centre for Policy Dialogue is an active and dynamic institution in a graduating LDC well inserted into the LDC debate and UN policy circles. Funding for south-south and current and former LDC thinktanks should be prioritised in order to build ownership over policy proposals and to tailor any recommendations to the national context. Advice should be targeted at different graduating and former LDC clusters, such as SIDS and LLDCs**.**

Geographic indications: The loss of tariff preferences may be compensated by increased support for geographic indications in export products of interest to graduating countries. Products such as kava may be of special interest here.

Disaster risk insurance: LDCs such as Vanuatu may wish to further pool risk either regionally or globally via a facility simple enough that it can be easily accessed by capacity-constrained countries. LDCs tend to be under-served by existing disaster-risk reduction programmes yet suffer the most from natural disasters.[25] Innovative solutions may be explored, such as parametric insurance, where insurance providers, rather than waiting for disasters, pay out when parameters such as temperature or rainfall reach a certain level. Premiums fall in cost because insurers are better able to model and predict outcomes. Climate data has moved so far away from

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[21] Overseas Development Institue (2016) 'Cash transfers: what does the evidence say? A rigorous review of programme impact and of the role of design and implementation features', https://www.odi.org/publications/10505-cash-transfers-what-does-evidence-say-rigorous-review-impacts-and-role-design-and-implementation

[22] www.who.int/alliance-hpsr/alliancehpsr_dfidevidencepaper.pdf

[23] eg. DFID Bangladesh, 2006, Challenging the Frontiers of Poverty Reduction: Specially Targeted Ultra Poor Programme, Project Completion Report, September 2006, DFID, Dhaka.

[24] www.who.int/alliance-hpsr/alliancehpsr_dfidevidencepaper.pdf

[25]

www.undp.org/content/dam/undp/library/crisis%20prevention/disaster/Finance%20for%20reducing%20disaster%20risk-10-Things-to-know-report.pdf historical averages that insurers are having to raise premiums to unsustainable levels in order to cover the possibility of extreme events. Insurers might also find it in their own interests to help finance mitigation measures such as flood defences, which reduce the costs of payout due to cyclones or hurricanes.

Applications for donor support: Many of the smaller, more capacity-constrained graduating and former LDCs struggle to meet the administrative requirements for multilateral support. A request may be made to simplify procedures for programmes such as the Global Environment Facility. The UNCTAD LDC report 2016 proposed an LDC finance facilitation mechanism**:** **"**The proliferation of separate institutions and financing windows, together with limited progress towards donor coordination and harmonization, has given rise to an increasingly complex development finance architecture for LDCs. To improve their access to development (and, for example, climate) finance, this Report proposes the establishment of an LDC finance facilitation mechanism (FFM). The FFM could serve as a "one-stop shop", identifying appropriate funding agencies for the investments identified as priorities in LDCs' national development strategies by matching them with the particular criteria, priorities and preferences of potential funding sources. This could considerably reduce the administrative burden of seeking development finance, while accelerating access to finance and reducing funding uncertainty. Such benefits could be further enhanced by providing support to the preparation of funding applications and fulfilment of reporting requirements; and an appropriately designed FFM could also contribute substantially to capacity-building in LDCs."

Table 3. Summary of proposed actions on graduation

Action	Timeframe	Responsible entities
4.1 Enact graduation-related recommendations in Trade Policy Framework a. Initiate formal discussions with Japan to seek zero duty transition period for beef b. Secure a Trade and Investment Framework Agreement with Japan (bilaterally or regionally) c. Confirm critical post-graduation obligations, and initiate formal discussions in relevant WTO bodies, including jointly with the LDC group, to seek transition periods for and specific waivers from those obligations d. Strengthen capacity of VanIPO e. Strengthen capacity of the Department of External Trade, including filling all vacant positions f. Seek a 5-year transition period from the EIF g. Increase fundraising efforts towards non-LDC climate/environment facilities and funds h. Increase efforts to mobilize commercial finance through ODA – blended finance i. Develop and distribute briefs including consistent messages to support fundraising by all government agencies, and based on the critical challenges of Vanuatu – graduation, SIDS status, and environmental vulnerability j. Determine the increase in membership fees for international organizations after graduation, and set aside adequate budget to face the increase k. Formally engage with all international organizations providing general support measures to Vanuatu to seek transition periods after graduation, based on UNGA resolution 67/221. l. Prioritize budget allocation for international travel to/engagement with international organizations	2020 onwards	MTTICNVB
4.2 Learn lessons from other smooth transition cases	2019 onwards	MTTICNVB, DSSPAC
4.3 Continue to place emphasis on building productive capacity	Ongoing, long-term	TDD, MTTICNVB, DSSPAC
4.4 Continue to consult and inform stakeholders	2019 onwards	MTTICNVB

4.5 Secure continued preferential market access • China • Japan • Europe	2019 onwards	MoFA, Department of External Trade
4.6 Contribute to reporting to UN Committee for Development Policy (CDP)	Annually from Q1 2021	MTTICNVB, DSSPAC
4.7 Conduct national communications campaign • Develop slogan or message • Hold celebration event • Compose short briefs on graduation • Brief MPs • Hold public forum • Circulate FAQs • Press, TV, radio and social media	Q4 2019-Q1 2021	TDD, MTTICNVB
4.8 Build international support • Contact OHRLLS and IATF • Link graduation to SDGs • Use VNR process • Confirm 5-year extension of EIF • Collaborate with other graduating LDCs • Contact WIPA • - Use international forums to advocate for support for former LDCs.	2020 onwards	TDD, MTTICNVB, MoFA

4.9 Lobby for post-graduation assistance
• Address loss of LDC-specific support (including finding donor to fund ACWL membership fee).
• Seek new support measures
  o Public finance
  o Technology and know-how transfer
  o Cash transfers
  o Policymaking support
  o Geographic indications
  o Disaster risk insurance
  o Coordination of donor support
	2020 onwards	MoFA