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31 May, 2012

Dear Colleague,

Following our letter of 30 May 2012, we are pleased to circulate the draft report of the Ad Hoc Working Group that will be considered for adoption at the second formal meeting on Wednesday 6 June 2012, starting at 11:30 a.m. in Conference Room 4 of the North Lawn Building.

Given the tight schedule, the document, herewith enclosed, will be considered in its draft form.

The agenda for the meeting is contained in document A/AC.279/2012/L.1.

We look forward to a successful conclusion of the mandate of the Ad Hoc Working Group.

Please accept, Excellency, the assurances of our highest consideration.

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Brian G. Bowler  
Ambassador, Permanent Representative  
of Malawi to the United Nations

Jan Grauls  
Ambassador, Permanent Representative  
of Belgium to the United Nations

**Ad hoc Working Group to further study and strengthen the smooth transition process for the countries graduating from the least developed country category**

New York, 16 January – 6 June 2012

**Draft report of the Ad Hoc Working Group to Further Study and Strengthen the Smooth Transition Process for the Countries Graduating from the Least Developed Country Category**

**1. Introduction**

1. By its resolution 66/213, the General Assembly decided to establish, at its sixty-sixth session, an Ad Hoc Working Group to Further Study and Strengthen the Smooth Transition Process for the Countries Graduating from the Least Developed Country Category, open to all Member States, to submit a report to the General Assembly at its sixty-seventh session with specific recommendations, consistent with the Istanbul Programme of Action.

2. As the recently graduated and graduating countries have expressed their concerns that the existing smooth transition process has not been working well in practice and that there is considerable uncertainty about how the international community will approach development cooperation with graduating countries it was deemed necessary to encourage an intensive exchange of information and views about the smooth transition process among Member States.

3. The General Assembly adopted the Terms of Reference of this Working Group in decision A/66/L.30, reiterating these concerns. These Terms of Reference establish the general objective of the Ad Hoc Working Group to strengthen the smooth transition process and to facilitate the widest consensus possible between graduating or graduated countries and their development partners, thus providing additional reassurance to least developed countries that they will not fall behind in their development. The Terms of Reference further postulate that the Working Group should prepare recommendations on improving the smooth transition process to the General Assembly at its sixty-seventh session with a view to submitting a new resolution on the issue.

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4. The present report and the recommendations contained herein are submitted pursuant to that resolution and decision.

5. During the sixty-sixth session of the Assembly, on 3 January 2012, the President of the General Assembly appointed two Co-Chairs of the Working Group, Ambassador Jan Grauls, Permanent Representative of Belgium, and Ambassador Brian Bowler, Permanent Representative of Malawi.

6. The establishment of the Working Group follows the Fourth United Nations Conference on the Least Developed Countries (LDCs), held in Istanbul from 9-13 May 2011, which adopted the Istanbul Declaration and Istanbul Programme of Action (IPoA) for the LDCs for the Decade 2011-2020.<sup>1</sup> The overarching goal of the IPoA is to overcome the structural challenges faced by the LDCs in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the LDC category. Specifically the IPoA sets an ambitious objective of enabling half the number of LDCs to meet the criteria for graduation by 2020. The IPoA is the first global programme of action for LDCs containing a full-fledged chapter on "graduation and smooth transition", recognising the need to do more in this area if the overarching goal is to be achieved.

7. Building on GA resolution 59/209, the IPoA states that the measures and benefits associated with the LDC membership status need to be phased out consistent with their smooth transition strategy, taking into account each country's particular development situation. It further elaborates that it is crucial for graduating countries to take the lead in the development of smooth transition strategies with the support of their development and trading partners. Development and trading partners, including the United Nations system, should continue to support the implementation of the transition strategy and avoid any abrupt reductions in financial and technical assistance and should consider extending trade preferences to the graduated country, on a bilateral basis.

8. The present report summarizes the deliberations of the Working Group and provides an overview of the key issues and proposals put forward by Member States for further consideration.

## **II. Organization of the session**

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<sup>1</sup> See documents A/CONF.219/L.1 and A/CONF.219/3/Rev.1.

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**A. Opening and duration of the session**

9. The Ad Hoc Working Group to Further Study and Strengthen the Smooth Transition Process for the Countries Graduating from the Least Developed Country Category convened at United Nations Headquarters from 16 January to 6 June 2012.

**B. Endorsement of the Co-Chairs**

10. At the 1st meeting, on 16 January 2012, the Working Group endorsed the appointment by the President of the General Assembly of H.E. Jan Grauls, Permanent Representative of Belgium, and H.E. Brian Bowler, Permanent Representative of Malawi, as Co-Chairs.

**C. Adoption of the agenda and organization of work**

11. Also at the 1st meeting, the Working Group adopted provisional agenda for the Working Group, contained in document A/AC.279/2012/L.1. The agenda read as follows:

1. Opening of the session.
2. Endorsement of the co-chairs.
3. Adoption of the agenda and other organizational matters, including the programme of work.
4. General exchange of views.
5. Consideration of specific recommendations.
6. Adoption of the report to the General Assembly at its sixty-seventh session.
7. Other matters.

12. At the same meeting, the Working Group approved the proposed organization of work, which was set out in an informal paper available in English only.

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## **D. Documentation**

13. The list of documents before the Working Group is available from: <http://www.unohrrls.org/en/ldc/916/>. The Working Group especially benefitted from CDP Background Paper No. 14, February 2012 on: Strengthening smooth transition from the least developed country category.

## **III. Proceedings of the informal meetings**

### **A. Overview of informal meetings**

14. The first informal meeting was held on 16 February 2012. The meeting took stock of the current situation regarding LDC-specific international support measures as well as existing smooth transition measures. The Working Group benefitted from presentations by H.E. Mr. Charles T. Ntwaagae, Permanent Representative of the Republic of Botswana and Ms. Edna Filomena Alves Barreto, Minister Plenipotentiary, Permanent Mission of the Republic of Cape Verde. Thematic presentations were given by Ms. Annet Blank, Head LDC Unit, Development Division, WTO; Mr. Rob Vos, Director, Development Policy and Analysis Division, DESA and Mr. Taffere Tesfachew, Director, Division for Africa, Least Developed Countries and Special Programmes, UNCTAD. An exchange of views on what possible approaches could be developed to address gaps and concerns with respect to smooth transition measures was also held.

15. The second informal meeting was held on 16 March 2012. During the meeting the Working Group heard a briefing on strengthening the smooth transition by the Committee for Development Policy (CDP). Presentations were made by CDP members Ms. Mulu Ketsela, CDP Vice-chair and Alternate Executive Director of the African Development Bank, and Prof. José Antonio Alonso, Professor of Applied Economics, Complutense University of Madrid. They introduced the main conclusions of the CDP assessment of the existing smooth transition provisions and made suggestions on how these provisions could be further strengthened and better monitored. H.E. Mr. Gyan Chandra Acharya, Permanent Representative of Nepal and chair of the group of the least developed

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countries and Mr. Americo Beviglia Zampetti, Counsellor, Delegation of European Union, contributed to the meeting as discussants.

16. The third informal meeting was held on 26 March 2012. The meeting discussed the preparation and implementation of transition strategies for graduating and graduated countries. The Working Group heard a keynote presentation by Professor Patrick Guillaumont, FERDI, Université d'Auvergne, and former member of the Committee for Development Policy, and presentations by H.E. Mr. Ertuğrul Apakan, Permanent Representative of Turkey, and Mr. Jeffrey Salim Waheed, First Secretary Permanent Mission of the Republic of Maldives. An exchange of views on possible approaches to further support countries in this process was also held.

17. The fourth informal meeting was held on 8 May 2012. The meeting discussed what support from the UN system was needed for an improvement of the smooth transition process. H.E. Mr. Ali'ioaiga Feturi Elisaia, Permanent Representative of Samoa presented the experience of Samoa as a graduating country. His presentation was followed by presentations on the role of the UN system in facilitating smooth transition given by Mr. Siphosami Malunga, Senior Advisor, Regional Bureau for Africa, UNDP; Mr. Pierre Encontre, Chief, Special Programmes, Division for Africa, Least Developed Countries and Special Programmes, UNCTAD; Mr. Ivar Andersen, Manager of the Operations Unit, IDA Resource Mobilization Department and Mr. John S. Wilson, Lead Economist, Development Economics Research Group, World Bank. The meeting also allowed for an exchange of views on possible recommendations presented by the co-chairs.

## **B. Summary of deliberations**

### ***LDC-specific support measures and implications of graduation***

18. As a starting point in its study of smooth transition measures, the Working Group undertook an assessment of the variety of special support measures for LDCs provided by development partners, including bilateral donors and multilateral organizations, covering especially Official Development Assistance (ODA), trade-related measures and technical support. There was agreement that a thorough understanding of existing support measures and the implications of their withdrawal upon graduation was needed for the Working Group to make recommendations for their extension during the transition period.

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19. With respect to ODA, it was highlighted that only 10 out of 23 DAC donors had met the target of 0.15 percent of GNI as ODA to LDCs, leaving an absolute delivery gap against commitments of between \$20 and \$40 billion in 2010. It was also recalled that the World Bank, IMF and regional development banks did not target LDCs specifically, while some UN agencies did. Generally LDCs received more preference from multilateral than bilateral donors. In most cases, LDC status was not relevant for ODA allocation per se but LDC characteristics (low income, low human assets) were taken into account, as shown by the fact that ODA allocation favoured poorer LDCs and those with a low human asset index (HAI), whereas allocation was not responsive to the economic vulnerability index (EVI).

20. Attention was drawn to the LDC Information Portal of DESA<sup>2</sup>, which provided a consolidated platform containing all relevant information related to the international support measures specifically made available for the LDC category.

21. With respect to the implications of graduation, the problems linked to the binary nature of the LDC status were underscored and contrasted with the continuous character of the process of development. The risk of perverse incentives was mentioned as the binary nature of the LDC status could penalize the progress made by graduating countries leading to abrupt changes and therefore causing concern. As for the specific impact of graduation on ODA flows there was uncertainty. However, since ODA allocation was not closely related to LDC status, little specific impact was expected.

22. It was explained that graduated countries would still have access to non-LDC specific sources of finance. For instance, the Working Group considered access to the International Development Association (IDA). IDA funds are allocated to recipient countries based on performance through a formula that also gives weight to relative poverty. IDA also supports 13 small island economies, which have per capita incomes above the operational cut-off of \$1,175 for IDA resources. Countries exceeding the threshold for two years are considered for graduation from IDA but vulnerability and access to other sources of financing are carefully assessed to avoid cases of graduated countries sliding back.

23. In the interactive debate on LDC specific support and smooth transition measures, some member states highlighted that LDCs' graduation remained the overarching goal as stressed in the IPoA.

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<sup>2</sup> Available at: <http://webapps01.un.org/ldcportal/web/guest/home>.

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However, strengthened support for national transition strategies was needed and reducing uncertainty about future treatment was very important. Thus case-by-case in-depth assessments of the impact of graduation including on structural challenges, vulnerabilities, trade and technology were considered of high importance to the preparation of national transition strategies, along with the need to strengthen the statistical capacity of LDC governments as a precondition for meaningful assessments.

24. Member states also mentioned that for LDCs, as well as graduated countries, participation in international forums was essential for their voice to be heard. Therefore support for travel and participation needed to be extended. The continuous need for capacity building in graduating small island developing countries, given their limited economic base and high vulnerability to climate change, was also underscored.

25. It was clarified that the implementation of LDC specific support measures - as agreed in the IPoA - was a precondition for improving the smooth transition process. The provision of accurate and timely information, including by bilateral and multilateral donors on a regular basis about the specific support measures they offer to LDCs would help reduce the perceived uncertainty around graduation.

### ***Smooth transition measures***

26. The Working Group reviewed the existing international support measures of smooth transition. The provisions of GA resolution 59/209 urge development partners to support the transition of graduating countries from LDC to post-LDC life and to avoid abrupt disruptions in the assistance provided to a graduating country. Trading partners are invited to maintain trade preferences or to phase them out in a gradual manner. WTO members should consider extending to any graduating country the special and differential treatment and exemptions that are available to LDCs, for a period appropriate to the development situation of the country. The Working Group benefited from several presentations made by experts related to graduation and its implications with a view to create incentives through smooth transition measures.

27. Existing smooth transition measures, which are available to all graduated countries, were grouped into three main categories: (i) bilateral initiatives - such as the extension of duty-free quota-free (DFQF) market access by the European Union under its Everything But Arms initiative; (ii) continued access to LDC-dedicated funds -



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such as the extension of access to the Enhanced Integrated Framework, the LDC Fund of the Global Environment Facility (GEF-LDCF); and (iii) the extension of UN travel-related support to graduated countries<sup>3</sup>. However, it was noted that in several areas, including UN budget caps, there were currently no phasing out provisions for graduated countries.

28. Several ways to build and expand on existing smooth transition measures were mentioned. For example non-reciprocal preferential market access could be extended unilaterally. In order to avoid any violation of WTO rules, a blanket, time-bound waiver covering all special and differential treatment (S&DT) measures was suggested. The importance maintaining as much as possible the level of support, including technical assistance and capacity building, provided to graduating countries by development and trading partners was also highlighted. This included trade facilitation and access to Aid for Trade resources. It was also proposed that graduated countries could be given additional time to comply with WTO rules in the areas of TRIPS, TRIMS etc. from which they are exempted under S&DT. This could also include the extension of the exemption from the prohibition on export subsidies for LDCs under the agreement on subsidies and countervailing measures. Furthermore S&DT extensions for graduating countries could be included in the accession. Graduating LDCs were advised to consider their national development strategies not only as their national policy reform tool, but also as the analytical framework in which their aid for trade support needs were being mainstreamed.

29. As for the phasing-out of support measures over a long enough period of time, it was recommended that clear procedures be established for both bilateral and regional trade preferences and that Aid for Trade assistance be provided to prepare affected sectors in the graduating country. For multilateral ODA and UN support clear transition procedures and transparent rules needed to be established, including budget allocations for LDCs by multilateral organizations, LDC-specific technical assistance funds, caps and discounts to LDC contributions to UN budget, with the LDC specific travel fund to attend GA sessions as one example that has been agreed. Adopting these recommendations would send the clear message to graduating countries that they would not be 'left alone' by the international community after graduation.

30. However, LDC-support measures could only be temporarily extended after graduation, according to some experts. Postponement of

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<sup>3</sup> GA resolution 65/286.

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termination of all support measures would in effect postpone graduation itself. In contrast, support measures for LDCs taken on a case by case basis could be more easily adapted to make the transition smoother. In the case of aid, it was proposed to make the transition less abrupt by using continuous criteria rather than the binary LDC status. The benefits of taking into account the three LDC-identification criteria (GNIpc, HAI and EVI) as aid allocation criteria would be the following: the LDC group would benefit as a whole as greater volumes of aid would be allocated to them; the transition would be smoother for graduating countries, especially the most vulnerable; and principles of equity, effectiveness and transparency would be met.

31. Proposals were also made on how to reduce vulnerability for LDCs in general. While such measures would not be specifically for graduating and graduated countries, they could help increase resilience and thus make the graduation and smooth transition measures smoother. The possibility of compensatory financing of exogenous shocks, either external or natural was put forward. Vulnerability to climate change could be addressed through an appropriate allocation of available resources for adaptation, using an index of physical vulnerability to climate change. It was also suggested that for LDCs facing high environmental vulnerability, the establishment of a catastrophe risk insurance facility, building on the experience of the Caribbean Catastrophe Risk Insurance Facility, could be envisaged so as to reduce the economic impact of natural catastrophes. The pooling of resources among participating governments would reduce the cost of coverage and provide immediate liquidity after a disaster.

32. Some member states reiterated that LDC status and benefits should be phased out taking into account each country's particular development situation and vulnerabilities. At the same time support to graduated countries should be predictable and transparent. Other member states stressed the important role of regional factors for graduating and graduated countries. It was also proposed that emerging countries should participate in the consultative mechanisms and incorporate graduated LDCs in their technical and financial assistance programmes.

33. Some member states also suggested that the current period of three years between the General Assembly taking note of the decision by ECOSOC until actual graduation could be extended in order to give graduating countries more time to prepare for the phasing out of LDC specific international support measures.

34. In conclusion the predictability of international support during the transition period and beyond was identified as one crucial factor to

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improve smooth transition measures. There is also the need to consider the phasing out of LDC-specific support for which no measures exist yet or where only very few development and trading partners have made commitments covering all graduating countries. Finally, the issue of vulnerability needed to be addressed already before graduation as greater resilience took time to develop and would reduce the risk of sliding back into the LDC category.

*The experience of graduated and graduating countries*

35. One of the main purposes of the Working Group was to learn from the experiences of graduated and graduating countries as a basis for discussions on how to improve the smooth transition process. It was recalled that a country graduates from the LDC category three years after the GA takes note of the recommendation of the CDP. During this three-year period, the country remained on the list of LDCs and continued to fully benefit from the special support measures associated with LDC status. The smooth transition strategy was to be negotiated during this period and implemented only after the actual graduation of the country.

36. The experiences of Botswana, Cape Verde, Maldives and Samoa were shared with the working group. In the case of Botswana, while diamonds had played a major part in Botswana's economic fortunes, maintaining a stable political and macro-economic environment, with prudent and transparent management of public resources was one of the country's greatest strengths. Since it graduated from the LDC category in 1994, it had faced challenges of economic diversification, poverty and unemployment. Despite the loss of LDC-specific market access opportunities and ineligibility for grants, soft loans and other concessionary sources of funding, a number of positive developments stemming from graduation had emerged. These included gaining policy space to independently determine and pursue national development priorities, the enhanced ability to access international capital markets and to attract foreign direct investment flows, and the opportunity for creativity and innovation in the management of the country's development path. LDCs were encouraged to view graduation as a landmark in their development, without which they would risk continued marginalization from the world economy.

37. While good progress had been made by Cape Verde, which graduated in 2009, towards achieving several MDGs, its economy still remained extremely vulnerable to external shocks, limited by its insularity and aridness of its soil, constrained by lack of natural resources, mainly concentrated on the tourism sector and excessively

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dependent on unstable ODA and remittances flows. A “Grupo de Apoio à Transição” (GAT), comprising all of Cape Verde’s major bilateral and multilateral development partners, including the UN System, had been established to guide the country through the graduation process. It was explained that the contribution of international partners had been crucial to Cape Verde’s transition from LDC status and continued to remain extremely important in the coming years. Graduation had put Cape Verde in a better position to seize new opportunities to formulate and implement a transformational agenda to forge its future sustainability through the creation of innovative mechanisms of resource mobilization in order to finance infrastructure, the development of an information society, and the upgrading of its human resources.

38. The focus of Maldives’ transition strategy on trade development and maintaining development financing was presented to the Working Group. Maldives’ lobbying and advocacy efforts played a crucial role in obtaining the granting of favourable new trade measures and waivers, such as the TRIPS extension until 2013 granted in the aftermath of the 2004 Tsunami, which was later applied to all LDC WTO Members. Maldives’ promotion of its smallness and vulnerable status articulated during the Trade Policy Review (TPR) had resulted in the extension of the Everything but Arms (EBA) trade agreement with the EU. The zero tariff agreement with China for 60 per cent of Maldives’ exports was also recalled. However, other regional trade objectives had remained unmet. Lack of progress was also recorded in the area of development assistance and access to concessionary finance. It was noted that graduation did not bring increased FDI except for the tourism industry, leaving the structural vulnerabilities as a small island unchanged. The importance of developing a coherent national strategy for smooth transition, which should be monitored in its implementation phase on an annual basis, instead of only triennially, was underscored. Reference was made to the extreme vulnerability of the Maldives to external shocks and the high infrastructure development costs. The country’s key productive capacity was inextricably linked to the natural environment and the durability of its fragile ecosystem.

39. In the case of Samoa, the transition strategy was considered as a way of turning challenges into opportunities through genuine partnerships. Both the global economic crisis and the 2009 tsunami had been contributing causes of the deferral of Samoa’s graduation to January 2014. Samoa had started the first phase of the preparation of an effective transition strategy, which would ultimately allow for a comprehensive and focused dialogue with Samoa’s development

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partners in order to identify the benefits, support and trade preferences that could be retained after graduation, as well as the gaps in the level of assistance required against those pledged. The first half of 2012 would be focused on building an inventory of the full range of benefits Samoa received as LDC, with the assistance of UN-OHRLLS and UNCTAD. The second half of 2012 would be dedicated to the preparation of the actual transition strategy based on national multi-stakeholder consultations. The strategy would be then discussed and finalised with partners in 2013. One first step towards continued support for Samoa was the designation as a “Delivering As One” country by UNDP.

40. Experts highlighted that graduating countries needed to design well defined national development strategies to overcome structural bottlenecks and align international support. Such international support could include focused assistance to improve the tax system leading to enhanced mobilization of resources domestically which would compensate for future reductions in ODA and focused support for exporters (e.g. through increased Aft) to become more competitive to compensate for future losses of trade preferences. Likewise capacity building to increase resilience to external shocks should be prioritised.

41. It was also stressed that the monitoring of smooth transition should be strengthened and graduating countries could be requested to provide concise reports yearly on progress in the development, and triennially on the implementation of the transition strategy.

42. During the interactive debate member states agreed that transition strategies needed to reflect the reality of each country’s situation so as to ensure that graduation remained a long-lasting achievement. The importance of country ownership and case-by case approaches was also stressed.

43. Some member states considered the current smooth transition process inadequate and called for the official recognition of the SIDS category at the United Nations to address their vulnerabilities, as most countries in the graduation process were SIDS. This would ensure continued access to targeted support, especially for their vulnerability to climate change and environmental disasters. Support measures were needed to facilitate investment in infrastructure projects to create a viable economy in SIDS. Some Member States also raised the need for special measures to address the vulnerabilities of landlocked LDCs.

44. While it was recognized that all graduated countries still faced high vulnerabilities to different kinds of shocks, they experienced continued economic and social progress after graduation. Non-

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traditional donors should also be more involved in the consultative process at the national level.

***Support by the UN system for the preparation, implementation and monitoring of smooth transition***

45. The Working Group was reminded that the responsibility to negotiate with development partners to ensure that LDC-specific benefits and privileges would not be abruptly discontinued was solely put on the graduating country under the existing smooth transition mechanism. Thus the role of the UN system and that of development partners in the preparation and implementation of transition strategies needed to be better understood in order to agree on improvements.

46. In this context it was stressed that the United Nations provided the framework for smooth transition, including an assessment of the post-graduation needs, position papers to help graduating countries negotiate with their partners, and monitoring of progress in the transition phase. The UN Resident Coordinator was tasked to mobilize relevant UN entities and foster national ownership of the process. It was recommended that graduating countries should make an inventory of existing international support measures from which they benefit, to identify those measures that they could afford to lose, those they wanted to be extended for a transition period and those additional support measures that they believed as desirable for smooth transition but were never offered before. Such inventory would constitute the basis for determining the country's negotiating strategy. For most SIDS, for example the most relevant support measures would be ODA, technical support in attracting investment, climate-change projects and funding and the financing of regional public goods. However for the oil-rich graduating countries ODA was not a concern, while technical assistance to strengthen their institutional capacities was needed.

47. UNDP, as coordinator of the UN System at country level, was mentioned as one of the main actors involved in the process. For Cape Verde, substantive support was provided to the development and elaboration of a transition strategy, especially the facilitation of informal aid coordination and policy dialogue with all resident partners. Lessons learned from the transition process were identified, including the importance of more effectively monitoring the implementation of the strategy as well as continuously assessing the vulnerability to climate change, natural disasters and external shocks. In the Maldives UNDP coordinated the support to the government for the development of a smooth transition strategy. Crucial inputs were provided by UNESCAP and UNCTAD, including a review of the

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economic and social challenges facing the country and the emerging global economic crisis. Support was also provided to establish a national coordination mechanism and outline a plan of action for key areas such as trade and investment, and environmental vulnerability. UNDP also assisted the government in organizing a donor conference, which provided a useful platform to strengthen dialogue with donors and partners. The peculiar vulnerabilities of SIDS, the need for early engagement in the smooth transition process, the importance of political stability and good governance, as well as continuous support, was highlighted.

48. There was general agreement that there was room to enhance technical assistance to graduating countries by the UN system. UNDP and/or the UN Resident Coordinators could kick start the process and act as facilitator of the consultative mechanism, while also developing a graduation capacity building programme.

49. Some Member States reiterated that in order to meet the aspirational goal of the IPoA, strong and effective delivery of the commitments contained therein was needed. Member States were of the view that the graduation process needed to be based on close consultation of LDC governments with UN counterparts and other development partners, looking at the reality on the ground.

50. The UN was called upon to refine and better coordinate its support to graduating countries. DESA and UNCTAD were requested to provide, through their reports, a better understanding of support measures and assess their effects in a holistic and comprehensive manner. It was suggested that OHRLLS should play a more active role in coordinating UN support and advocating for more comprehensive support for graduating and graduated countries. Member States also stressed the importance of aligning country strategies with the IPoA and expressed the view that enhanced support was needed to increase resilience of small island graduated and graduating countries vis-à-vis external shocks, and in particular drought, desertification and sea-level rise.

51. Member States also underscored the importance of monitoring, not only of the implementation of the IPoA commitments, but also of the national transition strategies.

### *The way forward*

52. During the last substantive session, the Co-Chairs presented their draft list of recommendations, summarizing the vast array of concrete proposals that have been put forward by experts and Member

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States during the substantive meetings of the working group. These recommendations provide guidance on how to strengthen the smooth transition process and boost the confidence of future graduating countries on continued development support from the international community. Several delegations shared their general and more specific comments on the draft list. Member states also expressed their appreciation for the work of the Co-Chairs.

53. While the implementation of several of the recommendations fell into the purview of individual Member States, there was agreement among Member States that the recommendations contained in paragraph 58 of this report should be viewed as a basis for a resolution to be negotiated during the 67<sup>th</sup> session of the General Assembly.

#### **IV. Adoption of the report**



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54. At its 2nd meeting, on 6 June 2012, the Working Group adopted the recommendations contained in its draft report on its work (see A/AC.279/2012/L.2).

55. At the same meeting, the Working Group adopted the draft report on its work (A/AC.279/2012/L.2)

## V. Recommendations

56. As the Working Group reached the conclusion of its mandate, it was important to recall a key provision of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020, stating that “Smooth transition of countries graduating from least developed country status is vital to ensure that these countries are eased onto a sustainable development path without any disruption to their development plans, programmes and projects. The measures and benefits associated with the least developed country membership status need to be phased out consistent with their smooth transition strategy, taking into account each country’s particular development situation” (paragraph 141).

57. On the basis of draft recommendations circulated by the Co-Chairs, the Ad Hoc Working Group developed the list of recommendations set out below. This list includes issues and proposals that were put forward by a large number of Member States during the meetings of the AHWG. These are not necessarily consensus positions but summarize the key issues and proposals presented by Member States to facilitate possible further consideration at the United Nations. These proposals can be structured according to the following broad categories: (1) strengthening the smooth transition process and (2) strengthening smooth transition measures.

58. The list of recommendations contains the following:

### **(1) STRENGTHENING THE SMOOTH TRANSITION PROCESS**

#### **A. Information about and understanding of existing support measures are key**

i. Need to further enhance information sharing and understanding of available LDC-specific international support measures and related transition measures (from all partners), their characteristics and modalities.

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ii. More transparency and timely information can improve the LDCs capacity to prepare smooth transition strategies and, more generally, reduce uncertainty and ensure predictability. Need for one source of information sharing (the DESA portal).

iii. Need for wider circulation of DESA's ex ante impact assessments and UNCTAD vulnerability profiles as well as all relevant documentation.

iv. Regular exchanges of information between LDCs and graduated countries on experiences and lessons learned should be intensified.

**B. Strong national transition strategies are the basis for successful transition**

i. Importance of strong national ownership, governance and leadership in designing and implementing a country specific national transition strategy.

ii. Recognition of the specificity of such transition strategies, to be designed on a case by case in-depth assessment of the possible impact of graduation, taking into consideration the structural challenges of the countries concerned. In this context, the particular vulnerabilities of the graduating country should be given special attention.

iii. Technical assistance by the UN system should be enhanced. The UN Resident Coordinator should kick start the process and act as facilitator of the consultative mechanism, while also developing formal graduation capacity building initiatives or efforts.

iv. Within the consultative mechanism, all development and trading partners should be actively involved in the design of the national strategies as frameworks within which partners could work and based on which they could determine the best mix of supporting actions needed.

v. National strategies should enhance predictability in the graduation process. Benefits should be phased out taking account of each country's particular development situation and vulnerabilities, as outlined in the IPoA.

vi. Monitoring of smooth transition should be strengthened and graduating countries should be requested to provide concise, but regular reports on progress made, in particular using existing ECOSOC mechanisms, while not adding to the reporting burden. Monitoring should be about preparation and implementation of national transition strategies.

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**C. An early start of discussions on transition measures is strongly recommended**

- i. Starting up discussions with development partners on the extension and phasing out of measures and benefits at an early stage is strongly recommended, i.e. discussions should start during the early pre-graduation phase in order to allow the results of these discussions to be integrated in the national transition strategy.

**D. Coherence is crucial**

- i. Necessity to keep up political awareness/leadership within the graduating country, the UN system and the development community on the need for coherence when dealing with graduation and transition processes, supported by OHRLLS.
- ii. The national transition strategy should be integrated in existing longer-term comprehensive national development plans.
- iii. An effective consultative mechanism should be established for designing the transition strategy and for integrating it with other regular consultative processes between the graduating country and its development and trading partners.
- iv. Need to discuss with development and trading partners bilateral and multilateral strategies and aid programs to ensure that they fully support the national transition strategy.

**E. Support from the UN system should be increased**

- i. Under the leadership of the Secretary-General, strong coordination throughout the UN development system is required, using the CEB mechanism.
- ii. Upon request from the country, the role of the UN Resident Coordinator as focal point for the UN support to the graduating country, kick-starting the process and acting as facilitator of the consultative mechanism, should be enhanced, with support from the UNDG.
- iii. UN Country Teams should play a stronger role in assisting graduating countries.
- iv. More effective engagement of ECOSOC in the monitoring process is desirable.

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v. OHRLLS has a leading role to play in attuning the UN system and other partners of the issue of Smooth Transition.

vi. UN entities not represented in the field should also be more proactive in assisting graduated countries in their preparations of transition strategies.

**F. Some aspects of the GA role in the transition process should be clarified**

i. An appropriate time-framed and expeditious process by the GA for taking action on ECOSOC decisions related to graduation of individual LDCs should be agreed.

ii. Explicit references to the elements of the smooth transition process, including the consultative mechanism, should become part of the ECOSOC and General Assembly resolutions on graduation of specific countries, with a view to increasing awareness about the process among all member states and the country concerned.

**(2) STRENGTHENING SMOOTH TRANSITION MEASURES**

**A. Characteristics of the support measures during the transition period**

Support measures during the transition period should focus on:

i. predictability: measures should be clear with regard to their scope, timeframe and modalities

ii. confidence building: for graduating countries confidence in their own capacities and in the support of development and trade partners is the strongest incentive in the graduation process

iii. specificity: a differentiated approach is needed taking account of each country's development situation, vulnerabilities, strengths and weaknesses, as outlined in the IPoA.

iv. certainty: certainty about what will happen to support measures after graduation would be another incentive.

v. transformation: development and trading partners and graduating countries alike should, as appropriate, adapt their transition support and strategies to the development situation of graduating countries after graduation.

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## **B. Continued need for Official Development Assistance (ODA)**

i. Development partners should consider the extension and gradual phasing out of LDC-specific support measures to graduated countries for a fixed period of time in a predictable manner, without prejudice to ODA resources available to LDCs.

ii. UN entities, which are committed to allocating a certain percentage of their resources to LDCs, should consider the extension and gradual phasing out of specific LDC-specific support to graduated countries for a fixed period of time in a predictable manner, without prejudice to resources available to LDCs.

iii. While considering extension of access to UN and other donors' LDC-specific funds, allocations or measures beyond graduation, development partners should ensure that programs approved under LDC status are carried through, and be clear about the timeframe and modalities of the gradual phasing out of access to these support measures, taking into account the specific situation, challenges, vulnerabilities and prospects of the graduated countries concerned.

iv. Graduation by LDCs which are recipients of large amounts of ODA would have an impact on bilateral donors meeting their commitments regarding ODA allocation for LDCs<sup>4</sup>. This issue of conflicting objectives between ODA targets and supporting graduated LDCs needs to be addressed before LDCs receiving substantial amounts of ODA (in absolute terms) become eligible for graduation.

v. As in the case of the allocation of bilateral aid resources to LDCs and graduated countries, the conflicting objectives of supporting graduated countries versus meeting budget allocation targets set by multilateral donors need to be addressed urgently.

## **C. Adapting trade-related measures to the new development situation**

i. Trading partners who have not established procedures for extending and/or phasing out preferential market access should be encouraged to express, as a general rule or at the consultative mechanism, their commitment to extend their LDC-specific preferences, the number of years of the extension and/or the details concerning the gradual phasing out of the measures.

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<sup>4</sup> When a large ODA recipient leaves the category, a donor may no longer be able to easily reach its aid target of 0.15-0.20 per cent of GNI due to the fact that aid to this large recipient will no longer be classified as ODA to LDCs.

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- ii. The transition strategy should include the commitments made by the main trading partners.
  - iii. Preferential tariffs should be extended over a period long enough to allow affected sectors to prepare themselves.
  - iv. While negotiating their WTO accession, graduating countries and their trading partners should use these negotiations to agree on specific extensions of Special & Differential Treatment (SDT) through transitional arrangements.
  - v. The possibility to obtain non-reciprocal preferential market access through a blanket, time-bound waiver, covering all Special & Differentiated measures, including –but not limited to- market access measures, extended for a transitional period to graduated countries, should be explored.
  - vi. Members of the WTO are encouraged to adopt formal procedures and extended time frames for phasing out LDC-specific Special and Differential Treatment (SDTs).

#### **D. Technical assistance remains a valued companion**

- i. Aid for Trade should remain a valued companion for strengthening LDC's capacities (institutional, structural,...) and for enabling graduating countries to cope better with the gradual phasing out of LDC-specific measures. Aid for Trade should be better targeted, result-oriented and coordinated.
- ii. LDC-specific funds other than the Enhanced Integrated Framework should be encouraged to continue implementation of approved programs and to provide technical assistance to graduated countries over a period appropriate to the development situation of the country.
- iii. Technical assistance commitments should clearly be made part of the commitments to be undertaken by development and trading partners in the transition strategy and implemented through EIF, Aid for Trade or other instruments.

#### **E. Travel benefits to be broadened to new organs/institutions**

- i. The GA provisions extending smooth transition provisions for UN travel benefits should be used as a precedent that may facilitate extending travel benefits from other organs/institutions for a given number of years to graduating countries.

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**F. Support modalities beyond transition**

i. Development partners should be encouraged to incorporate LDC-indicators (GNI/pc, HAI and EVI) as a part of their aid allocation criteria. This would allow a more gradual phasing out of support and, as a result, address the concerns of those countries exiting the category which are still facing challenges in overcoming remaining structural handicaps (particularly those captured by EVI)

ii. Including the same indicators as allocation criteria could also be relevant for financing flows (not necessarily reported as ODA) by development finance institutions, which promote private sector activities in developing countries through loans, guarantees and investments.