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

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

I. Introduction

1. By its resolution 66/213, the General Assembly requested the President of the General Assembly to establish 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, and to submit a report to the Assembly at its sixty-seventh session with specific recommendations, consistent with the Programme of Action for the Least Developed Countries for the Decade 2011-2020 (Istanbul Programme of Action).

2. Since 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 exchanges of information and views among Member States about the smooth transition process.

3. The General Assembly adopted the terms of reference of the working group in its decision 66/553, reiterating those concerns. The terms of reference establish the general objective of the 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

* A/67/50.



Assembly at its sixty-seventh session, with a view to submitting a new resolution on the issue.

4. The present report and the recommendations contained herein are submitted pursuant to General Assembly resolution 66/213 and decision 66/553.

5. On 3 January 2012, during the sixty-sixth session of the General Assembly, the President of the General Assembly appointed Jan Grauls, Permanent Representative of Belgium to the United Nations, and Brian Bowler, Permanent Representative of Malawi to the United Nations as Co-Chairs of the working group.

6. The establishment of the working group follows the Fourth United Nations Conference on the Least Developed Countries, held in Istanbul from 9 to 13 May 2011, which adopted the Istanbul Declaration and Istanbul Programme of Action (A/CONF.219/3/Rev.1). The overarching goal of the Programme of Action is to overcome the structural challenges faced by the least developed countries in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category. Specifically, the Programme of Action sets the ambitious objective of enabling half the number of least developed countries to meet the criteria for graduation by 2020. The Programme of Action is the first global programme of action for least developed countries to contain a chapter on graduation and smooth transition, recognizing the need to do more in this area if the overarching goal is to be achieved.

7. Building upon General Assembly resolution 59/209, the Programme of Action states that the measures and benefits associated with 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. 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 and experts for further consideration.

II. Organization of the session

A. Opening and duration of the session

9. The working group convened at United Nations Headquarters from 16 January to 6 June 2012.

B. Endorsement of the Co-Chairs

10. At its 1st meeting, on 16 January 2012, the working group endorsed the appointment by the President of the General Assembly of Jan Grauls, Permanent

Representative of Belgium to the United Nations, and Brian Bowler, Permanent Representative of Malawi to the United Nations, as Co-Chairs.

C. Adoption of the agenda and organization of work

11. At its 1st meeting, the working group adopted the provisional agenda for the working group, as 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.

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 benefited from the information contained in background paper No. 14 (February 2012) prepared by the Committee for Development Policy on strengthening smooth transition from the least developed country category (see website).

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 least developed country-specific international support measures and existing smooth transition measures. The working group benefited from presentations by Charles T. Ntwaagae, Permanent Representative of Botswana to the United Nations, and Edna Filomena Alves Barreto, Minister Plenipotentiary, Permanent Mission of Cape Verde to the United Nations. Thematic presentations were given by Annet Blank, Head of the Least Developed Country Unit, Development Division, World Trade Organization; Rob Vos, Director, Development Policy and Analysis Division, Department of Economic and Social Affairs of the United Nations Secretariat; and Taffere Tesfachew, Director, Division for Africa, Least Developed Countries and Special Programmes, United Nations Conference on Trade and Development (UNCTAD). An exchange of

views was also held on what possible approaches could be developed to address gaps and concerns with respect to smooth transition measures.

15. The second informal meeting was held on 16 March 2012 and included a briefing by the Committee for Development Policy on strengthening the smooth transition process. Presentations were made by Committee members Mulu Ketsela, Vice-Chair of the Committee and Alternate Executive Director of the African Development Bank, and José Antonio Alonso, Professor of Applied Economics, Complutense University of Madrid. They introduced the main conclusions of the Committee's assessment of the existing smooth transition provisions and made suggestions on how the provisions could be further strengthened and better monitored. Gyan Chandra Acharya, Permanent Representative of Nepal to the United Nations and Chair of the group of the least developed countries, and 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. Discussions were held on the preparation and implementation of transition strategies for graduating and graduated countries. The working group heard a keynote presentation by Patrick Guillaumont, Fondation pour les études et recherches sur le développement international, Université d'Auvergne, and former member of the Committee for Development Policy. Additional presentations were given by Ertuğrul Apakan, Permanent Representative of Turkey to the United Nations, and Jeffrey Salim Waheed, First Secretary, Permanent Mission of Maldives to the United Nations. 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 the support needed from the United Nations system to improve the smooth transition process. Ali'ioaiga Feturi Elisaia, Permanent Representative of Samoa to the United Nations, described the experience of Samoa as a graduating country. His presentation was followed by others on the role of the United Nations system in facilitating the process, including Siphosami Malunga, Senior Adviser, Regional Bureau for Africa, United Nations Development Programme; Pierre Encontre, Chief, Special Programmes, Division for Africa, Least Developed Countries and Special Programmes, UNCTAD; Ivar Andersen, Manager of the Operations Unit, International Development Association Resource Mobilization Department, World Bank; and John S. Wilson, Lead Economist, Development Research Group, World Bank. The meeting allowed for an exchange of views on the recommendations presented by the Co-Chairs.

B. Summary of deliberations

1. Least developed country-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 least developed countries provided by development partners, including bilateral donors and multilateral organizations, in particular official development assistance (ODA), trade-related measures and technical support. There was agreement on the need for a thorough understanding of existing support measures and the implications of their

withdrawal upon graduation in order for the working group to make recommendations for extension of such measures during the transition period.

19. With respect to ODA, it was highlighted that only 10 out of 23 Development Assistance Committee donors had met the target of 0.15 per cent of gross national income as ODA to least developed countries, leaving an absolute delivery gap against commitments of between \$20 billion and \$40 billion in 2010. It was also recalled that the World Bank, the International Monetary Fund and regional development banks did not target least developed countries specifically, while some United Nations agencies did. In general, least developed countries received more preference from multilateral than bilateral donors. In most cases, least developed country status was not relevant for ODA allocation per se, but least developed country characteristics (low income, low human assets) were taken into account, as shown by the fact that ODA allocation favoured poorer least developed countries and those with a low human asset index, whereas allocation was not responsive to the economic vulnerability index.

20. Attention was drawn to the least developed country information portal of the Department of Economic and Social Affairs,¹ which provided a consolidated platform containing all relevant information related to the international support measures specifically made available for the least developed country category.

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

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

23. In the interactive debate on least developed country-specific support and smooth transition measures, some Member States highlighted that the graduation of least developed countries remained the overarching goal, as stressed in the Programme of Action. However, they also emphasized the need for strengthened support for national transition strategies and the importance of reducing uncertainty about future treatment. Thus, case-by-case and 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

¹ Available from <http://webapps01.un.org/ldcportal/web/guest/home>.

transition strategies, along with the need to strengthen the statistical capacity of least developed country governments as a precondition for meaningful assessments.

24. Member States also mentioned that the participation of least developed countries and graduated countries in international forums was essential in order for their voices to be heard. Support for travel and participation therefore needed to be extended. The continuous need for capacity-building in graduating small island developing States, given their limited economic base and high vulnerability to climate change, was also underscored.

25. It was clarified that the implementation of least developed country-specific support measures, as agreed in the Programme of Action, 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 least developed countries would help reduce the perceived uncertainty around graduation.

2. Smooth transition measures

26. The working group reviewed the existing international support measures for the smooth transition process. In its resolution 59/209, the General Assembly urged all development partners to support implementation of the transition strategy and to avoid abrupt reductions in the assistance provided to a graduating country. Development and trading partners were invited to extend to the graduated country trade preferences previously made available or to phase them out in a gradual manner. World Trade Organization (WTO) members were invited to consider extending to a graduating country the existing special and differential treatment and exemptions that were available to least developed countries for a period appropriate to the development situation of the country. The working group benefited from several presentations made by experts who addressed graduation and its implications and ways 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: (a) bilateral initiatives, such as the extension of duty-free, quota-free market access by the European Union under its Everything but Arms initiative; (b) continued access to least developed country-dedicated funds, such as the extension of access to the Enhanced Integrated Framework, the Least Developed Countries Fund of the Global Environment Facility; and (c) the extension of United Nations travel-related support to graduated countries, pursuant to General Assembly resolution 65/286. However, it was noted that in several areas, including United Nations budget caps, there were currently no phasing out provisions for graduated countries.

28. Several ways to build and expand upon 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 measures was suggested. The importance of maintaining the level of support as much as possible, 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 initiative resources. It was also proposed that graduated countries be given additional time to comply with WTO rules in the areas of, for example, trade-related aspects of intellectual property rights and trade-related

investment measures, from which they were exempted under special and differential treatment measures. This could also include the extension of the exemption from the prohibition on export subsidies for least developed countries under the agreement on subsidies and countervailing measures. Furthermore, special and differential treatment extensions for graduating countries could be included in the accession. Graduating least developed countries were advised to consider their national development strategies not only as a 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 United Nations support, clear transition procedures and transparent rules needed to be established, including budget allocations for least developed countries by multilateral organizations, least developed country-specific technical assistance funds and caps to least developed country contributions to United Nations budget. The least developed country-specific travel fund for facilitating attendance at General Assembly sessions is an example that had been agreed. Adopting the recommendations would send the clear message to graduating countries that they would not be “left alone” by the international community after graduation.

30. However, least developed country support measures could only be temporarily extended after graduation, according to some experts. Postponement of the termination of all support measures would in effect postpone graduation itself. In contrast, support measures for least developed countries 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 that the transition be made less abrupt by using continuous criteria rather than the binary least developed country status. The benefits of taking into account the three least developed country identification criteria (gross national income per capita, human assets index and economic vulnerability index) as aid allocation criteria included that the least developed country group would benefit as a whole since greater volumes of aid would be allocated to them; that the transition would be smoother for graduating countries, especially the most vulnerable; and that principles of equity, effectiveness and transparency would be met.

31. Proposals were also made on how to reduce vulnerability for least developed countries in general. While such measures would not be specifically for graduating and graduated countries, they could help to 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 the establishment of a catastrophe risk insurance facility, building on the experience of the Caribbean Catastrophe Risk Insurance Facility, could be envisaged for least developed countries facing high environmental vulnerability 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 least developed country 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. Additional proposals included that emerging countries should participate in the consultative mechanisms and incorporate graduated least developed countries in their technical and financial assistance programmes.

33. Some Member States also suggested that the period of three years between the time the General Assembly took note of the Economic and Social Council decision and actual graduation could be extended in order to give graduating countries more time to prepare for the phasing out of least developed country-specific international support measures.

34. In conclusion, the predictability of international support during the transition period and beyond was identified as a crucial factor for improving smooth transition measures. There was also the need to consider the phasing out of least developed country-specific support, for which no measures yet existed or where very few development and trading partners had made commitments covering all graduating countries. Finally, the issue of vulnerability needed to be addressed before graduation occurred since greater resilience took time to develop and would reduce the risk that the least developed country might slide back into the least developed country category.

3. 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 in order to discuss ways to improve the smooth transition process. It was recalled that a country would graduate from the least developed country category three years after the General Assembly had taken note of the recommendation of the Committee for Development Policy. During the three-year period, the country would remain on the list of least developed countries and continue to benefit fully from the special support measures associated with least developed country status. The smooth transition strategy would be negotiated during the 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 macroeconomic environment, with prudent and transparent management of public resources, was one of the country's greatest strengths. Since the time it had graduated from the least developed country category in 1994, it had faced the challenges of economic diversification, poverty and unemployment. Despite the loss of least developed country-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. Least developed countries 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 Millennium Development Goals, its economy remained extremely vulnerable to external shocks; limited by its insularity and the aridness of its soil; constrained by lack of natural resources; concentrated mainly on the tourism sector; and excessively dependent on unstable ODA and remittance flows. A transition support group (Grupo de Apoio à Transição), comprising all of Cape Verde's major bilateral and multilateral development partners, including the United Nations 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 least developed country status and would continue to be 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 that would forge its future sustainability through the creation of innovative mechanisms of resource mobilization and would enable it to finance infrastructure, the development of an information society and the upgrading of its human resources.

38. The focus of the Maldives transition strategy on trade development and maintaining development financing was presented to the working group. The lobbying and advocacy efforts of Maldives had played a crucial role in enabling the country to be granted favourable new trade measures and waivers, such as the extension of the trade-related aspects of intellectual property rights until 2013, granted in the aftermath of the 2004 tsunami, which was later applied to all least developed country WTO members. Maldives benefited from the extension of the Everything but Arms trade agreement with the European Union. 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 had not brought increased foreign direct investment except for the tourism industry, leaving its 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 Maldives to external shocks and 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 until 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 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 that pledged. The first half of 2012 would focus on building an inventory of the full range of benefits Samoa received as a least developed country, with the assistance of the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

and UNCTAD. The second half of 2012 would be dedicated to preparation of the actual transition strategy, based on national multi-stakeholder consultations. The strategy would then be discussed and finalized with partners in 2013. A first step towards continued support for Samoa was its 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 (for example, through increased Aid for Trade) so that the country could become more competitive and thereby counterbalance any future losses of trade preferences. Likewise, capacity-building to increase resilience to external shocks should be prioritized.

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

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 lasting achievement. The importance of country ownership and case-by-case approaches were also stressed.

43. Some Member States considered the current smooth transition process inadequate and called for official recognition of the small island developing States category at the United Nations in order to address their vulnerabilities, as most countries in the graduation process were small island developing States. This would ensure continued access to targeted support, especially in respect of their vulnerabilities to climate change and environmental disasters. Support measures were needed to facilitate investments in infrastructure projects in order to create viable economies in small island developing States. Some Member States also raised the need for special measures to address the vulnerabilities of landlocked least developed countries.

44. While it was recognized that all graduated countries had continued to face high vulnerabilities to different kinds of shocks, they were also seen to experience continued economic and social progress after graduation. It was stressed that non-traditional donors should be more involved in the consultative process at the national level.

4. Support by the United Nations system for the preparation, implementation and monitoring of the smooth transition process

45. The working group was reminded that the responsibility to negotiate with development partners to ensure that least developed country-specific benefits and privileges would not be abruptly discontinued had been placed solely on the graduating country under the existing smooth transition mechanism. Thus, the role of the United Nations system and of development partners in the preparation and implementation of transition strategies needed to be better understood in order for agreement to be reached on improvements.

46. In that context, it was stressed that the United Nations provided the framework for the smooth transition process, including assessments of the post-graduation needs, position papers to help graduating countries negotiate with their partners and monitor progress in the transition phase. The United Nations resident coordinator was tasked to mobilize relevant United Nations 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 benefited and identify measures that they could afford to lose, those that they would want extended for a transition period and additional measures that they believed would be desirable for a smooth transition but had never been offered before. Such inventory would constitute the basis for determining the country's negotiating strategy. For most small island developing States, for example, the most relevant support measures would be ODA, technical support in attracting investment, projects and funding to mitigate the impact of climate change and the financing of regional public goods. However, for oil-rich graduating countries, while ODA was not a concern, technical assistance to strengthen their institutional capacities was needed.

47. UNDP, as the coordinator of the United Nations system at the country level, was mentioned as one of the main actors involved in the process. For Cape Verde, substantive support was provided for the development and elaboration of a transition strategy, in particular to facilitate 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 and continuously assessing vulnerabilities to climate change, natural disasters and external shocks. In Maldives, UNDP coordinated the support provided to the Government for the development of a smooth transition strategy. Crucial inputs were provided by the Economic and Social Commission for Asia and the Pacific and UNCTAD, including a review of the economic and social challenges facing the country and the emerging global economic crisis. Support was also provided to establish a national coordination mechanism and to 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 small island developing States, the need for early engagement in the smooth transition process, the importance of political stability and good governance, as well as continuous support, were highlighted.

48. There was general agreement that the technical assistance provided to graduating countries by the United Nations system could be enhanced. UNDP and/or the United Nations resident coordinators could kick-start the process and act as facilitators 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 Programme of Action, 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 least developed country Governments with United Nations counterparts and other development partners, looking at the reality on the ground.

50. The United Nations was called upon to refine and better coordinate its support to graduating countries. The Department of Economic and Social Affairs and

UNCTAD were requested to provide, through their reports, a better understanding of support measures and to assess the effects of the measures in a holistic and comprehensive manner. It was suggested that the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States should play a more active role in coordinating United Nations support and advocating for more comprehensive support for graduating and graduated countries. Member States also stressed the importance of aligning country strategies with the Programme of Action and expressed the view that enhanced support was needed to increase the resilience of small island developing States that had graduated or were graduating vis-à-vis external shocks, in particular drought, desertification and sea-level rise.

51. Member States also underscored the importance of monitoring implementation not only of the Programme of Action but also of national transition strategies.

5. The way forward

52. During its 4th informal meeting, on 8 May 2012, the Co-Chairs presented their draft list of recommendations, summarizing the vast array of concrete proposals that had been put forward by experts and Member States during the substantive meetings of the working group. The recommendations served to provide guidance on ways to strengthen the smooth transition process and boost the confidence of countries graduating in the future in respect of the continued development support they would receive 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 57 of the present report should be viewed as the basis for a resolution to be negotiated during the sixty-seventh session of the General Assembly.

IV. Adoption of the report

54. At the 2nd meeting of the working group, on 6 June 2012, the Co-Chair orally revised the third sentence of paragraph 38 of the draft report contained in document A/AC.279/2012/L.2 to read as follows:

“Maldives benefited from the extension of the Everything but Arms trade agreement with the European Union”.

The working group subsequently adopted the draft report as orally revised.

V. Recommendations

55. The working group stressed the importance of recalling a key provision contained in paragraph 141 of the Programme of Action, namely 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.

56. On the basis of the draft recommendations circulated by the Co-Chairs, the ad hoc working group developed the list of recommendations set out below. The list includes issues and proposals that were put forward by a large number of Member States and partners during the meetings of the working group. 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. The proposals can be structured according to two broad categories: strengthening the smooth transition process; and strengthening smooth transition measures.

57. The list of recommendations contains the following:

A. Strengthening the smooth transition process

1. Information about and understanding of existing support measures are crucial

(a) There is a need to further enhance information-sharing and understanding of available least developed country-specific international support measures and related transition measures (from all partners), their characteristics and modalities;

(b) Increased transparency and timely information can improve the capacity of least developed countries to prepare smooth transition strategies, and in general reduce uncertainty and ensure predictability. There is a need for one consolidated source of information-sharing (the Department of Economic and Social Affairs portal);

(c) There is a need for wider circulation of Department of Economic and Social Affairs ex-ante impact assessments, UNCTAD vulnerability profiles and all relevant documentation;

(d) Regular exchanges of information between least developed countries and graduated countries on experiences and lessons learned should be encouraged.

2. Strong national transition strategies are the basis for successful transition

(a) The importance of strong national ownership, governance and leadership in designing and implementing a country-specific national transition strategy should be stressed;

(b) The specificity of such transition strategies should be recognized and should be designed on a case-by-case and 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;

(c) Technical assistance by the United Nations system should be enhanced. The United Nations resident coordinator should kick-start the process and act as a facilitator of the consultative mechanism, while also developing formal graduation capacity-building initiatives or efforts;

(d) All development and trading partners in the consultative mechanism should be actively involved in the design of the national strategies as frameworks

within which partners can work and based upon which they can identify the best combination of supporting actions needed;

(e) National strategies should enhance predictability in the graduation process. Benefits should be phased out, taking into account each country's particular development situation and vulnerabilities, as outlined in the Programme of Action;

(f) Monitoring of the smooth transition process should be strengthened, and graduating countries should be requested to provide concise reports on a regular basis on progress made, in particular by using existing Economic and Social Council mechanisms, while not adding to the reporting burden. Monitoring should cover the preparation and implementation of national transition strategies.

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

Initiating discussions with development partners on the extension and phasing out of measures and benefits at an early stage is strongly recommended. Discussions should begin during the early pre-graduation phase in order to allow the results of the discussions to be integrated into the national transition strategy.

4. Coherence is crucial

(a) There is a need for the graduating country to maintain political awareness and leadership of graduation and for the United Nations system and the development community to ensure coherence when dealing with graduation and transition processes, with the support of the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States;

(b) The national transition strategy should be integrated into existing longer-term comprehensive national development plans;

(c) 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;

(d) Discussions need to be held with development and trading partners on bilateral and multilateral strategies and aid programmes in order to ensure that they fully support the national transition strategy.

5. Support from the United Nations system should be increased

(a) Under the leadership of the Secretary-General, strong coordination throughout the United Nations development system is required, using the mechanism of the United Nations System Chief Executives Board for Coordination;

(b) Upon the request of the country concerned, the role of the United Nations resident coordinator as focal point for United Nations support to the graduating country should be enhanced, with support from the United Nations Development Group;

(c) United Nations country teams should play a stronger role in assisting graduating countries;

(d) More effective engagement of the Economic and Social Council in the monitoring process is desirable;

(e) The Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States has a leading role to play in attuning the United Nations system and other partners to the issue of smooth transition;

(f) United Nations entities not represented in the field should also be more proactive in assisting graduated countries to prepare their transition strategies.

6. Some aspects of the role of the General Assembly in the transition process should be clarified

(a) Agreement should be reached on establishing an appropriate time frame and expeditious process by the General Assembly for action on Economic and Social Council decisions related to the graduation of individual least developed countries;

(b) Explicit references to elements of the smooth transition process, including the consultative mechanism, should be included in General Assembly and Economic and Social Council resolutions on the graduation of a specific country, with a view to increasing awareness about the process among all Member States, in particular the country concerned.

B. Strengthening smooth transition measures

1. Characteristics of the support measures during the transition period

(a) **Predictability.** Measures should be clear with regard to their scope, time frame and modalities;

(b) **Confidence-building.** Confidence in their own capacities and in the support of development and trade partners is the strongest incentive in the transition process for graduating countries;

(c) **Specificity.** A differentiated approach is needed, which takes into account each country's development situation, vulnerabilities, strengths and weaknesses, as outlined in the Programme of Action;

(d) **Certainty.** Certainty about what will happen to support measures after graduation would be another incentive;

(e) **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.

2. Continued need for official development assistance

(a) Development partners should consider the extension and gradual phasing out of least developed country-specific support measures to graduated countries for a fixed period of time in a predictable manner, without prejudice to ODA resources available to least developed countries;

(b) United Nations entities committed to allocating a certain percentage of their resources to least developed countries should consider the extension and gradual phasing out of least developed country-specific support to graduated

countries for a fixed period of time in a predictable manner, without prejudice to resources available to least developed countries;

(c) While considering extension of access to United Nations and other donors' least developed country-specific funds, allocations or measures beyond graduation, development partners should not only ensure that programmes approved under the least developed country status category are carried over but also be clear about the time frame and modalities of the gradual phasing out of access to the support measures, taking into account the specific situation, challenges, vulnerabilities and prospects of the graduated countries concerned;

(d) Graduation by least developed countries that are recipients of large amounts of ODA would have an impact on bilateral donors meeting their commitments regarding ODA allocation for least developed countries.² The issue of conflicting objectives between ODA targets and supporting graduated least developed countries needs to be addressed before least developed countries receiving substantial amounts of ODA (in absolute terms) become eligible for graduation;

(e) As in the case of the allocation of bilateral aid resources to least developed countries and graduated countries, the conflicting objectives to support graduated countries versus meeting budget allocation targets set by multilateral donors need to be addressed urgently.

3. Adapting trade-related measures to the new development situation

(a) 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 least developed country-specific preferences, the number of years of the extension and/or the details concerning the gradual phasing out of the measures;

(b) The transition strategy should include the commitments made by the main trading partners;

(c) Preferential tariffs should be extended over a period long enough to allow affected sectors to prepare themselves;

(d) While negotiating their WTO accession, graduating countries and their trading partners should use the negotiations to agree on specific extensions of special and differential treatment through transitional arrangements;

(e) The possibility to obtain non-reciprocal preferential market access through a blanket, time-bound waiver, covering all special and differential treatment measures, including but not limited to market access measures, extended for a transitional period to graduated countries, should be explored;

(f) Members of WTO are encouraged to adopt formal procedures and extended time frames for phasing out least developed country-specific special and differential treatment measures.

² 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 gross national income due to the fact that aid to the large recipient would no longer be classified as ODA to least developed countries.

4. Technical assistance remains a valued companion

(a) Aid for Trade should remain a valued companion for strengthening the capacities (for example, institutional and structural) of least developed countries and for enabling graduating countries to cope better with the gradual phasing out of least developed country-specific measures. Aid for Trade should be better targeted, result-oriented and coordinated;

(b) Least developed country-specific funds other than the Enhanced Integrated Framework should continue to cover the implementation of approved programmes and to provide technical assistance to graduated countries over a period appropriate to the development situation of the country;

(c) Technical assistance commitments should clearly be made part of the commitments to be undertaken by development and trading partners in the transition strategy and should be implemented through the Enhanced Integrated Framework, Aid for Trade or other instruments.

5. Travel benefits extended by other organs/institutions

The General Assembly resolution extending smooth transition provisions for United Nations travel benefits should be used as a precedent that may facilitate the extension of such benefits by other organs/institutions for a given number of years to graduating countries.

6. Support modalities beyond transition

(a) Development partners should be encouraged to incorporate least developed country indicators (gross national income per capita, human assets index and economic vulnerability index) as a part of their aid allocation criteria. This would allow a more gradual phasing out of support, and as a result would address the concerns of countries exiting the category but still facing challenges in overcoming remaining structural handicaps (particularly those included by economic vulnerability index);

(b) 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.