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

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Statement to the First Substantive Session

Statement by Chris Stokes, Development Adviser Permanent Mission of Australia to the United Nations

Thank you distinguished Co Chairs and thank you very much for your leadership in this group.

And thank you to the speakers this morning who have provided us with rich and interesting presentations to help guide our discussions as well as to the member states who have added valuable points for our considerations.

Assisting countries to graduate from LDC status is an important target and ensuring their smooth transition is absolutely critical. Graduation is a significant marker of progress along the path towards eradicating poverty and achieving the internationally agreed development goals.

But what Australia is also concerned with, and what I think all of us are concerned with, are the challenges involved in graduation - the risk that the removal of benefits accorded to LDCs could interrupt progress towards poverty eradication.

This working group has an important opportunity to address this tension by expanding understanding of the challenges and opportunities involved in graduation and developing recommendations on improving the process.

Strengthening particular support measures for countries that have recently graduated is a very important element of smooth transition. Also critical is that each country prepare smooth transition strategies which are closely tailored to the individual needs of that country.

Special measures and strategies are crucial. But they are also premised on the idea that the LDC is truly on a path of moving beyond the fundamental challenges it has faced.

This is not always the case. I would like to build on the comments from Cape Verde, the Maldives and Solomon Islands to focus attention today on the specific issues and challenges related to the graduation of some small island developing states from the category of least developed countries.

As we all know, there are very different challenges and situations facing different developing countries. Australia wants to highlight the particular development challenges confronting small island LDCs. In many cases these countries have few long-term development prospects. The options for small island LDCs to raise public revenue are often limited yet the costs of delivering services are high. In such cases, aid accounts for a significant share of government expenditure – and results in inflated figures for income per capita which misrepresent the growth prospects for these countries.

Additionally, small island LDCs are acutely vulnerable to climate change and natural disasters. The development gains they make today stand every chance of disappearing tomorrow as the impact of climate change intensifies, or as a result of a single cyclone or tsunami. Of the top ten LDCs on the economic vulnerability index in 2009, six of them were small island states. Yet of these six countries, five have either graduated, are in the process of graduation, or are likely to be found eligible for graduation in the coming years.

We heard from the distinguished Permanent Representative of Botswana that graduation can have many positive benefits such as increased foreign investment and better access to international capital markets. This is certainly true in many cases. However for some small island LDCs this is simply not the case. Their scope to exploit these benefits are extremely reduced.

Considering these points, small island LDCs require particularly careful individual assessments of how graduation could impact on them and what would realistically be required to achieve a smooth transition.

Kiribati and Tuvalu are two important cases in point. These two countries had the highest and second highest economic vulnerability index value in 2009. Both countries have, in recent years been identified by the CDP as eligible for graduation at least once.

In both Kiribati and Tuvalu aid accounts for over fifty per cent of each government's expenditure. In turn, this expenditure props up the local economy and is the main provider of regular wage employment. With few long-term development prospects other than labour mobility and marine resources, the fundamental reliance of these states on development assistance *will* continue for the foreseeable future.

Furthermore, as atoll islands with narrowly based economies, they have the added challenge of adapting to climate change and managing external shocks.

For both, the negative risks associated with graduation are likely to outweigh the positive impacts – and that is if those impacts were to materialise at all. Losing access to global and regional funds available to LDCs, for example, could mean losing a representative voice for the most vulnerable small island states at international forums.

This is the kind of graduation we should regard cautiously – a graduation in name only, that neither reflects the reality of a country's development situation nor ensures that the development gains achieved up to that point are maintained and not interrupted.

Clearly then, a key aspect of ensuring a smooth transition involves country-specific analysis to develop a concrete understanding of whether the benefits of graduation are really going to outweigh the potentially negative impacts for that country – and if not whether there are options to close that gap.

Australia would like to humbly suggest that the true situation of small island states must be an important consideration in the deliberations of this working group. We need to develop options to strengthen the known benefits of graduation and ensure these can be fully leveraged by all graduating LDCs including small island states.

Another area of focus should be on identifying the full scope of impacts involved in graduation, and options to reduce and mitigate identified risks.

Trade related implications should be a particular area of focus as the loss of a preferential market access or special and differential treatment for WTO obligations can undermine a country's longer term revenue raising prospects

The ongoing vulnerabilities of small island states also must be taken into account when considering the phasing out of LDC benefits - transition strategies must be realistic and especially long term to reflect the reality of the situation. As we have heard this morning, resilience is key.

Co Chairs,

In Istanbul, we set ourselves the ambitious goal of enabling half the number of LDCs to meet the criteria for graduation by 2020. As members of this working group, we have a particular responsibility - in seeking to strengthen the graduation and smooth transition process we should be aiming not just to make graduation a more attractive prospect, but also to ensure it is a lasting achievement.

I thank you.