VANUATU LDC GRADUATION
SMOOTH TRANSITION STRATEGY

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1. Introduction

The Committee for Development Policy (CDP), a subsidiary body of the UN Economic and Social Council (ECOSOC), is – inter alia – mandated to review the category of LDCs every three years and monitor their progress after graduation from the category. The identification of LDCs is currently based on three criteria: per capita gross national income; human assets; and economic vulnerability to external shocks[1].

Vanuatu was first included on the list of Least Developed Countries in 1985. In 2006, Vanuatu was first identified for graduation and subsequently in 2009 and in 2012. The GNI per capita criteria was met in 2006, 2009 and 2012, and the Human Assets Index was also met in 2006, 2009 and 2012. Vanuatu has never met the Economic Vulnerability Index. However, Vanuatu cannot remain in the category of LDCs, as all three criteria must be satisfied. In addition,, a country is eligible for graduation, when it reaches threshold levels for graduation in two consecutive triennial reviews for at least two of the aforementioned three criteria, or its GNI per capita must exceed at least twice the threshold level ($2,460 in the 2018 triennial review), and the likelihood that the level of GNI per capita is sustainable must be deemed high (income-only criterion).[2]

The 2012Triennial Review of the CDP, and the ECOSOC decided that Vanuatu would be eligible for graduation, a decision which the UN General Assembly endorsed in 2013 and amended in 2015. Due to the disruption caused to Vanuatu by tropical cyclone Pam in March 2015, the General Assembly extended the transition period by three years, until 4thDecember 2020.[3]

A United Nations General Assembly resolution 59/209, provided guidance and reconfirmed that graduation from least developed country status should not result in any disruption to the graduating country of its development plans, programmes and projects, and reemphasized the importance of ensuring a "smooth transition" for graduating LDCs. The notion of smooth transition implies that the loss of international (bilateral and multilateral) support measures granted by virtue of LDC status should not harm the graduating country in its development process.

The best transition strategy following graduation would be to ensure Vanuatu was able to fully implement the National Sustainable Development Plan (NSDP) namely the "Vanuatu 2030, The Peoples Plan". The NSDP has been formulated through a detail processes of wider national consultation and it explains the key development issues linked to impacts of graduation, including trade and resource flows. The NSDP is complemented by the Implementation and Monitoring Framework to guide the execution of this Plan, including through integrating the goals and policy objectives across Government, and in partnerships with civil society, the

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[1]*Income criterion*, based on a three-year average estimate of GNI per capita for the period 2011-2013, based on the World Bank Atlas method (under $1,025 for inclusion, above $ 1,230 for graduation as applied in the 2018 triennial review).
Human Assets Index (HAI) based on indicators of: (a) nutrition: percentage of population undernourished; (b) health: mortality rate for children aged five years or under; (c) education: the gross secondary school enrolment ratio; and (d) adult literacy rate.
Economic Vulnerability Index (EVI) based on indicators of: (a) population size; (b) remoteness; (c) merchandise export concentration; (d) share of agriculture, forestry and fisheries; (e) share of population in low elevated coastal zones; (f) instability of exports of goods and services; (g) victims of natural disasters; and (h) instability of agricultural production.
[2]http://unohrlls.org/about-ldcs/criteria-for-ldcs/
[3] The UN Committee for development Policy Report, 2017 - https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-PL-2017-5d.pdf

private sector and development agencies. In addition, linkages between the planned priorities and budget allocations are continuously strengthened. A process is in place for regular tracking and reporting on progress towards achieving the *Vanuatu 2030* vision.

In specific areas impacted due to LDC graduation, tailored policies may be required to minimise potential costs, for example, reduced market access and erosion of policy space in relation to trade and financial policies. Nonetheless, the overall approach to smooth transition towards LDC graduation will be anchored in the NSDP, and various policy instruments utilised to support associated implementation.

2. Approach on LDC Graduation Strategy

The Vanuatu government recognises that graduation from the LDC status is scheduled for the 4thDecember 2020and has set in place requisite measures.

On the 17thMarch 2016, the Council of Ministers endorsed the establishment of held National Coordinating Committee (NCC) comprised of various relevant stakeholders and agreed to setup a dedicated NCC Secretariat to provide support to NCC members and coordinate efforts across government and facilitate consultations with national stakeholders.

The LDC NCC has been mandated to manage Vanuatu's transition period. It will discuss steps which will ensure effective transition strategies to ensure minimal disruption to Vanuatu's development, post-graduation from LDC status. The LDC NCC Secretariat has planned consultation meetings with relevant stakeholders across the six provinces, including private sector and civil society representatives, to confirm development priorities and highlight issues for consideration during the transition period.

Measures to implement NSDP and LDC graduation concerns will form an integral part of the Government's planning and budgetary processes, as well as, coordination of development cooperation. The government believes that the transition period will enable Vanuatu and its development and trading partners to collaborate and formulate strategies to address possible negative impact due to graduation from LDC status.

A smooth transition strategy is planned for completion by end 2019, with dedicated consultation meetings scheduled prior. Capacity building workshops and detailed assessments on resource mobilisation issues to support implementation plans, are also planned for this year.

3. Issues – Channels of Impact and Broad Mitigation Measures

3.1 Trade related issues

Vanuatu's export volumes are small and focussed on a few primary products. Over half of Vanuatu's main exports are currently traded duty-free (refer to *Table 1*which provides summary of Vanuatu's main export commodities).[4]

[4]Source: Derek Brien, 2018. LDC Graduation: challenges and Opportunities for Vanuatu, Port Vila.

Table 1: Main Exports Commodities

Percentage of total value of merchandise trade[a]	Percentage exported to main destination(s)[b]	Duty status
Copra 30.6%	Philippines 95%	10% General import tariff applied; no LDC concession[c]
Kava 21.5%	Kiribati 31%	0% General commitment available all countries[d]
	United States 27%	0% General commitment available to all countries[e]
	Fiji 20%	0% duty free under MSGTA[f]
	New Caledonia 16%	5% General import tariff applied; no LDC concession[g]
	Malaysia 77%	5% General import tariff applied; no LDC concession[h]
Coconut oil 13.8%	Taiwan 15%	0% General import tariff 4%; LDC concession applied[i]
	New Zealand 5%	0% Duty-free under SPARTECA[j]
	Hong Kong 55%	0% Hong Kong is a duty[k]
Timber 6.1%	China 29%	China 29% 0% General commitment available to all countries[l]
	Australia 13%	0% Duty-free SPARTECA[j]
	PNG 38%	0% duty free, MSGTA[f]
Beef/Veal 3.0%	Japan 36%	0% General import tariff 38.5%; LDC concession applied[m]
	Solomon Islands 26%	0% durty free under MSGTA[f]
Cocoa 2.8%	Malaysia 89%	0% General commitment available to mall countries[n]
	Australia 7%	0% durty free under SPARTECA[j]
Fish n/a	Thailand (2016) 88%	0% General Import Tariff 3.5%; LDC concession applied[o]
	Japan (2016) 12%	0% General Import Tariffs; 3.5%; LDC concession applied[m]

Source: Derek Brien, 2018. LDC Graduation: challenges and Opportunities for Vanuatu, Port Vila.
Notes:
a. Vanuatu National Statistics Office (2018), except for fish which is from Forum Fisheries Agency (2017) based on data from
importing countries. * Due to discrepancies in national and external reporting it is not possible to attribute a value for fish exports.
b. Ministry of Tourism, Trade, Industry and Ni-Vanuatu Business (2018), except for fish which is from Forum Fisheries Agency (2017)
c. Republic of the Philippines Tariff Commission (2018)
d. Kiribati Customs Tariff Schedule (undated). Note also that in 2017, Kiribati announced its readiness to trade under the Pacific
Islands Trade Agreement (PICTA), which aims to remove tariffs on all products originating from member countries by 2021
e. US International Trade Commission (2018). Harmonized Tariff Schedule (2018 HTSA Revision 12) HS code 1211.90.92.80
f. The Melanesian Spearhead Group Trade Agreement facilitates duty-free trade between Fiji and Papua New Guinea, Vanuatu and Solomon Islands
g. Regional Directorate of Customs of New Caledonia (2018)
h. Royal Malaysian Customs Department (2018)
i. Customs Administration, Republic of China (2018)
j. The South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) allows duty-free access for products
originating from the island member countries of the Pacific Island Forum into Australia and New Zealand
k. Trade and Industry Department, Government of the Hong Kong Special Administrative Region
l. The Customs Clearance Handbook (2016), The General Administration of Customs, People's Republic of China.
m. Japan Customs (2018)
n. Malaysian Cocoa Board (2018)
o. Kingdom of Thailand

Except for beef exported to Japan and coconut oil to Taiwan, this duty-free treatment has not been afforded under LDC concessional measures provided by most members of the World Trade Organisation, under what is known as the generalised system of preferences (GSP). Rather, it is due to the market access arrangements Vanuatu has negotiated (e.g. Vanuatu exports kava duty-free to Fiji under the terms of the Melanesian Spearhead Group Trade Agreement). In addition to the Melanesian Spearhead Group Trade Agreement (MSGTA), Vanuatu is a signatory of the Pacific Island Countries Trade Agreement (PICTA), South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), and the Pacific Agreement on Closer Economic Relations (PACER) Plus, although this has not yet come into force.

Furthermore, global trade liberalisation has eroded much of the preferential tariff treatment provided to LDCs[5]as evidenced by the number of countries that do no longer charge import tariffs on a few of Vanuatu's main export commodities (e.g. the United States does not charge duty on kava imports, which is a commitment made available to all counties).

Table 1 highlights the most impact (38.5 percent) on beef exports to Japan, followed by coconut oil export to Taiwan (4 percent) and fish exports to both Japan and Thailand (3.5 percent).

Fish exports

According data on tuna exports reported[6] by the, the value of tuna exported from Vanuatu in 2016 was USD $17.6 million (VUV 1,883m), which represents nearly 35percent of the total merchandise trade reported nationally in that year. It is noted this is significantly less that the average value of tuna exports reported by the Forum Fisheries Agency(FFA) between 2008 and 2015, which was USD $118 (VUV12,645m) - nearly double the average value of all other exports combined in that period. In terms of the 2016tuna catch, the FFA report most was sent to Thailand (87.5%) and Japan (12.0%), with both countries offering duty-free concession to LDCs against the usual tariff of 3.5 per cent.

An impact assessment[7] reported that 'it is unlikely that the higher tariff rates will significantly affect export quantities of various types of tuna to Japan' and 'because the share of this type of tuna in Vanuatu's total tuna export value to Thailand was only up to 2 per cent during period2007-2009, the impacts of the higher tariff seems to be minor'. This assessment was made against the much higher tuna export values as reported by the FFA at this time and remains instructive.

Beef exports

In the absence of any bilateral arrangements, Vanuatu's beef exports to Japan will face a tariff rate of 38.5 percent imposed by Japan on all countries that do not have preferential access. Nonetheless, an assessment report indicates little impact of this tariff being applied because 'while, beef from Vanuatu will likely lose price competitiveness, it is regarded as higher quality and "speciality" - i.e. being organic - beef and does have a captive, though small, market'.[8]

[5] Drabo, A. and P. Guillaumont (2017). Graduation from the category of least developed countries: Rationale, achievement and prospects. Fondation pour les études et recherches sur le développement international. Working Paper 208, December 2017. Clermont-Ferrand, France. Available from http://www.ferdi.fr/sites/www.ferdi.fr/files/publication/fichiers/p208-guillaumont-drabo.pdf

[6] Forum Fisheries Agency, www.ffa.int

[7] Ex-ante impact assessment of likely consequences of graduation of Vanuatu from the least developed country category. New York. Available from https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/PDFs/Least_Developed_Countries_Resolutions_and_Reports/ia_vanuatu_nov2011.pdf

[8] Ibid.

This argumentsremain relevant, given the long history, established distribution channels and Japanese investment in the beef export trade from Vanuatu. With expansion plans for the beef industry, it would be prudent to complete a trade agreement with Japan which protects the current LDC import concession.[9]

Overall assessment and mitigation measures
Based on current trading patterns, it is apparent that the overall impact of losing access to the LDC duty-free and quota-free provisions will have minimal impact on Vanuatu exports. More broadly, it is evident that the existence of import duties is just one factors that influence trade decisions, and that import duties when applied do not restrict Vanuatu's exports. For example, copra exported to the Philippines and coconut oil to Malaysia, which together accounted for nearly 40 percent of the total value of Vanuatu's merchandise exports in 2017, were subject to import tariffs of ten and five percent respectively.

It is important to fully implement the revised Trade Policy Framework priorities, including proactively pursuing trade agreements (for example, the current negotiations with China, Japan, and New Caledonia), and alternative measures available under frameworks designed to support (non-LDC) developing countries (for example, the European Union's 'GSP Plus', which is a special incentive arrangement geared towards rewarding governance, human rights and environmental protection standards). In addition, Vanuatu will need to negotiate, or avail of, any grace periods through existing agreements in the immediate term.

Over the transition period, further work is needed to iidentify and negotiate the most appropriate preferential trading arrangements for targeted export sectors, working closely with industry representatives. In doing so, Government will need to update and fully assessthe potential impact of tariffs another measures on planned expansion of targeted export sectors.

3.2 Financing for development issues

The perception of reduced development financing flows as a result of graduation from LDC remains an underlying concern for some stakeholders. However, a recent study[10] clarifies minimal impact of LDC graduation on aid flows and access to the concessional loans.

Bilateral aid
Most of the major development partners do not use LDC status as a means of allocating resources to Vanuatu. As such, bilateral aid funding from traditional donors is not expected to be reduced as a result of LDC graduation.

Multilateral aid
More so, there is no anticipated impact associated with LDC graduation in relation to existing multilateral financial institutions, such as Asian Development Bank, the World Bank Group and the International Monetary Fund.

On United Nations membership fees, Vanuatu's general contribution levels for regular budget will not change.[11]A slight increase in contribution to UN peacekeeping operations is expected

[9]In light of Japan's recentenactment of 'safeguard' tariff measures, which saw tariffs raised from the usual rate of 38.5 percent to 50percent, between August 2017 and March 2018. Noting that other countries have negotiated preferential treatment for the export of beef to Japan, including Australia under the Japan-Australia Economic Partnership Agreement that includes scheduled tariff reductions (currently set at 27.2% and set to reduce further over time).
[10] Derek Brien, 2018. LDC Graduation: Challenges and Opportunities for Vanuatu.
[11] Derek Brien, 2018. LDC Graduation: Challenges and Opportunities for Vanuatu.

(from USD $7,300 to USD $14,600 or VUV 1.6 million). However, UN funding support reserved for LDC member states will no longer be provided to cover the cost (of five delegates from Vanuatu) to participate at the annual UN General Assembly meetings. It may be prudent to use this opportunity to reassess the delegation size to UN General Assembly meetings to ensure best use of public monies. Funding support to participate in specific UN agency meetings, capacity building events, and technical assistance is anticipated to continue to be provided to Vanuatu.

Adaptation financing

Climate change financing has become an important source of development financing for most developing countries. At present, there is little evidence to indicate loss of preferences in accessing climate change funds once Vanuatu graduates from LDC status. One sspecific flow for climate adaptation from Global Environment Facility (GEF)[12]which has been used to help develop Vanuatu's National Adaptation Programme of Action,[13] and implement some of its priority actions. To date, Vanuatu has received USD $19.4m (contributing to co-financing four projects worth $82.7m).[14]

Moreover, access to the main GEF will remain, and while this does come with the prospect of greater competition and no priority status as enjoyed under the LDC fund, Vanuatu has already successfully secured USD $13.6m under the general GEF funds to co-fund 12 projects with a total value of USD $44.7 million.

While LDCs are one of the main priority regions for the Green Climate Fund (GCF), so are the Small Islands Developing States (SIDS) which includes Vanuatu. To date, 70 percent of all GCF adaptation funding goes LDCs, SIDS and African States.[15] The Green Climate Fund has supported Vanuatu in moving to integrate climate change and disaster risk reduction more closely in its efforts to progress national development. In 2016, GCF approved a USD 23 million funding proposal to expand the use of Climate Information Services in Vanuatu to help achieve this aim[16]. As such, indications are that major sources of climate adaptation funds such as GCF will continue to prioritise SIDS, regardless of LDC status.

Opportunities in transition

The global approach to development financing is shifting under the *2030 Agenda* and the *Addis Ababa Action Agenda for Financing for Development* with a greater emphasis on domestic resource mobilisation, blended financing and private sector involvement. The transition strategy will provide a timely opportunity to adapt to these shifts and help inform development financing options and future negotiations with partners – including direct budget support.

Detailed studies on raising domestic revenue and improving climate finance flows, are planned as part of the package of measures to inform policy for smooth transition to graduation.

[12] Global Environment Facility, http://www.thegef.org/country/vanuatu
[13] http://adaptation-undp.org/projects/vanuatu-national-adaptation-programme-action-napa
[14] Ibid.
[15] https://www.greenclimate.fund/news/gcf-affirms-its-commitment-to-least-developed-countries
[16] https://www.greenclimate.fund/news/gcf-helps-vanuatu-smooth-climate-finance-path

4. Modality for a Smooth Transition Strategy

4.1 Continue implementing the Vanuatu National Sustainable Development Plan

The Vanuatu National Sustainable Development Plan (NSDP) for 2016-2030, the Peoples Plan[17]is the implementation strategy for achieving smooth transition path. The Plan has 15 national development goals and 96 policy objectives collectively seek to achieve the national vision of a 'stable, sustainable and prosperous Vanuatu' by 2030. The goals and policy objectives are interlinked and broadly cover the range of objectives that underpinned many of the LDC support measures, notably in relation to reducing poverty and broadening the economic base, building capacity, institutional strengthening, and boosting international trade.

The NSDP spells out the development aspirations of the Vanuatu people, underpinned by a vibrant cultural identify which promotes a peaceful and inclusive society. The Plan emphasises for a stable nation, sustainable, and prosperous future, so that all people have just and equal opportunities. The NSDP provides a framework to achieve economic, social, environmental progress and climate change resilience. It is underpinned by sound economic and financial management which will provide the foundations for stronger economic growth, including employment through a stronger private sector growth, and improve delivery of services to all people. Significantly, the NSDP also aligns with the global development agenda, the Sustainable Development Goals, and integrates relevant aspects as appropriate.

Overcoming the challenges and maximising the opportunities associated with LDC graduation will require collaborative partnerships between government, community leaders, businesses, civil society, and development and trading partners. These partnerships should honour the global commitments made by the international community and serve to deliver the development aspirations articulated by the people through *Vanuatu 2030*, which also serves as the master strategy for smooth transition to LDC graduation.

The NSDP will be monitored and evaluated based on the national Monitoring and Evaluation framework and reporting framework will be the means of monitoring the transition strategy and reporting on the progress on an annual basis through the Annual Development Report.

4.2 Strengthening means of implementation of NSDP, and the transition strategy

The renewal of the NSDP coincided with the reset of the global development agenda that gave rise to the new suite of intergovernmental agreements in 2015, including the *2030 Agenda* and the 17 global Sustainable Development Goals (SDGs), the *Addis Ababa Action Agenda* on financing for development, the *Paris Agreement* on climate change, the *Sendai Framework for Disaster Risk Reduction*, and the *SAMOA Pathway* as the international commitment to supporting sustainable development in small island developing states (SIDS). These frameworks are all underwritten by a universal commitment that they leave no one behind, be country-led, and implemented in accordance with national priorities and context.

The NSDP has been aligned with these relevant global development agenda and appropriate measures have been integrated, including those to support smooth transition to LDC graduation. To support implementation, ongoing leadership and commitment of the Government, civil society, private sector and the donor agencies will be required. In addition, a suite of measures aimed at strengthening: national planning, financial and decision-making systems; statistics; trade; technology; and financing will be required. These policy objectives

[17] Republic of Vanuatu (2018). The Peoples Plan, National Sustainable Development Plan 2016-2030, Final Technical Report. Department of Strategic Policy, Planning and Aid Coordination, Government of the Republic of Vanuatu. Port Vila.

have already been identified during the NSDP consultation and included in the NSDP. These include:

- (SOC 2.4) – Increasing higher education opportunities, including technical and vocational training;
- (ENV1.1) – Increasing access to knowledge, expertise, and technology to enable blue-green growth;
- (ECO 3.5) - Improving the collection, analysis and dissemination of data;
- (ECO 1.5) - Increasing access to markets for Vanuatu export products;
- (ECO 4.3) - Increasing production and processing of niche products, and value addition to commodities;
- (ECO 1.6) - Requiring all new trades' agreements to demonstrate tangible benefits in the national interest;
- (ECO 1.4)- Increasing trade and investment opportunities and reduce barriers, including through the use of Aid for Trade;
- (SOC 6.1-6.9) - Improving governance and strengthening institutions;
- (ENV 1.1) – Increasing agricultural and fisheries food production and using sustainable practices;
- (ENV 1.3) – Reducing reliance on food imports through import substitution for products that can be produced domestically;
- (ECO 4.1) – Promoting competition, protect consumers, attract investment and reduce the cost of doing business;
- (ECO 1.7) - Stimulating economic diversification to spread the benefits of growth and increase economic stability;
- (ECO 4.2) - Strengthening linkages between urban and rural business;
- (SOC 1.7) - Safeguarding the traditional economy as a valued means of contributing to the wellbeing of the population and complementing the formal economy; and
- (ECO 3.1) - Promoting broad-based growth by strengthening the linkages between tourism, infrastructure, agriculture and industry in rural areas and diversify the rural economy.

Ongoing reforms to civil service, public enterprises, public financial management and government's decision-making machinery all are supportive of strengthening delivery of services and implementing the NSDP.

To strengthen development cooperation, a national Aid Management Policy[18]is in place to coordinate and manage all development assistance flows to enhance the overall effectiveness of the assistance to achieve the national development priorities identified in the NSDP.

The monitoring and evaluation framework for *Vanuatu 2030*requires stronger focus and implementation, and subsequent improvements to the Annual Development Report continuously put in place. Strengthening data collection and reporting to not only track progress, but continue to inform sector planning, budgets and implementation activities remains work-in-progress. These monitoring and reporting improvements can also help Vanuatu to articulate its case for international support and ensure that support is tailored to national priorities.

[18] National Aid Management Policy. 2019. Department of Strategic Policy, Planning and Aid Coordination. Port Vila.

Strengthening planning and budgeting systems for sector and cross-sectoral concerns such as gender, climate change, and natural disaster managements continues to be a focus, and will benefit from targeted institutional and capacity building.

5. Conclusion

The LDC transition strategy is integrated with the implementation of the national priorities outlined in *Vanuatu 2030*. Several supportive reforms are underway to support implementation of the NSDP, including the machinery of government review, civil service and public financial management reform. As such, LDC graduation will not happen in isolation. It will be informed by, and help to inform, activities across all government agencies as they seek to implement *Vanuatu 2030*.

It is evident that while the direct impact of moving on from LDC-specific concessions will be relatively limited, building on past progress to further improve social indicators and ensure inclusive, sustainable and culturally appropriate economic growth will remain a conscious objective as articulated in the NSDP. In particular, the need to ensure no-one is left behind (especially in the remote rural areas) and addressing the ever-formidable vulnerabilities will continue to require coordinated responses. More so, as Vanuatu prepares for LDC graduation and ongoing plans to deliver NSDP priorities, concurrently financing strategies to support implementation will be developed.