Vanuatu Daily Digest

What the Vanuatu news media are saying, with added spice

Under the microscope: Vanuatu's transition out of Least Developed Country status

Closer examination is needed of the challenges that may arise from Vanuatu's graduation from LDC status. File photo/Paul McGinty/DFAT

By Dr TK Jayaraman

Vanuatu is in the news again.

Along with three other Pacific Island countries, which enjoy the status of least developed country (LDC) for special treatment by international donor community including various multilateral funding agencies aside from industrialised nations, Vanuatu has made the right signals once again, as it would be graduating soon.

Addressing the Comprehensive High-level Mid-term Review by the UN of the Implementation of the Program of Action for the LDCs in Antalya in Turkey in late May 2016, Vanuatu's

Special Envoy stressed the need for reducing the extreme vulnerability to external shocks beyond domestic control.

The anxiety of Vanuatu, an LDC since 1985, is understandable.

It was given a four-year period of notice on December 4, 2013 to graduate from LDC status to low-income country status by December 4, 2017. It did not want to get out of the LDC status because it was devastated by Tropical Cyclone Pam in early 2015. Although it made good progress until recently on all fronts, including sustained growth because of successful reform measures, Cyclone Pam of last year altered the situation.

Considering the changed circumstances, the UN by a General Assembly Resolution of December 2015 extended the period by three more years to December 4, 2020.

Once that date is reached a smooth transition strategy in collaboration with trading and development partners will be implemented for a three-year period during which concessions associated with LDC status will still be available.

They cover development financing: grants and loans donors and funding institutions multilateral trading system, preferential market access; and technical assistance grants.

Background

Every year in July, the World Bank classifies its member countries on the basis of estimates of gross national income (GNI) per capita.

Low income countries are defined as those with a GNI per capita of $US1,045 (approx. Vt 114,000) or less; middle-income countries are those with a GNI per capita of more than $US1,045 but less than $US12,735 (Vt 1,397,000); and high income countries are those with a GNI per capita of $US12,736 and more. Middle income countries are divided into two groups: lower middle-income and upper middle income groups, which are separated at a GNI per capita of $US4,125 (Vt 452,000). As we all know, Fiji with its GNI per capita being $US4,540 (Vt 498,000) in 2014, is classified as upper middle income country, a status which does not allow any aforementioned concessions. However, Fiji's Severe Tropical Cyclone Winston in February provoked enormous sympathy and generous aid flowed in.

On the other hand, classification of LDCs, which is reviewed once in three years, is based on three criteria: per capita gross national income (GNI), human assets and economic vulnerability to external shocks. The latter two are measured by two indices of structural impediments, namely the human assets index and the economic vulnerability index.

- **Income criterion**, based on a three-year average estimate of GNI per capita for the period 2011-2013: under $1035 for inclusion, above $ 1242 for graduation
- **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.

The thresholds for graduation are higher. In the identification process, the HAI and EVI thresholds are fixed by a committee. In the latest May 2016 List, there are 48 LDCs: 34 are in Africa, nine in Asia; four in Pacific and one in North America. The four Pacific countries are: Kiribati, Solomon Islands, Tuvalu and Vanuatu.

To graduate, a LDC must reach threshold levels for graduation for at least two of the three criteria, or its GNI per capita must exceed at least twice the threshold level (US$2,484 or Vt 272,000 in the 2015 triennial review). Additionally, the likelihood that the level of GNI per capita is sustainable must be deemed high. A country must be found eligible at two successive triennial reviews.

Once a LDC is ready for graduation, there is a three-year period of transition. The country would still remain as LDC and would benefit from the special support measures associated with LDC status. The smooth transition strategy is to be implemented only after the actual graduation.

Vanuatu was found eligible for graduation at three triennial reviews: 2006, 2009 and 2012. It was recommended in 2013 for graduation in December 2017. But due to disruption caused by Tropical Cyclone Pam in 2015, the Graduation Date (G date) was postponed to December 2020.

Only four countries have graduated out of LDC category: Botswana in 1994, Cape Verde in 2007, Maldives in 2011, and Samoa in 2014.

Program ahead

Already the United Nations Conference on Trade and Development (UNCTAD) has started working with country authorities for a re-visit to trade policy and development of a national action plan for boosting production and export of coconut oil, single origin organic cocoa and high quality sandalwood oil, among other “green” products.

In preparing the transition strategy, UNCTAD would utilise its experiences of having fostered in Tanzania and Laos a good supply-chain relationship between farmers and the tourism industry, for moving LDCs up the value-chain towards deriving benefits from trade in services. Similar business linkages towards promoting local products and livelihoods in partnership with the island nation’s hotels are also likely to be undertaken.

Now that the G-date is postponed to December 2020, Vanuatu has more time to prepare for overcoming the growth pains.

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