The Least Developed Countries Report 2016

The path to graduation and beyond: Making the most of the process

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Graduation is a milestone not the winning post

The objective is to assist countries graduating in the future to achieve what this Report terms “graduation with momentum” — a development path leading to graduation that also establishes the basis needed for continued and solid sustainable development in the post-graduation phase.
Why focus now?

- Istanbul Programme of Action (IPoA) target (2011): at least half of (then) 49 LDCs should satisfy the graduation criteria by 2020.

- At the halfway point between the adoption of the IPoA target and the target date of 2020, it is timely to review the nature and historical experiences of graduation, and the outlook for graduation to 2020 and beyond. This is the focus of *The Least Developed Countries Report 2016*. 

1. Meaning of graduation
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What is the meaning of graduation?

- Exit from the LDC category, based on three criteria:
  1. GNI per capita
  2. Human assets index (HAI)
  3. Economic vulnerability index (EVI)

- In two consecutive triennial reviews by Committee for Development Policy (CDP), countries should *either*
  a) reach thresholds for at least two criteria, *or*
  b) reach *double* the GNI p.c. threshold (income-only graduation)

- Graduation process emphasizes flexibility
1. Meaning of graduation

The persistence of under-development traps in LDCs

- Poverty trap
- Commodity dependence trap
- Weak productive bases and limited export diversification that leads to balance of payments constraints to growth
1. Meaning of graduation

What is the meaning of graduation?

- Thus graduation, in principle, should mark the point at which an LDC has risen sufficiently from these vicious circles to rely primarily on its own strengths and on international markets for its subsequent development, without requiring the maximum concessionary treatment from development partners.

- In principle: the point at which an LDC moves from dependency on ISMs to being able to benefit equally from global markets.

- But it is the first milestone in a marathon of development, not the winning post of a race to escape the LDC category.

- It marks the end of a political and administrative process, not the completion of an economic or developmental process.
Graduation alone is not enough: LDCs need **GRADUATION WITH MOMENTUM** laying foundations for subsequent development

**Requires:**
- Developing productive capacities
- Structural transformation of the economy
Policy approaches to graduation also need to go beyond the need to escape from the traps particular to the earliest stages of development, and take fully into account the need to prepare for the challenges of development beyond graduation.

In other words, it is not sufficient merely to fulfil the criteria and complete the processes of graduation itself. The aim should rather be to achieve graduation with the momentum required to maintain development progress in the post-graduation period.

Graduation may be achieved with relatively limited progress in key areas such as infrastructure, structural transformation, and effective institutions and governance. However, if the necessary foundations are not laid in these areas, they are likely to constrain post-graduation development.
Are we on track to meet the IPoA target?

Projections

⇒ Changes in policies would likely change outcomes

⇒ Progress is compatible with later graduation

• Much depends on starting point
2. National dynamics towards graduation

- **Economically**, *how* a country graduates is at least as important as *when*.
- While the “how” of graduation is more important than the “when” economically, the reverse may be the case politically, giving rise to a potential tension between the two.
- **Key drivers of graduation in the four past LDC graduates:**
  - Quality of institutions, peace and social stability
  - Economic and social planning
  - Emphasis on infrastructure and education
  - Prudent and forward-looking macroeconomic policies
3. Contribution of ISMs to graduation

What specific ISMs are available to LDCs?

**FINANCE**
- ODA target
- ODA modalities
- Climate finance
- General measures

**TECHNOLOGY**
- TRIPS flexibilities
- Technology transfer
- Technology Bank

**TRADE**
- Preferential market access
- Preferential rules of origin
- Accession to WTO
- Special & differential treatment

**TECHNICAL ASSISTANCE**
- Enhanced Integrated Framework
- Aid for Trade
3. Contribution of ISMs to graduation

Do ISMs work?

- Development finance and trade preferences are regarded as the most readily accessed ISMs.

- Existing ISMs remain inadequate, particularly for IPoA graduation target and SDGs (e.g. climate finance).

- ISM effectiveness is limited by narrow scope, vague / non-binding nature, inadequate commitment, slow operationalization.
3. Contribution of ISMs to graduation

Figure 1.14. Real ODA receipts per capita, LDCs and ODCs, 1960–2014
3. Contribution of ISMs to graduation

Figure 3.4. Net ODA to LDCs: Annual delivery gap vis-à-vis United Nations targets for DAC donors

- Delivery gap against 0.15 per cent target
- Delivery gap against 0.20 per cent target
What is the effect of phasing out ISMs?

- Graduation does not seem to reduce development finance abruptly…

- …but it may become less concessional, and access to climate finance may be reduced

- Potential loss of preferential market access at graduation is estimated at $4.2 billion per year across LDCs as a whole

- Non-eligibility for SDT provisions in WTO agreements may narrow policy space; but their narrow scope limits the impact
4. Post-graduation processes and challenges

Effect of losing preferential market access depends on:

- coverage and structure of LDC-specific preferential schemes
- product composition of exports, and distribution across markets
- fallback tariffs after graduation
What about smooth transition?

- A "smooth transition" process should follow graduation, phasing out LDC-specific ISMs gradually to avoid disruption.

- Some institutions and development partners have smooth transition practices; but most ISMs lack formal procedures and clarity.

- Maintaining access to some ISMs depends on the graduating country's negotiating capacities (e.g., Cabo Verde ⇔ GSP+)
4. Post-graduation processes and challenges

How you graduate matters!

- Costs can be offset by *graduation with momentum* and sound preparation

- There is a substantial degree of path dependency, in that a graduating country’s economic prospects after graduation are significantly affected by the economic and social development trajectory that leads it to graduation, as well as its use of the smooth transition process and the broader international environment following its graduation

- *Graduation with momentum* also helps to address development challenges beyond graduation, e.g. persistent commodity dependence, risk of reversal to LDC status and the middle-income trap
5. Policy agenda for graduation with momentum

Which graduation strategy?

- *How a country graduates is at least as important as when*

- Need to move
  - FROM graduation strategies focused on the *statistical criteria* for graduation
  - TO “*graduation-plus*” strategies focused on graduation with momentum

- Productive capacities and structural transformation are critical – but not fully captured in the graduation criteria
The source of data on LDCs

- Available online at www.unctad.org/LDCs/Statistics
- Sister publication to *The Least Developed Countries Report*
Thank you!

www.unctad.org/ldc
### Table 2.2. Projected graduation cases, 2017–2024

<table>
<thead>
<tr>
<th>Country</th>
<th>Year of actual/projected statistical pre-eligibility for graduation</th>
<th>Year of actual/projected full statistical eligibility for graduation</th>
<th>Criteria satisfied</th>
<th>Year of already decided/projected graduation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equatorial Guinea</td>
<td>2006</td>
<td>2009</td>
<td>Income only</td>
<td>2017</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>2006</td>
<td>2009</td>
<td>Income, HAI</td>
<td>2020</td>
</tr>
<tr>
<td>Angola</td>
<td>2012</td>
<td>2015</td>
<td>Income only</td>
<td>2021</td>
</tr>
<tr>
<td>Bhutan</td>
<td>2015</td>
<td>2018</td>
<td>Income, HAI</td>
<td>2021</td>
</tr>
<tr>
<td>Kiribati&lt;sup&gt;1&lt;/sup&gt;</td>
<td>2006, 2012</td>
<td>2015</td>
<td>Income, HAI</td>
<td>2021</td>
</tr>
<tr>
<td>Nepal</td>
<td>2015</td>
<td>2018</td>
<td>HAI, EVI</td>
<td>2021</td>
</tr>
<tr>
<td>Sao Tome and Principe</td>
<td>2015</td>
<td>2018</td>
<td>Income, HAI</td>
<td>2021</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>2015</td>
<td>2018</td>
<td>Income, HAI</td>
<td>2021</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>2015</td>
<td>2018</td>
<td>Income only</td>
<td>2021</td>
</tr>
<tr>
<td>Tuvalu&lt;sup&gt;1&lt;/sup&gt;</td>
<td>2006</td>
<td>2009</td>
<td>Income, HAI</td>
<td>2021</td>
</tr>
<tr>
<td>Afghanistan&lt;sup&gt;2&lt;/sup&gt;</td>
<td>2018</td>
<td>2021</td>
<td>HAI, EVI</td>
<td>2024</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>2018</td>
<td>2021</td>
<td>Income, HAI, EVI</td>
<td>2024</td>
</tr>
<tr>
<td>Djibouti</td>
<td>2018</td>
<td>2021</td>
<td>Income, HAI, EVI</td>
<td>2024</td>
</tr>
<tr>
<td>Lao People’s Democratic Republic</td>
<td>2018</td>
<td>2021</td>
<td>Income, EVI</td>
<td>2024</td>
</tr>
<tr>
<td>Myanmar</td>
<td>2018</td>
<td>2021</td>
<td>HAI, EVI</td>
<td>2024</td>
</tr>
<tr>
<td>Yemen&lt;sup&gt;3&lt;/sup&gt;</td>
<td>2018</td>
<td>2021</td>
<td>HAI, EVI (2018); Income, HAI, EVI (2021)</td>
<td>2024</td>
</tr>
</tbody>
</table>

**Source:** UNCTAD secretariat elaboration. For the methodology and assumptions used for projections, see box 2.2.

**Notes:**

1. Although this country has already met the full statistical eligibility for graduation according to prevailing criteria, it is possible that the decision on its actual graduation will eventually be delayed, in view of its lingering vulnerability.

2. UNCTAD projections indicate the full statistical eligibility of this country for graduation according to prevailing criteria. However, it is possible that the decision on its actual graduation will eventually be delayed, in view of its lingering security concerns which can potentially have adverse effects on the three graduation criteria.

3. While UNCTAD projections indicate the full statistical eligibility of this country for graduation according to prevailing criteria, it is possible that the decision on its actual graduation will eventually be delayed, in view of its lingering security concerns, and of the steep (28 per cent) fall in GDP projected for 2015. This fall is fully taken into account in the Income forecasts, but not at all in the HAI and EVI projections. A prolonged military conflict is likely to have adverse effects on the three graduation criteria.
Are we on track to meet the IPoA target?

Very difficult:

- 2017-2020: Only 10 countries likely to meet *full* statistical eligibility
- 2021: Additional 6 countries likely to meet *full* statistical eligibility
Are we on track to meet the IPoA target?

- By 2025, only 16 countries are projected to have graduated.

- These 16 countries include all but one (the Comoros) of the seven small island LDCs and all but one (Cambodia) of the eight Asian LDCs, but only three of the 33 LDCs in the Africa and Haiti group (Angola, Sao Tome and Principe, Djibouti).

- By the mid-2020s 30 of the 32 LDCs would be in Africa, the sole exceptions being Cambodia and Haiti. Only one SIDS LDC would remain (the Comoros, which is also located in Africa).
2. National dynamics towards graduation

**Are we on track to meet the IPoA target?**

**Projections**

- Are based on:
  - Past trends (HAI, EVI)
  - Growth forecasts (income per capita)

- Are *indicative* only
Are we on track to meet the IPoA target?

Projections

- Do *not prejudge* actions / policies by:
  - LDCs
  - CDP
  - United Nations General Assembly
A national policy agenda 1/2

- Macroeconomic policy frameworks combining stability with investment dynamism and employment generation
- Scaling up public investment, including projects that strategically address bottlenecks in the productive sector
- Increased fiscal space: improved tax systems, diversification of revenue sources and addressing illicit financial flows
- Improved access to credit and financial services, notably for farmers and SMEs
A national policy agenda 2/2

- Accelerated transformation of rural economies: upgrading agriculture, promoting non-farm activities
- Proactive cross-sectoral and sector-specific industrial policies
- Strengthening attention to science, technology and innovation (STI) policy
The international dimension

- Better and more effective ISMs
- More stable and development-oriented international environment
- Donors to meet long-standing commitments on ODA to LDCs level and on aid effectiveness
- An **LDC Finance Facilitation Mechanism (FFM)** could enhance access to development / climate finance
- Fulfilment of the commitment to 100-per-cent DFQF market access for all exports from all LDCs
- Technology is a missing link: LDC Technology Bank could help, but not a complete solution