



Overview of LDC Graduation: Opportunities and Challenges

Joint UN Workshop on Preparing for a Smooth Graduation from the LDC Category

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Questions

- What are LDCs? How does a country leave the list (“graduate”)?
- What are the costs of graduation? Do former LDCs pay higher tariffs on their exports? Must LDC graduates pay more to access development financing?
- What are the benefits of graduation? Is LDC graduation the same as becoming a middle-income country? Have any graduates slipped back?
- What needs to be done to prepare for graduation? How does the UN support graduating LDCs? Does graduation mean a country has achieved the SDGs?





Least Developed Countries

- Category created in 1971
- Defined as “*low-income countries confronting severe structural impediments to sustainable development*”
- Have exclusive access to certain international support measures (ISMs), in particular in the areas of development assistance and trade.
- 12 LDCs in the Asia-Pacific region; 47 LDCs globally





LDC graduation

- The Committee for Development Policy (CDP) reviews the list of LDCs every three years
- The graduation thresholds must to be met for any two of the three criteria in two consecutive triennial reviews (or income-only)

Gross National Income per capita	Human Assets Index	Economic Vulnerability Index
\$1,230 or above Income-only: \$2,460 or above	66 or above	32 or below

- Only 5 countries have graduated from the LDC category: Botswana (1994), Cabo Verde (2007), Maldives (2011), Samoa (2014) and Equatorial Guinea (2017)

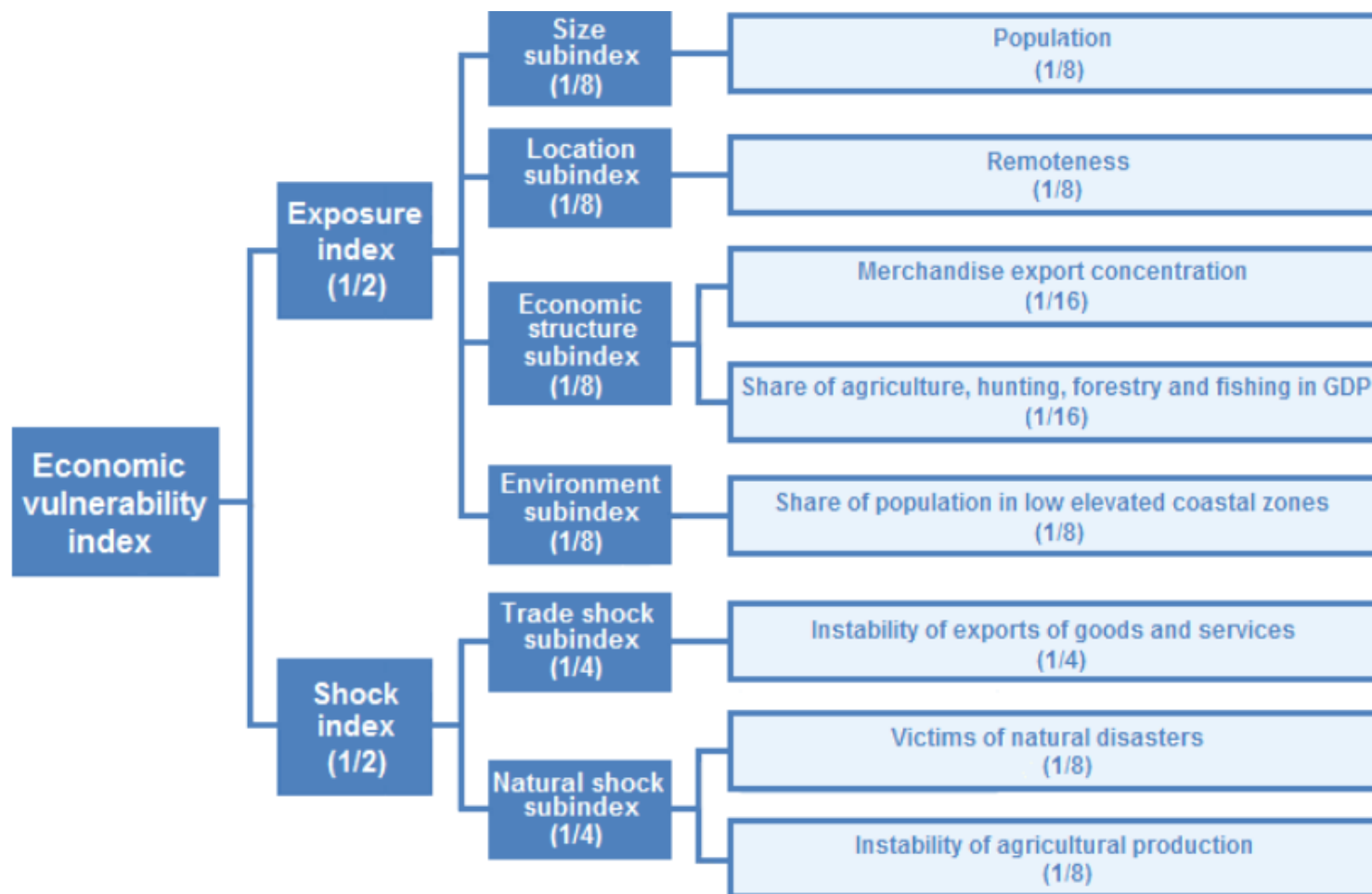


Status of Asia-Pacific LDCs at the 2018 review

Country	GNI per capita (average: 2014-16)	Human assets index	Economic vulnerability index	Have the criteria been met?
Afghanistan	\$ 633	48.4	39.3	
Bangladesh	\$ 1 274	73.2	25.2	✓
Bhutan	\$ 2 401	72.9	36.3	✓
Cambodia	\$ 1 075	68.9	34.8	
Kiribati	\$ 2 986	84	73.7	✓
Lao PDR	\$ 1 996	72.8	33.7	✓
Myanmar	\$ 1 255	68.5	31.7	✓
Nepal	\$ 745	71.2	25.1	✓
Solomon Islands	\$1 763	74.8	51.9	✓
Timor-Leste	\$ 2 656	66.6	56.8	✓
Tuvalu	\$ 5 388	90.1	56	✓
Vanuatu	\$ 2 997	78.5	47	✓
Graduation thresholds	≥ \$ 1 230	≥ 66	≤ 32	

- Vanuatu (2020), **Bhutan** (2023) and Solomon Islands (2024) are due to graduate.
- ECOSOC will make decision on Kiribati and Tuvalu no later than 2021
- CDP will consider **Bangladesh**, Lao PDR, Myanmar, **Nepal** and Timor-Leste for graduation in 2021

Structural impediments to sustainable development: Economic Vulnerability

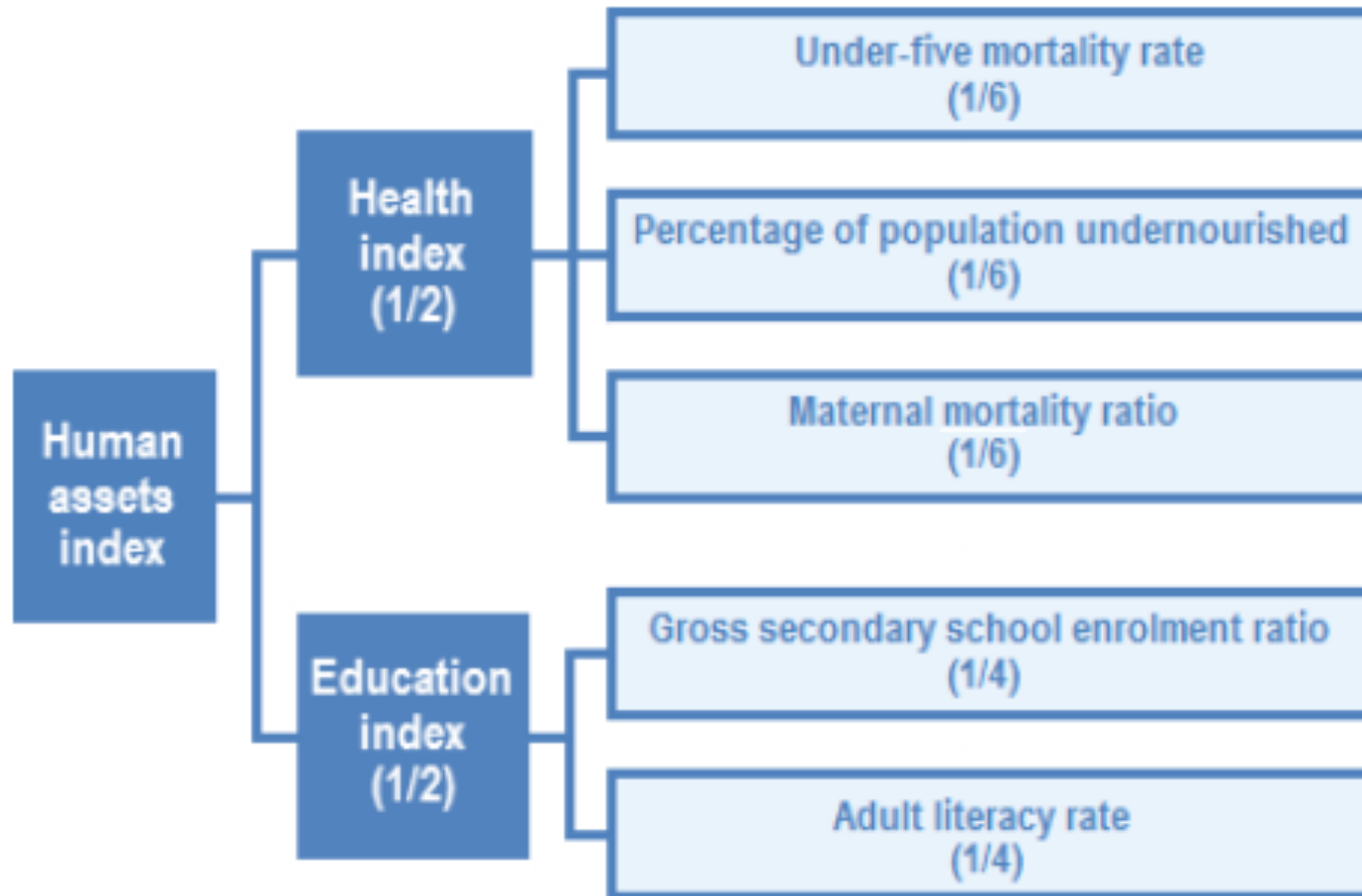


Structural impediments to sustainable development: Economic Vulnerability

Countries	EVI	Population	Remoteness	Share of pop. in low elevated coastal zones	Export concentration	Shares of agriculture, forestry and fisheries	Victims of natural disasters (%)	Agricultural instability	Export instability
Kiribati	73.7	100.0	83.0	100.0	90.7	37.9	91.3	73.9	38.5
Solomon Islands	51.9	78.7	84.6	36.8	60.0	43.9	73.7	16.5	36.5
Timor-Leste	56.8	67.2	68.7	2.7	57.3	11.4	61.8	19.7	100.0
Tuvalu	56.0	100.0	88.0	100.0	51.2	36.9	79.4	0.9	17.9
Vanuatu	47.0	90.9	90.0	3.4	50.3	44.1	95.3	31.9	8.6
Afghanistan	39.3	16.3	52.1	0.0	26.2	38.8	76.6	32.1	52.5
Bangladesh	25.2	0.0	35.7	25.5	36.0	24.4	87.9	8.6	7.0
Bhutan	36.3	74.3	52.3	0.0	31.2	28.0	44.4	38.9	25.3
Cambodia	34.8	28.4	44.5	20.5	24.4	46.4	92.6	29.6	13.5
Lao PDR	33.7	41.4	58.0	0.0	13.9	31.5	79.7	19.4	24.0
Myanmar	31.7	9.8	40.1	31.4	29.8	43.4	63.5	14.6	29.0
Nepal	28.4	19.0	52.7	0.0	4.6	52.6	76.4	9.8	20.4



Structural impediments to sustainable development: Low Human Assets



Structural impediments to sustainable development: Low Human Assets

Countries	HAI	Prevalence of undernourishment in tot. pop.	Under 5 mortality (per 1000)	Maternal mortality (per 100,000 live birth)	Literacy rate	Gross secondary enrolment ratio
Kiribati	84.0	100.0	73.2	92.9	72.8	85.7
Solomon Islands	74.8	85.2	90.4	90.9	78.8	42.7
Timor-Leste	66.6	63.5	75.9	82.5	44.4	74.2
Tuvalu	90.1	91.7	90.7	91.7	93.2	84.6
Vanuatu	78.5	96.8	89.3	93.9	77.6	49.8
Afghanistan	48.4	70.0	63.4	67.3	9.0	50.7
Bangladesh	73.2	83.2	85.3	85.7	63.7	59.5
Bhutan	72.9	75.0	86.4	88.0	42.7	82.4
Cambodia	68.9	82.8	87.5	87.0	65.2	38.9
Lao PDR	72.8	79.8	67.3	83.9	79.6	57.4
Myanmar	68.5	80.2	75.3	85.5	67.4	45.9
Nepal	71.2	94.8	85.2	78.8	46.2	66.2

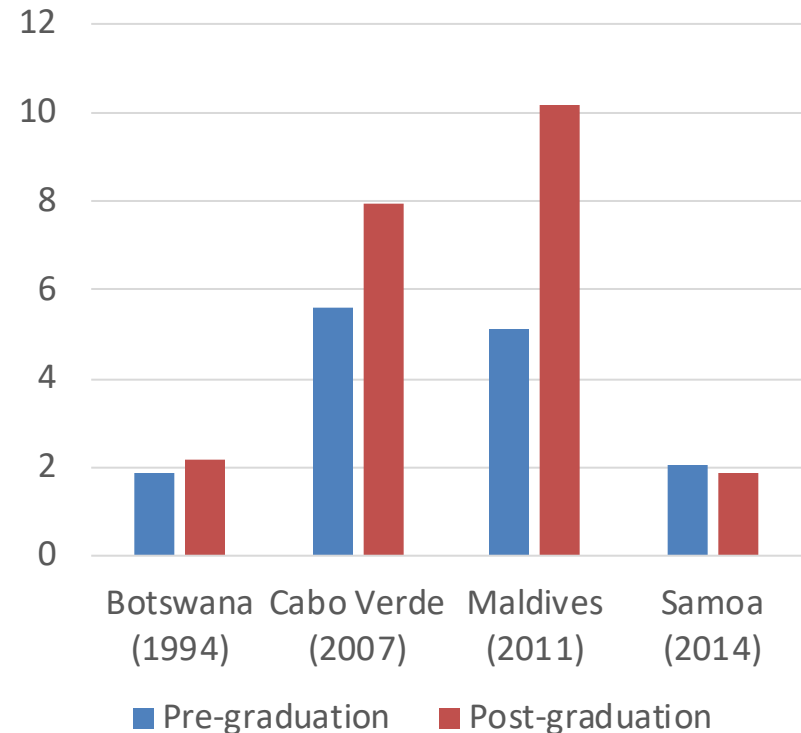


Implications of LDC graduation

- Graduation sends a strong signal of:
 - A more investor-friendly climate
 - Good infrastructure
 - Stable political situation
 - Predictable macroeconomic policy
 - Country's commitment to sustainable development

➔ Larger flows of FDI
Better credit ratings

**FDI, % of GDP
(pre- and post-graduation)**



Data source: WDI

Note: Ten-year average prior to graduation and ten-year average, or less, post-graduation





Can graduated countries slip back?

Inclusion criteria are not the same as the graduation criteria










- Two of the 3 graduation thresholds must to be met for graduation (i.e., GNI per capita, HAI and EVI).
- All three are required to be included in the LDC category. In addition, the inclusion thresholds are somewhat lower than the graduation thresholds:

Gross National Income (GNI) per capita	Human Assets Index (HAI)	Economic Vulnerability Index (EVI)
\$1,025 or below	60 or below	36 or above



Relevance to SDGs

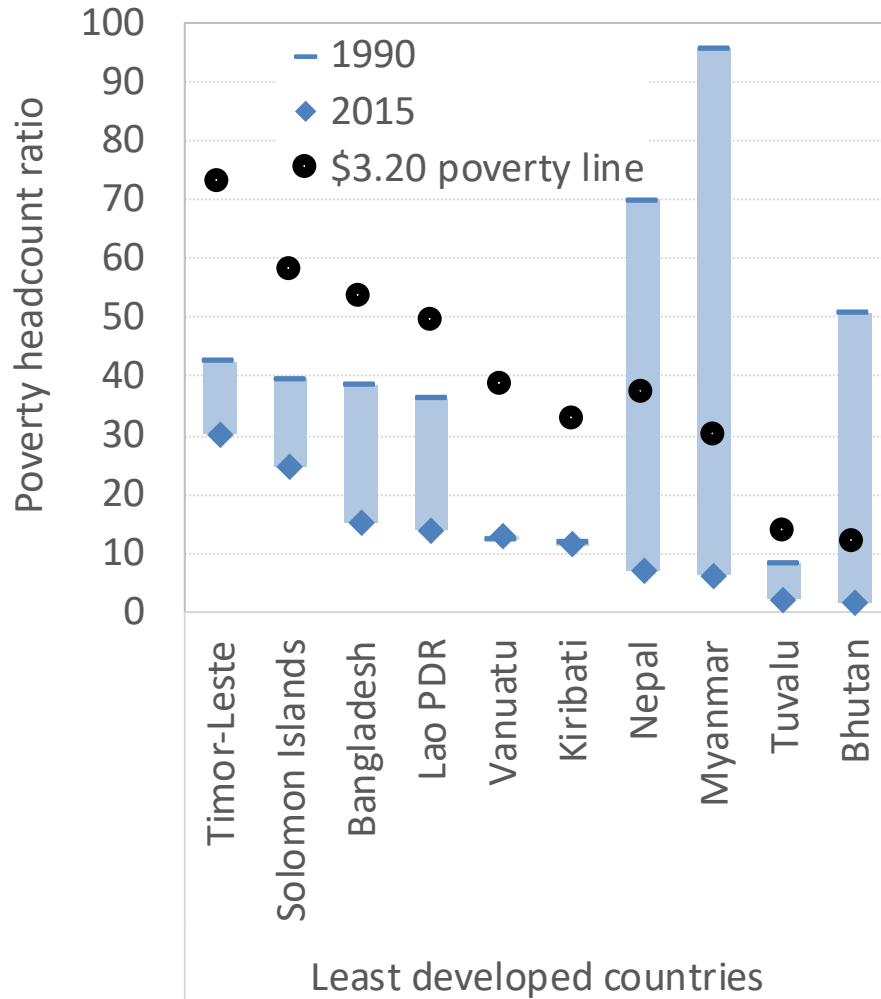
- LDC graduation and the progress towards SDGs are complementary

Goal	Target	Indicator		Graduation criteria
	1.1; 1.2	1.1.1; 1.2.1; 1.2.2	Gross National Income (GNI) per capita	<ul style="list-style-type: none"> Gross Domestic Product (GDP) less primary incomes available to a country
  	2.1; 2.2; 3.2 4.1; 4.6	2.1.1; 2.1.2; 2.2.1; 2.2.2 3.1.1; 3.2.1; 3.2.2 4.1.1; 4.6.1	Human Assets Index (HAI)	<ul style="list-style-type: none"> Nutrition <ul style="list-style-type: none"> % of population undernourished Health <ul style="list-style-type: none"> Mortality rate for children < 5 years Education <ul style="list-style-type: none"> Gross secondary school enrolment ratio Adult literacy rate
    	1.5 2.3; 2.4; 2.5; 2.a 11.5 14.6; 14.7; 14.b 17.11	1.5.1 2.3.1; 2.4.1; 2.5.1; 2.a.1; 2.a.2 11.5.1 14.6.1; 14.7.1; 14.b.1 17.11.1	Economic Vulnerability Index (EVI)	<ul style="list-style-type: none"> Population size Remoteness Merchandise export concentration Share of agriculture, forestry and fisheries Share of population in low elevated coastal zones Instability of exports and services Victims of natural disasters Instability of agricultural production



Income poverty remains persistent

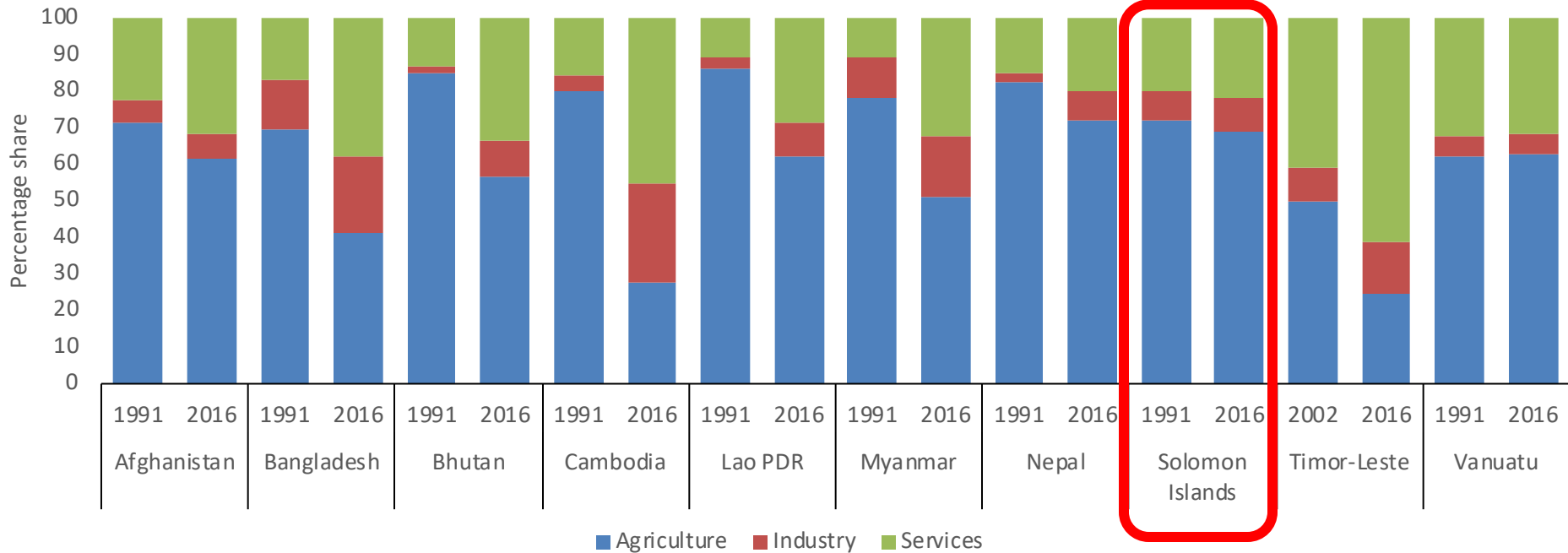
Poverty reduction between 2000 and 2015



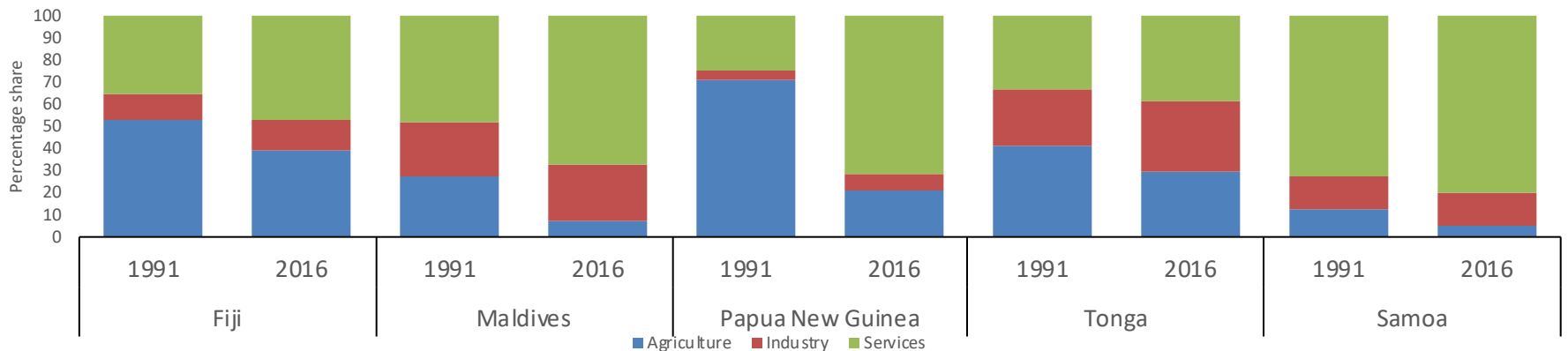
- Poverty rates at the 1.90 line dropped from 50+% in 1990's to 12% in 2015.
- However, one in two people still live on incomes below \$3.20 a day.
- People living in rural areas are 2.4 times more likely to be poor than people living in city areas

Most LDCs are structurally underdeveloped

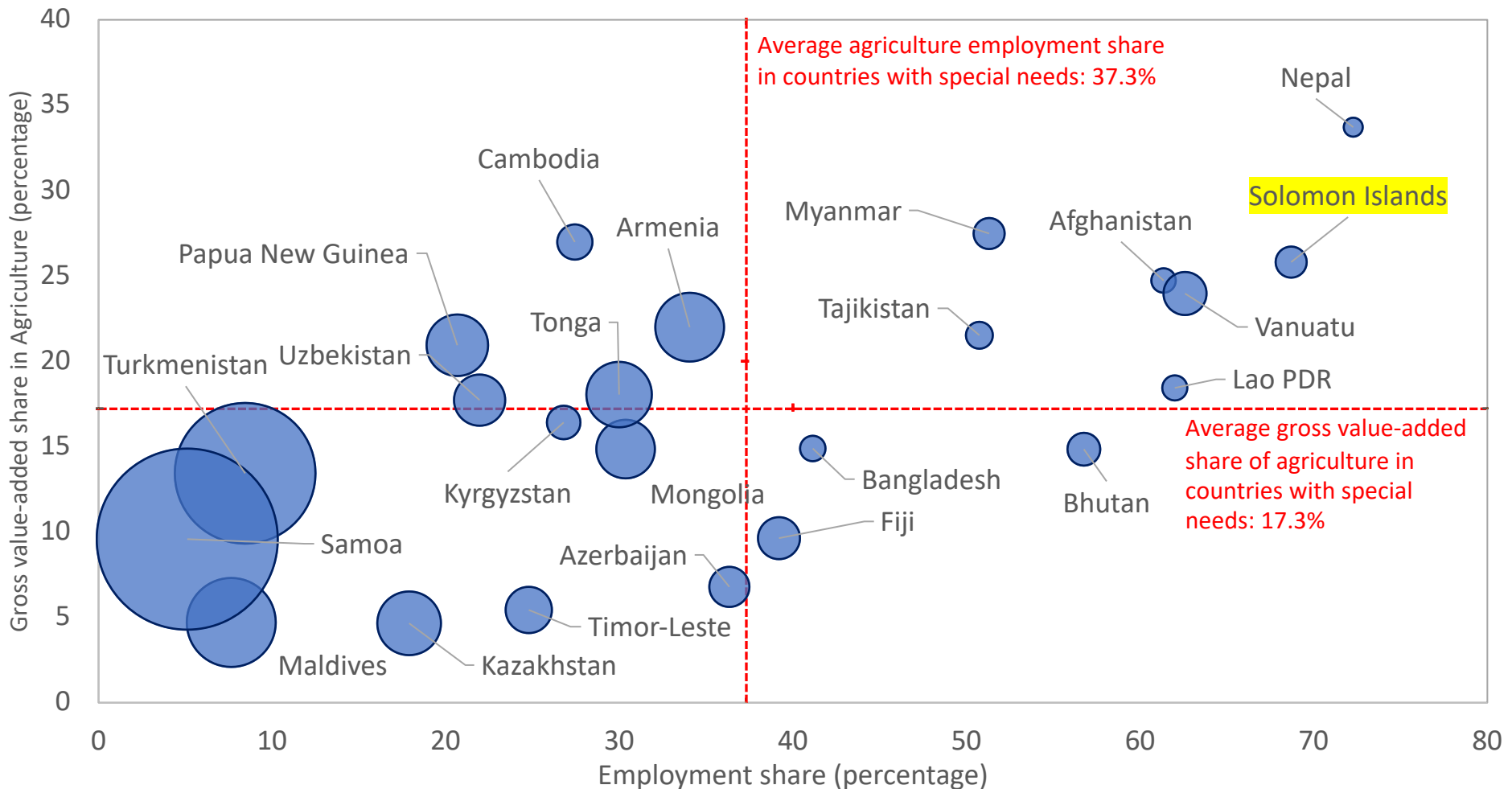
Least developed countries



Small island developing States



Structural transformation: relocating from agriculture



Countries in the upper right quadrant stand to gain the most from reallocation

- Employment and GDP shares are higher than average.
- Labour productivity in agriculture is often low -> to be boosted

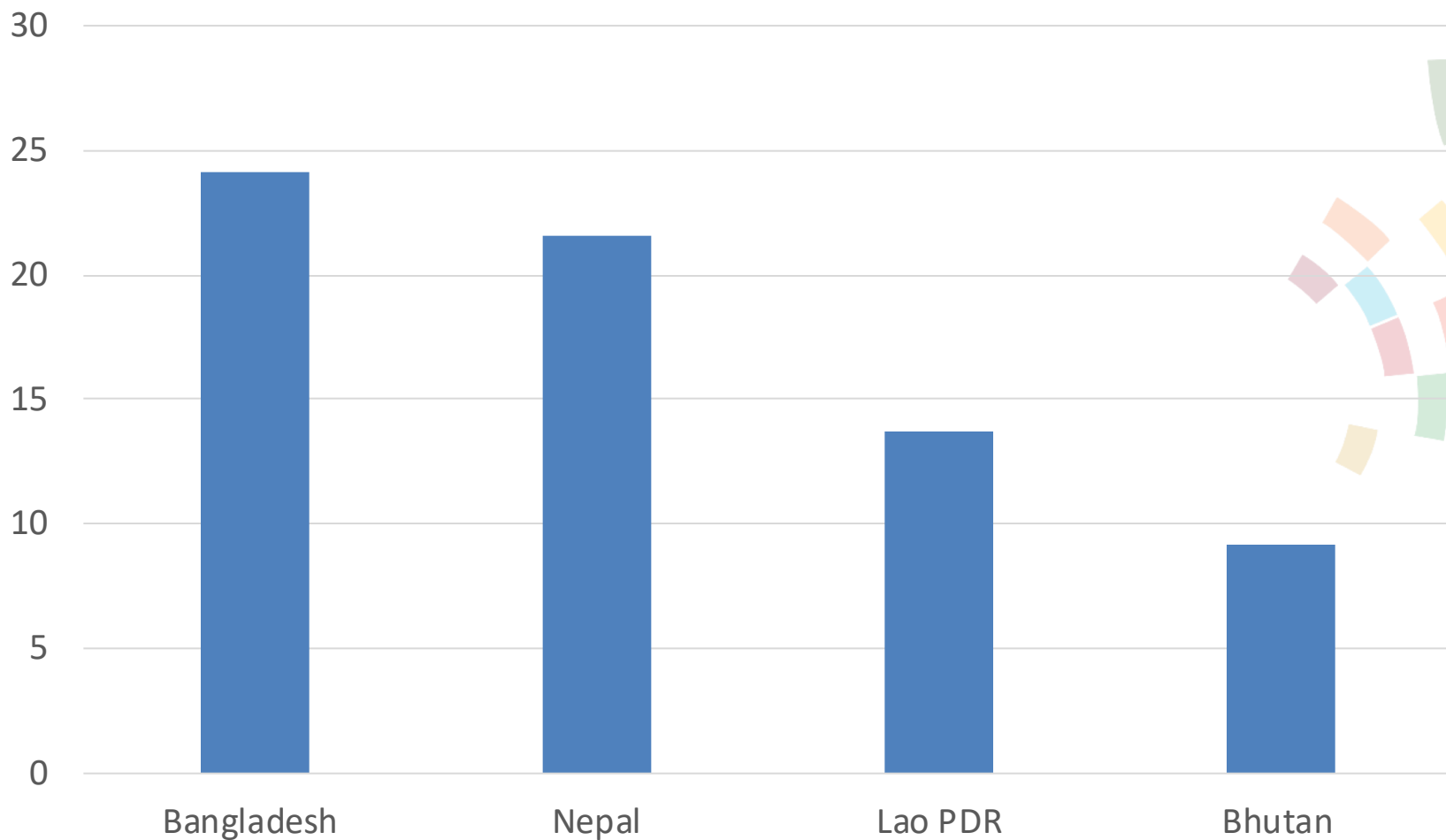
Resource needs for investment in sustainable development

Investment gap varies significantly across the region, rising to more than 16% of GDP in **LDCs** [non-SIDS]!



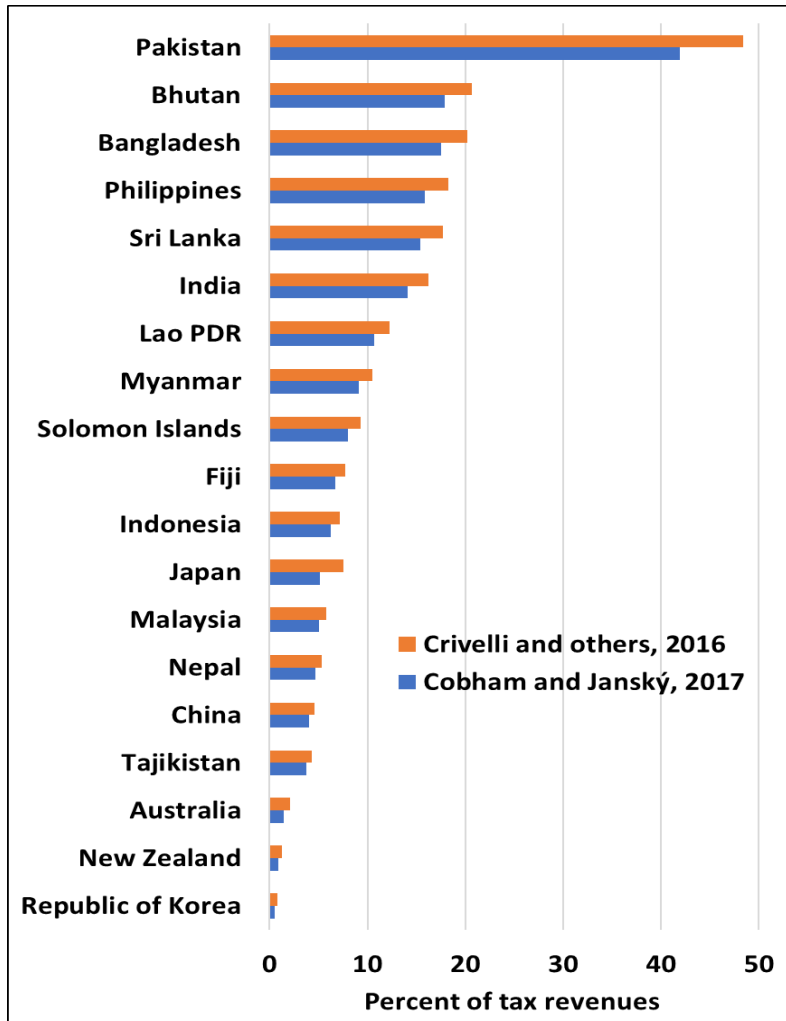
Additional investment needs to achieve SDGs

(lower bound estimate, % of GDP)

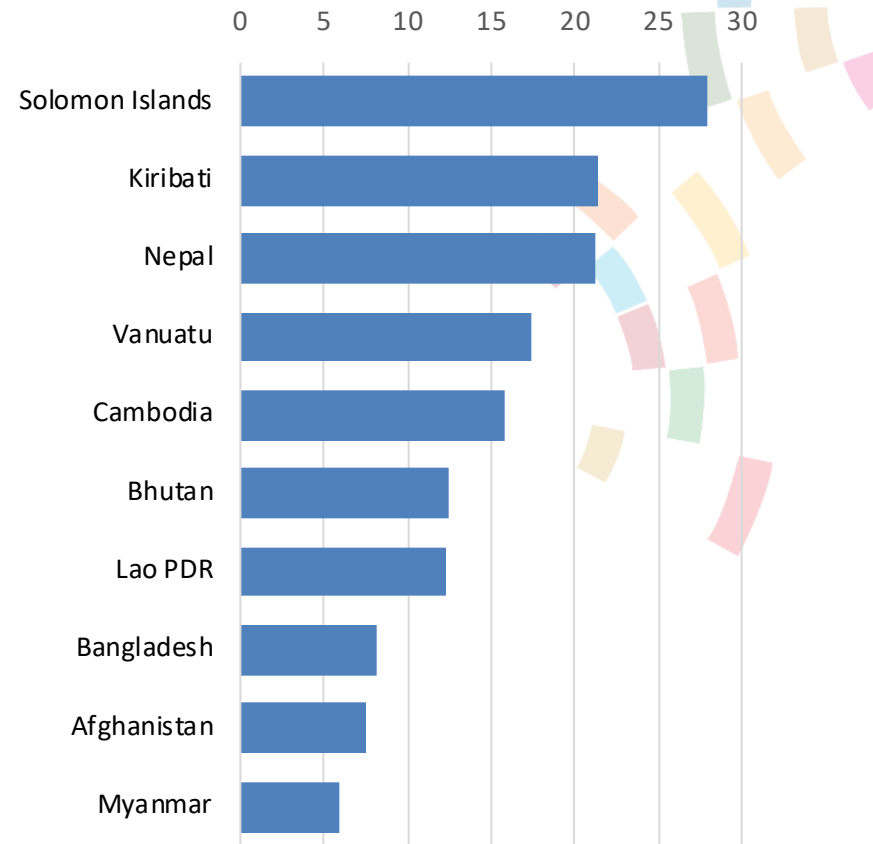


Domestic public resources

Tax losses due to BEPS, 2013



Tax revenue of the Asia-Pacific LDCs, 2017 or latest year (% GDP)





Conclusion

- There is a move from graduation strategies that focus on meeting the criteria for graduation towards **post-graduation strategies** to ensure a smooth and sustainable transition as graduation approaches
- A **better understanding of likely impacts of graduation**, with sufficient data and analysis, good preparation, and proactive engagement with development partners are critical.
- In the medium- to long-term, greater focus should be placed on **enhancing domestic resource mobilization**, complemented by strong international support and development cooperation, to improve tax and other revenue collection.

