

THE LEAST DEVELOPED COUNTRIES
REPORT 2016

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



The Least Developed Countries Report 2016

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

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Structure of the presentation

- 1. Meaning of graduation**
- 2. National dynamics towards graduation**
- 3. Contribution of International Support Measures (ISMs) to graduation**
- 4. Post-graduation processes and challenges**
- 5. Policy agenda for graduation with momentum**



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**



What is the meaning of graduation?

- **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**



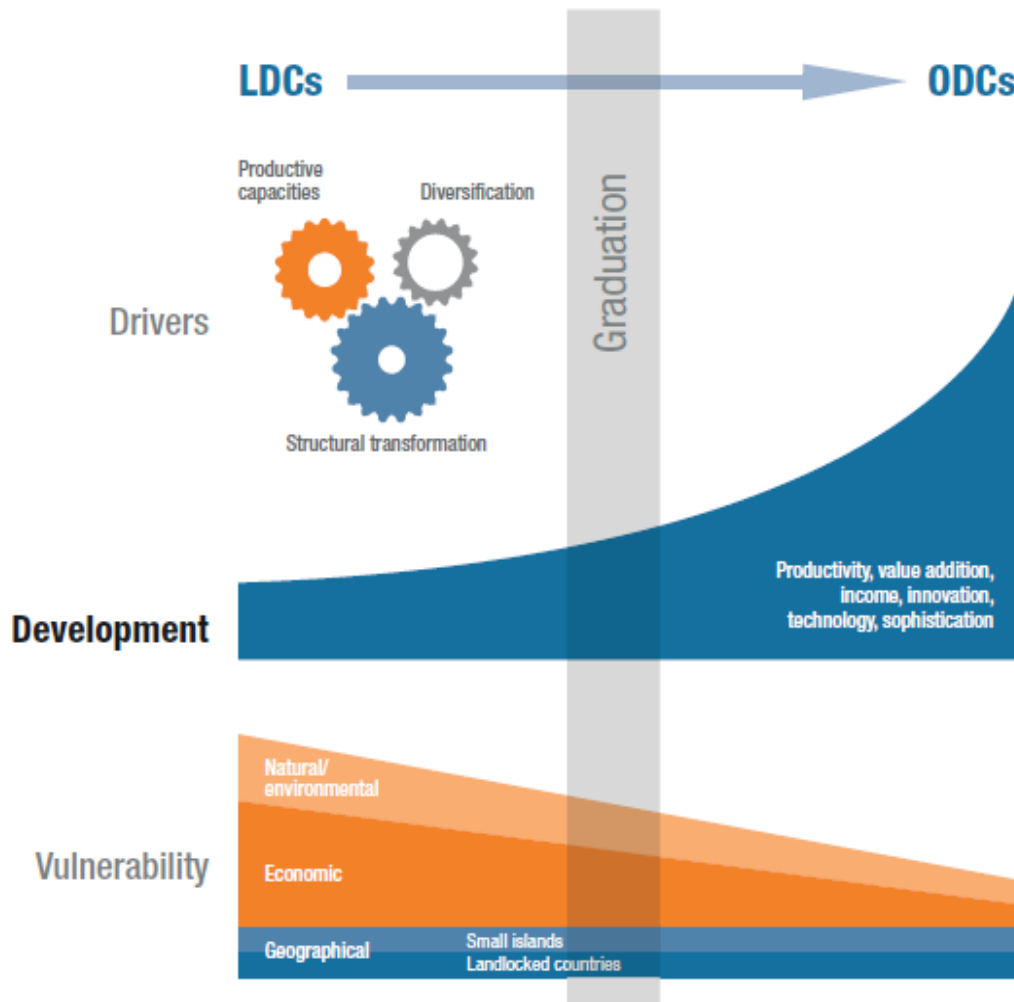
Why focus now?

- **Istanbul Programme of Action (IPoA) target (2011): at least half of (then) 49 LDCs should satisfy the graduation criteria by 2020**
- **2016: halfway from adoption of the target to the target date**
- **Unlike the four past graduates (Botswana, Cabo Verde, Maldives, Samoa), most LDCs close to graduation have adopted graduation as a specific goal**



1. Meaning of graduation

Figure 1.15. LDC graduation and sustainable development



Graduation alone is not enough: LDCs need GRADUATION WITH MOMENTUM laying foundations for subsequent development

Requires:

- **Developing productive capacities**
- **Structural transformation of the economy**



2. National dynamics towards graduation

Are we on track to meet the IPoA target?

Table 2.2. Projected graduation cases, 2017–2024

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

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

Notes: For caveats regarding the interpretation of the results presented in this table, see the main text.

- 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?

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



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***
- **But the reverse may be the case politically**
- **This may give rise to tension between economic and political priorities**
- **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**



What specific ISMs are available to LDCs?

FINANCE

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

TRADE

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

TECHNOLOGY

- TRIPS flexibilities
- Technology transfer
- Technology Bank

TECHNICAL ASSISTANCE

- Enhanced Integrated Framework
- Aid for Trade



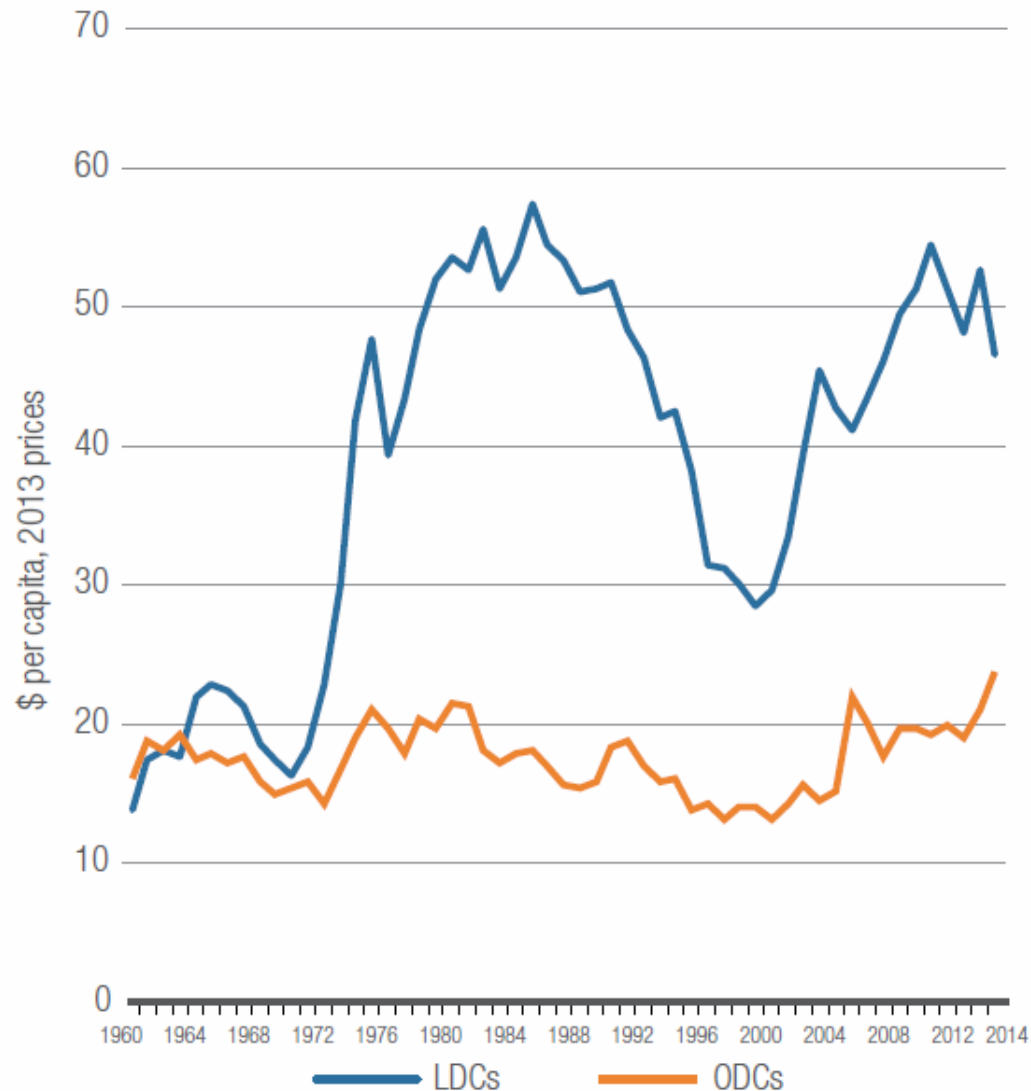
Do ISMs work?

- **ISM effectiveness is limited by narrow scope, vague / non-binding nature, inadequate commitment, slow operationalization**
- **Development finance and trade preferences are regarded as the most readily accessed ISMs**
- **Survey of LDC officials: existing ISMs are insufficient, and effective use is limited by institutional constraints**
- **Existing ISMs remain inadequate, particularly for IPoA graduation target and SDGs**



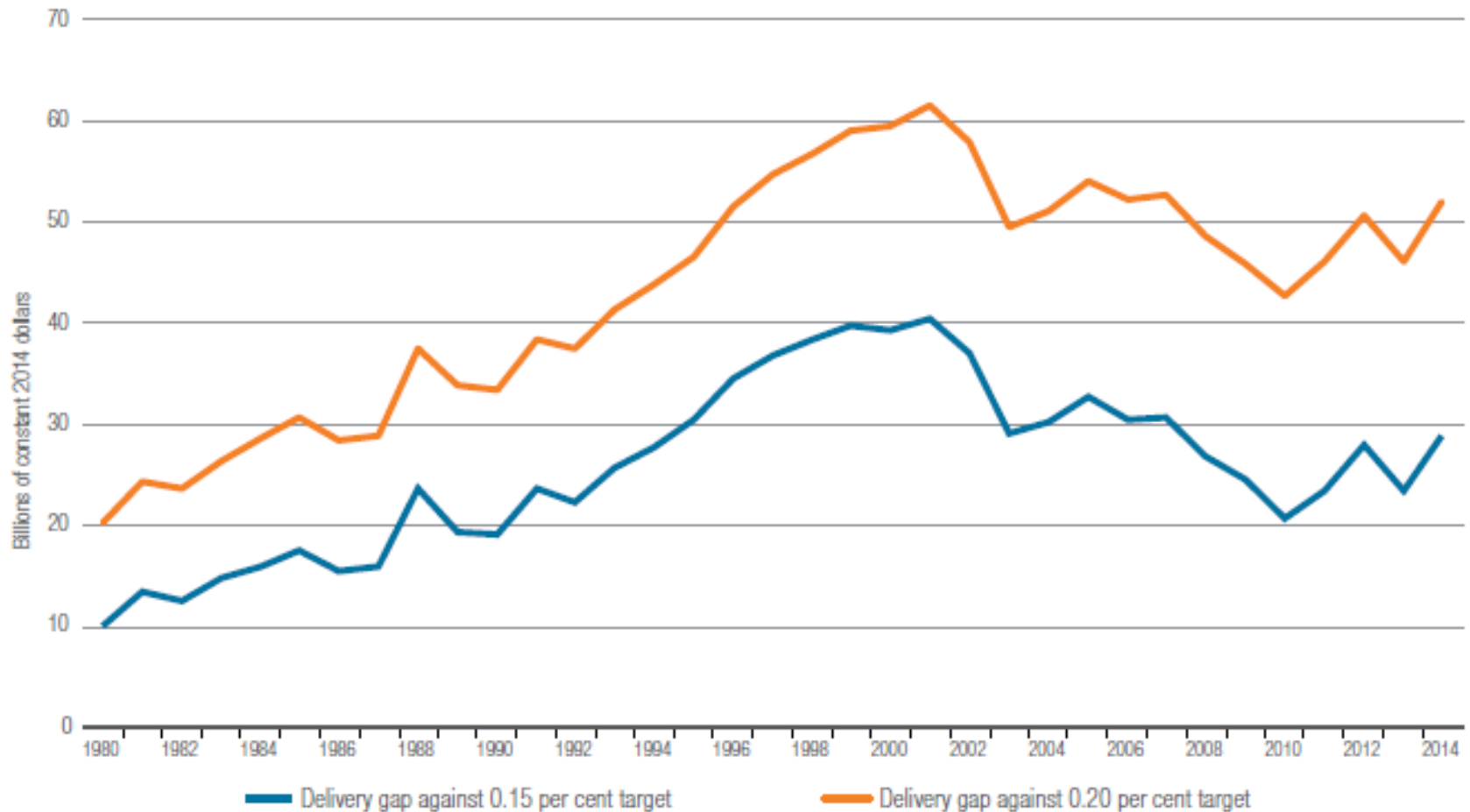
3. Contribution of ISMs to graduation

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



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+)**



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

Figure 4.3. Effects of preference losses related to LDC graduation vis-à-vis G20 countries



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



How you graduate matters!

- **With few exceptions, the costs of losing access to LDC-specific ISMs are likely to be limited for most LDCs**
- **While costs arise from graduation, benefits arise from the underlying socioeconomic improvements**
- **Costs can be offset by **graduation with momentum** and sound preparation**
- ****Graduation with momentum** also helps to address development challenges beyond graduation, e.g. persistent commodity dependence and the middle-income trap**

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**

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 of 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**



STATISTICAL TABLES
ON THE LEAST DEVELOPED COUNTRIES - 2016



The source of data on LDCs

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



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Thank you!

www.unctad.org/lcd

