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
1. Meaning of graduation

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

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
1. Meaning of graduation

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

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

Requires:
- Developing productive capacities
- Structural transformation of the economy
## Are we on track to meet the IPoA target?

### 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.
2. National dynamics towards graduation

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
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
2. National dynamics towards graduation

Are we on track to meet the IPoA target?

Projections

• Do not prejudice actions / policies by:
  • LDCs
  • CDP
  • United Nations General Assembly
2. National dynamics towards graduation

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
3. Contribution of ISMs to graduation

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

- Delivery gap against 0.15 per cent target
- Delivery gap against 0.20 per cent target
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
4. Post-graduation processes and challenges

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
5. Policy agenda for graduation with momentum

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
5. Policy agenda for graduation with momentum

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
The source of data on LDCs

- Available online at www.unctad.org/LDCs/Statistics
- Sister publication to The Least Developed Countries Report
The Least Developed Countries Report 2016

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Thank you!

www.unctad.org/ldc