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**Research Report**

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# Graduation of the Least Developed Countries, as a Step Towards Sustainable Development

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## The issue in a nutshell\*

The Least Developed Countries (LDCs) category has been set up in 1971 to identify countries « caught in a trap » and to support them to move « out of the trap »<sup>1</sup>. The category, if successful, aimed at the end to disappear. But after about half a century, the move out of the LDC category through the graduation process has only begun. It now takes place in the new context of the 2030 Agenda for Sustainable Development. The graduation of LDCs should then be considered as a step towards the Sustainable Development Goals (SDGs). This is the topic of the present brief.

1. Respective titles of two books , Guillaumeont 2009, and the forthcoming companion volume Guillaumeont, Edr, 2018.

\* This policy Brief relies on two presentations made by the author respectively to the High Level Meeting “Achieving Sustainable Development for Least Developed Countries” held in Dhaka, Bangladesh, 29-30 November 2017, and to the Expert Group Meeting on “United Nations (UN) Support for Graduation and Smooth Transition for the Least Developed Countries (LDCs)”, 14 December 2014, both organized by the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS). More details can be found in the contribution of Drabo and Guillaumeont to the forthcoming book *Out of the Trap* (Guillaumeont, Edr, 2018), and in Drabo and Guillaumeont (2016).



## ▶ A preliminary remark: LDCs graduation, the main among several graduations

Graduation has a long history. At the Organisation for Economic Co-operation and Development (OECD) and for the members of its Development Assistance Committee (DAC) « Graduation » it refers less to Least Development Countries (LDCs) than to Middle Income Countries (MICs), in particular the Upper Middle Income Countries (UMICs), which reaching a high level of income cannot longer be recipient of Official Development Assistance (ODA). In Multilateral Development Banks (MDBs) graduation corresponds to a move out of a group of countries having full access to concessional resources.

Graduation is an issue raised when some measures are limited to specific groups of countries. It is not specific to LDCs, although the LDC category is the only official one at the United Nations (UN), and the most relevant one. It is designed and monitored by the Committee for Development Policy (CDP) as a consultative body of the Economic and Social Council (ECOSOC).

For any graduation, the issue raised is the risk of status reversibility, then of the remaining vulnerability of graduated countries.

## ▶ Three phases in the history of the LDC category with respect to graduation

Three twenty year phases can be distinguished in the history of LDCs graduation.

From 1971 to 1991 (Phase I), graduation is **forgotten**. The category increased from 25 to 48 countries, without any rule and prospect for graduation. The “trap” may be seen as a “curse”.

From 1991 to 2011 (Phase II), graduation is **feared**, felt as a threat. Graduation rules are adopted in 1991 (and extended in 2005), in a very cautious manner, as recalled below. However

eligible countries express a strong resistance to graduation. The category reached 49 countries, after four additions, Angola and Eritrea (1994), Senegal (2000) and Timor Leste (2003), and only three graduations, Botswana (1994), Cape Verde (2007) and Maldives (2011).

Since 2011, possibly to 2030, (Phase III) graduation is **hoped**, being recognized as a goal. In 2011 the IPoA (Istanbul Programme of Action) of the 4<sup>th</sup> UN Conference on LDCs (LDC IV) set up the goal of enabling ½ LDCs to meet graduation criteria in 2020. This goal corresponds to a significant change in attitudes towards graduation. Meeting the criteria does not mean to have actually graduated. It is generally understood as the fact that the country has twice been found eligible with regard to the criteria by the CDP.<sup>1</sup>

## ▶ Time frame of graduation with respect to the 2030 Agenda

According to the IPoA goal, half of the LDCs (i.e. at least 24, since there were 48 LDCs in Istanbul) should be able to have met the graduation criteria by 2020. Since Istanbul, what has been reached in mid - 2018?

- 2 more countries have graduated: Samoa (2014) and Equatorial Guinea (2017), having already met the criteria in 2011,
- 2 countries having met the criteria are to be graduated: Vanuatu (in 2020) and Angola (in 2021),
- 2 countries have been found more than twice eligible, and recommended for graduation: Tuvalu since 2012 (with a decision still pending) and Kiribati in 2018,
- 3 countries found eligible a second time in 2018 (Bhutan, Sao Tome & Principe, Solomon Islands) have been recommended for graduation,
- 2 countries also found a second time eligible

1. As far as the criteria are supposed not to be automatic, meeting the criteria could also mean that the country has been recommended by the CDP on the basis of its assessment of the country situation with regard to the criteria.

in 2018 (Nepal, Timor Leste), were not recommended by the CDP.

Thus a maximum of 11 LDCs<sup>2</sup> out of 48 (one fifth), instead of one half, will have reached the IPoA goal (3 of which<sup>3</sup> due to a 2015 change in thresholds design).

Prospects for 2030, the horizon of SDGs, are better. But with the present graduation rules, only one half of the Istanbul LDCs may have graduated at that date.

### ► Why such a slow path of graduation?

Several reasons explain the slow path of graduation observed until now.

One is of course the economic growth itself, in spite of the recovery of economic growth in LDCs since the mid-nineties. Most optimistic prospects for 2030 rely on the hypothesis that LDCs will reach the 7% growth goal of the IPoA, reiterated in the SDGs, but not easy to reach.

A major factor of the graduation lag is the asymmetry of inclusion and graduation criteria. There are actually four sources of asymmetry: (i) not only one but two of the three complementary inclusion criteria should no longer be met; (ii) they should do so with margins between inclusion and graduation thresholds; (iii) at 2 successive triennial reviews; (iv) graduation being effective three additional years after the agreement by the UN General Assembly (GA).

As a result in 2018, 31 out of the 47 LDCs were no longer meeting the inclusion criteria, while only 16 were meeting them. And only 9 out of the 31 were meeting the graduation criteria (with only 7 recommended by the CDP for graduation). It means that 22 countries were meeting neither inclusion nor graduation criteria (a figure which has been increasing during the past triennial reviews except the last one: there were 11 such countries in 2000). At the

2. 9 if we consider that the countries not recommended have not really met the criteria...and 7 if we retain only the countries that had not yet met the criteria in 2011.

3. Bhutan, Nepal, Solomon Islands

same time there were non LDCs in the same position, also meeting neither inclusion nor graduation criteria, the number of which has been reduced to one in 2018. These “discordant countries”, some of which being LDCs and some other not, weaken the consistency of the category, restated in the SDGs, and enlighten the need of the accelerated graduation involved by the IPoA.

The small change brought in 2015 in the definition of the criteria threshold was enough to make 3 more countries eligible a first time.

### ► Strengthened connection between LDCs and SDGs

The connection between the LDCs and the international development Agenda has been reinforced during the last decades.

In 2000 the Millennium Development Goals (MDGs) did not pay particular attention to LDCs, cited only in the 8th goal and in 2 out of 60 targets (3%).

An LDC focus appears in UN Conferences on Development Finance following the adoption of MDGs (2002 Monterrey, 2008 Doha) : LDCs are mentioned in 10 out of 73 paragraphs (14%) in Monterrey Consensus, and in 16 out 90 (18%) in Doha Declaration. At the 3rd UN Conference on Development Finance in 2015 the Addis Abeba Agenda for Action (AAAA) makes references to LDCs in 37 out of 134 paragraphs (28%).

Finally in the Agenda for Sustainable Development, adopted by the UN General Assembly in September 2015, 12 of the 17 SDGs refer to LDCs (and 24 out of 167 targets, 14%).

### ► Combining universality and the special case of LDCs

Is the universality principle of the new development agenda consistent with the special treatment of LDCs? Due to the universality of SDGs, a fight was needed to make the special case of LDCs rightly taken into account, what was not

really the case in preliminary reports.

The basic consistency between universality and LDCs differentiation relies on an equity principle: More equal opportunities between countries involve special treatment for countries meeting more severe structural handicaps, as are supposed to be the LDCs. The structural economic vulnerability, one of the 2 main structural handicaps of LDCs, is the opposite of the sustainability of the new development goals.

### ► **SDGs, a path to graduation**

The SDGs have become guidelines (or a path) to graduation. And present graduation involves a move towards SDGs.

Moving towards SDGs involves reducing poverty, improving human capital, reducing vulnerability, what makes the rationale of the category highly consistent with SDGs. Moreover SDGs are reinforcing this rationale through their sustainability dimension, what supports the new design of LDCs as countries facing severe handicaps to sustainable development and not only to economic growth.

This new design and more generally the vulnerability to climate change is not fully reflected in the LDCs criteria in spite a first step with the Low Elevation Coastal Zone (LECZ) component of the Economic Vulnerability Index (EVI), introduced in 2012, (see proposal for a small change in Guillaumont, 2014).

### ► **The vulnerability issue in graduation**

Indeed most of graduated (and graduating) countries are still vulnerable (with regard to EVI or to other vulnerability criteria). Their vulnerability, that was not an obstacle to graduation eligibility, has been a major political factor of resistance to graduation.

This eligibility was still consistent with the rationale of the category for which it is the conjunction of low level of human capital and

a high structural economic vulnerability that is locking a country into a trap: A country with a high level of human capital and a middle income per capita is supposed to have overcome most severe handicaps to development.

The vulnerability of most graduated countries still remains, in particular to climate change, to be addressed in the transition process and possibly ex-ante in the design of the criteria.

### ► **Reinforcement of smooth transition to make it consistent with SDGs**

What is the best way to promote smooth transition out of the category? When possible, designing the support measures from the (continuous) LDC criteria is better than from category membership.

A good example is given by the Resolution A/RES/67/221 of the UN GA, inviting development partners to take into account LDCs identification criteria as aid allocation criteria. This has been done by EU for the European Development Fund (EDF) and the Development Cooperation Instrument (DCI); it is under examination by some for MDBs (in particular the ADB for its concessional window, ADF): It allows to take into account economic vulnerability when needed, and possibly other criteria as well (in particular vulnerability to climate change).

However for binary support measures (eg Everything But Arms (EBA) the duty-free quota-free access given to the EU market for LDCs), it is only possible to postpone their suspension after graduation, as it is precisely done for EBA. Postponement can be done either on a case by case basis or automatically for a given period of time. Automatic rules are welcome, but should be short-term, to not weaken the process of graduation itself.

## ► Risks of unsustainable graduation?

The risk of reversibility (falling back into the category) is sometimes argued before and against graduation. Actually it is very low due to the strong asymmetry between inclusion and graduation criteria underlined above (this is quite different in the DAC graduation for ODA eligibility, where there is nearly no asymmetry)

Is there a risk of a slowing down of economic growth? The few graduated countries evidence rather good performances, suggesting that such a risk is low. This may appear as a “graduation paradox”: If the support measures are effective and disappear after graduation, why is there not a deterioration of situation in the graduated countries?

Several answers may be given: one is the postponement of the end of some support measures, another could be that the scope of support measures was finally limited, but the main reason should be looked for in the pre-graduation dynamics, that led to graduation and was likely to go on; it is also in the signal of a new development era given by graduation; incentives to smooth transition strategy may also have been effective.

Most of graduated or graduating countries may still face strong exogenous shocks due in particular to climate change, needing a capacity to manage them, and appropriate international measures.

## ► Structural transformation not only a transition strategy, but a strategy for all LDCs

Structural transformation leading to higher productivity is often presented as essential for a sustainable graduation, and it is.

But it is needed for all LDCs, all the more that they are far from the eligibility to graduation, and far from the SDGs as well: Graduation is a goal for all LDCs, graduation policy is noth-

ing else than development policy.

Structural transformation is a way to grow and reach the SDGs, with a content differing according to the countries, their features and size. Structural transformation in LDCs is first to overcome the structural handicaps featuring LDCs: enhancing human capital and lowering structural economic vulnerability.

## ► Addressing vulnerability: Beyond, but also before graduation

Addressing vulnerability and increasing resilience, including to climate change, should be a major component of the transition. Special measures are needed to tackle vulnerability, in particular with respect to natural disasters and climate change.

Without being linked to graduation, they are highly needed for vulnerable graduating countries, and for other vulnerable developing countries as well.

A revision of the graduation criteria may also be needed to reinforce the consistency of the category, weakened by their asymmetry between inclusion and graduation. The present rules do not allow a fair assessment of vulnerability in the graduation process. At the same time they contribute to make the path of graduation lagging behind the IPoA goal.

An easy solution would be to merge EVI and HAI in a Structural Handicap Index (SHI), leading to 2 criteria instead of one, at least for graduation. This could accelerate the graduation during the 2020's, while making vulnerability more generally taken into account. If the index was also designed to allow taking into account vulnerability to climate change, it would also make graduation more consistent with SDGs.

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