Lessons from countries that have graduated from the LDC category

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Nepal classified as LDC in 1971.
Nepal satisfied the literacy but not the manufacturing criterion.
Nepal is one of the 47 countries in the LDC category.
Nepal could graduate from the LDC status. Recent triennial LDC review: 2018
Next triennial LDC review: 2021
Countries which graduated from the LDC category

- **Botswana (1994)** – Income (and APQLI)
  - Inclusion 1971
- **Cape Verde (2007)** – Income (and APQLI)
  - Inclusion 1977
- **Maldives (2011)** – Income (and EDI, APQLI)
  - Inclusion 1971
- **Samoa (2014)** – Income and HAI
  - Inclusion 1971
- **Equatorial Guinea (2017)** – Income
  - Inclusion 1982
Human Assets Index

Source: UNOHRLLS
Economic Vulnerability Index

Source: UNOHRLLS
National (transition) strategies/actions: Maldives

- **Strategy: Development of transition strategy:**
  - Establishing national coordination mechanism;
  - Plan of action for key areas such as trade and investment;
  - Ensuring environmental sustainability;

- **Cooperation:** Facilitation of donors’ engagement

- **International Trade: Integrated framework for trade related assistance:**
  - Strengthening the national trade policy coordination mechanism;
  - Building national capacity for trade-related issues;
  - Developing a trade information system;
  - Technical advice to government on its negotiations with SAARC/WTO.
National (transition) strategies/actions: Samoa

• **Macroeconomic stability**
  (fiscal deficits, capital investment, debt, FFD)

• **Coherent development strategy**
  (agriculture, infrastructure, services, environment and climate change)

• **Addressing institutional capacity constrains**
  (capacity building, outsourcing)

• **Improving aid coordination management**

• **Create enabling environment for private sector (FDI)**

• **Mainstreaming post disaster rehabilitation**

• **Maintaining credibility for international support**
Some lessons from Maldives’ transition

• A smooth transition strategy at the early stages of the graduation is vital.

• Multi-lateral and bilateral donor engagement and coherence.

• Technical support is needed especially in trade related issues.

• Internal strengthening and reform of the Public Finance Management is needed.

• Political stability and good governance are important factors to counter vulnerabilities.
Lessons from the countries which graduated from the LDC category

- **Economic indicators suggest no significant change in dynamics.** Economic and environmental vulnerability usually continue after graduation. Resource dependency prevails. Structural transformation may not accelerate “automatically”. However, FDI may increase due to the change in the global perception and other conditions;

- **Loss of international privileges is relatively limited** with no established impact on development dynamics, due to the existence of replacement mechanisms and the offset through intensified economic activities;

- For a smooth transition and post-transition period a **comprehensive strategy is needed.** This strategy must be country specific (e.g. in the case of Samoa included post-disaster rehabilitation) and needs to involve extensive cooperation with the international community, and donors;

- **Macroeconomic stability** is key as countries may face higher risk of indebtedness and debt service burden;

- Graduation necessitates **sectoral and institutional reforms** aimed at smoother engagement with the global economy, e.g. enabling business environment, strengthening of the financial system.
Implications of LDC graduation

LDC-specific entitlements or ISMs will be phased out:

- Loss of trade-related ISMs
  - Market access preferences (DFQF/EBA, GSP for LDCs, RoO flexibility)
  - Preferential treatment (WTO rules/TRIPS, export subsidies)
- Possible reductions in ODA from bilateral and multilateral donors
- Loss of access to exclusive mechanisms (Tech. Bank, Inv. Support, LDCF, EIF/AfT, access to ACWL)
- Loss of access to other LDC-specific support (UN budget, travel benefits, etc.)

Source: WTO Secretariat

Note: Ten-year, or less, averages prior to and after graduation
International development cooperation

Net ODA received per capita (current US$)

Gross ODA, 2015-2016 average, USD million

Source: OECD-DAC
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

*Note*: it is difficult to establish the causal relationship due to the limited number and diversity in situations

Data source: WDI
*Note*: Ten-year average prior to graduation and ten-year average, or less, post-graduation
Implications of LDC Graduation

• The LDC category includes special provisions related to **development finance** and **preferential trade arrangements** to help countries overcome structural challenges.

• LDCs need to analyze whether the **positive effects** of graduation outweigh any **potential negative (or unintended) consequences** of graduation.

• LDCs need to look closely into **International trade that** takes place with neighbouring countries.

• LDCs need to develop a **transition strategy** that takes advantage of benefits while they are still available and prepare for the withdrawal of support with **minimal negative impacts**.
Preparation for the LDC Graduation

• **Improve competitiveness** by enhancing the supply of human capital and upgrading the infrastructure needed for trade.

• **Remove non-tariff barriers** such as simplification and harmonization of customs procedures and standards.

• **Improve regulatory and business environment** such as increased transparency and streamlining procedures to lower transactions costs.

• **Explore non-LDC specific trading arrangements** such as the various GSP schemes for developing countries or seek to negotiate regional or bilateral trade agreements.

• Make use of **concessional financing arrangements** and adopt prudent approaches to non-concessional borrowing to ensure debt sustainability – both before and after graduation.
Smooth transition strategy

**Before the preparatory period**

- Establish a consultative mechanism to set up a concrete plan towards and beyond graduation
  - To bring together the main development and trading partners
  - To facilitate the preparation of the transition strategy
  - To identify the necessary actions
  - To link the strategy with national developed plans
- Conduct in-depth analysis of potential impacts of graduation, building on DESA’s impact assessment
  - To identify areas where continued/extended/additional support is needed
  - To assess development financing needs
  - To prioritize negotiation
Smooth transition strategy

**During the preparatory period**

- Use the existing support measures to prepare for graduation
- Prepare to utilize the existing smooth transition measures
- Prepare to compensate for the loss of ISMs
- Engage with development and trading partners for extension of ISMs or post-graduation preferential trade
- Explore new exporting opportunities in neighboring countries
- Promote trade capacity building / improve business environment / attract FDI for export competitiveness and diversification
- Undertake national consultations, build awareness
- Celebrate!

**After graduation / during the transition period**

- Utilize smooth transition measures granted to newly graduated LDCs
- Share experience with remaining LDCs
Use of the existing support measures to prepare for graduation

Nepal remains entitled to use ISMs and other support measures during the preparatory period

• **Consultation services**
  • ACWL for legal advice regarding WTO law compliance
  • Investment Support Programme for LDCs
  • Technology Bank for LDCs

• **Training and capacity-building opportunities**
  • ESCAP, WTO, UNCTAD, CDP Secretariat for building awareness, negotiating capacity, etc.

• **Knowledge-based products**
  • ESCAP, CDP Secretariat, EIF, UNCTAD
Use of the existing smooth transition measures

Some ISMs can be available for extended period of time

• EU’s Everything but Arms scheme (EBA) - 3 years after graduation
• Enhanced Integrated Framework (EIF) – 5 years
• Least Developed Countries Fund (LDCF) – projects approved before graduation will be funded
• Technology Bank for LDCs – 5 years
• Investment Support Programme– 5 years
• UN Capital Development Fund (UNCDF) – 3 years + 2 years on a cost sharing basis
• UN travel support for GA sessions – 3 years
• Trade benefits may be negotiated with trade partners
Look Beyond LDC Graduation

- LDC graduation marks a **milestone** but it is necessary to look beyond.
- Meeting the graduation criterial does not mean LDCs are necessarily on a **sustainable development pathway**.
- LDCs need to continue focusing on **structural transformation**, including through expanding productive capacity, diversifying the economy, and building resilience to shocks.
- Make sure these efforts contribute to a **longer-term** sustainable development pathway.
Beyond LDC Graduation

• 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
  • E.g.: Utilize existing smooth transition measures; prioritize negotiation for additional support measures; build awareness; and celebrate graduation

• 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.
How is ESCAP supporting LDCs?

- **Knowledge products** on key issues, such as the challenging and consequences of LDC graduation (e.g. Asia-Pacific Countries with Special Needs Development Report Series, national strategy papers on LDC graduation, etc.)

- **Technical support and capacity building workshops** on means of implementation: data, statistics, resource mobilization

- **Support for regional follow-up and review** (e.g. Asia-Pacific Forum on Sustainable Development, Regional final review of IPoA to be held in 2020)

- **ESCAP Resolution** “Supporting the smooth transition of the least developed countries in Asia and the Pacific towards a sustainable graduation” (2018)
Knowledge-based products on LDC and LDC graduation

Asia-Pacific Countries with Special Needs Development Report series
- Structural transformation and its role in reducing poverty (2019)
- Sustainable development and sustaining peace (2018)
- Investing in infrastructure for an inclusive and sustainable future (2017)

Working Paper series
- Preparing to graduate: Issues, challenges and strategies for Kiribati’s LDC graduation (2019)
- LDC Graduation: Challenges and Opportunities for Vanuatu (2019)

Policy Brief series
- Structural transformation, backward and forward linkages and job creation in Asia-Pacific LDCs (2019)
- Industrial policy for structural transformation to reduce poverty in LDCs, LLDCs and SIDS (2019)

Other outreach materials on LDC graduation
- Blog series at Development Policy Centre, Australian National University on Kiribati’s LDC graduation (2019)
- Newspaper article at Vanuatu Daily Post (2019)
Technical support and capacity building workshops

- Project: “Supporting the Countries with Special Needs in Asia-Pacific in meeting the challenge of resource mobilization for achieving the 2030 Agenda for Sustainable Development”
- Various capacity building workshops to support LDCs
  - Formulating National Policies and Strategies for LDC graduation (Bhutan, 2017)
  - Strengthening Development of LDCs in Asia-Pacific (Cambodia, 2017)
  - ESCAP-OHRLLS-UNDP Pacific Workshop on a smooth graduation (Vanuatu, 2018)
  - ESCAP-WTO Regional Workshop on LDC graduation in Asia (Thailand, 2019)
  - National consultations and workshops on LDC graduation (2019)
    - Bangladesh, Nepal, Bhutan, Solomon Islands, Vanuatu
  - Graduation impacts assessment missions, jointly with CDP Secretariat, and follow-up consultations (2018-2020)
    - Bangladesh, Lao PDR, Myanmar, Cambodia
Intergovernmental processes

• ESCAP Resolution on “Supporting the smooth transition of the least developed countries in Asia and the Pacific towards a sustainable graduation“ (2018)
  • Recognizes that the graduation process of LDCs should be coupled with an appropriate package of incentives and support measures in order not to jeopardize their development progress
  • Invites graduating countries in the region to start the preparations for their graduation and transition strategy and underscored the importance of coordinated, integrated UN system support to them
• Support for regional follow-up and review
  • Mid-term Review of IPoA (Cambodia, 2015)
  • Final regional review of IPoA (GA Resolution, to be held in 2020)
  • Support region’s LDCs at the Fifth UN Conference on LDCs (LDC V conference, to be held in Doha, Qatar, 2021)
Conclusion: What can be done?

Graduating country
Establish a consultative mechanism; undertake comprehensive analysis; use existing support measures; utilize existing smooth transition measures; identify additional support needed; prioritize negotiation; build awareness; and celebrate graduation

LDCs as a group
Share experience; advocate for new package of incentives and support measures; negotiate as a team to gain collective bargaining power

UN (ESCAP, OHRLLS, UNCTAD, CDP Secretariat, etc.)
Undertake comprehensive impact assessments; organize a country-level meeting on graduation support; provide a platform to share experiences and expertise, especially those of recently graduated countries; provide capacity development and policy advice in a coordinated and integrated manner