Graduation and Differentiation with regard to Vulnerability and Fragility

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Differentiating Development Partnerships:
General Issues and the Vulnerability Challenge

Reasons for differentiating Development Partnerships

- Increasing heterogeneity of developing countries, with only 2 official groups within UN: *developing (*134) and *LDCs* (47) and several income groups according WB (and others): *LICs* (31), *LMICs* (53), *UMICs* (56) , *HICs* still included in DAC list (5)

- Dramatic *changes in the distribution of countries* among the groups, in particular between *LICs (63 in 2000, 31 in 2016*) and MICs, quite less between LDCs and others, even less between DCs and others

- Special issue raised by the *fragile states* (36) and *fragile situations*….

- …or by the countries *vulnerable to climate change* and natural disasters

- Groups to some extent overlapping, except SIDS and Landlocked!

- *Heterogeneity means different needs…and different policy measures*

Rules are needed to differentiate partnerships

- Differentiation (for group eligibility and graduation, or for allocation) involves rules, fully *automatic* or through *discretionary* judgement

- *Some rules are global*, relevant for all partners, such as the LDC inclusion or graduation rules (UN), or the ODA eligibility rules (OCDE)….

- *…or specific to one or several partners*, either contractual (Cotonou) or unilateral (EBA, MCC,..)

- Rules are particularly *needed for multilateral accountability,* and transparency as evidenced by the ODA allocation rules or models used by MDBs (and EU)

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Differentiating by criteria better than by categories the threshold issue

- Using *continuous criteria* is better than *discontinuous categories*, when possible

- *Clear for ODA and development finance*: allocation criteria better than category membership, continuous differentiation possible through blending …

- It *avoids threshold effects* (e.g. FS in MDBs), thus making decisions more equitable and less discretionary, as well as reversibility issues

- It allows a *differentiation between countries within and out of a category*, in particular with regard to vulnerability and fragility

- and *makes the transition smoother* than one step graduation from a lower to an upper category,

- Indeed *not possible for binary measures*, in particular trade measures (EBA), and more generally when a rule of eligibility is needed (ODA)

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Facing the reversibility issue when categories are used: Asymmetry between eligibility and graduation

- Special aspect of the criteria vs category issue: discontinuous graduation should not become frequently reversible, due to the vulnerability of graduated countries (not an issue with continuous criteria)

- With categories of countries eligible to specific measures, several "asymmetric" rules may be used to limit the risk of reversibility (pushed far in the case of LDC status):

  - Time lag between meeting the criteria and implementation

  - Margins between inclusion and graduation criteria thresholds

  - Asymmetry in the number of criteria to be met.

Metrics: GNI and beyond

- Although GNIpc is an imperfect measurement of development, it is presently unavoidable, and perfectible...

- *Other metrics* may be used: several options

  - Synthetic index (HDI approach)

  - Multicriteria approach (LDCs)

- Specific issue of *fragility and vulnerability measurement*, with several dimensions (economic, climatic, institutional)

- Need to take into account exogenous vulnerabilities besides GNI:

  - to address the issue of reversibility, at various levels of development

  - to address the more general problem of structural handicaps, mainly raised at low levels of income (LDCs)

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Nations vs people: a responsibility issue

- A main issue: *what is the rationale of ODA to MICs?* Knowing that total ODA amount is limited, and ODA to LICs below the needs

- 3 debatable arguments in favour of ODA to MICs, including UMICs:

  - *"Nobody left behind":* of whom is it the mandate? International community or nation-states, under the condition that no nation is left behind. MICs capacity and responsibility to redistribute

  - *Numerous poor located in MICs*: but what matters is the likelihood of people to stay poor, that depends on the poverty ratio, and on structural handicaps, quite lower in MICs than in LICs

  - *MICs trap*: no robust theoretical ground, neither empirical evidence, different from the LDCs features

- Remaining arguments for ODA to MICs (or some ones): provision of *Global or regional public goods* and exogenous vulnerabilities….

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II
Graduation and Differentiation:
the case of LDCs

The LDC category has been set up to identify countries « caught in a trap » and to support them to move « out of the trap »

The category, if successful, at the end aims at disappearing

After nearly 50 years, the move out of the category has only begun

A major issue of differentiation and graduation

Three steps
in the history of the LDC category with respect to graduation

Phase I: 1971- 1991: Graduation forgotten. The category increases from 25 to 48 countries, without any rule and prospect for graduation. Trap or curse?

Phase II: 1991-2011: Graduation feared (felt as a threat).
Cautious graduation rules adopted in 1991 (2005).
Strong resistance to graduation from eligible countries.
Category reaching 49 countries, after 4 additions and only 3 graduations, Botswana (1994), Cape Verde (2007), Maldives (2011)

Phase III: 2011- 2030 : Graduation hoped (felt as goal)
LDC IV Conference (IPoA): goal of enabling ½ LDCs to meet graduation criteria in 2020. Significant change in attitudes.

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Time frame of graduation after Istanbul

IPoA goal: *Enabling half of LDCs (48 in Istanbul) to meet the graduation criteria in 2020*

Since Istanbul, what has been reached?

2 more countries graduated (Samoa,2014 & Eq. Gu., 2017),

2 countries to be graduated in 2020 (Vanuatu) or 2021 (Ango),

2 countries found several times eligible, with decision still pending (Tuvalu & Kiribati),

3 countries found twice eligible and recommended in 2018 (*Bhutan,* Sao Tome & Pr, *Solomon Isl.*)

2 countries found twice eligible in 2018 but not recommended

Thus a max of 9 to 11/48 (one fifth instead of one half) can reach the IPoA goal (3 of which due to change in thresholds design)

Better prospects for 2030, the horizon of SDGs, but with present rules, only ½ of the Istanbul LDCs may have graduated at that date

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Why such a slow path of graduation?

The *path of economic growth* itself: Most optimistic prospects for 2030 on the assumption of LDCs reaching the 7% growth goal of IPoA, reiterated in the SDGs, but not easy to reach…

Asymmetry of inclusion and graduation criteria, with 4 sources of asymmetry (not 1 but 2 criteria to no longer be met, with margins, at 2 successive triennial reviews, after an additional 3 year time lag)

As a result in 2018, 31 out of the 47 LDCs are no longer meeting the inclusion criteria, while only 16 are meeting them… and 12 out of the 31 are meeting the graduation criteria: Then 19 LDCs meet neither inclusion nor graduation criteria…

…weakens the consistency of the category, restated in the SDGs

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Graduation challenged by the vulnerability issue

Indeed *most graduated (and graduating) countries are still vulnerable* (with regard to EVI and/or to other criteria)

Their vulnerability, not an obstacle to graduation eligibility, but a major political factor of resistance to graduation

This *eligibility was consistent with the rationale of the category* for which it is the conjunction of low HK and high vulnerability that is locking a country into a trap: A country with high HK and middle income pc is supposed to have overcome most severe handicaps to development

Their vulnerability still remains, in particular to climate change, to be addressed in the transition process and possibly through the design of the criteria

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Risks of unsustainable graduation?

The risk of reversibility (falling back into the category) is low due to the asymmetry of criteria (quite different in the DAC graduation for ODA eligibility)

Risk of slowing down of growth? the few graduated countries evidence rather good performances,

Graduation paradox: If the support measures are effective and disappear after graduation, why not a deterioration of the graduated situation?

Several answers: postponment of stopping support measures, limited scope of support measures, pre-graduation dynamics, signal of a new developpment era given by graduation, incentives given to smooth transition strategy

Most of graduated (ing) countries may still face strong future exogenous shocks, needing capacity to manage,
and are *still vulnerable to climate change*

Reinforcing smooth transition
by using continuous criteria

Designing the support measures from the (continuous) LDC criteria rather from category membership

Good ex. given by the Resolution A/RES/67/221 inviting development partners to *take into account LDCs identification criteria as aid allocation criteria,* what has been done by EU and is under examination for MDBs(ADF): *It allows to take into account vulnerability when needed*, and other criteria as well (eg vulnerability to climate change)

For binary support measures (eg EBA), only possible to postpone stopping, on a case by case basis or automatically

Automatic rules welcome, but should be short term, to not weaken the process of graduation itself

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Addressing vulnerability to improve differentiation and graduation

Addressing vulnerability and increasing resilience, including to climate change, should be a major component of the transition and differentiation

Special measures needed to tackle vulnerability, in particular with respect to natural disasters and climate change. They are highly needed for vulnerable graduating countries, as well as for other vulnerable developing countries and can be implemented according to continuous relevant criteria.

It may also be needed to reform the *graduation criteria* in order to reinforce the consistency of the category, in particular with SDGs, what means making vulnerability better taken into account

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Thank you