



**Graduation of the least developed countries
in the new Agenda for Sustainable Development
Rationale, Transition and Prospects**

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Briefly stated

- LDC category set up to identify countries « caught in a trap » and to support them to move « out of the trap »
- The aim of the category, if successful, is at the end to disappear
- After nearly 50 years, the move out of the LDC category through the graduation process has only begun
- It takes place in the new context of the 2030 Agenda for Sustainable Development
- Graduation should be considered as a step towards the SDGs



A preliminary remark

LDCs graduation, the main among several graduations

- At OECD and even EU « Graduation » refers less to LDCs than to MICs, in particular UMICs, likely to lose advantages given to all developing countries or to countries with a not high level of income (eg no longer being possible recipient of ODA)
- 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 UN, and the most relevant one
- *For any graduation the issue is raised of the risk of status reversibility, then of the vulnerability of graduated countries*



3 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. The trap seems a curse
- *Phase II: 1991-2011: Fearing graduation (felt as a threat)*
Graduation rules adopted in 1991 (and in 2005). Highly cautious. 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 : Aiming at graduation (felt as goal)*
LDC IV Conference (IPoA): goal of enabling ½ LDCs to meet graduation criteria in 2020. Significant change in attitudes.



Time frame of graduation with respect to the 2030 Agenda

- IPoA goal: Enabling half of LDCs (48 in Istanbul) to meet the graduation criteria
- Since Istanbul, what has been reached?
2 more countries graduated (Samoa & Eq. Gu.),
2 countries to be graduated in 2020 (Vanuatu) or 2021 (Ango),
2 countries found twice eligible, with decision still pending (Tuvalu & Kiribati),
and possibly 5 countries found eligible a first time in 2015 (Bhutan, Nepal, Sao Tome & Pr, Solomon Isl, Timor L.)
- *Thus a max of 11/48 (23%) 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*

FWDi Why such a slow path of graduation?

- The *path of economic growth* itself: Most optimistic prospects for 2030 rely 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 2015, 31 out of the 48 LDCs were no longer meeting the inclusion criteria*, out of which only 5 were meeting the graduation criteria : it means 26 countries meeting neither inclusion nor graduation criteria, and only 15 LDCs meeting inclusion criteria
- The small change is the definition of the criteria threshold was enough to make 3 more countries eligible a first time



Strengthened connection between LDCs and SDGs

- In 2000 MDGs do 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 mentioned in 10 out of 73 paragraphs(**14%**) in Monterrey Consensus, and in 16 out 90 (**18%**) in Doha Declaration
- In 2015 the Addis Abeba Agenda for Action (AAAA) on Development Finance makes references to LDCs in 37 out of 134 paras (**28%**)
- Finally **12 of the 17 SDGs refer to LDCs** (and 24 /167 targets, 14%)



Combining universality and LDCs special case

- Due to the *universality of SDGs*, a fight was needed to make the *special case of LDCs* rightly taken into account, what was not the case in preliminary reports
- The *basic consistency* between universality and LDCs differentiation relies on an equity principle: *More equal opportunities* between countries involves special treatment for countries meeting more severe structural handicaps, as are supposed to be the LDCs
- *Sustainability of the new goals is the reverse of the vulnerability*, one of the 2 main structural handicaps of LDCs



SDGs, a path to graduation

- SDGs have become guidelines (or a path) to graduation
- *Moving towards SDGs* involves reducing poverty, improving human capital, reducing vulnerability, what makes SDGs highly *consistent with the rationale of the category*
- Moreover SDGs are reinforcing this rationale through the *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* may not be fully reflected in the LDCs criteria (first step with the LECZ component of EVI introduced in 2012)
- Present graduation involves a move towards SDGs



The vulnerability issue in graduation

- Indeed *most graduated (and graduating) countries are still vulnerable* (with regard to EVI or to other criteria)
- Their vulnerability, 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 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 the design of the criteria*



Reinforcement of smooth transition to make it consistent with SDGs

- *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: either on a case by case basis or automatically
- Automatic rules welcome, but should be short term, to not weaken the processus of graduation itself



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?* not evidenced by the few graduated countries, but possible impact of strong future exogenous shocks, needing capacity to manage
- *Graduation paradox:* If the support measures disappear after graduation, why not a deterioration of the graduated situation?
- *Several answers:* postponement of stopping support measures, limited scope of support measures, pre-graduation dynamics, signal of a new development era given by graduation, incentives to smooth transition strategy
- Most of graduated (ing) countries *still vulnerable to climate change*



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 development policy
- ST is a way to grow and reach the SDGs, with a content differing according to the countries, their features and size
- ST in LDCs is first to overcome the structural handicaps featuring LDCs: enhancing human capital, lowering structural vulnerability



Addressing vulnerability: before and beyond 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



Thank you



Reforming the graduation criteria to accelerate graduation and make them more consistent with the SDGs

- Need to reinforce the consistency of the category, weakened by the asymmetry of the criteria
- 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
- Could accelerate the graduation during the 2020's
- Would make vulnerability more generally taken into account
- Making graduation more consistent with SDGs