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Highlights

Two widespread confusions:
- Bangladesh will attain middle-income status by 2021 – which it already did.
- Bangladesh will leave the LDC group by 2021, a technically impossible target.

The dual transition will have varying policy implications for sustainable growth of the economy.

A nuanced understanding of the transitions is imperative among the stakeholders for realisations of the strategic outcomes.

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Bangladesh Becoming a Middle-Income Country, Ceasing to be a Least Developed Country: Clarifying Confusion

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What is the Confusion?

The national development discourse in Bangladesh tends to consider graduating from the least developed country (LDC) category and becoming a middle-income country as interchangeable. The country continues to express its aspiration to join the middle-income country group by 2021, the 50th anniversary of its independence. However, this status has already been achieved – Bangladesh joined the lower middle-income country category (the lower tier of the two tiers of the middle-income category) on 1 July 2015. On the other hand, graduation from the LDC group is almost certain, but not until 2024, if the country meets all the technical requirements in the coming years.

Hence, two points of confusion prevail: Bangladesh will attain middle-income status by 2021 – which it already did – and Bangladesh will leave the LDC group by 2021, a technically impossible target. The confusion affects both high-level policymakers and political leaders, though it is not obvious whether inadequate comprehension or just political rhetoric has led to the confusion.

The present policy brief addresses ambiguities that exist regarding the two very different development milestones in the context of Bangladesh. The next couple of years will be crucial for the country in view of the various transitions that it will go through (i.e. LDC graduation, transition from Asian Development Fund to regular Asian Development Bank assistance only, and from International Development Association assistance to International Development Association blend) (World Bank, 2016). To strategise the country's direction effectively, it is essential that relevant stakeholders are adequately informed and conceptually clear about the two classifications with varying policy implications for the country.

How are the Classifications Different?

LDC and income-based classifications differ in terms of the authority responsible for defining them. The Committee for Development Policy (CDP) of the United Nations (UN) Economic and Social Council confers LDC status on countries based on the three inclusion and graduation criteria – gross national income (GNI) per capita (referred to as the income criterion), the Human Assets Index (HAI) and the Economic Vulnerability Index (EVI) – at triennial reviews. LDC is thus an official UN country classification sanctioned by the UN General Assembly.

On the other hand, the World Bank, for its operational lending activities, categorises countries into four groups, namely low-income, lower middle-income, upper middle-income and high-income, the lists for which are updated every year. Such categorisation, which is based solely on income, does not capture countries' structural strengths and weaknesses. Even if a country has high income owing to, for instance, its natural resources, it may still be considered a LDC due to weak social progress or major vulnerabilities. Moving to a higher income category

Table 1: Changes in LDCs' Income-based Classifications Over Time

Year	Number of LDCs	Low-income	Lower middle-income	Upper middle-income	High-income
2006	50	41	8	1	0
2009	49	37	11	0	1
2012	49	30	18	1	1
2015	48	30	15	2	1

Source: CDP (2015) and World Bank (2017).

alone cannot guarantee leaving LDC status. Equatorial Guinea was once a high-income country retaining LDC status that later slid back to the upper middle-income category despite its graduation from the LDC category.

Table 1 shows how LDCs have undergone changes in their income-based classifications without graduating in recent years.

Even if only the income criterion of the LDC classification and the income-based classification were considered, the thresholds would differ. Both classifications use the World Bank's Atlas method to calculate GNI per capita. However, the graduation threshold of the LDC classification's income criterion is set 20 per cent above the inclusion threshold, which itself is calculated by taking the three-year average of the World Bank's low-income group's upper threshold for the reference years. Table 2 presents the LDC graduation income thresholds and the low-income country graduation/lower middle-income country inclusion thresholds at the times of the last four triennial reviews.

Table 2: Differences in Income Thresholds (GNI per capita) of the LDC and Income-based Classifications

Classification	Year			
	2006	2009	2012	2015
LDC graduation (GNI per capita in USD)	900	1,086	1,190	1,242
Low-income country graduation/lower middle-income country inclusion (GNI per capita in USD)	876	976	1,026	1,046

Source: Based on World Bank (2017).

Another significant difference between LDC graduation and becoming a middle-income country is the plurality of pathways for the former. As long as a country meets the income threshold in a particular year, it will be considered as middle-income country. There is no endorsement process or lag involved, only a statistical exercise. On the other hand, there are two ways a country can graduate from the LDC category: meet two out of the three graduation criteria (GNI per capita and HAI, GNI per capita and EVI, or HAI and EVI) or have GNI per capita that is twice the graduation threshold level. These criteria must be met at two consecutive triennial reviews for the CDP to consider recommending a country for graduation. Decisions are not automatic as country considerations are duly assessed before recommendations are made. Recommendations are further endorsed by the UN Economic and Social Council and then by the UN General Assembly, who set an effective graduation date at least three years later. As such, at least six years are needed for a country to graduate after it has met the criteria for the first time. Given that Bangladesh will meet the graduation criteria for the first time at the triennial review in 2018, the earliest the country can graduate is 2024.

Finally, a country has the option to refute its LDC status at any point in time. Once identified as an LDC, a country has the choice of accepting or rejecting the status (UN, 1991). Even if it initially accepts LDC status, a country can opt out whenever it wants. Three countries have met the CDP's eligibility criteria for LDC status but refuted it – Ghana, Papua New Guinea and Zimbabwe (CDP and UNDESA, 2015). Graduation decisions reside with the CDP, UN Economic and Social Council and UN General Assembly. Once it is earmarked for graduation, a country does not have a choice but to graduate. As far as income-based classification is concerned, decisions reside with the World Bank. Table 3 articulates some of the major distinguishing features of the two classifications.

Why has the Confusion Persisted?

The roots of the ambition to be a middle-income country by 2021, the year Bangladesh celebrates 50 years of independence, can be traced to the publication of Bangladesh Vision 2021 by the Centre for Policy Dialogue (CPD) in August 2007. Goal 3 of this aspirational document, which emerged from a multi-stakeholder consultative process in 2006, reads: "We believe that Bangladesh has the potential to join the ranks of the middle-income countries by 2021" (CPD, 2007, p.14). The ruling Awami League party's path-breaking election manifestos of 2008 and 2014 resonated with similar optimism. It was rather encouraging to see that the Sixth Five Year Plan for the 2011–15 period explicitly targeted the attainment of middle-income status by 2021. As a country joins the middle-income group, it essentially leaves the low-income country group by meeting the lower middle-income threshold.

When CPD initially highlighted Bangladesh's potential to join the ranks of middle-income countries by 2021, its predictions were centred on gross domestic product (GDP) data that had a base year of 1995–96. It is likely that the Awami League party's subsequent election manifesto was based on similar conjectures. In 2013, however, the base year for GDP calculations in Bangladesh was revised to 2005–06 to better reflect the role of emerging sectors in real economic growth. As a result, GDP growth and GNI per capita estimates were increased by 0.15 per cent and 13 per cent, respectively. Moreover, personal remittances grew exponentially between 2005 and 2014. The substantial growth in GNI per capita that followed was unforeseen in initial predictions. Thus, Bangladesh crossed the lower middle-income country inclusion

Table 3: Differences between LDC Category and Income-based Classifications

Issue	Least Developed Countries Category	Income-based classification
Authority for classification and categories	Authority: UN Classification: Single category (LDC)	Authority: World Bank Classification: Four categories including two tiers of the middle-income (lower middle and upper middle) category
Purpose	To provide eligible countries with LDC-specific special support measures from the international community	To make lending decisions
Identification criteria	GNI per capita, HAI and EVI	GNI per capita
Inclusion and graduation thresholds	Income threshold is calculated using the World Bank's Atlas method, considers the three-year average and is updated at each triennial CDP review; the thresholds for the indicators that make up the HAI and EVI are fixed at the 2012 level	Threshold is calculated using the World Bank's Atlas method, considers only the previous year and is updated every year; single threshold to be met at any point in time
Graduation pathways	Meet thresholds for two out of three criteria, or GNI per capita is twice the graduation threshold level, for two consecutive years	Meet the income threshold for that year
Endorsement	Recommendations by the CDP regarding inclusion and graduation are endorsed by the UN Economic and Social Council and UN General Assembly	No endorsement process; based on a statistical exercise
Decision regarding inclusion and graduation	Once recommended for inclusion, a country decides whether or not to accept LDC status; once recommended for graduation, a country has no choice but to graduate	A country must accept whatever classification it is assigned
Process of exit	Long; at least six years from meeting the graduation criteria for the first time	Short; immediately after the classification is assigned
Population cap	Population cannot exceed 75 million (since 1991)	No limit

Source: Based on various documents by the UN and CDP.

threshold of USD 1,046 much earlier than expected. While greatly acknowledged as a milestone everywhere, the achievement did not make it into updated political statements, where achieving middle -income country status has been associated with LDC graduation.

The issue of Bangladesh graduating from the LDC group did not gain momentum until 2011, when the Istanbul Programme of Action for LDCs clearly targeted half of them to meet the graduation criteria by 2020. In fact, Bhattacharya and Borgatti (2012) pioneered the prediction of Bangladesh's graduation via an "atypical" approach based on the HAI and EVI rather than income. Since then, many people have been wrongly equating middle-income status to that of graduation from the LDC group despite these two classifications being conceptually very different, so much so that even CPD was faced with criticism following the launch of the 2014 Report of the UN Conference on Trade and Development in which the projected timeframe of Bangladesh's LDC graduation in 2024 did not coincide with the 2021 middle-income vision.

What are the Implications of the Differences?

Arguably, while the purpose of the World Bank's income-based classification is to assess the credit worthiness of a country (not to oversee its development), the purpose of the UN's LDC classification is to eliminate a country's structural deficits. Relatively higher costs of external borrowing are an immediate result of becoming a middle-income country as opposed to the various costs and benefits associated with LDC graduation that have implications beyond financing. Yet, graduated LDCs and middle-income countries alike have exhibited tendencies to fall into what is known as the "middle-income trap" – the difficulty in maintaining the high rate of growth necessary for convergence with high-income economies (UNCTAD, 2016). Nevertheless, what the differences between the two classifications mean for Bangladesh will affect the policy options that the country should pursue in view of the forthcoming transitions.

The LDC and income-based classifications also differ in their underlying strengths and weaknesses. The income-based classification is fairly easy to understand and simple to measure. It also uses the latest information available on a particular country. Nevertheless, it falls short of fully capturing a country's performance and the structural deficits that it faces. The LDC classification, on the other hand, is grounded by a holistic approach to development that accounts for human assets and exposure to vulnerabilities in addition to income. Having said that, there are many arguments against the effectiveness of the inclusion criteria for LDCs, specifically pertaining to whether they adequately capture all relevant development issues. For instance, the criteria do not include explicit indicators on structural transformation and vulnerability to climate change.

Losing out on international support measures as a direct result of graduation is bound to have important repercussions. The length of the process of LDC graduation and provision for smooth transition is an opportunity for countries to adequately prepare for any losses of benefits. Since Bangladesh cannot graduate from the LDC group before 2024, there is ample time to map and organise efforts to facilitate and support smooth transition in ways that address the country's socio-economic challenges. Any effort to expedite this graduation timeline is unlikely to be beneficial and might prove to be the contrary.

As far as becoming a middle-income country is concerned, Bangladesh should be recognised as having achieved the status back in 2015, well ahead of the target of 2021. It was undoubtedly a great milestone in Bangladesh's development for which credit is overdue. At the end of the day, the numbers should not matter, but rather the development achieved over the long run should dictate the discourse in the country. A nuanced understanding of the classifications among policymakers, government officials, development partners, civil society and all other stakeholders is thus imperative to inform policy design and strategic outcomes.

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