

# **Graduation from the Least Developed Country Category *Is Bangladesh Ready for a Smooth Transition?***

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*Dhaka: 22 January 2017*

- ❑ The LDC Paradigm
- ❑ Bangladesh as an LDC: Graduation prospects and pathways, and smooth transition
- ❑ Lessons from Past graduations and Recommendations

*Least Developed Countries (LDCs) are defined as low-income countries suffering from the most severe structural impediments to sustainable development.*

Concept:

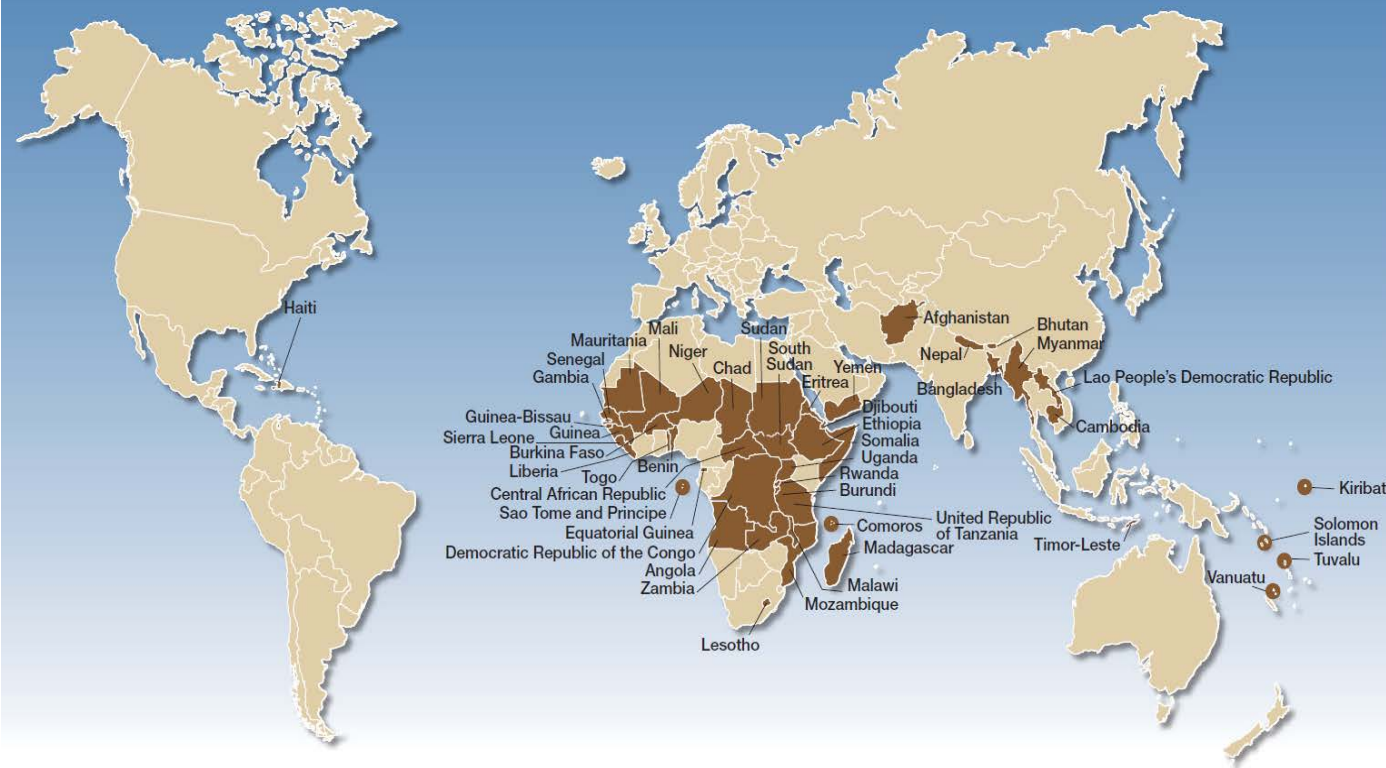
- The category was officially established in 1971 by the UN General Assembly (UNGA)
- Purpose was to attract special international support for the most vulnerable and disadvantaged members of the UN family
- Started with 25 member countries

Characteristics:

- Low level of socio-economic development characterised by weak human and institutional capacities, low and unequally distributed income and scarcity of domestic financial resources
- Affected by a vicious cycle of low productivity and low investment
- Suffer from governance crisis, political instability, internal and external conflicts

## LEAST DEVELOPED COUNTRIES (48)

Africa 34, Asia 9, Caribbean 1, Pacific 4



Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

### Current Composition

- 25 LDCs in 1971
- 48 LDCs in 2016
- 17 land locked  
9 small islands
- 34 African  
9 Asian  
4 Pacific  
1 Caribbean
- 12% of world population, 31% of world poor

## Income (in USD)

**GNI per capita (GNI)**  
 Calculated according to Atlas Method– three years average (e.g. in 2015 review average figure of 2011-2013 was considered)

## Human Assets Index (HAI)

(original indicator values converted into indices ranging from 0 to 100)

Percentage of population undernourished

Mortality rate for children aged five years or under

Gross secondary enrolment ratio

Adult literacy rate

## Economic Vulnerability Index (EVI)

(original indicator values converted into indices ranging from 0 to 100)

### Exposure Index

- i. Population (Size) – 1/4
- ii. Remoteness (Location) – 1/4
- iii. Merchandise Export Concentration (Economic Structure) - 1/16
- iv. Share of Agriculture, Forestry and Fishery (Economic Structure) - 1/16
- v. Share of Population in Low Elevated Costal Zone (Environment) - 1/8

### Shock Index

- vi. Instability of Exports (Trade Shock)- ¼
- vii. Victims of Natural Disasters (Natural Shock)- 1/8
- viii. Instability of Agricultural Production (Natural Shock)- 1/8

- ✓ Country meets the inclusion thresholds for all three criteria
- ✓ No automatic recommendation, country circumstances to be taken into account;
- ✓ Inclusion is effective immediate after General Assembly takes note of recommendation
- ✓ Countries have the right to accept or reject the LDC status after inclusion is recommended or withdraw from it once included e.g. even after meeting the inclusion criteria, Zimbabwe refused to take the LDC status.
- ✓ Bangladesh was included in the LDC group in 1975

## □ Inclusion Thresholds (for 2015 review)

- GNI per Capita: A moving goal post! For 2015 it was \$1,035 and below
- HAI: 60 and below (fixed at 2012 levels)
- EVI: 36 and above (fixed at 2012 levels)

1. An LDC has to pass thresholds of any 2 criteria Or,
  2. LDC's Income > twice income graduation threshold
    - ❖ GNI and HAI; or GNI and EVI; or HAI and EVI.
    - ✓ Not mechanical: impact assessment, vulnerability profile, country views taken into account
    - ✓ Country needs to be eligible in two consecutive reviews before any recommendation is made
    - ✓ Graduation becomes effective after a transition period (normally three years ). Allows country to prepare for graduation
    - ✓ After graduation, partners are not to withdraw LDC support abruptly
- ❑ **Graduation Thresholds (for 2015 review)**
- GNI per Capita : A moving goal post!  
For 2015 review it was \$1,242 and above (\$2,484 and above for 'Income only' graduation). Average of three previous years' GNI per capita is taken e.g. 2015 review considered average of 2011-2013. 2018 will consider average of 2014-2016.
  - HAI: 66 and above , EVI: 32 and below (fixed at 2012 levels)

# Confusion with LDC and Middle Income Country Categories

Issues	LDC	MIC
<b>Classification authority</b>	UN Classification Single category	World Bank Classification – two classes under middle income- <i>lower middle &amp; upper middle</i>
<b>Purpose</b>	To attract special support measures from international community; preferential treatment in WTO etc.	Make lending decisions; benefits provided in terms of lower interest rates; debt relief; etc.
<b>Basis for taxonomy</b>	3 criteria- 12 different structural indicators and an indicator for income	Income in WB Atlas method (LMIC: \$1,026-\$4,035; UMIC: \$4,036-\$12,475)
<b>Inclusion and graduation thresholds</b>	Income threshold uses WB Atlas method; and is average of 3 years; updated for triennial review; HAI and EVI are indices fixed at 2012 level 2 out of 3 threshold needs to be met to graduate	Uses WB Atlas method; Considers only 1 year; updated every year; Differs from LDC income threshold. One threshold to be met
<b>Income only option</b>	Graduates when GNI per capita is double of the income threshold	No such option
<b>Cap on Population</b>	Additional criteria included in 1991; Population must be less than 75 million	No cap
<b>Process of exit</b>	Long. Minimum 6 years from meeting the criteria	Short. Changes every year
<b>Decision regarding inclusion and graduation</b>	Once recommended for inclusion, countries decide whether to accept the LDC status or not Once recommended for graduation, countries have no choice but to graduate	Countries bound to accept whatever classification is assigned to them



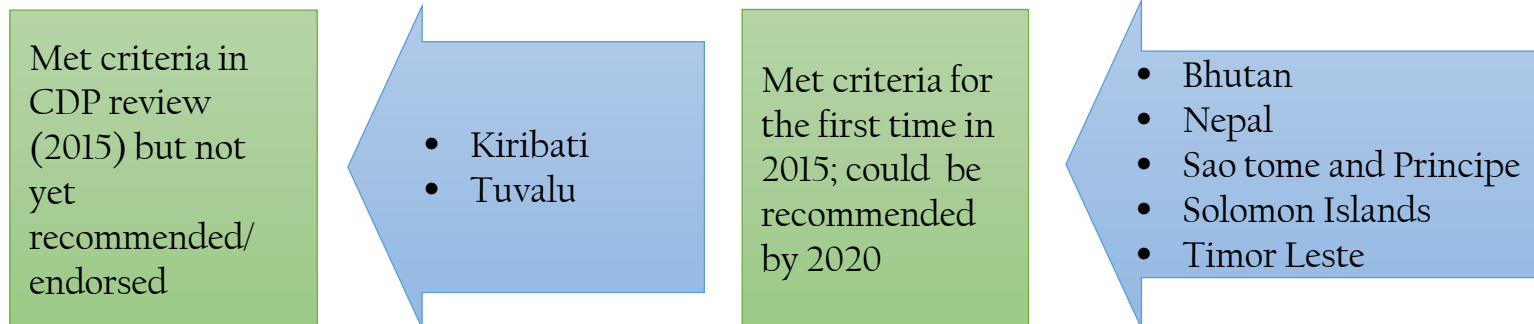
□ Only 4 countries have so far “graduated” from LDC Group and 10 countries may graduate by 2021

Country (Year)	Criteria
Botswana (1994)	Economic and precautionary conditions
Cape Verde (2007)	GNI per capita + HAI
Maldives (2011)	GNI per capita + HAI
Samoa (2014)	GNI per capita + HAI

## Countries Recommended for Graduation

Country	Year of actual statistical pre-eligibility for graduation	Year of actual statistical full eligibility for graduation	Criteria satisfied	Year of already decided graduation
Equatorial Guinea	2006	2009	Income only	2017
Vanuatu	2006	2009	Income, HAI	2020
Angola	2012	2015	Income only	2021

- **Angola** met the criteria for graduation for the second consecutive time. The Committee recommended Angola for graduation from the LDC category.
- **Equatorial Guinea** was found eligible for graduation for a second time during the 2012 triennial review.
- **Vanuatu**, which has been found eligible for graduation in 2006, 2009 and 2012, was recommended for graduation in the 2012 triennial review.



- In 2012, CDP recommended **Tuvalu** (Income and HAI) for graduation but was not endorsed by the UN Economic and Social Council (ECOSOC). CDP, in its 2015 review, noted the high vulnerability of the country as reflected in its economic vulnerability index score and evidenced by the impact of the recent cyclone pam
- **Kiribati** (Income and HAI) was found eligible for the second consecutive time in 2015, but was not recommended for graduation as it is the most vulnerable country in the world according to the EVI index. Although its income level was above graduation threshold, it was significantly lower than that of other highly vulnerable countries recommended for graduation. Country to remain under review
- **Bhutan, São Tomé and Príncipe and Solomon Islands** met both the GNI and the human assets index criteria; **Timor-Leste** met the “income only” criterion and **Nepal** met both the structural indices
- Next CDP review in 2018

Country	Year of actual/projected statistical pre-eligibility for graduation	Year of actual/projected full statistical eligibility for graduation	Criteria satisfied	Year of projected graduation
Afghanistan	2018	2021	HAI, EVI	2024
Bangladesh	2018	2021	Income, HAI, EVI	2024
Djibouti	2018	2021	Income, HAI, EVI	2024
Lao PDR	2018	2021	Income,	2024
Myanmar	2018	2021	HAI, EVI	2024

□ *Another five countries may graduate by 2024*

- Decomposing the LDC assessment for Bangladesh

Criteria	Graduation Threshold	Value	Met/Unmet
GNI per capita	An average of at least \$1,242 in the period 2011 to 2013	926	Unmet
Economic Vulnerability Index	32 or below	25.1	Met
Exposure Index		22.7	Met
Shock Index		27.5	Met
Human Asset Index	66 or above	63.8	Unmet

- Bangladesh Trends since 2006 triennial review and Projection for 2018 review

Criteria	2006	2009	2012	2015	Prediction for 2018
GNI pc (\$)	450	453	637	926	1194-1198
HAI	39.9	53.3	54.7	63.8	68.0
EVI	51.9	23.2	32.4	25.1	25.2

Source: Author's forecast using the datasets from BBS, BB, IMF, various UN data sources, WB

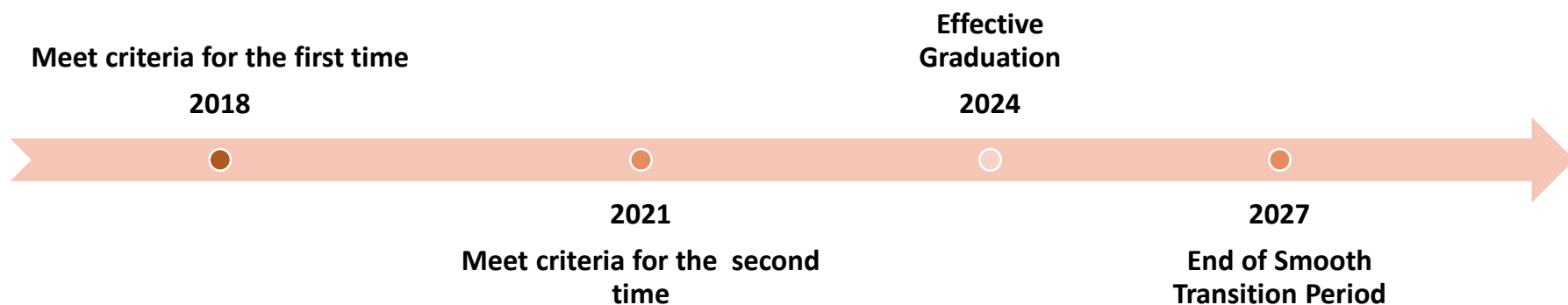
## Trends in Selected Economic Vulnerability Index Indicators for Bangladesh

Indicator	2006	2009	2012	2015	Trend
Export Concentration	0.30	0.40	0.38	0.37	Decreasing
Shares of agriculture, forestry and fisheries	19.83	18.87	18.78	17.03	Decreasing
Agricultural instability	3.47	3.90	3.70	3.13	Decreasing
Export instability	7.38	7.29	7.36	6.67	Decreasing

## Trends in Human Assets Index Indicators for Bangladesh

Indicator	2006	2009	2012	2015	Trend
Prevalence of undernourishment in total population (%)	30.00	27.00	26.00	16.70	Decreasing
Under 5 mortality (per 1000)	79.00	83.15	61.37	41.10	Decreasing
Literacy rate	41.00	53.48	55.90	58.79	Increasing
Secondary enrolment ratio	47.00	43.77	49.28	53.65	Increasing

- The likelihood of graduating in all three criteria during the next CDP review (2018) is very much on the card for Bangladesh. Even if Bangladesh marginally falls short of meeting the GNI per capita criteria in 2018, it is almost certain that during 2021 CDP review Bangladesh will meet this threshold
- The next review (2018) will have one more indicator for HAI – maternal mortality ratio
  - According to World Development Indicators (2016), maternal mortality rate in Bangladesh stood at 176 per 100,000 live births in 2015 which is the result of a decline by more than 66% over the last two decades
- To be recommended by CDP for graduating from the LDC list, Bangladesh will need to meet the criteria in 2021 again
- With the endorsement from the ECOSOC and being approved by the General Assembly, Bangladesh may graduate from LDC status in 2024
- Bangladesh may enjoy LDC preferential treatment up to following 2027 (if it graduates in 2024) to help with her smooth transition



- ❑ The international community adopted special ISMs for LDCs to enable them to escape from the intersecting vicious circles that prevent economic progress and to derive developmental benefits from the global economy
- ❑ In principle: the point at which an LDC moves from dependency on ISMs to being able to benefit equally from global markets
- ❑ The loss of LDC status at graduation may give rise to potentially important economic costs as a result of the loss of access to the ISMs associated with LDC status
- ❑ But it is the first milestone in a marathon of development, not the winning post of a race to escape the LDC category
- ❑ It marks the end of a political and administrative process, not the completion of an economic or developmental process

## ▶ FINANCE

- ODA target
- ODA modalities
- Climate finance
- General measures

## ▶ TECHNOLOGY

- TRIPS flexibilities
- Technology transfer
- Technology Bank

## ▶ TRADE

- Preferential market access
- Preferential rules of origin
- Special & differential treatment

## ▶ TECHNICAL ASSISTANCE

- Enhanced Integrated Framework
- Aid for Trade



# ISMs that Benefit Bangladesh as an LDC

- » Bangladesh enjoys a 12% preference margin for its apparel industry under the EU's Everything but Arms (EBA) Initiative gives it a substantial price advantage.
- » The EU decided to relax its Rules of Origin provision for LDCs from two-stage to one-stage transformation as of 1 January 2011, while other developing countries remain subject to the two-stage requirement.
- » Aid targets of 0.15 or 0.20 per cent of donors' GNI to be allocated to LDCs. Bangladesh remains one of the largest LDC recipients of ODA in absolute terms.
- » Under the EIF, Bangladesh's NIA project will provide the ministry of Commerce with resources to strengthen its capacity to mainstream trade into national development plans and to further integrate into the global trading system
- » Budget caps for LDC contribution to regular budgets of UN, ILO, UNIDO, IPU, WMO etc. as well as access to special travel funds, free tickets to UN and WTO meetings.
- » Article 66.2 of the TRIPS agreement on transfer of technology to LDCs;
- » The LDC Fund established in 2001 has financed the development of national adaptation programmes of action (NAPA) for all LDC including Bangladesh

- ❑ Withdrawal of GSP facilities from Euro, Canada, Japan, Australia and other seven markets
- ❑ The likely impact of preference erosion (in major exporting countries) on Bangladesh's export, sustainable GDP growth and other socio-economic indicators e.g. poverty, employment generation
- ❑ As Bangladesh is expected to graduate concurrently from both UN (from LDC) and WB (already graduated to lower-middle income economies) classifications, options for concessional financing will dry out
- ❑ Loss in exports between 5.5 to 7.5% (UNCTAD 2016)
- ❑ Future Strategies to consider:
  - Evaluate the economic eligibility and political scopes of applying for GSP plus in the EU market
  - Evaluate the options and opportunities for bi-lateral and multi-lateral negotiation for market access (e.g. RCEP, FTAAP)

- A "smooth transition" process should follow the graduation, with gradual phasing out of LDC-specific ISMs to avoid disruption
- Some institutions and development partners have smooth transition practices; but most ISMs lack formal procedures and clarity
- Maintaining access to some ISMs depends on the graduating country's negotiating capacities (e.g. Cabo Verde receiving GSP+)
- ❑ Is Bangladesh prepared for a smooth transition?
  - Taking advantage of international support measures towards graduation and a smooth transition thereafter entail overcoming structural handicaps and avoiding traps that limit development of productive capacities and progress towards the *structural transformation* .

## Role of Structural Economic Transformation and Diversification for Smooth Transition from LDC Group

- ❑ *Gradual shift of Bangladesh's major economic activities towards higher productive sectors along with shifting of employment towards the same direction are reflections of structural transformation of the economy*
  - Share of agriculture to GDP and share of employment in agriculture have reduced by 5.9% and 7.2% points respectively (since 1995)
- ❑ Compared to emerging economies, pace of structural transformation (i.e. growth of productivity) was rather slow in Bangladesh (1992-2015) (Bangladesh: 0.62% and Emerging Economies: 3.68%)
- ❑ Changes 'between-sector productivity' is referred to as structural change (McMillan and Rodrik, 2011).
  - Growth of between-sector productivity has hardly crossed 1% level in last 25 years
  - Most of the growth took place at within-sector productivity
  - Inconsistent and sluggish trend in rise in labour productivity in manufacturing sector is responsible for this sluggish growth
  - Vietnam outperformed Bangladesh in terms of structural change.

- ❑ A Persistent gap of productivity between different productive sectors is an important element for structural change.
  - In recent years, the gaps have been significantly reduced between different sectors except with that of agriculture which indicate weakening capacity for structural transformation
- ❑ Forecasting Bangladesh's structural transformation in the next decade (up to 2025) shows no clear pattern for the between-sector productivity growth
  - Bangladesh is lagging behind among economies such as India and Pakistan, which are economies still considered to be going through the structural transformation.
- ❑ Determinants of structural change for selected 10 emerging economies (including Bangladesh) have been identified through random effects (RE) regression analysis
  - The higher the agricultural share of employment, the more structural growth possibility for the given economies
  - Private investment and inflation – two major macroeconomic stability indicators - tend to be significant for majority of the regression analysis.
  - LDC graduation criteria - GNI p/c - is only significant and has a positive effect on structural change
- Overall, Bangladesh needs to take measures on issues 'beyond graduation' which are required for necessary structural transformation particularly for the post-graduation transition phase for ensuring 'smooth graduation'

Initial findings of a network analysis that examined the linkages between LDC graduation criterion and SDG targets:

## GNI and SDGs

- Targets that may directly and indirectly contribute towards higher income are selected to show the network
- Out of 169 SDG targets, 60 have the potential to influence GNI per capita
- SDG targets 8.1 and 10.1 explicitly refer to income growth

## HAI and SDGs

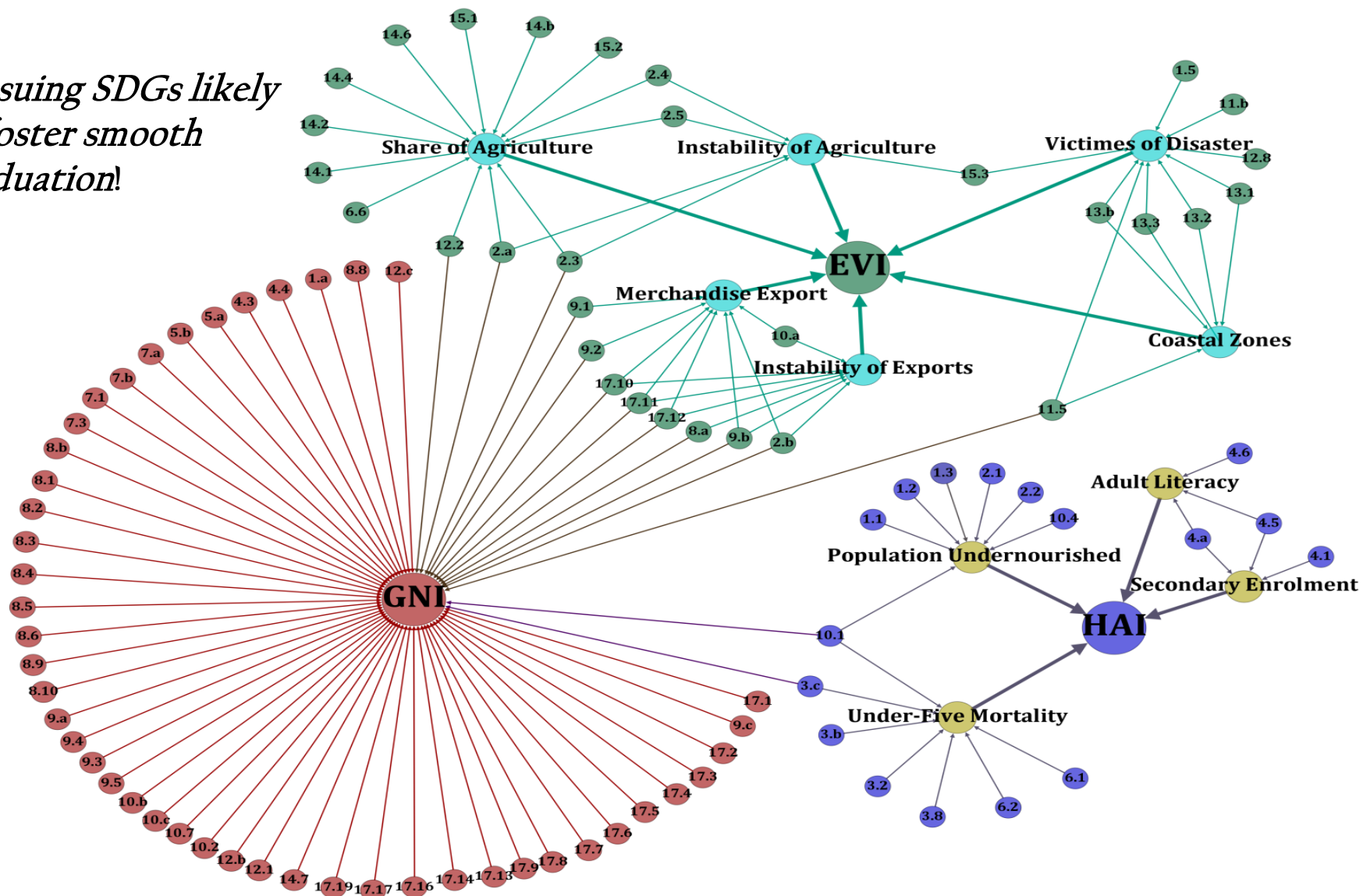
- Total 17 targets from 6 SDGs have connections with HAI that relate to health and education
- SDG 3 and 4 have explicit indicators on human development; SDGs 1 (poverty), 2 (hunger and nutrition), 6 (access to safe water and sanitation) and 10 (inequality) also have linkages with HAI

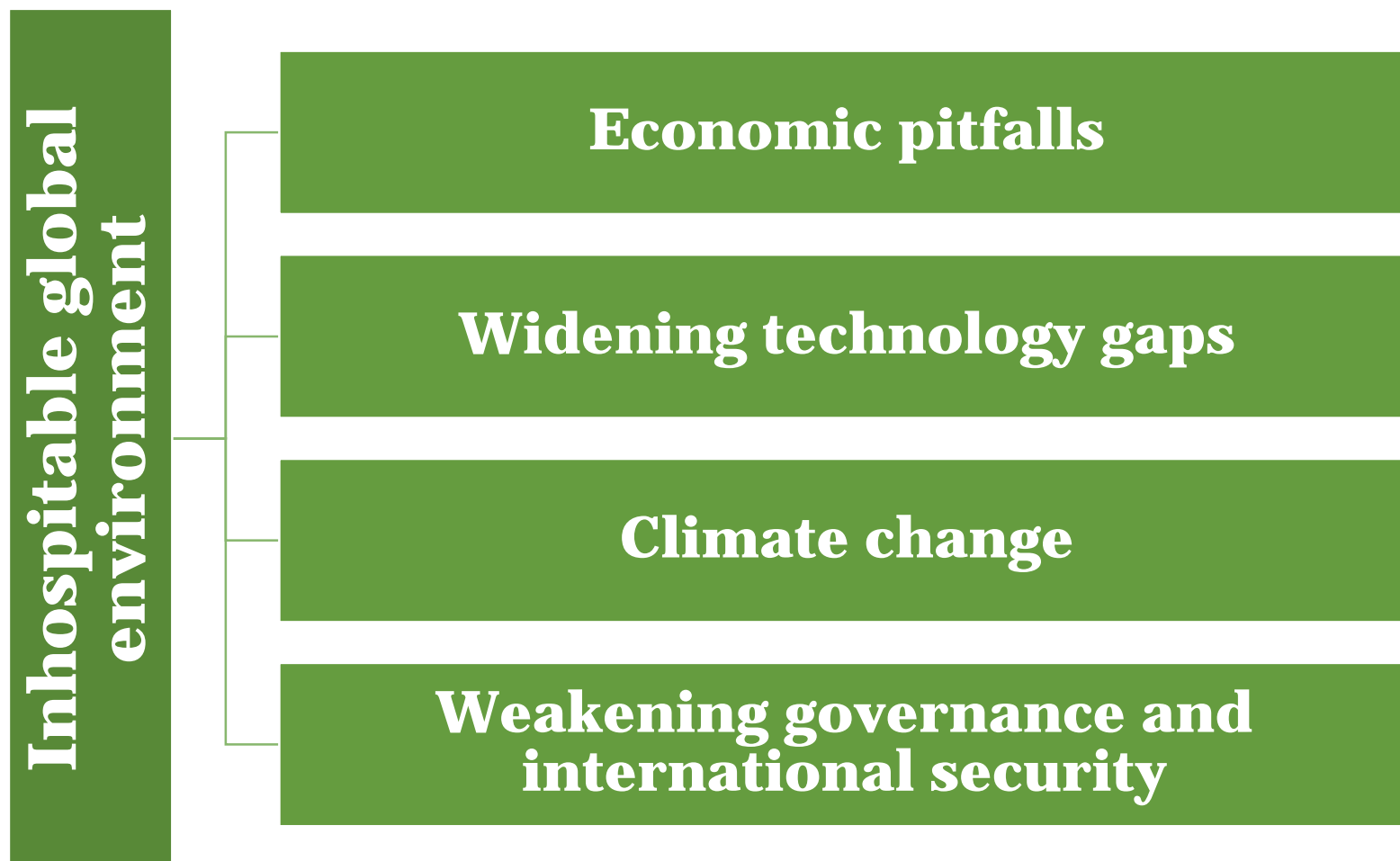
## EVI and SDGs

- EVI indicators are not directly linked to SDGs
- Total 31 targets from total 12 goals are indirectly linked with EVI
- Population and remoteness indicators cannot be linked with SDGs

# Network of LDC Graduation Criteria and SDG Targets

*Pursuing SDGs likely to foster smooth graduation!*







## Economic pitfalls

- ❑ Declining ODA
- ❑ Tepid global recovery
- ❑ Rising protectionism in developed economies
- ❑ New polarization in regional cooperation
- ❑ Declining remittance flow

ODA to LDCs declined by 12.2% in 2014

Remittances to LMICs are expected to increase by 0.8% in 2016 after a decline in 2015

Average applied tariff rate to LMIC by advanced countries increased from 4.9% in 2010 to 5.7% in 2012

## Widening technology gaps

- ❑ Rise of automation and robotics
- ❑ Slower technology transfer

47% of job categories will be open to automation within the next two decades

## Climate change

- ❑ Unrealized global commitments
- ❑ Inadequate funds from the development partners

COP21 agreement to limit increase in world temperature below 2 degree celsius

LDCF has only \$1.1 bln till January 2017

## Weakening governance and international security

- ❑ Conflict and refugee crisis
- ❑ Cross border and inter-state terrorism
- ❑ Illicit financial flows

Illicit financial outflow from LDCs reached \$38.5 billion in 2013

In 2014 alone more than 32,000 people were killed in terrorist attacks in 93 countries

6 million people have been forcibly displaced by war and related distress

# External Challenges to Bangladesh's Smooth Graduation

Clusters	Challenges	Plans/policies/strategies	Institutions
External resources	ODA	National Policy on Development Cooperation (draft), Strengthening Finance for the 7th Five Year Plan and SDGs in Bangladesh, Joint Cooperation Strategy 2010	ERD
	Climate finance	Bangladesh Climate Change Strategy and Action Plan (BCCSAP) 2009, Climate Change Trust Act 2010, Bangladesh Climate Fiscal Framework 2014	ERD, MoEF, FD
	SSC	National Policy on Development Cooperation (draft), Strengthening Finance for the 7th Five Year Plan and SDGs in Bangladesh	ERD
Other financial flow	Domestic resource mobilisation	NBR Modernisation Plan 2011-2016, VAT and SD Act 2012, Customs Act 2014	IRD
	Investment	National Industrial Policy 2016, Bangladesh Economic Zones Act 2010	MoF, MoInd
	Remittance	Expatriates' Welfare and Overseas Employment Policy 2016	MoEWOE
	Illicit financial flows	National Strategy for Preventing Money Laundering and Combating Financing of Terrorism 2015-17, Money Laundering Prevention Act 2012	BFID, ACC, IRD, MoHA

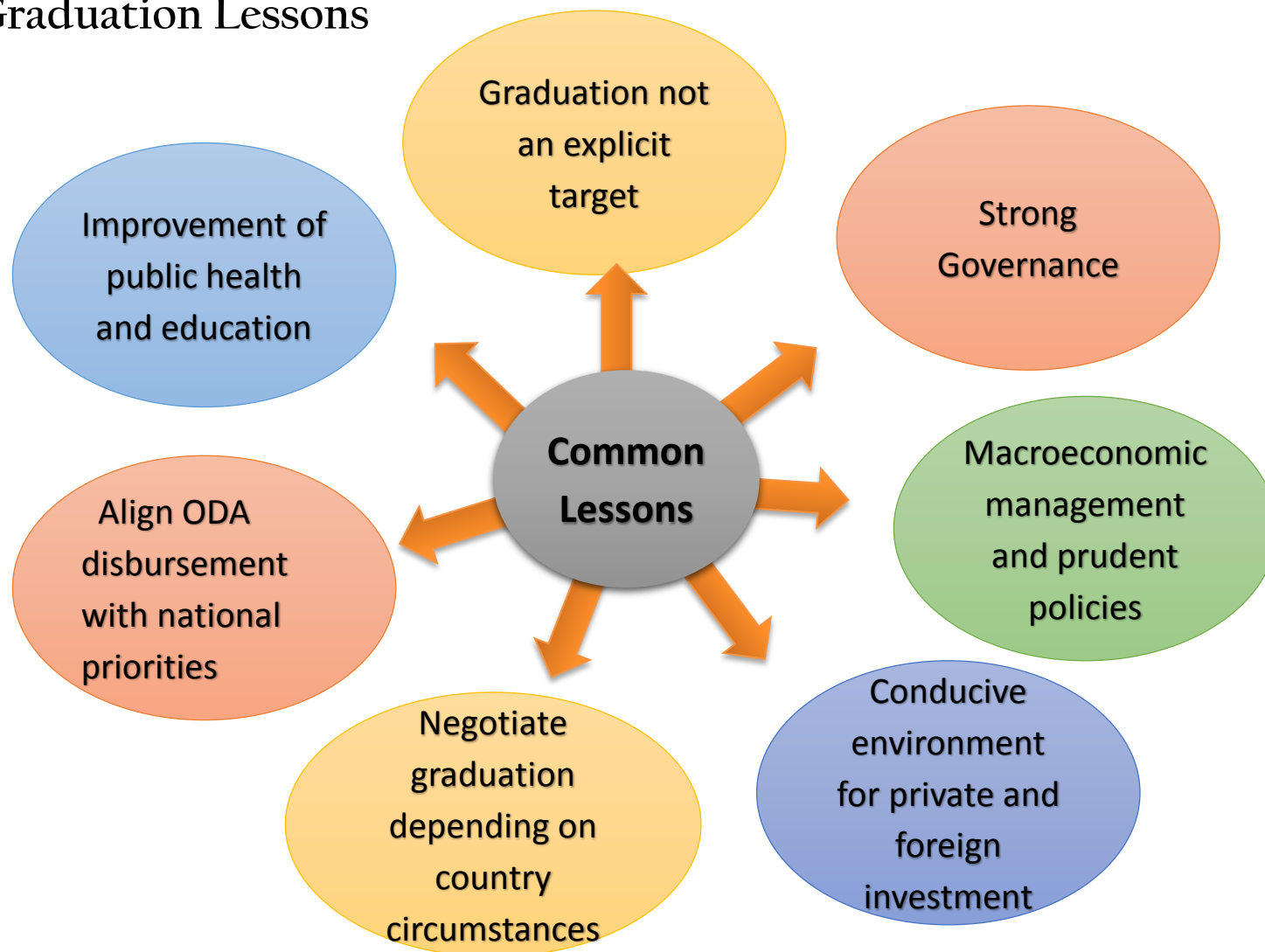
# External Challenges to Bangladesh's Smooth Graduation

Clusters	Challenges	Plans/policies/strategies	Institutions
Trade and connectivity	Tariff and non-tariff barriers	Export Policy 2015-18	MoC, MoFA
	Trade facilitation	Export Policy 2015-18, Diagnostic Trade Integration Study	MoC, MoFA
	Connectivity	BBIN MVA, BIMSTEC, BCIM-EC	RTHD
Technology	TRIPS	National ICT Policy 2015	MoST
	Productivity	National ICT Policy 2015, National Industrial Policy 2016, National Skill Development Policy 2011, Skills Development: A Priority Agenda for Accelerated Growth	ICTD (MoST), MoE, MoInd
Peace and conflict	Conflicts, violence and terrorism	Anti-Terrorism Act 2009, Mutual Legal Assistance in Criminal Matters Act 2012	MoHA, MoLJP
	Cross border terrorism	Coordinated Border Management Plan (CBMP)	MoHA, BGB
Governance (national and international)		National Integrity Strategy (NIS) 2012, Annual Performance Appraisal (APA)	MoHA, MoLJP, MoFA

# Lessons from Past Graduation Experiences

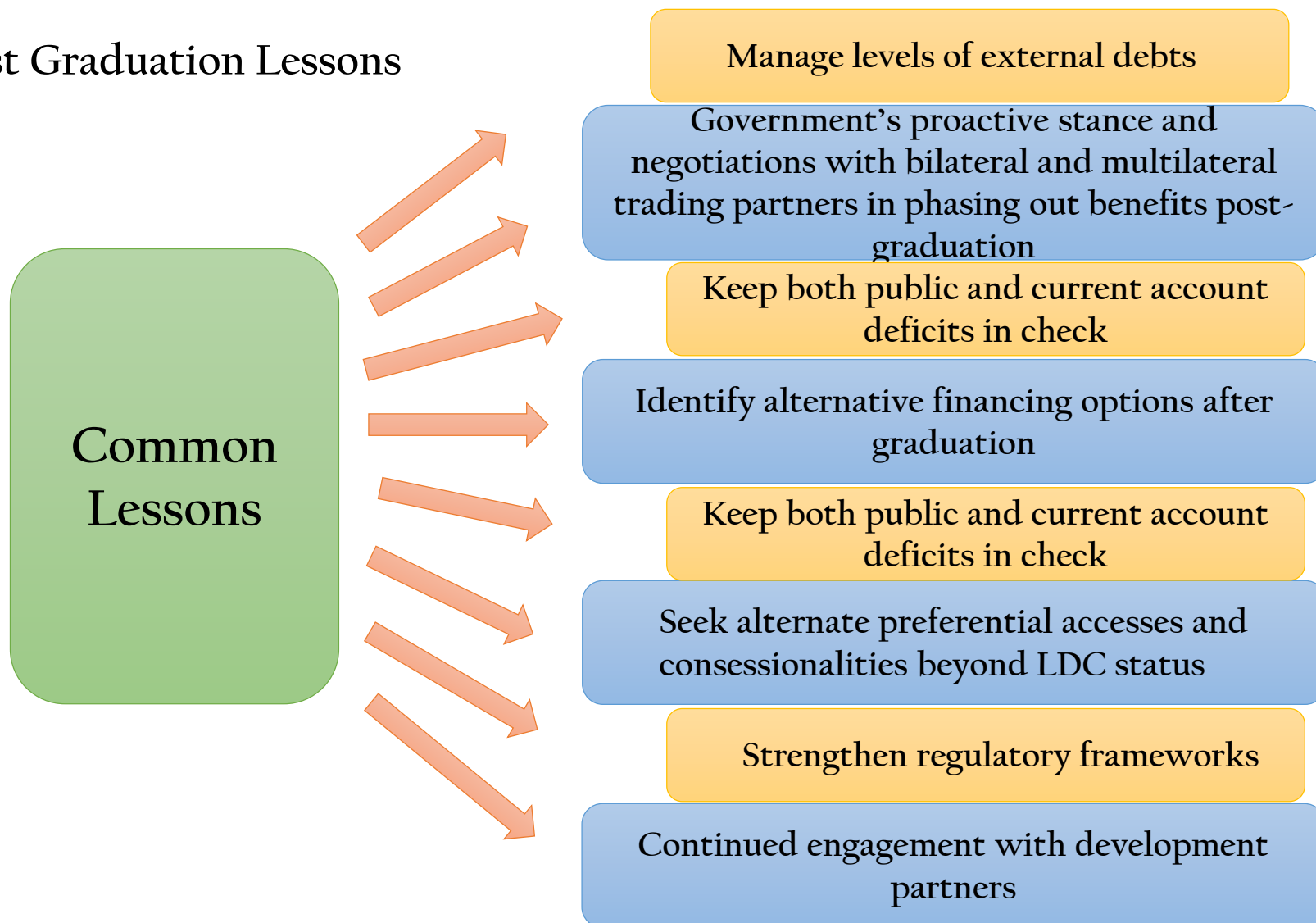
- Economically, *how* a country graduates is more important than *when*
  - *But the reverse may be the case politically*
- This may give rise to tension between economic and political priorities
- Key drivers of graduation in the four past LDC graduates:
  - Quality of institutions, peace and social stability
  - Economic and social planning
  - Emphasis on infrastructure and education
  - Prudent and forward-looking macroeconomic policies

## Pre-Graduation Lessons



# Lessons from Past Graduation Experiences

## Post Graduation Lessons



- Bangladesh's LDC graduation will be a balanced graduation and must be a unique example to cite
- As Bangladesh's graduation from LDC is almost certain, it is critically important for Bangladesh to prioritize the future strategies in view of the smooth transition from LDC
- Focus should be on longer term development pathway rather than on meeting the statistical eligibility for graduation
- Sustainable post-graduation will critically hinge on maintaining the past momentum
- Quality of structural transformation will be a key determinant in terms of smooth graduation



# Concluding Remarks for Bangladesh

- A smooth graduation strategy should include industrial policies that enhance productive capacities and raises competitive strength of Bangladesh economy
- Structural transformation is contingent on rural development
- Both product and market diversification will be critical to Bangladesh's smooth graduation
- Mobilising enhanced domestic resources should be prioritised
- Addressing gender inequality as a cross-cutting issue across all policy areas is essential to ensure efficient use of human resources
- Coherence of policies pursued by multilateral institutions will help Bangladesh's graduation
- Adequate preparation for emerging global risks is required for smooth transition
- Technology has been the missing link of the ISM architecture and measures are needed to promote technology transfer to LDCs and strengthening of their technological capabilities
- SDGs momentum and sustainable graduation – mutually reinforcing

THANK YOU