

Public Lecture
on
Bangladesh's Graduation from LDC Status
Timeline and Policy Implications

by
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The analyses and projections presented in this report are done in the individual capacity of the author. Comments and feedback may be sent to <debapriya.bh@gmail.com>



ELEMENTS OF THE LECTURE

- I. Backdrop of the Problematique
- II. Methodology of Determining LDC Status
- III. Disaggregate Trend Analysis of LDC Criteria
- IV. Prospect of Graduation and Timeline
- V. Policy Implications for An Accelerated Graduation

Section 1: Backdrop of the Problematique

- History
- Current Context



Section 1. Backdrop of the Problematique

- In 1970, the International Development Strategy for the second United Nations Development Decade acknowledged the existence of a group of countries that required special attention and help.
- Their distinctiveness lied not only in the acute poverty of their people, but also in the weakness of their economic, institutional and human resources combined with geophysical handicaps.
- The diversity of the countries and the different structural and financial aid that was necessary to overcome the poverty stricken economies posed a great problem and a great challenge.



Section 1. Backdrop of the Problematique

- In 1981 the UN General Assembly decided to hold the first United Nations Conference on Least Developed Countries (UN LDC I) in Paris where it adopted the *Substantial New Programme of Action* (SNPA) for the 1980s
- The Second UN Conference on the Least Developed Countries (UN LDC II) held in Paris in September 1990. The conference adopted the *Paris Declaration* and the *Programme of Action for the Least Developed Countries for the 1990s* (PoA 1990)
- The third UN Conference on Least Developed Countries (UN LDC III) convened at a high level in Brussels in 2001, the outcome embodied in *The Brussels Programme of Action* (BPoA) for Least Developed Countries for the decade 2001-2010
- The UN LDC IV will be held in **Turkey during the first half of 2011**



Section I. Backdrop of the Problematique

- Bangladesh joined the LDC category in 1975 along with Central African Republic and Gambia
- Starting with 25 countries, the current LDC list comprises of 49 countries: 33 in Africa, 13 in Asia Pacific & 1 in Latin America
- Three eligible countries declined to be an LDC: Ghana, Papua New Guinea and Zimbabwe
- Since inception of the categorization only two countries graduated out: Botswana (1994) & Cape Verde (2007)
- Countries in the pipeline for graduation are Samoa (2010), Maldives (2011) and Equatorial Guinea (2012)



Section I. Backdrop of the Problematique

Benefits for being an LDC

- Access to concessional foreign assistance
 - Official Development Assistance: 0.15 percent of GDP of OECD to be allocated to LDCs
- Preferential Market Access
 - Duty free & quota free market access for products
- Priority access to technical assistance for capacity building
 - Aid for Trade
- Flexibilities in implementation of different international agreements including in the areas of trade, IP (Intellectual Property Rights), standards
- Reduced financial obligations re contribution to international institutions

The graduated LDCs will continue to receive all special and differential treatment for the next three years after graduation as well as also during the preceding six years, i.e. six years after reaching the threshold mark

Section I. Backdrop of the Problematique

- Bangladesh has remained an LDC for more than three decades, although has shown relatively better development in the recent times
 - Discussion on Bangladesh becoming a middle income country in the near future is gathering momentum
 - CPD's Vision Document 2021 (by Nagorik Committee 2006)
 - AL Manifesto (Vision 2021)
 - International Organizations
 - New political impetus after the recent national elections
 - **Need to work out a graduation strategy**
 - Burgeoning list of the LDCs have raised questions about effectiveness of national development strategies as well as global support measures
 - UNLDC IV offers an opportunity to address the challenge of graduation

Data in this presentation are all taken from international sources, viz. - UNDESA and WDI (WB) as is done in case of assessing LDCs by the UN.

Section 2: Methodology of determining of LDC Status

- Inclusion and Graduation Criteria for the LDC Category
- How an LDC is different from a Low Income Country (as defined by the IFIs)

Section 2. Methodology of determining of LDC Status

A country may be designated as an LDC if it meets the following three criteria:

- A "low-income" criterion, based on the gross national income (GNI) per capita (a 3-year average), with thresholds of US\$905 for cases of addition to the list;
- A "human assets weakness" criterion based on a composite index (the Human Assets Index) which consists of indicators on nutrition, health, school enrolment and literacy;
- An "economic vulnerability" criterion based on a composite index (the Economic Vulnerability Index) which includes indicators on natural shocks, trade shocks; exposure to shocks, economic smallness, and economic remoteness.
- In addition, low income countries with population larger than 75 million are not eligible for inclusion

Section 2. Methodology of determining of LDC Status

- The **Low Income Criteria** to be an LDC evolved over the years along with increases in the threshold for both inclusion and graduation
- Low income criterion also evolved from GDP per capita (1971) to currently GNI per capita (2009)
- Current threshold Inclusion-under \$905, Graduation-\$1086

1971	1991	2000	2003	2006	2009
GDP per capita:\$100 or less in 1968 prices	GDP per capita under \$600 for inclusion, above \$700 for graduation	GDP per capita under \$900 for inclusion; above \$1035 for graduation	GNI per capita: under \$750 for inclusion above \$900 for graduation	GNI per capita: under \$750 for inclusion above \$900 for graduation	GNI per capita: under \$905 for inclusion above \$1086 for graduation



Section 2. Methodology of determining of LDC Status

- *Human Asset Index* is calculated based on four social indicators focusing on health and education all with equal weights:
 - ▶ Percentage of Population Undernourished
 - ▶ Child (aged under 5) Mortality Rate
 - ▶ Adult Literacy Rate
 - ▶ Secondary School Enrolment ratio (gross)
- As of the 2009 review the threshold for Human Assets Index (HAI)
 - ▶ Inclusion: 58
 - ▶ Graduation: 66



Section 2. Methodology of determining of LDC Status

- *The Economic Vulnerability* is designed to reflect the risk posed to a country's development by exogenous shocks, and on structural characteristics that determine the extent to which the country would be affected by such shocks
- Threshold for Inclusion 42 (2006), Graduation 38 or lower (2006)
 - ▶ population size (smallness, <75 million)
 - ▶ remoteness (minimum average distance for a given country to reach a significant fraction of the world markets)
 - ▶ merchandise export concentration (index of all commodities exported)
 - ▶ share of agriculture, forestry & fisheries in GDP
 - ▶ homeless owing to natural disasters
 - ▶ instability of agricultural production
 - ▶ instability of goods and services



Section 2. Methodology for Inclusion and Graduation in LDC Category

The list of LDCs is reviewed every three years by the Economic and Social Council (ECOSOC) of the United Nations based on recommendations by the Committee for Development Policy (CDP).

1971-

A country is qualified to be included in the list of LDCs if it met the three criteria of GDP per capita, Adult literacy rate and the share of manufacturing in GDP was not more than 10%

- No graduation rule existed

1991-

- A country is qualified to be added to the list of LDCs if it met the above three criteria and did not have a population of greater than 75 million
- A country would be recommended for immediate graduation from the LDC status if it had met at least two of three criteria in two consecutive triennial reviews



Section 2. Methodology for Inclusion and Graduation in LDC Category

2000-2003

- The criteria for inclusion remained unchanged
- The graduation rule for 1991 remained unchanged

2006-

- A country must meet not one but two of the three criteria to graduate except in cases where GNI per capita is at least twice the graduation threshold levels.

2009-

- The inclusion and graduation rule for 2006 remains unchanged.



Section 2. Methodology for Inclusion and Graduation in LDC Category

LDCs are different from the Category of Low Income Countries as defined by the World Bank and IMF

Countries are divided in World Bank and IMF documents according to GNI per capita, calculated using the Atlas method.

- Low Income \$975 or less
- Lower Middle Income \$976 - \$3,855
- Upper Middle Income \$3,856 - \$11,905
- High Income \$11,906 or more

So being a (low) middle income country is not the same as not being an LDC!

Section 2. Methodology for Inclusion and Graduation in LDC Category

UN LDCs as per World Bank Income Category

Low Income Countries	Lower Middle Income Countries	Upper middle income countries	High Income Countries
GNI per capita \$975 or less	GNI per capita \$976-\$3855	GNI per capita \$3,856 - \$11,905	GNI per capita \$11,906 or more
<ol style="list-style-type: none"> 1. Afghanistan 2. Bangladesh 3. Benin 4. Burkina Faso 5. Burundi 6. Cambodia 7. Chad 8. Comoros 9. Central African Republic 10. Cambodia 11. Eritrea 12. Ethiopia 13. Gambia 14. Guinea 15. Guinea-Bissau 16. Haiti 17. Liberia 18. Lao 19. Madagascar 20. Malawi 21. Mali 22. Mauritania 23. Mozambique 24. Myanmar 25. Nepal 26. Niger 27. Rwanda 28. Senegal 29. Sierra Leone 30. Somalia 31. Togo 32. Uganda 33. Tanzania 34. Yemen 35. Zambia 	<ol style="list-style-type: none"> 1. Angola 2. Bhutan 3. Djibouti 4. Lesotho 5. Maldives 6. Kiribati 7. São Tomé and Príncipe 8. Sudan 9. Samoa 10. Solomon Islands 11. Timor- Leste 12. Tuvalu 13. Vanuatu 		<ol style="list-style-type: none"> 1. Equatorial Guinea

UN- LDCs as per World Bank Income Groups

Section 3.

Bangladesh: Disaggregate Trend Analysis of LDC Criteria

- Gross National Income (GNI) per capita
- Human Assets Index (HAI)
- Economic Vulnerability Index (EVI)

Section 3. Disaggregate Trend Analysis of LDC Criteria

Table 3.1. Per capita GNI comparison among Asian LDCs

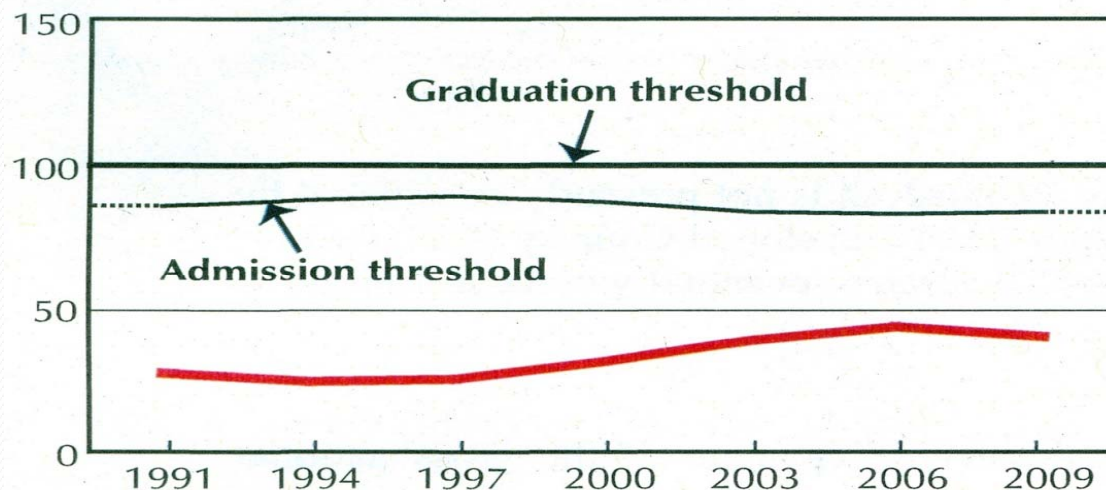
Countries	GNI per capita (\$)		Change (in %)
	2006	2009	
Bangladesh	403.3	453.3	12.4
Bhutan	690.0	1486.7	115.5
Cambodia	303.3	490.0	61.6
Myanmar	167.0	306.3	83.4
Nepal	243.3	320.0	31.5

Source: UNDESA

- **Bangladesh** has experienced the **lowest** percentage change in GNI per capita amongst the neighbouring LDCs. There has been 12.4 % change within the last three years compared to **Bhutan's** which reflects a increase by 115.5 % i.e. the **highest** among the Asian LDCs.

Section 3. Disaggregate Trend Analysis of LDC Criteria

Low Income Criterion



Source: UNCTAD

- Bangladesh's GNI was 42% of the graduation threshold in 2009, demonstrating little progress over the years.
- During the 2006 triennial review, Bangladesh had a score of 53%.
- The downturn observed in 2009 may be somewhat explained by the substitution of for GDP per capita by GNI per capita as the relevant indicator

Section 3. Disaggregate Trend Analysis of LDC Criteria

Table 3.1. Assessment of Human Asset Weakness: Bangladesh

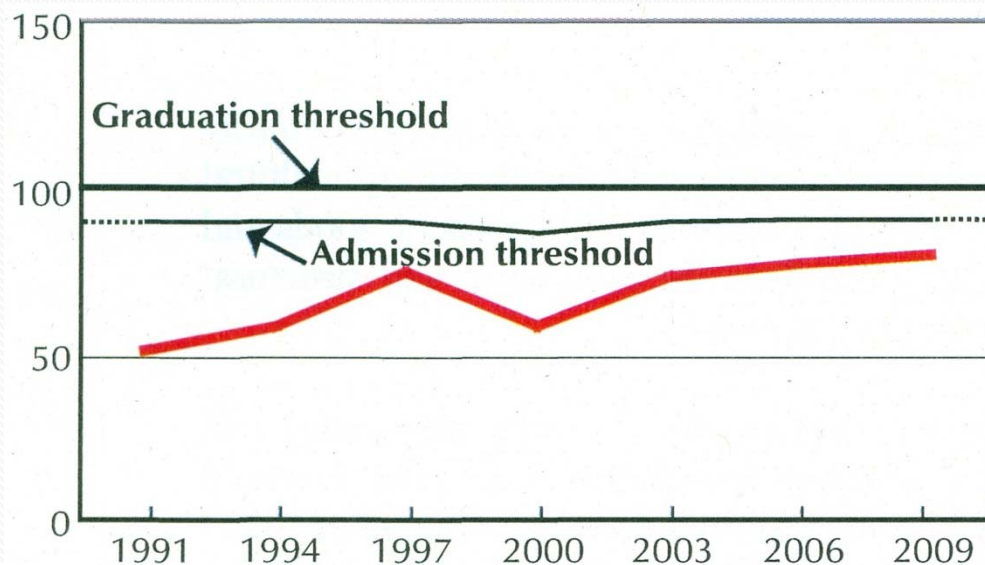
Human Assets	2006 Review	2009 Review
1. Prevalence of undernourishment in total population (%)	30.0	27.0
2. Under 5 Mortality Rate (per 1000)	79.0	83.0
3. Adult Literacy Rate (%)	41.0	53.0
4. Gross Secondary Enrolment (ratio)	47.0	43.8
Human Assets Index (HAI) of Bangladesh	50.1	53.3
HAI for Inclusion	58.0	58.0
HAI Threshold for Graduation	64.0	

Source: UN DESA

- Analysis of individual components of HAI shows that **mortality rate** and **gross secondary school enrolment** have **worsened**, while the indicator for **undernourishment** had **stagnated**.
- Only the **literacy indicator** has shown an **improvement** but even then it is quite **low** compared to **other LDCs (66%)**

Section 3. Disaggregate Trend Analysis of LDC Criteria

Human Capital Weakness Criterion



Source: UNCTAD

- The score for **Bangladesh** under the **HAI** is **7% lower** than the average score of the other Asian LDCs
- The encouraging performance of 81% of the threshold prefigures possible advances in the near future
- The **lagging nutritional and educational status** of Bangladesh explains its nearly **stagnating** score under the graduation line.

Section 3. Disaggregate Trend Analysis of LDC Criteria

Economic Vulnerability Index (EVI)

Years	2006	2009	Change in Status
1. Population (smallness)	0	0	-
2. Remoteness (distance to reach a fraction of world markets)	60.80	36.20	Improved
3. Export Concentration(% of the shares of each commodity as a proportion of total exports)	23.30	35.30	Improved
4. Share of Agriculture, Fisheries, Forestry (%) of GDP	33.10	31.40	Slightly deteriorate
5. Structural Index(combines 25 % of 3 and 4)	28.20	33.40	Improved
6. Exposure Index(combines 50% of 1,2 &4)	22.30	17.40	Improved
Years	2006	2009	Change in Status
Natural Shock	44.90	44.60	
Percentage of Homelessness(people needing immediate assistance for shelter after a natural disaster)	79.20	76.30	Improved
Agricultural Instability	10.70	13.00	
Export Instability	13.70	13.40	
Shock Index	29.30	29.00	
Economic Vulnerability Index (EVI)	25.80	23.21	
Threshold for Graduation	38		

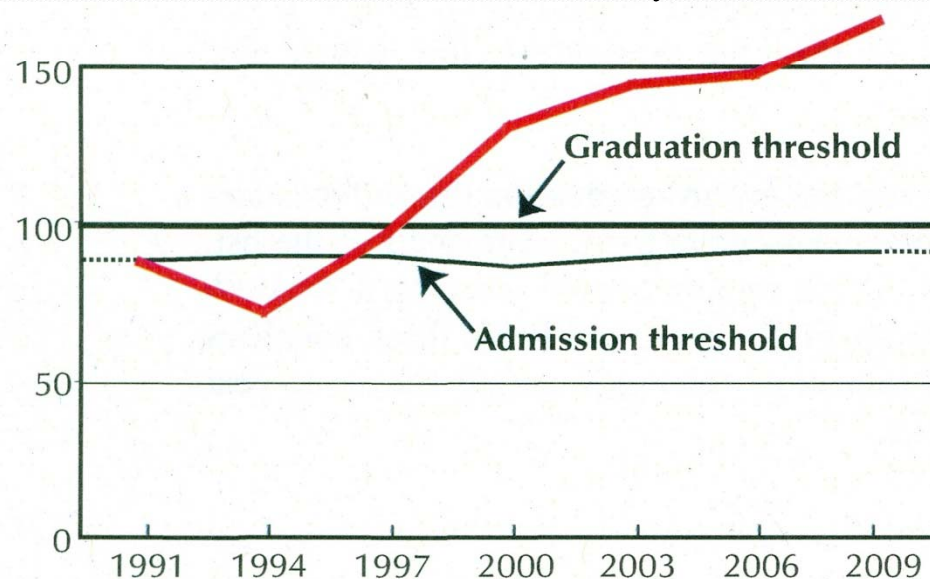
Section 3. Disaggregate Trend Analysis of LDC Criteria contd.

Economic Vulnerability Index (EVI)

Years	2006	2009	Change in Status
7. Percentage of Homelessness (people needing immediate assistance for shelter after a natural disaster)	79.20	76.30	Improved
8. Agricultural Instability (consists of a measure of annual fluctuations of agricultural output)	10.70	13.00	It was less unstable than in other Asian LDCs by 27%
9. Natural Shock (combines 50% of 7&8)	44.90	44.60	Slightly improved
10. Export Instability	13.70	13.40	Slightly improved
11. Shock Index (combines 50% each of 9 & 10)	29.30	29.00	Improved
Economic Vulnerability Index (EVI)	25.80	23.21	Progress has been made with a score of 164% of the graduation threshold in 2009
Threshold for Graduation	38	38	Unchanged

Section 3. Disaggregate Trend Analysis of LDC Criteria

Economic Vulnerability Criterion



Source: UNCTAD

- Bangladesh has been economically less vulnerable than other Asian LDCs by 27% and Agricultural production was less unstable by 27%
- With a score of 23.2 (164% of graduation threshold), Bangladesh has achieved impressive progress
- While instability of exports and services was only 39% as high in Bangladesh as it was in those countries

Section 4. Prospect of Graduation and Timeline

- Per capita GNI
- Human Assets Index (HAI)

4. Prospect of Graduation and Timeline

- Bangladesh has already met the EVI threshold and therefore needs to meet only one of the remaining two criteria to graduate from the LDC status

Table 4.1: Projection of Bangladesh GNI per capita US\$ (Atlas method)

Year	Threshold GNI for Graduation (based on 2.8% growth)	Scenerio 1	Scenerio 2
		GNI per capita	GNI per capita
1990	581	250	250
2000	756	350	350
2008	936	520	520
2009	976	539	541
2021	1359	908	953
2039	2235	1983	2229
2047	2787	2806	---

Note: In both cases population growth was kept at 1.4% per annum

- Under a business as-usual scenario, Bangladesh will meet the Graduation Threshold for lower middle income country by 2047 (based on average growth rate of 5.9%)
- Under a recent performance based scenario, Bangladesh will meet the Graduation Threshold for Lower middle income country by 2039 (based on average growth rate of 6.3%)
- Large population size is holding down per capita income
- Bangladesh is chasing a moving Goal Post – It will be difficult to graduate by meeting this criteria

4. Prospect of Graduation and Timeline

- GNI per capita can be increased by controlling population growth in the coming years, say from 1.4% to 1%
- **Therefore, considering an average of 1% population growth, the projected year of reaching graduation threshold becomes 2034 instead of 2039, i.e. 5 years earlier**

Table 4.2: Projection of Per Capita GNI based on 1% population growth under scenario 2

Year	Threshold GNI for Graduation	Population, total (Millions)	GNI per capita, Atlas method (current US\$)
1990	581.0	115.6	250.0
2000	756.0	140.8	350.0
2008	936.0	160.0	520.0
2009	976.0	161.6	543.1
2010	1003.3	163.2	571.6
2020	1322.4	180.3	953.3
2021	1359.5	182.1	1003.3
2033	1893.6	205.2	1853.5
2034	1946.6	207.2	1950.8

4. Prospect of Graduation and Timeline

- AL election manifesto has projected a double digit growth of 10% by 2017; in the Perspective Plan (draft) this is only 8% by 2021

Table 4.3: Comparison of GDP Projections

	Projections of Real GDP Growth (%)						
	FY2010	FY2011	FY2012	2013	FY2015	2017	FY2021
Vision 2021 (AL)¹	---	---	---	8.0	---	10.0	10.0
PRSP²	5.5	6.0	6.5	---	---	---	---
MTMF (MoF)³	5.5	6.0	6.5	---	---	---	---
Perspective Plan⁴	6.5	---	---	---	7.0	---	8.0

Note: 1 Election Manifesto of Bangladesh Awami League, 2008; GDP growth rate will be increased to 10% in 2017 and sustained

2 National Strategy for Accelerated Poverty Reduction II FY2009–11 (Revised in the light of Election Manifesto of the Bangladesh Awami League 2008); August 2009

3 Medium-Term Macroeconomic Framework: FY2010-12, MoF; June 2009

4 Outline Perspective Plan for Bangladesh 2010-2021 (Working Draft); GED, Planning Commission; November 2009

4. Prospect of Graduation and Timeline

- Based on growth rate targets in PRSP & AL Election Manifesto, by the end of 2021 projected per capita GNI is \$1200 which is below the threshold level of graduation

Table 4.4: Projections of Graduation Threshold (as per the targets in AL Election Manifesto)

Year	Threshold GNI for Graduation	GDP per capita (current US\$) Proj ¹	GNI per capita, (current US\$) Proj ²
1990	581	261	250
2000	756	335	350
2005	826	394	440
2008	936	494	520
2009	976	516	542
2010	1003	536	565
2015	1152	712	750
2020	1322	1050	1106
2021	1359	1139	1200

Note: 1 GDP per capita has been projected by using PRSP and AL Manifesto projections,
2 GNI per capita has been calculated by using the correlation between GDP per capita and GNI per capita (where high case scenario has been considered) and Population growth was kept at 1% per annum

4. Prospect of Graduation and Timeline

Human Assets Index Projections

- Bangladesh must emphasize on substantial improvement in its human capital in order to graduate via HAI out of LDC Category
- The three different future scenarios have been estimated for the Human Capital under broad assumptions.
- Scenario 1: Reversal of the two worsening indicators: **child mortality rate** and **secondary school enrolment ratio** shows Bangladesh is expected to meet the graduation threshold by 2041 and graduate by 2047
- Scenario 2: Bangladesh will meet the graduation threshold by 2033 and graduate by 2039 if it reaches the targets as identified in the previous scenario and a further improvement in the **literacy rate** whose target is set to be equal to 70
- Scenario 3: Bangladesh is expected to meet the graduation threshold by 2027 and graduate by 2033 if all targets under scenario 2 is met including the **undernourished share of the population** moved down to 17% by 2021

4. Prospect of Graduation and Timeline

Human Assets Index Projections

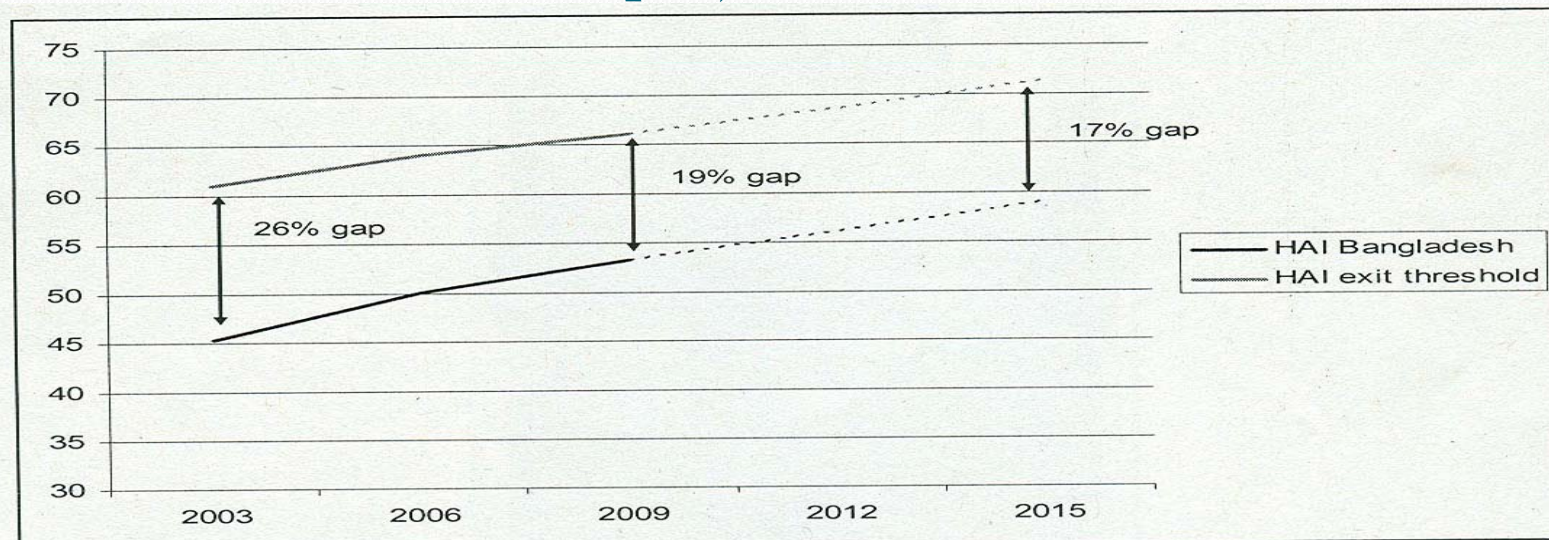
HAI exit threshold	Scenario 1		Scenario 2		Scenario 3	
	HAI Bangladesh	Graduation	HAI Bangladesh	Graduation	HAI Bangladesh	Graduation
108	117	2047	132	2047	146	2047
104	109	2044	122	2044	135	2044
100	101	2041	113	2041	125	2041
96	94	2039	105	2039	115	2039
93	88	2036	98	2036	106	2036
89	82	2033	90	2033	98	2033
86	77	2030	84	2030	90	2030
83	71	2027	78	2027	83	2027
80	67	2024	72	2024	77	2024
77	62	2021	67	2021	71	2021
74	60	2018	63	2018	66	2018
71	58	2015	60	2015	62	2015
69	56	2012	57	2012	58	2012
66	53	2009	53	2009	53	2009
64	50	2006	50	2006	50	2006
61	45	2003	45	2003	45	2003

Source: UNCTAD

Bhattacharya: LDC Graduation for Bangladesh

4. Prospect of Graduation and Timeline

Human Asset Index projection contd..



Source: UNCTAD

- Human capital is an important source of growth in most endogenous models of economic growth. Education is an oft-used proxy for human capital
- Keller (2007) provides evidence from 40 LDCs that secondary education is the most important stage of education in terms of contribution to economic growth
- Similar conclusions are made regarding contribution of improved health status to economic growth, particularly reduction in malnourishment

4. Prospect of Graduation and Timeline contd.

Recap of the Graduation Strategy

- Bangladesh has demonstrated considerable structural progress under the economic vulnerability criterion, partly to human capital criteria, but little improvement toward graduation thresholds under the income
- It has already met one (EVI) criteria towards graduation and need to attain of the other two.
- This reflect a dual socio economic reality of potential prosperity and lasting poverty
- In terms of **GNI per capita** the graduation threshold can be met by
 - 2039 based on historical trend
 - 2034 by controlling population growth to 1 %

2039 is the earliest by which Bangladesh can graduate from low income to lower middle income country based on GNI per capita

- But we need to bring the frontier closer!

4. Prospect of Graduation and Timeline contd.

Recap of the Graduation Strategy

- However, if we focus on HAI, the graduation level can be met in 2027. For that we will need the following -
 - undernourished share of the population to reach 17% (down from 27% in 2009)
 - mortality rate will be 46 per 1000 (down from 83 per 1000 in 2009),
 - gross secondary school enrolment will be 60% (up from 43.6% in 2009) ,
 - literacy rate will be 70 (up from 53% in 2009)

Bangladesh can expect to meet the graduation threshold by 2027 and graduate by 2033

There is scope for substantial improvement of these indicators and to being closer the graduation date



Section 5: Policy Implications
for An Accelerated
Graduation

5. Policy Implications

- The policy options for **not** being an LDC
 - **First Approach:**
 - The Bangladesh government could ask the UN to take the country out of the list of LDCs, despite the non-qualification for graduation
 - **This approach is not recommended**
 - **Second Approach – four components:**
 - A.** Invest heavily in Human Assets development to meet the second criteria (HAI) for graduation-
 - Percentage of population undernourished
 - Child Mortality Rate
 - Gross secondary school enrolment ratio
 - Adult literacy rate
 - B.** Investment in HAI would increase GNI which would also enable the country to meet the requirements for graduation from income perspective.



5. Policy Implications

- C.** Decrease in growth rate of population which would help to improve GNI per capita and may reduce the run up by 5 years.
- D.** Do not allow the EVI to deteriorate – particularly in the face of adverse change in climate.

Note: Even if Bangladesh reaches the threshold in 2027, it will graduate in 2033 and would continue to receive all benefits entitled to an LDC till 2036.



Thank You