

The impact of LDC graduation on development cooperation

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1. What will happen to ODA in graduating LDCs?

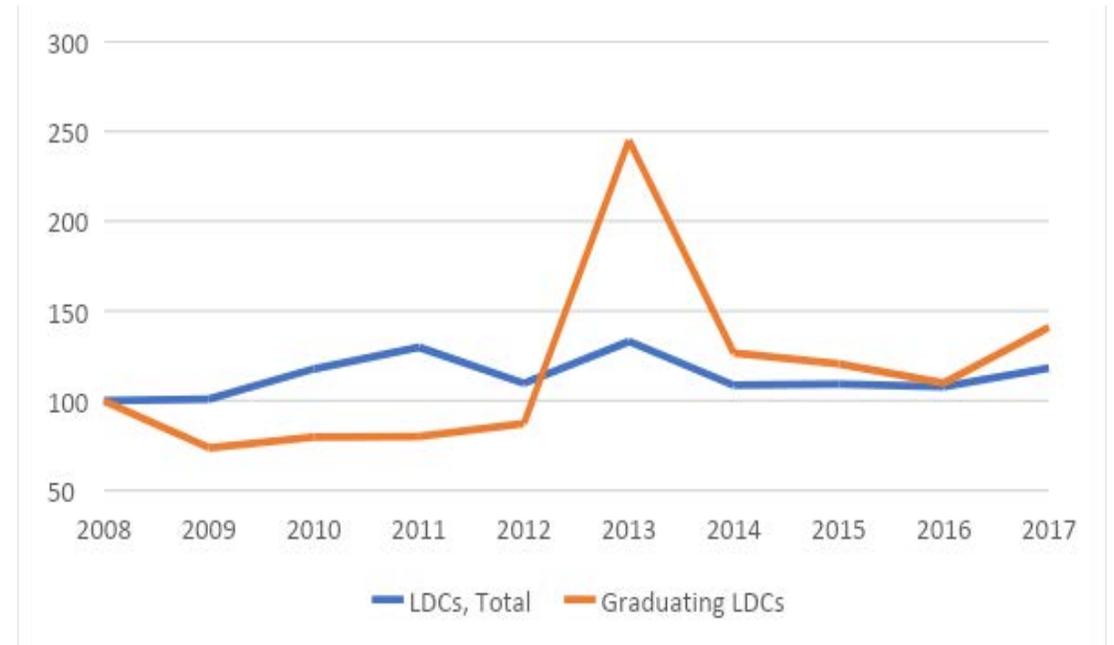
- **Evidence**

- i. Past aggregate trends
- ii. Individual cases
- iii. What do donors say?
- iv. International rules and commitments

2. Options for graduating LDCs?

ODA disbursements

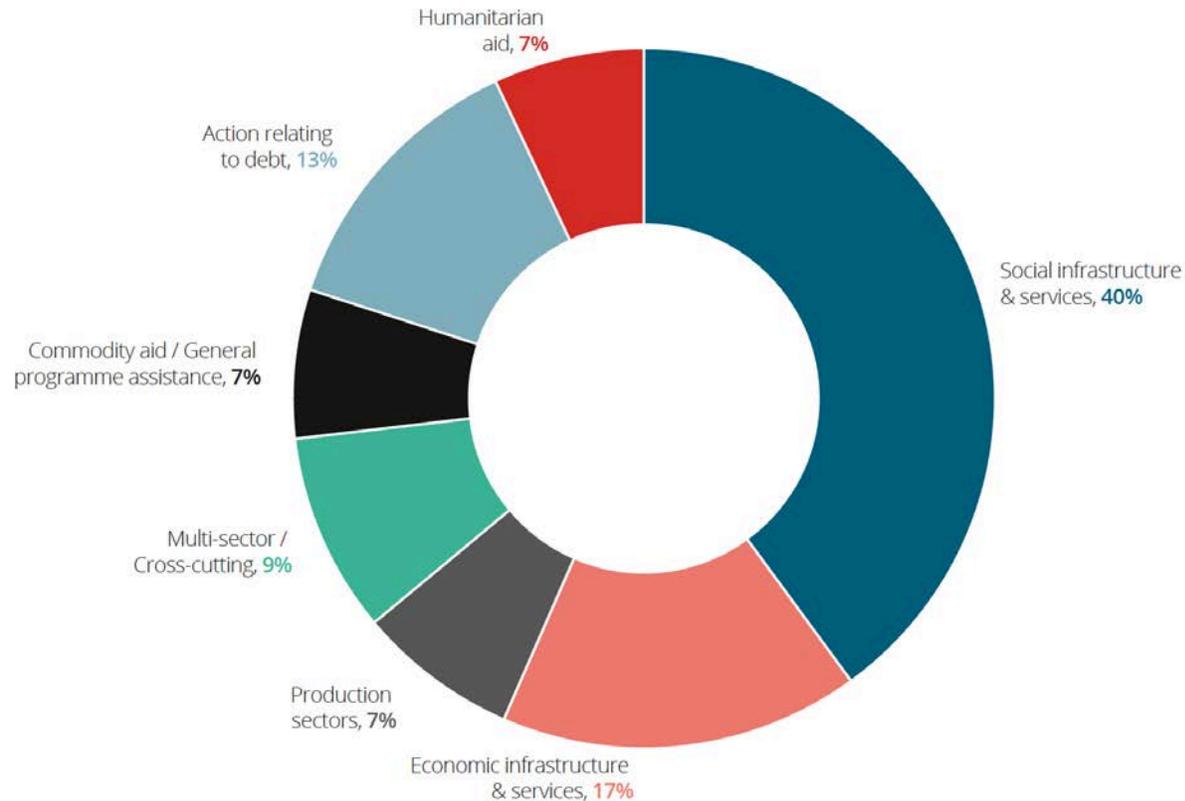
- ODA went up more in graduating LDCs than others.
- May reflect greater absorptive capacity, geographical priorities and desire to invest in more rapidly-developing countries.



Source: Author's calculations/ OECD.stat. rebased to 100 in 2008 . NB. 12 graduating LDCs.

Note: Most of the graduating LDCs had not met the criteria for graduation at the start of the period. It is unlikely that the formal UN graduation process itself influenced ODA trends in most of these countries.

Sectoral distribution of ODA

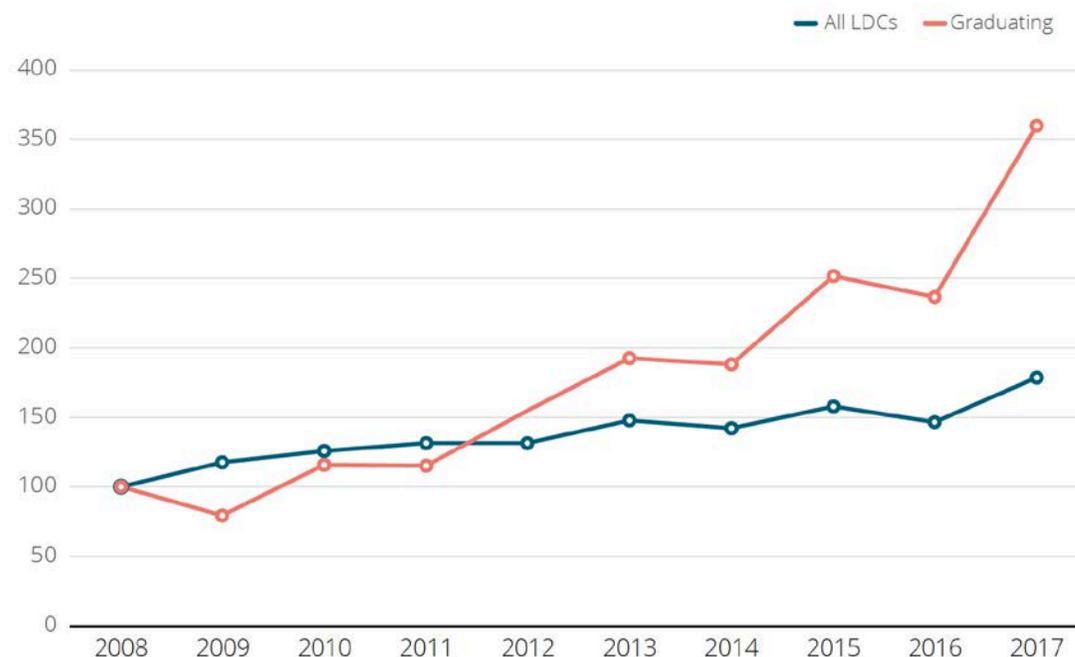


This hypothesis is supported by fact that more ODA in graduating LDCs went to economic infrastructure and less to social sectors than in other LDCs (although social was still the largest).

Source: OECD, DAC-CRS Aid Activities Database (2019)

Aid for Trade

- **Trend much more pronounced in AFT.**
- Transport and storage increased the most over the decade, at 471%, followed by industry at 439%, then banking and financial services, with a 434% increase from 2008-17.
- By value, energy formed the biggest single component of AFT to graduating LDCs, at US\$1.2 billion, a third of the total, and slightly higher than transport and storage, at US\$1.1 billion.
- Mineral resources and mining was the sector which received the smallest sum of AFT, at US\$5.2 million.

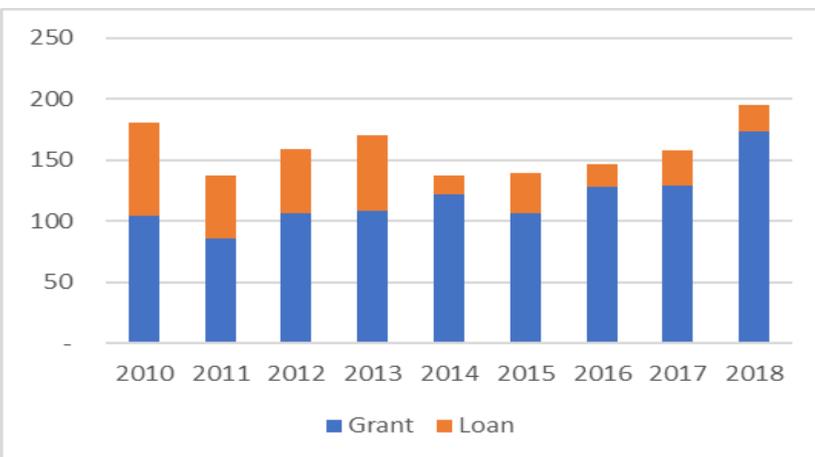


Source: Author's calculations/ OECD.stat. rebased to 100 in 2008

Individual cases

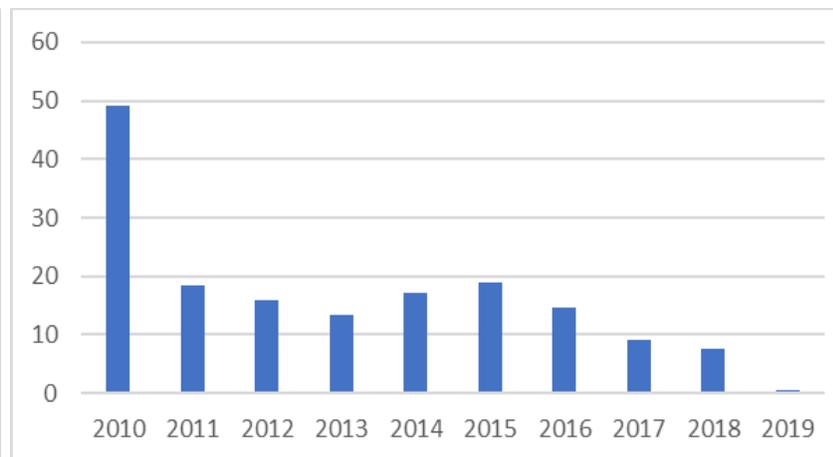
- Significant variability in both ODA and AFT between countries.
- **AFT grew in all but one graduating LDC but at very different rates – between 0-400% over the decade.**
- **ODA to each graduating LDC ranged between -140% and +63% in real terms over the decade, with risers and fallers split 50:50.**

Samoa



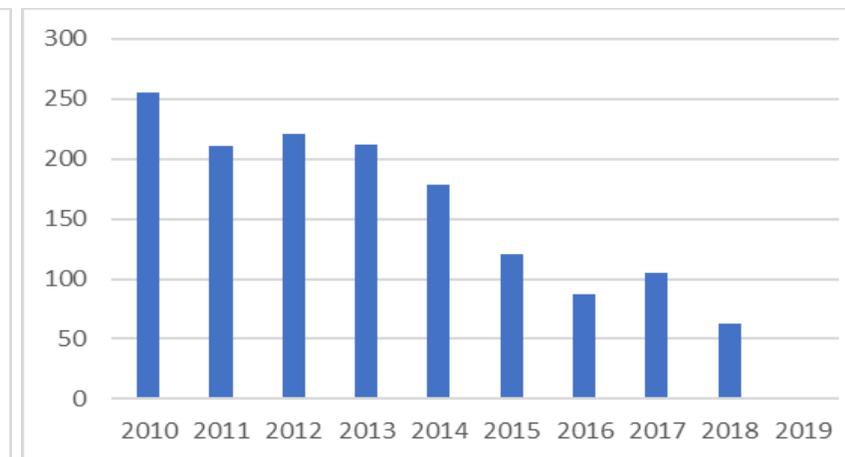
Source: Lowy institute. NB. Encompasses all sources of foreign aid, including China (not a DAC member)

Maldives - ODA



Source: OECD Creditor Reporting System

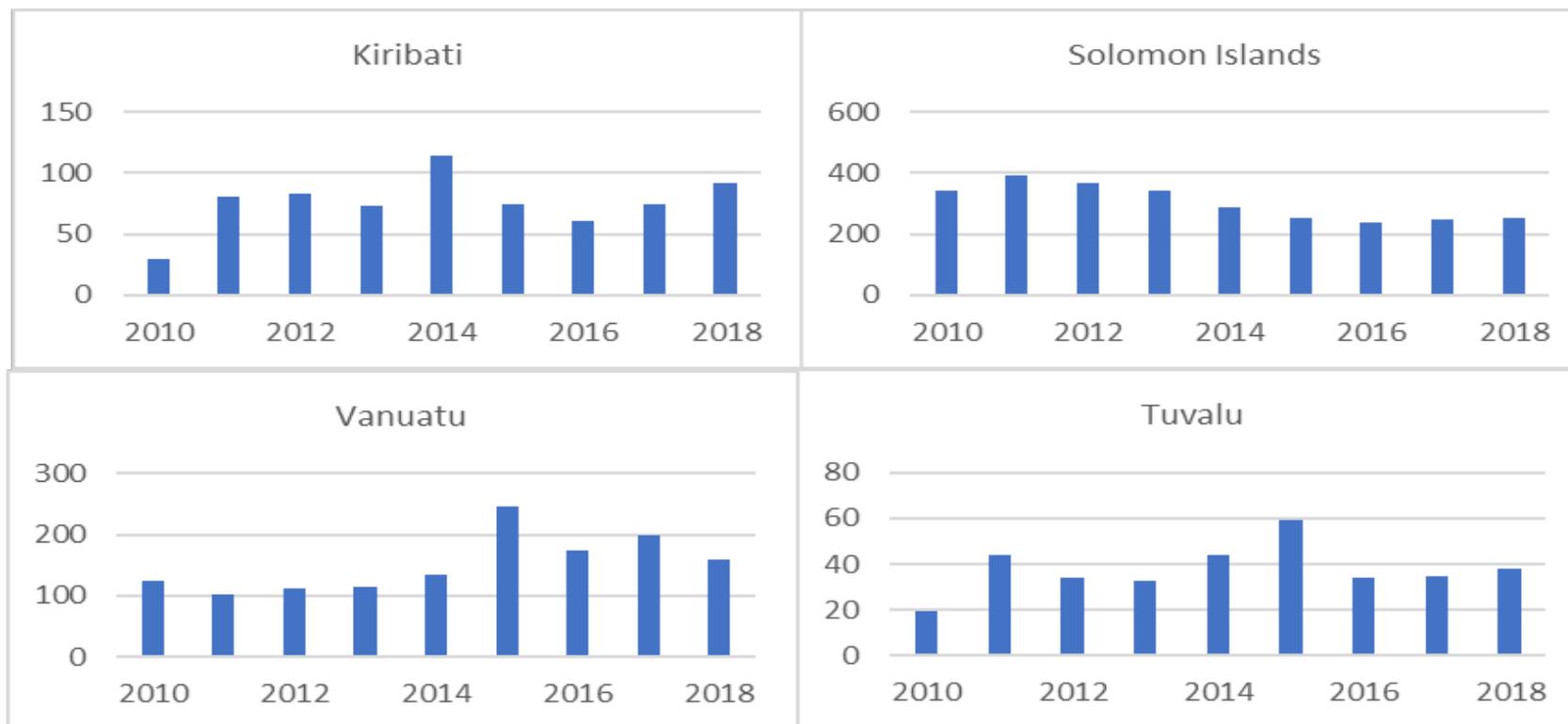
Cabo Verde - ODA



Source: OECD Creditor Reporting System

NB. Graduation 2007

Aid to other Pacific LDCs, US\$m



Source: Lowy institute. Excludes Samoa. NB. Encompasses all sources of foreign aid, including China (not a DAC member). NB. Vanuatu graduated in December 2020



International organisations and other commitments

- World Bank – biggest provider of ODA to LDCs but doesn't use LDC criteria.
- IMF and ADB – similar
- Bilaterals – CDP received official communications mostly confirming commitment, with some exceptions. Many reported that they cannot make commitments so far ahead. The EU has not indicated any change in ODA commitments to LDCs as a result of graduation.
- Some emerging donors, such as China, do not take LDC category into account.

Dedicated technical assistance and capacity building initiatives

- Technology Bank – 5 years access after graduation.
- LDC Fund for Climate Change – will continue existing programmes, plus 3 years support after graduation
- EIF – 5 years support after graduation
- International Development Law Organization Investment Support Programme - 5years

UN system budget and travel support

- End of limits to mandatory budget contributions - but limited impact
- Travel support to GA – 3 years after graduation, and other meetings



Post-graduation options

- **Graduation isn't the end of the story. Need for renewed engagement with multilateral economic institutions and mechanisms, addressing systemic, global issues.**
- **Build on and improve existing multilateral arrangements concerning the least-advantaged nations in trade, finance, tax, immigration, agriculture and the environment.**
- **Prepare early, especially for new challenges. Bilateral financing, WTO membership, bilateral and multilateral and trading priorities. Also future capacity needs.**
- **Identify graduation-related financing requirements for national plans and present to donors.**
- **Identify new types of support**
 - Public finances
 - Transfer of technology and know-how
 - Direct aid transfers
 - Disaster risk – build into infrastructure in advance, insure better
 - Simplify donor support



Conclusions

- **Paradoxically, graduation appears unlikely to significantly affect the outlook for ODA in many of the forthcoming graduates, above and beyond global ODA trends.**
- **Donors and multilaterals appear committed beyond graduation.**
- **Several of the bigger international organisations do not use the LDC category.**
- **The LDC category in practice has fewer implications than in official statements and commitments.**
- **Nevertheless, there is a strong case for graduation support. New measures need to be put in place for graduating countries.**