



# POLICY BRIEF

## No. 99

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### KEY POINTS

- The least developed countries may alter graduation time frames due to concerns with regard to no longer having access to international support measures; such concerns are symptomatic of underdeveloped productive capacities
- The current smooth transition strategy is primarily focused on the post-graduation development trajectories of countries, rather than on identifying and correcting development challenges prior to graduation
- UNCTAD proposes a new strategy and time frame centred on building productive capacities and achieving structural transformation prior to graduation, so that countries can graduate with momentum

## Strategy for graduation with momentum: Bridging pre-graduation and post-graduation development processes in the least developed countries

The development path followed by a country prior to graduation from the least developed country category has significant implications with regard to the challenges to be faced after graduation. The current conceptualization of a smooth transition strategy primarily aims to create a short-term post-graduation “soft landing” and ease concerns with regard to preparation for engaging in economic relations as a non-least developed country. Therefore, the concept currently does not have a focus on preparing countries for graduation with momentum.

UNCTAD has maintained that the post-graduation success of a country significantly depends on the foundations built prior to graduation. Graduating countries need a new strategy, one that prepares them for the challenges ahead by linking the graduation process with the development of productive capacities and sustainable development. UNCTAD has proposed an alternative policy framework to help refocus the objectives and strategic direction of graduation strategies, as well as a new time frame for implementation.

## Need for the strategy for graduation with momentum

The Programme of Action for the Least Developed Countries for the Decade 2011–2020 established an ambitious aim of enabling half the number of least developed countries to meet the criteria for graduation by 2020.<sup>1</sup> To date, only three have done so. Since 2011, nine of the least developed countries have been recommended by the Committee for Development Policy for graduation and five have met the graduation criteria for the first time.

However, a phenomenon of concern, leading countries to alter graduation time frames, has emerged. Graduating countries are increasingly expressing concern about the economic repercussions of no longer having access to least developed country-specific international support measures and other trade-related support measures after graduation. In addition, there is concern that, without such support measures, the development trajectories of countries will be disrupted and there will be a risk of returning to the least developed country category.

These concerns are symptomatic of a greater problem, namely, that countries that have met the graduation criteria have often done so without significantly developing productive capacities and/or having made limited progress in the structural transformation of economies. In this regard, the development process of a country continues beyond graduation, and success significantly depends on the foundations built prior to the graduation process. The challenges faced in a country in the post-graduation period are mostly a continuation of obstacles faced in the pre-graduation period.

Graduating countries therefore need a smooth transition strategy that builds on the development of productive capacities, one that enables them to achieve graduation founded on their long-term development needs and objectives, rather than exclusively on the graduation criteria. This is the process UNCTAD refers to as graduation with momentum.<sup>2</sup>

A smooth transition strategy is, however, currently understood as a timebound (three to five years) transitional strategy that seeks to ensure that the loss of least developed country-specific support does not disrupt developmental progress by phasing out such measures consistent with the particular development situation in a country.<sup>3</sup> The conceptualization of the strategy lacks a systematic approach and there are many ambiguities regarding the time frame and scope of implementation. For example, a formal procedure for smooth transition applicable with regard to all international support measures is not in place, with only a limited number of such measures automatically granted after graduation. Therefore, the ability of a graduating country to retain access to such measures for a transitional period largely depends on the ability and capacity to undertake negotiations with development partners on a case-by-case basis. Other areas of concern include the variability of the time frame, which ranges between three and five years, and uncertainties as to when preparations for a smooth transition should begin.

To this end, UNCTAD has recommended the transformation of the current smooth transition strategy into a long-term and broad-based strategy based on productive capacity-building and the fostering of structural transformation well before graduation.<sup>4</sup> This new strategy, the strategy for graduation with momentum, is based on two key adjustments to the current conceptualization of the strategy, namely, the introduction of an alternative policy framework to help refocus the objectives and strategic direction; and a new time frame for implementation.

## Alternative policy framework to help refocus objectives and strategic direction

The strategy for graduation with momentum is built on the following three key processes:

- Development of productive capacities
- Structural transformation
- Process of catching up with other developing countries

First, the most successful development strategies to date have been driven by the ambition to catch up with countries further ahead in the development process, as they can provide strategic direction and targeted benchmarks. Graduation from the least developed country category should indicate catching up and narrowing the development gap between the least developed countries and other countries, including in terms of the development of productive capacities.

Second, catching up involves a process of structural transformation, whereby the production structure in a country moves progressively up the productivity ladder and begins to generate the conditions for increased human development, social equity and prosperity. This forms the basis for the rapid development of productive capacities.

<sup>1</sup> A/CONF.219/7, p. 52, para. 141.

<sup>2</sup> UNCTAD, 2016, *The Least Developed Countries Report 2016: The Path to Graduation and Beyond – Making the Most of the Process* (United Nations publication, sales No. E.16.II.D.9, New York and Geneva).

<sup>3</sup> A/CONF.219/7.

<sup>4</sup> UNCTAD, 2021, *Achieving Graduation with Momentum through the Development of Productive Capacities* (United Nations publication, Geneva).

Third, the main driver of structural transformation is the development of productive capacities, which are the productive resources, entrepreneurial capabilities and production linkages that together determine the capacity of a country to produce goods and services and enable it to grow and develop.<sup>5</sup> If some of these essential elements are not developed prior to graduation, it is highly unlikely that they will be developed in the post-graduation period.

The limited development of productive capacities in the least developed countries limits the ability to take advantage of opportunities offered through international support measures. Productive capacities are critical in producing a diverse range of products and the knowledge and entrepreneurial capabilities necessary for effective participation in international markets. It is therefore unlikely that a graduation strategy that prolongs access to international support measures will accelerate growth in a country, unless the strategy is deliberately designed to strengthen productive capacities prior to graduation.

The natural starting point for the strategy for graduation with momentum is to determine ways in which to expand and strengthen productive capacities, which determine both the depth of the structural transformation that can be achieved and the prospects for catching up.

Together with vulnerability profiles, as mandated in resolutions of the General Assembly, and impact assessments prepared by the Department of Economic and Social Affairs, the strategy for graduation with momentum should be underpinned by a productive capacities gap assessment that, making use of the productive capacities index of UNCTAD, clearly delineates the policies needed to enhance existing productive capacities and build new productive capacities at the national level. The conduct of a productive capacities gap assessment can establish the level of development of the productive capacities in a graduating country and gaps with other developing countries; and provide recommendations for particular areas of productive capacities that require international support and priority attention in the strategy for graduation with momentum, as well as of domestic policies and targeted support measures and international support measures that should be incorporated into the strategy.

## New time frame for implementation

The proposed alternative policy framework gives a strategic direction to the preparation of the strategy for graduation with momentum. In addition, clarity on the time frame for implementation is needed. The Committee for Development Policy recommends that a graduating country should begin the preparation of a smooth transition strategy immediately after it is first found eligible for graduation<sup>6</sup> rather than waiting for the General Assembly recommendation in this regard. UNCTAD shares this view and proposes three additional measures to further improve the time frame for implementation.

First, UNCTAD recommends that the strategy for graduation with momentum, based on a productive capacities gap assessment, be implemented within one year after the Committee for Development Policy has established that the graduation criteria have been met for the first time. An early start to the process is crucial as it allows for the country to focus on productive capacities and structural transformation.

Second, the term of the preparatory period after having met the criteria for the second time (following the triennial review by the Committee for Development Policy) should be permanently extended, from the current three years to five years. This should help ensure sufficient lead time in the graduating country to prepare for graduation with momentum, by strengthening productive capacities. This extension is not without precedent, as extending the preparatory period to five years has become increasingly common among countries experiencing challenges and/or economic shocks.

Third, the smooth transition time frame, which currently ranges between three and five years, should be standardized, at five years. This would allow for the least developed countries to make effective use of international support measures and targeted support measures identified through productive capacities gap assessments.

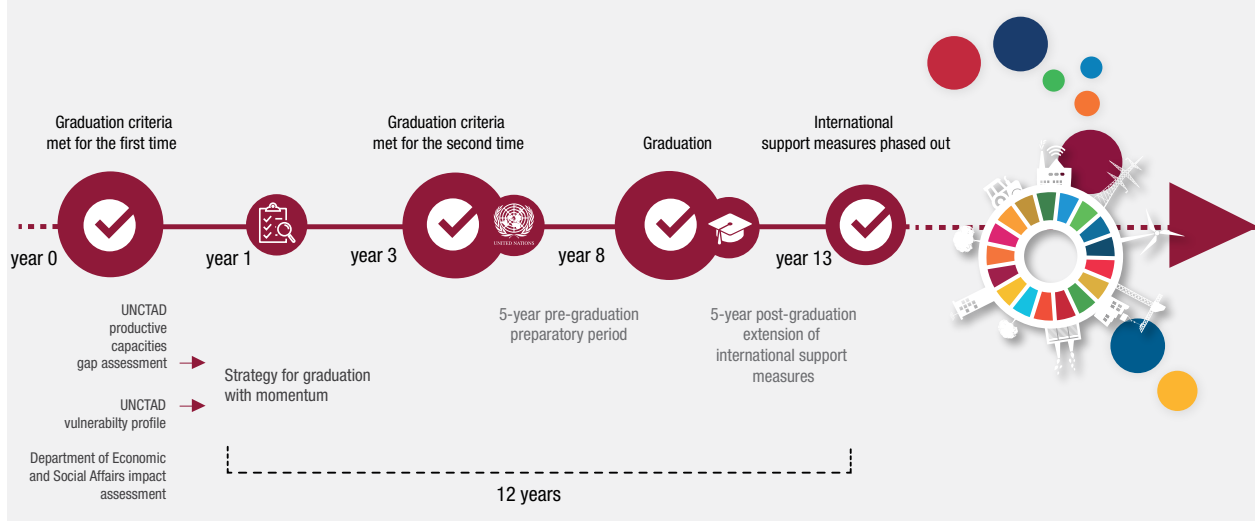
Thus, if all development partners offer a five-year preparatory period, along with a five-year smooth transition period, and if implementation of the strategy for graduation with momentum (based on a productive capacities gap assessment) begins within one year of the graduation criteria having been met for the first time, a graduating country will have a total of 12 years to implement the strategy.

Therefore, unlike at present, with a smooth transition strategy understood as referring to a transitional period after graduation and existing international support measures to be extended for a time frame of three to five years, the strategy for graduation with momentum has a 12-year time frame that links pre- and post-graduation processes (see figure).

<sup>5</sup> UNCTAD, 2006, *The Least Developed Countries Report 2006: Developing Productive Capacities* (United Nations publication, sales No. E.06.II.D.9, New York and Geneva).

<sup>6</sup> E/2019/33, Supplement No. 13.

### Strategy for graduation with momentum: Proposed time frame



Source: UNCTAD.

## Conclusion

This policy brief highlights the limitations of the current conceptualization of a smooth transition strategy as a post-graduation measure to extend existing international support measures for three to five years; and examines the alternative policy framework and new time frame for implementation proposed by UNCTAD. The reconfigured strategy for graduation with momentum would serve as a long-term development strategy for developing the productive capacities of graduating countries.

The new UNCTAD strategy for graduation with momentum is based on the conviction that, in the long term, how a country graduates is as important as when it graduates. Post-graduation support measures only become more effective if they build on the capabilities and development progress achieved prior to graduation. A new-generation graduation strategy will enable the least developed countries to achieve graduation with momentum through a synergy of policy and strategy between the development trajectory prior to graduation and sustainable development after graduation.

The Fifth United Nations Conference on the Least Developed Countries provides an opportunity for the international community to re-evaluate the effectiveness of a smooth transition strategy, existing international support measures and the core challenges to the abilities of the least developed countries to graduate with momentum.

A redesign, by the least developed countries and development partners, of the approach to a smooth transition, along with a shift in the policy focus of existing strategies towards the development of productive capacities, is needed. A graduation strategy should be designed as a broad-based policy to expand productive capacities prior to and after graduation, including a strategy for the utilization of international support measures after graduation.

The alternative policy framework and new time frame proposed by UNCTAD can form the basis for such a redesign. UNCTAD

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