

I Introduction: context, purpose and contents of the impact assessment

This document contains an **assessment of the impacts of the graduation of Bangladesh from the least developed country (LDC) category** (from here on referred to as “**impact assessment**”). Impact assessments are prepared by the United Nations Department of Economic and Social Affairs (UNDESA) as an input for the decision of the Committee for Development Policy (CDP) on whether to recommend a country’s graduation. They can also provide useful information for the graduating country and its trade and development partners as they prepare for the country’s transition out of the LDC category.¹

To be eligible for graduation, a country must meet the graduation criteria at two successive Triennial Reviews by the CDP. Bangladesh met the graduation criteria for the first time at the 2018 Triennial Review (CDP, 2018). It will be assessed by the CDP again in 2021. If the CDP recommends that Bangladesh graduate from the list, the earliest possible year of graduation is 2024. Bangladesh’s impact assessment was undertaken, as a pilot case, earlier in the process than in previous cases.²

The following clarifications are necessary for an accurate reading of the assessment:

The assessment focuses specifically on the **direct impacts** of the withdrawal, upon graduation and any applicable “smooth transition” mechanisms, of **international support measures (ISM)** that are **exclusive to LDCs**.³ These measures relate to trade, development cooperation, and support for participation in the United Nations system entities and processes. Knowing what the likely direct impacts of LDC graduation are is important for the CDP to make its decision on recommendation, and for the country to consider as it prepares for graduation within the broader context of its development process based on national expertise and with the assistance of international development partners.

Graduating from the LDC category is not equivalent to becoming a middle income country.

Figure 1: Sources of external financing 2000-2018, current USD (millions)

Source: World Development Indicators, <http://databank.worldbank.org/data/source/worlddevelopment> sit

After graduation and the applicable transition periods, Bangladesh will no longer benefit from IDC-specific DQF market access and IDC-specific rules of origin. The sections below detail potential impacts in specific export markets. The tables in the Annex summarize the applicable market access schemes before and after graduation and the expected changes in tariffs for Bangladesh's main export products.

Table 1 Non-ID Tariffs on Bangladesh's main exports to the EU

| | | | | |
|--|--|--|--|--|
| | | | | |
|--|--|--|--|--|

96% for most products

monitoring bodies of those conventions must not have identified serious failure by that country to effectively implement the conventions. The ILO supervisory bodies have expressed concern over implementation of some of these conventions, including Conventions 87 (Freedom of association) and 98 (Collective bargaining). While advances have been noted, a number of issues remain to be addressed (European Commission, 2018; European

In Japan, which is an important market for clothing and footwear, most exports from Bangladesh are in HS chapters 61 and 62 and are not covered by the standard (non-IDC) GSP. These products would face tariffs ranging from 7.4% to 12.8% under MFN. In footwear (HS 64), of which Japan is the second largest importer, tariffs for the products most exported would range from 22 to 175 percent.

Japan does not have specific rules of origin for IDCs. Simplified rules of origin under the GSP for HS chapter 61 apply in practice only to IDCs since the chapter is not covered by the standard GSP. The rule becomes irrelevant for Bangladesh after graduation.

Products may be excluded from Japan's standard GSP when Japanese imports from that country exceed on average, over three years, 1.5 billion yen and 50% of the total value of Japan's imports of the product (some exceptions apply).¹⁹

In Australia, Bangladeshi products would qualify for the GSP for non-IDC developing countries. The top export products are garments, which are not covered by that arrangement. MFN tariffs on most garments exported by Bangladesh to Australia are 5 percent. IDC-specific rules of origin would no longer apply.

Developing countries granting IDC preferences

Turkey, India and China, while still accounting for a relatively small share of Bangladesh's exports, are the largest importers of Bangladeshi vegetable textiles (mostly jute – HS chapter 53). They could belong to at least one regional agreement to which Bangladesh also belongs (CEFTA). They are also important in terms of export potential (see Bangladesh 2015–2021).

- Turkey's GSP scheme has been discontinued with the EU's. Turkey is also a major trading partner for Bangladesh.

- In China, Bangladesh currently enjoys DFQ treatment on 61%

nodes of interest to Bangladesh, (ii) there are substantial restrictions related to skills and certification for certain services under Mode 4, (iii) the waiver is not granted indefinitely, and (iv) the procedures involved in the implementation of the waiver are “impractical for use in a sustainable and predictable manner”. The most important hindrance, according to the review, is on the supply side, related to the production of a quality labour force”

3 Special and differential treatment in the implementation of commitments under regional agreements

In addition to preferential tariffs and rules of origin (Box 1, above), Bangladesh would lose certain other support measures under its regional agreements (the main changes under APFTA are in market access as described above). It may be possible to negotiate extended IDC or alternative preferential treatment under regional agreements.³⁰ As a reference, Maldives was granted favourable treatment under SAFTA equivalent to that of IDCs beyond its graduation date.

The government of Bangladesh has expressed, commenting on a previous version of this assessment, a general concern that it may need to undertake higher levels of commitment in future trade negotiations as a non-IDC.

SAFTA (Bangladesh, Afghanistan, Bhutan, Maldives, Nepal, India, Pakistan, Sri Lanka):

In principle, Bangladesh would no longer benefit from IDC specific provisions under SAFTA:

Greater time periods for tariff reductions under trade liberalization programmes should they extend beyond the date of graduation

The commitment of contracting states to give, until the trade liberalization programme has been completed by all Contracting States, special regard to the situation of IDCs when considering the application of anti-dumping and/or countervailing measures, providing an opportunity for consultations and favourably considering accepting price undertakings offered by exporters from IDCs

Greater flexibility in continuation of quantitative or other restrictions

The commitment to consider taking direct trade measures with a view to enhancing sustainable exports from IDC contracting states, such as long and medium term contracts containing input and supply commitments in respect of specific products, buy-back arrangements, state trading operations, and government and public procurement.

Special consideration in its requests for technical aid euu on tcp

EMSA Free Trade Area (negotiations not concluded, Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand):

Article 24.1 of the Dispute Settlement Understanding (DSU) requires that Members exercise "due restraint" when launching disputes against IDGs. This may have contributed to the fact that to date there is no dispute invoking an IDC as a respondent. Article 24.1 further states that complaining Members must exercise "due restraint" in asking for compensation or suspending concessions or other obligations when the responding party is an IDC. After graduation, Bangladesh would no longer be covered by these requirements. Moreover, under Article 24.2, IDGs can request the Director

significant. There is only a procedural advantage for IDGs, i.e. only IDGs may request more than two consecutive consultations under the so-called “simplified procedures”. Approval of simplified procedures is not assured, as WTO Members can require full consultation procedures in the case of both IDGs and other developing countries.

Trade Policy Review Mechanism (Annex 3, as amended on 26 July 2017). In addition to the largest four Members (including the EU), which are reviewed every three years, the next 16 largest are reviewed every five years, and the rest of Members every seven years. IDGs may be granted a longer interval between Trade Policy Reviews. As an IDC, Bangladesh could enjoy a period longer than seven years between Trade Policy Reviews. This is not expected to be of major consequence for Bangladesh, which has undertaken Trade Policy Reviews at intervals of approximately six years.

Bangladesh would forego IDC advantages in future trade negotiations, including exemptions from tariff reductions.⁴¹ The 2004 General Council Decision on the Doha Work Programme and the 2005 Hong Kong Ministerial Declaration and successive draft modalities indicate the IDGs would be exempt from reduction commitments. Bangladesh would not, as a graduated IDC, benefit from these flexibilities. Bangladesh has bound 17.8 percent of all tariff lines, including 100 percent of agricultural tariff lines and only 2.7 percent of industrial tariff lines. The non-agricultural bound lines are at several rates ranging from zero to 200 percent, with a naked concentration at 20, 30 and 40 percent (W/TPRS/270 para 11).

in the context of its graduation, including positive and negative impacts on development cooperation, including access to finance, of surpassing income thresholds and other eligibility criteria for financial and technical support mechanisms other than those provided on the basis of IDC status. The latter is not under the scope of this analysis.

Figure 7 Top ten donors, gross ODA for Bangladesh, 2016-2017 average, millions of USD

Source: OECD DAC <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm>
Updated February 18, 2019

The following paragraphs address in greater detail (i) the expected impacts of graduation from the IDC category on the assistance provided by major donors and UN entities and (ii) the impacts of no longer having access to IDC-specific cooperation instruments.

Cooperation programmes are based on a combination of factors related to recipients' needs and plans, donors' policies and capacities, competing demands and the broader international context. It is therefore not feasible to accurately anticipate the nature and scale of development cooperation programmes that are yet to be elaborated. The findings below are prospects based on documented policies and the views of experts and representatives of the institutions referenced below, including interviews conducted during a mission of the CDP Secretariat to Bangladesh in October 2018.

Belonging or not to the IDC category is not a central element of South-South cooperation. Bangladesh is an active partner, both benefitting from the experience of other countries and sharing its own, as well as attracting financial support. An expansion of South-South cooperation can be expected in the coming years, including with China. Graduation from the IDC category is not expected to significantly affect South-South cooperation of Bangladesh with its partners. One issue to be taken into account when assessing the context of graduation, while not related directly to graduation, is that the financing options provided by other developing countries, that are becoming increasingly significant for investments in infrastructure,

are highly similar.

Most bilateral cooperation to Bangladesh is delivered by the members of the OECD's Development Assistance Committee (DAC), which include 29 countries and the European Union. While some countries do have special provisions for IDGs, belonging to the IDC category is generally not a major factor in the design of bilateral cooperation programmes, which are instead based on a combination of income level, country needs and vulnerabilities, development plans, historical and cultural ties, donor policies, priorities and strategies, and other factors. A gradual change in bilateral cooperation strategies could come about, and in some cases it has already begun, related to Bangladesh's increase in per capita income and other development achievements (not IDC graduation), but there is general recognition of persisting needs and vulnerabilities. Bangladesh could see an increase in the share of loans as opposed to grants in total ODA and an increase in tied aid, but it seems unlikely that significant transformations would occur purely as a result of graduation.

Bilateral cooperation programmes are based on numerous factors including policies and priorities in both donors and recipients. In Bangladesh, national planning instruments and priorities are reflected in bilateral development programmes, and there is continuous dialogue between the government and development partners through the Local Consultative Group (LCG). Development partners often collaborate in joint projects.

The OECD DAC also has different reporting requirements for ODA to IDCs, including including a higher minimum grant element for a bilateral loan to be considered ODA when it is extended to an IDC, a slightly higher discount rate used to determine the present value of future payments for purposes of definition of the grant element, and a recommended average grant element. This must be taken into account when analysing data on ODA flows to IDCs and recent graduates.

social issues This would reflect changes in Bangladesh's capacity and needs rather than graduation. Belonging to the IDC category is not a major determinant of Japanese bilateral cooperation with Bangladesh, and graduation from the IDC category is therefore not expected to have major consequences.

also no longer benefit from certain types of country-specific technical assistance, but would continue to be included in all regional activities and capacity building initiatives. UPU provides guidance for resource mobilization and donor relations to all developing countries.

- **International Atomic Energy Agency (IAEA):** No changes are expected in the volume of resources, capacity building or training opportunities dedicated to Bangladesh by the IAEA, which will continue to support the country through its technical cooperation programme. However, after graduation, Bangladesh will need to finance 5 percent of biannual project budgets under its Technical Cooperation Fund (TCF).
- **United Nations Volunteers (UNV):** Whether or not a country is in the IDC category is not a major determinant of assistance provided by UNV. UNV operations are demand-driven, and the organization operates in IDCs and non-IDCs. UNV's government cost-sharing general management support fee (GMS) is set at 3 percent minimum for IDCs and 8 percent minimum for others for third-party cost-sharing, but a number of factors influence the actual rate, which is negotiated with the country.
- **The United Nations Capital Development Fund (UNCDF),** which provides access to microfinance and investment capital, has the mandate to support the IDCs "first and foremost", but not exclusively (see below).
- **The International Fund for Agricultural Development (IFAD),** which provides grants and low-interest loans for rural development and appears prominently among Bangladesh's top donors (see figure 8) bases resource allocation on a combination of factors, including per capita income, rural population, and the relative performance of countries in establishing a conducive institutional and policy framework for sustainable rural development.⁵⁵

Being an IDC is not a requirement among other entities providing support to Bangladesh such as GAM, the Global Fund and the OPEC Fund for International Development (OFID):

Graduation from the IDC category does not affect eligibility to **GAM, the Vaccine Alliance**. Countries are eligible to apply for GAM support when their Gross National Income (GNI) per capita is below or equal to US\$ 1,580 on average over the past three years (according to World Bank data published every year on 1 July) and must meet certain conditions, assessed by an independent group of experts. When the criteria are met, countries enter a transition phase. Graduation from the IDC category does not affect eligibility for the **Global Fund**, which mobilizes and invests funds aiming at ending AIDS, tuberculosis and malaria epidemics. Eligibility is based on GNI and an official disease burden index.

The **OPEC Fund for International Development (OFID)** gives higher priority to IDCs but supports all developing countries that are not OPEC Member Countries. One hundred and thirty-four countries have benefited so far:

- **Global Environment Facility (GEF):** With the exception of the IDC Fund (see below), funding from the GEF is available for all developing countries. It cannot be excluded that graduation could affect funding by the GEF (other than the Least Developed Countries Fund, see next), for Global

- **Least Developed Countries Expert Group (LEG)** was established to provide technical guidance and support to the IDGs on the process to formulate and implement national adaptation plans (NAPs) reflecting medium to long term adaptation needs, the preparation and implementation of NAPs and the implementation of the IDC work programme. It also provides technical guidance and advice on accessing funding from the Green Climate Fund (GCF) for the process to formulate and implement NAPs. At least two delegates per IDC Party are supported to participate in training workshops conducted by the LEG, subject to the availability of adequate resources. Priority is also accorded to the IDGs in other workshops and events organized under the COP and its subsidiary bodies.
- **The Least**

C Support to the participation of Bangladesh organizations and processes

| Entity/ operator Peacekeeping operations | Rules | Bangladesh's contributions as a non-IDC |
|---|--------------|--|
|---|--------------|--|

Fukuda-Parr and Tienr (2018). "Trade agreements and policy space for achieving universal health coverage (SDG target 3.8)" *CDP Background Paper No. 38* [SI!](#) [W](#) [A](#) [i](#)

