BRIEFING NOTE ON UGANDA'S JOURNEY TO GRADUATING FROM THE UNITED NATIONS LEAST DEVELOPED COUNTRY CATEGORY

May 2024

1. Background

The United Nations General Assembly established the Least Developed Country (LDC) category in 1971 in acknowledgement by the international community that special support measures were needed to assist the least developed among the developing countries. This category comprises the most disadvantaged of the developing countries and are defined by the UN as those that have low levels of income and face severe structural impediments to sustainable development. The countries categorized as LDCs are identified based on specific criteria and procedures.

The designation of countries is based on three sets of criteria, which include, per capita income level, a human assets index, and an economic and environmental vulnerability index. As part of its mandate, the Committee for Development Policy (CDP) of the United Nations reviews this information every three years at its triennial reviews. To graduate from the LDC category, a country must meet the established graduation thresholds for two of the three criteria at two successive triennial reviews. To easily distinguish between countries classified as LDCs and the remaining developing countries, the UN assigns in many of its documents each country a corresponding status as either LDC - Least developed country (all countries officially included in the LDC category) or ODC - Other developing country (all countries in developing regions not included in the LDC category). However, the LDC category is the only official development-oriented UN category.

On March 11, 2024, the Chair of the CDP formally communicated that the Republic of Uganda had fulfilled the criteria for graduation from the LDC category for the first time. This implies that the CDP will consider Uganda for eligibility and a possible recommendation for graduation from the LDC category at the 2027 triennial review. After a recommendation by CDP, and an endorsement by the political bodies of the UN (Economic and Social Council and the General Assembly) in 2027, a minimum preparatory period of 3 years (or longer) is expected to be taken before actual graduation from the category earliest by 2030.

2. How does the UN classification of countries differ from the World Bank classification?

a. World Bank classification:

The World Bank assigns the world's economies to four income groups—low, lower-middle, upper-middle, and high income. The classifications are updated each year on July 1 and are based on the Gross National Income (GNI) per capita (in USD) of the previous year determined using conversion factors derived according to the Atlas method. The current classification is as shown below.

Figure 1: ***World Bank Group country classifications by income level for FY24 (July 1, 2023- June 30, 2024)***

	Low Income	Lower-middle Income	Upper-middle Income	High Income
July 1, 2023 - for FY24 (new)	<= 1,135	1,136 - 4,465	4,466 - 13,845	> 13,845
July 1, 2022 - for FY23 (previous)	<= 1,085	1,086 - 4,255	4,256 - 13,205	> 13,205

Source: https://blogs.worldbank.org/en/opendata/new-world-bank-group-country-classifications-income-level-fy24#:~:text=The%20World%20Bank%20Group%20assigns,of%20the%20previous%20calendar%20year.

According to World Bank figures, Uganda's GNI per capita is US $ 930 as of 2022, which means that it is still classified as a Low-Income Country. These figures will be updated in July 2024. In East Africa, only Kenya and Tanzania are Lower-Middle Income countries according to World Bank classification.

b. United Nations' classification

The UN Committee for Development Policy (CDP) is mandated by the General Assembly (GA) and the Economic and Social Council (ECOSOC) to review the list of LDCs every three years. It makes recommendations on the inclusion and graduation of eligible countries using three criteria, which include; GNI per capita, Human Assets Index (HAI) and Economic and Environmental Vulnerability Index (EVI). The indicators are chosen on the basis that they are methodologically robust, maintain stability of the criteria, ensure equal treatment of countries over time, and are frequently updated for all countries. They are periodically revised to reflect improved data availability and insights from new evidence. Any relevant future revision will be communicated after the 2026 CDP plenary.

For a country to be considered for graduation, it must meet at least 2 of 3 (either GNI and HAI, GNI and EVI or HAI and EVI) criteria at two consecutive reviews. It should be noted, however, that the CDP provides for an income-only graduation threshold regardless of the other 2 criteria (HAI and EVI) and it is set at three times the graduation threshold which is $3,918 for the 2024 review. Furthermore, CDP recommendations for graduation do not follow automatically from applying the graduation rules but also consider supplementary graduation indicators, country-specific analysis, and views from the identified country.

Note: The above criteria imply that while some countries may achieve the two at the same time, graduation from the LDC category according to the UN criteria does not necessarily imply graduation to the lower middle-income (LMIC) category of the World Bank. This is because it's not a requirement to meet all the three criteria for a country to be removed from the UN's LDC list.

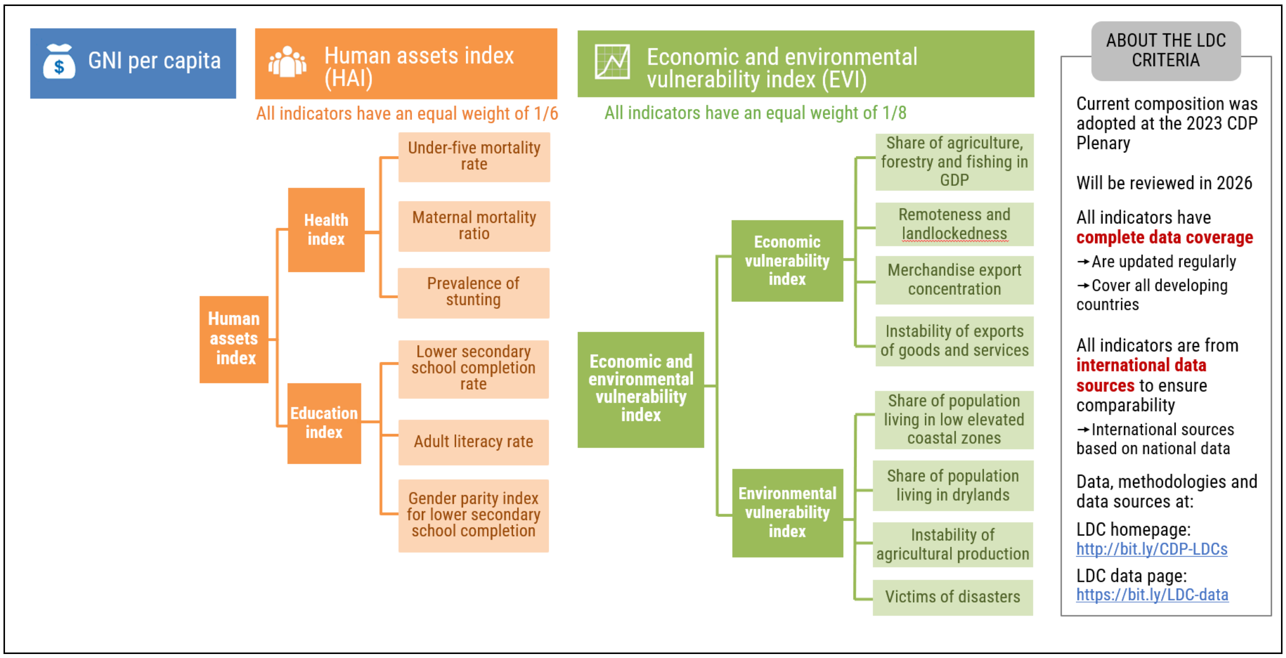
The three graduation indices are elaborated below;

i. **Gross National Income (GNI) per capita:** The graduation threshold is set at $1,306 for the 2024 triennial review.

ii. **Human Assets Index:** The HAI is a measure of level of human capital. Low levels of human assets indicate major structural impediments to sustainable development. A lower HAI represents human capital development. For the 2024 review, the graduation threshold has been set at 66 or above.

iii. **Economic and Environmental Vulnerability Index (EVI).** The EVI is a measure of structural vulnerability to economic and environmental shocks. A higher EVI represents a higher vulnerability. For the 2024 review, the graduation threshold has been set at 32 or below.

Figure 2: ***Summary composition of the LDC graduation criteria***



From the above graduation criteria, below is a summary of Uganda's scores for the last five years.

Table 1: ***Official Scores for Uganda (2020-2024)***

Review year	GNI per capita[1]	Human Assets Index (HAI)	Economic and Environmental Vulnerability Index (EVI)
2020	798	61.15	26.48

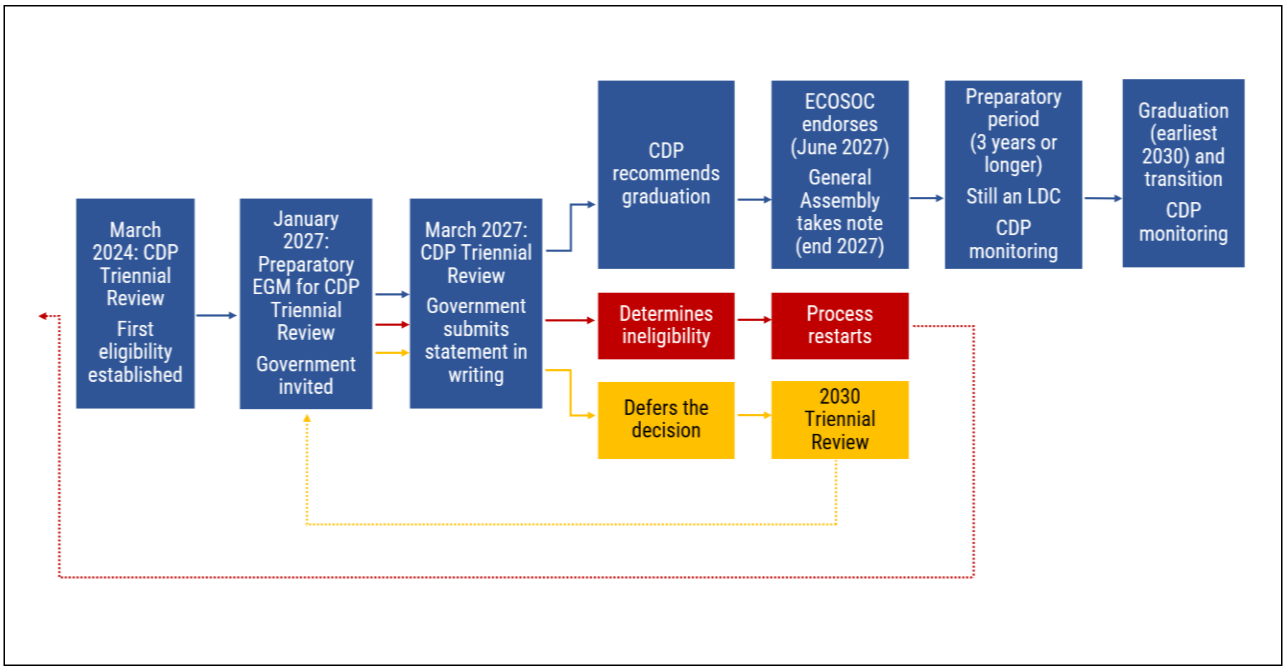
[1] The GNI per capita figures used by CDP differ from those reported by the World Bank. The GNI per capita criterion is calculated by the UN as the latest three-average, i.e., for 2024 the 2020-2022 average of GNI per capita was used. Moreover, while the CDP follows the World Bank methodology for converting national currency into US$ (Atlas methodology), it uses data from the United Nations Statistics Division.

2021	806	62.43	27.62
2022	829	63.81	26.53
2023	862	65.08	27.48
2024	909	66.33	28.22
2024 Graduation threshold	$1306 or above	66 or above	32 or below

Source: United Nations Department of Economic and Social Affairs (LDC Data | Department of Economic and Social Affairs (un.org)), 2024

- Within the East African Community (EAC), Tanzania and Rwanda have fulfilled the graduation criteria and are set to go through a similar process as Uganda. The three EAC countries fulfilled the criteria for HAI and EVI but have yet to reach the threshold for GNI per capita.

*Figure 3: **Summary of the 2027 triennial review decision-making process***



3. Broad potential implications for graduating countries

a. Foreign Direct Investment

- Graduating from the LDC category sends a positive signal to potential investors that the country's standards of living are improving and its vulnerabilities reducing. This implies that people can afford superior goods and services which is likely to attract more Foreign Direct Investments (FDI) into the country as it could offer better rates of return on investment.

b. Official Development Assistance

- Transitioning from the LDC to the ODC category can have implications on the development financing architecture. While multilateral and regional development banks generally do not consider LDC status in their operations, ODA modalities by some bilateral donors may change. If Uganda graduates, it will maintain Official Development Assistance (ODA) eligibility and can still receive concessional finance, as recorded by the Development Assistance Committee (DAC) of the OECD.

- Donor interest may change towards issue-specific allocations, such as climate change mitigation or humanitarian aid for refugees as opposed to general development allocation.

c. Trade

- Access to LDC-specific duty-free quota-free market access schemes ends, often after an additional transitory period (for example, three years in case of the European Union's Everything-But-Arms initiative or China's Duty-Free Quota-Free (DFQF) scheme for LDCs). LDC-specific special and differential treatment provision in various WTO agreements no longer apply, sometimes after a transition period.

4. What is the likelihood of Uganda maintaining the momentum and ultimately graduating?

i. **Oil and gas:** Uganda is set to start the commercial exploitation of the oil and gas resource in 2025/26, before the established earliest possible graduation year 2030. Unless it backtracks on the Human Assets Index and the Economic and Environmental Vulnerability Index, GNI per capita is expected to expand due to the expected oil related investments and revenues. Nevertheless, there is still a likelihood of not reaching the GNI per capita threshold by 2030 as the gap between the current score and the threshold is still relatively wide.

ii. **Human Development Index (HDI):** Uganda has for the first time moved from a low HDI to a medium HDI category, coinciding with the fulfillment of the criteria for graduation. While this can be attributed to the fact that two of the three indices are closely related, the convergence implies consistence in the direction of development matrices.

iii. **Uganda Demographic and Health Survey (UDHS) 2022:** Uganda's fulfillment of the human assets index was based on estimates derived largely from the UDHS 2016[2]. The recently launched UDHS 2022 indicates significant improvement in several health and demographic indicators, some of which are ingredients of the graduation criteria. With better progress in these indicators, the HAI might move upwards in the next CDP update.

iv. **Other unpredictable risks:** Change in GNI per capita can be influenced by unanticipated changes in the political, economic and natural environment. Negative economic expectations can cause a slowdown in business activity and eventually lead to reduction in GNI growth. While these disruptions could have immediate implications for GNI per capita, they may have limited effects on HAI and EVI especially if they are not prolonged.

5. Next steps and timeframe of the eligibility procedure

[2] It should be noted, however, that the CDP estimates do not use point estimates from 2016 but include already some assumed progress. In addition, some indicators such as stunting, already include some newer surveys.

*Table 2: **Timeframe of eligibility procedure in summary**[3]*

Period	Activity
Year 0 (first triennial review)	**CDP** finds country eligible for the first time (eligibility needs to be reconfirmed at the next triennial review).
	DESA notifies the country of the first finding.
Between years 0 and 3 (between first and second triennial review)	**UNCTAD** prepares a vulnerability profile and provides a draft to the country. o Provides a background of the country's economic and development situation. o Compares values of indicators used in the triennial review with relevant national statistics. o Assesses vulnerabilities faced by the country not covered by the EVI. o Identifies other structural features of relevance for the graduation decision.
	DESA prepares an ex-ante impact assessment and provides a draft to the country. o Focuses on expected implications of loss of LDC status and LDC specific support measures. o Counts on inputs from the country and its development and trading partners.
	CDP Secretariat consolidates United Nations inputs into graduation assessment.
	Country o Builds knowledge and awareness on possible graduation. o Initiates preparations for possible graduation (early start of preparations recommended by CDP since 2018). o Provides comments on the draft documents and preliminary data prepared by UN entities.
Year 3 (second triennial review)	**CDP** o Confirms eligibility (second finding). o Recommends country, taking into account LDC criteria and additional information (supplementary graduation indicators, graduation assessment and related documents, country statements). o Recommendation includes statement on length of preparatory period (standard – 3 years, extended – up to 5 years) as well suggestions for priorities and type of support needed to ensure a smooth transition. o If the country is eligible but there are concerns on the sustainability of progress, CDP may defer a decision to the following triennial review.
	ECOSOC o Endorses the CDP recommendation.
	General Assembly o Takes note of the CDP recommendation.
Between years 3 and 6	**Graduating Country** o Prepares smooth transition strategy. o Reports to the CDP on the preparation of the strategy.
	UNRCO o Facilitates consultative mechanism with development and trading partners and provides support on transition strategy upon request.
	UN System o Provides targeted assistance and capacity-building upon request, coordinated by an Inter-Agency Task Force on graduation (chaired by the UN Office of the High

[3] The information in this table is based on previous graduation procedures. CDP is currently reviewing the modalities for its requests for additional information (period between years 0 and 3). Hence, activities listed in this table might slightly change.

	Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States).
	Development and trading partners ○ Participate in consultative mechanism and provide support as agreed.
	CDP ○ Monitors development progress of the country during the period; reports findings annually to ECOSOC.
Year 6	Graduation becomes effective, country is no longer in the LDC category.
After year 6 (after graduation)	**Graduated country** ○ Implements and monitors the transition strategy. ○ Submits to the CDP progress reports on its implementation annually for the first three years after graduation, and triennially at two triennial reviews.
	Development and trading partners ○ Support the implementation of the transition strategy. ○ Avoid abrupt reduction of LDC-specific support.
	CDP ○ Monitors development progress of graduated country; reports its findings to ECOSOC annually for the first three years after the country's graduation, and triennially at two triennial reviews afterwards.

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