UNIVERSIDADE TÉCNICA DE LISBOA
INSTITUTO SUPERIOR DE ECONOMIA E GESTÃO

MESTRADO EM: «Desenvolvimento e Cooperação Internacional»

STATUS UPGRADE:

THE CASE OF CAPE VERDE'S GRADUATION FROM THE LEAST DEVELOPED COUNTRY (LDC) CATEGORY

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Janeiro de 2008

ACRONYMS

ACP	Africa, Caribbean and Pacific Countries
ADB	African Development Bank
AGOA	African Growth and Opportunity Act (USA)
AOSIS	Alliance of Small Island States
BADEA	Arab Bank for Economic Development in Africa
BPOA	Barbados Program of Action
CDP	United Nations Committee for Development Policy
EBA	Everything But Arms Initiative (EU)
ECV	Cape-verdean Escudo
EC	European Commission
ECOSOC	United Nations Economic and Social Council
ECOWAS	Economic Community of West African States
EDI	Economic Diversification Index
EEZ	Exclusive Economic Zone
EVI	Economic Vulnerability Index
EU	European Union
FDI	Foreign Direct Investment
GAT	Transition Support Group
GDP	Gross Domestic Product
GNI	Gross National Income
HAI	Human Asset Index
HDI	Human Development Index
HIPC	Highly Indebted Poor Country Initiative
ICT	Information and Communication Technologies
IDA	International Development Association (World Bank)
IFIs	International Financial Institutions
IMF	International Monetary Fund
ITC	International Trade Center
LDC	Least Developed Country
LICUS	Low Income Countries Under Stress
LLDC	Landlocked Developing Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiatives
MIC	Middle-income Countries
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development

PPP	Purchasing Power Parity
SIDS	Small Island Developing States
SOPAC	South Pacific Applied Geoscience Commission
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Program
UNU	United Nations University
WB	World Bank
WIDER	World Institute for Development Economics Research
WTO	World Trade Organization

ABSTRACT

This dissertation presents the main characteristics and development drawbacks of two groups of countries in special situations, specifically LDCs and SIDS. In this context, issues related to international support measures aimed at easing the development process of LDCs are addressed, as well as the (sometimes controversial) question of graduation from LDC status.

Against this background, the case of Cape Verde – the first SIDS to ever graduate from the LDC list – is examined, anticipating the consideration of crucial development financing issues, of particular importance to the country's ability to ensure continued development once its graduation from LDC status takes effect, in January 2008.

Keywords: Countries in Special Situations, Least Developed Countries (LDCs), Small Island Developing States (SIDS), Middle-income Countries (MICs), Economic Vulnerability, Graduation

JEL (Journal of Economic Literature) Classification System: F41, F43, O10, O11, O19, O20, O55, O57, P52, Q54

RESUMO

Esta dissertação analisa as principais características e as dificuldades que se levantam ao desenvolvimento de dois grupos de países em situações especiais, especificamente os PMA e os SIDS. Neste contexto, são abordadas questões relacionadas com medidas de apoio por parte da comunidade internacional, visando facilitar o processo de desenvolvimento dos PMA, e analisada a questão (por vezes controversa) da transição da lista de PMA.

Neste quadro, é analisado o caso de Cabo Verde – o primeiro SIDS a transitar da lista de PMA –, com a consideração prévia de importantes questões de financiamento do desenvolvimento, de suma importância para a capacidade do país suster o seu desenvolvimento, a partir da entrada em vigor da sua graduação da lista dos PMA, em Janeiro de 2008.

Palavras-chave: Países em Situações Especiais, Países Menos Avançados (PMA), Pequenos Estados Insulares em Desenvolvimento (SIDS), Países de Rendimento Médio (PRM), Vulnerabilidade Económica, Graduação

JEL (Journal of Economic Literature) Classification System: F41, F43, O10, O11, O19, O20, O55, O57, P52, Q54

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To

Professor Ennes Ferreira, for the always-insightful comments and much-valued words of wisdom

Pierre Encontre, of UNCTAD, for letting me borrow his valuable expert eye

My parents, for the love and support

My brother, for the unspoken (but clearly perceptible) cheering words

My sweet grandma, Alcina

INTRODUCTION

It is evident that all countries are not created equal. Countries' characteristics are culturally, politically and historically motivated, as not every country has had the same opportunities, experienced the same development path, endured the same problems or faced the same challenges. Hence, the structures with which countries are endowed to face development challenges and meet economic responsibilities tend to differ greatly. The spectrum of institutional, economic and administrative arrangements is, indeed, quite diverse.

Other characteristics, specifically those that are not man-made or at least not easily influenced by human action, result from factors over which countries have little or no control. These are related to, for example, the size and topography of the territory, the geographical situation, the land surface, the quality of the soil, the percentage of cultivable area, environmental patterns observed over time, natural resource endowment, etc. In fact, a significant number of developing countries – considered to be in special situations[1] – see their growth opportunities and economic progress curtailed, to a great extent, by these uncontrollable and development-hampering conditions, imposed by none other than Mother Nature.

In addition, it is also important to keep in mind that the great majority of today's developing countries have suffered the consequences of long-term colonization and late independence. Indeed, these countries have experienced several distresses that still impede both positive economic performance and social cohesiveness. Other factors – among which, the small size of the population, its illiteracy and deficient or non-existent access to information and communication technologies – also tend to impose severe limitations on these countries' economic growth and development. It is, therefore, understood that natural and structural

1 The United Nations General Assembly, within its Second Committee on economic and financial matters, annually debates and negotiates resolutions intended at responding to the particular needs of countries in special situations.

handicaps are important factors that have played into the current (and in some cases chronic) underdevelopment status of these countries.

Yet, some of these countries have managed to succeed under particularly difficult geographical, environmental and economic circumstances, and stand out as positive and encouraging examples to the whole international community. Cape Verde – simultaneously a Least Developed Country (LDC) and a Small Island Developing State (SIDS) – is one such country, recently found eligible by the United Nations (UN) to graduate, in 2008, from LDC status. What remains to be seen, however, is whether or not the country will be able to pursue its development efforts without LDC treatment, given that, at least theoretically, part of the international support measures it has benefited from as an LDC (which have made possible its good economic and social performance) may be lost, as a direct consequence of graduation. Indeed, despite its graduation, the country will continue to be confronted with serious insularity constraints, common to all SIDS.

Against this background – and keeping in mind that Cape Verde, although still economically vulnerable, will be the first island-nation to ever graduate from the LDC list –, the main purpose of this dissertation is to analyze the consequences of this status upgrade and suggest courses of action and policy responses expected to compensate the inevitable losses imposed by LDC graduation and help seize the opportunities that may arise as a result of this graduation.

With this in mind, the dissertation is divided in two parts, each encompassing two chapters. **Part I** presents the conceptual and theoretical framework in which the question of Cape Verde's graduation is taking place. **Chapter I** presents a description of groups of countries in special situations, specifically LDCs, Small Developing States and Small Island Developing States (SIDS). Additionally, the cases of Landlocked Developing Countries (LLDC), mountain countries, post-conflict countries and Low Income Countries Under Stress (LICUS) are also briefly mentioned.

In **Chapter II** the notion of graduation is introduced, along with the three graduation criteria used by the UN, and relevant indicators of structural progress. Questions are also raised regarding the soundness of the current graduation rule, an issue that has been debated within and outside the UN. In addition, the World Bank's definition of Middle-income Countries (MICs) is presented, as well as the main geographic, demographic and economic characteristics of these countries. Part I ends with a presentation of the case of Botswana, the first and only country that ever graduated from LDC category, in 1994.

Part II is devoted to the case of Cape Verde, aiming at understanding the impacts of graduation from the LDC list. **Chapter III** starts with the country's historical background, with particular emphasis on political, social and economic matters. It also presents a diagnosis of the country's macroeconomic situation and the figures behind the economic growth and social development it has recorded since becoming independent from Portugal, in 1975. Particular attention is focused on the role of Official Development Assistance (ODA) and emigrants' remittances, given the significance of these sources of external funding in Cape Verde's development and economic growth. The role currently played by Foreign Direct Investment (FDI) is also briefly mentioned, in an attempt to highlight the role of the private sector in the country's economic development.

In **Chapter IV**, the background of Cape Verde's graduation process and the current situation regarding the three graduation criteria are presented. The expected changes following Cape Verde's exit from the LDC category are also mentioned, as well as aspects related to the need to overcome aid dependence. Additionally, issues related to the three-year transition period, which ends in December 2007, are debated, namely the role of international partners in helping to guarantee Cape Verde's smooth transition in losing LDC treatment. The post-graduation experience of Botswana is also discussed and, lastly, policy recommendations expected to help Cape Verde do without LDC treatment.

PART I

CONCEPTUAL AND METHODOLOGICAL CONTEXT

THE LOGIC BEHIND INTERNATIONAL COUNTRY GROUPING AND THE MECHANICS OF GAINING ACCESS TO AND GRADUATING FROM LDC STATUS

CHAPTER I

COUNTRIES IN SPECIAL SITUATIONS

This chapter (specifically sections 1, 2 and 3) presents a description of some groups of countries in special situations, namely Least Developed Countries (LDCs), Small Developing States and Small Island Developing States (SIDS). The purpose is to highlight the development constraints of these countries, and to introduce the concept of economic and environmental vulnerability – the consideration of which is, indeed, decisive in designing and implementing sound development strategies and effective international cooperation programs.

The cases of Landlocked Developing Countries (LLDC), mountain developing countries, post-conflict countries and Low Income Countries Under Stress (LICUS) are also briefly mentioned in section 4, representing examples of other special situations.

1. Least Developed Countries

1.1. The Establishment of the LDC Category

In general terms, LDCs can be defined as low-income countries with low human capital and high economic vulnerability. Conscious of the many economic disadvantages faced by these poor countries, the United Nations (UN) created, in 1971, through its Committee for Development Planning[2], the LDC category. The establishment of the LDC list was primarily intended at providing these countries with conditions – namely, international advocacy of special and differential

2 Later succeeded by the current Committee for Development Policy (CDP).

treatment for LDCs - that would enable them to compete, on equal or at least improved terms, with more advanced countries. Hence, the LDC list was created in recognition of the many disadvantages faced by these countries, which tend to greatly inhibit their ability to promote sustainable development. In other words, the fundamental purpose of instituting the LDC category was "to ensure a level playing field in the arena in which small as well as large nations of the world engage one another."[3]

With the inclusion of Timor Leste in 2003, today the LDC list is composed of a total of 50 countries[4], spanning three continents (Africa, Asia Pacific and the Middle East), with Africa clearly assuming the lead since 34 out of 50 LDCs are, in fact, African countries, representing, therefore, 68% of the list.

Since its establishment in 1971, periodic reviews of the LDC list have been made. In the 2006 triennial review of the list of LDCs, and following recommendations made by the UN Committee for Development Policy (CDP), the Economic and Social Council of the United Nations (ECOSOC) used the following three criteria for the identification of LDCs:

- A *low-income* criterion, based on a three-year average estimate of *per capita* Gross National Income (GNI), according to which a country is included in the LDC category if its *per capita* GNI falls under $750 and graduated if it raises above $900;
- A *human resource weakness* criterion[5], measured through a Human Assets Index (HAI) that includes indicators of nutrition, health, education and adult literacy;
- An *economic vulnerability* criterion, measured through an Economic Vulnerability Index (EVI) based on the following indicators: (i) instability of

3 Baldwin Spencer, Antigua and Barbuda Prime Minister, address to the 59th UN General Assembly, September 2004

4 Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

5 Prior to the 2000 triennial review, this criterion was called Augmented Physical Quality of Life Index (APQLI)

agricultural production; (ii) instability of exports of goods and services; (iii) the economic importance of non-traditional activities, i.e. the share of manufacturing and modern services in Gross Domestic Product (GDP); (iv) merchandise export concentration; (v) the handicap of economic smallness, measured through population size; (vi) the proportion of people displaced by natural disasters; and (vii) the country's remoteness. In this regard, it is important to stress that the CDP "does not consider that vulnerability caused by government policies should be taken into account"[6].

According to the CDP, in order for a country to be added to the LDC list, it must meet all three criteria mentioned above. In addition, its population size must not exceed 75 million people – a rule explicitly adopted by the CDP in 1991[7]. The UN expects the development partners of LDCs to take into account (through aid and other development instruments) the structural handicaps LDCs have to deal with.

The CDP also recognizes that the establishment of LDC qualification criteria is a work-in-progress, as knowledge of issues evolves and new data become available. In fact, the criteria for inclusion on the LDC list have been reviewed in many instances. The CDP "emphasizes that the identification of least developed countries should be viewed as a dynamic and open process, requiring periodic refinement of the criteria, in the light of socio-development and ongoing improvements in and the availability of reliable and internationally comparable data"[8].

In particular, the CDP acknowledges that one of the key indicators it uses, the EVI, needs "to be refined progressively, as to its content, and (…) be supplemented by the consideration of other important elements of vulnerability which (…) are not yet taken into account"[9]. For example, there was once a discussion, within the CDP,

6 CDP (2004): 15

7 Only one country with a large population (Bangladesh) was ever added to the list (in 1975).

8 CDP (2004): 15-16

9 UNITED NATIONS (1999): 15

on whether or not an e-readiness criterion should also be added to the set of indicators for determining the list of LDCs, given the importance of Information and Communication Technologies (ICT) in promoting development and eradicating poverty.

1.2. Positive Discrimination: Benefits Associated with LDC Status

As previously stated, the main purpose of establishing the LDC category is to guarantee that these countries will have access to international support measures that help them overcome their structural handicaps and, therefore, make possible (or at least facilitate) the accomplishment of sustainable development. As stated by the CDP in 1999, "least developed countries are low-income developing countries that are in need of specific international measures to remove the handicaps constraining their development"[10].

The "benefits associated with the least developed country status are believed to fall into three main areas: multilateral trade; finance for development; and technical cooperation"[11]. More specifically, LDC status is known to offer special treatment in the following areas:

- Official Development Assistance (ODA)[12];
- Preferential market access for LDC products;
- Exemption from obligations (and other special and differential treatment) in implementing World Trade Organization (WTO) agreements; and
- Access to special measures and programs of technical assistance offered by various international agencies, notably the International Monetary Fund (IMF), the International Trade Center (ITC), UN Conference on Trade and Development (UNCTAD), UN Development Program (UNDP), the World

10 UNITED NATIONS (1999): 13

11 ECOSOC (2001): 2

12 ODA includes three components: financial assistance (grants and concessional loans), technical support and food aid.

Bank (WB) and WTO, under the Integrated Framework for Trade-Related Technical Assistance to LDCs[13].

According to JOHNSON (2006), the benefits granted by multilateral organizations include "non-reciprocal preferences, exemption from the obligation to reduce trade barriers, and favorable treatment for certain LDC exports"[14], with the European Union's Everything But Arms (EBA) Initiative[15] and ACP Agreements representing concrete examples. In addition, LDCs also receive significant benefits from bilateral arrangements, including the United States' African Growth and Opportunity Act (AGOA)[16].

It is also known that "concessionary financing is generally allocated under cooperation schemes that do not refer (or refer only marginally) to the LDC status as an operational determinant of the eligibility for aid."[17] This is to say that, contrary to what would be expected[18], the main determinant of the aid received by LDCs is not their status as such. In fact, according to UNCTAD, the impact LDC status has had on the attribution of ODA to LDCs is difficult to estimate and, by and large, believed to have been limited[19]. Most ODA inflows and other financial transfers have been determined under criteria other than LDC status, with *per capita* income – along with political stability and the countries' creditworthiness – being by far the most important criterion considered by international donors when deciding where to allocate ODA[20].

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13 The Integrated Framework for Trade-Related Technical Assistance to least-developed countries (IF), in effect since 1996, is a multi-agency, multi-donor program that assists least developed countries to expand their participation in the global economy by enhancing their economic growth and poverty reduction strategies. The participating agencies are IMF, ITC, UNCTAD, UNDP, World Bank and the WTO (www.integratedframework.org).

14 JOHNSON (2006): 5-6

15 Under this Initiative, which entered into force on March 2001, LDC exports to the EU are duty-free, with the exception of armament.

16 Provides duty-free access to the US market for over 65.000 products from eligible African countries.

17 UNCTAD (2002): 4

18 Given the international community's acceptance of and commitment towards the implementation of instruments such as the Brussels Program of Action for LDCs and the Monterrey Consensus, which advocate the allocation of 0.7% of the GNI of donor countries to ODA, of which 0.25% should be directed at LDCs.

19 UNCTAD (2002): 4

20 idem, ibidem

Consequently, up until 2002, UNCTAD had estimated that, as low-income countries, a total of 42 LDCs and 23 non-LDCs had benefited from several concessionary financing facilities, "a treatment which (…) seven 'lower-middle-income' LDCs cannot necessarily expect"[21], despite their status.

All in all, there is a gap between international support measures (supposedly) due to LDCs and the actual benefits that international development partners grant to these countries, with discrepancies mainly in the field of development financing. Inconsistencies between what has been pledged to LDCs and what has actually been implemented are also recognized in areas such as market access and technical assistance, which have not been put into practice as fully, or as promptly, as anticipated. Moreover, trade preferences granted by virtue of LDC status have remained underutilized due to obstacles such as non-tariff barriers.

2. Small Developing States

2.1. An Attempt at Defining small States: The (Inevitable) Relativity of Size

When measuring the size of countries, in order to determine smallness thresholds (i.e., to decide what exactly constitutes a small country), the existing literature takes into account the following economic and geographic indicators: (i) population size, (ii) GDP, (iii) geographical area, and (iv) the country's terms of trade. However, since dimension and size are, according to READ (2001), relative concepts, no particular definition of small States has ever been agreed upon. This is also because the concept of size will greatly depend on the issues being considered.

Studies undertaken by the COMMONWEALTH SECRETARIAT (2000) have concluded that "no definition, whether it be population, geographical size or

21 UNCTAD (2002): 4

GDP, is likely to be fully satisfactory”[22]. As a matter of fact, “the dividing line between small and large countries changes throughout history, as population grows, and on the other hand, as the number of countries changes”[23].

As a result of the lack of a consensual definition of smallness, random cut-off points and less-than-rigid boundaries have been employed by different authors throughout the years, to differentiate between small and large states[24]. For example, the Commonwealth Secretariat recognizes the existence of a total of 45 small States[25].

The truth of the matter is that small developing countries in general – be they micro States[26] (with a surface area no larger than 1,000 km²) or very small States – do share a lot of the same smallness characteristics and economic constraints.

Despite the lack of consensus regarding the definition of small States and the disagreements around the determination of smallness threshold, it is commonly accepted that many of the following characteristics are present in most small States, which explain their development challenges and vulnerabilities: small population, limited natural resources, small-sized internal market, deficient domestic capacities, scarce domestic demand, limited production diversification, vulnerability, weak institutional arrangements, remoteness and insularity, propensity to natural disasters, openness, access to external capital, income instability and poverty.

Indeed, most small States present several common characteristics, the understanding of which will facilitate the implementation of development and poverty reduction policies. It is, however, important to keep in mind that, despite the above-mentioned commonalities, small States are a very diverse group. Consequently, it would be difficult to develop a one-size-fits-all theory dedicated to

22 COMMONWEALTH (2000): 3

23 PEREIRA (2005): 8

24 For further details see PEREIRA (2005): 8 - 10

25 There are 12 small states in the Caribbean, 14 in East Asia and the Pacific, 12 in Africa, 2 in South Asia, 2 in the Middle East and 3 in Europe. Also note that in the LDC list there are 15 small states (See Table 1. List of LDCs, small States and SIDS).

26 See Table 2. Developing Micro States (13)

these countries. In fact, experience shows that "each small state is unique and needs to address its development prospects in the context of its own cultural, historical and social realities"[27]. For this reason, policy options will, necessarily, have to be customized to specific regional and country circumstances[28].

2.2. The Impact of Size on Economic Growth

It is commonly acknowledged that small countries experience considerable hurdles to economic growth, often enjoying lower long-run rates of economic growth than larger countries, specifically because of their size[29].

For example, on the above-mentioned LDC list, composed of a total of 50 countries, 16 are considered small States, representing around one third of the LDC category (32%). For these countries, development constraints may be more critical than for LDCs with a larger land mass. In fact, small States' economic structure "is adversely affected by their difficulty in achieving sufficient economies of scale in a wide range of basic economic activities"[30].

In addition, the *small size of the domestic market*, the *limited domestic resource base* and the *narrow structure of domestic output, exports and export markets* are all negative aspects that small economies have to, forcibly, deal with[31]. Hence, generally speaking, small size is considered an impediment to economic growth since it renders small states sub-optimal in economic terms[32].

According to READ (2001), the imperfect market approach provides the theoretical framework that explains the economic sub-optimality of small States, notably the critical negative impacts of *diseconomies of scale*, *indivisibilities*

27 PEREIRA (2005): 6
28 COMMONWEALTH (2000): 5
29 READ (2001): 18
30 READ (2001): 13
31 READ (2001): 14-16
32 READ (2001): 13

(namely in the provision of public services), *lack of both efficiency and competitiveness*, and *diseconomies of scope*. These are factors that greatly curtail small States' ability to undertake sound and reliable economic activities. As a result, in small States it is common for a relatively large proportion of the economic activities to be based in the public sector[33].

Small States are also known to have a structural, intrinsic *openness to trade*. This is because smaller economies tend to rely heavily on external trade and on foreign investment in order to overcome their scale limitations[34]. In fact, the "high degree of trade intensity, necessary because of their critical dependence on both imports and exports, requires small states to ensure that they are internationally competitive" [35]. For this reason, small States are known to be more prone to maintaining growth-conducive, export-friendly policies than large economies, reaping (with the implementation of these policies) significant gains from trade.

However, it is also true that small economies' openness to trade, though a strength, "cannot completely offset the adverse effects of small size because of the increased exposure to exogenous shocks"[36]. Related to exogenous shocks is the fact that small economies in general "have a limited ability to influence domestic prices, a situation that combined with other factors (…) results in a high exposure to international economic conditions"[37]. Additionally, small States' growth rates tend to be volatile, since these countries face a relatively higher external exposure[38].

In fact, the "general view of the literature is that ***any potential advantages*** for small states conferred by their small size ***are greatly outweighed*** by their inherent

33 COMMONWEALTH (2000): 6
34 Idem, ibidem
35 READ (2001): 17
36 Idem, ibidem
37 PEREIRA (2005): 28
38 PEREIRA (2005): 21

disadvantages. This suggests that small states are likely to experience challenges in generating and sustaining economic growth relative to larger states”[39].

Evidence shows that, ***to be able to guarantee economic robustness, the size of a country does matter. Smallness presents countries with inherent adverse effects***, in terms of their economic performance and integration into the world economy, imposed primarily by disadvantages related to the size of the territory and, consequently, low population density.

According to READ (2001), the viability of small States was strongly contested by a number of early studies, which argued that the economic challenges these countries are forced to deal with – namely diseconomies of scale – are so great that their independence should not even be considered. However, experience has shown the exact opposite in many instances, with an increase in the number of independent small States. Fortunately, this pessimistic view “has not been borne out by the continued survival and prosperity of an increasing number of small states in the world economy”[40].

In reality, in spite of their small size, there are several cases of small States that have achieved, quite successfully, continued economic growth and reasonably high levels of *per capita* income. This reality “is reflected in disproportionately fewer small states (…) being found in the World’s Bank lowest income categories”[41].

Thus, it seems fair to infer that small size is, by no means, an insurmountable limitation on the economic growth of small countries. Be that as it may, it has to be recognized that the economic sub-optimality of small States inhibits their scope for output specialization and domestic policy autonomy[42]. It is also important to keep in mind that, statistically, there is no “significant difference in *per capita* incomes and

39 READ (2001): 17
40 READ (2001): 18
41 idem, ibidem
42 idem, ibidem

in economic growth rates between large and small states, indicating that other factors have offset the inherent disadvantages of small states' remoteness, small domestic markets, and public sector dominance of their economies"[43].

Social cohesion is also known to be a valuable characteristic of small States, with important economic implications. This cohesion can make possible and encourage "the formation of social capital through greater communal interaction leading to greater consensus in economic management and policy-making"[44].

In addition, it is believed that, exactly because of their small size, these countries tend to be more receptive to change and more flexible in their policy-making, which facilitates, to a great extent, economic growth[45]. On the other hand, it is somewhat worrisome to find out that the proximity between decision-makers and constituents, a result of the country's small size, can also stimulate "rent-seeking behaviour based upon family ties or clientelism"[46].

3. Small Island Developing States

3.1. Defining SIDS

Given their economic specificities[47] and the fact that these small and disperse masses of land are many around the globe; it is somewhat surprising to find out that "there is no clear definition for what constitutes an island-nation"[48].

Of the 50 LDCs, 15 are small States, 10 of which are considered small island developing States (SIDS)[49], thus representing 66% of small developing states in

43 COMMONWEALTH (2000): 6

44 READ (2001): 17-18

45 READ (2001): 18

46 Idem, ibidem

47 It is important to keep in mind that, since small island developing states (SIDS) are concurrently small developing states and island-nations, some of the characteristics highlighted in this section will, inevitably, overlap with the ones mentioned in the previous section.

48 SCHMIDT (2005): A 607

49 See Table 1. List of LDCs, Small Developing States and SIDS

general[50]. It is, therefore, fair to state that SIDS are a sub-group of small developing states.

The Alliance of Small Island States (AOSIS) – an *ad hoc* lobbying and negotiating group (created in 1990 at the 2nd World Climate Conference) that represents the interests of SIDS, be they LDCs or not, within the UN system – currently has, among members and observers, a membership of 43 countries and territories (including non-self-governing islands), representing 28% of the world's developing countries and 20% of UN the membership[51]. It is important to note that, "AOSIS members include Belize, Guinea-Bissau, Guyana, and Suriname, which are all coastal – although not technically island – nations"[52]. In addition, Cuba, with a population of 11.3 million, is also a member of AOSIS[53].

In addition to the AOSIS list of SIDS, which ENCONTRE (2004a) considers a *political list*, there is an *economic list* of SIDS (implicitly recognized by the UN and composed of 48 SIDS, including several non-self-governing territories), an *institutional list* of SIDS (46 SIDS identified by the UN Secretariat, including continental states and non-self-governing territories) and the *UNCTAD non-official list* of SIDS (composed of 29 SIDS, all self-governing)[54].

Notwithstanding the discrepancies in the definition of SIDS and absence of eligibility criteria to determine an internationally agreed SIDS list, it seems clear that ***island-nations are uniquely threatened by a number of economic shortcomings***, which oftentimes challenge their survival and independence. In addition to all the drawbacks mentioned in section 2.2 above, regarding the economic disadvantages of small States in general, SIDS are forced to deal with added constraints, given their insularity, remoteness and (sometimes) difficult

50 Note that in the LDC list alone, being them small states or not, 12 are SIDS, thus representing 24% of LDCs.
51 AOSIS' website: www.sidsnet.org
52 SCHMIDT (2005): A 607
53 Idem, ibidem
54 See Table 3. Three Different Lists (Economic, Political and Institutional) of SIDS and Table 4. UNCTAD's (non-official) List of SIDS.

accessibility. In fact, SIDS face the following constraints[55]: small size[56], remoteness and insularity, proneness to natural disaster, environmental fragility, high dependence on foreign financing sources and small population.

Remoteness is often translated into high (domestic and international) transportation costs, the lack of communication infrastructure, and the difficult access to information technology[57], which are factors that greatly reduce SIDS' competitiveness and export returns. These factors also increase the costs of imports, leading to considerable consumer losses. This situation results from the fact that many island-nations are located at large distances from the world's major markets and from research and development centers. However, "one positive aspect of remoteness is that some isolated small states have entitlements to vast areas of the ocean, through the designation of Exclusive Economic Zones"[58].

Natural disaster propensity and environmental fragility are particular characteristics of SIDS, which are often threatened by floods, hurricanes, tsunamis, typhoons, droughts, desertification and dangerous volcanic activity. When these natural phenomena strike small islands (as they regularly do), more often than not, they result in "severe economic disruption through infrastructure damage and production and export losses"[59].

As a result of "the catastrophic nature of many of these disruptions, considerable income and development opportunities are regularly forgone"[60]. For instance, the Indian Ocean tsunami that struck Maldives in December 2004 resulted (according to a joint assessment by the WB and the Asian Development Bank) in the loss of roughly 60% of its GDP[61]. This was mainly due to the negative impact of the

55 PEREIRA (2005): 48

56 This aspect (the economic implications of small size, that is) has been extensively considered in the previous section. However, it is imperative to stress the fact that the many economic disadvantages of small size are exacerbated in the case of SIDS, due primarily to their insularity.

57 SCHMIDT (2005): A 608

58 http://wbln0018.worldbank.org/html/smallstates.nsf/(attachmentweb)/MoreonWhatMakesSSDifferent/$FILE/MoreonWhatMakesSSDifferent.pdf

59 COMMONWEALTH (2000): 11

60 Idem, ibidem

61 http://siteresources.worldbank.org/INTMALDIVES/Resources/mv-na-full-02-14-05.pdf

event on the tourism sector, which compelled the UN to suspend its earlier recommendation to graduate Maldives from the LDC category.

Other problems SIDS have to deal with include the fast deterioration of agricultural land, the growing demand for non-renewable resources, a high ratio of coast line to land area, the prejudicial use of coastal areas for tourism purposes, excessive fishing activity and the shortage of natural resources, including drinking water. Additionally, the rise in sea level – a direct consequence of global warming – imposes serious threats to the very existence of SIDS[62].

The *high dependence of SIDS on foreign financing sources* is another worrisome characteristic that merits close attention, especially because "development aid to island-nations decreased from a high of US$ 2.3 billion in 1995 to US$ 1.7 billion in 2005"[63].

The effects of SIDS' *small population* include the existence of a relatively small pool of skilled workers, a high population density (leading to a high demand on resources), and a higher propensity to large-scale emigration (leading to massive brain drain), which deprives these countries from much-needed human resources.

As a result of emigration, SIDS are also known to be the recipients of considerable inflows of emigrants' remittances. Positive aspects benefiting SIDS also include the following: a higher life expectancy at birth, higher rates of literacy, and political stability.

3.2. On the Concept of Vulnerability

Vulnerability has been defined as "the potential for attributes of any system, human or natural, to respond adversely to events"[64] or, in simpler terms, as "the risk

62 For more details on this issue, see Section 3.2.2. Emphasis on Environmental Vulnerability: The Threat of Climate Change
63 SCHMIDT (2005): A 608
64 UNEP, SOPAC (2005): 4

of being negatively affected by shocks”[65]. These shocks, which can be *endogenous* or *exogenous* in nature, have also been referred to as ‘negative unforeseen events’ and can result, essentially, from: (i) *environmental phenomena*, namely earthquakes, prolonged droughts, hurricanes, tidal waves, locust invasions, volcanic activity, etc., (ii) *economic distresses*, uncontrollable by national authorities, such as a rapid decline in the international price of a country’s main export product, fluctuations in interest rates on international capital markets or reduced access to credit[66], (iii) *political instability* or (iv) *social pressures*, caused, for example, by an increase in criminal activities, worsening of the public health system, deterioration of public infrastructures, brain drain, among others.

It is important to note that, contrary to economic and environmental shocks, political and social instability are vulnerabilities generated primarily by endogenous factors.

According to recommendation from the CDP, there should be a distinction between *economic vulnerability* and *ecological fragility* (i.e., vulnerability of the ecosystem), though ecological factors often exacerbate economic vulnerability[67]. In addition, “an important distinction should be made between *structural* vulnerability, which results from factors that are relatively impervious to national policies, and the vulnerability deriving from economic policy, which results from choices made in the recent past, and is therefore *conjunctural*.”[68]

Small States are known to be particularly vulnerable to exogenous, unforeseen events and SIDS are even more so. In fact, according to ENCONTRE (2004), “smallness is the most significant factor of economic vulnerability, which is based on the argument that permanent structural handicaps are crippling factors of economic vulnerability of no lesser importance than external shocks beyond

65 UNITED NATIONS (1999): 6
66 idem, ibidem
67 UNITED NATIONS (1999): 13
68 UNITED NATIONS (1999): 14

control". READ (2001) is also clear in pointing out that small States in general are "more vulnerable to external economic, strategic and environmental events over which they have little, if any, control"[69].

As a result, the "vulnerability hypothesis", referred by READ (2001) asserts that small States are subject to disproportionately greater instability than larger states, possessing fewer resources to alleviate negative shocks[70]. For this reason, there are higher costs and risks in attempting to promote growth and development in small States in general, and in SIDS in particular, which can only be partially offset by appropriate endogenous strategies[71].

In the case of SIDS, their vulnerability results essentially from structural factors, given their isolation and higher-than-average propensity to natural disasters, worsened by their intrinsic income volatility, resulting from low diversification in production and trade and high export dependence. According to data presented by the CDP in 2003, ***24 of the 33 most vulnerable states are island-nations***[72], which is to say that 72% of the most vulnerable states are SIDS. In addition, according to ENCONTRE (2004), evidence collected by CDP has shown that SIDS are economically more vulnerable[73] than non-SIDS developing countries by 17.5%[74].

Thus, the CDP "has fully recognized that small countries are economically more vulnerable to external shocks than large ones because their economies are heavily dependent on external trade, are less diversified and suffer from diseconomies of scale. In particular, most small islands and landlocked least developed countries face a range of structural handicaps, such as high international transportation costs and relative isolation from major world markets"[75]. For this

69 READ (2001): 26
70 idem, ibidem
71 READ (2001): 26
72 ENCONTRE (2004): 80
73 Measured by the UN Economic Vulnerability Índex. See Section 3.2.1. Economic Vulnerability Index: Timetable and Considerations Regarding its Emergence
74 ENCONTRE (2004): 79
75 CDP (2004): 18

reason, vulnerability management, especially in SIDS, is considered a critical element of any trustworthy sustainable development policy.

3.2.1. Economic Vulnerability Index

The economic vulnerability of poor and structurally handicapped countries has been acknowledged since 1971, the same year that the LDC category was established. However, it was not until the early 1990s that the idea of measuring economic vulnerability, through the construction of an index, came to fruition.

In 1991, at the International Conference on Islands and small States, held in Malta, the need to construct a vulnerability index to highlight the special problems of small States, and the special treatment they consequently deserve, was formally recognized.

The following year, UNCTAD commissioned a study to explore the feasibility of constructing an Economic Vulnerability Index (EVI), a subject that was discussed during a meeting of experts on island developing countries, held in Geneva in July 1992.

In 1994, the outcome of the Global Conference on the Sustainable Development of SIDS, namely the Barbados Programme of Action for the Sustainable Development of SIDS, recognized the need to adopt an EVI, “a tool that was expected to demonstrate that SIDS were generally more vulnerable than other countries”[76]. However, this Programme of Action “did not elaborate on the envisaged use of such an indicator”[77].

Three years later, faced with the prospect of being graduated from the LDC category (and, hence, having to forego the special treatment associated with that status), Vanuatu (both an LDC and a SIDS) called, at the UN General Assembly, for

76 ENCONTRE (2004): 73
77 ENCONTRE (2004): 75

the construction of a vulnerability index to be used as a criterion for identifying LDCs[78]. Consequently, UN General Assembly resolution A/52/210 of 18 December 1997 and ECOSOC resolution 1998/39 of 30 July 1998 were adopted, withholding Vanuatu's graduation and requesting the CDP to assess the usefulness of constructing such an index[79]. This, in turn, led to the "introduction of this criterion in the methodology for reviewing the list of LDCs"[80], with the CDP proposing, in replacement of the Economic Diversification Index (EDI) (used since 1991), the establishment of an EVI.

As a result, in 2000, the EVI developed by the UN, initially integrating a simple weighted average of five components[81], was first developed by the CDP for that year's review of the list of LDCs. UNCTAD was instrumental in persuading the CDP and relevant intergovernmental bodies that a criterion of economic vulnerability should be introduced in the methodology for identifying LDCs.

The EVI evolved over the years. It now includes individual indicators relevant to: instability of agricultural production, instability of exports of goods and services, the share of the primary sector in GDP, merchandise export concentration, population size, and the proportion of people displaced by natural disasters.

In academic circles the "dominant methodology for the measurement and empirical analysis of vulnerability is based on (…) an index, originally developed by Briguglio"[82], in 1995[83]. This index, initially a weighted composite measure of three central causes of vulnerability, namely small size (comprising 50% of the total weight), insularity/remoteness and propensity to natural disasters[84], was intended to take into account the particular problems faced by small countries. This index has

78 See Section 1.1. The Establishment of the LDC Category

79 ENCONTRE (2004): 73

80 ENCONTRE (2004): 75-76

81 Namely, the instability of agricultural production, the instability of exports of goods and services, the share of manufacturing and modern services in GDP, export concentration and population size.

82 READ (2001): 27

83 BRIGUGLIO, L. (1995), "Small Island Developing States and their Economic Vulnerabilities." World Development, 23(9), 1615-1632

84 Measured by openness to trade, the share of transport costs in trade and the cost of natural disasters, respectively.

evolved since then, incorporating components such as economic openness, dependence on a narrow range of exports, dependence on strategic imports, peripherality, economic vulnerability and resilience[85].

Briguglio's initial approach has also been the base of the work first developed, in 1998, by the Commonwealth Secretariat in creating its own economic vulnerability index, which includes the following variables: income volatility, export concentration, export dependence, the effect of natural disasters and GDP to measure resilience[86].

In 2003, Briguglio, together with Galea, played, yet again, the leading role in another important development, constructing a Vulnerability Index Adjusted for Resilience, "in which 50% of the weight is assigned to the vulnerability components and 50% to the resilience component (usually GDP *per capita* adjusted for PPP)"[87].

Contrary to Briguglio's and the Commonwealth Secretariat's economic vulnerability indexes, the UN's EVI was developed with the purpose of identifying LDCs and, therefore, cannot be "freely applied to SIDS"[88]. For example, according to the Commonwealth Secretariat's index, nearly all SIDS are considered highly vulnerable, while the UN index places islands such as Fiji, Maldives, Barbados, Jamaica and Mauritius among the 50 least vulnerable states[89]. It is, therefore, important for policymakers to keep these methodological issues in mind when measuring the economic vulnerability of countries, as the application of different indexes will, necessarily, generate different, and at times contradictory, outcomes.

The CDP is currently "considering how the notion of remoteness of countries could be included in the economic vulnerability criterion (…). Noting the

85 PEREIRA (2005): 45
86 READ (2001): 28
87 PEREIRA (2005): 46
88 PEREIRA (2005): 44
89 READ (2001): 28

importance of e-readiness for development, the Committee will also reflect on whether that factor might be taken into account”[90].

3.2.2. Environmental Vulnerability: The Threat of Climate Change

According to UNEP, SOPAC (2005), the environment is “unequivocally the life support system for all human endeavours”[91]. Thus, although an unquestionable global threat, climate change is a serious and potentially catastrophic problem for SIDS, given their inherent ecological fragility. For island-nations in particular, the worrisome fact is that, due to global warming, “the average global sea level rise has increased 50% during the past 12 years”[92]. If this trend continues, in a worst-case scenario, it is estimated that the lives of more than 100 million people, specifically from island-nations and coastal communities, would be negatively affected as these countries would simply be irreversibly flooded[93], which would challenge their very existence.

As a matter of fact, “recent human history contains examples of entire islands rendered uninhabitable through environmental destruction owing to external causes (…)”[94]. Therefore, “low-lying islands are especially vulnerable to the effects of hurricanes and typhoons while global warming and a rising sea-level will affect their long-term habitability”[95].

In addition, research from the Massachusetts Institute of Technology (MIT) indicates that “hurricanes in both the Atlantic and Pacific Oceans have become 50% stronger during the last 50 years”[96], which explains the reason why, lately, many SIDS have been battered by storms of increased ferocity.

90 CDP (2004): 18-19
91 UNEP, SOPAC (2005): 2
92 SCHMIDT (2005): A608
93 idem, ibidem
94 UNITED NATIONS (2004): 7
95 READ (2001): 27
96 SCHMIDT (2005): A608

The truth is that, because of global warming, weather events have become considerably more intense, greatly worsening SIDS' vulnerability to climate change and seriously deteriorating the already fragile economic situation of these countries. This is especially true when we consider other consequences of global warming, namely "changes in agriculture and food production, biodiversity loss, damage to coastal reef (…), saltwater intrusion to coastal aquifers (making potable water production more expensive), and increases in certain disease vectors due to increased humidity"[97]. In fact, "environmental factors are of particular importance to islands and archipelagos in that their unique eco-systems and bio-diversity are highly sensitive to environmental encroachments"[98]. Additionally, according to the UN, it is known that during the 1990s, SIDS became more vulnerable mainly due to climate change and sea level rise[99].

Furthermore, SIDS also experience the exhaustion of natural resources, namely minerals, forests, freshwater and fish stocks, and oftentimes bear the costs that result from the international community's failure to effectively and assertively take action on climate change[100].

Therefore, faced with the threat of all these negative environmental shocks, SIDS must, somehow, learn not only to adjust to climate change and overcome their vulnerabilities (environmental and others), but do so at a faster speed than other countries, which given their lack of resources does not constitute an easy task. In fact, the Barbados Program of Action, adopted in 2004, recognizes that "the difficulties they face in the pursuit of sustainable development are particularly severe and complex"[101].

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97 SCHMIDT (2005): A609

98 READ (2001): 27

99 PEREIRA (2005): 62

100 PEREIRA (2005): 63

101 UNITED NATIONS (2004): 7

In this context, it is also important to stress that even though ***SIDS tend to be the group of countries more seriously threatened by climate change***; northern developed countries are to blame for the current environmental devastation. In addition, the current state of harmful environmental events indicates that the world has in fact reached the end of a development and economic growth model based exclusively on fossil fuel energy, first started with the industrial revolution.

3.2.3. Overcoming Vulnerability and Building Resilience

Resilience can be defined as a country's ability to resist damaging impacts or, in other words, its ability to effectively cope from negative shocks or hazards. Therefore, resilience is the ability to prevent the negative effects of vulnerability. Vulnerability and resilience are, therefore, the two sides of the same coin: if a country is highly vulnerable, it probably has low resilience, and vice-versa.

It is indeed recognized that small developing countries in general, and SIDS in particular, are more vulnerable than other countries, and therefore less resilient to external shocks. Resilience can be inherent or nurtured, when it results from what can be referred to as deliberate coping policies, purposely developed and implemented to manage and overcome vulnerabilities.

In the case of SIDS, due to their small size and human and natural constraints, the capacity to absorb the effects of hazardous events tends to be extremely limited. For this reason, "the effects of hazards will be more pronounced and cause greater damage in SIDS"[102].

102 PEREIRA (2005): 64

3.3. In Search of SIDS-Specific Special and Differential Treatment

In multilateral circles, it is somewhat consensual (although not always explicit) that special and differential treatment is essential for SIDS, given their particular vulnerabilities and structural inability to, autonomously, overcome negative shocks, build resilience and promote sustainable development. Thus, "islandness is generally appreciated by the international community as an economic disadvantage"[103] that deserves special attention.

According to ENCONTRE (2004), there is, therefore, "a legitimate question relating to the aim of promoting fair differentiation in the special treatment of developing countries, with particular reference to countries with highly vulnerable economies, such as SIDS"[104]. ENCONTRE (2004) goes on, reminding that to some advocates "of a more differentiated special treatment of SIDS, there ought to be a measurement of island-specific handicaps if the plea for special consideration and special treatment is to gain credibility, and if appropriate responses to these handicaps are to be developed"[105].

The concept of economic vulnerability has not been used (at least not systematically by major bilateral and multilateral donors) as an operational criterion to determine the eligibility for special treatment in the field of ODA concession or in any other development area. In order to effectively establish a link between special problems and adequate responses, and achieve progress toward appropriate international support measures, "a prerequisite is that the beneficiaries be systematically defined, on the basis of criteria"[106] – which is not currently the case, given the lack of an internationally agreed definition of SIDS.

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103 ENCONTRE (2004a): 92
104 ENCONTRE (2004): 74
105 idem, ibidem
106 ENCONTRE (2004a): 91

Within the multilateral trading system, small WTO member states have made efforts to gain special concessions on grounds of smallness and vulnerability. However, the acknowledgment of these constraints and of the special and differential treatment they should trigger within the framework of international cooperation, "has not been supported by any significant move to define or measure, through criteria or threshold, who is vulnerable"[107] in the WTO.

In the UN the concept of vulnerability has been relatively well accounted for. In fact, the UN is the only international organization "that made vulnerability an operational criterion with direct implications for the treatment of relevant countries (through the methodology for determining the list of LDCs)"[108], which is certainly beneficial for SIDS that are concurrently LDCs, since this recognition will, theoretically, prompt the concession of several international benefits.

However, for SIDS that are not LDCs, the recognition of development constraints imposed by their islandness will have little effect on how they are treated by the international community, since their SIDS condition alone will guarantee little special support. In short, poor SIDS benefit from differential treatment only because of their LDC status, not as SIDS *per se*. ***The special handicaps of non-LDC SIDS are still not adequately addressed or accounted for***, at least not explicitly in terms of support from the international community.

SIDS have been supported by international partners essentially through "North-South arrangements such as those maintained by the European Union to benefit ACP countries, or by the United States in favour of specific regions involving island States (e.g. through the Caribbean Basin Initiative)"[109]. Apart from the World Bank's small island exception[110] and the EU-ACP Agreement[111] (which

107 ENCONTRE (2004): 74

108 idem, ibidem

109 ENCONTRE (2004a): 92

110 This exception reflects the recognition, by the World Bank, that SIDS typically have to deal with higher transportation costs, fewer opportunities to pursue economies of scale and severe human capital constraints because of their small size and small populations. Thus, the small island economy exception permits the provision of IDA resources to small island economies, with *per capita* income above the operational cut-off for IDA eligibility.

envisages special treatment for ACP countries that are SIDS), not much has been done to convert "the recognition of SIDS-specific issues into (…) SIDS-specific concessions, although this specificity has been advocated and sought by SIDS"[112].

In short, the lack of an internationally agreed "definition of the SIDS category has been the most fundamental reason for which countries that claimed to fall in that category were not able to gain special treatment on grounds of 'small islandness'"[113].

3.4. The "Island Paradox"

The "Island Paradox" lies in the fact that despite SIDS' many handicaps and vulnerabilities – namely remoteness and insularity, environmental fragility, high dependence on foreign financing sources, lack of natural resources and economic constraints resulting from their small size – when compared to other countries, SIDS tend to do relatively well in terms of economic growth performance, measured by *per capita* GDP.

In fact, "SIDS often appear relatively prosperous on the basis of the *per capita* income criterion (…). However, they are generally among the most economically handicapped and vulnerable countries, and for this reason, they are often among those least prepared to face the impact of graduation (…)"[114].

This is to say that, SIDS' economic performance can be misleading in the sense that it 'covers up' some permanent structural handicaps that can seriously hamper development in these countries. Therefore, a system of special and differential treatment based exclusively on income indicators may not be appropriate

111 The Cotonou Agreement allows the implementation of specific measures benefiting landlocked and island ACP countries.

112 ENCONTRE (2004a): 92

113 idem, ibidem

114 UNCTAD (2002a): 9

for SIDS, because, it will not account for the structural developmental impediments imposed by insularity, and therefore will not capture SIDS' real needs.

The truth is that the relative prosperity of several SIDS is, for the most part, explained by the growth of tourism and the increase in remittance inflows that, nonetheless, do not reduce their economic vulnerability nor induce significant structural progress in these countries[115].

The "Island Paradox" tends to blind the international donor community, which sees the relatively high income level of SIDS and moves its attention from SIDS to other countries with lower income, though not more structurally handicapped. Overall, the "Island Paradox" reflects the limitations and imperfections of the current special and differential treatment of developing countries by the international community, demonstrating that it is "insufficiently 'differential' in its attempt to deal with the specific problems of vulnerable economies"[116].

4. Other Special Situations: Landlocked, Mountain, Post-Conflict Countries and Low-Income Countries Under Stress

Aside from the LDCs, small developing States and SIDS, there are other countries in special situations. In this section, we will briefly mention four other examples, namely, landlocked developing countries (LLDCs), mountain countries, post-conflict countries and low-income countries under stress (LICUS).

Regarding *LLDCs*[117], it is important to recognize that "the lack of territorial access to the sea, aggravated by remoteness from world markets, and prohibitive transit costs (…) continue to impose serious constraints on export earnings, private

115 ENCONTRE (2004): 95

116 UNCTAD (2002a): 9

117 Afghanistan*, Armenia, Azerbaijan, Bhutan*, Bolivia, Botswana, Burkina Faso*, Burundi*, Central African Republic*, Chad*, Ethiopia*, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic*, Lesotho*, Malawi*, Mali*, Republic of Moldova, Mongolia, Nepal*, Niger*, Paraguay, Rwanda*, Swaziland, Tajikistan, The Former Yugoslav Republic of Macedonia, Turkmenistan, Uganda*, Uzbekistan, Zambia*, Zimbabwe (* Also LDCs).

capital inflow and domestic resource mobilization (…) and therefore adversely affect their overall growth and socio-economic development"[118]. Thus, being landlocked imposes significant economic burdens on these countries, which, in turn, contribute to increased poverty and adverse effects on development.

Despite technological improvements in transport, LLDCs continue to face structural challenges that greatly inhibit their access to world markets[119]. As a result, these countries "often lag behind their maritime neighbours in overall development and external trade"[120], since higher transport costs substantially corrode the competitive edge of LLDCs. According to UNCTAD, LLDCs spend, on average, nearly two times more of their export earnings for the payment of transport and insurance services than other developing countries, and three times more than developed countries[121].

Among developing countries, LLDCs present some of the poorest growth rates and "are heavily dependent on a very limited number of commodities for their exports. As a matter of fact, of 31 LLDCs 16 are classified as least developed"[122].

The Almaty Programme of Action, agreed upon by the international community in 2003, sets priorities that, if implemented, are expected to reduce the costs faced by LLDCs (primarily due to their geographical condition) and help them achieve sustainable development. It represents the commitment of the international community to address the special needs of LLDCs.

Mountain developing countries[123] constitute another important group, representing 26% of the Earth's land and housing 12% of the world's population[124].

118 UNITED NATIONS (2006): 2

119 G77 & CHINA (2004): 1

120 idem, ibidem

121 idem, ibidem

122 idem, ibidem

123 Afghanistan, Algeria, Altai Republic of the Russian Federation, Andorra, Argentina, Armenia, Austria, Bhutan, Bolivia, Cameroon, Colombia, Democratic Republic of Congo, Cuba, Ecuador, Ethiopia, France, Georgia, Ghana, Guatemala, Guinea, Indonesia, Iran, Italy, Jamaica, Jordan, Kenya, Kyrgyzstan, Lesotho, Liechtenstein, Mexico, Monaco, Nepal, Pakistan, Peru, Romania, Serbia, Slovakia, Slovenia, Spain, Sri Lanka, Switzerland, The former Yugoslav Republic of Macedonia, Tunisia,

and important reserves of biodiversity, food, forests and minerals[125], which are being degraded due to “unsustainable agricultural practices and (…) inappropriate development”[126].

In addition, this group is also the source of fresh water for almost half of humankind

However, despite their economic potential (in terms of water resources and tourism), “most mountain regions are politically and economically marginalized and (…) mountain populations are at a clear disadvantage by comparison with other regions”[127]. According to the UNITED NATIONS (2004), “one half of the world’s approximately 700 million mountain inhabitants are vulnerable to food shortages and chronic malnutrition. Mountain people (…) suffer more than others from unequal distribution of assets and from conflict”[128].

International recognition of the development constraints dealt with by mountain countries (namely, high vulnerability) first took place at the Earth Summit, held in Rio de Janeiro, in 1992. In 2002, the Mountain Partnership[129] was launched at the World Summit on Sustainable Development (WSSD), held in Johannesburg. In 2003, the First Global Meeting of the Mountain Partnership took place in Merano, Italy. In 2004, at the Second Global Meeting of the Mountain Partnership, in Peru, the Cusco Plan of Action was adopted, aimed at, among others, providing a framework for effective collaboration in promoting sustainable mountain development.

Turkey, Uganda, Ukraine, Venezuela. Note that some of these mountain countries (all members of the Mountain Partnership) are simultaneously LDCs, SIDS and/or LLDCs.

124 UNITED NATIONS (2004): 2

125 idem, ibidem

126 idem, ibidem

127 MOUNTAIN PARTNERSHIP (2002): 1

128 UNITED NATIONS (2004): 2

129 An alliance, whose members include mountain countries, intergovernmental organizations and other major groups, with the goal of achieving sustainable mountain development. With this purpose in mind, the Mountain Partnership addresses the opportunities and challenges of mountain regions, in order to stimulate initiatives that will improve quality of life in the mountain regions.

In the case of *post-conflict countries*[130], promoting sustainable development is indeed a serious challenge given the particularities of war-torn societies, where long-term situations of political instability obstruct the regular operation of economic structures. According to COLLIER (2004), “unless the incidence of civil war is sharply reduced by international efforts a substantial group of the poorest countries are likely to be stuck in a ‘conflict trap’ – a cycle of war and economic decline”[131].

However, it is important to keep in mind that development policies in post-conflict countries need to be adapted to particular circumstances, which differ significantly among post-conflict countries. In addition, development promotion policies, suitable to these countries, differ “from those appropriate for equally poor countries that are not post-conflict”[132].

Thus, “service in the reconstruction of East Timor may have only limited applicability to the reconstruction of Afghanistan”[133] – two LDCs that also happen to be post-conflict countries. The international community through the UN Peace Building Commission launched in October 2006, is trying to “introduce a greater degree of standardization into post-conflict interventions while differentiating them from other situations in which the state is (…) ‘failing’”[134].

Low-Income countries under stress (LICUS) – a category created in 2002 by the World Bank (WB), in an attempt to improve aid effectiveness in these fragile countries – gathers countries characterized by “very weak policies, institutions, and governance”[135]. The WB Task Force on LICUS stressed the fact that “aid does not work well in these environments because governments lack the capacity or inclination to use finance effectively for poverty reduction”[136]. It recognizes that

130 Note that post-conflict countries may accumulate this condition with other statuses: LDC (e.g. Afghanistan, Angola, Sierra Leone, Timor Leste), SIDS (e.g. Haiti, Timor Leste), LLDC (e.g. Chad, Ethiopia, Rwanda) or mountain countries (e.g. Afghanistan, Democratic Republic of Congo).

131 COLLIER (2004): 1

132 COLLIER (2006): 1

133 idem, ibidem

134 idem, ibidem

135 WORLD BANK (2002): iii

136 WORLD BANK (2002): 1

neglecting such countries will, most likely, perpetuate poverty and lead to their collapse, with undesirable regional and global consequences. The fact is that their fragility does not allow them to adequately absorb development assistance. In addition, because of "their exceptionally challenging environments and (…) poor performance, they often are also in danger of effectively being abandoned by the international community, to the great detriment both of their suffering populations and the wider world, which cannot afford a proliferation of failed states"[137].

Chapter I in a Nutshell:

The establishment of the LDC category was an attempt to systematize aid concession to poor countries with a common set of development problems. Around it a number of development support instruments have been created, aimed at helping LDCs overcome (or at least alleviate) structural handicaps. For some small developing states and SIDS, handicaps are of a permanent nature (i.e., the smallness of the territory, insularity, remoteness, etc.), rending them economically vulnerable. Moreover, today, these countries, particularly SIDS, face increased environmental challenges that endanger their very existence, which should justify international support measures purposely aimed at minimizing island-specific vulnerabilities. With the same logic – i.e., systematization of international support targeted at countries with similar characteristics – other groups of countries have been singled out,, namely LLDCs, mountain countries, post-conflict countries and LICUS.

137 http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/STRATEGIES/EXTLICUS/0,,contentMDK:20288808~menuPK:532113~pagePK:64171531~piPK:64171507~theSitePK:511778,00.html (04/04/07)

CHAPTER II

THE QUESTION OF GRADUATION

As previously stated, membership on the LDC list allows countries to benefit from special international support measures in response to their special disadvantages. The ultimate purpose of LDCs and their development partners is to make graduation from LDC status possible.

Sections 1 and 2 of this chapter introduce the definition of graduation, in this particular context, and the three graduation criteria endorsed by the UN and considered trustworthy indicators of the structural progress (or drawback) undergone by LDCs. Section 3 raises some questions regarding the soundness and reliability of the current graduation rule, which is often regarded as somewhat remote from reality.

In section 4, the World Bank's definition of Middle-Income Countries (MICs) is presented, along with the main geographic, demographic and economic characteristics of these developing countries. Finally, section 5 presents the case of Botswana, the only country to ever graduate from LDC status.

1. Graduation from LDC Status

Graduation implies the loss of LDC-related advantages and special treatment, once the progress in the socio-economic performance of a country starts to set it apart from other LDCs. Graduation criteria are intended to reflect "the country's success in its development and its ability to achieve a favourable transformation of its economy"[138], which is "attributable to a mix of sound domestic policies and propitious external conditions"[139].

Thus, in 1990, the 2nd UN Conference on the Least Developed Countries recognized, for the first time, the importance of allowing the LDC list evolve, permitting the addition of countries and the graduation of LDCs that demonstrate "sufficient socio-economic progress to be able to pursue such progress in a less externally dependent manner"[140]. The possibility of graduation from LDC status was first raised in 1991, the year of the first major revision of the criteria for determining the LDC list[141].

According to ECOSOC and UN General Assembly deliberations, "*to become eligible for graduation* a country must meet the thresholds for two of the three criteria[142]; to *qualify for graduation,* it must do so in two consecutive triennial reviews"[143].

An LDC will graduate six years after the CDP has recognized, for the first time, that the country met the criteria for graduation, and three years after the subsequent CDP triennial review, in which, because it met the criteria for the second consecutive time, it is found to qualify for graduation[144]. During the 6-year period preceding effective graduation, (i) UNCTAD is expected to prepare a vulnerability profile[145] of the relevant country (in the period between eligibility and qualification for graduation), and (ii) the graduating country, in close cooperation with international partners, is expected to develop (in the 3-year period immediately

138 CDP (2004): 20

139 idem, ibidem

140 UNCTAD (2002): 1

141 idem, ibidem

142 See Section 2. The Three Graduation Criteria

143 CDP (2004): 18

144 See Figure 1. Graduation Timeframe

145 In certain cases these profiles can help the CDP understand that an immediate graduation can harm the country in its development process, since it might not be structurally prepared to pursue socio-economic progress without the concessionary treatment associated with its LDC status.

before effective graduation) a transition strategy, aimed at ensuring a smooth transition process[146].

There are two transition periods identified by the CDP: (i) the *pre-graduation transition period*, so called because it "refers to the three-year period between a triennial review of the list that finds a country eligible for graduation and the subsequent triennial review when its qualification for graduation is confirmed by the Committee"[147] and the (ii) the *post-graduation transition period*, which takes effect "when the General Assembly endorses a recommendation made by the Economic and Social Council to graduate a country from the list, on the basis of the Committee's finding that it qualifies for graduation"[148].

Regarding post-graduation transition, it is recommended that country-specific smooth transition strategies be devised (by the graduating country and international partners), in order to "ensure that the graduated country continues to build on the progress achieved thus far"[149]. Thus, "the primary aim of a smooth transition strategy (…) relates to post-graduation support measures provided by the international community on the graduated country"[150]. In reality, being able to guarantee a smooth transition to an ex-LDC is generally very important, as ***graduating countries are likely to remain dependent on international support***[151].

The CDP is also expected to continue monitoring the development progress of graduated countries, with the support of other relevant entities, and to report the countries' advances and/or shortcomings to the ECOSOC[152].

146 CDP (2005): 2
147 CDP (2004): 19
148 idem, ibidem
149 idem, ibidem
150 idem, ibidem
151 CDP (2004): 20
152 CDP (2005): 2

2. The Three Graduation Criteria

The graduation rule is conceptually similar to the rule for admitting new countries on the LDC list[153]. Hence, to qualify for graduation, a country must, in two consecutive triennial reviews, meet thresholds for at least two of the following three criteria: (i) *per capita* income level, measured by *per capita* gross national income (GNI); (ii) human capital development, measured by the Human Assets Index (HAI); and (iii) economic vulnerability, measured by the Economic Vulnerability Index (EVI). To be added to the LDC list, or to 'fall back' into it, thresholds must be met for all three criteria[154].

Moreover, a graduating country is not only expected to exceed the thresholds under which LDCs are admitted into the category, but is expected to do so by relevant margins: 20% for *per capita* GNI and 10% for HAI and EVI[155]. These are considered ways of ensuring that indisputable structural progress has taken place in the country.

2.1. Per Capita Income

The *per capita* income level criterion is measured through *per capita* GNI. While for inclusion on the LDC list the *per capita* GNI threshold is set at less than US$ 750, a country is considered for graduation whenever it presents a 3-year average *per capita* GNI of US$ 900 or higher, according to a decision made by the CDP in its 2003 triennial review of the LDC list[156].

In potential graduation cases, it is also important to pay attention to the role played by emigrants' remittances, external aid and other types of international

153 UNCTAD (2002): 2
154 See Chapter 1, Section 1.1. The Establishment of the LDC Category
155 ENCONTRE (2004): 84
156 CDP (2003): 42

financial transfers, with regard to their impact on GNI and on domestic productive capacity[157], because these factors may 'disguise' the country's real *per capita* income, in the sense that, although economic indicators may be positive, structural improvements may not have occurred. This is to say that good economic performance may actually be influenced by elements such as remittances and aid, and not by positive structural changes in productive capacities, for example.

2.2. Human Capital

Human capital is measured through the Human Asset Index (HAI), which includes four equally-weighted indicators: *nutrition*, measured by (i) the percentage of the population that is malnourished; *health*, measured by (ii) the under-five child mortality rate[158]; and *education*, measured by (iii) the gross secondary school enrollment ratio and (iv) the adult literacy rate[159].

According to the CDP, for a country to be considered for inclusion on the LDC list, its HAI score must be 55 or under, while, conversely, the threshold for graduation under this index is set at 61[160].

2.3. Economic Vulnerability

Economic vulnerability, i.e., the relative risk to a country's development posed by exogenous shocks, reflects the structural vulnerability of LDCs and is measured by an average of six indicators: (i) instability of agricultural production; (ii) instability of export earnings; (iii) the economic importance of primary activities

157 UNCTAD (2002): 2

158 Regarding the health indicator, it is important to state that, for certain graduation cases, other health indicators could be considered to complement the under-five child mortality rate indicator. As suggested by the CDP, this is particularly relevant to countries where HIV/AIDS has significantly reduced life expectancy.

159 CDP (2003): 43-44

160 CDP (2003): 45

in GDP; (iv) merchandise export concentration; (v) population size; and (vi) the proportion of people displaced by natural disasters.

Under this index, a country with an EVI score of 38 or higher is considered economically vulnerable, while for graduation, the EVI score will need to be 34 or smaller[161].

3. Challenging LDC Exit Guidelines

The controversy around the question of graduation first arose when Vanuatu, in 1997, and Maldives[162], in 2000 – both SIDS – objected to the recommendation by CDP that they be graduated from the LDC category[163]. Though they were considered technically eligible for graduation (i.e., theoretically ready to 'stand' on their own), these countries did not feel prepared to subsist without adequate external support, given their structural vulnerabilities. As a result, the ECOSOC refrained from endorsing CDP's recommendation.

Since 2002, several voices have advocated a reform of the graduation rule whereby not only two but all three graduation criteria ought to be met for an LDC to be deemed able to exit the LDC category, so that no country with a poor score under any criterion is found eligible for graduation[164].

With the exception of Botswana[165], all countries found eligible for graduation from LDC status have been SIDS[166], all with a high economic vulnerability – which points to the flaws revealed by the "Island Paradox"[167]. In addition, with the exception of Tuvalu, all cases of possible graduation from LDC

161 CDP (2003): 47

162 In 1997, Maldives became the only country to ever have met the three graduation criteria. Yet, in 2000, following the introduction of the EVI (in substitution of the EDI, used in the 1997 triennial review of the LDC list), the vulnerability of Maldives was more clearly revealed, deeming it unable to meet the economic vulnerability graduation criterion. It did, however, meet the other two criteria that year.

163 UNCTAD (2002): 1

164 UNCTAD (2004): 105

165 See Section 5. Botswana: The Only Graduation Example to Date

166 Vanuatu, Tuvalu, Kiribati, Maldives, Cape Verde and Samoa.

167 See Part I, Chapter 1, Section 3.4. The "Island Paradox"

status are middle-income countries from the World Bank's standpoint[168]. The fact is that, for SIDS in particular, the EVI criterion (which has actually never been met by SIDS in CDP graduation assessments) is very important since their survival is greatly dependent on the indicators incorporated in this index.

In dealing with potential graduation cases, some believe that "a growing issue seems to be the question of the importance that ought to be given to the vulnerability criterion. While some take the view that vulnerability is neither less nor more important than the other criteria (…), others argue that economic vulnerability ought to be regarded as a paramount criterion, and that this should have operational implications for the graduation rule"[169].

Hence, questions have been raised regarding the reliability of the current graduation rule, often regarded as remote from reality, given that the vulnerability criterion – so crucial in appraising the real needs of island-countries – does not seem to be given sufficient weight.

4. The Numbers Behind Middle-income Countries

According to the WB, the group of middle-income countries (MICs) is composed of countries whose *per capita* income is between US$ 906 and US$ 11,115[170]. Thus, as of July 2007, the WB reported the existence of a total of 96 such countries, representing about 71% of developing countries[171] in general.

The MIC group can be further divided into two subgroups: *lower-middle-income economies* (encompassing 55 countries whose *per capita* income is between

168 See Table 5: Lower and Upper-Middle-income Economies (96)

169 ENCONTRE (2004): 74

170 www.worldbank.org (July 2007) It is important to clarify that these are not constant values since they are calculated using the World Bank Atlas method, which uses the Atlas conversion factor, i.e., the average of a country's exchange rate for a given year and its exchange rates for the two preceding years, adjusted for the difference between the rate of inflation in the country and that in the Euro Zone, Japan, the United Kingdom, and the United States (representing international inflation).

171 Here we include all low and middle-income countries, according to the World Bank classification, totaling 149 countries.

US$ 906 and US$ 3,595) and *upper-middle-income economies* (a group composed of 41 countries with *per capita* income between US$ 3,596 and US$ 11,115)[172].

Like LDCs, in the UN, MICs are also included in the developing countries category. They are still not developed economies, since their income level inhibits them from exercising the economic independence of high-income countries. In fact, according to the WB, around 40% of the world's poor live in MICs[173].

Therefore, "MICs are distributed across the whole of the developing world, although most of them can be found in two regions: Latin America (32%) and Europe and Central Asia (25%); to those regions we can add, with lower numbers, East Asia (16%) and North Africa and Middle East (15%) (…) The percentages found in Sub-Saharan Africa and Southern Asia are relatively small: 10% and 2% respectively (…)"[174].

In addition, the region with the largest proportion of MICs "is, by far, Latin America: 79% of this region's countries are part of this income group"[175], followed by North Africa and Middle East (with 67% of MICs), East Asia (with 43%) and Europe and Central Asia (with 42%)[176].

Other relevant aspects concerning the geographical distribution and demographic weight of MICs, and their contribution to the world economy, include the following[177]:

- In Latin America and Sub-Saharan Africa there is a balanced distribution of the lower-middle and upper-middle-income sub-groups.
- More than 2/3 of MICs in East Asia, North Africa and Middle East, and Europe and Central Asia belong to the lower-middle-income sub-group. In South Asia all MICs belong to the lower-middle-income sub-group.

172 See Table 5: Lower and Upper-Middle-income Economies (96)
173 See Table 6. Middle-income Countries at a Glance
174 INSTITUTO COMPLUTENSE DE ESTUDIOS INTERNACIONALES (2006): 14
175 idem, ibidem
176 INSTITUTO COMPLUTENSE DE ESTUDIOS INTERNACIONALES (2006): 14
177 INSTITUTO COMPLUTENSE DE ESTUDIOS INTERNACIONALES (2006): 15-18

- Out of the 109 countries found in the tropics, 50 (45.8%) are MICs.
- Nearly 85% of MICs have sea access, “a higher percentage than the world’s average (79%) and very close to that of high income countries (89%)”[178]. In addition, 23 out of the 98 MICs are islands or archipelagos (roughly 23%).
- There’s a high disparity of country size among MICs: there is a large group of small countries, with fewer than 2 million inhabitants, while five countries surpass 100 million inhabitants (one of them is China, with roughly 1.3 billion people; the other four are Mexico, Russia, Brazil and Indonesia).
- Just about half of the world’s population lives in MICs. However, it is important to highlight the fact that the demographic weight of China (roughly 20% of the world’s population) is decisive in explaining this high percentage.
- Within MICs, lower-middle-income countries are more representative in terms of demographic weight (roughly 42% of the world’s total); while the demographic weight of upper-middle-income countries is considerably lower (about 5%). Again, China’s demographic weight explains this asymmetry.
- MICs contribute with about 35% to the world’s GDP (in PPP). Of this percentage, lower-middle-income countries contribute with 28% and upper-middle-income countries with 7%.
- The MIC group is responsible for more than 31% of world trade. In addition, according to 2003 WB figures, nearly 24% of Foreign Direct Investment (FDI) is directed to these countries, as well as 43% of bilateral ODA and about 58% of emigrants’ remittances.

Important conclusions can be drawn from these last figures, namely that the percentage of remittances directed at MICs illustrates the high emigration rates of these countries. Moreover, the considerable ODA received by MICs (even though donors are ‘pushed’ to exclusively focus their aid on the poorest countries,

178 INSTITUTO COMPLUTENSE DE ESTUDIOS INTERNACIONALES (2006): 15

especially in Sub-Saharan Africa) shows that, in the field of international cooperation, the MIC group has not lost its relevance. Finally, the significance of MICs in world trade and FDI gives the idea that "among them are some of the most promising and dynamic markets of the developing world"[179].

Nevertheless, one should keep in mind that "the problems and development challenges faced by the MICs vary enormously, and a 'one-size-fits-all' approach is unworkable"[180].

5. Botswana: The Only Historical Example of Graduation from LDC Status

Botswana – a small, landlocked, diamond-rich[181] Southern African country, independent since 1966 and democratic since then[182] – is the only country to have effectively graduated from the LDC list, after being considered apt to do so in 1994.

Today, Botswana is a successful upper-middle-income country (according to the WB[183]), with a *per capita* GDP of US$ 10.755[184] – which represents an impressive growth, considering that, in the eve of Botswana's independence, its *per capita* GNP was around US$ 50 and aid from Great Britain, its colonizing country, represented almost 60% of the country's development budget[185]. As part of "a region where the average country has been either poorer than at independence or/and in socio-economic crisis, Botswana stands out as one of the few countries in Africa with both an impressive sustainable development and political stability records. The

179 INSTITUTO COMPLUTENSE DE ESTUDIOS INTERNACIONALES (2006): 18

180 FALLON *et al.* (2001): 18

181 According to RAPOSO (2007), Botswana is the world's biggest diamond producer, responsible for 35% of the world's diamond production.

182 Along with the Mauritius, Botswana is the only African country to have opted for a democratic system since its independence.

183 See Table 5: Lower and Upper-Middle-income Economies (96)

184 OECD (2006): 137

185 BRÄUTIGAM, (2000): 51

country is also the region's longest democracy with good governance/state management record"[186].

Botswana (oftentimes referred to as 'Africa's Switzerland'[187]) has been, over the last 25 years, "one of the fastest-growing countries in the world"[188], mostly due to its "enviable record of (…) economic achievement"[189]. The country has "gone from being one of the poorest, most aid dependent countries to a middle-income country no longer in need of significant amounts of external assistance (…)"[190]. Moreover, for several years in a row, Botswana has been rated the least corrupt country in Africa by Transparency International, with the highest sovereign credit rating on the continent[191].

However, Botswana is currently coping with considerable, and possibly growth-hampering, development challenges imposed by poverty (30% of the population lives with less than US$ 1 a day)[192], high unemployment (currently around 23%)[193], high social inequality (with a Gini index of 63[194], the country presents one of the world's highest inequality scores) and high HIV/AIDS prevalence rate (38%[195] of the population, representing one of the highest infection rates in the world). The economy remains highly dependent on mining activities (namely diamond exports and a few other minerals[196]), which account for about 35% of GDP[197], 90% of export earnings and over 45% of government revenue[198].

186 MAIPOSE, G. S. and Matsheka, T. C. (?): 1
187 RAPOSO (2007): 1
188 OECD (2006): 139
189 idem, ibidem
190 COMMISSION FOR AFRICA (2005): 365
191 OECD (2006): 139
192 RAPOSO (2007): 1
193 idem, ibidem
194 UNDP (2006)
195 RAPOSO (2007): 2
196 See Figure 2. Botswana: 2004 GDP by Sector
197 RAPOSO (2007): 1
198 OECD (2006): 140

Diamond exports alone account for around 80% of total export earnings[199], even though this industry only employs about 2% of formal sector employees[200].

Economic growth has slowed to 3.9% in 2005/06, from 5.7% in 2004/05 and around 8% in 2001[201], contrasting with the 1980-1990 period when the country recorded yearly economic growth rates of around 10%[202].

Yet, "Botswana stands out (…) as a country that was once very poor, but that has managed its aid and its natural resources well, enabling it to graduate from most aid programs"[203]. In fact, in an attempt to efficiently respond to development challenges (and, in the process, deal with the fierce competition from South Africa), the Government has put into practice a strong national development plan, entitled Vision 2016 Plan – a macroeconomic policy paper that puts forth broad goals for economic growth and poverty reduction, through the implementation of reforms aimed at diversifying production and exports away from diamonds. The 9th Plan (NDP9), covering the period 2003-2009, "continues to stress macroeconomic stability and financial discipline as necessary conditions for long-term growth and poverty reduction"[204]. The implementation of NDP9 is expected to increase economic diversification, reduce dependence on diamonds and foster employment in labor-intensive industries, in a clear effort to tackle unemployment.

ODA has played a fundamental role in promoting economic growth and development, especially during the period immediately after independence and, to a lesser degree, before graduation[205]. It has been recognized that "high levels of aid can work well to help a country graduate from aid dependence"[206]. Botswana "began receiving aid during a period when (...) governing institutions were weak, and (…)

199 OECD (2006): 143
200 COMMISSION FOR AFRICA (2005): 366
201 See Figure 3. Botswana: Real GDP Growth and Per Capita GDP (1997 – 2007)
202 RAPOSO (2007): 1
203 BRÄUTIGAM (2000): 51
204 OECD (2006): 142
205 See Figure 4. Aid and GDP Per Capita in Botswana
206 BRÄUTIGAM (2000): 52

used aid to build centralized, insulated government institutions that then became critical for managing the aid relationships"[207]. It "relied on centralized strategic planning, combined with market-based growth strategies"[208] and good governance. The Government now relies more on the private sector[209] "as the engine of growth rather than nationalizing local and foreign firms"[210], and has "emphasized maximizing foreign exchange earnings, (…) through well-negotiated deals with mining companies (…)"[211].

These wise choices – possible due to the high quality of political leadership and good governance – show that Botswana made good use of a period of high levels of aid to put itself on a sustainable developmental path and, consequently, was able to successfully weather economic crisis (namely the ones that struck most of the developing world in the late 1970's and early 1980's)[212] and, thus, sustain its middle-income status.

In addition, despite its mineral wealth, the country has prudently escaped the so-called 'natural resource curse' by endorsing an institutional system exclusively based on meritocracy, instead of nepotistic practices conducive to rent-seeking behavior and generalized poverty. The success of Botswana is largely explained by the quality of its institutions and the maturity of its political actors, who recognize the priceless importance of political stability.

The World Economic Forum is clear in pointing out that Botswana, ranked 81st in the 2006 Global Competitiveness Index, "has succeeded in using its wealth

207 BRÄUTIGAM (2000): 52

208 idem, ibidem

209 According to COMMISSION FOR AFRICA (2005), throughout the years, the Government has consistently left most development to the private sector, which has been possible due to the establishment of a generally favorable investment climate, achieved through a number of measures: (i) maintaining macroeconomic stability, (ii) sustaining a constant real exchange rate against the country's main trading partners, (iii) managing labor relations, (iv) retaining membership of the Southern African Customs Union (SACU) and agreeing free trade agreements with the EU and USA, (v) investing in institutions promoting private sector interests, (vi) avoiding extending Government ownership other than to the main utilities, (vii) channeling most credit to the private sector, (viii) having few import controls and eliminating exchange controls gradually, and (ix) sustaining the lowest level of corruption in Africa.

210 BRÄUTIGAM (2000): 52

211 BRÄUTIGAM (2000): 52

212 BRÄUTIGAM (2000): 53

from key natural resources to boost the growth rate. Key to Botswana's success have been its reliable and legitimate institutions, the prudence of government spending and public trustworthiness of its politicians. The transparency and accountability of public institutions have contributed to a stable macroeconomic environment, efficient bureaucracy and market-friendly regulation"[213].

Chapter II in a Nutshell:

In a synchronized international environment, the implementation of LDC-related support measures could have accelerated or induced progress in LDCs, helping them overcome development challenges and, eventually, graduate from LDC status, according to UN rules. However, some have questioned the soundness of these rules, considered somewhat out of touch with reality. Nearly all graduation cases so far have been SIDS, and despite their acute economic vulnerabilities, the EVI criterion seems to have been given insufficient weight in the graduation rule. Botswana, a landlocked State, is the only country that ever graduated from LDC status.

213 http://www.weforum.org/en/fp/gcr_2006-07_highlights/index.htm

PART II

THE CASE OF CAPE VERDE

UNDERSTANDING THE IMPACTS OF GRADUATION FROM LDC STATUS

CHAPTER III

ECONOMIC, POLITICAL AND SOCIAL OVERVIEW

This chapter introduces the case of Cape Verde by briefly presenting, in section 1, the country's historical background, with emphasis on political, social and economic aspects.

Section 2 presents the diagnosis of the country's current macroeconomic situation and the figures behind the sizeable economic growth and social development it demonstrated since independence, in 1975. In this section, the focus is on the particularly important role played by ODA and emigrants' remittances in facilitating Cape Verde's development and economic growth. Finally, the economic liberalization the country embarked on in the 1990's and the role played by FDI are also mentioned, in an attempt to understand the role of private sector investments, particularly tourism-oriented FDI, in promoting economic growth in Cape Verde.

1. An Overview of the Archipelago

Cape Verde is a ten-island and thirteen-islet Creole[214] archipelago, located in the North Atlantic Ocean, 455 km off the western coast of Africa, with a resident population of 495,000 people[215], total land surface of 4,033 km² and an Exclusive Economic Zone (EEZ) of about 700,000 km² [216]. The country, home to the first Portuguese city in Africa[217], gained independence from Portugal in July of 1975. At

214 In this context, a country with such characteristic is understood as one whose people are of mixed African and European ancestry. In this case, the dominant language is Cape-verdean, a creolized form of Portuguese.

215 Human Development Report 2006

216 Note that Cape Verde's water surface is extraordinarily larger than its land surface, adding to the country's unique characteristics, among which can also be mentioned the fact that its emigrant population is almost two times larger than its resident population.

217 *Cidade Velha*, former *Ribeira Grande*, is located in the island of Santiago and was founded by the Portuguese in 1462.

that time, it was labeled ‘unviable’ by the World Bank, due to its dramatic economic situation and the seriousness of the uncertainties regarding its ability to be self-sufficient.

Cape Verde’s independence arrived roughly 500 years after first being discovered and colonized by the Portuguese in May of 1460, uninhabited until then[218]. The independence process, headed by one of the most legendary African freedom fighters, Amilcar Cabral, came to fruition after years of struggle with the colonizing power, which was itself, until 1974, under political dictatorship.

Following independence, the country embarked, under a pacific one-party political regime, on deep structural reforms, successfully building economic and social foundations at the state and local levels, heaping up, in the process, tremendous international support, as measured by the amount of development partners it managed to gather during that period.

In 1991, following the end of the Cold War and Communism, the fall of the Berlin Wall and in a shift that unequivocally demonstrated willingness to converge with the new world order that was emerging at the time, Cape Verde opted for a democratic regime and implemented a multi-party political system. The changes that took place since then include successive and war-free political change and economic liberalization. From independence (1975) to the instauration of democracy (1991) the State played a decisive role in successfully conducting the country’s economy. However, from 1991 on the State transferred part of its economic development responsibilities to the private sector[219].

Today, 32 years after its independence, and against all odds, Cape Verde’s economic growth is undeniable[220]. The country is broadly recognized by the international community as a success case, frequently praised due to important

218 Subsequently, the country became an important trading center for African slaves.

219 REIS (2000): 98

220 See Figure 5. Cape Verde: Evolution of GDP (1980-2006)

development achievements and political stability, and oftentimes considered, by international organizations, a development example in Africa.

In 2004, Cape Verde – a lower-middle-income country, according to the WB classification[221] – achieved a human development level of 0.722[222] (the third in sub-Saharan Africa)[223] and a *per capita* GDP of US$ 1,915 [224], compared to 1990 figures when the country presented a HDI of 0.628[225] and *per capita* GDP of US$ 1,116[226]. In fact, according to UNCTAD (2006), of all African lusophone countries, Cape Verde is today the one with the highest *per capita* GDP, even though, at its starting point (1975), it was one of the poorest African Portuguese-speaking countries.

In fact, the country is well on its way to achieving by 2015, and in some cases possibly earlier, most of the Millennium Development Goals (MDGs)[227], agreed by the international community in 2000, under the aegis of the UN. According to UNECA (2005), Cape Verde will successfully attain the targets related to MDG goals 2 (achieve universal primary education), 4 (reduce by two-thirds the under-five child mortality rate), 5 (reduce by three-quarters the maternal mortality ratio) and 7 (ensure environmental sustainability)[228].

These are, definitely, quite remarkable achievements, particularly when taken into account the country's economic vulnerabilities, numerous geographic constraints, the environmental adversities it deals with regularly (e.g. prolonged droughts and deforestation) and the lack of natural resources.

However, it is also true that, not withstanding its relatively high *per capita* income, Cape Verde is still (i) extremely vulnerable to external shocks, (ii) limited

221 See Table 5: Lower and Upper-Middle-income Economies (96)

222 UNDP (2006)

223 According to the 2006 Human Development Report (UNCTAD 2006), life expectancy in Cape Verde is 70.7, school enrolment ratio 67.0 and GDP per capita (PPP US$) 5,727.

224 UNDP (2006)

225 UNDP (2006)

226 BANCO DE CABO VERDE

227 PIRES (2007)

228 UNECA (2005): 21 - 24

by its insularity and the aridness of its soil, (iii) restricted by the lack of natural resources and (iv) excessively dependent on the fluctuation of variables it detains no control over, namely ODA and emigrants' remittances. In this context, it is important to mention that remittances sent by its large Diaspora[229] are significantly responsible for the entry of international reserves, the reduction of balance of payments' imbalances and play an important role in promoting development and alleviating poverty. On the other hand, emigration also allows a certain control over population growth and, consequently, somewhat reduces the demographic pressure over the already limited amount of resources.

It is also important to stress that the productivity of the Cape-verdean economy remains, albeit the considerable advances achieved, quite fragile, mainly due to the country's structural handicaps, namely:

- Limited production capacity and weak competitiveness of national products;
- Smallness of the internal market, resulting from a small population with low purchasing power;
- Particularly weak primary sector;
- Extremely unfavorable physical and environmental conditions;
- Openness of the economy, negatively affected by imbalances in international trade[230].

It is, however, broadly recognized that political and social stability in Cape Verde, consistently sustained since its independence, has contributed to economic growth and development. In fact, the political class has, in general, favored good governance practices and an efficient management of ODA. It is precisely this concern with financial stability and commitment towards the well-being of its

229 Few countries have experienced an emigration scale as massive as that of Cape Verde, with a emigrant population almost two times greater than the resident one, and whose remittances have represented, in some years, values close to 18% of GNI.

230 The Cape-verdean economy is characterized by a high degree of openness, which is due to the country's dependency on import products. In fact, imports of goods and services represent more than half of the countries' GDP. REIS (2000)

citizens that have guaranteed a good level of public investment in the social sector (which in 2006 reached 34.2 % of annual public expenditures[231]).

The European Commission (EC) has actually recognized that, throughout the 30 years of its cooperation with Cape Verde, the resources it made available to the country have been managed “(…) in a judicious manner, explaining the fact that successive Cape-verdean administrations have been warranted renewed trust, which they have always known how to build and keep among international partners, among them the European Union (...)”[232].

Not being able to count on domestic resources to fund development, simply because they are non-existent, it is evident that the good conduct of Cape-verdean political authorities seeks to gear the country towards international credibility and reinforce its bargaining capacity in dealing with international partners. It can even be said that in Cape Verde, probably more than in any other country in the world, international credibility is one of the most precious goods, especially when taken into account the structural imbalance between available resources and the mounting necessities of the growing population.

To the importance of international credibility we can probably only associate the importance of its human capital, the qualification of which since independence has only been possible due to Cape Verde’s good international image, which has allowed the establishment of several long-lasting cooperation agreements in the area of education.

231 BANCO DE CABO VERDE (2007): 54

232 COMISSÃO EUROPEIA (2004): 10, translated by the author

2. Assessment of Cape Verde’s Current Macroeconomic Situation

2.1. General Characteristics and the Structure of the Economy

Due to its small size, the economy of Cape Verde faces problems related to insufficient production diversification, tendency to concentrate production on sectors on which it detains competitive advantages (e.g., tourism services) and heavy dependence on import products[233] and external capital flows[234].

Being a SIDS and an archipelago exacerbates even more these problems due to the country’s territorial discontinuity, the distance and isolation from major markets and transport and communication difficulties. In addition, the lack of an important production base, that allows capital accumulation (essential for development funding) and the absence of an economically dynamic regional space represent factors that significantly worsen the constraints associated with a small scale economy[235].

Therefore, in its quest for development, Cape Verde faces several structural handicaps: the small size of its internal market (preventing it from reaping the benefits of economies of scale), the high cost of insularity[236], ecological fragility, weak agricultural capacity[237] and lack of natural resources. In short, the economy of Cape Verde can be characterized in the following manner:

- Small, archipelagic economy;

233 In 2005, imports represented about 42% of GDP. RÉPUBLIQUE DU CAP VERT (2006): 14

234 RÉPUBLIQUE DU CAP VERT (2006): 10

235 idem, ibidem

236 Because it is a 10-island archipelago, consisting of islands somewhat dispersed, it is necessary to increase the number of main infrastructures, namely ports, airports, health and educational services, among others. For example, when considered the number of airports needed to promote tourism and facilitate communication within the country and between the country and the rest of the world, it is estimated that at least 4 international airports are needed, even though 1 would be more than enough for a country of 500.000 people living in a contiguous territory. This kind of constraint greatly affects the competitiveness of the economy.

237 Only 10% of its soil is cultivable.

- Quite fragile agricultural and industrial production sectors, while trade and services represent roughly 70% of internal production[238];
- High import dependency, which increases its vulnerability to external shocks (e.g., fluctuations in international oil prices);
- Utterly insufficient internal production, which does not cover population needs[239].

Table 7. Cape Verde - GDP by Sector (1994, 2003, 2004)

(% of GDP)	**1994**	**2003**	**2004**
Primary sector	12,8	6, 8	6,8
Secondary sector	19,8	19,7	20,2
Tertiary sector	67,4	73,4	73,0
(Average annual growth rate %)	**1994-04**	**2003**	**2004**
Primary sector	5,4	1,5	1,5
Secondary sector	5,6	4,5	4,5
Tertiary sector	6,1	5,7	6,4
Total	**5,9**	**5,0**	**5,5**

Source: RÉPUBLIQUE DU CAP VERT (2006)

Hence, the Cape-verdean economy functions with the support of private and public international capital transfers, which assist private consumption, increase public financing capacity[240] and ensure the availability of international reserves, which guarantee access to both consumption and investment imports. Emigrants' remittances and ODA represent the two most important international resources made available to the country, allowing the stability of the balance of payments, despite high trade deficits, and guaranteeing part of the resources necessary to finance the public deficit[241].

Despite the constraints previously referred to, generally speaking, the economy of Cape Verde is performing positively, particularly in terms of GDP

238 See Table 7. Cape Verde - GDP by Sector (1994, 2003, 2004) below.

239 According to REPUBLICA DE CABO VERDE (2005): 13, Cape Verde can only guarantee about 20% of its total food needs.

240 From independence until 1995, economic growth efforts in Cape Verde were made essentially through public investment.

241 RÉPUBLIQUE DU CAP VERT (2006): 10

growth, inflation, budget control and external accounts performance[242], where balance of payments' deficit is under control, in spite of the considerable imbalances in trade balance and the weakness of exports, which represent only 4% of imports and less than 12% of external debt servicing[243].

Another positive aspect worth mentioning is the fact that, Cape Verde currently operates a fixed exchange rate regime, which, since 1998, links the national currency to the Euro[244]. Considering that the Euro zone is the country's main commercial market[245], this currency peg, by strengthening the country's foreign reserve position, has, evidently, many economic benefits. "In other words, Cape Verde has 'got it right' when it comes to its currency peg, as the peg apparently reflects the (…) credibility of Cape Verdian economic policy and so has successfully withstood the scrutiny of international markets"[246].

From 1996 to 2006, GDP growth performance has been quite positive, presenting an average annual growth of more than 5%[247], which demonstrates the vitality of the Cape-verdean economy, relatively to other parts of the world[248], not withstanding its inherent fragility. It is, in fact, known that this positive economic growth – possible due to external capital transfers, namely emigrants' remittances (for private consumption) and ODA inflows (for public investments) – has resulted, to a large extent, from the ever-increasing level of public expenditures[249], mainly targeted at transport infrastructures, development of the agricultural sector and improvements in the educational system[250].

242 See Table 8: The Evolution of GDP in Cape Verde (1996-2006)
243 RÉPUBLIQUE DU CAP VERT (2006): 11
244 The Cape-verdean Escudo (ECV) was first pegged to the Portuguese Escudo and later to the Euro.
245 See Table 9: Cape Verde's Main Commercial Partners (2000-2005)
246 BRAGA DE MACEDO (2006): 20
247 See Table 8: The Evolution of GDP in Cape Verde (2000-2006)
248 See Table 10: Cape Verde: GDP and Inflation (2004-2006)
249 According to BANCO DE CABO VERDE (2007), public expenditures reached 34.2 % in 2006.
250 RÉPUBLIQUE DU CAP VERT (2006): 11

On the other hand, the positive economic growth and the gains resulting from it have not been transferred, at least not significantly, to the reinforcement of the internal production structure, characterized by a strong tertiary sector and relatively weak primary and secondary sectors. In fact, the service sector is currently the main force behind Cape Verde's economic growth, representing more than 70% of GDP, while the industrial sector has been sluggish and the weight of the agricultural sector relative to GDP has significantly diminished, particularly over the past decade[251].

In terms of external debt, the country's situation is considered sustainable, which makes it impossible for Cape Verde to benefit from the World Bank's Highly Indebted Poor Country (HIPC) Initiative[252] and others of that sort, namely G8's debt relief and write-off plans. In 2005, external debt represented 48.8% of GDP, compared to 59.7% in 2001[253]. This considerable improvement is explained by the fact that, over the last few years, GDP growth has been reasonably stronger than external debt growth. However, in some years, debt servicing can be more costly than certain social projects. This is particularly disturbing when we know that about 1/3 of the country's population is still struggling to get out of poverty. For example, in 2004 debt servicing amounted to US$ 33 million, while health investments, which benefit, first and foremost, the poor, totaled US$ 28 million[254].

Therefore, it seems fair to say that, despite Government's positive and quite commendable efforts over the years, the economy of Cape Verde preserves, in

251 RÉPUBLIQUE DU CAP VERT (2006): 11

252 According to the WB, "the HIPC Initiative involves an agreement among all (…) major international lenders to provide an opportunity for a fresh start to countries struggling to cope with heavy debt. The HIPC Initiative was further strengthened in 1999 as the Enhanced HIPC Initiative to provide deeper, broader and faster debt relief to a larger group of eligible countries and to strengthen the program's links to ongoing poverty reduction efforts in these countries. Virtually all of the world's multilateral creditors are participating in HIPC. (…) In return for debt relief, (…) countries (…) pledge to introduce a series of key (…) designed to encourage sustainable economic growth that will drive reductions in poverty levels. (…) The decision point for participation is reached when a country makes this pledge to reform; has established a track record of macroeconomic stability; has prepared an interim Poverty Reduction Strategy Paper (…) that describes key structural and social reforms; and has cleared any outstanding arrears. Then it is accepted into the scheme, and debt relief is granted. To reach the completion point, a country must maintain macroeconomic stability under an International Monetary Fund (IMF) Poverty Reduction Growth Facility-supported program; satisfactorily carry out the key structural and social reforms in its poverty reduction strategy, (…), for one year; and maintain macroeconomic stability. The amount of debt relief then becomes permanent". www.worldbank.org

253 RÉPUBLIQUE DU CAP VERT (2006): 13

254 RÉPUBLIQUE DU CAP VERT (2006): 29

essence, its adverse characteristics and handicaps. In addition, the distribution of wealth, essential in the fight against poverty, remains rather deficient, given that social inequalities have not been surpassed and, in some cases, have even worsened. In fact, in 2002, Cape Verde presented a Gini index of 52.5[255], not very different from the group of Latin American countries, known to deal with chronic inequality problems[256].

2.2. The Role of ODA and Emigrants' Remittances in Development Financing

ODA inflows and emigrants' remittances have played an extremely important and positive role in promoting economic growth and social development in Cape Verde. In reality, the generally good management of ODA has made the country's independence possible. Even though it cannot be said that economic independence has been fully reached, the country was given, through ODA and emigrants' remittances, the opportunity to build an economic foundation that enables the exercise of political independence, with its governing class gearing the country in accordance with its own choices. In fact, the country's relative economic independence has given it enough freedom to make its own mistakes and learn from them, and not passively implement remedies imposed by external forces.

Hence, ODA and emigrants' remittances are the two main pillars of Cape Verde's economic growth and development since independence, in 1975.

ODA inflows[257] have contributed to: (i) guarantee balance of payments stability, (ii) develop important social and economic infrastructures and (iii) improve the social sector, in addition (iv) to contributing to the generally positive outcomes of the structural reforms undertaken in Cape Verde[258]. In fact, *"Si aujourd'hui le*

255 Instituto Nacional de Estatística (INE), www.ine.cv

256 According to the 2006 Human Development Report, this group of countries presents Gini indexes that range from 52 to 60.

257 See Figure 6. Cape Verde: ODA Profile

258 RÉPUBLIQUE DU CAP VERT (2006): 15

Cap-Vert est relativement bien placé dans la sous-région ouest africaine où il s'insère géographiquement, par rapport aux indicateurs sociaux et en terme de performance économique, c'est surtout grâce à une utilisation judicieuse et à des fins de développement de l'aide publique au développement"[259].

It is also worth mentioning that the inclusion of Cape Verde in the LDC list, since 1977[260], has been paramount in guaranteeing the country's access to ODA resources, made available through the disbursement of bilateral and multilateral grants and highly concessional loans. In the case of Cape Verde, total ODA resources have been composed, on average, of 70% of bilateral and 30% of multilateral funds[261].

When analyzing ODA data from 1990 to 2006[262], it can be concluded that, in absolute terms, ODA has not suffered major fluctuations in Cape Verde, representing an average yearly value of US$ 86 million[263].

Source: RÉPUBLIQUE DU CAP VERT (2006), BANCO DE CABO VERDE (2007)

259 RÉPUBLIQUE DU CAP VERT (2006): 15

260 REPÚBLICA DE CABO VERDE (2005): 2

261 RÉPUBLIQUE DU CAP VERT (2006): 16

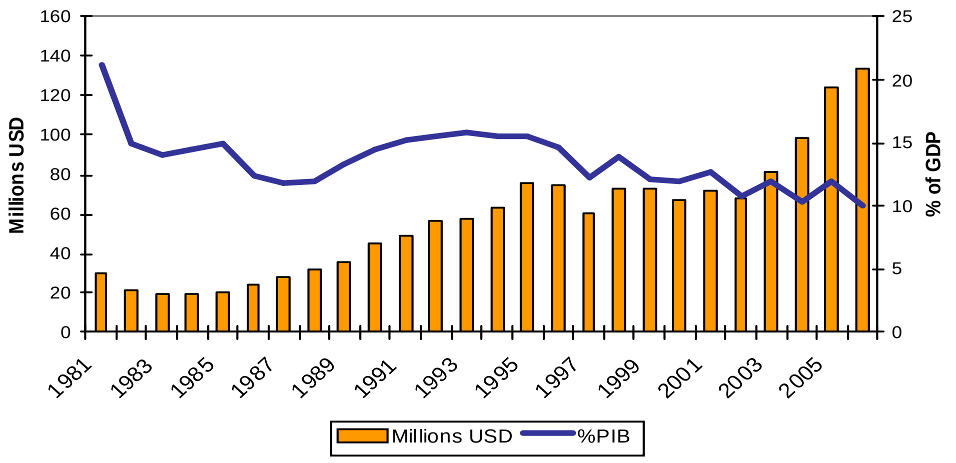
262 See Figure 7: Cape Verde - ODA in absolute value and as % of GDP (1990-2006) below.

263 See Figure 7: Cape Verde - ODA in absolute value and as % of GDP (1990-2006) below.

On the other hand, the progression of ODA as a percentage of GDP has assumed, over the years, a clear downward trend, so much so that in 2006 it represented 5.5% of GDP[264], compared to 22% in the 1990's[265].

The evolution of emigrants' remittances over the last 15 years presents a similar behavior[266], also decreasing its importance relative to GDP, although not as significantly as ODA.

Figure 8. Cape Verde: Evolution of emigrants' remittances in USD and as % of GDP (1981-2006)



Source: REPUBLIQUE DU CAP VERT (2006), BANCO DE CABO VERDE (2007)

In fact, during the 1990's, emigrants' remittances corresponded to roughly 18% of GDP, while nowadays the average is about 10%[267]. However, in absolute terms, remittances have clearly increased, with current amounts representing the highest values since the country's independence.

Like ODA, emigrants' remittances contribute to the stability of the balance of payments, greatly increasing international reserves. Yet, they also play an extremely significant role in improving the livelihood of Cape-verdean families, many of

264 BANCO DE CABO VERDE (2007): 53

265 RÉPUBLIQUE DU CAP VERT (2006): 15

266 See Figure 8: Evolution of emigrants' remittances in US$ and as % of GDP (1981-2006) below.

267 BANCO DE CABO VERDE (2007): 69

which have no other source of income. In addition, the return of emigrants has meant more private investment, namely in the labor-intensive sectors of infrastructure building, transports and tourism[268], with positive results in tackling unemployment.

2.2.1. Is There Aid Dependence?

Cape Verde is actually a very good example of how a country can be successfully built on aid. This means that it owes, to an important extent, its very existence to the international aid (food aid, technical assistance, grants, concessional loans) made available by international partners. On the other hand, it also needs to be said that, in general, the ODA made available to the country has been managed in a responsible and savvy manner, fully responding to the recommendations of the international community, as recognized by the overwhelming majority of Cape Verde's bilateral and multilateral partners.

In fact, notwithstanding all the pessimism around aid and the dependence it can create, "new research shows that with a good institutional environment large amounts of aid can have very positive results in developing countries. Aid can help governments to more quickly and effectively meet their development objectives, and can improve the standard of living of the poor. Aid can be part of the solution"[269].

This can actually be seen in Cape Verde, where aid funds have been used to build capacity, namely through substantial investments in human capital development and in projects aimed mainly at surpassing the ever-disadvantageous structural handicaps imposed by an archipelagic insularity. These investments have been made in the context of the country's development strategy, intended, among others, at decreasing aid dependency[270]. Nonetheless, this has not been entirely

268 RÉPUBLIQUE DU CAP VERT (2006): 16
269 BRÄUTIGAM (2000): 1
270 REPÚBLICA DE CABO VERDE (2005): 17

achieved. Thus, in a graduation context, where some bilateral partners have given a clear sign of (relative) disengagement[271], aid dependency does constitute a serious vulnerability.

In Cape Verde, according to data related to the progression of ODA, particularly its importance relative to GDP, it can be argued that if in fact there is aid dependence, lately it has been considerably less pronounced, since over the past 15 years a descending pattern can be unmistakably identified[272]. In fact, today at 5.5% of GDP[273], ODA signifies a great contrast to 1990's levels, when it reached 27.2% of GDP[274].

Be that as it may, it is only fair to acknowledge the existence of a high degree of aid dependence in Cape Verde, especially when it is known that nowadays international aid finances more than 80% of the country's total public investments[275]. In addition, about 40% of the national Public Investments Program is financed by highly concessional loans[276]. In this context, when analyzing the country's ODA structure, it is also important to highlight the growing importance of loans, in detriment of grants[277]. In fact, *"le poids des dons dans l'ensemble de l'aide est passé de 80% dans la décennie 90 à environ 58% en 2005"*[278].

In addition to aggravating the country's undeniable aid dependence, the decrease in grants and consequent increase in loans will certainly create, or worsen, still another crucial problem for the already vulnerable Cape-verdean economy: external indebtedness.

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271 The growing importance of concessional loans, in detriment of grants is a good example of this.

272 See Figure 7: Cape Verde - ODA in absolute value and as % of GDP (1990-2006)

273 BANCO DE CABO VERDE (2007): 53

274 RÉPUBLIQUE DU CAP VERT (2006): 16

275 REPÚBLICA DE CABO VERDE (2005): 16

276 RÉPUBLIQUE DU CAP VERT (2006): 24

277 REPÚBLICA DE CABO VERDE (2005): 16

278 RÉPUBLIQUE DU CAP VERT (2006): 24

2.3. Understanding FDI Inflows in Cape Verde

Private investment – particularly FDI – started to increase in 1995[279], following the country's political reorientation towards economic liberalization. Since then, private investment became, along with public expenditures, one of the drivers of economic growth.

From 1994 to 1999, projects implemented through FDI reached approximately US$ 173 million[280]. However, from 2000 to 2004, a clear and abrupt retreat in FDI inflows can be identified[281], following the country's financial woes (high fiscal deficit and low level of international reserves, which led to generalized investors' distrust) in the late 1990's and problems in the dialogue with the country's main international donors[282]. As a result, in the period of 2000-2004 there was a substantial decrease in FDI inflows, which have thus far leveled out at about US$ 40 million per year[283]. In this regard, it is also important to recognize the very significant role played by FDI from Portugal[284].

From 2004 on – with the assistance of the IMF's Poverty Reduction and Growth Facility (PRGF) and the supply of budgetary aid – the Cape-verdean economy has regained macroeconomic stability, FDI has returned to an ascending trend, dialogue with the country's main international donors has been resumed and investors' confidence was reestablished.

The decision to create, in October of 2004, a governmental body responsible for the promotion of private investment – *Cabo Verde Investimentos*[285] – has been

279 See Figure 9: Approved Foreign Direct Investment (1994-2006)
280 RÉPUBLIQUE DU CAP VERT (2006): 17
281 See Figure 9. Approved Foreign Direct Investment (1994-2006)
282 RÉPUBLIQUE DU CAP VERT (2006): 18
283 idem, ibidem
284 For more on this topic see CARVALHO COSTA (2003)
285 *Cabo Verde Investimentos* results from the merger and restructuring of two public organizations: IADE (*Instituto de Apoio ao Desenvolvimento Empresarial*) and PROMEX.

fundamental in ensuring a renewed drive in the field of private investments, increasing FDI inflows[286] and improving its management.

Table 11. Cape Verde: Approved Foreign Direct Investments (2000-2006)

Year	2000	2001	2002	2003	2004	2005	2006	TOTAL
FDI (000 USD)	119.403	17.454	38.929	38.789	43.863	250.021	509.117	**1.017.576**
Employment	1.347	495	876	1.024	596	2.377	2.712	**9.427**

Source: CABO VERDE INVESTIMENTOS (2007)

These investments have been an important source of fixed capital, essential to GDP increase and job creation. In addition, the persistence of political, social and macroeconomic stability has allowed the entry of additional FDI resources, which in 2005 reached approximately US$ 250 million[287] and in 2006 US$ 323.5 million[288].

Finally, it is also important to mention that, ***for the first time since Cape Verde's independence, the contribution to GDP of revenue from private investments, particularly FDI in the tourism sector[289] – mainly investments in tourist real state and services –, have surpassed that of emigrants' remittances and ODA***. In fact, from ECV 754.10 million in 1995, tourism revenues have reached, in 2005, ECV 10,770.9 million (12% of GDP)[290]. In 2006, it reached ECV 19,247.4 million, representing 18% of GDP[291] – while, in that same year, emigrants' remittances represented 10.3% of GDP (i.e., ECV 10,827.6 million)[292] and ODA 5.5% of GDP (i.e., ECV 5,789.4 million)[293].

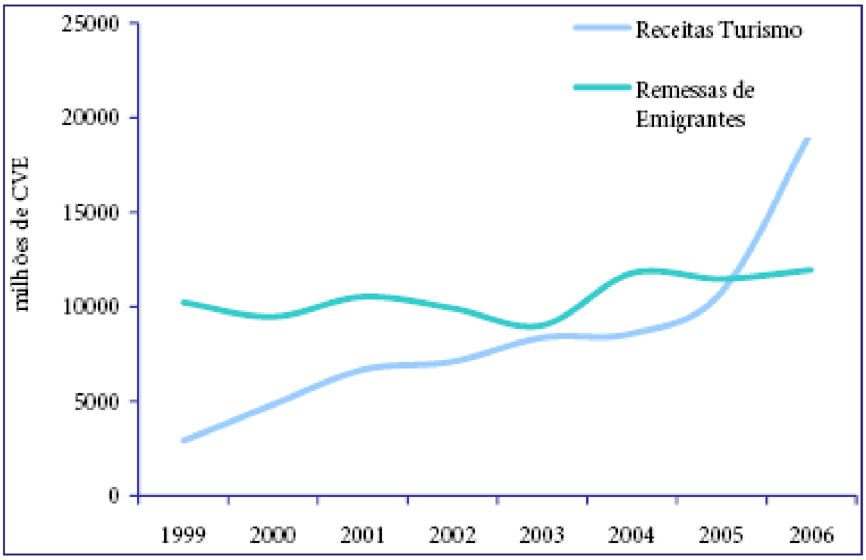
The growth in tourism revenue results from a 26% increase in the search of Cape Verde as a tourism destination in the past four years[294], an increase

286 See Table 11. Cape Verde: Approved Foreign Direct Investments (2001-2006) below.
287 RÉPUBLIQUE DU CAP VERT (2006): 18
288 BANCO DE CABO VERDE (2007): 73
289 See Figure 10. Cape Verde: Tourism Revenue Growth (1995-2006)
290 BANCO DE CABO VERDE (2007): 31
291 idem, ibidem
292 BANCO DE CABO VERDE (2007): 69
293 BANCO DE CABO VERDE (2007): 53. In 2006, direct financial aid totaled ECV 4,170.4 million, food aid ECV 415.5 million, and budgetary aid amounted to ECV 1,203.5 million, totaling ECV 5,789.4 million in ODA.
294 CABO VERDE INVESTIMENTOS (2007): 10

considerably higher than world (4.5%) and African averages (9%). Additionally, there has been an increase, from 3.9 to 4.6 nights, in the average stay of foreign tourists[295].

It seems, therefore, evident that the tourism sector is assuming an increasingly important role in mobilizing domestic resources and securing development funding in Cape Verde, clearly outperforming emigrants' remittances[296] and ODA[297].

Figure 11. Cape Verde: Tourism Revenue and Emigrants' Remittances



Source: BANCO DE CABO VERDE (2007)

Chapter III in a Nutshell:

Cape Verde, a small North Atlantic archipelago, colonized by the Portuguese since 1460, is today a 32 year-old independent country, home to a thriving (but fragile) economy, despite its many vulnerabilities and structural handicaps, primarily due to insularity and smallness. Regardless of its relatively good economic and social performance, sustained

295 BANCO DE CABO VERDE: 31

296 See Figure 11. Cape Verde: Tourism Revenue and Emigrants' Remittances below.

297 As previously stated, the importance of ODA relative to GDP has shown, over the last years, a clear descending pattern.

over the years through good governance practices, the country is still extremely dependent on external capital inflows, namely ODA and emigrants' remittances. Since independence, these resources have been responsible for the country's remarkable economic growth and social development, as confirmed by the third best HDI score in sub-Saharan Africa held by Cape Verde. Today, along with these resources, impressively growing inflows of FDI, particularly directed at the tourism sector, keep the economy well afloat, in the midst of considerable international challenges.

CHAPTER IV

GRADUATION AND ITS IMPLICATIONS

This chapter discusses, in section 1, the background of Cape Verde's LDC graduation process and introduces the country's current situation regarding the three graduation criteria[298]. The probable changes following Cape Verde's exit from the LDC list are also considered, as well as aspects related to the need to overcome aid dependence.

Section 2 examines issues related to the three-year transition period provided by the UN, namely, the desired contributions of international partners, expected to play a key role in helping to guarantee Cape Verde's smooth transition. The experience of Botswana – where graduation took effect in very different and considerably more positive economic circumstances – is discussed in section 3. Lastly, policy recommendations expected to help Cape Verde sustain its post-LDC status are presented, as well as issues and concerns that cannot be fully addressed prior to graduation.

1. Graduation and its Immediate Consequences

For the first time, in the 1991 triennial review of the LDC list, Cape Verde surpassed by 5.9%[299] the exit threshold for *per capita* income, without meeting any of the other two graduation criteria (i.e., human capital and economic vulnerability). Three years later, the country surpassed by 17.6% the exit threshold for *per capita* income and by 21.2% the exit threshold for human capital, meeting for the first time

298 See Part I, Chapter II, Section 2. The Three Graduation Criteria
299 CNUCED (2003): 8

two of the three graduation criteria[300]. According to CNUCED (2003), "*ce contexte apparaissait comme résultant largement de l'impact socio-économique positif du financement extérieur reçu par le Cap-Vert*"[301].

In the 1997 triennial review of the LDC list, Cape Verde again surpassed the exit threshold for *per capita* income, this time by 4.6%, and the exit threshold for human capital by an impressive 32.5%. According to the CDP *"le Cap-Vert [sera] retiré de la liste s'il continue à satisfaire les critères de sortie lors de la prochaine révision de la liste en 2000, sous réserve d'une évaluation plus détaillée de sa situation à cette date"*[302].

In 2000, the country met, for the third consecutive time, two of the three LDC graduation criteria: *per capita* income (with a *per capita* GDP 5.2% higher than the graduation threshold) and human capital (which decreased from 32.5% higher than graduation threshold in 1997 to 6.8% higher in 2000)[303]. In April of that year, the CDP noted that Cape Verde *"apparaissait comme un des pays en développement les plus vulnérables selon l'indice de vulnérabilité économique, car le pays se situait à seulement 54% du seuil de sortie au titre de ce critère"*[304]. Taking this into account, the Committee recommended that Cape Verde's graduation be re-evaluated in the 2003 triennial review of the LDCs list.

In 2003, having met, yet again (for the fourth consecutive time) graduation thresholds for *per capita* income and human capital, the country was considered apt to graduate by the CDP – a recommendation endorsed by UN General Assembly resolution A/59/210, of 20 December 2004, notwithstanding the country's still high economic vulnerability record[305].

300 CNUCED (2003): 8
301 CNUCED (2003): 9
302 idem, ibidem
303 CNUCED (2003): 10
304 idem, ibidem
305 See Figure 12. Cape Verde's Situation Regarding the Three Graduation Criteria

Following a three-year transition period, which started in 2005, after the adoption of resolution A/59/210, the country will effectively graduate from LDC status in January 2008 and as a result probably lose most of the international special treatment specifically aimed at LDCs (i.e., Official Development Assistance (ODA), trade benefits and technical assistance), from which it had benefited since 1977, when added to the list of LDC. It will not, however, lose island-specific concessions provided by multilateral partners such as the World Bank (WB) and the European Union (EU)[306].

Actually, Cape Verde's graduation from LDC status will have no impact within the WB framework, since ***LDC status and WB country classification are unrelated***. In fact, it is interesting to note that ***Cape Verde has been a MIC from the World Bank's viewpoint for many years***[307]. LDC status is, therefore, a UN concept only, with implications merely within the UN.

Moreover, graduation is not an exact science and the actual changes graduation will cause in ODA disbursements, cannot be mechanically identified.In fact, "*il est quasi-impossible de pouvoir discerner avec certitude dans quelle mesure le montant de l'APD (et les modalités s'y rapportant) est octroyé en vertu de l'appartenance à la catégorie des PMA, ou pour d'autres raisons*"[308].

What can be asserted with a reasonable degree of certainty is that, once it has lost LDC status, Cape Verde will no longer benefit from LDC-specific measures and preferential arrangements, notably those established in the context of international conferences or within the WTO. Yet, graduation will not eliminate the country's inherent vulnerabilities, since the structural handicaps, stemming primarily from geophysical characteristics, will continue to pose challenges that Cape Verde is still not able to address on its own. In addition to the country's permanent or quasi-

306 See Part I, Chapter I, Section 3.3. In Search of SIDS-Specific Special and Differential Treatment

307 See Table 5: Lower and Upper-Middle-income Economies (96)

308 RÉPUBLIQUE DU CAP VERT (2006): 24

permanent constraints (economic, geographic and environmental), security has been identified as a possible future liability[309], because, if ill managed, it can obstruct the country's development process by diverting substantial resources from investment in the social sector.

Thus, from January 2008 on, the country will need to adapt to a new reality, where (contrary to what happened thus far) aid will to a lesser extent be the centerpiece of the development strategy. But then again, many development partners have actually come forward to guarantee that *"le statut de PMA était seulement un facteur parmi d'autres qui avaient déterminé leur niveau d'aide au développement et que la graduation n'aurait aucun effet* <u>direct</u> *sur l'octroi d'une telle assistance à un pays individuel"*[310]. Statements like this one and cooperation agreements already in place[311], lead us to believe that ***Cape Verde will, after its graduation, continue to have access to concessionary assistance from bilateral and multilateral partners***. Moreover, according to the Organization for Economic Cooperation and Development (OECD), worldwide aid disbursement is expected to increase by 62% between 2004 and 2010[312], which might be a positive indication for Cape Verde's post-LDC era.

In short, ***following Cape Verde's graduation, ODA inflows will depend, as they do now, on several other factors, not exclusively on LDC status***. In fact, *"rien ne permet de craindre un effondrement du montant de l'APD et d'un durcissement de ses modalités au Cap-Vert dans les prochaines années. Si dans quelques cas, certains pays ont même anticipé la sortie, en réduisant leur programme, certaines autres sources envisagent un essor ou des améliorations"*[313].

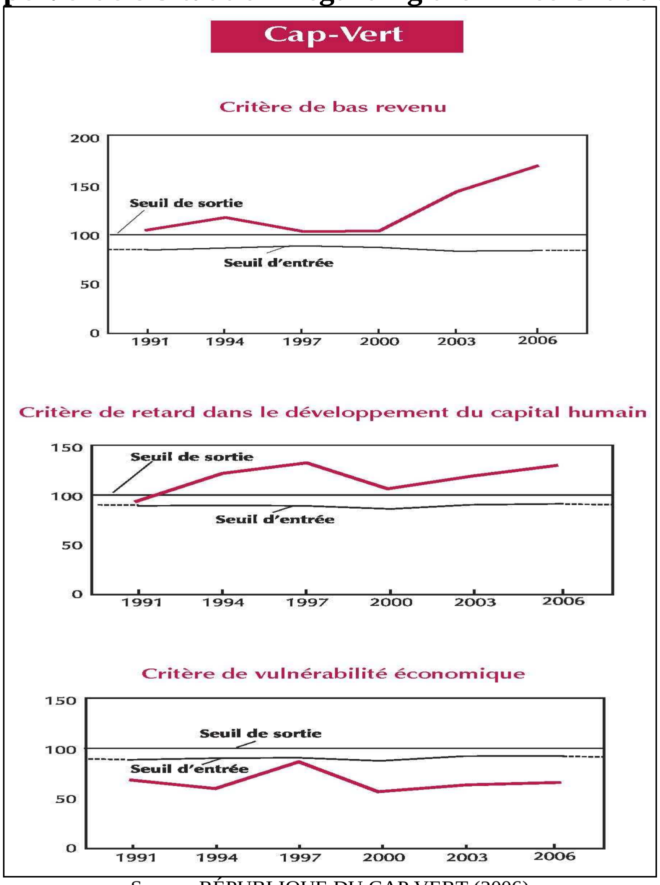
309 RÉPUBLIQUE DU CAP VERT (2006): 20
310 RÉPUBLIQUE DU CAP VERT (2006): 24
311 See Table 12. Cape Verde: Development Partners' Contribution (2001-2005) & Future Actions Following Graduation
312 RÉPUBLIQUE DU CAP VERT (2006): 28
313 RÉPUBLIQUE DU CAP VERT (2006): 28

Be that as it may, the continued support and cooperation of the international community will be vital for the country's development, even after graduation.

1.1 Cape Verde's Situation Regarding the Three Graduation Criteria

Cape Verde's current situation regarding the three graduation criteria is summed up in Table 1 and Figure 12, below.

Figure 12. Cape Verde's Situation Regarding the Three Graduation Criteria



Source: RÉPUBLIQUE DU CAP VERT (2006)

As can be clearly seen, even though Cape Verde presents a *per capita* Gross National Income (GNI) of US$ 1,487 (well above the graduation threshold of US$

900) and a Human Asset Index (HAI) score of 82.1 (well above the graduation threshold of 61), its Economic Vulnerability Index (EVI) score is roughly 58, considerably worse than the graduation threshold of 34[314].

Overall, Cape Verde is performing well in terms of income and human development, but remains quite vulnerable to external shocks, as clearly depicted in Figure 12. In fact, Cape Verde's high economic vulnerability is believed to be the evidence of a vulnerability that is higher than that of conflict and post-conflict countries[315].

When comparing data from the 2003 and 2006 triennial reviews of the LDCs list, we see that ***Cape Verde improved its score in terms of GNI and HAI (one of the best in Sub-Saharan Africa), while marginally deteriorating its EVI score.*** This means that, today, with an EVI score of 57.9, the country is economically more vulnerable than in 2003, when it presented an EVI score of 56.7. In fact, "*les deux variables qui contribuent le plus lourdement à marquer la vulnérabilité du Cap-Vert (…) sont la petite dimension de l'économie (…) et le degré très élevé d'instabilité de la production agricole. A la lumière de ce dernier indicateur, le pays se situait au premier rang (était considéré comme le plus instable) parmi 128 pays en développement en 2000 (sur la base d'une observation relative à la période 1979-1998) et bat encore ce record en 2003 (période 1979-2001). Cet élément d'instabilité reflète la fréquence de la sécheresse, dont est victime le Cap-Vert de façon chronique*"[316].

This situation exemplifies, to some extent, the "Island Paradox" by showing that improvements in income and advancements in social indicators have not induced significant structural progress in Cape Verde, or reduced economic vulnerability (to the contrary). The truth is that certain structural handicaps are

314 See Part I, Chapter II, Section 2. The Three Graduation Criteria

315 GAT (2007): 1

316 CNUCED (2003): 13

extremely difficult (if not impossible) to surpass. For example, knowing that only 10% of Cape Verde's soil is arable and that the lack of rain is a chronic problem, improving the country's extremely deficient agricultural production capacity[317] (and, consequently, insure food safety) is certainly one of the country's main challenges, given its direct impact on economic vulnerability[318].

An added vulnerability currently haunting Cape Verde's development – and not considered in the UN's methodology – is the one related to security issues, representing costly budgetary and institutional implications. In fact, *"la localisation stratégique, (…) et l'extension du littoral et de la zone économique exclusive rend le Cap-Vert particulièrement exposé aux nouvelles menaces telles que le trafic de drogue et des personnes, l'immigration illégale, et la criminalité internationale. Indépendamment des aspects strictement sécuritaires, la lutte contre ces menaces se traduit par une grande pression sur le budget de l'Etat, déjà serré, avec un risque de drainer les ressources des secteurs sociaux pour faire face aux défis de sécurité"*[319].

1.2. Expected Changes Following Graduation

As previously stated, the extent of changes, particularly those related to the role of Cape Verde's partners following graduation, is by no means certain. The same can be stated in regard to the impact that graduation will have on the country's development. Thus, development partners' future commitments towards Cape Verde cannot be anticipated with certainty and, as a result, nor can the future impact of graduation. ***Establishing and maintaining strong relations with international partners and continuously guaranteeing good governance and transparent***

317 See Figure 13. Cape Verde: Cereal Production and Deficit, 1990-2002 (in tons)

318 See Part I, Chapter I, Section 3.2.1. Economic Vulnerability Index: Timetable and Considerations Regarding its Emergence

319 GAT (2007): 1

political practices are much more decisive for the country's development than graduation itself.

Yet, we can point out some aspects that will most definitely change following the country's graduation, notably the loss of LDC-related advantages (specifically related to ODA and international market access). This loss might lead to the (sometimes mistaken) belief that the country's development will unavoidably be jeopardized. This negative perception has, in fact, been the argument behind the requests for graduation deferment made by the countries found eligible to graduate from the LDC list, and has been the force behind the adoption of UN General Assembly resolution A/59/209 on smooth transition strategy for countries graduating from the LDC list[320].

The connection between the loss of LDC special treatment and negative impacts on development is not linear. In fact, as seen earlier[321], contrary to what would be expected, membership on the LDC list has not been a decisive factor in securing special and differential treatment to these countries, being more a question of rhetoric than one of practice[322].

The case of Cape Verde should be no different – which is to say that its graduation will entail a loss of LDC-related advantages, but not necessarily negative impacts on its development. The impact of graduation (negative or positive) will depend on how the country is able to manage its transition period, which will lay the ground for future development accomplishments, in partnership with the international community.

ODA might decrease with the country's exit from the LDC list. Taking into account that, at present, ODA funds more than 80% of public investment in Cape

320 See Section 2. In Between: Ensuring a Smooth Transition Process

321 See Chapter I, Section 1.2. Positive Discrimination: Benefits Associated with the LDC Status

322 In fact, G77 and China recognized in July of 2007, during ECOSOC's review of the implementation of the Brussels Program of Action (BPOA) for the LDCs for the Decade 2001-2010, that "the responsive support from (…) development partners in terms of fulfilling their commitments made in the BPOA is insufficient and at times completely lacking". GROUP OF 77 & CHINA (2007): 2

Verde[323], ***even a slight ODA decrease might represent a considerable negative impact in the country's sources of development financing*** (if there is no diversification of such sources). In a worst-case scenario, given the dependence on aid, the country's GDP performance could also be put at risk, which would, ultimately, imply an increase of unemployment and poverty and less social investment (for instance, in education and health). In short, "*il risque de mener à une érosion des acquis sociaux existants et pourrait avoir des conséquences néfastes dont les dimensions sont imprévisibles*"[324].

In terms of the trade benefits and special conditions associated with LDC status, these will also be lost once Cape Verde has graduated. In a worst-case scenario, graduation will have negative consequences on the national export sector, which might result in, for example, more unemployment and less external reserves. However, considering that the weight of exports in the economy is not significant, even a reduction of exports by 50% (resulting from graduation) would represent less than 0.9% of GDP[325]. In addition, WTO accession conditions will surely be less favorable[326], making it more difficult (though not impossible) for Cape Verde to become a member. Therefore, it seems fair to assume that ***the negative impact of graduation on trade will be somewhat limited.***

Yet, Cape Verde's graduation will signify the loss of eligibility for the European Union's Everything But Arms (EBA) initiative, but will not put at risk the benefits currently being accrued through the United States' African Growth and Opportunity Act (AGOA)[327]. This results from the fact that the United States does not use the UN list of LDCs to identify countries eligible to benefit from

323 See Part II, Chapter III, Section 2.2.1. Is There Aid Dependence?

324 RÉPUBLIQUE DU CAP VERT (2006): 37

325 RÉPUBLIQUE DU CAP VERT (2006): 38

326 Negotiations for Cape Verde's accession into the WTO are currently underway. To have an idea of the complexity of these negotiations, other cases can be mentioned, namely Nepal and Cambodia, countries that went through 14 and 10 years of negotiations, respectively, before gaining access into the WTO. The case of Vanuatu is even more dramatic, since after years of negotiations, that ended in 2001, the country is still not a WTO member.

327 See Part I, Chapter I, Section 1.2. Positive Discrimination: Benefits Associated with the LDC Status

concessions under AGOA; it uses, instead, the concept of 'lesser developed country' – a group of countries evaluated by criteria other than those used by the UN to identify LDCs.

By boosting the country's confidence, graduation may give renewed impetus to Cape Verde's quest for development and enhance its already positive international image. In this sense, it is possible for it to capitalize on its good reputation among international partners, which is an advantage for a country such as Cape Verde, with little more to offer.

1.3. Catch-22 or a (Forced and Much-Needed) Way Out of Aid Dependence?

The proposal to graduate Cape Verde from the LDC list can certainly be considered a catch-22[328] situation. A situation that – depending on one's perspective – can be viewed either as a blessing (in this case, international recognition of the country's successful efforts to promote human development and economic growth) or as a curse (since graduation might entail a disruption in the country's successful implementation of a development model based, to a great extent, on international support measures).

In fact, the lack of an international support system to assist newly graduated countries might seem equivalent to a fall in the abyss, since, if ill-prepared[329], countries can be 'left on their own'. In the case of Cape Verde, ***graduation will probably accelerate, even if mildly, the downward trend that the ratio Aid/GDP has been presenting over the last few years[330] and very possibly change the structure of ODA***. In effect, future ODA directed at Cape Verde will, most likely than not, completely lose its food component (disregarding the country's acute

328 Catch-22 is an idiomatic expression, meaning a problematic or conflicting situation, a dilemma, a paradox.

329 Which is to say: if during the transition period, previewed in UN General Assembly resolution A/59/209, the country is unable to gather enough international support to help 'cushion' the negative impacts associated with the loss of LDC status.

330 See Figure 5. Cape Verde: ODA in absolute value and as % of GDP (1990-2006)

difficulty in guaranteeing food security[331]), while concessional loans will tend to surpass grants.

However, if well managed, graduation and the consequent changes in ODA should trigger internal changes in terms of the Government's selection of public investment financing sources. Taking into account that, for some time now, ODA is responsible for more than 80% of public investments, if aid funds are expected to be fewer and more expensive (with loans surpassing grants), ***efforts should be made to diversify public development financing sources away from ODA***. This will, in turn, signify a much-needed way out of the country's excessive aid dependence.

All things considered, Government authorities should (and, in fact, seem to) steer away from a defensive outlook towards graduation and regard it as an important development milestone and opportunity, one that can enable the country to achieve progress toward greater economic independence.

2. In Between: Ensuring a Smooth Transition Process

2.1. Smoothing Out Cape Verde's LDC Exit

UN General Assembly resolution A/59/209, approved in 2004, established a three-year smooth transition period before graduation takes effect. During this period, the graduating country should implement, in partnership with development partners, a "transition strategy to adjust to the phasing out, (…), of the advantages associated with its membership on the list of least developed countries"[332]. It was precisely with this is mind, that the Government of Cape Verde created the Transition Support Group (GAT), on which it takes part along with some of its multilateral (ADB, WB, EU and the UN System) and bilateral (Austria, China, France, Luxembourg, Netherlands, Portugal, Spain, and USA) partners. Actually,

331 See Figure 13. Cape Verde: Cereal Production and Deficit, 1990-2002 (in tons)
332 UNITED NATIONS (2004a): 2

"en prenant l'initiative de créer le GAT, un des objectifs du Cap-Vert est de se prémunir contre de possibles effets négatifs. Le Gouvernement ne fait pas autre chose que de se conformer à l'esprit et à la lettre de la Résolution 59/209"[333].

The GAT was created on May 30th 2006, and since then has met twice: in October of 2006 and in June of 2007, with a view to building international goodwill (which, from 2008 on, is expected to be translated into concrete support measures) in the context of graduation. The GAT is committed to support and follow-up Cape Verde's exit from the LDC category.

Aside from the work currently being developed by the GAT on the diplomatic front, following the recommendations contained in UN General Assembly resolution A/59/209, the Government has ordered studies[334] on the economic impact of the country's graduation, in an attempt to devise effective responses to this change.

2.2. The Expected Contribution of International Partners

Once Cape Verde's graduation has become effective, in January 2008, the contribution of international partners will be crucial, as it has been since the country's independence. Despite the international acknowledgment of the country's successful efforts to promote human development and economic growth, Cape Verde continues to face major development challenges, which, given its structural handicaps, it cannot properly address on its own. It seems, thus, fair to assert that *"le Cap-Vert pourra difficilement relever seul les défis auxquels il est confronté"*[335].

For that reason, the continued engagement of bilateral and multilateral partners to support Cape Verde's development will be extremely important in the years following its graduation. In fact, in Cape Verde, as in many other MICs, "there

333 RÉPUBLIQUE DU CAP VERT (2006): 34 - 35

334 REPUBLICA DE CABO VERDE (2005) and REPUBLIQUE DU CAP VERT (2006)

335 GAT (2007): 2

is a continuing role for international development institutions, such as the World Bank, (…) as a substantial part of the development agenda in these countries remains unfinished"[336].

The Government has identified several measures that are considered decisive for the country's economic sustainability, and expected to be adopted by its international partners. In fact, Millennium Development Goal 8 – *Develop a global partnership for development* – calls for precisely this kind of shared responsibility, with the aim of helping poorer countries surpass their vulnerabilities and achieve development. With this in mind (and to help build resilience in order to overcome the country's inherent vulnerabilities[337]), Cape Verde's international partners are expected to[338]:

- Clearly express their agreement with the Government's policies and strategies and align ODA disbursements according to national priorities, set internally;
- Confirm their purpose to support Cape Verde in a spirit of "smooth transition";
- Express appreciation for good governance practices and efficient aid management mechanisms adopted in Cape Verde.

In terms of external resource mobilization and its management, the following measures have been identified[339]:

- International partners should attempt to maintain aid volume, especially bilateral aid, at least at its current level, and favorably consider the option of increasing ODA levels, preferably to an average yearly disbursement of around US$ 200 million during the 2008-2010 period, which is considered essential for the 10% economic growth rate envisaged by the Government;

336 FALLON *et al.* (2001): 22
337 See Part I, Chapter I, Section 3.2.3. Overcoming Vulnerability and Building Resilience
338 RÉPUBLIQUE DU CAP VERT (2006): 5
339 RÉPUBLIQUE DU CAP VERT (2006): 6

- Give preference to grants over loans;
- Maintain the favorable conditions of concessional loans;
- Agree on interest subsidies for loans acquired through the financial market and provide collateral for credit obtained through commercial banks;
- Give preference to budgetary aid;
- Accept and apply the principle of greater aid predictability;
- Support debt write-off or relief, namely through the extension of Multilateral Debt Relief Initiatives (MDRI) to Cape Verde.

With a view to both increasing Cape Verde's involvement in international trade and reinforcing its competitive advantages, the following measures, to be undertaken by international partners, have been identified[340]:

- Recognize and support Cape Verde's need for special and differential treatment at the WTO, for a period of at least 10 years following its graduation;
- Support the implementation of the Integrated Framework for Trade-Related Technical Assistance to LDCs[341] in Cape Verde, even after its graduation;
- Support Cape Verde's accession to the WTO;
- Continue to grant trade preferences to Cape Verde, notably through the EU's EBA Initiative and the United States' AGOA;
- Negotiate immigration agreements with the Cape-verdean Government.

As optimistic as some of these measures might seem, the truth is that they are feasible. In reality, the international community itself, specifically the UN, has invested a lot of time and effort in prescribing development remedies for poorer

340 RÉPUBLIQUE DU CAP VERT (2006): 6 - 7

341 The Integrated Framework for Trade-Related Technical Assistance to least-developed countries (IF), in effect since 1996, is a multi-agency, multi-donor program that assists least developed countries to expand their participation in the global economy by enhancing their economic growth and poverty reduction strategies. The participating agencies are IMF, ITC, UNCTAD, UNDP, World Bank and the WTO (www.integratedframework.org).

countries[342], namely LDCs, expecting that these would help them promote development, overcome the cycle of poverty and eventually rise to higher income levels. However, as of today, the track record is noticeably poor: since the establishment of the LDCs list by the UN, in 1971, only one country has effectively been able to graduate from it (Botswana[343]), two countries are earmarked to graduate (Cape Verde and Maldives), and another country is now (reluctantly) entering its three-year transition before graduation (Samoa[344]).

One could argue that Cape Verde's expectations in terms of international contributions are unreasonable, because once graduated it should be prepared to 'walk on its own' and no longer need international support. However, we have seen that graduation will not dramatically change, either favorably or unfavorably, the many development-hampering structural handicaps Cape Verde has been facing (i.e., insularity, territorial discontinuity, prolonged droughts, deforestation, smallness, etc.). Indeed, graduation itself will change little in terms of the country's adverse geographical and environmental framework. The few changes will probably be in terms of the international preferential treatment Cape Verde has benefited from.

Overall, it seems to be in the interest of the international community to help implement the development support measures identified by the Cape-verdean Government, which, in reality, are nothing more than those inscribed in most internationally agreed instruments endorsed by the UN. Not doing so might defeat expectations and offer a grim future to potential graduation cases, thereby hampering the credibility of the UN in its efforts to prevent the risk of disruption in the development of countries that will be losing LDC status.

342 Examples of this include the several action platforms generated in the many international conferences and consensuses promoted by the UN during the 1990's, as well as the Monterrey Conference on Financing for Development, the Johannesburg World Summit on Sustainable Development and the Millennium Development Goals agreed by the international community in 2000.

343 See Part I, Chapter II, Section 5. Botswana: The Only Graduation Example to Date

344 See Section 5. Some Unanswered Questions

3. Is Botswana's Post-Graduation Experience a Development Example for Cape Verde?

Given Cape Verde's geographic particularities, economic distinctiveness and environmental challenges, it seems fair to state that its graduation process is, surely, unparalleled. In fact, being the first SIDS to ever graduate, Cape Verde will undoubtedly set an important precedent for other island-nations, representing an important example for future graduation cases.

As previously acknowledged, the only other graduation example to compare Cape Verde with is Botswana[345], the only country to ever graduate from the LDC category. In the case of Botswana, however, graduation took effect in very different, more positive economic circumstances. Unlike Cape Verde, Botswana has no territorial discontinuity, no major distressful environmental conditions and is rich in natural resources (notably minerals, among them diamonds). Another positive aspect is related to the fact that Botswana has a prosperous and influential neighbor – South Africa – with which it has established a long-standing and relatively well-functioning trade and monetary union, with positive economic consequences.

Cape Verde, on the other hand, is located in a region that, although strategic (an intersection connecting Africa, Europe and America), is not economically vibrant. In fact, the high level of illegal immigration movements taking place in the region (a lot of them heading for Cape Verde, considered a stopping point towards Europe) is a good example of the economic and social problems lived in that African sub-region. The establishment, in 1975, of the Economic Community of West African States (ECOWAS), of which Cape Verde is a member, has not eased the region's complex economic problems, nor has it been able to stimulate trade among its member states and, consequently, promote economic growth.

345 See Part I, Chapter II, Section 5. Botswana: The Only Graduation Example to Date

Thus, apart from graduation itself, very little similarities between Cape Verde and Botswana can be identified. One of the few such similarities is, certainly, both countries' proved commitment to the rule of law, democratic values and political stability.

Notwithstanding the above mentioned differences, some aspects of Botswana's successful post-graduation experience can, in fact, represent good examples to pursue and replicate, namely in the following fields: good governance practices, high quality of institutions, sensible management of aid resources and meritocracy-based political and economic system.

In addition, in terms of ODA inflows, Botswana's post-graduation experience might shed some light, as dim as it might be (given the above-mentioned differences), into what could happen in Cape Verde after its graduation becomes effective, in 2008. After graduation in 1994, ODA flows to Botswana suffered considerable fluctuations[346], signaling a clear downward trend that had, however, started some years prior to the country's exit from the LDC list.

However, as previously stated, *"les (...) «impacts» qui seront effectivement observés dans les années à venir concernant le développement du Cap Vert et des relations avec ses partenaires seront davantage la conséquence de facteurs «exogènes» (notamment économiques, climatiques, géopolitiques, technologiques), ainsi que des actions du Cap Vert lui-même, que le simple fait de la graduation. C'est d'ailleurs ce qui ne permet pas de se servir du Botswana comme modèle pour prévoir l'«impact» de la graduation du Cap-Vert"*[347].

What can be unequivocally stated, regarding Botswana post-graduation experience, is the fact that the country has, certainly, not suffered economic turmoil in the years following its graduation. In fact, it has experienced continued economic

346 See Figure 14. Botswana: Evolution of ODA (1990-2004)
347 RÉPUBLIQUE DU CAP VERT (2006): 33

growth[348], despite decreasing levels of ODA. However, *"cela ne prouve évidemment pas qu'il a «bénéficié» d'avantages «découlant», pour ainsi dire, de sa sortie. Le fait, par exemple, d'être devenu le premier producteur de diamant du monde est une explication autrement plus pertinente"*[349].

4. Sustaining the MIC Status: Policy Recommendations

Along with the need for the continued involvement of Cape Verde's international partners in the country's post-graduation development process[350], it also seems clear that, in order to efficiently tackle and overcome aid dependence, Government authorities will need to continue working towards an increase in domestic resource mobilization. For this reason, the following measures are of particular relevance:

- Continue to actively promote private sector investments, including but not exclusively FDI, namely in the service sector;
- Continue to implement policy measures encouraging the inflow of emigrants' remittances and develop incentives aimed at facilitating the productive use of these resources, by gearing them towards investments, savings, business creation and/or community development projects;
- Further increase fiscal revenue, by implementing measures designed to decrease tax evasion and increase transparency, ensuring a more complete coverage of those obliged to pay taxes.

In promoting private sector investments and FDI inflows (by raising international awareness of Cape Verde as a competitive investment destination and assisting prospective investors in dealing with national regulations) ***the main goal is to, ultimately, have these resources replace, even if partially, the role currently***

348 See Figure 3. Botswana: Real GDP Growth and Per Capita GDP (1997-2007)
349 RÉPUBLIQUE DU CAP VERT (2006): 35
350 See Section 2.2. The Expected Contribution of International Partners

played by ODA (which, in fact, seems to be happening[351]). Moreover, Government authorities seem to, rightly, be making an effort to 'degovernmentalize' development activities, working on incentives intended to encourage private sector actors (local and foreign) to implement productive investment projects that create jobs and, consequently, greatly support the fight against poverty. Guaranteeing FDI inflows – notably, but not exclusively, in the tourism sector – is, therefore, particularly important because, as global capital becomes gradually more mobile, FDI is, as a rule, regarded as one of the most stable forms of capital, since it involves a significant long-term commitment from investors in acquiring business facilities and hiring local employees. By contrast, other forms of capital and investment can be recalled relatively quickly, with little, if any, impact on the country's development.

On the other hand, to encourage remittance transfers, it is important to, in partnership with some of the main destination countries of the Cape-verdean Diaspora, implement policies aimed at neutralizing *"les politiques restrictives des pays d'accueil des émigrants capverdiens, la tendance à la réunification des familles dans les pays d'émigration et l'éloignement des nouvelles générations, (…), [qui] pourraient avoir des effets négatifs sur le volume du flux des remises"*[352]. These policies include, for example, the reduction of transaction costs, increasing the volume of remittances sent through formal channels, with numerous positive macro-economic impacts. In fact, as previously stated[353], remittances increase international reserves, improve the balance of payments, facilitate the import of capital and other goods and serve as potential sources of savings and investments, promoting capital formation and development. Remittances also improve the

351 See Chapter III, Section 2.3. Understanding FDI Inflows in Cape Verde

352 RÉPUBLIQUE DU CAP VERT (2006): 47

353 See Chapter III, Section 2.2. The Role of ODA and Emigrants' Remittances in Financing for Development

standard of living of poor families, decreasing poverty, easing income distribution and levelling out social inequalities.

Unlike FDI, remittances tend to increase in times of economic downturn, when other private capital flows tend to decrease. It is, therefore, economically and politically wise for the Government to focus on policy instruments that will direct increased amounts of remittances through the formal channel, improving, with this, their development impact. These policies, specifically targeted at Diaspora communities, should focus, for example, on setting up premium interest rate accounts and promoting financial literacy programs, aimed at banking the unbanked.

In short, these measures are expected to help close up development funding gaps that will, very possibly, be created with the country's graduation and the consequent loss of certain international preferential treatment. Thus, ***domestic resource mobilization will assume a particularly important role*** in guaranteeing Cape Verde's development financing and economic sustainability.

In addition, ***special attention also needs to be paid to the process of economic integration, preferably with a dynamic and growth-conducive region***. Given Cape Verde's geographic situation, the natural course of action would probably be an association with the West African economic region, through ECOWAS. On paper, at least, this has already been done, with no significant positive economic results for the country so far[354].

Recently, a new opportunity has presented itself: the possibility of a special partnership with the EU, indisputably a much more vibrant economic region, capable of boosting the country's economy. Although some might argue that geographically it would make more sense to partner with ECOWAS, pragmatically (given the currency peg with the Euro, the strong and long-lasting economic relations with Europe, the large Cape-verdean Diaspora living in the old continent

354 See Section 3. Is Botswana's Post-Graduation Experience a Development Example for Cape Verde?

and the geographic proximity) a special partnership with the EU – Cape Verde's main commercial partner since independence – would certainly bring more economic benefits to the country. In fact, research has shown that the development level of adjacent regions explains the economic performance of small economies[355]. "This means that a region in good economic health tends to favor the development of nearby small economies, while a poor region cannot transmit favorable impulses to these countries".[356]

It should, however, be clear that there is no incongruity in establishing a special partnership with the EU while maintaining close ties with ECOWAS. The real challenge is in being able to identify effective synergies in dealing with these two regional axes. Against this background, it does make sense for the country to function as a hub or mediator of goods and interests from and to Europe, via Cape Verde[357].

Cape Verde will also ***need to optimize the positive international image it currently detains***, by continuing to invest in a worldwide diplomatic campaign based on *"«réalisations» ou «prix» obtenus comme celui du deuxième meilleur gestionnaire mondial de l'IDA (et le premier en Afrique) en 2005, un des premiers pays à mettre en œuvre le Millennium Challenge Account (MCA), et le seul jusqu'ici à qui l'on a confié la gestion directe à la partie nationale"*[358]. However, this cannot be done in a way that will send the *"message erroné que le Cap Vert a atteint un niveau de décollage auto-entretenu. Toutefois, on pourrait envisager des actions de communication et de relations publiques avec pour objectif d'ouvrir la voie à des comportements favorables de la part de divers publics cibles. Ceux-ci comprennent les investisseurs étrangers, les entrepreneurs, cadres et syndicats nationaux, les partenaires de l'aide (et leurs opinions publiques soucieuses d'être rassurées que*

355 ESTÊVÃO (2004): 151
356 ESTÊVÃO (2004): 151, translated by the author
357 NEVES (2004): 18
358 RÉPUBLIQUE DU CAP VERT (2006): 45

leurs impôts soient bien utilisés), les partenaires commerciaux, et les capverdiens de la diaspora"[359].

5. Some Unanswered Questions

It is only reasonable to accept that not every issue regarding Cape Verde's graduation can be fully addressed, at least not at this point, as some will only be perceptible after January 2008. In fact, questions such as the extent of ODA redesign (in terms of grants, loans, food aid and technical assistance) or donors' exact take on Cape Verde's status change are not easy to predict. Hence, one can forecast[360] but cannot state with full certainty the exact future reaction that, for example, international financial institutions (IFIs), regional development banks or bilateral partners will have to Cape Verde's status upgrade. Some might choose to continue to support the country's development efforts, some might not and others might decide to adopt less-favorable development support mechanisms[361].

It remains to be seen if Cape Verde's graduation – the first within SIDS – will in fact trigger any sort of international watchdog movement in defense of international SIDS-specific development support measures, notably for economically vulnerable graduating island countries. In this regard, it would make sense for Cape Verde itself to assume a leading role in bringing together – within the UN system, AOSIS and other multilateral platforms – stakeholders interested in pushing this issue forward. Other SIDS, among them Samoa – whose graduation

359 RÉPUBLIQUE DU CAP VERT (2006): 45

360 See Section 1.2. Expected Changes Following Graduation

361 To have an idea of some partners' expected future actions, See Table 12. Cape Verde: Main Development Partners' Contribution (2001-2005) & Future Actions Following Graduation

was endorsed, against its will[362], in the July 2007 substantive session of the ECOSOC[363] – can be a good partner in this endeavor.

Besides, it might also make sense to debate the (long-overdue) issue of an international support system aimed at assisting the development process of MICs – a system, obviously, less ‘invasive’ than that already in place for LDCs. This is because, as it is currently designed, the graduation system seems to be quite askew, as graduating countries are compelled to go, in a short period of time, from one extreme (protective environment with extensive international assistance) to the next (no international support system).

Additionally, it is also not certain if Cape Verde’s graduation – consequence of good governance and sensible aid management – will ultimately be translated into more losses than gains, endangering or disrupting the country’s development. In fact, a burning question is whether or not graduation will end up being unfair and excessively penalizing for Cape Verde, as the very support system that made the country’s development possible, and made it a good graduation candidate, will be, at least theoretically, (abruptly) taken away. In fact, the same type of question is often raised regarding the issue of debt relief; as the most poorly ‘behaved’ countries seem to be the ones that benefit the most from debt write-off measures.

Moreover, it will also be interesting to see if, in a post-graduation scenario, Cape Verde’s already high (and apparently chronic) economic vulnerability[364] will be aggravated, and thus become even more of a development hurdle. Cape Verde’s future performance in this regard can be a good indication of whether or not the graduation rule should in fact be reformed, so that meeting the EVI criterion becomes a *sine qua non* precondition for any graduation candidates.

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362 Like Cape Verde and other SIDS, Samoa did not meet the EVI criterion for graduation, and it considers that its high vulnerability represents a serious development constraint - one that it will not be able to face without an international support system, namely the one it benefited from as an LDC.

363 It is expected that, until December 2007, the UN General Assembly will decide favorably on this ECOSOC graduation appointment.

364 See Chapter IV, Section 1.1. Cape Verde’s Situation Regarding the Three Graduation Criteria

All things considered, with respect to Cape Verde's status upgrade, the main uncertainty can be summed up as follows: will graduation end up being more of a penalty than a prize? As the first island-country to experience graduation, Cape Verde will have to learn by doing.

Chapter IV in a Nutshell:

In 2003, the CDP recommended Cape Verde's graduation from LDC status, after the country had met, for the fourth consecutive time, two graduation criteria: per capita income and human capital. In 2004, the UN General Assembly endorsed this decision, despite the country's still high economic vulnerability. Following a three-year transition period, the country's graduation – the first among SIDS – will take effect in January 2008 and, as a result, LDC-related international support measures are expected to be reduced. Although the exact effects of graduation cannot be easily predicted, it will certainly not eliminate Cape Verde's vulnerabilities and handicaps, which will continue to pose great development challenges. Graduation can, however, induce the diversification of public development financing sources away from ODA, signifying a much-needed way out of aid dependence. Following graduation, the continued engagement of international partners, domestic resource mobilization and economic integration with a dynamic region, among others, will be extremely important to enable Cape Verde to pursue its development efforts in a stable and viable manner.

CONCLUDING REMARKS

The UN's decision to establish the LDC category was a clear effort to facilitate and systematize aid concession to poorer countries facing common development constraints. In order to operationalize such an effort, international support instruments intended to help LDCs overcome development handicaps and eventually graduate from LDC status have been devised and agreed upon by the international community in general. Yet, for some LDCs, specifically those that are also SIDS (24% of LDCs), most development handicaps are of a lasting and permanent nature (e.g., small size, insularity, remoteness), which greatly increases their economic vulnerability. Furthermore, with the current (man-made) threat of climate change, these countries face particularly complex environmental challenges, not adequately addressed by the support instruments provided under the LDC initiative.

Some have questioned the reliability of the current UN graduation rule, which is seen as not doing justice to least developed SIDS in particular. In fact, even though, up until now, most graduation cases have been SIDS (countries that do systematically meet most graduation criteria as a result of the "Island Paradox"), factors related to their particularly harmful economic vulnerability seem not to be given due consideration in the UN graduation rule.

Irrespective of arguments regarding the inadequacy of the graduation rule, Cape Verde's rather unique development experience, and consequent graduation (despite its still high economic vulnerability), proves that a poor and structurally challenged country, with several environmental factors against it, can overcome development hurdles and attain reasonable economic growth and human development. With international partnerships, political stability, good governance, effective and transparent aid management, a meritocracy-based institutional system and a development-oriented political class and civil society it is, indeed, possible.

Being the first SIDS to ever graduate from the LDC list (following a 14-year hiatus since the only other graduation case: Botswana) and the first country to do so under a smooth transition strategy endorsed by the UN General Assembly, Cape Verde is a groundbreaking case. Graduation seemed very unlikely for a country like Cape Verde, with virtually no valuable natural resources and economically fragile, since it maintains, in essence, all its adverse characteristics and handicaps.

One of the concerns regarding graduation is whether it will cause a disruption in Cape Verde's successful implementation of a development model predominantly based, up until now, on international support measures. Thus, there is some uncertainty concerning the country's financial stability, in case most international support measures are in fact withdrawn. It seems, therefore, obvious that there will have to be a strong effort to decrease aid dependency, by broadening development financing options, namely through increased domestic resource mobilization. In this regard, private sector investment (notably in the tourism sector) and the productive use of remittances have been pointed out as good options to follow, given their job creation and capital formation potential.

Finally, it would also be wise for Cape Verde to optimize and gain dividends from a number of other factors playing in its favor: (i) its *large Diaspora* (which, besides regular financial contributions, can function as a valuable source of human capital and/or of dynamic entrepreneurship, capable of gathering international goodwill towards the country); (ii) its *sizeable and strategically positioned EEZ* (that can be used, by western countries, as an important control point for Europe-bound illegal African immigration and other illicit activities); (iii) its *long-lasting relationship with several EU countries* (that can be of great assistance in the country's efforts to establish a special partnership with the Union, with evident economic advantages); (iv) its *positive international image* as a model African democracy gradually progressing towards sustainable development (which can earn it considerable international support outside of the LDC framework).

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ANNEXES

Table 1. List of LDCs, Small Developing States and SIDS

Country	LDC	Small Developing State	SIDS	Per capita GNI (US$)	HAI	EVI
Afghanistan	X			122	11.5	60.3
Angola	X			823	28.8	43.4
Bangladesh	X			403	50.1	25.8
Benin	X			450	39.9	52.0
Bhutan	X	X		690	44.4	46.6
Burkina Faso	X			303	24.6	46.7
Burundi	X			90	20.1	59.9
Cambodia	X			303	46.0	52.3
Cape Verde	X	X	X	1,487	82.1	57.9
Central African Republic	X			277	27.3	50.8
Chad	X			237	22.2	62.8
Comoros	X	X	X	450	37.8	63.6
Democratic Republic of the Congo	X			103	21.2	42.6
Djibouti	X			943	44.7	60.2
Equatorial Guinea	X	X		3,393	55.6	70.7
Eritrea	X			163	34.1	64.0
Ethiopia	X			100	26.6	39.3
Gambia	X	X		277	41.5	55.7
Guinea	X			433	36.2	34.6
Guinea-Bissau	X	X		143	25.6	66.2
Haiti	X		X	410	38.5	56.8
Kiribati	X	X	X	917	90.5	84.3
Lao People's Democratic Republic	X			350	54.0	57.9
Lesotho	X	X		623	61.2	50.5
Liberia	X			117	28.9	68.0
Madagascar	X			273	41.6	41.6
Malawi	X			163	40.5	48.8
Maldives	X	X	X	2,320	81.9	50.5
Mali	X			300	21.5	42.6
Mauritania	X			403	46.4	40.6
Mozambique	X			220	25.6	43.6
Myanmar	X			167	68.4	42.2
Nepal	X			243	56.0	37.4
Niger	X			203	12.7	50.0
Rwanda	X			220	33.6	59.3
Samoa	X	X	X	1,597	90.4	64.7
Sao Tome and Principe	X	X	X	333	63.6	58.2
Senegal	X			557	38.8	41.8
Sierra Leone	X			190	15.7	63.7
Solomon Islands	X	X	X	557	70.6	56.9
Somalia	X			193	5.4	68.4
Sudan	X			463	49.0	49.9
Timor-Leste	X	X	X	467	55.3	65.2
Togo	X			323	46.0	45.8
Tuvalu	X	X	X	1,267	89.7	91.9
Uganda	X			253	49.0	47.4
United Republic of Tanzania	X			313	32.8	34.1
Vanuatu	X	X	X	1,187	66.0	64.3
Yemen	X			523	48.3	42.1
Zambia	X			390	35.2	46.2

Source: UNCTAD, AOSIS, CDP (2006). Shaded countries indicate LDCs that are also SIDS.

Table 2. Developing Micro States (13)

Country	Surface (Km2)	Population (thousand)	GDP (PPP) US$
Saint Kitts	261,00	446	12,510
Maldives	298,00	300	4,485
Malta	316,00	400	17,273
Grenada	344,00	100	7,580
Grenadines	389,30	100	5,555
Seychelles	404,00	1,000	12,508
Barbados	430,00	300	15,494
Antigua	442,00	100	10,541
Saint Lucia	616,00	151	5,703
Singapore	620,00	4 000	23,356
Bahrain	622,00	600	15,084
Dominica	751,00	100	5,880
São Tome & Príncipe	964,00	200	1,792

Source: TOLENTINO (2007)

Table 3. Three Different Lists (Economic, Political and Institutional) of SIDS

SIDS implicitly recognized by the UN (48) **The economic list**	SIDS within the membership of AOSIS (39) **The political list**	Members and observers of AOSIS (43)	SIDS according to the UN Secretariat (46) **The institutional list**
American Samoa	*American Samoa*	*American Samoa*	*American Samoa*
Anguilla	Antigua and Barbuda	Antigua and Barbuda	Antigua and Barbuda
Antigua and Barbuda	Bahamas	Bahamas	*Aruba*
Aruba	Barbados	Barbados	Bahamas
Bahamas	Cape Verde	Belize	Bahrain
Bahrain	Comoros	Cape Verde	Barbados
Barbados	*Cook Islands*	Comoros	Belize
British Virgin Islands	Cuba	*Cook Islands*	Cape Verde
Cape Verde	Dominica	Cuba	Comoros
Comoros	Fiji	Dominica	*Cook Islands*
Cook Islands	*Guam*	Fiji	Cuba
Cuba	Grenada	*Guam*	Dominica
Dominica	Haiti	Grenada	Dominican Republic
Dominican Republic	Jamaica	Guinea-Bissau	Fiji
Fiji	Kiribati	Guyana	*Guam*
French Polynesia	Maldives	Haiti	Grenada
Guam	Marshall Islands	Jamaica	Guinea-Bissau
Grenada	Mauritius	Kiribati	Guyana
Haiti	Micronesia (F. States of)	Maldives	Haiti
Jamaica	Nauru	Marshall Islands	Jamaica
Kiribati	*Netherlands Antilles*	Mauritius	Kiribati
Maldives	*Niue*	Micronesia (F. States of)	Maldives
Marshall Islands	Palau	Nauru	Marshall Islands
Mauritius	Papua New Guinea	*Netherlands Antilles*	Mauritius
Micronesia (F. States of)	*Puerto Rico*	*Niue*	Micronesia (F. States of)
Montserrat	Samoa	Palau	Nauru
Nauru	Sao Tome and Principe	Papua New Guinea	*Netherlands Antilles*
Netherlands Antilles	St. Kitts and Nevis	*Puerto Rico*	*Niue*
New Caledonia	St. Lucia	Samoa	Palau
Northern Mariana Is.	St. Vincent and the Gr.	Sao Tome and Principe	Papua New Guinea
Niue	Seychelles	St. Kitts and Nevis	Samoa
Palau	Singapore	St. Lucia	Sao Tome and Principe
Papua New Guinea	Solomon Islands	St. Vincent and the Gr.	St. Kitts and Nevis
Puerto Rico	Timor-Leste	Seychelles	St. Lucia
Samoa	Tonga	Singapore	St. Vincent and the Gr.
Sao Tome and Principe	Trinidad and Tobago	Solomon Islands	Seychelles
St. Kitts and Nevis	Tuvalu	Suriname	Singapore
St. Lucia	*United States Virgin Is.*	Timor-Leste	Solomon Islands
St. Vincent and the Gr.	Vanuatu	Tonga	Suriname
Seychelles		Trinidad and Tobago	Timor-Leste
Singapore		Tuvalu	*Tokelau*
Solomon Islands		*United States Virgin Is.*	Tonga
Timor-Leste		Vanuatu	Trinidad and Tobago
Tonga			Tuvalu
Trinidad and Tobago			*United States Virgin Is.*
Tuvalu			Vanuatu
United States Virgin Is.			
Vanuatu			

Non-independent territories are in *italics*
Sources: Permanent Mission of Mauritius to the United Nations in New York, 3 February 2004
www.sidsnet.org/aosis/members.html (AOSIS)
www.un.org/special-rep/ohrlls/sid/list.htm (Office of the High Representative)

Source: ENCONTRE (2004a)

Table 4. UNCTAD's (non-official) List of 29 SIDS

Antigua and Barbuda	Palau
Bahamas	Papua New Guinea
Barbados	Samoa
Cape Verde	Sao Tome and Principe
Comoros	Seychelles
Dominica	Solomon Islands
Fiji	St. Kitts and Nevis
Grenada	St. Lucia
Jamaica	St. Vincent and the Grenadines
Kiribati	Timor-Leste
Maldives	Tonga
Marshall Islands	Trinidad and Tobago
Micronesia (Fed. States of)	Tuvalu
Mauritius	Vanuatu
Nauru	

Source: ENCONTRE (2004a)

Table 5: Lower and Upper-Middle-income Economies (96)

Lower-middle-income economies (55)		
Albania	El Salvador	Namibia
Algeria	Fiji	Nicaragua
Angola	Georgia	Paraguay
Armenia	Guatemala	Peru
Azerbaijan	Guyana	Philippines
Belarus	Honduras	Samoa
Bhutan	Indonesia	Sri Lanka
Bolivia	Iran, Islamic Rep.	Suriname
Bosnia and Herzegovina	Iraq	Swaziland
Cameroon	Jamaica	Syrian Arab Republic
Cape Verde	Jordan	Thailand
China	Kiribati	Tonga
Colombia	Lesotho	Tunisia
Congo, Rep.	Macedonia, FYR	Turkmenistan
Cuba	Maldives	Ukraine
Djibouti	Marshall Islands	Vanuatu
Dominican Republic	Micronesia, Fed. Sts.	West Bank and Gaza
Ecuador	Moldova	
Egypt, Arab Rep.	Morocco	
Upper-middle-income economies (41)		
American Samoa	Kazakhstan	Poland
Argentina	Latvia	Romania
Belize	Lebanon	Russian Federation
Botswana	Libya	Serbia
Brazil	Lithuania	Seychelles
Bulgaria	Malaysia	Slovak Republic
Chile	Mauritius	South Africa
Costa Rica	Mayotte	St. Kitts and Nevis
Croatia	Mexico	St. Lucia
Dominica	Montenegro	St. Vincent and the Grenadines

Equatorial Guinea	Northern Mariana Islands	Turkey
Gabon	Oman	Uruguay
Grenada	Palau	Venezuela, RB
Hungary	Panama	

Source: www.worldbank.org

Table 6. Middle-income Countries at a Glance

Percent of the World's Poor living in MICs	40%
Percent of the World's Poor living in MICs (excluding China and India)	33%
Chance that a MIC is in Latin America or the Caribbean	1 in 3
Chance that a World Bank client country in the Middle East / North Africa is a MIC	5 in 6
Percent of world's carbon emissions in MICs	41%
2004 per capita growth in OECD countries	2.8%
2004 per capita growth in MICs	6%
Highest per capita income among MICs	$10,000
Lowest per capita income among MICs	$950
Percent of MIC population living in China	43.5%
Percent of MIC population living in the 25 smallest states	0.3%

Source: http://www.worldbank.org/ieg/mic/facts.html

Table 8. The Evolution of GDP in Cape Verde (1996-2006)

Years	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004(p)**	**2005(p)**	**2006(p)**
GDP (millions of ECV)	41,7	46,0	51,6	61,8	64,5	69,4	72,8	79,5	82,6	93,3	105,3
GDP (millions of US$)	502,2	506,4	539,5	583,4	556,6	571,5	633,6	826,2	931,8	1.028,9	1.197,6
per capita GDP (US$)	1.301,7	1.337,8	1.401,9	1.482,9	1.484,0	1.570,8	1.649,3	1.761,3	1.994,7	2.163,6	2.463,3
GDP annual growth	6.7%	7.6%	8.4%	11.9%	7.3%	6.1%	5.3%	4.7%	5.0%	6.4%	6.1%
Inflation rate	6.0%	8.6%	4.4%	4.4%	-2.4%	3.7%	1.9%	1.2%	-1.9%	0.4%	5.4%

Source: RÉPUBLIQUE DU CAP VERT (2006), BANCO DE CABO VERDE, Instituto Nacional de Estatística de Cabo Verde

Table 9. Cape Verde's Main Commercial Partners (2000-2005)

Countries	Imports % of Total Average	Exports % of Total Average
Portugal	45,8%	72,0%
Netherlands	13,5%	0,31%
Spain	4,1%	10,9%
USA	5,1%	13,4 %
Brazil	3,8%	0,10%

Source: RÉPUBLIQUE DU CAP VERT (2006)

Table 10. Cape Verde: GDP and Inflation (2004-2006)

	GDP Fluctuation (%)			Inflation Fluctuation (%)		
	2004	2005	2006	2004	2005	2006
World Economy	5,1	4,9	5,4	2,7	2,8	2,7
Advanced Economies	3,3	2,5	3,1	2,0	2,3	2,3
USA	4,2	3,2	3,3	2,7	3,4	3,2
European Union	2,0	1,4	2,6	2,1	2,2	2,2
Emerging Markets and Developing Economies	7,3	7,5	7,9	5,8	5,4	5,3
China	9,5	10,4	10,7	3,9	3,0	1,5
India	7,3	9,2	9,2	3,8	3,9	5,6
Africa	5,3	5,6	5,5	6,1	8,1	7,2
Cape Verde	5,0	6,4	6,1	-1,9	0,4	5,4

Source: BANCO DE CABO VERDE (2007)

Table 12. Cape Verde: Main Development Partners' Contribution (2001-2005) & Future Actions Following Graduation

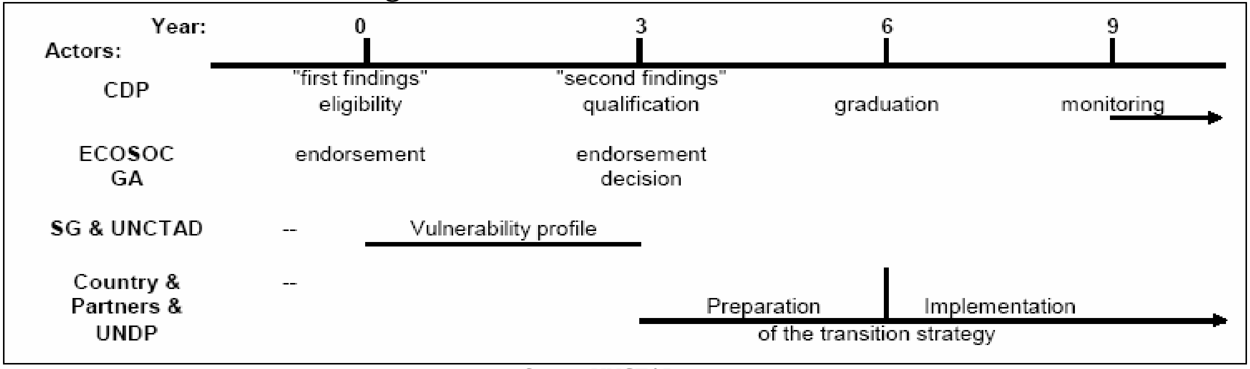
Partners	%ODA (2001-2005)	Areas of Intervention and Future Actions Following Graduation
World Bank	17,9	Areas of intervention: Basic infrastructures; Institutional reforms; Education and capacity building; Private sector promotion; Budgetary aid. Will continue to support (possibility of taking advantage of other aid and financing sources, other than IDA).
Portugal	13,5	Areas of intervention: Human resource development and capacity building; Land use planning and recovery of cultural heritage; Social services; Aid. Will continue to support.
EU	12,1	Areas of intervention: Road and health infrastructures; Water and sanitation. Will continue to support and possibly reinforce its assistance.

Netherlands	10,0	Areas of intervention: Environmental protection; Financial reform of public administration; Education; Budgetary aid. **Will start phasing out its assistance in 2008.**
Luxembourg	9,8	Areas of intervention: Health; Education; Capacity building; Road infrastructures; Water and sanitation. Will continue to support.
United Nations System	7,6	Areas of intervention: Good governance; Water and sanitation; Population and development; Decentralized cooperation; Education; Health; Rural development; Children's protection; Fight against poverty. Will continue to support. A Cooperation Agreement, spanning until 2010 and previewing the disbursement of US$ 50 millions, has been signed.
ADB	5,5	Areas of intervention: Infrastructures; Education; Rural development; Fight against poverty; Budgetary aid; Energy. Will continue to support.
Japan	5,4	Areas of intervention: Fisheries infrastructures; Exploitation of groundwater. Will continue to support.
USA	4,2	Areas of intervention of MCA[365] 2005 – 2011: (US$ 110 millions): Transport infrastructures; Rural development; Private sector promotion. **Will end food aid in 2007**, will continue to support through MCA
Germany	2,4	Areas of intervention: Natural resources, Education and Capacity building. **Will start phasing out its assistance in 2007.**
Spain	2,1	Areas of intervention: Decentralization, Culture and recovery of cultural heritage; Budgetary aid (starting in 2007). Will continue to support and will reinforce its assistance**.**
BADEA	2,1	Areas of intervention: Infrastructures; Education; Rural development; Fight against poverty; Private sector promotion. Will continue to support.
France	1,8	Areas of intervention: Good governance; Decentralization; Water and sanitation. Will continue to support and will reinforce its assistance**.** A Cooperation Agreement (2007-2010), previewing the disbursement of US$ 35 million, is expected to be signed.
Austria	1,6	Areas of intervention: Decentralization; Water and sanitation; Rural development; Budgetary aid (starting in 2007) Will continue to support.
China	0,9	Areas of intervention: Construction of physical infrastructures. Will continue to support and will reinforce its assistance**.**
TOTAL	**96,7**	

Source: RÉPUBLIQUE DU CAP VERT (2006)

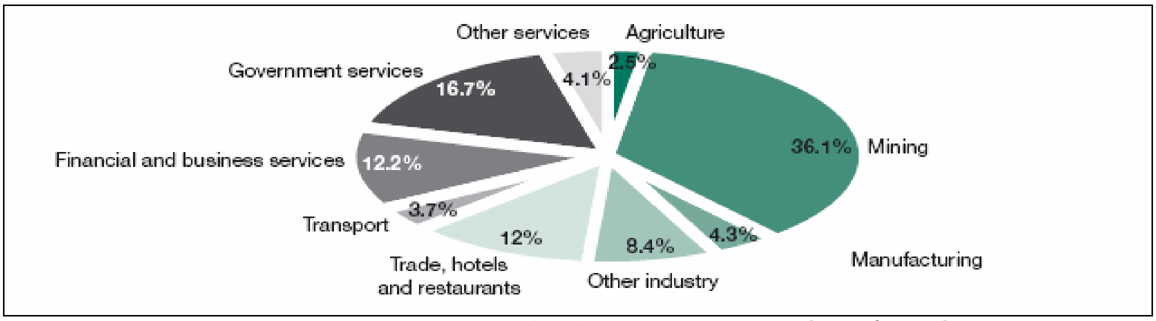
365 The Millennium Challenge Account focuses on promoting sustainable economic growth to reduce poverty through investments in transportation, water and industrial infrastructure, agriculture, education, private sector development, and capacity building. Countries are selected to receive assistance based on their performance in governing justly, investing in their citizens and encouraging economic freedom. The Millennium Challenge Corporation has made fighting corruption one of its priorities.

Figure 1. Graduation Timeframe



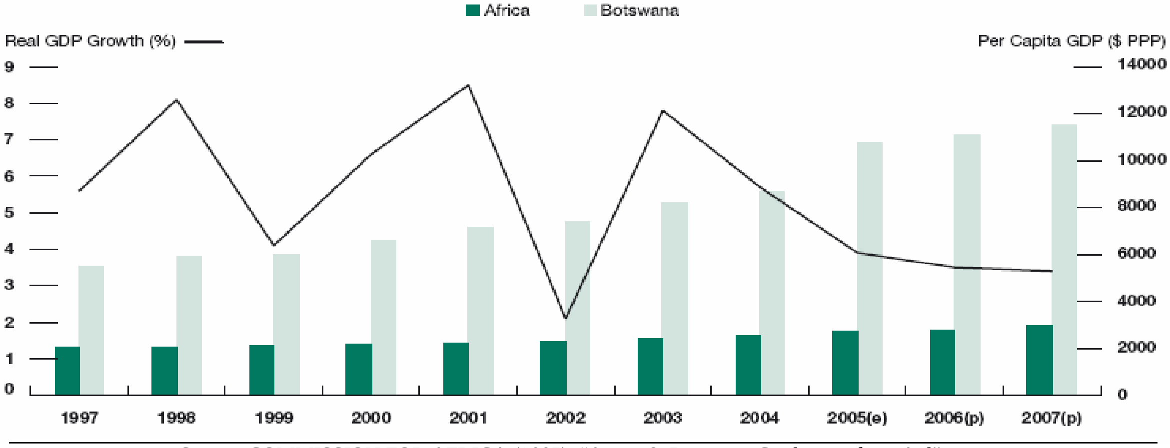
Source: UNCTAD

Figure 2. Botswana: 2004 GDP by Sector



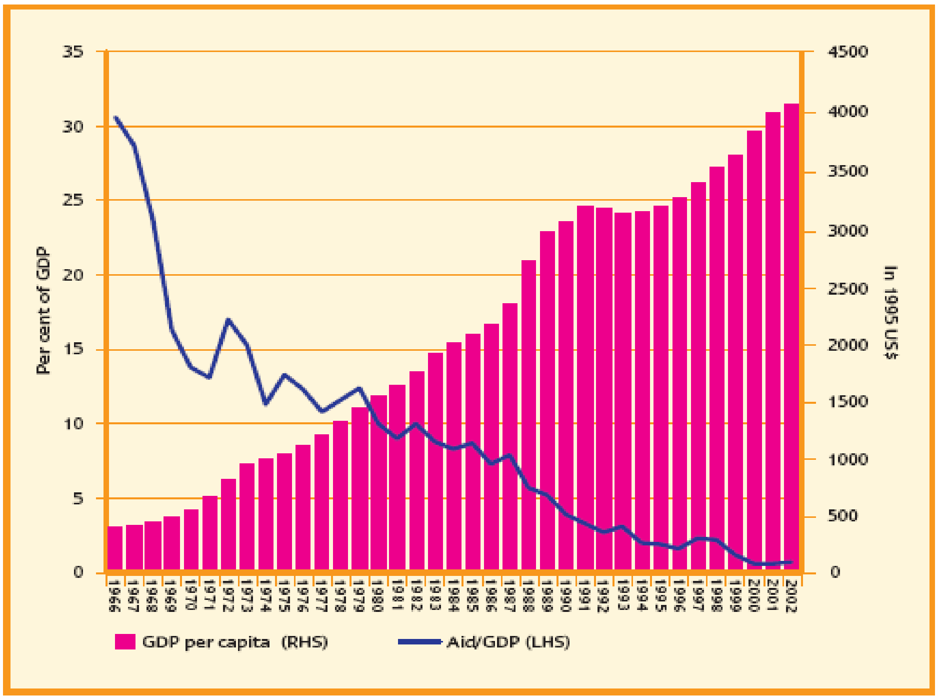
Source: COMMISSION FOR AFRICA (2005), "Annex 8: Botswana Graduating from Aid"

Figure 3. Botswana: Real GDP Growth and Per Capita GDP (1997 – 2007)



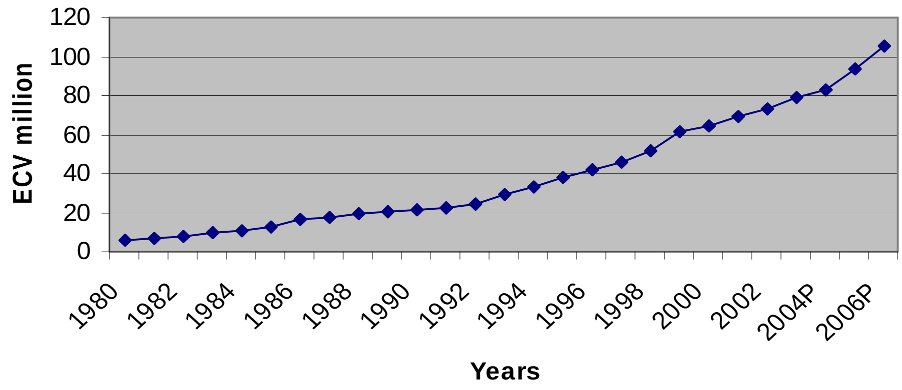
Source: COMMISSION FOR AFRICA (2005), "Annex 8: Botswana Graduating from Aid"

Figure 4. Aid and GDP Per Capita in Botswana



Source: COMMISSION FOR AFRICA (2005), "Annex 8: Botswana Graduating from Aid"

Figure 5. Cape Verde: Evolution of GDP (1980-2006)



Source: BANCO DE CABO VERDE

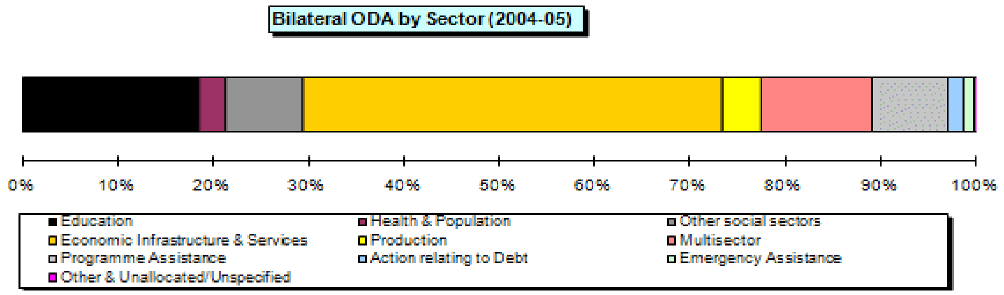
Figure 6. Cape Verde: ODA Profile

Cape Verde

Receipts	2003	2004	2005
Net ODA (USD million)	143	140	161
Bilateral share (gross ODA)	62%	64%	64%
Net ODA / GNI	18.3%	14.6%	17.1%
Net Private flows (USD million)	43	66	92

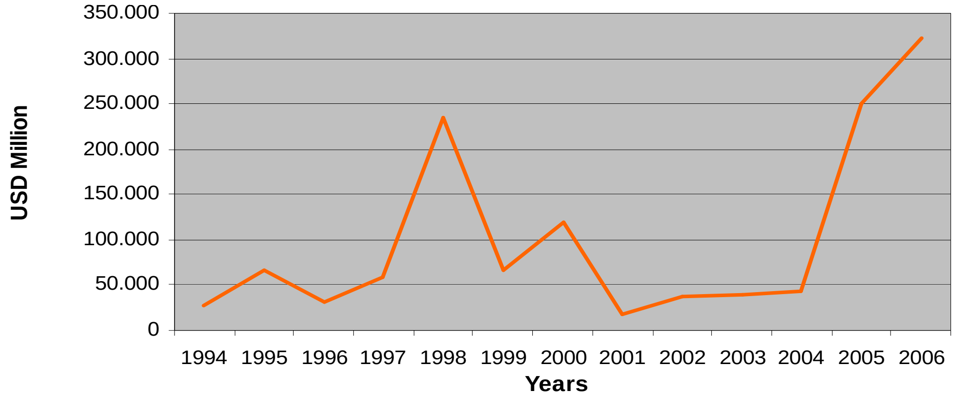
For reference	2003	2004	2005
Population (million)	0.5	0.5	0.5
GNI per capita (Atlas USD)	1 400	1 740	1 870

Top Ten Donors of gross ODA (2004-05 average)		(USD m)
1	Portugal	43
2	EC	22
3	IDA	21
4	Luxembourg	15
5	Netherlands	10
6	United States	9
7	Spain	7
8	AfDF	6
9	France	5
10	Germany	4



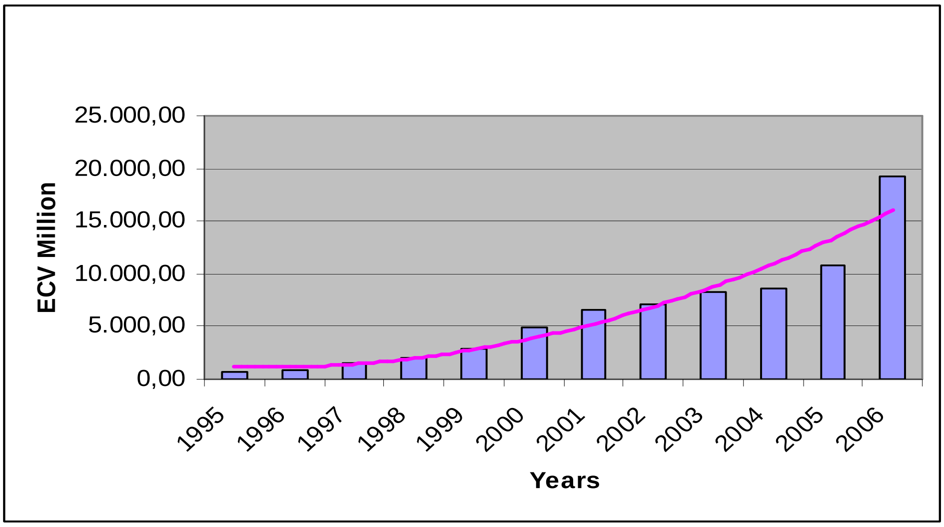
Sources: OECD, World Bank.

Figure 9. Cape Verde: Approved Foreign Direct Investment (1994 – 2006)



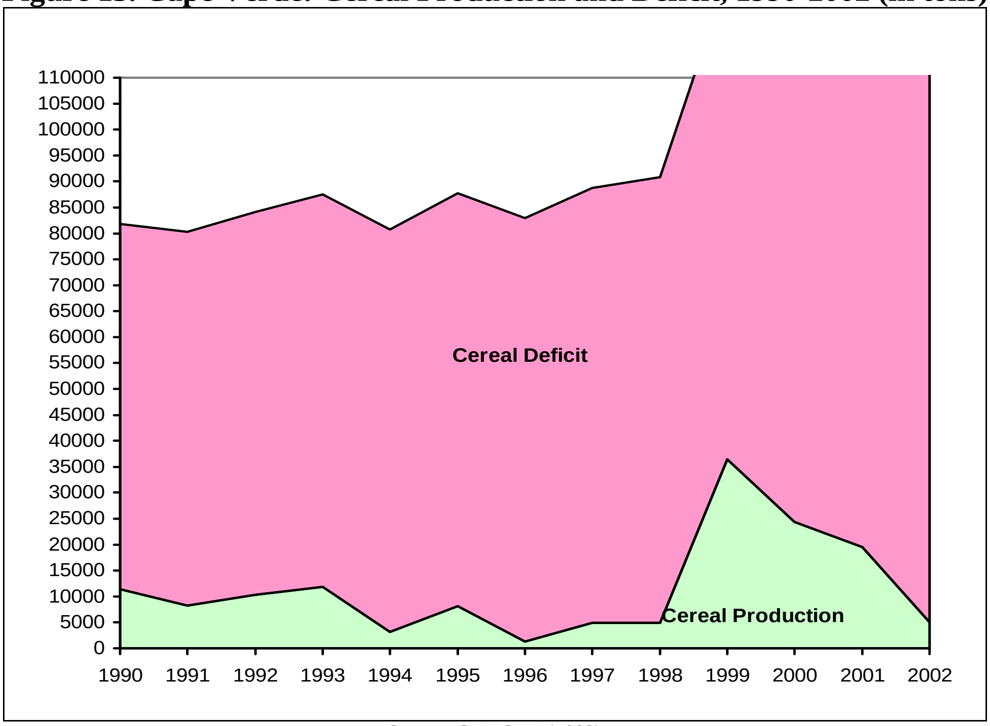
Source: REPUBLIQUE DU CAP VERT (2006), BANCO DE CABO VERDE (2007)

Figure 10. Cape Verde: Tourism Revenue Growth



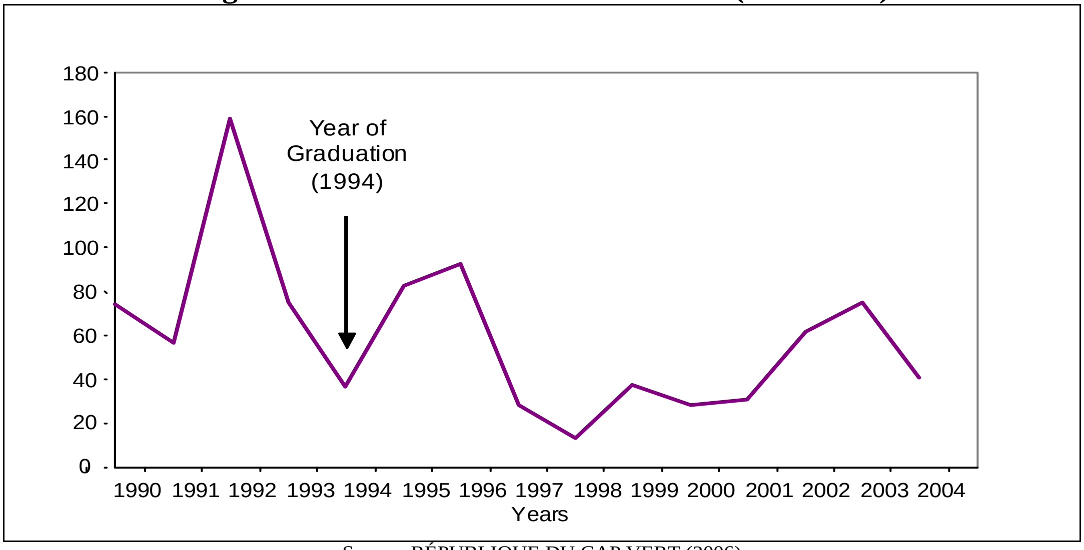
Source: BANCO DE CABO VERDE (2007)

Figure 13. Cape Verde: Cereal Production and Deficit, 1990-2002 (in tons)



Source: CNUCED (2003)

Figure 14. Botswana: Evolution of ODA (1990-2004)



Source: RÉPUBLIQUE DU CAP VERT (2006)