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KNOWLEDGE PLATFORM ON INCLUSIVE DEVELOPMENT POLICIES

To Graduate or Not to Graduate

The Case of Cape Verde
December 2015

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INCLUDE Special Report: To graduate or not to graduate?
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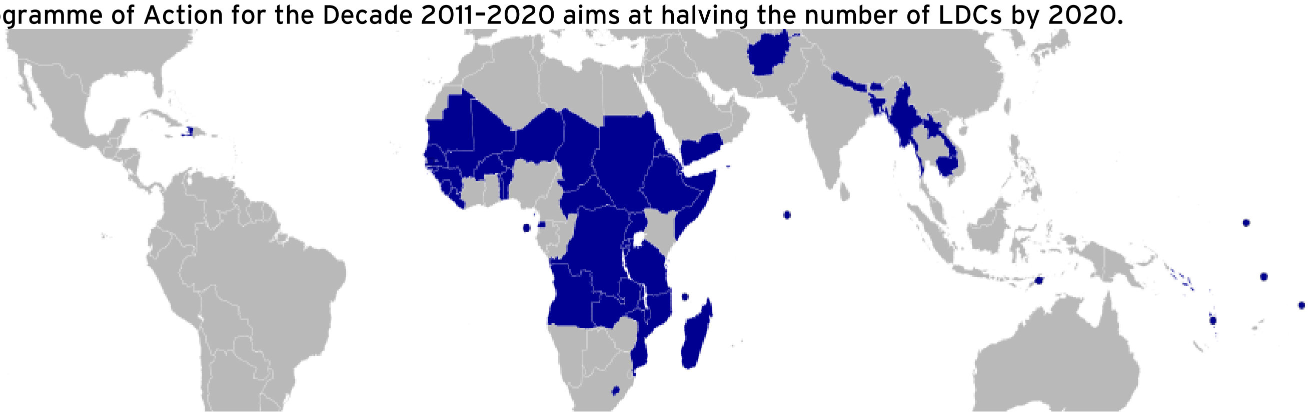
1. Introduction – Peter AG van Bergeijk

This INCLUDE Special Report is based on the Development Research Seminar (DRS) 'To graduate or not to graduate' held on 19 June 2015. This pre-graduation seminar was co-organized by INCLUDE and the Institute of Social Studies of Erasmus University for the defence of the PhD thesis 'Slicing up the developing world: Differentiation in the special treatment of developing countries' by Djalita Fialho (see Chapter 5 of this report for a summary). This thesis deals with, among other things, the graduation of Cape Verde from least developed country (LDC) status.

Graduation from LDC status is an issue that is extremely relevant for new development policies, donors, recipients and potentially graduating countries. The Istanbul Declaration and Programme of Action (IPoA) for Least Developed Countries for the Decade 2011–2020 commits UN member states to collectively assist LDCs to ensure that at least half of them meet the graduation criteria by 2020. So far, four LDCs have graduated: Botswana , Cape Verde, the Maldives and Samoa with Equatorial Guinea, Tuvalu and Vanuatu scheduled to graduate in June 2017 and December 2017, respectively (UNCTAD 2014). Despite this progress, halving the number of LDC countries is clearly an immense task and doubts have been voiced as to the attainability of this goal (Kawamura 2014).

Box 1. LDC graduation

The LDC category was first established as an official UN category in 1971. It encompasses a sub-stratum of countries within the larger group of developing countries. The category was introduced as the result of a shared international concern regarding the need to provide concerted international support to the most disadvantaged Third World countries. Countries belonging to the LDC group have structural weaknesses that impede growth and development. While admission to the LDC category confers special (differential) treatment in terms of priority access to development aid and trade preferences, graduation from it mean the loss of these benefits. From the initial 25 LDCs identified in 1971, the category grew to a total of 51 countries as more countries became independent in the 1970s and because of the poor performance of other developing countries in the 1980s and 1990s. Between 1994 and 2014, membership fell to 48 countries following the graduation of Botswana (in 1994), Cape Verde (in 2007), and the Maldives (in 2011), the inclusion of the Republic of South Sudan (in 2012), and the graduation of Samoa (in 2014). Equatorial Guinea, Tuvalu and Vanuatu are the next three LDC candidates being considered for graduation. The Istanbul Declaration and Programme of Action for the Decade 2011–2020 aims at halving the number of LDCs by 2020.



LDCs (December 31, 2014)

Figures 1 and 2 illustrate the challenge facing INCLUDE focus countries with LDC status. Figure 1 compares actually achieved rates of real per capita income growth to the rates of growth that would be necessary to reach the level required for potential graduation by 2020. However, economic growth is only one of three dimensions considered in the UN evaluation of LDC status. Figure 2 illustrates the two other dimensions – human assets and economic vulnerability – and shows the gap between the target value (set at 100%) and the actual value in 2012. Regarding human assets, a score below 100% implies that the country is not yet at a sufficient level of development to be considered a candidate for graduation. For economic vulnerability, a score above 100% indicates that the country is still considered to be too vulnerable to graduate.

Figure 1. Economic growth (2000-2010) and necessary growth to reach the graduation target by 2010

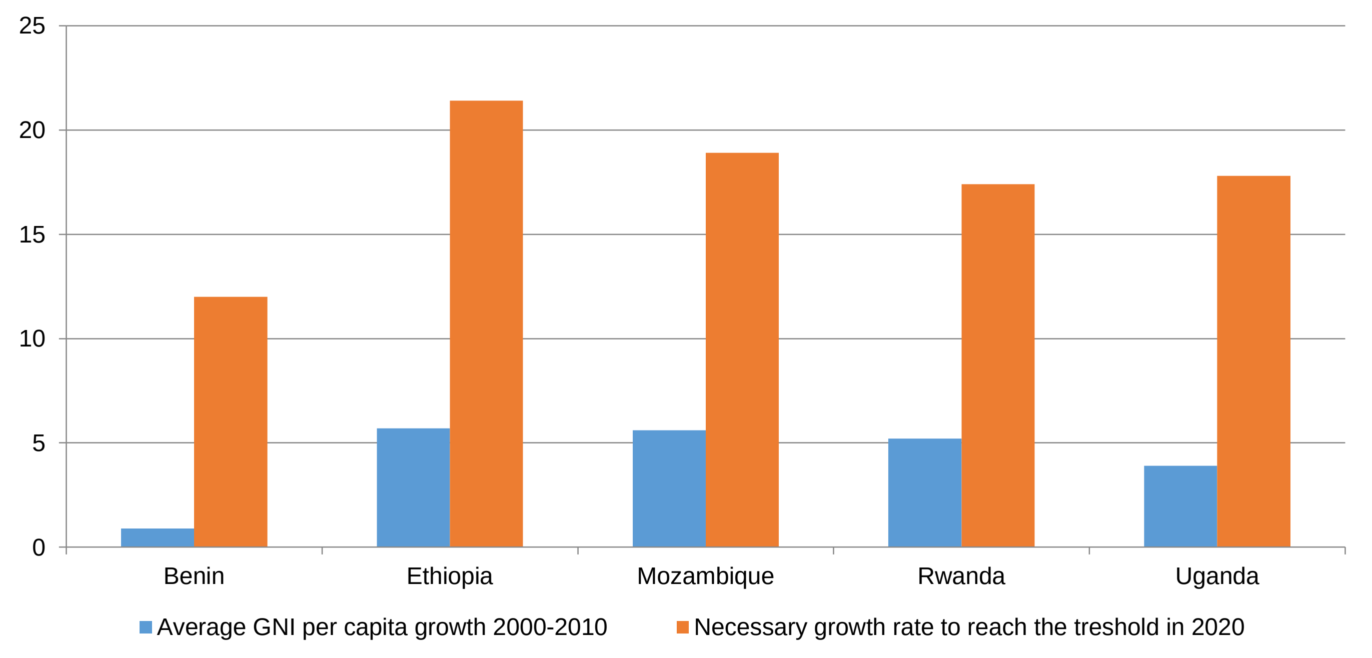
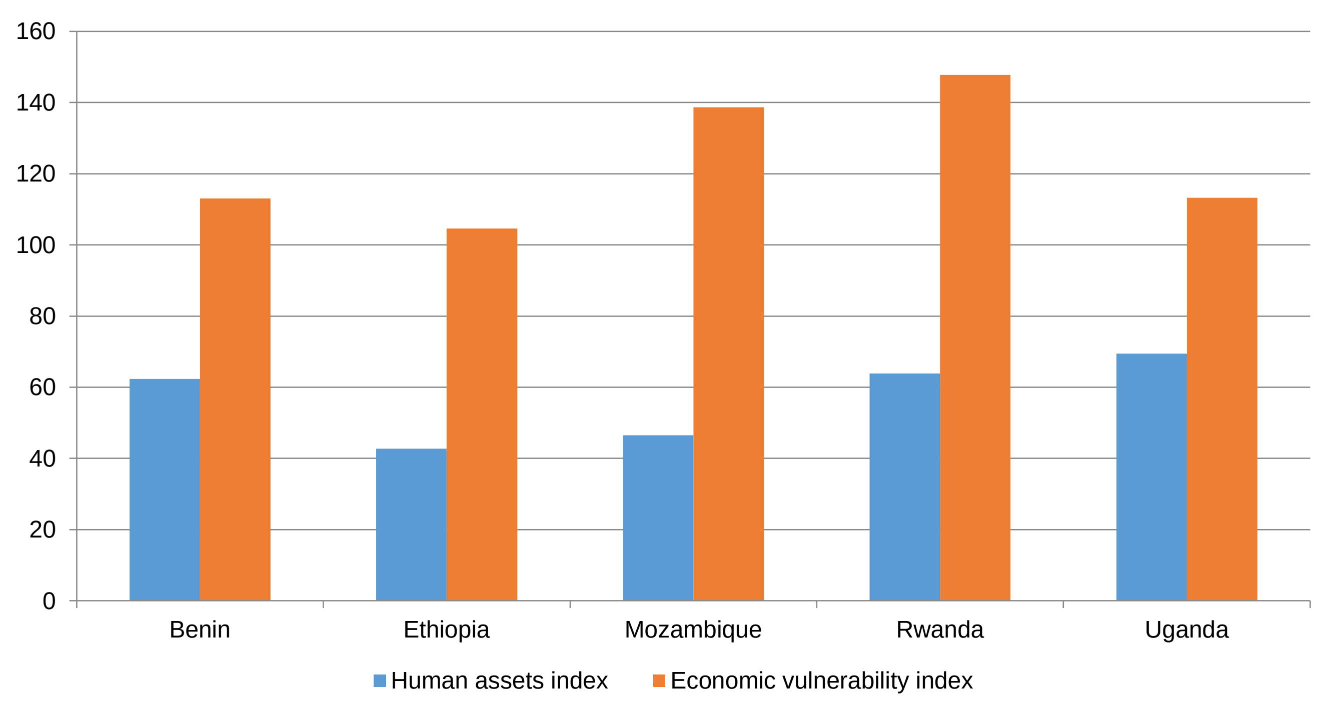


Figure 2. Human assets and economic vulnerability (2012) as a percentage of target values



Source: Kawamura 2014

The message conveyed by these figures is clear: graduation does not seem to be of immediate concern to these countries. It should, however, be noted that one of the important lessons from the seminar is that, in the case of Cape Verde, planning for the post-graduation period was delayed for too long and, on that account, graduation is of more direct concern to, for example, Ethiopia, which has almost reached the Economic Vulnerability Index and has experienced solid and often double digit real economic growth over the last decade (up to and including 2014; UNCTAD 2014).

Importantly, graduation is of relevance to African policy. Countries such as Angola, Djibouti and Sudan are already meeting the income criterion for graduation and Lesotho and Zambia are expected to do so by 2020. Lesotho is expected to meet the human assets criterion and DR Congo and the Central African Republic could meet the economic vulnerability criterion (Kawamura 2014; see also the comments by Niels Hermes in Chapter 3).

Finally, an important issue in the discussion on graduation is dependence on foreign aid. This is also an issue for countries that do not meet the UN criteria for graduation. Rwanda, for example, is striving to become aid independent as soon as reasonably possible. According to the Kigali Multi-Annual Strategic Plan 2014-2017: 'Rwanda will become less dependent on aid. As a result, the Netherlands can envisage reducing aid in the MASP 2018–2021. It seems unlikely that aid will still continue to play a big role in the bilateral relations between the Netherlands and Rwanda after this period.' The case of Cape Verde's graduation provides useful lessons regarding the new modes of international cooperation that need to be developed in the context of greater independence from aid.

This chapter, by way of introduction, first discusses the background of the 'New modes of development cooperation', which was the theme of the DRS-Include summer series, and then provides a short introduction to the papers contained in this report.

New modes of development cooperation

Development aid continues to be surrounded by controversy. Observers point out that aid appears to be directed by national economic and political interests and that the Official Development Assistance (ODA) content of international cooperation is decreasing. At the same time, many question the effectiveness of traditional aid delivery through the public sector and non-governmental organizations (NGOs). Some believe that the involvement of the private sector is a necessary condition for development cooperation to be effective, while others fear that such involvement will make it more difficult, if not impossible, to reach the poorest segments of the population. There are also fears that minorities will not benefit if private firms are involved in development cooperation. Institutional changes in many countries, however, point towards the integration of the policy arenas of development and trade. Ministries and departments for development and trade are integrated in some countries, including in some important Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) countries.

The Netherlands is looking for new ways to engage with global development issues. Policy statements by Minister Ploumen, for example on ‘aid and trade’, the role of civil society and the role of business demonstrate that the Netherlands wants to be a leader in co-designing (and implementing) the global post-2015 development agenda. The Netherlands was a strong advocate of the Millennium Development Goals (MDG), which were implemented in 2000 and afterwards. But it also voiced concerns about the limited scope of the MDGs and how they ignored some fundamental flaws in the architecture of the world economy and global governance arrangements.

In the past, the Netherlands has successfully supported developing countries that were able to, for example, move out of the low income country category. It is important not to forget past successes and to investigate the role that other policies and new actors, including the private sector and NGOs, can and should play in making beneficial development sustainable.

A better understanding of how to effectively implement policies for more inclusive development and what role Dutch aid, trade and investment policies can play is crucial. The series aims to bring new ideas and experiences to the discussion. The DRS-INCLUDE seminars offer reflection on alternative and new modes of development cooperation. Table 1 provides an overview of the other presentations in the series.

Table 1. The seminars in the DRS-INCLUDE seminar series 2015

15 Apr	Trends in community organizing in the US and UK: lessons for development cooperation?	Robert Fisher, University of Connecticut, University of Innsbruck
21 Apr	Inclusive business, business for inclusion: new directions in development?	Arjan de Haan, IDE, Program Leader, Supporting Inclusive Growth
5 May	Working with power for inclusive development cooperation: partnering, re-assembling, enlarging	Yvonne Underhill-Sem, University of Auckland
5 Jun	Fixing sovereign debt restructurings	Martin Guzman, Institute for New Economic Thinking
19 Jun	Cape Verde: A success story with daunting challenges (Comments: Rolph van der Hoeven, International Institute of Social Studies [ISS])	Corsino Tolentino, former Minister of Education and director of the Gulbenkian Foundation
	The trade, aid and investment nexus (Comments: Niels Hermes, University of Groningen)	Martin van den Berg, Director General International Economic Relations, Netherlands Ministry of Foreign Affairs
	Reflections on Cape Verde's future outlook	Maria de Jesus Veiga Miranda Deputy Minister of Foreign Affairs of Cape Verde
22 Jun	Making value chains inclusive: The role of lead firms and donors	Tilman Altenburg, German Development Institute
22 Sep	Making health markets work for the poor	Onno Schellekens, PharmAccess Group
8 Oct	Post-2015 development agenda	Richard Jolly, Institute of Development Studies at the University of Sussex
	From billions to trillions: and then what?	Rob Vos, FAO
	From MDGs to SDGs: are we on the right track?	Jan Vandemoortele, former Director of the Poverty Group at UNDP
	Thirty years in Africa's development: from structural adjustment to structural transformation?	Tony Addison, UN-Wider
	Is the 2000s Latin American fall in income inequality permanent or temporary?	Andrea Cornia, University of Florence
	Twin peaks to burgeoning precariat: the co-evolution of global inequality and global poverty, 1990-2030	Andy Sumner, King's International Development Institute
	Catch up and emerging divergences: can it reduce inequality?	Deepak Nayyar, Jawaharlal Nehru University

Lessons from the seminar series

The seminars provide a body of critical reflection on development cooperation. The outcome of the seminars is, however, not a critique of current practices, but rather a collection of options given current and future constraints on means and methods. Such constraints include financial restrictions (such as the limited availability ODA and reduced national budgets) and the observation that the role of the market cannot be ignored, both in view of the increasing role of private firms in aid delivery and the fact that the very poor, often by necessity, rely on private expenditures, e.g., for health services. Indeed according to Arjan de Haan, this new paradigm involves a new balance between public and private actors active in development, with an increasing role for the private sector in developing countries.

New modes of development cooperation may involve community organizing to provide more and more targeted private sector financial support when governments step back, as argued by Robert Fisher, the organization of institutions and markets by means of modern communication technologies in developing countries (an example is the activities by PharmAccess, as discussed by Onno Schellekens), or the combination of public-private partnerships and regional regrouping as a basis for inclusive development, as discussed by Yvonne Underhill-Sem in relation to small island development states in the Pacific. Many of the problems discussed by Yvonne return in the chapters of this special report, as Cape Verde is also a small development island state that is trying to regroup with regional forces and that increasingly sees a role for cooperation between the state and the private sector. Private sector involvement can also have potentially negative impacts, for example, driving local firms out of the market. Therefore, Tilman Altenburg analysed ways to make value chain development more inclusive. He sees a new role for the international donor community. Martin Guzman focused on another role for the international community, namely, the fact that at present no systematic treatment exists for debt workout, rescheduling and relief when a debtor country goes into crisis.

Inclusiveness and the SDGs: can inequality be reduced?

The final seminar of the series focused on the international community and its role in making development more inclusive. This seminar evaluated the Sustainable Development Goals (SDGs) and their potential contribution to reducing inequality. Richard Jolly analysed the SDGs from the perspective of five fundamental objectives – universalism, sustainability, human development, inequality and human rights – linking these objectives to teaching and research in the field of development studies. Jan Vandemoortele provided a critical reflection on the SDGs. He pointed out the strengths of the SDGs in getting the message across to the public at large and was positive about the consultation process by which the SDGs were developed and selected. However, Vandemoortele was critical about the inclusiveness of the SDGs, particularly their formulation in absolute numbers, which reduces their universality and inclusiveness. Rob Vos focused on financing the transformation process required to achieve the SDGs.

Trillions of dollars are needed, as well as new modes of finance. Clearly this cannot be achieved with traditional instruments such as ODA. However, it seems possible to leverage the large amounts of international reserves which have great potential.

In relation to inequality, this issue requires both a discussion of measurement (within countries and between countries) and of developments for specific regions and country groupings. Andy Sumner pointed out that the World Bank's new poverty line and accompanying narrative on the successes of reduced poverty misses the points. He said that income levels below USD 10 per head do not provide sufficient certainty against a fall back into poverty. Furthermore, scenarios for future numbers and the location of the global poor point to many problems and uncertainties.

Focusing on developments in Latin America and using a political economy perspective, Andrea Cornia challenged the idea that recession by definition increases inequality. Tony Addison critically reflected on the African experience where, although structural reform increased growth, it did so unequally. He pointed out the futility of quick ideological answers to the continent's problems in achieving inclusive development. Focusing on the Next-14 (the top-14 non OECD countries, including the BRIC countries), Deepak Nayyar formulated two interlinked hypotheses that sum up one of the main points of agreement among the speakers. Economic growth (catch-up) is essential to reduce inequality, but, at the same time, such growth will be unsustainable without reducing inequality.

To graduate or not to graduate?

The seminar on Cape Verde's graduation, on which we will report in the remainder of this special report, addressed new modes of cooperation in the context of a former least developed country that, with graduation, has to shift from debt reliance to private sector cooperation. This seminar also marked the end of a PhD research project dealing with the country's graduation from LDC status, among other things (see Chapter 5). The seminar brought together different perspectives from Cape Verdean communities (both in Cape Verde and the Netherlands, which hosts a large part of the Cape Verdean diaspora), as well as from policy-makers and academics.

The organization of contributions in this report follows the logic of the seminar: from policy-makers, who starting by explaining the context and policy issues and academics, who provided reflection and suggestions. The topics move from the achievements since Cape Verde's independence and the remaining challenges (Corsino Tolentino and Rolph van der Hoeven in Chapter 2), via the Dutch nexus of aid and trade and its implications (Marten van den Berg and Niels Hermes in Chapter 3) to the prospects and future outlook for Cape Verde (Maria de Jesus Veiga Miranda and Albert Jolink in Chapter 4). Chapter 5 provides an overview of the thesis by Djalita Fialho. A short video impression of the seminar is available here.

In Chapter 2 Corsino Tolentino provides an overview of the 40 years of development since Cape Verde's independence in 1975. Tolentino started as a freedom fighter and eventually became Minister of Education for Cape Verde. He experienced this period of radical change first hand. He is critical about certain characteristics of society and points to the need for further change. He describes Cape Verde as a success story, but one with daunting challenges. Rolph van der Hoeven puts the Cape Verdean achievements into a comparative perspective and relates these to economic and political developments in other African countries. Importantly, Van der Hoeven, notes that Cape Verde, by agreeing to graduation, showed its commitment to the international community by vacating its place among the least developed countries, thereby making the related special treatment available to others more in need of support.

Chapter 3 provides an introduction to phasing out aid and phasing in trade. Marten van den Berg, Director General of the International Economic Relations Directorate, which has become part of a department at the Ministry of Foreign Affairs that has development cooperation and trade under the same roof, lays down the basic principles and policy issues involved in phasing out aid and phasing in trade. He points out that the big development successes in the past decades, including Ethiopia and Rwanda, owe a lot to business and private investment. Obviously a lot can be improved and the involvement of government and international organizations remains important for sustainable and inclusive growth. But, as Van den Berg concludes, it is even more important to make the connection between aid and trade in order to make this nexus successful. Niels Hermes, while agreeing on the good economic news that comes out of a lot of African countries, remains sceptical about combining aid and trade. Hermes also points out the challenges posed by the Transatlantic Trade and Investment Partnership. An important issue is that private sector development often does not trickle down to the poor. Government involvement, concludes Hermes, will remain necessary.

Chapter 4 offers reflections from Cape Verde on its future policy stance. According to Maria de Jesus Veiga Miranda, Deputy Minister of Foreign Affairs for Cape Verde, while graduation is not a problem, it is a huge challenge. Miranda provides a detailed overview of these challenges and the responsibilities both of Cape Verde and the international community. The success of Cape Verde has been built on a combination of good governance, sound macroeconomic policies, external support, foreign direct investment and remittances. Post-graduation external support dried up at an unfortunate moment, as the country was hit by drought and the global financial crisis. Cape Verde is no longer a least developed country, but, even so, its vulnerabilities remain substantial. According to Miranda, more policy coherence is needed to strengthen the global partnership framework to put international trade, the fisheries agreement and commodity prices on the track to boost development in an environmentally-safe manner and with possibilities to involve the private sector in a sustainable manner so as to reach inclusive growth. Albert Jolink stressed the need for an 'alumni policy' for graduated countries: He said that the UN should follow and analyse the post-graduation phase.

Indeed, this is not a task for international organizations alone. Graduation is a process that needs more attention from development studies. It is hoped that this INCLUDE special report will be a helpful stepping stone towards a more comprehensive analysis of these success stories of development.

2. Cape Verde: a success story with daunting challenges – Corsino Tolentino

Cape Verde has completed 40 years as an independent nation – but with what results and which paths are open for the future? I will provide summarized answers based on an analysis of deficits. I shall begin with evidence: an independent Cape Verde is a story of four decades of success, with tremendous challenges for today and the future. The doctoral thesis by Djalita Fialho (2015) and this seminar organized by Peter van Bergeijk on the history of cooperation between the Netherlands and Cape Verde have created an opportunity to reflect, both on my own experience as a policy-maker and on the experience of my country. In doing so I will use four basic principles of analysis, namely:

- to sustain a criticism of a particular individual or collective aspect of life it is not necessary to put into question everything that the nation has achieved, much less apologize in advance for doing so;
- the Cape-Verdean democracy requires adjustments, both to the true nature of the country that it is and to the evolution of its society;
- every opinion is fundamental, but in order to assess its validity any opinion must be confronted with the greatest possible number of other points of view; and
- the responsibility for the deficits and failures is ours, all and sundry, as are the cases of success.

To accomplish my task with maximum efficiency, I shall place each concept, elementarily defined, in its respective level.

General level

On balance, the 40-year nation-wide experience is remarkably positive and this verdict has not been contested, neither in the academic literature nor in policy discussions and analyses. Admittedly, the devil is in the details, as will become clear below, but the achievements of the county are beyond doubt and stand out positively against what has been achieved in Africa. Cape Verde is a democracy, it has achieved economic and social development, cultural diversity and respect for different religions. Much has been achieved. This, however, is no reason to be satisfied, as many challenges remain on the table.

Political level

At the political level, six years stand out because of their impact, both in the past and for the future:

- 1975: Independence led by the African Party for the Independence of Guinea and Cape Verde (PAIGC)
- 1980: First constitution
- 1990: Change from one-party to multiparty rule
- 1991: Opposition victory and formation of government
- 2001: New alternation in government and consolidation of democracy
- 2010: New constitution for the Republic of Cape Verde

I define the arena of politics as the science of the organization, direction and administration of the internal and external affairs of a nation. From this analytical perspective, I note six remaining deficits in the Cape Verdean democracy:

- We do not make a point of thinking about the problems of Cape Verde and the world: we do not have our own analysis ready, but to a large extent rely on others.
- We are dazzled by formal democracy, while neglecting to work on improvements.
- We are afraid to tell the truth, also when this is necessary and this is especially true during election campaigns, with political parties contributing to the creation and management of a culture of pretending; it is difficult, indeed to say that the emperor has no clothes, but in the end the naked truth is necessary to make truly democratic decisions.
- We need to find a model of political organization that gives equal voice to all parts of the territory; this is a challenge in an archipelago like Cape Verde consisting of very different small islands.
- The creation of a Chamber of Islands is consistent with the current costs of national representation.
- Representatives of the Cape-Verdean nation have been content with a lower standard, but should not be. We should not compare ourselves regarding good governance or corruption to African countries that do worse. We deserve and should demand comparison according to best practices and universal reference points.

Economic level

Economics is the science of the production, distribution and consumption of goods and services. The Cape Verdean economy suffers from the consequences of five large deficits:

- 1975-1990 Centrally planned economy and viability of the rule of law
- 2004-2015 Cabo Verde, a middle-income country in transition

  (+) Human capital

  (+) Income per capita

  (-) Economic fragility

- Political parties have not been able to establish and respect efficient public spending management mechanisms, which would, among other things, involve setting certain and clear limits on spending, the budget deficit and debt.
- The most obvious indicator of Cape Verde's inability to engage in dialogue and to cooperate is public debt. The consequences of growing debt and the accompanying interest payments are a reduction in national savings and an increasing difficulty in attracting foreign investment.
- The legal and multi-year public expenditure control is in itself compatible with the political and ideological differentiation of majorities and their respective governments, but this manner of control has not been implemented.
- The economic potential of the private sector is : surrounded in mystery, conveying the false idea that private sector development alone can generate economic growth and the development of Cape Verde. The issue is not the nature of the State or of the ideological choices of the majority and the government, but how to establish proportion and efficiency. Democratic nations, after all, have mixed economies with greater or smaller private and public sector.
- Finally, the construction of basic infrastructure (roads, dams, ports, airports, science and technology) is an issue that should extend beyond the horizons of election campaigns and the formal mandate of the government.

Social welfare

Cape Verde has made substantial progress regarding the Millennium Development Goals set by the UN in 2000, as reflected in Cape Verde's transition out of the group of least developed countries and into the category of middle income countries. In such processes the term 'social goal' is important as it provides a synthesis of education, income per person, health and family. The social goal encompasses more than human capital alone and combines the notion of material and subjective wellbeing.

On track to meet most of the 8 MDGs:

(+) Eradicating extreme poverty and hunger
(+) Achieving universal primary education
(+) Promoting gender equality and empowering women
(-) Struggling to reduce child mortality
(+) Improving maternal health
(+) Combating HIV/AIDS, malaria and other diseases
(-) Struggling to ensure environmental sustainability
(-) Struggling to develop a global partnership for development

Generally speaking, politics, economics and solidarity joined hands in Cape Verde and the result was huge progress. However, it is wise not to forget that about a quarter of Cape Verde's population live in poverty, and even misery, and that education and health are far from being achieving for all. There is still a long way to go for social security to become universal and sustainable. With the courage of humility and dialogue, and in light of the immense social challenges, let us stop and ask if there could be other paths offering a brighter future, with less economic inequality and more social justice.

Culture and religion

The Cape Verdean people, so they say, were 'reborn' with national independence. Cape Verdeans built happiness on formal democracy and set out to establish an orchestra for the future that will have the voices and instruments of all the islands. Yet while it is good to be creative, it is also not enough. The gaps may not be clearly visible, but it is clear that we also need to manage expectations (if not hopes) of innovations and public expectations. Democracy is a basis, yes, but this needs to be strengthened by accountability. Therefore, the cultural sector needs a more rigorous management in order to gain more credibility and effectiveness.

- Ambiguity between regional integration and globalization
- Labor, trade, monetary, scientific and cultural ties with the EU
- Strategic repositioning in the Atlantic ocean and African Region

Also thanks to independence, the Catholic Church was freed from dictatorship and colonialism, lost the arrogance of being the sole religion and, what is more important, regained the humility of a Christian voice, particularly thanks to Paulino do Livramento Évora, the first Cape-Verdean bishop. Christian churches renewed themselves with a more than ecumenical vision to include philosophies and religious and non-religious ways of life, as long as based on humanism and peace.

Later in this transformation process, immigrants arrived and, with them, their cultures and religions. We do not know how the fusion of cultures and religions will turn out, but we do know that the history of Cape Verde is made of integration, to which neither Christians nor Jews, nor Muslims have resisted. Cape Verde and the world today require caution, but one of the features of Cape-Verdeanity is the mixture of people of indigenous, African and European descent – or creolization! This is a national asset that we need to nurture.

Science and technology

In recent months I noticed a curious episode. When a Cape-Verdean local said that, in general, the national higher education system is weak and that the lack of quality was evident, the audience divided into two polarized blocks: those in favour and those against. When I saw this, I thought to myself: hey, wait and listen. Surprisingly, while waiting, I saw people completely aligned with Brazilian, Portuguese and other groups of nationalities, who had come to help us define the criteria and the methods to achieve quality in higher education while working with Cape-Verdean teachers and researchers. I hope the same thing is already happening in regard to other levels of education.

An autonomous society and one that has the ambition to think itself and to sell in order to buy, requires good education, i.e., scientifically and ethically prepared and qualified people. Therefore, investment in science and technology is a long-term issue and one requiring a new national strategic vision and cooperation by and with the government.

On the key issue of creating a scientific culture and disseminating best practices from other nations, let us see what the Journal Consortium, which publishes the rankings of universities and other higher education institutions (HEIs) in Africa, says for 2015. What do we see? The University of Cape Verde is in 172nd position out of a total of 1,447 African universities and other HEIs, with a Total Influence Factor (TIF) or rate of visibility and influence in society of 10.02% (compare to the maximum TIF achieved by an Africa HEI of 45.02%).

Two other HEIs were mentioned by the Journal Consortium in 2015: Cape Verde Jean Piaget University in 226th position among African universities with a TIF of 7.84% and the Higher Institute of Economics in 909th position with a TIF of 1.48%. The Journal Consortium will surely include other Cape-Verdean HEIs in years to come.

In conclusion

The past 40 years have radically changed Cape Verde. However, the problems yet to be resolved are many and the stakes high. It is possible to first address the simplest problems, and their solution depends entirely on us. Imagine the leap that Cape Verde will take come the day when we all start using the watch as a measure of time and not just as adornment, with everyone respecting the time of everyone else. Imagine how development would accelerate if political parties decide to tell voters the truth, especially during election campaigns. Moreover, what would happen if instead of thinking about how to get re-elected, the elected tried to fulfil their election promises? And, expanding this vision of the future, what if we spent the little public money we have on implementing the results of assessments and summits rather than conditioning participants with convenient legal or constitutional limits? But who, in civil society, in the private sector, in public administration has questions to raise or feels free to raise them? I ask, because apparently everything is fine, but I think it is not. The review of Cape Verde's political and economic strategy for the medium and long-term requires patriotism, courage and more cooperation from citizens and political parties.

The doctoral thesis by Djalita Fialho pushes the frontiers of knowledge in the areas of international relations and political economy. Fialho's book and the seminar tell a common story of Cape Verde as a country of origin and the Netherlands as a country of destination, with migrants and residents determined to have a more active voice when the time comes to prepare for the change from the paradigm of public aid to international trade, without forgetting development.

Comments by Rolph van der Hoeven

It is an honour to comment on Dr Tolentino's presentation. Not only because of its content, but also because of the stature of Dr Tolentino himself, who, when I was student in Amsterdam and demonstrated for the independence of the Portuguese colonies, was one of the leaders of the liberation movement in Cape Verde. After Cape Verde's independence he played an impressive role in the countries development as politician, minister and renounced scholar.

I fully agree with the title of the presentation: Cape Verde is indeed a story of success and daunting challenges. One of its successes is the main theme of this seminar, the graduation of Cape Verde out of the UN category of least developed country in 2007. This is a well-deserved graduation. Cape Verde not only graduated based on the socioeconomic criteria of the UN, but can also boast scoring high compared to other African Countries on a number of indices. It is number one among African countries on the Freedom of Press Index, it score second on Mo Ibrahim's Index of African Governance, it is the second least corrupt country in Africa, and is among the top 10 African countries in the United Nations Development Programme's Human Development Index.

Until 2009, Cape Verde was on a straight development path, but the consequences of the 2008 global financial and economic crisis hit Cape Verde more severely than other African countries because of its open economy and its links to the world. Cape Verde, with a population of about half a million people, has the peculiarity that twice as many Cape Verdeans live outside Cape Verde than within. This diaspora is a great source of remittances and foreign direct investment and generates positive inflows of skills and technology. However the diaspora living in developed countries where the crisis struck hard were not able to provide a buffer against the vagaries of the world economy in 2008 and the years that followed. Politically, Cape Verde reacted well to the crisis. In 2011, for the first time in its history, a coalition government took the helm and continued to carry out a counter-cyclical expansionary fiscal policy to counteract the crisis.

This led to growing debt obligations, which the government is now dealing with through a more inclusive and green growth strategy. With the African Development Bank (2014), it has established seven economic clusters to put Cape Verde on its previous growth path. These sectors are: promoting high value-added tourism; building a maritime economy around fisheries, transhipment, and marine services; making Cape Verde a regional hub for air cargo and passengers, duty free shopping, and services for airlines; building Cape Verde as a cyber-island, developing and offering services in the ICT sector; making Cape Verde a centre for financial and investment services; building an export-oriented service industry and services around Cape Verdean cultural activities; promoting agri-business activities and enterprises and facilitating linkages with the tourism value chain. These clusters of growth reflect both the strength of Cape Verde's people and its particular socioeconomic characteristics and the challenges arising from the current and future geopolitical and economic situation.

In the last part of the presentation, Dr Tolentino described the good progress made by Cape Verde on the MDGs especially in poverty alleviation, education and empowering women. Progress is lacking in only three goals (reduction of child mortality, environmental sustainability and a global partnership for development). Lack of progress on the last item, however, has not been of Cape Verde's making. On the contrary, Cape Verde graduated in 2007 as one of a few countries in the category of least developed country. Cape Verde, thus, showed its commitment to the international community by giving its place, and the perks that go with it, to others.

Let's hope that the negotiators on the Sustainable Development Goals (the sequel to the MDGs), especially the industrialized countries, will accept the SDGs with a stronger commitment to global partnerships, so that a team player like Cape Verde can face the daunting challenges Dr Tolentino described so well and re-embark on an inclusive and green growth path.

3. The trade, aid and investment nexus – Marten van den Berg

A changing relationship

Whether we like it or not, graduation from LDC status means a change in relationship. Graduating countries lose money flows from Official Development Assistance (ODA), leaving behind a certain 'safe' and secure situation. At the same time, graduation is the result of improving economic performance and, therefore, a step towards economic independency – the ultimate goal of ODA.

The changing relationship between Cape Verde and the Netherlands posed a new challenge. The phasing out of development aid left a gap – which the Netherlands filled with trade and investment cooperation. But the Netherlands had no policies ready for such a change. So how could we develop a new relationship? The Netherlands had instruments to support private sector development, like the Private Sector Investment (PSI) Programme and a programme for infrastructure development (ORET), but no strategy as such.

The second Rutte cabinet (installed on 5 November 2012) made a fundamental change: For the first time in history the Netherlands got a minister responsible for aid, international trade and international investment. This change required a policy for the nexus between trade, aid and investment. The new policy is based on a strong belief that trade, aid and investment – and their combination or nexus – is a crucial element in eradicating poverty and for development.

A crucial element

New trading opportunities

So why is the trade, aid and investment nexus so important? First, the global economy is rapidly changing. We see a world with fragmented production processes and regional and global value chains. These chains offer developing countries new trading opportunities and a new path towards economic development. Participation in regional or global value chains can people living in poverty give access to regional or global markets and offer new opportunities to innovate and gain new skills.

The 'service-ification' of manufacturing

Historically, opportunities from regional and global value chains came in the form of manufacturing – look at the growth and poverty reduction in East Asia as a result of engagement in electronics and automobile production. Today we see more and more 'service-ification' of the manufacturing industry. Manufacturing (but also agriculture) and services are being integrated. Today, regional and global value chains are not only about manufacturing, but include activities like packaging, (cold chain) logistics and administrative support.

Improving trading environment

The advantage of regional or global value chains is that a country can develop, not by industrializing or trying to develop an entire industry, but by improving its performance in parts of the value chain in which it has an existing comparative advantage. However, to be able to profit from regional or global value chains, countries have to improve their trading environment, which means that they must have Internet technology, an educated workforce and reliable infrastructure. This is easier said than done.

International trade leads to poverty reduction

Another reason why, in our view, the trade, aid and investment nexus is so important is based on experiences from the past. There is substantial evidence to suggest that as countries engage in international trade and investment their citizens benefit. It is probably no coincidence that as countries have become more open to global economic forces over the past 25 years extreme poverty has dropped substantially.

If we look to the enormous development progress of countries such as Singapore, Korea, China, Ethiopia and Rwanda in past decades, business and private investment have been instrumental. Supporting this, a World Bank policy paper looking at the connection between trade liberalization and poverty in 30 African countries suggests that trade tends to reduce poverty. Another analysis by the World Bank found that many traders in the Great Lakes region of Africa are heavily dependent on trade to feed their families, including informal sector traders. But, at the same time, this trade is hampered by inefficiencies at border crossings.
Therefore, in today's world it is crucial for every country to come up with a strategy to connect with, and compete on, regional or global markets.

The right conditions

Good policies

However, international trade and investment flows not only transmit positive shocks to national economies, they can also transmit negative shocks. To benefit from the positive shocks, as well as to protect against negative shocks, conditions have to be right. How can a country ensure the right conditions? For this we need 'good' polices – good investment policies, good labour market and education policies, good industrial policies, and good trade policies, including open market polices.

Balancing an open market with protectionism

There is always a strong debate about open market policies. But, it is important to note that open market polices do not necessarily mean a radical open market. We all know the story of Chang kicking away the ladder (Chang 2002). This story shows that the present champions of free trade, like the UK, have a long history of industrial protection. And the US heavily protected its industries in the nineteenth century in an attempt to catch up with Britain.

However, this is not only a debate about what happened in the past. Today we see a strong debate about 'policy space' in the discussions of trade and investment treaties. To what extent should developing countries be allowed to use the 'infant industry' argument to justify protectionism?

Nonetheless, international trade and investment are powerful engines of economic growth and opportunity. The growth of regional and global value chains has increased the interconnectedness of economies and markets. To profit from this global interconnectedness, developing countries need to find a balance between slowly opening their markets and protectionism. A radical open market policy can destroy local industries. Too much protectionism, too many measures to favour local industries, for example, through local content requirements, will result in lower economic performance. When dealing with regional and global value chains one should also value the importance of imports. Imports are as important as exports and improving import efficiency is an area that requires additional attention.

Trade facilitation

Developing countries should create conditions for their firms to connect to regional and global value chains. Trade facilitation helps countries to increase their participation in regional and global value chains by cutting trade costs. Here the Aid for Trade policies are extremely relevant. The potential reduction in trade costs of fully implementing the World Trade Organization (WTO) Agreement on Trade Facilitation is as high as 14%for some developing countries (OECD et al. 2014). Bilateral aid for trade is broadly correlated with an increase in trade performance and even more positively associated with growth in trade parts and components (OECD 2015).

Standards and infrastructure

Connectivity with regional and global markets is crucial, but open markets are not sufficient. Countries should also look to 'behind the border' regulations and comply with standards, as they are considered the main obstacles to value chain integration. Another barrier to firms connecting to value chains is inadequate infrastructure. But with limited public resources it is not easy to find the financial means to meet the required investment in water, sanitation, transport, and energy, as well as other sectors. The private sector could and should play a crucial role in developing infrastructure. We see an increase in commitments for infrastructure projects with private participation. The World Bank Public-Private Partnerships (PPPs) Short Stories Competition 2015 contains 153 stories from more than 50 countries around the world showing how PPPs can be innovative and successful (World Bank 2015).

Designing good policies

Addressing the issue of good policies is not only about what good policies are, but also about how to design good policies. Policy dialogues with different stakeholders, for example, are useful in identifying barriers and bottlenecks in national economies and how to remove them. A useful tool for policy design is the OECD Policy Framework for Investment (PFI). The PFI is an approach for improving investment conditions and helping governments to design and implement policy reforms to create an attractive environment for investors, both foreign and domestic. During the OECD ministerial 2015, Myanmar presented its experience with the PFI and was very positive about this policy tool.

The international community

Trade distortions

Good policies are also the responsibility of the international community. For example: implementing the WTO Trade Facilitation Agreement presents the greatest opportunity for reducing trade costs in low and lower middle income countries. A recent study found that foreign trade distortions held LDC exports back by 31% from 2009–2013. Foreign trade distortions have thrown sand into the wheel of the LDC export growth engine. The international community should create an environment in which low and middle income countries are able to fully materialize the benefits of international trade and foreign investment.

Responsible business

Another important aspect is business. Responsible business conduct is an essential part of creating an open investment climate. The private sector must acknowledge that operating internationally implies a responsibility locally. Many companies are fully aware of their responsibility to society. The OECD guidelines for Multinational Enterprises on Responsible Business Conduct encourage the positive contribution of the private sector to sustainable development – not only for companies from OECD countries, but also through outreach to countries like China.

However, dealing with responsible business conduct can be a complex issue. How do you ensure responsible business conduct in global value chains? How about small and medium-sized enterprises (SMEs)? Do they have the capacity to deal with social responsibilities in a complex environment? International organizations must address these issues to ensure that all companies, also those in complex value chains, are committed to sustainable development.

Official Development Assistance

Is Official Development Assistance still relevant? Traditionally, ODA was the main source of funds for development. But, today, foreign direct investment and remittances are becoming increasingly important. In addition, some countries are capable of financing their own development. Therefore, talking about development is much more than the ODA debate. Upper middle-income countries could be helped by building capacity, sharing knowledge and providing technical assistance. At the moment ODA is a lively topic of debate. Should ODA be used to leverage private flows for development, assist countries to connect them to regional and global markets, and finance global goods or should ODA only be targeted at the neediest countries – countries that are otherwise left behind? It will be a challenge to make ODA fit in the post-2015 world.

Concluding remarks

International trade and investment have often been a powerful force for poverty reduction and development. But too many countries and people have been left out. More recently we see that inequality is narrowing in some countries, but has risen in many others. It is not only about inequality in income and wellbeing, but also about inequality of opportunity. Therefore, trade and investment policies should be formulated considering what they can do to foster both growth and inclusiveness.

Recent data show a decline in the global trade-to-GDP ratio, but the potential for further specialization and fragmentation of production remains high, also for developing countries. Hence, it is likely that trade growth will continue to exceed GDP growth (Hoekman 2015).

These analyses and considerations illustrate the importance of a continued, and perhaps stronger, focus on efforts to connect the dots between trade, aid and investment. The graduation of Cape Verde from its LDC status was perhaps the start of thinking in the Netherlands about the trade, aid and investment nexus. Hopefully we will continue on this path – keeping in mind that the nexus should not only spur growth, but also increase inclusiveness.

Comments by Niels Hermes

The growth performance of Sub-Saharan Africa over the past decade has been impressive. Seven of the ten fastest growing countries in the world are in Africa. Countries like Nigeria, Ethiopia, Tanzania, Kenya, Uganda and Ghana have experienced annual growth rates between 7 and 8% Even during the last five years (2009–2014) annual growth was 6.6% This is, of course, good news. But are these growth rates sustainable? And what role did aid and trade play in creating this success and what role can they play in the future to contribute to sustainable growth?

While several African countries have been successful in the past, they are also being confronted with major challenges in the future. One major challenge is that they may need to structurally transform their economies. In my view, what these countries really need in the coming years in order to make growth sustainable is to transform their economies to focus on high-productive and labour-intensive services. Currently, many African countries are making the shift from agriculture to services. In most countries the service sector already makes up 50% or more of GDP. Yet, most services are low-productive (e.g. transport, retail trade, etc.). This is not a strong basis for successful structural transformation and long-term growth. Data from the Africa Competitiveness Report 2015 (World Economic Forum 2015) shows that transport and trade activities are negatively correlated with development, whereas communication and finance activities are positively correlated, and ICT and research and development activities are very positively correlated with development. African countries may need to develop high-productive, labour-intensive services in ICT, communications and finance sectors (compare India). Yet, there are several barriers to developing these activities and achieving structural change: weak institutions, weak infrastructure, low levels of education and health, and high population growth. Improvements in health, education and infrastructure are important to structurally transform an economy from traditional sectors towards one with more high-productive services.

But what role did aid and trade play in the economic success of African countries during the past decade? I am not going to discuss this – instead I would like to focus on the role that aid and trade can play in helping African countries to successfully transform their economic structure. Here, I must say, I am a bit sceptical. The evidence of the contribution of aid and trade to economic growth is at best mixed. There is no consensus that trade openness is an important determinant of growth and development (see the work of Joseph Stiglitz, Dani Rodrik and Ha Joon Chang on trade and the work of Bill Easterly, Raghuram Rajan and Arvind Subramanian on aid). Moreover, even if there is evidence, for example, of the trade-growth relationship, the question remains: What is the causal relation? Does trade lead to growth or does growth lead to trade? Additionally, the link between trade and inequality is unclear. One of the main issues in this discussion is the cost of adjusting to opening up to foreign trade. In many cases, trade does not lead to a smooth transition from reducing production in one sector to increasing production in another; it simply raises unemployment. Moreover, it can lead to reduced government spending, because income from tariffs cannot be easily replaced by income from other sources.

My question is basically this: How does the Dutch policy of linking aid to trade and investment help in the process of structurally transforming African economies to (high-productive) services? And is it instrumental in helping countries making the needed structural changes to their economies? Does the Dutch policy allow the governments of these countries to tailor industrial policies, including the use of subsidies and protectionist measures, to nurture new and developing industries? Are there concrete examples of policies that should be guiding the process of structural transformation? Are these examples evidence-based? What does the Dutch government do to monitor whether or not their interventions have an impact (i.e.do they carry out impact evaluations and, if so, how)? And, finally, a successful transformation process does not depend on Dutch policy alone. A coordinated approach among donor countries seems to be important. What is the Dutch government doing to convince other donor countries to move in the same direction?

My next question is: What will be the effect of the Transatlantic Trade and Investment Partnership (TTIP) on the Dutch policy of linking aid to trade and investment? How will the TTIP affect the possibility of LDCs growing through trade? Furthermore, what is the role of the WTO's Aid for Trade (AfT) initiative in Dutch aid policies? What is the view of the Dutch Ministry of Foreign Trade and Aid on this and what does it do in this respect?

Recent evidence suggests that the positive impact of AfT (if any) mainly applies to middle-income countries and more to Latin American and East Asian countries; Sub-Saharan Africa does not gain much (Hühne et al. 2014). How do Dutch policies ensure that AfT works for LDCs as well?

One important determinant of the failure of aid is aid proliferation on the donor side and aid fragmentation on the recipient's side, which leads to a high administrative burden and coordination costs (see Oh and Kim 2015). In the past, there have been initiatives (Paris Declaration on Aid Effectiveness) to reduce administrative costs and several researchers and policy-makers have called for increased donor coordination, for instance, by reducing the list of recipient countries per donor. Does aid coordination and reduced aid fragmentation not become more difficult when donor countries start focusing on aid for trade and investment? Focusing on aid for trade may trigger donor countries to focus on their own interests, perhaps even more than with aid policies directly aimed at development, one consequence of which may be that they continue having relations with many developing countries.

Finally, the new policy of the Dutch government stresses that it should be inclusive and socially responsible. It also focuses on using aid to encourage private investment and trade activities. How does the Dutch policy make sure that both ends are combined? Poverty reduction and social responsibility are public goods, so why should private investors invest in projects leading to inclusive growth? My experience with microfinance is that private investors are willing to invest, but most of the funds go to projects that do not reach the poorest, who are most in need of access to finance. The financing of initiatives focusing on the poorest, therefore, remains the responsibility of the government. Subsidies and government interventions are still needed.

4. Reflections on Cape Verde's Future outlook – Maria de Jesus Veiga Miranda

Introduction

Graduation is not a problem – but it is a huge challenge. A challenge for the country that graduates and a challenge for the international community. As expected, given the rules of the game of graduation, Cape Verde has faced some constraints since its graduation in 2008. Keeping in mind that the period of transition, in which certain facilities are maintained, only ends this year in 2015, we have reason to worry about what comes next.

Finding ways to ensure the continuation of the dynamic development achieved in Cape Verde's 40 years of independence is primarily a responsibility for Cape Verde and Cape Verdeans. However, the international community has an important role to play in this context. A shared responsibility is at stake.

In my presentation, I will share with you some information about how Cape Verde has been facing this challenge. I will also invite you to join the reflections and debate that my country has engaged in, both internally and with its partners and the international community at large, on this matter. The continued support of partners, including the Netherlands, is needed for Cape Verde to overcome the challenges it faces.

As always, we face the future with fortitude regardless of the challenges and constraints, and with:

- the hope and hard work that characterize Cape Verdeans;
- the vision we have for our future – a solid and shared vision for all sectors of society;
- sound policies and strategies defined and implemented; and
- the partnerships we have, and must broaden, for the sustainable development of Cape Verde.

Brief picture of the country before graduation

The robust development and dramatic change that Cape Verde has gone through since independence is well known. Starting in the early 1990s, the country embarked on a process of structural transformation to become a market economy. During this period, the country experienced steady levels of growth. A successful combination of good governance, sound macroeconomic policies, external support, foreign direct investment and remittances has helped Cape Verde to register one of the most impressive economic performances in Africa (WTO and OECD 2012). Graduation was a logical and positive consequence of our development process.

Nonetheless, in the post-graduation period, we are facing illogic consequences in terms of a decline in aid and a rise in public debt, among other things. Although ODA flows for Cape Verde are still relatively important, and a few important partners have maintained and even strengthened their traditional cooperation in terms of grants and budget support, Cape Verde has experienced a gradual decrease in ODA. Several former partners, including the Netherlands, undertook a phasing out plan. The replacement of aid grants by instruments such as projects with ORIO (the Dutch Facility for Infrastructure Development) and the Dutch good growth fund will certainly and gradually become core instruments for cooperation in the future. However, for now, Cape Verde is still struggling to ensure its effective transition to a middle income country (MIC) economy and the full realization of the advantages of those instruments, while facing multiple constraints. While we praise the dynamic and multifaceted partnership we are building with the Netherlands in blending EU grants with public-private partnerships (PPPs), we need to recognize that Cape Verde still counts on ODA to implement its development plan.

From this perspective it is also relevant to consider the consequences of Cape Verde's graduation, in particular:

- The decline of concessional loans: This consequence will strike harder at the end of the transition period. Meanwhile, their imminent end has led to an intensive use of concessional loans to accelerate infrastructure construction, resulting in an increase in the budget deficit and a rise in public debt to levels that some partners consider worrisome.
- Loss of access to specific markets and export opportunities: Access to specific markets and export opportunities did not drop significantly after graduation, because the country has very little to export in terms of goods. Thanks to the Generalised System of Preferences (GSP+) of the EU, Cape Verde's only significant export, fishery products, can enter the European market without customs duties. However, the rigidity of customs rules greatly limit Cape Verde's real capacity to export this product.
- Weakening of institutions and civil society organizations: Another direct consequences of graduation may be the weakening of institutions and civil society organizations. National non-governmental organizations have great difficulties in obtaining international financing. With the increase of budgetary constraints, the

government is not able to fill the gap and, therefore, local partners that have traditionally played an important role in combating social exclusion might be lost. Ver mais uma consequencia (J. Correia)

- Macroeconomic balance pressures: Macroeconomic balance pressures derived from the high budget deficit and debt are undoubtedly the most visible consequence of graduation. This tension has been aggravated by the global economic crisis via the Euro Zone, leading to a decline in foreign direct investment and emigrant remittances. In this context, the slowdown in growth of GDP per capita, which reached negative levels in 2013, was an inevitable consequence and has revealed our great vulnerability to external shocks.

To top it off, natural phenomena such as the drought in 2013–2015 and volcanic eruption in 2014–2015 have remind us of our high degree of environmental vulnerability as an archipelago.

Consistent measures to counter post-graduation tensions and the effects of the global financial crisis

Cape Verde's anti-cyclic economic policy, through the increase in public investment in infrastructure and the increase in domestic revenue mobilization by enhancing tax administration, have had positive results, allowing Cape Verde to withstand the adverse effects of the global financial and economic crisis for some time. However, this policy resulted in an increase in public debt and a budget deficit. The transition period created a window of opportunity for the country to finance its infrastructure using concessional loans for a short period, with the approval of the International Monetary Fund. The good news is that the large infrastructure projects that are being concluded will lay the foundations for economy diversification, encouraging the engagement of the private sector in boosting economic activity – which will stimulate economic growth. The bad news is that this response from the private sector is taking too long to become a reality.

Thus, thanks to the massive resource mobilization through loans, great progress was achieved in most infrastructure-driven areas, such as transportation, energy, water and sanitation, and water mobilization for agro-business. Good governance and sound policies have also allowed advances across social areas, including social security, with extensive coverage in the contributory and non-contributory system, and the development of human capital, although great challenges remain when it comes to qualified professional skills to serve the needs of the market.

Boosted progress in poverty reduction and promoting social inclusiveness, health, global education and gender balance, as well as in institutional capacity consolidation, has helped Cape Verde to meet most of the MDGs: eradicate poverty and hunger; achieve universal primary education; promote gender equality and the empowerment of women; reduce child mortality; improve maternal health; and combat HIV and malaria and others diseases. It has also made us champions in battling transnational organized crimes in the region.

All of this has been achieved, despite the overall unfriendly environment due to the global financial and economic crisis. The duration of the crisis beyond the expected period placed further pressure on the national economy and the indicators began to deteriorate from around 2010. The years 2012 to 2014 were particularly difficult and ODA, foreign direct investment and remittances descended to their lowest historical levels.

The path is forward

Cape Verde continues to find exits through the implementation of its Transformation Strategy and Agenda. The Agenda is a result of the first national Forum held in 2003, which aimed at forging a vision of the 'Road Ahead' and building a national consensus on a development strategy for Cape Verde. This Agenda was further consolidated at the 2nd Forum held in 2014.

The adoption of the Transformation Strategy and Agenda was a paradigm shift in development policy and resulted from a broadly participatory vision on policy measures for inclusive and sustainable economic development. In short, it aims to transform the country into a service delivery platform in the Mid Atlantic. It is based on so-called 'clusters', which together should increase Cape Verde's integration into the world economy, and in the West Africa Sub-Region, as a hub for fishing, tourism, transport, information technology and renewable energy, among other things.

The Strategy for Growth and Poverty Reduction sets the priorities and policies for the Transformation Agenda through five pillars:

- promoting good governance, strengthening effectiveness and ensuring equity;
- developing and enhancing human capital;
- promoting competitiveness to boost economic growth and employment creation;
- improving and developing basic infrastructure, including transportation and communication, the energy sector and the management of hydraulic resources; and
- improving the social protection system and guaranteeing its sustainability.

Cape Verde's Economic Development Plan requires the continued support of the international community. Our partners line up through the poverty reduction strategy papers to support our development.

Looking ahead, Cape Verde has to find ways to compete in the international market based on quality, efficiency, productivity and innovative capacity. Constant innovation is particularly crucial for an economy based on services, which also requires quality infrastructure, well-trained and highly-skilled human resources, and a good business environment. It is important for Cape Verde, together with our partners, to find alternative and innovative ways to finance this strategy.

The role of the international community and why international support is so important

Cape Verde is only one of three countries that have ever qualified for graduation since the LDC category was established by the UN in 1971. Furthermore, in 2008, it was only the second country ever to have graduated and the first Small Island Developing State (SIDS) in this position. One of the main lessons that came out of this transition is that, despite the fact that vulnerability criterion did not prevent graduation, the country's economic vulnerability, mainly, its vulnerability to external shocks, is extremely relevant. Hence, vulnerability criterion should be a requisite for the graduation of LDCs in the future. Now, Cape Verde joins the voices that propose that the United Nations define a vulnerability index for middle income countries and that this index be considered for more flexibility in access to ODA, to the market on a non-reciprocal exemption basis and to concessional loans. Cape Verde also pleads for the establishment of mechanisms for better monitoring of the transition period for graduated countries, as well as for a longer, more adequate, transition period, so to encourage more LDCs to reach for graduation.

Ensuring that graduation works for Cape Verde is a challenge for the international community because, if Cape Verde does not succeed in sustaining its status as an MIC, all LDC countries will resist graduation and it reverberate as a failure for the entire United Nations community. Having been unable to argue for special treatment as a newly-graduated country (many partners refute such category and deny the difficulties that newly graduated countries face), Cape Verde has now strengthened its participation in the Alliance of Small Island States and as a SIDS in general.

What do SIDS need from the international community?

Small Island Developing States need the effective implementation of the commitments contained in the Barbados Plan, Mauritius Declaration and SIDS Accelerated Modalities of Action (SAMOA) Pathway – meaning, at the end of the day, special treatment for SIDS in the post-2015 development agenda. Towards this, the following measures are necessary:

- innovative solutions to help SIDS in external debt management and its sustainability (e.g. the debt swap deal achieved by Seychelles, which enabled it to swap some of its debt in exchange for saving the oceans, is an example to be emulated);

- consideration of the specific vulnerabilities of recently-graduated countries, not just GDP per capita, when granting access to concessional financing, as well as the definition of vulnerability (e.g. a vulnerability index for MICs); and
- special support for the development of the private sector – and of science and innovation.

SIDS and MICs also need to strengthen their capacity to access innovative financing instruments and 'blendings'. The creation of a 'special fund' designed for SIDS under the framework of the Green Climate Fund to strengthen their resilience to the impacts of climate change and natural disasters is another necessary measure. There is an urgent need to build a global partnership for the SDGs in order to guarantee the resilience building of SIDS in the three dimensions of development – social, economic and the environment – through, inter alia, institutional capacity building and technology transfer and funding to enhance economic sustainability.

It is our hope that firm commitments will be reached in Addis Ababa during the Third International Conference on Financing for Development to boost international cooperation under the new global framework for development finance and to provide tools and methods that enable the effective implementation of the post-2015 development agenda. The same firm commitments are to be established during the climate summit, Conference of Parties (COP) 21 in Paris in December 2015.

More policy coherence and the coherence of policies is expected to be part of this global partnership framework, in order to put international trade, fisheries agreements and commodity prices back on track to boost development. The specific treatment of SIDS should be based on both their recognized vulnerabilities and their potential, such as in maritime areas or the 'blue' economy.

It will also be important for graduated countries and middle income SIDS to:

- have a nationally-shared vision of priorities and strategies and to exercise effective leadership in their respective development processes;
- adopt sound policies to complete the achievement of the MDGs and to guarantee national ownership of the SDGs;
- enhance good governance and political stability across countries and continents;

- have greater ability to mobilize both internal and external financial resources to finance development, which means knowing and mobilizing all existing opportunities, many of them apparently unknown or out of reach because of poor capability and effectiveness (e.g. through the Climate Change Fund); and
- promote North-South, South-South and triangular cooperation.

Conclusions

The biggest challenge that remains is to find financing for development. The steady implementation of the Strategy and Transformation Agenda is vital to Cape Verde's development. The country should also take the following additional measures:

- improve mechanisms for coordination with its development partners including by reactivating the Transition Support Group (GAT) as a mechanism for a better and wider coordination beyond the Budget Support Group (GAO);
- adopt policy measures for guaranteeing social cohesion and strengthening competitiveness ('doing business') and for empowering the private sector;
- continue to improve the system of tax collection and administration, and increase exports to take advantage of GSP+ and the US African Growth and Opportunity Act (AGOA);
- reinforce regional integration through the Economic Community of West African States (ECOWAS) and as a SIDS, as well as the importance of the entry into force of the Regional Economic Partnership Agreement (EPA) with the EU;
- improve access to all development financing instruments available at the international level;
- maximize the vast contribution of the diaspora, which is not limited to money transfers and sending remittances
- complete the MDGs appropriation of the Objectives of Sustainable Development;
- capitalize on our greatest asset, the sea, by betting on the 'blue economy', tourism, renewable energy, and services to effectively transform Cape Verde into an international service hub; and
- prepare for the post-transition period, when the real impact of graduation will be experienced.

5. The thesis: 'Slicing up the developing world: differentiation in the special treatment of developing countries' – Djalita Fialho[1]

My thesis set out to answer the following main question: What drives the proliferation of developing country differentiation within international organizations? Equally important is the ancillary question: Do developing countries' needs represent the main motivation for categorizing countries or are there other driving forces? (See video link: https://youtu.be/12cjYgrM8sM)

In trying to understand who benefits from developing country categorization; the continued proliferation of these categories; and graduation processes that keep graduated countries in a dependent relationship, the ultimate goal is to identify the interests and power shifts motivating and resulting from this. By making these interests/power dynamics evident (particularly within the United Nations), the main contributions of this study are: the initiation of an academic debate towards a political economy of developing country differentiation (a thus far under-researched field) and the provision of elements for a more balanced decision- and policy-making framework for categorizing developing countries with the aim of providing them with special and differential treatment.

Through this research, I gained a new perspective on the UN and on Cape Verde's development. As a result, and contrary to my initial research proposal submitted to the Institute of Social Studies at Erasmus University (ISS), this thesis is not specifically about Cape Verde, nor about the 'least developed country' category. As a result of my research, developing country differentiation became the main focus of this thesis, having as an angle of analysis the first case of a negotiated LDC graduation under the so-called 'smooth' transition mechanism.

Three main puzzles motivated this research: Firstly, some countries do not want to be categorized as LDCs, others do not want to graduate from the LDC list and, when we look at the UN, we cannot help but notice the growing proliferation of categories of developing countries. In effect, when we scrutinise this issue, the main

[1] The thesis is available at http://repub.eur.nl/pub/78366/. A presentation in Dutch appeared in ESB 9 July 2015: http://www.economie.nl/artikel/promotie-97.

contention ends up being between developing country differentiation used as a policy instrument (to introduce greater efficiency in the international organization's interventions) or as an instrument of power (to safeguard and advance specific interests). In this latter case, the thesis revealed that, if left unchecked, developing country differentiation can indeed be appropriated for advancing organizations' and states' selfish interests.

The outburst of developing country categories within the UN started in the mid-1980s and their proliferation persisted from then on. Yet this change has not been worthy of much academic attention. Hardly any research could be identified on how pervasive developing country categorization has become within the UN. What we also see as a result of this proliferation is the overlap of categories, which makes it hard to understand which country gets (or is entitled to) what and why. Ultimately, this indicates a tendency to create new categories whenever new development problems are identified.

In order to understand the reasons for the outburst of categories of developing countries within the UN, as well as the implications of this, this research investigates developing country differentiation in terms of two main factors: interest and power. These two factors are studied separately, and in relation to each other, and are analysed through institutional behaviour.

The thesis uses mixed data collection methods and triangulates primary and secondary data collected through a literature review, document analysis, descriptive statistics and semi-structured expert interviews conducted with a total of 34 informants. By engaging with the collected data through a political economy analytical lens that highlights the role of power and draws attention to conflicting interests, the thesis finds that the continuous categorization of developing countries, besides stimulating the further proliferation of categories, also reinforces a sense of entitlement to international support on the part of developing countries. This, in turn, deepens developing countries' foreign dependence and reinforces the power of developed countries over LDCs. This also serves the interests of UN member states, which are generally not interested in letting go of the benefits associated with being categorized as an LDC. There is, therefore, a systemic dynamic going on that shows that, while UN bureaucracy does act autonomously, the fulfilment of its self-interest is facilitated whenever these interests coincide with those of certain groups of countries.

The thesis concludes that:

- The differentiation created within the UN among developing countries has changed the rapport of power between more advanced developing countries and LDCs. By differentiating and subdividing the general and previously undefined group of developing countries, the establishment of the LDC category created a demarcation between more advanced developing countries and LDCs. This has implications in terms of the prioritization of special and differential treatment in favour of the latter. As a result, the relationship between the two groups has changed from partners to competitors.
- Differentiation has also resulted in the disproportionate segmentation of the developing world, considering the large number of categories that emerged, some with matching purposes. The thesis investigates the overlap that results from the proliferation of developing country categories and the coexistence of several lists of SIDS within the UN.
- Lastly, we see the institutionalization of an LDC 'graduation process' that, while responding to the interests of graduating LDCs, also safeguards bureaucratic interests and ends up promoting even further proliferation. The thesis demonstrates that graduated countries are still kept 'under the wings' of the UN for an undetermined period of time, preserving the organizational status quo.

The implications of all this, are that:

- graduating countries and certain UN structures tend to safeguard individual interests, even if at odds with UN member states' interests;
- bureaucratic interests and motives (at the state and at the organizational level) end up influencing developing country differentiation; and,
- ultimately, this type of dysfunctional behaviour can thin out special and differential treatment to countries that really need it.

As to the case of Cape Verde's LDC graduation, by shaking up a stagnant category, it generated positive changes within the LDC structure. It made graduation dependent on a new transition framework, now replicated for all graduation cases. This new framework serves useful purposes: it makes transition out of the category not as abrupt as in the absence of such a structure and it provides predictability in terms of immediate and short-term international support to LDC graduates. This took away the stance against graduation in Cape Verde and at the UN and improved a somewhat frozen structure. It also countered a clear dysfunction in the behaviour of some of the UN bureaucracy towards LDC graduation.

So, the case of Cape Verde shows that the LDC category tends to be addressed as a purely administrative/bureaucratic process, and not as a development-promoting instrument that imposes on the graduated country a de facto paradigm shift, away from never-ending foreign-aid led development. This denotes resistance to change, inertia and, ultimately, lack of broader development thinking on the part of the UN, but also on the part of graduated countries. In addition, it highlights contradictions between the UN's stated intentions and policy implementation.

On the other hand, significant and often unnecessary differentiation among developing countries within the UN happens precisely because the organization responds to bureaucratic interests, irrespective of whether or not they concur with member states' interests. In the end, it is the organization and its representatives (and not necessarily the most vulnerable member states) that benefit the most from the proliferation of developing country categories. Therefore, keeping intact or empowering even further certain bureaucratic structures becomes the main purpose. This is a clear subversion of the most important purpose of developing country differentiation, which is the provision of special and differential treatment to countries truly in need of such treatment.

However, it is not realistic to think that overhauling the current system of developing country differentiation would be immediately possible, precisely given the ingrained bureaucratic interests and well-established national and international power networks. Given the misalignment of interests identified throughout the thesis, changes in the current framework of developing country differentiation should be deep, but these changes should also be gradual, so that they can be feasible, meaningful and long-lasting. Mindful of this, the thesis proposes policy changes that could contribute to a less dysfunctional framework of developing country differentiation, including:

- discouraging the proliferation of even more categories to prevent the further complexification of special and differential treatment;
- streamlining existing categories of developing countries within the same organization to reduce proliferation;
- depoliticizing and adopting a strictly needs-based approach to country selection;
- working towards less institutional fragmentation of efforts and more organizational coordination; and
- striving for less bureaucracy-motivated representatives (and, hence, adopting a tighter control of their performance), in order to minimize principal/agent mismatches, and introducing more accountability measures targeted at international organizations and the work of their representatives.

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