



Out of the trap
Supporting the least developed countries

Edited by Patrick Guillaumont

A launch event organized by
UNCTAD and Ferdi
At the UN, Geneva, 23 January 2020

Guillaumont

Caught in a trap

Identifying the least developed countries

Patrick Guillaumont



Caught in a trap

ECONOMICA

Out of the trap

Supporting the least developed countries

Edited by Patrick Guillaumont





From

Caught in a trap. Identifying the least developed countries (2009)

To

Out of the trap. Supporting the least developed countries (2019)

- **CIT** examined the origin of the category in 1971, its rationale (identifying poor countries most likely to stay poor, due to the structural handicaps they face), and its grounds in development economics (low level equilibrium trap)
- It assessed the relevance of the two indicators of structural handicaps used to identify LDCs (HAI and EVI), and of their complementarity. It also suggested new indicators for capturing « least development » (SHI and LLDI)
- And explained why some LICs have been « caught in a trap » (the LDCs), while others escaped

From
Caught in a trap. Identifying the least developed countries (2009)
To
Out of the trap. Supporting the least developed countries (2019)

- The meaning of the category has changed: poor countries facing severe handicaps to *sustainable* development (not only economic growth)
- LDCs often associated to « poor and vulnerable countries », with a broader field of vulnerability, extended to climate change and state fragility, challenging the present criteria complementarity
- Increased focus on graduation, its pace and criteria, however not leading to a very significant decrease of the number of LDCs
- Nearly 50 years after the creation of the category, need to assess what has been the impact of membership, and to possibly reexamine both the criteria on which it relies and the support measures it generates
- Not an easy task, because the category effectiveness is a puzzle



Overview
of
Out of the trap
supporting the least developed countries

**A collective research
to assess the impact of the special measures
on the development of the LDCs**

Contributors

**Jean-Louis Arcand, Cindy Audiguier, Matthieu Boussichas, Céline Carrère,
Lisa Chauvet, Ana Cortez, Alassane Drabo, Michaël Goujon, Patrick Guillaumont,
Sylviane Guillaumont Jeanneney, Teresa Lenzi, Jim de Melo,
Roland Mollerus, Laurent Wagner**



The challenge: an assessment/attribution issue

- **Aim:** Assessing the impact of the special measures in favour of LDCs on their development. After nearly 50 years of measures, no overall assessment of their development impact.
- **Challenge:** : Disentangling the effects of the special measures (for LDCs) from those of the specific structural features (of LDCs) . Impact analysis needs a relevant counterfactual, elusive for LDCs, since all poor countries facing high structural handicaps were supposed to be in the category
- **Approach:** Addressing the issue by considering (i) the impact of the whole set of measures on growth and development, (ii) the effect of the main kinds of measures (aid and trade) on relevant indicators, (iii) the path of graduation.



Out of the Trap: content

I. Impact on growth and policy performance

- **Economic** growth, poverty reduction, and structural transformation in LDCs: The puzzle of the impact of category membership
- Policy performance: Is it weaker in the LDCs?

II. External assistance

- Global aid flows to LDCs: What effectiveness of the aid target?
- Multilateral assistance: To what extent is it specific?

III. Support through trade

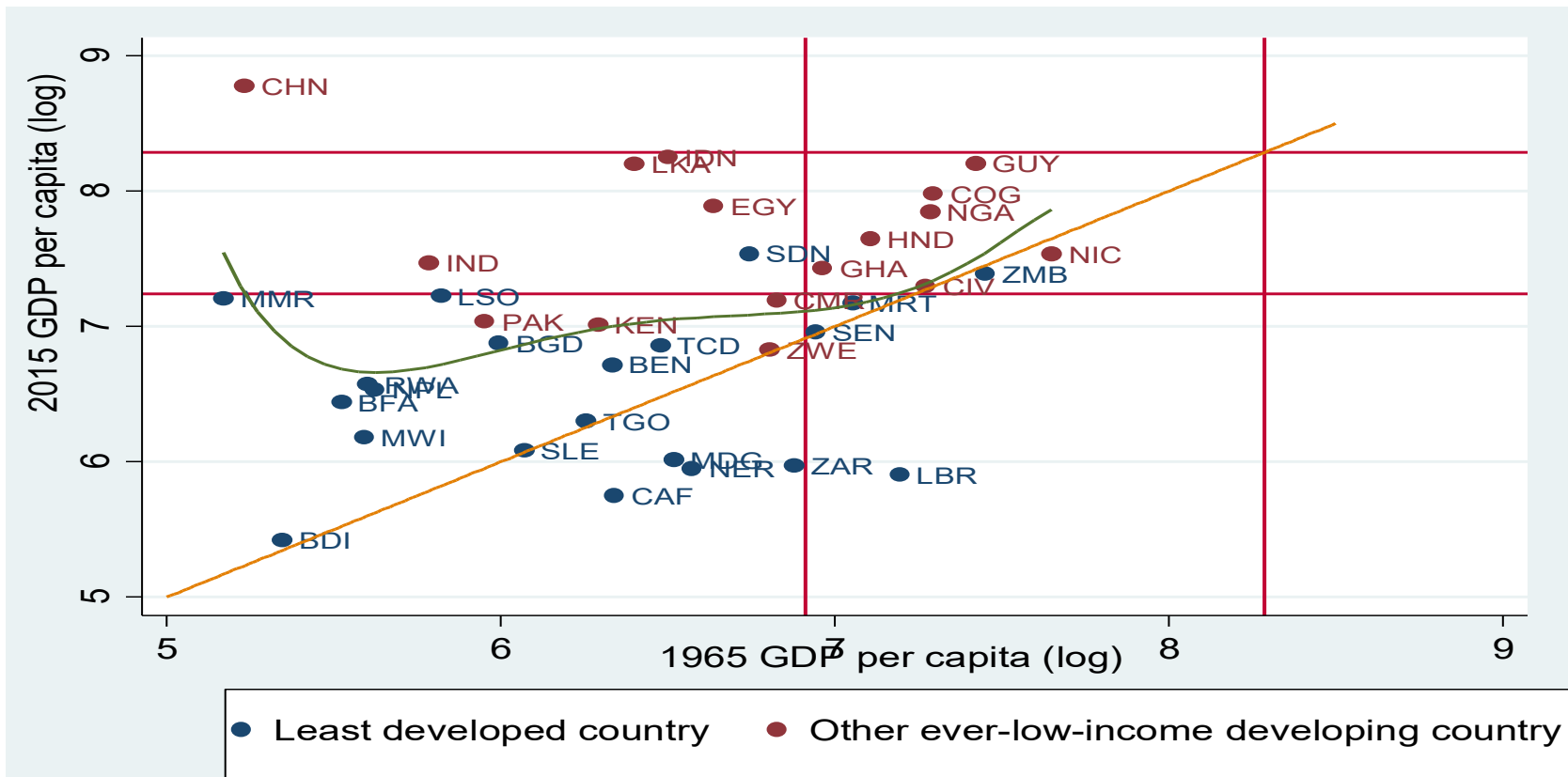
- Trade-related measures for LDCs: What has been done?
- Trade marginalisation and its reversal: What impact of international support?

IV. Graduation and Governance

- Graduation: Rationale, achievement and prospects
- LDCs and Global economic governance

Overall LDC growth, poverty reduction and transformation (Ch1)

- Overall long term confirmation of the LDC trap : on 1965-2015: while most LDCs remained LICs, almost all other ever LICs were no longer so in 2015



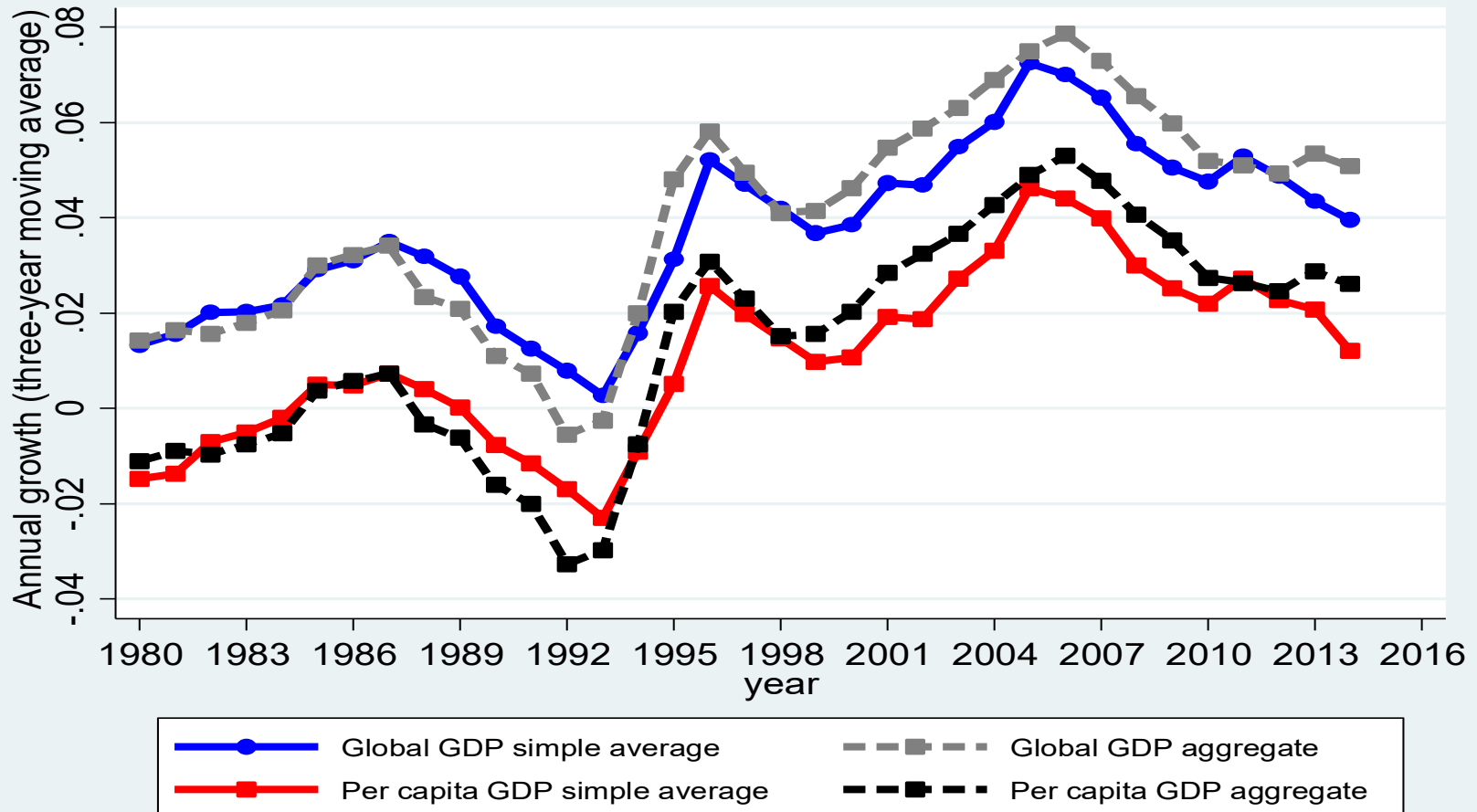


Overall LDC growth, poverty reduction and transformation (Ch1)

- **But growth resumption** since the mid-90s, average rates higher than in other (all) DCs, after having been lower
- Whether when averages are weighted by the population or not
- But less when oil exporters are excluded
- And not when the comparators are limited to other countries (22) having been LICs
- Less clear sustainable growth resumption when growth is adjusted for the impact of terms of trade

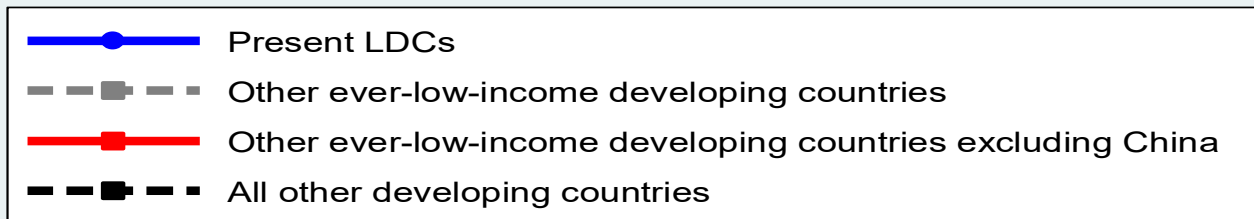
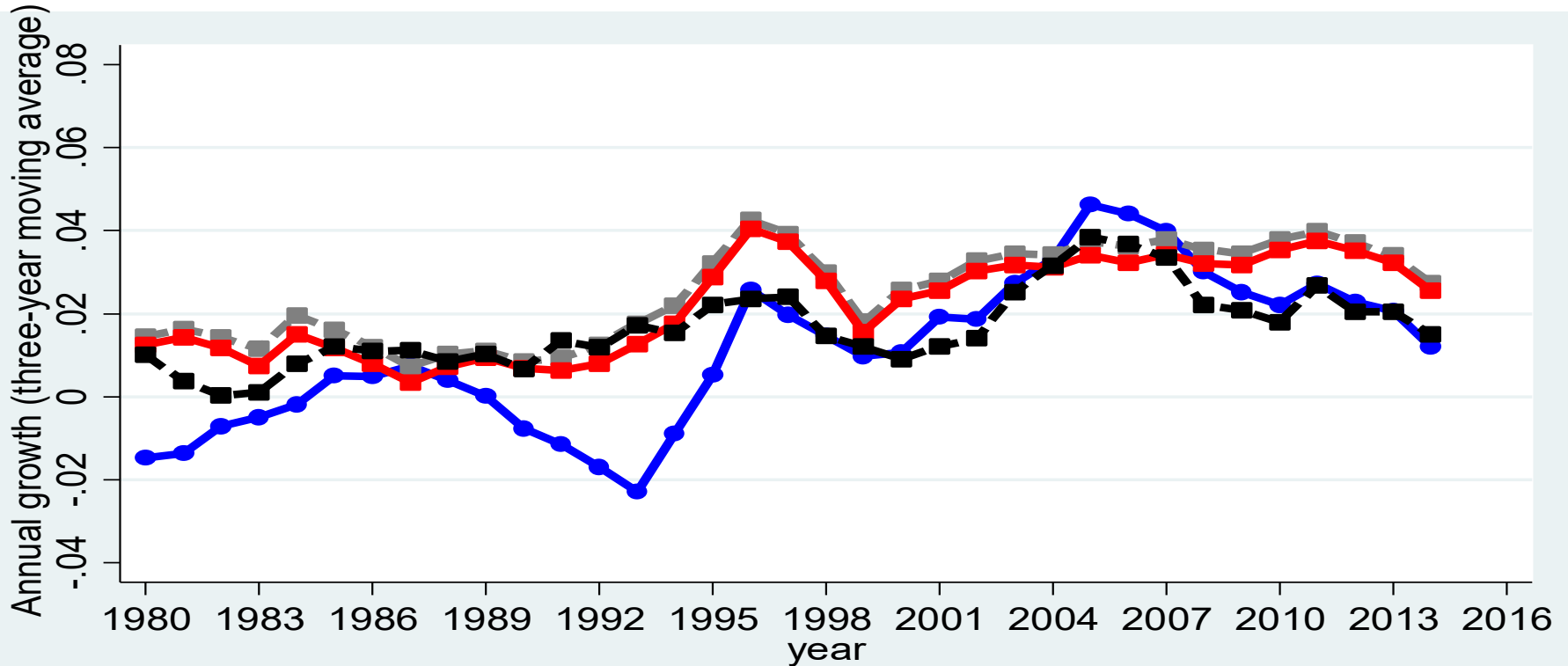


Average annual economic growth rates in LDCs, by four definitions, 1980–2015

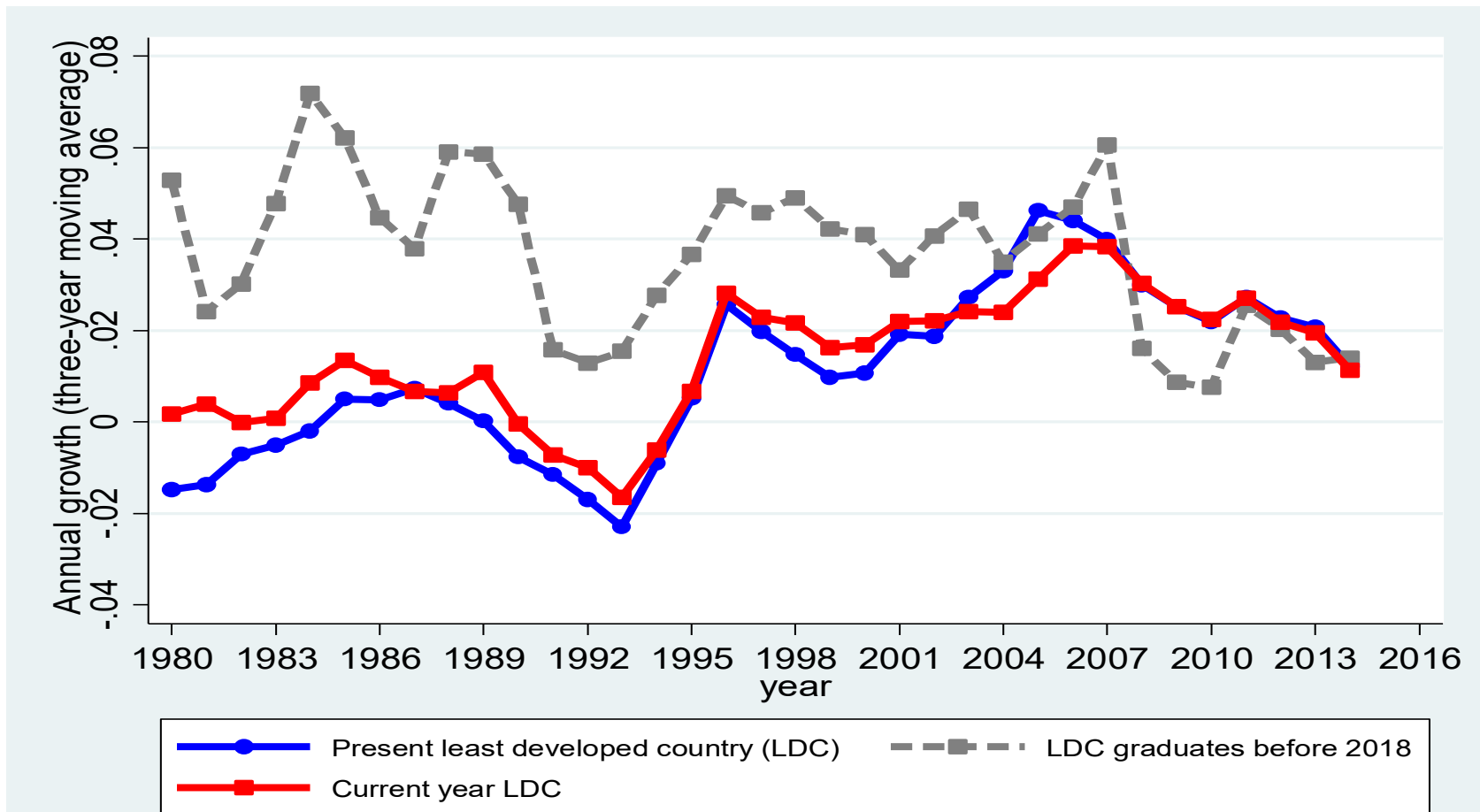




Evolution of GDP per capita growth, in least developed countries and other developing countries, 1980-2015

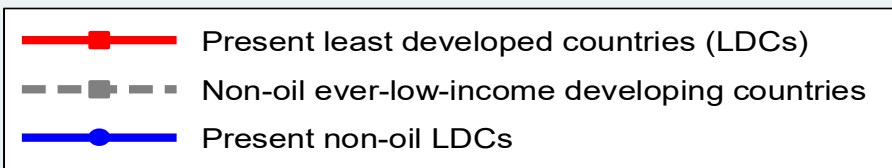
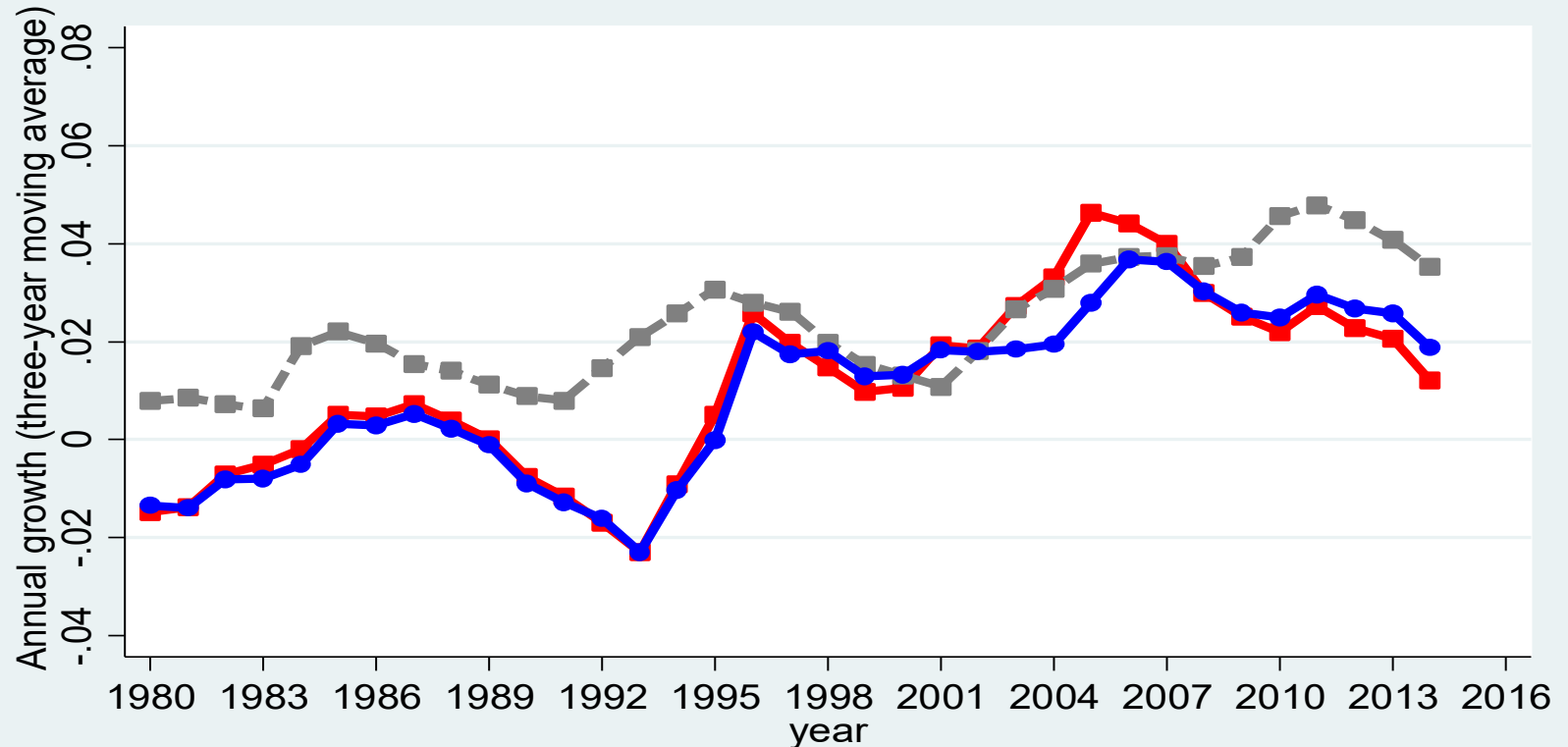


Simple average of per capita GDP growth rates in LDCs, by LDC group composition, 1980–2015



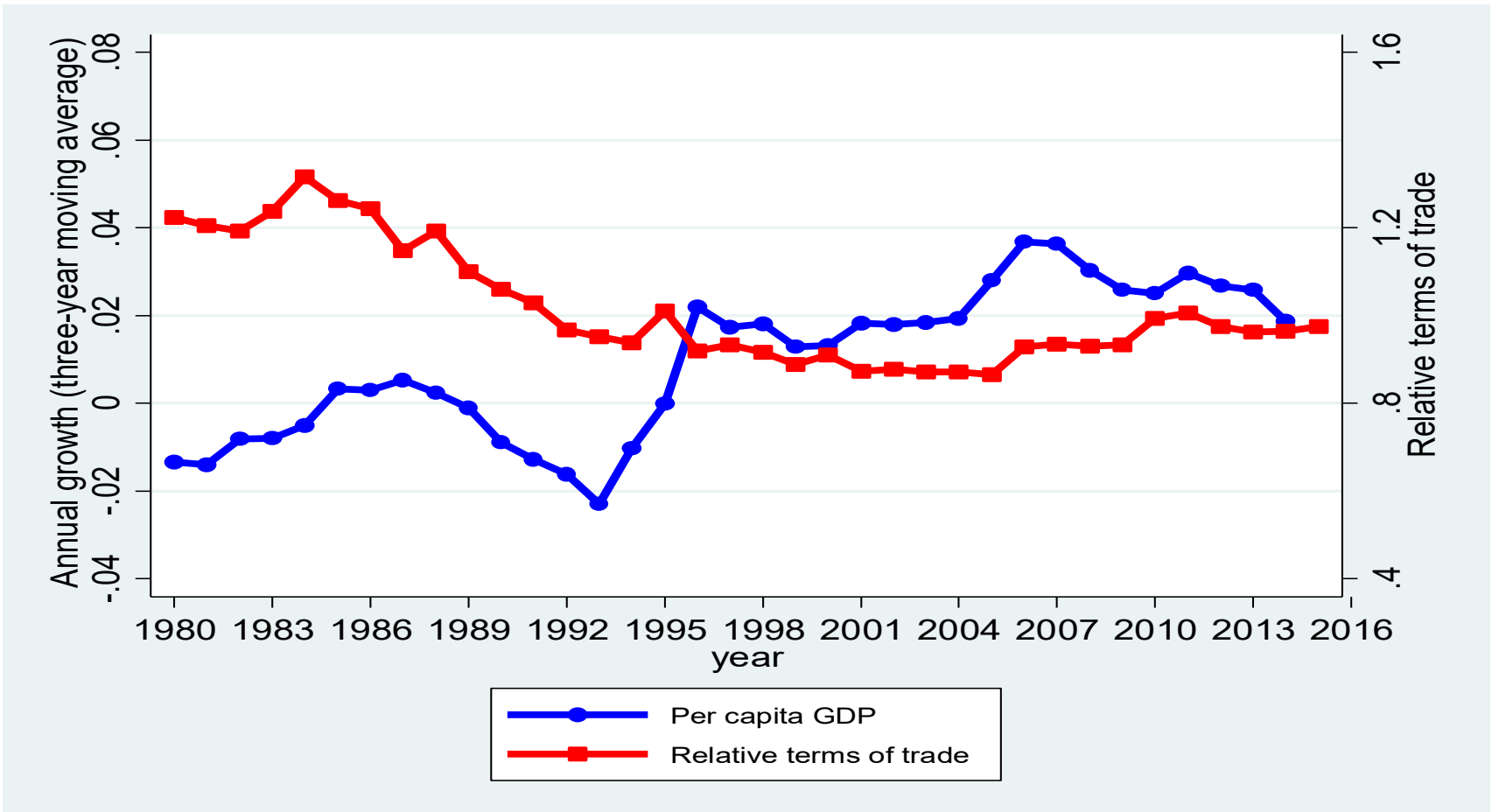


GDP per capita growth in least developed countries and other developing countries, by oil-exporting status, 1980-2015





Evolution in average annual per capita GDP growth and relative terms of trade in non-oil exporting LDCs, 1980–2015





Overall LDCs growth performances: attribution

- Economic growth from 1970 to 2000 significantly lower in LDCs than in other developing countries, but no longer so in the last two decades: can it be a late result of special measures... or of a policy improvement... or of exogenous factors?
- Assessment of the impact of membership over time, according to several sophisticated methods: RDD, matching was not conclusive because not really adapted to the issue addressed



Overall LDCs performances beyond growth

- **Poverty reduction:**
 - lower in LDCs, but MDG 1 more difficult to achieve
 - due to the higher initial level of poverty
 - and to the higher income volatility,
both making the decrease of poverty lower in LDCs for a given growth of income
- **Structural change:**
 - according to Ferdi retrospective series of HAI and EVI, lower progress in LDCs than in other developing countries
 - sectoral change: increase of the share of services, stagnant share of industry, productivity growth coming mainly from within sector change, rather than sectoral shift in the labour force



Overall LDCs performances: weaker policy? (Ch.2)

- Usual policy and institutional indicators (CPIA, WGI...) **found weaker** in LDCs than in other developing countries... then policies suspected to be a source of their lower long term growth
- But clear econometric evidence that these indicators (the policies) are **significantly determined by the structural features** (handicaps) of LDCs: once eliminated the influence of GNIpc, HAI and EVI, the previous indicators no longer appear weaker in LDCs: « autonomous » policy not weaker
- Moreover **improvement** of these indicators in the last decade in particular for the part not determined by structural factors, in absolute value and relatively to other developing countries

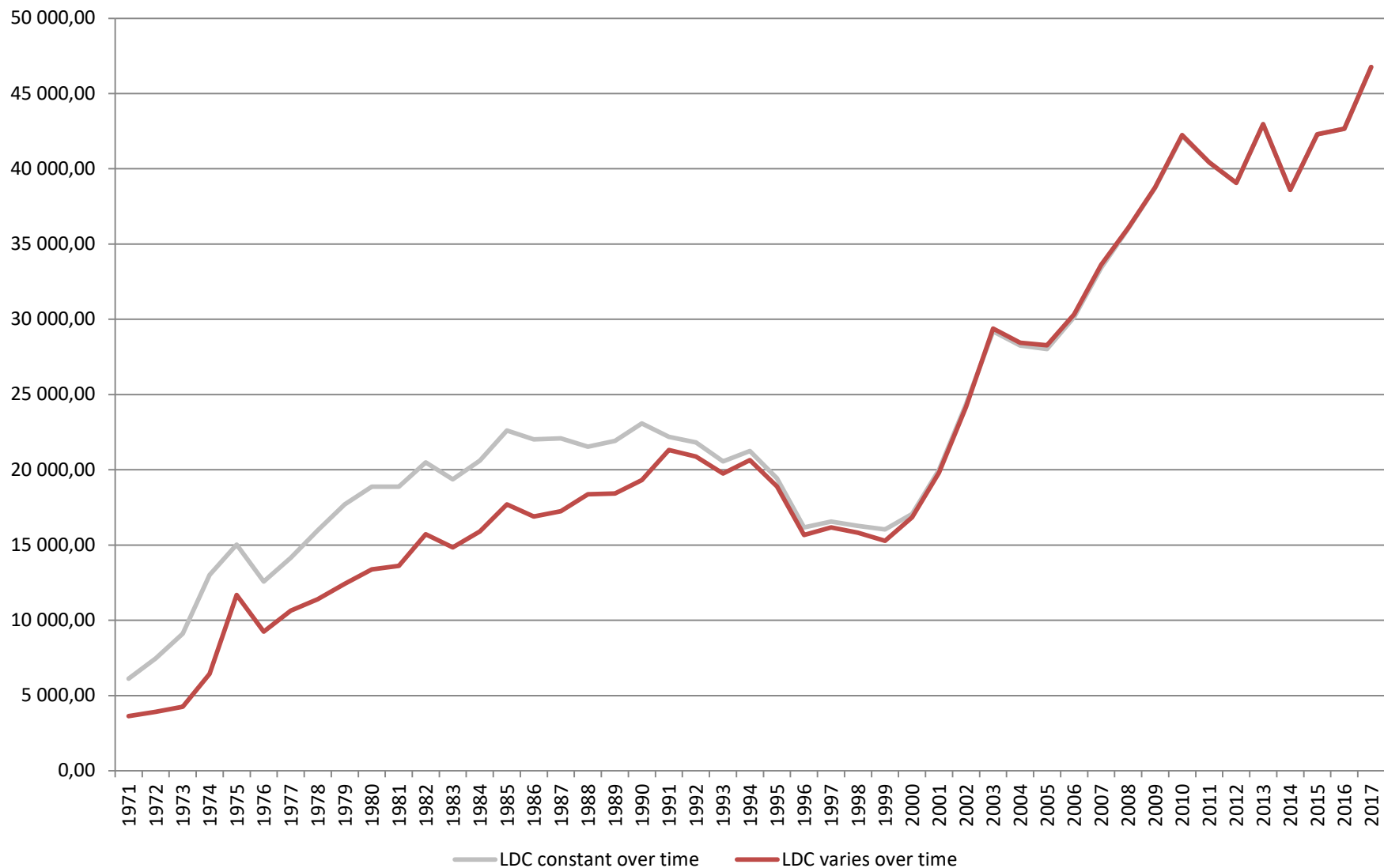


Global aid flows to LDCs: which impact of the target? (Ch.3)

- Not compulsory measures for donors , but a target of 0.15% (within the 0.7%) adopted in 1981. What impact on ODA flows to LDCs?
- **Levels:** aid to GDP to higher in LDCs than in other DCs, aid pc lower, since GDPpc lower, and aid per poor lower
- **Trends:** ODA flows to LDCs far from the 0.15-0.2 target, but a reversal in the last decade after a decline in the previous one, then a new and recent decline
- Does not really allow to assess the impact of the target for the category members

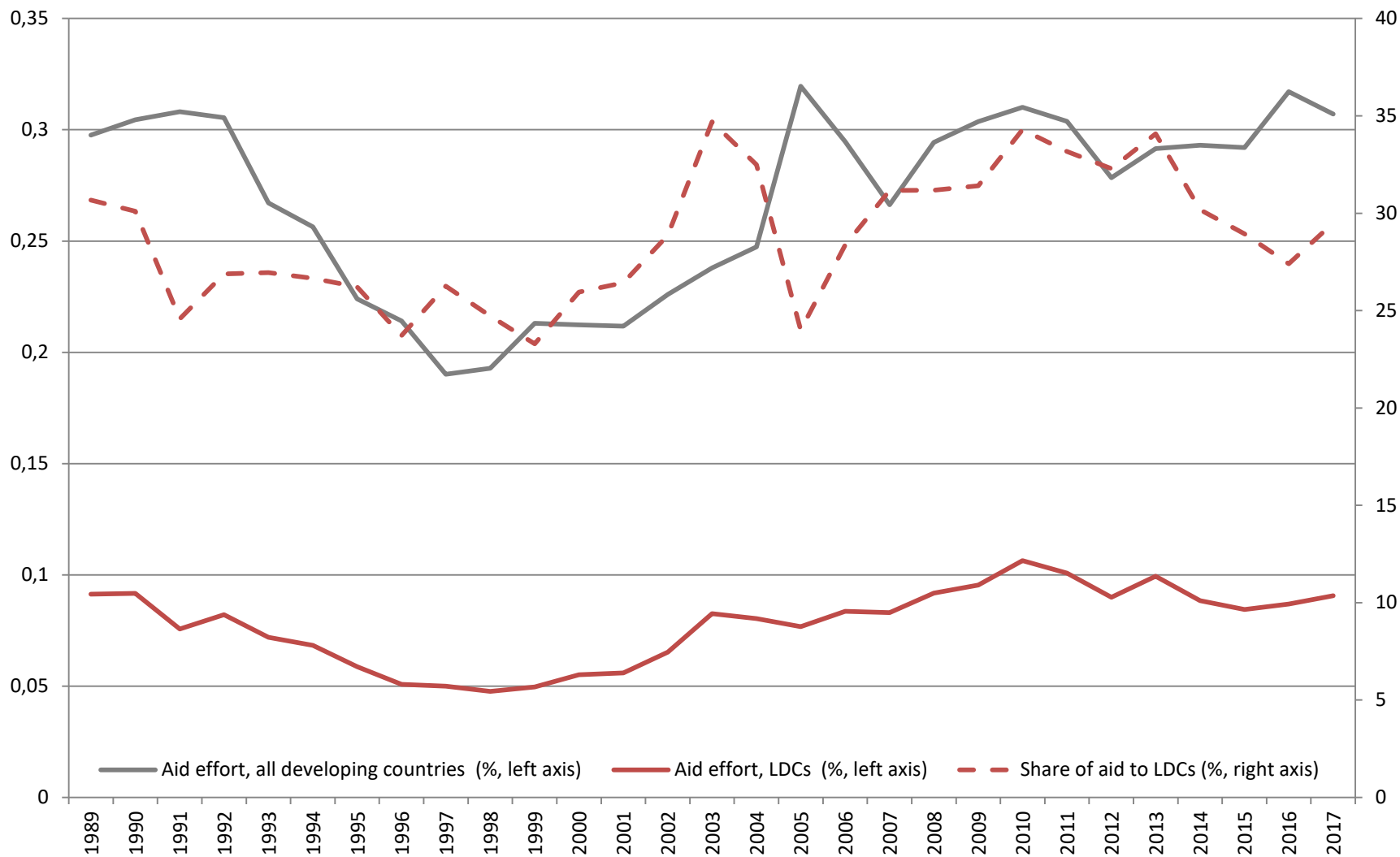


Net ODA to LDCs, in constant 2016 \$, according to the content of the category





Average aid effort of DAC countries (% of GNI), 1989–2017





Assessing the impact of membership on ODA

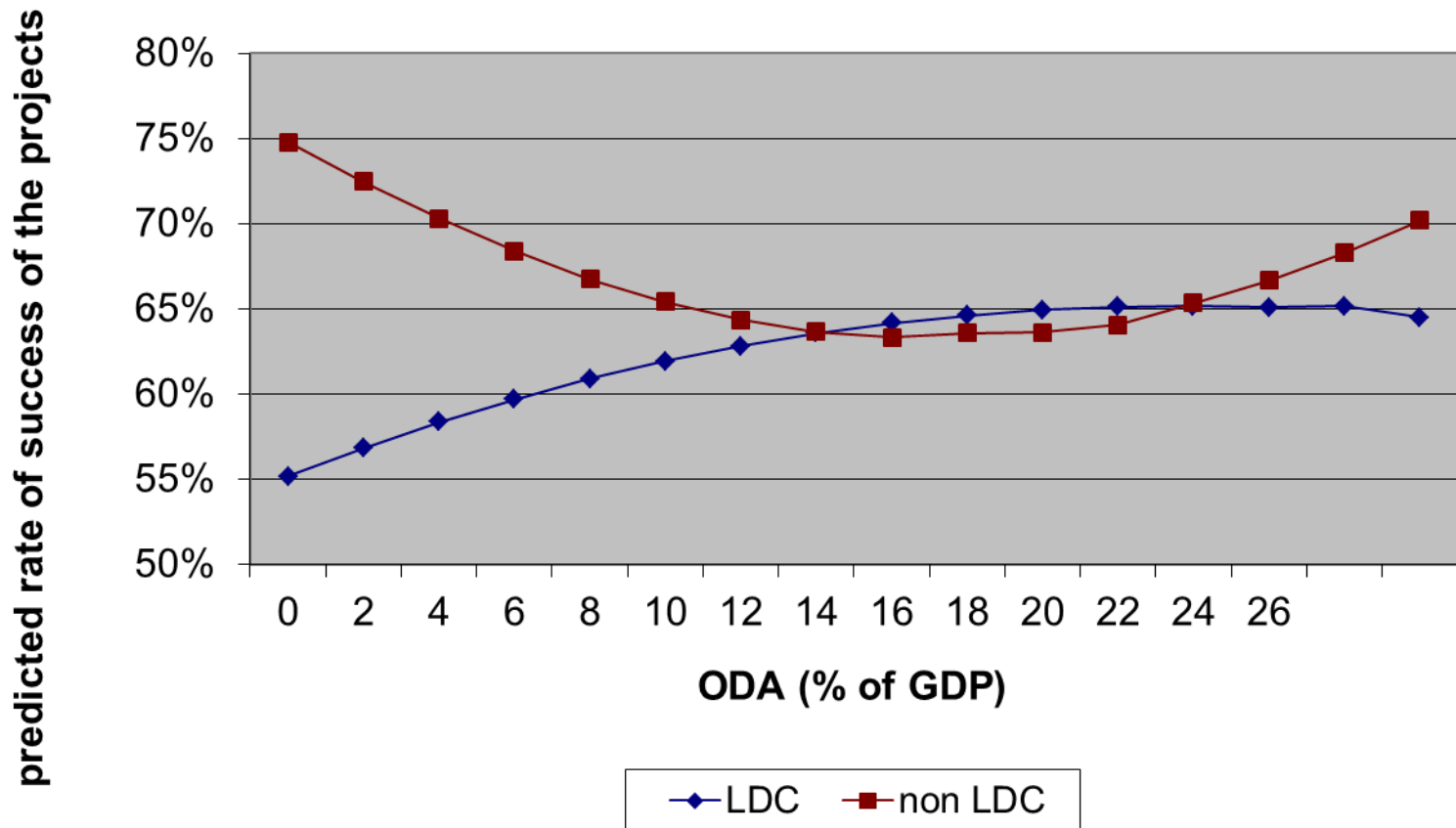
- **Diff-diff**: comparing how aid to GDP has moved when a country is newly included to how it has moved in previous LDCs or to other developing countries suggests a **positive effect**, but no control for other factors
- **Econometric assessment** of the impact of the category membership, allowing to control for the traditional factors (GNIpc, Pop.) as well as for structural handicaps: significant **impact, although not during the 1990s**, and not affected by the inclusion of structural features in the model
- Aid to LDCs results **both** from their structural features and their membership, with strong heterogeneity.



Assessing the (higher) effectiveness of ODA in LDCs

- The structural vulnerability (higher in LDCs) is indeed a factor of lower growth, but also a factor of **higher marginal aid effectiveness**,
- It makes effectiveness higher in LDCs due to the **stabilizing impact of aid**, that dampens the effects of shocks (in particular export instability)
- Confirmed by the measurement of this impact at the country level, and by the average impact of aid on the stability of the rate of growth
- Also supported by the examination of the factors determining the **rate of success of WB projects** (depending on export instability) (graph): Evidence of increasing returns of aid in LDCs instead of decreasing returns elsewhere, supporting the « **big push** » view
- Same message at the macro level '(graph p.128)

Fig.A.2. Rate of success of World Bank projects : initial handicap, but higher absorptive capacity in LDCs





ODA to LDCs: policy implications

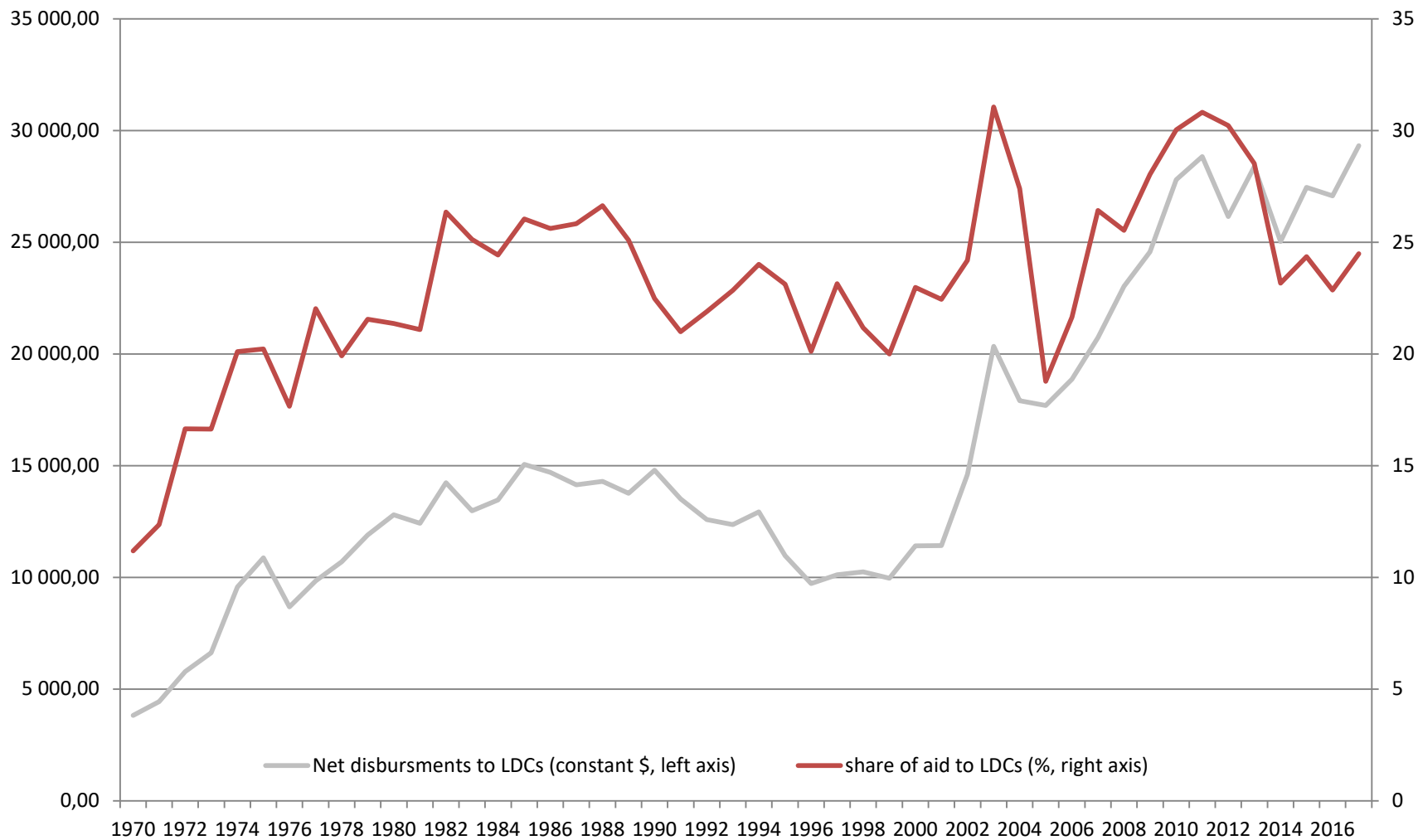
- **Aid allocation: using LDCs identification criteria as allocation criteria.**
Besides GNIpc, HAI and EVI are criteria relevant to make the allocation of aid between countries not only equitable, but also more effective
UNGA resolution on smooth transition endorsing the principle
Application by the EU
Likely to increase aid flows towards LDCs,
and to sustain graduating but still vulnerable countries
- **Aid orientation: structural effectiveness to be looked for,**
by using aid to enhance human capital
and to lower structural vulnerability (competitive diversification, regional integration)



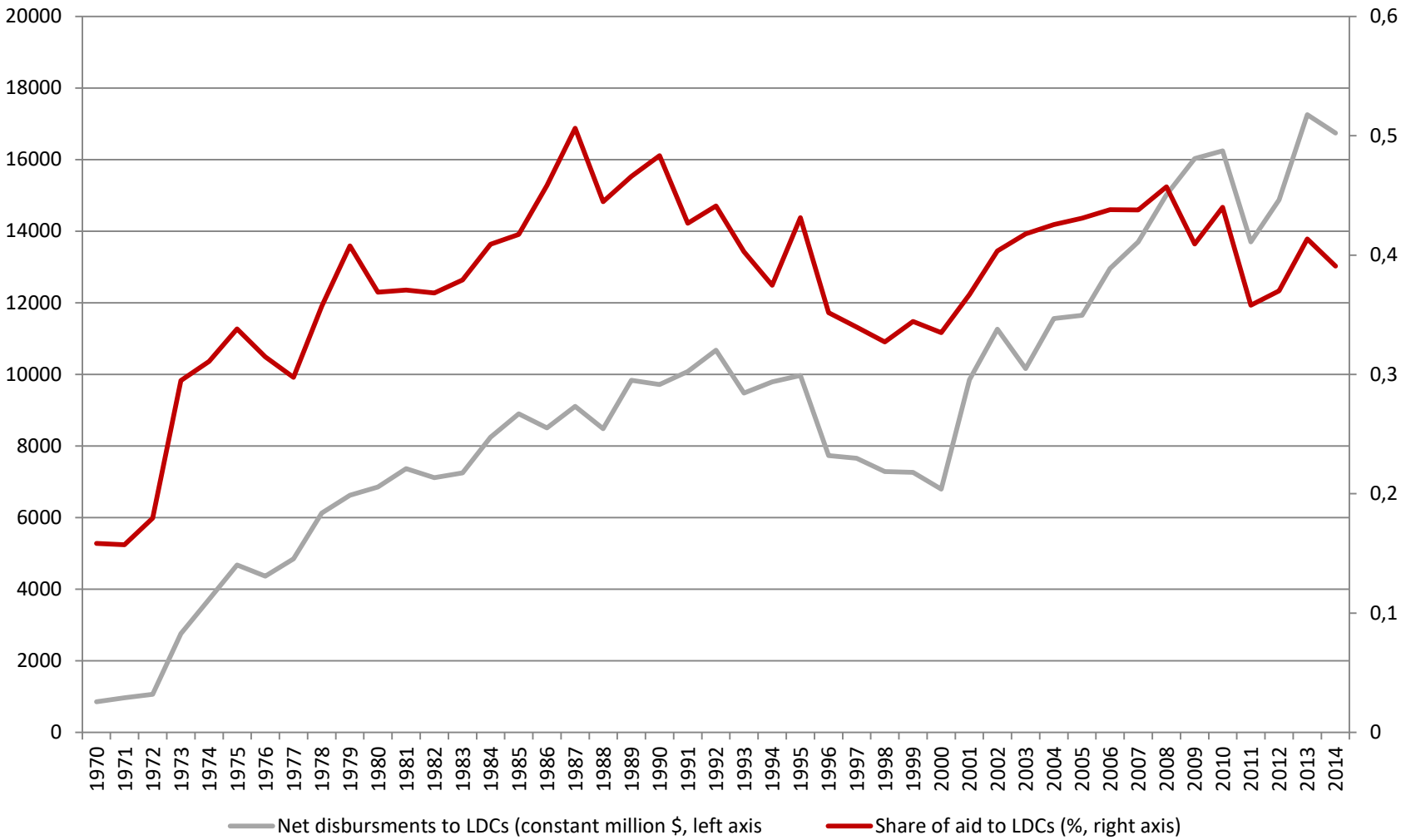
Multilateral assistance to LDCs: To what extent is it specific? (Ch.4)

- Political support important to increase the share of ODA to LDCs coming from multilateral
- But the share of Multilateral ODA going to LDCs, although higher than the bilateral one (39% in 2015 vs 19% for bilateral) has been irregular on a stagnating trend (see graph)
- UN organisations recognize the category, but not often translate their recognition into consistent budget allocations, using often their own criteria
- Total amount of ODA allocated through UN channels lower than what is allocated through international financial institutions...
- ...although these institutions do not recognize the category, with the risk that some LDCs be left behind
- Need for all multilateral to take into account the UNGA resolution inviting devt partners to use LDC indicators as part of their criteria for allocating ODA, as done by EU

Bilateral ODA to LDCs, net disbursements 1970–2017 (2016\$), and relative LDC share



Multilateral ODA to LDCs, net disbursements 1970-2014 (2013 \$), and relative LDCs share





Trade related measures for the LDCs: What has been done (Ch.5)

- SDT in WTO: How have LDCs been differentiated? From the « enabling clause » to the « single undertaking » leading to less specificity
- UR provisions: What more for LDCs? Adding provisions over time, a wide range of provisions, often only « intentional »
- Access, use and effectiveness of SDT for LDCs: Results from a survey by the CDP, evidencing the use of longer transition periods (negotiated) of food aid and other forms of assistance...
- Explaining the reasons why SDT is not fully used: inadequate knowledge, coordination and communication failures, measures badly tailored, offsetting measures, measures not enforceable
- Trade capacity building: The EIF, still needing to be enhanced...

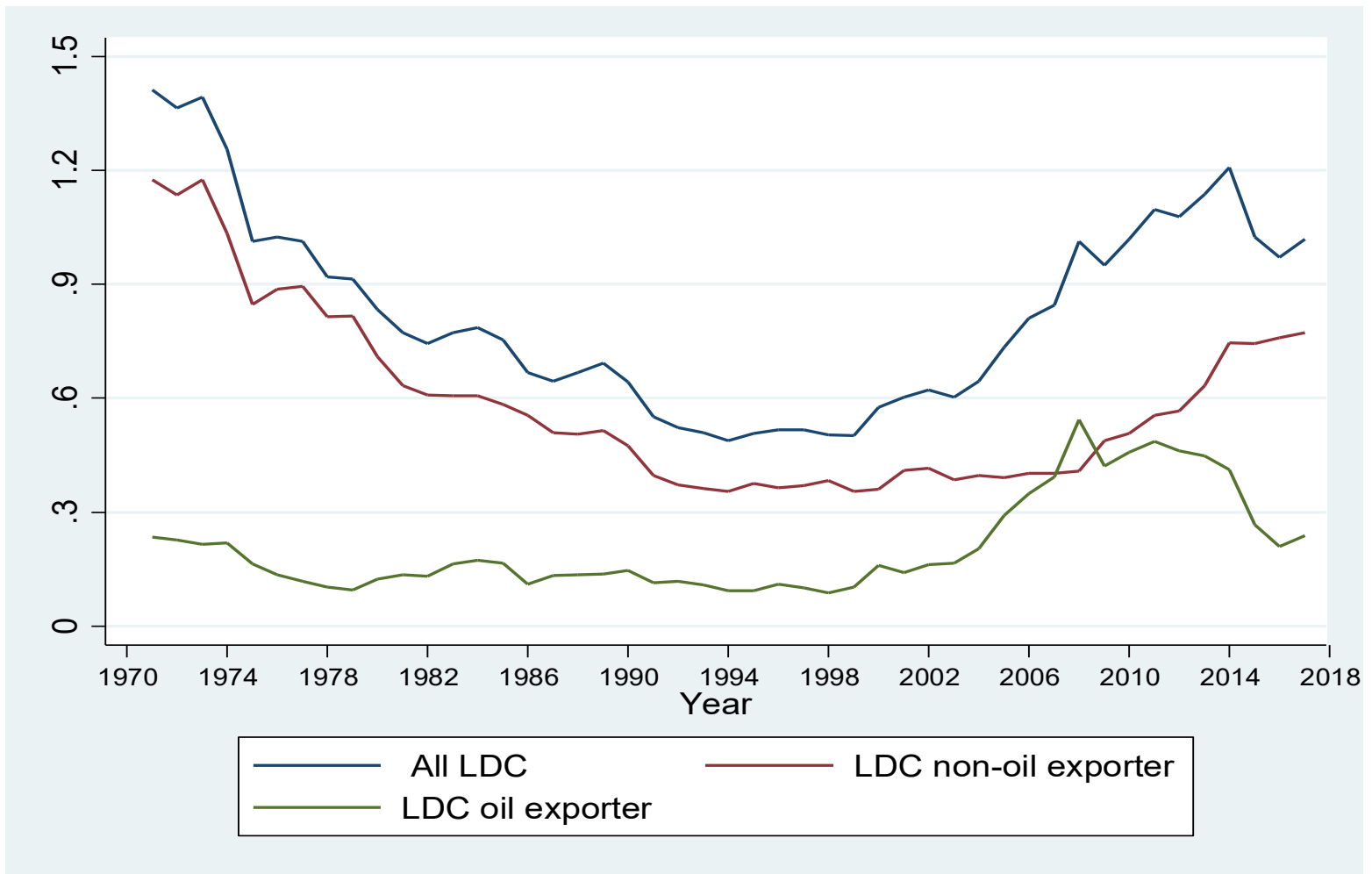


Trade marginalization of LDCs and reversal: What impact of international support?

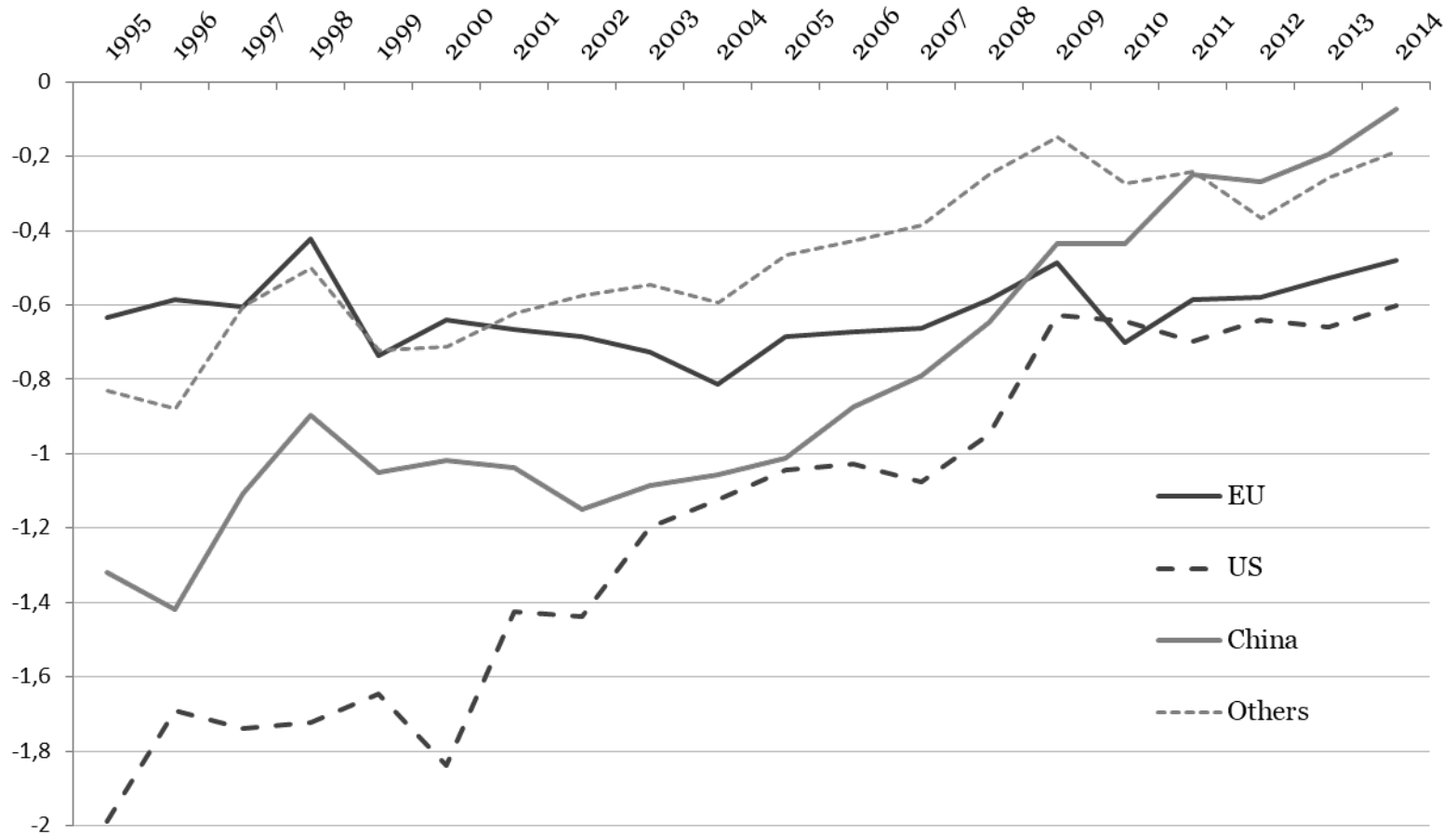
- Besides a critical examination (with CDP Secretariat) of what has been done, under the special and differential treatment, both for market access and beyond market access, assessment of *trade outcomes*: **how are they impacted by ISM?**
- **Decline in share of world trade, reversed in the last decade**, for goods (0.5% in 1999 to 1% in 2010, and 1.3% in 2013) and for services (still at 0.8%)
- Minor reversal without the 5 LDCs oil exporters, the mineral exporters, and few Asian exporters: The real change is that since the mid nineties the decline has been stopped.
- Trade gravity models show a **rather negative impact of the category membership**, but less and less negative, and depending on the destination of exports, suggesting the impact of market access.



Closed groups of 47 LDCs: Oil, non-oil, and non-mineral exporters



Evolution of LDCs in gravity equation, 1995-2014



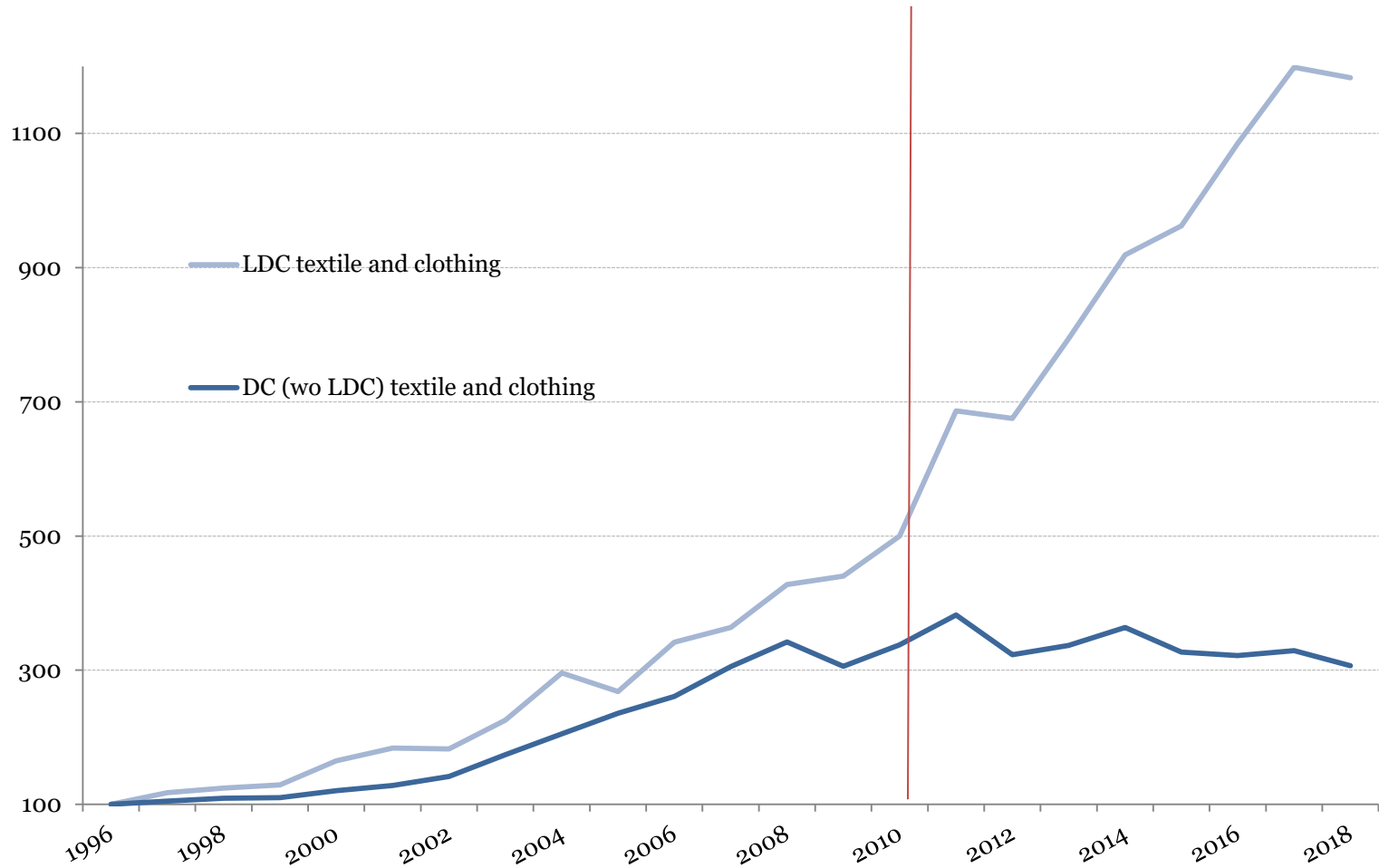


Three main factors depending on international community and lessening LDC trade share in world trade

1. Erosion of preferences
2. NTBs
3. Rules of origin



EU textile and clothing imports, 1996-2014 (base 100 in 1996)





Three instruments not targeted at LDCs that can provide avenues to lower trade costs

- **Aid for trade** both for expanding exports and for supporting competitive diversification, by improvement in infrastructure, transportation and capacity building
- WTO's **Trade facilitation Agreement**
- Support to **Regional integration**, crucial to make the LDCs (generally small) both more open and less vulnerable: need to give a regional dimension to aid for trade, and EIF as well



Graduation : Does it reveal the impact of the category ?

- LDC category created to help countries develop more quickly so that they can leave the category, ie graduate: measure of its impact? Only to some extent...
- Graduation successively *forgotten* (untill 1991), *feared*, *desired*...
- ...with the IPoA (2011): Making $\frac{1}{2}$ of LDCs meeting graduation criteria becomes a goal by 2020
- We are far from there: over the whole life of the category, graduation has been slow and recent. Out of the 50 present or former LDCs, only 5 actually graduated (Bo, CV, Mld, Eq. Gu., Sam)
- And since Istanbul, only 7 (out of 48) have fully met the criteria (Eq.Gu., Sam., Van., Ang, Bhu, Sol.Isl., STP) + 2 pending (Tu, Kir) , i.e. $\frac{1}{5}$ instead of $\frac{1}{2}$. Why? (Better prospects for the next decade)



Why such a slow path of graduation?

- Not so much a resistance of countries « threatened » by graduation
- The *path of economic growth* itself: More optimistic prospects for 2030... on the assumption of LDCs reaching the 7% growth goal of IPoA, reiterated in the SDGs, a goal not easy to reach...
- *Asymmetry of inclusion and graduation criteria*, with 3 sources of asymmetry (not 1 but 2 criteria to no longer be met, with margins, at 2 successive triennial reviews)...
- ...and *time lags* in implementation: not only the 2 reviews , but also an additional 3 year lag after the decision by UNGA, and possible specific postponements

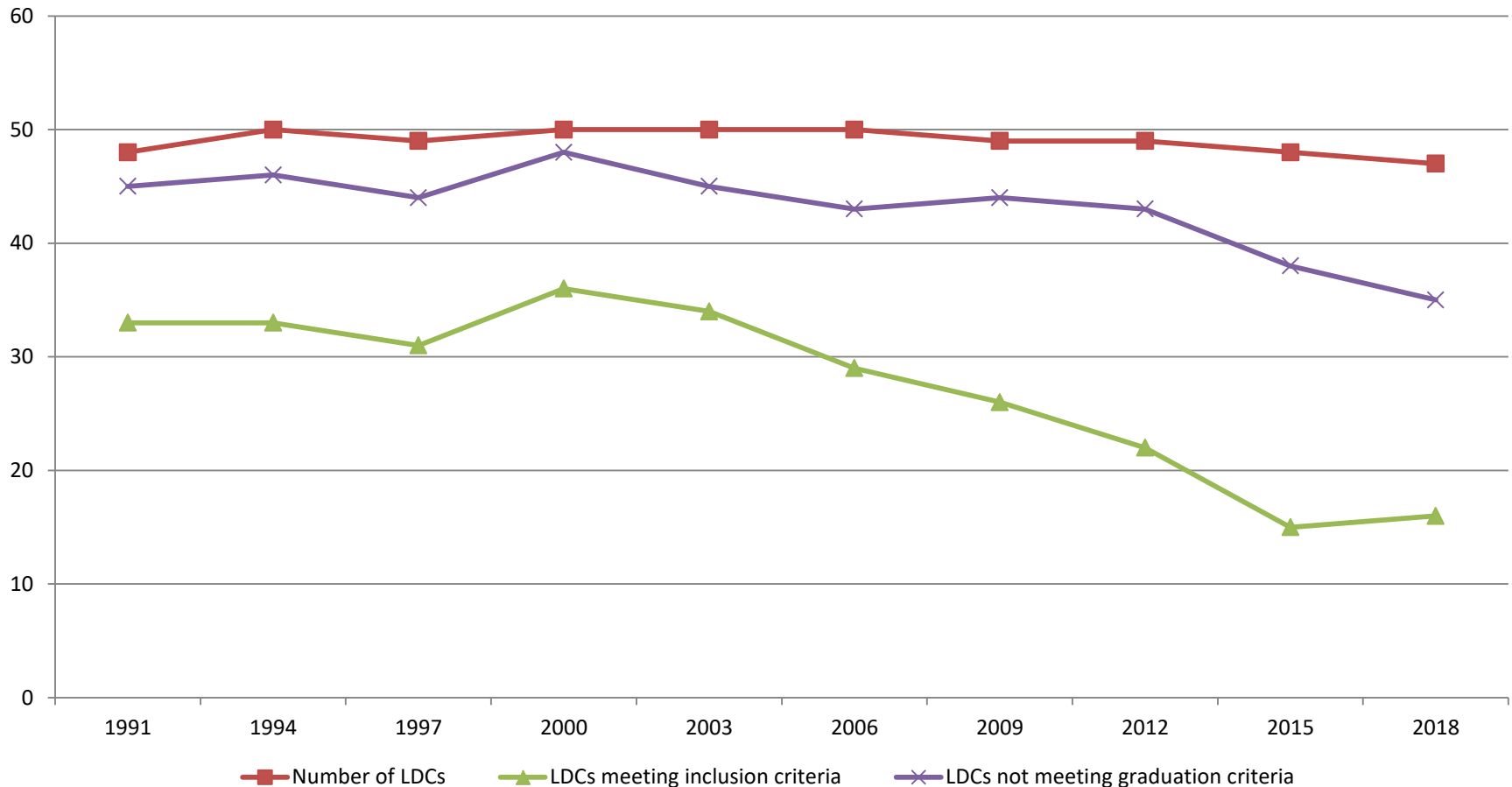


Consequences of criteria asymmetry on the consistency of the category

- *In 2018, only 16 out of 47 LDCs were still meeting the inclusion criteria, while they were 37 out of 50 in 2000*
- *It also means that 31 (out of 47) were no longer meeting the inclusion criteria without being graduated, while they were only 13 (out of 50) in 2000*
- *Simultaneously the number of LDCs meeting neither the inclusion nor the graduation criteria (called « discordant ») has been increasing to 23 out of 48 until 2015 and is still 19 in 2018*
- *The remaining gap among the LDCs seriously undermines the consistency of the category and may weaken the partners commitment to support measures*



Inclusion and graduation: how the category composition has evolved





Impact of graduation on the countries development

- Much ex ante interest on the possible impact of graduation, initiated by Unctad by the so-called vulnerability profiles supplemented by CDP with ex ante assessments and enlightened by the LDC Portal of CDP Secretariat
- Very useful information on the possible loss of the access to some support measures, but not an assessment of the actual consequence of graduation
- For the few of them for which it is possible to observe and analyse their evolution after they graduate, *no clear negative outcome* (except on indebtedness in one of them)
- *Is this a paradox? Positive effects of membership does not involve negative effects of the end of membership, for 3 reasons:* 1) Graduated countries are supposed to have overcome their main structural handicaps; 2) the benefit of special support is highest when the country is least developed; 3) the smooth transition strategy begins to be effective, deserving enhancement



Implications for LDCs identification

- The lack of consistency can be overcome by *revising the criteria to make them reflecting more the present meaning and rationale of the category*
- Such a possible reform would be to *merger the two indices of structural handicaps (with moderate substitutability) in a SHI*, what would reduce the impact of criteria asymmetry
- It would also *involve to always take into account vulnerability* in the process of graduation, while possibly expanding the kind of (exogenous) vulnerability considered (vulnerability to climate change)
- More ambitious reform are also conceivable: *a perfect consistency would need to refer to a unique index of « least development »* reflecting a low probability to sustainably develop due to structural handicaps
- Without such reforms policy improvements can result from *using the present criteria* (and possibly other vulnerability indices) *to modulate the support* given by the special measures, in particular ODA, as recommended by UNGA



LDCs in global economic governance: a marginal role to be enhanced (Ch.8)

- Deep marginalisation in global governance
- LDCs not present at the **G20**, although strongly affected by its decisions: need of representation
- Marginal influence in **BWI**, although main clients: LDC voice to be enhanced
- A priori stronger influence at **WTO**, but weak real power of enforcement when dispute settlements are favourable to LDCs (cotton)



Thank you for your attention



Out of the trap

Supporting the least developed countries

Edited by Patrick Guillaumont

**A launch event organized by
OHRLLS and Ferdi,
with the LDC IV Monitor**

At the UN, New York, 14 November 2019