



***Support measures: improving knowledge, implementation and effectiveness for smooth transition from the LDC category***

**A side event organized by**

**DESA/CDP Secretariat and Ferdi**

***At the Mid-Term review of the IPoA***

***Antalya, 27 May 2016***

**What impact of international support measures?**

**Helping LDCs to move out of the trap**

**Patrick Guillaumont**





## **Overview**

**From**

### ***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**

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**under the direction of Patrick Guillaumont**



***Out of the trap***  
***Supporting the least developed countries***  
***(2016)***  
**A companion volume of**

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

- That examined the rationale of the category, its history and its grounds in development economics
- Assessed the two indicators of structural handicaps used to identify LDCs: HAI and EVI
- Suggested new indicators for capturing « least development » (SHI and LLDI)
- Explained why some LICs have been caught in a trap, while others escaped

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





Complementary to the CDP Portal  
For smooth transition from the LDC category

- Once measures better known by LDCs
- How they have been implemented
- What has been their development effectiveness
- How they can be improved



## The challenge: an assessment/attribution issue

- **Aim:** to assess the impact of the special measures in favour of LDCs on their development. After 40 years of measures, nearly no overall assessment of their impact
- Impact analysis needs a **relevant counterfactual**, elusive for LDCs, since all low income countries facing high structural handicaps are supposed to be in the category (i.e. all LDCs benefitting from special measures are also supposed to face special handicaps)
- **Challenge:** disentangling the effects of the special measures (for LDCs) from those of the specific structural features (of LDCs)
- **Approach:** assessment issue addressed both considering the impact of the whole set of measures, then considering the effect of the main kinds of measure on relevant indicators



## ***Out of the Trap: content***

### ***I. Overall performance***

- Growth performance and poverty reduction: A reversal?
- Policy performance: Is it weaker?

### ***II. External assistance***

- Global aid flows: How effective is the aid target?
- Multilateral assistance: which specificity?

### ***III. Trade support***

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

### ***IV. Global challenges***

- Graduation: Past and prospects
- Global economic governance: enhancing LDCs role



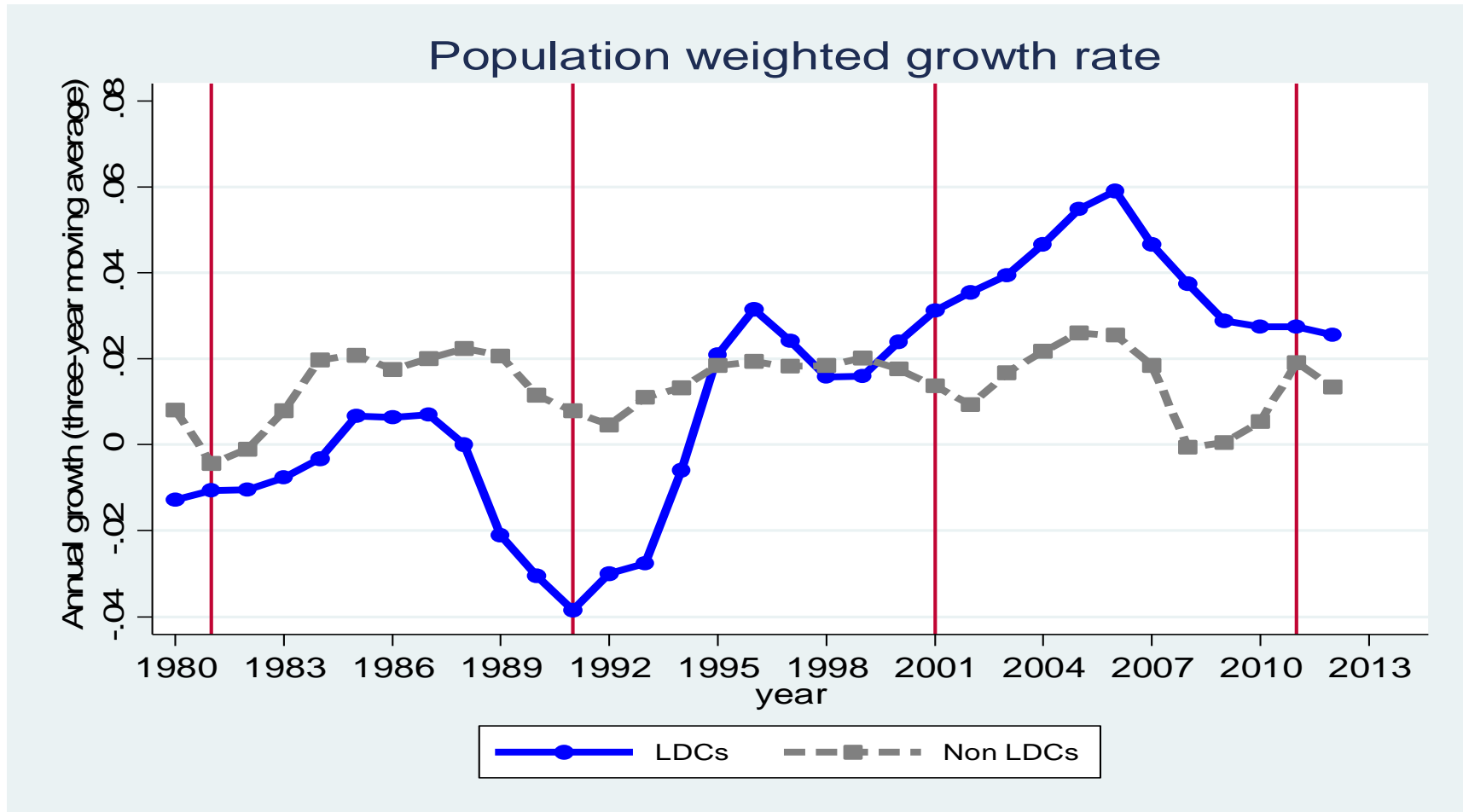
## Overall LDC growth performance: shape and sustainability

- **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
  - no clear sustainable growth resumption when growth is adjusted for the impact of terms of trade



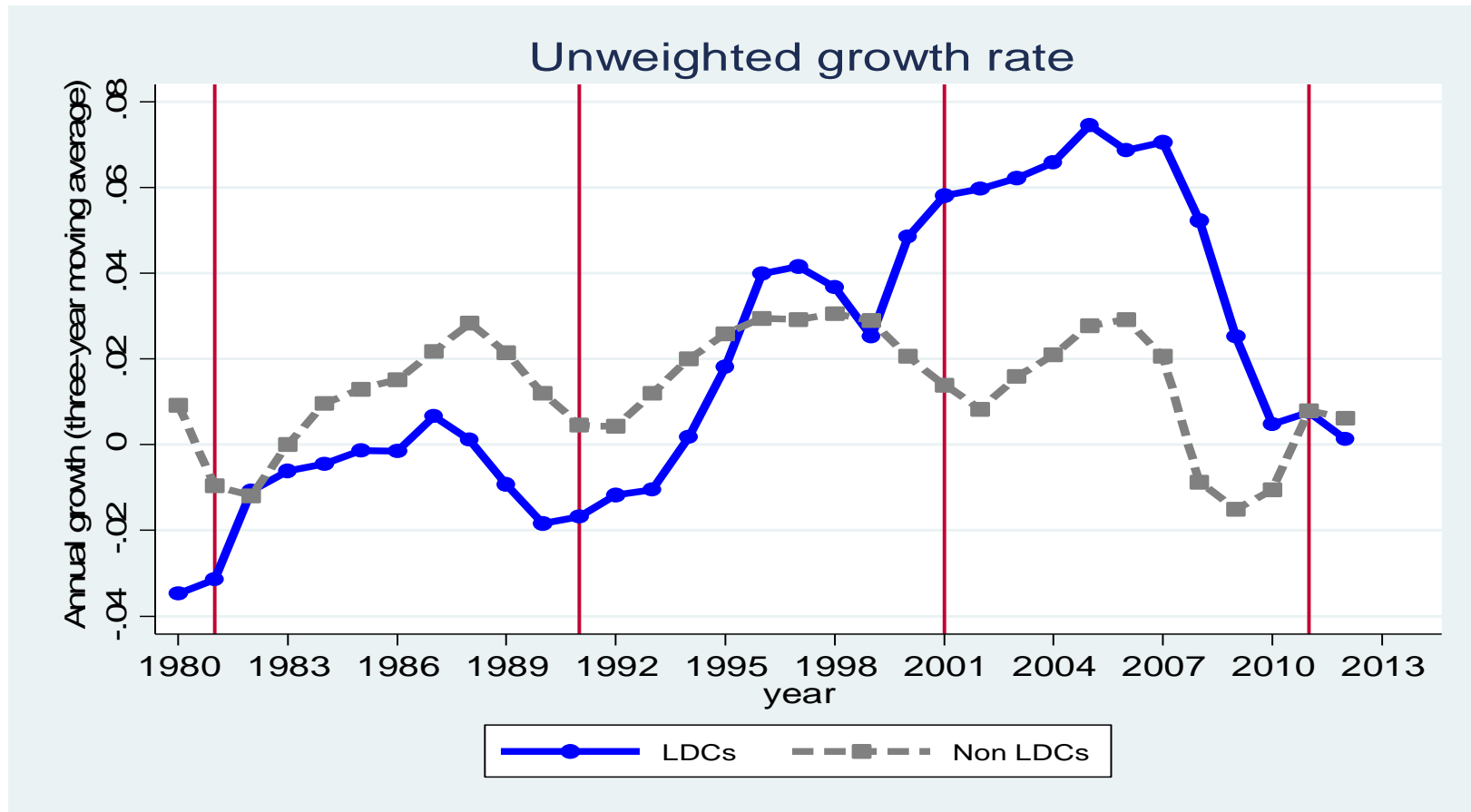


## Evolution of GDP per capita growth, in least developed countries and other developing countries, 1980-2013



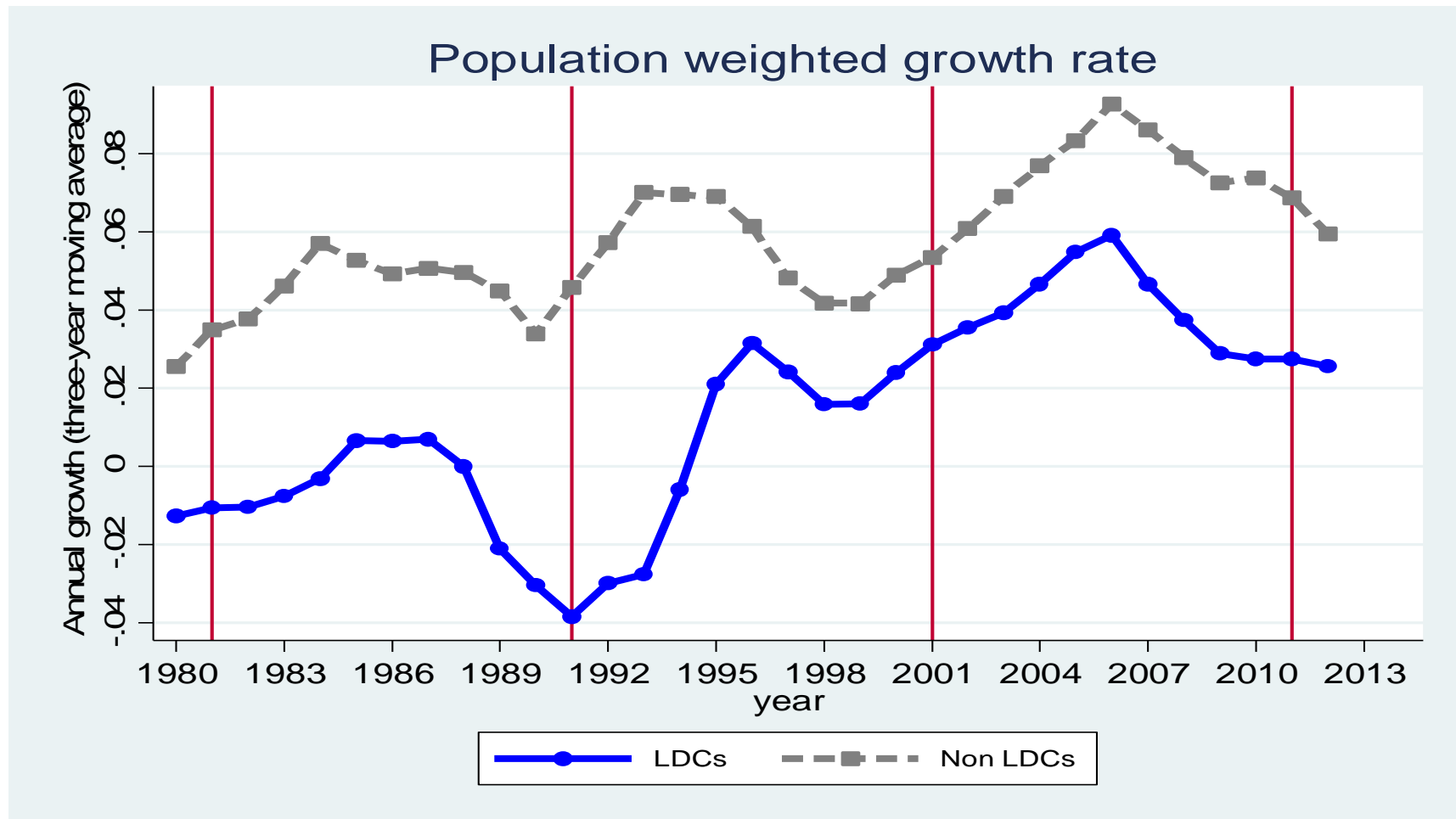


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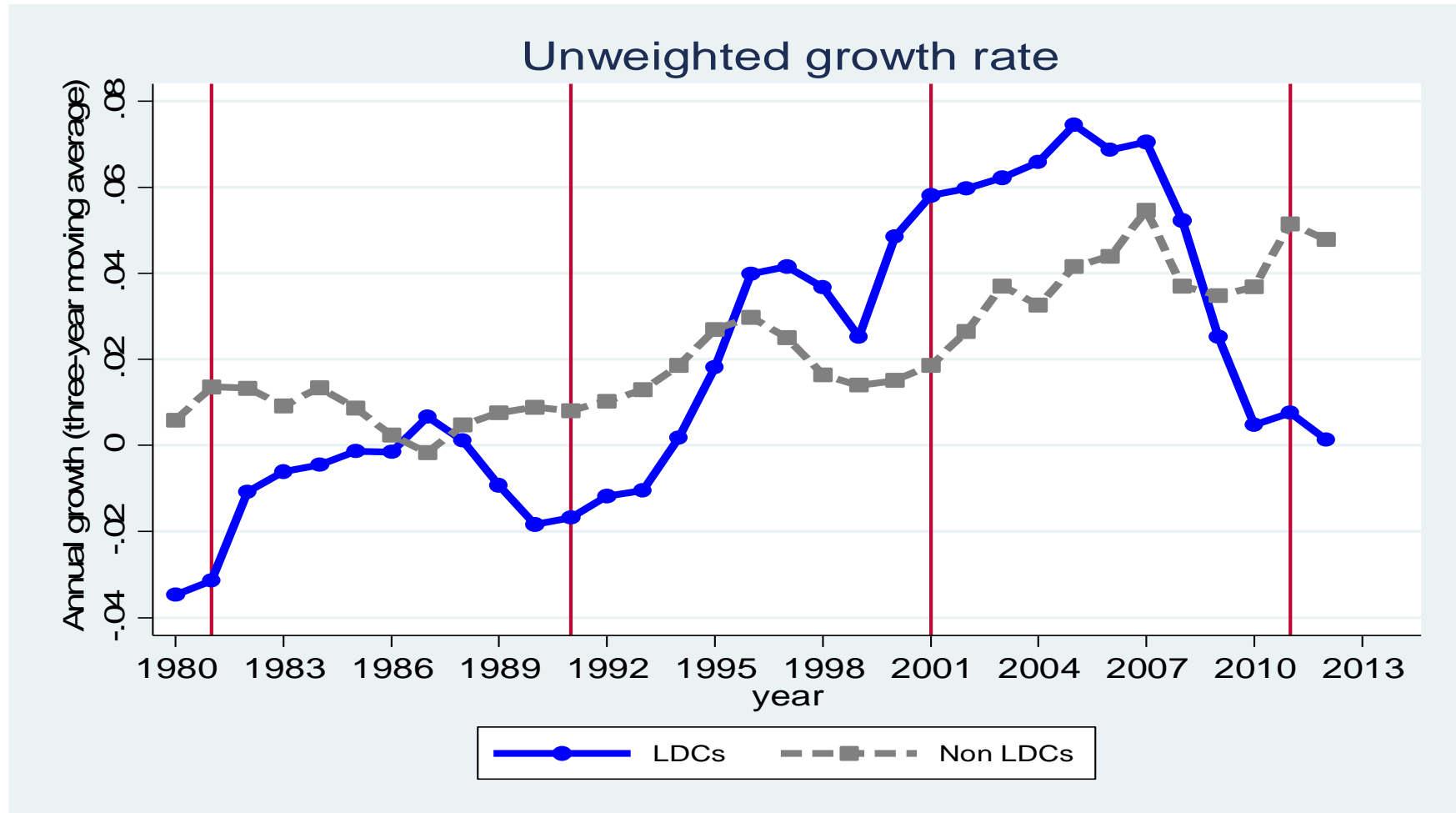


## Evolution of GDP per capita growth, in least developed countries and other developing countries been LIC, 1980-2013



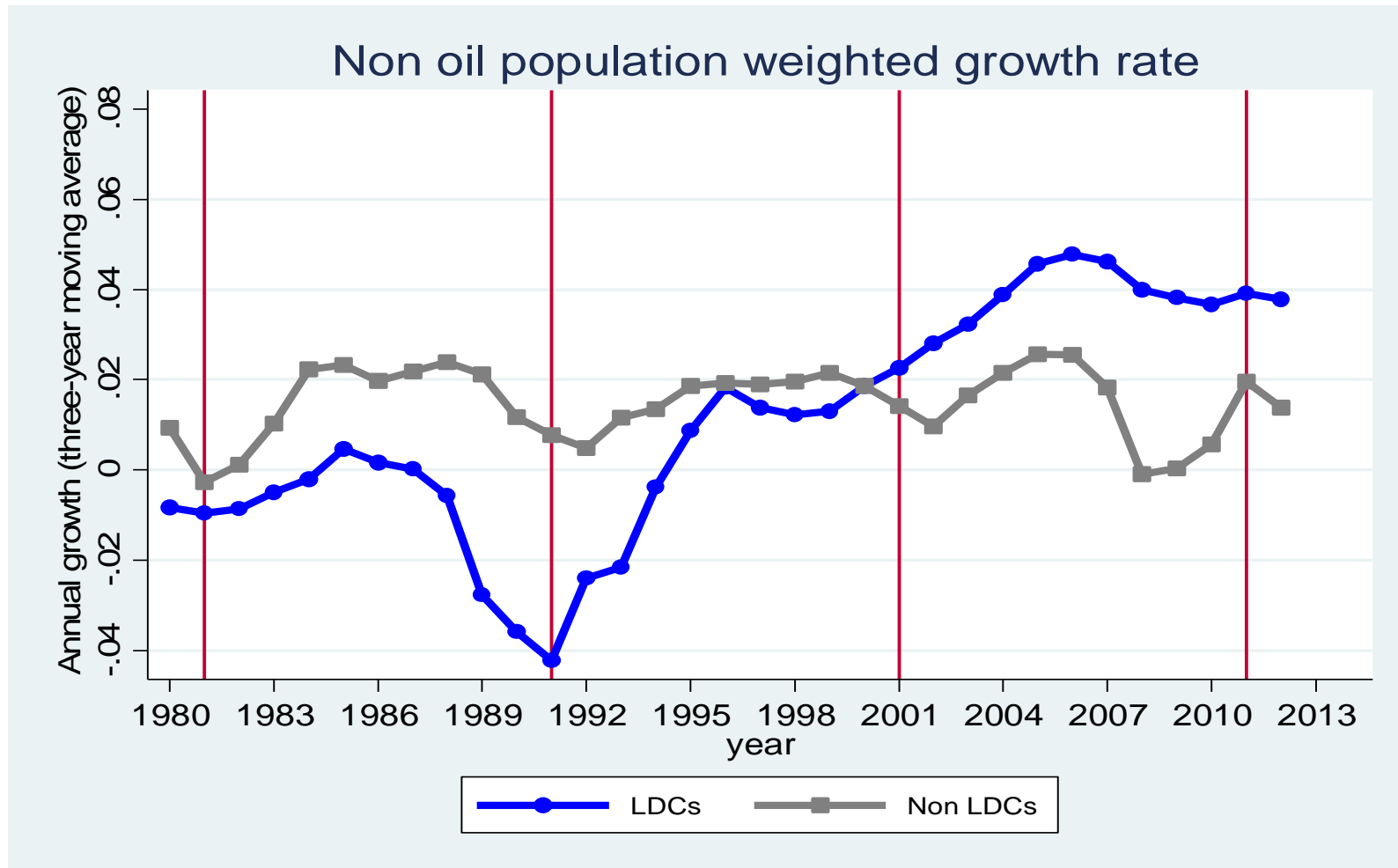


## Evolution of GDP per capita growth, in least developed countries and other developing countries having been LIC, 1980-2013



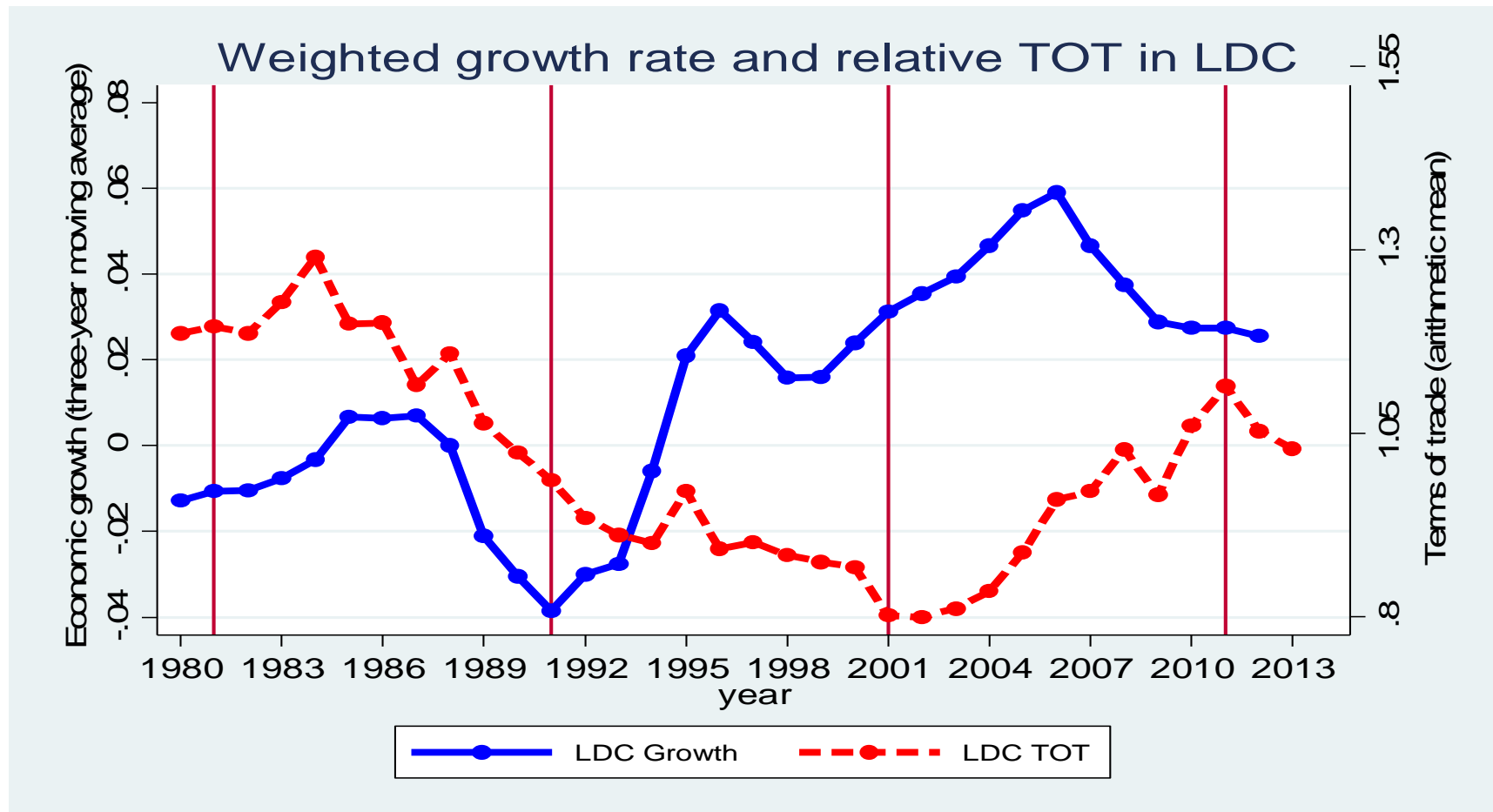


## Evolution of GDP per capita growth, in **non-oil** least developed countries and other developing countries, 1980-2013





## GDP per capita growth and terms of trade in least developed countries and other developing countries been LIC, over 1980-2013 periods





## 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 decade: 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 3 decades, according to several methods:
  - looking for comparable countries at the border of eligibility (among «discordant countries», meeting neither inclusion nor graduation criteria, LDCs have higher growth than non-LDCs, but risk of selection bias)
  - use of regression discontinuity design approach: a possible impact, but only during the last decade...



## 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 income (growth) elasticity of poverty lower in LDCs (absolute value)
- **Structural change:**  
assessed from the Ferdi retrospective series of HAI and EVI progress registered in LDCs, but lower than in other developing countries





## Overall LDCs performances: weaker policy?

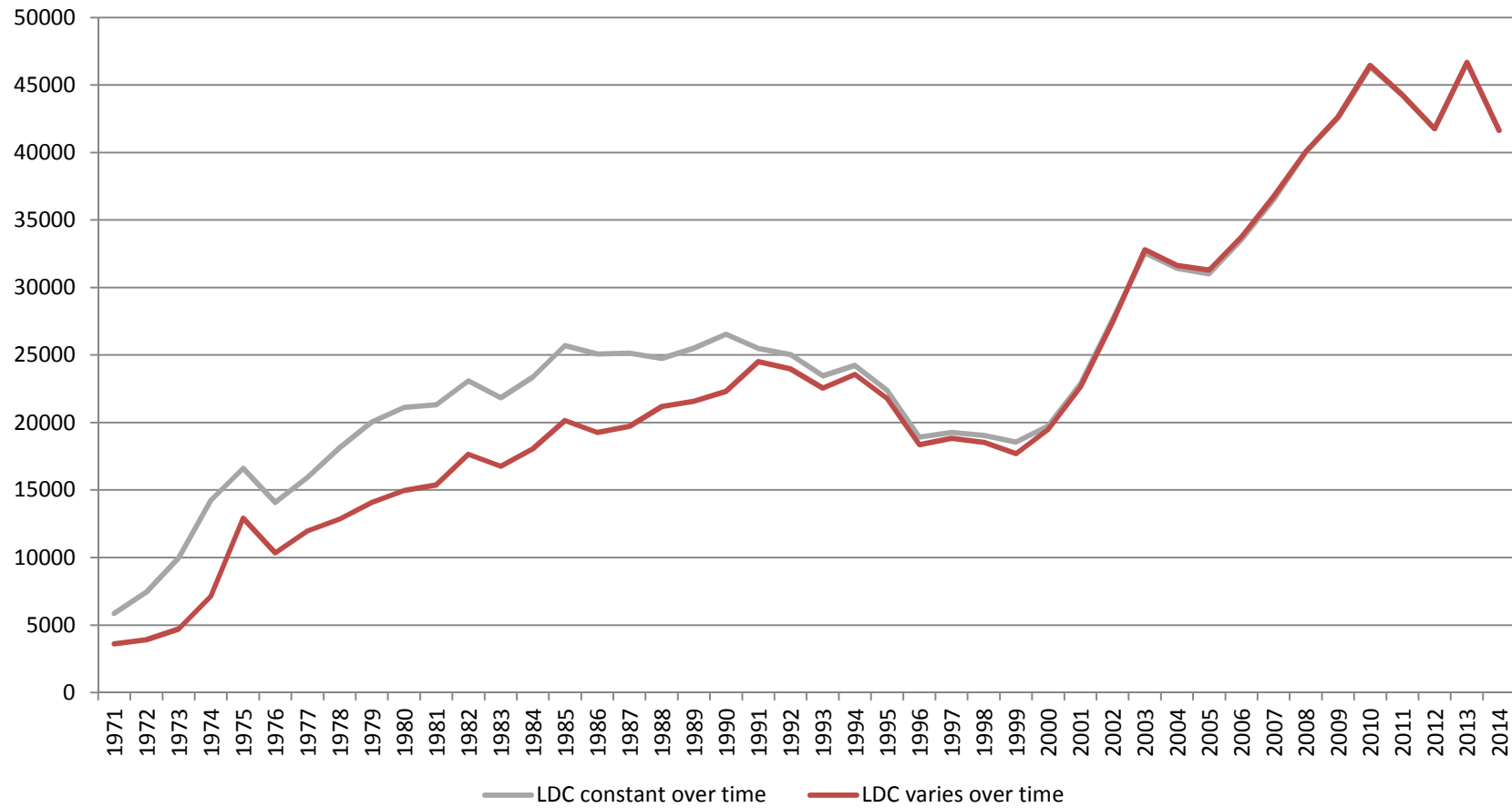
- Usual policy and institutional indicators (CPIA, WGI...) **found weaker** in LDCs than in other developing countries... then policies suspected to be a source of their lower long term growth
- But clear econometric evidence that these indicators (the policies) are **significantly determined by the structural features** (handicaps) of LDCs: once eliminated the influence of GNIpc, HAI and EVI, the previous indicators no longer appear weaker in LDCs
- 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



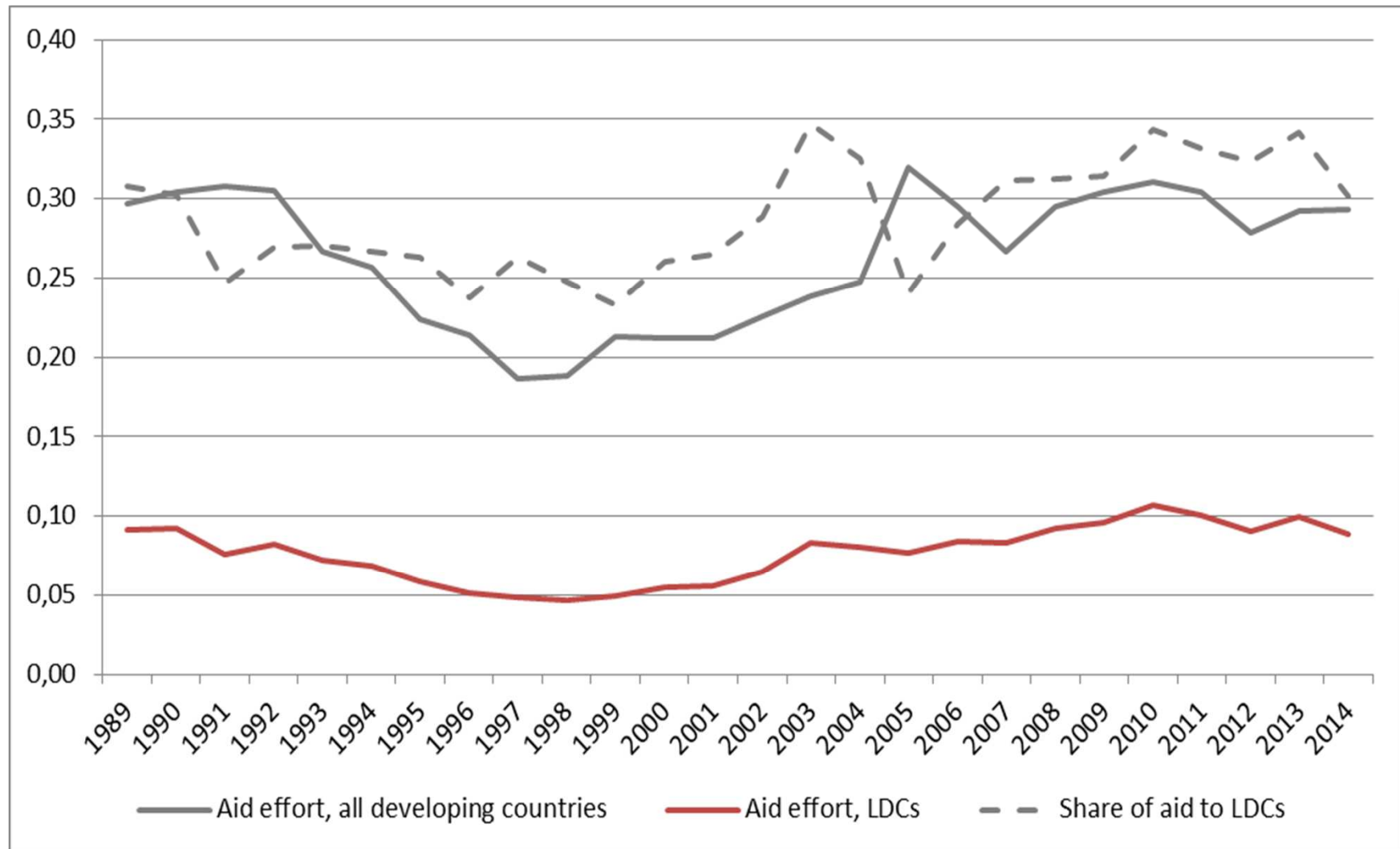
## ODA to LDCs: implementation which impact of the target?

- 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?
- Indeed **Levels**: aid pc or aid to GDP higher in LDCs than in other DgCs
- **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 category members

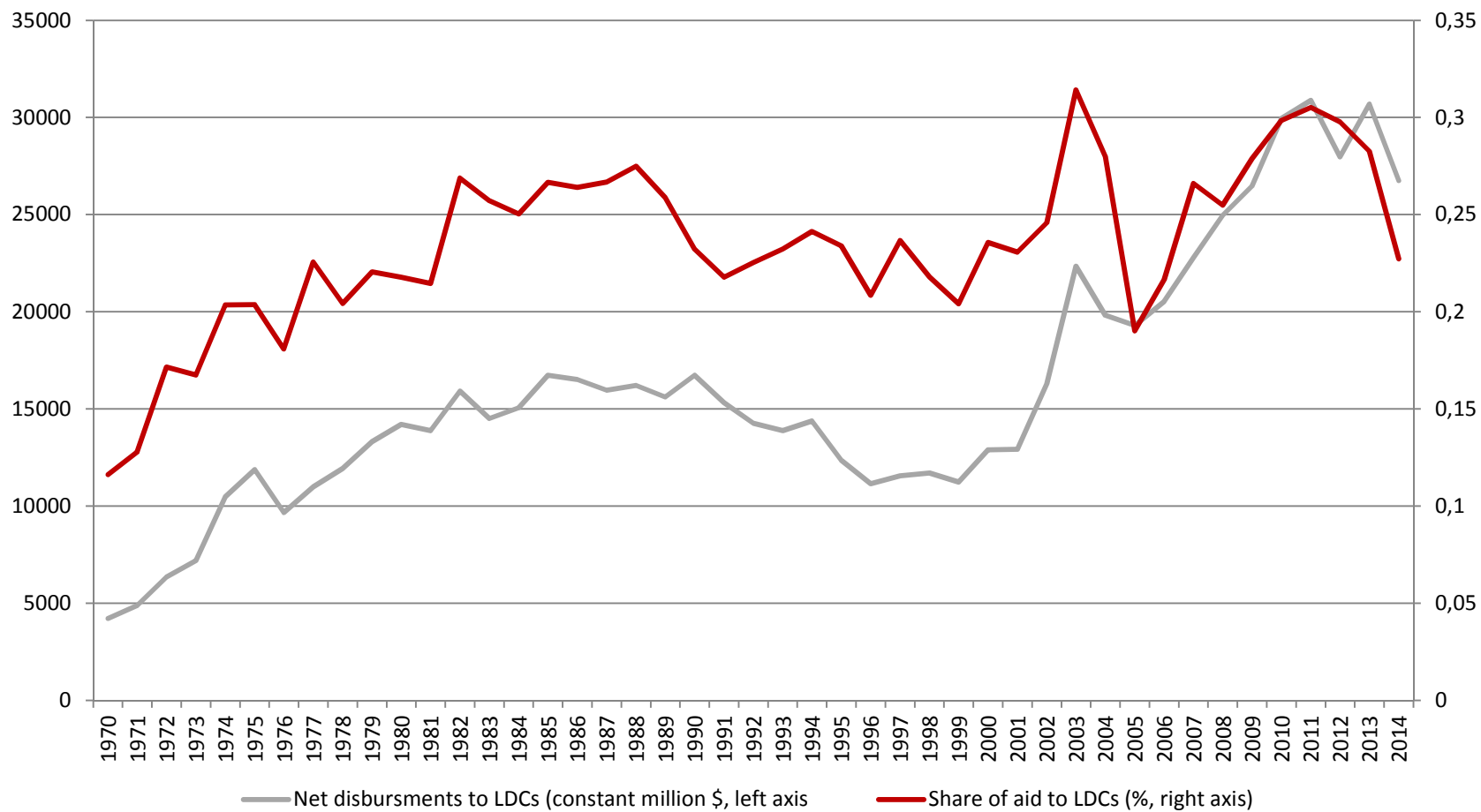
## Net ODA to LDCs, in constant 2013 dollars, according to the content of the category



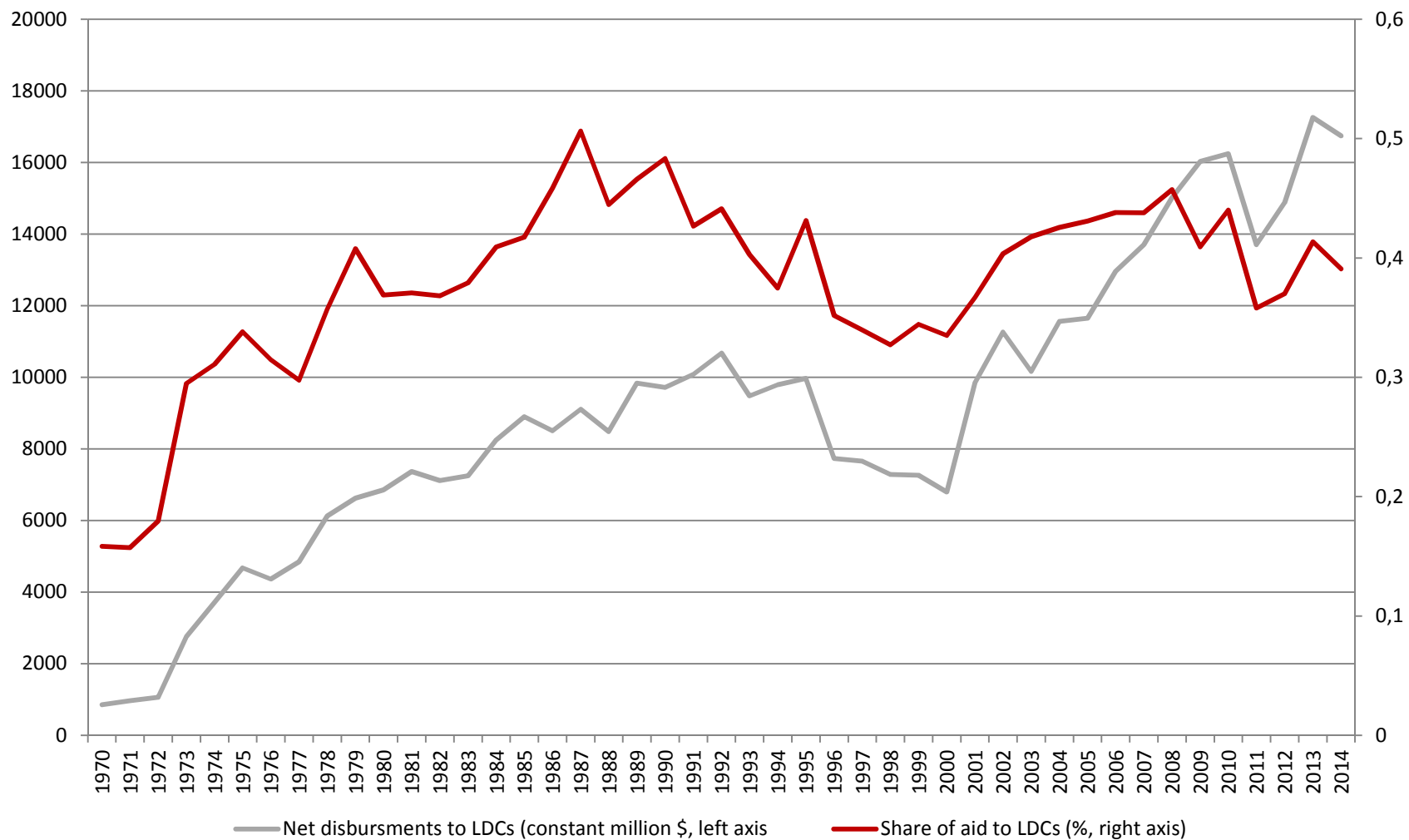
## Average aid effort of DAC countries, 1989-2014



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



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





## How to assess 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, also significant (EVI)
- Aid to LDCs results **both** from their structural features, and membership as well, with strong heterogeneity.
- Exercise conducted both for bilateral ODA and for multilateral one



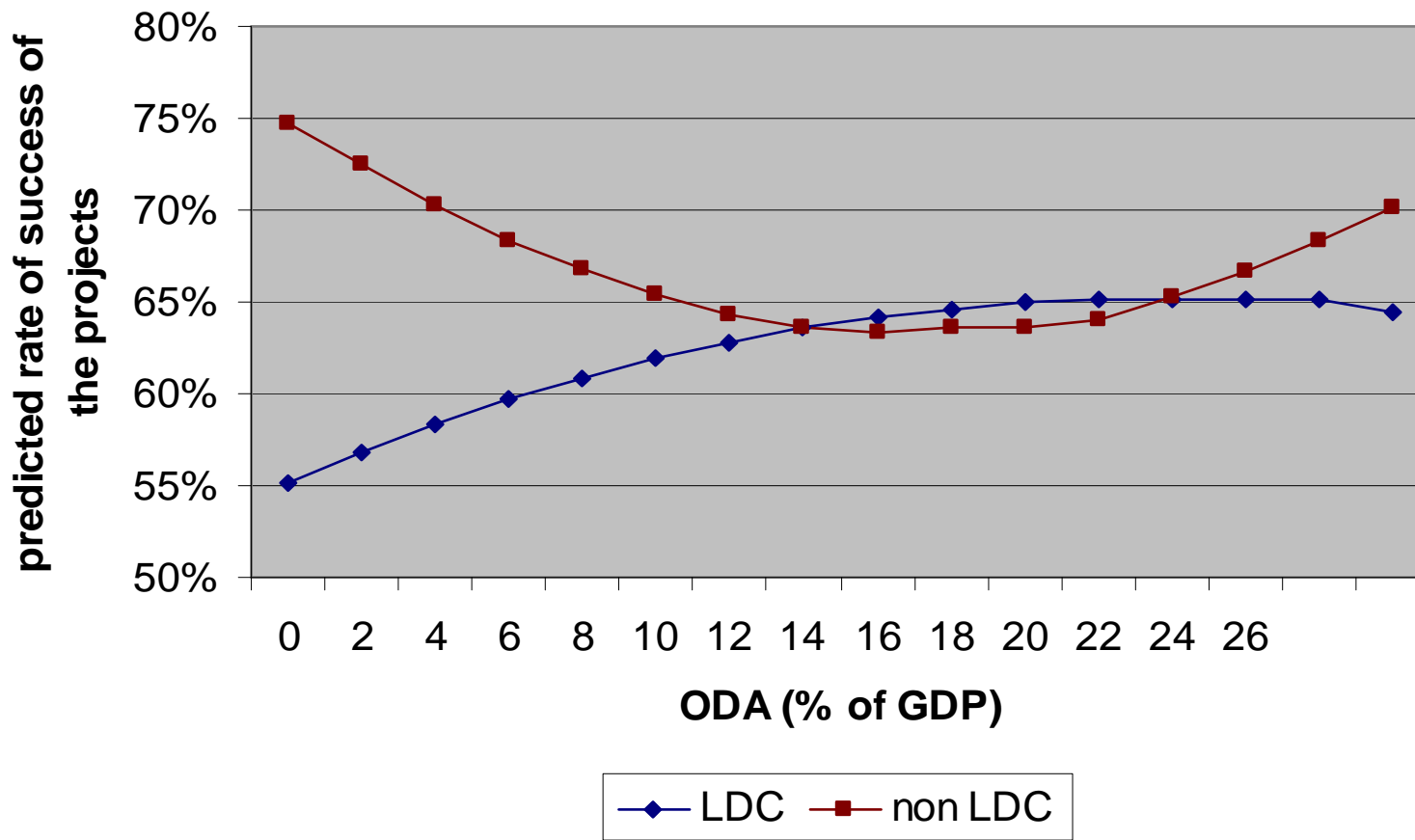
## ODA to LDCs: higher effectiveness

- 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





**Fig.A2. 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

Beginning of application by the EC

Likely to increase aid flows towards LDCs,  
and to sustain graduating but still vulnerable countries

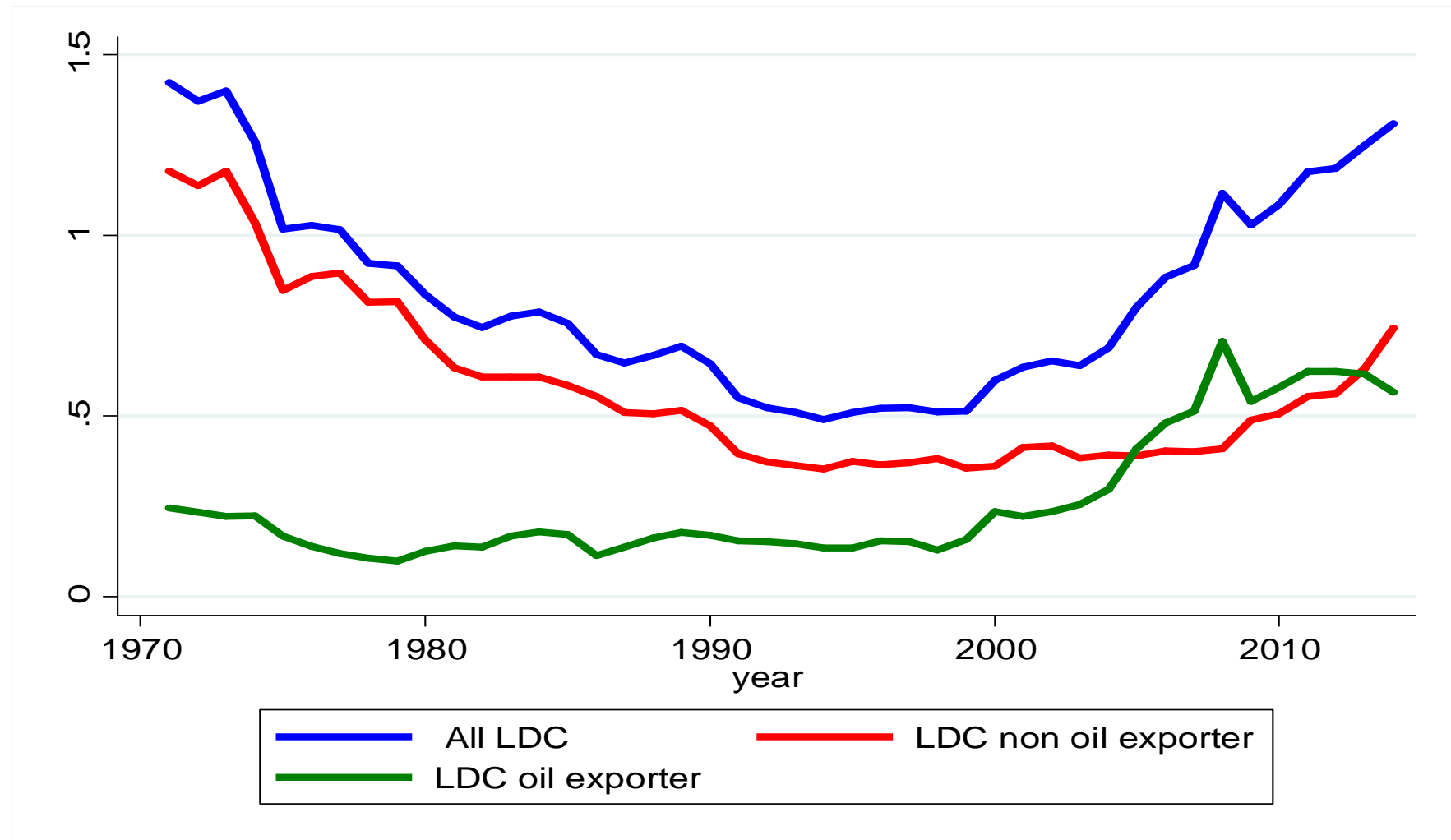
- **Aid orientation: structural effectiveness to be looked for,**  
by using aid to enhance human capital  
and to lower structural vulnerability (competitive diversification, regional integration)



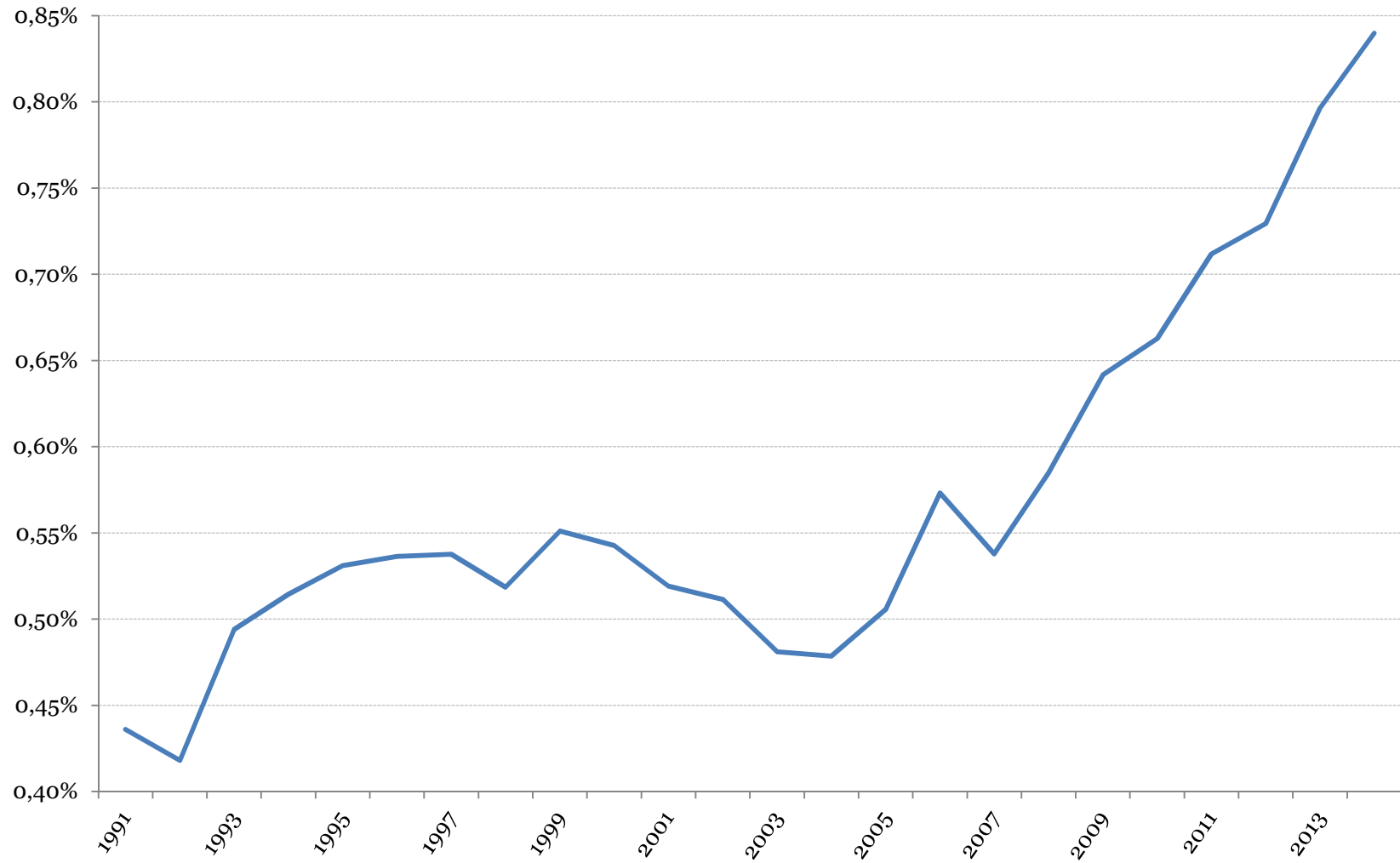
## Trade marginalization of LDCs and reversal: What impact of international support?

- 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. Why?
- 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 (graphs )

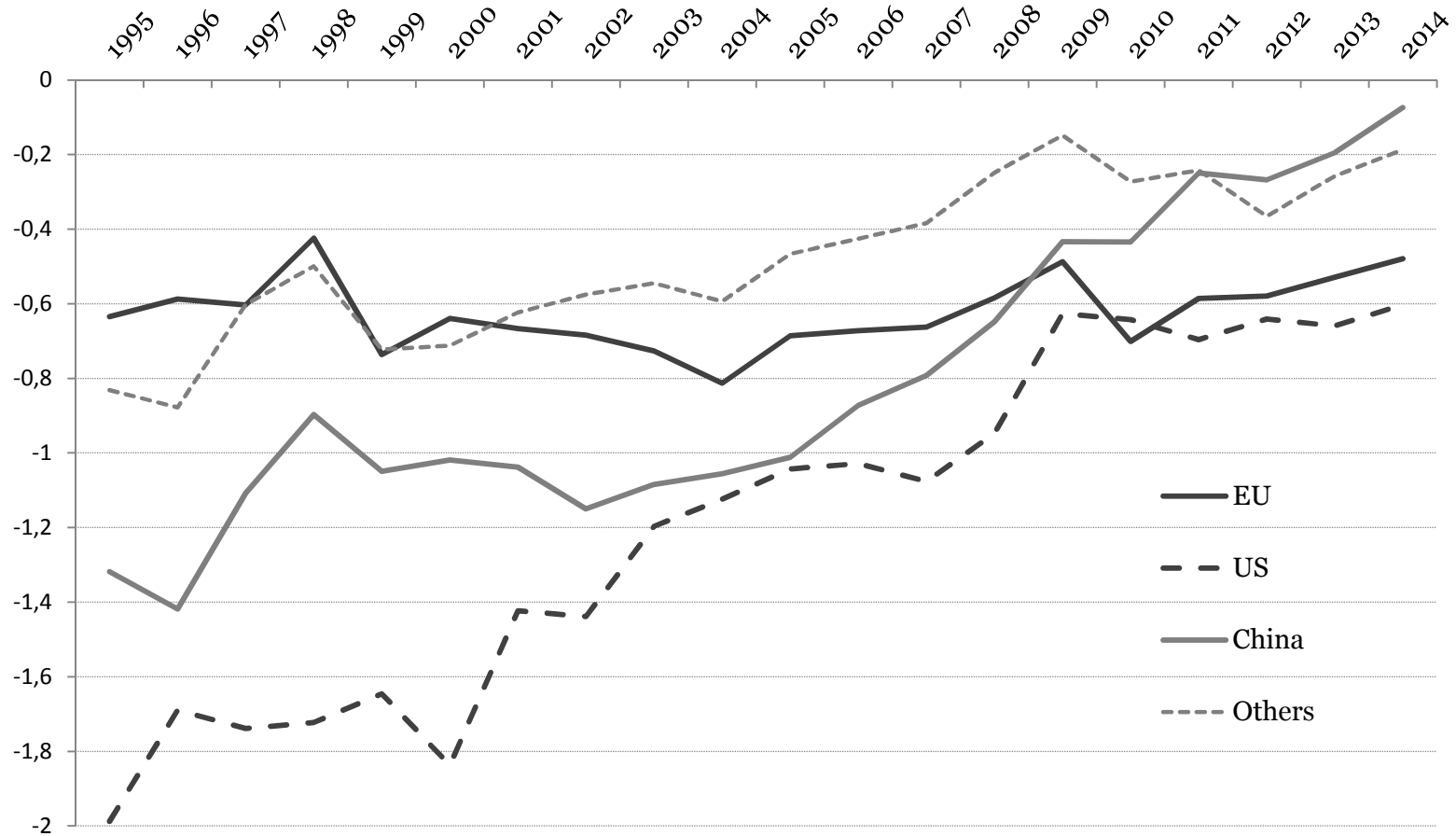
## LDC share in World Trade of 48 LDCs: Oil and non-oil



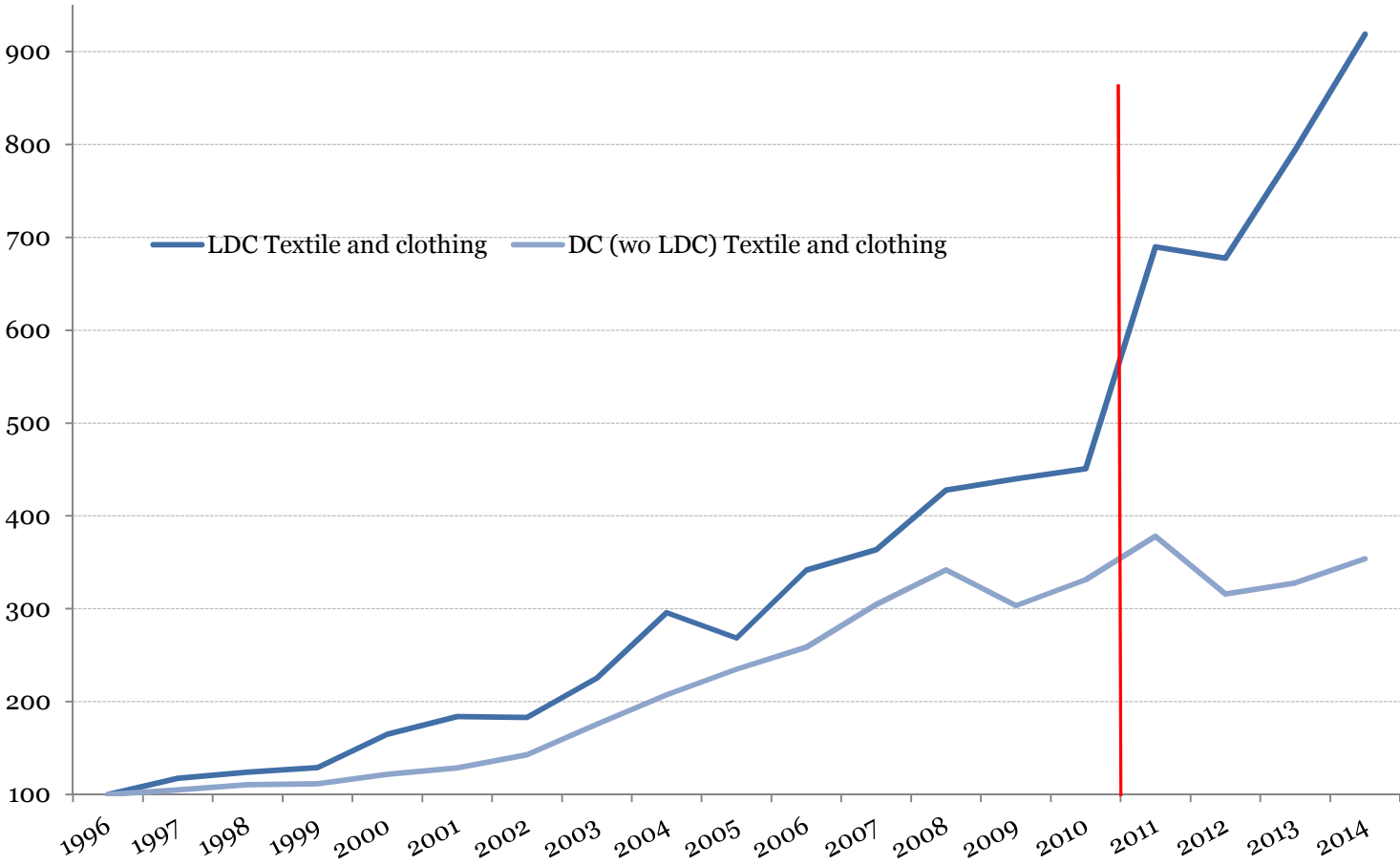
## LDC share in World service exports



## Evolution of LDCs in gravity equation, 1995-2014



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





## Main factors depending on international community and lessening LDC trade share in world trade

- With regard to market access
  - Erosion of preferences
  - rules of origin
  - N T B
- Other measures assessed to lower LDCs trade costs
  - Aid for trade both for expanding exports and for supporting competitive diversification, by improvement in infrastructure, transportation and capacity building:
    - 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

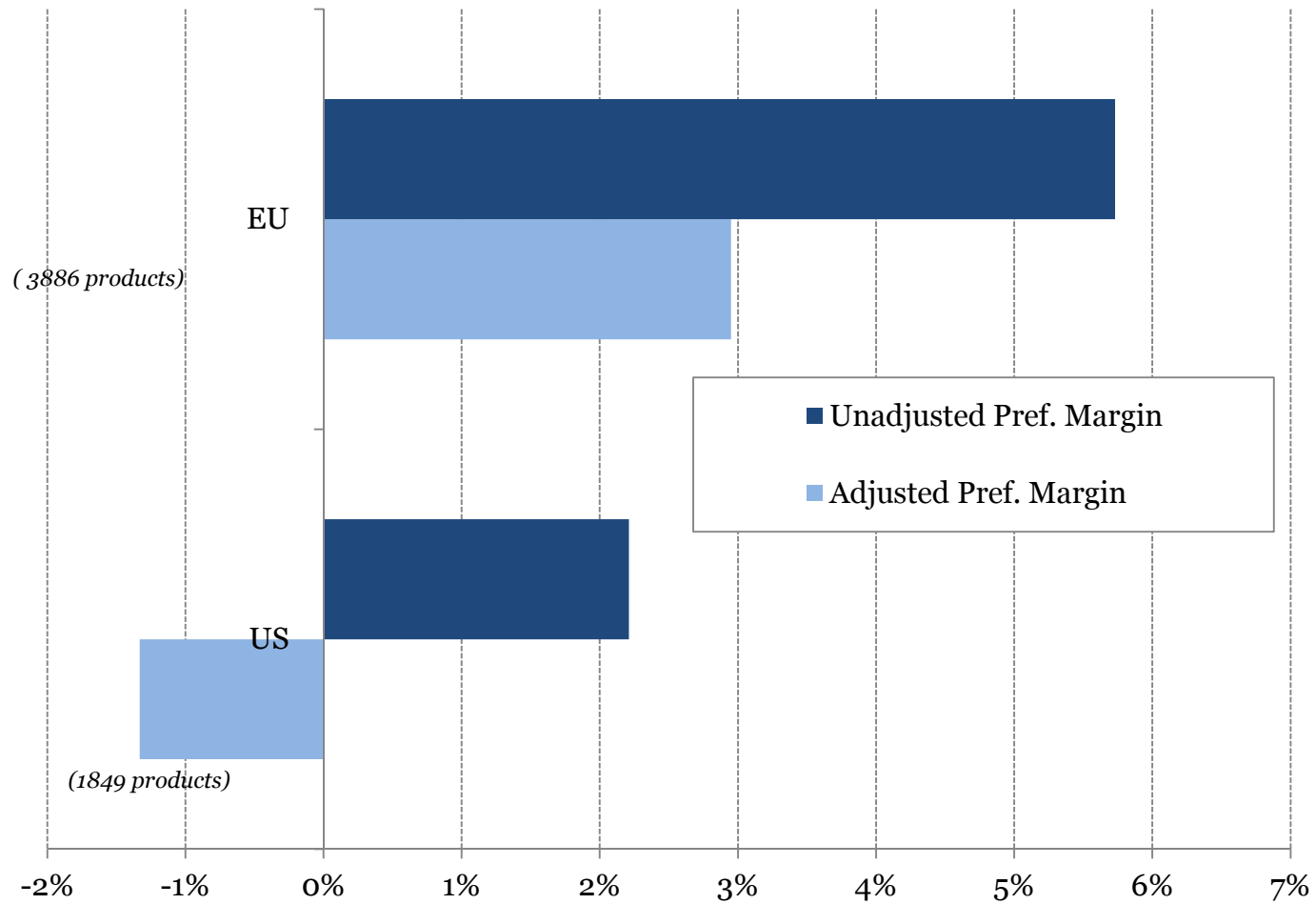




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## LDCs' Average Preferential margins, 2012





## LDCs in global economic governance: a marginal role to be enhanced

- Deep marginalisation in global governance
- 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)

FWDi

Thanks



### III. LDC in world trade: a gain from preferences?

- Method: use of a panel **gravity model** capturing the impact of membership on the exports to specific markets (EU, US), thus allowing to control for the impact of the access given on these markets to exports from various sources
  - Result for exports on **EU market**: a positive, but declining impact. and, once controlled for « Lome convention», the results become negative, but less and less so during the last decade
  - Opposite found for the **US market**: increasingly negative once controlled for AGOA



### III. LDCs in world trade: why preferences failed?

- A significant **extension** of preferences given to LDCs
- But **real margin** of preferences is lower or even negative due to preferences given to competitors:
  - On EU market in 2004:*
    - unadjusted preference margin : +4.6%
    - adjusted preferential margin : +3.1%
  - On US market (2004):*
    - unadjusted margin: +0.9%,
    - adjusted: - 0.3%
- Moreover barriers resulting from **rules of origin**, as measured by a restrictiveness « R-index »: *higher R-index for higher preference margin*