
THE RATIONALE OF THE LEAST DEVELOPED COUNTRIES CATEGORY OVER HALF A CENTURY

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**LDC Future Forum : Achieving
Sustainable Development
in the Least Developed Countries-
Towards LDC5**



1. A category set up to mobilize *special support* to poorest countries

- A category effective in 1971 after decision of UNGA and through a first identification of (25) LDCs by CDP
- After several years of UN discussion on the need to officially recognize a group of « least advanced » developing countries as beneficiaries of special measures
- A category conceived as an *exception* in the UN international development strategy ...
- *Category support* preferred to a gradual one, such as a support tailored according to continuous criteria

2. A category targeting poor countries facing *most severe handicaps* to development

- Countries that, due to handicaps inherited from the past, i.e. *out of the current will of governments*, challenged by *exogenous* «constraints to rapid growth»... could be said « *caught in a trap* », out of «convergence »,...or simply “more likely than other countries to stay poor”
- « structural handicaps », a key concept of the category
- In line with a principle of international *justice*, more and more understood as equal(izing) opportunities (between nations)
- A rationale of the category to be *reflected by handicap criteria*, adapted over the years and likely to be used beyond the category

3. A category identified through 3 criteria, alternatively absolute and relative

- Low level of GDP/ GDN pc, and 2 handicap criteria: low level of human capital and weak economic structure, with changing design, initially 2 single indicators, then 2 composite indices (now HAI/ EVI)
- Since 1991 the low income criterion refers to the (constant) threshold of LICs... and the 2 handicap criteria refer to a *threshold in the handicap composite indices*, initially (from 1991 to 2012) «relative» to their value in other comparable countries, then fixed
- Should the thresholds reflect absolute or relative handicaps, in a world of increasing competition ?
- An issue for the category, not for *using the criteria beyond* it, as recommended by UNGA (2012) for ODA allocation

4. The *complementarity* between the 3 identification criteria: Its meaning

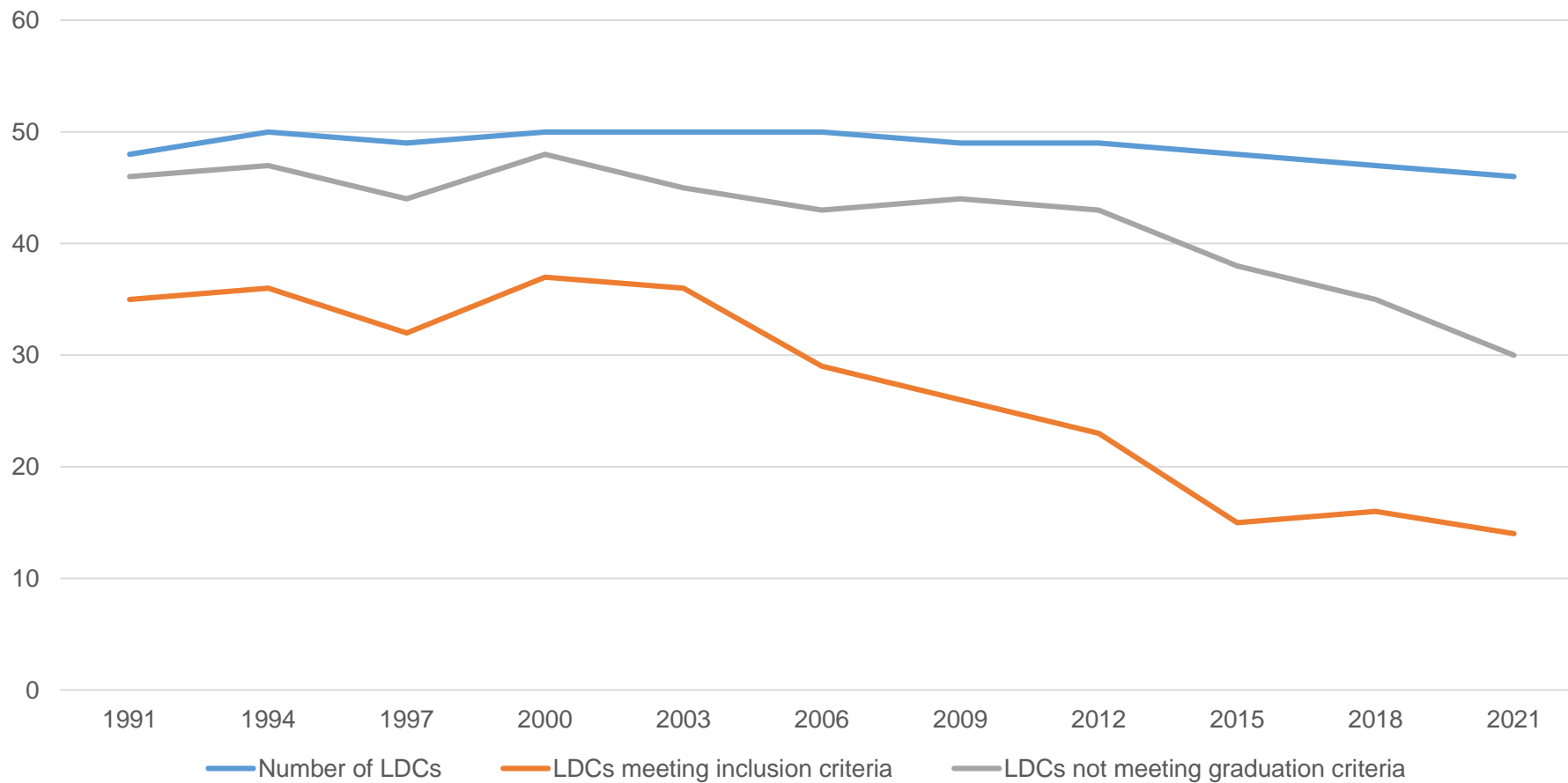
- The 3 criteria have to be met for inclusion into the list of LDCs: they are complementary. Economic growth is supposed undermined by the *conjunction of the two kinds of handicaps*, and not by one or the other... Early 70s theoretical mind...
- indeed the 2 handicaps significant negative factors of growth
- hypothesis of limited substitutability between them not rejected over 1970-2000 (best specification with handicaps in log)...
- no longer the case over 2000-2020...and no such similar basis for complementarity of handicaps to meet SDGs (in particular with respect to the variety of new challenges faced by LDCs)
- category rationale weakened by the strict complementarity of the 2 handicap criteria, that *could be replaced by a single structural handicap index, merging the 2 indices* (and in a way allowing only a limited substitutability between them: quadratic average)

5. *Asymmetry* between inclusion and graduation rules: Its high impact

- In 1991, graduation rules introduced: done cautiously, to avoid reversal or disruption in development path :
 - 1) Minor asymmetry: the margins between the inclusion and graduation criteria thresholds, (as well as to the need to assess the graduation eligibility at 2 successive reviews)
 - 2) Major asymmetry: for graduation, countries *need to no longer meet 2 criteria, and not just only one*
- This second asymmetry has strongly slowed the path to graduation...and led to a sharp increase in the number of countries no longer meeting the inclusion criteria without meeting the graduation criteria (20/46). (See Graph)

6. Inclusion and graduation. How the composition of the category has evolved,

(source: Guillaumont P. (2018) "Reforming the criteria for identifying Least Developed Countries according to the rationale of the category", FERDI Policy brief B176)



7. *Making the asymmetry between inclusion and graduation rules more consistent*

- The major asymmetry not consistent with the hypothesis of complementary handicaps
- Consistency would be improved with the 2 handicap indices replaced by an *aggregate index* of structural handicaps
- It would mean simply considering *graduated LDCs as countries no longer « poor » and no longer suffering from most severe structural handicaps*
- A design in line with the basic rationale of the category and allowing to *take into account the diversity of structural handicaps revealed the new shocks and trends* faced over years by LDCs (covid, digital divide, terrorism,...)

8. Structural vulnerability becoming a key concept in the design of LDCs category

- In 2000, EVI replaced EDI. Seemingly meeting the hope of SIDS, several of which were eligible to graduation, but still vulnerable. It did not modify the eligibility of graduating countries (high correlation between GNlpc and HAI), but highlighted the vulnerability challenge more and more important for last 25 years
- EVI designed as an *index of «structural economic vulnerability»*, modified several times, some environmental components added.
- Other dimensions of vulnerability left aside (to exogenous social shocks: epidemics, conflict and violence,...), as well as a direct measurement of vulnerability to climate change
- Although renamed «Economic and Environmental Index», EVI is not yet a fully «multidimensional vulnerability index»

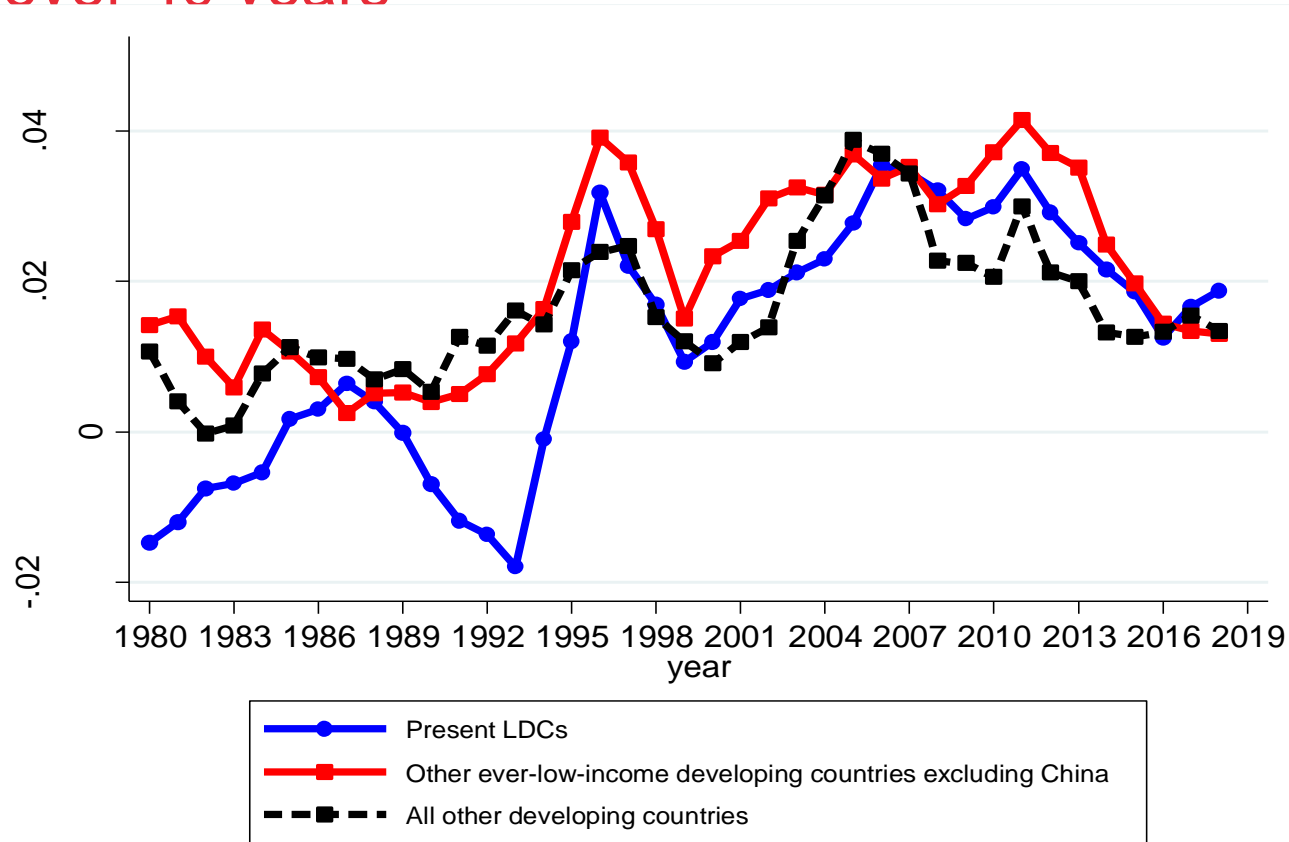
9. Multidimensional vulnerability as a handicap to sustainable development

- In Dec 2020 request from the UNGA to the UNSG for a MVI (*multidimensional vulnerability index*) likely to be used by SIDS, as well as other vulnerable countries, for mobilizing financial support
- This index, for its exogenous components, may be used for LDCs as an index of structural handicap
- In line with considering the category as «*Countries facing severe impediments to sustainable development*» as done as soon as 2012 by the CDP and consistent with the SDGs adopted in 2015
- Strong rationale for considering *LDCs as poor countries facing structural handicaps to move towards SDGs...*and for the new program of action to tackle these handicaps and various vulnerabilities

10. The rationale of category justified by its impact?

- Can the category membership help LDCs escape the poverty trap? and “converge”? It would reveal and legitimate its rationale...
- Difficult to disentangle the respective impact of SH and that of support measures; both linked to the LDC status. But stylized facts on LDC growth may be enlightening
- The first 30 years of the category evidence the lag or “divergence” between LDCs and other developing countries, in particular the other countries having been LICs, suggesting the trap in which they were
- At the beginning of century LDCs appear to reverse course
- Several possible factors :
 - 1) External environment? Appeared not to have really impacted the reversal
 - 2) Domestic policy and the quality of governance in LDCs? No clear change in the gap between the level of these indicators for LDCs and other DCs (a gap itself essentially due to the impact of structural factors)
- Suggests a possible positive impact of the LDC category membership (albeit late and progressive) on economic growth, making easier the move towards the SDGs
- Besides enhancing the rationale of the category and improving consistently its criteria, assessing its impact is needed to strengthen its international support

11. Compared evolution of the average rate of growth of income pc in LDCs, other developing countries, among which those having been LICs over 40 years



THANK YOU