

LDCs and global economic governance*

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Résumé

This paper aims at understanding the mechanisms by which LDCs tend to be excluded from global governance or at best play a marginal role. It shows that this situation is all the more paradoxical insofar as collective decision-making has a significant influence on their economies, on the one hand, through its effects on the global economy, on which LDCs depend, and on the other, as a result of the fact that a number of international decisions concern LDCs directly. Finally the paper offers some suggestions for reducing LDCs marginalisation.

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1. Introduction

LDCs or Least Developed Countries form a subset of 48 countries drawn from the 192 United Nations Member States and around 130 developing countries. Although the number of countries included in this subset has almost doubled from its original level (initially there were 25) their numerical influence in the international community remains modest. Most LDCs are in Africa (34 out of 48). The others, excluding Haiti, the only LDC in America, are in Asia (eight countries) and in the Pacific (five micro states). A majority of LDCs are enclaves (17), islands (10) and/or situated in arid areas (around 15) (Guillaumont, 2009). In addition, they are generally small or medium-sized countries. Most of them, according to their population figures in 2008, are small or even very small countries (most of which are islands): 11 of them have fewer than one million inhabitants and 18 have fewer than five million. The majority of people living in LDCs are concentrated in six countries, namely Bangladesh (160 million), Ethiopia (81), the Democratic Republic of Congo (64), Myanmar (50), Tanzania (42) and Sudan (prior to partition (41)). In total, LDCs represent 14.6% of the population of developing countries and 12.2% of the global population¹ (whilst the G8 countries make up 13%²).

LDCs, by definition, are countries with low incomes: their level of per capita income is one of the criteria for their inclusion in the category. Their low level of per capita income, combined with their limited demographic size, means that their share of world income in 2008 was around 0.7%³. Although in general terms LDCs are very open to the outside world (which in part explains their structural vulnerability, another criterion by which they are identified), their exports are steadily decreasing as a proportion of global exports, leading to their increasing marginalisation in global trade⁴. Finally, their low level of human capital (the third criterion by which they are identified) makes them less likely to act significantly in international bodies.

It has become common to distinguish three aspects of poverty: lack of income, lack of opportunity and lack of power (World Bank 2000). Combating poverty therefore implies empowerment at both a national and individual level. LDCs, which are poor in terms of income and handicapped by their level of human capital and their vulnerability, are also countries which lack the power to influence international decision-making, particularly in the economic sphere.

Global economic governance can be defined as the set of international decision-making processes which are likely to have repercussions extending well beyond the countries in which decisions are actually taken. Globalisation has increased the interdependence of economies and is placing ever-greater constraints on national economic policies. There is no question of establishing a global government with the power to make decisions for the whole of the planet. On the other hand, there is a need to organise international cooperation in order to coordinate national policies and

¹ World Bank, *World Development indicators*, 2010.

² The G8 consists of the United States, Canada, Japan, the United Kingdom, Germany, France, Russia and Italy.

³ A percentage based on Gross National Income (GNI) according to the method used by the World Bank's *World Atlas*. GNI figures are not available for Myanmar or Somalia; these have been calculated based on per capita GNI for Liberia, namely \$170.

⁴ Cf. Guillaumont (2012) Chapter VI.

take decisions on collective actions. This view of global governance requires strong political will, since it involves reconciling the often divergent interests of national governments determined to protect their own sovereignty. However difficult the task may be, few governments dispute the necessity for international cooperation, a sentiment which has only been strengthened by the recent economic and financial crisis.

Excluding LDCs from global economic governance would be all the more paradoxical insofar as collective decision-making has a significant influence on their economies. It does so in two ways: on the one hand, through its effects on the global economy, on which LDCs depend, and on the other, as a result of the fact that a number of international decisions concern LDCs directly⁵. This is particularly true of trade and financial matters.

The aim of this paper is to understand the mechanisms by which LDCs tend to be excluded from global governance even though the decisions taken have a significant impact on them, and in conclusion to offer various suggestions for reducing their degree of marginalisation.

2. How LDCs are marginalised in global governance

The various bodies involved in global economic governance, whether they are informal, such as the "Global Economic Forum" in the form of the G5 and its successors, or formal international institutions based on international treaties such as multilateral financial institutions, the United Nations and its various agencies or the World Trade Organization, are constituted in different ways and there are therefore different reasons for the marginalisation of LDCs.

2.1 LDCs and their conspicuous absence from global forums: the G5, G8 and G20

The G5, G8 etc. meetings arose from a certain inability on the part of official or traditional international cooperation bodies to deal swiftly with major global challenges such as recurrent economic crises. Originally, in March 1973, Georges Shultz, then Secretary of State to the Treasury, invited the German, British and French Finance Ministers to Washington for informal talks on the consequences of the abolition of the gold standard by the United States⁶. The Japanese Finance Minister was then invited to join the G4, which became a ministerial G5. After the first oil crisis, in 1975, Valéry Giscard d'Estaing, President of the French Republic, (who had taken part in the previous ministerial meetings as Minister of Economy and Finance) decided to arrange a meeting of the heads of state or government of these same countries, plus Italy, in the Château de Rambouillet, President's second home. His aim was to bring together the main world leaders and their Ministers of foreign affairs, without an army of advisers, so that they could get to know each other, discuss matters freely, away from the constraints of protocol, and provide leadership for

⁵ Cf. Guillaumont and Guillaumont Jeanneney (2002).

⁶ According to Valéry Giscard d'Estaing, the ministers, brought together in the library of the White-House decided « de se retrouver périodiquement, sans publicité et sans bruit, pour surveiller l'évolution du système international. Ainsi naissait le groupe des « bibliothécaires » qui a survécu depuis sous le nom de groupe des cinq » (Valéry Giscard d'Estaing, 1988, p.125.

collective action⁷. Canada joined the summit in 1976 (the G7) followed by Russia officially in 1998 (the G8); since 1978, Europe has taken part in the meetings represented by the President of the European Commission and by the President of the European Council. Invitations are extended on an informal basis to the Secretary-General of the United Nations, the President of the World Bank, the Managing Director of the International Monetary Fund and the Director of the World Trade Organization.

The G8 had no permanent secretariat, further confirming its informal nature. The same is true now of the G20. It is the job of the President of the Group, who changes each year by rotation, to determine the agenda and organise a series of ministerial meetings in his country on a more frequent basis, depending on current events, alongside the meeting of heads of state. The President of the Group is also free to invite countries from outside the G8 (in particular developing countries) to take part in the discussions but outside the official meetings: these are known as "dialogue meetings" or "teatime meetings", to adopt the expression used for the 2003 summit, held in Evian during the French Presidency. A number of heads of state or government from LDCs have thus been able to take part in these parallel meetings. It should be noted, however, that since the Gènes summit in 2001, African heads of state involved in the "New Partnership for Africa's Development" (NEPAD)⁸ have been invited to meet the members of the G8 to discuss the initiative and the support that G8 countries could provide for it. Contact between the G8 and African governments through NEPAD has become a regular occurrence.⁹ It should be noted that half of the main management body of NEPAD, the Heads of State and Government Orientation Committee, made up of 20 members, consists of representatives from LDCs.

The gradual extension of the G8 to other countries in sessions alongside the main meeting of G8 heads of state heralded the creation of the G20¹⁰. The G20 met for the first time in Berlin in December 1999, following the crisis in Asia in 1997-1998. The meeting of heads of state was followed by a series of ministerial meetings. The recent crisis has led to the return of summit

⁷ « Nous étions tous les invités d'une partie de campagne. Cela facilitait la simplicité et l'intimité de nos discussions. Je ne sais pas si de telles circonstances pourront se reproduire ailleurs ». (Valéry Giscard d'Estaing, 2006, p.88. The present meetings of the G8 or G20 are not effectively so private!

⁸ NEPAD was adopted by the African Heads of State and Government of the Organisation of African Unity (OAU) in 2001 and ratified by the African Union (AU) in 2002 to resolve Africa's development problems based on a new paradigm. The main objectives of NEPAD are to reduce poverty, put Africa on the path to sustainable development, end its marginalisation and give women greater autonomy. The NEPAD process tends to be accepted not only by African countries but also by Africa's development partners as a general framework for development efforts.

⁹ The G8 meeting in Deauville in 2011, for example, was preceded by a meeting of members of the G8 with their African counterparts (G5+3), i.e. the five founders of NEPAD plus its President, the President of the Commission of the African Union, and the President of NEPAD's Heads of State and Government Orientation Committee. Three representatives of LDCs took part in this "African" G8, from Senegal as founder, Equatorial Guinea as President of the AU and Ethiopia as President of the NEPAD Orientation Committee. An agreement was reached on the main points to be discussed, namely security and conflicts, investment and the development of the private sector, health and food security in Africa.

¹⁰ The G20 was preceded by the G22, created in November 1997 and comprising finance ministers and the governors of central banks, who came together to discuss the structure of the international monetary system. It was made up of the members of the G7 and 15 other developed or developing countries, with no LDCs. The same applied to the G33, which replaced the G22 in 1999, just before the creation of the G20.

meetings since 2008¹¹. The G20 has not spelt the end of the G8, although it has taken over some of its prerogatives: initially, it dealt more specifically with financial problems, but its area of responsibility has broadened to encompass economic questions, to the extent that the G8 now deals more with social problems. Neither of these groups claims to dictate obligatory rules, but they do set out major policy guidelines, some of which will be implemented by international institutions (primarily the World Bank and the IMF).

The composition of the G20 reflects its initial financial orientation: over the years, the G8 countries have come to represent an increasingly small proportion of global income and the currency reserves of the central banks¹². The major emerging countries have therefore been added to the G8. As a result, the G20 consists of the members of the G8 plus South Africa, Saudi Arabia, Argentina, Australia, Brazil, China, South Korea, India, Indonesia, Mexico, Turkey and the European Union (represented by the President of the Council of the European Union and the Governor of the European Central Bank). International institutions are also invited to its meetings, namely the International Monetary Fund, the International Monetary and Financial Committee¹³, the World Bank and the Development Committee¹⁴. The Council on Financial Stability¹⁵ and the OECD also attend meetings of the G20. The country which holds the presidency can also invite other participants. South Korea, for example, invited three other international organisations (the United Nations, the International Labour Organization and the World Trade Organization), two countries selected because of their systemic importance (Singapore and Spain) and four regional organisations (the Association of South-East Asian Nations, the New Partnership for Africa's Development, the African Union and the Intergovernmental Group of 24 for international monetary questions and development) to contribute to the work of the G20¹⁶.

The attached map (Figure 1) illustrates well the composition of the G8 and G20, with the G8 based mainly in Europe and North America and the G20 extending into Asia and Latin America. Africa

¹¹ The 2008 summit was held in Washington on 14 and 15 November. Instigated by France, it established the broad outlines of a new system of international financial regulation in order to avoid a repeat of the 2008 financial crisis. In 2009, the G20 met first on 2 April in London and then on 24 and 25 September in Pittsburgh. The London summit decided on the key reforms in relation to financial regulations, including measures to combat tax havens. It has created the Council on Financial Stability following the "*Financial Stability Forum*". All the members of the G20 plus Spain, Netherlands, Swiss, Singapore, and Hong-Kong are sitting. The missions of the CSF are to identify the vulnerabilities of the world financial system and to propose remedies. The Pittsburgh summit made the G20 the new coordination body for the global economy. Significant progress was made on areas such as harmonisation of accounting and prudential standards, compensation in the financial sector and combating tax havens. The first summit of 2010 was held in Toronto on 26 and 27 September, followed by a second on 11 and 12 November in Seoul. The summit of 2011 was held on 4 November in Cannes (France); it was preceded by several ministerial meetings on specific matters such as the regulation of financial markets, agriculture, development, and environment.

¹² In 1980, for example, the G7 countries represented 54% of global GDP (expressed in purchasing power parity) whilst the other countries of the future G20 made up 21%; in 1996 they represented 46% and 30% respectively and in 2006 40% and 36% (data for Russia are not available for 1980). Similarly, in 1991, the G7 countries held 32% of currency reserves and the other countries in the G20 14%; in 2006 these percentages were 22% and 43% respectively. Source: (source: *The Group of Twenty: A History (Annex D)*, 2007)

¹³ The role of this committee is explained page 10.

¹⁴ *Idem*

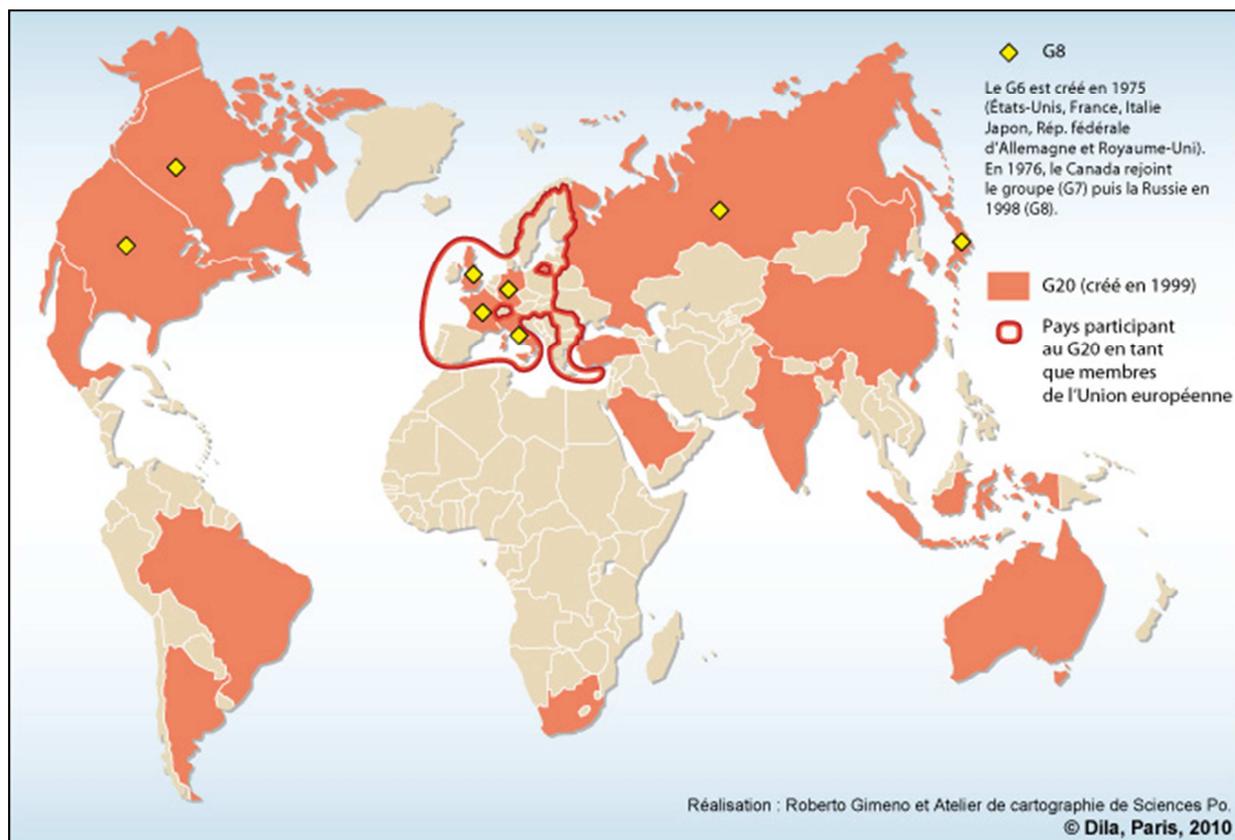
¹⁵ See note 11.

¹⁶ See below (p.12-13) details of the composition of the Group of 24, an offshoot of the Group of 77 representing developing countries.

(which has the largest number of LDCs) has been largely neglected apart from South Africa, which is atypical of the continent in terms of its history, population and level of development. As a result, there are no LDCs in the G20¹⁷. Their absence is all the more problematic in that the G8 and G20 have often taken decisions which are extremely important for the future of LDCs. One illustration would be decisions relating to increases in development aid, debt relief for poor countries, various African development plans, measures to combat infectious diseases (in particular with the Fund to fight HIV/Aids, malaria and tuberculosis), schemes to promote education in developing countries, reducing the digital divide, efforts to combat the dissemination of weapons and materials of mass destruction, etc. The topics for discussion selected by the French Presidency for the G20 and G8 summits in 2011 offer a particularly revealing insight into the essential role of these summits for LDCs. The agenda for the G20, for example, in addition to the recurrent theme of financial regulation, includes the reform of the international monetary system, efforts to combat excessive volatility in commodity prices, support for employment and the social dimension of globalisation, combating climate change, combating corruption and finally, actions to support development following on from the Seoul summit, prompting discussions on questions such as infrastructure in Africa, food security and the role of innovative funding mechanisms. The G8 agenda includes the role of the Internet as an information channel, green growth, peace and security and partnership with Africa. Parallel consultations with a number of governments in LDCs are not a substitute for direct participation in summit talks.

¹⁷ However, some representatives of LDCs participate indirectly to G20 through NEPAD, but only as observers.

Figure 1. G8 and G20 member states in 2010



Source: « Mondialisation : une gouvernance introuvable » *Questions internationales*, No. 43, mai-juin 2010, p. 35 (<http://www.ladocumentationfrancaise>).

2.2 Limited representation for LDCs in Bretton Woods institutions

For a long time, the entire category of LDCs was ignored in the Bretton Woods institutions, even though many LDCs were the focus of particular attention through other country groupings, for example for the World Bank, countries classed as eligible for IDA¹⁸ or for the International Monetary Fund, countries eligible for the Structural Adjustment Facility, then the Enhanced Structural Adjustment Facility, later the Poverty Reduction and Growth Facility and since 2009, the Extended Credit Facility. In fact, it was the participation in 1997 of the Bretton Woods institutions, alongside the World Trade Organization (WTO), UNCTAD, the International Trade Centre (ITC) and the United Nations Development Programme (UNDP) in the “integrated framework for trade-related technical assistance for LDCs”, which resulted in the category finally being included by name in the activities of these institutions. A further step was taken in this direction when this “framework” was re-

¹⁸ Countries whose Gross National Income (GNI) per head in 2011 was less than \$1165, except for small island states, to which this limit does not apply.

examined in April 2000, when the participating institutions decided that the “integration effort would be led and coordinated by the World Bank”¹⁹.

Given that the Bretton Woods institutions play a dominant role in external funding and technical assistance for LDCs, their decision-making power and influence within the Bretton Woods institutions is essential in assessing their participation in global governance.

Let us look initially at the case of the International Monetary Fund (IMF). In principle, the main decision-making body is the Council of Governors, on which all the Member States have a seat. Each Member State’s voting rights are determined by its quota, i.e. the level of its subscription to the capital of the Fund, along with its subscriptions and the amount of the IMF’s potential funding. Quotas are revised at least once every five years, with revisions requiring the support of 85% of the votes. They are calculated based on a mathematical formula²⁰ which takes account of Gross National Income (50%), openness to the outside world (i.e. receipts and expenditure in relation to the balance of payments) (30%), variability of receipts and capital flows (15%), foreign exchange reserves (5%) and a compression factor of 95% applied to a combination of the four variables in order to reduce the dispersal of quotas and slightly modify the influence of scale in the formula. The existence of a fixed proportion of “basic votes”²¹, however, favours smaller countries and therefore LDCs. The voting system nonetheless remains largely based on contributions.

Overall, the total number of votes held by LDCs represents 2.9% of the total;²² this figure is obviously lower than the proportion of the global population represented by LDCs (12.2%) but it is significantly higher than their share of global GDP, which is 0.7%. In November 2010, the Executive Board approved the 14th revision of quotas and recommended its approval by the Board of Governors; this should come into effect in January 2013. The revision plans to double the existing quotas and should transfer 6% of them to emerging countries, so that China, Brazil, India and Russia will be amongst the ten largest holders of quotas. The share of poor countries (as defined by the IMF, i.e. whose per capita income was less than \$1135 in 2008²³) should be maintained but will not be increased and it should be the same for the share of LDCs.

The annual meeting of the Board of Governors, however, is a rather formal occasion and decisions on the Fund’s activities are largely delegated to the Executive Board. This consists of 24 members, five of whom are appointed by their governments (United States, Japan, Germany, France and the United Kingdom) plus *de facto* representatives from China, Saudi Arabia and Russia, with a further 16 elected in regional constituencies by the various countries concerned. As a result, the 48 LDCs which are currently members of the IMF²⁴ are represented by eight board members who, except for the two African members, are responsible for a large majority of non-LDC members; the two

¹⁹ The category of LDC is explicitly mentioned in World Bank (2002),

²⁰ Revised in 2008, cf. International Monetary Fund (2008).

²¹ They have been tripled in 2008.

²² Cf. IMF (2011b).

²³ The figure is multiplied by three for small countries.

²⁴ Three LDCs did not take part in the appointment of board members in 2010 (Guinea, Madagascar and Somalia).

African board members currently come from LDCs, in this instance Gambia and Chad²⁵. Their votes represent 4.78% of the total.

Alongside these two boards (the Board of Governors and the Executive Board) there are two committees: the International Monetary and Financial Committee, which is responsible for questions relating to the global economy, and the Development Committee, which is in charge of issues relating to development and the financial resources required for economic growth in developing countries; the function of both these committees is to offer advice, the first to the IMF and the second to the IMF and the World Bank²⁶. Both these committees are made up of 24 members: it is striking to note that the first does not include any members from LDCs and that the second, which deals with questions which are fundamental to LDCs, includes just one representative from an LDC, namely Yemen²⁷.

The World Bank group consists of two main institutions, the International Bank for Reconstruction and Development (IBRD), which acts in countries with middle incomes and solvent countries with low incomes; and the International Development Association (IDA), which operates in the poorest countries and is therefore of direct interest to LDCs. The governance of both these institutions is similar to that of the IMF, with a Board of Governors (which includes a representative from each of the Member States (187 for the IBRD and 170 for the IDA)²⁸ and a Board of Directors, which currently consists of 25 members. LDC representation in the World Bank group poses a broadly similar problem to that of their representation in the IMF. Each of the 187 members has 250 votes plus one vote for each share held in the capital, which depend on their quota in the IMF, so that overall LDCs have 3.7% of the votes in the IBRD, i.e. slightly more than they have in the International Monetary Fund. Their voting power, however, is higher in the IDA, to which all LDCs belong. Members of the IDA have 500 votes plus one vote for every \$5,000 of their initial subscription. Additional subscriptions with voting rights attached can be authorised by the Board of Governors; LDC votes thus represent 11.7%, slightly less than the proportion of inhabitants of LDCs in the global population. Only two executive directors out of 25, however, are currently from an LDC (Sudan and Sao-Tomé and Príncipe) along with two alternates (from Bangladesh and Zambia).

There is a question mark over the legitimacy of the Bretton Woods institutions in the eyes of developing countries, which see Western nations as over-represented. European countries, in fact, have eight board members out of the 24 on the IMF's Executive Board and nine on the World Bank's Board of Directors. Furthermore, the United States has 15.69% of the votes on the Executive Board of the IMF, giving it the ability to veto major decisions such as quota revisions, which have to

²⁵ In 2001, however, none of the board members came from LDCs. Cf. *IMF Annual Report (of 2001)*, Appendix VIII.

²⁶ Cf. IMF (2011a).

²⁷ Changes in the role of the Fund have led to periodic reforms of the institution or at least its operating methods and several committees have been formed to prepare these, namely the Committee of 20 (1974), the Interim Committee (1976) and the Monetary and Financial Committee (1999); the composition of these committees is based on that of the Executive Board.

²⁸ Countries must be a member of the IMF to have a stake in the capital of the IBRD, and be a member of the IBRD to take part in the IDA.

be passed with an 85% majority. There is a legitimate fear that if there is a re-balancing following the reform of 2010, it will be solely to the advantage of the major emerging nations, following the example of the G20.

The fundamental question is whether power within the Bretton Woods institutions should be reserved for donors or shared with debtors and funding recipients. Whilst the former provide the institutions with the resources they need, their activities are driven by the latter, and it is to some extent the interest and commission they pay that finance the management costs of the institutions. Before the most recent financial crisis, i.e. during the financial year April 2006-April 2007, of the 36 countries which received funding²⁹ from the IMF, 21 were in the LDC category; their funding represented 7.4% of total IMF funding. During the financial year April 2009-April 2010, LDCs represented 26 out of a total of 58 countries. Given the very significant needs of countries in Eastern Europe and the former Soviet Union as a result of the financial crisis, which affected them particularly severely, funding for LDCs now only represents 5.1% of the total. The proportion of LDCs as “clients” of the IMF, which was 58% in 2007 and 45% in 2010, is out of all proportion to the share of votes of LDCs in the IMF (2.9%); despite the small size of LDCs, which limits the value of received loans, the proportion of total funding for LDCs is also higher. LDCs account for a higher proportion of IDA funding insofar as it targets countries with low incomes. In 2010, for example, LDCs represented 56% of countries with projects approved by the IDA and 43.6% of total approved funding³⁰. The proportion increases to 11% for IBRD and IDA projects taken together.

2.3 The misleading appearance of LDC votes at the United Nations

The United Nations is, *par excellence*, the organisation which recognises the existence of LDCs; it is the UN’s role to decide on the criteria for countries to be included on the list of LDCs and which of the various countries are included or graduate from the list³¹. The United Nations Conference on Trade and Development (UNCTAD), which is a United Nations agency, has paid close attention to LDCs from the outset. It has 193 members, including all the LDCs, and over 30 of them sit on the Trade and Development Board, the Conference’s decision-making body. The three functions of UNCTAD, however (organising international forums, producing research on trade and development issues and providing technical assistance to developing countries) do not make it either a decision-making or funding organisation. As far as its functions are concerned, UNCTAD was tasked by the General Assembly of the United Nations with organising four conferences on the Least Developed Countries designed to meet the specific needs of LDCs, in Paris in 1981 and in 1990, the results of the latter being incorporated into the “Paris Declaration” and the action plan for the Least Developed Countries for the 1990s, in Brussels in 2001 and finally in Istanbul in 2011. The secretariat of UNCTAD publishes a report on LDCs every year.

²⁹ In the form of purchases and loans. Cf. IMF *Annual Reports* (of 2007 and 2010), Appendix Table II4 “Purchases and loans from the IMF”.

³⁰ World Bank *Annual Report* (of 2010), Financial data Table: “Projects Approved for IBRD and IDA Assistance by Region and Country Fiscal 2010”.

³¹ On the recommendation of the Committee for Policy Development, cf. Guillaumont (2009).

Within the United Nations, LDCs are well represented in relation to their demographic and economic importance, because of the one nation, one vote principle:³² at 48, they represent 25% of the votes at the United Nations. Important decisions are taken at the General Assembly on the basis of a two-thirds majority of members present and voting³³: LDCs as a group cannot therefore constitute a blocking minority. The main economic body of the United Nations is the Economic and Social Council (ECOSOC), which consists of 54 members elected by the General Assembly, with the breakdown of seats based on the principle of geographical representation. There are currently seven members from LDCs, i.e. 12.9%, which is proportionately significantly less than their representation in the General Assembly.

This simple calculation suggests that even within the United Nations, where the category is actively recognised, the collective weight of LDCs seems peculiarly limited, as is their ability to influence international decisions³⁴. This can be explained by several reasons.

The first relates to the marginalisation of the United Nations itself, particularly ECOSOC (Soret 2010³⁵). According to the Charter of the United Nations, ECOSOC should play a coordination role for the multiple institutions and specialist agencies operating in the economic field. Even though the usefulness of this role has been reaffirmed on many occasions in various international conferences, ECOSOC remains an “empty shell”. Specialised funds, such as the United Nations Development Programme (UNDP), UNICEF and specialist agencies such as the International Labour Organization, the Food and Agriculture Organization and UNCTAD have their own decision-making bodies and budgets. All ECOSOC resolutions have to be submitted to the General Assembly where it is difficult to construct a majority (two thirds is often required) and resolutions are often reduced to the smallest common denominator (Soret 2010³⁶). Political leaders prefer to go to Washington, to the World Bank or IMF, or to the WTO in Geneva to make their case or put forward their ideas.

The second reason is the difficulty LDCs face in defending their own identity or specific needs within a heterogeneous category of developing countries. Groups of developing countries have been created alongside groups of industrialised countries. In historical terms, the first of these was the Group of 77, created in 1964 following the session of the United Nations Conference on Trade and Development (UNCTAD) held in Geneva³⁷. Its aim was to promote the common economic interests of its members and build their capacity to negotiate within the United Nations system. The composition of the G77 has gradually been extended but its name has remained the same. The

³² Article 18 of the *Charter of the United Nations*.

³³ Important issues are questions such as: recommendations on maintaining international peace and security, election of non-permanent members of the Security Council, election of members of the Economic and Social Council, election of members of the Trusteeship Council in accordance with paragraph 1, c of Article 86, admission of new Members to the UN, suspension of Members' rights and privileges, exclusion of Members, questions relating to the trusteeship scheme and budget issues.

³⁴ It is true that on certain occasions, a particular very small LDC (such as Vanuatu or the Maldives) may have had significant influence within the United Nations to avoid their graduating from the list. But this was only an action designed to maintain their individual position.

³⁵ See Soret (2010) p. 43-45.

³⁶ *Idem* p.48.

³⁷ Cf. IMF (2011a)

130 members who now make up the group include all the LDCs except for Tuvalu and Kiribati; they therefore represent 35% of the total. The Group of 24, an offshoot of the Group of 77, however, was set up in 1971 to coordinate the positions of developing countries on questions relating to the international monetary and financial system. This meets twice a year to discuss the points on the agenda of the Monetary and Financial Committee and the Development Committee, the two consultative bodies of the IMF and World Bank. It is striking to note that these 24 members currently include only two LDCs, the Democratic Republic of Congo and Ethiopia, with the result that LDCs represent just 8% of the group. There is a tendency for LDCs to be merged with developing countries. At the United Nations Conference on LDCs in Brussels in May 2001, for example, which brought together all the Member States of the United Nations, the LDC group was largely ignored in favour of the Group of 77. The latter, which was already actively engaged in dialogue with the industrialised nations, was to some extent tasked with defending the interests of LDCs, even where these ran counter to those of non-LDC developing countries. The consequence of this uneasy situation was the inclusion in the Declaration, at the end of the conference, of the desire to see a specific structure within the United Nations with responsibility for LDCs, under the authority of a senior representative of the Secretary-General and reporting directly to him³⁸. The preparations for the Istanbul Conference in May 2011 ran into a similar problem: emerging countries refused to be seen as “development partners for LDCs” in the way that industrialised nations are.³⁹

The increase of the influence of LDCs in the United Nations system comes up against the long-standing refusal of the governments of developing countries to recognise the high level of heterogeneity in the category of developing countries.

2.4 The difficulty of creating a consensus to support LDCs within the World Trade Organization

The situation of LDCs in the World Trade Organization (WTO) (which, legally, is not formally part of the United Nations system but only affiliated to it) is different again. The organisation, created in 1994, was the successor to the GATT (General Agreement on Tariffs and Trade); it is open to all countries that wish to implement a multilateral trade system. Currently, 33 LDCs are members of the organisation out of a total of 153, and 12 are in the process of negotiating their membership. Several factors contribute to making the situation of LDCs within the WTO more favourable than in other international institutions⁴⁰.

³⁸ Until then, monitoring of the programme to support LDCs had been carried out by UNCTAD.

³⁹ Again in Pusan at the last « High Level Forum on the Aid Effectiveness », emerging countries, notably China, have claimed their membership to the “south countries”. China’s agreement to the final declaration was only obtained thanks to the mention that the role of emerging countries is different from that of developed ones. We can read: “The nature, modalities and responsibilities that apply to South-South co-operation differ from those that apply to North-South co-operation. At the same time, we recognise that we are all part of a development agenda in which we participate on the basis of common goals and shared principles. In this context, we encourage increased efforts to support effective co-operation based on our specific country situations. The principles, commitments and actions agreed in the outcome document in Busan shall be the reference for South-South partners on a voluntary basis.”

⁴⁰ Guillaumont (2012) chapitre V.

Firstly, decisions taken at the WTO are, in principle, adopted by consensus and all countries take part in the Ministerial Conference, the organisation's highest authority (which meets at least every two years) and the General Council, which, between meetings of the Ministerial Conference, deals with ongoing matters and serves as a dispute settlement and trade policy examination body. The principle of consensus which applies in the organisation should allow every country, and therefore every LDC, to ensure its interests are taken into account. When it proves impossible to reach a consensus, of course, the WTO has the option of putting the question to a vote, but each member has one vote, the majorities required are three quarters or two thirds, and this option is only used for specific areas such as interpreting an agreement, exemptions in favour of a particular country, amendments to multilateral agreements which are no longer applicable to the countries which accept them, and admission of new members (WTO 2011).

Secondly, the LDC category is officially recognised at the WTO. A *Decision on LDCs* was taken at the Marrakesh Conference (1994) at the conclusion of the Uruguay Round, regarding their joining the new World Trade Organization (WTO) and according to which they would "only be required to undertake commitments and concessions to the extent consistent with their individual development, financial and trade needs, or their administrative and institutional capabilities."⁴¹ Once the WTO had been created (1995) the Ministerial Conference in Singapore (1996) saw the Member States adopt a "global integrated plan to support LDCs", including measures relating to the accession and obligations of LDCs, measures relating to access to the market and measures relating to capacity building. The following year (1997) saw the adoption in Geneva of an "integrated framework for trade-related technical assistance for LDCs". This framework is designed to enable six international organisations (the WTO, World Bank, IMF, UNCTAD, ITC and UNDP) to provide LDCs with specific technical assistance to facilitate their involvement in global trade⁴². A Trade and Development Committee, assisted by a sub-committee for the Least Developed Countries, examines the specific needs of developing countries in general and LDCs in particular; its primary role is to implement measures in the agreements to support LDCs and technical cooperation⁴³.

The influence of LDCs within the WTO, however, is limited by a certain number of practical considerations. Trade negotiations are a complex area and LDCs do not have access to all the desirable competent experts.⁴⁴ The WTO has therefore introduced a technical cooperation system and a series of training seminars. In addition, decisions taken by consensus imply long negotiations, which take place in various specialist committees as well as sometimes at an informal level, in "green rooms". Maintaining a permanent office in Geneva is expensive and only around ten LDCs have one⁴⁵. This is why, in 1997/98, "the WTO set up reference centres in 40 trade ministries in

⁴¹ *Agreement establishing the World Trade Organisation* Article XI 2.

⁴² For an overview of the "integrated framework" and actions to support LDCs, see Guillaumont (2012), Chapter V.

⁴³ Cf. Guillaumont (2012), chapter V.

⁴⁴ Cf. Srinivasan (2009), p. 104. Amongst other things, Srinivasan emphasises the difficulty encountered by LDCs in following any complex dispute resolution procedures.

⁴⁵ Further to negotiations aimed at establishing the WTO's office in Geneva, the Swiss government agreed to provide subsidised premises for use as offices by the delegations from the Least Developed Countries. A number of members of

the capitals of the Least Developed Countries, providing computers and internet access to enable ministry officials to keep abreast of events in the WTO in Geneva through online access to the WTO's immense database of official documents and other material" (WTO 2009).

The WTO advocates a multilateral system based on the application of rules, which must be accompanied by a means of settling disputes if it is to be effective. Thus, "Dispute settlement is the central pillar of the multilateral trading system, and the WTO's unique contribution to the stability of the global economy"⁴⁶. A dispute arises when one country adopts a trade policy measure that one or more WTO members consider that it is breaking the WTO agreements. Settling disputes is the responsibility of the Dispute Settlement Body (the General Council in another guise), which consists of all WTO members. It has sole power to establish "special groups", made up of experts tasked with examining the case, and adopting or rejecting the conclusions of special groups or the results of any appeals procedures. It also has the power to authorise the adoption of retaliatory measures if a country fails to comply with a decision. The difficulty for LDCs arises at this level⁴⁷. Sanctions consist of authorising the suspension of the application of concessions or other obligations in respect of the country that has been found against. In general, however, such sanctions do not carry enough weight to have anything other than a very limited impact, given that most LDCs have small economies.

One solution could be for several LDCs to act together, and this possibility seems to have come to the fore recently with the actions of the C4 group on cotton, bringing together four countries in the Sahel with a particular interest in trade policy in this sector (see part 2.2 for more details on this initiative). Even if LDCs were to act as a specific group, however, the risk remains that they would still have limited influence. Do they have the feeling of belonging to a group, given that their membership of this particular category is not determined only by them? In addition, they do not all have the same trade interests.

2.5 LDCs "pampered" by climate negotiations but largely absent from the discussions

International negotiations on ways of combating climate change began with the Treaty instituting the "United Nations Framework Convention on Climate Change" adopted in Rio in 1992 at the third Earth Summit, which came into effect in 1994. The Kyoto protocol was added to the Treaty in 1997: under the terms of the protocol, 37 countries agreed to limit their greenhouse gas emissions by 2012 compared with 1990 levels. The "Conference of the Parties" (COP) is the governing body of the Convention. The Durban meeting in 2011 was the COP's 17th meeting.

LDCs are parties to the Convention just as all the 194 countries which signed it are, and can therefore send representatives to the "Conferences of the Parties". Their situation in relation to climate change, however, is a peculiar one: on the one hand, their low level of development means

the WTO have also provided financial support to ministers from the Least Developed Countries and the civil servants who accompany them, in order to help them to participate in the WTO's ministerial conferences.

⁴⁶ Cf. WTO (2011), Chapter 3.

⁴⁷ Srinivasan (2009) also emphasises the technical difficulty encountered by LDCs in following any complex dispute resolution procedures.

they have low levels of greenhouse gas emissions and have no reason to be obliged to reduce them, but on the other hand, given that they are often located in arid or coastal areas, they are at risk of being particularly severely affected by climate change⁴⁸. It is clear that they are hardly in a position to exert influence on the negotiations over commitments to reduce greenhouse gas emissions, but that at the same time they are a source of particular concern for the industrialised countries.

At the 15th meeting of the COP in Copenhagen, in light of the difficulty of reaching a consensus, the United States adopted a “so-called unilateralist” approach, negotiating an agreement with the main emerging economies without involving either the most fervent partisans of international regulation, the Europeans” (Soret 2010⁴⁹), nor, of course, the LDCs. The adoption of the Copenhagen agreement was therefore postponed to the following summit. The Cancun summit, however, thanks to the energetic intervention by the Mexican Minister of Foreign Affairs, Patricia Espinosa, got the negotiations back on track and resulted in an agreement on the target of reducing greenhouse gas emissions by 25 to 45% by 2050, in order to comply with a maximum rise in the average temperature of the planet of 2%, but it was not able to settle the question of a new quantified commitment by countries after the expiration of the Kyoto Protocol in 2012. The main players were naturally (except for Mexico, the country hosting the conference), the United States, China, India and Europe, which seemed to have returned to the discussions; Colombia was the only country to oppose the agreement. In Durban the parties managed to buy time and fail to take into account the urgency of the climate change issues, in spite of the warning of the small islands and of the LDCs worried about of the specific consequences for them of the planet warming. It was decided that a legally binding instrument to reduce greenhouse gas emissions, applicable to all parties by 2020, must be negotiated and that a working group will begin to work in 2012 to prepare the agreement for its adoption at the 21th conference. Moreover, the Kyoto protocol now has life until 31 December 2017, but parties will make national voluntary pledges during the second commitment period. United-States, Japan and even Canada do not participate to the Kyoto protocol!

The concern of members of the Convention on Climate Change for the Least Developed Countries was manifested early on, amongst other things by the creation at the seventh COP in November 2001 of the “Least Developed Countries Expert Group” (LEG). This is the body which provides analysis and consultancy on adaptation to climate change for LDCs, and whose term has been regularly extended, as it was again in Cancun for a further five years. Currently, the group consists of 10 experts from LDCs and three from developed countries. The committee contributes to the “National Adaptation Programmes of Action” (NAPA), which each LDC is entitled to draw up in order to specify which measures are required most urgently in order to adapt to climate risk. NAPAs are submitted to the Secretariat of the Convention on Climate Change, which allows the LDC to become eligible for financing from the “LDC Fund” managed by the Global Environment

⁴⁸ Cf. Guillaumont (2012) Chapter VIII and Guillaumont et Simonet (2011) ; in this last paper we find an indicator of country climatic vulnerability, in particular for LDCs.

⁴⁹ p.43.

Facility. The fund is intended to cover the costs of drawing up NAPAs and more generally, to enhance understanding of the vulnerability of LDCs as a result of climate change and the means of tackling it, along with building analytical and management capacity amongst those in positions of power in LDCs.⁵⁰

One important aspect of the Cancun agreement for LDCs is without doubt the “Green Fund” supported by industrialised countries to help developing countries, which should reach \$100 billion by 2020. The fund targets long-term needs in developing countries in relation to adapting to climate change, which is obviously an important issue for LDCs. A “Transitional Committee for the Green Climate Fund” has been set up, made up of representatives from 15 industrialised nations and 25 developing countries, which has reported to the COP in Durban.. Among the 25 members of the committee from developing countries, six were from LDCs (three for Africa and three as “LDC representatives”, which is a major innovation). In Durban an agreement was reached on the design of the Green Climate Fund with always a target of \$ 100bn /year by 2020. But the sources of the funding remain unclear.

Another decision from the Cancun meeting was the REDD+ mechanism (based on the Copenhagen agreement) which added a forest management aspect to the REDD “Reducing emissions from deforestation and forest degradation” programme. Twenty-nine developing countries have shown their interest in the REDD programme since 2008, 14 programmes have been approved (of which four are aimed at LDCs) and 15 are awaiting a decision (of which five are aimed at LDCs). It is expected that more and more LDCs will take advantage of this initiative.

3. How global governance influences the economies of LDCs

LDCs are not, of course, ignored in the major global governance forums. Their problem is their limited influence on the discussions, even though the decisions taken have a significant impact on them. It has been emphasised in international forums on ways of making development aid more effective that the effectiveness of aid depends on the economic policies implemented by the governments of developing countries and that these are only effective if, in practice, they are decided by the countries’ leaders or at least “accepted and assimilated” by them.⁵¹ This should undoubtedly also be the case with international policies, which have a significant effect on LDCs in a globalised world.

As we noted in the introduction, global governance exerts an influence on the economies of LDCs in two ways, firstly through its effects on the global economy, on which LDCs depend, and on the other as a result of the fact that a number of international decisions concern LDCs directly.

⁵⁰ 45 NAPAs were submitted between 2007 and 2009.

⁵¹ The Paris Conference on the effectiveness of aid (2005) underlined the importance of the ownership of their policies by the leaders of countries in receipt of aid; its corollary, the alignment of donors on national strategies, is one of the commitments made in the Paris Declaration and reaffirmed by the Accra Agenda for Action as well as the Busan one. The means by which this aim will be achieved, and in particular the requisite reform of the conditionality of aid, remain vague and limited in terms of their restrictive power.

3.1 The dependency of LDCs on the global economy and international decisions

Although LDCs may appear to have been marginalised in the global economy, they are nonetheless dependent on its development. In fact, fluctuations in the growth of developed economies have even greater repercussions on LDCs. These repercussions generally relate to variations in the prices of raw materials, which tend to be much more volatile than the prices of manufactured goods. As LDCs are still primarily exporters of raw materials and because, as a result of their limited size, they are naturally open to the outside world, they are particularly exposed to price shocks caused by instability in the global economy.

On the other hand, instability in the exchange rates of the world's major currencies (the dollar, euro, yen, sterling and yuan), which accompanies instability in the global economy and suggests shortcomings in global governance, has a particularly significant impact on LDCs. Given the geographical diversity of trade between LDCs, this causes instability in bilateral exchange rates between these countries and their main trading partners, which they are unable to remedy through their own foreign exchange policy. In fact, even if they manage to stabilise their exchange rates against a reference currency, they have to accept that their exchange rates in relation to other currencies will vary in an uncontrollable manner; and if they peg their currency to a basket of currencies they stabilise their exchange rate on average, but then all their exchange rates are unstable. As most economic agents in LDCs do not have the mechanisms to protect them from exchange rate risk (such as hedging) which exist in developed and emerging economies, the development of foreign trade is slower. In addition, the instability of exchange rates makes calculating the profitability of activities very unreliable and therefore increases the risk of investment decisions, thus hampering growth.

The consequences of the recent economic and financial crisis on the economies of LDCs are a good illustration of the sensitivity of LDCs to the economic situation of industrialised countries (UNCTAD 2010⁵²). Considerable emphasis has already been placed on the fact that LDCs were less at risk of being affected by the banking crisis because of the fact that their national financial systems are still relatively closed to the outside world and their financial markets relatively undeveloped. Nonetheless, growth in bank lending has stopped in several LDCs where the banks are subsidiaries of foreign banks. The slowdown in the global economy has affected them primarily through the decrease in their export revenues (by an average of 26% between 2008 and 2009), particularly in oil-exporting countries. LDCs whose exports are destined primarily for industrialised countries have been affected more than those engaged in trade within the developing world. Tourism and maritime transport have been the most severely affected export services. The decline in exports has been accompanied by a decrease in direct foreign investments and transfers of migrant workers to their home country (except for Bangladesh and Nepal, which have simply seen a slowdown in the growth of transfers in comparison with previous years). These negative effects,

⁵² p.19-24 from which the following statistics are drawn .

however, have to some extent been compensated for by an increase in contributions of public inflows in 2009 compared with 2008.

The recent financial and then economic crisis was accompanied, as might have been feared, by considerable instability in exchange rates, in particular the dollar-euro rate. Indeed, at its highest level (June 2010), the dollar was 1.29 times its lowest value (July 2008). This is one of the reasons which led the major powers to include the reform of the international monetary system on the G20's 2011 agenda. It is unfair for LDCs to be seen as not having a say in financial regulation and the reform of the international monetary system, when it is the malfunctioning of the financial institutions of industrialised countries and the instability of the world's major currencies which have caused great difficulties for LDCs.

3.2 Specific treatment of LDCs at an international level

Since the creation of the LDC category in 1971, numerous international decisions in both the trade and financial sectors have been taken to support them (Guillaumont, 2012). We believe, however, that the limited influence of LDCs in global governance has reduced the effectiveness of measures designed to support them and has sometimes resulted in strengthening external control over their national policies and therefore caused them to lose part of their sovereignty. We will illustrate this idea on the basis of three examples: agricultural trade, in particular cotton; the treatment of debt; and selectivity in relation to development aid.

LDCs and the agricultural protectionism of industrialised countries: the emblematic case of cotton

LDCs are particularly affected by the agricultural negotiations carried out within the WTO, given the importance of the agricultural sector for their economies. The Agreement on Agriculture was negotiated as part of the Uruguay Round between 1986 and 1994. Originally, the intention was to improve access for LDCs to markets in developed countries and reduce the multiple subsidies for agriculture in developed or emerging countries, which are a source of major distortions of competition. The negotiations only began in 2000 and were included in the general programme of negotiations established at the Ministerial Conference in Doha in 2001: at the time it was predicted that the negotiations would end by January 2005, but in fact they are still ongoing!

Given the slow progress of the negotiations, four LDCs, Benin, Burkina Faso, Mali and Chad presented a series of proposals in relation to cotton, called the "C4 cotton initiative"(WTO 2003)⁵³. Cotton is, in fact, the main crop exported by all four countries and provides a living for a very significant proportion of their population. Subsidies for cotton producers in the several exporting countries are particularly damaging for them⁵⁴. The initiative was in two parts: 1) a reduction over

⁵³ Cf. "Poverty Reduction: Sectoral Initiative on Cotton. Joint proposal by Benin, Burkina Faso, Mali and Chad" presented in June 2003 to the Trade Negotiations Committee and in July to the Agriculture Committee, and included on the agenda of the Fifth WTO Ministerial Conference in Cancun.

⁵⁴ Assistance granted to agricultural producers by developed countries leads not only to a decline in international prices, but also to a high level of price instability. As the prices paid to agricultural producers by industrialised countries do not track international prices, supply is not influenced by fluctuations in world demand, thus leading to increased price instability (Winters 1994).

three years, until they had been eliminated, of the subsidies granted by developed countries to their cotton producers, either in the form of export subsidies or support for domestic production; 2) granting of transitional aid to cotton-producing LDCs, corresponding to the capital loss arising as a result of the subsidies. This has been valued at a loss to producers of \$250 million a year and, including the indirect effects on other people living from cotton production and exports, at a total of \$1 billion.

The main outcome was the creation in July 2004 of a committee with specific responsibility for cotton and tasked with dealing with the issue of cotton “ambitiously, expeditiously, and specifically within the agriculture negotiations”. LDCs have found it easy to obtain free access to markets in developed countries for cotton, as well as support for their producers, without this representing a significant concession for developed countries: although exports of cotton are essential for certain LDCs, these are negligible compared with total world exports. Little progress, however, has been made in terms of reducing the subsidies paid by developed countries and assistance for the development of the cotton sector in LDCs has essentially taken the form of technical cooperation and technology transfer. In 2008, for example, Pascal Lamy was able to declare at an UNCTAD conference: “Part of the solution lies in the two areas of work we have been focusing our efforts on. These are the trade policy side and the development assistance side. On the trade policy side, the roadmap ahead of us is very clear. Developed countries, the US and EC in particular, have to slash the trade-distorting subsidies they give to their cotton producers. Market access for cotton should be improved. Export subsidies for cotton must be eliminated. But this, as we all know, can only happen within the framework of the successful conclusion of the Doha Round.” Further evidence of the lack of progress is provided in the minutes of the meeting of the Committee with specific responsibility for cotton⁵⁵ in October 2010. Mr Koné, Minister of Trade for Burkina Faso and the representative of the four countries behind the “C4 cotton initiative” asked “how we can allay the concerns of millions of cotton producers and end the financial haemorrhage and its budget repercussions?” In his view, “if no solution is found swiftly through multilateral negotiation, the cotton sector will be doomed to failure. The C4 wants the negotiations to continue and accelerate, so that trade-distorting subsidies are reduced and eliminated within a reasonable period of time. I call now on developed countries which offer trade-distorting subsidies to their producers to eliminate or substantially reduce them and to prioritise the application of WTO rules”⁵⁶. In concrete terms, cotton production in Africa over the last six years has halved and half of the decline is due to countries in the franc zone (Gruere 2009)⁵⁷.

⁵⁵ Cf. WTO website.

⁵⁶ For a detailed analysis of subsidies in the cotton sector, see the research carried out by the International Cotton Advisory Committee (ICAC): Armelle Gruere (2009), for example, calculates the value of direct support for cotton production in the world from 1998 to 2009 at between \$3 and \$8 billion a year (based on international cotton prices). The United States and Europe but also certain developing countries such as China offer the highest level of support to their producers.

⁵⁷ We should also note that the United States has a tendency to ignore its responsibilities in relation to the difficulties of the cotton industry in Sahelian countries in the franc zone by adducing an overvaluation of the CFA franc, which is pegged to the euro. Even if this overvaluation, which is, in fact, due primarily to the depreciation of the US dollar, is part of the explanation, it does not release the US government from its responsibilities entirely.

The four States of the “Initiative” do not decide to refer to the Dispute Settlement Body, for two reasons. The first is the complexity of the WTO rules laid down in the 1995 Agreement on Agriculture, which means they can be evaded by a whole series of subtle manoeuvres. As far as subsidies are concerned, for example, the agreement distinguishes between export subsidies, which are seen as the most distorting, and support for production⁵⁸. The Agreement provides for a decrease in the budgets allocated to export subsidies and a decline in the volume of subsidised exports. Export subsidies enable agricultural products to be exported at prices lower than those of the domestic market. There are direct export subsidies, subsidies designed to reduce the costs of marketing exports, and transport subsidies for exported goods. Conversely, export credits and credit guarantees, export promotion programmes and food aid are not taken into account. The regulations on support for production are even more complex. The Agreement on Agriculture distinguishes between three types of production support, divided into “boxes” based on the extent to which they have a distorting effect on trade. The amber box primarily contains price support measures, which are designed to maintain high prices or act as price regulation mechanisms. These are seen as highly distorting in terms of trade and must be reduced. Equalisation and stabilisation funds are both included in the amber box. The “*de minimis*” clause, however, allows exceptions to the obligation to reduce support in the amber box. Support is allowed if its value for a given product is less than 10% of the total production of the product or if the value of support which is not specific to a particular product is less than 10% of the country’s total agricultural production. The blue box contains forms of aid which are decoupled from product-related amounts and are allocated to producers as part of a programme to limit production⁵⁹. In principle, none of these forms of aid can increase. Finally, the green box contains types of support which are not supposed to have distorting effects, such as public service programmes (research, training, infrastructure, combating parasites, holding public stocks for food security purposes, domestic food aid, etc.), revenue support which is decoupled from production or the use of production factors (for example, insurance mechanisms to cover climatic events and loss of revenues), environmental protection programmes and programmes to help disadvantaged areas. The amounts allocated to aid in the green box can increase. The decision as to which type of aid is classified in which box is obviously uncertain and subject to dispute.

In this context, referring to the Dispute Settlement Body may be a very long, complicate and expansive process. The history of the dispute between Brazil and the United States over US cotton subsidies provides in this respect a number of valuable lessons. The proceedings lasted over seven years, from the point at which Brazil submitted its request for consultation to the WTO (September 2002) and the date on which it was authorised to implement sanctions against the United States (2009). The US used every possible means to delay the proceedings, so that in the end it required the involvement of two special groups, two appeal bodies and an arbitration procedure before Brazil wins.

⁵⁸ Cf. Sustainable Development Network PASA note – “National agricultural policies and WTO commitments” Agricultural Policy and Food Security Working Group.

⁵⁹ The blue box was, in fact, created by the United States and the European Union (EU) to manage the transition between price support and direct support to producers.

The second reason for the failure of the C4 is the lack of influence of LDCs on the global economy which, as we have already noted, compromises the effectiveness of appeals by LDCs to the WTO's. Even in the case of a decision which supports LDCs, sanctions in the form of retaliatory trade measures by LDCs vis-à-vis the industrialised country found guilty would have little chance of persuading the Dispute Settlement Body to change its agricultural policy. Whilst Brazil's national revenue represents 2.4% of global revenue compared with 0.7% for LDCs as a whole (i.e. three times as much), its preference, at least in the short term, was to accept financial compensation rather than embark on a trade war with the United States. Finally, in 2010, the two countries established a framework for a mutually agreed solution. The United States paid Brazil \$147 million in compensation and undertook to limit its cotton subsidies as part of the reform of the "Farm Bill", whilst Brazil suspended its retaliatory measures. The four African States of the "Initiative" feared by attacking directly United-States some reprisals from them, such as a reduction of the American aid or risk of being not eligible to AGOA⁶⁰ (Diouf (2011)).

At their meeting in January 2011, the African, Caribbean and Pacific (ACP) countries⁶¹ stated that the agreement between Brazil and the United States "only serves to reinforce inequality of treatment and prejudice the interests of other producers". Benin and Chad had had joined Brazil as third parties. This allows them to be heard during the different steps of the process. But only Brazil had the right to negotiate a financial compensation with United States. The success of Brazil may incite African Cotton Countries to lodge a complaint with the Dispute Settlement Body⁶².

Debt relief for LDCs and the conditionality associated with it

The aim of the Heavily Indebted Poor Countries (HIPC) Initiative, launched by the G7 in 1996, strengthened by the G8 in Cologne in 1999 and supplemented in 2005 by the Multilateral Debt Relief Initiative (MDRI) (in respect of the World Bank, IMF and African Development Fund) was to massively reduce the indebtedness of low-income countries. Although these initiatives were not designed exclusively for LDCs, they appear in retrospect to be highly significant for them. Twenty-nine of the 40 countries eligible for the HIPC Initiative are LDCs (IMF 2011c). Responsibility for implementing the initiatives decided at the summits of industrialised countries was given to the International Monetary Fund and the World Bank, organisations over which LDCs exert little influence, as we have explained above. This clearly sets out the terms of certain debt relief schemes.

The HIPC and MDRI initiatives include some significant new ways of treating debt compared with the previous practices of the Paris Club. Firstly, the debt cancellation process now concerns multilateral institutions. Previously, the only response these institutions could offer to the

⁶⁰ The African Growth and Opportunity Act (AGOA) was signed into law on May 18, 2000 as Title 1 of The Trade and Development Act of 2000. AGOA provides reforming African countries with the most liberal access to the U.S. market available to any country or region with which the United States does not have a Free Trade Agreement.

⁶¹ Cf. *Agritrade (2011), "Le coton et la réaffirmation des préoccupations des ACP dans le processus de Doha" press release.*

⁶² According to Diouf (2011) African States must do it before United-States have adopted a third « Farm Bill » consistent with the WTO rules so that they can obtain a financial compensation for the past detriment. One more WTO subtlety!

difficulties faced by developing countries in servicing their debts was to refinance their loans. This practice led to a significant increase of multilateral debt as a proportion of the total debt of LDCs. Secondly, the initiative's official aim is to ensure that the debts of developing countries are sustainable over the long term, as a result of mobilising new international resources. Finally and above all, it seems to have led to a significant change in the nature of conditionality for development aid.

Debt relief for HIPC is in fact part of a complex process. "Countries need to satisfy certain criteria, commit to poverty reduction through policy change and demonstrate a good track-record over time" (IMF 2011c). The process consists of two stages: reaching the decision point, which enables the country to obtain interim debt relief, and reaching the completion point, when the country has fulfilled its commitments, which allows it to obtain full debt relief. In order to reach the decision point, a country must fulfil four conditions: in addition to being eligible for IDA and IMF financing reserved to low-income countries and facing levels of debt which are seen as unsustainable, the country must provide evidence that it has embarked on a process of reform and implemented a sensible economic policy under the terms of programmes supported by the IMF and the World Bank; finally, it must have drawn up a Poverty Reduction Strategy Paper (PRSP) following a broad-based participatory process at a national level. To reach the completion point, the country must continue to provide evidence of good performance under the terms of programmes supported by IMF and World Bank loans, implement key reforms agreed at the decision point satisfactorily and adopt and implement its PRSP for at least one year.

This process was presented by the international community as a way of ensuring that the additional resources derived from debt relief were actually allocated to programmes which would benefit poor people. The requirement to produce a Poverty Reduction Strategy Paper was curiously justified as a response to ever-more trenchant criticism over the lack of ownership by developing countries of their own economic policy, due to the practice of conditionality by the Bretton Woods organisations and by donors in general. Effectively, funding by the Bretton Woods institutions to support adjustment or development programmes, following on from budget assistance from several bilateral donors, is conditional on the adoption by receiving countries of specific economic policy measures negotiated with donors. This way of placing the governments of developing countries under supervision appears to be in contradiction with the desire expressed elsewhere for greater democracy and government responsibility in these same countries (Guillaumont P. and Guillaumont Jeanneney, 1994, Collier *et al.*, 1997). This is why there is a requirement for a Poverty Strategy Reduction Paper to be produced by the country's leaders in conjunction with representatives from civil society. In practice, however, foreign experts, particularly in LDCs with an insufficient number of competent executives, continue to play a significant role. The former conditionality has not disappeared as such, even though the reforms negotiated with the IMF and World Bank now have to be included in the strategy to combat poverty previously defined by the country.

To conclude, LDCs have undoubtedly benefited from the major efforts made to provide debt relief for developing countries: of the 29 eligible LDCs, in 2011 23 have reached the completion point, three are between the decision point and the completion point (Chad, Guinea and the Comoros) and three are still moving towards the decision point (Eritrea, Somalia and Sudan). It seems, however, that this is at the cost of an increase in external control of their economic and social policies by the Bretton Woods organisations and therefore a loss of sovereignty for the countries concerned.

Aid selectivity: risk or opportunity for LDCs?

As LDCs receive only a small proportion of global foreign direct investment⁶³, public financial contributions are strategic for their investments and growth. The international community has long embarked on various initiatives, the impact of which remains uncertain. An initial example is the case of the resolution on specific objectives for support for LDCs, adopted for the first time in 1981 (0.15% of the GNP of donor countries, later reiterated, although industrialised countries, far from getting closer to it, have in fact got further away (0.09% in 1990 and 0.05% in 2000). The decline in the ratio of official development assistance (ODA) given to LDCs in relation to the GNP of the countries members of the Development Assistance Committee (DAC) is not simply a reflection of an overall drop in ODA. The proportion of LDCs in total ODA actually decreased during the 1990s, although it had increased previously. During the 2000s, the ratio of aid given to LDCs compared with the GNP of donor countries came back to 0.9% and the share of aid to LDCs, which had dropped to 25% in the late 1990s, rose to 30% in 2008⁶⁴. Moreover, at the Brussels Conference on LDCs, countries in the DAC decided to loosen their bilateral aid for LDCs.

It may seem surprising that the LDC share of global aid is not higher, even though the international community, both in the United Nations and the Bretton Woods institutions, continues to emphasise the importance of combating poverty on a global scale. The best indicator for this concern was the adoption of the Millennium Development Goals by the United Nations in 2000. Paradoxically, the criteria for aid selectivity and its geographical allocation as applied by the international development banks (particularly the World Bank) and certain bilateral donors in their wake do not favour LDCs.

Faced with trenchant criticisms of the alleged ineffectiveness of development aid and the budget constraints of industrialised countries, it was agreed at the G7 meeting in Halifax in 1995 (Chavagneux and Tubiana 2000) that “concessionary resources must be allocated as a priority to the countries with the greatest needs and those which have demonstrated their ability to use them effectively”. The notion of aid selectivity has been taken up by the World Bank, which has attempted to gain acceptance for the idea that, because development aid is only effective in those countries which implement sound policies, it would be better to reserve it for countries with sound

⁶³ Namely \$32 billion in 2008 and \$28 billion in 2009, mainly targeted at oil- and mineral-exporting countries. Cf. UNCTAD (2010) p.23.

⁶⁴ Cf. Guillaumont (2012) Chapter III

economic policies in order to reduce poverty in the world more effectively (World Bank 1998). As a result, the World Bank, followed by certain regional development banks, has defined a country allocation rule for IDA commitments, based on a formula called “performance-based allocation”, according to which the sums allocated increase in line with the quality of economic policy, measured by the Bank’s own internal indicator, the “Country Policy and Institutional Assessment” (or CPIA), and decrease in line with per capita income, although this second criterion carries significantly less weight than the first⁶⁵.

This practice raises a number of problems. Firstly, the definition of good economic policies, used as a condition for the effectiveness of aid, is obviously subject to debate, and raises the difficulties inherent in conditionality based on policy instruments. The CPIA can be criticised for being too homogeneous and subjective. Secondly, the analytical basis of the formula is debatable: if the econometric analysis which underpins the principle of aid selectivity and is used to evaluate the effectiveness of aid in terms of economic growth takes into account not only the policy followed by the receiving countries, as Burnside and Dollar (2000) did initially, but also the extent of their economic vulnerability (Guillaumont and Chauvet, 2001), the role of macroeconomic policy as a factor in the effectiveness of aid disappears. Conversely, it seems that aid is all the more effective when it is targeted at more vulnerable countries, which is precisely what LDCs are. In addition, vulnerability is in itself an obstacle to a “good CPIA”⁶⁶. Thirdly, it quickly became apparent that the strict application of the formula was unsustainable and unfair: alongside the effectiveness of aid, the second principle by which the geographical allocation of aid should be assessed is that of *fairness*. A modern idea of justice, developed by Rawls (1971) and Roemer (1998) in particular, is about giving every individual equal opportunities, so that inequalities result only from differences in terms of effort. If one thinks at a national rather than an individual level, fairness becomes a matter of giving countries equal opportunities to emerge from poverty by compensating for the structural handicaps which reduce the effectiveness of their efforts. Structural handicaps are the long-term characteristics of countries which result not from their current political intentions, but from historical and geographical factors and the international environment: there again, structural economic vulnerability is a potential candidate as a fairness criterion in the allocation of aid. This also applies to a low level of human capital, with both of these reducing the long-term chances of economic success, which is not reflected in per capita income. This is also why the identification of LDCs is based, alongside low per capita income, on a high level of structural vulnerability to external shock and a low level of human capital.

Therefore the application of a “performance-based allocation formula” ignores countries which are in most need of aid, notably many LDCs. It is why a whole series of exceptions to the rule have been adopted in the form of minimum and maximum thresholds and particularly specific aid for fragile

⁶⁵ Cf. Guillaumont (2012), Chapters III and IV.

⁶⁶ Guillaumont P, Guillaumont Jeanneney S. and L. Wagner (2010) showed that the CPIA declines in line with economic vulnerability (as measured by the Economic Vulnerability Index (EVI) used to identify LDCs within the United Nations).

states⁶⁷. Whilst these exceptions are an advantage to LDCs, they also entail major discontinuities in the application of the rules and a complete lack of transparency. One way of reconciling the selectivity of aid with the aim of the international community to devote at least 0.15% of the GNP of industrialised countries to LDCs would be to introduce the two criteria for identifying LDCs (economic vulnerability and low human capital) into the formula.

⁶⁷ The name of this category of countries has been changing according institutions and moments, showing the uncertainty of the category: at the African Development Bank "fragile. States", at the World Bank "post-conflict and re-engaging countries" (on a better policy) and recently "fragile and conflict affected states".

4. Conclusion

LDCs have benefited from a whole series of initiatives by industrialised countries, from both a trade-related and financial point of view. The impact and permanence of trade-related measures, however, remain uncertain, and this reduces their ability to act as an incentive for export activities. Furthermore, whilst the emphasis on poverty reduction in new forms of aid in terms of debt adjustment and treatment is to the benefit of LDCs, the indirect consequences of debt treatment on the control of their economic and social policy and the current concept of aid selectivity have a negative impact on them. These are in contradiction with what is seen as legitimate and indeed what has been accepted by industrialised countries during conferences on LDCs.

These contradictions can undoubtedly be explained, in part, by the lack of representation of LDCs in global governance. None of the LDCs participates directly in the G8 or G20. The two most important global organisations for LDCs, the IMF and the World Bank, are precisely those where power is linked to contributions. Their situation appears to be more positive at the WTO. Systematic attempts to reach consensus at the latter, however, favour countries which are able to be represented on a continuous basis, whilst the treatment of disputes favours those in a position to implement credible retaliatory measures.

The lack of representation of LDCs within the major international institutions partly explains the mistrust the leaders of these economies feel with respect to the decisions taken there. It is not possible to advocate strengthening democracy in the poorest countries whilst at the same time refusing them the opportunity to participate fully at a global level in the decisions which concern them. Increasing the involvement of LDCs in the international architecture, however, is a difficult task and one which does not currently appear to be a priority for the international community. Can LDCs one day hope to participate as such in meetings at the G20 summit? Will their participation in the Bretton Woods institutions be decoupled from their quotas and wealth? The extension of global governance to areas such as the environment and social policy should be seen as an opportunity to think about the participation of LDCs, given that compliance with the global environmental and social standards yet to be defined will be more difficult, but just as necessary, in LDCs as elsewhere. Increasing the participation of the poorest countries in global governance should help to bring it closer to the three objectives against which it must be measured,⁶⁸ namely its legitimacy, its effectiveness and the coherence of its decisions.

⁶⁸ Thierry Soret (2010, p.30-31) emphasises the three elements lacking in global governance, namely legitimacy, effectiveness and coherence.

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