



Graduation, Differentiation, and Vulnerability

With reference to

Out of trap. Supporting the least developed countries

Patrick Guillaumont

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Guillaumont

Caught in a trap

Identifying the least developed countries

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Caught in a trap

ECONOMICA

Out of the trap

Supporting the least developed countries

Edited by Patrick Guillaumont



From

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

To

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

- **CIT** examined the origin of the category in 1971, its rationale (identifying poor countries most likely to stay poor, due to the structural handicaps they face), and its grounds in development economics (low level equilibrium trap). It assessed the relevance of the two indicators of structural handicaps used to identify LDCs (HAI and EVI), and of their complementarity. And explained why some LICs have been « caught in a trap » (the LDCs), while others escaped
- **OOT** tries to assess the impact of the special measures in favour of LDCs on their development. Impact analysis needs a **relevant counterfactual**, elusive for LDCs, since all poor countries facing high structural handicaps were supposed to be in the category. The **challenge**: disentangling the effects of the special measures (for LDCs) from those of specific structural features (of LDCs)

I

**Differentiating Development Partnerships:
General Issues and the Vulnerability Challenge**

Reasons for differentiating Development Partnerships

- Increasing heterogeneity of developing countries, with only 2 official groups within UN: *developing* (134) and *LDCs* (47) and several income groups according WB (and others): *LICs* (31), *LMICs* (53), *UMICs* (56) , *HICs* still included in DAC list (5)
- Dramatic *changes in the distribution of countries* among the groups, in particular between *LICs* (63 in 2000, 31 in 2016) and MICs, quite less between LDCs and others, even less between DCs and others
- Special issue raised by the *fragile states* (36) and fragile situations....
- ...or by the countries *vulnerable to climate change* and natural disasters
- Groups to some extent overlapping, except SIDS and Landlocked!
- *Heterogeneity means difference of needs...and policy measures*

Rules are needed to differentiate partnerships

- Differentiation (for group eligibility and graduation, or for allocation) involves rules, fully *automatic* or through *discretionary* judgement
- *Some rules are global*, relevant for all partners, such as the LDC inclusion or graduation rules (UN), or the ODA eligibility rules (OCDE)....
- *...or specific to one or several partners*, either contractual (Cotonou) or unilateral (EBA, MCC,..)
- Rules are particularly *needed for multilateral accountability*, and transparency as evidenced by the ODA allocation rules or models used by MDBs (and EU)

Differentiating by criteria rather than by categories the threshold issue

- Using *continuous criteria* is better than *discontinuous categories*, when possible
- *Clear for ODA and development finance*: allocation criteria better than category membership, ...
- It *avoids threshold effects* (e.g. FS in MDBs), thus making decisions more equitable and less discretionary, as well as reversibility issues
- It allows a *differentiation between countries within and out of a category*, what is particularly important for vulnerability and fragility
- and *makes the transition smoother* than one step graduation from a lower to an upper category,
- Indeed *not possible for binary measures*, in particular trade measures (EBA), and more generally when a rule of eligibility is needed (ODA)

Facing the reversibility issue when categories are used: Asymmetry between eligibility and graduation

- Special aspect of the criteria vs category issue: discontinuous graduation should not become frequently reversible, due to the vulnerability of graduated countries (not an issue with continuous criteria)
- With categories of countries eligible to specific measures, several “asymmetric” rules may be used to limit the risk of reversibility (pushed far in the case of LDC status):
 - - Time lag between meeting the criteria and implementation
 - - Margins between inclusion and graduation criteria thresholds
 - - Asymmetry in the number of criteria to be met.

- **Metrics: GNI and beyond**

- Although GNIpc is an imperfect measurement of development, it is presently unavoidable, and perfectible...
- *Other metrics* may be used: several options
 - - Synthetic index (HDI approach)
 - - Multicriteria approach (LDCs)
- Specific issue of *fragility and vulnerability measurement*, with several dimensions (economic, climatic, institutional)
- Need to take into account exogenous vulnerabilities besides GNI:
 - - to address the issue of reversibility, at various levels of development
 - - to address the more general problem of structural handicaps, mainly raised at low levels of income (LDCs)

Nations vs people: a responsibility issue

- A main issue: *what is the rationale of ODA to MICs?* Knowing that total ODA amount is limited, and ODA to LICs below the needs
- 3 debatable arguments in favour of ODA to MICs, including UMICs:
 - “*Nobody left behind*”: of whom is it the mandate? International community or nation-states, under the condition that no nation is left behind. MICs capacity and responsibility to redistribute
 - *Numerous poor located in MICs*: but what matters is the likelihood of people to stay poor, that depends on the poverty ratio, and on structural handicaps, quite lower in MICs than in LICs
 - *MICs trap*: no robust theoretical ground, neither empirical evidence, different from the LDCs features
- Remaining arguments for ODA to MICs (or some ones): provision of *Global or regional public goods* and exogenous vulnerabilities....



II

Differentiation of LDCs and their graduation

- the LDC category has been set up to identify countries « caught in a trap » (LICs suffering from most severe handicaps) and to support them to move « out of the trap » (through support measures)
- The category, if successful, at the end aims at disappearing
- After nearly 50 years, the move out of the category has only begun
- A major issue of differentiation and consistency, illustrated by the present discussions on graduation



Three steps

in the history of the LDC category with respect to graduation

- *Phase I: 1971- 1991: Graduation forgotten.* The category increases from 25 to 48 countries, without any rule and prospect for graduation. Trap or curse?
- *Phase II: 1991-2011: Graduation feared (felt as a threat).*
Cautious graduation rules adopted in 1991 (2005).
Strong resistance to graduation from eligible countries.
Category reaching 49 countries, after 4 additions and only 3 graduations, Botswana (1994), Cape Verde (2007), Maldives (2011)
- *Phase III: 2011- 2030 : Graduation hoped (felt as goal)*
LDC IV Conference (IPoA): goal of enabling ½ LDCs to meet graduation criteria in 2020. Significant change in attitudes.



Time frame of graduation after Istanbul

IPoA goal: *Enabling half of LDCs (48 in Istanbul) to meet the graduation criteria in 2020*

- Since Istanbul, what has been reached?
 - 2 more countries graduated (Samoa, 2014 & Eq. Gu., 2017),
 - 2 countries to be graduated in 2020 (Vanuatu) or 2021 (Ango),
 - 2 countries found several times eligible, with decision still pending (Tuvalu & Kiribati),
 - 3 countries found twice eligible and recommended in 2018 (*Bhutan, Sao Tome & Pr, Solomon Isl.*)
 - 2 countries found twice eligible in 2018 but not recommended
- *Thus a max of 9 to 11/48 (one fifth instead of one half) can reach the IPoA goal (3 of which due to change in thresholds design)*
- *Better prospects for 2030, the horizon of SDGs, but with present rules, only ½ of the Istanbul LDCs may have graduated at that date*

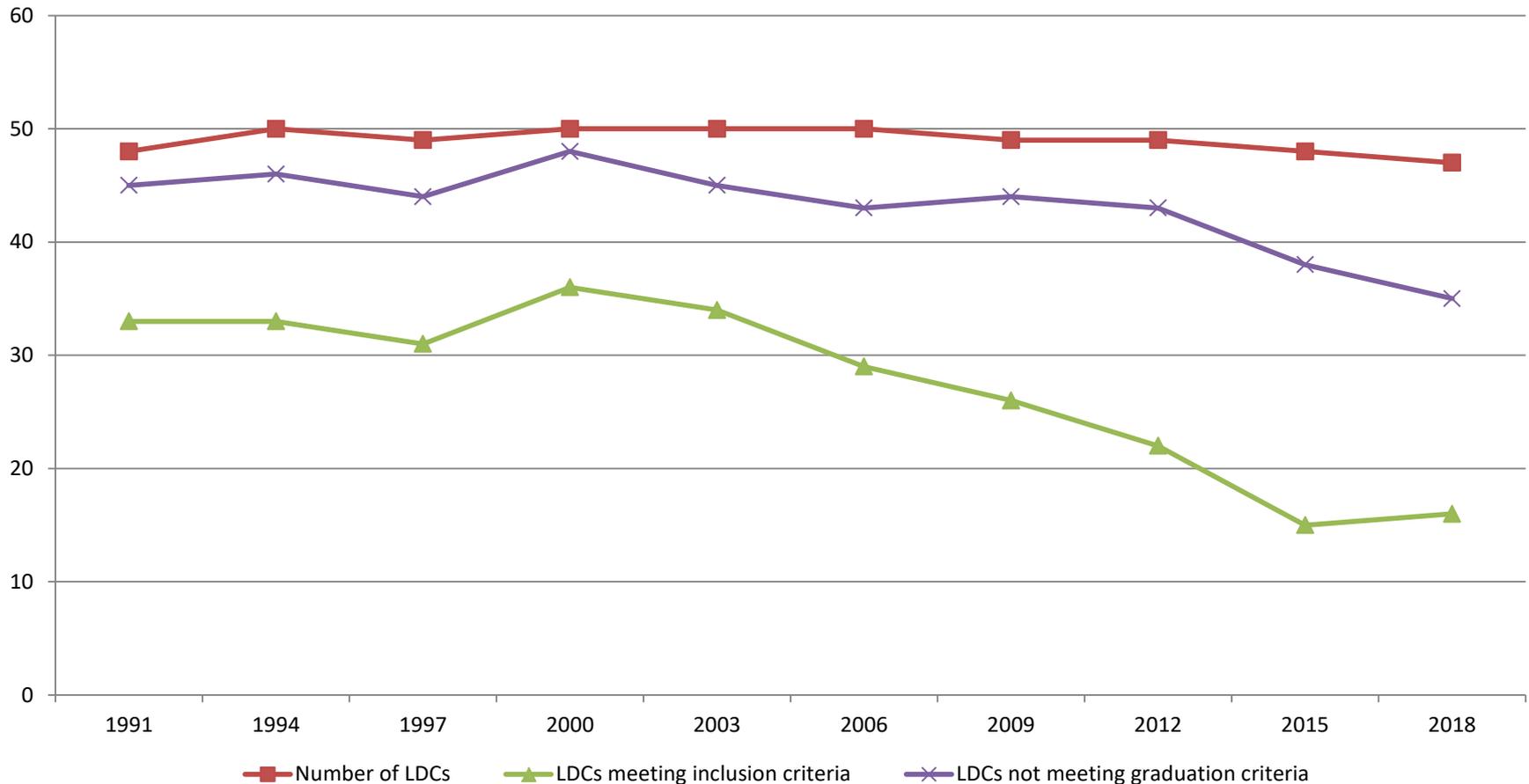


Why such a slow path of graduation?

- The *path of economic growth* itself: Most optimistic prospects for 2030 on the assumption of LDCs reaching the 7% growth goal of IPoA, reiterated in the SDGs, but not easy to reach...
- *Asymmetry of inclusion and graduation criteria*, with 4 sources of asymmetry (not 1 but 2 criteria to no longer be met, with margins, at 2 successive triennial reviews, after an additional 3 year time lag)
- *As a result in 2018, 31 out of the 47 LDCs are no longer meeting the inclusion criteria*, while only 16 are meeting them... Only 8 out of 31 were meeting the graduation criteria: Then 25 LDCs meet neither inclusion nor graduation criteria...
- ...weakens the consistency of the category, restated in the SDGs



Inclusion and graduation: how the category composition has evolved





Graduation challenged by the vulnerability issue

- Indeed *most graduated (and graduating) countries are still vulnerable* (with regard to EVI and/or to other criteria)
- Their vulnerability, not an obstacle to graduation eligibility, but a major political factor of resistance to graduation
- This *eligibility was nevertheless consistent with the rationale of the category* for which it is the conjunction of low HK and high vulnerability that is locking a country into a trap: A country with high HK and middle income pc is supposed to have overcome most severe handicaps to development
- *Their vulnerability still remains, in particular to climate change, to be addressed in the transition process and possibly through a new design of the criteria*



Risks of unsustainable graduation?

- *The risk of reversibility (falling back into the category) is low due to the asymmetry of criteria (quite different in the DAC graduation for ODA eligibility)*
- *Risk of slowing down of growth? the few graduated countries evidence rather good performances,*
- *Graduation paradox: If the support measures are effective and disappear after graduation, why not a deterioration of the graduated situation? Is this a paradox?*
- *Positive effects of membership does not involve negative effects of the end of membership, for 3 reasons: 1) Graduated countries are supposed to have overcome their main structural handicaps; 2) the benefit of special support is highest when the country is least developed; 3) the smooth transition strategy begins to be effective, deserving to be enhanced*
- *Most of graduated (ing) countries may still face strong future exogenous shocks, needing capacity to manage, and are still vulnerable to climate change*



Reinforcing smooth transition by using continuous criteria

- *Designing the support measures from the (continuous) LDC criteria rather from category membership*
- Good ex given by the Resolution A/RES/67/221 inviting development partners to *take into account LDCs identification criteria as aid allocation criteria*, what has been done by EU and is under examination for MDBs(ADF): *It allows to take into account vulnerability when needed*, and other criteria as well (eg vulnerability to climate change)
- For binary support measures (eg EBA), only possible to postpone stopping, on a case by case basis or automatically
- Automatic rules welcome, but should be short term, to not weaken the process of graduation itself



Enhanced consistency of the category through revised criteria

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



Broadening the vulnerability to be taken into account, both for LDCs identification and aid allocation

- In the LDC rationale, and for allocation as well, the vulnerability to be considered is a structural handicap, an exogenous vulnerability, independent of the present will of countries (as EVI is)
- Two other kinds of structural vulnerability are also to be taken into account, with appropriate indices
- One is vulnerability to climate change, the vulnerability of which countries are not responsible, as measured by the PVVCI
- Special measures needed to tackle vulnerability, in particular with respect to natural disasters and climate change
- Needed for vulnerable graduating countries, and for other vulnerable developing countries as well



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- One is vulnerability to climate change, the vulnerability of which countries are not responsible, as measured by the PVVCI
- The other one is socio political vulnerability/fragility, again to be considered for that part likely to be considered as exogenous, through an index of structural risk of violence or conflict (an indicator of structural fragility)