



**Out of the trap**  
**Supporting the least developed countries**

**Edited by Patrick Guillaumont**

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Guillaumont

# Caught in a trap

Identifying the least developed countries

Patrick Guillaumont



Caught in a trap

ECONOMICA

# Out of the trap

Supporting the least developed countries

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

- *CIT* was about the origin of the category in 1971, its rationale (identifying poor countries most likely to stay poor, due to the structural handicaps they face). It explained why some LICs have been « caught in a trap » (the LDCs), while others escaped, and assessed the relevance of the two indicators of structural handicaps used to identify LDCs (HAI and EVI),
- Nearly 50 years after the creation of the category, we need to assess what has been the impact of membership, and to possibly reexamine both the criteria on which it relies and the support measures it generates
- In the meanwhile the meaning of the category has changed: poor countries facing severe handicaps to *sustainable* development (not only economic growth). (LDCs often associated to « poor and vulnerable countries », with a broader field of vulnerability, extended to climate change and state fragility)



## **The challenge: an assessment/attribution issue**

- Aim: to assess the impact of the special measures in favour of LDCs on their development.
- But impact analysis needs a relevant counterfactual, elusive for LDCs, since all poor countries facing high structural handicaps are supposed to be LDCs. So the challenge was to disentangle the effects of the special measures (for LDCs) from those of the specific structural features (of LDCs)
- The approach has been both to consider the impact of the whole set of measures, then to consider the effect of the main kinds of measures (aid and trade) on relevant indicators
- Some illustrations are given below

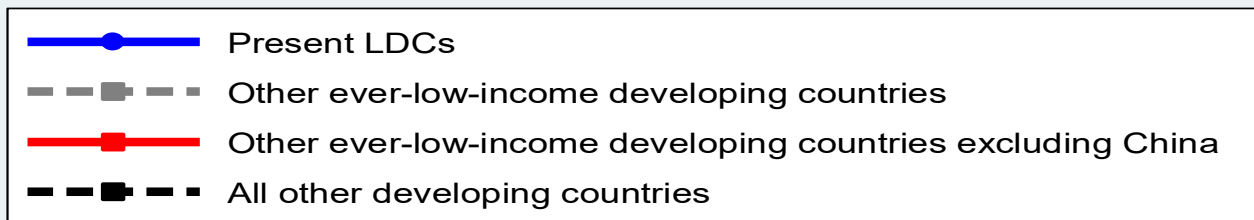
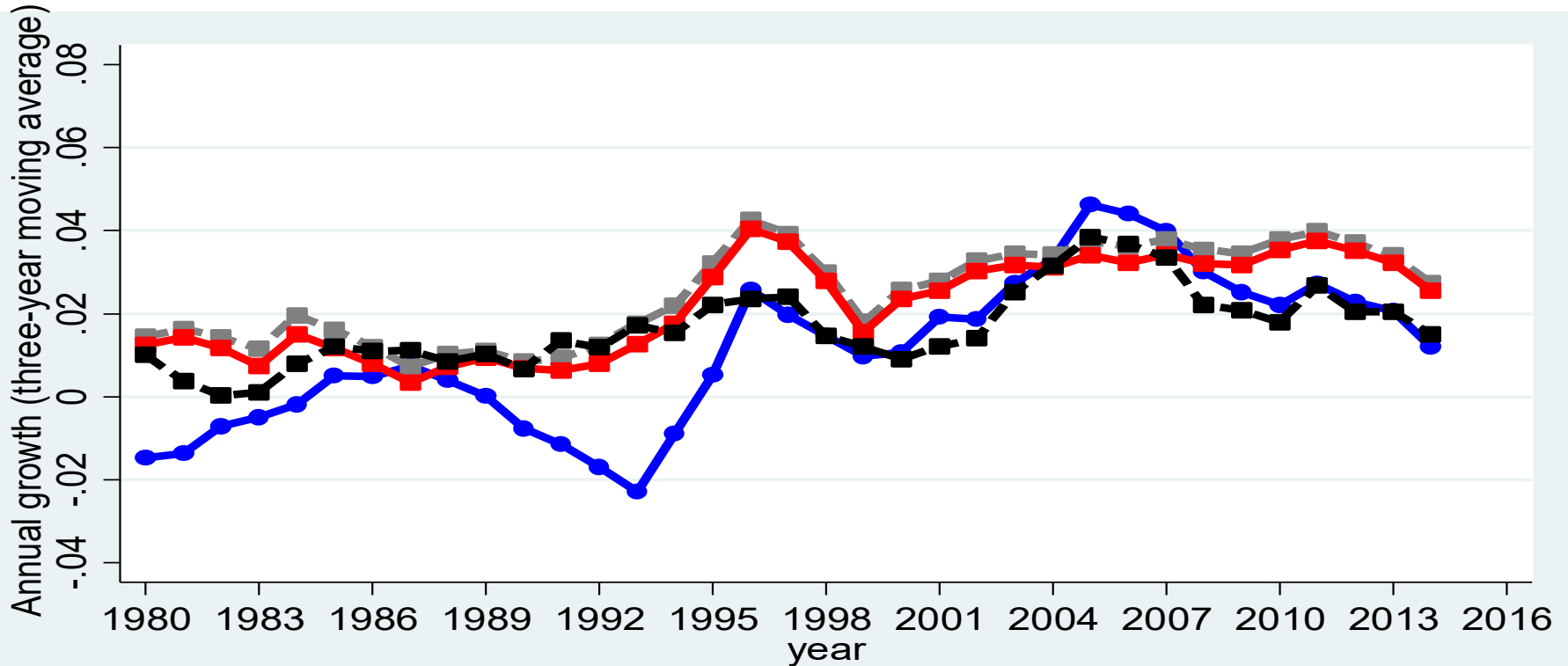


## Overall LDC growth and performance

- We start from a long term confirmation of the LDC trap : on 1965-2015: while most LDCs remained LICs, almost all other ever LICs were no longer so in 2015
- Indeed economic growth *from 1970 to 2000 significantly lower in LDCs* than in other developing countries,
- *But no longer so* in the last two decades: *Growth resumption* since the mid-90s could be the late result of special measures
- This change is less clear when oil exporters are excluded, and even less when growth is adjusted for the impact of terms of trade, showing how LDCs are commodity dependent. And it disappears when LDCs are only compared to other countries (22) having been LICs
- The contrast between the two periods is only partially due to exogenous factors (terms of trade) and the improvement in domestic policy and governance
- The relatively lower level of policy performance indicators in LDCs disappear when they are adjusted for the impact of structural handicaps: LDCs *cannot be properly said « poor performers »*

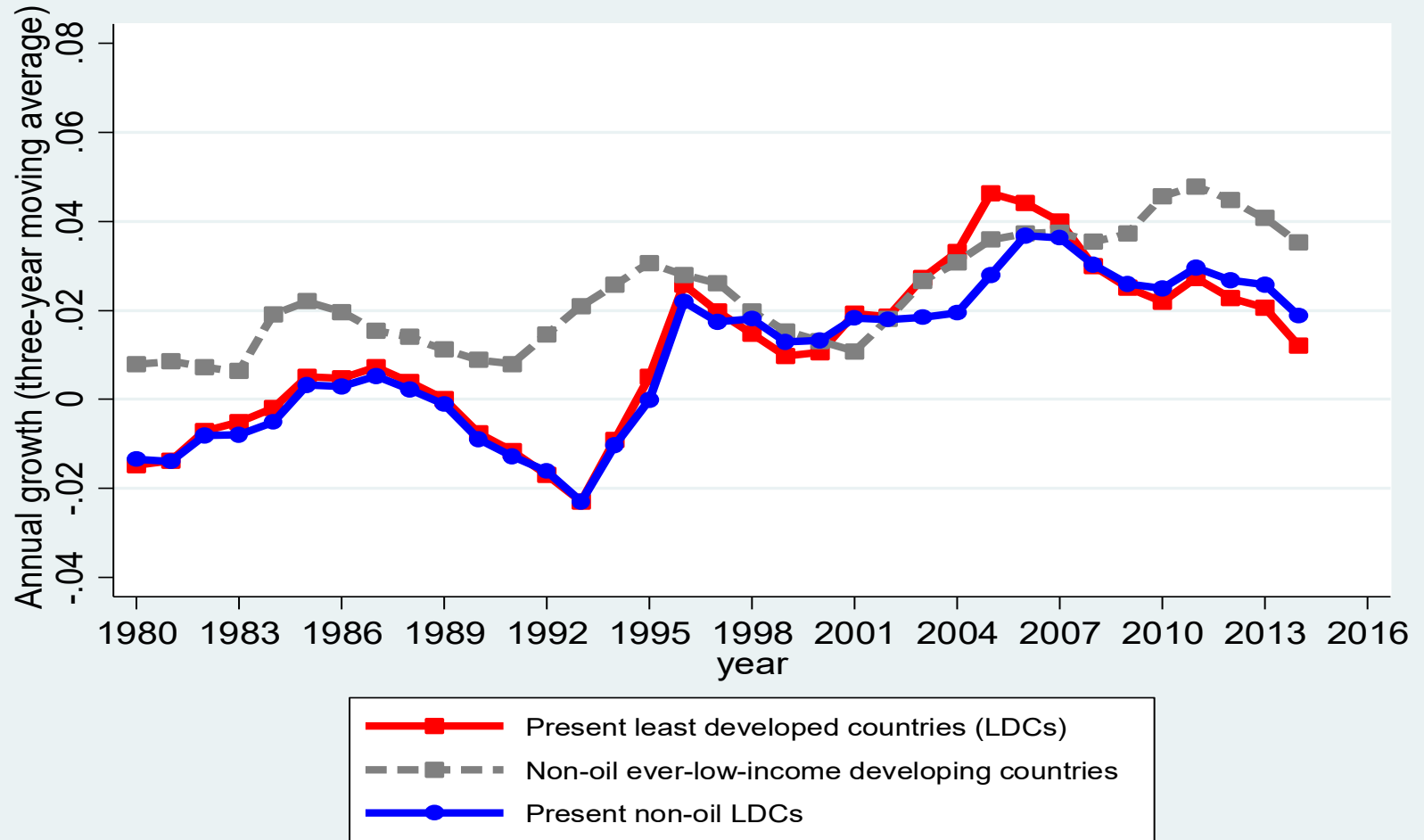


## Evolution of GDP per capita growth, average of LDCs and other developing countries, 1980-2015





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





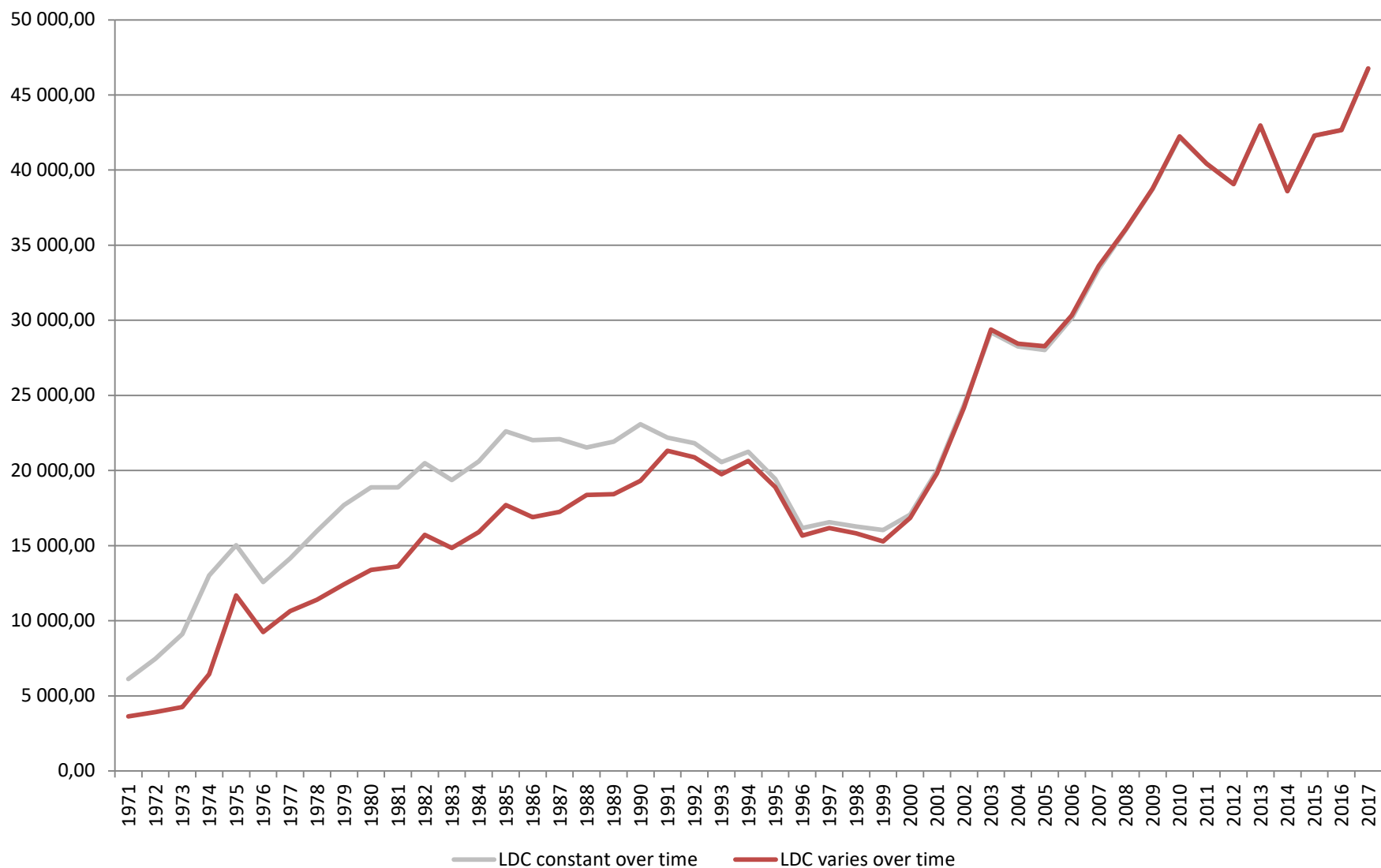
## Global aid flows to LDCs: what impact of membership?

- Not compulsory measures for donors , but a target of 0.15% (within the 0.7%) adopted in 1981.
- *No clear impact of the target:*
  - the flows of ODA to LDCs, still far from the target, have increased from 2000, as well as the share of ODA to LDCs,
  - but not the share of the multilateral to LDCs, higher than the global share and mainly due to(not UN) institutions that do not recognize the category...
  - as for the bilateral disbursements, significant impact of membership (after controlling for structural factors) only on some periods: Aid to LDCs results both from their structural features and their membership, with strong heterogeneity



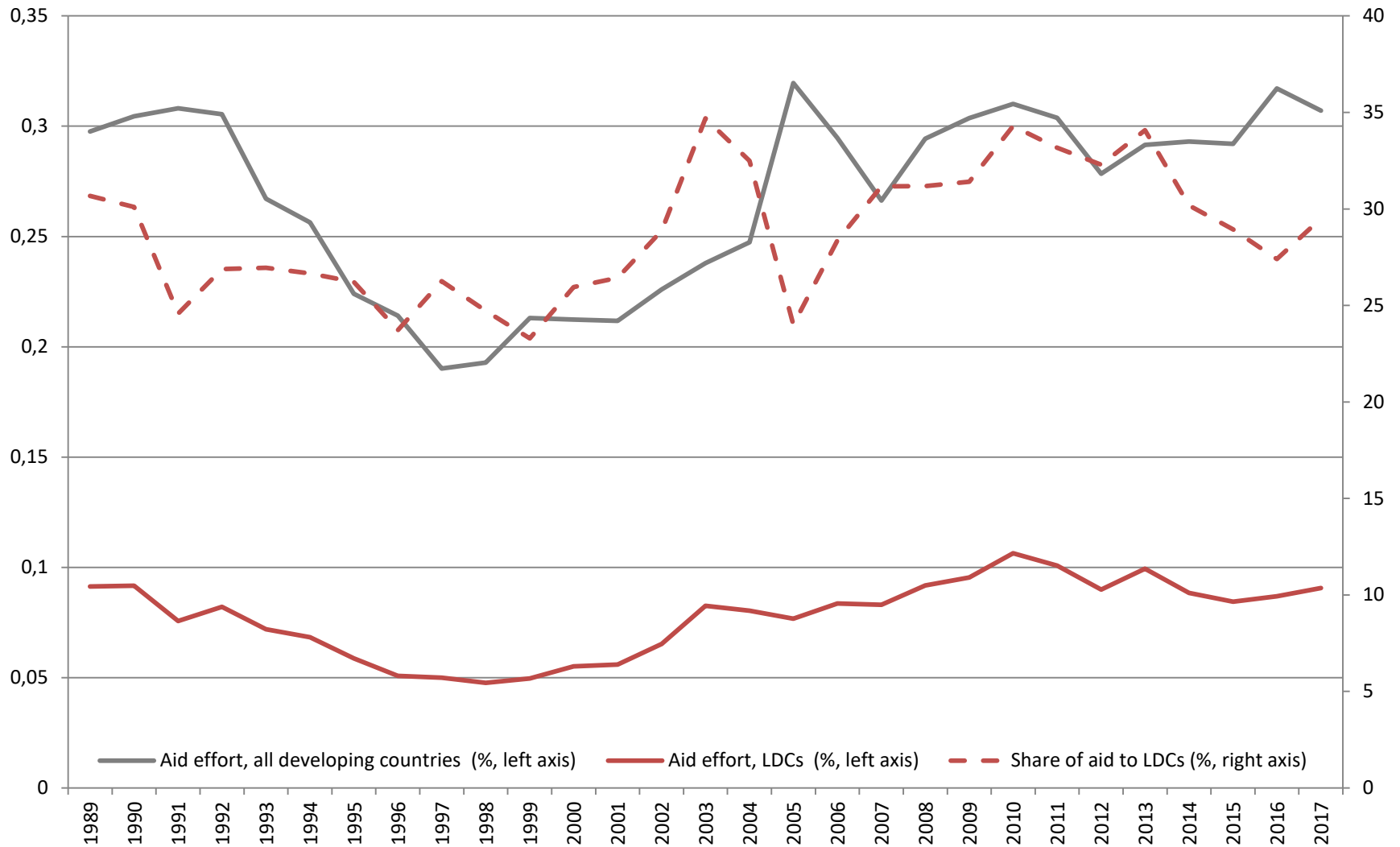


## Net ODA to LDCs, in constant 2016 \$, according to the content of the category

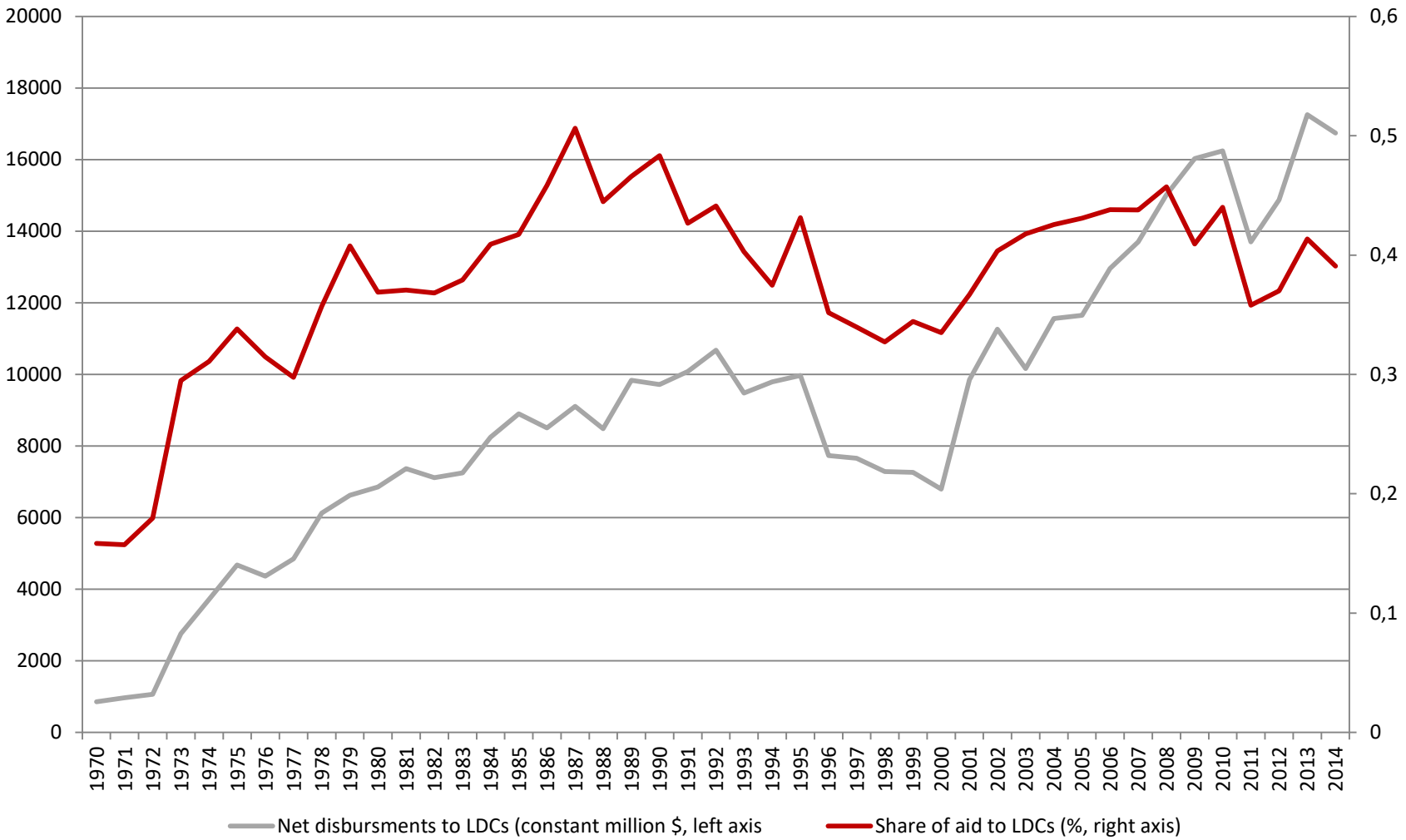




## Average aid effort of DAC countries (% of GNI), 1989–2017



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





## Grounds for an aid preference to LDCs: ethics and effectiveness

- *Ethics*: equalising opportunities by compensating structural handicaps
- *Effectiveness*: The structural vulnerability (higher in LDCs) is a factor of lower growth, but also a factor of *higher marginal aid effectiveness*, due to the stabilizing impact of aid, that dampens the effects of shocks (export instability)
- Confirmed by the measurement of this impact at the country level, and by the average impact of ODA on the stability of the rate of growth
- *Policy implication*: using LDCs identification criteria as aid allocation criteria
  - UNGA resolution on smooth transition endorsing the principle
  - Application by the EC
  - Likely to increase aid flows towards LDCs, and to sustain graduating but still vulnerable countries

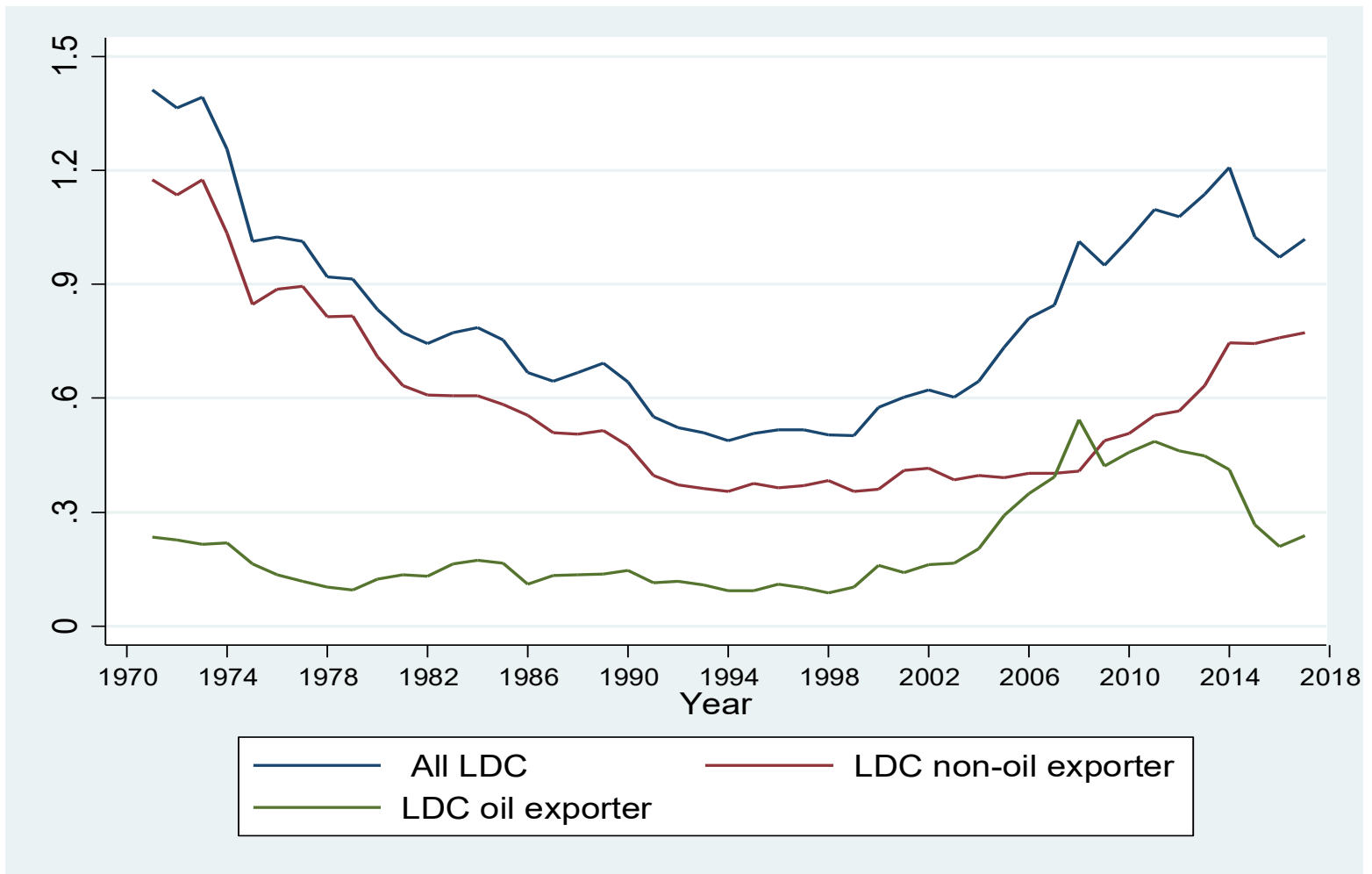


## Trade related measures for the LDCs: have they reversed the marginalisation of LDCs?

- Numerous measures taken to facilitate integration of LDCs in global trade,
- *Besides market access*: access to WTO, special provisions in the SDT, often only « intentional » and not fully used, raising the issue of capacity building (addressed by EIF)
- Specific improvement of *market access*, in particular EBA, in spite of the erosion of preferences, NTBs, and rules of origin
- Assessment of *trade outcomes*:
  - Decline in share of world trade, reversed in the last decade, for goods (0.5% in 1999 to 1.3% in 2013) and for services (still at 0.8%)
  - Minor reversal without the 5 oil exporter LDCs, mineral exporters, and few Asian : But since the mid nineties the decline has been stopped
  - While trade gravity models show a negative impact of membership, it is less and less negative, suggesting the impact of improved market access.
- Other instruments, although not targetted to LDCs, are now available and of special interest for them to increase their trade share (Aft, TFA, RI)



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





## Graduation from the category

- LDC category created to help countries develop more quickly so that they can leave the category, ie graduate: a *measure of its impact?*
- Graduation successively *forgotten* (untill 1991), *feared, desired...* with the IPoA (2011): Making  $\frac{1}{2}$  of LDCs meeting graduation criteria becomes a goal by 2020
- Far from there: over nearly 50 years, graduation has been slow and recent. *Only 5 actually graduated* (Bo, CV, Mld, Eq. Gu., Sam)
- And since Istanbul, only 7 (out of 48) have fully met the criteria (Eq.Gu., Sam., Van., Ang, Bhu, Sol.Isl., STP) + 2 pending (Tu, Kir), *1/5 instead of  $\frac{1}{2}$* . (Better prospects for the next decade)
- *Why?*
  - slow growth during nearly 30 years
  - strong *asymmetry between* inclusion and graduation criteria
  - lags in the implementation of graduation: 3+3
- As a consequence of asymmetry ...



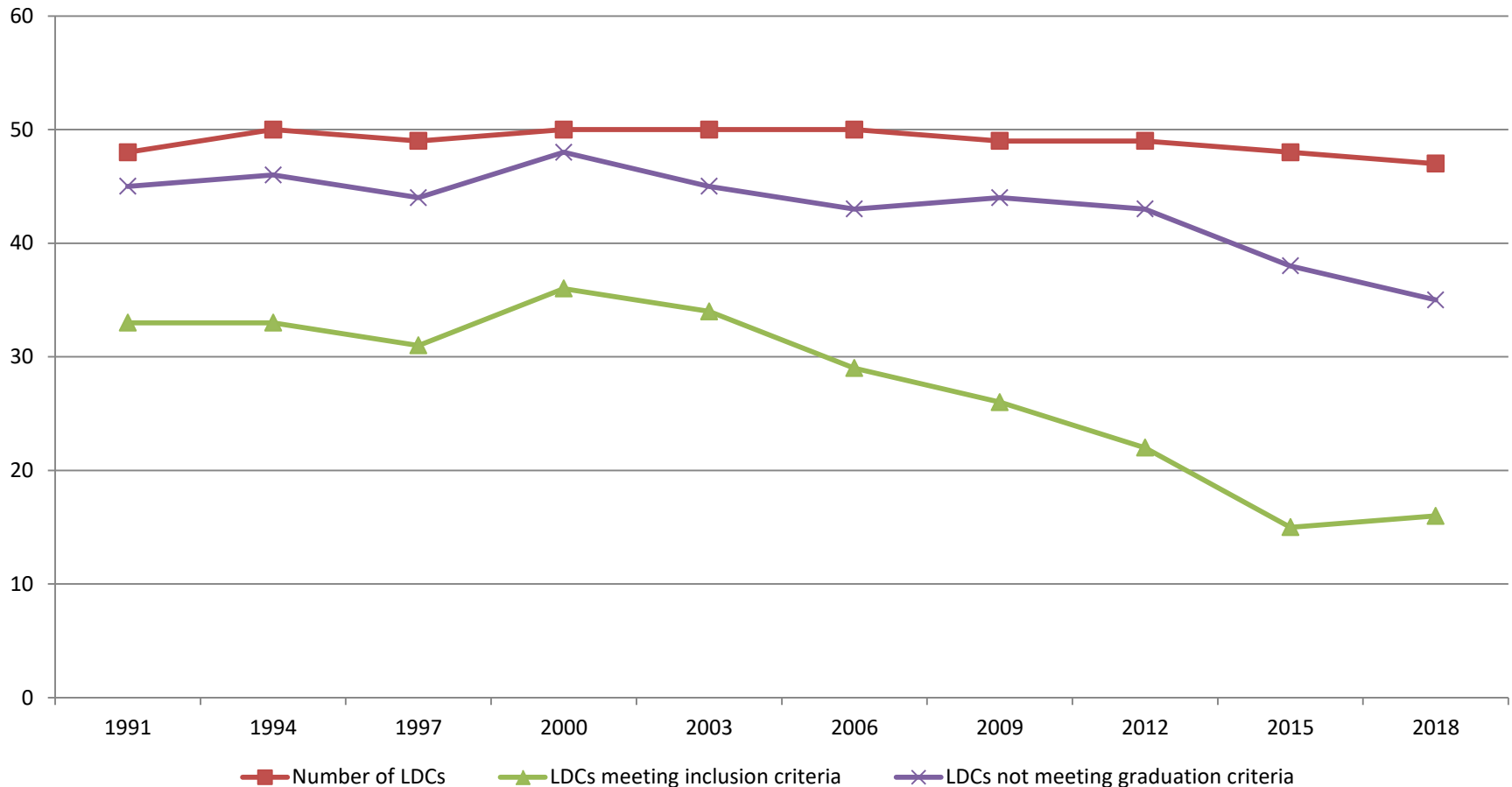
## Consequences of the asymmetry of criteria on the consistency of the category

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





## Inclusion and graduation: how the category composition has evolved





## **Beyond the graduation process, policy implications**

- For the few graduated LDCs for which it is possible to observe and analyse their evolution after they graduate, *no clear negative outcome. Is it a paradox? Positive effects of membership does not involve negative effects of the end of membership, for 3 reasons: 1) Graduated countries are 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*
- 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)
- Reinforcing the consistency of the category is needed to enhance the role of LDCs in global governance and enhancing this role is needed to make support measures more effective



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

### ***I. Impact on growth and policy performance***

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

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

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

### ***III. Support through trade***

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

### ***IV. Graduation and Governance***

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



Thanks