



***Exploring a New Global Partnership for the LDCs
in the context of the UN LDC IV***

**Building a New Partnership
on the LDC Category Rationale**

By

Patrick Guillaumont

*Center for Policy Dialogue,
Dhaka, 24 November 2010*



Why is a new global partnership needed?

- Why was the previous one not fully satisfactory ?
- The meaning and challenge of the category have not well be understood and recognized
- The extent of the category membership has not been shrinking as it should have been
- The special measures for the LDCs have not enough addressed the special problems of the LDCs



(I)

Underlining the rationale of the category

See P. Guillaumont,
Caught in a trap. Identifying the least developed countries,
Economica, 2009



The meaning and challenge of the category: what being an LDC means

- LDCs are designed as low-income countries suffering the most from structural handicaps to growth
- As such they are the most likely to stay poor or « caught in a trap » for structural reasons, independent from their present will: they then would be the « least likely to develop » countries (index in *CIT*)
- For this reason, they deserve special treatment
- Understanding the nature and interaction of these structural obstacles is crucial for :
 - the rationale of the category and the identification criteria,
 - making the category more broadly recognized and used
 - and designing the support measures to the LDCs



Recall: how the list of LDCs is designed

- Since the beginning of the category in 1971, the CDP has had to design and refine the criteria, and to make recommendations for inclusion of new applicant countries
- Since 1991, at triennial reviews of the list, it makes recommendations both for inclusion into and for graduation from the list
- CDP recommendations are examined by ECOSOC, which formulates resolutions, then the General Assembly takes the decision



Why the LDCs are at risk to be caught in a trap: the economic meaning of the criteria

- Three *complementary* criteria for inclusion
GNIpc (fixed low income threshold of the WB)
Two composite indicators of *structural handicap*
 - HAI (Human Assets Index), reflecting health and education levels
 - EVI (Economic Vulnerability Index), reflecting the risk of exogenous shocks and the exposure to these shocks
- This complementarity means that the trap is assumed to be due to the *interaction* of low human capital and high structural vulnerability
- Consistent with empirical evidence



The growth lag of LDCs explained the combined effect of structural handicaps

- From 1970 to 2000, stagnation of income pc in most LDCs (improvement after 2000, due to exogenous factors)
- Widening gap between LDCs and other developing countries: polarization, *twin peaks* (graphs)
- LDCs as an exception to absolute convergence
- But *convergence conditional on structural handicaps* (HAI and EVI), evidencing the relevance of criteria
- $G(y) = f (y_0, \text{HAI}, \text{EVI}, \text{LDC})$ (LDC ns)
- $G(y) = f [\ln y_0, \ln(100-\text{HAI}), \ln \text{EVI}]$
the two structural handicaps not perfectly substitutable
The(-) elasticity of growth to each handicap rises with the value of the other: *mutual reinforcement of handicaps*



The meaning of the trap

- In theory: a low level equilibrium
- In practice: a risk of staying poor because of structural obstacles to growth
- By no way a fate, heterogenous results in spite of the average, and average improvement in the 2000's
- The aim of the category is to mobilize international community to support a big push in the LDCs likely to move them out of the trap
- *Out of the trap (2011)*, a companion volume of *Caught in the trap (2009)*

Guillaumont

Caught in a trap

Identifying the least developed countries

Patrick Guillaumont



Caught in a trap

ECONOMICA

Out of the trap

Supporting the least developed countries

Edited by Patrick Guillaumont





(II)

**A rational and smooth management of membership,
from inclusion to graduation:
a part of the partnership:**



**The LDC category has not been « self cancelling »
as it should have been be**

- LDC category created in 1971 to mobilize support to those developing countries facing the most severe obstacles to grow
- Hence a category intended to allow the LDCs to overcome these obstacles, to move « out of the trap »
- A natural consequence should then have been a diminishing number of countries locked into a trap: the success of the category would be a shrinking extent of the category
- Not exactly what has happened



The number of LDCs has been growing

- From 25 in 1971 to 50 in 2003-06, now 49
- Among newly included states were new states (14/ 26), but (14) new other inclusions
and during nearly 40 years only 2 graduations
- Possible result of several factors, beyond those inherent to the category («*trap* »), linked
 - to the design of the identification *rules* and to their change
 - to the international environment and the *lack of effectiveness* in the the special support measures



Has inclusion become easier?

- Initially 3 absolute criteria: GDPpc, literacy, share of manufacturing
- Now: GNIpc, HAI and EVI (APQLI and EDI in 1991)
- Making LDCs identified as LICs facing *relatively high structural handicaps* to growth (with regard to thresholds corresponding to the quartile of a reference set of LDCs and LICs) : has made easier the inclusion at the beginning of 90s
- Prospects? Indeed, always among low income countries some are facing relatively high handicaps, but to become an LDC a country should face severely *the two* handicaps...
- leading less and less not LDC countries to still be low income
- Thus low probability of new inclusions



Why so few graduations? The impact of the rules

- For inclusion, needed to meet the three criteria (complementary)
- For graduation, four precautions to insure the sustainability of progress and avoid disruption effects:
 - a country should fail to *meet two*, rather than only one, of the three criteria (*asymmetry*)
 - thresholds for graduation differ by a *margin* from those for inclusion
 - to be recommended for graduation a country has to be found eligible at *two successive triennial reviews...*
 - and graduation takes place only *three years after* the decision by the GA



Discordance resulting from criteria asymmetry: insuring equality of treatment over time

- Due to the asymmetry of graduation and inclusion rules in 2009:
 - a) 18 LDCs, without being eligible to graduation, would no longer be eligible for inclusion (11 in 2006)
 - b) 5 other LICs, not considered for inclusion, would not be eligible to graduation, had they been on the list (8 in 2006)
 - c) Thus 23 »discordant » countries are meeting neither inclusion nor graduation criteria (19 in 2006)
- Reflects an improvement among the LDC group and a potential for graduation
- Raises a problem of equity, mainly for b), and a decreasing one



Addition and exceptions to the rules

The graduation in practice

- Addition: eligibility when income pc > twice the ordinary graduation threshold (1 criterion met = more symmetry)
- Exceptional postponement by 3 additional years due to tsunami decided for Maldives in 2005, and recently for Samoa: 2 countries for which graduation had been decided, but was not yet effective
- Graduation not an easy process: countries eligible to graduation generally reluctant to be graduated, resulting lags in the decision process after the recommendation by CDP, either before a consensus at ECOSOC, or between ECOSOC and GA decision (Eq Guinea)



The reasons behind the concern about graduation: The vulnerability issue

- Paradox of resistance to graduation while countries eligible to inclusion refuse to be included
- Common feature of all recently graduated, graduating or simply found eligible without being recommended, as for 2 countries at the last triennial review by CDP: SIDS
- Concern of SIDS likely to be graduated linked to several factors: fear to lose advantages of the category, high level of economic vulnerability, and in some cases long term vulnerability to climate change



How this vulnerability issue has been addressed

- Concern not to undermine the rationale and credibility of the category
- Huge move of CDP during the last 10 years to take vulnerability into account, through the design and refinement of the EVI, and the consideration of the vulnerability profiles prepared by UNCTAD
- Recommendations to graduate : applied to countries with a relatively high level of human capital and having been able to reach a medium level of GNIpc : countries clearly out of the low income trap
- Still consistent with a partial complementarity of obstacles: referring to a structural handicap index combining HAI and EVI in a proper manner did not change the eligibility to graduation
- But two remaining issues: transition and climate change



(III)

Improving the special measures for the LDCs

What is to be blamed?

- Need of fair assessment of the impact of SM, in spite of analytical difficulties
- Need of specificity: the SM may have not enough addressed the special problems of the LDCs
- Need of locating the SM in the broader framework of global governance



Difficult to identify an economic growth impact of the whole set of special measures (ie of membership)

- Impact assessment needs a counterfactual, but a priori no counterfactual (cf results of *Caught in the trap*)
- Possible reference to smaller comparable groups, such as discordant countries, countries, LDCs and non-LDCs, both meeting neither inclusion nor graduation criteria, but risk of a selection bias
- Analysis of the sources of growth resumption in the last decade: unclear impact of the BPoA...



Assessment of special measures should refer to their capacity to tackle the structural handicaps faced by the LDCs

- Other criteria than immediate income growth are needed
- Special measures should be assessed with regard to their capacity to support a move of LDCs out of the category, i.e. to overcome their structural handicaps, and allow them to achieve a durable growth
- Thus the structural handicap criteria of identification are also criteria of assessment (human capital, vulnerability)
- Significant improvements registered by the LDCs in these two fields
- But rather slower than in other developing countries: depends on measurement



The issue of MDGs achievement in LDCs

- Measurement: higher move than other DCs in absolute terms, but lower in relative terms, as a result of the initial conditions, illustrated by the goal of reduction by half of the poverty (with an increasing number of poor, due to a higher population growth)
- Lower income elasticity of poverty in LDCs, meaning that more growth is needed to reach MDG1
- Broader scope of MDGs noticeably needed for LDCs, if peace building is considered (as well as adaptation to climate change)
- *See details on Ferdi website*



The issue of vulnerability reduction in LDCs

- Measurement: needs retrospective series of EVI, as built at Ferdi
- Evidence of a decrease of exposure to shocks similar to that observed in other developing countries, but of a lower decrease in the size of the shocks
- Need of more focus on vulnerability in the set of special measures, such as:
insurance schemes for the poor at the micro level, improved compensatory schemes at the macro level
and deeper support to regional integration



Lack of commitment or lack of effectiveness?

- ODA: a small move towards the goal, but no clear trend of an improvement of the share to LDCs, no clear impact of membership when controlling for other factors
- Trade preferences: important measures (EBA), but dampened by the other preferences given to other developing countries (erosion), confirmed by panel gravity model
- Issues of actual use, due to rules of origin, and of supply capacity and response
- Other special measures: multiple, but lack of specificity: do they address the structural handicaps? EIF?



(IV)

**The way ahead for a new partnership:
two directions proposed**

- Linking aid allocation to LDCs identification criteria
- Making room for LDCs in world governance



LDCs identification criteria used as criteria for aid allocation (1)

- Possible and rationale to use LDC identification criteria as aid allocation criteria, besides the usual criteria giving overwhelming weight to policy and governance, such as the CPIA used by the MDBs with the «PBA»
- $A = f(\text{GNIpc}, \text{HAI}, \text{EVI} \dots \text{and CPIA})$
- Would lead donors, in particular MDBs, to increase the share of their ODA going to LDCs, thus to move towards the global target of aid to LDCs
- Would make the transition smoother: it is a measure not «binary» (i.e. linked to membership), such as EBA, but a rule applicable more continuously



LDCs identification criteria as aid allocation criteria (2)

- Would meet the principles of a fair aid allocation
 - equity (compensating structural handicaps)
 - effectiveness (aid as a way to dampen the negative impact of shocks on growth)
 - transparency (avoiding the multiple exceptions to the rule needed and implemented)
- Would make the transition smoother for the small graduating countries, the vulnerability of which would then remain taken into account
- Significant move of ideas into that direction



Addressing separately vulnerability to climate change

- Vulnerability to climate change is a major issue, although not specific to LDCs, and a rather long term one
- Economic vulnerability to natural shocks already taken into account in several components of EVI
- The long term vulnerability to climate change (for LDCs and other developing countries) needs an appropriate index difficult to set up and not yet available
- It would be a fair criterion of allocation of concessional resources for adaptation to climate change
- Special support for adaptation, when needed, should be a welcome component of a smooth transition strategy



Considering UN LDCIV as a global governance issue

- Inviting all development partners, including international organizations, to make use of the category
- Risk of considering the LDCs issue independently of other global issues, as illustrated by the MDG Summit, while MDGs are primarily an LDC matter
- Need also to consider the (trade) relationships of LDCs not only with developed countries, but also with other developing countries (a «world EBA»?)
- Need to open the the structure of world governance to the LDC group, noticably at the G20, becoming a G20+



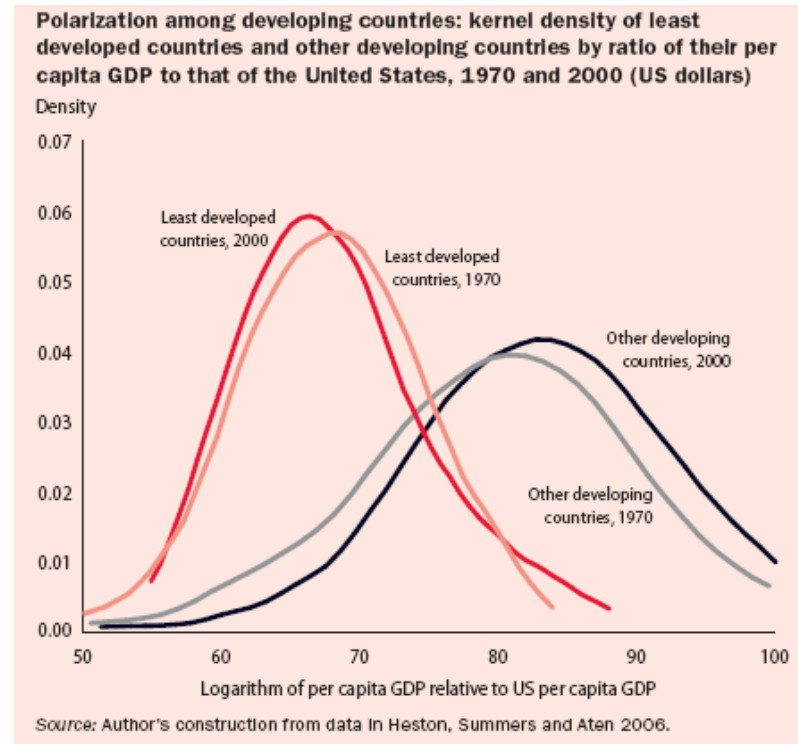
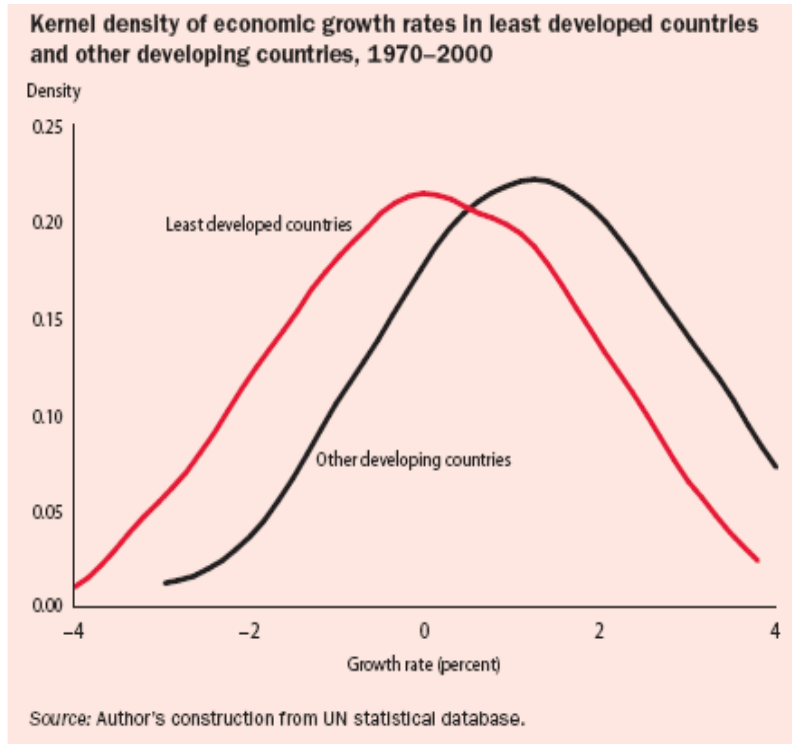
Details may be found in other works by the author

- *Caught in a trap. Identifying the least developed countries*, Economica, 2009
- *Out of the trap. Supporting the least developed countries*, under the direction of Economica, 2011

And on the Ferdi website

- «Assessing the impact of special support measures for least developed countries», *Ferdi Working paper*, 2010
- «Focusing on the least developed countries for the Millenium Development Goals», power points of a Side Event at the MDG Summit, September 2010
- «From inclusion to graduation: why the the LDCs were caught in a trap and should move out of the trap», power points for a panel of 2d Committee Special Event organized by UN-OHRLLS, 15.10 2010
- «How to take into account vulnerability, and low human capital as well, in aid allocation criteria» (with S. Guillaumont Jeanneney and L. Wagner), *Ferdi Working paper*, revised Sept 2010

Two views on the twin peaks, from *Caught in a trap*



FWDi

Thank you