

Looking to LDC V: A Critical Reflection by the LDC IV Monitor

Commonwealth Commission on LDC
Trade Related Issues

London, Marlborough House
29th January 2019



The Commonwealth

PROCEEDINGS OF THE

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Introduction

The LDC IV Monitor Group, as part of the Commonwealth Commission on LDC Trade Related Issues, held an expert group meeting on 29 January 2019, at Marlborough House, London. The purpose of the meeting was to critically reflect on the past actions and state of play of the Istanbul Plan of Action (IPOA) 2011 to 2020 and to discuss future actions and the way forward for the forthcoming 2021 - 2030 LDC Plan of Action.

In the opening session, remarks were given by Jodie Keane, Economic Adviser, Commonwealth Secretariat; Debapriya Bhattacharya, Chair, LDC IV Monitor; H.E. Mr John Licht, Vanuatu Ambassador to EU; Susanna Wolf, Deputy Chief, OHRLLS; and Federico Bonaglia, Deputy Director, OECD Development Centre.

Their remarks encouraged participants to reflect on the composition of countries that fall under the LDC group - ranging from low-income to middle-income - and the new and emerging challenges - related to climate change, digitisation, inequality, participation in the multilateral system, trade, building productive capabilities, among others. Stressing on the vulnerabilities faced by many in the LDC category, participants were requested to also consider the implications of graduation on countries and the support they require during the transition period.

The main objectives of the meeting were to:

- Benchmark the role and organisational structure of the LDC IV Monitor Group;
- Revisit the landscape for which the LDC V will take place, with an understanding of how “new realities, new challenges” will impact the next Plan of Action (2021-2030); and
- Understand how to best serve the course of LDC participation by pairing knowledge and analytical outputs with political and policy engagement.

Trade and investment related challenges: a diagnostic looking towards LDC V

The session was chaired by Federico Bonaglia, Deputy Director, OECD Development Centre, and a presentation on Institutional Support for Graduating Least Developed Countries, was given by Mustafizur Rahman and Debapriya Bhattacharya, CPD, Bangladesh.

The presentation focused on challenges graduating LDCs will face in trade, access to finance and investment. Recognising the diversity among graduating countries, it was stressed that there is a need to equip both graduates and non-graduates with a toolkit for negotiating beneficial trade agreements and attracting investment for a smooth transition process both pre and post-graduation.

In relation to trade, the following were noted:

- Preferential market access in the EU (Everything but Arms) - what happens after Brexit and the implications on LDCs.
- Mega regionals and plurilateral negotiations.
- Rules of origin for LDCs after graduation.

It was noted that solutions for these challenges at the international level are encapsulated in items such as the 2005 UN Resolution to Support Graduating LDCs and EIF's support to graduating countries up to five years after graduation.

In relation to access to finance and investment, it was noted:

- Inequality in ODA to graduating vs. non graduating LDCs - approximately 1/3 of ODA is disbursed to the LDCs of which graduating states and SIDS receive more.
- A majority of ODA is received is bilateral ODA. These focus more on the social sectors and SDG targets than on productive sectors.
- Multilateral donors are changing the criteria to receive funding, which means graduating LDCs are more likely to receive less.
- Financing institutions (ADB and AfDB) are also changing the eligibility criteria for accessing credit. This to make access to finance easier for graduating LDCs.

Overall, the financing remains a multi-layered challenge when combined with shocks from natural disasters and other unpredictable events. These may further cause a shift in balance of payment, increase debt and reduce savings to spending ratios, etc.

Key points by discussants and participants

Following the presentation, key points were raised by the selected discussants:

- **Lisa Borgatti, Least Developed Country Division, UNCTAD**, raised the following (1) Trade: the issue of non-reciprocal initiatives in trade is an impediment for LDCs. The utilisation rates of LDCs with regard to preferential treatment have been less than impressive. Challenges with standardisation, certification, SPS and TBT measures continue to be problematic for LDCs. At the regional level, rules of origin will also continue to be an issue as they differ at regional levels. (2) Finance: aid grants have increased, which will lead to a new level of debt distress. How LDCs can achieve sustainable financing to build productive capacities is critical as many have increased their income and VAT taxes already reaching the sustainable threshold. Can we find the sustainability of financing for the future?
- **Michael Roberts, Aid for Trade Coordinator, WTO**, highlighted the difference preference schemes continue to make for trade for countries that utilise it (ie: Cambodia; Bangladesh - US trade). He noted the continued need for the value of S&DT at the WTO level, and noted there will be a joint statement initiative on investment and financing by LDCs aimed at improving regulatory frameworks.

- **Susanna Wolf, Deputy Chief, OHRLLS**, mentioned the work done by the UN Inter-Agency Task Force on LDC Graduation, established in 2017, to improve coordinated UN system-wide support to countries preparing to graduate from the category. The aim of the taskforce being to help ensure the smooth transition measures are in place and provide LDC specific support. Agencies involved include: OECD Development Centre, EIF, UNFCCC, UN Capital Development Fund, and others. Challenges faced by LDCs that the group has identified remain access to funding - including climate related funds - and access to greener technologies. Additionally, Investment promotion has been high on the agenda to attract private investors.

Participants then identified a need for more analytical work that provides practical solutions and straightforward positioning of the LDCs, assessing the impact being in the LDC category has had on trade and final flows, in relation to S&DT as well as preferential treatment. They emphasized that the challenges faced by LDCs a decade ago are different from today's challenges. New vulnerabilities and opportunities exist (i.e.: climate change; the 4th industrial revolution; non cooperative tax jurisdictions; investment facilitation), therefore a SWOT analysis may be needed.

In assessing the impact of development finance, participants acknowledged the need for the private sector, particularly, those in the financial sector (i.e.: World Bank, IMF, South-South banks) to engage with countries challenges related to finance and investment.

Lessons learned from the process of supporting graduating LDCs and graduated countries

This session was chaired by Patrick Guillaumont, President, FERDI, and a presentation on New Support for LDCs, given by Daniel Gay. The presentation reflected on the previously undertaken by the CDP and noted the CDP is engaged in revisiting and redefining the graduation criteria by 2021. However, issues of creating path dependencies and the potential of propelling LDCs that are not graduation ready out of the category remain. It is important to also include graduation impact assessments to be packaged with the graduation evaluation.

The presentation also made a case for the creation of a new facility/programme/funding arm geared towards graduating LDCs. It was noted that many of the graduating countries cannot be expected to stand on their own as the playing field needs to be in their favour during the transition period, taking into account inequality, population needs and high risk vulnerabilities. Additionally, many of the prospective graduates do not meet the EVI criteria. Rationale for the new facility include:

- Addressing specific critical issues before and after graduation. This can be a consultant led programme with a short term technical assistance, and should be outside of the UN bureaucratic arm.
- Activities would provide direct help for issues associated with graduation, provide knowledge sharing and peer-to-peer learning experiences (south-south knowledge sharing), and coordinate with existing international institutions. The activities should also address systemic issues faced by LDCs.
- Promoting new forms of support that address issues of finance, policymaking and negotiations, inequality and poverty reduction, as well as trade, etc.

Key points by discussants and participants

Following the presentation, key points were raised by the selected discussants:

- **Annette Ssmuwemba, Executive Director, Enhanced Integrated Framework, WTO**, discussed the need for continued support, both for graduating and non-graduating LDCs. She also noted the suggestion of a new facility, in regards to financing is a worthy idea, and that there needs to be proper coordination among agencies/facilities and within country targeting specific areas and country specific challenges. In highlighting the key challenges for LDCs, she noted productive capacity continues to remain an issue for both graduating and non-graduating LDCs.
- **Federico Bonaglia, Deputy Director, OECD Development Centre**, remarked on the need to assess the lessons learned since IPOA and to take stock of (1) What we know? Although few LDCs have graduated and are graduating, we know that across the board productive capabilities and institutional capacity are ongoing challenges; (2) What we don't know? An assessment of the consequences of graduation should be done on a case-by-case basis; and (3) What we don't know we don't know? The challenges of graduated/graduating LDCs are not unique to them but are shared among other non-LDCs. After graduation, the focus should be on issue based advocacy (i.e.: Caribbean countries have the similar development types of issues).
- **Debapriya Bhattacharya, Chair, LDC IV Monitor and UN-CDP Member**, recalled the CDP monitoring process and emphasized the need to strengthen monitoring mechanisms, particularly through data inputs at the national level. There is also a need to focus on strengthening existing facilities by improving the processes and invigorate the existing financial arms. Additionally, it was mentioned that the political and initial momentum behind the LDC categorisation has lost some of its initial strength due to the new categorisations centred primarily on vulnerabilities (ie: fragile states). To reinvigorate the category, other components relating to the new challenges and continuing disparities such as in ICT must be brought to the forefront.

Participants questioned the usefulness of the CDP toolkit in assessing and evaluating, and agreed that while challenges remain, there should also be a focus on identifying strategic opportunities for LDCs (what can these countries do for themselves). These can be done through structural transformation

country reviews, evaluating the consumption markets and how to leverage raw material assets to the benefit of LDCs. It is critical to focus on how to manage existing markets or explore value addition for raw materials. Additionally, countries can also utilise the diaspora -beyond remittances - for investments in other areas such as tourism, telecommunications, etc.

Participants emphasized that out of the 2 eligibility criteria, most of the graduating LDCs don't meet the EVI. On this basis, there may be scope for work here in re-evaluating the category.

Participants requested a need to track the process of the graduating countries. For climate vulnerable LDCs a study on how natural disasters have affected the labour force, economic prospects, etc. would be useful, as well as policy preparation on what happens if an LDC is affected by a natural disaster within 5 years of graduating.

Additional areas identified for assistance include: Trade negotiation capacity building, environmental readiness, e-commerce and ICT, as well as entrepreneurial skills. For Commonwealth LDCs, practical challenges in terms of travel (immigration and visa requirements from SIDS to developed countries), border controls and business to business contacts should be on the agenda.

Participants were informed of the CDP website launched for government officials in least developed countries (LDCs) understand what it means to leave the LDC category and to plot a course for future action¹. The website provides a roadmap for activities, actions and technical assistance need for graduating states.

¹ CDP website for LDCs: <https://www.gradjet.org/>

Looking ahead to 2021 in the context of the 2030 Agenda and SDGs: The agenda for research, outreach and activities

This session focused on the action plan and way forward for the group. Presentations were given by Matthias Bruckner, CDP and Patrick Guillaumont, President, FERDI, on incorporating the 2030 Agenda, focusing on new areas as well as traditional challenges.

The presentation by Matthias Bruckner on Priorities for a New Program of Action for the LDCs for 2021-2030 outlined for findings: (1) Expanding productive capacity. The lack of productive capacity remains a main challenge for non-graduating LDCs and need a more coherent framework. (2) The changing composition of LDC category, means the centralisation of LDCs in Africa and a need to integrate them into the global economy. It was noted that graduating LDCs make up a larger share of trade than non-graduating. (3) Support for the graduating country to address the ongoing challenges. (4) Align new programme of action with the 2030 agenda - the IPOA already has close links with the SDG targets with LDCs specifically mentioned in 12 goals, 24 targets and 29 indicators.

The comments by Patrick Guillaumont highlighted three points. (1) The context of the 2030 Agenda and the SDGs, as they refer to climate change and conflict and security, should be better taken into account in the design of LDCs and the related support measures. (2) The process of graduation can be made more consistent by fully recognizing LDCs as countries suffering from most severe structural handicaps to sustainable development. (3) The support measures should be more targeted on the structural vulnerabilities, in particular by using LDCs identification criteria (extended to various kinds of vulnerability) as aid allocation criteria, what will impact both present and graduating LDCs.

Key points by participants

Following the presentation, key points were raised by the participants:

- Underemphasized areas, such as climate and conflict, should feature in the category.
- New challenges in relation to trade wars and its implications on LDCs, food insecurity, balance of payment issues should be analysed.
- The use of UNCTAD's productive capabilities index can be a helpful tool in assessing the needs of those in the category.
- There is a need to measure structural vulnerability and allocate aid to countries facing vulnerabilities.
- A stocktake of success and failures of the IPOA should be assigned as a specific task for the group².

Priority areas for LDCs and graduating countries

The participants discussed priority areas of focus for LDCs and emphasized the need to include a priority area for graduating LDCs. The areas of focus must be selected according to the following criteria:

- a. What is the impact and value added of the assessment?
- b. What will be the contribution of the members?
- c. What is the feasibility of these priority areas?
- d. What are the lessons learned from the IPOA and what are the new/old challenges?

The selected priority areas should also be selected using both a vulnerability and productive capabilities approach and ensuring that the vulnerabilities include trade and climate shocks. Other areas of focus should take into consideration:

² UNCTAD has completed an analysis on the IPOA but the group can continue to focus on why some of the targets haven't been achieved and what are the challenges countries are facing

1. The ability to transform and graduate successfully.
2. Sustainable development finance, including the financing for infrastructure
3. Absorption capacity
4. Food security
5. Digital and physical connectivity
6. Commodity dependency

The selected priority areas should also recognise the heterogeneity of LDCs (landlocked, fragile states, SIDS), and include the multilateral cooperating system. This includes the role of South-South and regional cooperation, noting that South-South cooperation also has links to trade and investment.

The 5 priority areas proposed by the Commonwealth Secretariat under the theme: The changing landscape faced by LDCs were:

1. Trade
2. Finance
3. Production
4. Environment
5. LDCs in transition

Another suggested theme was: 'Reducing vulnerabilities, strengthening productive capacities.'

Overall, it was decided that the outcomes of the group must be analytically sound and politically incentivised. There were calls to go beyond academic analysis/research and move into advocacy/policymaking as well as identify niche areas of focus.

At the end of the meeting, a draft statement to be reviewed and submitted was discussed by the group. It will be reviewed and disseminated accordingly. There was a suggestion by the group to address a letter to OHRLLS, or the LDC representative, in support of the LDC process and expressing support for the next POA.

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