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Assessing the impact of the special support measures for least developed countries: an analytical frame work and some preliminary results

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... / ...

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How far is it a benefit to be classified as a LDC? To address this issue several approaches are conceivable.

A first approach would be to consider how the developing countries themselves perceive the benefits and costs of membership. It leads to contradictory results, as far as the recent behaviour of countries is revealing their perceptions. The last two countries to have been found eligible for inclusion into the least developed countries category by the Committee for Development Policy have refused to be included (Papua New Guinea and Zimbabwe), whereas the last three countries recommended for graduation have lengthily resisted against being withdrawn from the list (Maldives, Samoa, and to a lesser extent Cape Verde). Does it mean that the benefits of inclusion are weak compared to the loss of benefits linked to graduation? Or that the former are underestimated by the eligible and the latter overestimated? Or that any move to or from the category has a cost, actual or simply perceived because of the uncertainty of the outcome... Anyway no general conclusion can be drawn from so few cases, each of which is specific and all of which support the view that an objective and general assessment is needed.

A second approach consists to review all the measures that have been taken by the international community specifically for the LDCs so that they can alone benefit. These measures are a lot, of unequal importance and relevance. They result from many specific decisions, bilateral as well as multilateral, and are discussed every ten years during the UN Conference on the LDCs, then integrated in the so-called Substantive Programme of Action. The CDP *Handbook on the Least Developed Country Category* (UNCDP, 2008) in its chapter 2 (pp15-36) gives a concise and comprehensive survey of these measures. They are mainly related to trade access and to development assistance. They also include various special treatments by the multilateral institutions, in particular the UN and the WTO. The whole set

¹ Ferdi-Cerdi, This paper relies on various chapters of the ongoing and collective book in preparation, *Out of the trap. Supporting the least developed countries* (edited by Guillaumont, P. 2010), a companion volume of the recently published *Caught in a trap. Identifying the least developed countries* (Guillaumont 2009). Useful inputs and comments were given by some of the co-authors of the book in preparation, in particular Jean-Louis Arcand, Céline Carrère, Lisa Chauvet, Ana Cortez, Sylviane Guillaumont Jeanneney and Roland Mollerus.

of measures represent a supply of possible benefits. Their inventory is fully required as a starting point. But it does not inform on how they are used. For each of them, the real benefit for a LDC depend on (i) whether the measure has been actually used by the country; (ii) whether this use has been a real advantage or has contributed to its development. In other words, implementation and impact analysis is needed.

A third approach is then to look for the real outcome of the measures designed for LDCs, in other words to assess their impact on the evolution of those countries. There are numerous and important analyses of the evolution of the LDCs, the main of which are the regular Reports on the LDCs produced by UNCTAD. But the issue is to assess how far the evolution of the LDCs has been influenced by the measures or programmes for the LDCs. Such an assessment needs a counterfactual. The evolution of the LDCs (as for growth, trade, etc) would have to be compared to that of other countries in similar situations, but not benefiting from the LDC status. Here is the difficulty, because if the LDCs are well identified by some specific structural features (low human capital, high economic vulnerability, besides low income), there seems to be no “control group” to which they can be compared... Those countries benefiting from special measures are altogether the countries suffering from special handicaps. Due to this difficulty very little has been done to assess the impact of the measures. Still to be done is to disentangle the respective effects of structural features and special treatment. To do it, observation units are of course the various LDCs, not the group of LDCs as a whole.

The impact or third approach, as well as the analysis of the kind of measures adopted for the LDCs (or second approach), should normally refer to the purpose of the category assessed. Since the LDCs are designed as low income countries facing structural handicaps to growth, the aim of the measures to be taken is to promote a growth in these countries that will be sustainable because handicaps are alleviated. So the measures linked to the category should not only enhance present growth, but also increase the human capital and reduce the economic vulnerability of the LDCs (in absolute terms and relatively to other developing countries). The criteria of identification of the LDCs should also be the criteria of assessment of the category. It seems easier to do a priori when reviewing the measures (second approach) than ex post when assessing the impact (third approach), due to the counterfactual issue raised above.

The present paper mainly considers what can be done according to the third approach, having in mind the aim and criteria of the category, but it also addresses the issue of the link between the measures and the features characterising the LDCs. It is divided in four parts.

A first one examines whether any impact on growth may be assessed and try to clarify the methodological issue just raised. Illustrating the methodological issues, the two next parts give preliminary results on the effect on the main measures adopted for the LDCs in the fields of market access and development assistance. As for trade, part two considers whether the preferences offered to the LDCs have effectively promoted their exports. As for aid, part three examines whether the category membership has effectively improved the level of the inflows to the LDCs. A fourth part, referring to what we have called the second approach, will briefly consider whether among the various special measures those decided by multilateral institutions are designed to alleviate the structural handicaps to which the category refers.

These elements rely on various chapters of the ongoing and collective preparation of the book *Out of the trap. Supporting the least developed countries*, a companion volume of the recently published *Caught in a trap. Identifying the least developed countries* (Guillaumont 2009).

How to identify an economic growth impact of the set of special measures?

A priori no counterfactual....

As explained above, the assessment of the impact of the category membership (i.e. of the whole set of special measures) on the path of growth and development is made difficult because the membership corresponds to the structural handicaps of the low income countries. Econometric results presented in *Caught in the trap* illustrate this difficulty at the same time they support the relevance of the criteria; in cross country or in panel growth regressions the rate of growth of income per capita over the years 1970-2000 negatively depends from initial income (convergence factor), and from each of the two indicators of structural handicaps (EVI and 100-HAI), while the dummy variable corresponding to LDC membership is not significant: this result suggested that EVI and HAI are adequately capturing the structural handicaps faced by the LDCs, and that the special measures had no significant effect on growth during this period. But it could also be interpreted as the outcome of two compensating factors, one being a possible negative effect of other handicaps not identified

through the two indicators, the other, a possible positive effect of the special measures for LDCs. How to overcome this ambiguity?

Looking for smaller comparable groups: the risk of selection bias

Several possibilities come to mind. As we have seen, some non-LDC low-income countries are found eligible to inclusion but not included, which could be compared to LDCs, while some LDCs are found eligible to graduation but not yet graduated (or are no longer eligible for inclusion), and could be compared to those non-LDCs meeting graduation criteria and still within the same range of income. In both cases the comparison would be between similar groups differing by the fact that one group benefit from the LDC status and the other one does not. However in both cases there is a risk of selection bias in at least one group: for the first comparison, the non-LDC low-income countries found eligible to inclusion but not included, and for the second comparison the LDCs found eligible to graduation but not yet graduated are in such positions for reasons that could make their growth different from that of the group to which they are compared, but are not linked to the benefits of the LDC status. Anyway, in both cases there is one group too small to allow significant comparisons: in the first case only two countries found eligible to inclusion but not included in 2006 and 2009 (Papua New guinea and Zimbabwe), and in the second case there were only five LDCs found eligible to graduation but not yet graduated in 2009 (7 in 2006).

Groups a little larger are available for comparisons, those called in *Caught in the trap* “discordant” countries. They are countries meeting neither inclusion, nor graduation criteria, and as such in rather similar situations, but some being LDCs and benefiting from the status, and others not being LDCs and not benefiting. They were respectively 11 and 8 in 2006, 18 and 6 in 2009. However a problem of selection bias may remain, although less acute than in the two previous cases. Discordant LDCs are rather successful LDCs, whereas discordant non-LDCs are among the other developing countries rather poor performers. Thus higher rates of growth of the first group may not be an evidence of the impact of the status.

To reduce the risk of selection bias the set of LDCs could be slightly more extended, by considering all the LDCs no longer eligible to inclusion either or not they meet graduation criteria (ranging between 11 and 23 from 1991 and 2009) and comparing them to a similar set of other developing countries, those standing within the same range of income per capita for the year of comparison.

A regression discontinuity approach, preliminary results: no significant impact

The last possibility is to look for an impact of difference between members and non members who are at the border of the criteria thresholds. In a chapter written with Jean-Louis Arcand we use regression discontinuity design (RDD) estimations of the impact of being classified as an LDC, for two time periods: 1971-1990 and 1991-2007. Intuitively speaking, RDD is akin to a local randomization. Since being classified as an LDC depends upon whether one is above or below a given threshold, it is reasonable to assume that country-years just below a given threshold are statistically indistinguishable from those just above (both in terms of observable and, more importantly, in terms of unobservable characteristics). Of course, the further one moves away (in either direction) from the threshold value of what is known as a "forcing variable", the less valid is the mimicking of a randomized control trial.

RDD allows one to assess the impact of being categorized as an LDC, and solves the endogeneity problem that plagues many econometric assessments of LDC status. Preliminary results show that there is very little evidence for a statistically significant impact of LDC status on the growth rate of GDP. The sharp RDD results (which yield the only statistically significant coefficient associated with LDC status, for the 1991-2007 period) assume that the rules concerning inclusion thresholds are strictly adhered to. Since this is not the case, we also consider "fuzzy RDD" results in which the identification strategy is based on using the de jure rules for inclusion in the LDC category as instrumental variables for de facto inclusion. Finally, in order to assess whether the absence of results is driven by outliers, we also estimate the fuzzy RDD specification using median quantile instrumental variables regression, which is robust to leptokurtic (thick tailed) disturbances. In none of the fuzzy RDD specifications, whatever the time period, does a statistically significant effect of inclusion in the category materialize.

Can growth resumption in the last decade be seen as linked to the special measures?

An additional attention should also be given to the fact that on average the growth of GDP per capita in the LDCs has been higher during the last decade than it was during the three previous ones, but still lower than in other developing countries. As a double difference indicator, the gap between the average rate of growth of the two groups has shrunk, what is important but not enough to evidence a long term effect of the whole set of special measures taken within the last Plan of Action. It leads to specifically consider this last decade in the

previous methods of impact analysis and to examine how far it has been influenced by exogenous factors independent both of special measures and LDCs structural features.

Has the supply of trade preferences to the least developed countries promoted their exports?

Since the origin of the category, the share of LDCs in world trade has decreased. The decrease occurred although the category was initially created to legitimate preferences given to LDCs for market access and although the number of LDCs has increased. This trade marginalisation in spite of preferences does not mean that preferences have been ineffective, just for the reason it can be the result of the structural characteristics of the LDCs. The assessment of the special preferences offered to LDCs involves three steps.

Nature and extent of the drift

The first step is to assess the nature and extent of the drift. The share of LDCs in world export of goods was around 3% in 1950, 1.6% in 1971, when the category was created, 0.75% in 1980, 0.56% in 1990, reached its minimum level in 1995 at 0.47%, from which it progressively resumed, reaching 0.91% in 2007 (UNCTAD data). This recent increase in the world market share is in fact essentially the result of the growth of oil exports (volume even more than price) by five LDCs, Angola, Equatorial Guinea, Sudan, Yemen and Myanmar: their aggregate market share rose from 0.14% in 1995 to 0.54%, so that setting aside these countries the total share of LDCs would have been 0.37% (instead of 0.33% in 1995, but still 0.40% in 1990) (see graph 1). Was this drift compensated by a rise of the share of LDCs in the world exports of services? No, the share of LDCs declined from 0.85% in 1980 to 0.5% in 1990 and has stagnated afterwards 0.49% in 2007). Of course an analysis of the evolution of market shares should be led with more disaggregation by product and market area (since depending on initial specialisation exporting countries may be oriented towards markets unequally dynamic).

Nature and extent of the preferences

The second step is to assess the nature, extent and conditions of the preferences specially given to LDCs, in other words the supply of preferences. Special trade preferences have been offered to the LDCs according to a long and complex process, beginning in 1971 by a

temporary waiver to the GATT , confirmed in 1979 by the so-called “Enabling Clause” that allows to give preferences to developing countries within the GSP. In this framework the supply of preferences was unilateral and differing in its content and modalities from a market (supplier) to another one, as well as by the date of implementation. A large variety of preferences has indeed been implemented, the most important being the duty free quota free access for “everything but arms” (EBA), offered in 2001 by the EU to all LDCs. In the assessment of preferences, two main issues are to be considered: What is the size of the tariff preferences really offered to LDCs? What are the limits to the utilisation of these preferences which can limit their effectiveness?

As for the real size of preferences given to LDCs (or another group), it is well known that it depends not only of the level of preference given to that group, but also of the preferences given to other developing country groups that are competitors on the same markets (through the GSP and/or other preferential scheme). There is an erosion of preferences given to LDCs when the regime applied to their competitors is liberalized. Preferences they obtain may apparently increase, while net real preferences decrease. Preferential access to a market X is usually measured as the difference (expressed in %) between the tariff faced by a MFN exporter (i.e. an exporter that pay the “normal” MFN tariff to export to the X market, without any preference) and the tariff faced by a LDC when it exports to it. However, as pointed out by Carrère and De Melo (2010), for countries like the EU that extend preferential access to many trading partners, one should measure the preferential access against the effective tariff paid by all other exporters to the EU at that tariff line level. Hence, it is possible to compute an “adjusted” measure of preferential access that takes into account preferences granted by the EU to developing countries competitors, such as the preferences granted to ACP countries (including the non-LDC ones) and other beneficiaries of bilateral free trade agreements (FTAs) with the EU (e.g. EuroMed, Chile, South-Africa, etc.). When preferential access is measured not with regard to the MFN tariff, but to the effective tariff paid by competing sellers in the EU and the US markets, the preference margin enjoyed by the LDCs on these two main markets is very small. As a result, on the EU market, in spite of EBA, the current adjusted preferential margin is only around 3%. And on the United States market², it is negative. This means, that the LDCs are discriminated against in the US market for the main products they sell there because the United States have FTAs with trade partners that compete

² Where there is no general preference to (all) LDCs, but only a preference given to a majority of LDCs and a minority of products in the GSP framework.

with them in the US market (for instance preferences under the African Growth and Opportunity Act (AGOA) do not include all LDCs and are also opened to non-LDC).

Moreover the real preferences offered may not be fully used. Indeed, effective market access is still reduced by complicated rules of origin (RoO) applied by the EU under EBA, as well as by the United States under AGOA. Rules of Origin (RoO) are an integral part of all reciprocal (i.e. FTAs) and non-reciprocal (i.e. GSP) trading arrangements to prevent trade deflection. However they turn out to be complex and modify significantly market access because of the costs that are incurred by exporters having to comply with these rules. Furthermore, we find that, generally, the most restrictive RoOs fall on products for which LDCs have the greatest preferential market access.

Impact of the preferences on trade: results from a gravity model

Finally the impact of trade preferences on LDCs exports depends not only on the nature, extent and conditions of the preferences briefly examined above, also on the capacity of the LDCs to use them in order to promote their exports. A third step is then to assess the impact of preferences on LDCs exports, controlling for the usual factors determining bilateral trade, so that the exports of LDCs are compared to a virtual counterfactual. This has been done using a panel gravity model of bilateral trade where the exports of the country *i* to the country *j* are explained (over several periods of time) by the respective level of the GNI of *i* and *j*, their respective population size, the respective quality of their infrastructure, the distance between *i* and *j* and dummy variables corresponding to preferences given to *i* by *j*, in particular when *i* is a LDC. Since the preference given to LDCs for the access to the European market (through the GSP, then through EBA) overlap with the ACP regime, both kinds of preferences have been simultaneously introduced. Preliminary results though disappointing as for the final impact of preferences, are consistent with the erosion of preferences evidenced above. From a first model estimated over 1962-1996, the net effect of being an LDC, once taken into account all the previous factors and the existence of the EU-ACP regime, has been declining become negative at the end of the period. Tentative results of an updated model covering the period 1970-2006 again suggest a net negative impact during the ten following years... Consistent with the finding on the erosion of preferences, the *evolution* of the net effect may be more meaningful as for the impact of preferences than the final negative outcome. The latter suggests that some obstacles to trade more present in LDCs than elsewhere have been omitted in the model. It does not seem to be the result of more inward –

looking policies, and, had it been so at the beginning of the period, it is even less likely that the openness of policies has less increased in LDCs than in other developing countries.

Omitted structural handicaps to trade may explain the negative outcome. Indeed it would be needed to introduce in the model as explanatory variables the two indicators of structural handicap used as identification criteria of the LDCs, HAI and EVI. As far as these indicators are not available on a retrospective and comparable basis, some proxies might be used. In this framework, human capital and economic vulnerability will be control variables for assessing the impact of preferences on trade.

Another improvement of the model will be to better specify the LDC dummy variable. Instead of one variable taking the value one when the exporting country is an exporter whatever the destination of its exports, the variable would be used only for LDCs exports to a country or group of countries having offered special preferences under the relevant period.

Beyond trade: impact on development

But trade itself, depending on its modalities, is likely to have an influence on those variables, enhancing or dampening structural handicaps to growth. More generally the contribution of exports to the development of LDCs should be considered, as well as the induced specialisation of the LDCs. This issue should also be addressed.

Has the special aid target for the least developed countries been effective?

Besides the old target of an ODA reaching in developed countries 0.7% of their GNI, a supplementary target of 0.15% for the ratio of ODA allocated to LDCs was adopted at the first UN Conference on LDCs in 1981. It was intended to underline the priority to be given to LDCs in aid allocation. Has it been effective? This question indeed is double as far as the effectiveness of the target involves first higher flows to LDCs, second a positive effect of these flows on development. Only if these two conditions are met, it can be said that the target is “effective” or that the LDCs benefit from the target.

Has it led to increased flows?

There are several ways –or steps- to answer this question. A global way is to consider the total flow of ODA to LDCs and to compare it first to the target itself, second to the total flow to all developing countries.

It is well known that the developed countries are far to reach the aid targets they agreed, 0.7 percent of their GNI for total ODA, 0.15 percent ODA to LDCs (more for some donors). The ratio of the aid “effort” with regard to LDCs, as usually calculated for DAC members, includes that part of their multilateral aid going to LDCs through multilateral channels. It is higher than the ratio of the bilateral aid allocated to LDCs, because the share of multilateral disbursements going to LDCs is larger than the share of bilateral ones. But the share of bilateral ones may also be a relevant indicator of the impact of the target, since the target refers to a commitment of states not of multilaterals. Moreover the average ratio usually reported (or calculated) is a weighted one, i.e. the ratio between total aid of DAC members to LDCs and their total GNI: this aggregate ratio is lower than the simple average of donor country ratios because small donors have a quite higher ratio than the largest country, but the latter could be a better indicator of an average behaviour with regard to the target.

The unweighted average ratio for only the bilateral ODA to LDCs (from DAC members) was around 0.1 % in 2007, (while the ratio of total ODA to GNI was 0.31%). The previous level of the ratio of bilateral ODA to LDCs/GNI was 0.08% in 1980, just before the adoption of the target, a little higher at 0.1% ten years after in 1990, then it dropped to a minimum at the end of the nineties, and resumed to the 0.1% level in 2007 (see Graph 2). The aggregate ratio between the DAC members aid effort for LDCs including the amount allocated through the multilateral channel evidences a similar time profile: it is in 2006 at the same level (0.09%) as in 1990, after a decrease to 0.05% in 2000 (UNCTAD, 2008). Could the recent increase (from 2000) be seen as a late outcome of the special target of ODA for LDCs? The target, adopted twenty years ago may have been “reactivated” by the Third UN Conference on LDCs, and the 2002 UN Conference of Monterrey, but achievements remain far from it. Anyway, the trend observed does not necessarily imply that on average the target has increased the probability for a least developed country to receive more aid, i.e. has been effective for the full set of least developed countries.

As for the relative share of ODA allocated to LDCs, it should be considered at the global level (total aid received) rather than only at the bilateral level only. It has risen from around 17% in 1971 to 30% in 1990, and was around 28% in 2000, as well as in 2006, but after registering large fluctuations³. Fluctuations are meaningless to reflect the relative effort for LDCs, since they mainly depend on the evolution of the aid to non-LDCs, and its own fluctuations (influenced by such factors as debt cancellation of other developing countries).

The trend observed corresponds to the global result of the policy of bilateral donors and multilateral institutions (setting aside non DAC bilateral donors), but it does not mean that the probability of a least developed country to receive more ODA due to its category membership has increased. It should be kept in mind (i) that the number of LDCs has increased and (ii) that the distribution of ODA among LDCs may have changed (for instance the increase of the ratio may come only from higher flows to one large LDC).

A simple comparison of the variation in the amount of aid received by LDCs between the three years before and the three years after their inclusion in the category with the same variation for other developing countries (at the same dates) indicates that net variation of aid as a percentage of GNP has been higher in newly included countries than in other developing countries in a majority of cases, with a median difference of 2.3% of GNP.

A more important issue is the assessment of the level itself of the probability to receive more, due the LDC category membership. Here again an appropriate counterfactual is needed. In other words, if least developed countries on average receive more than other developing countries (which is the case of course), it can result from their characteristics, first of all their level of income, not from their status. So the assessment of the impact of the status requires to control for the influence of these characteristics. That can be done by estimating a model where the level of ODA per capita received by each developing country is explained by the variables corresponding to these characteristics. In particular the three variables corresponding to criteria of identification of the LDCs (income per capita, economic vulnerability, and human capital) should be taken into account. To be noted they are close to those which are usually retained in aid allocation models, thus likely to be significant, and

³ Percentages calculated from UNCTAD *Handbook of Statistics 2008*, p375; Different percentages are given in the UNCTAD *LDC Report 2008*, table 24. (35.4 in 1990, 37.9 in 2000, 37.0 in 2006). The OECD DAC *Cooperation for Development Report 2009* gives for DAC countries (including the multilateral channel: 33.7 in 1996-97 and 38.8 in 2006-07)

suggesting that a higher level of aid to LDCs may first result from their characteristics. To check whether the category membership has a specific effect besides that of the characteristics, a dummy variable for membership is included into the model. Moreover since the behaviour of donors may have changed, we consider the relationship over a series of multi-year periods, and try to capture the change in the possible preference for LDCs by using a different LDC dummy variable for each period. This exercise raises some difficulty for gathering relevant and comparable retrospective statistics of the characteristics (EVI and HAI).

Preliminary results over the period 1980-2005, confirming previous attempts made several years ago over another period, show that the higher aid level per capita received by the LDCs is mainly the result of their characteristics. It seems only marginally influenced by LDC membership and without clear change over time of the impact of membership, at least until the beginning of this century. The significance of the LDC dummy variable strongly depends on the model specification and cannot be considered as a robust result under the period covered.

This is consistent with previous findings of the literature evidencing that aid levels per capita are a negative function of income per capita and population size (the latter being highly correlated with EVI): LDCs are on average low-income and small countries, and as such likely to receive more aid. Consequently, as a LDC graduates, the level of aid should not be expected to dramatically decline following the loss of its LDC status, while the income growth and alleviation of handicaps having led to graduation may have entailed lower aid levels. If, these characteristics corresponding to the identification criteria, in particular the structural economic vulnerability, were more fully and explicitly taken into account in aid allocation normative formulas or principles, as we have suggested elsewhere (Guillaumont 2008, 2009), it would ensure that the change in the levels of aid received by a country graduated will be only progressive, avoiding any disruption in their programmes (and at the same time taking into account the special needs of the SIDS), while making effective the priority given to LDCs in aid allocation.

How far increased aid inflows contribute to LDCs development

For the special aid target to LDCs to be effective, it involves not only a higher amount of aid received, but also that this amount does contribute to LDCs development. Strong criticisms of

development assistance have been formulated for several decades and again more recently, arguing that it is not effective for promoting growth and development. Their analytical basis is generally weak, whatever the recognition that aid modalities can be improved. On the other hand the evidence of a positive impact on growth, drawn from more analytical literature, is still debated as for the major factors governing aid effectiveness. One lesson from this literature is that the marginal effectiveness of aid (for growth) is higher in countries that are structurally more vulnerable (due to exogenous shocks, either external or climatic): the reason is that aid dampens the negative effects of these shocks (Guillaumont and Chauvet 2001, Chauvet and Guillaumont 2004, 2009, Guillaumont and Laajal 2006, Collier and Goderis 2009). If this holds, it suggests that aid is marginally more effective in LDCs, as countries structurally vulnerable (and it is an additional argument to consider EVI as an aid allocation criterion). In other words aid enhances their resilience. The real and specific contribution of ODA to the LDC growth is however difficult to assess, because it would need to take into account all the main characteristics of the LDCs as they may influence aid effectiveness. Moreover such an assessment meets the usual limitations of the aid-growth regressions, those of growth regressions in general, and those linked to the measurement of aid.

Another and may be more reliable finding is obtained from the examination of the ex post evaluation of projects: from a set of projects financed by IDA it appears that the rate of success decreases when the total amount of aid increases, but increases when the export instability is higher and the literacy is lower, so that increasing returns are observed in LDCs, and decreasing returns in other developing countries (Guillaumont and Laajal 2006, Guillaumont and Guillaumont Jeanneney, 2010). Thus we find some support to the idea of a big push in favour of the LDCs.

Beyond assessing ODA to LDCs with regard to general criteria such as the rate of growth and the rate of success of projects, it would be needed to consider whether aid has contributed to the alleviation of the LDCs main structural handicaps, high vulnerability and weak human resources. As for the effect of aid on human capital and poverty, it is agreed that it is channelled to a large extent by its effect on growth, but also depends on aid modalities, and again on characteristics of receiving countries. We have argued that the stabilizing impact of aid may make growth more pro-poor, which suggests an additional specific effect in vulnerable countries such as the LDCs (Guillaumont 2009b). The impact of total aid flows on

the structural vulnerability is even more difficult to assess. This issue is briefly addressed in the last section with regard to the multilateral support measures.

Are the multilateral special measures for the LDCs addressing their structural handicaps?

The special measures examined above share two features. First, they are implemented unilaterally by the countries or groups of countries supplying trade preferences or by the countries or institutions providing ODA. Second they are identified at the macro level, by an aggregate flow of trade or ODA. Besides these main special measures, there are many of other ones decided by the multilateral institutions, mainly the UN and the WTO, and specifically tailored for the LDCs⁴. These multilateral and specific measures could more easily than the unilateral and macro measures address the structural handicaps faced by the LDCs. Are they doing so?

To address this issue, it is useful to distinguish two categories of multilateral special measures. The first one is multilateral providing of special resources to LDCs. The second category is the trade-related support provided by the WTO and other multilateral institutions.

Multilateral special resources for LDCs: how specific are they?

A first group of measures is the multilateral provision of resources to LDCs by various ways. Some are the supply of resources for development through:

- a) specific targets for LDC in multilateral organization's budgets financing technical cooperation/project implementation (UNDP and World Food Programme);
- b) special funds within multilateral organizations that finance certain activities in LDCs: the most obvious one is the LDC fund under the UN Framework Convention on Climate Change (UNFCCC) managed by the Global Environment Fund; the UN Capital Development Fund created in 1973 is another one;⁵

⁴ For a survey of the special measures see the *Handbook on the LDC Category* (UN CDP, 2008)

⁵ The enhanced IF can be also noted here, but is examined below.

- c) technical assistance/capacity building programmes specially created for LDCs within multilateral organizations (for instance, the World Meteorological Organization Programme for LDCs⁶).

Some other measures consist in a direct support from the UN to LDCs, aiming to facilitate their participation to the UN system and so empower them within the system. Such are the rebates for LDCs in financing regular and peace keeping UN operations or the funds specially created to facilitate the participation of LDC in international events/summits/conferences. To be noted a special support, both technical and political, is also provided by all the units of the UN system devoted to LDCs, including those of UNCTAD and Regional Commissions, and in particular the OHRLLS.

Assessing the impact of these various measures is really a difficult task. Resources devoted to them could be measured and compared to the development assistance to LDCs from other sources. Although there are many windows, the total amount of resources allocated to these measures is probably limited. And they may not be fully used. But their real impact results from their specificity. The relevant issue is then to assess how they meet the specific needs of LDCs. In most of the cases the aim of the measure can be associated to the structural characteristics of the LDCs that are low income, weak human capital, high structural vulnerability. But the effectiveness of implementation could only be assessed on case by case basis.

Trade related multilateral support: what strategy involved?

Beyond or beside market access measures taken unilaterally and seen above, LDCs receive a multilateral support for the development of their trade. It is again possible to identify two categories of such measures, the special and differential treatment for LDCs related to the World Trade Organization obligations and the Integrated Framework for Trade-Related Assistance to Least Developed Countries (below IF), and its “Enhanced” version (EIF).

The *special and differential treatment for LDCs related to the World Trade Organizations* is itself a collection of many measures. To quote the *CDP Handbook* it includes “safeguarding the interests of LDCs... increased flexibility for LDCs in rules and disciplines governing trade

⁶ WTO programme for LDCs and IF can be also noted here, but are examined below.

measures, extension of longer transitional periods to LDCs and provision of technical assistance”. As a result the accession to the WTO is expected to be easier for the LDCs. Moreover the LDCs are exempted of some obligations in multilateral agreements on trade in goods or in services or in property rights⁷.

Effectiveness and consistency of these measures may be assessed by several ways. First to be assessed is the impact on adhesion: what has been the pace of adhesion of LDCs, compared to that of other and similar LICs? Evidence is mitigated. Are there management problems and a need of clarification (many provisions: around 120 articles spread throughout the agreements)? Do the LDCs make a specific use of the WTO instruments? It does not seem feasible to identify a specific impact of the LDC membership to WTO on trade, distinct from the LDC status itself, and the related market access, which is already a difficult task.

More important is to consider the overall rationale of these measures and their impact on the development strategy? It is a seemingly debated issue: some will argue that exemptions to obligations are not real benefit for LDCs if they lead to postpone needed reform towards more open economies, while others will say that increased openness is not necessarily a good thing for LDCs. Assessment should avoid dogmatism. As most of them are small economies, LDCs cannot develop without being open to outside markets, i.e. behind high protectionist barriers; some degree of openness is needed for productivity and competitiveness. But at the same time, as small economies, LDCs are structurally vulnerable to external shocks, as once again evidenced by the recent world economic crisis. Thus an efficient openness or outward-looking policy for LDCs needs special measures to overcome their structural vulnerability. These measures are necessary complements of the present trade-related special measures for LDCs. Lowering structural economic vulnerability will take time (and to some extent is linked to the growth process) – in particular a significant diversification can efficiently occur only within the larger LDCs or through a subregional economic integration. Consequently needed are measures to increase the resilience of the LDCs. They will include specific measures, altogether related to trade, financial and technical assistance, such as insurance mechanisms or shock-smoothing facilities and capacity building.

⁷ Not all the provisions are mandatory and some have already expired.... A compendium of such measures is prepared by the CDP Secretariat for the Development Account Project.

The *Integrated Framework for Trade-related Technical Assistance to LDCs*, now supplemented by the *Enhanced Integrated Framework* could be an appropriate framework to address the previous issues. It should be assessed with the regard to its contribution to the overcoming of the structural obstacles faced by the LDCs in their integration to the world economy, namely their high structural economic vulnerability and their low level of human capital.

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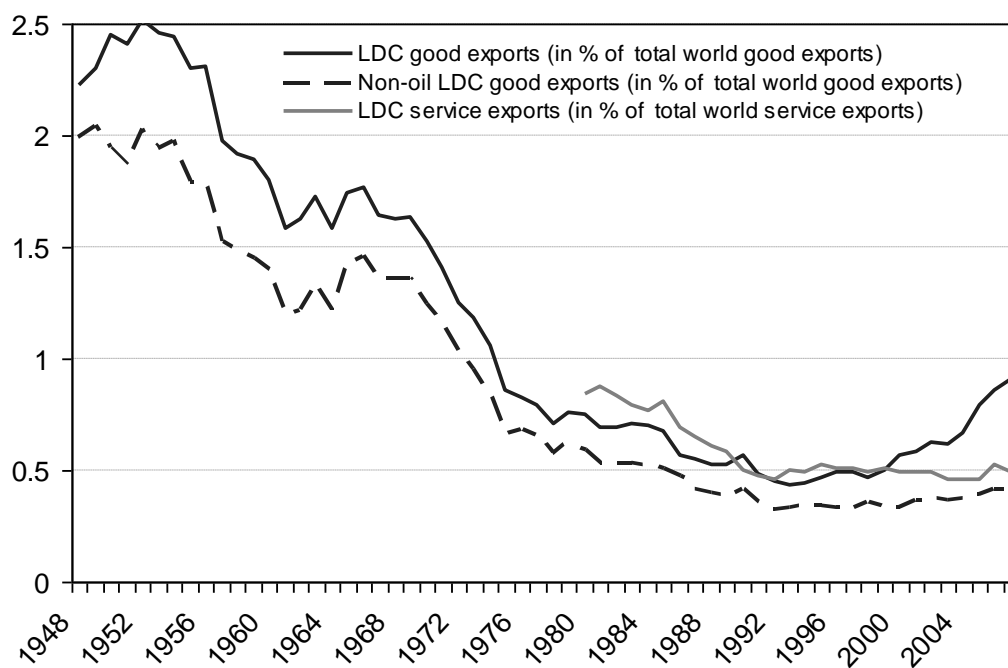
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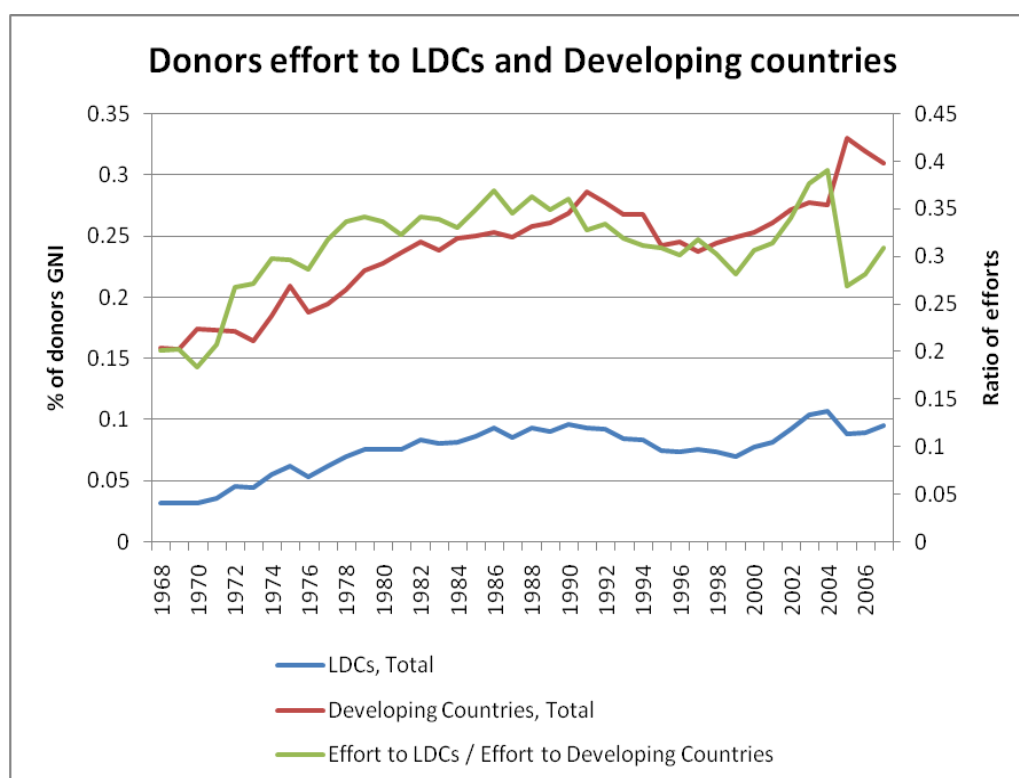
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Graph 1. Evolution of the share of LDCs exports in world trade



Graph 2. Trends in average ratio to GNI of bilateral ODA to LDCs and to all developing countries relative share





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