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Research Report

The Rationale of the Least Developed Countries Category over Half a Century in brief

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The Rationale of the Least Developed Countries Category over Half a Century in brief*

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A category set up to mobilize special support to poorest countries

The category became effective in 1971 after a decision of UNGA and through a first identification of (25) LDCs by the Committee for Development Planning, since 1998 become Committee for Development Policy (CDP). The creation of the category was agreed only after several years of international discussion on the need to officially recognize a group of « least advanced » developing countries as beneficiaries of special measures. Indeed the category was conceived as an exception in the UN international development strategy.



LA FERDI EST UNE FONDATION RECONNUE D'UTILITÉ PUBLIQUE. ELLE MET EN ŒUVRE AVEC L'IDDRI L'INITIATIVE POUR LE DÉVELOPPEMENT ET LA GOUVERNANCE MONDIALE (IDGM). ELLE COORDONNE LE LABEX IDGM+ QUI L'ASSOCIE AU CERDI ET À L'IDDRI. CETTE PUBLICATION A BÉNÉFICIÉ D'UNE AIDE DE L'ÉTAT FRANÇAIS GÉRÉE PAR L'ANR AU TITRE DU PROGRAMME « INVESTISSEMENTS D'AVENIR » PORTANT LA RÉFÉRENCE « ANR-10-LABX-14-01 »

... /... A « category support » was preferred to a gradual one, such as a support tailored according to continuous criteria, although these criteria may be used for and beyond the category.

To mobilize a specific support from the international community the category and its criteria should be perceived as legitimate.

► A category targeting poor countries facing most severe handicaps to development

Since the beginning the category gathers countries that, due to handicaps inherited from the past, i.e. out of the current will of governments, are challenged by exogenous « constraints to rapid growth ». Thus, they could be said « caught in a trap », out of « convergence », or simply “more likely than other countries to stay poor” (Guillaumont, 2009).

The « structural handicaps » are a key concept of the category. Design the category from this concept is in line with a principle of international justice, more and more understood (Rawls, Sen) as equal(izing) opportunities (here between nations).

The rationale of the category is reflected by handicap criteria, used and adapted over the years to identify LDCs, and likely to be used beyond the category. Initially designed as handicaps to economic growth, they are now more broadly said handicaps to sustainable development (see *infra*).

► A category identified through three criteria, alternatively absolute and relative

Three criteria have been over time used : A low level of GDPpc, then GNI pc, and 2 handicap criteria, namely a low level of human capital and a weak economic structure, both and particu-

larly the later with changing design : Initially 2 single indicators, then (since 1991) 2 composite indices, now HAI/ EVI (Human Assets Index and Economic Vulnerability Index). Since 1991 the low-income criterion refers to the (constant) threshold of LICs, as defined by the World Bank. The two handicap criteria refer to a threshold in the value of the handicap composite indices, a threshold initially (from 1991 to 2012) « relative » to their value in other comparable countries, then fixed.

Should the thresholds reflect absolute or relative handicaps, in a world of increasing competition? This is an issue only for the design of the category, not for using the criteria beyond it, as recommended by UNGA (2012) for ODA allocation.

► The complementarity between the three identification criteria: Its meaning

The three criteria have to be met for inclusion into the list of LDCs: they are complementary. This means that economic growth is supposed undermined by the conjunction of the two kinds of handicaps, and not by one or the other. This was in line with the early 70s theoretical mind.

Indeed it is agreed that the two handicaps are significant negative factors of growth. Their complementarity is more a matter of debate. According to econometric tests only an hypothesis of a limited substitutability between them was not rejected over the period 1970-2000 (best specification with handicaps in log) (Guillaumont, 2009). But it is more dubious over the period 2000-2020 (Guillaumont, Ed., 2019). Furthermore there is no such similar empirical basis supporting an hypothesis of a complementarity of handicaps to meet Sustainable Development Goals (SDGs), in particular with respect to the variety of new challenges faced by LDCs.

The strict complementarity of the two handicap criteria seems now to weaken the cat-

egory rationale. It could be replaced by using a single « structural handicap index », merging the two indices (and to insure some continuity with the previous practice by a way allowing only a limited substitutability between them, as can be obtained through a quadratic average).

► Asymmetry between inclusion and graduation rules: Its impact

In 1991, graduation rules have been introduced: It was done cautiously, to avoid reversal or disruption in development path, mainly through three asymmetries between graduation and inclusion rules.

A first minor asymmetry results from the margins set up between the thresholds of inclusion and graduation criteria. Another one is in the need to assess the graduation eligibility at 2 successive triennial reviews by the CDP (instead of only one for inclusion).

The major asymmetry is that for graduation a country needs to no longer meet 2 criteria, and not just only one. This second asymmetry

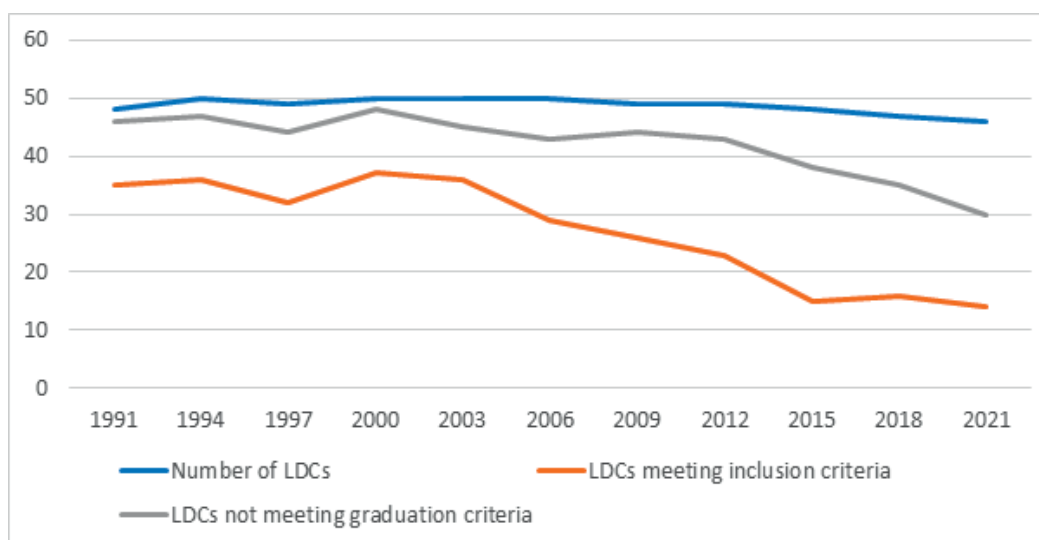
has strongly slowed the path to graduation... and led to a sharp increase in the number of countries no longer meeting the inclusion criteria without meeting the graduation criteria (presently 20 out of 46). (See Graph).

► Asymmetry between inclusion and graduation rules: Making it more consistent

The major asymmetry recalled above is not consistent with the hypothesis of complementary handicaps. The consistency would be improved with the 2 handicap indices replaced by an aggregate index of structural handicaps (SHI). It would mean simply considering graduating LDCs as countries no longer «poor» and no longer suffering from most severe structural handicaps.

This design would be still in line with the basic rationale of the category. It would allow taking into account the diversity of structural handicaps, as revealed by the new shocks and trends faced over years by LDCs (Covid 19, digital divide, terrorism...).

Figure 1. Inclusion and graduation. How the composition of the category has evolved



► Structural vulnerability becoming a key concept in the design of LDCs category

In 2000, EVI replaced EDI (Economic Diversification Index). This seemingly met the hope of the Small Island Developing States (SIDS), several of which were eligible to graduation, but being still vulnerable.

Actually, it did not modify the eligibility of graduating countries (due to a high correlation between GNIpc and HAI), but it highlighted the vulnerability challenge, which has become more and more important for last 25 years. The EVI was initially designed as an index of « structural economic vulnerability ». It has then been modified several times, mainly in 2005 and 2012, with some environmental components added.

But other dimensions of vulnerability have been left aside, which have more and more appeared as crucial challenges for LDCs and some other countries. This is in particular the case of the vulnerability to exogenous social shocks, such as epidemics, conflict and violence, as well as the physical vulnerability to climate change. Although renamed « Economic and Environmental Index », EVI is not yet a fully « multidimensional vulnerability index ».

► Multidimensional vulnerability as a handicap to sustainable development

In December 2020 the UN General Assembly requested the UN Secretary General to present a MVI (Multidimensional Vulnerability Index) likely to be used by SIDS, as well as other vulnerable countries, for mobilizing financial support. This index, for its exogenous components, could be used as an index of structural handicap for LDCs, as well as other similarly vulnerable countries. Making the new MVI a criterion for the identification of LDCs would be in line with consider-

ing the category as the set of « Countries facing severe impediments to sustainable development », as done by the CDP as soon as 2012, and consistent with the SDGs adopted in 2015.

There is a strong rationale for considering LDCs as poor countries facing structural handicaps to move towards SDGs...and for the new program of action to tackle these handicaps and various vulnerabilities.

► The rationale of category justified by its impact?

Has the category membership helped LDCs to escape the poverty trap? And to “converge”? If so, it would reveal and legitimate its rationale...

Indeed it is difficult to disentangle the respective impact of structural handicaps and that of support measures, since both are linked to the LDC status (Guillaumont et al., 2011). This is the reason why besides a lot of studies and reports on the evolution of LDCs, there is hardly no assessment of the impact of membership.

However stylized facts on LDC growth are enlightening. The first 30 years of the category evidence the lag or “divergence” between LDCs and other developing countries, in particular the other countries having been LICs, suggesting the trap in which LDCs seemed to be locked down, while these other previous LICs have been growing fast.

But at the beginning of this century the LDCs appear to have reversed course. What can explain this change? 1) External environment? There is no evidence that it has impacted the reversal. 2) Domestic policy and the quality of governance in LDCs? There has been no clear change in the gap between the level of the related indicators for LDCs and other DCs (and the gap is itself essentially due to the impact of structural factors). This suggests a possible positive impact of the LDC category membership (albeit late and progressive) on economic growth, making now easier the LDCs move to-

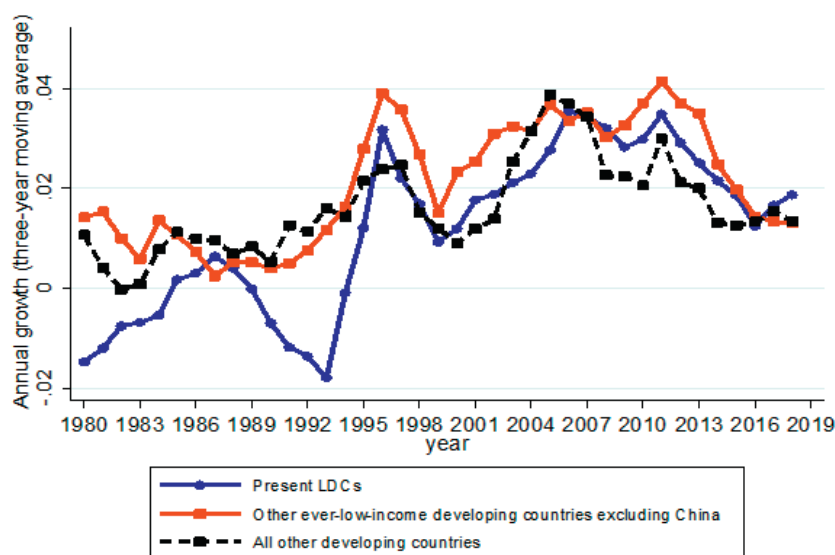
wards the SDGs.

Besides enhancing the rationale of the category and improving consistently its criteria, assessing its impact is needed to strengthen its international support.

This graph supports the relevance of the previous conclusions. Three sub-periods can be observed :

- 1980-1995: the average rate of growth of GDPpc in LDCs is most often negative, suggesting a trap,
- 1995- 2007: it becomes positive, close to that of other Developing countries,
- 2008-2019: it becomes even higher, suggesting a late impact of the category, while the fact that it is still lower than that of other countries having been LICs suggests a persistent influence of initial handicaps.

Figure 2. Compared evolution of the average rate of growth of income pc in LDCs, other developing countries, among which those having been LICs over 40 years



The seemingly better and better relative results obtained by LDCs in the second part of the half a century existence of the category shows that its impact reinforces its rationale, still valid as seen above. However the still high number of LDCs also shows the long way to go and the need for a new ambitious programme of action in the next decade, effectively implemented.

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