



## **INTERNATIONAL TRADE WORKING PAPER**

# **A Critical Reflection on International Support for Least Developed Countries**

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### Abstract

International support to least developed countries (LDCs) falls in the areas of trade, development cooperation and assistance with participation in the inter-governmental process. With 10 years of the 2030 Agenda to go, and before the fifth 10-year Programme of Action for LDCs starts in 2021, there is a need to re-evaluate the system of international support. Some LDCs are performing well, but key international targets have been missed. On average the contributions of trade and investment remain too low. Several LDC economies are contracting and becoming more vulnerable.

Taking a critical look at the theory and assumptions underlying international support makes it possible to propose new assistance mechanisms, as opposed to falling back on the mainstream position, which is implicitly based on the misleading premises that better international market access, aid and participation in existing multilateral processes will prompt spontaneous economic catch-up and sustainable development. Exposure to undistorted international prices will not alone drive the reorganisation of production or a move towards greater domestic efficiency. Duty-free, quota-free market access has benefited a select few countries. Official development assistance to LDCs is declining and may fall short of objectives.

As structuralists, developmentalists and others have long emphasised, governments and the international community need to promote active measures aimed at building productive capacity. In a power-based global system, developed countries and regions often shape the system of support for LDCs in their own interests – a recognition that is all the more important when commitment to multilateralism is faltering. Dependency theorists stress the importance of power relations and the interdependent nature of the global economic core and periphery. Rather than individual *ad hoc* assistance or promises of more aid, there is a need for deep-rooted, systemic improvement to the multilateral architecture relating to LDCs – driven by LDC governments themselves and differentiated according to context.

Acknowledging these ideas, this Working Paper proposes six areas of support, relating to the UN system, finance, trade, commodities, technology, and the environment and climate change. Each is accompanied by specific proposals that could be considered in the run-up to UNLDC-V and beyond.

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## Acronyms

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AAAA	Addis Ababa Action Agenda
CDP	UN Committee for Development Policy
CPRC	Chronic Poverty Research Centre
DAC	Development Assistance Committee
DFID	UK Department for International Development
DFQF	Duty-Free, Quota-Free
EBA	Everything But Arms
ECOSOC	UN Economic and Social Council
EU	European Union
EVI	Economic Vulnerability Index
FDI	Foreign Direct Investment
FFM	Finance Facilitation Mechanism
GDP	Gross Domestic Product
GNI	Gross National Income
GSP	Generalised System of Preferences
HAI	Human Assets Index
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
IPOA	Istanbul Programme of Action
ISM	International Support Measure
LDC	Least Developed Country
NAPA	National Adaptation Programme of Action
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
S&D	Special and Differential Treatment
SDG	Sustainable Development Goal
TRIPS	Trade-Related Intellectual Property Rights
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNLDC-V	Fifth UN Conference on the LDCs
UN-OHRLLS	UN Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
US	United States
WDI	World Development Indicators
WTO	World Trade Organization

# 1. Introduction

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The least developed countries (LDCs) are a critical focus of Agenda 2030. Most of the individual Sustainable Development Goals (SDGs) include targets for LDCs, and a main underlying principle of the Agenda is that no country should be left behind. More than one in eight of the world's people live in an LDC – around a quarter of them in severe poverty. The pressing nature of this challenge implies that implementation of the ambitious targets requires not only special efforts on the part of LDCs but also renewed support from development partners and the international system. This calls for a revitalised approach.

At the end of the Istanbul Programme of Action (IPOA) 2011–2020, and at the start of the final 10 years of implementation of the 2030 Agenda and the SDGs, there is a need for reflection on current international support measures (ISMs). Despite some limited success, progress has fallen short of objectives, and much more can be done to support LDCs. This paper, focusing on trade and investment, and written at the request of the Commonwealth Secretariat, attempts to cast as wide a net as possible in searching for alternatives to the current ISMs, offering a critical perspective on existing measures.

The paper first outlines, in Section 2, the current ISMs and provides some background on the theory underlying them, arguing that the acknowledgement of distinct theoretical perspectives helps with the development of new ideas for support. An explicit consideration of

methodology can direct future proposals in a constructive and coherent manner.

Section 3 looks at the long-term record of economic growth, trade and investment, showing that the performance of LDCs has been mixed at best. Although 12 additional countries have been identified for graduation, and several others are likely to graduate in coming years, many remain firmly within the LDC group; indeed, several critical metrics show that, on average, LDCs increasingly lag behind other developing countries. Some LDCs are becoming poorer, and most have failed to progress on the economic vulnerability criterion.

Section 4 offers some explanations for this underperformance and divergence, pointing to alternative perspectives within development economics that provide fruitful lines of enquiry – particularly those frameworks that emphasise the interdependent nature of the global economic core and periphery and the importance of sustainable productive transformation and economic transformation. Rather than individual *ad hoc* assistance or promises of more aid, there is a need for a deep-rooted, systemic change to the support architecture for LDCs.

Section 5 outlines six new areas of support: in the UN system, finance, trade, commodities, technology, and the environment and climate change. Each is accompanied by specific proposals that could be considered in the run-up to the Fifth UN Conference on the LDCs (UNLDC-V) and beyond. Section 6 summarises these proposals.

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## 2. Background and existing support measures

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ISMs for LDCs are based largely on the premise that LDCs are artificially or temporarily excluded from the global marketplace. Preferential market access, official development assistance (ODA) and support to participate in the inter-governmental system are intended to address this shortcoming, in turn helping these countries narrow the gap with developed and other developing countries.

The explicit and implicit promotion of global market integration is based on the belief that development will accelerate during the process of full assimilation into the world economy. Many of the development challenges facing LDCs are believed to be a result of their insufficient exposure to 'correct' market prices and conditions. When so-called market distortions in the form of tariff and non-tariff barriers to

trade in foreign markets are removed, and after a period of additional development assistance, these countries' economies will, the narrative runs, be freed up to play a fuller role in the international economy. The resultant upturn in economic growth will drive development and reduce poverty.

## 2.1 Trade

This perspective, informed by the same mainstream economic theory that is believed to apply in developed countries, partly underlies the design of current international support for LDCs (along with pragmatism, as in what developed nations have felt able to offer). To this end, the main ISM is duty-free, quota-free (DFQF) market access to developed and developing countries. Dedicated trade measures for LDCs date from 1979, and the Enabling Clause, which permitted trading preferences targeted at developing and least developed countries that would otherwise have run contrary to Article I of the General Agreement on Tariffs and Trade, on most favoured nation treatment.

The principal source of DFQF market access for LDCs, particularly for several of the 14 Commonwealth LDCs,<sup>1</sup> is the EU's Everything But Arms (EBA) initiative. This grants full DFQF access to the EU Single Market for all products except arms and armaments. An important milestone in assistance for LDCs, it entered into force in 2001. LDCs also benefit from trade schemes in destinations including Australia, China, New Zealand, the US and other developed and developing countries, although tariff coverage and demand in these markets are lower.

In 2011, World Trade Organization (WTO) members adopted the services waiver, allowing members to grant LDC services or service suppliers preferential treatment that would otherwise be inconsistent with Article II of the General Agreement on Trade in Services, on most favoured nation treatment. After the waiver was operationalised at the 2013 Bali Ministerial Conference, the WTO received notifications from 24 members, including the EU, indicating sectors and modes of supply where they were providing or intended to provide preferential treatment to LDC services and service suppliers. The impact of the waiver has so far been limited.

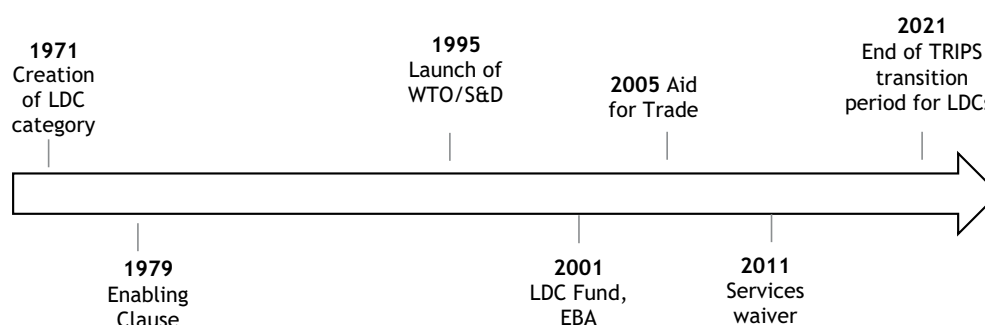
DFQF and the services waiver are seen as the removal of trade distortions, to bring about greater efficiency. A simple neoclassical trade model, drawn from microeconomics, sees taxes as market distortions, and their removal as bringing about an increase in consumer and producer surplus. Secondary effects are expected, including a realignment of production towards areas in line with the country's comparative advantage, as companies shift into areas with higher potential returns. Building on Smithian and Ricardian theories of comparative advantage, the Heckscher-Ohlin model, on which several subsequent findings of neoclassical trade theory have been built, predicts that countries will export goods that make intensive use of factors of production that are abundant locally and import goods for which factors of production are relatively scarce. Among other things, the model assumes full factor mobility and similarity of technology among countries.

In addition to outward market access, emphasis has long been placed on domestic measures such as capital and current account liberalisation, privatisation and corporatisation (Gore, 2000). Mainstream theory goes as far as to assume that wages will equalise between countries over time and as barriers to commerce fall (Reinert, 2009). This was the idea behind structural adjustment and the so-called Washington Consensus, whose heyday was in the 1980s and 1990s.

Although preferences for LDCs are not part of the Washington Consensus, they come from a similar theoretical tradition and can be seen as coterminous with the Washington Consensus project. The private sector in LDCs is supposed to respond to the removal of so-called trade distortions by diversifying, increasing production and/or improving efficiencies (a relative, although declining, margin of tariff preference also gives them an advantage over non-LDC countries). An assumption of domestic factor mobility implies that capital and labour will move to areas of scarcity, in which marginal returns are therefore expected to be higher. The supposition is that exposure to undistorted global market prices would also see the emergence of new enterprises in LDCs aiming to take advantage of better global market conditions.

LDCs are also eligible for special and differential treatment (S&D) under the WTO

Figure 1. Timeline of selected ISMs



agreements. LDCs do not need to comply fully with the Trade-Related Intellectual Property Rights (TRIPS) Agreement under a general transition period until 2021; the pharmaceutical sector currently benefits from LDC-specific exemptions extending to 2033; and under the TRIPS Agreement, LDCs are eligible for technology transfer. S&D for LDCs also exists in the Agreements on Agriculture, Subsidies and Countervailing Measures, Dispute Settlement, Trade-Related Investment Measures and other areas such as the Balance of Payments Understanding; the Trade Facilitation Agreement; and the Trade Policy Review mechanism. Broadly, these measures allow certain deviations from the relevant WTO agreement, put in place longer transition periods (many of which have now expired) and allow for technical assistance to LDCs.

## 2.2 Official development assistance

The second major component of LDC membership is a commitment by developed nations to deliver certain levels of ODA and climate financing. Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) members pledged to provide 0.15–0.20 per cent of gross national income (GNI) in ODA to LDCs, with the aim of setting a floor on development assistance to those countries. Official bilateral ODA to LDCs peaked at US\$34 billion in 2013, having increased rapidly after 2000. By 2018, the level had fallen to US\$26.9 billion. Overall, ODA to LDCs accounted for 0.09 per cent of DAC members' GNI in 2018, including imputed multilateral flows, below the target of 0.15–0.20 per cent. By 2018, five donors had met or exceeded the target.<sup>2</sup>

Seen as a temporary benefit, which in theory should be reduced following graduation from

the LDC category, ODA and Aid for Trade – explicitly aimed at global economic integration – can be viewed as correcting the hopefully short-lived position of LDCs while they undertake full domestic market development or assimilation into the world economy.

A further extension to international assistance for LDCs is the LDC Work Programme adopted by the Conference of the Parties of the UN Framework Convention on Climate Change, including strengthening national climate change secretariats, training in negotiations and support with national adaptation programmes of action (NAPAs). An LDC Expert Group provides technical guidance and support with national adaptation plans. The LDC Fund supports the LDC Work Programme, including the preparation and implementation of NAPAs. By August 2017, US\$1.2 billion had been accessed by 51 countries in total (many of which were not LDCs) for the preparation of NAPAs. Two global projects also existed at the time of writing.

## 2.3 Other international support measures

The remaining, secondary, ISMs for LDCs are broadly oriented towards assistance for participation in the inter-governmental process. These measures include travel assistance to UN meetings and the General Assembly, reduced budgetary contributions to international organisations and *ad hoc* bilateral measures such as discounted textbooks and scholarships.<sup>3</sup>

The combination of preferential trading arrangements, S&D, ODA and support for participation in international organisations and processes derives from the broad view that enhanced integration into the global economy will close the development gap. Reducing imperfections in world markets and

temporarily offering help to LDCs to interface with these markets will ensure LDCs will sooner or later become equal players in the world system or at least gradually move toward developed world levels. ODA is considered a temporary necessity.

Clearly, no single entity or institution has acted as the architect of the ISMs (and, indeed, multilateral coordination and leadership relating to LDC support could be improved). The existing measures are the result of sometimes *ad hoc* or unilateral actions, and may be based on self- or mutual interest. Yet they derive from a broadly accepted theoretical position, one that is distinct from but related to the Washington Consensus and that has become dominant in recent decades. This perspective considers not only that market-led development and global economic integration are paramount but also that the removal of trade barriers and distortions is the optimal route to market-led development and integration. An enhanced focus on national institutions, legal mechanisms and trade facilitation complement this picture, with aid largely for technical assistance and humanitarian support rather than for activities such as building productive capacity

or infrastructure. Industrial policy is largely off the agenda. Importantly, under this broad perspective underlying current international support, trade and international economic integration – if not globalisation itself – is seen not as just one among many facets of development but as a fundamental – perhaps *the* fundamental – driver of economic growth, and in turn of development more broadly.

However, this mainstream position, deriving from the neoclassical tradition, is but one among many perspectives within development economics, some of which have been forgotten or sidelined but are worth revisiting in the search for new ideas about international support. Most economic policy ideas derive in large part from a theoretical or methodological background, and in seeking to improve policies or support measures it helps to re-examine these premises. While few would argue that existing support measures are harmful – and indeed eclecticism is to be valued – questions remain over whether support is currently directed to the correct areas or goes far enough, and over whether existing ISMs limit ambition by creating the impression that enough is being done.

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### 3. Evidence

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It is now nearly half a century since the launch of the LDC category and creation of the first ISMs; two decades since the start of EBA, which broadened the scope of support; and four decades since the first Programme of Action for LDCs, which attempted to make ISMs more responsive to demand. Enough time has passed to be able to judge the record so far. The evidence shows at best mixed support for the theoretical propositions behind existing ISMs and their practical manifestation. While structural changes in the global economy, international relations and national policies have a bigger impact than ISMs, the language behind the ISMs, the programmes of action for LDCs and the SDGs is ambitious. This suggests that international support could indeed help close the development gap. International support exists within a global economic and national political context and should be designed realistically,

in such a way as to interface with this reality. Agenda 2030 and the SDGs include lofty goals for the LDCs. Whatever the impact so far, much more can be done.

On the positive side, in 2018, more than double the amount of countries that had left the LDC category in its history to that point (five) became eligible for graduation. Up to 12 countries are eligible to leave in coming years, of which five are Commonwealth members: Bangladesh, Kiribati, Solomon Islands, Tuvalu and Vanuatu. However, graduation is only one of the metrics that should be taken as a measure of success – and, even here, progress has fallen short of objectives. It took 23 years before any country graduated (Botswana in 1994). From 1971 to the early 2000s, the category doubled in size, with many more countries joining than leaving. Only a third of LDCs met the graduation criteria between 2010 and 2020, well short



of the IPOA target of half. Kiribati and Tuvalu sought delays to graduation, citing extreme vulnerability (a final decision has been delayed until 2021). Vanuatu also sought an extension then was hit by cyclone Pam in 2017, when it was given a further extension based on the economic impact of this natural disaster.

The performance of these small island states, comprising four of the five graduating Commonwealth LDCs, is broadly based on political stability, an upturn in tourism, strong human development policies and high levels of aid (see Table 1). International market access has largely not been the driver of economic growth. No Pacific island LDC is reliant on goods exports. In Vanuatu, scheduled to graduate in December 2020, and one of the strongest performers in the LDC group, goods exports fell from 10 per cent of gross domestic product (GDP) in the early 2000s to 4 per cent of GDP in 2018. Services, both domestic and export-oriented in the form of tourism, and not the subject of international support, have driven economic expansion, particularly during a rapid period of growth from around the mid-2000s until the mid-2010s. Pacific island services exports, like in most other LDCs, have not yet benefited from the services waiver operationalised in 2013.

Bangladesh, one of the world's fastest-growing economies and an example of mass poverty reduction, is the main example of a country

where ISMs have helped underpin success. Innovative national industrial policies in the ready-made garment sector have helped the country take advantage of trade preferences – latterly EBA – to lead also to strong improvements in health and education and increased economic stability. For Bangladesh, Cambodia, Myanmar in recent years and, to a lesser extent, several other non-Commonwealth countries, EBA and DFQF schemes have been an important foundation of trade and economic growth, helping facilitate garment exports.

But even in Bangladesh, inequality has worsened in the past decade. Between 2010 and 2016, the incomes of the bottom 10th of Bangladeshi households fell. Over the same period, the incomes of the lowest 5 per cent fell by more than half, according to government figures. The same government data shows that about 40 million people remain below the national poverty line, a group large enough to make up one of the top five LDCs in its own right (Gay, 2020a). Bangladesh is not atypical globally, in that inter-country inequality may be falling but intra-quality is in many cases increasing as globalisation opens up gaps between winners and losers (Milanovic, 2016). LDC graduation, therefore, while a great achievement, is not always a success shared by everyone and must be weighed against rising inequality and the reality that many millions of people are being left behind – and that being left behind in an

Table 1. Selected indicators, Pacific island LDCs

Country	Change in GNI per capita, 2000–2018 <sup>(i)</sup>	Change in Human Assets Index, 2000–2018 <sup>(ii)</sup>	Change in Economic Vulnerability Index, 2000–2018 <sup>(iii)</sup>	Tourism growth, 2000–2018 <sup>(iv)</sup>	ODA per capita, 2018 <sup>(v)</sup>
Kiribati	227%	31%	1%	48%	US\$640
Solomon Islands	75%	18%	–16%	437%	US\$296
Tuvalu	97%	4.3%	–24%	145%	US\$1,635
Vanuatu	100%	20%	–12%	100%	US\$423
World average	54%	–	–	109%	US\$22

Sources and notes:

- (i) CDP Secretariat, based on UN Statistics Division National Accounts Main Aggregates Database (<http://unstats.un.org/unsd/snaama/>) and World Bank Atlas methodology for converting local currencies into US\$. Data for world average based on WDI PPP (constant 2011 international %).
- (ii) CDP Secretariat, Human Assets Index used in LDC criteria. Data for Tuvalu available only from 2006.
- (iii) CDP Secretariat, Economic Vulnerability Index used in LDC criteria. A negative number represents lower vulnerability (e.g. Kiribati has become 1% more vulnerable since 2000).
- (iv) International tourism, number of arrivals. World Tourism Organization, Yearbook of Tourism Statistics, Compendium of Tourism Statistics and data files.
- (v) OECD.Stat. Net ODA received per capita, current US\$.

LDC represents a much more severe threat than in most other countries.

### 3.1 Economic performance

The economic performance of the LDC group as a whole has been mixed, although some signs of improvement and divergence have occurred in recent years. To gain a long-term perspective and to put in context the trends of the past decade, it helps to look at data running back to the formation of the category in 1971 (because of likely measurement error, the statistics should be read cautiously, particularly those from before around 2000). Figure 2, showing total real GDP rebased to 100 in 1970, shows that the LDCs initially fared very badly, underperforming the rest of the world for over three decades, before finally converging in 2008 and on a relative basis surpassing cumulative world GDP performance thereafter.

Compared with other developing countries, however, economic output in LDCs has grown much more slowly. Even during the past 15–20 years, the trajectories of the two groups have continued to diverge.<sup>4</sup> World GDP has grown over fourfold in real terms since 1970, LDC GDP over fivefold and developing country GDP nearly tenfold.

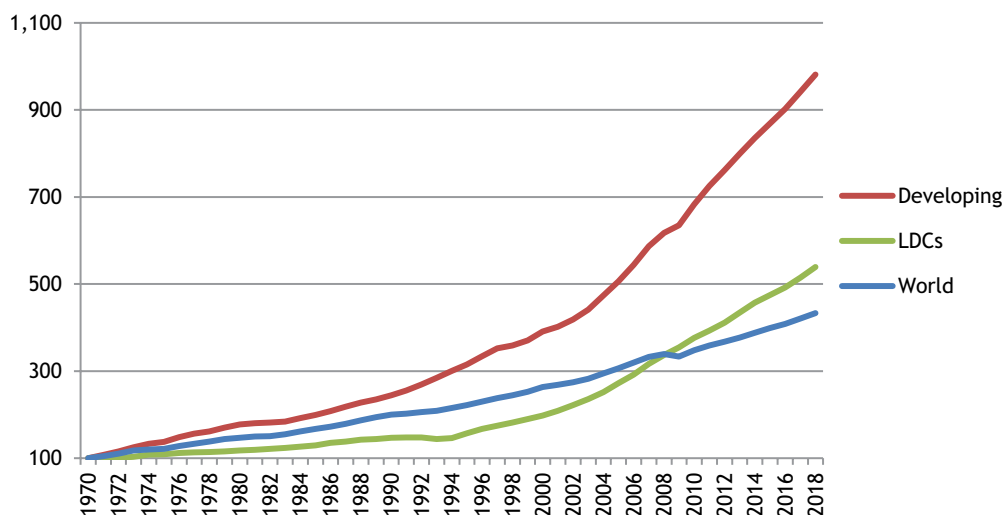
Based on GDP, while there is some evidence that LDCs are slightly narrowing the gap with the rest of the world – and it is encouraging that this progress has occurred within the period of the IPOA – LDCs are falling further behind other developing economies. This trend is true even excluding China.

On per capita GDP, however, LDCs lag further behind both the rest of the world and developing in both real and nominal terms. After 2000, real GDP per capita growth in non-LDC developing countries more or less kept pace with that of the rest of the world. Meanwhile, average real per capita GDP in LDCs stagnated for over three decades, regaining its nominal 1970 level of US\$556 in 2002, after which it grew quickly, to US\$922 at the end of the period (US\$1,060 in nominal terms). This compares with US\$10,802 for world GDP in real terms (US\$11,181 nominal) and US\$5,019 (US\$5,405 nominal) for developing countries. While progress has finally occurred during the decades of the Brussels Programme of Action and IPOA, and even though China inflates the overall figures for developing countries, it is a source of concern that LDCs have continued to fall further behind other developing nations. As noted above, average progress has often obscured a rise in national inequalities.

Finally, compared with the group of middle-income countries (some of which are also LDCs), GNI per capita in LDCs has consistently grown more slowly since 2000. There has also been significant divergence within the LDC group. Some, including the majority of graduating countries, have performed well. Others have suffered a decline in growth in both aggregate and per capita terms.

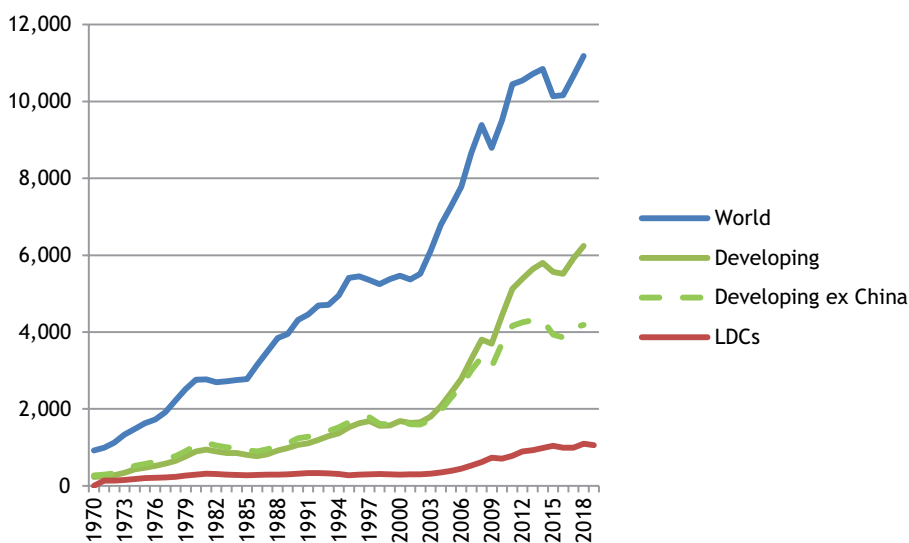
In almost a third of all LDCs, real GNI per capita declined between the 2015 and 2018 UN Committee for Development Policy (CDP)

Figure 2. Index of real GDP, 2010 US\$, rebased to 100 in 1970



Source: UNCTADstat.

Figure 3. GDP per capita, current US\$



Source: UNCTADstat.

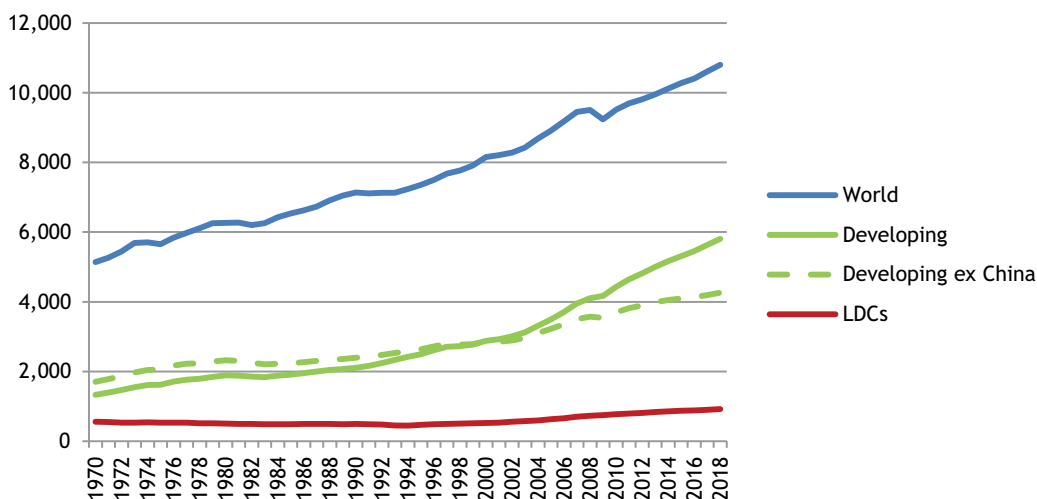
triennial reviews.<sup>5</sup> In nine non-graduating LDCs, six in Africa plus Afghanistan, Haiti and Yemen, real GDP per capita fell between 2013 and 2018 (WDI). Data for South Sudan is unavailable. Even in some graduating countries, such as Timor Leste and Angola, GDP per capita has recently fallen.

On a purchasing power parity (PPP) basis, US\$ GNI per capita has fallen or failed to increase in seven countries during the most recent five years for which data is available – Angola, Burundi, Central African Republic, Chad, The Gambia, Liberia and Sierra Leone (Afghanistan and Yemen would fall within this group but data is unavailable). Most of these are conflict or post-conflict countries or have

recently suffered regime instability. In five more – Comoros, Haiti, Lesotho, Mauritania and Uganda – PPP US\$ GNI per capita has risen by 5 per cent or less in total over the past five years (WDI).

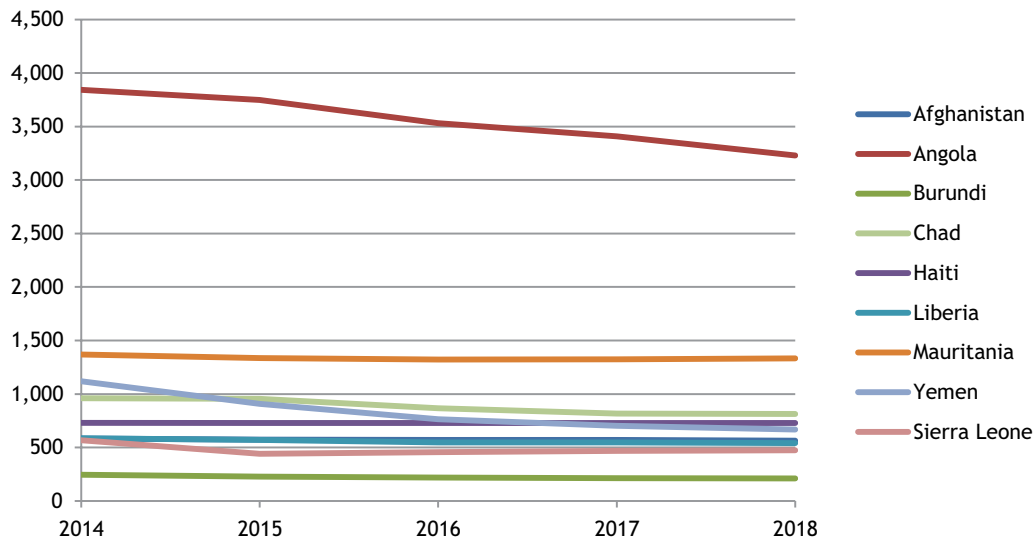
While various measures of economic output yield different results, it is clear that the LDC group is diverging. Some economies are growing quickly, most at a steady rate by historical standards, whereas others decline in absolute terms. This divide between the economies of fast-growing LDCs, around half of which are graduating, and countries in which the economy has worsened, should ideally be accommodated within the international support architecture.

Figure 4. GDP per capita, constant 2010 US\$



Source: UNCTADstat.

Figure 5. LDCs with decline in GDP per capita between 2014 and 2018, 2010 US\$



Source: WDI.

### 3.2 Performance on LDC criteria

Analysis by the CDP Secretariat for the most recent triennial review, in 2018, shows that, over the previous 12-year period, progress occurred on GNI per capita and the Human Assets Index (HAI) but not on the Economic Vulnerability Index (EVI). There has been significant variation in progress among both LDCs and non-LDCs.

On average, LDCs experienced an increase of 1.7 index points in their HAI scores between 2015 and 2018, with large variations. Correcting for data revisions and methodological changes, eight LDCs experienced a decline in HAI between 2015 and 2018 and two did so between 2012 and 2018. The HAI scores for a number of other LDCs fell because of the addition of new literacy data and the introduction of maternal mortality in the index.

Of more concern is that, on average, the EVI score of LDCs made marginal progress, falling only 0.15 index points (the lower the less vulnerable). The EVI scores of 20 countries (43 per cent of the total) deteriorated between 2015 and 2018, driven by natural disasters and agricultural instability. A total of 19 countries saw a decline between 2012 and 2018. To put this in perspective, however, even many non-LDCs remain vulnerable.

### 3.3 Trade

Given that ISMs are largely oriented towards trade, the trade performance of LDCs might have been expected to have improved. However, the evidence suggests otherwise for most countries. Calculations from UNCTADstat show that total trade per capita (exports + imports) remains very low in LDCs, at only US\$458,

Figure 6. GNI per capita (log of US\$) in 2006 and 2018

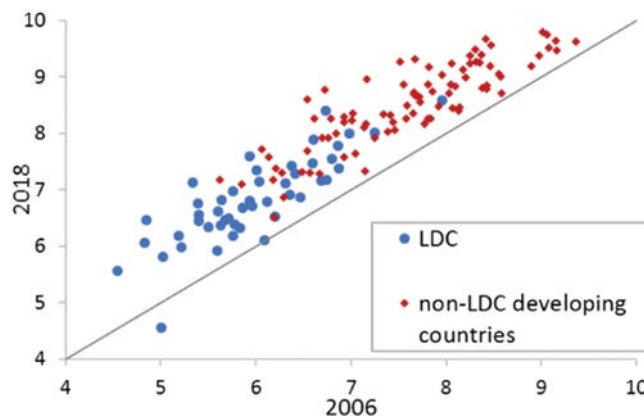


Figure 7. Human Asset Index for 2006 and 2018

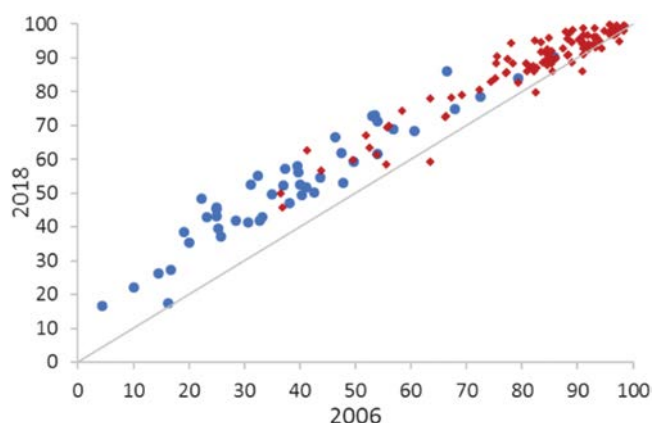
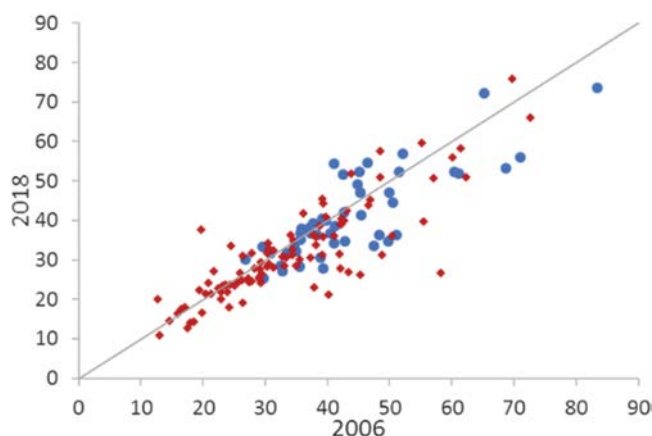


Figure 8. Economic Vulnerability Index for 2006 and 2018



Source: CDP Secretariat

compared with a world average of US\$5,148. The 47 LDCs comprise approximately 13 per cent of the world's population. Total trade per capita began to increase after around 2000, and LDCs now account for around 2 per cent of total trade in goods and services. However, growth was at a slower rate than for the world and other developing countries, even if the trend was less volatile. Noteworthy are the major collapses in world trade in 2009 and 2016, which appear to have had a lesser impact on aggregate figures in LDCs but nevertheless had major effects at the national and sectoral level.

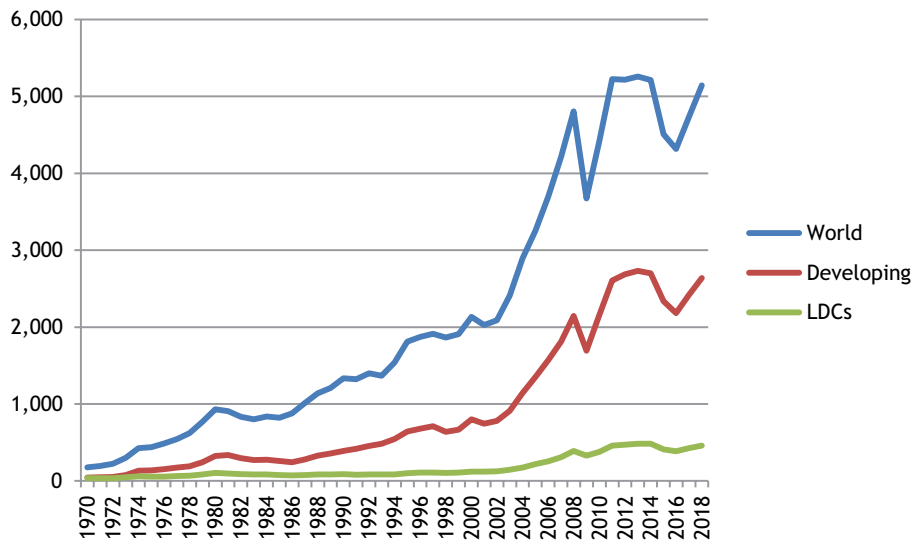
LDC imports have grown faster than exports in the past two decades, despite a narrowing during the commodities boom and just before the global financial crisis. There has been significant divergence in recent years. LDCs' collective share of global merchandise exports is about the same at the end of IPOA as it was a decade earlier, at just under 1 per cent. This trend runs contrary to the expectation that

DFQF would be effective in promoting broad-based export growth, and falls well short of the IPOA objective to double LDCs' share of world trade by 2020. As noted earlier, a select handful of countries have benefited, and their gains have not been enough to push the overall aggregate trend higher.

For services, which until the recent services waiver had no ISM, the difference between imports and exports is even starker. Although data goes back only to 2005, it can be seen that services imports have long exceeded exports as a proportion of the world total, with the gap at the end of the period similar to that at the start, with an upturn in the world share of imports during the intervening timeframe.

From a current account perspective, the main trend, according to available data, has been a significant divergence between LDCs and other developing countries starting in 1999, largely linked to the commodity price boom of the subsequent 15 years, which had a

Figure 9. Total trade per capita, current US\$



Source: UNCTADstat.

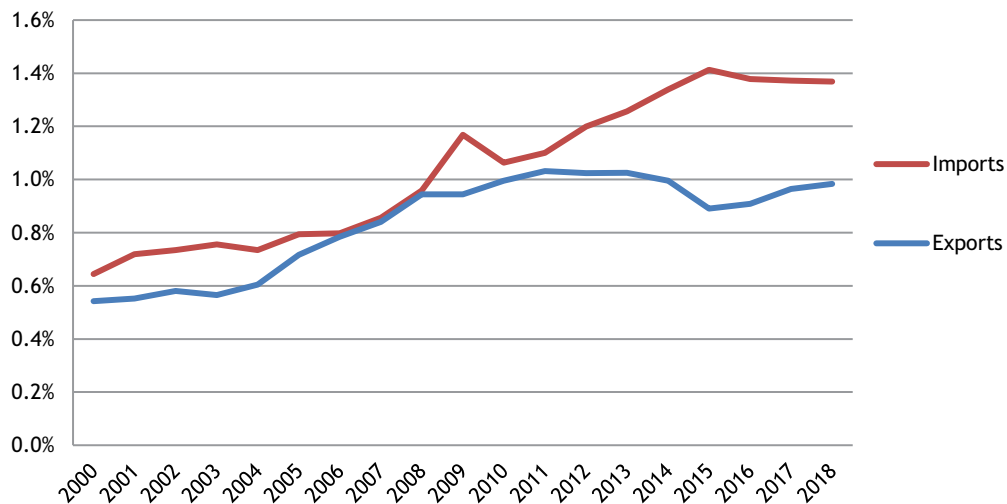
disproportionate impact on developing country exports. In line with the long-term stagnation in LDC economies during the 1980s and 1990s, LDC current account balances remained largely in negative territory until 2007, when major deficits were recorded. A rapid upturn in LDC current account balances beginning in 2007 coincided with a collapse for developing countries. By 2018, the indexed values had almost re-converged, but at a higher level than before.

The LDC group ranges from the commodity-dependent sub-Saharan African members, to the manufacturing-oriented Asian countries, to the tourism-dominated small island states of

the Pacific. This diversity is reflected in trade figures, with Angola, Bangladesh and Myanmar together accounting for half of all LDC exports and the majority of EBA preference utilisation. Bangladeshi exports are worth those of the bottom 28 LDC exporters combined, and Angola's are worth those of the bottom 40. The impending departure of these two countries from the group will dramatically reduce LDCs' share of world trade. For most LDCs, exports do not comprise a large share of economic output.

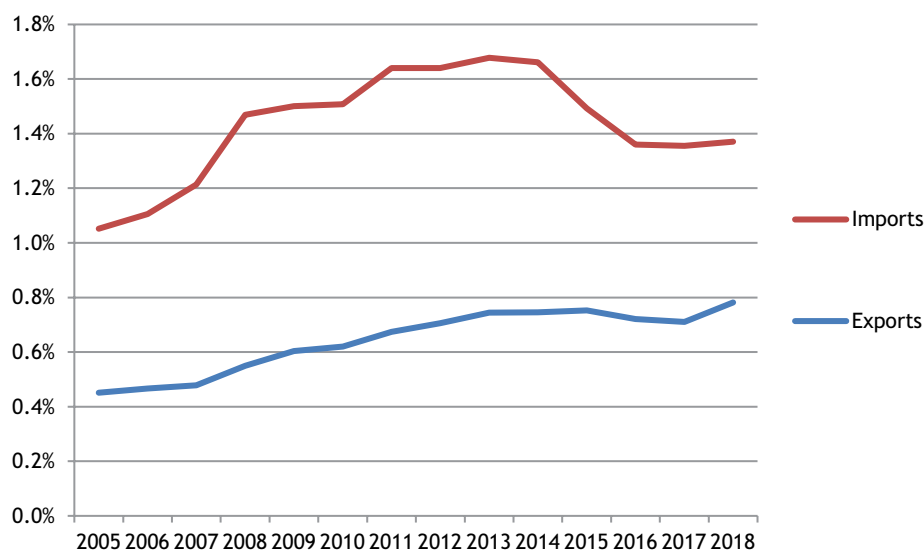
Most LDC economies are undiversified, with their exports dominated by a small number of products, many of which are unprocessed commodities. Yet, despite the smaller trade share of

Figure 10. Share of global merchandise exports and imports



Source: UNCTADstat.

Figure 11. Share of global services exports and imports



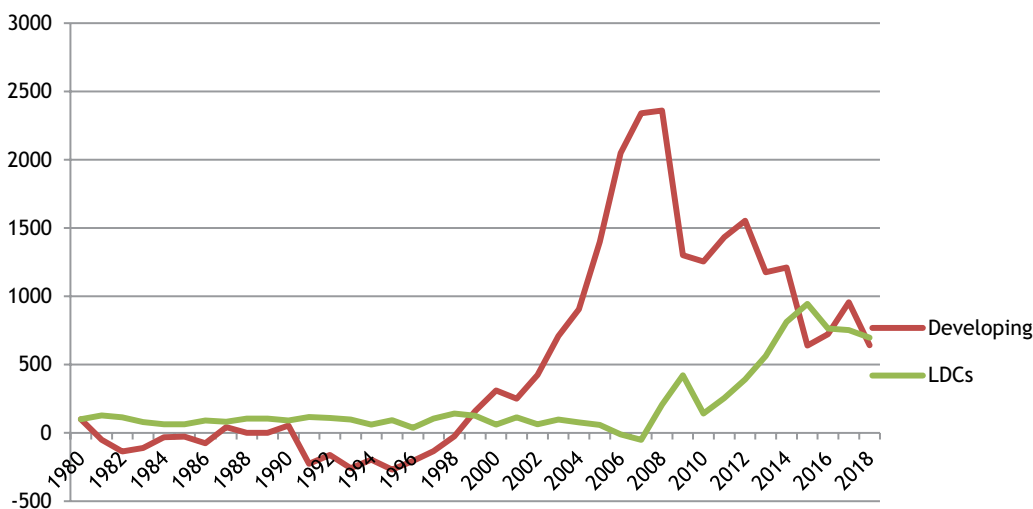
Source: UNCTADstat.

GDP in most LDCs, the volatile nature of international commodity prices remains a major source of economic instability. The countries at the global periphery, to which the LDCs belong, remain defined to some extent by their reliance on commodity production and its unprocessed export to core countries. Including forthcoming graduates, more than 40 per cent of LDCs depend on commodities for over 30 per cent of their exports, and more than 20 per cent rely on commodities for over half of their exports. LDC graduation will make the LDC group even more commodity-dependent, given that most of the graduating countries are manufacturing- or tourism-oriented. For landlocked

developing countries, commodity dependence is even starker, as Figure 13 shows.

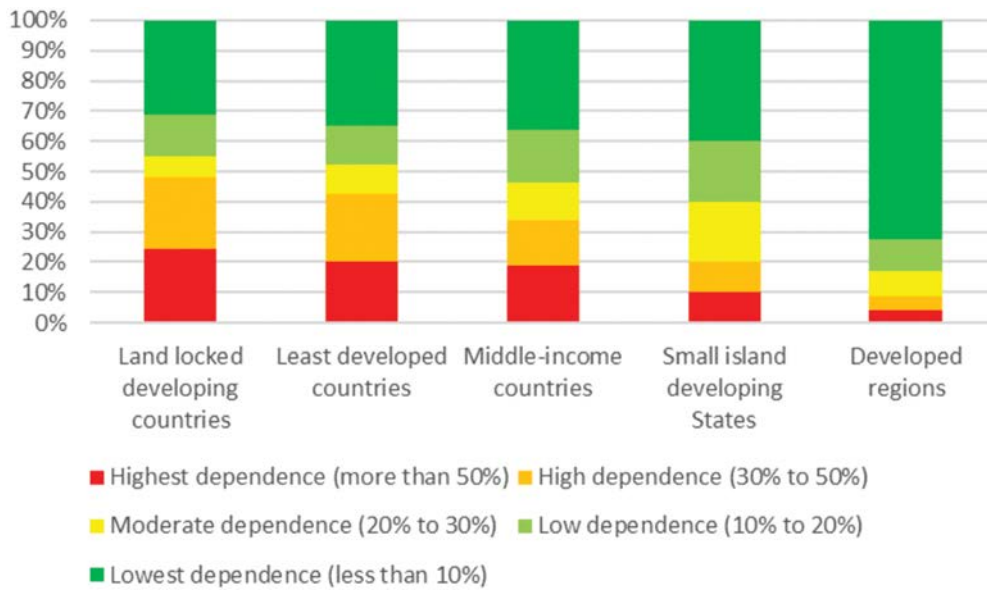
Commodity prices have shown major volatility over the past two decades, more than tripling between 2000 and 2011 before collapsing over the subsequent four years. This has been a major hindrance in LDCs' ability to generate consistent trade growth and to diversify, and has undermined economic performance (UNCTAD, 2019). On the import side, large swings in fuel prices have been a particular problem for the majority of LDCs that are fuel importers. The extreme volatility that characterises international commodity markets has long been identified as a critical

Figure 12. Index of current account balances, rebased to 100 in 1980



Source: UNCTADstat.

Figure 13. Commodity dependence index, 2016, share of countries



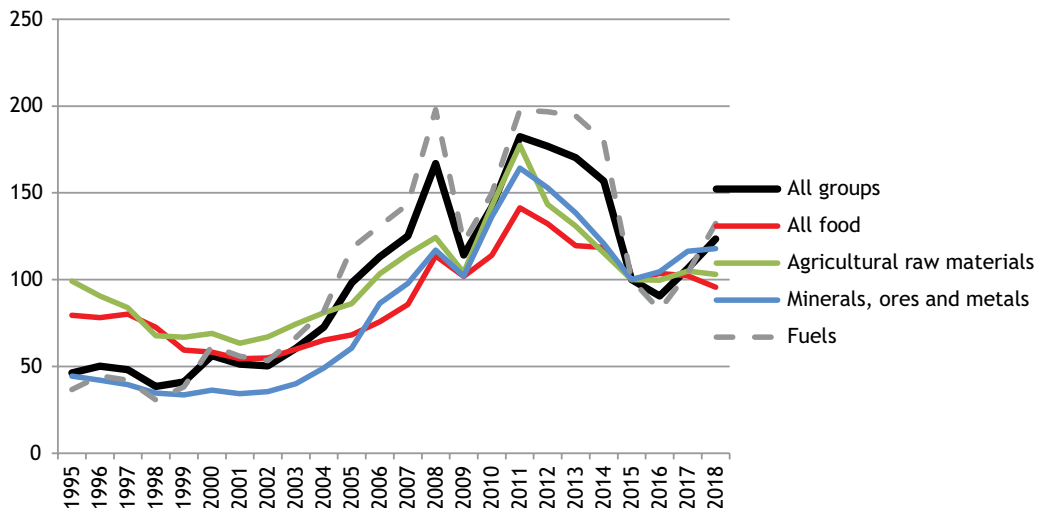
Source: UN Comtrade.

concern for trade in LDCs. Although no ISM exists for commodities, the International Monetary Fund (IMF) and the EU have provided facilities for countries facing external shocks, such as the STABEX scheme. The IMF, like the World Bank, does not base assistance or lending decisions on the LDC criteria; indeed, CDP research shows that bilateral and multilateral entities do not use the category as widely as they should (CDP, 2017b). Ideally, commodity instability should be addressed within the international support architecture for LDCs.

### 3.4 Investment

The most useful indicator of national investment is gross fixed capital formation as a proportion of economic output, which reflects the outcome of all sources of investment inflows as well as domestic public and private investment. Chang (2014) argues that the rate is one of the best predictors of structural change in developing economies, given that underinvestment and the insufficiency of domestic revenue generation are among the key causes of underdevelopment.

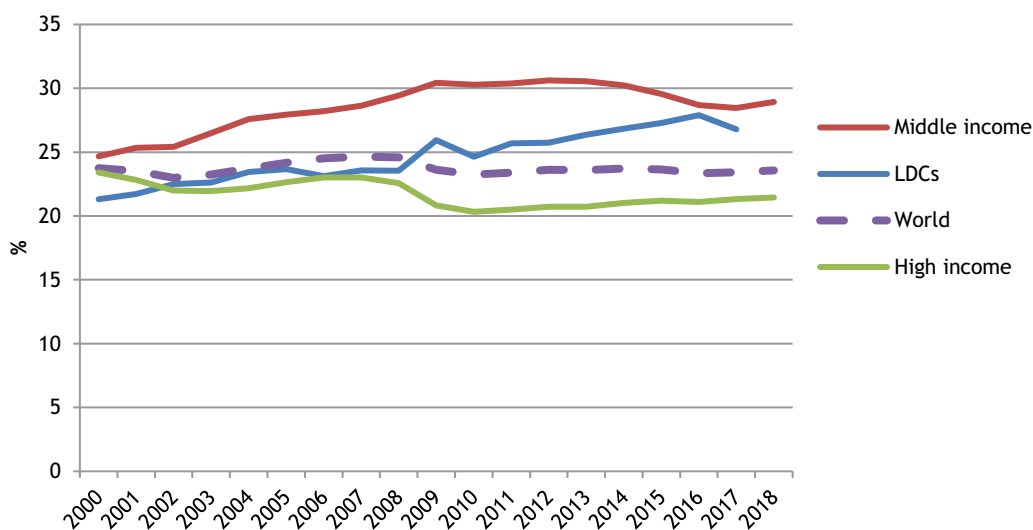
Figure 14. UNCTAD commodity price indices, 2015=100



Source: UNCTADstat.



Figure 15. Ratio of investment to GDP



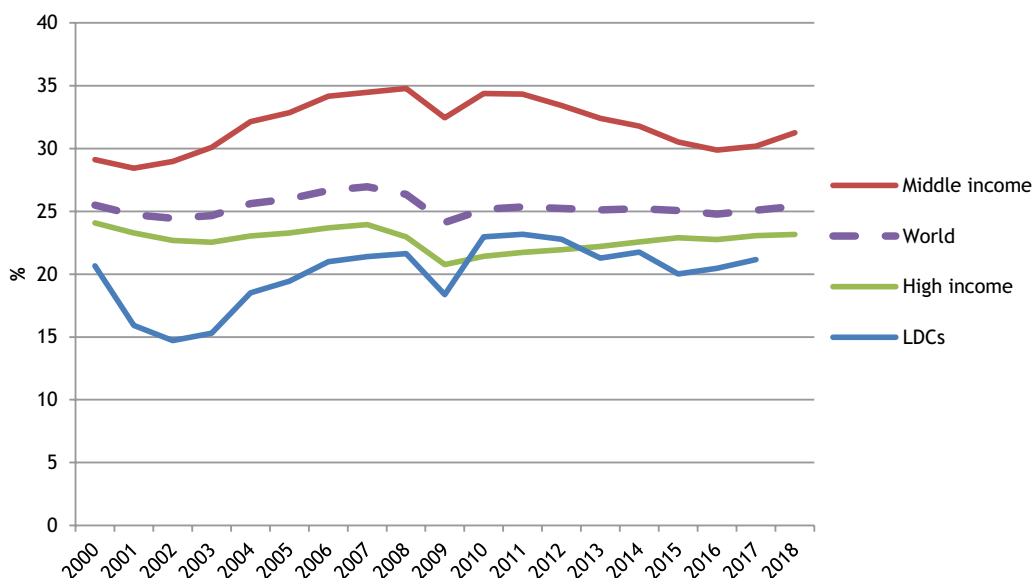
Source: WDI; gross fixed capital formation.

A quote from Nicholas Kaldor (1963) remains relevant: ‘It is shortage of resources, and not inadequate incentives, which limits the pace of economic development. Indeed the importance of public revenue from the point of view of accelerated economic development could hardly be exaggerated.’ Sheer capital accumulation is a major driver of early-stage development. Incentives, such as via exposure to the correct market prices, are secondary (although certainly not irrelevant). The ability to generate domestic revenues for redistribution is also the most important tool in addressing inequality. The most recent World Bank data shows that,

in LDCs, government revenue as a percentage of GDP has declined since 2010, to around 10.3 per cent. This compares with 11.7 per cent in middle-income countries (with which there is some crossover) and 15.1 per cent in high-income countries.

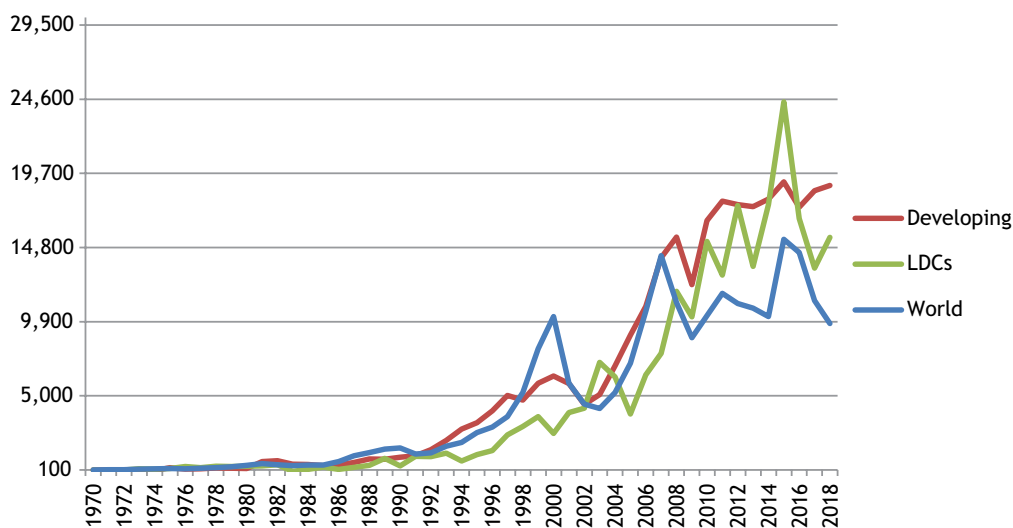
Figure 15 gives cause for cautious optimism, showing a slightly more positive picture than for trade. Since 2000, the investment ratio in LDCs has been increasing, almost converging with the middle-income rate in 2016 before declining the following year (it is acknowledged that the two categories are not strictly comparable, and that some LDCs are also middle-income).

Figure 16. Ratio of gross domestic savings to GDP



Source: UNCTADstat.

Figure 17. Index of FDI flows, US\$, rebased to 100 in 1970



Source: UNCTADstat.

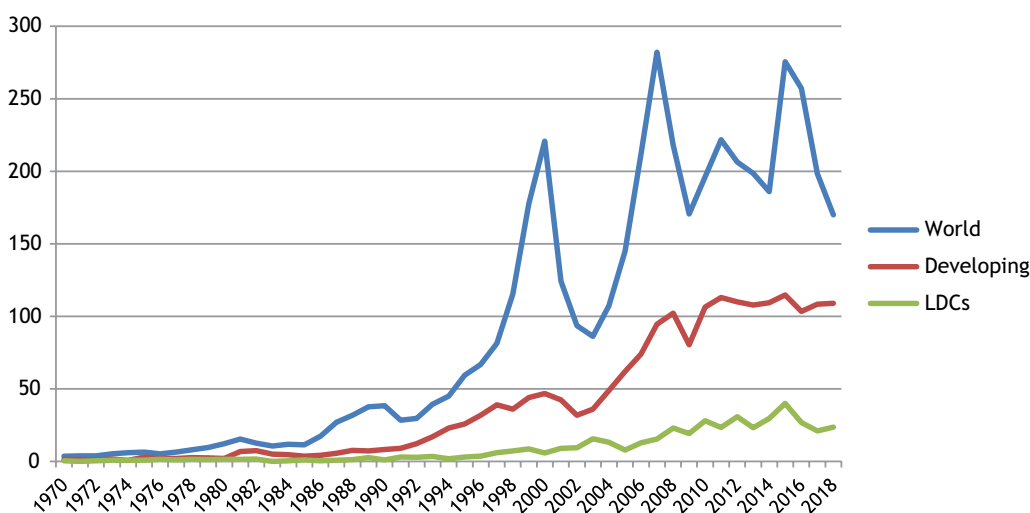
The average rate was, however, on a downward trend in 2017, and is in many countries too low.

LDCs also lag behind other country categories on the savings ratio, recording a rate little higher in 2018 than in 2000, after considerable variation during the period. A large proportion of financing in LDCs comes from external sources such as ODA and foreign direct investment (FDI), or from borrowing.

Compared with other developing economies and the rest of the world, however, LDCs have experienced higher relative growth in incoming

FDI, especially since the early 2000s, when there was a steep rise, followed by a sharp drop-off in 2015. The major volatility over the period is associated with commodity price instability. On a per capita basis, however, FDI inflows to LDCs are much lower than in developing countries and the rest of the world, and have grown more slowly (although with less volatility) over the period in question. In 2018, FDI inflows per capita in LDCs were worth US\$23.60 in LDCs, compared with US\$109.0 in developing countries and US\$170.0 for the world.

Figure 18. FDI inflows per capita, US\$



Source: UNCTADstat/author's calculations.

## 4. Explanations

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The mixed and often disappointing performance of LDC economies in recent decades, and during the most recent programmes of action, raises questions about the existing approach to ISMs. In advance of UNLDC-V, this implies a need to re-examine the underlying assumptions and theory behind existing ISMs – and to propose new ways of thinking about international support.

It is important to recognise that, inasmuch as LDCs have been able to take advantage of trade, DFQF in general has helped raise economic growth and human development in some countries, providing a tariff preference advantage in certain export destinations and in some cases sparking a virtuous cycle of secondary growth. EBA was a step forward, prompting other developed and developing nations to follow suit with preference schemes. Few would argue that LDCs should somehow become further disconnected from the world economy. DFQF should undoubtedly remain part of the ISM arsenal.

DFQF and EBA, however, have disproportionately benefited a handful of countries. Bangladesh (61.8 per cent), Cambodia (18.4 per cent) and Myanmar (7.1 per cent) together account for 87.3 per cent of EBA imports to the EU. African countries account for less than 5 per cent of total Generalised System of Preference (GSP) imports to the EU (European Commission, 2020). Irrespective of preference erosion, there has always been a need – a need that is now increasing – for new types of support differentiated according to country requirements. Market access is not enough, and existing trade ISMs have fallen short of objectives. The form, sequencing and type of trade engagement will have a major impact on the performance of LDCs, as will government and international policy priorities. On top of this, bilateral and regional trade deals are eroding preferences. Complementary support mechanisms and national policies are becoming even more important in helping beneficiaries capitalise on DFQF. S&D at the WTO has, with a few exceptions, been of limited benefit to most LDCs.

One of the underlying explanations as to why most LDCs have not been able to leverage

increased market access and associated trade-related ISMs has been lack of development in productive capacities and the associated absence of structural transformation (CDP, 2017a, 2018). Relatively little research focuses on this direction of causality (i.e. productive capacity  $\rightarrow$  trade), with most discussions, of various theoretical perspectives, analysing the opposite relationship (trade  $\rightarrow$  productive capacity), be it positive or negative. Indeed it has been clear for some time that IPOA targets in productive capacity will be missed (Commonwealth Secretariat, 2016). Many LDCs, particularly in Africa, are undergoing reverse transformation, with a premature shift of the labour force into services, often informal. Conventional structural transformation into higher value-adding activities – driven by a move from agriculture into manufacturing – is not occurring, with a corresponding impact on productivity. Unemployment and semi-employment remain extremely high in some countries, while wage growth has been broadly disappointing.

Rodrik (2014) has suggested that a new, emerging worldwide trend towards growth without positive structural transformation may even be occurring. Manufacturing value-added and manufacturing employment have become progressively uncorrelated with economic growth since the 1960s, particularly in sub-Saharan Africa. In other words, growth has increasingly been jobless and non-manufacturing-based. Large-scale, low-skill employment is less in demand; manufacturing prices are falling; and the rise of global value chains has facilitated entry to global manufacturing but diminished returns. The rise in services growth in LDCs cannot compensate for the stagnation of manufacturing because it features inherently lower productivity. Rodrik hypothesises that growth in developing countries will fall below its high rates of previous decades. Convergence with the developed world will continue, but more slowly, and in large part because of low growth in advanced economies. As domestic rather than global trends drive growth, significant heterogeneity in long-term performance across developing countries is likely, including within the LDC group.

These somewhat pessimistic findings conflict with the assumption that improved market access will cause export growth and the insertion of LDCs into global value chains – that is, that domestic supply will respond automatically to international demand, and the production structure will be rearranged toward higher-productivity activities, given a reduction in trade taxes or domestic distortions. If Rodrik's arguments are accepted, the character of global production has now shifted too much for the full integration of LDCs through trade access to be able to produce the benefits predicted by the implicit theory underlying ISMs. The mainstream theory was incorrect to assume that increased exposure to international market prices alongside domestic factor market liberalisation would spontaneously lead to positive structural transformation based on specialisation in comparative advantage (even sophisticated specifications of this theory start from assumptions too unrealistic to result in appropriate policy recommendations).

Quite apart from any emerging worldwide structural trends, domestic capital and labour markets in most LDCs (and in some emerging and developed countries and regions) are not characterised by what might be termed flexibility, and, for linguistic and cultural reasons, and owing to a lack of financial development, domestic factor mobility is usually extremely limited (as it is in even developed regions such as Europe). In an LDC context, workers and capital often do not move readily from one part of a country to others. Large parts of many LDCs remain excluded from the cash economy and from formal employment. The concept of economic flexibility has proven largely inappropriate: attempts to achieve it have often fallen short of their objectives; indeed, flexible factor markets may not even promote structural transformation. Particularly in LDCs, trade growth is an issue of the active stimulation of domestic supply as much as it is a response to international demand.

These latter ideas are not new, and have a long heritage, deriving loosely from the developmentalist and structuralist traditions, the work of Kaldor (1981), Kalecki (1969, 1971), Hirschman (1958), Chang (2002, 2014) and others, and revisited and revitalised by the United Nations Conference on Trade and Development (UNCTAD) in the annual LDC

reports and elsewhere. Amin (1976), Prebisch (1950), Singer (1950), Wallerstein (1974, 1980, 1989) and others also emphasise the systemic nature of the world economy alongside the importance of global coordination. One implication of their ideas is that the absence of structural transformation is not accidental or a result only of national policies – but has a global dimension.

For Amin, catch-up or convergence under capitalism is impossible. Countries such as LDCs were subject to unequal exchange, in which labour power was valued less in the periphery than in core countries. Without change in the global economic system, this process of unequal exchange will reproduce itself. The implication is that LDCs have an interest in transcending the current system of production and 'delinking' from the core. Whether or not one agrees with the analysis, the perspective is valuable in that it highlights global wage differentials and the persistent challenges to economic catch-up deriving from power imbalances. Simply improving LDCs' access to developed and other developing country markets is not enough.

The ideas of Wallerstein, another pioneer of dependency theory, emphasise the systemic nature of the world economy and the power-based interrelationship between core, semi-periphery and periphery. Functionally, peripheral nations such as LDCs are locked into a system of production and exchange in which they effectively facilitate consumption and profit in the core. The extraction of value from primary commodities in LDCs is central to the fortunes of companies operating in the core, which create shareholder value in part by processing, often away from the zone of extraction. In manufacturing, it is often not in the interests of core multinationals to encourage value-addition, productivity improvements and associated wage growth in LDCs, which are useful insofar as they are sources of low-cost labour. In a contemporary extension of this line of thought into the sphere of financial markets, emerging market and commodity price volatility can provide lucrative returns for developed world financial institutions, which have major lobbying power. It is not in the interests of financial market traders to promote commodity price stability. Power and self-interest work against pro-LDC systemic change.

The Prebisch-Singer hypothesis (Prebisch, 1950; Singer, 1950) is an important finding within the dependency theory tradition, positing that, over the long term, the price of primary commodities falls relative to the price of manufactured goods, leading to deterioration in the terms of trade of economies relying on primary products. The gains from trade will be distributed unequally between primary product exporters and manufacturing exporters. Tausch (2010) and others have recently revisited the relevance of dependency theory to take account of new data, while some studies find support for the Prebisch-Singer hypothesis. With the impending ‘Africanisation’ of the group, the hypothesis finds further relevance in LDCs.

For thinkers within the dependency framework, vulnerability is an inherent and functional feature of the global economy. Peripheral countries are always exposed to shocks or the expectation of shocks. Vulnerability is not a temporary affliction or an aberration that aid can ameliorate. It is the norm – and the inherent instability of LDCs may be why they perform so poorly on the UN vulnerability criterion. Without global systemic change, these countries will always remain susceptible to volatility.

If these broad insights are accepted, it can be seen that it is not the lack of exposure to global markets or domestic liberalisation that are the key challenges facing LDCs, it is the absence of global coordination; wage inequality; shortage of sustainable investment; limitations in public revenues; and the deficiency of technology and the capital stock. Exposure to an uncoordinated global economy can make LDC economies more volatile and vulnerable. Even under conditions of full inward and outward openness to international investment and trade – that is, the conditions that the theory underlying the current composition of ISMs posits as optimal – sustainable economic development may not take place. With current ISMs, countries

on the global periphery will always struggle to develop in a way that meets both human and ecological needs – unless active measures are put in place aimed at improving international coordination, stimulating investment, boosting production and demand, and accumulating capital sustainably. These ideas imply the need to build productive capacity and directly promote structural transformation using a range of support options tailored to individual country circumstance.

Most thinkers within these traditions, particularly Kalecki and Hirschman, were at pains to point out that policy needs to be adapted to country context, and that one size does not fit all. The type of economics that is valid in the developed world (what Hirschman called ‘mono-economics’) may not be appropriate in developing countries, which operate at permanently insufficient levels of aggregate demand and are always short of capital.

Even among developing countries and LDCs, new differences are emerging. International support must accommodate this divergence. DFQE, for example, has more relevance to some manufacturing exporters than to commodity exporters. S&D at the WTO neither extends far enough nor is useful to all LDCs, some of which have benefited more than others. Without wishing to create undue complexity, some have even argued for different ISMs for various country groups. Cornia and Scognamiglio (2016), for instance, suggest dividing LDCs into six clusters: countries at war, small and remote countries, mining, agriculture, manufacturing and services.

While this may be unrealistic, and result in excessive fragmentation, any new ISMs should be seen not as an overall prescription or blueprint but as a range of mechanisms to be adopted by the international community and governments themselves, some of which may prove more relevant to one country than others.

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## 5. A revitalised approach to international support

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Reaffirming and revitalising proposals derived from these alternative traditions helps in the search for new ideas for international support, which should be based on national ownership

and enhanced international coordination, acknowledging the right of governments to choose pathways appropriate to the national context and vision. One of the key features

of the proposed revitalised approach is that international support should be systematic but differentiated, with measures in place for all countries but from which various countries may benefit differently. The notion of differentiation contrasts with the current approach, in which one size is expected to fit all. A number of suggestions on differentiation are addressed below.

Another important principle of international support should be to 'first do no harm' (Nunn, 2020). Acknowledging that the global economic system is power-based and functionally creates winners and losers, any support structure should be designed not to further the problems of LDCs. For instance, foreign aid is a net benefit to LDCs but is largely shaped by the strategic or economic interests of donor countries (Alesina and Dollar, 2000; Kuziemko and Werker, 2006), and, while these interests may coincide with those of recipients, often they do not. Aid may be misused and can fuel conflict (Terry, 2002; Lischer, 2005; Barnett, 2011; Nunn and Qian 2014). Even the non-aid activities of developed countries portrayed as helping less advantaged nations, such as anti-dumping measures at the WTO, can have adverse effects (Nunn, 2020).

UNCTAD (2010) proposes a new international development architecture for LDCs, dividing it into five categories: finance, trade, commodities, technology and climate change. The suggestions below build on, amend and add to this list. Although the focus of the present discussion is on trade, each of these categories is interrelated and affects trade. It makes little sense to discuss each in isolation or to talk about trade itself without reference to other proposed areas of support. For example, commodity price volatility is highly correlated with LDC exports. The difficulty in increasing value-addition derives from the lack of access to technology. Climate breakdown has an increasing impact on several dimensions of economic and trade performance and worsens vulnerability. A lack of access to finance has long been at the root of LDCs' inability to catch up, among other things hindering the pace of technological development and trade growth. These interrelationships, among others, require a discussion of all proposed support measures together.

Another reason to discuss all types of support simultaneously is that international

assistance for LDCs should not simply amount to a small set of options to be delivered *ad hoc* by bilaterals according to their domestic priorities – one of the shortcomings of the current ISMs. UNCTAD (2010) is at pains to point out that what is required is a new *architecture*, or a systematic set of measures ideally enacted alongside each other as part of multilateral commitments, with support from bilaterals where appropriate. The report also suggests the use of the word 'mechanisms' rather than measures, based on the idea that LDCs should reveal their potential by becoming an active part of the global economic system rather than remain passive recipients of hand-outs. For this reason, the suggestions below refer to 'international support' rather than to ISMs.

Amin, Prebisch and Wallerstein argue that the world economy is tightly interwoven, with peripheral countries reliant on, and exposed to, the core. While the more functionalist or determinist versions of these theories go too far, and the world economy is not zero-sum, it is true that LDCs exist in a state of interrelationship with the developed world and with semi-peripheral and emerging economies. It is unrealistic to imagine significant commodity value-addition in LDCs without addressing this functional interrelationship via legal mechanisms as well as regional or multilateral agreements. Voluntary measures or *ad hoc* short-term aid only tend to perpetuate the problems of dependency. International rules or norms are required, such as innovative commodity agreements (recalling the arrangements that ended in the 1980s); joint financing of geological information in LDCs; or an enforceable common format for sale of the rights to extraction. Ambitious types of international rules relevant to other areas of concern to LDCs could even include commitments to coordinate wages, working standards and carbon emissions; measures to reduce macroeconomic volatility; and curbs on international financial market and commodity speculation. Any new international support ecosystem is inevitably multilateral.

To advocate for each LDC support measure separately would be to overlook the reality that many of the reasons for LDC marginalisation and underperformance derive from the (perhaps unintentional) activities of large corporations; or can be considered unfortunate

consequences of governance shortcomings in the international economic system (e.g. Ocampo, 2017). The impacts on LDCs of systemic issues such as tax havens, carbon emissions, agricultural subsidies and immigration restrictions far outweigh existing international support or any measure of development cooperation. Systemic change is both necessary and extremely difficult.

While UNCTAD (2010) is the best coherent in-depth discussion of international support for LDCs so far, the recommendations can be improved and revised in light of subsequent experience, and other discussions such as Gallagher and Kozul-Wright (2019) and Collier (2011) can complement the analysis. A decade later, it is obvious that donors, multilaterals and indeed the inter-governmental system have taken up very few of the original UNCTAD proposals. The envisaged new architecture has not been put in place. Largely, this is because the proposals are optimistic and based on a best case scenario, taking insufficient account of political realities. For instance, DFQF market access was politically acceptable largely because it benefited importers as well as exporters and because it can be delivered at relatively little cost to (and indeed can benefit) the countries or regions that grant it. Commitment to ODA is waning, and arguably aid is itself politicised. In a power-based global system, little incentive exists for developed countries to provide concessions that are of no benefit to the home country or region – and this will be reflected in an arena where the commitment to multilateralism is faltering. This unfortunate reality must be borne in mind when thinking about new measures.

Another necessary qualification and update of the UNCTAD (2010) discussion a decade later is that the recommendations did not allow for the possibility of backtracking or deterioration across or within countries. As shown in Section 3, some LDCs have performed worse in absolute terms in recent years, while volatility remains an ever-present threat and many countries do not meet the vulnerability criterion. More LDCs are at war or in post-conflict situations than before. Millions of people, even in relatively successful LDCs, appear likely to remain poor or vulnerable to sliding back in to poverty. The Chronic Poverty Research Centre (CPRC) (2014), for example, shows that, in

rural Kenya and South Africa (not LDCs but still relevant), surveys over different time periods found that 30–40 per cent of those who had managed to escape poverty fell back, with this share rising to 60 per cent during one recent period in rural Ethiopia. It would also seem desirable to put in place measures to insure against backsliding or stagnation at the national and sub-national levels, as well as differentiating more between countries.

The following proposals can be read as recommendations for the Commonwealth Secretariat's trade-related support to LDCs based on the analyses in the preceding sections, including some proposals that extend beyond the Secretariat's remit but are nonetheless relevant for the topic at hand. Critically, LDC governments themselves need to drive change.

## 5.1 UN system

- i. *Encourage use of the LDC category.* The LDC category is officially recognised by the UN, with recognition in legal texts such as the WTO agreements. Its importance derives from its quantitative, multidimensional nature, its legal recognition and its focus on the most vulnerable countries. A dedicated body, the CDP, monitors the group and reviews and updates the category, while organisations outside the system, such as the LDC IV Monitor, review progress on programmes of action. The category is used often in the inter-governmental process, as evidenced by the numerous references to LDCs in the 2030 Agenda. The LDC group at the UN and in trade and climate negotiations is effective and forms a forceful inter-governmental platform.

Yet neither the World Bank nor the IMF uses the LDC classification. The LDC category is used less in attracting and delivering assistance, including from the UN Development System. This partly reflects and explains the absence of coordination in international support, and universal adoption of the category would go some way to enhancing multilateral coordination. Although all UN Development System entities recognise the category, they do not all provide LDC-specific international support. Operational activities for the development of the UN system in LDCs are

attracting a diminishing share of funds. Most UN Development System entities do not have specific graduation support programmes or mechanisms for LDCs. As a result, support can be inconsistent and sometimes *ad hoc*, and these organisations may not always be able to support the smooth transition of graduating and graduated countries. In sum, the LDC category should be used more both by bilaterals and by UN Development System entities in establishing country priorities and in work programme delivery, as recommended in CDP (2017b).

- ii. **Improve internal UN coordination on LDC matters.** Coordination of LDC issues within the UN system should improve, ideally driven by LDCs themselves. At present, a variety of UN entities work on LDCs. The principal entities and agencies are the CDP, a subsidiary body of the UN Economic and Social Council (ECOSOC); the UN Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLS); the Africa and Least Developed Countries and Special Programmes division of UNCTAD; and the Enhanced Integrated Framework for Trade. In addition, almost every development and humanitarian-oriented UN entity, including the regional commissions and the United Nations Development Programme, has a work programme or some type of focus on LDCs.

As their names suggest, each of these many offices and entities has a broad remit, not limited to LDCs. Each faces increasing budgetary pressures and staffing constraints. There has recently been some improvement in coordination on certain issues, such as graduation, with the formation of the Inter-Agency Taskforce on LDC Graduation, which meets several times a year. However, more could be done to improve coordination and to delineate and prioritise work programmes on the full LDC group. Broadly, UN-OHRLS has an organisational and advocacy role; the CDP Secretariat has a capacity-building, advisory and expert guidance function; and UNCTAD performs all of these functions as well as having a greater research

focus, including the annual LDC reports. Appetite exists for greater collaboration, and these areas of focus could well complement each other inside a single LDC unit. Institutions such as the Commonwealth Secretariat can also continue to make a valuable contribution.

- iii. **Directly target the worst-off and most vulnerable LDCs.** Related to the previous recommendation, a dedicated focus should be given to the least developed of the least developed. The number of LDCs facing economic stagnation and increased vulnerability is approximately equivalent to the number of those graduating. If so much recent attention has focused on graduation, to some effect, why no attention to the worst-off? This group could be assessed by GNI per capita, vulnerability or human assets, or all three. A specific work programme or fund could be established, directing special attention towards countries left or pushed behind, with coordination driven by the UN. This would be particularly appropriate during the current reconfiguration, centralisation and harmonisation of the UN Development System. Such an initiative would not mean devoting less attention to other LDCs, or to the fragmentation of the category; rather, alongside a focus on the graduating countries, it would acknowledge the existence of the particular issues and problems affecting certain groups of countries.

Depending on the measure used, this would include countries such as Afghanistan, Angola, Burundi, Central African Republic, Chad, Comoros, The Gambia, Haiti, Lesotho, Liberia, Mauritania, Sierra Leone, Yemen and others facing stagnation or severe instability (of these, The Gambia, Lesotho and Sierra Leone are Commonwealth member countries). Clearly, there is a strong argument here for collaboration with humanitarian and peacekeeping entities, given that most of these countries are at war, were previously in conflict or are emerging from regime instability. Humanitarian support is a higher priority here than in most other LDCs, where a greater proportion of ODA should be disbursed on infrastructure and areas relating to productive capacity.



In many of the worst-off LDCs, conventional capacity-building and technical support has a smaller chance of success owing to the lower levels of absorptive capacity they have. Technical support needs to be delineated from that that is relevant to the more dynamic LDCs, and designed in a way that is appropriate to context. ‘Best case’ technical assistance from developed nations is often inappropriate. For example, the substantial expenditure on legal help delivered to South Sudan by developed world bilaterals after independence resulted in a sophisticated, modern constitution with state-of-the-art gender and human rights provisions. While these features are laudable, South Sudan had and has an embryonic and often non-functioning judiciary, so few of the provisions were enforced or enforceable. Basic humanitarian support and infrastructure should have been the main priorities.

South–South assistance is often more useful, such as within the Inter-Governmental Authority on Development (IGAD) formed in 1986 and now including Djibouti, Ethiopia, Eritrea, Kenya, Somalia, Sudan, South Sudan and Uganda.<sup>6</sup> IGAD has a technical assistance programme between members working on issues such as human resources, financial management and economic policy. The implications for the Commonwealth Secretariat are that member countries such as The Gambia, Lesotho and Sierra Leone should be the recipients of dedicated South-South (possibly from other Commonwealth countries), on-demand, trade-related technical assistance in areas of priority concern.

- iv. ***Put in place a support programme or facility for graduating LDCs.*** As part of the attempt to differentiate within the LDC group, the UN should be requested to establish and operate a graduation support facility, fund or programme with a mandate to provide technical assistance for graduating LDCs to prepare and manage graduation from the category and facilitate south-south knowledge sharing on graduation. Such a proposal was tabled at the 2020 annual CDP plenary (UN CDP 2020). The facility would provide capacity building to graduating and graduated countries in addressing potential

loss of ISMs, including by facilitating access to other support mechanisms. The facility could exist remotely, requiring no physical office or facilities, but coordinated by the UN Secretariat and overseen by the existing Inter Agency Task Force (IATF) for graduating countries, though other arrangements may also be possible. It would bring together and build on existing programmes of UN and other interested entities working on graduation, and would be operated based on existing resources, voluntary contributions to a graduation support fund as well as in-kind contributions. It should be emphasised that a new UN institution or entity is not being recommended.

## 5.2 Finance and investment

Finance should be the most important part of the international support architecture, given the centrality of capital accumulation to the development of productive capacities, which is in turn the central driver of structural transformation. The rise in fixed capital formation is one of the most encouraging features of LDC economic performance over recent years, but the average rate is still only 26 per cent, lower than the roughly 30 per cent probably required for structural transformation, and with significant variation between countries. The main aim of support should be the promotion of domestic resource mobilisation and reducing the need for foreign aid. While some of the proposals fall outside the strict definition of international support for LDCs, the case is made for systemic reforms suited to the LDC context. Six ISMs are proposed here:

- i. ***Official DAC donors should fulfil commitments to provide 0.15–0.20 per cent of GNI to LDCs.*** This proposal has remained relevant for many years but, as noted above, DAC donors do not meet the commitment. Development assistance is below its 2013 peak and some aid may even be counter-productive. While this ISM remains relevant, and donors should be urged to continue meeting their targets, a realistic assessment suggests that government-led development assistance to LDCs is unlikely to rise significantly. Calls for more aid may fall on deaf ears,

and traditional development assistance and blended finance may not even be the answer to LDCs' challenges. Despite commitments to untie aid, progress here has been disappointing. One area in which development provision can improve without cost increases is in enhancing synergies between Southern and North-South official flows. The Commonwealth Secretariat's trade capacity development assistance should continue to enhance such synergies.

- ii. ***Adopt a measured and strategic approach to new forms of finance.*** The Financing for Sustainable Development and Addis Ababa Action Agenda (AAAA) herald a shift towards innovative and blended finance, which appears necessary in the absence of higher ODA but is not so far delivering for LDCs. Blended finance is unlikely to fill the SDG financing gap and countries will also have to rely on public funds. The promise of 'billions to trillions' under the SDGs is unlikely to materialise. The private money mobilised in LDCs is only a third of the global average. Only 8 per cent of blended finance goes to LDCs, with most going to middle-income countries. Of the US\$52 billion directly mobilised by multilateral development banks in long-term private co-financing during 2017, only US\$2 billion went to LDCs and other low-income countries (UN, 2019). Some trends, such as securitisation, will harm rather than help LDCs by increasing speculation and volatility.

As suggested in the 2020 UN Financing for Sustainable Development Report, a measured and strategic focus is required. Countries and development partners should follow the principles of the AAAA, developing a country blending strategy linked to country needs, including through an integrated national financing framework. Governments should seek impact rather than bankability; measure the cost of blending versus other financing structures; assess complementary investment (such as for capacity development); and ensure transparency and impact reporting, participation and monitoring throughout the life of a project.

- iii. ***Increase assistance for domestic financing and acknowledge this priority in technical***

***cooperation.*** Building public revenues is one of the main challenges for all LDCs, given the stagnation in ODA and its shortcomings; the volatility and resource-seeking nature of most FDI in LDCs; and weak or non-existent equity flows and their vulnerability to herd behaviour, coupled with low domestic LDC savings rates. Broadening the tax base is a fundamental part of developing countries' attempts to self-finance future development and to reducing reliance on external assistance. Redistribution also remains the most efficient way of tackling inequality, which is worsening in most countries. Dedicated capacity development assistance in this area is as vital as it ever was – perhaps more so. A reorientation of multilateral policy advice towards a more expansionary, pro-growth fiscal stance is also critical. Ongoing multilateral efforts to stem tax revenue leakages, to ensure banking transparency and to reform tax havens would complement domestic measures to improve revenue collection.

- iv. ***Increase the share of aid for building productive capacity, including for infrastructure,*** which remains one of the biggest obstacles to LDC catch-up. Investment is particularly needed in sustainable energy, broadband and other infrastructure, in which LDCs are lagging but where catch-up can yield major gains at relatively low cost. In the absence of higher overall ODA totals, the more prosperous LDCs would benefit from a shift towards more productive capacity-related activities and away from humanitarian assistance. The more prosperous LDCs can afford to invest more of their total income in production-related activities than the lower-income LDCs, which must prioritise consumption. Aid for Trade to infrastructure has increased in the past decade, but traditional and non-traditional donors can still play a greater role in the development of productive capacities and infrastructure. Social infrastructure and services accounted for an average of 45.9 per cent of total ODA disbursed in LDCs from 2008 to 2017. Economic infrastructure and services took a lower share, at 9.9 per cent, and could be increased. It may even be worth considering a dedicated production transformation fund for all LDCs,

with targeted assistance for graduating countries, learning from middle-income success stories.

The Chinese Belt and Road Initiative has become a new and important source of funding for LDC infrastructure in participating countries. China is clearly an increasing player elsewhere, too, partly because of the country's desire to access mineral resources and commodities. Collier (2011) argues that LDC governments should encourage other countries to compete with China in trading resources for infrastructure; otherwise, China's at times unrivalled presence risks becoming an even greater monopoly, and the current lack of backward and forward linkages may continue to limit the secondary benefits of such aid. Non-Chinese entities should compete to develop certain volumes of infrastructure. Quality assurance, however, would be an obvious challenge.

Collier (2011) also urges LDC governments to centralise revenues rather than allow regions to appropriate the gains from local resource-based activities. Companies have an incentive to localise benefits so as to minimise opposition. But people often mistrust government, so LDC governments have an interest in international transparency mechanisms that build confidence among local populations that revenues are being used wisely. The centralisation of revenues and their transparent usage would help build political legitimacy, which is a key concern in many LDCs (Gay, 2018a).

- v. *Improve the international system of debt relief and encourage sustainable lending.* LDC debt has worsened again since 2015. A third of LDCs are considered to be under debt distress, and real public spending is falling in countries with the highest debt payments as servicing costs rise. For example, falling oil prices have prompted large cuts in public spending in Congo and Chad. Mozambique's debt crisis triggered a 21 per cent fall in public spending between 2015 and 2018. In 2019, Zambia's public expenditure was expected to be 18 per cent lower than in 2015, with further cuts anticipated in coming years. In Sierra Leone, public spending in 2018 was 10 per cent less per person than in 2015, and 17

per cent lower than in 2016. Almost half of Sierra Leone's external debt is owed to the IMF (Jubilee Debt Campaign, 2020).

While debt relief is important, it makes no sense to encourage LDCs to take on significant borrowings based on unrealistic time series projections of commodities price growth, if debt will periodically become unsustainable or impossible to service. Sustainable lending for strategic investments in the productive sectors with acceptable returns is clearly preferable to recurrent commodity- or resource-driven debt crises and regular forgiveness. Southern donors should also be encouraged to lend more sustainably under more transparent conditions, and to consider appropriate forms of debt forgiveness.

- vi. *Directly address inequalities in LDCs.* While not strictly a matter of finance and investment, and, according to some, contrary to the goal of building productive capacity, a system of cash transfers may be an imperfect but necessary way of reaching those sections of the population 'left behind', given the risk of backsliding and inequality even within graduating LDCs. Without direct support to the poorest and most vulnerable, it is clear that trade can worsen national inequalities. Integration into the cash economy is not a guarantee of stability or prosperity.

A total of 130 low- and middle-income countries implement at least one non-contributory unconditional cash transfer programme, either government- or donor-funded, or both. Research suggests existing cash transfer schemes have been highly successful, reducing monetary poverty, raising school attendance, stimulating health service use and improving dietary diversity, reducing child labour and increasing women's decision-making power. They also target the marginalised and lead to more equitable and just outcomes, forming a valuable social safety net for the vulnerable, who tend to make up a larger share of the population in graduating LDCs, which themselves remain disproportionately vulnerable compared with other developing countries. Cash transfer schemes operated by OECD donors such as the UK's Department for International

Development (DFID) have achieved important successes with poor populations in developing countries such as Bangladesh and Kenya, and the UK has committed to doubling its use of cash transfers in humanitarian assistance to at least 29 percent by 2025. It may be broadly appropriate for such schemes to form a larger component of assistance to graduating LDCs, or to be adopted in graduating LDCs where they do not already exist (DFID Bangladesh, 2006; DFID, 2011; Bastagli et al., 2016).

### 5.3 Trade

Based on the earlier arguments in this paper, measures to improve productive capacity and structural transformation are themselves the most promising ways of expanding exports. Raising the domestic investment rate, particularly public investment, is one of the most important ways of building productive capacity for trade. Donors and development partners should prioritise the development of productive capacities in suitable LDCs, and should consider a dedicated productive capacity fund for LDC governments, producers and exporters. If the overall pool of funds looks unlikely to increase, it may be worth redirecting funds in the more dynamic LDCs from humanitarian activities towards productive capacity. It is also important for multilaterals to permit LDCs the policy space to enact industrial policy, and to encourage it in technical advice.

- i. **Strengthen S&D for LDCs.** Current S&D is too weak and, other than in a few areas, has made little difference. Most transition periods have expired or will soon end, and at the very least need to be renewed or extended. The development of the Bangladeshi pharmaceutical industry, underpinned by the TRIPS and the pharmaceutical concession, is one exception (Gay, 2018b). Progress on S&D may be difficult, as outcomes are negotiated between often-recalcitrant WTO members. However, an opportunity for LDCs may exist with the 2019 proposal by the US, aimed mainly at China and India, to remove the ability of countries to self-declare developing country status and thus benefit from S&D. The US submitted a proposal to the General Council that would disallow from S&D OECD members or acceding countries, high-income countries or WTO members that account for more than 0.5 per cent of world trade.<sup>7</sup> While facing strong opposition, and with disadvantages for other developing nations, the proposal could be used to the advantage of LDCs by allowing them a relative advantage over other developing countries and would contribute to the further specification of international support according to country need.
- ii. **Improve preferential market access for goods,** including 100 per cent DFQF for all developed countries, as well as improved preferential schemes in developing nations. At present, the US DFQF scheme does not provide full coverage, and many developing countries fail to give DFQF for the main LDC exports. In several destination markets, DFQF ends abruptly upon graduation, with no smooth transition.
- iii. **Relax rules of origin for LDCs.** Collier (2011) argues that rules of origin for LDCs should be more liberal, as trade preferences, even if temporary, can help new entrants break into markets if rules of origin are relaxed and limited to countries that are still excluded from international markets, which applies particularly to African LDCs. Take-up of the non-LDC-specific African Growth and Opportunities Act, for instance, was higher than EBA because rules of origin were more relaxed (Collier and Venables, 2007). Not only are local content requirements arguably too high but also the EU double-transformation rule can be too onerous for many former LDCs. After graduation, Bangladesh, for instance, will be unlikely to be able to supply the raw materials for ready-made garment manufacture and thus may be at a relative disadvantage in the EU GSP or GSP+ era.
- iv. **Accommodate the e-commerce requirements of LDCs in trade agreements.** Many LDC WTO members are unlikely to join any plurilateral agreement on e-commerce following the start of negotiations in 2019, because of either capacity limitations or the desire to adopt a wait-and-see stance. Yet e-commerce and digital commerce is more and more inseparable from all trade, which inevitably involves internet-driven

transactions and communication. Globally, bilaterals and regionals increasingly include provisions on e-commerce, which is in 87 of the 303 agreements notified to the WTO. Many sub-Saharan African LDCs risk being left behind in the digital economy. Trade agreements need to consider the needs of LDCs with regard to customs and digital trade facilitation and logistics; the facilitation of electronic transactions; and customs duties on electronic transactions. Openness, information flows, trust and transparency are also critical. Information communication technology also features heavily in services trade, and LDCs must leverage this trend if they are to expand their share in global trade and derive more benefit from it (Tralac, 2019).

#### 5.4 Commodities and resources

Commodity price fluctuations are among the most challenging and intractable of problems for LDCs, for reasons related to both food security and trade. Support measures for commodities therefore in effect benefit trade. Proposals include the following.

- i. *A counter-cyclical financing facility to help LDCs deal with external shocks.* The argument here is that LDCs do not have the ability to conduct national counter-cyclical demand management policies, and an international facility is needed to achieve this, disbursing aid quickly with few conditionalities during commodity price shocks (UNCTAD, 2010). Existing international mechanisms for smoothing commodities price fluctuations are inadequate. Countries such as Chile have been able to accumulate significant savings during upturns and subsequently cushioned the impact of downturns, although many LDCs are unable to do so because of policy conditionalities and limitations on fiscal space.
- ii. *Innovative commodity price stabilisation schemes.* Von Braun and Torero (2009) call for the establishment of a physical and a virtual reserve system to minimise speculative attacks on food markets. A small physical, public, globally managed grain reserve system would be supported by a fund financed by the main grain-producing countries.
- iii. *A transactions tax for commodity derivatives markets.* Two tax tiers would be put in place, with the lower band at or near zero under normal market conditions, allowing markets to function efficiently with sufficient liquidity. If prices diverged significantly from the target price band, a higher tier of tax would be levied on a proportion of derivatives transactions to curb the excess price volatility. Ideally, the second tier (or higher tiers) would never need to be enacted, serving solely as an early warning system or an incentive to deter excessive speculation (UNCTAD, 2010).
- iv. *A counter-cyclical loan facility indexed to debtors' ability to pay.* The facility would involve two grace periods, one fixed and one floating. The proposal is to reduce the grace period of a typical concessional loan from 10 to five years, and to keep the remaining grace period as an asset that the country could draw on during an export shock, defined as one in which current exports fall below a moving average of the previous five years. This idea is based on the argument that, in countries facing high vulnerability to external shocks such as natural resource price volatility, subsidised contingent loans are superior to outright grants in

Alongside it, a virtual reserve facility, backed by funded promissory notes, would enable intervention in futures markets to reduce volatility and maintain prices near long-run fundamentals. The use of virtual reserves would thus reduce price spikes arising as a result of speculation.

The physical food reserves of each country would be maintained at about 5 per cent of the current food aid flow, possibly managed by the World Food Programme in developing regions, alongside funds from emerging markets. Member countries participating in the scheme would operate the second system, backed by a virtual reserve with promissory notes. An intelligence unit and a high-level technical commission would monitor price movements, designing and maintaining a dynamic price band system based on market fundamentals. These entities would help prevent noise traders from engaging aggressively in destabilising speculation, while monitoring legitimate investments.

financing productive investment. Debt and debt cancellations are two complementary instruments, which, if properly managed, perform better than either loans or grants taken in isolation (UNCTAD, 2010).

These ideas acknowledge that it is unrealistic to advocate for the precise revival of past commodity agreements and that new, more sophisticated arrangements need to be put in place. It is worth remembering that commodity prices became more unstable after the move from coordination to non-coordination from the 1980s onwards. Initiatives in the 1960s and 1970s to mitigate volatility included agreements on sugar, coffee, cocoa and rubber, with the aim of stabilising prices through export quotas and buffer stock interventions. In 1976, the Integrated Programme for Commodities was adopted at the fourth session of UNCTAD, to support commodity price stabilisation through international agreements and to establish a Common Fund for Commodities. The Fund was, however, poorly funded, and unable to help commodity-dependent developing countries stabilise prices as originally intended (UNCTAD, 2019).

Such agreements have not been entirely abandoned, however, and suggest that commodity arrangements can succeed if lessons are learnt from previous experience and adapted to modern market conditions. For instance, in 2000, the seven main cocoa-exporting countries, Cameroon, Côte d'Ivoire, Gabon, Ghana, Malaysia, Nigeria and Togo, and the main importing countries, including the EU, Russia and Switzerland, agreed to promote the global consumption and production of cocoa as well as to stabilise prices, which had been falling steadily. The agreement has been extended until 2026.<sup>8</sup>

### Natural resources

Most LDCs, particularly non-graduating countries in Africa, are resource-dependent and do not benefit from processing or value-addition. Several island LDCs are also the site of deep sea mineral reserves in which some multinationals are conducting exploration. Collier (2011) supports international price stabilisation as well as making a number of innovative suggestions for

the resources sector that could have multilateral- or plurilateral-type implications.

- i. ***Donors should finance geological information in LDCs.*** A multi-donor or inter-governmental scheme could be set up in order to maximise economies of scale and minimise collective action problems between LDCs. It is too expensive for individual LDCs to pay for surveys themselves, and companies use this to their own advantage. The multilateral system is ideally placed to coordinate such activities, at relatively low cost.
- ii. ***Put in place a common format for selling the rights to extraction.*** International resource companies should be compelled to compete against one another in a transparent, open format presided over by the multilateral system. It is in the interest of resource companies, and against those of LDCs, to conduct negotiations in secret on a one-on-one basis with governments.
- iii. ***LDC governments should be assisted and encouraged to develop credible tax regimes,*** so investors in resources and commodity infrastructure can be confident that at a later date governments will not expropriate their investments through tax increases. Resource companies will not make major national investments – especially those that add value – unless they are sure governments will not raise taxes by a large proportion, suddenly or arbitrarily on an individual operation, effectively nationalising or expropriating a large part of that investment. A lack of tax predictability is one reason why resource multinationals expropriate resources rather than add value in country. The international system could be used to make national commitments credible.
- iv. ***Make companies liable for environmental damage incurred in resource extraction.*** On the separate but related issue of environmental damage owing to mismanagement of resource extraction, companies, rather than governments, should bear the entire cost of environmental damage. Such a rule should be enshrined in international law and be enforceable via legal mechanisms. For instance, a UN deep sea mining law covering environmental harm was under consideration at the time of writing. Independent and international adjudication should determine damages.

## 5.5 Technology

Technological progress is a key component of productive capacity and structural transformation. When thinkers within the developmentalist and structural tradition talk of the necessity of capital accumulation, they are also implicitly (and often explicitly) advocating a higher technological input into production. Technology can be seen as an extension to capital, in that the line between each is difficult to draw (and in fact the relationship between each is one of the key starting points of an alternative (neoclassical) tradition, that of new growth theory). A machine encompasses both capital and technology. Thus, measures under 5.2 above also support technological development. In addition, international support should focus on innovation systems and their importance to trade within global value chains, which is critical to upgrading productive capacity. The OECD Productive Transformation Policy Reviews are a good example of the integration of technology, innovation systems and productive capacity.<sup>9</sup> A study was planned in an LDC during 2020.

Existing ISMs make little contribution to technological upgrading in LDCs, however. Current S&D at the WTO is restricted by TRIPS-plus obligations in many bilateral and regional trade and investment agreements, and by the low technological capabilities of LDCs. Article 66.2 of TRIPS has not fully been put into practice, under which developed countries are required to provide incentives for enterprises and institutions to promote technology transfer to LDCs. Much more should be done to operationalise Article 66.2. Broadly, there is a need to make the global intellectual property regime more development-friendly by improving the balance between public and private dimensions of knowledge, promoting knowledge-intensive activities through mobilisation of domestic resources and supporting the emergence of the learning-oriented developmental state, which could facilitate knowledge-based activities. The following two suggested measures apply more to middle- and upper-income/graduating LDCs than to the 'least developed of the least developed'.

- (i) ***Increase support and help operationalise the Technology Bank for LDCs.*** The Technology Bank for LDCs, established in Turkey in

2018 on a very small budget, should be better funded and helped to carry out its mandate. The Bank aims to strengthen the science, technology and innovation capacity of LDCs, giving them better access to intellectual property. It aims to help attract outside technology and to generate home-grown research, innovation and marketing. It is intended to act as a conduit between intellectual property holders and LDCs to help them use desired technologies, particularly those no longer protected by intellectual property rights. The host country Turkey pledged US\$1 million, and it was hoped that the private sector and foundations would contribute up to US\$30–40 million over three to five years.

- (ii) ***Improve knowledge and technology dissemination via the transfer of personnel.*** The tacit nature of production knowledge means there is also a need to send knowledgeable technicians from suitable countries to LDCs. Intellectual property, physical technology and capital equipment, although vital, cannot substitute for or exist independently from the know-how and expertise embodied in management personnel. Corporate or management transfer schemes may be explored, as well as South-South or North-South private sector technical assistance embodied in corporate personnel for strategic industries. This type of knowledge transfer should prioritise existing, viable, businesses, but may be extended to new opportunities and even sustainable 'fourth industrial revolution' technologies such as 3D printing, complementary currencies and artificial intelligence.

## 5.6 Climate breakdown and environment

The LDC negotiating group has been at its most successful in climate talks, securing the LDC Fund and other multilateral concessions. Membership of the LDC group at the UN and WTO, and in climate talks, carries considerable collective bargaining power. This reflects the fact that any LDCs are among the most vulnerable to climate breakdown yet alone can do little to shield themselves from its effects. For instance, all the small island developing state LDCs are vulnerable to sea level rise and hurricanes or cyclones but cannot realistically build

sea walls or flood defences. These countries do not contribute much to carbon emissions so should not prioritise climate change mitigation. Most climate financing should go to adaptation. As noted earlier, climate breakdown affects a large number of areas and can cause major economic damage. This is not just the result of climate-driven events such as hurricanes or cyclones but also because of the burden of carbon-intensive investments. Investment in carbon energy sources should be discouraged and disincentivised, particularly by multilateral lenders. For instance, not only is the building of coal power stations by LDCs, such as Zambia and Malawi, environmentally harmful but also these countries will be left with stranded assets as the cost of renewables continues to decline. Five proposals on climate and environment follow:

- i. ***Encourage South-South collaboration on climate issues.*** Countries in the Global South should be encouraged to share knowledge and experience in mitigation, and especially adaptation. Cooperation in renewable energy can be strengthened through technical cooperation, technology transfer, trade and investment. The international community should assist former LDCs in collaborating in negotiations. The provision of resources contingent on cross-collaboration among trade and climate negotiators would help break down the unintended barriers that often exist between the two groups.
- ii. ***Accommodate alternative economic paradigms.*** Any framework that questions the limits of economic growth or that advocates an oblique strategy toward growth is controversial in LDCs. For countries at the lowest income levels, and for many others, a direct emphasis on economic growth is essential in reducing poverty.

But until now international support for LDCs has focused almost exclusively and directly on the conventional inputs to economic growth – net trade, investment and consumption – perhaps unrealistically so, given the development trajectories of many LDCs (and with limited success). Even climate financing has often been couched in terms of mitigating the impact of environmental changes on economic output.

Some emerging theory and evidence suggests that multiple goals in addition to aggregate economic welfare are desirable, compatible and feasible (e.g. Raworth, 2017). An oblique or indirect focus on human development or quality of life goals is not only the end of sustainable development, but these goals can themselves often contribute to sustainable economic growth. The national goals of many LDCs often do not centre around the purely economic. Bhutan and Vanuatu, both of which have experienced successful economic and human development trajectories and are due to leave the LDC category, are examples of countries that have adopted the goal of life satisfaction and environmental sustainability rather than simple economic expansion. The government of Vanuatu prides itself on achieving high rankings in international happiness rankings. Bhutan implements a policy of Gross National Happiness, under which all policies must contribute to a defined set of criteria measuring national well-being. There is a socially acceptable compromise between growth, life satisfaction and ecological sustainability.

- iii. ***Replenish the LDC Fund.*** The replenishment of the LDC fund is a priority, given stated donor and multilateral aims in this area and the imperatives of climate breakdown in LDCs. Governments raise concerns about the administrative challenges of accessing pledged ODA, particularly to tackle climate change. Small island developing states and several others are particularly small and capacity-constrained.
- iv. ***Make climate financing more accessible.*** According to the 2016 UNCTAD LDC report:

The proliferation of separate institutions and financing windows, together with limited progress towards donor coordination and harmonization, has given rise to an increasingly complex development finance architecture for LDCs. To improve their access to development (and, for example, climate) finance, this Report proposes the establishment of an LDC finance facilitation mechanism (FFM). The FFM could serve as a ‘one-stop shop’, identifying appropriate funding agencies for the investments



identified as priorities in LDCs' national development strategies by matching them with the particular criteria, priorities and preferences of potential funding sources. This could considerably reduce the administrative burden of seeking development finance, while accelerating access to finance and reducing funding uncertainty. Such benefits could be further enhanced by providing support to the preparation of funding applications and fulfilment of reporting requirements; and an appropriately designed FFM could also contribute substantially to capacity-building in LDCs. An appropriate structure and adequate funding and staffing would be essential to the effectiveness of such a mechanism.'

- v. ***Make disaster resilience mechanisms for LDCs more pre-emptive.*** LDCs, including most graduating countries, tend to be under-served by existing disaster risk reduction programmes yet suffer the most from natural disasters. Not only is climate financing often insufficient and difficult to access but also disaster-prone LDCs may be able to further pool risk, either regionally or globally via facilities simple enough for capacity-constrained countries to access easily. Rather than dealing with disasters after the event, or only through insurance,

which can be an imperfect solution, climate change resilience should be built into projects during construction; here, innovative financing mechanisms come into play. The importance of climate-resilient infrastructure needs to be accommodated within attempts to build productive capacity. This is particularly relevant for the Pacific and several other island LDCs that are graduating and vulnerable to disasters.

Other innovative solutions may be explored, such as parametric insurance, where insurance providers, rather than waiting for disasters, pay out when parameters such as temperature or rainfall reach a certain level. This reduces costs because insurers are better able to model and predict outcomes. Climate data has moved so far away from historical averages that some insurers are raising premiums to unrealistic levels in order to cover the possibility of extreme events. In general, climate data is poor in LDCs, and the monitoring and recording of statistics such as rainfall and wind speed need to be improved, in turn helping address risk. Insurers may also find it in their own interests to help finance mitigation measures such as flood defences, which reduce the costs of pay-out owing to cyclones or hurricanes.

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## 6. Summary of proposals

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The following table summarises the recommendations above, divided into the six main categories: UN system; finance and

investment; trade; commodities and resource extraction; technology; and climate change and environment.

### 1. UN system

- (i) *Encourage use of the LDC category*
- (ii) *Improve internal UN coordination on LDC matters*
- (iii) *Directly target the worst-off and most vulnerable LDCs*
- (iv) *Put in place a support programme for graduating LDCs*

### 2. Finance and investment

- (i) *Official DAC donors should fulfil commitments to provide 0.15–0.20 per cent of GNI to LDCs*
- (ii) *Adopt a measured and strategic approach to new forms of finance*
- (iii) *Increase assistance for domestic financing and acknowledge this priority in technical cooperation*
- (iv) *Devote an increased share of aid to building productive capacity, including for infrastructure*
- (v) *Improve the international system of debt relief and encourage sustainable lending*
- (vi) *Directly address inequalities in LDCs*

**3. Trade**

- (i) Strengthen special and differential treatment for LDCs
- (ii) Improve preferential market access for goods
- (iii) Relax rules of origin for LDCs
- (iv) Accommodate the e-commerce requirements of LDCs in trade agreements

**4. Commodities and resource extraction**

- (i) A counter-cyclical financing facility to help LDCs deal with external shocks
- (ii) Innovative commodity price stabilisation schemes
- (iii) A transaction tax for commodity derivatives markets
- (iv) A counter-cyclical loan facility indexed to debtors' ability to pay

**Resources**

- (i) Donors should finance geological information in LDCs
- (ii) Put in place a common format for selling the rights to extraction
- (iii) LDC governments should be assisted and encouraged to develop credible tax regimes
- (iv) Make companies liable for environmental damage incurred in resource extraction

**5. Technology**

- (i) Increase support and help operationalise the Technology Bank for LDCs
- (ii) Improve knowledge and technology dissemination via the transfer of personnel

**6. Climate breakdown and environment**

- (i) Encourage South–South collaboration on climate issues
- (ii) Accommodate alternative economic paradigms
- (iii) Replenish the LDC Fund
- (iv) Make climate financing more accessible
- (v) Make disaster resilience mechanisms for LDCs more pre-emptive

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## Notes

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| <p>1 The Commonwealth LDCs are Bangladesh, The Gambia, Kiribati, Lesotho, Malawi, Mozambique, Rwanda, Sierra Leone, Solomon Islands, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu and Zambia.</p> <p>2 For comparative purposes, total ODA to LDCs was approximately 19 per cent of total ODA flows from DAC countries to all developing countries, or 3 per cent of global foreign direct investment (FDI) flows to all countries according to the most recent data.</p> <p>3 A full list of ISMs is at <a href="http://www.un.org/ldcportal">www.un.org/ldcportal</a></p> <p>4 Data for 'developing countries' in all figures refers to developing countries excluding LDCs.</p> | <p>5 Three-year averages using CDP Secretariat data, based on UN Statistics Division National Accounts Main Aggregates Database (<a href="http://unstats.un.org/unsd/snaama/">http://unstats.un.org/unsd/snaama/</a>) and World Bank Atlas methodology for converting local currencies into US\$.</p> <p>6 <a href="https://igad.int">https://igad.int</a></p> <p>7 'An undifferentiated WTO: Self-declared development status risks institutional irrelevance: communication from the United States', WT/GC/W/757/Rev.1.</p> <p>8 <a href="https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&amp;mtdsg_no=XIX-47&amp;chapter=19&amp;lang=en">https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&amp;mtdsg_no=XIX-47&amp;chapter=19&amp;lang=en</a></p> <p>9 <a href="http://www.oecd.org/dev/ptprs.htm">www.oecd.org/dev/ptprs.htm</a></p> |
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