Global Policy Watch

#35

16 March 2022

LDCs and their “development”

Litmus test of international co-operation

By Barbara Adams and Julie Kim

A German translation of this article is going to appear in Rundbrief Forum Umwelt & Entwicklung, Issue 1, 2022 (forthcoming). See https://www.forumue.de/hintergrundanalyse/rundbriefe/.

One of the global processes falling prey to the Omicron variant of the Covid virus was the fifth UN Conference on the Least Developed countries, originally scheduled for the end of January in Doha, Qatar. It has been replaced with a meeting in New York on 17 March 2022 for the adoption of the Doha Programme of Action (DPoA); a full meeting will be held in March 2023, where governments will gather with stakeholders “to build new plans and partnerships for the delivery of the DPoA over the following decade”. The LDC conferences and programmes of action have a long history of marking the state of global solidarity with countries most in need of co-operation and of the underlying root-causes for global inequalities.

2021 was the year to mark the 50th anniversary of establishing the Least Developed Countries (LDC) category. The Doha Programme of Action (DPoA) is the fourth decade-long Programme of Action, all of which foster the ambition of graduating from the LDC category.[1] Unlike the Low-Income Countries designation of the Bretton Woods Institutions, the category relies not only on gross national income (GNI) per capita, but also on the human assets index and the economic and environmental vulnerability index. Also, unlike the approach of the International Finance Institutions (IFI), the category includes commitments of the LDCs, and crucially, of their “development partners” in the form of International Support Measures (ISM).

The pivotal role of ISMs has been re-emphasized and put under the microscope in the face of the climate crisis, the COVID pandemic and the looming debt crisis – all threats to LDCs that they neither wholly caused nor can address by domestic measures alone. While the DPoA underscores that LDCs

[1] Fifth UN Conference on the LDCs (2022): Doha Programme of Action for the Least Developed Countries. UN Doc. A/CONF.219/2022/3. https://digitallibrary.un.org/record/3959499?ln=en

have the primary responsibility for their development, it reiterates that development partners commit to providing "concrete and substantial support" in solidarity.

> ***Solidarity is not charity; in an interconnected world, it is common sense. It is the principle of working together, recognizing that we are bound to each other, and that no community or country can solve its challenges alone. It is about our shared responsibilities to and for each other, taking account of our common humanity and each person's dignity, our diversity and our varying levels of capacity and need.***
> *UN Secretary-General Antonio Guterres, "Our Common Agenda" (2021)*

Before the pandemic, LDC progress on development was unstable at best and lagging at worst.[2] Graduating from the LDC category is meant to indicate sustained efforts and results toward development, economic and otherwise. While some LDCs expressed concern about losing the bulk of the ISMs upon graduation, inching closer to graduation at all seems farfetched with the pandemic setting back progress. The UN Committee for Development Policy (CDP) that oversees the graduation process found that on top of LDCs not being on track pre-pandemic, the crisis is "reversing years of progress towards achieving the SDGs" globally and returning to pre-COVID is unfeasible.[3] Without the international community's coordinated assistance on finance, LDCs could be left behind in pandemic recovery and, as documented by UNCTAD, face "a risk of a lost decade of development and of remaining on the margins of the global economy."[4]

> ***Remember, whenever a country gets in debt too much, it's as much the result of bad lending as it is bad borrowing.***
>
> *Joseph Stiglitz, LDC Future Forum 2021*

Distressed by debt and Illicit Financial Flows (IFFs)

Crippling debt is an immediate and looming crisis for LDCs. Two new measures designed to help debtor countries during the current crisis were heralded: the IMF allocation of Special Drawing Rights (SDR) and the G20 Debt Suspension Services Initiative (DSSI). SDR allocations were to provide extra liquidity to IMF member countries in need, but were allocated according to each countries' IMF quotas, which total only

[2] https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/CDP_Comprehensive_Study_2021.pdf
[3] https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/CDP-2021-Plenary-Briefing.pdf
[4] https://unctad.org/system/files/official-document/ldc2021_en.pdf

3.2% for LICs, compared with 17.4% for USA. Efforts to "re-channel" these funds were called for and the G20 pledged such action in 2020, but it remains unimplemented.

As for the DSSI, it is only a suspension of debt repayment, nothing more than "kicking the can down the road" (Bodo Ellmers). The DPoA notes with concern that "4 LDCs were classified as in debt distress, while the number of LDCs at high risk of debt distress increased to 16" as of February 2021. The CDP study on the impact of COVID-19 emphasizes that DSSI is only temporary and "clearly insufficient," especially as it excludes multilateral lenders that make up more than a third of total debt, and this failure contributes to LDCs spending more on debt service than the health sector. In its 2022 Global Economic Prospects Report, focusing on low-income countries, the World Bank reports that many countries face a crisis of solvency, and that a reduction of debt stock is required.[5]

The so-called Mbeki Report of 2015 records over $1 trillion over the last 50 years in losses due to IFFs from Africa, home to 33 LDCs.[6] It is estimated that governments worldwide lose $600 billion in taxes annually.[7] In Zambia, copper mining makes up 80% export earnings, but 30% of the tax revenue and 12% of the GDP,[8] enabled by lucrative tax incentives to multinational mining companies. Combined with other tax avoidance techniques, such as overestimating production costs, such measures allowed the companies to report no profits made. The widely recognized lacuna of international tax cooperation and prolonged debate over the definition of IFF continues tax avoidance and evasion, undermining not only development for LDCs but also their domestic resource mobilization to invest in important public programs like healthcare during the pandemic.

International Support Measures

ISMs are fundamental to LDC development, encompassing financial resources, capacity building, and technical assistance. In concert with development and trade partners, LDCs are given special and differential treatments to support their development path. However, upon graduation LDCs are confronted with the loss of ISMs and compete globally for trade, finance and investment, on top of pressures of the pandemic and achieving the SDGs. Attempts to expand ISMs has been fragmented and designed without guaranteeing compliance from development partners. For example, donors have consistently failed to meet the Official Development Assistance (ODA) target of 0.15% to 0.20% of GNI for LDCs.[9] The DPoA emphasizes the importance of extending ISMs for graduated LDCs with the extension or gradual phasing out of trade preferences to "avoid their abrupt reduction." Such measures would ensure sustainable and irreversible graduation and contribute to holding LDCs and development partners mutually accountable.

---

[5] https://www.twn.my/title2/finance/2022/fi220204.htm

[6] UN Economic Commission for Africa (2015): Illicit financial flows: report of the High Level Panel on illicit financial flows from Africa. Addis Ababa. https://hdl.handle.net/10855/22695

[7] See, for example, https://www.imf.org/external/pubs/ft/fandd/2019/09/tackling-global-tax-havens-shaxon.htm.

[8] https://www.ohchr.org/Documents/Issues/Development/Session19/A_HRC_WG.2_19_CRP.3.pdf

[9] https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/CDP_Comprehensive_Study_2021.pdf, p. 8.

You have to realize that some of the gap between the rich countries and upper middle-income countries is actually smaller than the gap between upper middle-income countries and the LDCs. And they are given three, five years to jump from LDC to upper middle-income in terms of what they are allowed to do.
Ha-joon Chang, LDC Future Forum 2021

This short article addresses only a couple of the issues that LDCs confront, but they are indicative of the intertwined reality of domestic and external policy and support measures. It is imperative for development and trade partners, be they higher-income countries or IFIs, to acknowledge the increased vulnerabilities to exogenous shocks. This requires the reevaluation and redesign of ISMs with rigorous attention to the quality of and adherence to the ISMs during the pre- and post- graduation process. As a first step, should this not include benchmarks and indicators for the “partners” as well as the LDCs?

Barbara Adams is Senior Policy Analyst with Global Policy Forum and faculty member at The New School, where Julie Kim is a master’s student at the Graduate Program in International Affairs with concentrations in Development and Governance & Rights.

Social Watch
Canelones 1164
Montevideo 11100, Uruguay
socwatch@socialwatch.org
www.socialwatch.org

Global Policy Watch
333 East 46th St | #7F
New York, NY 10017, USA
globalpolicywatch.org

Global Policy Forum
Koenigstrasse 37a
53115 Bonn, Germany
gpf@globalpolicy.org
www.globalpolicy.org