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# International Support Measures for LDCs: mobilizing resources to close the graduation gap?

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# International Support Measures for LDCs: mobilizing resources to close the graduation gap?

- ◉ Introduction
- ◉ ISM and ODA
- ◉ Increasing ODA flows to LDCs
- ◉ LDC criteria and ODA allocation
- ◉ ISM: international trade
- ◉ Preferential market access and resource mobilization

# LDC ISMs and Sources of Finance

- Development assistance
- International trade
- General support
- Domestic resource mobilization
- ODA
- International Trade
- FDI
- Other international capital flows

Information available:  
**LDC PORTAL**

# ISM: Official development assistance

# Official development assistance

- Financial aid and technical assistance
- Multilateral and bilateral partners

## Modalities and commitments:

- DAC: 0.15 to 0.20% and above of donor's GNI
- Untied aid: max extent possible
- Average grant element: 90% all LDCs (given year) or 86% each LDC (3 years)
- Dedicated funds (LDCf/GEF; EIF)
- Target budget set asides by some multilaterals (UNDP, UNICEF, etc.)

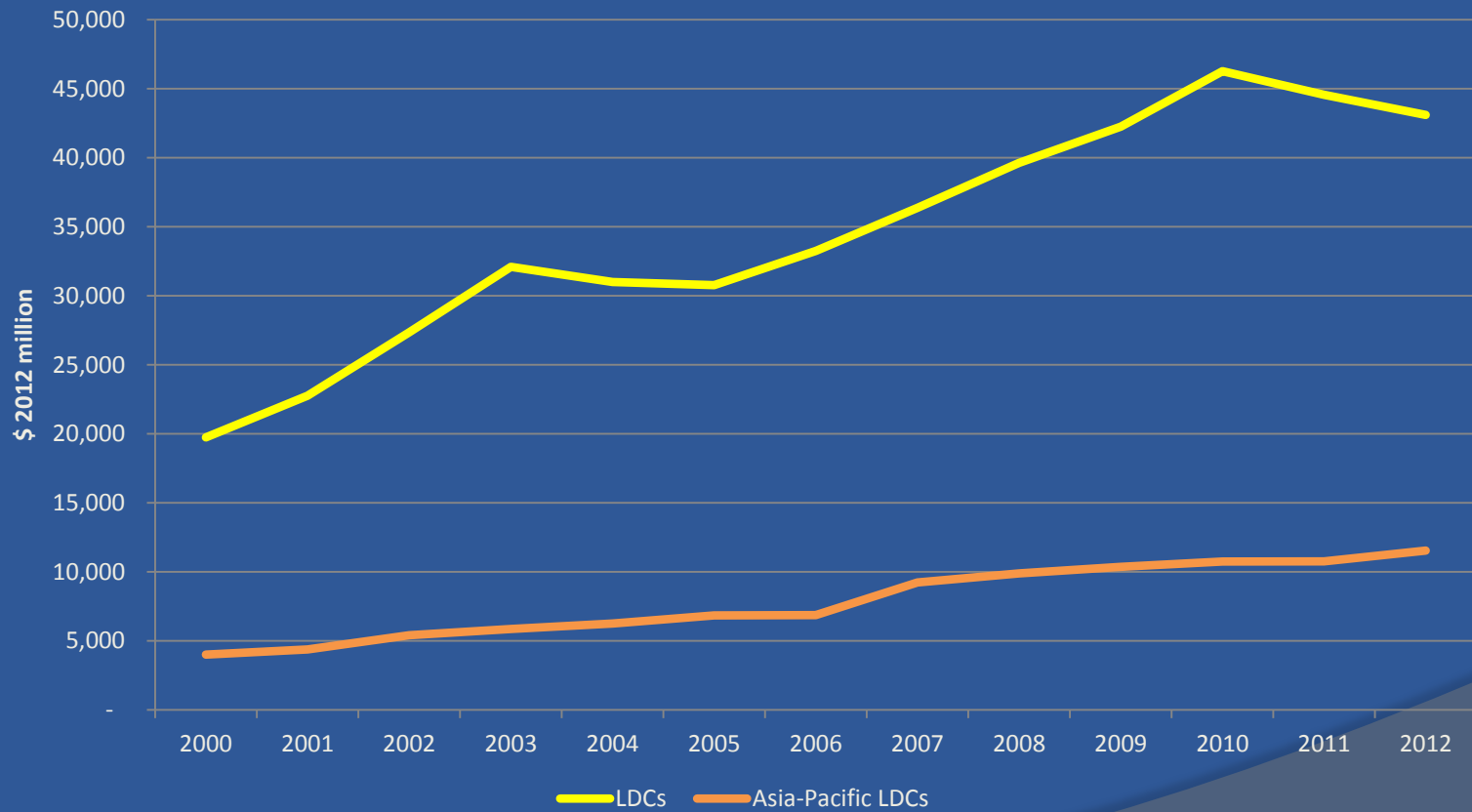
## Important!

Except for dedicated funds, ODA is **not** LDC-specific, just the modalities and the targets.

Donors allocation **not** based on LDC status: overlap criteria

# ODA flows: overview

ODA flows by OECD/DAC, 2000-2012



# ODA allocation by sector in Asia-Pacific LDCs

ODA Allocation by Sectors (all donors)					
Average 2010-2012		US\$ million		Per cent	Indicator
Total		12,550.8		100.0	..
I. Social Infrastructure & Services		6,647.0		53.0	HAI
II. Economic Infrastructure & Services		2,208.4		17.6	EVI
III. Production Sectors		976.2		7.8	EVI
IV. Multisector / Cross-Cutting		1,152.9		9.2	..
VI. Commodity Aid / General Prog. Ass.		419.2		3.4	EVI
VII. Action Relating To Debt		75.6		0.6	..
VIII. Humanitarian Aid		913.4		7.3	HAI
IX. Administrative Costs Of Donors		38.5		0.3	..
X. Support To Ngos		-		0.0	..
XI. Refugees In Donor Countries		2.6		0.0	..
Source: OECD.Stat					

➔ Need to boost EVI-related allocation but NOT at the expense of HAI

# Increasing ODA flows to LDCs



# Increasing ODA flows to LDCs

➔ Donors to meet commitments renewed at Istanbul

Currently (2012):

- *Above 0.20%:* Denmark, Ireland, Luxembourg, Norway, Sweden
- *At 0.15%, but < 0.20%:* Netherlands, UK

DAC ODA flows to LDCs, \$ million (current)		
	2011	2012
Observed	44,758.3	40,536.6
Committed	70,949.3	71,173.1
Gap	26,191.0	30,636.5

Source: Gap Task Report database

# Closing the ODA gap: Increasing flows or reducing commitments?

OECD/DAC proposal: better targeting

→ 50% of net ODA to LDCs

**The issue:** defining the LDC share in bilateral ODA

Bilateral programs: 22%

Imputed multilateral: 10%

A. **Fact:** average DAC share to LDC reported 2012:  
31.9%, or \$40,537, corresponding to 0.09% donors GNI

Countries meeting 50%: Ireland

Estimated gap: about **\$23 billion**

# The disappearing gap?

B. **OECD proposal**: also include imputed share of LDCs in bilateral regional and global programs (about 8%)

Average DAC share to LDCs: 40%, \$50.8 billion, or 0.114% of donors GNI

Countries meeting 50%: Iceland, Ireland

Estimated gap: **\$12.7 billion**

C. OECD/DAC table 26: calculates LDC shares by including imputed multilateral but excluding unspecified allocations by donors (smaller base)

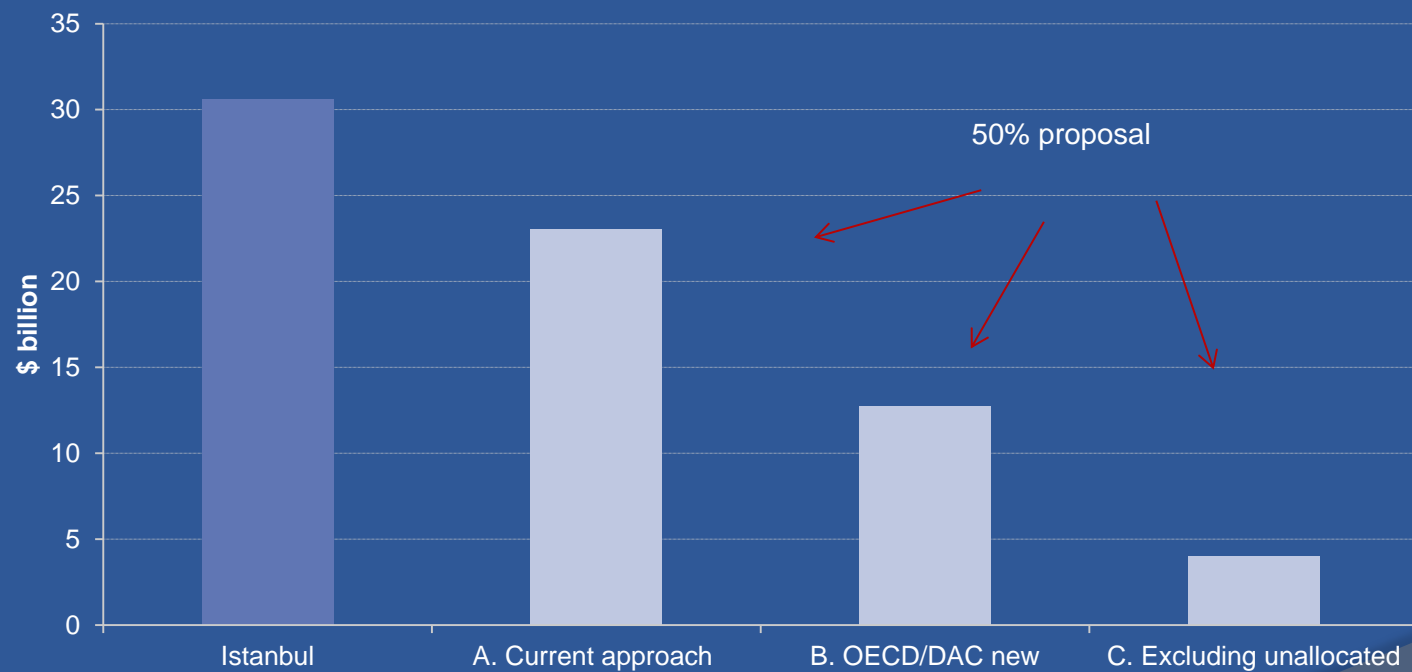
Average DAC share to LDCs: 46.8%, \$59.4 billion or 0.134% of donors GNI

Countries meeting 50%: Belgium, Canada, Denmark, Finland, Iceland, Ireland, Japan, Netherland, Norway, Sweden, UK, US

Estimated gap: **\$4 billion**

# Summing up

## ODA commitment gaps, 2012



# Definitions matter!

1. The LDC share: what concept?

2. Modernizing ODA estimates → the grant element question:

- new fixed rate or risk adjusted?
- total flows or grant equivalent?
- higher grant equivalent?

☞ Implications for LDCs: a stricter definition of concessionality may affect shares: further analysis necessary

# Moving forward

- **Volume:** Istanbul commitments offer potential for greater additional ODA flows
  - LDC flows have close to 100% grant element, likely not be affected by changes in estimation methods
- **Distribution:** take into account LDC criteria or its indicators
  - Targets needs
  - Avoids conflict with other developing countries

# LDC criteria and ODA allocation

# Proposal: ODA and LDC criteria

- United Nations General Assembly call (A/RES/67/221):
  - “Invites Development Partners to consider [LDC indicators and criteria] as part of their criteria for allocating [ODA].”
- Resolution based on suggestions by the CDP.
  - Allows for better aligning ODA with needs
  - Avoids abrupt changes when countries graduate from LDC category



# Formula-based ODA allocations

- ◉ Formula-based ODA allocations typically depend on
  - Performance
  - Needs
  - Population
- ◉ Formula based ODA allocation used mainly by multilateral donors, e.g.
  - World Bank/IDA; ADB/ADF; ...
  - UNDP/ TRAC-1 (Needs/Income and Population only)
  - European Union/EDF

# Formula-based ODA allocations: ADB example

## Current basic formula

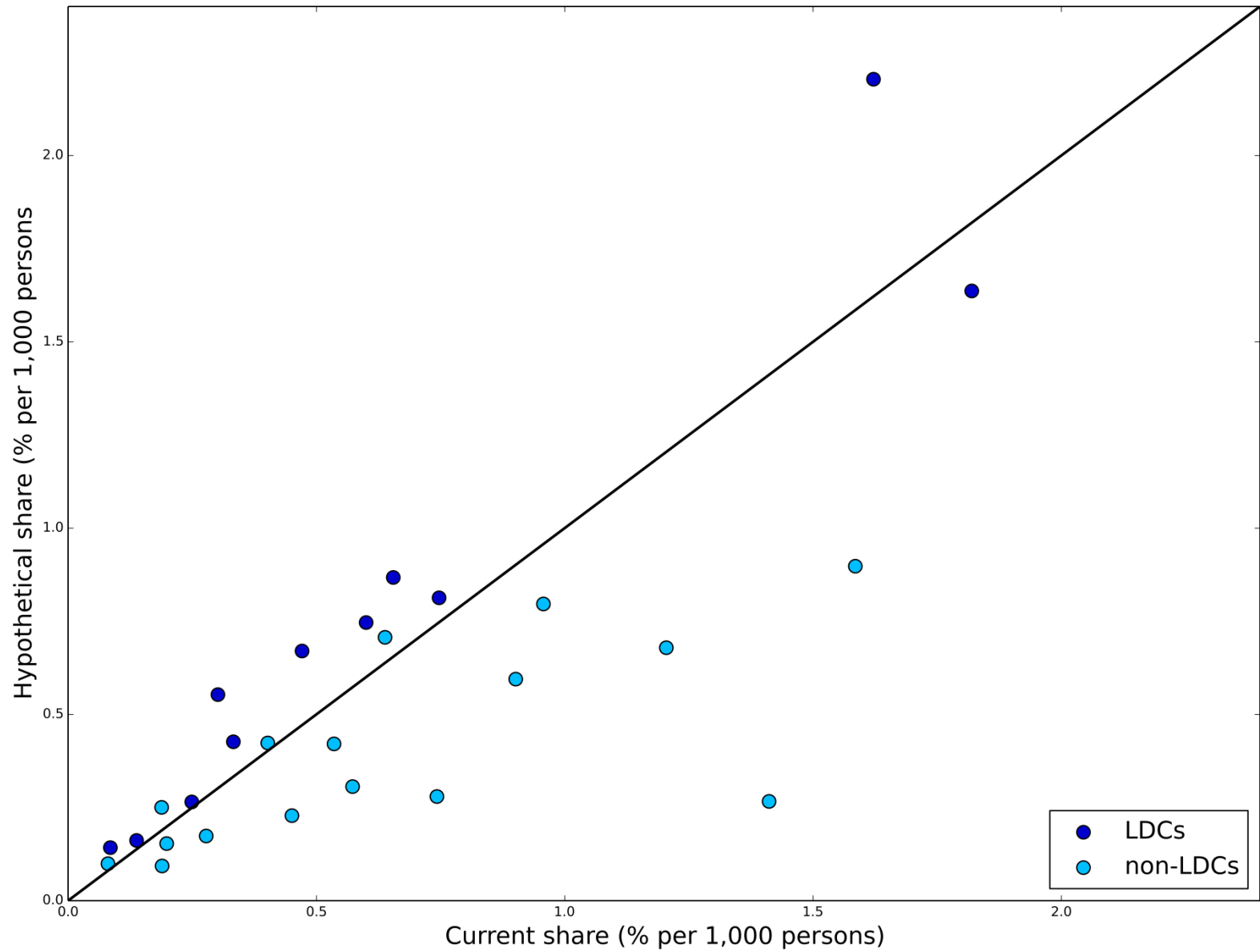
$$S_i = CCPR_i^2 \times PCI_i^{-0.25} \times POP_i^{0.6} \times C$$

- $S_i$ : Share of country  $i$  in ADF commitments
  - $CCPR_i$ : Composite country performance rating
  - $PCI_i$ : Per capita income
  - $POP_i$ : Population
  - $C$ : A constant that ensures  $\sum S_i = 1$
- ## ‘Performance’ higher weight than ‘needs’
- Performance component varies by factor 6
  - Income component varies by factor 2

# Formula-based ODA allocations: Illustrative example

- Possible adjusted formula
- $S_i = CCPR_i^2 \times PCI_i^{-0.25} \times POP_i^{0.6} \times LHAI_i^{0.5} \times EVI_i^{0.5} \times C$ 
  - $LHAI_i$ : 100 – Human Asset Index
  - $EVI_i$ : Economic Vulnerability Index
  - HAI component varies by factor 3
  - EVI component varies by factor 2
- Overall importance of ‘needs’ increases
  - In line with common proposal to focus ODA on the neediest
- Other functional forms and factors possible

## Impact of possible ADF allocation reform



# LDC criteria and other ODA allocation systems

- Most bilateral donors do not use formulas for allocating ODA
  - But many use (more or less) formal criteria to select priority countries
- HAI and EVI could be two of these criteria
- The indicators within HAI and EVI could be useful for allocations within priority themes

# ISM: International trade

# International trade

## → **Special and differential treatment WTO**

- Increase trade opportunities for LDCs
- Safeguard the interests of LDCs
- Flexibility in rules and disciplines
- Longer transitional periods
- Provision of technical assistance

## → **Preferential market access**

- Lower Tariffs
- DFQF

# Market access:

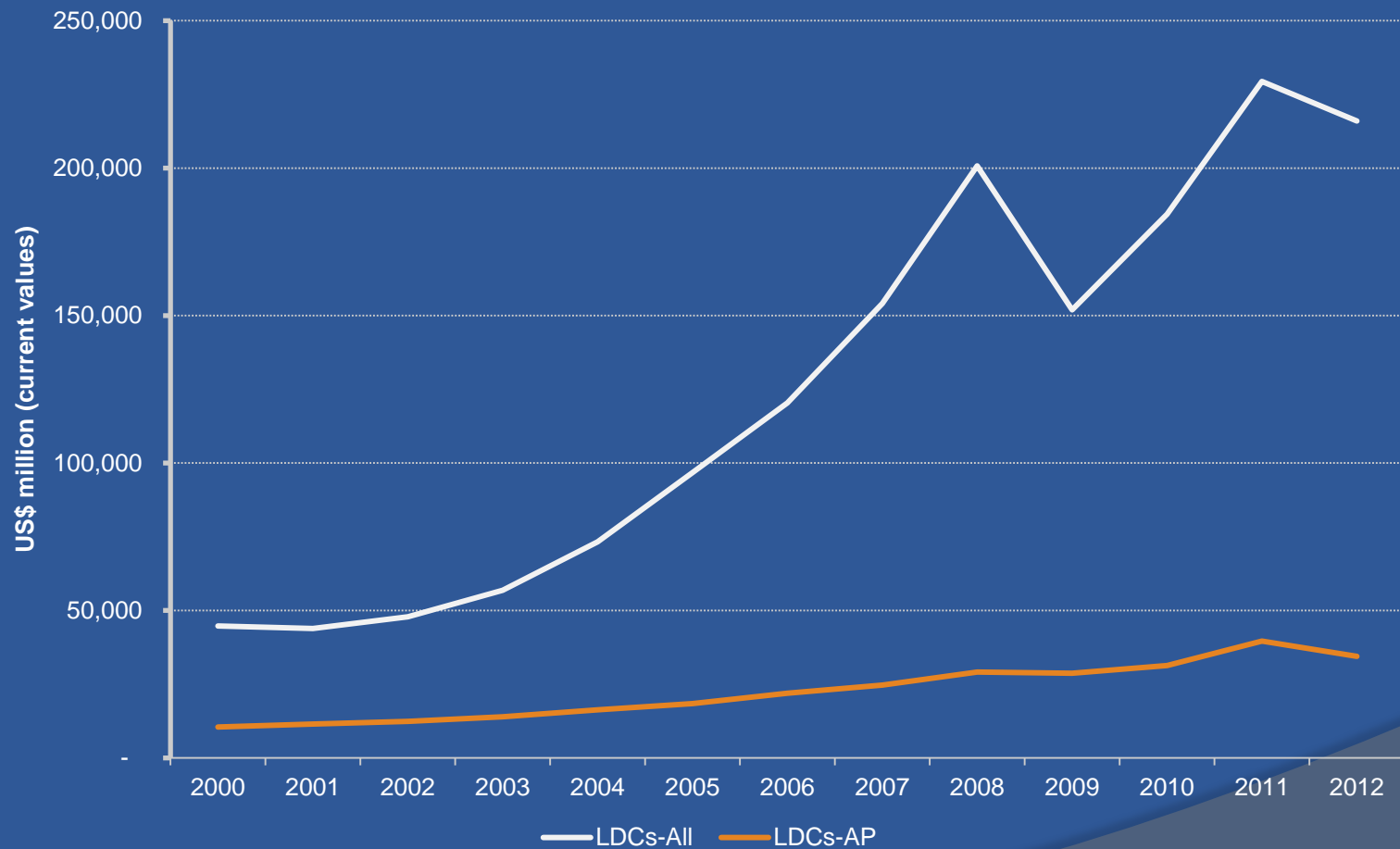
## Trade as generator of resources

- **The 1979 Enabling Clause:** “Special treatment of the least developed among the developing countries in the context of any general or specific measures in favour of developing countries.”
- **Preferential tariff treatment of LDCs:** *“The provisions of Article 1 of the GATT 1994 shall be waived until 30 June 2009, to the extent necessary to allow developing country Members to provide preferential treatment to products of the least developed countries [...]”* [adopted in 1999, extended to 2019]
- **Services Waiver:** *“Members may provide preferential treatment to services and service suppliers of least-developed countries with respect to the application of measures described in Article XVI [MFN market access, adopted in Dec 2011, valid for 15 years]*
  - Generalized System of Preference (GSP)
  - Regional and bilateral agreements
  - Global System of Trade Preferences (GSTP)
  - Developing country trading partners



# Preferential market access and resource mobilization

# Exports of goods and services, 2000-2012



# Share of developed country imports from developing and least-developed countries admitted free of duty, by value, 2000-2011

	2000	2005	2006	2007	2008	2009	2010	2011
	<b>Total Duty Free (excluding oil and arms)</b>							
Developing countries <sup>a</sup>	64.8	74.9	76.2	77.4	78.7	77.0	78.8	79.7
Least Developed Countries	69.8	80.4	79.1	79.8	80.6	80.4	80.4	83.4
	<b>Of which: True Duty Free <sup>b</sup></b>							
Developing countries <sup>a</sup>	17.0	21.5	20.9	20.0	20.0	20.1	19.6	20.3
Least Developed Countries	35.0	49.0	52.7	51.9	48.7	52.9	53.6	52.7

<sup>a</sup> Including LDCs.

<sup>b</sup> The true duty-free portion is calculated by subtracting from the total duty-free access all products receiving duty free treatment under the MFN regime. The indicators are based on the best available treatment, including regional and preferential agreements.

Source: WTO-ITC-UNCTAD and based on CAMAD database compiled by ITC, UNCTAD and WTO.

# DFQF (goods):

→ On average, relatively high utilization rates by LDCs of GSP and other preferential schemes (2011):

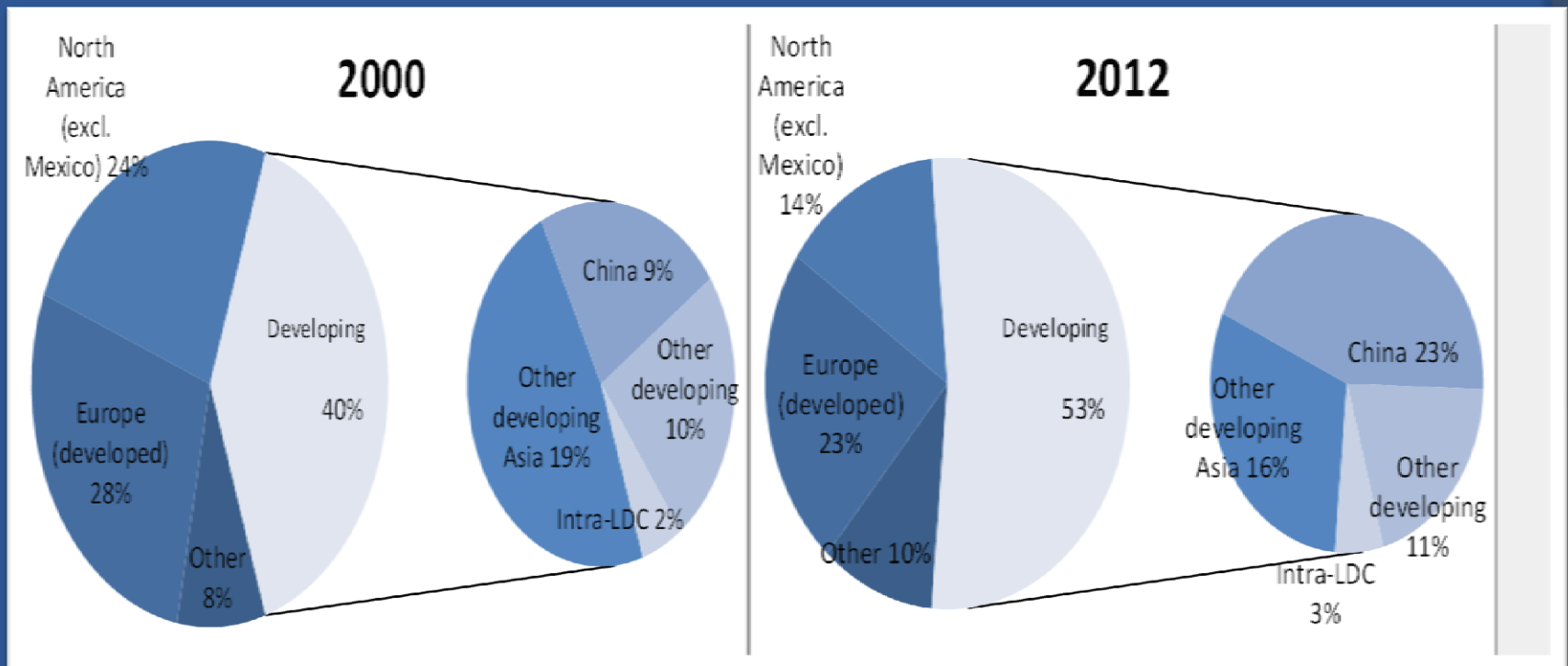
- Canada: 90%
- EU: 92~96%
- USA: 83%

→ Room for improvement:

- Coverage: the DFQF commitment
  - Bali outcome; Most developed already at 100%, US as exception
  - Preference erosion, with caveats
  - Productive capacity constraints (volume and tariff lines)
- Utilization: needs lower cost of compliance (RoO)

# Changing trade dynamics

- ▶ Increasing importance of developing country partners
- ▶ Relatively few countries offer DFQF for LDCs: Chile, China, India, Korea, Morocco, Taiwan POC, Turkey.
- ▶ Greater potential for expanded coverage?



# The Services Waiver

- Preferential treatment to be extended to like services and service suppliers of all LDCs
- To promote trade in sectors and modes of supply of LDC export interest
- Bali outcome → operationalization of services waiver:
  - LDCs collective request (sectors and modes)
  - CTS to organize meeting in 6 months with trading partners
  - Targeted and coordinated technical assistance
- LDC request submitted on 21 July 2014
  - Waive: restrictions, fees, taxes, visas, tests, work permits, residence requirements, etc. Not clear whether all fall under art XVI
  - List of service categories: construction, accounting, packaging, veterinary, engineering, etc.

# Moving forward:

## Trade ISMs → closing the gap?

- Preferential Market access:
  - Expansion of coverage and lower cost of compliance necessary
  - Greater participation by emerging markets
  - Potential for services exports depends on operationalization of waiver
  - Productive capacity constraints → resources needed to generate resources!
- Greater use of other differentiated treatment:
  - Improved access to SPS and TBT and technical assistance as foreseen in legal texts needed

# Thank you!

Additional information:

[www.un.org/ldcportal](http://www.un.org/ldcportal)