

# WORLD ECONOMY

## UPDATE

June 17, 2013 | Vol. 3 No. 27

### The Least Developed Countries: Key Challenges and the Way forward for Korea's Development Cooperation

ISSN 2233-9140

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#### 1. The Least Developed Countries

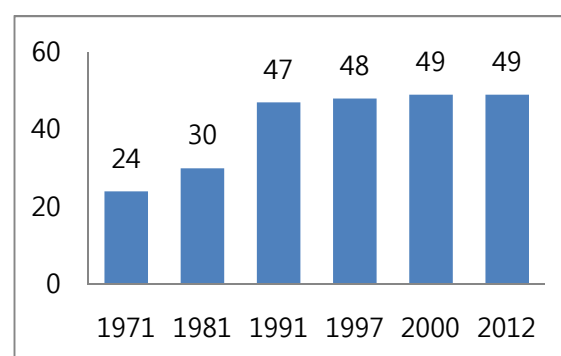
The least developed countries (LDCs) are the poorest and the most disadvantaged members of the international community that face a broad range of socio-economic, geographical, political, and environmental challenges. The United Nations defines LDCs based on three criteria: low gross national income, weak human development indices, and high level of economic vulnerability. Currently, 48 countries—33 in Africa, 14 in Asia and the Pacific, and 1 in Latin America—

are designated as LDCs by the United Nations. With only three countries having graduated from LDC status, the number of LDC countries has leaped from 24 in 1971 when the category was first officially established by the UN General Assembly to 49 in 2012.

Amid the growing interdependency in the global economic system, international efforts to reverse the trend of socioeconomic marginalization of LDCs officially began at the first UN Conference on Least Developed Countries held in Paris in 1981.

In the realm of development, the adoption of the Millennium Development Goals in 2000 has led to major donors targeting LDCs as their key aid recipient groups. The Fourth United Nations Conference on the Least Developed Countries (LDC-IV) pledged to reduce the number of LDCs by half in nine years. In order to achieve the agenda, it requires a sustainable long-term broad-based economic growth at the rate of 7% a year. Nevertheless, despite global efforts to support LDCs, there has been growing concern over the deepening vulnerability of LDCs as they were stricken by the impact of global economic recession, food crisis, and climate change in the last several years. The IMF predicts that only 10 countries will be able to graduate from LDC status by 2020. Entangled in a series of conflicts with LDCs' geographical obstacles, socioeconomic factors, supply shock, and accumulated debt, the LDCs' vicious cycle of poverty led further impoverishment. Although the continuing marked increases in the volume of the Korean ODA, due to relatively greater portion of concessional loan, Korea faces with the task of improving the lending conditions.

**Figure 1. Changes in the Number of Least Developed Countries: 1971–2012**



Source: Authors

## 2. Main Challenges Facing LDCs and Policy Measures for South Korea

In this context, this paper attempts to identify the main development challenges facing LDCs and provides policy recommendations for South Korea as an emerging donor; to enhance its cooperation with LDCs in terms of aid, trade, debt relief, and climate change. The paper begins by reviewing the UN criteria for LDC, defining socioeconomic and geographical features of LDCs, and postrecession economic trends as well.

**Table 1. UN Criteria for LDC**

Criteria	Contents
<i>Low-income Criterion</i>	based on a three-year average estimate of GNI per capita, based on the World Bank Atlas method (under \$992 for inclusion, above \$1,190 for graduation as applied in the 2012 triennial review)
<i>Human Assets Index (HAI)</i>	based on indicators of (a) nutrition: percentage of undernourished population; (b) health: mortality rate for children aged five years or under; (c) education: the gross secondary school enrolment ratio; and (d) adult literacy rate
<i>Economic Vulnerability Index (EVI)</i>	based on indicators of (a) population size; (b) remoteness; (c) merchandise export concentration; (d) share of agriculture, forestry, and fisheries in gross domestic product; (e) share of population living in low-elevated coastal zones; (f) instability of exports of goods and services; (g) victims of natural disasters; and (h) instability of agricultural production

Source: UN OHRLLS

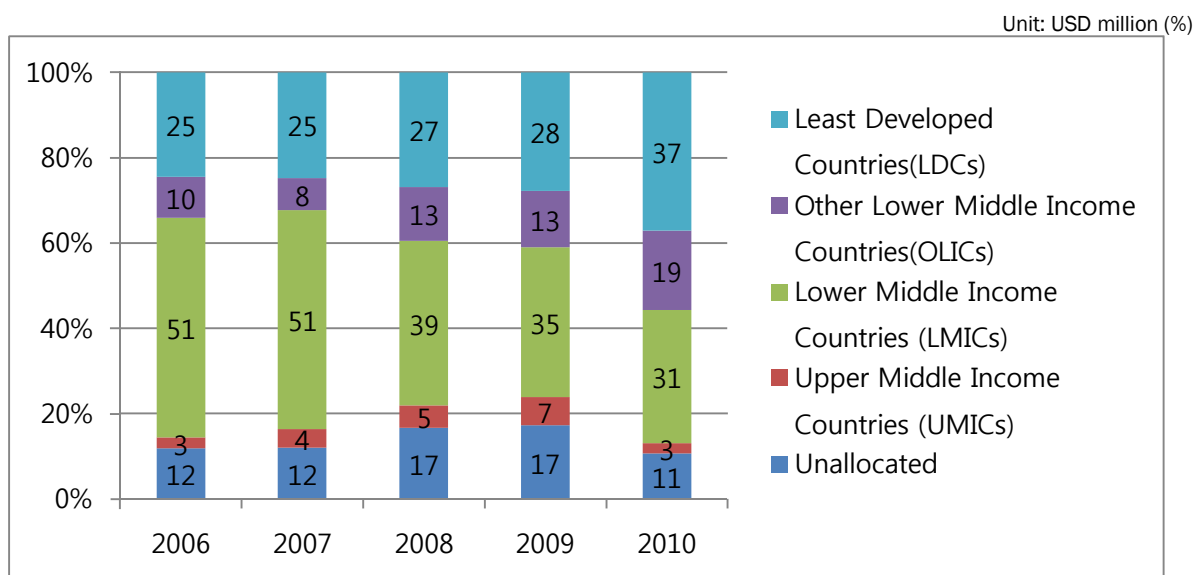
The main challenges and priorities of the LDC group were assessed with specific focus on limited production capacity and market

access, lack of development resources, debt burden, and climate change vulnerability followed by the MDG progress and post-MDG needs. It then moves on to examine the UN-

led international efforts to support LDCs outlined in the Istanbul Program of Action (IPoA) adopted in the fourth UN conference on the LDCs and suggests actions that should be taken by LDC governments and donors. The DAC donors' aid to LDCs, their allocation patterns, and quality of aid were analyzed along with bilateral and multilateral initiatives targeting LDCs, such as the Tokyo International Conference on African Development (TICAD), the Forum on China–Africa Cooperation (FOCAC), the African Growth and Opportunity Act (AGOA), and the Extractive Industries Transparency Initiative (EITI). The trends and examples of the South-South Cooperation and triangular cooperation with LDCs were also presented. The research analyzes development priorities outlined in the IPoA such as infrastructure and public sector, enhancing production and trade capacity and developing education and welfare. The international community's ODA application and

the supporting measures for HIPC are comparatively analyzed, focusing on the main ODA issues in UN, MDB, and OECD-DAC. Moving beyond aid, the following chapter develops its analysis further on international and Korean support in related areas, such as trade facilitation through the preferential scheme for LDCs, debt relief, and climate change. The analysis of the main policy issues draws a conclusion on ODA policy measures of Korea in the next chapter. Korea's ODA to LDCs has been steadily growing from US\$9.2 million in 2006 to US\$333.3 million in 2010. The five-year average aid proportion to LDCs for 2006–2010 among Korea's bilateral ODA amounts to 29.5% of its total. In 2010, the proportion of aid to LDCs was as much as 37%. Nevertheless, as illustrated in the Figure 2, the majority of Korea's bilateral ODA goes to the lower middle income countries rather than the least developed countries.

**Figure 2. Korea's Allocation of Bilateral ODA by Income Group: 2006–2010**



Note: Net Disbursement

Source: Export-Import Bank of Korea

In accordance with the OECD DAC recommendation on untying aid to LDCs, it was recommended that Korea should enhance its ef-

fort to further expand the share of untied ODA as proposed in its aid-tying roadmap. Improved ODA application condition for HIPC was also suggested. Improving quality of the conditions is expected to expand ODA for

HIPCs. In the last chapter, prospective policy tasks are suggested with emphasis on policy coherence for development measures for HIPCs.

**Table 2. Korea's Aid-untying Roadmap**

Criteria	2012	2015
<i>Grant (KOICA)</i>	40%	50%
<i>Loan (EDCF)</i>	75%	100%
LDCs and HIPCs	80%	90%

Source: ODA Korea

### 3. Way Forward: Korea's Support to LDCs

This study concludes by suggesting policy measures for the Korean government to improve its support to LDCs through ODA, trade facilitation, debt relief, and climate change assistance. First, Korea needs to improve the quality of its aid to LDCs by expanding its aid untying ratio to LDCs and HIPCs. It is advised that Korea needs to strengthen its capacity to actively participate in local and international tender, to expand the use of local procurement systems, and to promote co-financing with multilateral development banks (MDBs). Second, it is recommended that Korea should provide more favorable market access conditions for LDCs. The importance of technical and financial cooperation to support efforts by LDCs to adapt to climate change is also highlighted. As for aid, Korea needs to enhance the selection criteria of priority countries and use the existing regional cooperation platforms more actively. Finally, in order to improve development effectiveness and policy coherence for development, there should be further efforts to strengthen the whole-of-government approach through policy-level partnership among related ministries in charge of devel-

opment cooperation. Policy coherence for development Korea is in its nascent stage and political will is important from a mid- to long-term perspective. Finding practical policy coordination and operating system is urgently needed. Major DAC donors have already established legal and institutional foundation for policy coherence for development, and they have placed emphasis on strengthening policy coherence for development in high-level negotiations and on diverse policy documents, articulating strategic goals and the order of priority. Will policy coherence for development integrate all policies, development effectiveness will be improved. Without in any conflict with other official policies, anticipated results will be achieved.

Through an extended economic recession, LDCs' production capacity and economic growth abated. On the OECD 50th Anniversary Vision Statement in 2011, the international community announced to launch a comprehensive and integrated aid, looking for long-run development effectiveness. Delivery of systematic and effective aid should succeed in producing self-supporting efforts and sustainable development. For increase in employment and economic growth of LDCs, it is necessary to focus on capacity building. In the absence of one-size-fits-all development model, delivery of systematic and effective aid should be more in line with actual development needs and priorities of partner countries.

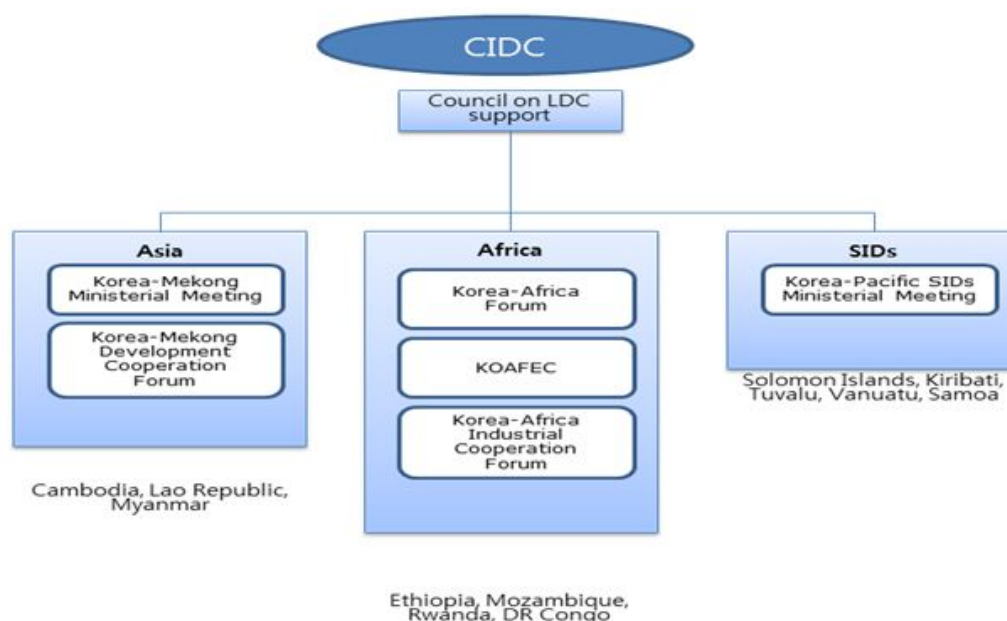
As recent global financial crisis has witnessed, HIPCs still remain the most vulnerable to external factors. A careful examination of the potential implications of ongoing financial sector and strong debt management are necessary even if the completion point has passed. Improved effective preferential tariff system is an important contribution to enhancing ODA policy coherence. Trade and FDI expansion induced by greater market access create foun-

dation for growth. In order to improve the preferential tariff initiatives, the preferential tariff ratio of imports ought to be increased. Enlarging a range of imports and trade-related capacity building projects would contribute greater market access for HIPC. Furthermore, has the international support on write-off been a main issue in development cooperation, Korea needs to examine global debt governance system due to his large volume of concessional loan. It is advised to consider that designated main partners in Africa are all HIPC countries.

At last, the research suggests that a regional bilateral consultative group to function as a supporting mechanism for HIPC. Current regional bilateral consultative groups of Korea are divided into two regions: Mekong Development Forum and Korea-Mekong Ministerial Meeting in the Asian region and Korea-Africa

Forum, KOAFEC Consultative Group Meeting, Korea-Africa Industrial Cooperation Forum, and other diverse bilateral consultative groups in the African region. To enhance development cooperation partnership, the whole of government supporting mechanism is necessary based on the supervision and coordination of the Committee for International Development Cooperation (CIDC), as presented in the Figure 3. Followed by the final communique of 2010 G20 Seoul Summit, IPoA, and 2011 Busan Partnership for Effective Development Cooperation's follow-up initiative, not only expanding outreach to ODA, but also cooperation strategy for stimulating private investment, creating jobs and enhancing HIPC's trade capacity should be developed. A comprehensive and systematic cooperation policy would improve the regional development partnership. **KIEP**

**Figure 3. Whole of Government Supporting Mechanism in Regional Cooperation with LDCs**



Source: Authors