

PRE-CONFERENCE EVENTS ORGANIZED IN PREPARATION  
FOR THE FOURTH UNITED NATIONS  
CONFERENCE ON THE LEAST DEVELOPED COUNTRIES



Partnership Against Poverty  
UN LDC-IV

TURKEY • 2011  
ISSUE ONE



United Nations Office of the High Representative for the Least  
Developed Countries, Landlocked Developing Countries and  
Small Island Developing States (UN-OHRLLS)



---

PRE-CONFERENCE EVENTS ORGANIZED IN PREPARATION  
FOR THE FOURTH UNITED NATIONS  
CONFERENCE ON THE LEAST DEVELOPED COUNTRIES

---



Partnership Against Poverty  
UN LDC-IV

TURKEY • 2011  
ISSUE ONE



United Nations Office of the High Representative for the Least  
Developed Countries, Landlocked Developing Countries and  
Small Island Developing States (UN-OHRLLS)

The reports of the pre-conference events were compiled as received with no editing.

## FOREWORD

The General Assembly decided in its resolution 63/227 to convene the Fourth United Nations Conference on the Least Developed Countries at a high level in 2011.

The Conference has the mandate to comprehensively assess the implementation of the Brussels Programme of Action; share best practices and lessons learnt, and to identify obstacles and constraints encountered as well as actions and initiatives needed to overcome them. It will also identify new challenges and opportunities for LDCs; reaffirm the global commitment to address the special needs of the LDCs; mobilize additional international support measures and actions in favour of the least developed countries. Finally it will result in a renewed partnership between the least developed countries and their development partners.

It requested the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) to ensure effective, efficient and timely preparations for the Conference and to further mobilize and coordinate the active involvement of the organizations of the United Nations system. Thus the Office of the High Representative organized four interagency consultative group meetings during 2009 and 2010 to coordinate the United Nations-system activities in support of the preparatory process for the Conference. Forty five United Nations-system organizations participated in these meetings, which agreed on a list of pre-conference events. Between December 2009 and October 2010 six thematic pre-conference events took place with participation of all stakeholders. Several more have taken place at the end of 2010 and will take place in early 2011. The outcomes of these pre-conference events will provide important substantive inputs to the outcome of the Conference.

This publication compiles the outcomes of the following pre-conference events:

The first event was jointly organized by the United Nations Industrial Development Organization and the Office of the High Representative in Vienna on 3 and 4 December 2009 on “The impact of the global financial and economic crisis on the least developed countries’ productive capacities and trade”. The resulting Plan of Action has the objective to achieve economic diversification among least developed countries in order to enhance food security and productive capacities and to reduce vulnerability to external shocks.

A seminar on “Migration, development and remittances in the LDCs’ context” was co-organized by UNITAR, in collaboration with the International Organization for Migration, the United Nations Population Fund and the MacArthur Foundation in cooperation with Office of the High Representative and the Permanent Mission of Nepal to the United Nations on 17 June 2010 in New York. In order to facilitate remittances transfers, the seminar concluded that home and host countries should lower transaction costs and work towards channeling more remittances into productive use and private sector development activities through co-development schemes.

The Ministerial Meeting on “Enhancing the Mobilization of Financial Resources for Least Developed Countries’ Development” was held in Lisbon, Portugal, on 2-3 October 2010 and co-organized by the Office of the High Representative and the Government of Portugal. The meeting stressed the importance of domestic resource mobilization, improving the quantity and quality of official development assistance to LDCs, attracting foreign direct investments to LDCs’ priority sectors through home country incentives and the importance of innovative sources of finance, including new Special Drawing Rights and taxes on international transactions and suggested the creation of a special crisis mitigation and resilience building facility for LDCs to enable them to respond to shocks.

The international meeting of high-level experts on “Sustainable tourism development in LDCs” held in Caen, from 12 to 14 October 2010, was organized under the aegis of UNCTAD’s work on sustainable tourism development. The meeting highlighted the ability of international tourism to contribute to socio-economic progress and poverty reduction in LDCs and made concrete proposals to support the development of this sector.

A pre-conference event on “Enhanced international support and smooth transition of LDCs towards graduation” took place on 15 October 2010 as side event to the Second Committee of the General Assembly, organized by the Office of the High Representative. The presentations and ensuing interactive discussions with delegations from LDCs and partner countries examined the reasons behind the slow progress made by LDCs towards achieving the internationally agreed goals and graduating from the category and suggested policy measures to make the transition from LDC to post-LDC life a prospect to be looked forward to.

The pre-conference event on “Building productive capacities in LDCs for inclusive and sustainable development” was held in Geneva on 27-29 October 2010. It examined how focusing on developing productive capacities affected national policies intended to promote development and poverty reduction in LDCs, as well as the impact on the design of international support measures, particularly those aimed at attracting increased domestic and foreign investment, which would lead to job creation and higher value goods and services.

The outcomes of the other events that took place more recently will be summarized in a separate volume once the reports will be ready.

I hope that the wealth of information contained in the publication will inform the discussions for the negotiations of the outcome of the Istanbul conference.



Cheick Sidi Diarra  
Under-Secretary-General  
Special Adviser on Africa  
High Representative  
and  
Secretary-General  
of the Fourth UN Conference on the  
Least Developed Countries

## TABLE OF CONTENTS

EVENT	DATE & VENUE	PAGE
UNIDO – OHRLLS: Impact of the Global Economic Crises on LDCs' Productive Capacities and Trade Prospects: Threats and Opportunities	3–4 December 2009 Vienna	<b>4</b>
IOM – UNITAR – OHRLLS: Migration, Development and Remittances in the LDC Context	17 June 2010 New York	<b>13</b>
GOVERNMENT OF PORTUGAL – OHRLLS: Mobilizing Resources for LDCs' Development	2–3 October 2010 Lisbon	<b>20</b>
UNCTAD – OHRLLS: International Expert Group Meeting on Tourism in LDCs	12–14 October 2010 Caen, France	<b>30</b>
OHRLLS: Enhanced International Support and Smooth Transition of LDCs towards Graduation	15 October 2010 New York	<b>37</b>
UNCTAD - OHRLLS: Building productive capacities in LDCs for inclusive and sustainable development	27–29 October 2010 Geneva	<b>45</b>





UN-OHRLS

**Impact of the Global Economic Crisis on LDCs' Productive  
Capacities and Trade Prospects: Threats and Opportunities**

3-4 December 2009

**VIENNA, AUSTRIA**



UN-OHRLLS

## INTRODUCTION

The third Least Developed Countries Ministerial Conference was jointly organized by the United Nations Office of the High Representative for the LDCs, LLDCs and SIDS (UN-OHRLLS) and the United Nations Industrial Development Organization (UNIDO) and was held at UNIDO headquarters in Vienna on 3 and 4 December 2009. This conference was the third of such LDC Ministerial Conferences and was one of the major preparatory events leading up to the Fourth United Nations Conference on Least Developed Countries (LDCs) to be held in Turkey in 2011.

The theme of the Vienna conference was the “Impact of the Global Economic Crisis on LDCs’ Productive Capacities and Trade Prospects: Threats and Opportunities”. The first conference in Vienna in 2007 had focused on the Aid for Trade (AfT) Agenda; in 2008, the conference in Siem Reap, Cambodia, had looked at ways of strengthening UNIDO’s cooperation with the Enhanced Integrated Framework (EIF) which had launched eight joint pilot programmes together with the United Nations Conference on Trade and Development (UNCTAD) and the International Trade Centre (ITC). This third conference was taking place in the penultimate year of the decade for the Brussels Programme of Action (2001-2010). In view of the ongoing global economic crisis, which had started in 2008, it was imperative that this conference should concentrate on the impact of the crisis, debate the way forward and consider lessons already learned in preparation for UN LDC-IV.

A total of five sessions were organized over the two days and the meeting concluded by issuing a Ministerial Declaration and a Plan of Action which was subsequently endorsed by the 13th UNIDO General Conference also held in Vienna from 5 to 11 December 2009.

The opening session of the conference comprised a series of welcoming statements and was followed by an interactive session between a panel of experts and the floor. A further three sessions were held, each involving substantive presentations, panel discussions and questions and comments from the floor, as follows: Session 2: Analysing the Impact and Implications of the Global Economic Crisis Session 3: Policy Options Session 4: Partners’ roles in support of LDCs’ Industrial Developments The fifth and final session of the conference concerned itself with a ministerial declaration, the adoption of the plan of action and the closing ceremony. Forty-three of the world’s 49 LDCs were represented at the Conference, which was also attended by a large number of development cooperation partners and regional economic commissions.

## EXECUTIVE SUMMARY

The LDC Ministerial Conference took place in Vienna on 3 and 4 December 2009. This was the third in a series of conferences organized by UNIDO, this time in collaboration with UN-OHRLLS, and was attended by 43 of the world’s 49 Least Developed Countries, as well as by many regional organizations, United Nations agencies and bilateral and multilateral donors. The theme of the 2009 conference was the “Impact of the Global Economic Crisis on LDCs’ Productive Capacities and Trade Prospects: Threats and Opportunities” and a main objective was to draft a plan of action to help the LDCs in their efforts to emerge from the crisis and move towards a more sustainable path to industrial development. The conference also had a major role as the first step in preparations for the UN LDC-IV conference to be held in Turkey in 2011.

Proceedings were divided into five sessions, the first being devoted to welcoming statements and interactive dialogue with the floor and the last to closing statements and the adoption of the plan of action and ministerial declaration. Session two analyzed the impact and implications of the global economic crisis on LDCs at global, regional and sectoral levels; session three looked at possible policy options; and session four reviewed the role of partners in support of LDCs’ industrial development. Each session comprised technical presentations, followed by panel debate and questions and comments from the floor.

## **The macro-economic Situation of the LDCs**

Despite the very severe global crisis, macro-economic data pointed to the fact that LDC economies had continued to record positive growth rates, with an average 6.5 percent annual increase in GDP between 2003 and 2007. Nonetheless, individual performance had been uneven with the highest growth in extractive industries in LDCs exporting minerals and petroleum. This underlined the need for diversification of the industrial and export sectors away from dependence on basic commodities. As recently as 2006, 92 percent of all exports from African LDCs were primary commodities, including fuel. In Asia, only 44 percent of exports from LDCs were primary commodities. And, although the share of LDCs' participation in world trade stood at only 1 percent in 2008, this was double the 0.5 percent share at the beginning of the millennium. Diversification was needed also in the range of trading partners and export markets and in energy sources. Moreover, on the minus side, the global crisis had seen a contraction in investment inflows, in workers' remittances and in tourist receipts. This, in turn, had led to cuts in government spending with reductions in public investment, health, education and infrastructure.

## **Trade**

Whilst trade was the primary stimulus package to drive LDCs forward, they could only integrate into regional and global markets when they produced goods of interest to those markets. Regional markets were an important step forward and Asia, for example, exported some 50 percent of its trade within the Asian region. On the other hand, intra-regional trade in Africa, where countries were highly dependent on exports of basic commodities, stood at only 9 percent. In this respect, the Economic Partnership Agreements (EPA) currently being negotiated with the European Union might help promote greater regional integration. Similarly, LDCs participating in the Enhanced Integrated Framework pilot programmes would also receive substantial technical support to improve the quality of their tradable products. Sectoral performance Discussion on economic diversification pointed unequivocally to the need for LDCs to add value to their basic products. Uganda provided a good example of this as it had moved from exports of fresh and frozen fish to the manufacture and export of fish fingers. Although many sectors, outside of basic commodities, had been hit by the crisis, the latest statistical data pointed to the beginnings of a recovery in the textile, garment and tobacco sectors although some individual countries had been badly affected. Bangladesh, for example, which had had a thriving garment sector prior to the global crisis had suffered a sharp contraction in export orders. On the other hand, Senegal's textile sector was showing signs of recovery, helped by a shift into the use of biomass energy generated from groundnut shells.

## **Agri-business**

Since agriculture would remain the predominant sector of the economy in many LDCs for many years to come, it was natural that moves to diversification and to industrial development should focus on promoting agri-business. This area offered huge potential for LDCs in terms of competitiveness. For example, raw cotton which was sold at a price of 100 units more than doubled in value to 200 units when transformed to yarn, with printed and dyed fabric priced at 400 units and made-up and garments being sold at 880 units. Countries should move up the value chain adding value and increasing productivity at each stage.

## **Technology**

If adding value was the way forward for the manufacturing sector, an indispensable part of the equation was technology transfer. The LDCs did not necessarily have to make large capital investments in innovation but they did need to adopt and to learn to use new technology, adapting it to their particular needs where necessary. Moreover, being an LDC did not mean that second or third rate technology would do. Being competitive meant adopting and learning to use the best technology. This, in



UN-OHRLS

turn, called for a skilled and educated labour force meaning that more government funding should be put into this area where human resources were failing to respond adequately to needs.

### **Competitiveness**

There was recognition that, currently, those LDCs who were managing to compete in international markets were often doing so on the grounds of low labour costs. This should not be a long term option as it would lead to a downward spiral in price cutting to gain competitiveness. However, whilst increased use of technology was a major component of acquiring competitiveness, it often meant moving into more capital intensive manufacturing operations—and this was mutually exclusive with the policy objective of employment creation.

### **Industrial policy**

The reinsertion of industrial policy onto the global economic agenda was becoming a reality after several decades of isolation. For LDCs, this was of particular importance since the growing recognition of the need to diversify their economies called for major structural changes. This time around, however, the changes should not be wholly led by government but rather in equal partnership with the private sector. This was the direction of the New Industrial Policy. Moreover, there was a clear move away from the dogmatic policies of the past towards a pragmatic and realistic approach.

### **Development partners**

The LDC-IV conference in Turkey would mark the end of the third decade of support for LDCs' development. However, whilst ODA had risen—up from US\$13.5 billion in 2001 to US\$32 billion in 2007—there had been a gradual shift of aid away from productive sectors and into social areas like health and education. The developed countries' aid allocation still fell short of the Brussels target range of 0.15 percent to 0.2 percent of GDP. It was hoped that productive capacity-building would feature more strongly on the agenda and in the plan of action of LDC-IV. Resource mobilization, including domestic resources, remained a major priority and the new agenda item—of growing importance—was climate change and how LDCs could tackle this problem with support from their development partners.

### **Plan of Action and Ministerial Declaration**

The conference ended with the adoption of a Plan of Action and Ministerial Declaration which placed productive capacity at the centre of the LDC development agenda. It was intended that the key elements of the Plan should be reflected in the outcome of the various international deliberations leading up to the UN LDC-IV Conference in Turkey in 2011, such as the MDG summit in 2010.

## **PLAN OF ACTION**

### **Introduction**

The global economic crisis that emanated from the financial institutions of the North in 2007/8, quickly developed into a global recession with farreaching impact. While a great deal has been written and said about the effect of the crisis on more developed countries and the need for greater regulation of the financial sector, its implications on the productive sectors of the world's 49 Least Developed Countries (LDCs) are far less clear.

The group of Countries designated as Least Developed Countries by the United Nations constitute the most disadvantaged and vulnerable countries in the world. Characteristics of LDCs include high levels of poverty, structural and resource weaknesses, and acute susceptibility to external economic factors, climate change and disasters. Of the total of 49 countries currently categorized as LDCs, 33 are located in Africa, 15 in Asia and the Pacific and one in the Americas.

Since the late 1960s, the United Nations system has paid increasing attention to the specific needs of LDCs. The first United Nations Conference on LDCs was held in Paris in 1981, resulting in a comprehensive Substantial New Programme of Action (SNPA) for the 1980s for the LDCs. The SNPA was subsequently endorsed by the United Nations General Assembly in its resolution 36/194 of 17 December 1981. This was followed by the Second United Nations Conference on the Least Developed Countries (LDCII) in Paris in 1990 leading to the Paris Declaration and the Programme of Action for the LDCs. Subsequently, the Third United Nations Conference on the Least Developed Countries (LDCIII) was held in Brussels, hosted by the European Union, from 14 to 20 May 2001, resulting in the Brussels Programme of Action.

As the decade for the Brussels Programme of Action draws to a close, we have witnessed an unprecedented period of economic growth among LDCs based primarily on a boom in the terms of trade for primary commodities over the period 2000-2007. However, this trend was uneven and came to an abrupt end in 2008, when the world experienced an exceptional increase in primary commodity prices for both food and energy. The situation rapidly resulted in high inflation rates and growing concern over food shortages globally, followed by a sudden collapse in commodity prices. Furthermore the ongoing global and financial crisis threatens to reverse the gains made in recent years.

Among the LDCs, the focus was on imported food and energy prices, and the vulnerability of the general population to price-induced food shortages. The susceptibility of imported food supplies to external factors set alarm bells ringing among the populations of many poorer nations exhibiting inadequate levels of affordable and local food production.

The experience of the last decade and the current global recession points to the need for greater economic resilience among LDCs. Partners are agreed that the answer to building such resilience is in greater economic diversification, and moving away from dependence on (a) food imports and non-renewable resources and (b) the export of a narrow range of primary commodities.

In the context of the above and lessons learned, LDCs should focus on industrialization and modernization, particularly in the following key sectors and drivers of diversification: (a) Agro-industries; (b) Innovation, technology transfer and productivity; (c) Private sector development and investment; (d) Industrial Infrastructure; (e) Policy space, governance and institution-building.

## **I. Objectives**

1. This Plan of Action has the overall aim of enhancing productive capacities for economic development among LDCs.
2. More concretely, the objective is to achieve economic diversification among LDCs in order to enhance food security and productive capacities and to reduce vulnerability to external shocks.
3. With the lessons from the crisis in mind, United Nations agencies and development partners will increasingly concentrate their efforts on supporting economic diversification among LDCs as the overall theme of their future agenda and work with LDCs.
4. Within the above framework, this Plan of Action helps define a road map among various partners in the build up to LDC-IV in 2011, and to identify concrete solutions to the problem of diversification over the next decade.

## **II. Approach**

1. In their efforts to achieve the above-mentioned objectives, United Nations agencies and development partners must adopt pragmatic, flexible, and locally and regionally pertinent approaches to issues such as development policy, trade regimes, the role of the state and the policy space for LDC decision-makers.



UN-OHRLS

2. Special attention will be paid to identifying public-private partnership opportunities and best practices in all sectors, as well as institutional capacities and related issues.
3. Intellectual property rights as they relate to industry should be used to support the development of LDCs.
4. Without losing focus on productive capacities and economic diversification, the policy review will include pertinent analyses of trade issues in all sectors under study as deemed necessary.
5. Where necessary, and without prejudice, United Nations agencies and development partners will prepare policy advice and recommendations on which local, regional and global practices, institutions or agreements are in need of reform and how.
6. In all their efforts under this Plan of Action, United Nations agencies will pay special attention to ensuring synergies, coordination and complementarities with regards to their assistance programmes for LDCs.
7. The policy proposals will include a review of the potential role of transnational corporations in various sectors with particular attention to specific approaches and solutions to the transfer of know-how and technology.
8. While LDCs are the least polluting countries globally, the policies and programmes will pay particular attention, where appropriate, to green industries and green and renewable technologies as promising sectors for economic renewal and modernization.
9. United Nations agencies and development partners will mobilize and provide appropriate technical and adequate financial assistance for LDCs to cope with the adverse environmental impacts of climate change.
10. In addition, there will be special consideration of the growing role of South- South Cooperation and its rising potential in all sectors identified. In addition special support will be given to regional integration processes.
11. United Nations agencies and partners will partner with key academic and research and development institutions with proven track records in the focus areas outlined above as well as with relevant regional economic commissions and interested donors.
12. The proposals will also address resource constraint issues and various scenarios for private and public fundraising in identified sectors with focus on local, regional and global possibilities for LDCs.

### **III. Policy and strategies**

1. United Nations agencies and development partners will scale up their policy and research inputs in support of LDCs in the period leading up to LDCIV expected to be held in Turkey in mid-2011. This will be concentrated on the five priority areas as key drivers of diversification for LDCs:
  - (a) Agro-industries;
  - (b) Innovation, technology transfer and productivity;
  - (c) Private sector development and investment;
  - (d) Industrial infrastructure;
  - (e) Policy space, governance and institution-building.
2. In these five priority areas, particular attention will be paid to human resource development with specialized skills for absorption of appropriate technologies and know-how.
3. The time available is sufficient for in-depth analysis in the five thematic areas, starting from

regional studies in 2010, and leading to a global publication by mid-2011 for distribution at LDC-IV.

4. **Agro-industries.** Agriculture is the pivotal sector in the LDCs, as it underpins food security, foreign exchange earnings, industrial and rural development, and employment generation. Existing and new research will be compiled into succinct and pertinent policy and strategy proposals for various regions and LDC groupings.
5. **Innovation, technology transfer and productivity.** Technology management and acquisition together with low productivity remain among the biggest obstacles to economic development and diversification among LDCs. While some developing countries have made major strides in recent decades, LDCs on the whole remain locked in low technology and low productivity. The United Nations agencies and partners will bring together a wide array of research and studies to develop clear and appropriate response strategies for various LDCs.
6. **Private sector development and investment.** In a climate of financial crisis and severe competition, access to investment resources for further growth of a more diversified range of small, medium and large enterprises is severely hampered. Nevertheless, there are clear success stories among many developing countries in recent decades. The policy and strategy proposals of development partners must be further coordinated and strengthened in order to identify clear-cut solutions, factors of resilience and innovative approaches that can help discover local, regional and wider resources and solutions (inter alia, through the use of systems such as BOT), and reduce over-dependence on FDI for stimulating local business development and investments. Attention will be paid to promoting public-private partnerships. In addition, the important role of the informal sector must be recognized, and mechanisms established to develop them further and to graduate to formal SMEs. LDCs and partners will join efforts to highlight strategic responses and promising sectors.
7. **Industrial infrastructure.** Despite important advances in several countries, the development of industrial infrastructure remains a strong challenge for most LDCs. Tied in closely with the challenges of technology dependence, investment generation and high costs of unsustainable energy resources, LDCs and partners will work together to highlight success stories, and innovative and practical solutions in the areas of infrastructure development such as water and transport and energy generation.
8. **Policy space, governance and institution building.** The experience of the LDCs and various development cooperation partners over the past few decades clearly points to the need for a new development paradigm. In the lead up to LDC-IV, LDCs and partners will work together to carve out the contours of a new approach that is pragmatic and flexible, with emphasis on locally and regionally pertinent approaches to issues such as development policy, trade regimes, governance, and policy space for LDC decision-makers.

#### **IV. Programmes**

1. In line with the above objectives and approach, LDCs and development partners will launch a concerted effort to scale up their technical cooperation efforts geared toward the enhancement of productive sectors.
2. These will build on existing interagency and multi-sectoral mechanisms and approaches of various parties, for example through the Enhanced Integrated Framework mechanism and the Aid for Trade agenda.
3. Direct synergies will be created between the research work outlined above and demonstration/pilot projects, best practices with demonstrated results providing an opportunity to combine



theory and practice, and to revisit the issues by the MDGs' target year of 2015. This will provide a useful opportunity for a second round of stock-taking and lesson-learning within five years.

4. LDCs and development partners will aim to obtain greater allocation of national and partners' resources for productive capacity-building programmes, including a fundraising strategy
5. One of the key programmatic areas of concentration will be the integration of diversification and allocation of necessary resources in national and subregional policies and strategies of LDCs and their development partners alike.

## V. Follow-up mechanism

The Secretariat will submit six-monthly progress reports to the Conference Bureau (the Conference Chair, Vice Chair and Rapporteur) in the period leading up to LDC-IV in Turkey.

## MINISTERIAL DECLARATION

We the Ministers of Industry representing the governments of Least Developed Countries,

Participating in the UNIDO-UN-OHRLS Conference on the "Impact of the Economic Crisis on LDCs' Productive Capacities and Trade Prospects: Threats and Opportunities", Gathered here in Vienna in December 2009, in the penultimate year of the Brussels Programme of Action for LDCs for the decade 2001-2010,

Guided by the Charter of the United Nations and the principles set out in the Millennium Declaration and the Brussels Declaration and their recognition of the shared responsibility to uphold dignity and a decent standard of living for all humanity,

Reiterating productive capacity-building and the need for economic diversification and balanced trade as top priorities for LDCs' wealth generation and economic development in line with Commitments 4, 5 and 7 of the Brussels Programme of Action related to productive capacity building, trade and mobilizing financial resources,

Determined to reinvigorate national, regional and international partnerships and efforts in support of balanced and sustainable economic development within an open, stable and objective policy space,

Recognizing that despite relative successes in terms of economic growth among LDCs since the turn of the new Millennium, the LDCs remain largely marginalized and excessively dependent on the export of primary commodities and the import of food products, and the exploitation of nonrenewable natural resources,

Mindful that the goals of the Brussels Programme of Action are unlikely to be met by the end of the decade due to long-standing structural impediments coupled with the alarming impact and implications of the current global economic and financial crises for the development prospects, food security and energy security of LDCs,

Concerned that the current global economic and financial crises threaten to reverse the gains made by LDCs in recent years,

Having adopted a Plan of Action for LDCs in anticipation of the forthcoming United Nations LDC-IV Conference to be convened in Turkey in 2011, as called for by the United Nations General Assembly in resolution 63/227 of 19 December 2008,

Recalling the Sixth LDC Trade Ministers' Meeting held from 14 to 16 October 2009 in Dar es Salaam, and the Ezulwini Declaration adopted in Swaziland in October 2009, regarding landlocked developing countries

Declare that:

1. We remain firmly committed to the principles and aims of the Millennium Declaration and the Brussels Declaration and its Programme of Action for LDCs for the decade 2001-2010,
2. We believe that the prosperity of all nations and peoples are inter-connected and interdependent, and that the current global recession has reaffirmed the need for international solidarity for the mutual benefit of all humanity,
3. We recognize that the primary responsibility for development in LDCs rests with the LDCs themselves, but that international partnership and cooperation is important in this endeavour including with the private sector and civil society,
4. We are convinced that effective development must be based on sustained economic diversification and growth based on nationally owned industrialization and modernization of the economy, enhancing productive capacity-building strategies, raising quality and standards, transfer of technology, improved competitiveness, and the allocation of adequate national resources for building productive capacities,
5. We pledge our support to green industrialization of LDCs in providing necessary infrastructure for energy, transport, water and other activities, with assistance from development partners,
6. We are particularly concerned that total global aid commitments earmarked for productive sectors stood at only \$7.5 billion in 2007 against a total global aid flow of \$121 billion, representing a mere 6 percent of the total,
7. We believe that an appropriate balance needs to be struck between the role of the state and the private sector in each country context, and that the relative positions of these should be determined locally rather than through external prescriptions and conditionalities,
8. We commit ourselves to seizing the opportunity provided by the upcoming LDC-IV in Turkey in 2011 to proactively work towards redirecting national and international development cooperation efforts and resources towards economic diversification and the development of productive capacities in LDCs, through technology transfer, human resource development, infrastructure development, private sector development, intensifying intra-regional trade and South-South cooperation, research and development, and strengthening leading sectors.
9. We call on all United Nations agencies and development partners concerned with support to LDCs' industrialization and modernization by enhancing productive capacities to redouble their programmatic efforts in this area and document relevant policy lessons, including stock-taking exercises in some LDCs and sharing of best practices, in the period leading up to LDC-IV starting from the national and regional to the global levels, and urge our development partners to allocate more of their aid contributions toward productive activities in LDCs, and
10. We further call for an early and ambitious conclusion of the WTO Doha Round of Negotiations, which will ensure beneficial integration of LDC in the multilateral trading system.

Adopted on 4 December 2009, Vienna

H.E. Mr. Ahmadou Abdoulaye DIALLO  
Minister of Industry, Investments and Commerce, Mali  
Vice-Chair of the 2009 LDC Ministerial Conference



UNITAR



IOM · OIM



UN-OHRLS

**Migration, Development and Remittances in  
the Least Developed Countries Context**

17 June 2010

**UNITED NATIONS HEADQUARTERS,  
NEW YORK**



UNITAR



IOM · OIM



UN-OHRLS

## INTRODUCTION

Debates on migration have increased the interest of the United Nations and its Member States to create international policy initiatives to alleviate the economic situations of the Least Developed Countries (LDCs). Migration has proven to be related to development as diasporas and remittances play a strong impact in this context. They have become a key source of external funds and constitute a significant share of these countries' economies yet migration and remittance-related policies are often neglected in long term national development strategies of the LDCs.

## OBJECTIVES

This full day seminar was organized as a pre-conference thematic event in preparation for the Fourth United Nations Conference on the Least Developed Countries (LDC-IV) to take place in Turkey in 2011. This event was proposed as a seminar open to the participation of all Permanent Missions in New York, priority being given to LDCs, and other interested agencies and civil society representatives. The seminar aimed at providing policy recommendations on the migration and development agenda for LDC-IV, namely in the areas of:

- Identifying key gaps and priorities on migration data collection for the LDCs;
- Maximizing the benefits of human capital mobility;
- Leveraging migrant remittances and diasporas contributions towards development;
- Enhancing the capabilities of LDCs through capacity building, institutional reforms and partnerships;
- Suggesting pro-poor and vulnerable population targeted measures to confront
- Climate change, the effects of the global crisis and other vulnerability factors.

## SUMMARY OF DISCUSSION

In her presentation, Ms. Michele Klein Solomon, Director, Migration Policy and Research, IOM, introduced the background paper on “Mainstreaming Migration and Development in the LDCs post-Brussels Plan of Action.” She started by giving an overview of migration trends and key challenges in the LDCs by explaining that contrary to common perceptions, South-South migration is believed to be significantly more important than South-North migration. Only 26.6 percent of migrants from an LDC emigrated to high-income countries (World Bank, 2008). It was made evident that LDCs are particularly affected by highly skilled emigration to OECD countries especially among women; they represent 34% of LDC workers in OECD countries in 2000, (Docquier and Marfouk, 2006).

A key factor to the development of LDCs is the billions of dollars in remittances that are sent each year back to their countries of origins. The World Bank estimates remittance flows to LDCs at more than USD 24 billion in 2009, which represents an increase by approximately USD 1.5 billion since 2008. Another significant factor of migration in the LDCs is demographic growth. The population rate in the LDCs has increased enormously, with an expected growth rate of over 200 million people over the next decade. The rate of urbanization in the LDCs is 20 percentage points below the world average meaning that the large majority of the poorest of the poor still live in rural areas. In addition, two other challenges cited by Ms. Solomon are the increasing numbers of immigrants in LDCs and the numbers of refugees and IDPs. The number of immigrants in LDCs grew by 600,000 since 2000 (UN DESA/pop, 2009) and one in five refugees worldwide received protection in an LDC. As a result of these migration trends, LDCs have to face numerous challenges. The first is the lack of effective respect for the human rights of migrants, migrant workers and their children, the dangers



UNITAR



IOM • OIM



UN-OHRLS

related to irregular migration such as trafficking in human beings, sexual exploitation, forced labour and lack of access to basic services. Finally, climate change and environmental degradation also have a strong impact on migration. Six out of 20 countries with the highest level of disaster-related displacement in 2008 were LDCs. Ms. Solomon concluded this second part with the need to recognize environmentally induced migration as an adaptation strategy to climate change. In the third part of her presentation, Ms. Solomon talked about the impact of the global economic and financial crisis and highlighted: less new out-migration from LDCs, immigration restrictions and non-renewal of work permits in destination countries; rising unemployment rates and no large scale returns as expected. She emphasized that the protection of human rights of migrants is especially key in time of such crises. In the fourth part of her presentation, Ms. Solomon talked about the contribution of remittances and other diaspora resources to development including remittances as a key source to foreign exchange, their potential to increase the external value of the exchange rate at the macro-economic level for countries with a high dependency on remittances (which can also have negative consequences for the competitiveness of those countries); and the expansion of household income for poverty alleviation at the micro level. Finally, Ms. Solomon concluded with the potential role of the diasporas by highlighting their role in private sector contributions, trade contributions, transfer of skills, technology and ideas and their potential role in peacebuilding.

In conclusion, Ms. Solomon ended her presentation with policy implications and recommendations:

1. Enhance data collection
2. Maximize the benefits of human mobility
3. Facilitate migrant remittances' transfers
4. Leverage diasporas contributions
5. Enhance capacities and institutional reforms
6. Target measures to pro-poor and vulnerable populations

Mr. Michael Clemens, Center for Global Development, commented on the background paper "Mainstreaming Migration, Development and Remittances in the LDC Post? Brussels of Action." He developed a migrant-centered approach based on these points:

1. Enhance data collection
2. Maximize benefits of mobility
3. Facilitate remittances
4. Leverage diasporas' contributions
5. Institutional reforms

He explained that migration is the most important development factor that should be addressed during the LDC-IV in Turkey. He said that no other phenomenon can trigger as much development for individuals as migration. Furthermore, Mr. Clemens strongly emphasized that the word "brain drain" has a negative connotation, which does not capture all aspects of the phenomenon. Rather it is important to know what causes the loss of professionals beyond merely saying that they are immigrating. Citing the results of a Gallup poll of students in Africa, some reasons for migrating were:

- Professional advancement
- Remuneration
- Personal safety
- The future of my children
- Quality upkeep of public amenities
- A level of fair taxation



UNITAR



IOM • OIM



UN-OHRLS

It is thus important when making policy recommendations to analyze the root of the problem to find the solutions. He also emphasized that the facilitation of increased movement of people will provide better opportunities for the poor.

Ms. Lakshmi Puri, Director, Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, focused on the following four key areas that are critical for the Brussels Programme of Action, as well as for the Istanbul Programme of Action:

1. Linkage between migration and development: Since 2001, migration and its consequences have become a major game changer within the LDC landscape by addressing issues of poverty reduction, universal access to essential services, gender equity, infrastructure and transfer of technology. Over the next ten years, new pathways of labour mobility will open up and develop. In this respect she stressed the importance of circulation of talent and skills with respect to building human capital in LDCs, which is critical for LDCs structural transformation. This linkage will need to be further strengthened in the next programme of action, with the ultimate goal of maximizing full benefits of labour mobility for LDC development.
2. Designing a strong international partnership on migration in the context of the LDC-IV Conference that encapsulates a win-win situation on the issues of migration and labour mobility as well as tangible schemes meant at building capacity of LDCs in areas of: food security, productive capacity, universal access to basic services, climate change, mobilizing financial resources, poverty reduction, job creation, etc. Policy encompassing economic, social, and technical needs on the part of the development partner country and receiving country are important so as to address needs stemming from migration and remittance issues. As push factors concerning economic underdevelopment, social conflict, and wage differentials intensify the need for partnerships between development partners and receiving countries becomes important in the form of policy comprised on economic, technological, and political components. This also includes the importance of cooperating together to counter the challenges of job-related protectionism and anti-immigration sentiment, in the context of the global financial and economic crisis.
3. Maximising the benefits of human capital mobility and better leverage of remittances towards development: In particular, LDC governments should adopt conducive policies towards allocating remittances to productive sectors. Additionally, an effort must be placed on transforming remittances, an essentially private fund, into public development projects in infrastructure, development, technology, etc. Nevertheless, LDC countries should incorporate a coherent and holistic migration strategy as part of their overall development strategy so as not to be overly dependent on remittances. Development partners should also emphasize the growing complementarities such as labour shortages, aging populations, increasing labour force, and youth populations, in the context for their potential to be transformed through projects concerning skills development and job creation. Similarly, development partners must incorporate into their national and regional strategy to foster maximum returns for remittances and also to ensure that they then create trade, immigration, and development assistance policy that is mindful of needs created by migration;
4. Adopting development policies by LDCs and their development partners including policies that encourage circular migration, co-development measures and skills development, incentives for return of migrants, including employment opportunities, improve linkages and networks between the Diaspora and home countries through improved communication technology to facilitate exchange of skills and knowledge, strengthening data collection, establishment of centres of excellence and promoting research on migration and remittances. Included in this is strengthened re-investment into one's mother country in order to encourage brain circulation,



UNITAR



IOM • OIM



UN-OHRLS

especially in sectors where the skill base is limited and/or sectoral strength is weak. LDC countries should work towards incorporating a coherent & holistic migration strategy. The way forward between development partners and LDC countries in reconciling the diaspora should include the continued development of temporary positions at all skill levels, including under Mode 4 of GATT, as requested by LDCs.

After these morning presentations, the floor was opened to comments and questions. One participant asked about what delegates should be talking about in Turkey in terms of economic development factors while another said that migration should be considered as a win-win phenomenon and people should look at how to facilitate migration. The importance of internal migration was also raised.

Ms. Puri added that temporary migration was the key and that there is a win-win for all since a real labour market need was fulfilled through migration. Ms. Solomon said she will take in consideration all the remarks in the draft paper.

H.E. Dr. Anthony Mothae Maruping, Permanent Representative of Lesotho to the United Nations in Geneva, talked about the Migration, Development and Remittances in the LDCs context. The first challenge Dr. Maruping highlighted was the lack of data on migration and remittances. They are often unavailable or scarce, incomplete, inaccurate or unreliable.

Some solutions he suggested to this problem is the revival of the legitimate role of the state which should enforce regulations and supervision, functional state institutions with satisfactory service delivery, credible enabling legal frameworks and forging partnerships with the private sector as partners in development. Another major challenge to the development of the LDCs, as remarked by Dr. Maruping, is their heterogeneity. Generally, people classify LDCs according to their regions and not to their characters. An LDC should not only be placed into the Africa, Asian or Pacific category but instead be categorized according to their level of development, structure, mode of functioning or if they are landlocked or sealoaked or having a large or very small population. Additionally, LDCs have encountered many crises and lack of equipments and strategies to face them. Some examples he cited are: sovereign debt crisis, fuel prices crisis, food prices crises, and climate change challenges, global financial and economic crisis. The type of economic growth desired by LDCs should be one that creates jobs, ensures equitable distribution of incomes, brings food security, and encourages the participation of youth, gender and the disabled. In short, he calls it a “growth that is pro-poor.”

Dr. Maruping concluded his presentation with the example of Lesotho by analyzing migration and remittances facts. The composition of migrants has been changing from unskilled to increasingly semi-skilled and highly skilled since the colonial period. Lesotho also represents the example of South-South migration as the most preferred country of destination is South Africa. Some of the factors encouraging this choice are: the entrenched tradition, the proximity, the ease of effecting transfers, ethnics and cultural ties. Unfortunately, though migration and remittances play such a pivotal role in the economy of Lesotho, they are not mainstreamed in the national development policy plan and it is imperative that the state starts focusing on it. The creation of relevant institutions and the reorganisation of the state institutions should also be addressed to resolve the problem.

H.E. Mr. Libran Cabactulan, Permanent Representative of the Philippines to the United Nations, gave his presentation focusing on the case of the Philippines. According to the Philippines, the term migrant covers permanent, temporary (voluntary) and refugees (involuntary), documented or undocumented as well as internal or international. He highlighted that for many countries the term may be associated with local realities as developing countries refer to migrant workers whereas developed countries may look at those coming in, to settle permanently. He also added that most International migration occurs within countries of same level of development. He cited the UNDP Human Development Report of 2009 to support this argument.



UNITAR



IOM • OIM



UN-OHRLS

In addition, Mr. Cabactulan talked more in depth about the Philippines context. Around 10 percent of the population of 90 million is abroad either on a permanent or temporary basis. The Philippines represents the top five countries in annual net out migration and one of the top 10 migration corridors. The Philippines also has strong institutions facilitating migration and protecting migrants, such as the Philippines Overseas Employment Administration, the Commission on Filipinos Overseas as well as effective domestic and international laws. Finally, Mr. Cabactulan concluded his presentation with the impact of remittances in the development of the Philippines. Remittances continue to increase in spite of the economic and financial crisis; efforts are being extended to channel remittances to domestic investments (business and real estate) rather than to pure consumption.

Mr. Noel Gonzalez, Second Secretary, Permanent Mission of Mexico to the United Nations, gave his presentation on migration and remittances in the context of Mexico. According to him, Mexico is the principal recipient of remittances in Latin America. Remittances represent only 2 percent of the total GDP. At least 86 percent of the remittances directly go into consumption or family support; there are no savings or investments. One approach that Mexico is promoting in its migration strategy is facilitating the movement of talents and the creation of migrants associations abroad and in Mexico.

Finally, Mr. Gonzalez talked about the successful “Tres por Uno” migrant programme created by the Mexican government to encourage migrants to invest their money back in their communities.

Mr. Arun Kayshap, Private Sector Division and Capacity Development Group, UNDP, opened his presentation with an overview of the Millennium Development Goals and a list of points that will be necessary to achieve such as:

- Support country-led development and foster inclusive economic growth
- Improving opportunities for women and girls
- Robust social protection and employment programmes
- Innovations in improving domestic resource mobilization

With respect to remittances, Mr. Kayshap categorized them primarily as private resources, than as the second largest capital flow to developing countries. According to him, remittances represent a way out of poverty for a significant population. They have offset damage experienced from natural disasters and economic crisis, can offset trade deficits and create public goods as well as other private goods while increasing private welfare. Although remittances are mainly used for household consumption, the impact on growth depends on the level of financial development and infrastructure. He concluded his presentation with some recommendations:

- Link national priorities to local actions: empower diaspora, develop public policy
- Widen policy options: build an inclusive financial system
- Level the playing field for banking and non banking institutions
- Partner with the World Bank Group to validate General Principles for International
- Remittance Services at national levels
- South-South cooperation

Ms. Nancy Dorsinville, UN Office of the Special Envoy for Haiti talked about the situation in Haiti with an emphasis on the earthquake aftermath events and the role of the diaspora in the reconstruction efforts. Since the earthquake, most data information related to migration received is more quantitative than qualitative. Most of the infrastructure was destroyed so the ability to access and monitor remittances were destroyed (no flights, no money transfer facilities). An interesting point she made was the fact that there is a lot of internal migration in Haiti. For example, most people who died during the quake were not from Port au Prince but from rural areas and came to the city to look for



UNITAR



IOM • OIM



UN-OHRLS

a job or study. Ms. Dorsinville added that the Haiti diaspora is very diverse, that a Ministry to Haitians Living Abroad was created and that progress is made to improve the situations of migrants in and from Haiti.



**Ministério dos Negócios Estrangeiros**  
Ministry of Foreign Affairs



Partnership Against Poverty  
UN LDC-IV



UN-OHRLS

**Enhancing the Mobilization of Financial Resources for  
the Least Developed Countries' Development**

2–3 October 2010

**LISBON**

## INTRODUCTION

The Ministerial Meeting on “Enhancing the Mobilization of Financial Resources for the Least Developed Countries’ Development” was held in Lisbon, Portugal, on 2nd and 3rd October 2010. It was co-organized by the Government of Portugal and the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS). The Ministerial meeting, which involved the majority of least developed countries and several development partners, was attended by some 140 stakeholders of the Brussels Programme of Action, including member States, organizations of the United Nations system, relevant international and regional organizations, and civil society representatives.

Inaugurated by H. E. Mr. Luís Amado, Minister of State and Foreign Affairs of Portugal, the meeting was attended by more than 20 ministers and many senior officials from the participating countries. H. E. Mr. Cheick Sidi Diarra, Under-Secretary-General & High Representative and Secretary General of the Fourth UN Conference on LDCs delivered an opening statement. H.E. Mr. Gyan Chandra Acharya, Permanent Representative of Nepal to the United Nations and Chair of the global coordination bureau of LDCs also made a statement during the inauguration of the meeting.

The Interactive policy dialogue on “Enhancing the quantity and quality of ODA for LDCs, and addressing their debt problems” was co-chaired by H. E. Dr. Dipu Moni Nawaz, Foreign Minister of Bangladesh and H. E. Ms. Ruth Nankabirwa, Minister of State, Ministry of Finance, Planning and Economic Development of Uganda. The Interactive policy dialogue on “Harnessing private capital flows (FDI) to LDCs” was co-chaired by H. E. Mr. Thongloun Sisoulith, Deputy Prime Minister and Minister of Foreign Affairs of the Lao PDR. A key note speech was delivered by H. E. Ms. Soraya Rodríguez, Secretary of State for International Cooperation of Spain. The Interactive policy dialogue on “Effective mobilization of domestic resources by LDCs” was co-chaired by H. E. Mr. Peter Shanel Agovaka, Minister of Foreign Affairs and External Trade of Solomon Islands and H. E. Mr. Ahoéfa Dédé Ekoue, Minister in the Service of the President of the Republic of Togo in charge of Planning, Development and Management of the Territory. The Interactive policy dialogue on “Tapping innovative sources of finance, including migrant remittances for LDCs’ development” was co-chaired by H. E. Mr. Bakary Fofana, Minister of State for Foreign Affairs of Guinea and H.E. Mr. Zacarias Albano da Costa, Foreign Minister of Timor-Leste.

Concluding remarks and vote of thanks were given by H. E. Mr. Cheick Sidi Diarra, Under-Secretary-General & High Representative and Secretary General of the 4th UN Conference on LDCs. The session was closed by H. E. Professor João Gomes Cravinho, Secretary of State for Foreign Affairs and Cooperation of Portugal.<sup>1</sup>

## SIGNIFICANCE OF THE MINISTERIAL MEETING

The Meeting recognized the role of financial resources as one of the key elements of the Brussels Programme of Action (BPoA), which is key to achieve sustained and inclusive economic growth, sustainable development, poverty eradication and gender equity. The main objective of the Meeting was to substantively address all issues related to the mobilization of financial resources for LDCs’ development including, ODA, FDI, debt relief, debt sustainability, global stimulus and crisis mitigation package, domestic resources, innovative sources of finance including migrants’ remittances. The Meeting also examined the international macroeconomic, monetary and financial systems related governance issues from the perspective of LDCs.

<sup>1</sup> Documents related to the meeting are available at: <https://www.un.org/wcm/content/site/ldc/home>

Supporting development in the world's poorest and most vulnerable countries is both a moral and ethical imperative. It is not simply a matter of providing charity to the LDCs but recognising the important contributions they can provide to many challenges on the international agenda. Thus the political economy dimension of the importance of LDCs and their wellbeing for the purpose of global security, progress and sustainable development in the context of rapidly changing world needs to be taken into account.

The LDCs represent a paradox because, on the one hand, they suffer from acute poverty and hunger, low levels of human development, structural rigidities to growth and therefore need and deserve the assistance of the international community. On the other hand, they represent hope for the entire humanity as many of them are endowed with abundant natural resources, huge capacities for generating clean energy, and young, dynamic populations.

Assisting the LDCs realise their development potentials will increase supply and demand for the world economy leading to higher global economic growth and prosperity. Conversely, neglecting the LDCs could see more environmental degradation, uncontrolled immigration and even an increase in acts of terrorism in some cases. A genuine partnership against poverty, a partnership for prosperity, is needed to unlock this huge potential.

Resources for investment in most LDCs are predominantly foreign especially ODA, FDI and remittances. Despite significant efforts to mobilize domestic resources and attract more private capital inflows, there is still a huge savings-investment gap in most LDCs. Their domestic savings stagnated around 13 percent of their GDP. Thus LDCs development needs far exceed the availability of resources. Despite significant domestic reforms there is still a huge resource of around \$150-\$300 billion. This is exacerbated by negative flow of resources from LDCs through trade deficits, FDI profit transfers, debt repayment, etc.

The high dependence of LDCs on external resources limits their policy space and creates dependency, as has become evident during the economic and financial crisis. Their economic vulnerability is further exacerbated by indebtedness, which remains a challenge despite major write-offs in the recent past, especially since global interest rates are expected to increase in upcoming years. In a similar vein, many LDCs run large deficits in the current and trade accounts, financed by official grants and loans. Even a small reversal in external capital flows may therefore cause domestic contraction. In a new Programme of Action a successful partnership in the area of resource mobilization can catalyze success in other areas. If it is accompanied by good governance at the national and international level it can bring about better synergies between domestic and external resources and contribute to crisis mitigation and resilience building.

The following recommendations have emerged from the discussions at the ministerial meeting, based on the six background papers which had been prepared by UN-OHRLLS, and will provide inputs for the Fourth UN Conference on LDCs. Effective mobilization of domestic resources by LDCs.

## **EFFECTIVE MOBILIZATION OF DOMESTIC RESOURCES BY LDCs**

Domestic savings have a critical role to play in financing development. They are needed to provide resources for investment, boost financial market development, and stimulate economic growth. At the same time broad based growth is a precondition for increased domestic resource mobilisation constituting a virtuous cycle.

Yet, most LDCs have difficulties mobilizing adequate domestic resources to meet their investment needs. This is mainly due to the predominance of subsistence activities which barely generate enough resources to meet basic social needs and to cope with the overall high levels of poverty, with extreme poverty exceeding 50 percent on average in LDCs.

Mobilizing domestic resources will help reduce vulnerability arising from dependence on fragile external income. Domestic resource mobilization provides the only viable long-term financing basis for development. One of the development dividends of effective tax systems is greater ownership of the development process, whereby the government shapes an environment that is more conducive to foreign and domestic private investment, sustainable use of debt and effective foreign aid.

The BPoA recognizes that the most important financing of development comes from domestic resources. Specifically it calls for the promotion and enhancement of effective measures, including fiscal and financial sector reforms for better domestic resource mobilization.

The most effective way of increasing public revenue is through policies that increase government revenue through sustained economic growth. Any increases in taxation should ideally be growth-neutral, without harming the already weak private sector in many LDCs.

In designing tax policy, LDCs should aim to broaden the tax base and administer a broader range of taxes in order to minimize economic distortions. Reducing tax exemptions, raising VAT rates on luxury consumption items, and extending property taxes would help make the general tax structure more progressive. Ways to integrate the informal sector in the domestic economy and to tax some activities should also be explored.

Increased effectiveness in tax administration requires that tax authorities are endowed with greater capacity to follow up and sanction tax evasion, for instance by granting them more autonomy. Likewise information campaigns can be used to explain the relationship between tax policies and spending for priority sectors. Implementing advanced IT systems will help boost analytical capacities of tax administrations as well as making it easier to pay taxes through e-filing.

The deepening of capital markets is crucial for more private investment as well as for public borrowing for long-term investment. Thus LDCs need to improve regulation of capital markets, expand the portfolio of savings and investment products available and improve information systems, which can help reduce the risk and uncertainty of lending and investing. Expanding the provision of micro-credit and -savings, micro-insurance, venture capital and long term financing would help provide the products best suited for the needs of savers and investors in LDCs. Especially the re-establishment of development banks, rural and agricultural banks and other institutions, which fill the gaps in service provision, needs to be pursued to foster private investment in crucial areas. The increasing use of technological tools, such as mobile phone banking, as well as the promotion of regional equity markets could also reduce costs for financial services and increase access to credit.

The role of small and medium enterprises for private sector development needs to be recognised and supported more. SMEs do not only need better access to credit and markets but are also crucial partners when it comes to the design of pro-poor growth strategies that focus on employment generation, increasing productivity and value addition.

While some degree of macroeconomic stabilisation is beneficial for long-term investment and growth very low inflation rates should not always be the sole aim of monetary policies. LDCs should also aim at ensuring moderately low real rates of interest and enhanced supply of credit to stimulate private investment.

Development partners should support LDCs in their efforts to raise domestic resources through revenue generation and capital market developments. Thus it is important to direct ODA more towards building the capacities of LDCs to mobilize domestic sources of development finance.



## ENHANCING THE QUANTITY AND QUALITY OF ODA FOR LDCs, AND ADDRESSING THEIR DEBT PROBLEMS

Official Development Assistance is critically important for LDCs to meet their development needs. In the BPoA, donor countries made a commitment that they would provide 0.15-0.20 percent of their GNP as ODA to LDCs but up to 2008 only 0.09 percent were provided by DAC donors. Within LDCs the allocation of ODA per capita is very unequal.

Debt service takes up a large part of scarce budgetary resources that could be directed to productive and social sectors, and the debt overhang harms the internal and external investment climate. The total external debt of 45 LDCs for which data is available stands at US\$155 billion in 2008. Despite significant debt relief under HIPC and MDRI, the total debt service burden of LDCs reached US\$6.03 billion. On average LDCs have debt ratios about 50 percent higher than the overall developing country average.

The BPoA calls upon the LDCs to initiate joint actions with their development partners, including a comprehensive assessment of their debt problems and debt sustainability and to intensify efforts to improve debt management capability. The BPoA also calls on the development partners to effectively implementing the enhanced HIPC Initiative and to make expeditious progress towards full cancellation of outstanding official bilateral debt. Development partners should also consider debt relief measures for LDCs which are not HIPCs. Furthermore the Non-Paris Club official creditors need to be encouraged to participate in debt relief measures to assist LDCs. Finally the issue of illegitimate debt needs to be tackled.

The DAC donors should set concrete time plans to fulfil their ODA commitments of 0.15-0.2 percent of GNI to LDCs as soon as possible. Donor countries and other developing countries, which are in a position to do so, should set progressive quantitative targets based on needs assessments in LDCs.

Furthermore LDCs need more access to highly concessional funds and grants if they are to meet their essential spending needs and respond in a counter-cyclical way to the global economic crisis without getting back into debt distress.

There is the risk that the increasing focus of ODA allocation on performance, e.g. in the concept of “cash on delivery” or “results-based financing”, will result in a lower share of ODA allocated to LDCs as their institutions are weak and thus effects of ODA are likely to take longer to materialize. Thus the allocation of ODA towards individual countries should also take into account their financing needs and vulnerability. This is particularly true for those LDCs facing fragile situations stemming from weak State structures and security concerns, for which a new approach is therefore required.

Aid for Trade (Aft) can help LDCs to build trade-related infrastructures and trade competitiveness, including at the sectoral level. A substantial increase in aid for trade is needed for LDCs to support national reform programmes and initiatives aimed at enhancing LDCs trade performance and structural transformation. Faster progress in granting duty free quota free market access for all products from all LDCs without overly restrictive rules of origin, as agreed in the 2005 Hong Kong Declaration, will complement increased Aft.

Funds of the multilateral development banks need to be replenished as well as contributions to the UN agencies, funds and programmes increased, to better enable them to support country level efforts particularly in addressing the impacts of multiple global crises in LDCs.

With respect to aid quality the implementation of the Paris declaration and Accra Agenda for increasing aid effectiveness which includes issues of ownership and leadership, predictability, mutual accountability and transparency, conditionality, and earmarking of aid, needs to speed up. Specifically with respect to untying ODA, strengthening country ownership e.g. by aligning ODA with recipient

country's own development strategies and plans, and increased use of LDCs own systems—for procurement, financial management, and environmental and social safeguards—more progress is needed. The concept of aid effectiveness should be broadened to capture all aspects of development effectiveness in the future.

To increase aid predictability donors should provide reliable indicative estimates of disbursements and commitments within the year and over a multi-year framework. Although donors have taken steps to increase flexibility of aid in recent years by providing more budget support and improving various soft loan windows in the IMF and World Bank for countering shocks, more needs to be done to allow for policy space in LDCs, including a further reduction of the conditionality of ODA.

Donor fragmentation continues to be a problem at the country level, especially in LDCs, because of their aid dependency, as well as large numbers of donors and projects. Collaboration and coordination among donors and between donor and recipients is therefore critical, to increase the quality of aid. There is scope to further develop and build commitment to the concept of mutual accountability—at global and regional, as well as at national levels. Existing platforms like the United Nations ECOSOC Development Cooperation Forum (DCF) should be strengthened and stronger accountability measures should be included in a renewed partnership for LDCs including non-DAC providers.

Debt relief for LDCs needs to continue. Continued and increased access to concessional financing is required to maintain debt sustainability beyond the completion point. In light of the negative consequences of the global economic and financial crisis, efforts should be made to ensure that all eligible countries benefit from debt relief under the Heavily Indebted Poor Countries and Multilateral Debt Reduction Initiatives. Creditors should consider the possible extension of the sunset clause following adaptation of criteria and clauses for the potential inclusion of new countries. Debt swaps that will increase investment in LDCs should also be used whenever possible.

The terms and high costs entailed in debt work-outs, need to be revisited. It is important to devise institutions and policies that can reduce the costs of defaults and increase access to credit and reduce the overall costs of borrowing. The composition of debt of LDCs needs to better reflect their potential for repayments. Safer debt instruments that could reduce the risks of sovereign borrowing include domestic currency debt, long-term debt and debt contracts which require payments that are linked to the borrower's ability to pay. Some delegations referred that GDP-indexed bonds could thus be further explored. International financial institutions could switch to a system in which they borrow and lend in the currencies of their client countries and hence help the development process with both their assets, through local currency loans and their liabilities, by helping to develop the international market for bonds in the currencies of LDCs.

## **TAPPING INNOVATIVE SOURCES OF FINANCE, INCLUDING MIGRANT REMITTANCES FOR LDCS DEVELOPMENT**

Participants noted that to fill the resource gap of LDCs it is necessary to mobilize new and innovative sources of finance, which should be additional, substantial, predictable and disbursed in a manner that respects the priorities and special needs of LDCs.

One example that has been supported by several member states including Portugal is a currency transaction tax. It has the potential of raising revenue and it is technically feasible without adversely affecting financial markets. Such additional funds need to be allocated to LDCs as the countries which are most vulnerable to external shocks and natural disasters and have very limited access to financial markets. New funds dedicated to the development of LDCs, which could be financed by international taxes or levies, need to ensure democratic decision-making by various stakeholders. Furthermore, access to the Fund must be easy in terms of procedures. To make such taxes a reality strong political commitment is needed.



To facilitate remittances transfers, home and host countries should establish measures to lower transaction costs, through improved technology, in particular in the area of mobile phones and e-transfers; through improved regulation, e.g. removing restrictions on outward remittances in the source country and removing taxation on remittances repatriated. Home countries can support access to formal remittances transfer channels by improving overall populations' access to financial and banking services.

To make the most out of remittances it would be desirable to channel a larger share into productive use and private sector development activities. In order to foster this approach co-development schemes should be explored. National and local authorities in home and host countries could provide investment information in business areas of interest to migrants and their families. Home and host countries should foster the development of formal financial systems which would facilitate the integration of remittance senders and recipients into the banking system and thus increase their potential savings and investments. For remittances which are invested in local development projects recipient and donor countries could develop incentive schemes, e.g. with matching grants.

Migrant policies also need to be improved in home and destination countries to ensure human rights for all migrants and prevent trafficking and other harmful treatment. Migrant organisations can be partners for the dissemination of information and can also be involved in the co-development schemes mentioned above.

Other innovative instruments related to climate change were also referred to, such as the Clean Development Mechanism and climate funds, which should be targeted and made more accessible to LDCs.

The meeting took note of the announcement of the Republic of Guinea to organise an African Conference on Strategies for the Mobilisation of Innovative Sources of Finance at which these issues will be further discussed.

## **HARNESSING PRIVATE CAPITAL FLOWS TO LDCs**

Foreign direct investment (FDI) has been the most rapidly increasing resource flow to LDCs over the past decade. In addition, the source of FDI has shifted from predominantly developed countries to a majority of investments from developing and transition countries. Despite these developments the total share of FDI to LDCs in global FDI remains below 2 %. Furthermore many investments are concentrated in a small number of LDCs and have focused on resource extraction, which do not fully release the potential for developmental progress that FDI could deliver.

The BPoA recognises the role of foreign direct investment as an important source of capital, know-how, employment and trade opportunities for LDCs. It states: "A paramount objective of the actions by LDCs and their development partners should be to continue to strengthen productive capacities by overcoming structural constraints. Access to finance by way of domestic resource mobilization, foreign direct investment and increased ODA resources will be critical in this regard." However despite considerable efforts the goal to increase the ratio of investment to GDP to 25 percent per annum could not be reached. Thus there is an urgent need to develop new strategies to attract FDI to LDCs in order to increase productive capacities and foster structural transformation.

LDCs need to attract more FDI given their large gaps in financing for infrastructure and productive capacity. They should create an enabling policy and regulatory framework that is required for attracting domestic and foreign investment and establish support policies for sectors central to their development process including agriculture. Specifically LDCs should encourage FDI including through public private partnerships in infrastructure, including transport, communication and energy.

Measures to increase knowledge transfer and skill development from FDI should be developed. A special focus on vocational education in partnership with foreign enterprises could increase the pool of people with scarce technical and managerial skills needed for entrepreneurship.

LDC governments should formulate an integrated strategic policy and regulatory framework for FDI in agricultural production. This should include vital policy areas such as infrastructure development, competition, trade and trade facilitation, and R&D. Governments could also promote contract farming between TNCs and local farmers which could enhance farmers' predictable income, productive capacities and benefits from global value chains. In order to address some concerns related to the recent increase of FDI in agriculture a set of core principles is being developed by FAO, IFAD, UNCTAD and the World Bank. These principles need to be implemented jointly by host and home countries. To ensure food security in host countries as a result of export-oriented FDI in food production, home and host countries could consider output-sharing arrangements.

International support measures including market access and ODA should be designed in a way to encourage FDI in all LDCs in priority sectors, including in labour intensive manufacturing. Specifically ODA for technical capacity of domestic firms would enable them to partner with foreign investors. In this respect multilateral agencies which support FDI in LDCs need to be strengthened.

Outward investment promotion strategies should be directed at fostering a lasting impact of the investments for LDCs development. Thus development partners should adopt an investment preference regime to encourage their corporations to invest in infrastructure and productive capacity in LDCs. These incentives could take various forms including tax exemptions for firms that invest in priority sectors in LDCs, investment guarantees and credit risk guarantees, inclusion of productive capacity and infrastructure related provisions in International Investment Agreements (IIAs), dissemination of information about investment opportunities in LDCs to suitable home country firms and encouragement of Multinationals to disclose corporate information about their investments in LDCs. Such incentives need to be further developed in close cooperation between home and host countries.

## **GLOBAL ECONOMIC GOVERNANCE AND STIMULUS PACKAGE FOR LDCs**

Over the past decades global economic integration has outpaced the development of appropriate political institutions and arrangements for governance of the global economic system. The current system therefore has not been able to yield the results that originally were envisioned. The effectiveness and credibility of the international financial institutions especially their development impact have been adversely affected by deficiencies in their governance. This has been highlighted by the inadequate responses to the global financial and economic crises. While the G20 has successfully stopped the spread of the financial crisis progress towards establishing new governance structures including better regulation of financial markets has been very slow.

The BPoA underlined that governance issues at the international level including multilateral policy and regulatory issues and international economic decision-making processes that affect LDCs' development, including issues of their effective participation, should be addressed.

The rapid spread of the financial crisis has demonstrated the need for more surveillance at the global level. The focus of such a surveillance mechanism should be on the stability of the system as a whole, particularly on the spill-over effects of macroeconomic and financial policies of the larger economies on other countries. Likewise a reform of the current international reserve system should be considered.

In order to properly address LDC issues the voice of LDCs in international decision making needs to be increased. Any future governance format must ensure inclusiveness and adequate representation not only of developing countries, but particularly LDCs, and promote complementarity and coherence. This includes voting rights in the IMF and the IBRD as well as representation at other international



organisations. While the invitation of two LDCs to the next G20 meeting by the Republic of South Korea was welcomed, a more institutionalised approach was suggested, especially given the expansion of the agenda of the G20 including development and other issues of crucial importance for LDCs.

Achieving more sustainable and balanced global growth requires close coordination of macroeconomic policy decisions with other areas of global governance, including those related to the multilateral trading system, aid architecture, poverty eradication and sustainable development agenda including climate change. The United Nations, given its universal membership on the basis of sovereign equality, can effectively contribute to addressing the pressing needs of the world today. It should play a central coordinating role in achieving greater coherence among different actors.

All international and regional organisations of relevance for LDCs, including the IMF and the World Bank and regional development banks, should recognize LDCs as the most vulnerable group of countries, as identified by the UN. This would facilitate the dedication of special financial and technical support measures in favour of LDCs.

The growing development needs of LDCs as well as the multiple global crises require a global stimulus package for LDCs, not only to undertake stimulus measures, but to build resilience against any future crisis and shock. It was suggested that the international community might consider creating a special “crisis mitigation and resilience building (CMRB) fund for LDCs to enable them to respond to various kinds of shocks. An initial value of US\$100 billion could be provisioned for this new initiative through a special allocation of SDRs, additional ODA, and from innovative sources of finance. Furthermore, the establishment of a “global financial safety net” for LDCs on a permanent basis that could make a major contribution to their socio-economic development was also suggested.

## CROSS-CUTTING ISSUES

LDCs need to strengthen their domestic institutions, policy processes and systems for managing financial resources including external resources. LDCs and their development partners should increase their efforts for capacity building in several areas related to the mobilisation of financial resources, including the capacity for revenue collection, debt management, use of ODA and use of remittances for development purposes. The development capacity of LDCs needs to be enhanced by building necessary institutional and human capacities. This is especially important for LDCs facing situations of fragility stemming from weak State structures and security problems, which compound their difficulties, and underline the importance of identifying appropriate mechanisms for special, differentiated and long-term engagement.

As employment creation is one of the most important priorities of LDCs all resource flows discussed should be channelled in a way to maximise their impact on employment. In this respect more support for higher education and technology as a precondition for domestic and foreign investment in higher value added production and modern services is warranted.

Resource flows are also related to gender issues. For example the migration of women has a strong impact on their access to resources and access to credit for women is crucial for their contribution to development. Thus the effects that the different measures discussed during the meeting will have on women need to be assessed before policies are designed and access of women to financial resources needs to be actively promoted.

Data are lacking or are of low quality for many issues important to LDCs including debt structure, remittances, domestic lending and sources of taxation. To improve policy analysis in these areas increased capacity and resources for timely data collection need to be developed with support from development partners.

While some macroeconomic stability is crucial for the mobilisation of domestic resources, attraction of FDI managing debt more focus on pro-poor policies might be needed. LDCs, with the support of their development partners, should strengthen their macroeconomic policy buffers and enhance their shock absorbers to prepare themselves against future shocks and volatility.

Furthermore it is important for LDC governments to institute some forms of management of the capital account in order to safeguard the resources for development, including the reduction of capital flight. To reverse and prevent capital flight a more transparent international financial system and concrete measures to repatriate LDC assets from abroad are needed.

As stated in the Monterrey Consensus the coherence and consistency of the international monetary, financial, and trading systems needs to be enhanced to ensure that they support the internationally agreed upon development goals, including social and environmental sustainability. Specifically there is a need to ensure that the specific needs and challenges facing LDCs are taken into account in all policy domains including economic and trade policies, in environment policy including climate change, and in some cases even in the fields of security and defense policy.

In all the areas discussed the role of developing country partners for resource mobilisation for LDCs needs to be explored further building on positive developments over the past decade. Especially their contribution for capacity building and technology transfer needs to be harnessed. As emerging economies often use a combined approach for FDI, trade and financial support there is scope for mutual learning for example through triangular cooperation. In this context the announcement of India to host a pre-conference event on South-South cooperation in early 2011 was welcomed by participants.

While the BPoA includes almost all areas of importance to LDCs the implementation of many of the commitments is incomplete and the implementation and monitoring mechanisms are perceived as weak. Thus the mechanisms for monitoring the implementation of a new programme of Action need to be improved focussing not only on goals and target but also on commitments of LDCs and their development partners.

## **TOWARDS THE FOURTH UN CONFERENCE ON LDCs**

To develop a new Programme of Action for LDCs for the next decade it is important to undertake a comprehensive assessment of short- as well as long-term financing needs in LDCs as well as of the implementation gaps in the BPoA in the area of resource mobilisation. As resource mobilisation is a precondition for all other priorities a renewed commitment in this area is needed.

In the lead-up to the UN LDC-IV Conference the recommendations of this meeting need to be transformed into policy proposals and deliverables. As aid is the strongest manifestation of global solidarity in a new Programme of Action a new generation of international support measures is needed. ‘Business as usual’ is not an option.

Thus it is crucial to mobilise political support at all levels to improve resource mobilisation for LDCs’ development in order to further develop the proposals discussed in Lisbon. In this respect it is also crucial to put the LDC specific issues on the agendas of relevant fora including the G-20 meetings, climate change negotiations and other international conferences.



UNCTAD



UN-OHRLS

**International High-level Meeting of  
Experts on Sustainable Tourism for Development  
in the Least Developed Countries**

12–14 October 2010

**CAEN, FRANCE**



## INTRODUCTION

The international meeting of high-level experts on sustainable tourism development in LDCs, held in Caen, from 12 to 14 October 2010, was one of the pre-events organized by UNCTAD in preparation for the Fourth United Nations Conference on the Least Developed Countries (LDC-IV). Organized under the aegis of UNCTAD's work on sustainable tourism development, the meeting was funded by the French Government, and was generously hosted by the Regional Council of Basse-Normandie. The purpose of the meeting was to highlight the ability of international tourism to contribute to socio-economic progress and poverty reduction in LDCs, in the hope that the PMA-IV conference will result in new international commitments to support the development of this sector. The two immediate objectives of the meeting were: (i) to provide a group of national leaders in the tourist industry with insights that will help them in their work; and (ii) to allow for a joint discussion on how to integrate the topic in the future United Nations programme of action for LDCs.

## I. SUSTAINABLE DEVELOPMENT OF TOURISM AND POVERTY REDUCTION IN LDCs

The economic model underlying international tourism has produced "mass" tourism. However, the sector's dynamism and prospects for significant growth raise concerns — especially in LDCs, where the natural economic, social and human environments are fragile — that must be addressed by including a sustainable element in the development of tourism, so as to promote growth in the long term while maintaining an overall balance.

The external and internal constraints weighing on the development sector, which are stronger in LDCs, must be reduced (political instability, poor infrastructure and communication systems, lack of public services, lack of funds, obstacles to the free movement of people, lack of job skills, etc.). The State has a major role to play in promoting sustainable development of tourism, especially to define a development model for the sector that is adapted to the country (to better control the "leakage" that affects the sector), in consultation with all industry players, including local communities, who are potential beneficiaries.

The tourism sector proved its resilience during the recent global economic crisis. It should continue to grow in the next 10 years: the number of international arrivals is expected to reach 1.6 billion in 2020, that is to say, double the current number.

In LDCs, particularly in Africa where the sector grew by 3% per annum during the 2000s, sustainable tourism development will require a wide-reaching dialogue between public and private sectors and with local and regional actors to ensure that joint efforts are successful, particularly through intersectoral linkages that generate production and hence employment and income.

All LDCs have advantages in terms of tourism (cultural and natural heritage). Their comparative advantages allow them to place international tourism at the heart of the economic specialization that generates progress. However, they are faced with severe constraints such as insufficient local savings and the lack of a qualified national workforce, which mean that the development of the tourism economy, largely entrusted to foreign actors, is a source of "leakage" rather than national benefit. Another set of constraints that require vigilance concerns the risks of adverse effects on the natural environment and the social fabric, and even on fragile local cultures. To reduce these constraints, the State and industry players must make a joint effort to ensure that tourism revenues are equitably shared.

It is in the interest of LDCs to focus their tourism economy in specialized areas ("authentic" nature or cultural tourism), to support initiatives by groups of local entrepreneurs to adopt an institutional framework conducive to the sustainable development of the sector, and to encourage the emergence and professionalism of a class of producers of the services in question, while striking a reasonable

balance between national interests and foreign interests. The development of infrastructure and human resources, and also air transportation (without which there would be no tourism), is a key objective of LDCs with ambitions for their tourism sector, as are political stability and security.

## **II. THE DEVELOPMENT OF ECONOMIC TIES TO REDUCE POVERTY**

Leakage or loss of earnings suffered by tourist destination countries in relation to tourist activities, which can represent up to 70% of potential tourism revenue, stem from the repatriation of profits and wages in the country of origin of investors and foreign labour, and from the inability to substitute local goods and services for imported goods and services.

Efforts can be made to replace the foreign inputs for domestic inputs and to strengthen the ties between tourism and other sectors of the national economy, particularly agriculture, if local agricultural products meet international standards. The development of local human resources has a key role to play in reducing the use of expatriates.

Tourism contributes to reducing poverty by creating jobs, particularly by offering many economic opportunities for local producers in the tourism sector itself, or in industries supplying goods and services related to it. The organization of local cooperatives and support for small local businesses can help achieve these objectives. The tourism sector is labour-intensive, involving a wide range of skills, and has a notable multiplier effect: a job created in the sector can generate 1.5 jobs in related sectors such as agriculture or construction. Responsible development of the sector requires a work ethic that needs to be clearly defined by LDCs.

## **III. TOURIST SPECIALIZATION: OBJECTIVE AND FIELD ACTION**

LDCs' choice of tourist specialization raises issues concerning the appropriateness of national assets to the evolution of international tourism demand, infrastructure and human resources, without which no tourist economy can exist, and the determination of national and international actors to develop trust in a "product" or several types of tourist services.

These issues need to be addressed by appropriate national policies, which will involve decisions that can lead to structural socio-economic progress. A real economic density may develop in a tourist economy that has been intelligently specialized. Cultural assets (both tangible and intangible) allow particularly interesting specialization because they may have a key role in attracting tourism while contributing to the positive image of the country, as may the preservation of the natural environment. It is important that those in charge of cultural and natural assets in LDCs cooperate closely with the tourism industry so that all parties involved, including tourists themselves, contribute to a healthy use of fragile resources.

## **IV. THE DEVELOPMENT OF INSTITUTIONAL CAPACITY FOR SUSTAINABLE TOURISM**

The tourism industry is mainly driven by the private sector. However, the capital needed for large-scale tourism projects is rarely available in LDCs, who are forced to rely on foreign direct investment (FDI) and foreign expertise and management skills. These foreign contributions are usually essential to "launch" a competitive tourism economy and quality. For these reasons, FDI should be fostered by government action — as a facilitator — and the government must implement a suitable policy framework, with appropriate legal and fiscal measures (exemptions from customs duties on essential imports, rules to encourage investment and public-private partnerships, etc.). The government also needs to encourage local investment.

There are, however, some risks associated with FDI: the creation of a tourism enclave, connected at the international level but not at the national one; financial leaks; some social costs; and degradation of natural and cultural tourism assets by over-exploitation. To reduce these risks, the State and economic actors must ensure that a portion of the inputs come from local sources, and that exemplary partnerships (to be emulated) and innovative partnerships (with knowledge transfers to the destination country) between foreign and domestic actors are implemented.

Regional cooperation is seen as a promising way to support the development of tourism. Several LDCs have already adopted this approach. For example, the West African Economic and Monetary Union (WAEMU) has recently adopted a policy on subregional tourism development, following initiatives taken by the Indian Ocean Commission and the Association of Southeast Asian Nations (ASEAN). The benefits of regional cooperation in tourism lie in coordinating the management of shared sites, grouping operators in subregional federations, and the free movement of nationals of member States. The movement and work of cross-border communities must be facilitated and transportation costs reduced if regional cooperation is to be successful.

## **V. ENTERING THE PRODUCTIVE SPHERE AND REMAINING COMPETITIVE IN THE TOURISM ECONOMY**

Tourism, like any other service activity must be competitive. In a highly competitive international environment, a rich natural environment is not enough: the price and quality of the tourism product are also important, and the product must be differentiated to ward off competition. Differentiation and competitiveness can be achieved by branding, which will eventually be supported by the use of protected visual symbols.

From a financial perspective, investment in the tourism sector is generally considered a risky activity because of the difficulty of assessing a priori the viability of a sector in which large amounts of financing will be needed, while the risks of external economic and natural shocks can be numerous. Despite this risk, specialized banks (such as Proparco, 3% of whose financing commitments are in the tourism sector) finance the sector using strict selection criteria in terms of social and environmental sustainability of infrastructure and local businesses.

## **VI. PROMOTING SUSTAINABLE DEVELOPMENT OF TOURISM AT THE LOCAL LEVEL TO CONTRIBUTE TO POVERTY REDUCTION**

Sustainable development of tourism in LDCs, as in other developing countries, should involve all stakeholders, including civil society, to ensure the success of local projects. For the government, it is a matter of achieving the Millennium Development Goals by mobilizing all partners, organizing local communities, responding to new tourist demands, entering into partnerships with local craftsmen and the trade unions representing local tourism operators from target areas, and introducing a real training policy with a focus on quality aimed at protecting the environment and heritage. It is important to encourage cooperation and partnership between all stakeholders in the sector and international partners, without whom there would be no tourism.

It must also involve all local stakeholders at the decentralized level to ensure effective coordination of actions in order to avoid overlapping projects and tourism services. The provincial or local level is the appropriate level at which to organize the actors in networks that have shared goals, values and ethics: the locals are the best ambassadors for their region, and they feel valued and take more ownership of their environment when they are more involved. Regional actors can also act as “facilitators” between local communities and the private sector.

Local communities and NGOs can also promote local handicraft activities to generate added value at local level, so that local actors can benefit directly from the local tourism industry.

## CONCLUSION

The meeting in Caen was a success, attended by 68 participants including 39 representatives of member States (including 25 representatives of LDCs). Seven agencies of the United Nations system were represented by 18 people, which ensured good inter-agency cohesion on the theme of sustainable tourism. Avenues for future cooperation were discussed with representatives of the Basse-Normandie region and the French Ministry of Foreign and European Affairs. Finally, 18 proposals were made by participants for a tourism segment of the future United Nations programme of action for LDCs for the next decade.

These 18 proposals should be used and relayed by the member States in the preparations for the Fourth United Nations Conference on LDCs. In this respect, the role of the Office of the High Representative of the United Nations for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, and the role of the French Government (which will hold the presidency of the next G8-G20) will be essential.

## PROPOSALS STEMMING FROM THE CAEN MEETING

### I. Sustainable tourism

1. The growing importance of tourism-related activity has been a prominent feature of economic specialization among least developed countries (LDCs) over the past decade. The sector is now the first or second source of gross export earnings in 20 LDCs, and demonstrates fairly steady growth in at least 10 others. A related, notable change is that sustainable tourism development has become an important development objective, if not a priority, in a majority of these States. Tourism has been the main engine of socio-economic progress for many LDCs.
2. National stakeholders increasingly recognize the capacity of sustainable tourism development to reduce poverty – first through employment creation in the tourism industry, and secondly through the wealth of economic opportunities that arises from linkages with local suppliers of goods and services. Equally important is the catalytic impact of sustainable tourism development on the wider economy. The elements of progress which tourism development implies, notably in human capabilities and infrastructure, are foreseen as factors of wider structural transformation and, in some cases, of convergence with more advanced economies. It is also recognized that utmost attention should be given, from the early stages of development of the sector, to the paramount goal of sustainability, notably with regard to the preservation of cultural and environmental assets.

### II. Suggestions

Participants made the following suggestions for the consideration of LDCs at the national level and their development partners at the international level, in their actions to promote sustainable tourism development.

#### A. *At the national level*

1. Create a safe and stable enabling environment to encourage sustainable tourism development. Encourage investment by relevant domestic and international stakeholders, including investors and suppliers of goods and services, in the wider tourism economy;
2. Mainstream sustainable tourism development as an important poverty reduction avenue in all national development strategy documents, and recognize the critical role which local authorities and communities, as well as other stakeholders at the local level, can play in supporting sustainable tourism development initiatives to enable them to fully benefit from tourism development;

3. Harness product specialization and branding to strengthen market position of LDC tourism destinations in light of the evolving international, subregional and domestic demand for tourism services. Pay more attention to the preservation of environmental assets and of natural and cultural, both tangible and intangible, heritages, including through the adoption of legal frameworks at the early stage of product development. Build productive capacities relating to these assets for product differentiation, quality and attractiveness;
4. Promote domestic tourism to support the viability of the local tourism industry;
5. Promote decent work and respect the rights of the individual in the wider tourism sector with an emphasis on the most vulnerable groups, i.e. women, youth, children and migrants;
6. Adopt and implement investment, tourism and trade policies that support national strategies for sustainable tourism development;
7. Strengthen linkages and create synergies between tourism and other economic, environmental and cultural sectors for poverty reduction, including through creating opportunities for small and local suppliers of goods and services, and through establishing a process of dialogue among all national stakeholders;
8. Develop national mechanisms to support tourism enterprise viability and competitiveness, including the access to finance, development of small and medium-sized enterprises, and access to global information and distribution systems;
9. Design and implement strategies, as an integral part of sustainable tourism development, to enhance the efficiency of various means of transport, including through cost reduction and taking into account social, economic and ecological considerations to, inter alia, make tourism sites more easily accessible;
10. Enhance the human resources potential for tourism activities through improved general education, vocational training and appropriate capacity-building measures.

***B. At the international level***

1. Support the national initiatives of the LDCs, including those mentioned above;
2. Establish a joint cooperation mechanism between LDCs and their development partners to promote sustainable tourism in LDCs; strengthen technical and financial assistance to LDCs in the area of sustainable tourism development, particularly for infrastructure development, and also for diversification of tourism products, institutional capacity-building, human resources and skill development, tourism enterprise creation and competitiveness, and marketing of tourism products; and encourage foreign direct investment with developmental impact to the tourism industries in LDCs;
3. Explore modalities of international support for the creation of national or subregional entities that will be able to extend development services to small tourism enterprises;
4. Explore the possibility of creating an international venture capital fund or other specialized mechanisms to finance private or public investment projects in the field of tourism in LDCs;
5. Support LDCs' efforts to access knowledge and relevant and environmentally-friendly technology to protect and develop their biodiversity, cultural and natural heritages, and to mitigate and adapt the adverse impacts of climate change;
6. Encourage decentralized cooperation options through which sub-national authorities in partner countries would share their experiences with LDC authorities on sustainable tourism initiatives, including through innovative partnerships such as, for instance, South–South and triangular North–South–South exchanges of best practices;



7. Encourage regional or subregional integration programmes of direct relevance to sustainable tourism development for the benefit of the LDCs. Initiate and promote cooperation and synergies among stakeholders at local and national as well as at regional and international levels;
8. Enhance collaboration among the various international organizations, including with United Nations agencies, to ensure synergy in supporting sustainable tourism development in the LDCs. UNCTAD and the World Tourism Organization are called on to work together to explore way and means to make the tourism sector more resilient vis-à-vis external shocks.

The participants wish to thank the Government of France and the Regional Council of Basse-Normandie for their generous support and hospitality.



Partnership Against Poverty  
UN LDC-IV



UN-OHRLS

**Enhanced International Support and Smooth Transition of  
LDCs Towards Graduation**

15 October 2010

**NEW YORK**

## INTRODUCTION

In the context of the preparatory process for the Fourth United Nations Conference on the Least Developed Countries to be convened in Istanbul, Turkey on 9 to 13 May 2011, the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLS) organized a special side event to the Second Committee on 15 October 2010, on “Enhanced International Support and Smooth Transition of LDCs towards Graduation”.

The event was chaired by H.E. Ms. Enkhsetseg Ochir, Permanent Representative of Mongolia to the United Nations and Chairperson of the Second Committee. Mr. Cheick Sidi Diarra, Under-Secretary-General, High Representative and Secretary-General of the Fourth UN Conference on LDCs, moderated the panel discussion. H.E. Mr. Abul Maal Abdul Muhith, Finance Minister of Bangladesh, delivered a keynote speech. The four panellists were: Prof. Patrick Guillaumont (CERDI, Université d’Auvergne (Clermont-Ferrand 1), France); Mr. Pierre Encontre (Chief of “Special Programmes”, UNCTAD Division for Africa, Least Developed Countries and Special Programmes); H.E. Mr. Ahmed Naseem (Minister of State for Foreign Affairs, Republic of Maldives); and Mr. Peter Thompson (Director for Development and Economic Partnership Agreements, Directorate General for Trade, Commission of the European Union). Concluding remarks, including recommendations arising from the interactive panel discussion, were provided by Mr. Diarra.

## SIGNIFICANCE OF THE EVENT

In her introductory remarks, H.E. Ms. Ochir underscored the timeliness of the event as it was crucial for the Committee to devote its attention to the substantive preparations for the forthcoming Fourth United Nations Conference on the Least Developed Countries. She drew attention to the main objectives of the panel discussion which were (i) to examine the slow progress made by LDCs towards achieving internationally agreed goals and graduating from the category, and (ii) to explore and recommend ways to strengthen international measures in the run-up to the Conference with a view to accelerating that progress and ensuring a smooth transition to post-LDC status. She particularly stressed the importance of making the transition from LDC status to post-graduation a prospect to be looked forward to.

As noted by Mr. Diarra in moderating the panel discussion, socio-economic progress had undoubtedly been achieved by LDCs especially during the past decade. However nearly half the population of these 49 countries – some 800 million people in total – continued to face conditions of absolute poverty and misery. The LDCs accounted for less than 2 percent of world GDP and about 1 percent of global trade in goods. A reflection of the continued marginalization of LDCs in the global economy could be found in the dismal number of LDCs – only two – that, as of October 2010, had graduated from the category since its establishment in 1971, with just a few approaching that stage in the near future.

The three decade-long development programmes for the LDCs had left an enormous amount of unfinished business, at a time when the triple global crises had critically exacerbated the LDCs’ vulnerabilities and imposed unsustainable pressure on their already weak MDG gains. Mr. Diarra recalled what had been repeated at the MDG Summit in September 2010, i.e. that there would indeed be “No MDGs without LDCs”. These countries lied at the epicentre of today’s development emergency and deserved the utmost attention and commitment by the entire international community.

It was exactly in order to tackle that emergency and to reinvigorate the international community’s pledge in support of LDCs’ development that the Fourth UN Conference would be held in Turkey in May 2011. The Conference, to which the entire UN system was deeply committed, would

represent a major opportunity to deepen the global partnership in support of LDCs and set the terms of engagement for the next decade, bearing in mind that the ultimate objective of the global partnership for LDCs remained that of graduating from the category. The Conference was expected to adopt an ambitious, comprehensive, forward-looking, targeted, and results-oriented programme of action for the LDCs, together with the provision of additional international support measures in favour of LDCs based on a scaled-up partnership for development and effective arrangements for follow-up, review and monitoring of the implementation of the new programme of action.

In the national and regional reviews of the implementation of the Brussels Programme, LDCs had indicated that new programme of action should aim at fundamental structural transformation of LDCs' economies by facilitating their beneficial integration into the global economy, building resilience against all kinds of internal and external shocks, enhancing long-term productive capacity, ensuring sustained economic growth, sustainable and inclusive development, and poverty eradication through such activities as creation of employment opportunities to secure full and productive employment and decent work for all, particularly youth, and by ensuring access of the poor and vulnerable to essential services including health, education, water and sanitation, energy, human settlement, and infrastructure development.

In terms of international support measures for LDCs, the duty-free/quota-free market access for LDCs and targeted levels of ODA were key. After ten years of implementation of the Brussels Programme of Action, a new generation of international support measures would be expected to not only strengthen long standing measures but go beyond them to cover areas such as adoption by development partners of outward investment promotion strategies through incentives and guarantees extended to their enterprises to invest in infrastructure and productive capacity in LDCs; adoption of flexible rules of origin that can also contribute to unleash the full potential of direct investments in LDCs; transferring and disseminating critical technologies, including those that could ensure access to essential services and have a pro-poor and green development impact; and supporting innovative sources for financing LDCs' development, among others.

## KEYNOTE SPEECH

H.E. Mr. Abul Maal Abdul Muhith, Finance Minister of Bangladesh, noted that the last three decades had brought very little change in the economic situation in the LDCs. The structural handicaps and constraints in their development efforts were still basically the same, and consequently, most of the commitments under the Brussels Programme of Action had remained unfulfilled. Reasons for this included the lack and unpredictability of financial inflows, LDCs' high indebtedness; their vulnerability to both internal and external shocks and inability to cope with the magnitude and duration of the global economic and food crises as well as the impact of climate change. He also stressed that limited improvements made by the LDCs had not been rewarded by the needed external financial assistance in support of either the enhancement of their productive capacities or their achievements in terms of human development. Taken together all these factors were threatening the socio-economic progress made by LDCs that far.

Mr. Muhith put forward a strong call to reconsider the classification of LDCs according to their true nature and position in the world economy, therefore more appropriately reflecting their socio-economic situations and challenges, i.e. as the "vulnerable and fragile countries" group. He pointed to diversity with the current list of LDCs, where some were geographically disadvantaged, such as 17 landlocked and 11 small island developing LDCs. In addition, many of these countries were victims of climate change, a phenomenon that did not feature prominently in the previous programmes of action and which now made them "climatically disadvantaged". For this special "vulnerable and fragile countries" group, the international community should draw up a different kind of programme of action,

inclusive of an altogether new financing plan, perhaps a new financing institution as well as a new financing modalities.

In the context of the preparatory work for the Fourth UN LDC Conference, he suggested that the following issues be given importance in drafting the new programme of action: vulnerable and fragile countries; food production; social protection; development of infrastructure; human development, essentially in the areas of education, health and very importantly housing, equity and particularly prevention of growing inequality; adaptation and mitigation measures for climate change and management of economic migration. The latter deserved the highest priority, since climate change was expected to largely increase economic migration and thus entail relocation of entire population groups.

Mr. Muhit also underscored the importance of trade as an engine for development and provided the example of the development of the garment sector in his country, Bangladesh, which still faced high tariffs in the markets of some developed countries. Therefore he pointed to the imperative of concluding a development-friendly WTO Doha Round to counter LDCs' marginalisation in global trade, supported by an enhanced Aid for Trade initiative that should particularly support the LDCs in addressing their supply-side constraints and erosion of preferences.

Finally, as for the issue of financing for LDCs' development, he stressed that the new target for the next decade should be set at 0.2% of developed countries' GNI, matched by a new criterion for allocation of ODA to the most vulnerable and fragile countries.

## PANEL DISCUSSION

Prof. Patrick Guillaumont focused his presentation on the reasons behind the very low number of countries achieving the goal of graduating from the LDC category. The category had been established with a view to mobilise support in favour of countries suffering the most from structural handicaps to growth. Therefore the category had been intended to assist the LDCs to overcome those obstacles and move « out of the trap ». A natural consequence should have been a decreasing number of countries locked into a trap, leading to a shrinking effect on the category. Prof. Guillaumont noted that, instead, only two countries had managed to escape that trap. Ineffective support measures and changes to the definition of the identification criteria had also contributed to those disappointing results.

Prof. Guillaumont recalled the criteria for inclusion in and graduation from the category.<sup>2</sup> In order to be included, countries needed to satisfy three complementary criteria: a GNI per capita (fixed low income threshold set by the World Bank) and two composite indicators of structural handicap, namely the HAI (Human Assets Index), reflecting health and education levels, and the EVI (Economic Vulnerability Index), reflecting the risk of exogenous shocks and the exposure to these shocks. In order to graduate out of the category, Prof. Guillaumont pointed to four precautions that had been incorporated in the process to ensure the sustainability of socio-economic progress in LDCs beyond graduation and to avoid disruptive effects: (i) a country should fail to meet two, rather than only one, of the three criteria (asymmetry with the inclusion process); (ii) thresholds for graduation differed by a margin from those for inclusion; (iii) a country had to be found eligible at two successive triennial reviews by the Committee of Development Policy (CDP); and (iv) graduation would take place only three years after the adoption of the relevant resolution by the General Assembly. In addition: a country would become eligible for graduation when its income

---

<sup>2</sup> For a comprehensive overview of the inclusion and graduation processes, please consult the "Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures" by the Committee for Development Policy, 2008, available at <http://www.un.org/esa/policy/devplan/cdppublications/publications.htm>.

per capita was twice the ordinary graduation threshold. Exceptional postponements of graduation by 3 additional years had been endorsed due to the tsunami in the case of Maldives in 2005, and more recently in the case of Samoa. He also stressed that graduation was not an easy process: eligible countries were generally reluctant to graduate, which could result in lags in the decision process after the recommendation by CDP, either before a consensus at ECOSOC, or between the ECOSOC and General Assembly decision, such as in the case of Equatorial Guinea.

When pointing to the paradox where some countries resisted graduation, while others that were found eligible for inclusion refused to join the category, Prof. Guillaumont stated that at the core of LDCs' concerns about graduation was the vulnerability issue. It was indeed a common feature of the great majority of countries that had recently graduated, were about to graduate or simply had been found eligible without being recommended, that they were SIDS. These countries' concerns were mainly related to the fear of losing LDC-specific preferential treatment, persistent high levels of economic vulnerability, and in some cases, long-term vulnerability to climate change. While improvements had been made by the CDP during the last 10 years in taking vulnerability into account through the design and refinement of the EVI criterion and the consideration of the vulnerability profiles prepared by UNCTAD, it was stressed that the recommendation for graduation had consistently applied to LDCs with a relatively high level of human capital and having been able to reach a medium level of GNIpc – therefore to countries that were clearly out of the low income trap.

However, two key issues remained, namely that of ensuring a smooth transition out of the category and the long-term exposure to the impact of climate change. Concerning the first issue, Prof. Guillaumont proposed making the transition smoother by using the LDC identification criteria as aid allocation criteria. This would conduce to aid allocation that would be fairer, since it would compensate for structural handicaps. In addition it would be more effective, since aid would be directly used to dampen the negative impact of shocks on growth; and more transparent, since this would avoid multiple exceptions to the rule. Most importantly, the proposal would smoothen the transition out of the category for graduating countries, since the vulnerability criterion would remain fully taken into account. The second issue was of major importance and of a rather long-term nature, although not necessarily LDC-specific. It was argued that an appropriate climate change vulnerability index needed to be developed, though doing so was expected to be rather difficult. Such an index could be used as a fair criterion of allocation of concessional resources for adaptation to climate change.

Mr. Pierre Encontre focused his presentation on the steps that could be taken at national and international levels to bring the principle of “smooth transition” to fruition and make it beneficial. He recalled General Assembly resolution 59/209 that laid down a detailed UN framework for facilitating “smooth transition” strategies for the benefit of graduating countries. He clarified that after the adoption of the General Assembly resolution deciding on graduation of an LDC, a three-year grace period would start and graduation would take effect only after that. During the three-year grace period, the graduating country was expected to prepare an “exit strategy”, in cooperation with its development partners and with UN support. This essentially implied ensuring that the loss of LDC status at the end of the grace period, and the possible loss of LDC-specific concessions as a result of the loss of status, would not disrupt the country's development efforts. Broad international support measures of smooth transition were identified by resolution 59/209, with a view to enabling graduating countries to delineate the scope of the phasing out of LDC-specific special treatment, therefore turning the fear of graduating into a challenge to look forward to.

He advocated that “smooth transition” measures should provide for a gradual elimination of special treatment to allow for “smooth landing” into post-LDC life, including trade preferences, technical assistance, development financing, as well as United Nations budget support. In the case of trade preferences, he praised the concrete measure adopted in 2008 by the European Union Commission

to provide for at least a three-year continuation of Everything But Arms duty-free and quota-free market access to all graduated countries. Another important measure had been recently endorsed by the Board of the Enhanced Integrated Framework to extend by three years access to the programme (Tier 1 and Tier 2 funding) to graduated countries. A possible extension of additional two years might be considered on a case by case basis by the Board, but would need to be justified by the country in question. Along the same lines, he hoped that the WTO would also extend its technical assistance programmes to graduated countries. Furthermore, bilateral negotiations carried out during the grace period by individual graduating LDCs could lead to other smooth transition measures.

As for the special situation of small island LDCs, which by their geographic nature would be vulnerable indefinitely, he warned against pushing those countries through the graduation process too fast and without an appropriately supportive structure of smooth transition measures. In this respect it was stressed that, given the minute weight of LDCs in the global economy, prolonged support mechanisms should be set up systemically without considerable negative effects on more advanced countries. Finally, flexibility should be applied in the allocation of development-financing, based on the real problems and challenges of beneficiary countries, irrespective of their status.

H.E Mr. Ahmed Naseem provided insights on the experience of Maldives as a graduating small island LDC. He stated that the current graduation criteria and institutional architecture were inadequate in dealing with the vulnerabilities of small islands. He described his country as a vivid example of the “island paradox”, whereby islands enjoyed relative prosperity owing to domestically-generated income, but remained vulnerable to external shocks and high structural costs due to their geography. Small island LDCs were among the least prepared to graduate from the category in the absence of smooth transition measures. The impact of environmental degradation on assessments of national income was particularly relevant to SIDS because their key productive capacities were inextricably linked to the natural environment and the durability of fragile ecosystems. He pointed to the fact that the Maldives had not once met the economic vulnerability criteria as proof that an LDC could be deemed eligible for graduation without being considered economically sound. High per-capita income in such countries often masked their high economic vulnerability and structural handicaps. He called on the international community to consider the limitations of the current special and differential treatment to developing countries, so clearly exposed by the “island paradox” and grant SIDS the full support they needed to cope with their special challenges.

Mr. Peter Thompson presented the European Union’s efforts in support of “smooth transition” and hoped, in the context of the G20 development group, to see progress also by other development partners. He noted that the European Union had fulfilled its promise to grant full, duty-free and quota-free market access to all imports except for arms from all LDCs. New GSP rules of origin, to be officially applied as of 1 January 2011, would grant better access to preferential treatment within the European Union. In particular the LDCs would benefit from additional relaxation compared to non-LDCs. Among other, for textile and clothing, the origin rule would be single transformation for LDCs while remaining double transformation for all other beneficiaries.

He stressed that official development assistance should be effectively complemented by other sources of financing. The European Union had raised substantially its aid to LDCs from €7.5 billion in 2000 to €13.5 billion in 2009, thus reaching its collective commitment in line with the Brussels Programme to provide at least 0.15% of GNI to the LDCs. Individually, many EU Member States had already attained that target or were close to it. He cautioned however that such increase would not be sufficient on its own to help those in need achieve the Millennium Development Goals. He urged other donors, as well as emerging countries, to contribute their fair share of aid.

Mr. Thompson underscored the vast investments made by the European Union in implementation of its Aid for Trade Strategy that paid special attention to the LDCs, both in terms of bilateral

contributions and support to the EIF. Furthermore, he drew attention to the benefits of regional integration as a stepping stone in the LDCs' fuller integration into the world economy. Successful regional integration required strong institutions, sustained political will as well as a stable and predictable framework for business to prosper. He concluded by stressing the vital importance of the rules based trading system for LDCs and confirmed that the conclusion of the Doha Development Round in 2011 remained the EU top trade priority.

## **INTERACTIVE DEBATE SESSION**

### **International support measures**

Several representatives expressed their concern regarding the lag in the implementation of the commitment to provide full duty-free and quota-free market access for LDCs' exports. Preferential schemes, such as the European Union's 'Everything but Arms' initiative, as strengthened by the forthcoming relaxation of applicable rules of origin, were particularly appreciated. However, it was noted that the actual utilisation rate of preferential tariff treatment mattered and ultimately determined the effectiveness of the special support provided. Supply-side constraints should also receive priority attention through targeted support with a view to enhance productive capacities in the LDCs across crucial sectors such as agriculture, infrastructure and transfer of technology, therefore creating multiplier effects for the developmental process.

Delegations highlighted the persistent structural constraints faced by the LDCs and their extreme vulnerability to external and internal shocks, including the negative impact of climate change. These constraints should all be taken into account when designing support measures for LDCs, including "smooth transition" measures. Donors should also bear in mind that alternative financial resources, such as domestic resources, were limited in LDCs. The international community was called on to fully implement the Brussels Programme ODA commitments, as data showed that donors were still lagging behind. Several donor country delegations highlighted their own efforts to fulfil the Brussels Programme ODA target. Australia noted its promise to double its aid commitments over the next five years in order to attain the 0.15% of GNI target within that period. Finland elaborated that the LDCs constituted a core focus of the Finnish development efforts and confirmed having already reached the Brussels Programme ODA target. The special needs of geographically disadvantaged LDCs, such as small island and landlocked LDCs, were also highlighted given their high economic and environmental vulnerability, smallness and remoteness from international markets.

### **Ownership**

Delegations stressed the need to ensure a strong mainstreaming of the new programme of action to be adopted at the Fourth UN Conference on LDCs into the national development programmes already underway in LDCs as well as donors' strategies. Adequate policy space should be afforded to LDCs for priority setting in their countries' programmes and policy experimentation, while ODA allocation should be fully aligned to countries' priorities.

### **Follow-up to the Conference**

The majority of delegates underscored the need to establish strong follow-up mechanisms to the conference in order to monitor and evaluate the progress made in the implementation of the new programme of action.

## CONCLUSIONS BY THE MODERATOR

Before closing the meeting, the Chairperson invited the moderator to provide summary conclusions of the interactive panel discussion, including main recommendations for the way forward.

Mr. Diarra briefly recalled that over the past 30 years the number of LDCs had doubled and that LDCs continued to be marginalized in the global economy. He added that major concerns relating to the issue of graduation were linked to fears of loss of preferential treatment in the areas of trade, technical assistance, development financing and UN budget support. While the principle of graduation should not be questioned and countries approaching that stage should prepare the ground well by designing appropriate transition strategies, new and concrete international support measures were urgently needed to ensure a smooth landing into post-LDC life and reassure graduating LDCs that their development efforts would not be suddenly disrupted.

Several proposals had been put forward by panellists and during the interactive debate on how to better support smooth transition and what could be expected from the Fourth UN Conference on LDCs. In order to better address specific vulnerabilities, a reclassification of LDCs had been proposed, however, he pointed out that targeted support measures could be provided to LDCs while maintaining the unity of the category as the group of countries most in need. The use of the LDC identification criteria, especially the economic vulnerability index, in ODA allocation had been discussed as a concrete and effective long-term smooth transition measure. The need for the creation of an indicator of environmental and climate change vulnerability was also underscored.

The importance of strengthening good governance and the rule of law at the national level was pointed out as necessary backbone to the effective ownership by LDCs of the new programme of action. The latter should be fully mainstreamed into LDCs' national development strategies, supported by enhanced quality and quantity of aid aligned to national priorities. There was general consensus that the new programme of action should be comprehensive and results-oriented in its approach while focussing on key priorities for the LDCs' next development decade and backed by an enhanced and more effective international support architecture. A strong monitoring and follow up system to ensure implementation of commitments by all stakeholders was also strongly needed.



UNCTAD



UN-OHRLS

**Building Productive Capacities in the LDCs for  
Inclusive and Sustainable Development**

27–29 October 2010

**PALAIS DES NATIONS, GENEVA**

The UNCTAD pre-conference event for UNLDC-IV on “Building productive capacities in the LDCs for inclusive and sustainable development” was held in Geneva from 27 to 29 October 2010. The event was part of a series of pre-conference activities which United Nations organisations and specialized agencies organise in line with their mandate and expertise to facilitate intergovernmental preparations and to raise the profile of the UNLDC-IV Conference. The theme built on UNCTAD’s long-standing work on building productive capacities in LDCs.<sup>3</sup> This work has demonstrated that a productive capacities-led policy approach is a prerequisite for achieving sustained economic growth and inclusive development in LDCs.

The UNCTAD pre-conference event was inaugurated by a high-level segment, which was chaired by H.E. Mr. Luis Manuel Piantini Munnigh, President of the Trade and Development Board. Statements at the high-level segment were delivered by Mr. Supachai Panitchpakdi, Secretary-General, UNCTAD; Mr. Cheick Sidi Diarra, Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States; H.E. Mr. Felix Mutati, Minister of Commerce, Trade and Industry, Zambia; H.E. Mr. Minendra Prasad Rijal, Minister of Federal Affairs, Parliamentary Affairs, Constituent Assembly and Culture, Nepal; H.E. Mr. H. Bozkurt Aran, Ambassador and Permanent Representative of Turkey; and Ms. Andra Koke, Trade and Development Division, Directorate-General for Trade, European Union, Brussels.

The ensuing thematic sessions were devoted to the following issues: (i) Addressing key issues in building productive capacities in LDCs; (ii) The role of trade in the development of productive capacities; (iii) Building productive capacities in LDCs through FDI and domestic enterprise development, and (iv) The contributions of science, technology and innovation and trade logistics.

The overall discussion is summarized schematically in a Mind Map in Annex 1.

## A. BASIC MESSAGES

The major messages of the pre-conference event were:

- The development of productive capacities in LDCs is critically important in order to reduce their structural weaknesses, to promote sustainable growth, to enhance their beneficial participation in international trade and to achieve substantial poverty reduction and mass improvements in human well-being. Developing productive capacities should be a central theme in the programme of action which will be agreed in Istanbul in May 2011.
- The best approach to developing productive capacities in the LDCs is an integrated policy approach encompassing national policies, international policies and South-South development cooperation. In such an approach LDCs themselves should take the lead in devising targeted and coherently articulated national policies to promote productive capacity development. These national efforts should be vigorously backed up with enhanced international support mechanisms and development-friendly global economic regimes, and also supported through enhanced South-South development cooperation between LDCs and other developing countries, and also amongst LDCs.
- It is difficult to identify a single productive capacity development strategy for all LDCs owing to the heterogeneity of their economies. However, two general principles which should be followed are: firstly, the development of productive capacities without attention to market demand – national, regional and global – will certainly fail; and secondly, a successful market-based approach to developing productive capacities must include an important role for the

<sup>3</sup> See UNCTAD 2006 The Least Developed Countries Report 2006: Developing Productive Capacities; UNCTAD 2007 The Least Developed Countries Report 2007: Knowledge, Technological Learning and Innovation for Development; UNCTAD 2009 The Least Developed Countries Report 2009: The State and Development Governance; UNCTAD 2010 The Least Developed Countries Report 2010: Towards a New International Architecture for LDCs; and the background document for the pre-conference event: UNCTAD 2010 Developing Productive Capacities in Least Developed Countries: Issues for discussion, UNCTAD/ALDC/2010/1.

state which harnesses the energies of the private sector in pursuit of private profit to achieve national productive capacity development goals. Ensuring peace and predictability, acting pragmatically, providing public goods through public investment, and creating private sector capabilities are all important roles for the state in a market-based approach. Good governance of productive capacity development implies that the pendulum swings neither too far towards state dirigisme nor too far towards market laissez-faire, but rather enlists the private sector and civil society in the strategy formulation and adopts a mixed economy approach for strategy implementation in which markets and state work hand-in-hand.

- Enhanced international support for LDCs should promote the development of productive capacities. There are major unrealized opportunities for enhanced international support mechanisms for LDCs and improvements in global economic regimes to promote the development of productive capacities in LDCs. These opportunities particularly exist in the areas of (i) development aid, debt relief and contingency finance, (ii) trade, (iii) commodities, (iv) investment, (v) technology, and (vi) trade logistics. In realizing these opportunities, attention must be paid to the challenges of climate change adaptation and mitigation.
- The ownership by the LDCs of the process of developing their productive capacities is paramount and should not be undermined by the delivery of international support. Moreover, voice and representation in international decision-making is the key to ensuring that both LDC-specific international measures and global economic regimes are LDC-development-friendly.
- Enhanced South-South development cooperation should also promote the development of productive capacities. There are major unrealized opportunities for enhanced South-South development cooperation to promote the development of productive capacities in LDCs. These opportunities exist in: (i) regional cooperation (for example, in physical infrastructure investment and regional technology hubs), (ii) new partnerships with dynamic developing countries which are based on South-South solidarity principles and draw upon recent experience of development challenges, and (iii) new forms of LDC-LDC development cooperation which have hitherto been ignored.

## **B. General Rationale and Priorities**

### ***What are Productive Capacities and How do they Develop***

The productive capacities of a country are essentially a matter of what that country is able to produce efficiently and competitively. The productive capacities of a country develop when its abilities to efficiently and competitively produce an increasing range of higher value-added goods and services increase. This process occurs through expanding investment - in physical, human, social and environmental capital - and also through technological acquisition and innovation. The process is manifested in the diversification of national economies, structural transformation and a more beneficial integration into the global economy, and these changes themselves facilitate the potential for further investment and innovation in a virtuous circle.

Seen in these broad terms, the development of productive capacities should not be reduced to the development of export supply capacities, though the latter are certainly part of the process. Developing productive capacities should also not be reduced to investments in MDG targets. Investments in health, education and other aspects of MDG achievement should appropriately be seen as aspects of developing productive capacities. But developing productive capacities goes beyond these targets and seeks to sustainably achieve MDG targets through embedding the MDGs in a broad economic development framework.

For developing meaningful and sustainable productive capacity, LDCs also could consider their dynamic comparative advantage with selective interventions in certain identified sectors that can be

promoted to break into competitive manufacturing production and services sectors and which exert greater forward and backward linkage effects.

### ***Why Productive Capacities Matter***

Low-income countries which have successfully escaped the low-equilibrium trap – such as East Asian industrializers – have done so through developing productive capacities. These countries have addressed mass poverty through structural transformation and the expansion of employment opportunities rather than aimed to alleviate poverty for a minority or provide help to the most vulnerable.

The importance of productive capacities for LDCs is multi-dimensional. Developing the productive capacities of LDCs will help: (i) to address structural weaknesses and prevent acceleration of marginalization of the LDCs in global economy, (ii) to promote international competitiveness and to increase participation in international trade, (iii) to accelerate MDG achievement and poverty reduction, (iv) to provide sufficient productive and decent employment opportunities, (v) to harness LDC creativity and in particular youth power, and (vi) to help the LDCs to adapt to and mitigate climate change.

The structural weaknesses of the LDCs are fundamentally due to the low level of development of their productive capacities. In spite of relatively high growth rates during the boom preceding the current crisis, the LDCs have not been able to reduce their structural weaknesses. The type of their integration with the world economy has actually increased some of the weaknesses. For example, exports of the LDCs are now more concentrated in few products, mainly commodities, than ten years ago. Even more important is the marginalization of the LDCs in the global economy, as exemplified by the fact that their exports of goods now represent only 1.1% of the world trade, down from 1.7% in the 1970s. These intertwined structural vulnerabilities continue to constrain the long term development prospects of the LDCs.

The competitiveness of the LDCs in most goods and services is low. They compete on the world market mostly with commodities they produce or with products that are characterized by very low value-added and by the labour-intensive production processes. In the latter case the LDCs compete solely on the basis of a very cheap labour. The productivity gap between workers in OECD countries and the LDCs is on average 22 to 1 in favour of the former. Without a much greater use of technology and higher levels of investment the LDCs will be unable to bridge that gap and to compete successfully on the world market with countries that possess much higher productivity.

One of the fundamental challenges the LDCs face is that of creating sufficient and decent employment opportunities for all. With the process of demographic transition in full swing, the LDCs have young and growing populations (on average, about 70% of the population is below 30 years of age) that need productive and decent employment. For example, it has been estimated for Mali that the number of new entrants to the labour force were 171,800 in 2005 and they will increase until reaching 447,800 per annum in 2045. The same figures for Madagascar are 286,200 in 2005 and 473,400 in 2035.

Addressing this difficult employment challenge is critical both for economic growth and poverty reduction in the LDCs. Without the development of productive capacities there can be no success and the demographic dividend will be turned into complex humanitarian emergencies. MDG achievements will be more substantial and sustainable if linked to the economic development framework of developing productive capacities. Progress in reducing poverty rates in the LDCs in a substantial and sustainable way can only be achieved through broad economic progress that opens opportunities for much broader swaths of population than has been the case so far.

Focusing on development of productive capacities implies seeing the LDCs not simply in terms of their deep poverty reduction needs but also in terms of their latent and unharnessed potential and their

creativity. This is especially true of the potential of their young, but often unemployed or underemployed population. Young people are a driving and dynamic force, but at the same time the most vulnerable to terrorism and extremism if faced with lack of opportunities for a decent life. Youth focused policies and programmes should be a priority in the LDCs, especially in those communities that have been torn apart by conflict. The creativity of the LDC populations has so far only marginally been used for productive purposes, and this could be turned into a crucial part of the national development strategy of many countries.

As the scale of the climate change challenge confronting the LDCs is likely to be enormous and as these countries will be disproportionately affected, the response to that challenge will be of growing importance in the near future. The LDCs' multiple vulnerabilities, on account of their low level of economic and human development, have to be addressed in an integral way to prepare them for that challenge. Adaptation to and mitigation of climate change in the LDCs could best be addressed through development of productive capacities in such a way that increasing production, access and use of modern energy sources in the LDCs (which is currently a key deficit) is achieved, and at the same time LDC economies successfully transit to a low-carbon growth path.

In wake of the financial, food and fuel crises there is a need to focus on linking finance to the development of the real economy. Productive capacity development is the heart of this. It involves capital accumulation (investment in physical infrastructure, plant and equipment, education and skills), technological progress (innovation involving new products, processes, organizational structures and markets, as well as knowledge), and structural change (from low-productivity, diminishing-returns sectors to high-productivity, increasing-returns sectors, and strengthening of the linkages within the national economy).

### ***Priorities***

It is difficult to identify a single productive capacity development strategy for all the LDCs owing to the heterogeneity of their economies. A key issue for individual countries is therefore to identify their own priorities. This is relevant both in terms of sectors (outputs) and ingredients (inputs). The proper mix of sectoral production will vary among the LDCs, depending on their current structure of production, but also their future national development policies. The development of productive capacities is a country-specific process and each country should follow its own route. In addition, the experience of successful late industrializers shows that priorities change over time and with that the mix of sectoral production of individual countries.

Various *sectors* were identified as potentially relevant in the meeting, namely: firstly, agriculture and in particular food production; secondly, manufacturing; thirdly, upgrading primary commodity production; fourthly, creative industries; fifthly, services, including tourism. However, two common priorities for LDCs should be: firstly, to develop the agricultural sector; and secondly, to diversify the economy and promote structural transformation.

Agriculture is important because it is still the largest employing sector in many LDCs. The neglect of that sector in the last three decades has to be reversed. The food crisis that hit the LDCs disproportionately has placed the issue of food security back on the agenda of the policymakers. The supply of basic wage goods is crucial for non-inflationary expansion of employment opportunities.

However, the development of agriculture should be done in a way which facilitates the diversification of the LDC economies and structural transformation. In this regard, past experience shows that the development of manufacturing activities and related producer services can enable increasing returns to scale as well as provide increasing employment for young population. With the inevitable modernization of the production processes in agriculture, there will be a growing surplus of labour in rural areas that will seek productive employment in urban centers. A dynamic manufacturing sector, along with some services like tourism and creative industries, could provide productive and decent jobs for them.

The critical *ingredients* of productive capacity development include: finance, knowledge, energy, physical infrastructure and water. The data show major deficits in the LDCs in terms of these ingredients. For example, the average years of schooling of the adult population within the LDCs in 2000 was only 3 years, which is less than what it was in other developing countries back in 1960. Only 16% of the LDC population is estimated to have had access to electricity in 2002, compared with 53% in other developing countries and 99% in OECD countries. Addressing these issues in the future is crucial as these ingredients are indispensable for the development of productive capacities in the LDCs.

Whilst key ingredients vary amongst the LDCs according to their specific circumstances, two common priorities for LDCs should be: firstly, improvement and expansion of physical infrastructure (in particular, transport and communications and production of modern energy); and secondly, human resource development through education, training and skills development. People are the key resource of the LDCs and special attention should be paid to the gender dimension of the process of education and training.

The development of productive capacities without attention to market demand will certainly fail. Both investment and innovation are animated by demand, and structural transformation changes in response to demand variations as incomes rise. Countries should not only pay attention to present demand but also future demand. This was relevant for example in relation to developing dynamic competitive advantage.

A common general approach for LDC government to develop productive capacities would be to promote a virtuous circle between rising demand and the key processes through which productive capacities develop namely, capital accumulation (physical and human), technological progress and structural change. That would help them break out of the low-equilibrium trap characterized by a low level of economic development, lack of infrastructure, structural impediments to growth and high level of poverty.

LDCs should pay attention to national, regional and global markets. The current export-led model focused exclusively on the international markets will not be enough for development of productive capacities. That approach has resulted in pattern of specialization of LDC economies that has made them even more vulnerable and dependent on fluctuations of international prices of their export products. A rebalancing of the focus towards domestic and regional markets could potentially be very beneficial for the LDCs. The data show that trade of the LDCs with regional partners is at the same time more diversified and also has a higher value-added and higher technological content than the trade with developed countries. Thus, it should be encouraged and could serve to enhance diversification of the LDC economies.

### ***Dynamics and Timing***

Questions of sequencing are important in prioritizing the development of productive capacities. It is a cumulative process in which achievements in the previous phase provide the basis for what can be done next. The Chinese principle of “one commitment, many steps” was singled out as relevant here.

It was also emphasized that there was a need to improve what exists before attempting to build new things (innovate). In particular, the LDCs should first try what some call “a nearby diversification” since that is relatively easy to achieve. For example, it is relatively easy to diversify from the production of T-shirts to shirt since almost all inputs needed for the latter are already available in the production of the former. As the “nearby diversification” progresses in a successful manner, the country could attempt to diversify to more sophisticated products using the experience and knowledge accumulated previously.



## C. AN INTEGRATED APPROACH TO DEVELOPING PRODUCTIVE CAPACITIES

There is a need for an integrated approach to developing productive capacities which includes national policies, international policies and South-South cooperation between other developing countries and the LDCs. Specifically, it is imperative to avoid the situation where the efforts to develop productive capacities with the help of national policies are undermined with the effects of international policies, or vice versa. The development dimension of the current global economic regimes is generally weak and there is a need for a reform of the global economic regimes to make them more development-friendly and a need to complement them with a new generation of LDC-specific international support mechanisms focused on development of productive capacities.

### **National Policies**

A critical issue with regard to national policies is the role of the state. It was argued that in this regard the pendulum should not swing too far towards state dirigism or market fundamentalism. This suggested the need for an approach in which the State seeks to harness the energies of the private sector in the pursuit of private profit towards the achievement of national development goals. Pragmatism and predictability are critical. Moreover, one basic function of the State is to ensure peace. These 6 Ps (pendulum, predictability, pragmatism, peace, public goods, private sector) provide the basis for a broad understanding of a 'market-based approach' to developing productive capacities in which the state has an important developmental role.

Stimulating productive investment, building technological capabilities and strengthening linkages within and across sectors and between different enterprises will be slow and inadequate if left only to markets. As is well known, markets in the LDCs are incomplete and do not function as well as in developed economies, and not as neatly as predicted by the abstract economic models. For that reason a key developmental role for the state is to provide proper incentives for the private sector where markets do not provide them or provide incentives such that social and private returns are not aligned. A major developmental role of the state is to foster the investment-profit nexus in expanding private profits act as an incentive for investment, a source of investment and outcome of investment. Fostering such an investment-profits nexus in the national economy of LDCs would result in development of a more vibrant private sector, capable of producing and exporting higher value-added products.

Institutions also matter in the development of productive capacities. Building and effectively maintaining state capacities to support the development of productive capacities (e.g. ministries of agriculture and industry, different state agencies, and so on) is vital. Good governance, and in particular good development governance, is also critical, as well as is social capital. In building developmental State capacities in the LDCs it is necessary to look at successful models and then identify which principles and practices provide a good fit with the circumstances of each LDC.

National policies to develop productive capacities should be multi-level. They should include growth-oriented macro-economic policies, sector-specific development policies (agriculture, industry, services), trade policies, labour market policies (which are vital to ensure the link between production, employment and poverty reduction) and micro-level enterprise development policies.

### **International Policies**

In discussing international policies to develop productive capacities, ownership of national development strategies and policy space were identified as critical. In the past, ownership of national policies has been undermined by policy conditionality. The donor focus on MDGs has also resulted in a shift in the composition of aid away from production sectors and economic infrastructure. Policy space is also critical for promoting the development of productive capacities. In order to achieve the goals of their national development strategies, the LDCs need more policy space than they currently have.

General global economic regimes in relation to finance and commodities were seen as negatively impacting on LDCs. They are of great importance for the LDCs because of the need to reduce the global volatility which could have very negative impacts in their economies owing to high exposure to shocks and inability to cope with them. The climate change regime was also vital and this is going to be a source of new vulnerabilities which could undermine any achievements in productive capacity development.

The focus of discussion of international policies was on possible international support mechanisms (deliverables) in relation to aid, contingency finance, debt relief, trade, investment, technology and trade logistics. These are discussed in more detail in section D (below).

Finally there is a need to give greater voice and representation to the LDCs in international fora to ensure that global regimes are LDC-development friendly and LDC-specific international support measures are tailored to their needs. LDCs will have a total of 1 billion inhabitants by 2017, but have no representation in the G-20.

### **South-South Development Cooperation**

South-South development cooperation can usefully support the development of productive capacities in the LDCs. In 2007-2008, developing countries were the source of 62% of LDC merchandise imports and the destination of slightly more than half of their merchandise exports. Emerging developing countries such as China, India and Brazil are rapidly becoming major trading partners of the LDCs, and will likely be even more important in the future.

Regional cooperation can play a strong role in helping to support the development of productive capacities in LDCs, in particular through: promoting more diversified trade development; achieving economies of scale in infrastructure investment; reducing trade transaction costs through logistics improvement; attracting FDI; and creating regional technology hubs. The LDCs could more rapidly reduce the impediments to development of productive capacities by cooperating with their regional partners. This is especially important for landlocked as well as for small island developing LDCs.

Inter-regional South-South cooperation is also a major opportunity for developing productive capacities. Official finance, FDI, technology transfer, technological cooperation, exchange of policy experience are key channels for s-s development cooperation, as well as the provision of new market opportunities, for example through offering DFQF market access. As regards the latter, the Global System of Trade Preferences among Developing Countries offers an important mechanism to advance trade of LDCs.

Examples of LDC-LDC cooperation were also provided in the meeting in relation to micro-finance institutions whereby institutions from Cambodia expanded their operations to include Sierra Leone, and those from Bangladesh did the same in Ethiopia. Exchange of experience between the LDCs is an important untapped resource for developing productive capacities in the LDCs. The potential for developing LDC-LDC policy and institutional exchange further needs to be actively explored

## **D. ENHANCING INTERNATIONAL SUPPORT FOR DEVELOPING PRODUCTIVE CAPACITIES IN LDCs: SOME ACTIONABLE DELIVERABLES**

### **Development Aid, Contingency Finance and Debt Relief**

Although there was some increase of official development aid (ODA) during the past decade in comparison with the previous one, the increase in aid flows was proportional to the increase in aid flows to other developing countries. In addition, the aggregate ratio of ODA to gross national income of the OECD Development Assistance Committee countries increased from 0.05% in 2000 to 0.09% in 2008, but



that was still way below the lower target of 0.15% set by the Brussels Programme of Action for the LDCs. Increasing aid flows in line with commitments will be vital in rectifying productive capacity development deficits in LDCs.

Aid has also been provided increasingly for social uses in the last three decades, and the share going to production sectors and economic infrastructure has declined. The development of productive capacities cannot be achieved on the basis of domestic resources alone, so this unbalanced trend in the uses of ODA should be reversed along with the expansion of aid to levels in line with commitments. Providing more aid for the development of productive capacities will result in a closer alignment of ODA with the LDCs' development priorities as expressed in their national development strategies and poverty reduction strategies.

Developing productive capacities requires both traditional and innovative uses of aid. Traditional uses of aid include the provision of financial resources to meet physical infrastructure needs, renewed investment in agricultural productivity growth, and financial support for increased investment in education across spectrum not simply in primary education. Major financing gaps exist in all these areas. In 2004, for example, ODA commitments for economic infrastructure and private capital flows for energy, telecommunications and transport to LDCs amounted of 0.7 percent of GDP. But annual infrastructure investment needs in these sectors plus water and sanitation may be equivalent to 7.5-9 percent of GDP.

Developing productive capacities also requires innovative uses of aid which support private sector development. Good examples are: firstly, UNCTAD's proposed International SPARK initiative, in which development aid would be used to support enterprise innovation in LDCs through national technology funds; and secondly, the UN Capital Development Fund initiative MicroLead, in which successful micro-finance institutions located in developing countries, including some LDCs such as Bangladesh, are funded to invest in building micro-finance capacities in selected LDCs. In both these cases, official development aid can leverage other forms of development finance. Another possible innovative use of development aid would be to support and complement migrants remittances, which are important to many LDCs, in a way which supported their use for the development of productive capacities rather than simply for immediate consumption needs. Remittances are an important source of external finance in an increasing number of LDCs.

More improvements are required in the delivery of aid as this is currently undermining ownership of national development strategies which is essential for developing productive capacities. The mismatch between increasing attention to productive capacities in national development strategies by LDC governments and the increasing focus of donors on directly financing specific MDG targets is an example of this problem.

Contingency finance is a topic of increasing importance for the LDCs, but is mostly neglected in the present international architecture. Structural vulnerability of the LDCs and their elevated exposure to shocks of different kinds has a high correlation with the lack of productive capacity and lack of diversification of their economies. This is especially true of small, island developing LDCs characterized by a narrow economic base, heavily dependent on trade of primary commodities in the agricultural sector, and with very limited sources of international finance (trade, ODA and workers' remittances). The fuel, food and financial crises which the LDCs successively experienced from 2007 onwards indicate the need for anti-shock financing facilities that would be available in a timely manner and would provide sufficient financing to counter the magnitude of the shock.

In spite of the various debt-relief initiatives like HIPC and MDRI, the debt issue is still relevant for the LDCs. There are 14 LDCs which still remain in debt distress or at high risk of debt distress, but were not identified as HIPCs or had not reached the completion point. In addition, there are 6 LDCs

at high risk of debt distress and further 5 at moderate risk, despite benefitting from substantial debt relief. The debt service of the LDCs today takes away about USD 6.3 billion per year. Debt relief could be a great support factor for capital accumulation in the LDCs if a debt-swap mechanism could be agreed to transform it into the investment in productive sector, this could have very positive effects.

## Trade

The development of productive capacities – and building of international competitiveness – can potentially be furthered through commercially meaningful duty free and quota free market access for products of the LDCs by developed countries, with pragmatic, user-friendly, transparent, simplified and easily administered rules of origin as agreed in the 2005 WTO Ministerial Conference. Consideration could be given to de-linking the duty-free, quota-free treatment from the Doha agenda for immediate delivery to LDCs. The early conclusion of the WTO Doha Trade Round with development outcomes is important. In this regard for LDCs, improved market access in services Mode 4 and a waiver granted on preferential market access for the LDCs' services exports, complemented with meaningful services offers and an ambitious, expeditious and specific outcome for cotton trade related aspects, would also be important. Other priorities for the LDCs include addressing non-tariff barriers especially regarding product standards, and trade facilitation. Market access for LDCs should be effective and commercially meaningful affecting manufactures, agricultural products and services and cover products where LDCs can potentially export.

Duty-free, quota-free treatment to the LDCs by developing countries in a position to do so should be made more generous with no or limited exceptions to product coverage and flexible rules of origin requirements, and accompanied by direct aid for trade assistance, investment and technology transfer from these developing countries to the LDCs to build up their productive and supply capacities to take advantage of the preferential market access.

Future development of the LDC economies would need to rely on promoting sectors with dynamic comparative advantage through pro-active policy measures and support mechanisms. With that aim, the LDCs should take advantage of their existing policy space and international support regimes, including special and differential treatment provisions in WTO Agreements, to promote the sectors that have dynamic comparative advantage. Findings from recent research suggest that what countries export today matters for their growth and diversification in the future. From that perspective, total reliance on primary sectors (commodities and natural resource-rich exports) by the LDCs is to be considered unlikely to help develop value-added productive capacity and achieve diversification and structural transformation.

Priority could be given to the development of the sustainable agriculture, such as organic agriculture and sustainable fishing, electronics industries, creative industries, and manufacturing sectors in order to improve exports through value addition and diversification. The development of textiles and clothing industry, including cotton production, value addition and trade, remains important for many LDCs for launching and supporting industrialization. Particular attention should be given to developing the services sector to foster services productive capacities, such as in tourism and remittances-related sectors, Mode 4 and build up services including infrastructural services (inter alia, roads and rail networks, ports, electricity and R&D services, energy and telecommunications), that act as catalyst for competitiveness in other industries, and provide essential services for the population.

Improvements in special and differential treatment provisions in WTO agreements will also help LDCs develop their productive capacities. In the Doha Round, Members should commit to improve special and differential treatment in WTO Agreements for LDCs by making them more precise, concrete and operational. Particular attention could be placed on strengthening provisions that can enhance the supply and productive capacities of LDCs such as TRIPS Article 66.2.



UNCTAD



UN-OHRLS

LDCs could be assisted in registering their products with unique identities as geographical indications, and help boost production and increase income for producers including the poor, youth and women.

Clean technologies should be made available to LDCs to enable them to undertake more environmental friendly production methods.

Accession to the WTO of 12 LDCs currently in this process should be expedited and the terms of accession made consistent with their levels of development.

The provision of a generalized system of preferences on services for LDCs could be considered and developed by preference providers.

Enhanced access of LDCs to adequate and affordable trade financing is necessary.

Regional integration among developing countries should expand market opportunities for the LDCs, increase investment and reduce costs of doing business and trade. Regional integration groupings should provide effective market access for the LDCs by removing tariff and non-tariff barriers, especially as regards unrealistic rules of origin, SPS and TBT norms, and provide simplified trading regimes for cross-border trade. The LDCs should be able to trade more effectively with other members of the regional integration grouping, as a stepping stone toward wider trade with the international community. In terms of sequencing and phasing of economic integration, the regional integration should come first, followed by extra-regional relations. In this regard, the current approach toward trade agreements with developed countries, such as the ACP-EU economic partnerships agreements could be revisited to incorporate measures that more effectively enhance intra-ACP integration and building up of productive and trading capacities of the LDCs. Regional integration must create wider markets and reduce market entry barriers, harmonize programs, documentation and reduce costs of doing business, enhance market access, create one border posts - and addressing all these should lead to improved productive capacities.

Coordination and harmonization of multiple regional integration initiatives is needed in regions where such overlap exists. An example is the agreement by countries of COMESA, SADC and EAC to create a single free trade area for the 33 countries of the region. This single trading area would then constitute a major pillar for the realization of the African Economic Community foreseen in the Abuja Treaty adopted by African Heads of State and Government.

Interregional South-South trade cooperation, including through the Global System of Trade Preferences among Developing Countries (GSTP), should improve trade opportunities for LDCs.

The Enhanced Integrated Framework (EIF) should ensure an increasing supply of aid for trade development in the LDCs. It should be based on the principle of ownership and be used to coordinate donor support to the LDCs and leverage additional donor support. Aid for trade support to the LDCs should set out in realistic and concrete term the assistance to be provided to assist the LDCs carry out structural transformation and economic and market diversification. Such support should also be directed towards the development of competitive national, regional and international trade facilitation systems, including transportation to improve administrative procedures and lower transaction costs through supply chains. Such assistance should further assist the LDCs to re-build productive capacities and re-gain trading opportunities lost as a result of natural disasters and civil conflicts. Such existing mechanisms as the EIF and aid for trade should be more fully developed, improved and exploited before introducing new initiatives. The WTO Third Global Aid for Trade Review in 2011 should provide an opportunity to assess evidence on the impact of such assistance on the LDCs.

## Trade Logistics

Trade logistics is of paramount importance to the LDCs. These economies have been on the margins of the world economy not only because of their limited export supply, but also because of an inadequate logistics to reach markets of developed and other developing countries. With the rapid increase of globalization and the emergence of global value chains, good logistics has become even more important.

LDCs are often confronted with a growing “connectivity” gap as their connection to global transport networks is not as good as that of more developed economies. This reduces their trade competitiveness, leads to lower trade volumes, which in turn reduce the economic viability of private and public investments in infrastructures and trade facilitation. While trade and transport facilitation is usually a good long term investment, it still requires substantial financial resources, and for LDCs there are many competing policy priorities.

There is ample space to improve trade logistics in the LDCs, especially by simplifying transit regimes. Trade transaction costs of import/export procedure could be as high as 10% of the value of traded goods, so crossing borders could be a very costly affair for potential exporting firms. Trade facilitation can bring down these costs substantially. Improving the efficiency of these processes is an essential component of a comprehensive strategy to better exploit export opportunities.

Regional approaches to infrastructure development are advisable since the indivisibility of infrastructure and the massive financing needs for investing in infrastructure cannot be dealt with on a national scale. Many trade and transport facilitation solutions require regional cooperation e.g. regarding transit, document harmonization, or cooperation at border crossings. Transport services, too, can be improved within regional markets. The creation of new sub-regional or regional connectivity hubs like ports is of great importance not only for the LDCs but also for landlocked countries. The international community should also be involved, as the LDCs and their regional partners have inadequate resources to find solutions to these problems.

## Investment

Although there has been an increase in FDI flows to the LDCs, the distribution of these flows remains very uneven. There is a high concentration in few natural-resource-rich countries, mostly driven by high global demand for oil and gas. The bulk of FDI is aimed at extracting activities, especially in Africa, while in Asia there is some FDI in manufacturing and services. These trends have reinforced the commodity dependence of many LDCs. Another problem is the fact that labour intensity of FDI projects in the LDCs is low compared to that in other developing countries.

There is a need to attract responsible FDI in sectors that a country deems desirable. A targeted approach is the key for that. The LDCs should strive to attract the FDI that would best contribute to the development of their productive capacities. Processing, value addition and wealth retention in the LDCs should be the key criteria for FDI promotion. To increase the benefits of FDI, there also has to be an environment that fosters the establishment of business linkages between FDI and domestic firms, especially SMEs.

Domestic investment is crucial for development of productive capacities. As the FDI often goes to extractive activities, other sectors could sometimes only develop on the basis of domestic investment. However, a targeted approach to investment promotion could also attract FDI that can play a role in diversifying an economy. Public private partnerships could be a vehicle for achieving that and increasing efforts should be explored to develop these partnerships. Another could be a more dynamic public investment programme. However, a strengthened domestic resource mobilization is needed for the latter to be viable.



UNCTAD



UN-OHRLS

Given the scale of the needs for infrastructure development in the LDCs, efforts should also be made to increase private sector participation in the provision of infrastructure. One important way to do that is to focus on the challenge of mitigating risks for foreign investors in LDCs, particularly in infrastructure. Several proposals could be made in that direction, including increased funding of multilateral risk insurance agencies which would be dedicated to covering political and non-commercial risk in LDCs, sponsoring a regional risk cover agency which would focus on LDCs political risk cover and would seek the same status as MIGA, and creating more capacity in regional development banks for providing regional risk cover.

These measures could be further enhanced through home-country measures that encourage outward FDI to LDCs. In this regard, DAC donor countries could consider providing 100 percent or a large percentage (50-80 percent) of tax credits, rebates or deductions (depending on which of these would have the greatest impact on influencing TNC behaviour in the donor country concerned) on equity invested by the home-country companies in LDCs against their tax liabilities in their home countries; establishing and strengthening the capacity of investment promotion agencies for the attraction of responsible FDI in LDCs within bilateral aid, thus ensuring that support for FDI flows to LDCs becomes a major priority in bilateral aid; and establishing a small special purpose LDC infrastructure investment fund that would provide equity and debt financing and of mobilizing domestic-currency resources for lending to infrastructure projects in LDCs.

In addition, some concrete ideas were discussed in relation to enterprise development in the LDCs. In particular, UNCTAD Business Linkages Programme that connects large companies with domestic suppliers in developing countries, as well as the EMPRETEC programme that trains and supports entrepreneurs, were mentioned as potentially very useful tools for enhancing enterprise development in the LDCs. Another proposal is the development of small-scale solar power electricity production in rural areas of the LDCs, currently implemented by an NGO in cooperation with a transnational corporation.

## **Technology**

There is an urgent need to strengthen the technological capabilities of the LDCs in an increasingly open and competitive global environment. The rapid improvement that had taken place in many LDCs in terms of access of information and communication technologies (ICTs), especially mobile phones, which opens new opportunities for small and micro-enterprises to access information and to communicate was noted. However, these examples are not easily replicable in other key technologies. Channels such as trade or FDI that have helped some countries to launch processes of accumulation and diffusion of technological knowledge were not working well for the LDCs.

There was a need to simultaneously address issues of technological absorptive capacity, increased exposure to, and transfer of foreign technology, and endogenous knowledge accumulation. At the national level, STI policy should be mainstreamed into the overall development strategies of the LDCs; national policy should also consider STI issues through a holistic approach such as the one provided by the national system of innovation. Exercises such as UNCTAD's Science, Technology and Innovation Policy (STIP) reviews could help in this regard. The knowledge and technology dimensions should also be incorporated into international, regional and South-South development frameworks and actions. Development-oriented innovation policies should be recognized as one of the major strategic lines in the outcome of UNLDC-IV.

Transfer of technology remained an irreplaceable ingredient of the policy mix needed to improve the capacity of the LDCs to benefit from STI. While it was recognized that the policy and regulatory framework for innovation extended well beyond intellectual property issues, it was stressed that the LDCs should take full advantage of the flexibilities available to them. The need to address the

disappointing level of implementation of Article 66.2 of TRIPS was highlighted. It was suggested that a more standardized reporting methodology would help identify best practices in the implementation of the commitments made by developed countries in this regard. Geographical indication has so far been an underutilized area of IPRs in the LDCs, and should be included in the agenda, as well as the possibilities to expand the traditional African design for the purposes of industrial design.

Ideas were exchanged about how to make transfer of technology work more effective for the LDCs. More attention should be paid to the transfer of technology generated by public-sector entities; regional and inter-regional trade agreements could be better harnessed to foster transfer of technology and innovation and regional approaches to technology and innovation could be encouraged.

A critical gap in access to finance for the few firms in the “missing middle” of the enterprise structure in LDCs should also be addressed. Since enterprise innovation is the backbone of successful industrial development, there is the need to provide a policy, financing and institutional framework for rectifying the weakness of the enterprise sector in LDCs in this area. The International Spark initiative proposed by UNCTAD could be a way for the international community to address these issues. It would involve the setting up of national technology/innovation funds which would be internationally financed through official aid, and/ or private foundations or sovereign wealth funds.

The fund should support different kinds of SMEs, including dynamic microenterprises in the informal sector. The types of innovation to be supported should cover a broad spectrum of activities: equipment modernization, technology transfer from abroad, development of local technological capabilities, introduction of new materials, imitation, backward engineering, design, engineering, learning/training, and R&D. Part of the innovation process should involve technology transfer, which has its own specific challenges, and these could also be incorporated in the initiative. For example, SMEs in industrialized countries have untapped potential for technology transfer, but they need to be offered incentives, such as a subsidy, as market prices are not enough. But technology transfer will only be effective if it is accompanied by supporting the building of technology capability in the transferee. The International Spark Initiative could provide a way of making Article 66.2 of the TRIPS Agreement work.

## **E. CONCLUSION**

There is a widespread search for constructive and pragmatic new development paths in the LDCs. A major lesson of past experience is that focusing on the development of productive capacities is an effective way to achieve sustained economic growth, beneficial integration into the global economy and mass poverty reduction. The development of productive capacities will best be achieved in LDCs when national leadership and efforts are complemented by more effective LDC-specific international support mechanisms, which should be more geared to developing the productive capacities of LDCs, by more development-friendly global economic regimes which affect development in LDCs, and by enhanced South-South development cooperation. UNLDC-IV should promote action in these directions.





**UN-OHRLS**

Room DC 1-1210

New York, NY 10017, USA

Telephone: (917) 367-6006 Fax: (917) 367-3415

E-mail: [OHRLS-UNHQ@un.org](mailto:OHRLS-UNHQ@un.org)

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