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Towards a New International Development Architecture for LDCs

UNCTAD's Least Developed Countries Report 2010 has called for a New International Development Architecture (NIDA) for LDCs. What is the rationale for NIDA? What is it? How can it be implemented?

The Rationale for NIDA

The idea that 'the least developed amongst the developing countries' might require special international assistance to support their development was first proposed in the Prebisch Report at the UNCTAD quadrennial conference held in 1964. Afterwards, and over a number of years, the criteria for identifying countries as least developed were defined and refined, and are now based on three major dimensions - low income, weak human assets and high levels of economic vulnerability. Countries entering the group also have to have less than 75 million people.

The reasons for identifying LDCs in the first place was that these types of countries face special constraints, handicaps and vulnerabilities that are difficult for them to deal with on their own and will therefore leave them increasingly marginalized in the global economy, and increasingly the epi-centre of extreme poverty and complex humanitarian emergencies in the world. The evidence presented in earlier Policy briefs show that there is still a case for special support for LDCs.

However, UNCTAD's assessment of how these measures worked during the 2000s shows that, in spite of important momentum to improve partnerships during the Brussels Programme of Action, the LDC-specific support measures have had symbolic rather than practical development effects. NIDA is a holistic and coherent approach to enhance the partnership for development and to move beyond 'business as usual' during the coming decade.

Limits in implementing LDC-specific aid commitments

One of the major areas in which the LDC-specific support measures of the 2000s lagged was with respect to aid, including both the quantity and quality of aid and also aid for key priorities such as trade and climate change adaptation.

Certainly there has been significant progress in quantitative terms. Net ODA inflows to LDCs declined in the 1990s but doubled in real terms during the 2000s. However, the scale of aid from OECD DAC donors was nevertheless below their commitments to provide 0.15 or 0.20% of their GNI to LDCs. This target was not only inscribed in the Brussels Programme of Action but also a target in the Global Partnership for Development intended to achieve the MDGS.

The aggregate ratio of ODA to GNI for DAC members increased from 0.05% in 2000 to 0.09% in 2008. The increase in the 2000s actually represented only a return to the same level of aid as in 1990. The actual aid amount in 2008 represented a shortfall of $23.6 billion and the cumulative shortfall in aid flows to the LDCs over the period 2000–2008 in relation to the lower aid target of 0.15% was equivalent to 51% of the GNI of the LDCs as a group in 2008.

Obviously the quality of aid is as important as the quantity and in this regard an important decision in Brussels was to untie aid. But here too there is a mixed picture. Although donors have made rapid progress in the formal untying of their aid by removing legal and administrative impediments to the procurement of goods and services outside the donors' own markets, the de facto tying of aid continues to be widespread. The reasons for the de facto tying include: i) donor regulations; ii) lack of local capacity; iii) local and regional contractors being unable to compete internationally; iv) unequal access to information; v) potential risk aversion at donors' headquarters; and vi) pressure for speedy implementation.

Aid for trade is an important priority for LDCs, and one of the most important special measures for LDCs is the Integrated Framework for Trade-related Cooperation (IF), which was first established in 1997, upgraded in 2001 and enhanced in 2009. All but two LDCs now participate in the Enhanced Integrated Framework (EIF). There is consensus that this has the potential to become an effective tool for delivering trade-related technical assistance. However, the first 12 years of the IF showed that this special international support mechanism involved high transaction costs for LDCs and was ineffective in generating more resources for aid for trade in LDCs. The aid for trade commitments (using the OECD DAC definition) has risen more rapidly in other developing countries than in LDCs despite a dedicated mechanism for trade-related capacity building. LDCs' share of total aid for trade disbursements to all developing countries fell slightly from 32% in 2002-2003 to 28% in 2007-2009. In aggregate, $52 million has been allocated to LDCs through the IF/EIF process since 2000, on average amounting to a little more than $1 million per country. This is grossly inadequate.

Aid for climate change adaptation is also important. The LDC Fund (LDCF) was established in 2001 to help LDCs identify priority activities that respond to their urgent and immediate needs with regard to adapting to climate change and to obtain financing to support the activities they have identified. By June 2010, the LDCF had funded 36 projects in 32 LDCs, allocating $126 million in total with an average project size of $3.5 million. The level of the Fund's financing for implementing priority adaptation projects is inadequate, given the scale of the adaptation challenge which LDCs face, rising from an estimated $4 billion to $17 billion per annum by 2030. The Fund is dependent on the voluntary contributions of developed countries and therefore the security of funding is not reliable enough to enable its administration to plan a comprehensive programme of implementation of adaptation needs for all LDCs. As most LDCs cannot afford to meet the baseline development costs, LDCF commitments of finance towards the additional costs are often inadequate in relation to the scale and urgency of their needs.

The contours and content of NIDA

NIDA seeks to go beyond the limitation of current LDC-specific international support measures through an aid-plus approach.

NIDA is an aid-plus approach in the sense that it recognizes that development aid is still of critical importance to the LDCs. But it is based on the belief that it is now necessary to have a more integrated approach which recognizes various dimensions of global interdependence affecting economic development and poverty reduction in the LDCs. Thus NIDA has five major pillars:

1. Finance, including not simply traditional development aid and debt relief but also measures to promote domestic resource mobilization, private capital flows, particularly FDI, and innovative sources of finance.
2. Trade, including in particular, changes in the international trade regime under the WTO, aid for trade and empowering LDCs to adopt strategic trade policies.
3. Commodities, including measures to reduce the extent and impact of commodity price volatility and also to help LDCs manage and make more from the natural resource rents.
4. Technology, including reforms to encourage technology transfer and the ability of LDCs themselves to acquire and use technology, as well as a more development-friendly IPR regime.
5. Climate change adaptation and mitigation, including more effective integration of climate change adaptation into national development programmes, developing renewable energy projects, including through the CDM, and constructive engagement in reducing emissions from deforestation and forest degradation.

For each of these pillars, NIDA seeks to improve and enhance the working of existing LDC-specific international support measures such as the TRIPS Article 66.2, which states that 'Developed country members [of WTO] shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country members in order to enable them to create a sound and viable technological base'.

But the NIDA also recognizes that the special international support measures for LDCs work within a broader architecture of global economic regimes. Thus there is a need for broader reforms in areas which affect development and poverty reduction, for example in relation to ownership, conditionality and the working of the aid and debt relief, as well renewed attention to an international commodity policy.

Finally enhanced South-South development cooperation is an important component of NIDA. However it is essential to recognize that South-South cooperation is a complement to North-South cooperation and not intended to reduce its creative potential.

The philosophy and principles NIDA

The basic philosophy behind NIDA is that there is a need for new models. The underlying approach is not simply a matter of getting away from the fallacy of one-size-fits-all. NIDA seeks to empower LDCs to harness their own under-utililized assets and creative potential, to enable domestic ownership of their development strategies, and to catalyze their own agency. It sees LDCs in terms of potential rather than simply humanitarian needs.

The design of NIDA is intended to enable a shift to new, more inclusive and sustainable development paths in LDCs, based on the development of productive capacities, the associated expansion of productive employment and an improvement in the well-being of all their people. This will be best achieved by giving the state a stronger development role and building developmental state capacities which can harness the energies of the private sector to achieve national development objectives.

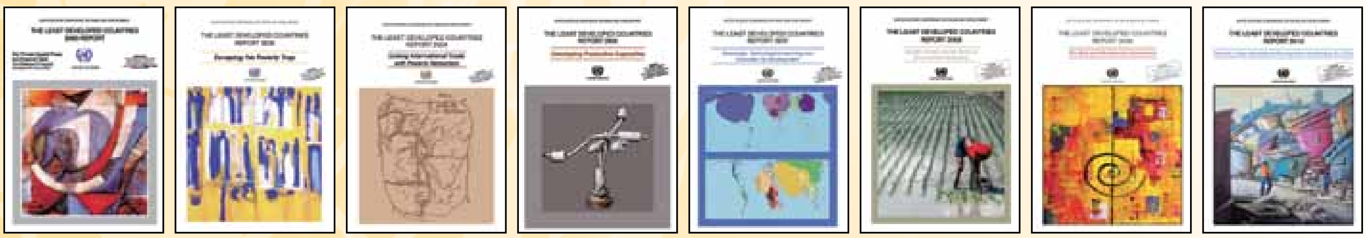
In general, the basic principles for the design of the NIDA are to:

- Enable new, more inclusive development paths in LDCs based on development of productive capacities.
- Foster and support country ownership of national development strategies and enhance the space for development policy.
- Facilitate strategic integration into the global economy in line with development needs and capacities, including a better balance between external and domestic sources of demand.
- Redress the balance between markets and the State in such a way that the State plays a more significant role in guiding, coordinating and stimulating the private sector.
- Promote greater domestic resource mobilization with a view to reducing aid dependence over the medium and long-term.
- Promote greater policy coherence between trade, finance, technology, commodities, and climate change mitigation, as well as between global eocnomic regimes and special international support measures.
- Support South-South development cooperation as a complement to North-South cooperation and in a way which is not restrictive.
- Foster a greater voice for and representation of LDCs in the global system of governance.

Implementation of NIDA

The LDC Report 2010 contains a large agenda for action in each of the five key pillars of NIDA. Some of the proposed measures, such as the early harvest for LDCs emerging from the Doha negotiations, innovative uses of aid to increase innovation or periodic fora in which LDCs exchange experiences on aid management policies, are immediately actionable. Others, such measures to reduce commodity price volatility, are more aspirational. But taken together NIDA offers a vision of an enhanced global partnership for the LDCs which can i) reverse the marginalization of the LDCs in the global economy and help them in their catching up efforts; ii) support a pattern of accelerated eocnomic growth that would improve the general welfare of and well-being of all people in LDCs; and iii) help LDCs graduate from LDC status.

It is significant that LDCs themselves have identified the graduation of increasing numbers of LDCs from LDC status as their overriding goal for the coming decade. This in effect means that they see special international assistance as an essential input in their own efforts to develop and graduate from needing such assistance in the future. Their concern for graduation is a powerful message to the international community precisely because graduation implies graduation from the need for special support. It is this transformation, using support now to enable empowerment and independence from support in the future, which NIDA would deliver.



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