



## The LDC IV Conference: An Agenda for Action

***The UN LDC IV Conference, to be held in Turkey in May 2011, will have three major objectives: to assess the implementation of the Brussels Programme of Action by LDCs and their development partners; to identify new challenges and opportunities for LDCs; and to agree upon the actions required at national and international levels in response to the inadequate economic and social performance of the LDCs over the last decade. This policy brief proposes elements of a broad agenda for action as an input for the Conference.***

An in-depth analysis of the 2011-2012 agenda for action for LDCs is presented in UNCTAD's annual publication The Least Developed Countries Report 2010: Towards a New International Development Architecture for LDCs (LDC Report). The Report argues that a New International Development Architecture (NIDA) for LDCs is needed to facilitate new development paths aimed at: a) reversing their marginalization in the global economy and helping them to start catching up with more developed economies; b) supporting a pattern of accelerated economic growth and diversification which would improve the general welfare and well-being of all their people; and c) helping them graduate from the LDC group.

In order to achieve these goals, LDC countries need to do much better than in the previous decade. In spite of the substantial progress when compared to the 1990s (higher economic growth, more dynamic exports, fewer macroeconomic imbalances), the LDCs, with a few exceptions, have largely continued to suffer from certain structural weaknesses, including increased commodity dependence, widespread poverty, insufficient levels of human capital, and high vulnerability to the effects of climate change and natural disasters.

The LDCs and their development partners should address these and other weaknesses. The LDC Report argues that the agenda for action should encompass three areas: a) better international support mechanisms (ISMs) specifically designed for LDCs; b) reforms of the global economic regimes which directly affect development prospects of LDCs; and c) enhanced South-South development cooperation.

There are five areas that should constitute the pillars of the NIDA for LDCs, namely: the traditional areas of finance and trade where international support measures for LDCs already exist, the neglected areas of commodities and technology, and the new area of climate change mitigation and adaptation. These five areas are further elaborated upon in this brief.

The LDC Report also assesses current international support measures including the special consideration given to LDCs in their accession to the WTO, the special and differential treatment for LDCs in WTO agreements, and preferential market access for LDCs. It concludes that overall they have had largely symbolic, rather than practical, developmental impact. Certain measures have had limited effectiveness because of their design, their poor implementation or a breakdown in funding.

### **Make financing for development in LDCs adequate, sustained and stable**

The financing of LDC development crucially depends upon external sources, given the LDC's limited domestic financial resources. The role of aid is critical and will remain so until the LDCs substantially increase their domestic resource mobilization. The financing gap cannot be resolved only with aid and should be placed within a broader framework of financing for development. Two major areas for action include: a) the provision of resources for productive investment in LDCs; and b) the promotion of country ownership and creation of policy space to help mobilize and direct those resources in line with priorities identified by the country itself.

Ultimately, the objective of aid should be to promote greater domestic resource mobilization by using a "matching fund" approach whereby donors agree to match a percentage of funds collected by the government to help LDCs reduce their dependence on aid in the long term. In the short and medium term, however, LDCs' access to development finance would be substantially increased by donor countries meeting aid commitments (0.15-0.20% of GNI, versus the 0.09% provided at present). In 2008, the shortfall amounted to \$23.6 billion and \$43.8 billion vis-à-vis the agreed targets. There should be a change in the composition of aid, making more resources available for the development of productive capacities, especially infrastructure and skills. Innovative sources of finance for LDCs should also be devised, for example through an additional allocation of special drawing rights (SDR). Forty-five percent of the new allocation of SDRs in 2009 went to the G-7 industrialized countries, with the LDCs allocated only 2.37%. The allocation mechanism should be revised away from the IMF's quota-based formula towards one based on development needs, particularly those of LDCs. South-South development cooperation is another promising avenue for increasing the availability of financial resources for development in LDCs. This could be done either directly on a bilateral basis or through regional financing schemes like funds, development banks, and joint investment projects.

### **Enhance the developmental role of trade in LDCs**

In the area of trade, a successful conclusion of the Doha Round which gives central importance to development outcomes for all developing countries would benefit LDCs. In addition, serious consideration should be given to the option of reaping "early harvest" of specific



measures that are directly relevant to the LDCs. These measures have already been negotiated as part of the current Round and broad agreement has been reached. This includes, among others (i) full implementation of duty-free and quota-free (DFQF) market access for all products originating from all LDCs, in line with Decision 36 of Annex F of the Hong Kong WTO Ministerial Declaration, (ii) a waiver decision on preferential and more favourable treatment for services and services suppliers of LDCs, and (iii) an ambitious, expeditious and specific outcome for cotton-trade-related aspects, in particular the elimination of trade-distorting domestic support measures and export subsidies, and the granting of DFQF market access for cotton and cotton by-products originating in LDCs. Providing DFQF market access for LDCs is a part of Goal 8 of MDGs and its accelerated implementation would be an important aspect of strengthening the Global Partnership for Development up to the MDG target date of 2015.

To foster the development of their productive capacities, LDCs should be empowered to use all of the flexibility currently available under WTO rules. They should also be enabled to develop a new strategic trade policy to support their development and poverty reduction efforts, and to take advantage of the new opportunities associated with South-South trade. The Enhanced Integrated Framework (EIF) offers an important operational mechanism for ensuring that aid for trade development in the LDCs is focused on priority activities, and is integrated within national development and poverty reduction strategies. It is important to accelerate the provision of aid for trade through EIF and to ensure that it is directed at enhancing productive capacities in line with the principle of country ownership.

### Establish an international commodity policy

Given the very high dependence of many LDCs on the export of commodities, the lack of an international commodity policy and the negative consequences this entails affects these countries disproportionately. While the goal in the long term should be structural transformation leading to more diversified economies, in the short and medium term new forms of international commodity policy are required to reduce the volatility of commodity markets and the adverse impacts of that volatility. That issue is also closely linked to food security and humanitarian emergencies. Food prices are again on the rise, possibly leading to the emergence of yet another food crisis in LDCs. As these countries import a large share of their food needs, a debt crisis could also arise if the recent increase in food prices continues.

Actions could include establishing a global countercyclical facility that provides fast disbursement of aid at times of commodity price shocks; establishing innovative commodity price stabilization schemes; and introducing taxation measures to reduce speculation in global commodity markets. The ability of LDCs to better manage resource rents and avoid the Dutch disease effects should be strengthened, and they should be provided with technical and financial assistance to embark on resource-based industrialization and pursue diversification of their economic structures.

### Enable LDCs to acquire and develop technological capabilities

The gap between LDCs and developed countries is perhaps the widest in the area of technological capabilities. A new and ambitious

agenda for action, conceived and designed to enable LDCs to acquire and develop technological capabilities, is needed since the few existing international support measures are clearly inadequate.

The global economic regime in the area of technology in general, and the international property rights regime in particular, should be reformed to become more development friendly. This could be done by creating a new balance between private and public dimensions of knowledge, supporting an emergence of a new and coherent reality of technology transfer that complements domestic capabilities building, and supporting the emergence of the learning-oriented developmental state that could facilitate knowledge-based activities.

LDC-specific ISMs in the area of technology would include establishing a regional technology-sharing consortia, technology licence bank for LDCs, a multi-donor trust fund for financing enterprise innovation in LDCs, and diaspora networks to pool LDC talents from abroad. South-South development cooperation could also play a major role via the sharing of knowledge and experiences of development strategies, providing finance on preferential terms for transfer of technology to LDCs, and so on.

### Create appropriate climate change mitigation and adaptation architecture for LDCs

The scale of the climate change challenge confronting LDCs is enormous. LDCs contribute much less to climate change than other countries, but are more affected by the impacts of climate change caused by varying temperatures, precipitation and natural disasters.

LDCs' response to that challenge, including reorienting their economies towards more climate-resilient and ecologically sustainable paths, will require significant financial resources, and sustainable and predictable financial flows, for supporting mitigation and adaptation strategies. Additional investment and funding for adaptation in LDCs is estimated to rise from \$4 billion at present to \$17 billion per annum by 2030. The LDCs could only provide a small fraction of the resources needed. The global economic regime for dealing with climate change effects would also require a governance structure that is transparent and representative.

LDC-specific ISMs should include the goal of making the United Nations Framework Convention on Climate Change (UNFCCC) the key pillar of predictable and equitable climate change framework for LDCs. It would also be important to replenish and reform the LDC Fund, which has so far been the main vehicle of the UNFCCC for LDCs. Reforming the UNFCCC's Clean Development Mechanism and giving LDCs improved access to it would enhance their possibilities to tap renewable energy technology and finance, both now and in the future.

This ambitious agenda for action is intended to serve, alongside proposals of member States and other international organizations, as a major input to the policy debate at the UN LDC IV Conference. Combining international support mechanisms for LDCs with a new international framework for policy and cooperation that can deliver more stable, equitable and inclusive development is one of the most urgent challenges facing the international community today.

