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Trade and productive capacities for achieving internationally agreed development goals, including the Millennium Development Goals

Note by the UNCTAD secretariat*

Executive summary

This note contains three key messages:

(a) A broad economic development approach, rather than a narrow sectoral focus on specific and separate Millennium Development Goal (MDG) targets, is the best way to achieve the MDGs;

(b) Within this approach, accelerated progress towards MDGs requires a strengthened Global Partnership for Development;

(c) There are practical policy mechanisms – in the areas of trade, aid and debt relief, investment and technology – to make the Global Partnership for Development more effective.

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Introduction

1. In the foreword to *The Millennium Development Goals Report 2007*, United Nations Secretary-General Ban Ki-Moon states:

> "We are now at the mid-point between the adoption of the MDGs and the 2015 target date. So far our collective record is mixed. The results presented in this report suggest that there have been some gains, and that success is still possible in most parts of the world. But they also point to how much more needs to be done. There is a clear need for political leaders to take urgent and concerted action, or many millions of people will not realize the basic promises of the MDGs in their lives" (p. 3).

2. This note aims to contribute to the renewed effort to achieve the MDGs, as Secretary-General Ban calls for. It does so by examining practical ways to strengthen the Global Partnership for Development, focusing particularly on trade and productive capacities, in order to accelerate progress towards the MDGs.

3. The note has two parts. The first part briefly summarizes progress made in meeting the MDGs, and points out the main lessons learned thus far from experience. The second part identifies specific policy mechanisms through which development partnerships can be strengthened in the areas of trade, aid, debt relief, investment and technology.

I. Progress at the mid-point of the Millennium Development Goals

A. Where do we stand?

4. The MDGs consist of two basic types of goals and targets. The first is concerned with (a) outcomes in terms of reduction of extreme poverty and hunger; (b) expansion of decent work; (c) improvements in basic standards of human development (in relation to education, gender equity, health, housing, and access to water and sanitation); and (d) environmental sustainability at the national level. The second is concerned with international relationships, identifying various aspects of the Global Partnership for Development that should be forged to support the realization of those outcomes. This includes targets in relation to aid, debt relief, market access and access to information and communications technology (ICT).

5. The main findings of *The Millennium Development Goals Report 2007* can be summarized as follows:

(a) Outcomes:

(i) The world and most regions are on track to meet the MDG target of reducing the incidence of extreme poverty by half by 2015;

(ii) Significant progress has been made in getting more children into primary school;

(iii) There are some improvements in terms of gender equity;

(iv) Child mortality is declining slowly;

(v) There are some significant achievements in terms of reduction in disease, notably in relation to measles and HIV prevalence;

(vi) Deforestation continues at an alarming rate;

(vii) Growing greenhouse gas emissions continue to outpace advances in sustainable energy technologies;

(viii) Rapid expansion of cities is making slum improvement an even more daunting task; and

(ix) Very few regions are on track to meet the goal of access to sanitation.

(b) International relationships:

(i) Development aid has fallen despite renewed commitments by donor countries;

(ii) Donors have pledged to double their aid to Africa, but there is little to show so far from this pledge;

(iii) Preferential market access has stalled for most developing countries;

(iv) The debt service burden of developing countries continues to lighten; and

(v) Access to ICT is growing fastest in the mobile sectors.

6. Within this overall picture, there are important regional variations. Only one region, East Asia, is on track to achieve all the MDGs. The projected shortfalls are most severe in sub-Saharan Africa, although for those indicators for which it is possible to compare change in the 1990s with change after 2000, there is an improvement in performance in the latter period.

7. UNCTAD's work with the least developed countries (LDCs) enables us to supplement this analysis with the following findings. Some LDCs are making significant progress towards achieving some specific MDGs, but there are very few LDCs that are making progress on a broad front encompassing more than three targets. Most progress is being made on targets which depend primarily on the level of public service provision, where Governments and donors are committed to increasing public expenditures and implementing well-targeted programmes such as universal primary school enrolment. There is a distinct hierarchy of achievement which reflects two factors: the priorities of Governments and donors who are funding the scale-up, and the magnitude and timescale of investments required to meet the targets. Progress towards targets that depend more on household incomes rather than mainly on public service provision has been slowest. In this regard, progress has been slow in reducing the incidence of extreme poverty and hunger (see UNCTAD's *The Least Developed Countries Report 2008*: chapter 2).

B. What lessons can we draw?

8. The major lesson which *The Millennium Development Goals Report 2007* draws from the experiences up to the mid-point is that "rapid and large-scale progress is feasible" (p.5). But underlying this judgement are two further important lessons.

9. The first is the importance of a broad approach to achieving the MDGs. As *The Millennium Development Goals Report 2007* puts it:

> "In general strategies should adopt a wide ranging approach that seeks to achieve pro-poor economic growth, including through the creation of a large number of opportunities for decent work. This, in turn, will require comprehensive programmes for human development, particularly in education and health, as well as building productive capacity and improved physical infrastructure" (p.5).

10. The second is the importance of partnership between the countries in which MDG outcomes are achieved and the international community. As *The Millennium Development Goals Report 2007* puts it:

> "Several developing countries are demonstrating that rapid and large-scale progress towards MDGs is possible when strong government leadership and policies and strategies that effectively target the needs of the poor are combined with adequate financial and technical support from the international community" (p.5, emphasis added).

11. The major message of this note is that both these lessons should be elaborated further from a policy perspective if we wish to accelerate progress towards MDGs. Some brief points are raised here for deeper intergovernmental discussion.

12. Regarding the first lesson, experience to date indicates that a broad economic development approach is the best way to achieve the MDGs.

13. On the one side, it is apparent that East Asia, which has been most successful in achieving the MDGs, is the region where development strategies are most closely focused on promoting structural transformation, developing productive capacities and generating employment opportunities rather than focused solely on poverty and human development outcomes per se.

14. On the other side, the dangers of a too-narrow focus on the MDG targets are becoming apparent. Donors are currently tending to take a sectoral approach to MDGs, focusing on, for example, basic health, primary education or water. Donor support is being provided in separate vertical silos of activity related to specific monitoring targets. It is possible to selectively achieve targets but this does not add up to comprehensive progress. There is a high potential for dysfunctional outcomes, for example, when more and more children go to school, but public expenditures cannot increase sufficiently to hire extra teachers, and so quality falls. Or the children go to school but then cannot find jobs or productive livelihoods. In the end, achieving the MDGs will require a combination of rising private incomes (based on productive employment) as well as improved access to public services (e.g. education, health, water and sanitation).

15. It should also be noted that an economic development approach to the MDGs is essential for sustainable outcomes. This means creating the domestic economic conditions where desirable social outcomes can be self-sustained. It also means factoring into the developmental approach the need to address the climate change challenge. The effects of this are already being felt in many developing countries and it can effectively and quickly cancel out any progress of recent years. Rising food and energy prices also are cancelling out progress as countries do not have the resilience to counter these adverse external shocks. Such vulnerability is a development problem.

16. Regarding the second lesson, experience suggests that more effective development partnership between the developing countries and the international community is central to success. A key to accelerating progress towards MDGs is therefore to strengthen the Global Partnership for Development.

17. In thinking what this means in practice, it is important not to limit the scope of global partnership to the indicators which are being monitored within the MDGs. Although these are important, they have deficiencies. These include the fact that they omit the potential role of private capital flows, in particular foreign direct investment (FDI), in achieving the MDGs, and they also focus on ICT rather than science, technology and innovation (STI) more generally. The treatment of international trade also includes a curious lapse in the sense that target 12 of the MDGs transforms the Millennium Declaration commitment "to develop further an open, equitable, rule-based, predictable, non-discriminatory trading and financial system" by dropping the word "equitable".

18. It is also a natural corollary of the adoption of a broad approach to achieving the MDGs at the national level that there should be a broad approach to global partnership. As indicated above, the broad approach at the national level encompasses pro-poor growth, creation of decent work, comprehensive programmes for human development, improved physical infrastructure and developing productive capacities. Global Partnership for Development should strengthen the processes of national economic development which this broad approach strives for.

19. It is also important to ensure that the different strands of global partnership – trade, aid, finance, investment and technology – all work in complementary ways to reinforce their national level effects. Accelerated progress can be most successful when there are synergies between these different types of international economic relationship forms which together work as levers for change.

20. Finally, Global Partnership for Development should encompass both North–South and South–South cooperation. How these can work together is an important issue for discussion, but South–South cooperation will not be addressed in this note.

II. Specific policy mechanisms for strengthening the Global Partnership for Development

A. International trade

21. A strategy to achieve MDGs based on a strengthened Global Partnership for Development should aim at establishing specific policy mechanisms (including effective instruments, measures and actions) at the national, regional and international levels for helping developing countries to leverage increased trade for reaping MDG gains and strengthening productive capacity, particularly in sectors contributing to food and energy security, and universal access to essential goods and services. Such partnerships should encompass a specific role and proactive policies by developing country Governments within the framework of an enabling State, in line with paragraph 115 of the Accra Accord. Such mechanisms should also reflect enhanced intergovernmental cooperation and better global economic governance. Given the important role of national and global enterprises, it would be critical to both mobilize the corporate sector to serve the public interest, reflecting shared responsibility for development, and regulate market behaviour. These mechanisms could focus on (a) increased and effective market access for developing countries' exports of commodities, manufactures and services; (b) increased participation and diversification into new and dynamic sectors of international trade; (c) enabling developing countries to participate in standards-making and to overcome standards-related barriers to trade and productive capacity; (d) building efficient and enabling services sectors in developing countries and promoting universal access; (e) migration's contribution to development; (f) agricultural productivity and food security; (g) energy security; and (h) regulatory mechanisms, including competition policies, to promote efficient national, regional and international markets and control anti-competitive practices.

1. Market access

22. Policy mechanisms for improving market access through autonomous measures, bilateral or regional trade agreements or the World Trade Organization include:

(a) Effectively tackling high tariffs, tariff peaks and escalation facing exports (especially those of higher value added) of interest to developing countries;

(b) Undertaking meaningful reform in agriculture, including substantial improvement in market access for developing countries, phasing out of export subsidies and substantial reduction in trade-distorting domestic support;

(c) Addressing non-tariff barriers, particularly technical measures such as technical regulations and standards (technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures) affecting productive capacities and export opportunities of developing countries.

(d) Liberalizing services sectors and modes of supply of export interest to developing countries, particularly mode 4 of the General Agreement on Trade in Services (GATS);

(e) Providing adequate and operational special and differential treatment provisions to ensure, among other things, that the developing countries have the requisite policy space and flexibility in policymaking towards MDG implementation;

(f) Providing additional opportunities for expanding and diversifying developing country exports under preferential trade arrangements, including Generalized System of Preferences (GSP) schemes, through (a) improved scope and coverage of the schemes; (b) more liberal, simple and transparent rules of origin; and (c) avoidance of conditionalities.

2. New and dynamic sectors of world trade

23. These include:

(a) Strengthening the ability of firms to innovate and integrate technology towards specialization in higher value added goods and services (national level);

(b) Establishing strong networks of enterprises, particularly small and medium-sized ones, effectively linked to world markets, as well as to major companies involved in international trade (national, regional and international levels);

(c) Ensuring greater access to specialized information, including market intelligence, greater supplier–producer interaction, provision of high-quality public goods, support to build brand recognition, and other business and trade facilitation measures to improve collective efficiency and competitiveness (national, regional and international levels);

(d) Developing reliable and higher-quality infrastructures, such as (i) well-maintained transport and communication infrastructure; (ii) information, communication, marketing and logistical facilities; and (iii) export processing zones and industrial and science parks (national, regional and international levels);

(e) Designing and implementing special policy measures to address the informal sector of economies in developing countries (national level).

(f) Introducing attractive support measures and incentives by developed countries for their enterprises investing and starting economically viable production of higher value products and services in developing countries, especially in LDCs and Africa (international level).

3. Standards and technical regulations

24. Standards and technical regulations on processes and production methods are of increasing developmental and trade importance. New standards in the agri-food sector, for instance, not only aim at assuring food safety and continuously high food quality, they also transfer the associated risk and cost onto suppliers, and are used as

effective supply-chain governance tools. These new requirements also lead to a concentration of dedicated suppliers along the supply chain, which can create major problems for small and medium-sized enterprises (SMEs), although standards can also serve to support product and process upgrading. Developing countries are considerably affected by these trends. A partnership approach is needed to effectively deal with standards and technical regulations, and in particular with environmental and health-related requirements, which should address the following key issues:

(a) At the national level:

(i) Policy analysis to facilitate conceptual clarity on enhancing the developmental contribution of standards, analyze concerns and needs of SMEs and small farmers, and optimize costs and benefits of standard compliance;

(ii) Facilitating investment in physical infrastructure, in systems of standard setting, metrology, testing and quality assurance;

(iii) Flanking/support policies on financial and fiscal support, and on extension services;

(iv) Assuring policy coherence among governmental agencies dealing with standards and towards donors and donor programmes; and

(v) Facilitating stakeholder dialogue and public–private partnerships.

(b) At the international level:

(i) Assuring transparency, non-discrimination and inclusiveness in developing new standards and technical requirements;

(ii) Effective measures to facilitate full and meaningful participation by developing countries in international standard-setting processes;

(iii) Enhancing well-targeted, internationally coordinated and demand-driven technical assistance to developing countries for standard compliance, with special attention to SMEs and small farmers; and

(iv) Further analysis of the developmental and market access role of private voluntary standards and ensuring their development and application conforms to the disciplines of the TBT and SPS agreements.

4. Services and universal access

25. Services have become an important component of gross domestic product (GDP), with those linked to business, telecommunications, finance, transport and logistics acting as key infrastructure support for competitiveness and productive capacities. Moreover, services – especially essential services – are important in attaining human and national development goals, including the MDGs. Universal access to education, health care, water and environmental services is essential for realizing universal primary education (MDG 2), promoting gender equality and women’s empowerment (MDG 3), reducing child mortality (MDG 4), improving maternal health (MDG 5), combating diseases (MDG 6) and ensuring sustainable access to safe drinking water (MDG 7). While Government has traditionally provided such services, the private sector has become increasingly important. To ensure universal access to these essential services, regulatory frameworks and universal access objectives need to be established in line with development objectives. Universal access-related policies should be translated down to the local government level; multi-stakeholder consultations, regulation, monitoring and supervision should be ensured. Key elements for ensuring universal access include

financing, harnessing technology and knowledge, capacity-building, infrastructure enhancement, functioning competition policies, independent regulators and transparency. It is important that Governments have the flexibility and policy space to adjust development goals and means, strengthen interrelated services and target measures (particularly subsidies) towards the marginalized and poor.

5. Migration's contribution to development

26. The contribution of migrants and the diaspora communities to the development of their countries of origin is widely recognized. Through remittances, investment, business ventures, and skills and technology transfers, migration contributes positively to the attainment of all MDGs. Sending countries should accordingly encourage and facilitate the active engagement of migrants, including by strengthening the domestic economy and productive capacities, export competitiveness and investment and employment opportunities, as well as ensuring political stability and security. Co-development activities involving sending and receiving countries, migrants and diaspora communities which have proved effective include (a) monitoring of migration flows to facilitate return or circular migration; (b) supporting link-ups and investment interests (e.g. programmes by El Salvador and Mexico, European Union projects and France's support of entrepreneurs of Moroccan origin to establish businesses); (c) establishing training institutes and other infrastructure for human resource replenishment (e.g., Spain's GRECO plan trains immigrants to contribute to development); and (d) adopting ethical recruitment policies (e.g. the United Kingdom Code of Conduct on International Recruitment). Such activities are increasingly becoming an important component of bilateral labour agreements, particularly North–South ones.

6. Food and agriculture

27. The increase in global food prices reflects structural changes in the world food economy, and should therefore be addressed through investment, innovation and productive capacity mechanisms at the national and international levels. As under-capitalization limits food production and productivity in many developing countries, public and private investment into infrastructure, irrigation, research and development, and access to agricultural production inputs should be facilitated, especially for small farmers. Developing countries should define the appropriate mix between food and export crops, balancing food security, export earnings and gender empowerment goals. The Doha Round of trade negotiations should also lead to substantial reduction or elimination of export subsidies and domestic support policies in developed countries. Current agricultural price levels should provide enough incentives to developed country producers, so the freed-up resources could be used for boosting agriculture in developing countries. A coordinated response to food speculation by the international community is required, including through concerted government intervention in food markets if excessive speculation is driving prices. International coordination could help minimize potentially adverse effects of food export restrictions. Producer–consumer cooperation schemes should also be looked at anew.

7. Energy

28. Reliable access to energy at affordable prices is critical for (a) enhancing energy security, trade and productive capacity; (b) alleviating poverty; and (c) promoting sustainable development. Developing countries will be unable to address their energy-related balance of payment problems and supply-side shortcomings unless financing is obtained and secure access to energy guaranteed. Because of the close linkages between energy and the fulfillment of the MDGs, public services

obligations in the energy sector are particularly important. Hence, mainstreaming public services into the GATS should not imply the demise of public services obligations. At the national level, countries may still impose public services obligations on undertakings. However, to the extent that public services obligations amount to limitations on market access and/or national treatment under the GATS, they must be specified in a country's schedule. At the international level and in the framework of multilateral or regional services negotiations, such limitations on market access and national treatment should be regarded as legitimate tools for countries to pursue public interest goals, rather than barriers to liberalization of trade in services. To enhance energy security, Governments should address such issues as national energy policies, energy mix, regulation, public–private cooperation, local content, technology and finance. Regional action would also be important, including strengthening consumer–producer and consumer–consumer cooperation towards improving the efficiency, security and profitability of the energy sector by such measures as compensatory finance, price risk management, investment in regional refining, common procurement procedures, harmonization of prices and strategies for renewable energy development. At the global level, there is also a need for vision and a coherent approach for overcoming energy poverty, including by establishing compensatory financial mechanisms and a global energy fund financed through taxes on hedge funds speculating in energy markets – which could be used to eradicate energy poverty and help attain the MDGs.

29. There is a proliferation of barriers to trade in renewable energies, particularly non-tariff barriers (NTBs), such as lack of international standards and the proliferation of country-based technical requirements. The international community should therefore develop such standards through a participatory process involving producers from all regions. For biofuels, the combination of tariffs, mandatory blending targets, and subsidies to domestic feedstock and biofuel production result in a strong preference for domestically-produced products. At the national level, countries utilizing such instruments should reassess biofuel policies, factoring in the actual or potential impact on food prices and availability. At the international level, the Doha negotiations, in particular those on environmental goods, could be used to reduce tariffs and NTBs affecting the sector.

8. Competition policy

30. Competition law and policy can be used as a tool by Governments wishing to target social objectives such as the MDGs. Attaining MDG 1 requires well-functioning food markets, as well as access to financial services for low-income earners, regarding which enforcement could be undertaken against anti-competitive practices affecting financial services relating to remittances. A critical aspect of reaching the MDGs is the introduction of new technologies, which requires market conditions of rivalry. Transport and telecommunications, which are critical for achieving universal access to essential services, are two sectors often beset by anti-competitive practices. Competition policy can also have important implications for attaining MDG 2, by tackling bid-rigging in markets for schooling support such as textbooks and other instruction materials, school furnishings, transportation and construction services, thus lowering education costs. Consultations under the United Nations Set of Principles and Rules on Competition could address such questions.

B. Commodities

31. Past UNCTAD research has shown that there is a close association between the incidence of extreme poverty and primary commodity dependence. This section focuses on three specific trade-related policy mechanisms to strengthen the Global Partnership for Development in order to accelerate progress towards the MDGs: (a)

enhanced export competitiveness of commodities; (b) improved commodity value addition (through processing, packaging, etc.); and (c) harnessing the long-term gains from the recent boom in commodity prices. Such development partnerships are likely to be particularly important for LDCs and Africa.

32. Regarding export competitiveness, there is a need for increased official development assistance (ODA) and Aid for Trade to strengthen productive capacities in commodity sectors and exploit new demand opportunities in dynamic developing markets. Greater support for capacity-building and the development of trade-related infrastructure that would relieve supply constraints could also be considered. A further action worthy of consideration relates to facilitated access to investment finance where private sector, regional and multilateral institutions and sovereign wealth funds are incentivized to invest in the export sectors of African countries and LDCs, especially those for which the price outlook is favourable.

33. Regarding improved commodity value addition, possible actions at the international level consist of two aspects of policymaking or rulemaking and financial actions: (a) Enhancing market access for commodity-based products through the reduction or elimination of tariff and non-tariff barriers affecting commodity-based products; and (b) encouraging value addition and greater participation in supply/value chains by providing policy flexibilities under international trade rules for low-income commodity-dependent countries to provide incentives, including domestic support, temporary exemption from tariff reduction and export aids for investments in the context of national programmes to diversify commodity production and add value through the processing of commodity-based products for export. Similarly, value addition can be supported through addressing anti-competitive practices with commodity supply/value chains such as voluntary codes of conducts for enterprises, the formation of producer associations at the domestic level, and the enforcement of international rules on restrictive business practices.

34. Regarding harnessing the long-term gains from the recent boom in commodity prices, actions are needed to support the effective utilization by commodity-dependent developing countries of the opportunities offered by higher commodity prices to initiate a process of growth and poverty reduction, and critically to mitigate the detrimental impact of higher energy and food prices on the growth and development prospects of net-energy and food-importing developing countries. Furthermore, in order for the commodity rents to generate real development benefits, they must lead to a corresponding increase in the size and composition of domestic resources, including savings, available for productive investment. Commodity rents need to be invested into sectors (and projects within sectors) that have the highest rate of return to the economy, not only in the short run, but also in the long run. Some of the investment will be in areas where the market returns are immediately high. But an important part of it should be in critical areas such as agriculture, manufacturing and services, as well as in education, public health, transportation, and physical infrastructure, including electricity, transportation, water development and communications, where the productivity increasing effects to society are the highest and benefits are most likely to be widespread.

C. Aid and debt relief

1. Narrowing the MDG financing gap

35. The Monterrey Consensus assigned ODA a central role in the development process and in the achievement of the MDGs by 2015. Stable and predictable aid flows are meant to be the cornerstone for an effective and efficient use of ODA by recipients. To help developing countries achieve the MDGs, all States recognized

the need for concrete efforts to reach the quantitative targets for ODA that have long been on the international cooperation agenda. However, despite a substantial rise in ODA disbursements, as of 2007 most donors were not on track to meet these targets and, with a few exceptions, donors are unlikely to meet their announced ODA targets. Donors need to present a clear road map of how they intend to reach their ODA targets by 2010. Greater efforts are warranted to institutionalize the growing policy and operational dialogue, information sharing and consensus-building underway between donors from the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) and non-DAC donors, beneficiaries and other stakeholders in the context of the Development Cooperation Forum and the Paris–Accra Aid Effectiveness process.

36. The international community should seize this opportunity to review the implementation of the Monterrey Consensus to encourage a “big push” to narrow the MDG financing gap and realize existing commitments, encompassing in particular:

(a) Scaling-up of ODA by adhering to previous commitments and specifying a clear road map to reach ODA targets by 2010 and 2015;

(b) Reducing aid volatility and uncertainty through multi-year donor agreements;

(c) Focusing efforts to mainstream non-DAC donors and beneficiaries into aid coordination frameworks;

(d) Encouraging the major private development assistance institutional actors to engage with ODA processes and coordination mechanisms to better coordinate efforts and share expertise;

(e) Increasing the development finance role of public sector financial institutions, in countries lacking functioning domestic financial sectors, through public credit, guarantees and the creation of national development banks; and

(f) Exploring the potential of innovative sources of finance, such as the International Finance Facility Initiative for Immunization.

37. A particular problem which also needs to be addressed is the balance in the composition of aid between social sectors and social infrastructure on the one hand, and production sectors and economic infrastructure on the other. The introduction of the MDGs has reinforced the shift in the share of aid going to the former. In the LDCs, for example, the share of aid committed to production sectors and economic infrastructure in 2006 was just 25 per cent. The decline in aid to agriculture is a particular manifestation of the shift away from production sectors. Getting the balance right between, on the one hand, aid for health, education and other social sectors, which is certainly necessary and, on the other hand, aid for economic infrastructure and productive sectors, will be vital to ensure accelerated and sustained progress towards MDGs in the countdown to 2015. This has been a major message of UNCTAD in recent years.

2. The continuing relevance of debt relief

38. MDG 8 target 8.D calls for dealing comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. Certainly this does not just require debt relief for old debts that are deemed unsustainable, but also concerns actions taken to prevent the buildup of unsustainable debt in the future. Furthermore, debts may be “unsustainable” either in terms of ability to repay or in terms of foregone MDG investment. Moreover, this target concerns all “developing countries”, whereas debt

relief initiatives to date have focused on those least developed, highly indebted countries which comprise the bulk of the so-called “bottom billion”.

39. A cursory look at the recent external performance of developing countries as a group shows a net improvement in their situation since 2001. But looking beyond averages, it becomes clear that this aggregate improvement is driven by the behaviour of a few large countries. It would be premature to assume that developing countries no longer face the risk of external debt crisis. A more systematic and indicative approach to monitoring progress towards achieving target 8.D has recently been the subject of technical consultations between the United Nations Development Programme (UNDP), the United Nations Department of Economic and Social Affairs (UNDESA), UNCTAD and the World Bank. This provides a good example of how international agencies can pool expertise and resources in promoting better understanding of the scale of the MDG challenge and in measuring achievement gaps.

40. In focusing attention on how the Global Partnership for Development can deliver more resources for achieving MDGs, the time is ripe to build on and expand the positive experiences and lessons of Heavily Indebted Poor Country (HIPC)/ Multilateral Debt Relief Initiative (MDRI) debt relief to accelerate progress towards achieving the goals by 2015. This requires encouraging the international community to go further than it has in addressing in a comprehensive framework the persistent challenges of external debt for all developing countries by recognizing that:

(a) Debt sustainability is an issue for both low-income and middle-income countries. Debt relief efforts in principle should not discriminate among these different groups of countries. As countries that need debt relief are also likely to need more external resources, the official sector should ensure that debt relief is truly additional and could possibly be accompanied by an increase in other forms of aid;

(b) Vulnerabilities which may lead to debt crises are related to both debt levels and debt composition, and there are important interactions between domestic public debt and external debt. As vulnerabilities cannot be identified without prompt and reliable data on the composition of both external debt and domestic public debt, international coordination should be intensified to produce and disseminate such data;

(c) Debt crises are bound to occur even with improved debt management and better and safer debt instruments. The international community should not abandon the idea of creating a debt resolution mechanism.

41. With these considerations in mind, a global partnership to address the external debt of developing countries should take into account the following:

(a) Further development of the joint International Monetary Fund (IMF)/World Bank Debt Sustainability Framework should seek to incorporate considerations such as the intended use of debt, and distinguish between the ability to repay debt vs. the need for external resources. The Debt Sustainability Framework should also focus on assets and liabilities and should integrate better the possibility of exogenous shocks;

(b) Inclusion of low- and middle-income countries in debt relief initiatives, development of an explicit measure of the additionality of debt relief and the devising of methodologies for international institutions to more accurately assess compliance;

(c) Assistance to developing countries in creating new instruments and institutions to reduce the likelihood of a liquidity crisis. This would entail the creation of quickly disbursed instruments in times of exogenous shocks, new financing instruments that take into account the ability to repay of the creditor (i.e. GDP-indexed instruments), increased transparency on new loans with respect to their size and conditions, as well as better reporting of borrowers and creditors (potentially governed by a newly-created international body);

(d) Finance and support programmes aimed at improving the debt management and data collection capacities of developing countries and ensuring that competing systems report comparable data and cover domestic public debt;

(e) Establishment of a debt resolution mechanism aimed at guaranteeing a speedy solution to debt crises and a fair burden-sharing among creditors and debtors. This should build upon the experience of the Paris Club and seek to include all creditors. Indeed, two crisis resolution mechanisms are needed: one for middle income countries with a large share of commercial debt, and another for low-income countries that have a large share of their debt with official creditors. The creation of an independent international body may be considered and mandated by debtors and creditors, to evaluate the debt situation of all countries faced with external debt sustainability problems and to decide on the level and form of debt relief that needs to be provided, if any.

3. Specific proposals

42. Two specific practical policy proposals for improving Global Partnership for Development in the area of aid and debt relief are the establishment of a global debt management partnership and the introduction of recipient-led aid management policies at the country level.

(a) Global debt management partnerships

43. In the area of debt management tools, with the addition of the latest World Bank Debt Management Facility for Low Income Countries (DeMFLIC) to complement existing solutions, developing countries will have a useful toolkit of debt management solutions available in the public domain that addresses their needs. As a provider of essential debt management functions at the primary level of public debt management, UNCTAD has already engaged positively with these new initiatives, including the Debt Management Performance Assessment (DeMPA) and Medium Term Debt Strategies (MTDS). There is also a need to ensure that providers of debt management solutions have a long-term commitment to supporting their services and that adequate financing is available to support the programmes in the long term.

44. To ensure progress across the board in sustaining progress towards MDG 8D, donors, beneficiaries and service providers should consider establishing a global debt management partnership that would:

(a) Coordinate the development and evolution of new standards and practices in public debt management;

(b) Promote recognized best practices in debt management technical assistance;

(c) Harmonize needs assessment methodologies in debt management;

(d) Serve as a consensus-building forum on new programmes and initiatives and debt management solutions;

(e) Make recommendations to the donor community on funding for programmes and initiatives;

(f) Promote the integration of debt management within the broader public finance management framework;

(g) Coordinate the provision of information on the availability of technical assistance in public debt management;

(h) Create an information clearing house on related activities, for example through a debt management technical assistance calendar;

(i) Organize mechanisms for collaboration and information sharing of stakeholders in debt management;

(j) Ensure that all stakeholders would have the information readily available for decision-making;

(k) Act as a catalyst for a comprehensive approach to public debt management technical assistance; and

(l) Organize regular evaluation of debt management technical assistance through DeMPA.

(b) Recipient-led aid management policies

45. Effective aid requires developing countries to lead in the design and implementation of their national development strategies and for donors to align and harmonize their aid behind country priorities and systems. Country ownership of development strategies is the foundation of good governance at the national level, as otherwise countries cannot be expected to take responsibility for their own development. The adoption of aid management policies at the country level can help build country ownership by increasing the alignment and harmonization of aid, as well as addressing issues such as the predictability of aid and composition of aid, with regard to social sectors, productive sectors and economic infrastructure. An LDC and donor development partnership which has a results-oriented focus, organized around systematic evaluations of performance to measure progress, increases accountability and is flexible enough to adjust the aid management policy to changing situations. The aid management policy should be embedded in national development plans and MDG processes. Policy coherence in aid management, as in development more generally, should be tackled both horizontally and vertically. "Horizontally" at the country level, Government and donors share the responsibility for strengthening good governance and intersectoral coherence between different policies, and between stakeholders who may advocate conflicting objectives. Here the goal is that policies on aid management, poverty alleviation, agriculture, health etc., should no longer be in contradiction. The national Government and donors will need to focus on identifying "win–win" situations where objectives and derived policies are synergetic across key government ministries. "Vertical" policy coherence implies a coherent framework between different levels of governance at the international, regional, national and local levels. A key principle here is subsidiarity, whereby decisions are made at the most appropriate and effective level.

D. Investment and enterprise development

46. The International Conference on Financing for Development, held in March 2002 in Monterrey, Mexico, highlighted the need for broadening and increasing finance to developing countries. To this end, foreign investment was recognized as a major potential contributor of productive capital to long-term economic development, particularly in countries with low domestic savings. Furthermore, foreign investment and enterprise development can bring in a bundle of assets and potential benefits such as generating employment, raising productivity, transferring

skills and technology, and enhancing access to markets and export capacity. Today, countries at all levels of development seek to use foreign investment and enterprise development to improve their economies and raise their standards of living.

47. Given the complex interrelationship between public policies and private sector actors, promoting investment and enterprise development is traditionally an area requiring strong partnerships between Government at all levels and members of the private sector and civil society (including academic institutions). This section reviews policy mechanisms related to this area, including new partnerships for coordinating FDI and ODA, strengthening the development impact of international investment agreements (IIAs) and improving corporate transparency.

1. The relationship between FDI and ODA

48. FDI can play an important role in host-country economic growth and development, as it can bring in not only capital but also access to technology, know-how, and international markets. These are also key elements for better integrating developing countries into the global economy. FDI can directly contribute to the upgrading of the productive capacities in those countries. Furthermore, for FDI to act as a catalyst for economic and social development, it needs to be a complement to other forms of capital formation, including both domestic investment and such external resource flows as ODA, portfolio investment and bank loans.

49. FDI targets production in mining, manufacturing and, increasingly, producer and infrastructure services that are important inputs to other industries – especially telecommunications, trade, finance and business services. In utilities (electricity, gas and water), and transport and storage, however, FDI and ODA co-exist, implying a potential for synergies.

50. Exploiting ODA–FDI synergies is key to achieving the MDGs. Despite significant growth in FDI flows to developing countries, many countries, especially LDCs, receive marginal flows of FDI and depend significantly on ODA for financing development. It is important for countries to recognize the synergies that can exist between ODA and FDI, and harness them for attracting more FDI and associated benefits. The effective use of ODA for building human-resource capabilities, developing infrastructure and enhancing domestic enterprise capabilities in recipient countries can create conditions conducive to attracting more diversified FDI with enhanced host-country benefits. A global partnership aimed at successfully creating and exploiting ODA–FDI synergies could provide new momentum towards realizing the financial basis required for achieving the MDGs.

2. International investment agreements

51. IIAs represent the international dimension of a rules-based approach to governing foreign investment and productive capital flows in a predictable and non-discriminatory manner. Efforts to further the development of an open, rules-based trading and financial system in pursuit of MDG 8 (develop a Global Partnership for Development), must therefore include the continued improvement of the international investment system and IIAs.

52. Enhancing the development dimension in IIAs is a key concern. Addressing this concern could involve new partnerships and the use of more direct means in these agreements to promote investment. Such means could include requiring home country measures that cover a broad range of issues – for example, transparency and exchange of investment-related information, fostering linkages between foreign investors and domestic companies, capacity-building and technical assistance, granting of investment insurance, encouragement of transfer of technology, easing informal investment obstacles, joint investment promotion activities, access to

capital, financial and fiscal incentives, and the setting up of an institutional mechanism to coordinate investment promotion activities. It could also include references to corporate social responsibility and positive corporate contributions to the economic and social development of host developing countries.

53. Another consideration in this respect is giving a more prominent role to alternative methods of dispute resolution (ADR) in future IIAs. Whilst the existing mechanism relies mostly on international arbitration between investors and host countries, there is growing concern that the significant increase in investor–State disputes in recent years and associated cost disadvantages may outweigh advantages offered by this mechanism in some cases. In light of this, greater attention could be given to ADR. At present, only very few IIAs consider the use of ADR techniques to settle investor–State disputes. ADR involves the intervention of a third person, usually with the agreement of the disputants, to assist the latter in negotiating a settlement of their conflict. The use of ADR could be improved and facilitated by a global or regional partnership facility specifically set up to provide such service.

3. Corporate governance and transparency

54. The increasing globalization of the world economy has made it increasingly necessary for developing countries to adopt standardized global financial and non-financial corporate reporting practices. For developing countries to fully benefit from international investment opportunities and the mobilization of their domestic resources, it is imperative that they adopt high-quality international standards of accounting and reporting. Transparency in finance and governance creates the necessary enabling environment for achieving the MDGs, in particular MDG 8.

55. In the area of financial reporting, an increasing number of enterprises and countries around the world have begun implementing International Financial Reporting Standards (IFRS), developed by the International Accounting Standards Board (IASB). At present, over 100 member States either require or permit use of IFRS as a basis for preparation of financial statements of enterprises that are listed in their jurisdictions. Difficulty exists, however, between the policy decision to adopt IFRS and the actual practical implementation of IFRS. To bridge this gap between policy and practice, new partnerships are required to provide the technical capacity to implement the new standards.

56. In non-financial reporting, the increasingly global activities of investors is creating demand for convergence in best practices in the areas of corporate governance disclosure, including on environmental and social issues. However, for many enterprises in emerging markets, corporate governance disclosure is a relatively novel area of reporting and there is strong demand for increased guidance and training on both government requirements and international best practices.

57. Strengthening existing partnerships in this area should focus in particular on capacity-building mechanisms. A key existing partnership that could be exploited to this end is the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).

E. Support for science, technology and innovation

58. STI is not the only source of economic transformation developing countries need to tap in order to accelerate growth, but it is a key one, and its importance is set to grow as technological change becomes more and more inextricably linked with economic globalization. It is also important to consider that – in addition to its impact on the MDGs through its overall effect on income, particularly in the case of general-purpose technologies such as information and communications technologies

– the sectoral application of STI will be essential to progress in almost every individual MDG, whether in health, hunger, education or equality.

59. To be able to harness knowledge and technology and reach higher levels of technology absorption and faster innovation by their enterprises, developing countries first need to build national scientific and technological capabilities. The experience of successful developing countries shows that STI policies to promote technological learning and innovation and to facilitate technological catch-up need to be fully integrated into national development strategies. The aim is to use scientific and technological progress, complemented by institutional and organizational changes, to raise productivity and thus support faster growth.

60. Two specific global areas in which global partnerships can be promoted to support the strengthening of STI capabilities of developing countries are proposed here as particularly apt for high-level STI policy discussion: increasing aid for STI and building up STI policymaking capacity in developing countries.

1. Aid for science, technology and innovation

61. Aid for STI matters because, without attaining a minimum level of domestic scientific and technological development, many developing countries, particularly among the LDCs, would not be able to unleash a process of knowledge absorption and dissemination in their economies.

62. Aid for STI can either aim at developing the policy and institutional framework of STI policymaking or strengthening productive capacities through the dissemination of scientific and technological knowledge. Available information indicates that aid for STI, particularly for the LDCs, receives a low priority. This concerns aspects of STI that are emphasized in poverty reduction strategy papers, such as agricultural research and extension.

63. While a number of donors are now including an STI perspective in their aid initiatives, in general terms the importance of STI issues in aid strategies still needs to be emphasized. This is particularly relevant in the case of aid for STI in agriculture, not only to make aid for STI in agriculture commensurate to the fundamental role of this sector for the economic activity of developing countries, but also to raise farming productivity levels as a response to the global food crisis. In this regard, and from the viewpoint of supporting the achievement of the MDGs, priorities in aid for STI projects include raising productivity in basic staples through seed, pest control, soil and drought, and stress management technologies – particularly to address the effects of climate change on crops grown in developing countries – as well as programmes to address the concerns of developing countries in terms of biosecurity, including the management of biotechnological risks.

64. STI support programmes in non-agricultural sectors must recognize the importance of enterprises as the locus of technological learning and innovation. There is a need for development of public–private partnership schemes for provision of support to the reinforcement of technological capabilities. Infrastructure projects may represent a good opportunity in this regard. Support of STI capacity-building activities in the non-farming sectors would also be particularly relevant when considering programmes dealing with value chain development, FDI linkage development and the facilitation of South–South cooperation.

65. STI aspects are not generally considered in Aid for Trade efforts. However, technological learning is key for successful trade development. Development partners should consider aid for STI as a fundamental ingredient of their support for the development of productive capacities. Aid for STI funding mechanisms could also be devised to complement the positive effects of the trade preferences enjoyed

by the LDC by supporting the diffusion of the technological learning achieved in the industries directly benefiting from trade preferences so that best practices can be applied in other areas of their economies.

66. Finally, another partnership mechanism in the STI area that could benefit from the availability of aid funding would be the establishment of open access platforms for the dissemination of development-relevant public and private research, the facilitation of scientific exchanges and community-building and the implementation of open, collaborative innovation initiatives.

2. Building up STI policymaking capacity in developing countries

67. STI policy design and implementation is a highly complex exercise that can place taxing demands on the capacity of many Governments. In many developing countries, there is strong need to build government capacity for STI policymaking in terms of human resource development, institutional adjustment and financing mechanisms. In many cases, their STI system faces issues of fragmentation, lack of coordination and little connection with the STI requirements of productive sectors.

68. Global partnerships involving international organizations, best-practice national and international institutions and other stakeholders can play a useful role in this regard. The impact of exercises such as the STI policy reviews currently undertaken by UNCTAD could be extended to a much larger number of developing countries by launching a network of global STI policy partners. The partnership would assist interested developing countries in reviewing and analyzing its national STI policies with a view to identifying policies and practices favouring technological capacity-building and strengthening technological capabilities, innovation and competitiveness, and integrating them in overall development policy.

69. The focus of the exercise should be on the interrelationship among the various institutions and players in the system of innovation of the participating country, and the distribution and linkage of knowledge across all the various national agents, as well as on the identification and dissemination of information to facilitate the transfer of technology and the development of technological capabilities.