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Draft report of Sessional Committee I to the Trade and Development Board at its fifty-fifth session

Contents

Sessional Committee I

Review of progress in the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001–2010

Chair's summary

1. Several speakers underlined the significant improvements in the economic performance of LDCs in recent years, as documented in *The Least Developed Countries Report 2008: Growth, Poverty and the Terms of Development Partnership*. In the period 2005–2007, LDCs as a group had attained the growth target of 7 per cent set out in the Programme of Action for the Least Developed Countries in the Decade 2001–2010, thanks to a confluence of favourable conditions, including better national development policies, higher export prices for commodities and increased partnership with the international community. In 2006, exports from LDCs had reached a record level, ODA flows to them had increased substantially, and 16 of them had received significant debt relief. Consequently, the incidence of extreme poverty had decreased from a peak of 44 per cent in 1994 to 36 per cent in 2005.

2. However, there was growing concern that it would be difficult to sustain the improved economic performance of LDCs in the long term, as growth in those countries remained fragile and non-inclusive. That was primarily due to the uncertainties clouding the global economic horizon, which had profound implications for the growth and development prospects of LDCs and for the implementation of the Programme of Action. The current high energy and food prices were concrete examples of adverse external factors that could undermine the socio-economic performance of oil-importing and net food-importing LDCs. Furthermore, although the incidence of extreme poverty in LDCs was declining, on average three quarters of their population continued to be poor. Contrary to expectations, the rapid economic growth experienced by LDCs since 2000 had been accompanied by only a marginal acceleration in poverty reduction. The overall implication of those trends was that broad-based success in achieving progress towards the MDGs was as yet elusive in LDCs.

3. For LDCs to make concrete and sustained progress towards internationally agreed goals and targets, urgent action should be taken at the national and global levels. At the national level, LDC Governments needed to be more proactive and act as a catalyst to stimulate productive activities, including by creating stronger enabling environments for business and investment. At the international level, donors needed to reorient their priorities with an emphasis on LDCs' productive sectors. Further policy actions should include improving aid effectiveness through better alignment, which implied changing the structure and delivery of development partnerships and greater use of home-grown solutions to development issues. UNCTAD could play an enabling role in assisting LDCs in putting such ideas into practice and increasing the effectiveness of aid management.

4. The recent and ongoing food crisis had exposed major structural weaknesses and vulnerabilities of the agricultural sectors in LDCs. In recent decades, many LDCs had gone from being agricultural exporters to being agricultural importers, which had contributed to chronic balance-of-payments difficulties. Recently the food crisis had hit LDCs hard, with 21 of them becoming "food insecure". It was proposed that UNCTAD should re-examine the causes for declining productivity in agriculture in LDCs and explore innovative policy agendas for reviving its critical importance in the overall economic performance of LDCs. The strengthening of food productivity on a sustainable basis could play a fundamental role in the growth

of LDCs as well as in fighting poverty. Special attention ought to be given to small-scale producers, who were among the most vulnerable groups. In that context, UNCTAD should explore how such an approach could be better supported by the international trading system. Existing flexibilities should be fully utilized. UNCTAD should carry out studies on that theme and serve as a platform for the exchange of knowledge and experiences between countries.

5. There was agreement that the current system of delivery and management of ODA to developing countries was marred by inefficiencies and limitations, such as an array of policy conditionalities tied to aid, which could undermine country ownership. It was suggested that such policy conditionalities were generally ineffective and should be abandoned.

6. The bulk of ODA was being directed at social consumption, particularly health, education and sanitation. Whilst important, such prioritization of aid failed to foster productive dynamics generating the economic resources that would facilitate public spending to be undertaken by national Governments independently of foreign aid. Additional ODA was thus required in order to sustain such expenditure. Recipient countries – particularly LDCs – were pursuing MDG strategies based largely on the scaling-up of aid, rather than on the development of the domestic resources based on a resilient economic and productive infrastructure.

7. Governments in the countries most dependent on aid had over the years specialized in aid-seeking and aid management, partly because of the complexities of aid delivery. Such specialization had prevented them from developing the technical, political, financial and managerial capacities needed to produce an independent development strategy and to design and implement policy. Indigenous knowledge development had thus been hampered. The current aid system therefore tended to reinforce aid dependency and thereby to perpetuate the highly asymmetrical aid relations between donors and recipients. Several speakers noted that new donor countries had emerged recently, particularly among middle-income developing countries and natural resource exporters that had accumulated large foreign reserves. That development had led to the emergence of a new aid architecture, replete with its own unique set of opportunities and challenges.

8. Attention was drawn to the outcome of the High-level Forum on Aid Effectiveness held in Accra in September 2008, which reviewed whether LDCs were on track for achieving the targets in the Paris Declaration on Aid Effectiveness. The following points were highlighted:

(a) Capacity and ownership went hand in hand – enhanced capacity was needed for all stakeholders to engage in policy dialogue and formation – and there was a need to promote endogenous knowledge;

(b) Policy conditionalities did not work as donors intended, and could undermine country ownership. Core conditions included respect for human rights and the rights of women;

(c) There was a need for greater accountability and transparency in terms of information and aid predictability. Parliaments and local government had a key role to play in developing country ownership;

(d) South–South and trilateral cooperation could contribute to more effectiveness, especially with respect to capacity development;

(e) LDC ownership of the process, whether reflected in national development programmes or aid management policy, was essential.

9. It was suggested that the international community should work more coherently to improve aid effectiveness. The importance of peer pressure in driving

forward the agenda for aid effectiveness was stressed. Developing countries welcomed commitments by donors to promote broad-based democratic ownership of aid management and move towards the further untying of aid.

10. While there was broad consensus that aid needed to be made more effective, several speakers queried its true relevance to LDCs. The record showed that aid could help reduce poverty if it was used to strengthen domestic resource mobilization, build productive capacities and help diversify the economy. The danger was that it might perpetuate an unhealthy dependence on donors and unequal development partnerships. More effective aid depended as much on the quality and direction of aid as on the quantity of aid.

11. To achieve inclusive growth, it was noted, the State needed to play a proactive, catalytic role, by creating an enabling environment for investment, growth and diversification. In most LDCs, that would involve greater public investment, which could be used to "crowd in" private investment, and strategic fiscal measures. It was pointed out that the recent pattern of aid management had all too often encouraged a softening of State structures that was inconsistent with a proactive role.

12. Improving aid management policies should involve better use of aid not merely as an emergency measure or out of charity, but as a development tool. Aid should therefore be managed with an eye to funding infrastructure development and helping to build judicial and administrative capacity in key areas of public management. In many LDCs where commodity exports provided the initial growth impetus, aid could be used to strengthen State capacities to deal with TNCs, through for example more equitable fiscal codes – particularly in resource-intensive industries – which could in turn help facilitate capital formation and mobilize resources for development.

13. Currently, the aid system was not effective. Only a quarter of all aid disbursements were directed at productive sector activities, as donors focused more on social issues. Moreover, a large percentage of aid flows entirely circumvented national budgetary processes. Donors' and recipients' agendas needed to be realigned to avoid weak country ownership. It was proposed that the issue of MGS should be addressed in the context of economic transformation through developing domestic productive capacities with a view to eliminating aid dependence.

14. The request was made that the policy recommendations contained in *The Least Developed Countries Report 2008: Growth, Poverty and the Terms of Development Partnership* on designing development policies and strategies, as well as the terms of development partnership, should be considered by all the relevant international organizations and multilateral agencies in implementing MDGs strategies.