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

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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. Participants appreciated the key findings and recommendations from the *Least Developed Countries Report 2009: The State and Development Governance*. The report urged a serious rethinking of the market-led paradigm followed by the least developed countries (LDCs), in favour of a strengthened role for the State in the rebalancing between the market and the State in economic management. The focus of the discussion was the impact of the global financial and economic crisis on LDCs, which had put an end to five years of relative buoyancy for LDCs, driven largely by booming commodity prices, rising export revenues and growing foreign direct investment (FDI) inflows. The current global crisis was forecast to dramatically slow down their economic performance (growth was predicted to fall from an average of 7.4 per cent in 2003–2008 to 2.7 per cent in 2009). Despite the relatively shallow integration of LDCs in the international financial market, the decline of export revenues, remittances and FDI inflows once again highlighted LDCs' structural deficiencies, most notably commodity dependence and chronic vulnerability to external shocks.

2. Many participants warned that food security concerns continued to be extremely relevant in LDCs, particularly in Africa, as the agricultural sector was likely to come under mounting pressures owing to factors such as demographic dynamics, climate change and soil degradation, and long-standing stagnation of agricultural productivity. As argued by several speakers and by the *Least Developed Countries Report 2009*, the low productivity in agriculture stemmed largely from the lack of clear-cut strategies for agricultural development over the previous 30 years. The consequences of such neglect included worrisome under-investment in the agricultural sector, poor provision of rural infrastructure, declining expenditure on agricultural research and development, and more generally the withdrawal of government support for rural development associated with the application of Structural Adjustment Programmes.

3. It was noted that the *Least Developed Countries Report 2009* argued that neither the good governance agenda, nor the East Asian developmental State were entirely appropriate for LDCs. Rather, the challenges of the twenty-first century required an innovative development governance, suitable for the LDCs' needs and requirements, aiming at delivering sustainable and inclusive growth. As argued in the *Least Developed Countries Report 2009*, that effort involved forward-looking strategies that emphasized the role of knowledge, fostered greater diversification and promoted structural change aimed at a more inclusive and employment-intensive growth path. Such a new developmental State should integrate coherently macroeconomic, meso-economic and sectoral policies, including active targeted agricultural and industrial policies, in order to increase the developmental impact of its policies and build societal consensus around a national development project.

4. In the short and medium term, the need to maintain and scale up official development assistance (ODA) levels for the LDCs was underscored by several member States, in order for the LDCs to cope with the chronic lack of foreign exchange, close their infrastructural gap and expand their productive capacities. Also, the important role of South–South cooperation was reconfirmed throughout the discussions, especially in regard to regional integration and development of productive capacities via accelerated intraregional investment, trade and labour mobility. The critical importance of maintaining and scaling up ODA in the current situation was reiterated by many member States, namely

devoting 0.7 per cent of their gross national incomes to ODA for developing countries, of which at least 0.15 per cent should be for LDCs. Concern was expressed that developed countries were lagging behind their aid promises. Deepening of regional integration to promote the development of coordinated value chains of strategic food and agricultural commodities in order to seize new opportunities from regional markets was underscored.

5. The fallout of the global crisis was dramatically exacerbating structural vulnerabilities of LDCs. The roots of the crisis were not in LDCs, yet they were bearing its brunt. The downturn was even more alarming for them, insofar as LDCs simply did not have the capacity to carry out the massive types of interventions adopted in developed countries. Without additional resources, LDCs' policymakers faced a dramatic trade-off between adopting countercyclical policies and maintaining their long-term investment plans to expand productive capacities and crowd in private investments, with severe implications for their development prospects.

6. Several participants noted that an effective agricultural policy needed to be complemented by targeted industrial policies in order to develop linkages and boost local demand. Linking agricultural development to the global environmental challenges, LDCs delegates suggested that the burden of meeting climate-change-related challenges should be shared according to the principle of "common but differentiated responsibilities". Accordingly, the Clean Development Mechanism should be improved to provide additional resources to LDCs, who contributed only marginally to climate change, but are likely to bear significant adaptation costs.

7. UNCTAD was requested to play an important role in the preparation for the Fourth United Nations Conference on the Least Developed Countries (UNLDC-IV) in 2011 and welcomed the upcoming expert meeting organized by UNCTAD in Kampala, Uganda. In view of those meetings, some participants urged UNCTAD to translate its valuable recommendations and the findings of the *Least Developed Countries Report 2009* into more concrete actions and policy measures. Several delegates urged donors to contribute to UNCTAD's LDC Trust Fund to enable UNCTAD to enhance its assistance to LDCs and aid in its preparatory work for UNLDC-IV. The Trade and Development Board called for strengthening UNCTAD's research and analysis capacity in addition to technical assistance and inter-agency cooperation.

8. The participants endorsed the findings of the *Least Developed Countries Report 2009* as regards the imperative of industrial policy in LDCs. In that context, four major points were raised:

(a) Diversification was a long-standing objective of LDCs, yet it was not taking place, since most LDCs remained dependent on commodities. LDCs should learn from successful late industrializers, and be more ambitious in promoting industrialization;

(b) Climate change mitigation presented new possibilities for LDCs for their industrialization strategy. The discussion focused on green technologies and eco-friendly energy services. For example, Lesotho was working with Philips to produce energy-efficient bulbs for the Southern African Development Community area. It was noted that LDCs could also produce energy services and new environmentally-friendly products, such as energy-efficient cooking stoves. Environmentally-friendly energy production would have a positive side effect, since 70 per cent of greenhouse gas emissions were linked to energy sources. LDCs should carefully examine their energy matrix, as they all required a mix of different sources (e.g. renewable and hydro-power). By rebalancing their mix, they would contribute to the reduction of greenhouse gas emissions, and could become providers of green energy services. To reach those goals, LDCs needed financial and technological support;

(c) LDCs needed to be aware of the danger of “green protectionism” and ensure that their point of view was heeded in the on-going elaboration of energy-efficient standards. LDCs should not miss out on the third industrial revolution, a green revolution;

(d) Policy space was required for learning and LDCs should be willing to learn from others.

9. In order to achieve their development objectives, LDCs needed supportive macroeconomic policies. Development finance was crucial for their long-term growth. Many LDCs remained highly dependent on official development assistance. While that would be sharpened due to the world crisis, over the long term overcoming aid dependency was a priority for LDCs. In order to achieve aid independence, LDCs had to boost the mobilization of domestic revenues, so that the State was able to fulfil its developmental functions. That required the strengthening of the tax system, an endeavour that should be supported by ODA.

10. Participants noted that fiscal policies had a central role to play in reaching national development objectives. In the short run, countercyclical fiscal measures were necessary to compensate for the shortfall in demand caused by the crisis. In the long term, the main function of fiscal policy was to finance public investment. The latter crowded in private investment and contributed to the development of productive capacities through structural change. Monetary policies should accommodate long-term development and support expansionary fiscal policies.

11. Despite the recent rise in domestic savings rate, currently most investment in LDCs was financed by ODA inflows and by FDI in enclave sectors. Therefore, LDCs needed to strengthen their domestic financial systems so that they could accomplish their function of mobilizing domestic savings and channelling them to private investment. Currently, local banks tended to hold large amounts of excess liquidity and preferred short-term, risk-free government securities. The financial system could be reformed by improving market incentives to institutions, linking formal and informal institutions, and strengthening public institutions (e.g. agricultural and development banks).

12. The *Least Developed Countries Report 2009* suggested that LDCs should manage better the exchange rate in order to avoid abrupt depreciations and to promote export competitiveness and structural diversification of their economies, and manage their capital accounts. Delegates agreed that there was more understanding by the international community for adequate policy space in LDCs, including in the macroeconomic field. LDCs were said to be well advised to seize that opportunity and implement policies conducive to long-term growth.