United Nations TD/Inf.45

United Nations Conference on Trade and Development

Distr.: General
26 March 2012

Original: English and French
English and French only

Thirteenth session
Doha, Qatar
21–26 April 2012
Item 8 of the provisional agenda
Development-centred globalization:
Towards inclusive and sustainable growth and development

Expert Meeting of LDCs: Challenges and opportunities for LDCs – Graduation and structural transformation

Held in Addis Ababa, Ethiopia, 28 February to 1 March 2012

Summary prepared by the UNCTAD secretariat

Introduction

1. The expert meeting of the least developed countries (LDCs) took place in Addis Ababa, Ethiopia, at the United Nations Conference Centre, from 28 February to 1 March 2012.

2. The main objectives of the meeting were as follows: (a) assessing socio-economic progress in LDCs and identifying pressing trade and development challenges facing them; (b) revisiting the issue of commodities diversification, value-addition and the need for capturing gains from commodities trade for development; (c) exploring the ways and means of improving international support measures for LDCs and the quality of domestic policies as well as institutional capacity for their implementation and (d) examining the potential, opportunities and prospects for structural economic transformation and graduation from LDC status by 2020.

3. Participants in the meeting stressed that this summary outcome should be made available to all representatives of LDCs who were engaged in the preparation of the outcome document for UNCTAD XIII. They also suggested that, in view of the relevance of the experts' discussions on the issue of graduation, the outcome should serve as a background document for the Special High-level Event on graduation and structural transformation in LDCs economies to be held in Doha, Qatar, on 24 April 2012.

I. Recent socio-economic progress

4. The expert meeting acknowledged significant qualitative changes in the domestic policy environment of LDCs, where successive policy reforms and adjustment programmes implemented over the years had led to a substantial improvement in domestic policies and strategies. The meeting also noted that many LDCs had recently developed long-term notational development strategies such as 2020 or 2030 visions. The central objectives of the national visions were to accelerate growth and poverty reduction, to structurally transform their economies, to meet the criteria for graduation from the LDC category and to ultimately join middle-income countries when such strategies were fully implemented. It was, therefore, critical for LDCs to develop graduation and smooth transition strategies and integrate them into their respective national development policies and strategies.

5. Along with domestic policy changes, LDCs had also seen, in the 2000s, a better external economic environment. Their growth in international trade (in value terms) had increased rapidly; foreign direct investment (FDI) inflows into LDCs as a group almost quadrupled from the low levels in 1990s, and external financial flows in general, including debt forgiveness and technical assistance, had increased substantially.

6. Improvements in the domestic policy environment and external economic conditions were factors behind the strong average rate of growth in gross domestic product (7.1 per cent) in the 2000s, in particular during 2002–2008. In 2010, immediately after the worst period of the crises, LDCs had grown by 5.7 per cent, one percentage point higher than in 2009 but far below the growth level attained before the crises. However, the improved economic performance of LDCs as a group masked stark regional, sectoral and country variations.

II. Challenges

7. A more serious challenge for LDCs was that despite improvements in economic performance and better international economic environment, they had yet to reap the benefits of globalization and were once again lagging behind other developing countries. For instance, LDCs, representing 12 per cent of the world population, accounted for less than one 1 per cent of global output. Furthermore, the impact of the recent global economic meltdown had significantly undermined the growth and development prospects of LDCs.

8. As a result, while other developing countries had managed to substantially reduce the proportion of their population living in poverty in recent years, the extent and incidence of poverty in LDCs remained the highest, making them the locus of massive poverty. Should the current trends persist, the absolute number of people in LDCs would continue increasing. Therefore, many would not be able to meet the goal of halving the number of people living in extreme poverty by 2015.

9. Owing to the slow pace of socio-economic progress and to the fact that only three countries – Botswana (1994), Cape Verde (2007) and the Maldives (2011) – had graduated from LDC status to date, the target of enabling half the LDCs to meet the graduation criteria by 2020 would pose a formidable challenge.

10. LDCs were heterogeneous; some were landlocked, while some others were small island developing States. Also, some LDCs were oil and mineral exporters, while others were emerging from conflict or in a conflict situation. National and international policies should therefore be tailored to address specific national development challenges, needs and priorities, while maintaining the policy space of those countries.

11. For landlocked LDCs and small island developing States, the challenge lay in their remoteness from international markets and small domestic demand. Their geographical handicaps had further affected their ability to produce and trade on the regional and international markets, thus undermining their international competitiveness.

12. For oil- and mineral-exporting LDCs, these sectors had become a leading source of FDI and growth. This impetus had been heightened by recent sharp increases in world oil prices, which could be highly beneficial to exporters. However, the challenge to LDCs was to manage the revenues and capture the gains from the price boom for the purpose of development with improved budgetary processes that were technically capable and reasonably business-friendly.

13. For LDCs that were in a special situation or emerging from conflict, key policy challenges included restoring peace and stability, rebuilding economic infrastructure and social institutions, fostering a political climate favourable to growth and development, creating synergies between governments and communities affected by conflicts, and mobilizing and widening the scope for public participation in the development process.

14. For countries that had already met the income criterion, the challenge ahead was to redouble efforts to meet at least one of the two remaining criteria (human assets and economic vulnerability) for a reasonably longer period of time. The probability for this group of countries to meet the graduation criteria by 2020 was reasonably high, while the prospect for the remaining 37 LDCs of meeting one or two of the three criteria appeared to be difficult. Therefore, the notion of half of the LDCs meeting the criteria by 2020 should be viewed from a long-term perspective – it could only be achieved through structural economic transformation in these countries along with significantly improved employment generation, higher income levels and higher standards of living for their population.

III. Proposals

15. Given the mixed socio-economic factor highlighted above, the senior expert meeting in Addis Ababa concluded that the following actions should be given serious consideration by the governments of LDCs and their development partners, and that the outcome of this meeting should serve as input for the preparation of the UNCTAD XIII outcome document and the Special High-level Event to be held on 24 April 2012.

A. Proposals to governments of LDCs

16. LDCs needed to place economic development at the centre of their domestic policies and strategies, including in the context of their respective development plans and 2020 development visions. Developmental and catalytic States were key in driving economic growth, accelerating structural transformation and building productive capacities, including physical infrastructure. They should also create conducive legal, institutional and overall macroeconomic conditions as well as good economic governance for private-sector development.

17. The domestic development agenda of LDCs for the coming decade should also include efforts to strengthen domestic institutions to mobilize private savings and improve the tax collection system. Such efforts were crucial to augment government revenues and rationalize government spending with a view to eliminating areas of overexpenditure and ensuring the efficient use of resources.

18. LDCs were encouraged to enhance agricultural productivity by improving the share of agriculture in national budget allocation in order to ensure food security to their

populations and keep pace with the rising demand for food. This should be done in line with the Maputo Declaration on Food Security and the Programme of Action for the Least Developed Countries for the Decade 2011–2020, also known as the Istanbul Programme of Action, which called for allocating 10 per cent of the national budget to agriculture. The expert meeting noted that only seven African countries had done so thus far. Efforts in this area should also include improving production and marketing systems, diffusing technology and disseminating information as well as helping establish acceptable practices in agriculture to meet international standards. Business and other social linkages with agri-business, hotel chains and other catering service providers were also effective ways of increasing both farm production and productivity.

19. Lack of economic diversification, especially overdependence on a single or a few commodity exports, coupled with excessively volatile prices in international markets continued to aggravate the economic vulnerability of LDCs. The key trade policy effort in commodity-dependent LDCs should, therefore, be to facilitate value addition and retention at the national level, including by providing incentives aimed at upgrading their primary commodity sector, coupled with effective export promotion and horizontal and vertical diversification strategies. This should include efforts to foster private-sector development and participation in the commodities sector, to build entrepreneurial capabilities and to improve trade logistics by providing basic infrastructure (such as roads, information and communications technology) and services, especially financial services with improved access to credit and reduced costs of trade finance.

20. It was equally critical for LDCs to put the right policies and institutions in place, including through the African Union Comprehensive Africa Agriculture Development Programme and the Extractive Industries Transparency Initiative, to ensure that they could capitalize fully on their natural resource endowments, especially LDCs that specialized in exporting primary products, including extractive commodities. In this context, there was still plenty of room for LDCs to improve revenue management, spur value addition and formulate clear policies and strategies concerning the development of their commodity sectors.

21. Commodity-dependent LDCs were further encouraged to clearly articulate and integrate commodity policies into their respective national development policies and strategies. In this regard, a more holistic approach incorporating a development perspective and taking into account the role and functions of commodities in economic growth and poverty reduction was required.

B. Proposals to development partners

22. Development partners needed to enhance their support to LDCs to enable them to attain globally agreed goals, including the Millennium Development Goals and the targets of the Istanbul Programme of Action. In this regard, ongoing efforts to shift from aid effectiveness to development effectiveness of aid should go beyond the improvement of aid management, coordination and the harmonization of accounting and reporting standards only. Such efforts should also lead to fundamental changes in aid policies and donor practices so that development aid linked with national priorities of recipient countries through direct budgetary support and the establishment of monitoring mechanisms for donor performance at the national level.

23. ODA remained critical to support the efforts of LDCs in their development process, as the majority of them depended on such resources to finance their development needs. A paradigm shift in development aid should also lead to a rebalancing of priorities between the social and productive capacity sectors with increased attention to the latter. Along with these qualitative changes in development aid, it was important for LDCs development

partners to address urgently the quantity of ODA by meeting agreed aid targets. Moreover, aid conditionalities must not restrict policy choices in recipient countries. Furthermore, to reduce the risk of recurrent debt crisis, it was desirable that future development assistance to LDCs be provided in the form of grants rather than loans and as direct budgetary support. It was equally important to provide a lasting solution for the debt burden of LDCs.

24. It was crucial to reach consensus on new international development architecture in support of LDCs. The new architecture should go beyond the confines of aid and market access and include transfer of technology and know-how, as well as the building of technological capabilities and innovation in these countries. It should also provide impetus for the full implementation of paragraph 52 of the Istanbul Programme of Action and the Turkish initiative to establish an “International Science, Technology and Innovation Centre” dedicated to technology transfer to LDCs.

25. Furthermore, pursuant to paragraph 52, subsection 3(a) of the Istanbul Programme of Action, development partners were encouraged to provide increased and targeted financial and technical support to LDCs’ research and development, science and technology and to consider the provision of concessional start-up finance for LDC firms investing in new technologies.

26. On international trade, improved market access was crucial for LDCs in expanding trade. Developed countries and developing countries in a position to do so should immediately and fully implement the commitments to grant duty-free and quota-free access for all products of all LDCs and to remove market-entry barriers, including non-tariff measures and other trade barriers. Efforts by trading and development partners should also include secured simplified, harmonized and flexible rules of origin.

27. Remittances flows to LDCs from nationals living and working abroad had become an important source of development finance in LDCs, supplementing domestic resources mobilization and external financial flows, including ODA. There was, therefore, a need for greater and coordinated efforts by the international community to promote channels, mechanisms and international policies to reduce the transaction costs that hampered the use of remittances as a source of development financing in relevant countries. Intensifying or redirecting remittances towards productive investment schemes should be seen as a desirable policy objective, and development partners of LDCs should provide adequate technical and financial support in this area. LDCs should also endeavour to provide incentives and create related structures to attract remittances from their nationals working abroad. Efforts should also include developing legal and institutional frameworks to protect migrant workers, particularly in times of socio-economic problems in migrant-receiving countries and political upheavals.

28. Full and effective implementation of the Enhanced Integrated Framework for Trade-related Technical Assistance for Least Developed Countries was important to leverage the Aid-for-Trade initiative for LDCs to alleviate constraints impeding supply capacities, including weak trade-related infrastructure.

29. Development partners of LDCs could assist in efforts to invest in agricultural research, innovation and technological upgrading with a special focus on smallholdings. For instance, the ODA share of agriculture in total development aid flows slumped from 14.8 per cent in 1987–1989 to 5.5 per cent in 2007–2010. Efforts should include better management of key natural resources, particularly land, biodiversity and water. Further efforts were necessary to mitigate the impact of commodity price volatility on LDCs’ economies, including food security by setting up physical emergency food reserves and establishing a virtual reserve mechanism.

30. In view of the negative effects of LDCs’ growing exposure to volatile commodity markets, attention should be paid to providing continued support for commodity sectors of

LDCs, enabling their greater participation in the global value chains on an equitable basis as a way to promote sustainable market-driven growth.

31. Environmental degradation, climate change and disruptive weather patterns caused drought, famine, desertification, cyclones and floods, for example. The confluence of these natural disasters undermined socio-economic progress in LDCs that inherently lacked the institutional and financial capacities to adapt to and mitigate the effects of adverse natural consequences. Future international support measures for LDCs should comprehensively address the climate change-related concerns of these countries. Measures should include adequate and appropriate technical and financial assistance for the adaptation to and mitigation of climate change impacts, the establishment of early warning systems, the transfer of eco-friendly (green) technologies to LDCs and access to scientifically credible and adequate information on the state of climate change and weather patterns.

32. Development partners could also play an important role in easing the burden of demanding quality and delivery standards in their markets on LDCs export competitiveness. Development partners of LDCs should provide them with technical and financial assistance to help them meet the safety requirements of consumers and industries. They should also make efforts to harmonize their national standards with those agreed at the international level. Other necessary facilities, such as quality assurance schemes and conformity with international standards, were key requirements for LDCs to become competitive in world markets.

33. A few LDCs were approaching the graduation threshold, which was promising. However, post-graduation uncertainty regarding international support measures and eventual or premature loss of such support measures in the areas of ODA, market access, special and differential treatment with regard to World Trade Organization (WTO) obligations, and falls in ODA levels remained major concerns. Tangible ways and means should be put in place for the effective and smooth transition of graduating countries.

34. The WTO accession processes were beyond the financial, technical and human resources capacities of LDCs. LDCs in the WTO accession process should be provided with adequate financial and technical assistance to adjust and build their institutional, regulatory and administrative capacities. It was equally important that the accession processes, procedures and requirements be simplified and tailored to LDCs' developmental needs and objectives. UNCTAD, in collaboration with WTO and other relevant agencies, should analyse the impact of multilateral trade agreements on acceding LDCs when they assumed obligations and commitments by joining WTO.

IV. UNCTAD's response: Post-UNCTAD XIII work programme on LDCs

35. UNCTAD, in collaboration with other United Nations agencies, should contribute to inter-agency efforts to monitor socio-economic progress in LDCs by developing measurable indicators and benchmarks to monitor progress. In this regard, in view of the recognition of the importance of building productive capacities, UNCTAD should continue efforts to develop quantifiable indicators and proxy variables to measure economy-wide productive capacities in LDCs.

36. Building on its recent work to advance the conceptual and analytical framework on the need to build productive capacities in LDCs, UNCTAD should provide an operational methodology and policy guidelines on how to mainstream productive capacities in national development policies and strategies so that productive capacities were placed at the heart of national and international efforts to tackle the underdevelopment, marginalization and exclusion of LDCs.

37. UNCTAD should consider developing a work programme to assess and monitor the impact of trade and trade-related growth on poverty reduction, including through country-specific case studies to investigate the nexus between trade and poverty reduction with a view to investigating the missing middle as to why trade had failed to lead to significant poverty reduction in LDCs.

38. In the years ahead, UNCTAD should contribute to assisting national and international efforts by providing operational and strategic guidance for the implementation of commitments and actions, especially those related to the establishment of an international technology centre and technology bank outlined in the Istanbul Programme of Action.

39. Aid effectiveness, including through realignment with nationally set priorities and programmes, had been a subject of discussion in recent years in the context of the aid-effectiveness process of the Development Assistance Committee of the Organization for Economic Cooperation and Development. In this regard, UNCTAD should be given a central role to contribute to the national and international efforts to improve the effectiveness of development aid in LDCs in order to promote strong involvement and ownership of recipient countries in the allocation and management of aid.

40. Experts emphasized that meeting the graduation criteria alone would not be a guarantee for sustained economic growth and development in LDCs if progress made towards the established graduation threshold was not accompanied by efforts to build productive capacities and accelerate structural transformation in the economies of LDCs. In this regard, participants in the meeting invited UNCTAD to advocate for making the economic vulnerability indicator – the characteristic feature of LDC economies – compulsory for graduation from the LDC category.

41. The expert meeting welcomed the establishment by the General Assembly of the ad hoc working group to further study and strengthen the smooth transition process for graduating countries, in accordance with section VI of the Programme of Action for the Least Developed Countries for the Decade 2011–2020. UNCTAD, in collaboration with other relevant United Nations agencies, was encouraged to contribute to the work of the ad hoc working group, including by developing vulnerability profiles for potentially graduating countries and an elaborate smooth transition strategy for the consideration of member States as a built-in agenda to the graduation process for LDCs. UNCTAD should also continue to monitor the progress of LDCs towards the graduation thresholds with a view to identifying successful experiences and the challenges ahead for action at the national and global levels.

42. In view of the serious statistical deficiencies prevalent in most LDCs and the importance of steady and reliable statistical data for the proper monitoring of progress, UNCTAD, with the support of development partners, should contribute to build national databases and statistical capacities in LDCs.