CENTRE FOR POLICY DIALOGUE (CPD)
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International Dialogue on "Exploring a New Global Partnership for the Least Developed Countries (LDCs) in the context of the UN LDC IV"
Dhaka: 24-26 November 2010

Organized by the *Centre for Policy Dialogue (CPD), Dhaka*
In association with the *OECD Development Centre, Paris*

1. Backdrop and the Problematic

State of the LDCs - Improved performance, no structural transformation

The world's 49 Least Developed Countries (LDCs) - 33 of which are in Africa, 15 are in Asia-Pacific and one in the Caribbean - currently account for 12% of world's population. Half of these people live in conditions of extreme poverty. LDCs account for less than 2% of world's gross domestic product (GDP). They contribute about 1% of global trade in goods and 0.5% of the global trade in services. Their economies are characterized by limited productive capacities and export dependence on single product (often primary products). Many of the LDCs are land-locked or small island states. Almost all of the LDCs are vulnerable to external shocks, including natural disasters (e.g. floods, drought, tsunami, earthquakes, sea level rise etc) and global economic shifts (e.g. commodity price volatility, food and fuel price increase, erratic financial flows, demand contraction in the developed countries). In almost four decades, only two countries have graduated from the LDC status, while the number of LDCs has almost doubled - from 25 to 49.

Economic performance of the LDCs as a group during the last decade has been quite impressive. Till the combined assault of the food, fuel and financial crises, the group demonstrated consolidation of macroeconomic aggregates, high GDP growth rate, robust export expansion, sustained remittance flow, accelerated inflow of foreign direct investment (FDI), advances in infrastructure and telecommunication connectivity and higher off-take of foreign aid.

However, improved indicators of the LDCs as a group mask wide variations in intra-group performance. Moreover, most of these advances are skewed, fragile and unsustainable. It is telling that even those with the highest rate of trade, FDI inflow and economic growth did not make significant progress towards "structural transformation", i.e. towards diversifying their economies so that agriculture, manufacturing and services expand with a wider range of higher value added tradable products. This absence of structural transformation has inhibited the LDCs from embarking on an inclusive and sustainable growth over the long term, and has led to diminished impact on employment generation and poverty alleviation as well as the delivery of the Millennium Development Goals (MDGs).

A number of explanations are usually invoked to interpret the basically unchanged economic status of the LDCs. These include inadequacy of the traditional macro-economic framework, a lack of strategic trade and investment policies, poor efforts in domestic policy and institutional reforms, low effectiveness of international support measures and absence of LDC voice in the global economic governance.

The abovementioned issues have gathered new relevance in the context of the preparation for the Fourth United Nations Conference on LDCs (LDC IV) that is to take place in Istanbul on 30 May-3 June, 2011. The LDC IV is to produce an assessment of the implementation of that was adopted at the Third UN Conference in 200,1 as well as to undertake a new international programme in support of the LDCs. It may be recalled, the recently held meeting of the G20 in its Toronto Declaration has taken note of the LDC IV Conference. In this context, it has become pertinent to creatively reflect on the critical elements that should be included in the future global partnership of the LDCs.

2. The Challenges of a New Global Partnership

Low effectiveness of international support measures

A number of international development initiatives and negotiations are currently underway that, either in general or in particular, stipulates special and differential actions in favour of the LDCs. Besides the BPoA, these include the UN Millennium Development Goals, the Paris Declaration on Aid Effectiveness, the Monterrey Consensus on Finance for Development, the WTO Doha Development Round and the UN Climate Talks.

It is now becoming increasingly obvious that a large part of the international commitments embodied in the above-mentioned processes have remained either under-delivered or of low value. Recent assessments reveal that most of the LDCs are going to miss the MDGs. It is quite uncertain when the Doha talks and climate negotiations will be concluded. The ODA target of 0.15% of the gross national income for the members of the Development Assistance Committee (DAC) remains an elusive one. There is little evidence to indicate that development finance has incrementally gone to productive investments in the LDCs during the post-Monterrey period. Reviews of implementation of the BPoA indicate that, as most of its specific targets remain unfulfilled, the conditions of the LDCs have not changed fundamentally since the Brussels Conference in 2001.

Curiously, most of these international initiatives, while espousing a long list of broad and ambitious objectives, have had very few instruments to achieve them. The BPoA, for example, was based on two specific categories of international support measures, viz. (i) trade related preferences and (ii) ODA including technical cooperation. From that point of view, there is a need not only to improve the effectiveness of the existing support measures, but also to innovatively introduce new ones (e.g. effective support for transfer of technology).

Addressing the special and emerging needs of the LDCs

It is also reckoned that the existing international support measures, particularly under the BPoA, do not recognize the specific needs of an increasingly heterogeneous group of LDCs. The LDC group now includes countries with very large and very small populations, some are land-locked and some sea-locked, some are extremely dependent on primary commodity exports, other specialize in exports of manufactured goods, some have just come out of conflict or are still in a state of intense internal conflict. Accordingly, recognizing the core and common structural handicaps of all LDCs, there is a need to develop a menu of support measures for the LDCs having distinctive vulnerabilities..

Climate change has emerged as an imminent threat to many LDCs in the recent past. While environmentally the vulnerability of the LDCs has increased dramatically, adaptation efforts so far have been minimal. International measures will be crucial in this regard, such as providing adequate financial resources to the special LDC fund and facilitating access to "green technology" in the face of international intellectual property right (IPR) regime.

The recent successive crises in the areas of food, energy, commodity markets, as well as global finance and economy, have also exposed the limitations of the existing international support. In fact, relevant global agreements did not foresee any emergency measure to counter-act shocks and shifts emanating from the global markets. For example, during the high prices of foodgrains or collapse of primary commodity prices, there were precious little at the disposal of the international community to ameliorate the conditions of the poor producers and consumers in the LDCs. Indeed, even during the recent global financial and economic crisis, the LDCs were unwitting victims and there had been hardly any effective international support to contain the damages. Rather, elements of the large stimulus packages implemented in the developed and emerging economies may have had negatively affected the competitiveness of the LDC economies.

A corollary of the recent global crisis will possibly be a low availability of additional financial resources to underwrite any new or revamped international support for the LDCs. In fact, reiteration and delivery of the earlier commitments in this regard will be a major challenge. Thus, it will be important to devise ways and means to improve the quality and outcomes of the existing support strategies.

New actors and new modalities of development cooperation

Under the abovementioned circumstances, it will be important to broaden and buttress the support base of the LDCs by including new development actors and new modalities of development cooperation. One of the major structural shifts that have taken place in the global economy since the adoption of the BPoA in 2001 relates to the rise of the Global South. The emerging economies (members of the G20, particularly Brazil, China, India and South Africa) have become the major markets of LDC exports (although mostly primary commodities), key sources of FDI (although mostly in extractive industries) and important providers of development assistance (although often project tied). It is expected that these southern powers will take on international development responsibilities that are commensurate with their growing economic prowess.

Along with South-South cooperation, regional integration is also emerging as a promising element of development cooperation for the LDCs. Recent regional integration schemes are going beyond trade liberalization, bringing investment, services and connectivity related issues under their purview. Technology transfer is also a potential area in this regard as many Southern powers do possess IPR on a wide range of technologies and know-how. Indeed, these developments also create opportunities to have greater triangular cooperation (South-South/LDCs-North).

Finally, a refashioned global partnership for the LDCs needs to tap into new sources of finances, such as Sovereign Wealth Funds and Pension Funds. Private sector has to be given a more structured role with international resources underwriting Public-Private Partnership (PPP).

Interfacing of global supports with domestic policy and institutional reforms

Establishing coherence among various elements of the international support measures in favour of the LDCs will remain an enduring challenge. The existing modalities and mechanisms have to be revisited with a view to enhancing the efficacy of development cooperation. The major focus has to be on generating more synergy by way of mutually reinforcing the discrete support measures in the areas of trade expansion, investment promotion, access to technology and foreign aid inflow. Understandably, such an approach has to be underpinned by deepened ownership of the LDCs.

Conversely, bringing about collateral changes in the domestic policy and institutional environment in the LDCs will be no less important. Such changes are to enhance the buy-in to the new global partnership by the LDCs. Fortification of fiscal discipline, augmenting domestic resource mobilization and strengthening financial sector, inter alia, will be critical in this respect.

As more flexible mechanisms of foreign aid delivery (e.g. budgetary support) is being promoted, it has become imperative to strengthen the public resource management framework. While a number of the LDCs have made visible progress in this area in the recent past, it would call for further enhancing the effectiveness of the public expenditures, particularly through better targeting and delivery of foreign aided projects geared to structural transformation of the LDC economies. The other important aspect will be leveraging the external resource flow with greater domestic resource mobilisation to meet the incremental demand for public investment for social and physical infrastructure development.

Creation of a competitive domestic financial sector will be no less crucial for effective use of the expected foreign and domestic investment flows, as well as for improving the competitiveness of the products originating in the LDCs. Financial sector remains high in the reform agenda of the LDCs. Reducing the cost of borrowing and financing productive investments (including by the small and medium enterprises) are considered to be priorities. The question is how the international support measures can facilitate these domestic reforms by going beyond building policy conditionalities in aid regime.

3. Design of the Proposed Dialogue

Objectives and Scope

In view of the upcoming UN LDC IV, the overarching objective of the proposed international dialogue will be to generate policy recommendations towards a framework for a new international partnership agreement in favor of the LDCs and to articulate inputs for developing specific elements of such a partnership.

Concretely, the dialogue will focus on a select (but critical) set of strategies and thematic issues so as to develop a smart approach towards a new global partnership agreement, for consideration by the stakeholders of the preparatory process to the LDC IV Conference. The scope of the event will thus concentrate on the following five areas.

(i) Enhancing Trade - Looking for more effective market access and beyond. Full and faithful implementation of duty-free and quota-free market access for LDC exports of goods. Addressing issues beyond tariff preferences, e.g. simplification of Rules of Origin (RoO), abolishing non-tariff measures (NTM) and trade remedies (anti-dumping and countervailing duties), dealing with private and government standards. Improving market access in trade in services for the LDCs. Effective and substantial support (Aid for Trade) towards export diversification and reducing supply-side constraints of the LDCs. LDC trade preference schemes of the advanced developing countries. Accession of the LDCs in the WTO.

(ii) Promoting Investment - Supporting investment flows to productive sectors, particularly in agriculture, manufacturing, modern services and physical infrastructure. What could be home-country and host-country measures to promote FDI inflows to productive sectors? How to encourage synergy between FDI and host economy? What measures can be contemplated to tap in to new, additional and innovative sources of finance? How can investment related measures be synchronized with trade promotion efforts? What role for ODA to support investment flows? What about exploiting regional and sub-regional integration for scaling up investments?

(iii) Access to Technology - Improving access to technology and strengthening science, technology and innovation (STI) capacities for accelerated growth and diversification. Increasing flexibilities for the LDCs under the international IPR regime. Support for national science, technology and knowledge systems. Interfacing STI systems with private businesses. Reducing adverse implications of climate change through preferential access to technologies. Sustaining diffusion of information and communication technologies (ICT) for productive and inclusive growth. Utilizing South-South cooperation for improving LDCs' access to technologies.

(iv) ODA for Productive Capacity Development - Meeting international commitments and improving quality of foreign aid flows. How to ensure incremental foreign aid flow for productive capacity development? Delivering foreign aid to deal with new challenges, e.g. climate change and shocks from global markets. Keeping foreign debt at sustainable level. Fostering flow and effectiveness of foreign aid from non-DAC donors. Improving ownership, predictability, transparency and accountability of the aid regime.

(v) Domestic Institutional and Policy Reforms - Exploring external coherence through collateral domestic changes. How to enhance effectiveness of international support measures by improving domestic institutional and policy environment in the LDCs? What reforms are necessary in the areas of public expenditure management, financial sector and tax collection? How to forge a more effective and inclusive dialogue on development cooperation by reaching out to different groups of national stakeholders?

Format and Participation

The proposed dialogue will be essentially a brainstorming meeting with each working session focusing on one of the five themes mentioned above. It will be conducted in an interactive fashion. Each session will be kicked-off with a short presentation of key issues by an expert. For informed discussions, resource documents will be circulated beforehand among the participants. A moderator will try to summarize the key thoughts at the end of each session. The inaugural session will be a public event with participation from high level policy-makers and policy-actors. The closing session will discuss the final outcome of the dialogue where media will be invited.

Participants of the dialogue will be 20-25 experts drawn from the LDCs as well as from other developing and developed countries. Experts from relevant Southern and regional think-tanks concerned with the LDCs will be invited. Representatives of international and regional development agencies may also attend the dialogue. The organizers will also explore the opportunity to invite policy-makers from the LDCs and partner countries, as well as private sector representatives (domestic and foreign).

4. Organization and Delivery of the Proposed Dialogue

Date and Venue

The proposed international dialogue is to take place in Dhaka, Bangladesh. It will be held on 24-26 November, 2010 (two and a half days).

Organization and Partnership

The *Centre for Policy Dialogue* (CPD), Dhaka <cpd.org.bd> will organize the event in collaboration with the *OECD Development Centre*, Paris <oecd.org/dev>. In organization of the event, the organizers will draw on the partner institutions of the *Development Finance Network* (DeFiNe), anchored at the OECD Development Centre.

Partnership may be sought from other interested organizations, particularly for supporting participation of experts.

5. Outcome and Follow-up of the Proposed Dialogue

An outcome document will be prepared containing the summary of the major issues discussed and the key recommendations put forward. The outcome will be fed into the national preparatory process of the LDCs, shared with relevant actors in the international development community and provided to the UN Office of the High Representative for the LDCs (OHRLLS). The dialogue will be followed-up with further analytical works and discussions on the key recommendations within and beyond the DeFiNe partner institutions.

6. Contacts

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