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High-level segment

Item 2 of the agenda

**Resources mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010**

**Resources mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010**

**CONFERENCE ROOM PAPER**

*Summary:*

In order to provide support for the theme and to contribute to the successful outcome of the 2004 high-level segment, a number of preparatory events were organized in February and March 2004 to allow for all stakeholders, including representatives of Member States, the UN system, academia, foundations, intergovernmental organizations, civil society, non-governmental organizations and the private sector, to analyze the theme of the high-level segment “Resources mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the decade 2001 – 2010” in terms of the overarching goal of the Brussels Programme of Action to eradicate poverty and reach sustained economic growth and sustainable development in the Least Developed Countries (LDCs), and attaining the internationally agreed development goals, including those contained in the Millennium Declaration.

The objective of the preparatory events was to enable the stakeholders to assess progress made in the implementation of the Brussels Programme of Action, identify existing obstacles and constraints, and identify necessary actions to overcome them. New challenges and emerging issues faced by LDCs and their development partners in the implementation of the Brussels Programme of Action at the global, regional and national level were also highlighted. The events also provided an opportunity to present and share best practices and innovative approaches.

As part of the high-level segment on 28 June 2004, an investment promotion forum for poverty reduction in the Least Developed Countries was organized which brought together Ministers and other high-level representatives from Member States, heads of UN agencies and representatives of the business sector and civil society to discuss how to mobilize resources and expertise to address poverty and to pursue sustainable business development in the 50 poorest countries in the world.

The conference room paper aims to demonstrate the wealth of different proposals and the richness of the discussion on the theme of the 2004 high-level segment through the issues papers and summaries of the ECOSOC preparatory roundtables convened on 17 February and 17-18 March 2004, and 28 June 2004 investment promotion forum.

The issues papers and summaries that came out of the debates on the theme of the 2004 high-level segment will be made available by DESA in a book, which will be released in time for the 2005 Economic and Social Council high-level segment.

## **ECOSOC 2004 High-Level Segment**

### **Issues Paper for Preparatory Roundtable A: “Mobilizing domestic resources, capacity-building and national policy measures for the creation of an enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010”**

**17 February 2004  
10:45 a.m. – 1:00 p.m.  
ECOSOC Chamber**

**Co-chairs: H.E. Mr. Donald Kaberuka, Minister of Finance of Rwanda  
Mr. Ibrahim Gambari, Under-Secretary-General and Special  
Adviser on Africa**

The 2004 ECOSOC High-Level Segment will examine the level, effectiveness and mechanisms for domestic and external resources mobilization, and policy measures for significantly increasing the resources required for achieving the overarching goal of the Brussels Programme of Action (BPOA) to eradicate poverty and reach sustained economic growth and sustainable development in the Least Developed Countries (LDCs). The Roundtable will assess progress achieved so far in the implementation of the BPOA with regard to domestic resource mobilization, identify existing obstacles, constraints and policy challenges and necessary actions to overcome them. It will also identify new challenges and emerging issues faced both by the LDCs and their development partners in the implementation of the Programme at the global, regional and national level, as well as best practices and innovative approaches.

ECOSOC has been mandated by the Brussels Programme of Action to undertake annual reviews of its implementation. It undertook the first such review last year in Geneva. The work of the functional commissions of ECOSOC on the follow-up to conferences and summits is also of great relevance for LDCs. Eradicating extreme poverty (MDG1) in particular has been an overarching concern of the work of several Commissions in recent years. However, reviewing the work of the commissions in 2003, the Secretary-General recommended that they could devote greater attention to the situation of the LDCs.

#### **Issues:**

LDCs, as other developing countries, need to rely primarily on domestic resources for the financing of their economic growth, development and poverty reduction. This is especially the case since, over the last 15 years, foreign aid to LDCs has been decreasing in real terms, for a large majority of countries. Furthermore, its impact in accelerating investment and economic growth has been limited. Additionally, in most LDCs, the flow of resources in the form of foreign direct investment has been small (with the notable exception of investment in raw material extractive industries).

The building blocks for the creation of an enabling national environment that is conducive to the maximization of domestic resources mobilization for economic growth and poverty reduction need to be examined, and lessons learned shared. Thus, the RT meeting will, inter alia, explore the broad issues of “economic governance”, at the macro-level as well as at the micro-level, in the short-term as well as measures whose impact on growth and poverty reduction are evident in the medium and long-term. Are policies becoming more pro-poor and more focused towards achieving the Millennium Development Goals (MDGs)? Is sufficient attention given to conflict prevention? Armed conflicts are on the rise among poor countries. Such instability, in turn, is a major obstacle to making the business climate attractive to both domestic and foreign investors.

The impact of macro-economic policies on the ratio of domestic savings to GDP will deserve particular attention, as in most LDCs these ratios are the lowest among developing countries. In light of the paucity of FDI flows, that indicator explains to a great extent the low GDP growth performance rates in LDCs.

In this context, the RT may wish to examine the range of macro-economic policies that affect economic activity at the aggregate or broad sectoral level, with impact on the rates of domestic saving and investment; these would include fiscal policies, both taxation and public expenditure; as well as monetary and credit policies. Additionally, price policies that affect sectoral terms of trade can have profound effects on economic output. (These same policies, in addition to trade and exchange rate policies and policies towards foreign investment and employment policies, also affect the mobilization of external resources; this dimension is on the agenda of Roundtable B).

The meeting may wish to (i) review different approaches to these policies and (ii) examine the experience with various reforms and their impact in boosting domestic savings in LDCs.

In particular, the meeting may wish to explore the extent to which tax reforms and reforms in various segments of the financial intermediation sector (including micro-finance) can positively affect the rate of saving and domestic resource mobilization. Credit redistribution towards smaller borrowers often increases the return on investment while reducing poverty. Similarly, experiences in setting up financial markets in LDCs and their impact on domestic resources mobilization could provide a valuable insight in, and shed light on an area that so far has been largely overlooked.

At the micro level, the issue of developing domestic markets as a means for increasing the competitiveness of LDCs products in their own markets deserves attention. Appropriate strategies, policies and programmes, including for capacity-building, the creation of a business-friendly environment, nurturing of the domestic private sector and a commensurate increase in its share of the domestic market are issues that the RT meeting may wish to explore, with guidance from best practices and lessons learned in LDCs. In the same vein, the issue of internal comparative advantages between domestic

regions and the required infrastructure investment for increased trade among them should also be explored, especially in large LDCs with marked regional complementarities.

Another aspect the Roundtable might review is the financial support to LDCs from the international financial institutions and its contribution to bridging the saving-investment gap in LDCs for sustained growth and poverty reduction in the framework of the BPOA implementation. In this regard, in as much as the World Bank category of “Low Income Countries Under Stress” encompasses a sizable number of LDCs, support to these countries may contribute to the fulfillment of the BPOA.

### **Areas of recommendations**

It would be useful if the RT meeting could arrive at a set of recommendations covering the following areas: (i) domestic savings, (ii) tax collection and tax reforms, (iii) financial intermediation (role of the Central Bank, commercial and development banks, micro-finance), (iv) development of capital markets (at country or sub-regional level), (v) expansion of domestic trade for increased integration and articulation of the national economy.

## **ECOSOC 2004 High-Level Segment**

### **Preparatory Roundtable A**

**“Mobilizing domestic resources, capacity-building and national policy measures for the creation of an enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010”  
17 February 2004**

#### **Elements for a Summary of Conclusions/recommendations**

**Co-chairs: H.E. Mr. Donald Kaberuka, Minister of Finance of Rwanda  
Mr. Ibrahim Gambari, Under-Secretary-General and Special  
Adviser on Africa**

- Thanks to the able guidance of Mr. Kaberuka, the discussion was highly interactive.
- There was broad consensus on the key challenges facing LDCs in order to mobilize domestic resources for poverty eradication. While focusing on domestic policies for resource mobilization, many discussants stressed the need to link such policies with support by donor countries and international institutions in a more coherent manner. Debt sustainability that is approached on a country-by country basis, increasing and longer-term and more predictable ODA, an enabling global financial and trade environment, including less volatile commodity prices, and greater “voice” of LDCs in international decision-making are critical if domestic policies are to have greater impact.
- Participants stressed the importance of greater efficiency in the use of existing resources, in addition to mobilizing additional resources. This includes greater transparency and accountability.
- The need for policies that expand the tax base was emphasized. These policies entail creating the conditions for companies -- especially small and medium enterprises -- to shift from the informal to the formal sector. They also comprise steps to repatriate the large stock of domestic wealth that is kept outside these countries. These conditions include the implementation of sound fiscal and monetary policies, banking reform and the development of local financial markets, enhanced economic governance and institutions. Fiscal decentralization can also be effective by showing the link between tax collection and service delivery. The governance of tax collection systems would be improved by the independence of tax collections agencies.
- There is a limit to tax base expansion, beyond which economic activity will shift to the informal sector.

- Innovative mechanisms of resource mobilization should be explored, taking advantage of best practices among developing countries, such as development of pension fund systems.
- Improving governance, adopting required institutional and structural reforms and sound macroeconomic policies are indispensable not only for economic growth but also for the poverty eradication goals. Reducing inflation has direct impact on the poor. Ownership of policies, based on a national vision and broad-based consultation, is critical for the implementation of reform.
- Coherence among macroeconomic, financial and social policies is also essential. Poverty reduction requires not only faster growth rates but also more equitable distribution of resources. The possibility of reforming the budgeting process was proposed, in order to give equal standing to macroeconomic goals and human development goals.
- Good financial intermediation channels savings to investors, reducing the cost of capital. Micro-credit, particularly for women, is an important element to realize the enormous potential of small and medium size enterprises. It mobilizes small size savings in an efficient manner. Capacity building and technology transfer are also important for the development of SMEs, especially in the rural sector.
- Participants emphasized the critical importance for private domestic and international investment to reduce both the economic and political risk and the cost of doing business in LDCs. They also stressed the need to create a level playing field for domestic and foreign investors, cautioning that existing systems of incentives and exemptions to attract FDI may not be consistent with the goal of expanding the revenue base.
- In sum, greater focus is required on ways to create wealth and an enabling environment that stimulate saving and investment, and in so doing reduce poverty. Domestic policy approaches are country-specific and no global formula can be applied.
- International support for capacity building for making sound policies as well as institutions for their implementation can play a vital role in enabling these countries to break out from the vicious circle of underdevelopment and poverty.
- In conclusion, while domestic resource mobilization via an expanded economy is necessary, it is not sufficient on its own to enable LDCs to generate a critical mass of resources necessary to maintain a GDP of 7 % per annum on a sustained basis, which is the objective of the Brussels Declaration. Therefore, we need to complement domestic resource mobilization efforts with efforts aimed at securing longer-terms and predictable sources of external resources.

## **ECOSOC 2004 High-Level Segment**

### **Issues Paper for Preparatory Roundtable B: “Mobilizing external resources and the creation of an enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010”**

**17 February 2004  
10:45 a.m. – 1:00 p.m.  
Trusteeship Council Chamber**

**Co-chairs: H.E. Mr. Jean de Ruyt, Permanent Representative of Belgium  
to the United Nations  
Mr. Anwarul K. Chowdhury, Under-Secretary-General and High  
Representative for the Least Developed Countries, Landlocked  
Developing Countries and Small Island Developing States**

The 2004 ECOSOC High-Level Segment will examine the level, effectiveness and mechanisms for domestic and external resources mobilization, and policy measures for significantly increasing the resources required for achieving the overarching goal of the Brussels Programme of Action (BPOA) to eradicate poverty and reach sustained economic growth and sustainable development in the Least Developed Countries (LDCs). The Roundtable meeting will assess progress achieved so far in the implementation of the BPOA with regard to external resources as well as policy responses and capacity-building programmes required to meet the BPOA and Millennium Development Goals (MDGs) challenges. They will also help identify new challenges and emerging issues faced both by the LDCs and their development partners in the implementation of the Programme at the global, regional and national level, as well as best practices and innovative approaches.

ECOSOC has been mandated by the Brussels Programme of Action to undertake annual reviews of its implementation. It undertook the first such review last year in Geneva. The work of the functional commissions of ECOSOC on the follow-up to conferences and summits is also of great relevance for LDCs. Eradicating extreme poverty (MDG1) in particular has been an overarching concern of the work of several Commissions in recent years. However, reviewing the work of the commissions in 2003, the Secretary-General recommended that they could devote greater attention to the situation of the LDCs.

#### **Issues:**

When compared to the Official Development Assistance (ODA) targets set up in 1990 at the 2<sup>nd</sup> LDC Conference and reconfirmed in the BPOA (i.e. donor countries to provide 0.20 per cent of their GNP to LDCs), donor ODA performance, both in nominal

and in real terms, and relative to donor GNP has been on a declining trend since 1990, despite a welcome reversal in 2002. The Roundtable will aim to assess the impact of the gap between targets and actual ODA flows on the achievement of development goals and poverty reduction. It would do so by addressing both the supply side of ODA and, on the demand side, comparing ODA flows to the requirements for BPOA implementation and achievement of the MDGs.

Besides the aggregate amount of ODA levels, the effectiveness and efficiency of aid in poverty reduction and implementation of the BPOA are also crucial. Empirical studies have demonstrated that, irrespective of the level of ODA, its impact of poverty reduction may also depend on the mechanisms for its delivery. How can ODA be better utilized to enhance pro-poor policies and accelerate progress towards poverty eradication? The Roundtable may wish to discuss and recommend upon the long-term ODA commitment of aid delivery, whereby the predictability of resource flow allows the recipient country to integrate these resources in a rational medium and long-term resource allocation planning. Other innovative approaches to aid delivery include channeling all of ODA through the national budget --considered as a common basket for ODA and domestic resources-- , thus allowing ODA to be allocated, along with domestic revenues, through a genuine legislative process of resource allocation decision-making. Not only would ODA resources be part of the ownership debate, but internal political clearance and transparency would also provide useful developmental safeguards in the use of resources. Furthermore, the progressive move from ex-ante aid conditionality to performance-related mutual accountability could provide a useful area of discussion for improving aid impact. Similarly, as advocated by OECD/DAC, harmonization of aid modalities may provide substantial reduction in aid transaction costs at various levels.

There is a widespread agreement that ODA by itself cannot lift a country from poverty, and that, in order to achieve the MDGs and the BPOA commitments, a substantial increase in foreign direct investment (FDI) is necessary. However, so far, only a few LDCs have been able to significantly attract FDI, except in extractive mining industries such as oil and diamond. While the revenue derived from such undertaking may provide resources to bridge the saving-investment gap, in most cases these extractive industries have brought about dual and parallel economies rather than integrated developing economies, thus failing to realize the transformative potential power of the available resources. Three issues should therefore be examined by the roundtable: a) how to attract FDI in LDCs that have no significant natural resources? What could be their potential comparative advantages, including labor costs, which may attract FDI? b) How trade preferences accorded to LDCs (EU's Everything but Arms (EBA) and, to some extent, the African Growth and Opportunity Act (AGOA) of the U.S.) can induce FDI flows to LDCs? c) With regard to LDCs richly endowed with sought after natural resources, how can the revenue derived from these depletable natural resources be used for structural economic transformation, balanced growth and poverty reduction? The meeting would provide significant value-added by reflecting on these issues, which constitute the platform for economic take-off in most LDCs.

Many of the above questions depend on whether the domestic policy environment is development-oriented, and on the presence of a clear leadership vision and ambition for economic growth and transformation. Empirical evidence demonstrates that economic transformation and sustained growth and poverty reduction can only occur with determined leadership and good economic governance, in other words, a domestic enabling environment. The roundtable may wish to reflect on these requirements and provide guidance and recommendations for the way forward.

Furthermore, the development experience of several South-East Asian countries shows how ODA and FDI, often from the same country (Japan), have worked hand-in-hand in the initial phase to bring about economic transformation of these countries in a lapse of one generation. The potential of ODA to induce or facilitate FDI flows, and ways to raise such potential (e.g. trade preferences, investment guarantee mechanisms, capacity-building, etc) could be explored by the meeting and could provide avenues for concrete recommendations.

Another source of development resources for LDCs relates to debt relief through the heavily indebted poor countries (HIPC) initiative. Its rationale at the inception in 1996 was to reduce unsustainable debt burdens, since debt servicing was deemed to be a major constraint on growth and poverty reduction. The meeting may wish to review the performance of the HIPC process in delivering debt relief –both its quantity and speed, in the framework of the BPOA commitments.

### **Areas of Recommendations:**

It would be useful if the RT meeting could arrive at a set of recommendations in the following areas: (i) increasing volumes of ODA and (ii) improving the efficiency of its delivery mechanisms; (iii) increasing flows of FDI, ODA-induced FDI and other forms of financial flows to LDCs, including trade-generated revenues through market access preferential treatment (EBA, AGOA, South-South market access preferences for LDCs), and (iv) the requirements for good economic governance and, in this regard, support to LDCs through capacity-building programmes in public finance management. (v) Ways to further enhance the role of the UN system in supporting LDCs in their efforts. These recommendations should be devised keeping in mind the BPOA as a guiding yardstick and instrument.

## **Résumé de la table ronde B**

**Presidé par S.E. M. Jean de Ruyt  
M. Anwarul K. Chowdhury**

La table ronde a atteint l'objectif qu'elle s'était fixée, à savoir procéder à un dialogue interactif sur les différentes dimensions de la mobilisation des ressources et la création d'un environnement propice au développement des pays les moins avancés. Elle a mis en exergue la pluralité des moyens d'action et leur complémentarité. Nos débats ont aussi présenté l'intérêt d'alterner grandes orientations politiques et exemples pratiques d'activités susceptibles d'accroître l'aide apportée et, partant, de donner effet au Programme d'Action de Bruxelles.

- En premier lieu, le constat de l'insuffisance des ressources financières auxquels les PMA ont accès a été confirmé. Cette insuffisance ne peut être comblée par les seules ressources internes et l'aide publique au développement reste une ressource essentielle pour atteindre les objectifs de Bruxelles et ceux de la Déclaration du Millénaire. Malgré une augmentation récente, cette dernière reste en deçà des engagements pris à Bruxelles et à Monterrey, et en deçà également de la capacité d'absorption des pays en question.
- Au delà de l'aspect quantitatif, nos intervenants ont souligné l'importance de la qualité de l'aide. De la responsabilité conjointe des pays donateurs et des PMA, elle doit conduire au renforcement des capacités et des institutions nécessaires au développement durable. La distribution sectorielle de l'aide pose problème: l'APD est essentiellement concentrée dans le secteur de l'infrastructure sociale et des services. Cette préférence pose la question des perspectives de développement et de modernisation de l'économie des PMA. De plus, l'aide d'urgence accapare une part grandissante de l'APD.
- Toutefois, l'APD n'est pas en soi suffisante. Toute stratégie de mobilisation des ressources doit être multiforme, au premier rang de laquelle figurent les Investissements Directs Etrangers (IDE). Si les investissements vers les PMA ont augmenté en 2001, cette hausse est essentiellement concentrée sur une poignée de pays, souvent richement dotés en ressources naturelles. La faiblesse des investissements étrangers s'explique aussi par l'existence de cadres réglementaires complexes (exécution des contrats, droit de propriété, subventions etc.) qui ne facilitent pas les investissements privés et qu'il convient donc de réformer.
- L'allégement de la dette des pays les moins avancés est également au cœur du débat. L'initiative « Pays pauvres très endettés » (PPTE/HIPC) progresse, 27 pays ayant atteint aujourd'hui le seuil de décision, et a permis d'accroître les dépenses allouées dans le domaine social. Un progrès qui toutefois, de l'avis de

plusieurs de nos intervenants, ne saurait s'arrêter là. L'utilisation de la catégorie des PMA au sein des Institutions financières internationales a également été jugée souhaitable.

- De la même façon, l'accès des produits des pays les moins avancés aux marchés des pays développés est un élément essentiel. Le risque existe que pour certains pays pauvres, l'aide publique soit annihilée dans ces effets par les distorsions commerciales qu'ils subissent et qui sapent la compétitivité de leurs produits. L'initiative prise par plusieurs pays africains sur la question du coton illustre bien les difficultés auxquels certains sont confrontés. Toutefois, les avancées récentes enregistrées dans ce secteur ont également été saluées, qu'il s'agisse de l'initiative de l'Union européenne « Tout sauf des armes », ou de la Loi sur les opportunités et la croissance en Afrique adoptée aux Etats-Unis. La souplesse dont il faut faire preuve dans les politiques commerciales au bénéfice des pays les plus pauvres constituera un point important des débats de la prochaine CNUCED à Sao Paulo.
- Au titre des activités spécifiques permettant d'accroître les ressources disponibles dans les PMA, la table ronde a examiné le rôle de la micro finance, déjà avéré dans de nombreux pays. L'accès des plus démunis aux services financiers, au crédit comme à l'épargne, permet le développement des capacités locales et favorise la création d'institutions financières nécessaires au développement à plus long terme de ces pays.
- Les partenariats public-privé constituent également des instruments intéressants de mobilisation de ressources nouvelles. Utilisés traditionnellement dans le secteur de la santé, ils méritent d'être développés à d'autres niveaux, tant il est vrai que le secteur privé et non gouvernemental imprime un élan dont les PMA ont grand besoin pour trouver les moyens de lutter contre la pauvreté et atteindre les objectifs de développement du Millénaire. Les Nations Unies ont dans ce domaine une expérience déjà longue et riche qui pourra inspirer d'autres acteurs.
- Nos intervenants ont souligné que la coopération Sud-Sud doit être encouragée dans tous ces domaines, y compris celui de la coopération technique et de la formation des cadres. Enfin, des contributions spécifiques de l'ECOSOC ont également été proposées, tels que l'harmonisation des législations en matière d'environnement, de droit du travail ou des droits de l'homme afin d'éviter un nivellement par le bas en la matière, ainsi qu'une implication spécifique du Conseil sur les liens entre la paix et le développement et les moyens de renforcer ces deux dimensions de façon simultanée, une approche nécessaire pour les PMA aujourd'hui en conflit et pour lesquels les ressources font défaut.

## **ECOSOC 2004 High-Level Segment**

### **Preparatory Roundtable C:**

#### **“Regional dimension of resources mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010”**

**17 February 2004**

#### **Summary**

**Co-chairs: Mr. Kim Hak-Su, Executive Secretary, ESCAP  
Ms. Mervat Tallawy, Executive Secretary, ESCWA**

- In this afternoon roundtable with the regional commissions and regional financial institutions we focused on the regional dimension of resources mobilization and enabling environment for poverty eradication in the context of the implementation of the programme of action for the Least Development Countries for the Decade 2001-2010
- The following specific recommendations emerged from the discussion:

#### *Macroeconomic policies and Institutional framework*

- Need to implement pro-poor growth policies that would generate employment, prevent further deepening of income disparities and reverse the growth of poverty.
- For many LDC's, macroeconomic policies of neighboring countries as well as the donor countries significantly affect the relatively small economies of least development countries. With the increase in economic integration, coordination of macroeconomic policy goals, synchronization of fiscal and monetary policies and stabilization of exchange rates through formal cooperation assume importance.
- Since aid alone cannot address the need of the Least Developed Countries, policy coherence and harmonization at the National, Regional and Global level is essential in order to ensure that efforts to assist these countries complement each other. Agricultural, trade, investments, migration and other policies, which have profound impact on these countries, must be mutually supportive of the recipient countries development goals.
- Each country must own its development. Given the constraints inherent in Least Developed countries, the most appropriate modality for cooperation, led by the countries themselves, needs to be identified. Modalities, including triangular cooperation could lead to better use of resources available within the region as a whole.
- Emphasis also should be placed on the role of civil society and the private sector, which are prerequisite to long term sustainable economic growth.
- Technical and institutional support for strengthening resource mobilization by supporting the establishment and maintenance of stable macroeconomic

- environment and policy institutions, as well as institutional measures that support national and regional capital markets and, financing for the urban informal and rural sectors.
- An action plan for concrete changes in OECD trade policies, to give meaning to the principles of policy coherence and mutual accountability for development effectiveness.
  - A framework and an Action Plan for increasing grant flows to enable HIPC countries to prevent the accumulation of debt burdens and create the space for funding the POA and to protect LDC's against exogenous shocks.
  - A detailed framework for coordinating activities and programs of UN system agencies to ensure coherence and effective partnership for a self reliant development process to begin in African LDCs.
  - Lack of productive capacity constitutes one of the major constraints facing LDCs. Therefore the support of regional banks as well as development partners should include that dimension.
  - Many LDCs have been affected by the persistence of conflicts, this situation should be taken into account in the efforts to mobilize the needed resources at regional and global levels.

#### *Mobilization of domestic resources*

- Strengthen capital markets on a subregional or regional level as well as informal financial institutions through operational and learning networks and concrete national and regional policies.
- Improve national awareness of tax responsibilities and the corresponding responsibility of the state to meet the basic needs of the public.
- Increase sponsorship of regional and national investment forums, and ensure active private sector involvement in these reforms.

#### *Mobilization of external resources*

- Provide more grants for improving the technical capacity of public services.
- Develop and integrate programmes for reviewing trade policies that hurt LDCs into resource mobilization programmes for African LDCs.
- Assist LDCs to strengthen channels and instruments for mobilizing resources from nationals living abroad.
- Pushing NEPAD agenda forward, particularly at international forums including the G-8.

#### *External Debt*

- Review or undertake studies on the impacts of shocks on debt sustainability of African LDCs with the view to incorporating findings in calculations relating to HIPC.
- Support a scheme to provide more grants to LDCs facing high domestic debt burdens and compensatory financing for LDCs experiencing adverse shocks.
- Provide medium-to-long term technical assistance in debt management to LDCs.

## **ECOSOC 2004 High-Level Segment**

### **Roundtable A:**

#### **Resources mobilization for the implementation of the Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010: the experiences of Timor Leste and Bangladesh**

**17 March 2004  
ECOSOC Chamber**

#### **Elements for a Summary of Conclusions/recommendations**

**Co-chairs: H.E. Ms Aicha Bassarewan, Vice Minister, Ministry of Planning and Finance of Timor Leste  
Mr. David Lockwood, Deputy Director, Asia and the Pacific Bureau, UNDP**

- There was a general view that the two countries highlighted – Timor Leste and Bangladesh – are, in different ways, very positive success stories and that their experiences are not necessarily symptomatic of the challenges, constraints and opportunities of most LDCs.
- The two countries face very different challenges in terms of resource mobilization. Timor Leste, a relatively new country, relies heavily on development assistance and will continue to do so for awhile. It received high levels of donor assistance, relative to its resource requirements immediately following its independence. However, the level of that assistance has begun to decline and indications are that this trend will continue. Bangladesh has reduced its dependence on ODA to approximately 12 per cent of its budget and has identified tax revenues as the most important source of resources over the next decade.
- Concern was expressed on the sustainability of ODA, which one speaker attributed to the “short attention span of donors” and the lack of systems to ensure delivery. It was pointed out that the general trend for countries emerging from conflict is that aid effectiveness occurs after the fourth year and needs to be maintained at least until the tenth year. Unfortunately, most donors pull out precisely at the point that absorptive capacity begins to improve, which can lead to heightened instability and a reversal of positive developments.
- LDCs are heavily dependent on ODA but even a significant increase in levels of ODA to LDCs will not be sufficient to meet their resource needs. Trade and investment as well as debt cancellation are also required. A proposal was made to also explore the possibility of cancelling debt not only to individual countries but also for regional groups.

- The importance of a comprehensive approach to development was emphasized. The most successful policies have been those which have linked a broad spectrum of development needs. In this regard, the linkages between poverty reduction, economic development and gender mainstreaming were emphasized. The role and empowerment of women was identified as one of the major factors in Bangladesh's success story and emphasis was placed on the need to consider how to mobilize external resources to support initiatives in these areas and to further draw out the elements of this success.
- Successful aid coordination is a critical element. Both donor and programme countries emphasized the importance of a positive relationship between development partners. Some speakers highlighted the need for closer coordination between donors, noting that a proliferation of programmes not only led to inefficiencies but also forced developing countries to devote time and resources to managing their donor relationships rather than implementing their programmes and strategies. There is need for a framework of mutual accountability which recognizes the roles and responsibilities of all partners.
- A key element in successful donor relationships is the continued evolution of the relationship between development partners. Also important is the need to develop a pipeline of projects which are attractive to donors; the effective utilization of foreign assistance; and the development of national institutions and increase of absorptive capacity.
- The effectiveness of development assistance was also discussed. As important as the volume of aid is the direction and quality of that aid. The importance of gender mainstreaming and investment was highlighted, including investment in human resources. Human resource development is key; in this regard, Timor Leste was commended for the linkages it had established between its development plan and the MDGs.
- The role of ngos and civil society in both mobilizing resources and in implementing programmes at local and community level was mentioned. Greater participation of civil society and the empowerment of women were considered key elements in achieving and sustaining development. One speaker noted that for development to succeed it must be owned by everyone.
- Finally, a large number of speakers emphasized the importance of South-South cooperation. This offers tremendous potential, not just as regards development cooperation but also in the areas of trade, investment, debt cancellation and ODA. The possibilities of triangular cooperation should be considered and expanded.

## **ECOSOC 2004 High-Level Segment**

### **Issues Paper for Preparatory Roundtable B: “Impact of good governance and public finance management on the mobilization of domestic resources: the experience of Benin”**

**17 March 2004  
11:00 a.m. – 1:00 p.m.  
Conference Room 6**

**Co-chairs: H.E. Mr. Rogatien Biaou, Minister of Foreign Affairs of Benin  
Mr. Patrizio Civili, Assistant Secretary-General for Policy  
Coordination and Inter-Agency Affairs, UN DESA**

The Programme of Action adopted by the Third United Nations Conference on the Least Developed Countries held in Brussels from 14 to 20 May 2001, contains a number of commitments including one on good governance at national and international levels that need to be pursued in a sustainable way in order for LDCs to eradicate poverty. It is emphasized in the programme document that “Success in meeting the objectives of development and poverty eradication depends, *inter alia*, on good governance within each country. It also depends on good governance at the international level and on transparency in the financial, monetary and trading systems”<sup>1</sup>. Noting that good governance at both national and international levels is essential for the implementation of the commitments embodied in the Programme of Action, the LDCs and their partners committed themselves to an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system. It was emphasized that no effort would be spared to promote democracy and strengthen the rule of law, as well as respect for all internationally recognized human rights and fundamental freedoms, including the right to development.

Almost four years since, most of the issues discussed during the conference are still standing high as obstacles in the process of mobilizing resources for socio-economic development in the LDCs. Without good governance and public finance management, mobilization of domestic resources, expansion of the private sector and diversification of the economy in any of the LDCs will remain a very difficult undertaking.

LDCs and their international partners need to interrogate themselves on a number of issues that are still standing in the way of effective mobilization and efficient utilization of domestic resources for development. These issues include the following:

- (a) To what extent have the LDCs themselves instituted effective institutions, systems, structural arrangements, processes, procedures, personnel capacities, leadership behavior and practices as well as networks to support transparent,

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<sup>1</sup> See Third United Nations Conference on the Least Developed Countries, 14 – 20 May 2001: A/CONF.191/11 08th June 2001.

- accountable, and effective participation of the private sector and civil society in the development process?
- (b) Each LDC should undertake a self assessment exercise to determine shifts in the governance situation since Brussels 2001, in relation to: (i) establishment of an effective, fair and stable institutional, legal and regulatory framework in order to strengthen the rule of law, (ii) fostering effective participation of and close cooperation among all relevant stakeholders at national and local levels in the development process; (iii) promotion and respect for internationally recognized human rights, including the right to development; (iv) pursuing national policies and strategies to promote confidence building, (v) conflict prevention and peaceful settlement of disputes, (vi) enabling the poor through promoting social inclusion and empowerment in order to enhance their effective participation in the governance process, *inter alia* by strengthening their social networks; (vii) striving to fully protect and promote gender equality, non-discrimination and the empowerment of women as effective means of contributing to eradication of poverty, elimination of hunger, combating disease and stimulating growth and sustainable development.
  - (c) “Only by multilateral action can we give people in the Least developed Countries the chance to escape the ugly misery of poverty, ignorance and disease”<sup>2</sup> To what extent have governance issues at the international level and international economic decision-making processes that affect LDCs’ development, including issues of their effective participation, as well as multilateral policy and regulatory issues that affect LDCs been addressed since the Brussels in 2001?
  - (d) Following the explicit concerns expressed in Brussels, has adequate attention been paid to checking unfair business practices and corruption by multinational companies, domestic firms and any other business entities?

Issues such as the above still remain stumbling blocks in the process of development and poverty reduction in many LDCs. At the same time poverty and human development issues remain critical concerns in these countries. Despite successful achievements in terms of growth performance since the beginning of the nineties, Many LDCs are currently expected to face major challenges in achieving the Millennium Development Goals (MDGs). Constraints include low annual per capita incomes and Human Development Index rankings.

Despite the impressive efforts by LDCs (although some have slid back into poverty exasperating conflicts) since the beginning of the nineties, many are currently facing very low government revenues. In most of them, the situation shows the weakness of private sector and the poor diversification of the economy.

Many governments are still heavily dependent on foreign aid with International assistance, including debt relief, representing high percentages of GDP. To successfully develop and implement pro-poor policies and strategies, efforts need to be increased, especially in the areas of domestic resources mobilization, good governance, and public sector management to create a conducive environment for private sector development,

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<sup>2</sup> -- U.N. Secretary-General Kofi Annan UN General Assembly, 12 September 2002

domestic and foreign capital investment and ultimately economic growth. Measures to combat corruption, strengthen legal and judicial systems, ensure property rights and quick processing time for approval of businesses need to be intensified to support domestic as well as external resource mobilization and investment.

It is clear that in many LDCs the problems faced include those related to governance, sound environment for private sector development, and poor public management systems. They severely constrain the expansion of private sector and the diversification of the economy. The situation is also unsuitable for governments to increase direct and indirect taxes and to improve public funding aimed at addressing poverty issues, especially those related to the achievements of MDGs.

In conclusion, the formula for poverty reduction and equitable development in LDCs will be a carefully thought out mix of availability of resources, strengthening governance and public finance management institutions, human capacities, and involvement and participation of the private and civil society sectors as well as local level communities in the development process.

## ECOSOC 2004 High-Level Segment

### Roundtable B:

#### **“Impact of good governance and public finance management on the mobilization of domestic resources: the experience of Benin” 17 March 2004**

#### Summary

**Co-chairs: H.E. Mr. Rogatien Biaou, Minister of Foreign Affairs of Benin  
Mr. Patrizio Civili, Assistant Secretary-General for Policy  
Coordination and Inter-Agency Affairs, UN DESA**

- There was broad consensus on the point agreed at the Brussels Plan of Action that “Success in meeting the objectives of development and poverty eradication depends, *inter alia*, on good governance within each country. It also depends on good governance at the international level and on transparency in the financial, monetary and trading systems” (Third United Nations Conference on the Least Developed Countries, 14 – 20 May 2001: A/CONF.191/11 08th June 2001).
- Thanks to the dynamic group at the Roundtable, the discussions at the session were interactive and positive. An important element of the discussion was the recognition within the donor and recipient communities of their own problems and the challenges to meet their own responsibilities. LDC representatives spoke of the importance of good governance for domestic resource mobilization and establishing the climate of trust for direct foreign investment and external assistance. Representatives of the donor community spoke of the importance of responding adequately to legitimate needs and concerns of recipient countries.
- The participants stressed the necessity of regional integration to create stronger voice in international negotiations, sound national fiscal and macroeconomic discipline and combating corruption.
- Decentralization was considered to be significant by several LDC speakers in order to expand the taxation base and to promote social justice. They argued that when taxpayers can see the benefits of their taxation in terms of such services as schools, roads, etc., they can understand better the importance of participation in the system. At the same time, the tax burden must be fairly distributed. Many speakers talked about the share of informal sector in their national economies and its relation to government inefficiencies (red-tape, problems with land registration, etc.).
- Participants stressed the importance of good public administration in order to achieve good governance. In addition, e-governance was seen as a way to deliver better services and come closer to citizens. Domestic and external strengthening

of institutions including those of public finance management was seen as a worthy undertaking.

- Mobilization of domestic resources was necessary but by no means sufficient to achieve Millennium Development Goals, in particular the objectives set out the Programmes of Action of LDCs. The MDGs and the Monterrey consensus were regarded as important steps in establishing clear priorities at the global level for all countries and actors to subscribe and implement.
- The issue of exporting agricultural products, such as cotton, as raised by Benin in Cancun is critical in mobilizing resources. LDCs should come together with their development partners and address it.
- The benefit of remittances is that they are going to families and communities as a form of external assistance. Remittances are significant in terms of their volume and therefore, deserve greater attention by national governments in order to channel and draw more benefit from this flow of resources. The downside of remittances is that they go straight into consumer uses and not into development investments.
- Apart from the assistance by the donor community, horizontal cooperation, particularly sharing of best practices, can be an effective tool of ensuring the advancement of good governance in LDCs.
- A strong role of NGOs and civil society is important to ensure the full participation of elements of community in governance. Such broad participation can contribute to greater stability and responsiveness of government. At the same, NGOs may have particular interests which need to be balanced against other priorities.
- Participants emphasized the role of women as actors in development ranging from ministerial positions to beneficiaries of micro-credit projects.
- Donors are encouraged to fully take into account cultural issues, local knowledge, skills and sensitivities, which can have great impact on the success of their investment and assistance activities.
- Representatives from post-conflict countries emphasized the link between peace and development as well as need to have urgent aid, e.g. to accommodate the needs of displaced people.
- Good governance has implications in various substantive fields such as environmental management (drought mitigation, combating desertification), HIV prevention, etc.

- The example of Benin and the improvement of its governance system show that the national effort and international contributions create a virtuous circle. Long-term international support is needed to national efforts to ensure the development of LDCs.
- ECOSOC is the venue to have the fruitful dialogue on this issue and discuss on how to meet the challenges and work in partnership.

## **ECOSOC 2004 High-Level Segment**

### **Issues Paper for Preparatory Roundtable C: “PRSP as a Mechanism for Resources Mobilization: the experience of Burkina Faso”**

**17 March 2004  
3:00 – 5:00 p.m.  
ECOSOC Chamber**

**Co-chairs: H.E. Mr. Tertius Zongo, Ambassador of Burkina Faso  
to the United States  
Mr. Jeffrey Katz, Manager, Partnerships and External Affairs  
Group for the Africa Region, World Bank**

In 1999 the developed and developing countries embarked on a new partnership centered around reducing poverty in all of its manifestations. The centerpiece of this new approach was the Poverty reduction Strategy Paper (PRSP) which consciously seeks to give impetus to poverty reduction by directly addressing the different underlying constraints and weaknesses. Recognizing that action is needed on two fronts, domestic policy and external assistance, the PRSP is predicated on strategies and programs that are: country-driven; results-oriented and focused on poverty outcomes; comprehensive, in keeping with the multidimensionality of poverty; prioritized for feasible implementation; partnership-oriented (involving the coordinated participation of all development partners, bilateral, multilateral, and non-governmental); and based on a long-term perspective for poverty reduction. The PRSP spells mutual responsibilities for governments as well as donors. As it provides an overarching framework for all country-based activities to promote poverty reduction, it constitutes an appropriate framework for mobilizing resources across the full spectrum of actors in development (government, private sector, external partners, and non-governmental organizations). This Roundtable will hopefully throw clarity on the complementary and mutually reinforcing accountabilities of donors and governments in mobilizing resources for PRSP implementation, and foreground the challenges on the road ahead.

Governments can enhance the effectiveness of the PRSP as a resource mobilization mechanism by preparing strategies that are well-conceived and credible. Elements of such a PRSP include a rigorous and comprehensive upstream poverty analysis, concrete and time-bound measures aimed at addressing the sources of poverty, input, outcome and results indicators to serve subsequently as tools for monitoring poverty outcomes, and the inclusion of concrete prioritized actions, and clear and realistic targets, within a budgeted program for poverty reduction (Sourcebook for Poverty Reduction Strategies; World Bank, 2002). With these elements in place, donors can commit to providing external resources to ensure that the actions in the PRSP are fully funded, that funding will be integrated into budget cycles, predictable and continued over the long haul, that the different financing sources will complement and not duplicate

one another, and that donor processes will be aligned with national decision-making cycles, processes and programs to keep transaction burdens to a minimum.

Throughout the PRSP preparation phase, the government needs to engage a continuous dialogue with all stakeholders, particularly donors, who would later on be involved in or touched by the implementation of the PRSP. This would ensure that the resulting poverty reduction program has factored in the multiple dimensions of poverty (gender, geography, etc.), comprehensively identified financing requirements and available funding sources, delimited the roles and responsibilities of the different implementing agencies and donors, and embodies implementation, coordination and monitoring frameworks. However, despite all the care taken in preparation, PRSP implementation may reserve surprises and seemingly well-laid plans can hit roadblocks. Countries as well as donors need to be mindful of challenges likely to be faced and hopefully this Roundtable will provide strategic guidance on how they could best be tackled .

Donors need to respect and support the role of client countries as leading the development of poverty reduction strategies and programs. PRSPs should be country-driven and owned, albeit with donors given every opportunity to make their voices heard. This approach marks a significant departure from the past, and experience has reflected that a process of transition is underway. While some countries have moved aggressively to prepare comprehensive strategies that are integrated with budget processes, in some cases or with respect to some sectors the PRSP can remain at a relatively superficial level and serve a means of rubberstamping specific donor projects. Country capacity to assume responsibility for determining and coordinating donor interventions is highly variable. Where such capacity is situated at the lower end of the scale, resource mobilization potential in favor of a comprehensive and balanced PRSP is likely to be sub-optimal. The solution calls for in-country capacity building and profound behavioral changes at the donor level.

In-country weaknesses in prioritization, budgeting, target and indicator setting, and performance monitoring may be reflected in unrealistic and over-ambitious program goals and unprioritized project lists that are unlikely to galvanize significant external resource flows. Line agencies are often unable to reliably estimate current costs of PRSP proposals, and costing indicated for sector programs may not adequately reflect recurrent expenses. Although PRSPs present an opportunity for countries to put forward the policy and institutional reforms to strengthen delivery of basic services, promote growth, and reduce poverty, and to consider their implications for the levels and modalities of external financing, many countries continue to be challenged by the task of translating medium-term goals, for instance, into national budgets year by year on the basis of actual policies and available financing (Poverty Reduction Strategy Papers –Progress in Implementation; IMF/World Bank review, 2003). Budget formulation and execution weaknesses are challenges common to many countries and contribute to funding scarcity in key poverty reducing areas. Without addressing these weaknesses, the integration of donor funds into national budget systems may remain elusive (some donors cite distrust of budget weaknesses as reasons for preferring to continue to channel aid through non-government

channels). The foregoing situations manifestly call for capacity strengthening and it would be enlightening if the Roundtable could offer guidance or best practices on moving ahead.

A well-costed results-oriented poverty reduction strategy requires linkage to sector spending plans, which is only possible if the PRSP is incorporated into the budget cycle. As sector programs themselves would need to be aligned with national budgets and implementation processes, the solution would have to be two-pronged. Integrating the PRS and the annual budget and MTEF (Medium-Term Expenditure Framework) process remains a major challenge in many low income countries. The problem likely originated from donors skirting dysfunctional central ministries and domestic budgeting systems for faster project implementation but the practice has become entrenched and will prove hard to break. Weaning sectors away from outside-budget funding may also be an uphill struggle, particularly in view of the unpredictability of financing for key sectors through the central budget. Assistance to non-governmental entities also needs to be integrated into the government's PRS, as do global funds for specific development issues – for example HIPC funds and the fight against HIV/AIDS and malaria. In all these areas, action will need to be taken by central ministries, sectors as well as donors. Among donors, apprehension about the perceived dilapidated state of budget and public expenditure management systems may stand in the way of rapid change.

Once the full PRSP has been completed, its effective implementation will hinge on the availability of sufficient and predictable long-term financing, over and beyond HIPC resources. Indeed guarantees of such financing should be an essential prop of the PRSP and a failure to deliver would erode the credibility of the process. At present, however, limited donor certainty about future plans due to the vagaries of annual appropriations makes predictability of external financing problematic. Although most donors plan around a medium-term framework that defines their assistance intentions in terms of levels and sectors of assistance, as IMF research has shown (IMF Working Paper WP/01/167), “aid cannot be reliably predicted on the basis of donors’ commitments”. Moreover, “the predictive power of donors’ commitments tends to be lower in poorer and more aid-dependent countries”. Donor concerns that countries that prepare full PRSPs should have sufficient financing to implement them and achieve the Millennium Development Goals is driving a resolute search for a solution. Promising financing mechanisms include DFID’s programmatic grants, Bank PRSCs, which provide a lead and framework for other donors to follow in financing poverty strategies through budget support, and the pooling of funds into baskets for budget or sector support in specific countries (although a full consensus has yet to emerge around budget support as an instrument of choice for financing PRSPs). A potentially promising initiative unveiled in the SPA Agenda 2003-2005 document (Strategic Partnership With Africa: Agenda 2003-2005; Africa Region, World Bank) aims to ensure that well performing PRSP countries secure the funds they require for implementation. SPA will provide, on an annual basis, an indication of donor medium-term plans to provide assistance to African countries, disaggregated by quick-disbursing assistance and all other forms of assistance. SPA will also track actual disbursements and would monitor assistance patterns against performance measurements. This monitoring exercise is expected to encourage donors to

allocate their resources more efficiently, and to lead to improved allocations, with higher shares of assistance going to high-performing countries.

A largely unanswered PRSP challenge, with implications for resource mobilization, relates to the impact of shocks beyond the control of government. An UNCTAD paper (The PRSP Approach and Poverty Reduction in the Least Developed Countries) cites that during the 1990s 14 out of 24 LDCs experienced income losses equivalent to over 100% of the domestic resources available for financing development owing to terms of trade movements in two consecutive years. Such shocks can easily throw PRSPs off course unless effective mechanisms to deal with them are put in place. Another dimension of PRSP financing relates to domestic resource mobilization resulting from government fiscal, growth and other policies (including trade). In view of the long-term ambit of a PRSP, resources generated from government policy would in time constitute useful levers for poverty reduction. Analysis of transmission mechanisms from growth sectors to incomes of the poor as well as of other aspects of the supply side response (for example private sector development, interest rates, credit availability, labor markets, reform of institutions needed for sustainable growth) could be useful in terms of situating a country's level with regard to potential available poverty-reducing resources.

Harmonizing donor processes and alignment with national planning mechanisms are expected to reduce transaction costs and make resources available when and where needed. Harmonization spans a broad spectrum, from supervision, reporting, procurement, and disbursement guidelines to diagnostic and surveillance tools and conditionality. Alignment has to do with internal PRSP and budget processes and national cycles. As an EC review (PRSP Review: Key Issues; 2002) emphasizes, for PRSPs to be effective, they should ideally mark a new way of working, not a new way of presenting old approaches. Although progress has been achieved, the old ways die hard. An SPA "action/learning" mission to Ethiopia, Rwanda and Senegal between September and October 2002 found only modest progress in simplifying and harmonizing donor support to poverty reduction strategies. Project-oriented approaches are still going strong, client countries continue to lament the burden placed on their limited capacities by donor procedures and reporting mechanisms, and there is a perception that conditionalities are not always firmly grounded in PRSPs. Donors recognize the need to move the harmonization agenda forward and are developing special initiatives in that direction. However, translating understandings reached between parent institutions into new and common operational procedures at country level remains a challenge. A concrete proposal to improve donor harmonization and aid effectiveness is the introduction of donor performance monitoring indicators at the country level, which assess, among others, the degree of coordination between donor projects and national strategies, relationships between aid commitments and disbursements and so on.. Donors have, for their part, blamed lack of progress in achieving harmonization on national systems of procurement and financial management which fall short of international good practice standards. Clearly many national systems to manage aid will also require strengthening to facilitate progress in harmonization and alignment.

## **Issues for discussion**

It would be useful if the Roundtable meeting could arrive at a set of conclusions covering the following areas: (i) best practice recommendations on country management of the PRSP process; (ii) capacity building in-country to develop skills necessary for effective management of the PRSP; (iii) strategies for ensuring adequate, predictable and long-term financing for PRSPs; (iv) provision of coping mechanisms for shocks in PRSP financing; and (v) donor harmonization and alignment with national planning processes.

**Résumé de la table ronde C**  
**« Les cadres stratégiques de réduction de la pauvreté, mécanisme de mobilisation  
des ressources : l'expérience du Burkina Faso »**  
**le 17 mars 2004**

**Presidé par S.E. M. Tertius Zongo**  
**M. Jeffrey Katz**

- La table ronde que j'ai eu l'honneur de co-présider avec Monsieur Jeffrey Katz, Directeur des affaires extérieures et des partenariats pour la région Afrique à la Banque mondiale, a donné lieu à un échange de vue riche et animé entre représentants d'institutions internationales et délégués des Etats membres, bailleurs de fonds comme récipiendaires de l'aide. De façon générale, les participants ont reconnu le rôle essentiel joué par les Cadres stratégiques de réduction de la pauvreté pour ce qui est de l'accès à l'aide concessionnelle et à l'allègement de la dette pour un grand nombre de PMA.
- L'un des apports majeurs des PRSP est l'appropriation de plus en plus marquée par les Etats de l'action menée dans ce cadre. Une appropriation qui va de pair avec l'institutionnalisation des méthodes participatives dans l'élaboration de ces stratégies, en associant étroitement la société civile, le secteur privé, les syndicats, les femmes et les jeunes ainsi que dans certains cas les partenaires de développement eux-mêmes. Dans certains cas, à l'instar du Bénin, des activités de vulgarisation du PRSP ont même été entreprises. Au Burkina Faso, nous sommes parvenus à la conclusion qu'il faut se garder de standardiser les processus participatifs, qu'il faut les coller à la réalité du pays et responsabiliser les acteurs.
- Nos intervenants ont souligné la nécessaire cohérence qui doit prévaloir entre le processus PRSP et les autres objectifs de développement, au premier rang desquels les objectifs de développement du Millénaire (ODM) et le Programme d'action de Bruxelles sur les PMA. Les PRSP sont conçus comme des cadres fédérateurs, auxquels les partenaires au développement doivent se référer de façon prioritaire.
- A cet égard, la cohérence entre ces différents impératifs doit être un soucis constant lors de l'élaboration des politiques nationales de réduction de la pauvreté et lors de la préparation des budgets nationaux. D'où l'importance d'y associer les différentes instances décisionnelles des pays concernés et les Parlements.
- Cette cohérence doit prévaloir également au niveau international, où il importe également de mieux intégrer les stratégies de réduction de la pauvreté aux cadres macro-économiques et de les orienter vers les objectifs de croissance. A cet égard, le représentant de la CNUCED a souligné l'importance de prendre en compte la dimension commerciale, ce qui ne manquera pas d'être débattu à la XIe CNUCED, mais également d'intégrer les questions sociales, culturelles et environnementales.

- Dans la perspective de la mobilisation des ressources qui était la nôtre aujourd'hui, l'intérêt des PRSP réside également dans leur capacité à mieux aligner l'aide internationale sur les priorités définies et, partant, à accroître l'efficacité et les montants de l'aide. Il convient aussi de rappeler que les PRSP sont développés, à l'instar de l'expérience burkinabé, dans le contexte de l'introduction de l'initiative des pays pauvres très endettés (PPTE) qui donne accès à un allègement de la dette. Toutefois, plusieurs intervenants ont reconnu qu'il restait beaucoup à faire à cet égard et que l'aide restait encore trop fragmentée. Une aide mieux coordonnée, plus orientée vers l'appui budgétaire que sur les projets, est essentielle pour parvenir au renforcement des capacités nationales et parvenir à des résultats tangibles.
- Pour conclure, des mesures de renforcement du cadre PRSP devraient inclure plus de réalisme dans les objectifs et le calendrier arrêté pour les atteindre, une meilleure intégration des cadres macro-économiques avec les stratégies sectorielles, ainsi que l'ajustement du document aux changements des variables extérieures. Ceci exige également une aide accrue pour le renforcement effectif des capacités, l'harmonisation et rationalisation de la conditionnalité des bailleurs de fonds, et une cohérence renforcée entre les politiques économique, financière et commerciale.

Je vous remercie, Madame la Présidente, de votre attention et de m'avoir convié à cette rencontre importante et enrichissante.

## **ECOSOC 2004 High-Level Segment**

### **Issues Paper for Preparatory Roundtable D: “Enabling Environment and Resources Mobilization for the Least Developed Countries Emerging from Conflict: the experience of Guinea-Bissau”**

**18 March 2004**

**10:45 a.m. – 12:45 p.m.**

**ECOSOC Chamber**

**Co-chairs: H.E. Mr. Joao Jose Silva Monteiro, Minister of Foreign Affairs  
and Cooperation of the Republic of Guinea-Bissau  
Mrs. Seraphine Wakana, Minister for Planning, Development  
And Reconstruction of the Republic of Burundi**

#### **I. Introduction**

The Third United Nations Conference on the Least Developed Countries agreed, in Brussels Declaration, that *“LDCs as a whole remain marginalized in the world economy and continue to suffer from extreme poverty, LDC progress has been undermined by lack of sufficient human, productive and institutional capacity, indebtedness, low levels of domestic and foreign investments, declining trends in ODA flows, severe structural handicaps, falling or volatile commodity prices, HIV/ AIDS and for some of them violent conflicts ..”*

The challenges facing LDCs emerging from conflicts, are even more daunting. Apart from the developmental challenges normally encountered in the developing countries, they still have to deal with issues related to the transition from war to peace. Violent conflicts usually wreck their already fragile economies, destroy their social fabric and their economic and social infrastructures. At the end of the conflict, these countries find themselves in aggravated situation, with worsened poverty levels, widespread insecurity and weaker government institutions to enforce the rule of law.

#### **II. The Objectives of the Roundtable Discussion**

This issues paper is intended to serve as a background paper to orient a Roundtable discussion on Enabling Environment and Resources Mobilization for LDCs Countries Emerging from Conflict. The Panelists will consist of policy-makers and experts drawn from the Member States and UN Agencies who have policy-making or practical experience in dealing with post-conflict situations. The Roundtable discussion is scheduled to take place on 18 March, within the framework of the preparation for the ECOSOC High-Level segment to be held New York in June 2004.

The panelists will be required to grapple with two main issues, namely: what are the challenges in creating an enabling environment for stability, recovery and growth in least developed countries emerging from conflict and how can resources be mobilized from domestic and external sources in support of LDCs post-conflict reconstruction and development ? Implicit in these questions is the recognition that LDCs emerging from conflict are faced with unique challenges. Just as LDCs are prone to conflicts because of high incidence of poverty, low growth and weak institutions, they have great difficulties in coping with the political, economic and social consequences of conflict.

Thus, the Roundtable discussion is aimed to stimulate a debate and produce concrete recommendations on managing post-conflict transitions in LDCs and to shed light on the lessons learnt from experiences of LDCs emerging from conflicts. Some of these issues raised in this paper are partly inspired by the observations and experiences of the ECOSOC Ad-Hoc Working Group on Guinea Bissau and Burundi, two African LDCs that are coping with the transition from war to peace, and from rehabilitation to development.

The experience of these two LDCs emerging from conflict demonstrate the need for these countries themselves to make a special effort in managing post-conflict transitions and for the international community to provide support for the transition from war to peace and long-term development.

### **III. Issues for Discussion**

**This paper raises a number of issues that the Roundtable discussion should seek to address, both in regard to creating an enabling environment and resource mobilization. They are illustrative, rather than exhaustive of the scope of salient issues that deserve serious reflection in post-conflict situations .**

#### **Creating an enabling environment**

- 1. Lack of/or Weak Capacity to Design and Implement Reconstruction Plans and Policy** – The first priority for most post-conflict countries, including LDCs emerging from conflict, is the articulation and implementation of policies and plan for post-conflict reconstruction and development. Typically, LDCs emerging from conflict situations face the “double jeopardy” of weak institutions and poor capacity for making sound policies. Yet managing transition, although complex, is crucial, since the consolidation of the peace process often depends upon the capacity to implement plans that can restore confidence in already polarized and debilitated communities and rebuild the political cohesion. **What can be done to bridge the capacity gap during the transition and promote national ownership at the national level?**
- 2. Getting Priorities Right:** - Because LDCs emerging from conflict face a lot of daunting challenges and competing demands, there is a tendency to assign priority

to every sector or activity of the economy and society. Yet the combination of limited capacity and resources argues for careful selection and sequencing of priorities. What those few priority areas would be will differ according to country contexts. In many, demobilization and re-integration of ex-combatants would rank high. In others, broad effort at political reconciliation would be important. While, there is no single right approach to determining the priorities in post-conflict situations, there is considerable merit for policy-makers to focus on what they believe would have quick and demonstrable impacts on the process of peace-building and consolidation. **What can be done to assist LDCs emerging from conflict to set priorities that can baring quick results? How should those priorities be set in the first instance?**

- 3. Restoring Social Capital** - One of the challenges faced by LDCs emerging from conflict is the need to undertake reforms that can quickly restore mutual trust and confidence of the country's citizens, so that all can commit themselves to the reconstruction of the country and keep the donors motivated to continue to provide their support. Often, international community's assistance ceases immediately or it is drastically reduced soon after the peacekeeping operations have come to an end. As a result, unemployment rates especially among youth soar, crime is rampant and political and public support for reforms is dissipated, leading to weakening of the fledging trust and increasing the risk of sliding back into conflict. **What is it that would keep the citizens to remain committed to national reconstruction and donors to have long-term commitment to a country?**

## **Resource Mobilization**

- 4. Funding mechanisms for Post-Conflict Transition** - Most LDCs emerging from conflict lack the resources to fund their transition programmes. Yet, post-conflict reconstruction and development is a long-term process that requires significant efforts and sustainability in funding of immediate priorities. The funding for the post-conflict transition tends to be uncertain or unreliable. At present, funding mechanisms for post-conflict countries take a variety of forms. Sometimes, it takes the form of an international conference on reconstruction, in which donors interested in a given country make pledges to fund sectors or programmes in line with their interests at a given country. But there is no a guarantee that all the identified priorities will be funded. The other modality, mostly used to fund relief is through CAP's. The disadvantage of these mechanisms is that they do not allow any funding predictability and often they are not linked to long-term reconstruction and rehabilitation plans. Still another modality is a multilateral country-specific Trust Fund, usually located in one of the International Development or Financial institutions. Infrequently, the Consultative Group or a Roundtable mechanism is pressed to service in support of post-conflict reconstruction. Regardless of the modality adopted, the challenge is to find a funding process or mechanism that adequately responds to the need of each LDC emerging from conflict, including debt relief. Following a

recommendation by the ECOSOC Ad Hoc Advisory Group on Guinea-Bissau, a UNDP managed Emergency Economic Trust Fund has been set up for this country, an innovative mechanism to channel emergency assistance. Proposals have been made in the framework of the Brookings Institution to establish strategic post-conflict recovery facilities, to be chaired by the Deputy Secretary-General and which would report to ECOSOC. **How can a multi-year facility be created and how can it be operated in order to promote the necessary capacity and ownership from the very early stages? How can the appropriate funding mechanism “be devised for an LDC emerging from conflict? Which role could ECOSOC play in that respect?**

5. **Enhanced Coordination Among Partners in Post-Conflict LDCs reconstruction** - A myriad of agencies and organizations of the UN system and bilateral development partners are usually involved in the post-reconstruction and development efforts of LDCs emerging from conflict. This argues for enhanced coordination among various partners supporting a particular post-conflict LDC. LDCs emerging from conflict can benefit immensely from such enhanced coordination, to the extent that it improves harmonization and simplification of partners procedures, allowing the LDCs to use its limited institutional capacity for the delivery of public services rather than aid coordination and management. The growing use of Joint Needs Assessment Missions in post-conflict countries offers a tool for policy coherence and concerted action among partners. At the intergovernmental level, the ECOSOC Ad Hoc Advisory Groups on Guinea-Bissau and Burundi have proved to be important mechanisms to mobilize support within and beyond the UN system and to ensure coherence in the political and economic treatment of these situations. **What mechanisms can better promote policy coherence and concerted action among partners supporting LDCs emerging from conflict? Should ECOSOC Ad Hoc Advisory Groups be expanded to address the needs of other LDCs, including non African ones, emerging from conflict? How can LDCs emerging from conflict be assisted to conserve on its scarce institutional capacity for aid coordination?**

## ECOSOC 2004 High-Level Segment

### Roundtable D:

### “Enabling Environment and Resources Mobilization for the Least Developed Countries Emerging from Conflict: the experience of Guinea-Bissau”

18 March 2004

#### Summary

*[Translated from French]*

**Co-chairs: H.E. Mr. Joao Jose Silva Monteiro, Minister of Foreign Affairs and Cooperation of the Republic of Guinea-Bissau  
Mrs. Seraphine Wakana, Minister for Planning, Development and Reconstruction of the Republic of Burundi**

- I had the honour to co-chair a roundtable with H.E. Mrs Serafine Wakana, Minister of Planning, Development and Reconstruction of Burundi and Mr. Ibrahim A. Gambari, Under Secretary-General and Special Adviser on Africa, to engage in an rich and interactive debate on LDCs emerging from conflict with international organizations such as the World Bank, IMF, UN agencies such as UNICEF and WFP, and with member states. I am going to summarize for us, the key points of the debate.
- The presentations highlighted the economic and social challenges faced by least developed countries in the post-conflict phase, particularly the short term reconstruction of infrastructure, the return and reintegration of refugees and internally displaced people, the ‘social cost’ of conflicts, particularly on women and children, and growing poverty among post-conflict populations. It must also be noted that DDRR programmes aimed at rehabilitating and reintegrating ex-combatants as well as security sector and police reform and reorganization place a very heavy burden on post-conflict economies particularly of the least developed countries.
- The combination of these challenges impose a huge burden on a country’s public administration and governance capacity, which is exactly what is weakened during the period of conflict. In the “transition” period, as was experienced in Burundi and Guinea-Bissau. Indeed, the period prior to and following the elections is fragile and sensitive to all sorts of internal and external shocks. In general, countries emerging from conflict continue to display considerable fragility in the post-election phase and therefore merit the continuous and full engagement of the international community.
- It is during the immediate post-conflict phase, that innovative responses need to be formulated to deal with mounting challenges facing the achievement of national priorities, particularly given the lack of both financial and technical

resources. The international community has an important role to play in this respect to assure that countries emerging from conflict can consolidate and maximize the peace dividend and, more importantly, arrest the regression of the country back into conflict. In this regard, many participants stressed that aid conditionality may constitute a great hindrance for the impact and objective of international assistance and that there is a need to review them in the case of the countries emerging from conflict. Furthermore, it was proposed that an emergency financing mechanism managed by the United Nations be put in place, in order to allow for the rapid and unconditional disbursement of funds to conflict and post-conflict countries.

- The Ad Hoc Advisory Groups created by ECOSOC for Guinea Bissau and Burundi constituted an innovative response and were judged to be positive by all the participants. These Groups had succeeded in creating a synergy of efforts around the needs of the concerned country as well as help to galvanize the support of the international community. The recommendations of the Ad Hoc Advisory Group had resulted in the initiation of a special partnership between the international community and Guinea Bissau as well as the establishment of an Emergency Economic Trust Fund operated by UNDP in order to channel funds from the international community directly to the country. This Fund which has benefited from technical assistance from IMF, received contributions from donors.
- In the case of the Ad Hoc Advisory Group on Burundi, an unprecedented dialogue and process of consultation between Burundi, its neighbouring countries, donors and international organizations including the Bretton Woods Institutions, resulted in the general mobilization of key institutions and institutional mechanisms in favour of the country's special need. This mechanism added to the Interagency Appeals Process for Humanitarian assistance (CAP) and the Forum of Development Partners held in January 2004 in Brussels. At this meeting, substantial assistance was committed, which needs to be followed-up by concrete disbursements.
- The interaction between ECOSOC and the Security Council was also commended, in that it allowed the two bodies to work on political, security, economic as well as social approaches to peace consolidation. These approaches complemented regional efforts in seeking sustainable solutions, which have demonstrated a strong ownership by African leaders of efforts made in favour of peace on the continent.
- The World Bank participated from the point of view of "Low Income Countries Under Stress" (LICUS) that currently comprises a portfolio of about 40-50 countries. The World Bank highlighted the desirability of closer cooperation and coordination with the United Nations, particularly the Security Council in the area of political and security issues in order to ensure complementarity with the Bank's work in the social and economic sectors. The Bank also highlighted the sporadic

nature of international assistance within LICUS countries commenting that some countries (Afghanistan and East Timor) received significantly more assistance than the two countries taken as case studies (Burundi and Guinea Bissau). Both the World Bank and the IMF stressed the need for donors to look beyond the short term and engage on the medium to longer term programme, that considered the interlinkages between the economic, social, political and security challenges that faced a country in order to coordinate the most effective assistance programmes.

- UNICEF highlighted the initiative of the United Nations Development Group (UNDG) to put in place a plan for the multi year resource mobilization mechanism based on lessons learned from the Common Country Assessment (CCA) and United Nations Development Assistance Framework (UNDAF) processes. This mechanism would be available for “transition” countries facing post conflict challenges to access short term funding without delays.
- The Deputy Executive Director of World Food Programme highlighted the need to establish national development priorities during the post-conflict stage, including quick impact projects that allow agencies and donors to give immediate support for short-term projects that link to longer-term development goals. WFP stressed that resources need to be made available immediately and without restriction to post-conflict countries.

This ends my summation of the major points raised during our discussion Madam President. I thank you for your attention.

## **ECOSOC 2004 High-Level Segment**

### **Issues Paper for Preparatory Roundtable E: “Trade and market access preferences – commitments, achievements, challenges and prospects: the experience of Burkina Faso**

**18 March 2004  
10:45 a.m. – 12:45 p.m.  
Conference Room 6**

**Co-chairs: H.E. Mr. Tertius Zongo, Ambassador of Burkina Faso to the  
United States  
Mr. Anwarul K. Chowdhury, Under-Secretary-General and High  
Representative for the Least Developed Countries, Landlocked  
Developing Countries and Small Island Developing States**

1. Trading arrangements providing preferences to exports from developing countries constitute a traditional feature of the international trading system. In recent years, several development partners have reviewed their schemes of generalized tariff preferences (GSP) by granting more favourable treatment (in some cases, quota-free, duty-free) to products originating in LDC beneficiaries. However the utilization of preferences has remained relatively low. Thus the question arises whether the existence of such special market access preferences for LDCs, while representing a laudable effort on the part of the international community to ease access to developed countries' markets, has indeed brought the expected benefits to LDCs, in terms of increased export revenues, investment, employment creation, product diversification and strengthened productive capacity.
2. Experience has shown (see table in the annex) that generally LDCs make only very limited use of the preferential schemes to which they have access. The real benefits deriving from the available tariff advantages keep falling short of the potential, hence undermining the effectiveness of preferences. The Roundtable may wish to explore the reasons behind these shortcomings and discuss ways to overcome the problems thus enhancing the effectiveness of trade preferences.
3. Extending the scope of unilateral trade preferences in new areas of interest for LDCs, whether in the traditional domain of goods or in new fields such services, could also be investigated. Such a departure from “traditional preferences” could, inter alia, also mitigate the negative impact of preference erosion
4. Given the current unilateral legal status of these preferences, the solutions to existing limitations primarily depends on the good-will” of preference giving countries.

#### **The issue of utilisation of trade preferences**

5. The following factors are regarded as the main obstacles to the full utilization of preferences.

- ***Unpredictability of market access preferences and lack of harmonisation of requirements under the various preferential schemes***

6. The current autonomous character and limited duration of unilateral preferences create uncertainties that are generally exacerbated by built-in eligibility reviews of both product coverage and beneficiary countries. These factors may undermine the capacity of LDC beneficiaries to implement long-term industrial plans and attract FDI flows. Although the EU EBA initiative has improved the duration of preferences (now granted for an indefinite period) while AGOA abandoned the determination of the product coverage (whose reviews are no longer on an annual basis) there is still scope for ameliorating the stability of the preferential schemes. What kind of instrument could be envisaged at multilateral level to address the instability of preferential trade arrangements?

7. A closely linked issue is the lack of harmonisation of requirements in the various preferential schemes, which imposes an unnecessary administrative burden and relative transaction costs to LDC exporters, who have to cope with different sets of conditions depending on the export market. How, could these conditions for markets access preferences be harmonized at the best possible practice to simplify the use of such schemes and minimize the costs in order to maximize LDCs benefits? What lessons could be drawn from AGOA, EBA and other preferential schemes in this regard?

- ***Rules of origin***

8. Rules of origin are rightly regarded as a predominant cause of the under-utilization of trade preferences. As preferences are granted unilaterally and non-contractually, preference-giving countries have consistently expressed the view that they ought to be free to decide on the rules of origin, although they have indicated their willingness to hear the views of beneficiary countries. Yet experience shows that basic requirements and the rationale for rules of origin has remained almost unchanged for nearly 30 years with beneficiary countries facing a wide variety of non-harmonized provisions. Even in practical aspects such as certification, control, verification, sanctions and mutual cooperation the progress of harmonization has been limited.

9. One major issue revolves around the criteria used in determining origin. Practice shows that the “domestic content” often requires beneficiary countries to devise and operate an accounting system to detect the local value added that is conceptually and operationally different from national legal requirements, and often beyond the capacity and resources of local enterprises. By contrast, it has been argued that the “import content” is more easily defined (the value of imported goods), and the determination of its exact value leaves less room for doubtful or incorrect interpretation. How could the experience of the various GSP schemes provide some useful guidance and clearer rules in this regard?

10. Another important issue is the mismatch between rules of origin and industrial capacity of beneficiary countries, which in some respects, is closely linked to the issue of supply side constraints (see paragraph below). Indeed, often the conditions required are overly stringent and fail to recognize competitive international supply chains where different stages of production take place in different locations to reap comparative advantages and thus cost-savings. When the sourcing of input from external suppliers is

considered by domestic firms a factor of competitiveness more important than the use of market access preferences, then it comes as no surprise that preferences are under-utilized. It is interesting to note that both the EU GSP and US AGOA implicitly recognize this difficulty, particularly for the LDCs. Yet the solution they provide (normally in form of time-limited derogation from the general rule) is not generally applicable to all LDCs (as a non-discrimination principle would require) but rather, follow a case-by-case approach. Thus the EU grants derogation to certain Asian LDCs to import regional fabrics above the value allowed by the applicable general cumulation rule giving them an important economic benefit that other LDCs are not entitled to. The AGOA too, provides a special dispensation on rules of origin on textiles and clothing exports from SSA LDCs. Other regional trade agreements (for example within the SADC region) also provide similar special provisions for LDCs members.

11. Although these measures are generally subject to export quotas they do offer a viable avenue for a full utilization of preferences. Given the proven effectiveness of such initiatives, why then shouldn't all LDCs be entitled, as a starting point, to such a treatment? In addition, how could preferential rules of origin be simplified (and possibly harmonized) to reflect the industrial capacity and supply chains of LDCs while at the same encouraging south/south trade by providing for LDCs and developing countries cumulation as is the case in some schemes, such as Australia?

- ***Subsidies in developed countries***

12. Subsidies artificially increase the competitiveness of producers in the developed countries, thereby making it very difficult for LDC exporters to compete on the world market despite that they might have comparative advantages on certain subsidized products (cotton is a striking and well known example). The dubious combination of market access preferences and agricultural subsidies in developed countries reveals a lack of policy coherence that can make a set of development policies ineffective, in particular with regard to the role of trade in poverty reduction strategies. What kind of measures can be envisaged to improve coherence in the different policies relevant to aid, trade, technical assistance with the objective of reducing poverty?

- ***Non-tariff barriers***

13. Overcoming non-tariff barriers to trade and complying with product standards normally set by importing countries and large distribution networks —be they technical barriers to trade, sanitary or phytosanitary measures or other market entry conditions— is a formidable challenge for many LDCs, and often a greater market access problem than tariff barriers. As in the case of rules of origin, this issue is closely linked to that of supply side constraints as most LDCs lack adequate infrastructure, such as internationally accredited and recognized laboratories with advanced testing equipment, lack of technology and diffusion processes (for example with regard to quality), lack of production structures but also poor legislative capacity, limited skills and training capacities, and a lack of engagement in international standard-setting. Failure to comply with these product requirements, not only translate in foregone export opportunities: the fish as seafood export bans that in different times have been imposed to Mozambique, Uganda, Tanzania and Bangladesh (all LDC countries) on safety/standards ground have clearly shown that the social-economic effects of such a measures can be serious. Do

current capacity building efforts ensure a proper balance between knowledge and skill needs on the one hand and infrastructural requirements (institutions and equipment) for meeting product quality and standards on the other?

- ***Supplies side constraints***

14. Recent studies point out that supply side constraints, rather than market access are the main obstacle and limitation for LDCs export performance.

15. Therefore, improved market access, if it is to be fully exploited by these countries, should be accompanied by other measures and innovative instruments aimed at addressing these important limitations. Such measures could include, for example, home countries granting fiscal incentives to foreign investors investing in LDCs. Is there a scope for such measures or others which would complement the liberalized FDI regimes of LDCs to generate supply-side responses to market access opportunities?

**The issue of expanding preferential coverage and its scope**

16. Most LDCs are now granted improved preferential market access in developed countries (particularly in the Quad). However, further improvement need to be made in order to minimize the negative impact of preference erosion that is taking place as a result of multilateral, regional and bilateral trade initiatives and this underscores the temporary nature of these preferences. In north-south preferential trade, the unavoidable negative consequences of preference erosion could be partially remedied through efforts to establish or deepen preferential margins. There are a number of “sensitive” products of interest to LDCs (and where they could gain considerable benefits) such as garments and agricultural products that still attract relatively high tariffs and currently are partially or not covered by preferences (tariff quotas for LDCs’ sugar, bananas and rice under EBA is an illustrative case). Recent initiatives similar to the EBA to improve market access for LDCs products like those adopted by Canada (dairy, eggs and poultry excluded) and Australia (no product excluded and the rules of origin provide for LDCs and developing countries cumulation) in 2003 are commendable and should be followed by other countries.

17. There appears to be also considerable scope to enhance south-south preferential trade. The GSTP provides an effective instrument through which LDCs could secure improved market access to other developing countries. What are the practical modalities for enhancing LDCs participation in South-South trade?

18. Finally, besides improving trade preferences either in their product or geographical coverage, possibilities exist for enlarging the scope of preferences in new areas such services. Indeed there is a growing consensus that services, and in particular the temporary movement of persons (the so-called mode four of the GATS) might have a far larger positive effect on the economies of developing and least developed countries than current trade in goods in terms of both value added (the labour force) and investments (through remittances. If so, how could a suitable “preferential scheme for services” be properly designed and implemented to have a significant and positive impact upon LDCs economies?

### **The issue of granting the same level of preferences to all LDCs**

19. The existence of so many unilateral preferential trade arrangements and of *ad-hoc* improvements that over time have been sought by specific beneficiary countries in order to accommodate legitimate concerns with regard to the functioning of the preferential schemes have eventually created a highly segmented preferential treatment within the same LDCs group. Most recent initiatives have only partially addressed this issue, leaving the principle of non discrimination in the treatment provided to LDCs under the current GSP schemes a continuing concern to affected LDCs.

20. The example presented before on the special derogation in the domain of rules of origin (more specifically on cumulation) granted by the EU under its GSP scheme to certain Asian LDCs only and not to all LDCs, is already a case in point. The AGOA initiative, although laudable, seems to provide different treatment on a double ground: between LDCs as group and between LDCs that are not beneficiaries of AGOA and AGOA beneficiaries developing countries. As for the former, it is well known that Asian LDCs are excluded from AGOA benefits (although for Cambodia, as an example, an arrangement to allow export quotas of garments in the US market has been put in place). The latter case is even more evident as LDCs not benefiting from AGOA have a more restricted market access than SSA developing countries. Both situations raise the question of non-discrimination and of their compatibility with the original principles behind the creation of the GSP.

### **The issue of technical assistance**

21. Capacity development for trade in LDCs is a critical element in taking advantage of market access opportunities granted to them. It has been noted by LDCs that the current emphasis of trade-related technical assistance (TRTA) is focused more on policies, trade regulations, compliance and trade facilitation and less on addressing supply-side constraints which is essential for taking advantage of preferential market access. It has been suggested that in order to redress this bias, the IF Diagnostic Trade Integration Studies (DTIS) expand their analysis to cover productive sector development. In addressing these needs what have been the lessons from trade-related technical assistance provided to LDCs so far, including through the Integrated Framework initiative? Has the response of development partners been sufficiently commensurate with the needs?

22. In concluding, it appears that the overall policy challenge of the international community to provide tangible export opportunities to LDCs is to enhance existing preferential schemes, including their scope, while supporting and encouraging structural improvements in the productive capacities of LDCs. Realizing this dual objective requires, on the part of preference-giving countries, a constructive partnership with LDCs need to be strengthened. In what way can this be realized?

Annex table:

## The use of market access preferences granted by Quad countries to LDCs

Country	Year	Total imports	Dutiable imports	Imports eligible for GSP treatment	Imports receiving GSP treatment	Product Coverage ratio	Utilization ratio	Utility ratio
(1)	(2)	(3)	(4)	(5) million \$	(6)	(5)/(4)	(6)/(5) %	(6)/(4)
Quad	1994	5,347.0	3,917.3	2,071.0	999.0	52.9	48.2	25.5
	1995	6,087.8	4,706.1	2,564.3	1,361.2	54.5	53.1	28.9
	1996	9,956.3	7,451.1	2,985.0	1,517.9	40.1	50.9	20.4
	1997	10,634.1	8,163.4	5,923.1	1,788.2	72.6	30.2	21.9
	1998	9,795.7	7,915.1	5,564.2	2,704.5	70.3	48.6	34.2
	1999	10,486.5	8,950.4	5,869.3	3,487.5	65.6	59.4	39.0
	2000	13,359.2	11,715.5	7,836.0	4,990.2	66.9	63.7	42.6
	2001	12,838.2	11,167.1	7,185.5	4,919.9	64.3	68.5	44.1
Canada	1994	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1995	175.9	41.3	6.4	4.1	15.5	64.1	9.9
	1996	336.9	34.5	6.3	2.9	18.3	46.0	8.4
	1997	205.3	47.3	8.6	4.7	18.2	54.7	9.9
	1998	256.0	92.1	9.8	5.8	10.6	59.2	6.3
	1999	154.6	60.7	8.2	4.9	13.5	59.8	8.1
	2000	180.1	75.9	9.9	7.2	13.0	72.7	9.5
	2001	243.2	94.6	11.4	8.0	12.1	70.2	8.5
European Union	1994	2,471.2	1,823.4	1,791.7	748.1	98.3	41.8	41.0
	1995	2,814.6	2,277.8	2,246.3	1,077.6	98.6	48.0	47.3
	1996	3,219.0	2,580.3	2,520.1	1,196.8	97.7	47.5	46.4
	1997	3,614.8	2,926.3	2,888.8	770.8	98.7	26.7	26.3
	1998	3,519.4	2,932.1	2,908.0	761.8	99.2	26.2	26.0
	1999	3,562.2	3,100.9	3,075.2	1,035.0	99.2	33.7	33.4
	2000	4,247.1	3,671.7	3,633.6	1,499.5	99.0	41.3	40.8
	2001	4,372.4	3,958.1	3,935.7	1,847.4	99.4	46.9	46.7
Japan	1994	1,120.5	695.5	211.2	200.5	30.4	94.9	28.8
	1995	1,309.8	912.7	241.9	230.1	26.5	95.1	25.2
	1996	1,504.3	939.8	388.9	269.9	41.4	69.4	28.7
	1997	1,204.9	757.3	306.3	222.1	40.4	72.5	29.3
	1998	1,045.4	643.8	364.0	189.9	56.5	52.2	29.5
	1999	989.0	679.6	366.2	231.9	53.9	63.3	34.1
	2000	1,236.5	881.3	615.3	236.0	69.8	38.4	26.8
	2001	1,001.3	398.1	278.3	228.4	69.9	82.1	57.4
United States	1994	1,755.3	1,398.4	68.1	50.4	4.9	74.0	3.6
	1995	1,787.5	1,474.3	69.7	49.4	4.7	70.9	3.4
	1996	4,896.1	3,896.5	69.7	48.3	1.8	69.3	1.2
	1997	5,609.1	4,432.5	2,719.4	790.6	61.4	29.1	17.8
	1998	4,974.9	4,247.1	2,282.4	1,747.0	53.7	76.5	41.1
	1999	5,780.7	5,109.2	2,419.7	2,215.7	47.4	91.6	43.4
	2000	7,695.5	7,086.6	3,577.2	3,247.5	50.5	90.8	45.8
	2001	7,221.3	6,716.3	2,960.1	2,836.1	44.1	95.8	42.2

**Source:** Based on UNCTAD (2003, forthcoming).

**Notes:** (a) Values for Quad countries for 1995 exclude Canada; (b) figures are based on member State notifications; (c) figures for Japan are based on fiscal years; (d) figures for the European Union for 1994-1995 exclude Austria, Finland and Sweden.

**Résumé de la Table Ronde E :**  
**« PMA : Commerce et Préférences commerciales dans l'accès aux marchés - Engagements, réalisations, défis et perspectives : l'expérience du Burkina Faso »**

**le 18 mars 2004**

**Presidé par : S.E. M. Tertius Zongon, Ambassadeur du Burkina Faso  
auprès des Etats Unies  
M. Anwarul Chowdhury, Secrétaire Général Adjoint et  
Haut Représentant**

La Table Ronde E s'est focalisée sur les questions du commerce et l'accès aux marchés, ce qui est un sous-thème du thème général du Segment de Haut Niveau sur « la mobilisation des ressources et le lutte contre la pauvreté dans les Pays les Moins Avancés (PMA) » Pour relever le défi majeur qu'est la pauvreté, les stratégies doivent cibler les populations vivant dans la campagne et revaloriser leurs activités qui sont composées essentiellement de la production des produits de base. Cependant comme on le constate, les subventions des pays développés et les autres barrières sapent la compétitivité des produits d'exportation des PMA.

- ❖ La Table Ronde a permis d'engager un dialogue interactif avec toutes les parties prenantes sur le Commerce et les Préférences commerciales dans l'accès aux marchés des pays développés pour les produits originaires Pays les Moins Avancés (PMA). Elle a mis en exergue les différentes initiatives d'accès préférentiel aux marchés des pays développés mises en place en faveur des PMA, notamment la Loi sur la Croissance et les Possibilités Economiques en Afrique (AGOA), « Tout sauf les armes » (EBA). En outre, le débat a aussi porté sur le cadre intégré établi pour aider les PMA à renforcer leurs capacités en matière de commerce.
- ❖ La question posée était aussi de savoir si ces initiatives louables ont répondu aux attentes des PMA, en terme d'augmentation des revenus d'exportation, d'investissement, de création d'emplois, de diversification des produits et aussi de renforcement des capacités productives.
- ❖ Il s'est avéré que le taux d'utilisation des ces initiatives par les PMA reste très faible. Ainsi, les discussions ont permis d'identifier les contraintes rencontrées pour exploiter les avantages accordés aux PMA et les actions à mener pour surmonter ces obstacles.
- ❖ Les échanges de vue entre les participants ont démontré que beaucoup reste à faire pour maximiser l'utilisation des opportunités disponibles. Les contraintes identifiées comme obstacles majeurs à une meilleure utilisation des initiatives en faveur des PMA sont en autres les suivantes :

- Le manque d'harmonisation des conditions requises par les divers programmes
  - La question de la règle d'origine
  - Les subventions dans les pays développés
  - Les contraintes liées à l'offre
  - La durée des programmes et les produits qu'ils couvrent ;
  - La question du renforcement des capacités
- ❖ Le cas de la filière coton du Burkina Faso a été présenté pour illustrer les obstacles que rencontrent les PMA dans leurs efforts d'intégration au marché mondial. La démarche proposée est basé sur trois éléments essentiels :
- a. L'application des règles du marché
  - b. La reconnaissance que les PMA ont une compétitivité évidente dans un certain nombre de produits dont le coton, et
  - c. Le coton dont la filière a été assainie, constitue un produit stratégique pour de nombreux PMA africains.
- ❖ Recommandations :
- Stabiliser les programmes préférentiels en augmentant leurs durées, leur prévisibilité et en élargissant la gamme des produits visés (AGOA inclus) ;
  - Harmoniser les procédures requises par ces initiatives en les simplifiant afin de réduire les lourdeurs administratives et les coûts y afférant ;
  - La suppression des subventions et des barrières non tarifaires dans les pays développés ;
  - L'institution d'un système de compensation pour les pertes financières des PMA liées notamment à ces subventions ;
  - L'intégration du commerce dans la stratégie de développement nationale des PMA
  - La diversification horizontale et verticale des produits
  - L'appropriation par les PMA des initiatives offertes, y compris l'engagement de toutes les parties intéressées au niveau national, surtout le secteur privé ;
  - Le renforcement des échanges dans le cadre régional de la coopération Sud-Sud pour mieux tirer profit des initiatives offertes aux PMA ;
  - Approche multilatérale coordonnée de l'assistance aux PMA ;
  - La synergie et le renforcement des programmes d'assistance technique, le renforcement des capacités et de formation en matière de commerce ;

## ❖ Conclusion

La Table ronde a fourni l'occasion de clarifier plusieurs questions pertinentes relatives à l'accès aux marchés et à l'intégration des PMA aux marchés mondiaux. Enfin, les participants ont confirmé que le commerce doit servir à réduire la pauvreté et que les engagements pris dans le cadre du programme de Bruxelles devraient être respectés.

## ECOSOC 2004 High-level Segment

**Issues Paper for Investment Promotion Forum Roundtable A:  
“Local Private Sector Development: The Role of Microfinance/Microcredit”  
*Achieving the Goals of the Brussels Programme of Action and the Millennium Development Declaration*  
Hosted by UNCDF and ILO**

**28 June 2004  
3:35 p.m. – 5:30 p.m.  
ECOSOC Chamber**

**Chair: H.E. Mr. Mathieu Kérékou, President of the Republic of Benin**

Well functioning microfinance systems are vital for the prosperity of poor people, as well as the long-term growth of local private sectors and vibrant national economies. In least developed countries (LDCs) microfinance has a particular significance because it:

1. Reinforces domestic resources through savings mobilisation;
2. Channels resources to micro- and small enterprises often unreachable to banks, so that small, often job-creating investments can be undertaken; and,
3. Builds industry innovation, bridges to banks and thus develops financial sectors.

Although specific numbers for LDC's are not available, according to 2003 estimates over 750 million poor and low-income people access microfinance worldwide<sup>3</sup>. Even though the actual amounts are small, for example, the average loan size of UNCDF-UNDP supported programs is \$44<sup>4</sup>; in aggregate they can represent a significant portion of the assets and liabilities of the financial systems of LDC's.

There are three key components to financial intermediation – deposit systems, lending systems and capital flow systems – in other words savings, credits and remittances.

Savings instruments need to be secure and sustainable, suitable for the demand of poor people. One of the major challenges is to make the domestic savings work for development. An extensive survey conducted in Uganda reported that people who have access to the formal sector saved three times as much (\$386) in the 12-month period studied than those who saved in the semi/informal sectors.<sup>5</sup> In 2001, 539,163 savings passbook accounts in Rwanda with an average account size of \$57 pulled almost \$40 million into circulation. Although this may not appear significant, proper circulation of these funds into credit products could have a significant multiplier effect in the Rwandan economy. Wherever village banks and MFIs are set up they draw on increasing amounts of savings: in Benin up from \$ 8 million in 1993 to \$ 60 million ten years later, in

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<sup>3</sup> MFC Conference May 2004, E. Littlefield Presentation (CGAP).

<sup>4</sup> All amounts in US (\$).

<sup>5</sup> *MicroSave* Africa Briefing Note #6, “The Relative Risks to the Savings of Poor People” Graham A. N. Wright and Leonard Mutesasira. Microsave is a research initiative started by UNCDF/UNDP.

Burkina up from \$ 3,4 million to \$ 43 million.<sup>6</sup> After Benin's financial sector underwent deep structural adjustments in the 1990s, the government implemented a programme of rural savings and loans designed to better serve the poor. The economy grew at an annual rate of 5% during the last five years. From a national perspective, the provision of secure and accessible savings systems both inculcates savings habits and, if efficiently intermediated, can spiral economies upward through increased investment.

Credit, often referred to as “the fuel of private sector development”, can give people the means to invest according to their own priorities. Even if the poverty impact is not immediately apparent in an increase in household income, access to finance can start a long-term development process. From a national resource strategy perspective, credit provided to the poor is a tool to invest in the productive capacities of local communities, facilitate the inclusion of poor people in economic flows, support the growth of local markets, and extend economic opportunities through new jobs. Good microcredit induces investment in high return projects, which in turn, accelerate economic growth. While the number of poor people worldwide who benefited from microcredit between 1997 and 2001 quadrupled, the unmet demand is huge: in West Africa microfinance institutions reach on average only between 8 and 15% of the working population<sup>7</sup>; and in most LDCs the penetration rates exceeds 1%.<sup>8</sup>

Remittances exceed official development assistance throughout the 1990's. They represent the second largest source, behind foreign direct investment (FDI), of development financing.<sup>9</sup> Though the extent of remittance flows are difficult to accurately assess because a great portion is sent through informal channels<sup>10</sup>, it is estimated that in 2003, \$88 billion was sent to developing countries from migrant workers. Among low-income developing countries<sup>11</sup>, formal remittances, sent through wire services or banks, represented 2.9% of the total GDP (\$26 billion) and 380% of FDI.<sup>12</sup>

Remittances generally are used for consumption, land, housing construction, school fees, food depots, dispensaries, fire engines and so on. Moreover, remittances can make up the largest source of family disposable income<sup>13</sup>. Lesotho receives remittance payments totaling 27% of the country's entire GDP and remittances in Cape Verde amount to 14% of the country's GDP. In Bangladesh, remittances totaled \$3.06 billion in 2003.<sup>14</sup> Remittances remain a relatively steady source of funds and have a significant development impact.

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<sup>6</sup> ILO/BCEAO, PASMEC Poverty Observatory.

<sup>7</sup> ILO/BCEAO, PASMEC Poverty Observatory 2003

<sup>8</sup> Christen (2001), Forster et al(2003), Charitonenko et al. (2002); *World Development Indicators*.

<sup>9</sup> Dilip Ratha, “Workers’ Remittances: An Important and Stable Source of External Development Finance,” *Global Development Finance 2003*, World Bank, 2003, p. 157.

<sup>10</sup> ILO Social Finance Working paper no.21: Migrant workers remittances, microfinance and the informal economy: prospects and issues, by S.Puri and T.Ritzema, 1999

<sup>11</sup> World Bank definition based on gross national income (GNI) per capita less than \$735.

<sup>12</sup> Ibid. (revised 2002 figure).

<sup>13</sup> ILO Social Finance Programme, 5 country case studies: [www.ilo.org/socialfinance](http://www.ilo.org/socialfinance)

<sup>14</sup> World Bank “Informal Fund Transfers in the APEC Region: Initial Findings and a Framework for Future Analysis” (2003), p. 21.

Government policies are recognized as key for efficiency in financial intermediation. Minor policy adjustments can have a greater effect than multiple institution-building projects. ILO supported research in Africa<sup>15</sup> shows, for example, slight modifications in the rules for market access, regulations and supervision and monetary policies can have a tangible effect on the access of microentrepreneurs to a regular supply of affordable investment finance.

**Key Questions to be Addressed by the Roundtable:**

1. What are the unique constraints faced in LDCs to bring financial products closer to micro and sme businesses on a massive scale and a sustainable basis?
2. How can LDCs better use microfinance as a tool to grow their local micro and sme private sectors?
3. What policies can LDC governments implement to better facilitate financial intermediation for local private sector development?

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<sup>15</sup> ILO Social Finance Programme: Impact of Financial Sector Liberalisation on the Poor (IFLIP)

## **ECOSOC 2004 High Level Segment**

### **Issues Paper for Investment Promotion Forum Roundtable B: “Attracting foreign direct investment in LDCs” Hosted by UNCTAD**

**28 June 2004  
3:35 p.m. – 5:30 p.m.  
Conference Room 6**

**Chair: H.E. Mr. Sam Kutesa, Minister of State for Finance, Planning  
and Economic Development of the Republic of Uganda**

Foreign direct investment (FDI) can make a contribution to development by bringing capital, technology, skills and access to markets. Global FDI flows were around \$650 billion last year, and are expected to be of a similar magnitude this year. Flows to developing countries are about \$160 billion this year. This compares to some \$40 billion world FDI flows during the beginning of the 1980s.

The least developed countries (LDCs), too, receive FDI – some \$ 5 billion this year. This corresponds to 3% of flows to developing countries. This amount is not insignificant: it represents some 7% of the gross domestic capital formation of LDCs (compared to 11% for the developing countries as a group) and is about three fifths of the bilateral official development assistance these countries receive.

But it is not enough to help accelerate the development process of LDCs. Hence all LDCs seek to attract FDI, as a complement to domestic investment. This is not an easy task: the world market for FDI is highly competitive as virtually all countries (and frequently also provinces and cities) seek to attract FDI and, equally important, seek to benefit from it as much as possible.

In this context, this Roundtable seeks to focus on the following three sets of questions:

1. What can be done – by host countries, home countries, transnational corporations (TNCs), the international community – to reduce the risk of investing in LDCs? This is a question of particular importance as regards capital intensive infrastructure projects and in the context of sudden and steep devaluations.
2. What can investment promotion agencies (IPAs) of LDCs do – beyond what they are already doing – to attract more FDI, especially of the type they seek most? Are there any niches LDCs should explore? How can they benefit from the offshoring of services?

3. What can be done – by host and home countries, TNCs, the international community, – to increase the benefits LDCs derive from FDI?

More specifically, the Roundtable seeks to develop, in an interactive manner, concrete new ideas for each of these three sets of questions – and each of the panelists is invited to contribute in this respect.

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**ECOSOC 2004 High Level Segment**  
**Investment Promotion Forum Roundtable B:**  
**“Attracting Foreign Direct Investment in Least Developed Countries”**

**28 June 2004**  
**3.35pm – 5.30pm**  
**Conference Room 6**

**Summary**

**Chair: H.E. Mr. Sam K. Kutesa, Minister of State for Finance, Planning and Economic Development, Uganda**

The Roundtable on the theme of “Attracting foreign direct investment (FDI) to Least Developed Countries (LDCs)” attracted wide participation from representatives of governments, the business community, civil society, academia and UN system organizations. The importance of attracting FDI to LDCs and ensuring their maximum benefit from it was emphasized as one avenue for resources mobilization in efforts to fully implement the Programme of Action for the LDCs in the Decade 2001-2010.

The Roundtable focused on the following three sets of questions, in an attempt to tease out new ideas:

1. What can be done – by host countries, home countries, transnational corporations (TNCs), the international community – to reduce the risk of investing in LDCs given the particular importance of capital intensive infrastructure projects, and in the context of sudden and steep devaluations?.
  
2. What can investment promotion agencies (IPAs) of LDCs do – beyond what they are already doing – to attract more FDI, especially of the type they seek most? Are there any niches LDCs should explore? How can they benefit from the offshoring of services?
  
3. What can be done – by host and home countries, TNCs, the international community, – to increase the benefits LDCs derive from FDI?

**Risk mitigation**

There was a general feeling that the idea of risk mitigation should be extended beyond political risks now covered by agencies such as MIGA and OPIC to include commercial risks in order to respond to the actual needs of the private sector to protect their investments. A number of new and innovative mechanisms were suggested in this regard (especially as regards large infrastructure projects), including:

- The establishment of a devaluation liquidity facility
- Local currency swap facility

- Targeting donor co-finance
- Project pooling
- Equity and other joint venture guarantee schemes for cover large investments that local entrepreneurs are unable to fund but could co-own with foreign investors as a way of spreading risk
- The possibility of utilizing ODA to leverage FDI, by partnering governments with private financial institutions and investors as a way of mitigating risk, and
- Regional investment frameworks to provide stability and to widen markets.

The instruments involved are complex and not yet fully understood nor broadly in use even in developed countries. A lot more needs to be done to bring together experts in these areas, private investors and government officials to discuss the issues involved on an ongoing basis. The need for external resources to fund some of the schemes was recognized.

It was pointed out that the role of ODA in leveraging foreign and domestic investment could be seen in the context of implementing some of these instruments.

It was also stressed that all measures that are currently undertaken to mitigate risks like host-country measures and insurance schemes remained valid and should not be jettisoned but complemented by new innovations.

#### The role of Investment Promotions Agencies

In trying to task IPAs beyond business as usual, the participants suggested that countries in the same regions could commit themselves more to promoting FDI as a single destination in order to pool their markets and avoid negative competition for FDI. The example of the East African Community regional investment guide was cited. Other actions that need to be taken are:

- The collaboration of regional banks in underwriting equity investments with the view to disposing their interest later on as a way of reducing risk to private investors in a regional investment context. The possibility of utilizing ODA to leverage FDI in this regard, by partnering governments with private financial institutions and investors as a way of mitigating risk, was stressed
- Determined effort to disseminate information about investment opportunities in LDCs and their regulatory frameworks
- Determined efforts to improve the image of LDCs as FDI locations and the dissemination of success stories
- Creation of investor stakeholders networks to exchange information and compare experience
- Harmonization and rationalization of incentives
- Promoting mechanisms for systematic dialogue on all investment related issues between the public and private sectors
- The need to ensure commitment at the highest political level on matters related to FDI
- Strengthening the policy advocacy role of IPAs.

## Making FDI more beneficial

Although not a topic of the Roundtable, this issue was discussed with a view towards increasing the developmental impact of FDI. Measures that are of relevance here are:

- The development side of corporate social responsibility
- The promotion of linkages between foreign affiliates and domestic firms, especially SMEs
- Support by home countries for the promotion of linkages (like the United Kingdoms Linkages Challenge Fund)
- Financial transparency in governmental and corporate action
- Support for venture capital funds to assist SMEs

Overall, the point was made that LDCs had not exhausted their FDI potential, as a complement to domestic investment. Host and home countries, transnational corporations and the international community needed to do more to help LDCs attract FDI and benefit more from it.

## **ECOSOC 2004 High-level Segment**

### **Issues Paper for Investment Promotion Forum Roundtable C: “The Role of Trade Preferences for LDCs in Promoting Investment” Hosted by OHRLLS**

**28 June 2004  
3:35 p.m. – 5:30 p.m.  
Conference Room 5**

**Co-chairs: H.E. Mr. Jakaya M. Kikwete, Minister for Foreign Affairs  
and International Cooperation of the United Republic of  
Tanzania  
H.E. Ms. Paula Lehtomäki, Minister for Foreign Trade and  
Development of Finland**

#### **Background**

Bilateral and multilateral agreements designed to provide trade preferences to exports from developing countries have been part of the international trading system for a number of years, starting with the Generalized System of Preferences (GSP) which granted duty-free entry for imports from developing countries. However, over the years, the implementation of the GSP grew to be more and more restrictive, eroding the scheme gradually.

In recent years however, because of the growing concern over the dire economic prospects for accelerated growth, industrialized countries, bilaterally or as groupings, have adopted trade preference regimes that grant more favorable treatment to products originating particularly from the LDCs, in some cases quota-free and duty-free.

Preferential market access regimes for LDCs exports include the US “African Growth and Opportunity Act” (AGOA)<sup>16</sup>, the EU’s “Everything But Arms” (EBA) and similar schemes adopted by Japan, Canada, Australia and other industrial countries. Some LDCs have been able to boost their exports to the United States and the European markets since the introduction of these market access measures.

Implementation of the AGOA regime shows that while there were almost no US imports in 2000 when the AGOA law came into being, at the end of 2003, AGOA exports of textiles and apparel to the US market had jumped to \$1.2 billion, up from \$800 million in 2002. In the case of Madagascar for example AGOA exports increased from almost \$80 million in 2002 to close to \$190 million at the end of 2003, or an almost 140 percent increase. Malawi AGOA exports continued to grow in 2003 and reached \$58 million, with the number of jobs directly linked to AGOA regime reaching 7,500 workers in 2003. AGOA exports of textiles from Uganda have

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<sup>16</sup> Even though AGOA coverage goes beyond LDCs, many of the AGOA eligible African countries are LDCs.

increased from \$0 in 2002 to \$812,000 in the first 8 months of 2003. While data of export performance of LDCs as correlated to market access privileges are not yet widely available for all the regimes, the implementation of the AGOA regime shows that a number of LDCs have already started to benefit from this regime. Unfortunately, there is scant data available on other similar schemes and monitoring the performance of such regimes remains a challenge.

The expansion of LDC exports to the United States and the European Union and other industrial countries greatly benefited from domestic and foreign investments attracted by the prospect of market access preferences. Countries such as Lesotho, Madagascar, Uganda, Mozambique and Malawi have seen their rates of investment significantly increased including from other developing countries such as Mauritius and Asian countries.

### **Issues**

- 1) How can trade preferences accorded to LDCs (i) increase the level of domestic investment and (ii) attract foreign direct investment in order to take advantage of these market access privileges?
- 2) To what extent can (i) ODA, (ii) trade preferences and (iii) FDI be part and parcel of the policy dialogue between LDCs and development partners, including the active participation of the LDC private sector?
- 3) What measures would improve the rate of utilizing trade preferences? In addition to market access measures, how can donors use ODA to further stimulate FDI flows to LDCs, as well as domestic investments in local SMEs, through, for example, investments guarantee and risk mitigation mechanisms and funds. ODA-financed pre-investment feasibility studies and ODA-financed economic infrastructure that pave the way for investment?
- 4) To what extent do trade preferences accorded to LDCs by industrialized countries provide incentives for expanded flows of investments to LDCs from other developing countries, including in triangular relationship?

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## **ECOSOC 2004 High-level Segment**

### **Issues Paper for Investment Promotion Forum Roundtable D: "Unleashing Entrepreneurship: the role of partnerships in mobilizing resources for LDCs" Hosted by UNFIP and UNDP**

**28 June 2004  
3:35 p.m. – 5:30 p.m.  
Conference 7**

**Chair: Mr. Poul Nielson, European Commissioner for Development  
and Humanitarian Aid**

#### **Background**

The recent G8 Summit at Sea Island, Georgia endorsement of the Report of the Commission on the Private Sector and Development in a *G8 Action Plan: Applying the Power of Entrepreneurship to the Eradication of Poverty* acknowledges the centrality of the indigenous private sector in promoting growth in developing countries. The Commission, co-chaired by Prime Minister Paul Martin of Canada and Ernesto Zedillo, Mexico's former president, was convened by the Secretary-General and sponsored by UNDP in an effort to identify and address the legal, financial and structural obstacles blocking the expansion of the indigenous private sector in developing nations—especially in LDCs. The Commission's final report to UN Secretary-General Kofi Annan, Unleashing Entrepreneurship: Making Business Work for the Poor, was presented on March 1, 2004.

Harnessing private investment toward the achievement of the Millennium Development Goals is critical, as has been recognized by the Secretary-General's Global Compact, which has forged new partnerships with major multinational corporations to encourage better corporate social responsibility. The United Nations Fund for International Partnerships (UNFIP) is another example of how the UN is building partnerships with corporations and foundations to further the Millennium Development Goals. To date, UNFIP's partnership with the UN Foundation has yielded \$577 million for over 290 projects with activities in 121 countries involving 35 UN organizations. Projects are funded worldwide in four programme areas: children's health; population and women; environment; and peace, security and human rights.

International development institutions have worked toward increasing direct investment flows into developing countries and improving their foreign trade opportunities. But relatively little emphasis has been placed to date in international development policy on expert assistance and regulatory reforms

aimed at the smaller-scale indigenous enterprises that in most countries are the primary engine of job creation and domestic commerce.

The private sector can alleviate poverty by contributing to economic growth, job creation and poor people's incomes. It can also empower poor people by providing a broad range of products and services at lower prices. Small and medium enterprises can be engines of job creation—seedbeds for innovation and entrepreneurship. But in many poor countries, small and medium enterprises are marginal in the domestic ecosystem. Many operate outside the formal legal system, contributing to widespread informality and low productivity. They lack access to financing and long-term capital, the base that companies are built on.

The Report focuses on the domestic private sector in developing nations for the following three reasons:

First, domestic resources are much larger than actual or potential external resources. Domestic private investment averaged 10–12% of GDP in the 1990s, compared with 7% for domestic public investment and 2–5% for foreign direct investment (FDI).

Second, when informal resources are examined, such as potential land value, the domestic assets that can be tapped for investment are significantly larger than cumulative FDI or private portfolio flows.

Third, unleashing the domestic resources in an economy--both financial and entrepreneurial--is likely to create a more stable and sustainable pattern of growth. At the same time, external resources in the form of capital and know-how have a vital role to play in allowing domestic capabilities to be better utilized.

### **Constraints on the Private Sector in Developing Countries**

Developing countries have remarkable energy and assets and all segments of the private sector have demonstrated the ability to respond when empowered. But, there are three structural challenges that seem to confront the private sector in all developing countries, to varying degrees.

- Micro enterprises and many small and medium-sized enterprises operate informally;
- There are few competitive SMEs and most of them face significant barriers to growth; and,
- A lack of competitive market pressure shields larger firms from market forces and the need to innovate and become more productive.

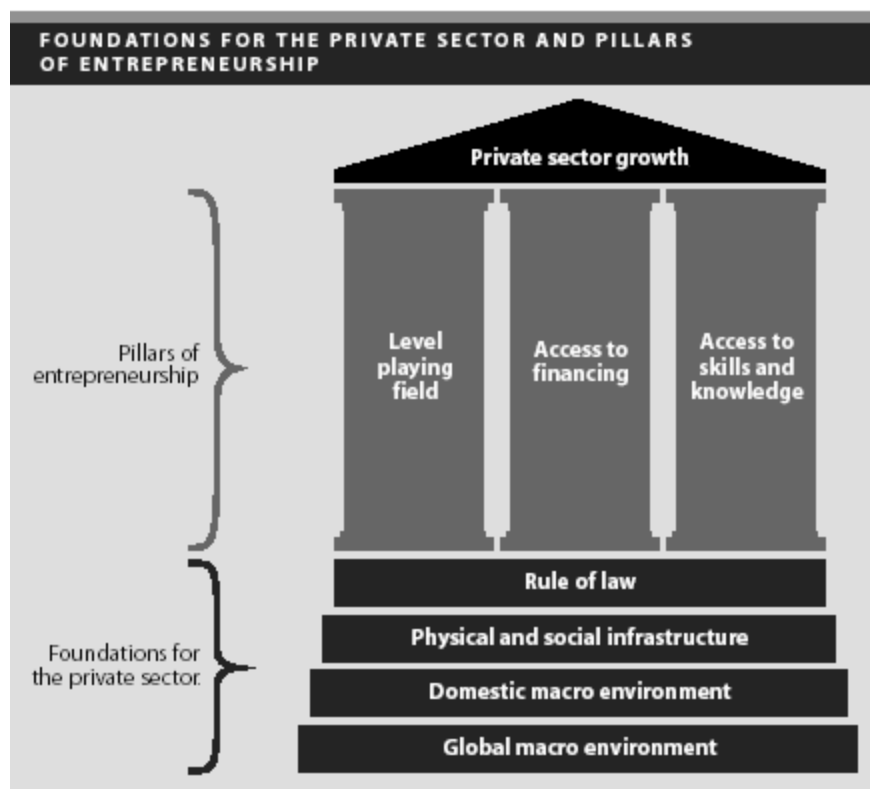
## **Four billion people at the bottom of the pyramid**

The world's poor are also consumers—many of whom live in high-cost economies. Fully four billion people in the world—those who earn less than US\$1,500 a year—make up these 'bottom of the pyramid' markets. The quality of goods that those at the bottom of the pyramid purchase is substandard—whether food, water or financial services. Often, an informal private sector fills the gaps with goods of higher prices and varying quality. It serves an important need, for informal economies sustain the majority of poor families in many countries. Yet the advantages of economies of scale and scope are missing from the lives of people at the base of the pyramid.

How can the private sector alleviate poverty? It can do so by contributing to economic growth and empowering poor people by providing them with a wider choice of goods and services at less cost. The first, they argue, creates employment and income growth. The second improves quality of life. And greater interaction between those at the base of the pyramid and the private sector creates opportunities for direct involvement in the market economy.

The private sector is already meeting the needs of poor people in places governments do not reach. In some countries, for example, the government has little impact on the poor. In the slums there are no health services, no public education and no infrastructure. This story repeats itself across the developing world. In many cases, where services exist, they are provided by private sources. Anywhere from 15% to 90% of primary education is provided in private schools. Some 63% of health care expenditures in the poorest countries are private, almost twice the 33% in high income countries that belong to the Organisation for Economic Co-operation and Development.

Bringing the informal business sector into the legal and economic mainstream is a principal focus of the Report. In most developing countries it is costly to be formal. Formal players are often overtaxed (a vicious circle, since they are overtaxed because a few formal companies carry most of the tax weight). Registering a business can be a long and expensive proposition (in Angola it takes 146 days and more than eight times the per capita income). Regulations and government requirements are complex—and compliance costs high. The opportunities for bribery increase with the complexity of regulations, exposing smaller players who lack the legal resources to defend themselves. The Report identifies three additional factors as indispensable for entrepreneurship and the private sector to flourish in an economy: access to finance, knowledge and skills, and, perhaps most importantly, a level playing field for firms competing in the domestic market. This would allow entrepreneurship and the private sector to blossom keeping in mind that a level playing field can only be created by a system of rules and enforcement mechanisms that is fair, trustworthy and effective.



The Report identifies three additional factors as indispensable for entrepreneurship and the private sector to flourish in an economy: access to finance, knowledge and skills, and, perhaps most importantly, a level playing field for firms competing in the domestic market. This would allow entrepreneurship and the private sector to blossom, argue the Report's authors, warning at the same time, that a level playing field can only be created by a system of rules and enforcement mechanisms that is fair, trustworthy and effective.

An important element for a level playing field is simplifying regulations affecting the entry, operation and exit of private enterprises. There are example of excessive procedural requirements for business registration and licensing procedures that raise the cost of entry into the formal sector and tilt the playing field in many developing countries. For example, the World Bank's Cost of Doing Business survey estimates that starting a business requires US\$5,531 in Angola (more than eight times the per capita income) and about \$28 in New Zealand (far less than 1% of the per capita income). Cumbersome entry regulations are directly correlated with lower productivity. When countries are ranked by ease of starting a business, the top quartile of countries has labour productivity of about \$40 per worker, almost twice that of the bottom quartile. Longer registration processes are directly associated with higher levels of corruption.

Governments can act as facilitators of private sector development and avoid actions that impede it. Governments and intergovernmental agencies can facilitate private sector development by fostering properly functioning competitive markets.

**Primary responsibility for achieving growth and equitable development**

**lies with developing countries.** This responsibility includes creating conditions that make it possible to secure needed financial resources for investment. The challenge is to capitalize on advances in macroeconomic stability and democracy and launch further institutional reforms that would unleash and foster private sector growth.

**Developing country governments must make a strong, unambiguous policy commitment** to sustainable private sector development—and combine that with regulatory reforms eliminating artificial constraints to economic growth.

**Governments must create real partnerships with the domestic private sector** to implement needed changes-- and ensure that these partnerships include small and mid-sized businesses, and micro-enterprises as well.

**There should be clear official recognition of the “informal” business sector,** accompanied by rapid steps to analyze its local characteristics and put into place measures to improve access to finance and support from mainstream business.

**Governments should work with the private sector to draw up action plans** with clear deadlines and commitments to address the barriers to private sector growth.

**The private sector, for its part, needs to make a sincere commitment to sustainable development with a sharp focus on corporate governance and transparency.** Successful companies have shifted the development debate within their economies and created a political consensus that eases the way for governments to make the critical policy decisions that facilitate the expansion of a vibrant private sector. Such a shift will occur when pioneering management realize the value of leading from the front, being responsive to social development needs, and setting new standards that demonstrate the value of sustainability.

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implementation of the GSP grew to be more and more restrictive, eroding the scheme gradually.

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## **Issues**

1) How can trade preferences accorded to LDCs (i) increase the level of domestic investment and (ii) attract foreign direct investment in order to take advantage of these market access privileges?

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<sup>17</sup> Even though AGOA coverage goes beyond LDCs, many of the AGOA eligible African countries are LDCs.

5) To what extent can (i) ODA, (ii) trade preferences and (iii) FDI be part and parcel of the policy dialogue between LDCs and development partners, including the active participation of the LDC private sector?

6) What measures would improve the rate of utilizing trade preferences? In addition to market access measures, how can donors use ODA to further stimulate FDI flows to LDCs, as well as domestic investments in local SMEs, through, for example, investments guarantee and risk mitigation mechanisms and funds. ODA-financed pre-investment feasibility studies and ODA-financed economic infrastructure that pave the way for investment?

7) To what extent do trade preferences accorded to LDCs by industrialized countries provide incentives for expanded flows of investments to LDCs from other developing countries, including in triangular relationship?

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## **ECOSOC 2004 High-level Segment**

### **Issues Paper for ECOSOC Investment Promotion Forum Roundtable E: “Investment in Urban Water, Sanitation and Sustainable Human Settlements” Hosted by UNHSP (UN-Habitat)**

**28 June 2004  
3:35 p.m. – 5:30 p.m.  
Conference Room 8**

**Chair: H.E. Dr. Shekou M. Sesay, Minister for Presidential and Public Affairs,  
Office of the President of the Republic of Sierra Leone**

The overarching goal of the Programme of Action, adopted by the Third United Nations Conference on the Least Developed Countries (Brussels, 14-20 May 2001), is to make substantial progress towards halving the proportion of people living in extreme poverty by 2015 and promote the sustainable development of the LDCs. The Programme of Action recognizes that poverty eradication requires a broad approach, encompassing not only economic aspects but also social, human and environmental issues.

The Programme of Action includes a number of Commitments which urge actions by LDCs and their development partners in the following areas:

- Giving adequate priority to issues of housing and sustainable settlements in rural areas and in urban locations with a concentration of the poor [Commitment 3, A. Social infrastructure and social service delivery, paragraph 32 (i) (e)]
- Strengthening health education programme, complemented by immunization programmes, nutrition, safe water and sanitation....” [Commitment 3, C. Education and Training, paragraph 37 (i) (k)]
- Reducing by half by 2015 the proportion of people who are unable to reach or to afford safe drinking water [Commitment 3, D. Health, nutrition and sanitation, paragraph 38 (e); also, MDG 7, target 10, G.A. Res. 55/2, paragraph 19]
- Providing support to the development and strengthening of critical areas of physical infrastructure, including water..... [Commitment 4, A. Physical infrastructure, paragraph 48 (i) (a)]

Sustainable human settlements development cuts across the whole spectrum of social, economic and environmental challenges that are fundamentally related to sustainable development and poverty eradication. World population prospects indicate that an additional one billion people will be added to the world’s population over the next 30 years. This will occur in developing countries and almost entirely in urban areas in informal settlements.<sup>18</sup>

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<sup>18</sup> Sustainable Human Settlements Development, Report of the Secretary General to the twelfth session of the Commission on Sustainable Development (April 2004)

In 2001, 140 million people, constituting 78.2 per cent of urban populations in LDCs lived in informal settlements (slums) and this is set to increase unless there is substantial intervention.<sup>19</sup> These slums are characterized, *inter-alia*, by insecure tenure and almost a total lack of basic services, particularly, for safe water and basic sanitation. The urban poor living in these slums pay a heavy price for the lack of these basic services through higher morbidity and infant mortality. Women are the most affected by the lack of these basic services and suffer from the loss of safety, dignity and productivity. The LDCs pay equally dearly through higher national medical bills and reduced national income (and often with lost exports as happened in East Africa during the Cholera epidemic in 2000).

It is now widely acknowledged that the close linkages of drinking water supply and basic sanitation with social (health and nutrition, poverty reduction, gender equality), economic (various facets of urban economy) and environmental (water quality, ecosystem and aquifer protection) sectors make it a cross-cutting priority issue for consideration by the high-level segment of ECOSOC 2004, as it deliberates on the theme: Resource Mobilization and Enabling Environment for Poverty Eradication in the context of the implementation of the Brussels Programme of Action.

Three years since the adoption of the Programme of Action, the issues of water, sanitation and sustainable human settlements remain an area of major political concern. The recently concluded 12<sup>th</sup> session of the Commission on Sustainable Development (April 2004) noted that a large number of countries were not on track to reach the target of halving the proportion of people without access to basic sanitation by 2015, either in rural or urban areas, unless substantial additional resources were raised. It was also noted that several countries were also not on track to achieving the target of significantly improving the lives of slum dwellers by 2020, and that in many countries slums were growing at an alarming pace.<sup>20</sup> LDCs represented a majority of these countries noted in the Chairman's report.

Regrettably, there is an alarming decline in per capita investment in water and sanitation in most developing country cities. Aid has fallen in the 1990s – by nearly a third in Sub Saharan African countries, many of them LDCs, and falls far short of what is needed to achieve the goals. Estimates vary, but meeting the MDGs for water and sanitation coverage alone will cost between \$14 and \$30 billion dollars a year on the top of the \$30 billion already being allocated. The MDG slum target is estimated to cost between \$70 to \$150 billion.

The annual flow of resources to the sector, both through domestic mobilization and ODA will have to increase all round, and may have to double at a minimum, to catalyze the necessary domestic resource mobilization, if the MDG targets are to be reached.

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<sup>19</sup> UN-HABITAT, Guide to Monitoring Target 11: Improving the lives of 100 million slum dwellers (May 2003)

<sup>20</sup> UNCSD, Chairman's Summary of the twelfth session of the Commission on Sustainable Development (16-30 April 2004)

MDG 8 calls for policy changes in rich countries for aid, debt, trade and technology transfer.

In recognition of this, the United Nations General Assembly in its resolution 56/206 recommended strengthening of the UN-HABITAT Foundation and called upon the international financial institutions to work with UN-HABITAT to mobilize domestic capital for human settlements development (including shelter and basic services).

In the context of the theme selected for the high-level segment of ECOSOC 2004: Resource Mobilization and Enabling Environment for Poverty Reduction in the LDCs, the Roundtable could consider, *inter-alia*, the following issues:

- (a) Few LDCs have so far succeeded in prioritizing and integrating action on water, sanitation and human settlements through their National Strategies for Sustainable Development, including poverty reduction strategy papers (PRSPs). How could this process, which remains an important pre-requisite to enhancing flow of budgetary resources to water, sanitation and human settlements, be facilitated?
- (b) How could the LDCs move towards effective decentralization and empowerment of the local authorities and their partners in the civil society to enable them to bear a growing share of the financial responsibility to meet investment needs in water, sanitation and human settlements? How could local authorities enter into partnerships with NGOs and CBOs to draw upon their comparative advantage to deliver basic services in low-income settlements?
- (c) In what ways could the development partners, in the spirit of mutual accountability, move towards meeting their Monterrey commitments on ODA, and to target an increased flow of funds specifically for investments in water, sanitation and human settlements? How could this increased ODA leverage private capital and support domestic resource mobilization?
- (d) Appropriate financing arrangements are a priority to meet the housing requirements of the poor residents of informal settlements. While traditional mortgage lending institutions have begun to extend lending to low-income households, it is now recognized that new schemes like partial loan guarantees should be encouraged to support home improvements of slum dwellers. How could the LDCs themselves and their development partners facilitate the development of such facilities for improving the living condition of the slum dwellers in LDCs?
- (e) How could the partnership approach, promoted in Johannesburg and more recently at CSD12, be fostered at both international (North-South, South-South as well as sub-regional and regional cooperation) and national and local levels (e.g. among national and local governments, NGOs and the domestic private sector) with a view to enhance national capacities and leverage additional resources for water, sanitation and sustainable human settlement development in the LDCs?

## **ECOSOC 2004 High-level Segment**

### **Investment Promotion Forum Roundtable E: “Investment in Urban Water, Sanitation and Sustainable Human Settlements” Hosted by UNHSP (UN-Habitat)**

**28 June 2004  
3:35 p.m. – 5:30 p.m.  
Conference Room 8**

#### **Summary**

**Chair: H. E. Dr. Shekou M. Sesay, Minister for Presidential and Public  
Affairs, Office of the President, Sierra Leone**

#### **I. Introduction**

Substantive comments were made by the representatives of the United Republic of Tanzania, Japan, USA, Mauritania, Egypt and Sierra Leone. Interventions were also made by the representatives of the World Council of Peoples for the United Nations, Rotary International, the NGO Committee on Human Settlements and other members of the civil society. The main highlights of the discussion are summarized below.

The presence of several Ministers and wide participation by senior level representatives of Member States, policy makers of LDCs, UN agencies and representatives of the business sector and civil society is indicative of the significance these parties attach to their commitments for implementation of Brussels Plan of Action and to reach the MDGs and JPOI goals on water, sanitation and human settlements. The objective of this year’s ECOSOC to assess progress, identify obstacles and the necessary actions in implementing Brussels Programme of action was highlighted. The need for sharing experiences, good practices and innovative approaches to help the LDCs to reach the internationally agreed goals and targets was also underscored along with the role UNHABITAT was playing and other UN agencies in strengthening the efforts of LDCs.

The Ministers valued the importance of such discussions and exchange of experiences which should help LDCs in evolving policies and developing their own strategies of implementation for reaching the goals of the programme of action adopted at Brussels three years ago.

#### **II Implementing the Programme of Action and Pursuing the MDGs**

Recalling the commitments under the Programme of Action regarding water, sanitation and human settlements viz.

- (a) Giving adequate priority to issues of housing and sustainable settlements in rural areas and in urban locations with a concentration of the poor
- (b) Strengthening health education programme, complemented by immunization programmes, nutrition, safe water and sanitation
- (c) Reducing by half by 2015 the proportion of people who are unable to reach or to afford safe drinking water and
- (d) Providing support to the development and strengthening of critical areas of physical infrastructure, including water....

the Ministers and other Members of the Round Table stressed the need for

- (i) prioritizing and integrating action on water, sanitation and human settlements through their National Strategies for Sustainable Development, including poverty reduction strategy papers (PRSPs) and strengthen this process by enhancing flow of budgetary resources to water, sanitation and human settlements.
- (ii) Moving towards effective decentralization and empowerment of the local authorities and their partners in the civil society and enabling them to bear a growing share of the financial responsibility to meet investment needs in water, sanitation and human settlements and also encouraging partnerships of local authorities with NGOs and CBOs to draw upon their comparative advantage to deliver basic services in low-income settlements
- (iii) Urging the development partners, in the spirit of mutual accountability, to move towards meeting their Monterrey commitments on ODA, targeting an increased flow of funds specifically for investments in water, sanitation and human settlements. Increased ODA should build confidence and create environment to leverage private capital and support domestic resource mobilization.
- (iv) Appropriate financing arrangements for meeting the housing requirements of the poor residents of informal settlements by developing special schemes like partial loan guarantees with the self efforts of LDCs as well as their development partners; and
- (v) Fostering partnership approach, promoted in Johannesburg and more recently at CSD12, at both international (North-South, South-South as well as sub-regional and regional cooperation) national and local levels with a view to enhance national capacities and leverage

additional resources for water, sanitation and sustainable human settlement development in the LDCs.

### III Creating Climate for Investment and Higher Fund Flows

Ministers and Members of the Roundtable recognized that only few LDCs have so far succeeded in prioritizing their National Strategies for sustainable Development including Poverty Reduction Strategy Papers (PRSPs). The Roundtable felt that this process remains an important pre-requisite to enhancing flow of budgetary resources to water, sanitation and human settlements. In order to speed up this process in LDCs steps are needed to devise strategies to prioritise water and sanitation.

Many of the LDCs are currently engaged in developing market-based institutions and supportive regulatory frameworks and are looking for innovative financing schemes. LDCs in some regions (e.g. Latin America) have varied experience of market-based financing of water and sanitation services and housing provision for the urban poor. It was also noted that a number of countries in the region have also attempted various forms of private sector participation for improving the provision of water and sanitation services and for housing development.

#### Partnerships and Leveraging of Investments

There was a general appreciation as to how some Partnerships have been most rewarding and have leveraged down stream investments in the water sector. The key to success for such partnerships include factors like a stable legal framework, political will and fair and sustainable cost recovery mechanisms.

#### Sub-Regional Cooperation

Cooperation among the international river basin countries as in Mekong can help bringing in new investments in water, sanitation and human settlements to LDCs (like Lao PDR and Cambodia in Mekong Region). The Asia Pacific region is characterized by a wide diversity of development experience which has given rise to opportunities for sharing of experiences and for South-South Cooperation.

#### Role of Civil Society in Achieving MDGs

Civil Society can play a major role in countries' struggle to achieve the MDGs for water and sanitation and human settlements. This role can be further strengthened through decentralization and empowerment of local level actors like NGOs and local authorities. The partnerships between local authorities and NGOs need to be promoted in the delivery of basic services and shelter development to take benefit of NGO experiences of working at the grass root levels.

## Promoting Private Sector Involvement

The private sector, particularly the multinational water developers, despite their immense potential, still plays a marginal role in the water sector in developing countries. Private sector participation has generally improved the performance of service providers, but their past record of bringing in new investments to the water sector is not very impressive. The multinationals have done little to improve the services for the urban and rural poor, who are the true targets of the MDGs. The Ministers and other high officials participating in the Roundtable emphasized the need for removing the obstacles to enable greater involvement of the private sector in the delivery of water and sanitation services for the urban and rural poor. The essential requirements include stable institutional framework, good governance and appropriate financing mechanisms including the development of local capital markets.

## Financing Mechanisms for Housing

Appropriate financing arrangements are a priority to meet the housing requirements of the poor residents of informal settlements. While traditional mortgage lending institutions have begun to extend lending to low-income households, it is now recognized that new schemes like partial loan guarantees should be encouraged to support home improvements of slum dwellers. The LDCs themselves may take steps such as legal and institutional frameworks that may enable development of such facilities for improving the living condition of the slum dwellers in LDCs. The development partners can strengthen the efforts of the LDCs through building their capacities and contributing the resources for financing which can be a catalyst to mobilize other financial flows particularly from private sources.

The Roundtable Members stressed the need for policy changes required in rich countries to achieve Goal 8, specifically in the areas of aid, debt, trade and technology transfer. Poor countries cannot on their own tackle the structural constraints that keep them in poverty traps, including rich country tariffs and subsidies that restrict access to technology that can save lives and unsustainable debt owed to rich country governments and multilateral institutions.

The Round table members noted that LDCs need more resources for achieving MDGs 1 to 7. Keeping in view the resource requirements to meet the MDGs in the water and sanitation sector and for meeting the commitments of Monterrey by the development partners, the ODA levels need to be doubled. This aid however can be made more effective through policy measures and other changes which help in its effective utilization. Also new approaches like debt swaps need to be found for debt relief of the Heavily Indebted Poor Countries. All these could go a long way to support LDCs to achieve the internationally agreed goals and targets on water, sanitation and human settlements.

#### IV The Way Forward

15. The Ministers and other Members of the Round Table identified various constraints and challenges of LDCs in mobilizing resources for the water, sanitation and human settlement sectors to meet the agreed goals and targets and emphasized the need for the following:

16. More budgetary allocations for water, sanitation and housing sectors, doubling of ODA, creating an enabling environment for private sector participation, promoting local capital markets and savings, legal and regulatory environment, good governance, regional and sub-regional cooperation, capacity building, Civil society and NGO partnerships with local governments, empowerment of women should help in meeting the challenge. The Brussels plan of Action however provides a concrete road map for the LDCs to achieve the targets set out by the Millennium Declaration.