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Committee for Development Policy

Strengthening International Support Measures for the Least Developed Countries

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Committee for Development Policy

Policy Note

Strengthening International Support Measures for the Least Developed Countries

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DESA

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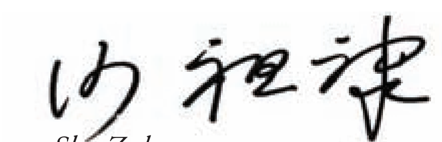
Foreword

The global community at large and the United Nations system in particular have long recognized the special challenges facing the least developed countries (LDCs) and the need for international support to assist them in improving the standard of living of their populations. Over the past three decades, three United Nations conferences have been held to address the obstacles impeding the development of the LDCs. Despite some success, the majority of LDCs continue to lag behind the rest of the developing world.

The Fourth United Nations Conference on the Least Developed Countries (LDC IV) will take place in Istanbul, Turkey, in 2011. Among other things, the Conference is expected to identify international and domestic policies to assist the LDCs in their efforts to eradicate poverty and more effectively integrate themselves into the world economy. It will also mobilize additional international support and action aimed at placing these countries on a sustained and sustainable development path.

At its eleventh session, in March 2010, the Committee for Development Policy examined some of the existing international support measures available to LDCs in areas such as trade and bilateral development assistance, and assessed their contribution to the development progress of these countries. The present Policy Note reflects the conclusions of this examination. It is a welcome contribution to existing efforts by the international community to find practical solutions to the challenges confronting LDCs.



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August 2010

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Summary

The category of the least developed countries (LDCs) was established by the United Nations General Assembly in 1971 with a view to attracting special support for countries with the most disadvantaged economies. The category initially comprised 25 countries; the United Nations now identifies 49 low-income countries with severe structural impediments to growth as LDCs. Despite efforts by both the LDCs themselves and the international community, the majority of LDCs are not yet on a sustainable growth path.

This present Policy Note takes stock of the nature of the financial, institutional and technical support and preferential trade-related treatments that have been provided to LDCs. It does not aim to be comprehensive in its analysis but is mainly designed to contribute to the debate leading up to the forthcoming Fourth United Nations Conference on the Least Developed Countries, to be held in Istanbul, Turkey, in 2011, and to provide an assessment of how effective existing international support measures have been. It identifies ways in which those measures can be strengthened and suggests additional interventions that need to be considered in order to facilitate development in LDCs.

The framework for international cooperation for the LDCs has been laid out in the programmes of action (PoAs) agreed upon at the three United Nations conferences on LDCs that have taken place since the 1980s. The objectives contained in these PoAs have not been fully met. The Committee points out four major reasons for this disappointing result. First, the goals set by the PoAs were too ambitious in relation to the measures introduced to achieve them. Second, even where reasonable goals were set, inadequate external support, misguided domestic policies and unforeseen shocks (such as natural disasters and conflicts) made it difficult to implement the strategies and projects according to the original plans. Third, the PoAs overemphasized international measures whose impact on development in general and on poverty reduction in particular has not been compellingly demonstrated. Finally, the international support measures, while necessary, may not be sufficient to address the structural impediments facing the LDCs.

The Committee recommends several ways in which the existing support measures can be made more effective and, where needed, complemented by other interventions. For instance, duty-free and quota-free market access should be granted in parallel with standardized and simplified rules of origin. Existing compensatory financing mechanisms need to be complemented with subsidized insurance schemes. Official development assistance (ODA) flows should be increased (in line with the internationally agreed 0.15 per cent target), with additional resources allocated to support economic diversification. Moreover, non-traditional donors, including the more advanced developing countries, non-governmental organizations and private foundations need to be formally incorporated into the emerging aid architecture for LDCs so as to forge fully effective synergies.

But the foregoing alone will not be sufficient. Additional measures are necessary to support LDCs in implementing their national strategies. There is a need to articulate tailor-made, national and international responses for each LDC so as to make support measures more effective and better targeted to countries' needs. This may require identifying different clusters of LDCs that face similar challenges (those with low land productivity or lack of economic diversification, or those emerging from conflict, for example) and developing specific measures to support them in their efforts to overcome such challenges. Moreover, a new PoA for LDCs should include support measures to assist them in addressing climate change and its impact on food security, water stress, disease, disaster risk, ecological degradation and migration.

Finally, the report argues for greater coherence between the international strategy for LDCs and other existing development strategies, including those initiated by the International Monetary Fund and the World Bank. A clearer link also needs to be established between the poverty reduction strategy papers (PRSPs) and the overall strategy and measures that will be decided upon at the Fourth United Nations Conference on the Least Developed Countries.

Contents

Explanatory notes

The following abbreviations have been used in the present publication:

AGOA	African Growth and Opportunity Act
BRIC	Brazil, Russia, India and China
CDP	Committee for Development Policy
CGIAR	Consultative Group on International Agricultural Research
DFQF	duty-free and quota-free
EBA	Everything But Arms
EIF	Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
EU	European Union
EVI	economic vulnerability index
FDI	foreign direct investment
FTAs	free trade agreements
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNI	gross national income
GSP	Generalized System of Preferences
HAI	human assets index
IF	Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
LDCs	least developed countries
MDGs	Millennium Development Goals
MFN	Most favoured nation
NGOs	non-governmental organizations

ODA	official development assistance
OECD/DAC	Development Assistance Committee of the Organization for Economic Cooperation and Development
PoAs	programmes of action
PRSPs	poverty reduction strategy papers
R&D	research and development
SDT	special and differential treatment
SMEs	small and medium-sized enterprises
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
WTO	World Trade Organization

Strengthening International Support Measures for the Least Developed Countries

Introduction

The least developed country (LDC) category currently comprises 49 countries.[1] LDCs are low-income countries suffering from severe structural impediments to growth. These impediments are considered so pervasive as to prompt the international community to extend special support measures to LDCs, beyond those available to other developing countries. While the LDCs themselves take primary responsibility for meeting these challenges, the international community provides the much needed financial, institutional and technical support and a higher degree of preferential trade-related treatment.

The framework for international cooperation was laid out in the three United Nations programmes of action (PoAs) for LDCs—each covering a period of 10 years—the first of which was adopted in 1981. The PoAs outline the development strategies, the priority areas for policy intervention and the special support measures envisaged for LDCs. Unfortunately, the objectives of these three PoAs have not yet been fully met. Since the establishment of the category of LDCs in 1971, only two countries (Botswana and Cape Verde) have graduated therefrom and three other countries (Equatorial Guinea, Maldives and Samoa) have been earmarked for graduation. Despite efforts by the international community and the countries themselves, the majority of the LDCs are not yet on a sustainable growth path.

The Fourth United Nations Conference on the Least Developed Countries will take place in Turkey in 2011 and is expected to approve another PoA for the coming decade. As part of the preparations for the Conference, the Committee for Development Policy (CDP) examined the

1 The current list of countries classified as least developed is available from http://www.un.org/esa/policy/devplan/profile/ldc_list08.pdf.

theoretical and empirical underpinnings of the strategies outlined in the three existing PoAs as well as the coherence and effectiveness of both the strategies and the special support measures taken to tackle the structural problems of LDCs.

The present Policy Note takes stock of the financial, institutional and technical support and preferential trade-related treatment provided to LDCs. It aims to contribute to the assessment of the effectiveness of existing international support measures by identifying measures that need to be strengthened and suggesting additional interventions that need to be considered in order to facilitate sustained development in LDCs. In its review, the Policy Note takes into account the major changes that have occurred in the global economic environment over the past decade and how they have influenced developments in LDCs.

The first section will briefly review the three PoAs launched for the 1980s, 1990s and 2000s and will demonstrate how they differ in terms of the economic principles which formed the basis for each of the policy frameworks recommended. The following section will assess the impact of the international support measures extended to LDCs since the establishment of the category in 1971, in particular in areas such as trade and bilateral development assistance, with a view to defining feasible and effective interventions that could be incorporated into the fourth PoA. Support provided by multilateral organizations is not included in this analysis. The final section will make recommendations tailored towards strengthening existing support measures and adopting more targeted interventions to face emerging challenges.

A brief review of the United Nations programmes of action for the least developed countries spanning the past three decades

While structural impediments to the growth of LDCs persisted and the character of the impediments did not change, the three PoAs, launched to cover the 1980s, 1990s and 2000s, respectively, differ in terms of both approach and the policy measures recommended. This was largely due to the different economic theories from which they drew inspiration, each programme reflecting the development discourse prevailing at the time of drafting.

The first PoA (the Substantial New Programme of Action for the 1980s for the Least Developed Countries) following the establishment of the LDC category in 1971 was launched in 1981.[2] It had two defining features: an emphasis on poverty alleviation through food self-sufficiency and a reliance on development planning by the State, which was expected to mobilize and utilize resources effectively. LDCs received advice and support for developing planning capabilities to identify viable development projects and enhance agricultural productivity through better infrastructure and technology. While the emphasis was on strengthening the agricultural sector, the PoA for the 1980s also called for "more ambitious programmes of industrial development" that would increase the share of manufacturing in gross domestic product (GDP), particularly through the development of agro-processing industries. Expansion of the manufacturing capacity was needed not only to meet domestic demand but also to increase exports. Low export revenue was seen as a major constraint to the capacity of these countries to import. The Programme thus called for the establishment of national export development plans that would address issues of economic diversification, infrastructure support and access to global markets for products of export interest to LDCs.

An entire chapter of the first PoA is dedicated to the international support measures needed to assist LDCs in effecting its implementation. These include specific recommendations on the transfer of financial resources and related modalities, technical assistance, and commercial policies, including preferential market access and commodity agreements, as well as measures related to transport and communications, food and agriculture and the transfer and development of technology.

The overall assessment of the effectiveness of the first PoA was not favourable. In opening the Second United Nations Conference on the

2 *Report of the United Nations Conference on the Least Developed Countries, Paris, 1-14 September 1981* (A/CONF.104/22/Rev.1, United Nations publication, Sales No. E.82.I.8), part one.

Least Developed Countries, held in Paris from 3-14 September 1990, the Secretary-General of the United Nations observed that "[t]he dismal record of the 1980s was not due solely to the LDCs' structural weaknesses, but also had to be attributed to the fact that the responsibilities undertaken in 1981 had not been fully implemented, that support measures had been insufficient and that the international climate had been unfavourable."[3]

The PoA for the 1990s began by recognizing the suboptimal, and at times disastrous, performance of State-owned enterprises as well as the adverse effects of import controls, tariffs, direct price controls and other regulations imposed by the State. The strategies for the 1990s, therefore, relied on unleashing free markets for the efficient reallocation of resources and on promoting the role of the private sector in economic growth. LDCs, like many other developing countries, were advised to downsize State interventions, deregulate markets, restore and maintain macroeconomic stability and liberalize their economies, so that markets could send the right price signals for private initiatives.[4] Economic reforms were to be accompanied by political reforms and democratization. The creation of a domestic policy environment conducive to growth (that is to say, the establishment of the "right" incentives for the private sector to pursue profit-making activities while minimizing the introduction of public distortions into the economy) was designed to minimize the structural constraints facing LDCs and to help them embark upon a path of sustained and sustainable growth. The importance of enhanced market access and export diversification gained renewed emphasis. With regard to structural impediments, the overall strategy of the 1990s was intended to overcome the constraints of small domestic markets by simultaneously expanding agricultural and manufacturing outputs and improving product quality, packaging, processing and marketing. Specific

3 *Report of the Second United Nations Conference on the Least Developed Countries, Paris, 3-14 September 1990* (A/CONF.147/18), part two, chap. II, para. 14.

4 World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Oxford University Press, New York, 1993) and World Bank, *Adjustment in Africa: Reforms, Results, and the Road Ahead* (Oxford University Press, New York, 1994).

programmes for private enterprise development were also called for with a view to promoting domestic and foreign private investment.

The third United Nations PoA for the LDCs (the Brussels Programme of Action), adopted in 2001 for the decade 2001-2010, contains a number of nuances that its predecessors did not. The establishment of the World Trade Organization (WTO) in 1995 and the outcomes of several global conferences in the 1990s (culminating in the Millennium Declaration in 2000) shaped the objectives of the third PoA. Accordingly, the Programme states as its key objectives meeting the Millennium Development Goals (MDGs) and increasing the share of LDCs in global trade, finance and investment. It devotes a great deal of attention to the provision of social services, good governance, institutional reform, the rule of law and participation in political and economic activities by civil society. Provisions are also made to address the concerns of LDCs that aspire to accede or have already acceded to the WTO and the extra support and preferential treatment they may need in that regard. In all, it is clear that the strategies and priorities embodied in the third PoA are driven mainly by the resurgence of institutional economics, the post-Washington consensus and the growing recognition of the role of non-State actors in development.

In a similar spirit to the Millennium Declaration, 30 specific objectives are identified, to be achieved by means of fostering pro-poor growth, building institutional and human capabilities, reducing inequality and promoting greater popular participation, especially of women, and ensuring the rule of law, property rights and respect for internationally recognized human rights. Productive capacity and structural problems are to be addressed through building infrastructure by way of pursuing targets for road networks, railways, airports, ports, and telecommunication and information technologies. Access to developed-country markets for LDC exports receive even greater attention than they had in the past and provisions are included to ensure that the pace of integration of the LDCs into the multilateral trading system would be commensurate with their structural weaknesses.

Assessing the impact of international support measures

As the Fourth United Nations Conference on the Least Developed Countries approaches in 2011, the Committee for Development Policy considered it pertinent to take stock of the usefulness of the measures advocated in the previous PoAs to address the structural handicaps faced by the LDCs. The analysis is based on publicly available data, on research and on country experiences.

The *Handbook on the Least Developed Country Category*[5] recognizes three main types of international support measures: (a) measures related to international trade; (b) official development assistance (ODA), including development financing and technical cooperation; and (c) other forms of assistance.[6]

International trade

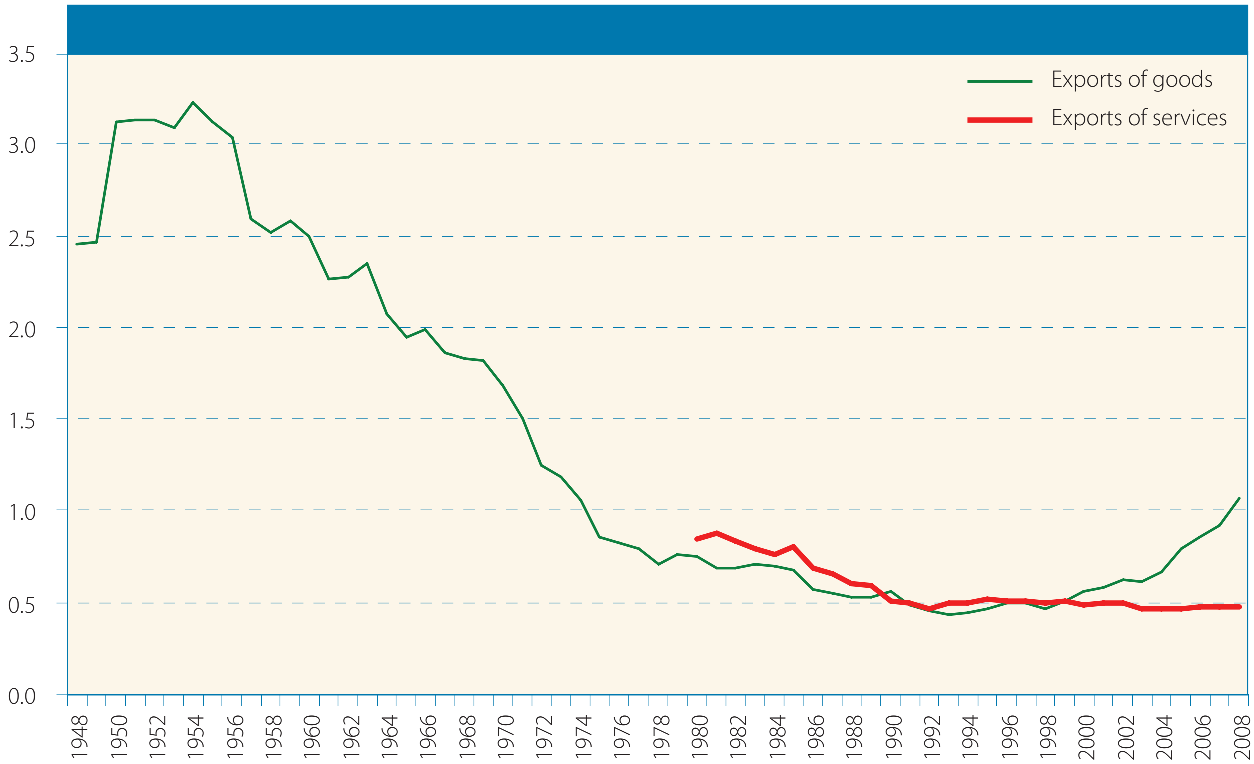
Since the inception of the category, the share of LDCs as a whole in world trade has steadily decreased. The share of LDCs in world exports of goods stood at about 3 per cent in 1950 and at 1.5 per cent in 1971 (the year in which the category was established). By 1980 it had declined to 0.75 per cent, and by 1990 to 0.56 per cent. It hit its lowest level, 0.47 per cent, in 1995, after which it progressively rebounded, reaching 1.1 per cent in 2008 (see figure 1). However, this recent increase in the world market share was essentially the result of oil-export growth in five LDCs: Angola, Equatorial Guinea, Myanmar, the Sudan and Yemen. In fact, their combined share in world oil production rose from 0.14 per cent in 1995 to 0.54 per cent in 2008.[7] Excluding the oil exporters, the LDC share in world trade has

5 Committee for Development Policy, *Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures* (United Nations publication, Sales No. E.07.II.A.9).

6 This includes trust funds available to finance participation of LDCs at specific meetings and an upper limit of 0.01 per cent set for LDC contributions to the regular budget of the United Nations.

7 Based on the UNCTAD Handbook of Statistics online, available from http://www.unctad.org/templates/Page.asp?intItemID=1890&lang=1.

Figure 1
Merchandise exports by least developed countries as a percentage of world exports, 1948–2008



Source: Based on the UNCTAD Handbook of Statistics online, available from http://www.unctad.org/templates/Page.asp?intItemID=1890&lang=1.

stagnated at about 0.33 per cent since 1995, indicating that the five oil exporters accounted for 70 per cent of total exports of goods from LDCs in 2008. It should be noted that this downward shift in trade in goods was not compensated for by a rise in the share of world exports of services. In fact, including services, the share of LDCs in world exports of goods and services declined from 0.85 per cent in 1980 to 0.5 per cent in 1990 and has remained at about that level ever since, standing at 0.49 per cent in 2007. It should also be noted that the decrease in the LDC share of world exports occurred despite an increase in the number of LDCs.

Preferential market access

Preferential market access is an important means by which to facilitate export growth. Discussion of special trade preferences to developing countries through a temporary waiver to the General Agreement on Tariffs and Trade (GATT) rules began in 1971. After a long and complex process, the special preferences were formalized in 1979 through the adoption of the "Enabling Clause" which allowed the developed countries that were contracting parties to the GATT to apply tariffs below the most-favoured-nation (MFN) rates to developing countries (including LDCs) through the Generalized System of Preferences (GSP). Subsequently, a waiver was adopted in 1999 which allowed developing countries to extend preferential tariff treatment to LDCs. These preferences are non-reciprocal and differ in terms of their modalities. Some programmes are more extensive than others, but only a small number of developing countries have introduced duty-free and quota-free (DFQF) access to exports from LDCs during the 2000s.

Two main issues should be considered when assessing the effectiveness of market access preferences: the actual magnitude of the preference granted and the constraints to its full utilization. The magnitude of tariff preferences extended to LDCs—or to any group of countries—depends not only on the absolute level of the preference granted to the group but also on the level of preferences extended to other groups of countries through non-reciprocal preferential schemes, such as the GSP, free trade agreements (FTAs) or other similar arrangements. Additionally, preferences are eroded when further trade liberalization occurs in the importing market.

Preferential access to a given market is usually measured as the difference (expressed as a percentage) between the tariff faced by an exporter under MFN treatment and the preferential tariff faced by an LDC when it exports to the same market. However, for countries or regions that extend different preferential treatment to other trading partners, the actual magnitude of preferential access offered to LDCs needs to be measured in relation to the effective tariff paid by all other exporters to that market, rather than in relation to the MFN tariff.[8] Hence, it is necessary to compute an "adjusted" measure of preferential access that takes into account different tariff preference schemes granted by major markets to other countries. When preferential access is so measured, the preference margins enjoyed by the LDCs are found to be very small. For example, the current adjusted preferential margin is only about 3 per cent with respect to the European Union (EU) market, despite DFQF treatment offered by the Everything But Arms (EBA) initiative. In the United States of America, the preference margin for LDCs is actually negative, implying that the LDCs are discriminated against in that market. This is because, on average, the LDC group enjoys less preference than countries eligible for non-reciprocal preferential arrangements, such as the African Growth and Opportunity Act (AGOA), which benefits some LDCs but not all, and less market access than countries that have negotiated FTAs with the United States.

The level of preference extended therefore seems to be quite small on average. Moreover, in several instances, preference does not extend to all tariff lines exported by this group of countries. In fact, on (a weighted) average, duty-free treatment is available on 91 per cent of the dutiable MFN tariff lines.[9] Failure to include even a very limited number of dutiable products could dampen market access initiatives extended to LDCs since some product lines can account for most of the exports from many of these countries. A comparison was made of the export performance of the LDCs to developed countries (excluding the EU) under 97 per cent DFQF product coverage—currently being considered at the Doha Round

8 C. Carrère and J. de Melo, "The Doha Round and market access for LDCs: scenarios for the EU and US markets", CEPR Discussion Paper, No. 7313 (London, Centre for Economic Policy Research, 2009), available from http://www.cepr.org/pubs/dps/DP7313.asp.

9 World Trade Organization, "Market access for products and services of export interest to least-developed countries", 23 October 2009 (WT/COMTD/LDC/W/46), 23 October, table 4.

of trade negotiations—to that under 100 per cent coverage.[10, 11] According to this simulation, the 97 per cent product coverage helps reduce the preference erosion that many LDCs would face from global trade liberalization resulting from the Round, but would not provide significant trade gains. Under the 100 per cent coverage, on the other hand, total export gains for LDCs would be $2.1 billion, which corresponds to about 17 per cent of the exports of the 32 LDCs that are members of the WTO. The same study further points out that if Brazil, China, India, Mexico and the Republic of Korea were to provide 100 per cent DFQF access, the export gains could increase by several billion dollars.[12]

Nonetheless, the simulation results may be exaggerated as they do not take into account the presence of rules of origin.[13] Rules of origin are an integral part of both reciprocal and non-reciprocal trading arrangements (for example, FTAs and the GSP, respectively) and aim, in theory, at preventing trade deflection. In practice, rules of origin involve complex procedures and high costs in order to satisfy their requirements and end up implying significantly modified market access. Furthermore, the most restrictive rules of origin often apply to the products that are of greatest export interest to LDCs, such as textiles and garments.

10 David Laborde, "Looking for a meaningful duty-free, quota-free market access initiative in the Doha Development Agenda", International Centre for Trade and Sustainable Development, Issue Paper No. 4 (Geneva, ICTSD, 2008).

11 The 3 per cent of products that importing countries exclude from DFQF access are chosen based on a political economy model calculation, which takes into account the political sensitivity of the products to be imported measured by the tariff applied and the value of imports at domestic prices. For details, see Sébastien Jean and others, "Formulas and flexibility in trade negotiations: sensitive agricultural products in the WTO's Doha agenda", World Bank Policy Research Working Paper, No. 5200 (Washington, D. C., World Bank, February 2010).

12 Countries with emerging markets have announced DFQF programmes for all LDCs—for example, Brazil (80 to 100 per cent), India (85 per cent) and the Republic of Korea (80 per cent)—while Turkey applies European Union-Everything But Arms (EU-EBA) treatment for those products covered by the Customs Union.

13 See, for example, Kimberly Ann Elliot, "Opening markets for poor countries: are we there yet?", Center for Global Development, Working Paper No. 184 (Washington, D. C., CGD, May 2009).

Finally, preferential tariff treatment may not be effective as a support measure if supply constraints are binding. In fact, supply constraints constitute a major obstacle affecting the exporting capacity of most LDCs not only in terms of the lack of adequate trade infrastructure but also in terms of their own narrow production base. Supply capacity is often negatively affected by weak or inadequate institutional and governance structures, notably in "politically fragile" LDCs.

Other trade-related measures

In addition to preferential market access, LDCs benefit from other special and differential treatment (SDT) related to the disciplines of WTO agreements—above and beyond that available for developing countries—and have access to the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF), later strengthened in the form of an "enhanced" version (EIF).

SDTs for LDCs include measures aimed at safeguarding the interests of those countries, increasing flexibility for LDCs in rules and disciplines governing trade measures, extending longer transitional periods to LDCs and providing technical assistance.[14] Such measures are expected to facilitate the integration of LDCs into the multilateral trade regime by exempting them from having to comply with certain disciplines or by giving them extended periods or technical assistance, or both, to implement the measures.[15]

It is not clear whether the 32 LDCs that are contracting parties to the WTO can take full advantage of the potential benefits available to them. In fact, for these countries, the lack of understanding and effectiveness of many SDT provisions remains a cause of underutilization. Additionally, negotiations for accession to the WTO remain extremely complex and lengthy and, in the cases of Cambodia, Cape Verde and Nepal, offered less

14 Committee for Development Policy (2008), *Handbook on the Least Developed Country Category*, op. cit., p. 17.

15 Not all of the provisions are mandatory, and some have already expired. A compendium of the measures is being prepared by the CDP secretariat as part of the activities of the capacity-building project for graduation strategies for LDCs (see http://www.un.org/esa/policy/devplan/ldcproject.html).

favourable treatment than had been granted to the LDCs who joined in 1995.

Moreover, SDT provisions have become more numerous over time because the difficulties in implementing WTO agreements had become more evident. The fact that many of the provisions have only recently been introduced further complicates the task of evaluating their effectiveness as there may not be sufficient evidence available from which to draw firm conclusions.[16] In any event, rather than implying more benefits for the LDCs and being better targeted or enforceable, the increasing number of provisions adopted seem instead to "represent political commitments and inform policy development towards LDCs".[17]

Although SDTs related to technical assistance for LDCs may have been helpful (see below), in general there has been a great deal of dissatisfaction with the provisions as currently conceived. SDTs (not only those for LDCs) are being reviewed in the Doha Round in order to make them more effective and operational, but they remain one of the most controversial issues addressed by the Round. Negotiations on this issue have not been making much progress.[18]

In any event, the impact of SDTs on the growth of LDCs is debatable. On the one hand, exemptions to WTO obligations may not benefit LDCs in the long run if STDs lead them to postpone the reforms necessary

16 For instance, there are 24 provisions in the Uruguay Round agreements specifically related to measures to assist LDC members of WTO. The Doha Ministerial Declaration alone contains 21 paragraphs related specifically to LDC concerns. See World Trade Organization, revised Note by the Secretariat on the "Implementation of special and differential treatment provisions in WTO agreements and decisions" (WT/COMTD/W/77/Rev.1) of 21 September 2001; and World Trade Organization, "WTO work programme for the least developed countries (LDCs) adopted by the Sub -Committee on Least-Developed Countries" (WT/COMTD/LDC/11) of 12 February 2002.

17 Nhan Nguyen, "WTO accession at any cost? Examining the use of WTO-plus and WTO-minus obligations for Least Developed Country applicants", *Temple International and Comparative Law Journal*, vol. 22, No. 1 (Spring 2008), p. 245.

18 Ana Luiza Cortez, "Trade-related measures for the least developed countries: what strategy involved? in *Out of the Trap: Supporting the Least Developed Countries*, Patrick Guillaumont, ed. (forthcoming).

for creating more open economies. Most LDCs have small economies and cannot develop without being open to outside markets, and high protectionist barriers would hinder productivity growth and the strengthening of their competitiveness. On the other hand, it is not clear whether WTO disciplines are compatible with or appropriate for the current stage of development in LDCs. These countries are structurally vulnerable to external shocks and need a carefully crafted sequence of outward-oriented measures; thus, flexibilities and support are indeed required. Naturally, SDTs alone cannot accelerate development in LDCs. What is needed are measures to increase the resilience of the LDCs to external shocks, which include, among other things, insurance mechanisms, shock-smoothing facilities and capacity-building, together with the other specific measures discussed in this Policy Note.

The IF was created in 1997 as a coordinating mechanism among six multilateral agencies.[19] It aimed to deliver technical assistance to improve the capacity of LDCs to formulate, negotiate and implement trade policies so as to facilitate and derive greater benefits from their integration into the multilateral trading system. Only modest results were accomplished during the early years, however. As a result, the IF was restructured in 2001, then further strengthened in 2007 and renamed the enhanced Integrated Framework (EIF). An Executive Director took office in October 2008. The EIF has a multilateral Trust Fund attached to it which amounted to $100 million in April of 2010 (and included credits transferred from the earlier IF Trust Fund). It is still too early to pass judgement on the EIF, and measuring its impact can be challenging as it aims to achieve qualitative goals such as mainstreaming trade into development policies and improving policy-making processes.

International aid

The United Nations PoAs for LDCs include provisions for giving priority to LDCs in the allocation of official development assistance (ODA). At the

19 The International Monetary Fund, the International Trade Commission, the United Nations Conference on Trade and Development, the United Nations Development Programme, the World Bank and the World Trade Organization.

first United Nations Conference on the LDCs in 1981, the members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC) committed themselves to allocating 0.15 per cent of their total gross national income (GNI) (including funds channelled through international organizations) to LDCs. The ODA-to-GNI ratio has fluctuated between 0.08 and 0.1 per cent since the first LDC Conference and stood at 0.09 per cent in 2008. In turn, aid to LDCs as a share of total aid fluctuated around the 30 per cent mark (despite an increase in the number of LDCs).

Impact of the United Nations programmes of action on ODA flows

The introduction of the LDC category in the early 1970s seems to have drawn the attention of donors to the predicament of these countries: the average growth rate of ODA to LDCs nearly trebled to 23.7 per cent per annum during the 1970s, compared with an average annual rate of growth of 8.4 per cent of ODA to the same countries in the 1960s. In contrast, ODA to other developing countries grew on average by 10 per cent per year in the 1970s compared with 3.4 per cent in the 1960s.[20]

But the momentum was not maintained, and this favourable allocation of aid to LDCs was reversed during the 1980s and 1990s. The average annual rate of growth of ODA flows to LDCs slowed to about 6.9 per cent in the 1980s and contracted by an annual rate of 3.7 per cent in the 1990s. Conversely, aid to other developing countries grew by 7.9 per cent during the 1980s, 1 percentage point higher than aid to LDCs, and declined only marginally (by about 0.5 per cent per annum) during the 1990s. The ODA trends during the 1980s and 1990s seem to be all the more surprising in view of the fact that the number of LDCs nearly doubled during that period. ODA flows to LDCs recovered in the 2000s, but were

20 Admasu Shiferaw, "Assessing the UN Programmes of Action for LDCs and the allocation of ODA to LDCs", background paper presented at the CDP Expert Group Meeting on International Support Measures for LDCs, New York, January 2010.

comparable to the recovery observed in flows directed to non-LDCs. These facts suggest that to belong to the category does not necessarily imply that an LDC will receive a relatively greater amount of bilateral aid.

ODA flows and development in LDCs

The contribution of ODA to the growth of LDC economies is generally difficult to assess. The literature has not yet reached a consensus on what makes aid more effective, although it tends to confirm that aid itself is generally an important tool for enhancing the development prospects of poor nations in specific contexts.[21] For example, aid flows have a significant impact on the growth of countries that are structurally more vulnerable, particularly countries that experience high instability in their export earnings.[22] This is because projects funded by aid have a stabilizing effect at the macroeconomic level and, in these cases, aid is likely to dampen the negative effects of shocks. This implies that, in countries where GNI per capita and the human assets index (HAI)—two of the three criteria used to classify LDCs—are similar, aid is more effective in the country with higher economic vulnerability (the third criterion).

The results of an econometric analysis that considered the three criteria used to classify countries as LDCs indicate that there is a statistically significant, negative relationship between per capita ODA and the per capita income of the recipient country. This means aid allocation seems to favour those LDCs that are further away from the graduation threshold in terms of per capita GNI. The result is consistent with the findings for a larger sample of developing countries where poorer countries get more

21 Channing Arndt, Sam Jones and Finn Tarp, "Aid and growth: have we come full circle?", UNU-WIDER Discussion Paper No. 2009/05 (Helsinki, UNU-WIDER, October 2009).

22 Patrick Guillaumont and Lisa Chauvet, "Aid and performance: a reassessment", *Journal of Development Studies*, vol. 37, No. 6, August 2001, p. 66-92; Patrick Guillaumont and R. Laajal, "When instability increases the effectiveness of aid projects", World Bank Policy Research Working Paper, No. WPS4034 (Washington, D. C., World Bank, 2006), p. 29; and P. Collier and B. Goderis, "Does aid mitigate external shocks?" *Review of Development Economics*, vol. 13, No. 3 (2009), pp. 429-451.

aid.[23] A similar relationship is observed between ODA per capita and the HAI, implying that LDCs with fewer human assets tend to get more ODA. While economic vulnerability as measured by the economic vulnerability index (EVI) and ODA per capita have a positive correlation, the association is statistically insignificant. In other words, there does not seem to be a systematic effort by donors to use aid to mitigate economic vulnerability once GNI per capita and HAI have been taken into account.

Sectoral allocation of ODA

Figure 2 plots total ODA by major sector during 2002-2007. It shows that the increase in aid to LDCs during this period is predominantly associated with a steady increase in aid for social infrastructure and services, while other sectors have recorded only modest increases. As a result, the share of aid for social infrastructure in total ODA to LDCs increased from 28 per cent in 2002 to 44 per cent in 2007, while shares of ODA for both economic infrastructure and commodity support (food aid and general budget support for food programmes) remained at an average of 8-10 per cent. Productive sectors came in last with an average share of less than 5 per cent.

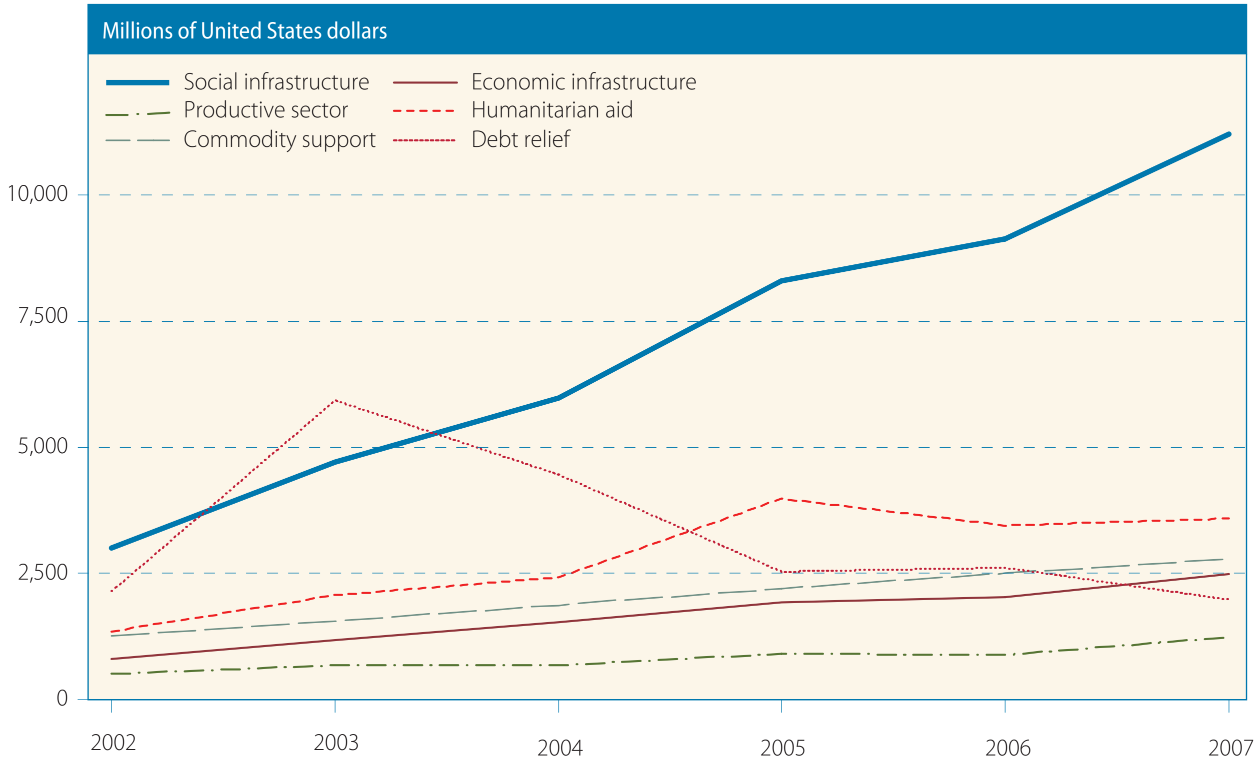
The increased aid flows to social sectors, together with the strong commitment of LDCs to achieve the MDGs, have led, on average, to improvements in social outcomes in LDCs, as indicated in table 1. In many countries, improvements in school enrolment have been associated with higher national spending on education, although population growth tends to put increased pressure on the resources allotted in this regard.[24] While the under-five mortality rate has shown only slow improvement, countries in sub-Saharan Africa have made progress in several child-survival interventions that are expected to yield further declines in the mortality rate.[25] These include vitamin A supplementation, the use of insecticide-treated bed nets and immunization.

23 Alberto Alesina and David Dollar, "Who gives foreign aid to whom and why?", Journal of Economic Growth, vol. 5, No. 1 (March 2000), pp. 33-63.

24 United Nations, *The Millennium Development Goals Report 2009*, (United Nations publication, Sales No. E.09.I.2), p. 15.

25 Ibid., p. 25.

Figure 2
Sectoral distribution of official development assistance to least developed countries, 2002–2007



Source: Based on the Organization for Economic Cooperation and Development *Development Cooperation Report 2009* (Paris, OECD, 2009).

Table 1:
Least developed countries: improvement in social outcomes: selected components of the human assets index, 2003, 2006 and 2009

CDP triennial review	*Secondary enrolment rate (percentage)*	*Under-five mortality (per 1,000 live births)*	*Adult literacy rate (percentage)*
2003	25.2	143.8	55.4
2006	30.2	145.9	56.9
2009	34.3	139.3	60.4

Source: Committee for Development Policy.

Other forms of support

In addition to the special measures for LDCs related to trade, development assistance and technical cooperation, LDCs also benefit from measures such as dedicated travel funds to facilitate their participation in specific intergovernmental processes. These benefits include, among other things, financial support for air travel to attend sessions of the United Nations General Assembly as well as a cap on LDC contributions to finance budget and peacekeeping operations.[26]

In general, it is difficult to assess the impact of such measures as not all of them are quantifiable. Even if they were, it is not clear what impact they might have. Take, for instance, funding for participation at United Nations conferences: Does the dollar value spent on travel measure the real benefit? If so, it could be argued in terms of the opportunity cost of fiscal resources. Or it could perhaps be argued that the benefit derived from such a measure also includes the opportunity afforded LDCs to influence the decision-making process through their participation in international forums.

Ways to improve international support measures for the least developed countries: towards a fourth United Nations programme of action

Overall, existing international support measures for LDCs have generated rather limited results. There are several explanations for their inadequacy. First, goals set by the strategies may have been excessively ambitious, suggesting a lack of coherence between the objectives and the policy measures instituted to achieve them. Second, even where goals were reasonable, there were difficulties in implementing the strategy owing to inadequate

26 Special technical and political support is also provided by all the areas of the United Nations system dedicated to LDCs, including those in UNCTAD, the United Nations regional commissions and the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States.

external support (as described above), misguided domestic policies, poor governance or random shocks (internal conflicts and unfavourable natural events). Third, the measures turned out to be inadequate because the LDC strategy had overemphasized those international measures whose impact on growth, poverty alleviation and—eventually—graduation had not been convincingly demonstrated. Fourth, the strategies include measures which may be "necessary" but not "sufficient" to address the structural handicaps affecting the LDCs, as many important obstacles to development, both domestic and international, were neglected.

The argument is not to abolish existing support measures. Rather, they should be made more effective by enhancing the modalities through which they are delivered: for example, by improving aid targeting and efficiency or by simplifying the rules of origin and making them easier to comply with. There is a need to revisit LDC strategies in general and the international support measures in particular. They should be viewed from new perspectives and in the "spirit of the times", in order to determine whether support might be improved and complemented by other national and international measures. At the same time, the upcoming conference in 2011 should be seen as an opportunity to introduce the additional national and international measures necessary for making support measures as a whole sufficient to enable the LDCs to be lifted out of poverty.

Improvements to existing special measures

Aid allocations to LDCs

The ODA target of 0.15 per cent of the GNI of DAC countries should be reaffirmed and achieved on an urgent basis. New players have also emerged on the world scene, including large and influential developing countries and sizeable foundations and non-governmental organizations (NGOs). The traditional donors—the DAC countries—are still very relevant for the development of the LDCs, but the fourth PoA should include support measures that could be put in place by these emerging actors. ODA flows reported by non-DAC members still represent a small share of total ODA flows, but they have been growing in recent years. The Gates Foundation, for example, is playing a major support role in Africa that includes initiatives to promote improved seed varieties as well as advances in the area of health. In this regard, the newly emerging aid architecture should be acknowledged so that existing synergies can be explored further and new ones forged to benefit recipient countries. Additionally, aid targets should be set for countries and institutions that are acquiring a position of prominence and greater responsibility on the world stage, such as the BRIC countries (Brazil, Russia, India and China). This will require complex negotiation but, given this new global reality, it is imperative that these new resources for the LDCs be tapped in a transparent and structured way.

There is also a need to rebalance sectoral aid allocations. As noted above, during the past decade, aid to the social sectors rose steadily while aid to the infrastructure and productive sectors stagnated at low levels. Some rebalancing of aid allocations in favour of the latter sectors and the prioritization of budget support so as to enhance "aid absorption" capacity and increase aid efficiency are necessary.

More importantly, there is a need to find an adequate mix of aid allocation between the social sector and the infrastructure and productive sectors. The sectoral distribution of ODA to LDCs reflects donor priorities and is consistent with achieving the MDGs and the third United Nations Programme of Action for the LDCs. Yet, the shift towards the social sector and away from the infrastructure and productive sectors has implications for alleviating the structural constraints to economic growth. While the quality of human assets does matter for development, there is nonetheless a need to create dynamic economies and income-generating activities so that the upgraded human assets can be productively employed. Absent any increase in ODA for economic infrastructure and the productive sector, such as agriculture and manufacturing, investment in social infrastructure could continue to crowd out investment in these two sectors. This would have negative consequences for addressing the supply constraints these countries face and consequently for increasing their presence in global markets and providing their labour force with productive employment.

It is worth recalling that mutually reinforcing areas of deprivation can lead a country to be trapped in poverty. Countries with struggling economies find it difficult to make progress on human development whereas countries with weak human development find it challenging to make progress on economic growth. It is not enough to merely create a larger pool of educated people; there must also exist opportunities for them to be productively employed. With high levels of human development leading to high economic growth and high economic growth in turn further promoting human development, an economy enters a virtuous cycle with human development and economic growth reinforcing one another.

While lopsided performances are fairly common—that is to say, performance is good either in human development or in growth—they are not sustainable in the long run. In terms of policy sequencing, existing analysis suggests that it is essential to promote human development, either at the outset, or simultaneously with growth promotion; otherwise, any improvement in economic growth will prove temporary.[27] Therefore, rebalancing ODA allocation, while necessary to promote a virtuous cycle, should not mean neglecting human development. Low investment in human capital, and female education in particular, remains a major problem in a number of LDCs. It is suggested that the education sector should be allocated a specific share of total aid and that Governments should be encouraged to sustain the allocation of domestic resources to this sector.

Improving trade prospects

The implementation of DFQF access pledges for LDCs agreed upon at the Sixth Ministerial Conference of the WTO in Hong Kong in 2005 should be accelerated. The remaining 3 per cent of tariff lines that are not covered by DFQF treatment but that encompass goods that are commercially meaningful to LDCs should also be phased in quickly.[28] There is also an urgent

27 Frances Stewart, "Why it is so difficult to escape from the least developed country category", background note presented at the CDP Expert Group Meeting on International Support Measures for LDCs, New York, January 2010.

28 As argued in the preceding text, even the 3 per cent of tariff lines that are excluded from DFQF can represent a considerable share of LDC exports.

need to harmonize and simplify rules of origin, to remove other non-tariff barriers and to compensate for preferential tariff erosion due to increasing trade liberalization. LDC accession to WTO should be further facilitated: the process should be faster, and acceding LDCs should be offered the same LDC-specific special and differentiated treatment provisions that applied to current LDC member States of the WTO at the time of their accession.

While useful, increased market access will not suffice to improve trade in most cases owing to the existence of supply-side constraints in LDCs. Therefore, there is a need for trade-related assistance that includes support to enhance productive capacities, infrastructure and logistics. The EIF is a promising initiative in this regard but should be expanded and implemented expeditiously. Moreover, trade with other developing countries offers considerable potential for LDCs. Developing countries should offer preferential access measures to LDCs since their markets are often not as open to LDC exports as those of developed countries. South-South trade could be promoted further by, for instance, granting trade credits and reducing protection.

Additional national and international measures

A fourth PoA should not only strengthen and improve existing international support measures but also introduce new measures and strategies, at both the national and international levels, that are better specified and tailored to the defined objectives, country specificities and emerging challenges. Enhanced coherence between the fourth PoA and other international development strategies, as well as interventions by the international financial institutions, will be needed. It is further recommended that the fourth PoA, while continuing to be based on the principle of national ownership, should have a balance between the number of international and domestic targets, on the one hand, and the resources and support measures that may realistically become available, on the other.

Much of the emphasis of the current strategy is, in fact, placed on international measures. However important these may be, they are insufficient. The worsening of the international environment due to the food, fuel and financial crises which began in mid-2007 amply eroded whatever concessions had been made to the LDCs in the areas of aid, debt and trade. Moreover, the increasing volatility of the world economy is likely to make it more difficult for the international community to deliver on commitments that had been made at a time when more stable conditions prevailed. These developments also point to the limits of these instruments during periods when the international environment ceases to be "enabling": concessions gained in one area are offset by the impact of adverse developments elsewhere.

As regards domestic policies, the strategy pivots around the creation of an enabling environment, including good governance, the provision of physical and social infrastructures, and sound macroeconomic policies. As important (and as disposed to improvement—in terms of ODA effectiveness, for example) as these measures may be, they cannot by themselves lift the LDCs out of their predicament. In a sense, the existing strategy seems to ignore the historical experience of other countries (both large and small) that achieved success with a subtle mix of orthodox and unorthodox actions that emphasized both international support measures and domestic policies.

Identifying different clusters of LDCs

LDCs are characterized by many common features. After nearly four decades of existence, the LDC category has been enjoying wide recognition not only within the United Nations system, but also in WTO, as well as by other development partners. Yet, there is a need to articulate tailor-made national and international responses for individual LDCs in order to design measures more targeted to a country's needs and to achieve greater effectiveness of the support measures discussed above. In fact, while all LDCs exhibit poor *outcomes* in terms of low income, low human capital and high structural vulnerability, the *causes* of these circumstances differ from one group of countries to another. It might thus be argued that the LDCs could be grouped into clusters based on the differences in these factors. This would facilitate the design of a dedicated set of policy measures that more effectively address particular common problems faced by certain of these countries.

By way of example, LDCs could be grouped into three or four clusters.[29] A first cluster could include economies whose main constraint to growth is low land and labour productivity. While the agricultural sectors of these economies are likely to employ between 50 and 70 per cent of their respective labour forces, they contribute to only between 25 and 35 per cent of GDP. Most LDCs in sub-Saharan Africa share this feature. At present, the level of per capita food production in these countries is on average 30 per cent lower than in the 1960s and some of them have moved from being net food exporters to net food importers. In fact, 35 LDCs were net food importers and food aid recipients in 2006.

The agricultural sectors of these countries are primarily engaged in subsistence farming and are characterized by a declining availability and unequal distribution of farmable land,[30] limited access to irrigation, a low rate of fertilizer use, insufficient national and international research and development (R&D) on such crops as millet, sorghum, cassava and yams (the so-called African crops), and underdeveloped land and credit markets, as well as by declining public and private investments. Misguided structural adjustment policies have often aggravated the situation. In a sense, the dominance of macroeconomic stabilization and liberalization policies has diverted focus away from the problem of low productivity in the agricultural sector. In these countries, the agriculture sector is unable to feed their own populations.

Overall development cannot take place in the absence of an equitable modernization of agricultural production. Ending the stagnation of land yields is key to removing structural impediments and fostering structural transformation towards diversified economic structures. Clearly, past neglect cannot be resolved through a free-market approach, which places

29 This clusters presented are tentative and designed for purposes of illustration only.

30 Following rapid population growth, the average farm size of sub-Saharan African LDCs started to decline in the 1960s, despite an expansion of cultivation into marginal areas. Land concentration also increased, with the Gini coefficients of the distribution of landholdings approaching those of Asia during the 1970s.

emphasis on complete liberalization and reliance on the private sector only. State institutions should have a role in rural development.

Recommended public interventions would include a more egalitarian provision of subsidies for improved seeds and modern inputs and, whenever needed, price support. Most of the fertilizer used in sub-Saharan Africa is imported, but bulk purchases could reduce costs. Furthermore, indigenous capacities to develop, spread and adapt new and existing farming technologies should also be strengthened with technical assistance from the international community. Restoring budgetary support for agriculture would be essential.

Similar to efforts made during the green revolution of the 1960s, the Consultative Group on International Agricultural Research (CGIAR) should increase research on African crops and support R&D in national or regional institutions, which often lack financial and human capability. Additionally, agricultural subsidies in developed countries need to be phased out, as such support gives rise to unfair price advantages for farmers in those countries to the detriment of farmers in poor countries.

A second cluster could be that of small island countries which have a relatively high income but are vulnerable to environmental and economic shocks. Export concentration is high for most of them, as is dependence on tourism. Geographic dispersion within countries and remoteness from major international markets push up transport costs. Because of their small size and location, these countries are likely to suffer extensive damages from natural disasters relative to their population or total economic activities, and they have limited capacity to respond to them.

For these countries, there is first of all a need to embark upon a strategy of gradual diversification of the productive structure, as Mauritius did in the 1970s. That country successfully diversified its sugar monoculture into the textile and garment sector by establishing export processing zone conditions. Later, when wages started to rise, the country developed tourism as well as offshore business services and outsourcing.[31] Second, it is recommended that formal insurance mechanisms against catastrophic events be

31 The Lao People's Democratic Republic is also an example of a country which successfully diversified its economic structure.

established, which could be facilitated or subsidized by development partners through aid or international taxation systems. The Caribbean Catastrophic Risk Insurance Facility is an example of such an arrangement. Among new approaches that should be explored are insurance-based financial products, such as catastrophe bonds, weather derivatives and commodity-indexed bonds. Because such contracts are likely to be costly, an international mechanism would be required to finance part of the insurance premium against potential disasters. Another similar type of mechanism would be a global contingency fund, which could provide resources to countries affected by natural or economic shocks by means of earmarked international taxes, such as those on carbon emissions and foreign-currency transactions.

A third cluster might include LDCs that have reasonably high land productivity but need to diversify their economic activities. This type of LDC is confronted with a lack of physical infrastructure, weak linkages to domestic markets and insufficient access to a skilled workforce and financial services. One strategy would be to initiate rural-based industrialization, something which was successfully carried out in Bangladesh and China. This would be facilitated by the rise of agricultural income made possible by increased agricultural productivity, which would create a market for manufacturing goods, construction and services.

For countries belonging to this cluster, the main objective would be to strengthen the linkages between rural and urban sectors through physical infrastructure and economic activities. The first task would be to improve business infrastructure by investing in roads, electrification and State-supported (mini-)industrial parks for small and medium-sized enterprises (SMEs). At the same time, the creation of SMEs should be encouraged by reducing licensing fees and administrative barriers to access credit. International aid or foreign direct investment (FDI) could be attracted to build hub-and-spoke networks of SMEs, in which these enterprises would work as subcontractors for transnational corporations and thereby benefit from their technological and managerial knowledge and the spin-off of skilled personnel.

A fourth possible cluster would be that of countries in or emerging from conflict. These countries face a high risk of internal conflict resurgence and a consequent disruption of economic activity and lower human well-being. Several of the 49 LDCs have been affected by one or more conflicts over the past two decades and have experienced a subsequent decline in income and the spread of misery, which has often triggered a further deepening of internal strife and a "vicious circle" of poverty. In such fragile situations, exogenous shocks unrelated to the causes of the conflict tend to aggravate the risk of falling into such a vicious circle.

For these countries, the challenge is how to stop the resurgence of conflicts by addressing some of their root causes. These may include low incomes, high horizontal inequalities, lack of opportunities for youth, and lack of transparency and fairness in the distribution of rents from natural resources. Appropriate policies depend upon the particular circumstances of a country and the dominant cause of the conflict. It would be desirable to introduce a system for monitoring conflict predictors, including the distribution of political and economic opportunities and outcomes among groups, large income drops and permanent climatic shocks. Policies directed at promoting inclusive democracy adjusted to local conditions, enhanced civil society participation and accountability, especially with regard to natural resource rents, should contribute to improving governance and reducing the likelihood of conflict; economic policies should aim to reduce horizontal inequalities and enhance opportunities for employment, as well as to develop human resources and raise per capita incomes. Aid allocations for the reconstruction and pacification of war-torn countries should be expedited and increased. Furthermore, new special measures should focus on technical assistance to support domestic tax efforts aimed at the mobilization of domestic resources and the reconstruction of social and fiscal contracts, as well as the other policies listed above.

Climate change and special measures

A new PoA should address climate change and its impact on the LDCs in terms of food security, water stress, disease, disaster risk, ecological degradation and migration. The identification of links between development and climate change remains to a great extent focused on the mitigation potential of large developing countries. There is a need to catalogue and identify climate-friendly development paths for LDCs, countries with particular and often different climatic potential as well as needs. In the case of land-use links to climate mitigation (for example, through forests), some LDCs may have significant mitigation potential, and this in itself can be seen as a sustainable development opportunity. In other cases, sustainable development options (for example, those related to energy efficiency) can have significant attendant developmental benefits. In yet other cases, some LDCs might even benefit from technological leapfrogging to cleaner technologies.

As a broad concept, the idea of sustainable development already provides a framework within which a development pathway can be constructed. However, this also needs to be done within the specific context of the LDCs as a group. Support measures should include new global arrangements for climate financing, especially adaptation financing, and should respond to the particular and differing needs and constraints of LDCs.

The United Nations Framework Convention on Climate Change (UNFCCC) established a "financial mechanism" (which is subject to further elaboration) to operate under the Convention, with one or more "entities" (such as the Global Environment Facility) acting as its operational agent. CDP shares the preference for multilateral arrangements with governance provisions that are open to the views and interests of all concerned. In this regard, it considers it appropriate and logical that the regime for such financial architecture should be housed within UNFCCC, in line with the Bali Action Plan and the UNFCCC stipulation (article 2) that climate-related action should enable economic development in a sustainable manner. In line with the "polluter pays" principle, disbursements to LDCs should be made in terms of grants rather than loans so as not to add to their debt burden.

Within the framework of the Kyoto Protocol, an Adaptation Fund was established at Poznán in 2008 to assist developing countries that are particularly vulnerable to climate change in meeting the costs of adaptation, and to finance country-driven projects and programmes, taking into account national sustainable development strategies, poverty reduction strategies and national adaptation plans, where they exist. It is envisaged that decisions on the allocation of resources among eligible parties will be made based on a country's level of vulnerability and urgency, as well as its existing adaptive capacities. In Copenhagen, the Green Climate Fund (for both adaptation and mitigation funding, as well as for facilitating technology transfer and capacity development) was proposed as an operating agency under the Convention.

Climate-related financial cooperation to support adaptation in LDCs (and in other developing countries) will have to take the form of new financing, in addition to regular development assistance (ODA) and over and above what has already been pledged (0.7 per cent for all developing countries and 0.15 per cent for LDCs). Adaptation—generally positively associated with development—demands targeted measures, including the climate-proofing of existing infrastructure, projects and programmes in relation to particular vulnerabilities, and a shift to climate-resilient development trajectories. If such new levels and directions of development raise resource claims, the additional costs should, in the case of LDCs, be funded through supplementary international funds and not from existing development assistance budgets.

The LDCs should be given special treatment from within the allocations of any new global adaptation funds. Fund allocation could be determined by means of an index of vulnerability to climate change, for instance, which could be constructed in terms of the degree of threat to livelihoods. Moreover, the LDCs need preferential access to clean technology. There is a strong case for assisting them in technological leapfrogging towards clean technologies so that they do not have to move from "worse" to "bad" technologies before arriving at "good" ones. In this regard, there is a need to explore whether access to clean technologies could be introduced as part of the SDTs afforded under the Trade-Related Intellectual Property Rights Agreement of the WTO.

Enhancing policy coherence

Policy coherence can be strengthened by establishing clearer linkages between different international strategies and by carrying out (for the group as a whole as well as for each country or cluster of countries) a careful assessment of the linkage between needs, resource requirements and funding sources.

There is a need to enhance the coherence between a fourth PoA for the LDCs and other international strategies. These international strategies, including those initiated by the International Monetary Fund and the World Bank, should be strongly encouraged to align themselves with the new PoA, in whose formulation the entire international community will have participated. A clearer link also needs to be established between the Poverty Reduction Strategy Papers (PRSPs) and the overall strategy and measures that will be decided upon at the next LDC conference.

The fourth PoA should continue to be based on the principle of national ownership, clearly reflecting development priorities identified by the LDCs themselves. The clustering approach could also prove useful in this respect.

Finally, the fourth PoA should avoid having a long, unrealistic list of goals matched by only few tools. There should thus be a balance between the number of international and domestic targets identified, on the one hand, and the resources and support measures that may realistically become available, on the other.

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