ECOSOC High-Level Segment Preparatory Meeting

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ECOSOC Chamber

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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".

Mr. Chairman,

The importance of the theme of today's roundtable for meeting the development objectives agreed by the LDCs and their development partners in the Brussels Programme of Action cannot be overestimated. The implementation of the goals, priorities and targets of that Programme of Action require the mobilization of significant financial resources. But sluggish growth, or even economic stagnation, widespread poverty and a weak domestic corporate sector provide only a limited basis for raising development finance at the domestic level to meet the multiple funding requirements of LDCs. The large investment requirements of LDCs imply a need for large external resource transfers, including through ODA, private capital flows and trade.

Against the backdrop of the dramatic need for external resources, recent trends in resource flows to LDCs show a mixed picture. In 2002, total net resource flows amounted to $16.7 billion, which is a record level and represents an increase of 35 per cent over the year 2000. Aggregate net resource flows surged particularly in 2001, followed by a less rapid increase the following year.

The backbone of this upsurge of long-term capital inflows to LDCs was a massive increase in FDI inflows in 2001. Those flows totalled US$ 5.63 billion, or a tenfold increase over the 1990 figure. Indeed, almost two thirds of the additional long-

term capital flows to LDCs in 2001 can be attributed to increased FDI inflows. In the wake of declining global FDI flows in 2002, private capital flows to LDCs declined as well, by some 7 per cent. But this decline was offset by higher official flows, in particular by a significant increase in grants and to a lesser extent in official debt flows.

A brief analysis of recent trends in overall financial flows to LDCs allows for several conclusions:

1. Despite shifts in the composition of aggregate net resource flows in 2001 and 2002, the structure of long-term capital inflows to these countries has remained relatively stable. Official capital flows account for two thirds of aggregate net resource flows, whereas private capital flows complement the remaining one third.

2. The LDC share of long-term capital flows to all developing countries increased from 4.7 per cent in 1997-1999 to 7.4 per cent in 2000-2002, which suggests that LDCs have been receiving increasing shares of the aggregate net resource flows to all developing countries.

3. Private capital flows to LDCs have increased markedly since 2000. However, FDI flows to LDCs remain highly concentrated in a few countries. Five LDCs that are either oil-exporting or are about to set up the infrastructure for oil exports – Angola, Chad, Equatorial Guinea, Sudan and Yemen – accounted for almost two thirds of all FDI flows to LDCs in 2002. In fact, if the top 10 LDC recipients of FDI are excluded, FDI inflows to the remaining LDCs decreased faster in 2002 than for the LDCs as a group.

4. Moreover, higher overall levels of FDI inflows to LDCs, compared to the average levels of the 1990s, cannot conceal the fact that total FDI inflows to LDCs in 2001 amounted to only about 50 per cent of the flows to Singapore alone for that same year. In addition, increased FDI in LDCs has also led to significantly higher profit remittances, which almost doubled between 1997-1999 and 2000-2002. In relation to grants, almost two fifths of FDI inflows to the LDCs left the countries in the form of profit repatriation.

5. Despite increased private capital flows, official development assistance (ODA) will remain a critical resource for achieving the objectives and targets of the Brussels PoA. It is therefore essential to consider quantitative and qualitative aspects of aid flows to LDCs.

Since 2000, the donor community has increasingly concentrated aid inflows on LDC economies. In 2002 these countries received some 28 per cent of total ODA disbursements, as compared with about 19 per cent in 1999. Net ODA flows to LDCs grew in both nominal and real terms in 2002. On a per capita basis, nominal net ODA flows have risen by more than one third since 1999. In real terms, however, net aid flows per capita were still about 16 per cent lower in 2002 than in the early 1990s.

Grants represent about four fifths of total aid flows to LDCs. However, non-grant disbursements, in particular multilateral concessional loans, have grown much faster than grant disbursements during recent years. Such a development is not without risks, since it entails increasing multilateral debt service obligations for these countries. In 2000-2002, the amount of debt service payment plus remittances on FDI was equivalent to about 50 per cent of all ODA grants disbursed to LDCs.

As regards the sectoral distribution of aid flows, both bilateral and multilateral donors continue to prefer channelling ODA commitments into social infrastructure and services. This preference is at the expense of aid flows to economic infrastructure. For example, the share of ODA flows from multilateral institutions into economic infrastructure dropped by 40 per cent between 1997-1999 and 2000-2002. As much as LDCs need aid for social infrastructure and services, this imbalance raises concerns about prospects for developing and modernizing their economic base, in particular with regard to the sustainability of their efforts to strengthen local supply capacities.

Emergency assistance continues to be an important element of aid to LDCs, and between 2001 and 2002, total commitments to emergency assistance to LDCs more than doubled. This was a sharp increase over an already upward earlier trend. During the period 2000-2002, donors committed ODA to emergency assistance in all but three LDCs (Samoa, Sao Tome and Principe and Tuvalu).

Despite the increase in ODA flows, however, most donors are still below the aid commitments stipulated in the Brussels PoA. Only six DAC member countries, namely, Denmark, Ireland, Luxembourg, Netherlands, Norway and Sweden,

surpassed the target of making net ODA disbursements equivalent to more than 0.20 per cent of their respective GNI in 2002.

Improving the quality of aid is as important as improving the quantity of aid. In this regard, one of the most important decisions in the Brussels PoA is the recommendation to untie, by 1 January 2002, ODA in the following areas: balance of payments and structural adjustment support; debt forgiveness; sector and multi-sector programme assistance; investment project aid; import and commodity support; commercial services contracts; and ODA to NGOs for procurement-related activities.

An assessment of progress achieved in the implementation of this initiative will soon be required, and cooperation among the UN, UNCTAD and the OECD could help in this regard. Meanwhile, although concrete data regarding the implementation of this recommendation are not yet available, early reports indicate that almost all DAC members have rapidly and comprehensively untied ODA. Given that about fifty per cent of bilateral aid (excluding technical cooperation and food aid) was tied before the recommendation to untie aid to LDCs, the decision could have a significant impact on improving the efficiency of aid. In order to maximize the economic benefits, not only will all donors have to proceed swiftly with untying, and as comprehensively as possible, but the LDCs will also have to make major efforts to improve their government procurement system. The latter approach could have far-reaching positive implications for LDC Governments.

Mr. Chairman

Another important channel of resources mobilization for LDCs is through international trade, which is more dependable source of foreign exchange and income for developing countries. However, the share of the LDCs in world trade has continued to decline since the 1980s, accounting for only about 0.4 per cent of world trade in average terms over the last couple of decades. The trade share of those LDCs which are heavily dependent on single or few commodities for their exports is extremely low with this group of countries facing particular problems. Recent market access initiatives such as the "Everything But Arms" initiative of the European Union and the Africa Growth and Opportunity Act of the USA and other bilateral preferential market access offers can make a positive contribution in improving their trade share and export earnings which is key in the fight against poverty in these countries.

The analysis of effective benefits for LDCs from market access commitments requires country-specific examination in order to see how market access offers have really contributed to investment flows, foreign earning exchanges, job creation and income generation. Our preliminary analysis in selected LDCs indicates that market access offers, if effectively and fully utilized, can positively contribute to the overall socio-economic performance of LDCs. For instance, Lesotho and Madagascar have benefited from substantial investment flows in the textile sector as a result of preferential market access. This in turn had significant impact on employment and income generation. We shall again revert to this issue in March.

This notwithstanding, remaining trade barriers, including agricultural support, tariff escalation and tariff peaks, standards and other technical barriers to trade as well as rules of origin have continued to act as barriers to trade. These barriers combined with weak supply capacity of LDCs have negatively affected the degree of utilization of the special market preferences granted to them. Therefore, it is critical to effectively address market access problems facing LDCs supplemented by specific actions to address their supply side problems. In this regard, priority should be given to ensuring that more aid is targeted to productive sectors and the economic infrastructure of the LDCs.

Mr. Chairman

For the LDCs as a group, access to external resources looks better today than a few years back. This reflects efforts undertaken both by donors, which are endeavouring to live up to their commitments, and by the LDCs themselves, which have made progress in improving the political and economic environment for the mobilization of external resources. However, the most effective way for the LDCs to significantly improve their development prospects – and exploit emerging opportunities in the global economy – is to foster domestic entrepreneurship and investments. Moreover, a key element missing from the current agenda of developing countries, and LDCs in particular, has been the need for greater emphasis on more policy space in the areas of trade and industrial policies. Indeed, emphasis on policy space and flexibility in development strategies – rather than market access alone – will certainly create a more enabling environment for poverty eradication in the LDCs. This is one of the central challenges to be addressed by UNCTAD XI.