Opening Statement by Mr. Jose Antonio Ocampo,
Under Secretary-General for Economic and Social Affairs,
at
ECOSOC High-Level Segment Preparatory Meeting
on "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"

New York, 17 February 2004

Madame President,

I am delighted to see that under your leadership the Council has started its preparatory work for the High Level segment well ahead of the substantive session. I am confident that early preparations will contribute to a meaningful outcome of the segment.

This year the Council is going to consider the problems of 50 countries, which are at the lowest rung of the development ladder. For most of 710 million inhabitants of these countries, life is a constant struggle against hunger, contaminated drinking water, deteriorating ecological conditions, infectious diseases, ignorance and instability.

Despite the efforts made by the countries themselves and the commitments made by the international community, they are falling behind in their endeavours to achieve the Millennium Development Goals and the objectives of the Brussels Programme of Action. We all know that the primary reason for the lack of progress towards these goals is the lack of resources and the absence of an enabling environment. In my remarks, I would like to focus on the serious difficulties that LDCs face in mobilizing resources both domestically and internationally and what steps should be undertaken to overcome those constraints.

The generalized poverty in LDCs and limited availability of domestic resources constrains economic growth. As a consequence, the available resources are barely sufficient to provide the necessary physical capital stock, education, health, and other social and physical infrastructure to keep pace with population growth. During the late 1990s, on average 15 cents a day were available per capita to spend on private capital formation, public investment in infrastructure, and the running of vital public services such as health, education and administration. The implications of this situation for growth, the provision of public services and human development are serious. Many LDCs are therefore caught in this "low-level equilibrium trap."

The economic situation is further aggravated by the fact that most of the LDCs are suffering from heavy external debt burden, which is a constant drain on their meagre resources. Only 30 out of the 50 LDCs are eligible for the HIPC Initiative. Seven of them have reached the "completion point" and 14 are at "decision point." The Debt stocks of the 27 HIPCs reaching decision point, including the 21 HIPC Least Developed Countries, are projected to decline by about two thirds. Annual debt service is projected to be about

30 per cent lower during 2000-2005 than in 1998-1999, freeing about $1 billion in annual debt-service savings for poverty-reducing expenditures.

Despite the positive effects of the HIPC Initiative on the debt indicators of these countries, there are serious concerns as to whether the countries can achieve debt sustainability even after the provision of full debt relief is implemented. These concerns have intensified in light of the marked long-term decline in the world commodity prices. In 2003, measured in dollar terms, these prices were, on average, more than one-third lower than in 1980. If measured in terms of SDRs, the decline was close to 40 per cent. Most of this decline took place in the first half of the 1980s, after which there was some recovery, which was interrupted, however, by a renewed downward trend since the Asian crisis. This recent fall was particularly sharp in some cases, particularly coffee and cotton. Although commodity prices recovered on average recovered by about 5 per cent in 2003 in dollar terms, this improvement was largely a reflection of the depreciation of the dollar. Using a more general price indicator, such as SDRs, the improvement in the past year was negligible.

However, it is not only the downward trend in commodity prices that is harmful for exporting countries, fluctuations in prices also have damaging effects on development in these countries, as these fluctuations appear to have become larger over the past decade. UNCTAD has developed a commodity price instability index, according to which the average monthly price deviation for commodities as a whole in current US dollars was 2.8 percent during the period 1999-2002, compared to 1.8 per cent in 1989-1998. The amplitude of price fluctuations varies considerably from one group of commodities to another, with vegetable oilseeds and oils, and mineral ores and metals having higher fluctuation than agricultural raw materials and food and beverages.

Excessive instability in primary commodity prices and the associated volatility in export revenues leads to instability in government revenue and produce pro-cyclical fluctuations in government expenditure, with the risk of particularly adverse effects on poverty-related current expenditures. It also slows the growth of total factor productivity and reduces overall long-term growth because of the inefficiencies in resource allocation and lower level of investment resulting from uncertainty.

In the 1970s and 1980s international commodity agreements were the focus of efforts to mitigate low prices and excessive price instability. The success of this approach was mixed at best and, although the reintroduction of such agreements, with adequate provisions to rectify past problems, deserves renewed consideration, particularly in the case of oversupplied tropical commodities, negotiations could prove difficult. A more general, promising approach seems to be compensatory financing for export earnings shortfalls. However, existing mechanisms, including IMF Compensatory Financing Facility, are expensive for countries using them and in some instances very restrictive, and their terms and conditions should thus be reviewed to make them more accessible and relevant for the current circumstances. On top of this, commodity-linked multilateral lending or alternative counter-cyclical devices need to be urgently instituted. Donors should also ensure that the volume of aid and financial inflows is counter-cyclical and does not reinforce the effects of a sudden decline in the prices of key commodity exports.

There is also a need to promote closer association between commodity price volatility and debt sustainability analysis. Indeed, several HIPC countries that have reached the "completion point" have not achieved debt sustainability owing to lower commodity prices and export receipts than had been anticipated. The proposal already mentioned to link debt service payments to commodity prices is also relevant in this connection.

Also, for low-income countries, especially HIPCs, barring a strong improvement in export revenues, maintenance of debt sustainability requires additional official assistance in the form of non-debt-creating funding. Therefore, a significant shift in official flows from loans to grants is required. Furthermore, a careful analysis should be made on whether a simple total write-off of the debts is not preferable to the existing mechanism, which obliges countries to use the counterpart domestic funds of the debt service obligations for specific social programmes, funds that, in practice, countries may not have.

Most LDCs are presently caught in a trap in which low income and slow growth limits the scope for domestic resource mobilization and, in turn, low rates of investment and an inefficient use of resource limit growth. The only way to escape is to augment external finance. But current constraints are such that most LDCs cannot attract private flows and hence rely on ODA as their major source of external finance. Fulfilment of the commitments made at Monterrey, particularly the overall ODA target of 0.7% and the LDCs specific target of 0.15 to 0.20 per cent of GNP of developed countries, will prove instrumental in unlocking the poverty trap at least in the short term.

In the long term, aid dependency has to be reduced. A potential weakness of the new aid and debt relief regime built around poverty reduction strategies is that it seeks to improve quality of economic growth by making it pro-poor, which is important but not sufficient to address the problem of how to accelerate and sustain growth. Indeed, sustainable poverty reduction requires that public spending for social purposes be financed in the long run through domestic revenues generated by high and sustained rates of growth.

An essential element of strategies to promote sustained growth is to promote trade and the issue of market access remains central to this approach. However, the composition of LDCs exports over the last decade (1990-2001) does not present an encouraging picture. The share of food exports declined from 15.7% to 12.4%, agricultural raw materials from 10.5% to 5.9%, fuels increased from 23.3% to 36.9% and those of ores/metals almost doubled (1.2% to 3.4%). For the group as a whole, there was as shift in primary commodities exports away from non-fuel commodities towards fuels, as a few LDCs (for example, Angola and Yemen) became oil-exporting countries. However, commodity dependency did not decrease, and the share of manufacturers total exports in fact slightly declined from 44.2% to 42.3%. Moreover, in 2001 three Asian countries accounted for 60 per cent of LDCs' manufactured exports. A number of other LDCs have made important progress in diversifying their exports into manufacturers but from very low starting positions. The overwhelming majority of LDCs have found it difficult to strengthen their export earnings through meaningful diversification into exports of manufactured goods.

The Brussels Programme of Action not only recognized the central role of trade in generating the resources for financing growth and development but also outlined a number of steps that would be required to enhance market access to the products of greatest export interest to LDCs. Even after the adoption of a policy of duty and quota free access to essentially all products from the LDCs, the exports of LDCs are subject to protection and subsidized competition. The best hope for LDCs and other developing countries lies in the success of the current round of multilateral trade negotiations. The multilateral trade negotiations should aim to eliminate all tariff and non-tariff barriers as well as subsidized competition in the developed countries to trade in agricultural products, textiles and other products of special interest to the LDCs. Developing countries that have provided trade preferences to developing countries should further improve them.

All LDCs face an acute lack of the infrastructure necessary for growth and development. Agriculture remains the key economic sector in most LDCs, not only because of its role in ensuring food security but also because more than 75 per cent of the labour force in LDCs is employed in the agriculture sector. Particular attention should be given to improving agricultural infrastructure, which should be primarily focused on improving transport and communications, water usage and land use. In turn, the actions outlined in Commitment 4 of the Brussels Programme of Action should be translated into active productive development strategies, aimed, in particular, at improving access to land, credit, insurance, extension service and appropriate marketing channels. Since diversification into non-farm activities is also crucial, measures should be taken to promote SMEs, partially those engaged in agricultural processing and labour intensive activities.

The international community can provide support to these activities, both directly through financial and technical assistance and by reviewing some of the international impediments to rural development in the LDCs.

In the end, I wish to draw attention to the fact that in extreme cases, this lack of access to resources can undermine the basic mechanisms of governance and lead to political disintegration and open social conflicts. Armed conflicts are on the rise and many are taking place in poor countries. Such instability, in turn, is a major obstacle to making the business climate attractive to both domestic and foreign investors. The efforts to mobilize resources should therefore be closely integrated with the efforts to achieve peace and security. Hopefully, efforts to reform the multi-lateral structures dealing with "hard" and "soft" threats will lead to structures, including a strengthened ECOSOC, that are geared towards greater integration of the issues relating to peace and development.